

REPORT

# Day hospitals

---

Key considerations  
for establishing  
a day hospital.

---

22 September 2011

.....

If you want to build a day hospital in Australia, competent planning, understanding all risks, enlisting the right people for the job and having patience will keep the foundations firm.

.....

## *On solid ground*

There is no magic surrounding the development of a day hospital – it's a long and labour-intensive process requiring over 1000 individual forms and around 2700 man-hours of effort. The typical development process can take anywhere from 12 to 18 months to completion and involves activities as varied as obtaining approval from the State Health Department, designing the functionality of the hospital, equipping the hospital and accrediting the new facility.

The development process also requires a strong ability to identify, analyse and solve problems, plus meticulous attention to detail and a thorough understanding of all aspects of the legal, technical and management areas of building a facility. There are virtually hundreds of steps involved and many issues that will arise along the way.

Can you do it yourself? Certainly, but you have to ask how much time you can afford to devote to a project that has a steep and expensive learning curve, will consume your energy and stretch your administrative capabilities as you continue to manage your current business. This is where having the right people involved from the start can save you money, time and harassment.

With careful and competent planning prior to actual development and construction, the risks inherent in developing a day hospital can be substantially minimised, greater efficiencies can be achieved and the goals of the principals behind the project can be met and even exceeded.

### DOWN TO BUSINESS

The first step is to conduct a business feasibility study. If the project is seen as feasible, the next stage is to proceed with a full business plan. This will have a threefold purpose:

1. Firstly, it's necessary to lay a firm foundation for the project so all investors have a more complete understanding of the dynamics inherent to the venture's success.
2. Secondly, the business plan should be used to secure financing and other capital required for the project, as nearly all day hospital development projects utilise debt financing.
3. Thirdly, if the principals wish to enter into a joint-ownership arrangement, the business plan is used as a starting point for discussion, as it includes all material factors relating to the day hospital's development, operation and ongoing viability.



**Elizabeth Rankin,**  
Consultant.



The Australian healthcare industry is one of the most regulated industries in the country...

## MEETING THE REQUIREMENTS

- **Cost:** The cost of establishing a day hospital is around \$4000 per square metre if you are fitting out an existing building. This amount increases to about \$5000 per square metre if you start with a greenfield (or undeveloped) site, where you have the cost of the property/land to consider.
- **Time:** From the time you decide to go ahead with the process it will take a minimum of 12-24 months before you can open your doors.
- **Space:** The Australasian Health Facilities Guidelines specify the spaces and rooms required for a day hospital. A two-theatre complex needs around 1000 square metres, as well as parking for 15 to 20 cars. Space is also required for gas manifolds and bottle storage, suction compressor, generator, uninterruptable power supply, waste (general, recycled, clinical, delivery area, water treatment), reverse osmosis water system and a dedicated ambulance bay. Other considerations include lift size (the lift must be able to take a patient on a trolley and have a slab-to-slab height minimum of three metres), and access for trucks to deliver gas/linen/consumables.
- **Ongoing compliance:** The Australian healthcare industry is one of the most regulated industries in the country, with compliance including accreditation, monthly reporting to the relevant

State Health Department, monthly reporting to the Private Hospitals Data Bureau (Commonwealth), monthly reporting of Hospital Casemix Protocol to the health funds, Annual Private Health Establishments Collection (ABS) and half-yearly clinical indicator reporting.

- **Profit expectations:** Most people overestimate profit expectations. The reality is that you need enough surgeons to bring enough patients to cover the fixed cost of running your day hospital, as well as the variable costs and any loan repayments.

## KEY SUCCESS FACTORS

- **Feasibility study and business plan:** Ensuring that you commence the process with a clear understanding of all the costs and requirements will minimise the risks.
- **Unilateral commitment:** Having a clear mission and objectives ensures that everyone is moving in the same direction.
- **Management experience:** Ensure that you have a proven experienced management team – you can't afford to be giving everyone on-the-job training.
- **Proper incentives:** Ensure that your incentives for staff and surgeons will result in achieving your objectives.
- **Culture of compromise:** Surgeons and anaesthetists need to work together so instrument trays, equipment and consumables can be standardised.



- **Sound financial footing:** Make sure your cash-flow projections are realistic, that you have allowed for delays throughout the process and you have sufficient working capital or access to an overdraft.
- **Billing and collecting:** Make sure all staff are committed to a schedule of at least weekly billing and that all accounts are followed up. There should be no 'outstandings' in 90 days – uninsured patients must pay on admission and health funds will pay within 28 days.
- **Information system:** selecting the right patient administration system, electronic medical records and theatre costing can provide a strong basis for your information system. These systems can reduce the floor area required for the hospital, reduce staffing and stationery costs, and provide information for decision making.

## AVOIDING FAILURE

The key reasons day hospitals run into trouble are:

- **Partner conflicts:** It is vital to discuss the following factors, all of which may become hotspots for dissent:
  - Philosophy and goals for the day hospital and the approach to achieve those goals
  - Optimal management structure
  - Procedure for adding/removing partners
  - Long-term strategic plan
  - Profit distribution
- **Poor surgeon recruitment:** The right mix of surgeons is essential for the success of the hospital. Many surgeons will overestimate the number of cases they can bring to your hospital and not all patients are suitable for day surgery. Most surgeons will only work around 40 weeks per year – the other 12 weeks are taken up with holidays, conferences and public holidays. If you are a single-specialty hospital, this can mean that you will not have any patients when the annual conference is on. If all your surgeons have school-aged children, school holiday periods will be a huge issue.
- **Failure to properly staff the hospital:** A core team of experienced staff is required, together with a mix of part-time and casual staff. For every 10 staff you need one more to cover annual leave, personal carer's leave etcetera. To maximise efficiency, staff members should be multi-skilled and work in two areas of the hospital.
- **Failure to negotiate health-fund contracts:** In Australia, there is no requirement for health funds to contract with new facilities. Once the Commonwealth has declared your facility as a day hospital and issued a provider number, health funds must pay the default accommodation benefit depending on the type of anaesthetic and the time in theatre, as well as the default amount for any prosthesis used.
 

There is no requirement for health funds to pay the theatre fee. Once your facility is accredited with either the Australian Council on Healthcare Standards (ACHS) or International Organization for Standardization (ISO) and you meet the requirements for Second Tier Default Benefits, you can apply for the Second Tier Default Benefits. The committee meets four times per year and the process takes around three months before the Commonwealth adds your hospital to Schedule 5. Once your hospital has been specified the health fund must pay you 85% of the contracted rate for the procedure for your type of hospital in your state. Health Funds typically will not discuss a contract until you have been accredited and there is no guarantee a contract will be forthcoming.
- **Undercapitalisation:** This is a common problem. Without realistic cash-flow projections, tight control on the building process and equipment purchasing, many day hospitals find themselves with insufficient working capital and either borrow more than expected or go back to the shareholders for additional cash injections.
 

There are many hidden costs in the establishment of a new hospital that are overlooked.
- **Over or under building:** Much thought needs to be given to the size of the facility and it's expected growth over its life. If you have a 20-year lease, it's worth considering taking options on adjacent areas for five to 10 years so you have the ability to expand. On the other hand, if you overbuild you must live with the burden of a higher breakeven point. ©

If you would like to seek advice about setting up a day surgery, please contact **The Private Practice** for an introduction to one of our expert partners.