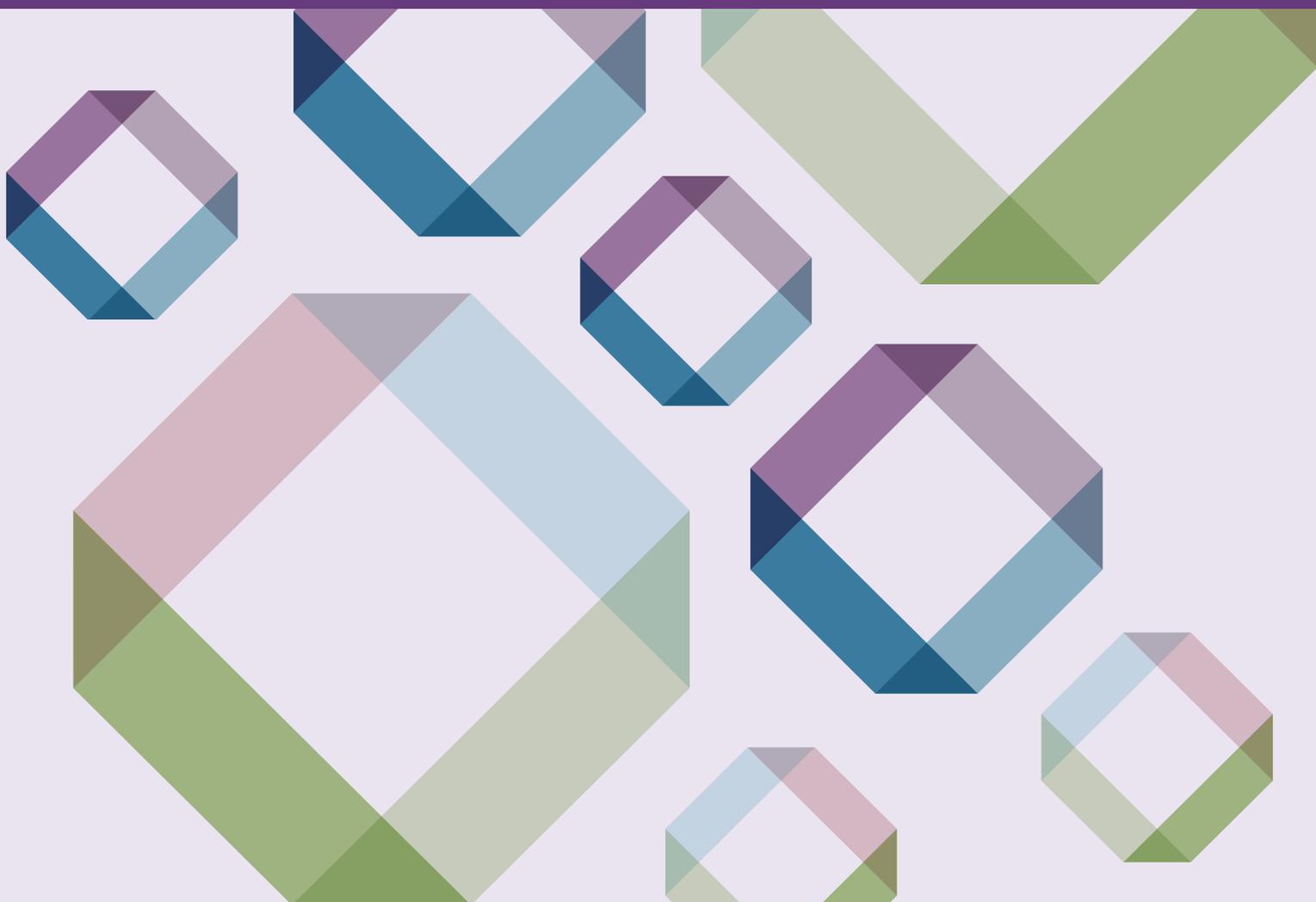


# Sustainability blueprint

For funded clinical training assets





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Thank you to the Sustainability Blueprint Reference Group who contributed to the formulation and testing of the sustainability strategies contained in this blueprint.

Developed by:

**Advisian**

[www.advisian.com](http://www.advisian.com)

The case study, tools, and templates referred to in this resource are available at <https://vicknowledgebank.net.au>

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# Overview

**The *Sustainability blueprint* has been prepared to assist project leads and their organisations to develop sustainability plans for assets co-funded by the Commonwealth and Victorian governments, to ensure that use of these assets is optimised in providing the services necessary for the success of clinical placement programs.**

More explicitly, the objectives of the *Sustainability blueprint* are to:

- maximise the return on this investment by ensuring that lead organisations have appropriate sustainability plans
- provide a cost recovery blueprint and, where appropriate, an income-generation blueprint, by asset type regarding the funded projects.

The blueprint provides an overarching framework for lead organisations to use in the design of their sustainability plans, taking a step-by-step approach that begins with an assessment of the project's external and internal environments, provides guidance on cost optimisation (what and how) and revenue enhancement (what and how), and concludes with an outline of some specific actions (strategies) for achieving financial sustainability.

The blueprint has been designed for broad usage, by both large and small organisations, and is applicable to all three funded asset categories:

- simulated learning environments
- rural accommodation and infrastructure
- small capital and equipment.

The blueprint contains information on the sustainability challenge and methods and tools to assist lead organisations to respond to the uncertainty of their funded projects. It is not essential that the report sections be read sequentially. Each section can be used as a resource in its own right, and referred to as required.

Lead organisations with a good understanding of service and financial sustainability concepts may wish to start with Chapter 6, which contains strategies and ideas for implementation. Those less familiar with sustainability may find it beneficial to step through the chapters in sequential order.

Accompanying the blueprint is a worked case study and a range of templates and tools designed to provide hands-on practical assistance to project leads and organisations as they develop their sustainability plans.

The case study, tools and templates are available at <<https://vicknowledgebank.net.au>>.



# Chapter 1: Introduction

The focus of this document is the sustainability of Commonwealth and Victorian government-funded clinical training projects and the preservation of the benefits that have accrued to the Victorian health system as a consequence of the investment. The future of some of these projects is uncertain, and the Department of Health and Human Services is keen to ensure that lead organisations have the resources needed to help them achieve long-term financial viability.

## 1.1 Background

There is increasing focus on balance sheet management across both private and public sector organisations and, in particular, on how organisations deliver strategic goals and outcomes from their allocated financial resources. In addition to their upfront investment, property, plant and equipment assets can have a considerable ongoing operational cost attached. It is important, therefore, that they are managed both efficiently and effectively.

In the case of government organisations, many services have traditionally been funded from general taxation revenue. Over the past several years, however, there has been a growing trend towards cost optimisation, cost recovery, revenue enhancement and value capture within government agencies in Victoria and in Australia more generally.

Recovering some or all of the costs of delivering services by more direct means contributes to financial sustainability and provides a transparent way for organisations to identify and fund the cost of undertaking their activities without having to rely exclusively on revenue secured through the Commonwealth and state budget processes. This also helps to relieve broader fiscal pressures and enable the government to direct scarce funds to other parts of the economy. Importantly, reduced reliance on taxation revenue also lessens scrutiny on services and gives greater comfort to providers and users that services will continue.

Health service and education providers, in particular, are increasingly having to examine the way they manage scarce resources while meeting a growing demand for services and rising expectations for quality. Cost and revenue analyses can significantly improve understanding of the factors that affect resource use and provide financial and operational information needed for making informed management decisions that can lead to enhanced viability and sustainability of services.

### 1.1.1 Funding for clinical training placements

Between 2011 and 2012, the federal government, through Health Workforce Australia (HWA), together with the then Victorian Department of Health (now the Department of Health and Human Services) provided funding for 146 stakeholder-led projects aimed at providing greater training capacity in the Victorian healthcare system to support growth of clinical training placements (CTPs) for professional-entry health students. As of 1 August 2014, HWA ceased to exist and the Commonwealth Department of Health has assumed all of the rights, liabilities and obligations subsisting under each of the ongoing HWA contractual agreements and any surviving obligations from completed contracts.

During 2011–12 approximately \$34 million was allocated for capital infrastructure and equipment and investment in new models of clinical training delivery. A further \$15.9 million was invested over 2013–14 to provide for non-capital resources, comprising \$11 million to purchase resources and training and a further \$4.9 million for staffing.

A considerable proportion of HWA funding was invested in the following funding streams:

- **simulated learning environments (SLE)** to support the use of simulation as a means to increase clinical training capacity and efficiency, and to influence the adoption of new and innovative training techniques
- **rural accommodation and infrastructure** to develop student accommodation and training infrastructure in rural Victorian Clinical Training Networks (CTNs)
- **small capital and equipment** to provide capacity to purchase small capital and equipment to increase health service capacity to deliver clinical placements.

In regard to some assets, there are contractual obligations for project lead organisations to maintain the asset, in particular within funding agreements for projects funded in the SLE stream. Funding agreements between HWA, the Department of Health and Human Services and the various lead organisations also specified the priority use of assets for undergraduate clinical training placements.

### 1.1.2 Sustaining clinical training capacity

A boost in clinical training capacity within the Victorian health system occurred as consequence of the HWA investment, leading to a substantial increase in clinical placement student days. However, the government has made no provision to fund asset replacement, maintenance and operating costs beyond 2014, and it is unlikely that additional funding will be made available to project lead organisations. The lack of funding certainty puts many of the clinical training assets and projects at risk of being unable to maintain services and benefits over time.

To ensure lasting value from significant state and federal government investment into clinical training in Victoria, lead organisations must respond to potentially changing circumstances and sources of support by pursuing more sustainable practices. The department is encouraging lead agencies, managers and stakeholders to take a more commercial approach to maintaining and using the funded assets, and to reduce their reliance on government funds.

### 1.1.3 Why sustainability is important

Government services and programs at all levels and settings frequently struggle with sustainability. Unfortunately, when services are forced to shut down, hard-won improvements can quickly erode. To maintain the benefits of the government's investment in clinical training, lead organisations must understand the factors that contribute to sustainability. With knowledge of these factors, organisations can build their capacity for sustainability and position clinical training assets and services for long-term success.

## 1.2 Purpose and scope of the Sustainability blueprint

To help organisations plan for sustainability, the department engaged consultants Advisian (formerly Evans & Peck) to prepare a framework and guidance document for achieving greater financial viability, and thus sustainability, of clinical training assets beyond their initial capital funding.

The purpose of the *Sustainability blueprint* is to ensure ongoing value and to optimise use of the co-funded physical assets and equipment that were acquired by the projects as a part of HWA/departmental funding programs.

The objectives of the blueprint are to:

- maximise the return on investment by the department by ensuring lead organisations have robust sustainability plans for assets and equipment that have been supported by HWA/departmental funding
- provide a cost recovery blueprint and, where appropriate, an income-generation blueprint, by asset type with regard to the funded projects
- provide recommendations on a framework for ensuring sustainability of future investments by the department in the clinical training arena
- provide recommendations that will assist ongoing and future funding initiatives to have a commercial or sustainable focus beyond any funding period.

### 1.2.1 Sustainability planning for clinical training assets

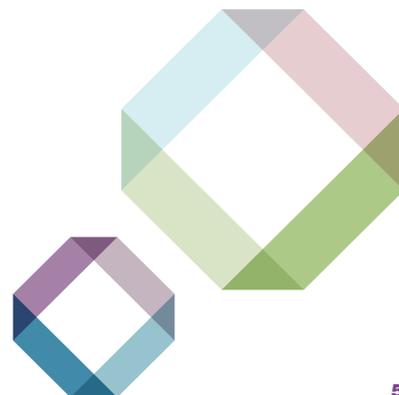
The blueprint is designed to support the development of practical and achievable sustainability plans by project lead organisations responsible for the following funded clinical training asset ‘types’:

- simulated learning environments, comprising simulation equipment (such as manikins), facilities and related resources
- rural accommodation and infrastructure, comprising purpose-built student accommodation or refurbishment of existing student accommodation in rural and regional locations
- small capital and equipment, comprising purpose-built learning centres and audiovisual, computing and other equipment.

The blueprint provides lead organisations with a framework for considering sustainability, and methods, tools and templates to support the sustainability planning process.

The *Sustainability blueprint* is specifically focused at the level of individual projects and the sustainability outcomes that SLE lead organisations are capable of achieving through their own means, or through collaborative partnership arrangements with other SLE projects.

An external stakeholder group identified business models for development and delivery of simulation-based education and training that are financially sustainable for providers and users of simulation. At the time this document went to print, a number of proposals to establish a statewide simulation collaborative partnership model had been developed. SLE lead organisations will have to decide which models will best meet their organisational goals and objectives, and contribute to sustaining their assets and services in the long run.



## 1.2.2 The asset-service relationship

While the stated purpose of Advisian consultancy was to focus on financial sustainability of funded clinical training assets, it is not always possible or desirable to separate physical assets from their service setting.

Prudent planning and management of any asset portfolio requires looking closely at the specific characteristics of the asset–service relationship, as the cost of an asset comprises not just capital and maintenance costs but also the costs associated with its operation. For SLE assets, for example, annual operating costs are much greater than the annualised cost of replacing and maintaining physical assets.

Sustaining the value of assets in terms of their usefulness requires consideration of the relationship between the performance of the asset portfolio and the service or services it helps to deliver. The blueprint therefore considers sustainability of assets in the context of a broader service ‘architecture’. This is discussed in more detail in *Chapter 2: A framework for sustainability*.

## 1.2.3 Intended audience

The blueprint has been designed for use by lead organisations responsible for the three clinical asset types and services noted above, both large and small, and across different settings and contexts.

The blueprint is not a substitute for basic cost and revenue management competencies and skills. It is intended to supplement competency and demonstrate innovative approaches. However, given that the blueprint discusses a number of commercial and financial concepts, to ensure its applicability across a wide audience, it has been intentionally pitched at a level suitable for those with limited exposure to these concepts.

## 1.3 Sustainability blueprint development process

The *Sustainability blueprint* was developed by Advisian using a ‘first-principles’ approach to ensure broad understanding of and response to: clinical training and placement arrangements; the funding context for assets; current service delivery and resource utilisation; existing and planned provisions for cost management and recovery; and user and beneficiary needs.

The approach used to develop the blueprint is illustrated in Figure 1. Following a project initiation phase, a detailed situation analysis was undertaken to identify issues, constraints and opportunities that may materially influence sustainability. This was followed by a ‘creative laboratory’ workshop to generate cost optimisation and revenue enhancement options for the funded projects. These ideas were tested, filtered and further developed, and implementation plans were prepared to show how they could be practically delivered. The process concluded with a reporting phase, which comprised writing activities, the preparation of graphic material, internal peer review, external review and editing activities to produce the final *Sustainability blueprint* report.



Figure 1: Sustainability blueprint development process

Phase	Project initiation	Situation analysis	CORE ideas workshop	Testing and filtering	Delivery strategies	Blueprint development
<b>Objective</b>	Set the project up for success and ensure alignment between parties	Understand the services, resources, capabilities, limitations and clients of the CTN	Identify creative cost optimisation and revenue enhancement (CORE) opportunities	Select and develop the core ideas that will become the focus of the Sustainability blueprint	Develop detailed information and guidance on how to implement preferred options	Bring together outputs from development phases to inform final Sustainability blueprint
<b>Key tasks</b>	<ol style="list-style-type: none"> <li>1. Ratify scope and method</li> <li>2. Identify information requirements/sources</li> <li>3. Target stakeholders for engagement</li> <li>4. Initial review of information</li> <li>5. Identify known issues</li> </ol>	<ol style="list-style-type: none"> <li>1. Define core service/s</li> <li>2. Governance review</li> <li>3. Whole-of-life costing</li> <li>4. Asset use and management review</li> <li>5. Review of cost recovery practices</li> <li>6. Identify opportunities and constraints</li> </ol>	<ol style="list-style-type: none"> <li>1. Preparation</li> <li>2. CORE ideas workshop facilitation</li> <li>3. Prepare summaries of key ideas</li> <li>4. Identify objectives and assessment criteria</li> </ol>	<ol style="list-style-type: none"> <li>1. Undertake MCA</li> <li>2. Prepare preferred option 'concepts'</li> <li>3. Marketability evaluation</li> <li>4. Pricing strategy</li> <li>5. Evaluate financial sustainability</li> </ol>	<ol style="list-style-type: none"> <li>1. Develop provision strategies</li> <li>2. Develop sustainable funding commercial models</li> <li>3. Investigate and develop governance options</li> </ol>	<ol style="list-style-type: none"> <li>1. Prepare initial draft of report</li> <li>2. Review by department and stakeholders</li> <li>3. Finalise report and any supporting material</li> <li>4. Handover all IP</li> </ol>
<b>Outputs</b>	Revised work plan Stakeholder plan Issues log and gap analysis	Situation analysis report	Summary list of ideas and their key features Assessment criteria	Completed multi-criteria assessment matrix Detailed descriptions of preferred options	Implementation actions, models and likely timing	Final Sustainability blueprint



Input from stakeholders was sought through direct engagement and collaborative development and iterative testing of key outputs throughout the process. The scope of engagement with stakeholders comprised the following activities:

- interviews with more than 30 stakeholders from the department and metropolitan, regional and rural health services and education institutions
- attending and facilitating the Sustainability Symposium for an external stakeholder group
- assembling the Sustainability Blueprint Reference Group, which participated in a series of workshops to formulate and test the sustainability strategies contained in this blueprint
- analysing reports, project data and other supporting information provided by stakeholders
- providing key outputs to stakeholders for review and feedback as they were developed.

From the outset, it was intended that the blueprint reflect and respond to the issues and opportunities identified by stakeholders throughout the development process, to encourage stakeholder ownership of the outcome and uptake of the blueprint as a tool for improving sustainability of assets and projects.

## 1.4 Report structure and content

This report is divided into six additional chapters, as follows:

- **Chapter 2: A framework for sustainability** explains what we mean by sustainability, discusses the scale of the sustainability challenge and introduces a framework for considering sustainability of the subject assets/projects.
- **Chapter 3: Optimising costs** discusses the definition and benefits of cost optimisation, the drivers of costs and levers for improving project cost structure.
- **Chapter 4: Enhancing revenue** discusses the definition and benefits of enhancing revenue, the drivers of revenue and levers for improving project revenue streams.
- **Chapter 5: Planning for sustainability** discusses the definition and benefits of enhancing revenue, the drivers of revenue and levers for improving project revenue streams.
- **Chapter 6: Strategies for sustainability** presents a range of cost optimisation and revenue enhancement ideas developed by the stakeholders for each of the funded project types.

# Chapter 2: A framework for sustainability

Increasing demand for diminishing resources requires lead organisations to reconsider the way they ‘do business’, to provide services where appropriate, to minimise the cost of providing services, to increase collaboration, and to leverage all available sources of revenue where possible.

## 2.1 What do we mean by ‘sustainability’?

The department views the co-funded CTP projects as investments, which are expected to yield results significantly beyond those attributable to the specific federal funds provided, and beyond the funding period.

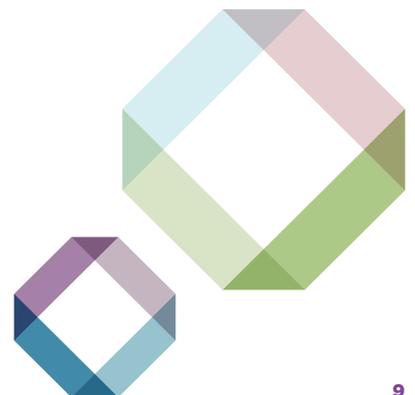
Sustainability, in the context of the 2011–14 funding programs, is the ability for projects to provide ongoing access to effective and efficient clinical training assets and activities while at the same time being able to adapt to changing circumstances.

A key aspect of sustainability is therefore the ongoing provision of benefits to asset and service users and beneficiaries.

## 2.2 The scale of the sustainability challenge

Consultants Advisian undertook a high-level analysis of the scale of the sustainability challenge. The analysis indicated the following:

- It is very difficult to ascertain the likely funding shortfall beyond 2014, as most of the funded projects do not maintain separate cost accounts.
- The majority of rural accommodation and small capital funded assets are seen as ‘core’ assets by lead organisations and have been absorbed into capital budgets. For most of these projects, financial sustainability is not a major issue in the short to medium term.
- Financial sustainability of SLE assets and services is likely to be an issue for some asset owners, with operating expenditure being a key driver of cost.
- Across most of the funded projects there is an absence of proactive planning to improve operations, reduce costs and enhance revenue.
- Health services and education providers have long operated in a ‘grant’ culture, and there remains some expectation that project funding will be forthcoming. This is further compounded as commercial skills are not necessarily core skills of most health sector asset managers or project leads.



### **2.2.1 Simulated learning environments**

SLE projects were deemed likely to be most at risk in the post-2014 environment. The following observations were noted during the analysis.

- It would appear there has been a high degree of capital 'over investment' across a number of SLE projects, particularly regarding the purchase of high-fidelity simulation equipment.
- A lack of asset utilisation data, beyond the rather simple reporting metrics sought by HWA, makes it difficult to ascertain this measure of asset performance.
- In post 2014 world, with increased cost to users, demand for SLE training is less certain, and understanding by customers of the value proposition will be more important.
- Simulation as part of clinical training is variable across medical, nursing and allied health, and in some instances it does not align with training/teaching curriculum.
- In order to deliver simulation training, baseline resources are required, which means that the majority of costs can be considered fixed in the short term.
- There are significant discrepancies in operating costs across SLE projects, notwithstanding similar asset and service levels.
- The adoption of simulation without the 'educational infrastructure' and trained support staff to facilitate its use has proved problematic for several projects.

### **2.2.2 Rural accommodation**

Rural and regional accommodation assets were found to be largely well positioned for sustainability, owing to health service commitment to fund these assets in their capital budgets.

- Only relatively minor financial sustainability issues exist for student accommodation.
- There was a very 'lean', if not frugal, approach to the design, procurement and operation of accommodation assets, making the whole-of-life costs lower than they might have been.
- Cost recovery and revenue opportunities are exercised across some of the projects, though there is possibly greater scope to enhance income through pricing and rentals to external parties.
- The ability to accommodate increased clinical placements in the future is possibly the greatest issue that health services face.

### **2.2.3 Small capital and equipment**

Financial sustainability does not appear to be a major issue for small capital and equipment.

- The funded small asset category items were audiovisual rooms and equipment, dedicated student facilities and computer-related equipment.
- This equipment does not have a separate cost centre but has been absorbed into the asset owners' core asset base, and the broad expectation is that it will be maintained accordingly.
- The cost of maintenance and replacement of this equipment is relatively small.
- There may be some pressure for some of these assets to be multipurpose, serving broader hospital needs when not required by students; care will be needed to ensure students retain sufficient access.

A key consideration for these projects is how to fund the replacement of assets over time.

## 2.3 A new way of thinking

The need to ensure service and financial sustainability means that now is the time to address these issues. In the current fiscal economic environment every dollar counts, and lead organisations should be prepared to leverage savings and revenue whenever and wherever possible. Maintaining the status quo and doing things in the same way is neither possible nor desirable.

An ongoing focus on sustainability is required, not only to address the underlying funding deficit that many projects face but also to ensure ongoing clinical training access and outcomes. A key aspect of this is acceptance by lead organisations that their decision making is a powerful driver of financial sustainability, and that they are integral to sustainability efforts.

Long-term sustainability of clinical training assets and services is dependent upon stable and continuous sources of income and efficient use of financial and other resources. Lead organisations must determine whether current clinical training assets, resources and services are viable in their current form, within realistically anticipated funding and income levels. Without significant change, it is unlikely that some of these assets and services will be able to be maintained.

Albert Einstein is credited with having once said, 'The world we have created today as a result of our thinking thus far has problems which cannot be solved by thinking the way we thought when we created them'. The current situation provides an opportunity for lead organisations to form a new mindset and initiate a culture of financial and commercial acumen that can better position them to react to rapidly changing circumstances in the health and education sectors.

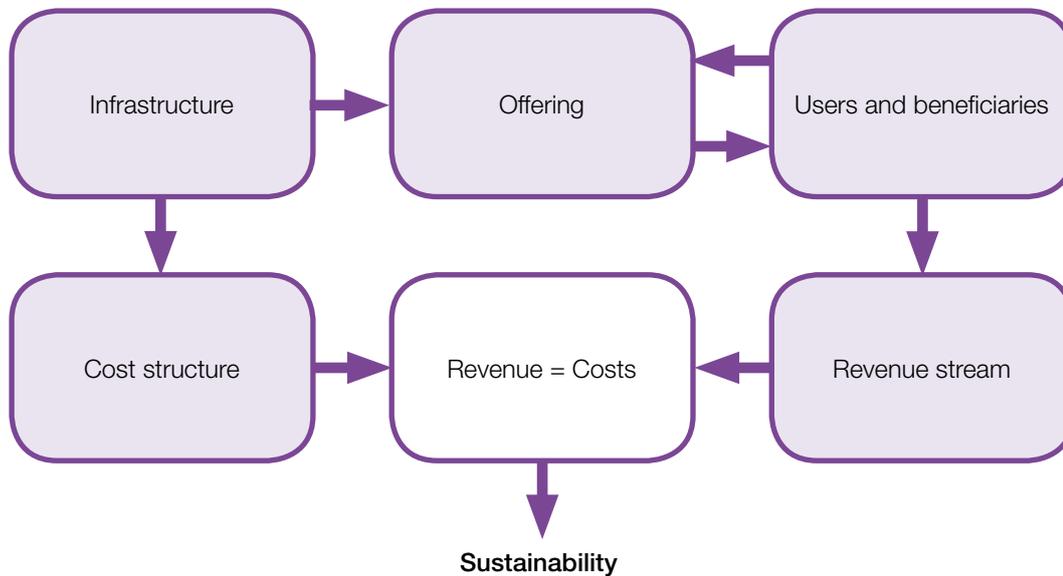
## 2.4 Elements of sustainability

Public sector organisations have not traditionally been thought of as needing to be competitively oriented. Unlike commercial enterprises that must compete for customers (and whose survival depends on satisfying paying customers), most public sector organisations operate in a non-market – or grant – economy. As a consequence of this, they have had less incentive to question the status quo, to assess whether user and beneficiary needs are being met, or to examine the cost-effectiveness or quality of available services.

To effectively deal with current funding challenges, lead organisations must plan and implement effective and integrated sustainability strategies that focus on reducing inefficiency and costs and maximising opportunities to secure revenue. This requires identifying and addressing the factors that are critical to achieving sustainability. The need for an integrated approach is extremely important, as actions that focus on symptoms rather than their causes can lead to further problems later down the track. For example, understanding the relationship between the costs and the value that an offering provides to users is fundamental to sustainability. Lead organisations need to be able to differentiate between good costs (those that are necessary for creating the value that an offering provides to users and beneficiaries) and bad costs (those that are superfluous to the creation of value). Cutting the costs that help create the value that users derive from an offering can diminish user demand and the willingness of users to pay.

The graphic in Figure 2 presents a framework for sustainability. It is based on the business model concept, which describes how a business creates, delivers and captures value in a simple, relevant and intuitively understandable way. It comprises five interconnected elements that collectively contribute to the service and financial viability of a funded clinical training project: users and beneficiaries, offering, infrastructure, cost structure and revenue streams. At its simplest, it is a plan or diagram of how an organisation intends to make money and is as applicable to government and not-for-profit organisations as it is to businesses seeking to make a profit.

Figure 2: Sustainability framework



A successful sustainability plan is essentially a clearly articulated ‘business model’ that considers all aspects of how the lead organisation will generate revenue by effectively and efficiently serving its users and beneficiaries.

The principal elements that need to be considered when planning for sustainability can be described as follows:

- **Users and beneficiaries** are the individuals and stakeholders who use or benefit from the offering in one way or another.
- **Offering** covers all aspects of the products and services that are offered to satisfy the needs of users and beneficiaries.
- **Infrastructure** comprises the assets, resources, network of suppliers and partners and conditions needed to create value and deliver the offering.
- **Costs structure** measures all the costs that are incurred to create, deliver and communicate the offering. It sets a ‘price tag’ on all the resources, assets, activities and networks that cost money.
- **Revenue stream** is the way the offering is translated into a range of income sources from users and beneficiaries.



## 2.5 Factors for success

Sustainability occurs when the revenue received for an offering (including the value of provision of services to internal customers) is equal to or greater than the costs to deliver it. Hence, a key consideration for lead organisations is how well the service or offering meets the needs of users and beneficiaries and how valuable it is to them, whether it be simulation-based clinical training, accommodation, learning environments, access to technology or some variation of these offerings.

In this regard, there are a number of key success factors for ensuring a project or service's sustainability. These factors are relevant to all funded clinical training projects, regardless of their type, size or context.

### 2.5.1 Users and beneficiaries

The users and beneficiaries should be known to the organisation and their needs well understood:

- The organisation knows who their existing and potential users and beneficiaries are.
- Existing users and beneficiaries are invested in the success of the service.
- User and beneficiary needs are understood and based on sound evidence.
- Users and beneficiaries are actively engaged in the development of service goals and attributes.
- Strong communication channels exist between the organisation and users and beneficiaries.

### 2.5.2 Offering

The offering provided by the asset/service should provide clear value to users and beneficiaries:

- The service supports the broader mission and goals of the organisation.
- There is a clear understanding of what users and beneficiaries value most about the service.
- The assets used and activities performed as part of the service effectively meet the needs of users and beneficiaries.
- Service processes and interactions with users and beneficiaries are geared towards total perceived quality of the service.
- The service is easily accessible to users and beneficiaries.

### 2.5.3 Infrastructure

The assets, resources, network of suppliers and partners and organisational conditions should support the creation of value and effective delivery of the offering:

- There is strong commitment and leadership support from within the larger organisation.
- Cooperative arrangements with partners and suppliers are established.
- There is sufficient staff capacity and skills necessary to deliver the service.
- Strong organisational systems are in place to support the various service needs and to track performance.
- The asset portfolio is optimised to support the service and create value.
- The cost structure is efficient and good cost management practices are in place.

## 2.5.4 Cost structure

The costs that are incurred to create, deliver and communicate the offering should be managed efficiently, and good cost management practices should be in place:

- The total cost of creating value and delivering the offering is well understood.
- Resource utilisation is maximised and business processes are efficient and effective.
- Inefficient or underutilised resources are eliminated or shared with partners to generate economies of scale.
- Assets are managed and maintained to maximise their availability and usefulness.
- Purchasing costs and working capital are optimised through effective procurement and inventory management.

## 2.5.5 Revenue stream

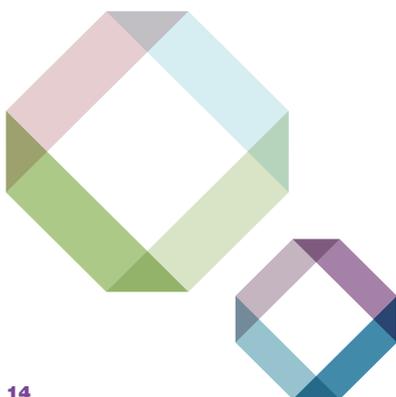
There should be diversified and stable sources of revenue equal to or greater than costs:

- The service is communicated in a way that demonstrates value and generates interest from users and beneficiaries.
- Users and beneficiaries are willing to pay for the service or offering or, where there is no internal charging for services, there is clear value prescribed by the organisation to these services.
- All available and potential sources of income have been explored and exploited (internal, external and in-kind support).
- Strategic trade-offs are made to ensure income is sufficient to ensure the long-term financial viability of the service.
- Funds are strategically invested in ways that contribute to increased income.

## 2.6 The sustainability equation

A critical point to note is that sustainability is not about indefinitely perpetuating current projects and services at current funding, staffing and operating levels. As circumstances change over time, the demand or need for services may increase or diminish. In such instances, new and more effective approaches to providing services should be identified and implemented. Changes are also certain to occur in sources of funding, government policies and other forces.

Long-term sustainability is about ensuring that the positive results that the funding program has achieved so far are continued into the future, despite all of the changes that are occurring in the program environment. How lead organisations make sure they have sufficient financial resources in the years to come is a key part of achieving the program's goals. The next chapter discusses some of the financial strategies that lead organisations can leverage to manage costs and secure, expand and diversify revenue over time.



# Chapter 3: Optimising costs

Optimising costs requires a sound understanding of the relationship between the service offering and the costs associated with delivering the offering. The success of cost optimisation will be based on this understanding and the activities undertaken to deliver a high-quality service at the most efficient cost.

## 3.1 Definition and benefits of cost optimisation

Cost optimisation involves minimising the costs involved in delivering the service without jeopardising the quality of the service provided. Cost optimisation also focuses on limiting and mitigating risks, such as asset failures. Cost optimisation provides a holistic and sophisticated approach to cost management, which can present a number of benefits for lead organisations including:

- maximising asset and resource utilisation, which can reduce the need for future asset investment or additional resources
- improving operational performance to increase efficiency and productivity and reduce labour and other costs
- better understanding of the relationship between the service/offering configuration, the infrastructure needed to deliver it, and the costs associated with that infrastructure.

In the long term, cost optimisation is more financially responsible than simply cutting costs. In some instances, cost reductions achieved in the short term can result in cost increases in the long term (for example, cutting the maintenance budget for simulation equipment could lead to equipment failure and premature replacement costs). Responsible financial management maintains a focus on the sustainability of any cost reductions and the sustainability of the service.

## 3.2 What drives costs?

Understanding the drivers and the relationship between delivering services and the costs associated with these services is important when looking to optimise costs. At a high level, costs are driven by the following factors:

- the need to deliver the offering, such as simulation-based clinical training, rural accommodation and learning environments
- who the users and beneficiaries are
- how many users and beneficiaries there are
- the level of service the beneficiaries/users require
- the condition and required upkeep of the infrastructure
- the utilisation and usage rate of the infrastructure
- the effective life of the infrastructure.

For example, the need to attract health students to rural Victoria led to the decision to provide rural accommodation, which led to costs being incurred to provide this offering. Costs are further driven by the number and volume of students and professionals that are accommodated. Costs are further driven by the decision whether to build new and/or refurbish existing accommodation, with factors such as the age of the building, the condition of the building and the regularity in which repairs and maintenance are kept on the property.

### 3.3 Understanding your costs

In order to optimise costs it is important to understand the costs that will be incurred as a result of providing the offering to the users and beneficiaries. To understand costs the following areas need be addressed:

- **Identify:** Ascertain all of the costs associated with providing the offering to determine its full cost. This should also include a proportion of the costs for resources that are partially used to deliver an offering (such as administrative staff). An example of the costs associated with the SLEs may include:
  - staff resources
  - insurance
  - the cost of replacing assets as they deplete over time
  - consumables
  - cleaning and cleaning products
  - repairs and maintenance to assets
  - water charges, electricity and other utilities.
- **Distinguish:** A distinction should be made between operating costs and capital costs; capital costs are the costs associated with purchasing the asset and/or improvements to the asset, while operating costs are incurred as a result of the ongoing use and operation of the infrastructure. This will be particularly important for planning and forecasting costs.
- **Allocate:** Once all costs have been identified the costs should be allocated to each offering on a reasonable basis with which the costs have been incurred. An example may be the cost of staff resources being allocated to the offering based on a percentage of the time they spent delivering the service.
- **Timing:** Understanding how long the costs will be incurred for is important to ensure costs are planned and forecast accurately and there are no surprises.



## 3.4 Approaches to achieve successful cost optimisation

There are a number of approaches that can be used to work towards cost optimisation. These approaches can be classified into three sections: reducing costs, sharing costs and spreading costs. Once all costs have been identified the following approaches should be considered and, where appropriate, implemented to successfully achieve cost optimisation.

### 3.4.1 Reduce costs

The most commonly understood approach to achieving cost optimisation is to reduce costs. Reducing costs should always be considered in conjunction with the service to be delivered and the quality required by the users and/or beneficiaries. Cost-cutting strategies should involve all staff, with a focus on identifying areas that could be delivered more efficiently. There are a number of ways in which costs can be reduced:

- **Eliminate inefficient or underused resources.** Challenge all costs and encourage staff to actively look for ways to improve the use of resources and cut resources that are not delivering the value intended.
- **Eliminate duplication.** Avoid using different resources to undertake the same tasks – for example, staff members on different projects undertaking the same tasks. Communication and transparency of roles and responsibilities associated with delivering the offering will help to reduce and eliminate duplication.
- **Negotiate more favourable terms with key suppliers and customers.** Instil a culture of challenging costs from market rather than accepting costs; for example, for all purchases a minimum of three quotations should be provided before a supplier is engaged to deliver the good or service required.
- **Reduce fixed assets.** Question whether all assets/infrastructure are required to meet the minimum service requirements. If there is an oversupply then the asset should not be replaced with funds preserved for other areas where the asset is critical to the service offered.
- **Improve processes to make them more efficient.** Apply business improvement and redesign principles to organisational processes to improve the current practice and always look for and encourage new approaches. The best people in a place to challenge the status quo are the staff involved in the service delivery, so ensure a mechanism is created for staff to be heard and encouraged and good ideas to be implemented.
- **Optimise the amount of inventory held.** Where inventory such as syringes and other consumables are required to deliver services ensure a balance is achieved between receiving a bulk discount and having cash unnecessarily tied up in excess inventory.

### 3.4.2 Share costs

The principle of sharing costs means that all projects and service offerings that benefit from the use of the assets and resources share the burden of the costs associated with owning and maintaining them. Resource costs can be shared across projects, organisations and service offerings as long as there is a relationship between the use of the resource and the benefit received by the project, organisation or offering. To enable costs to be shared it is essential that all costs are identified and allocated accordingly; this is detailed in section 3.3.

The following factors need to be considered when costs are shared:

- What resources can be shared, including human resources, IT equipment, vehicles, property, plant and equipment?
- How will the resources be shared?
- What will the process be for accessing the resource when it is required and who will monitor its return?
- Increased usage is a key benefit that would result from sharing infrastructure. The greater the utilisation of the infrastructure means that the cost of owning and maintaining the resource can be diffused over a number of services or offerings.

### 3.4.3 Spread costs

The principle of spreading costs focuses on enhancing the life of the infrastructure. The longer an asset can be utilised without needing to be replaced or repaired means the cost of the asset can be spread over a longer period of time. For example, if the cost associated with the student accommodation can be spread over 30 years as opposed to 10 years the cost to the project/organisation utilising this asset is significantly reduced. The following factors should be taken into consideration when seeking to protect and enhance the life of infrastructure:

- Undertake routine maintenance and health checks of resources rather than waiting for an expensive repair or early replacement to occur.
- Ensure users know how to operate the equipment properly so it is taken care of and is used in the manner in which it is intended.
- Plan for resource replacement over the useful life of the asset; this will ensure the money is available to replace the asset as and when the time comes.
- Improve resource management to understand available resources, condition of the resource, replacement value and the estimated life of the asset; for example, create a common infrastructure list of items that are available for sharing.

## 3.5 Risks and issues to consider

When times are tough, cost is an area that most organisations seek to cut. However, while reducing costs has become the focus of many organisations, the reality is that lead organisations should be careful about setting the level of cost reductions they seek. There is a tension that exists between cost reductions, 'operational risk' and user and beneficiary satisfaction. An excess of the first can create problems with the others and potentially cause long-term damage to future growth potential or reputation. There are a number of issues and risks that need to be carefully considered and weighed up when considering strategies to achieve cost optimisation and also what may hinder cost optimisation being achieved:

- Decisions to reduce costs need to be considered across a number of criteria with a focus on value for money; for example, the lowest price may create unacceptable risks to the organisation or may not meet minimum conditions of satisfaction.
- Lack of skills and commercial acumen can inhibit the potential to achieve cost optimisation.
- There must be responsibility and accountability for spending more funds than are available.
- Service to customers and beneficiaries is reduced or delivered suboptimally as a result of old and obsolete resources that are no longer able to function effectively.
- Sharing costs and resources needs to be done in a transparent manner to ensure responsible personnel understand the costs they have been allocated.
- Decisions to increase utilisation should be considered in conjunction with the level and quality of service that is to be delivered to the user/beneficiary. Increasing utilisation and reducing inefficient practices should have a neutral effect on the quality and level of service being offered.

## 3.6 Good cost management practices

The following practices will assist with establishing and maintaining good cost management practices within the organisation and help to achieve a greater level of cost optimisation.

### 3.6.1 Making the investment decision

Prior to outlaying any funds a sound business case should be put forward to justify the funds to be allocated to the infrastructure. This is essentially an argument as to why the funds should be spent on this type of infrastructure against other resources/projects that also require funding. Questions that should be answered include:

- Why is the resource/infrastructure required?
- What offering will it feed into?
- What are the benefits (don't limit it to monetary) of making the investment?
- What are the costs of making the investment?
- What are the options and subsequent consequences associated with the decision? For example, what are the consequences if you do make the investment against the consequences if you don't?

### 3.6.2 Procurement

Good cost management should start with establishing strong procedures for procuring goods and services related to delivering the offering. This may include:

- providing staff with the tools to assist with selecting value-for-money procurement options – for example, weighing up one supplier over another
- creating and enforcing a process for making purchases, such as a minimum of three quotes for all purchases over \$1,000
- having adequate internal controls and approvals for spending funds.

### 3.6.3 Budgeting and forecasting

Regular review and monitoring of costs and budgets is important to ensure funds are available as and when required and to ensure they are spent on approved infrastructure and projects. The following activities should be undertaken:

- Establish budgets and responsible owners.
- Capture costs and allocate to appropriate projects/resources.
- Every month review costs that have been allocated.
- Staff should forecast costs for the month/years ahead.
- Report on actual costs and compare budgeted costs.

Relevant staff should be allocated the responsibility for maintaining costs and also held accountable through regularly comparing the budget to actual expense levels. For projects that rely on multiple resources, such as SLE, monthly comparisons would be appropriate.

### 3.6.4 Create a culture that cares about cost

Creating a culture where the workforce is as prudent about spending the organisation's money as they are their own is important when seeking to achieve cost optimisation. Strong communication about why it is important to implement sustainable cost practices and the implications of not creating a sustainable model should be delivered consistently and regularly to ensure all staff are focused on the same goals.



# Chapter 4: Enhancing revenues

Revenue enhancement focuses on the organisation's ability to utilise the existing infrastructure and create new uses and/or users for it to expand the revenue sources available to the organisation.

## 4.1 Definition and benefits of revenue enhancement

Revenue enhancement involves maximising the funding and income sources that are legally and administratively available to an organisation and exploring opportunities to diversify income where existing income is inadequate to meet existing and future demands. It involves a commitment to put in place improvements so that each revenue source is maximised in accordance with government and organisational goals and priorities.

Adopting an overall approach that strives for enhancing revenue has many benefits for lead organisations including:

- reducing the need to cut programs and services unnecessarily
- improving the potential for offering new or improved services
- balancing current and future capital investment and operating costs with revenue availability
- developing opportunities to make the overall revenue structure more equitable and efficient and less dependent on a just a few revenue sources.

## 4.2 What drives revenue?

Put simply, revenue arises as a consequence of an organisation's or individual's preparedness to fund or pay a certain price for a product or service that solves a problem, fulfils a need or provides some kind of benefit to the user or beneficiary. Your project may be effective, but if potential funders/customers and supporters do not know about or value it, the project is not likely to be financially sustainable.

## 4.3 Understanding your revenues

A key question for project lead organisations is: 'Do revenues cover the full cost of providing the service or offering?' To the extent that the revenue received is less than the cost of providing a service, then that project is financially unsustainable in its own right. That is not to say, however, that other projects that are financially sustainable cannot be used to support such as service.

Revenues can be divided into two broad types, depending on the source of funds. Own-source revenues are revenues that the project collects itself, such as through fees charged that are paid directly for services (for example, health students and professionals). Other income can be derived from those who benefit from the service indirectly (for example, health services, communities and businesses).

## 4.4 Levers to achieve successful revenue enhancement

Enhancing revenue can be achieved in a number of ways. At a high level, these activities need to consider either introducing prices, increasing prices or increasing the types of revenue streams currently offered. To successfully enhance revenues the following factors need to be considered and addressed.

### 4.4.1 Know who your users and beneficiaries are and what they want

Lead organisations should seek to speak to customers and potential customers to understand their service offering, what problems they have and identify areas where you can assist in solving their problems or fulfilling their needs.

Providing the project or leading organisation have the skills and capability to address the issues identified by the user, the organisation should consider how the existing infrastructure and resources can be utilised to address the needs and wants of the user.

### 4.4.2 Demonstrate and communicate value

In order to satisfy the needs of the user, lead organisations must be able to clearly articulate why they are in position to fulfil the needs of the user. They must also understand what skills, resources, infrastructure and capabilities they have that will provide value and benefits to the user. As a minimum the lead organisation should be able to answer why the user should use the service.

Organisations should seek to establish a complete list of service offerings (and their benefits) that they can provide to ensure staff are aware of the services that can be offered and the value they provide to the user.

### 4.4.3 Put a price on the service

A clear understanding of the existing and potential users and the value derived from the offering will assist in establishing a price to be charged for the offering. Other factors to consider include the following:

- Understand the motivations and ability of the customers. For example, what other alternatives do they have, do they have funding to pay for the offering, and how much would they pay for a similar resource/service?
- Identify the costs involved to provide the resource or deliver the service – as detailed in section 3.3.

The above factors should be taken into consideration when setting a price for the offering. The lead organisation should consider what price it can charge and, as a minimum, there should be a focus on cost recovery principles. Once the price is set organisations should commit to review the pricing at least annually to ensure the current price is reflective of the costs incurred to deliver the offering.

It is important that the objectives of the project and the lead organisation are considered when determining a price. There will certainly be other non-financial factors to consider when setting a price; however, it is important that these factors be considered in addition to recovering the costs of providing the offering and an assessment of how much the user is willing and able to pay.



#### 4.4.4 Differential pricing

Differential pricing refers to the situation where different prices are charged to a user based on different situations or circumstances of the user. For example, lead organisations responsible for managing rural accommodation could opt to charge different prices to students, professionals and holiday-goers depending on the availability of the accommodation, time of year, occupancy rate and other factors.

Differential pricing should be considered in the context of who the users are and what they are using the service or infrastructure for. There are opportunities for new users to be charged different prices to existing users for the same offering; this type of differential pricing can be an important factor in achieving a sustainable project.

#### 4.4.5 Increase usage

To ensure infrastructure is fully utilised lead organisations should focus on identifying opportunities to increase the usage of existing infrastructure including:

- identifying new uses for the existing infrastructure
- identify new users for the existing infrastructure.

An example for rural accommodation could be to rent out the accommodation during holiday periods; a further example for the equipment associated with the SLEs may be to identify film and production customers who may have a need to use the infrastructure.

#### 4.4.6 Other revenue sources

Finally, lead organisations could consider other revenue sources that comply with government and organisational requirements. Lead organisations are advised to check contractual obligations with the department regarding permissions and acknowledgement requirements prior to actively pursuing revenue from naming, sponsorship and advertising sales. Alternative revenue sources **may** include the following:

- **Naming rights:** Naming rights enables sponsors to retain the 'rights' to have a facility or amenity named for them for a fee. Publications, advertisements, events and activities could also have the sponsoring group's name.
- **Corporate sponsorships:** Corporate sponsorships are frequently used by government and not-for-profit agencies to fund specific programs and events. For example, SLE training could seek corporate sponsorship for using a sponsor's medical device in a training procedure. Lead organisations could solicit this revenue source themselves or work with agencies that pursue and use this type of funding.
- **Advertising sales:** Advertising sales are a viable opportunity for revenue through the sale of tasteful and appropriate advertising on project-related items. To the extent the advertising could be targeted at specific groups, the greater the value of the advertising space.
- **Volunteering:** In-kind support through providing volunteer/pro bono labour. For example, clinicians may donate their time to assist students participating in SLE.
- **Equipment fund:** This would include in-kind support through funding of equipment.
- **Fundraising:** Many government and not-for-profit agencies have annual fundraisers to help cover specific programs or capital projects. At a local level, organisations can offer community raffles or events.
- **Fellowships:** This would include private sector funding of fellowships to support training or research.
- **Endowments:** Large donations can be endowed. This enables the principal to be invested in perpetuity, or for a nominated period of time. Projects or positions are then funded from the interest generated from this capital.

## 4.5 Risks and issues to consider

The importance of creating financially sustainable projects cannot be overlooked; however, lead organisations need to balance the effort of pursuing revenue-enhancing activities with the objectives of why they exist in the first place. The following risks and issues need to be carefully considered:

- Lead organisations need to remain focused on their core business activities and delivering high-quality offerings while weighing up resources and the organisation's capacity to pursue other revenue-enhancing activities.
- Lead organisations may experience the need to trade-off some level of service of their existing offerings (within an acceptable limit) in order to pursue other activities that will assist with creating financially sustainable project(s).
- It might be difficult to communicate the value and the need to pay for the service or resource where customers have not paid for the offering previously.
- A lack of buy-in from key staff involved in delivering the offering could result if they do not understand or consider the importance of communicating the value created and the need to charge for services and resources.
- As a consequence of introducing a user-pays system, lead organisations may find that users no longer want the service; this may lead to further downtime of expensive equipment. On the other hand it may provide opportunities to focus on users who are willing to pay and in turn reduce the costs associated with providing the offering.
- Lead organisations need to consider the principles of competitive neutrality when offering commercial and non-commercial activities that compete with those provided by the private sector (see the *Competitive neutrality policy* at <[www.dtf.vic.gov.au/Publications](http://www.dtf.vic.gov.au/Publications)>).

## 4.6 Good revenue management practices

### 4.6.1 Receiving and allocating revenue

Lead organisations should have a good understanding of existing revenue sources, when they are received and what obligations they must fulfil to continue to receive the funding. Other factors to consider include the following:

- Are the existing revenue streams sustainable and predictable? If not, can the lead organisation work towards making them sustainable or predictable?
- Lead organisations should work towards having multiple revenue sources to ensure the sustainability of their offering; this will provide greater flexibility and ensure the offering can continue, if the existing revenue source(s) become unavailable.
- Understand when the funds will be received and whether there are requirements to be met in order to receive the funding – for example, key performance indicators that need to be met, evidence of project deliverables, evidence of costs incurred to deliver the offering.
- Knowing what funds will be received and when allows lead organisations to plan and allocate funds to the appropriate projects/offering.
- Understand any limitations that may exist that would prevent the revenue from being used on certain projects/activities. For example, donors may insist that all donations be used for services delivered rather than overhead costs such as rent or management salaries.

#### 4.6.2 Forecasting and reporting

Regular review and monitoring of revenues received and potential revenues available is important to ensure the continuity of service offerings and balance funds coming in with costs to be paid out. The following activities should be undertaken:

- Establish responsible owners for each revenue stream and activity.
- Capture and quarantine revenue received so that it can be allocated to the appropriate project(s).
- Establish regular reviews of revenues received and discuss potential revenues that are expected over the next period.
- Responsible owners should forecast revenue for the month/years ahead; this will ensure a good understanding of the cash flow expected by the lead organisation.
- Report on actual revenue received and compare to budget and forecast figures. Comparisons will assist with future reporting and assist to identify revenue shortfalls as well as identify revenue sources that were greater than expected.

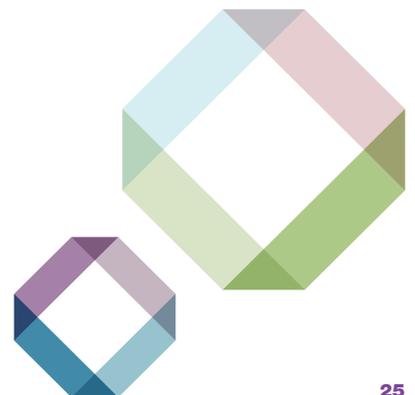
#### 4.6.3 Act commercially

Staff should be encouraged and motivated to identify areas to enhance revenues, whether it is seeking new users or charging existing users for the current offering. It is important staff consider the commercial implications of their actions and the operations of the organisation. Staff members involved in delivering the offering are generally best placed to identify and implement opportunities.

#### 4.6.4 Foster a culture that is focused on sustainable practices

Lead organisations should be focused on creating a culture that steers away from traditional thinking of government grants and handouts and encourage and promote a sustainable culture where the organisation is capable of standing on its own feet:

- Create a culture where it is understood that the responsibility of generating and enhancing revenues belongs to the lead organisation.
- Deliver clear and consistent messages internally, with a focus on creating financially sustainable projects.
- Deliver clear and consistent message both internally and externally where staff and users understand the lead organisation's offering and the value created.





# Chapter 5: Planning for sustainability

A sustainability plan serves as a road map that can help lead organisations achieve project goals and sustain them over the long term. This chapter looks at the fundamentals of planning for sustainability. It discusses what it means, why do it and how to do it, and introduces a number of methods and tools that can assist with the planning process.

## 5.1 What is a sustainability plan?

Although it might not seem the case, a sustainability plan is not just about saving or getting money. Ultimately, it is about ensuring organisational and project goals are achieved over the long term.

A key aspect of this involves securing and safeguarding the resources needed to deliver the service or offering to users and beneficiaries, and ensuring that the service or offering is delivered efficiently and effectively. Planning for financial sustainability lets you concentrate on the real purpose of your project, which is to improve clinical training outcomes, and thus the quality and efficiency of health services, in Victoria.

A sustainability plan comprises background information, objectives, strategies and actions to ensure organisational and project goals are achieved, and that you can acquire and keep the resources you need to do this. All of these facets need to be made very concrete as part of the plan, and take both a short- and long-term view. It should also be specific about how you intend on implementing strategies. Creating a timeline or chart that specifies each action required to deliver a strategy, when they will commence and be completed and by whom, is a good practice that can really help to 'cement' your plan.

## 5.2 Why prepare a sustainability plan?

In addition to helping lead organisations successfully transition towards a financially sustainable operating model when current funding is depleted, a sustainability plan can:

- identify what is 'mission critical' about the project, and what to prioritise
- provide clarity about the service or offering being provided
- focus attention on what users and beneficiaries value most
- position projects to better serve users and beneficiaries
- provide a sound basis upon which to make informed trade-off decisions
- serve as a communication tool for internal and external stakeholders
- provide a foundation for building internal capacity and capability.

## 5.3 The planning process

Although every organisation is unique, and each will have its own way of doing things, the following process provides some guidance about how you could go about preparing your sustainability plan. The process is fairly comprehensive, and some of the content might be considered by some to be quite detailed. This is to accommodate the needs of the larger and more complex projects. Smaller projects may elect to follow a simpler approach that better suits their needs. The important thing is that all funded projects have a sustainability plan in place that provides a clear and practical road map towards service and financial self-sufficiency.

### 5.3.1 Decide who should be involved in developing the plan

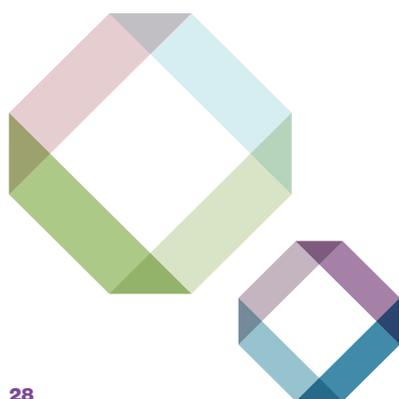
As you begin your planning process, you first need to identify who will be on the planning team. The people responsible for preparing the sustainability plan, and those people you involve to help shape it, are vital to ensuring that it is realistic and robust. Planning team members should bring the skills and knowledge needed to warrant a good planning outcome, such as:

- commercial and financial analysis skills
- an understanding of users and beneficiaries and their needs
- technical skills and operational knowledge regarding the asset or service.

Consider input from people outside of your organisation or project, such as users, suppliers and potential partners who might be able to provide you with unique insights. Outside stakeholders can help identify problems with your service or offering, and may have ideas about how to improve overall effectiveness, reduce costs and identify sources of revenue.

It is worthwhile involving senior decision-makers from your organisation at key stages during the planning process. Engagement with senior leaders provides an opportunity to demonstrate the benefits of your service or offering and your commitment to prudent financial management, which could potentially lead to increased organisational support for your project.

Finally, it is crucial that someone is appointed to manage and champion the plan. The planning manager's responsibility is to oversee the planning process, ensure the plan is implemented, monitor and report on progress and address issues as they arise.



### 5.3.2 Analyse your project's internal environment

#### Conduct an internal audit of your project

It is not possible to plan where you need to go if you do not know where you are now. An internal audit should be undertaken to provide a clear picture of the way things will look for your project beyond the co- funding period if you 'do nothing'.

When conducting your audit, you should look to provide the following information:

- your organisation's mission
- the primary purpose of your project, and how this supports the organisation's mission.

Make sure all of the information is correct and that everyone working on your sustainability plan understands it. If you do not have an accurate budget of your costs and revenues, now is the time to prepare one. The Cost Optimisation and Revenue Enhancement (CORE) analysis tool detailed further in section 5.4 can help you identify:

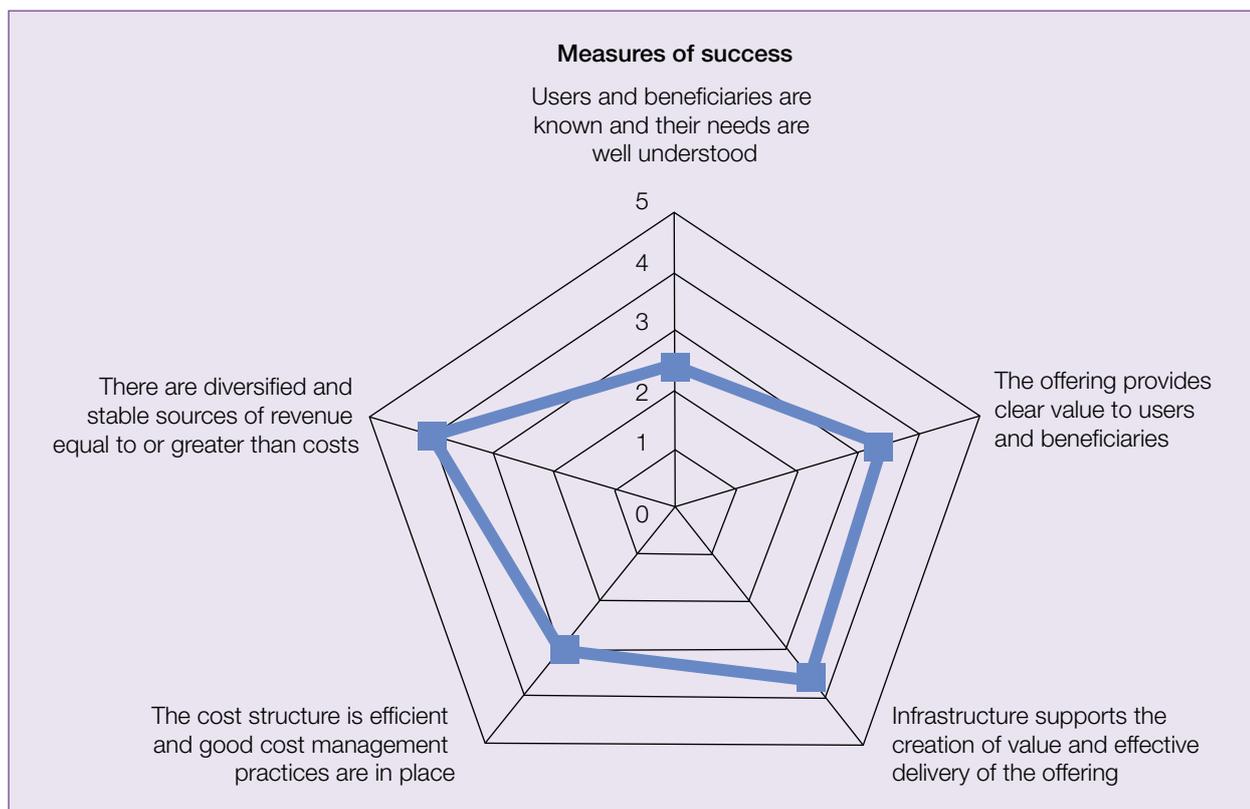
- what the project has accomplished
- the current users and beneficiaries of your service or offering
- a description of the service or offering and its value to users and beneficiaries
- a description of how you provide your service or offering and the resources you need to deliver it; this should include, for example:
  - staff number and skill sets
  - key assets and maintenance considerations
  - suppliers and partners
  - accessibility (for example, operating location and times)
  - a high-level overview of operating procedures
- how much money you need to keep operating the way you are
- known or existing sources of revenue or income (which should **not** include HWA/federal or Department of Health and Human Services funding).

A key output of the audit exercise should be an understanding of your expected financial position beyond December 2014. That is, you should know if your project is likely to be financially sustainable based on known costs and revenues.

#### Assess your sustainability strengths and weaknesses

Chapter 4 of this report presented a framework for sustainability based upon the business model concept. The framework comprises five interconnected elements that collectively can contribute to the service and financial viability of your project (see Figure 3). A number of sustainability success factors were identified, which form the basis of a sustainability assessment tool (discussed in section 5.4.1).

Figure 3: Chart output from the sustainability assessment tool



Completing the sustainability assessment can help lead organisations identify sustainability strengths (such as organisational commitment to the project) and weaknesses (such as resource inefficiencies), and thus capitalise on or address these, as they are to be factored into the planning process. By exploiting and expanding on strengths and reducing or eliminating weaknesses, lead organisations will be in a better position to sustain their projects over the long term.

It is important when completing the assessment tool that you delve into the reasons you give for rating each factor. This will help you identify specific actions that you can take in response to your strengths and weaknesses.

### 5.3.3 Analyse your project's external environment

Your internal audit looked at things that are largely within you or your organisation's control; however, there are aspects of broader society and the health and education sector that can threaten or provide opportunities for your project. When analysing the external environment, it is best to start with the general environment and then work your way to your immediate environment.

A simple and effective framework for appraising your general environment is the PESTLE analysis, which is an acronym for six general environment segments: political, economic, social, technological, legal/regulatory and environmental. The purpose of the analysis is to gather the information required to understand each segment and its implications for selecting and implementing appropriate responses. It is good practice to identify whether a situation is an opportunity or a threat, and whether the impact on your project is likely to be high, moderate or low.

A hypothetical PESTLE analysis for an SLE project is shown in Table 1.

Table 1: PESTLE analysis for SLE project

Segment	Description	Type	Impact
<b>Political</b>	Coalition government with a commitment to cut public spending	Threat	High
	Public policy aspirations to place Australia as global centre of innovation in the knowledge economy	Opportunity	Moderate
	State government priority to improve health system and workforce capacity	Opportunity	Moderate
<b>Economic</b>	Federal government to cease direct funding of CTP projects	Threat	High
	Growing fiscal austerity at federal and state government levels	Threat	High
	Political push for efficiency savings through shared services and public-private partnerships	Threat	Moderate
<b>Social</b>	Ageing population and increased prevalence of chronic conditions requires 'integrated' care models	Opportunity	High
	The next generation of health professionals likely to be more accepting of new training technologies	Opportunity	Moderate
<b>Technological</b>	Increasing levels of research into healthcare simulation and simulation technologies is providing an evidence base of benefits	Opportunity	Moderate
	The introduction of new technologies in the health sector is improving acceptance and awareness of simulation-based training	Opportunity	Moderate
<b>Legal/regulatory</b>	Growing focus on clinical risk management and compliance to improve patient care and safety	Opportunity	High
<b>Environmental</b>	Increasing pressure to reduce energy consumption of technology infrastructure	Threat	Low



Once you have analysed the general environment, you can then begin to analyse conditions within your immediate environment that more directly affect your project. These include things such as:

- **Demand conditions:** Who are your existing and potential users and beneficiaries? How many are there? Is the number growing? What type and quality of service or offering do they expect and do you provide it? What do they value about the service or offering? Do they currently pay for the service? If they don't pay, are they willing to pay and how much are they willing to pay?
- **Supply conditions:** Who are your main suppliers? What do they supply? How many suppliers are there in the market? Are the prices charged reasonable? What is the quality or performance of the goods or service provided? Are they meeting your expectations?
- **Resource conditions:** What are the critical resources you need to provide your offering? Is there sufficient expertise in the local labour force? Are training opportunities available to staff? Does local transportation infrastructure facilitate accessibility to your service or offering? Are there supporting and complementary industries located in close proximity?
- **Competitive conditions:** Who else provides a similar offering that existing and potential users and beneficiaries do or could access? How do they generate revenue? How does your offering compare? How are competitors likely to affect your ability to sustain the service or offering financially?

#### 5.3.4 SWOT analysis and strategic responses

A traditional SWOT (strengths, weaknesses, opportunities and threats) analysis only identifies the strengths and weaknesses that exist and the opportunities and threats that might emerge. This can be a novel exercise but often does not lead to much more than four lists that are easily filed away and forgotten. A good SWOT analysis should be a useful tool for planning.

In order to make your SWOT analysis more effective, you will need to prioritise your strengths and weaknesses and opportunities and threats and then identify actions to address them. To assist you with prioritisation, the sustainability assessment tool plots each of the success factors in a chart so you are able to visualise areas of strength and areas of weakness. Your environmental analysis should also have given you some indication of what opportunities and threats are likely to impact on your project the most. It is best to identify the top three to five strengths, weaknesses, opportunities and threats, to keep the analysis simple and focused.

The results of your SWOT output can then be used to help you think about the options that you could pursue. To do this, you match key external opportunities and threats with your key internal strengths and weaknesses, as illustrated in the matrix in Table 2.

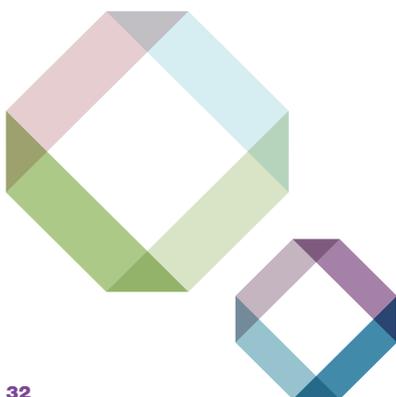


Table 2: SWOT analysis and strategic response matrix

<b>SWOT analysis and strategic responses</b>	<b>Internal strengths</b>	<b>Internal weaknesses</b>
	Internal strength 1	Internal weakness 1
	Internal strength 2	Internal weakness 2
	Internal strength 3	Internal weakness 3
<b>External opportunities</b>	<b>Use strengths to capitalise on opportunities</b>	<b>Improve weaknesses by using opportunities</b>
External opportunity 1	Strategic option 1	Strategic option 7
External opportunity 2	Strategic option 2	Strategic option 8
External opportunity 3	Strategic option 3	Strategic option 9
<b>External threats</b>	<b>Use strengths to avoid threats</b>	<b>Avoid threats and minimise weaknesses</b>
External threat 1	Strategic option 4	Strategic option 10
External threat 2	Strategic option 5	Strategic option 11
External threat 3	Strategic option 6	Strategic option 12

For each combination of internal and external environmental factors, consider how you can use them to create good strategic options, and then list the options you identify in the appropriate quadrant of the matrix:

- Strengths and opportunities (SO): How can you use your strengths to take advantage of opportunities?
- Strengths and threats (ST): How can you take advantage of your strengths to avoid potential threats?
- Weaknesses and opportunities (WO): How can you use your opportunities to overcome the weaknesses you identified?
- Weaknesses and threats (WT): How can you minimise your weaknesses and avoid threats?

Because it is not always practical to implement all the options that you have generated, evaluate them to establish those that you believe are most likely to yield the greatest benefit, and that best achieve your project's 'mission' (see section 5.3.5). A simple approach to prioritising options is the impact analysis method, which is outlined in section 5.5.5.

The options you choose to proceed with should largely focus on making the project more effective by improving internal systems and capabilities, and by improving your ability to respond to changing conditions so that opportunities can be seized and problems proactively managed. The options should also help inform the cost optimisation and revenue enhancement strategies needed to improve the financial viability of your project.

### 5.3.5 Identify what is 'mission critical' to your offering or service

In terms of financial sustainability, it is worthwhile in the first instance to differentiate between what you really need and what you want. For example, although an SLE project may have received funding to cover an operating budget of \$500,000, is it possible to deliver similar outcomes with less?

'Mission critical' is a common term used to describe the activities and resources that are absolutely essential for day-to-day delivery of an offering or service. If an activity or resource cannot be eliminated under any circumstance, then it is considered 'mission critical' because it is indispensable.

An important question to ask when determining what is 'mission critical' and what is not, is: 'What is the primary purpose of my project?' Your mission, or purpose, provides a framework for decision making, goal prioritisation and resource allocation.

Once you have clearly defined your project's 'mission', make a list of the activities and resources that are essential to achieving it. Decisions on what is essential will mean different things to different people – there is no set formula for making them. Because of this, defining what is essential should be made collectively, with everyone working on the plan giving their input. It should also be clear to members of the planning team that even if some aspect of the project is considered to be 'non-essential' to the mission, that doesn't mean it will necessarily be cut. What you are doing is trying to establish the absolute baseline activities and resources for your project. These are the things that cannot be tampered with. For example, if your project involved an investment in rural accommodation, it might be essential for that accommodation to be available for clinical training placements between the months of February and November. This means that during other times of the year it might be used to generate income from private rentals to offset some of the costs of owning and operating the facility.

Think creatively about what you have done and need to do. Just because your project ran in a particular way for the last few years, it doesn't mean it has to run the same way next year and in the years to come.

### 5.3.6 Generate cost optimisation and revenue enhancement (CORE) ideas

The next stage of the planning process involves formulating practical ideas that you can implement to help optimise your project's costs and find new or additional sources of income to help offset those costs. Chapters 3 and 4 of this report introduced you to these concepts. It is now time to identify which levers you would like to put into practice.

The best way to approach this stage is through a 'creative idea generation' workshop involving planning team members and relevant stakeholders. The purpose of the workshop is to produce a broad range of possible cost optimisation and revenue enhancement ideas, having regard to the outcomes of your SWOT analysis and strategic options. A recommended agenda for the workshop is as follows.

#### Set the scene

It is best to kick the workshop off by providing a high-level summary of the key findings from your internal and external analyses and initial strategies. It is also worth reiterating your project's mission and setting some boundaries around the activities and assets that are 'mission critical'.

#### Generate ideas

The primary goal of this step is to have the group generate as many ideas as they can. There will be an opportunity to analyse all of the ideas that come up, but it is best to park that analysis for later. This will enable the group to come up with any idea, no matter how unusual it might seem. 'Left field' ideas can often create a paradigm shift that can lead to transformational changes.

The brainstorming process itself should involve the group asking ‘What ideas do we have?’, capturing that in a few words on butcher’s paper, and then asking ‘What else?’. No long explanations or justifications of ideas are necessary, just the kernel of the idea. The analysis will come later.

#### **Filter ideas**

Ideally, you should have dozens of ideas to work with. The group can now start to filter the ideas and select those with the most potential. During this step, it is best to use a simple filtering method, such as the EASE/IMPACT method, to evaluate and prioritise the ideas. You should aim to identify 10–20 ideas that you can take into the next stage. Each idea should now be identified with an agreed title that makes the concept clear to everyone.

#### **Harvest ideas**

By now the group should have filtered original ideas into a manageable list that show the greatest potential. The next step is to flesh these ideas out in a little more detail. For each idea you will need to understand attributes such as the potential benefits and risks, the timelines and resources requirements, and the likely financial payoff.

You can use the CORE idea template that accompanies this blueprint to describe the idea and its most important characteristics, supported by a simple financial analysis using indicative figures where possible. Dollar amounts need only be orders of magnitude to provide comparisons between the various ideas and decide which to take forward.

Finally, the group should spend some time reviewing, scrutinising and revising the assumptions behind each of the ideas so they can be validated, expanded and evaluated in more detail at a later date.

### **5.3.7 Select the CORE options that you will implement**

The next stage is to develop the CORE options in enough detail so you are able to examine their relative costs and benefits, and determine which of those should be implemented as part of your sustainability plan and why. From this analysis, you should aim to select between five and 10 ideas that will become the focus of cost optimisation and revenue enhancement for your project.

#### **Validate and expand CORE options**

Ideally, the CORE ideas workshop should have yielded 10–15 CORE options. To enable proper examination and evaluation of the options, it will be necessary to validate some of the assumptions that you made about the options developed during the workshop. This may involve discussing your assumptions with users and beneficiaries, suppliers or potential partners, checking resource implications, or confirming cost and revenue estimates. For example, if your option considers the use of student accommodation for private holiday rental, you should check market rates for similar rental properties.

After you have validated your assumptions, spend some time expanding the main characteristics of each of the options so you are able to examine their relative costs and benefits, and determine which of those should be implemented as part of your sustainability plan and why.

#### **Use the CORE analysis tool to examine the financial implications of scenarios**

The *CORE analysis tool* is a simplified form of financial analysis that lets you compare your current way of operating to the future way of operating based on the introduction of new ways to deliver your service or offering that can help reduce costs and increase revenues. It is an Excel workbook that uses a series of worksheets to compare the financial impacts of cost optimisation and revenue enhancement decisions through developing and analysing scenarios.

Figure 4: Output from the decision framework

Criterion	Scoring of options						
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
Potential Benefit	1	10	5	5	10	10	5
User and beneficiary impact	5	5	1	5	10	1	1
Time requirement	1	10	5	5	5	1	5
Length of potential benefit	5	5	1	1	1	5	1
Degree of organisational risk	1	10	1	5	10	1	1
Degree of organisational capability	1	5	5	5	1	1	5
Degree of operational risk	1	10	10	10	10	1	10
Investment required	1	5	5	1	10	5	5
<b>Overall score (score out of 10)</b>	<b>2.0</b>	<b>7.5</b>	<b>4.1</b>	<b>4.6</b>	<b>7.1</b>	<b>3.1</b>	<b>4.1</b>

### Evaluate and select options

Once you have estimated the financial implications of the various scenarios, you can use the *CORE decision framework* to identify those options that are best to pursue. The decision framework expands the analysis of options to include such things as risk, user and beneficiary acceptance and financial payback. A sample output from the decision framework is shown in Figure 4, with an explanation of the tool outlined in section 5.5.5.

From this analysis, you should aim to select around half a dozen or so ideas that will become the focus of cost optimisation and revenue enhancement for your project. It is best not to choose too many initiatives to pursue; executing fewer initiatives well is preferable to poorly executing many.

### 5.3.8 Develop an implementation plan

A sound sustainability plan will need to lay out more than just intent; it needs to consider how it will deliver on its intent.

Most, if not all, of the strategies you propose will involve some form of change that will have an impact on people, processes and resources. A key aspect of this stage will therefore involve identifying the actions and changes that may be required to implement the various options, by whom and over what timeframe.

The planning team will need to develop a plan that provides sufficient direction on how preferred strategies will be practically implemented. Ideally, the plan should include:

- objectives and measures of success
- clearly outlined tasks and timeframes for implementing the strategy
- clearly defined roles and responsibilities for those involved in implementing the strategy
- key stakeholders, their interests and how will they be addressed/managed
- the costs involved in implementing the strategy
- key risks and how will they be managed
- protocols for monitoring and reporting on progress.

Many of the above items may already have been identified during earlier planning stages. The implementation plan need not be cumbersome but should enable clear understanding of what needs to be done, how to go about doing it and what success will look like. The sustainability plan includes a simple framework for your implementation plan.

Scoring of options							
Option 8	Option 9	Option 10	Option 11	Option 12	Option 13	Option 14	Option 15
5	10	10	5	5	10	10	10
10	10	1	1	5	10	10	10
10	5	10	5	10	5	5	10
10	5	5	1	1	1	1	10
10	10	10	1	10	10	10	10
10	5	1	1	10	5	1	5
5	10	10	10	10	10	10	5
5	10	5	5	1	10	10	5
<b>8.1</b>	<b>8.1</b>	<b>6.5</b>	<b>3.6</b>	<b>6.5</b>	<b>7.6</b>	<b>7.1</b>	<b>8.1</b>

### 5.3.9 Finalise and ‘socialise’ your sustainability plan

The last stage of the planning process is to write up your plan using the sustainability plan template provided, or a variation thereof. The plan should include all information that is pertinent to your project type, be backed with logical, factual and financial documentation, and have the endorsement of senior leaders within your organisation, as well as relevant stakeholders.

Finally, it is important that the sustainability plan becomes part of a conversation among people, and that individuals own it, talk to each other about it and adopt and adapt what it means for them. It is not sufficient to just ‘get the message out’ (communicating). As was discussed in section 2.4, sustainability requires a new way of thinking. Socialising your plan is about the social impact that leads people to change the way they work, what they do, what they say, how they behave and the way that they think.

## 5.4 Monitoring, reporting and improvement

Sustainability is not a static. It is an evolving process that requires constant monitoring, adjustment and improvement in order to respond to changing circumstances. Funding recipients are currently responsible for collecting and reporting project-level data that demonstrates progress and achievement of the CTP outcomes. It is important that a monitoring and reporting regime suitable to your project continues.

The type of information that will need to be collected will vary depending on the type and size of the project. It will also depend on the particular outcomes that are being monitored.

Generally speaking, the following information should be monitored and reported on:

- utilisation data for the offering or service
- user and beneficiary satisfaction
- changes in assets or asset condition
- changes in other resources
- financial information comprising costs and revenues
- issues and risks
- opportunities for improvement and changes proposed to improve delivery.

Your sustainability plan should indicate what is to be reported on, when and by whom.



## 5.5 Tools for sustainability planning

The department has developed a number of tools to assist you with the planning process. These include a tool to assess current capacity for sustainability, a template for preparing a sustainability plan, a tool for undertaking an initial analysis of sustainability ideas, and a tool to help with more detailed analysis of cost optimisation and revenue enhancement initiatives.

### 5.5.1 Sustainability assessment tool

This tool will help you assess your project's current capacity for sustainability across a range of specific organisational and contextual factors, based on the sustainability framework presented in Chapter 2. Your responses will pinpoint sustainability strengths and challenges. You can then use results to guide sustainability planning for your project.

The *sustainability assessment tool* uses an Excel workbook with scorecards for five sustainability factor groups (users and beneficiaries, offering, infrastructure, costs and revenues) to be filled in digital format, plus additional instruction and scoring guidance sections and a number of radar charts to help visualise areas of strength and areas that require attention. The tool has been designed so it is easy to complete electronically during a workshop while projecting onto a screen, and for printing if required.

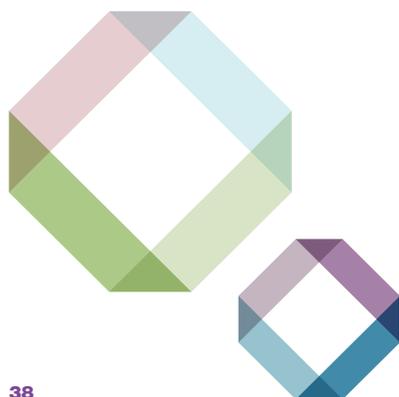
The tool uses qualitative assessments, which are standardised into numeric scores using a five-point 'Likert' scale. The assessment is broad-based, covering a wide range of factors, and relatively high level. This simple approach is designed so that a broad range of stakeholders can participate in the assessment, to encourage discussion and to provide easily understood presentation of the results.

The sustainability assessment is best carried out in a workshop where different participants aided by a facilitator discuss and agree on the scores. Alternatively, the assessment can be filled out independently, with individual assessments later compiled and the result validated by a group of stakeholders, or electronically if unable to meet.

### 5.5.2 Sustainability plan template

The *Sustainability plan template* broadly follows the logic and content of the sustainability planning process outlined in this chapter. The template comprises essential sections that should be addressed when preparing your plan.

The template contains instructions to help guide you through the process of developing the plan, which should be read in conjunction with this report. Be sure to keep information logical and factual, and that your plan is backed up by financial data to demonstrate progress towards financial self-sufficiency.



### 5.5.3 Impact analysis template

Impact analysis is a simple but effective technique for prioritising a list of potential strategies or improvement options. The purpose is to categorise them into a number of meaningful groups based on their ease of implementation and their potential impact, as follows:

- **Best options:** These are the options that deliver high impact and require little time, money or effort to implement.
- **Short-term options:** These are the options that will have medium impact and require little to some time, money and effort to implement.
- **Long-term options:** These are the options that will have high impact and require some to lots of time, money and effort to implement.

Each option or idea is rated **relative** to one another in terms of **impact** (high, medium and low), or the benefit or pay-off likely to result from pursuing the idea, and then in terms of how **easy** it would be to pursue in terms of time, money or effort (hard, medium or easy). The options recorded on the *Impact analysis template* are then plotted onto a grid according to their impact and ease ratings to reveal which group they fall into.

### 5.5.4 Cost optimisation and revenue enhancement (CORE) analysis

Conducting a CORE analysis is particularly useful when assessing financial sustainability. The *CORE analysis tool* will help you consider how different ways of delivering and configuring your service or offering can help reduce costs, increase revenues, or both.

The *CORE analysis tool* uses an Excel workbook with spreadsheets for current costs and revenues (based on the existing situation) and expected or potential future costs and revenues (based on changes in variables such as resource allocation and efficiency, delivery models and the price and volume of services being delivered). The tool will enable lead organisations to understand the impacts of potential CORE decisions through developing and analysing scenarios.

### 5.5.5 Cost optimisation and revenue enhancement (CORE) decision framework

Cost optimisation and revenue enhancement do not happen in isolation. There will almost always be risks and consequences for lead organisations. The *CORE decision framework* can be used to weigh up the benefits and risks of potential initiatives. The framework considers not only the potential financial benefit but also the impact on customers, time requirements, organisational change and capacity, investment required and operational risk (the impact changes could have on the ability to deliver the project's 'mission').

Like the *CORE analysis tool*, the *CORE decision framework* uses an Excel workbook. The workbook contains a spreadsheet with a number of criteria to be assessed and scored for each option. Once the assessment is completed, an overall score is derived for each option. The decision framework can help lead organisations compare and prioritise the options within their portfolio in a structured and objective way.



# Chapter 6: Strategies for sustainability

Over the course of the *Sustainability blueprint* development process, representatives from lead organisations came together to collectively generate, examine and test a range of sustainability ideas, which may have application across the wider clinical training program.

## 6.1 Strategy development process

Two workshops were held to explore present, as well as possible future, cost optimisation and revenue-related activities for SLE, rural accommodation and small capital and equipment projects. The workshops were attended by representatives from:

- the department's Clinical Training Programs team
- an external stakeholder group
- Victorian Clinical Training Networks
- lead organisations responsible for assets and projects funded under the 2011–13 funding program.

Both workshops followed the idea generation process outlined in 5.3.6 of the *Planning for sustainability* chapter.

A wide variety of sustainability strategies were explored and tested, and some of them are presented here in the spirit of promoting new ideas, even if they do not have organisational backing or are not executable in a manner that generates major revenues or cost improvements. Many of the ideas generated were more associated with best practice systems and behaviours that inform cost optimisation or revenue enhancement approaches.

While these strategies may work for some projects and organisations, they are not intended to be used in a 'one size fits all' approach to sustainability. Project owners and managers should understand that every situation is different and that not all strategies will work for all projects. Lead organisations are encouraged to critically review current 'business' models and processes and study and understand the issues and opportunities specific to their project and circumstances.

## 6.2 Summary of sustainability strategies

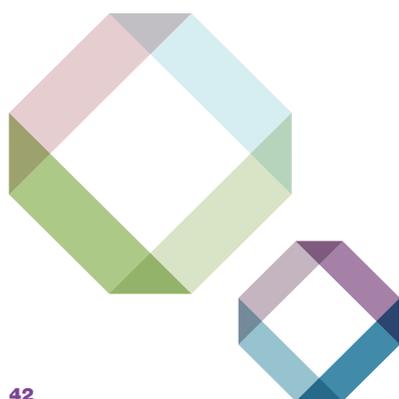
Table 3 summarises the strategies for cost optimisation and revenue enhancement developed and examined during the sustainability workshops. It compares their relative costs and benefits with respect to high-level criteria identified as being relevant for assessment of their suitability.

The following data are summarised in the matrix:

- **description:** a summary of the revenue enhancement or cost optimisation strategy
- **type:** indicates whether the strategy is a cost optimisation or revenue enhancement strategy, or both
- **time to implement:** provides an indication of how long the strategy might take to implement, identified as short (one to three months), medium (three to six months) or long (six months or more)
- **cost to implement:** provides an indication of the cost that may be involved in implementing the strategy, identified as low (nil to hundreds of dollars), moderate (thousands of dollars) or high (tens of thousands of dollars)
- **potential impact:** provides an indication of the level of funding or savings that could be achieved from the revenue enhancement or cost optimisation strategy, identified as low (nil to hundreds of dollars), moderate (thousands of dollars) or high (tens of thousands of dollars).

**Table 3: Summary of sustainability strategies by asset type**

Asset type	Description	Type	Time to implement	Cost to implement	Potential impact
Simulated learning environments	Prepare business case demonstrating return on investment for SLE	Revenue enhancement	Long	Moderate	High
	Pursue a partnership model to facilitate pooling and sharing of resources	Cost optimisation and revenue enhancement	Medium	Low	Moderate
	Review assets and resources and rationalise against needs	Cost optimisation	Short	Low	High
	Share intellectual property assets	Cost optimisation	Short	Low	Moderate
	Use common/low-cost technologies to replace complex/high-cost technologies	Cost optimisation	Short	Low	High
Rural accommodation	Provide bike hire for students using accommodation	Revenue enhancement	Short	Low	Moderate
	Use long-term rentals to offset broader accommodation costs	Revenue enhancement	Short	Low	High
	Introduce a cleaning bond	Cost optimisation and revenue enhancement	Short	Low	Moderate
	Sponsorship and naming of accommodation buildings	Revenue enhancement	Short	Low	Moderate
	Make accommodation available for private rental during downtime using Airbnb	Revenue enhancement	Short	Moderate	High
Small capital and equipment	Review supplier arrangements, bulk purchasing	Cost optimisation	Short	Low	Moderate
	Open learning centres for community use or adult education	Revenue enhancement	Short	Low	Moderate



## 6.3 Strategies for sustaining simulated learning environments

The following strategies were seen by the Sustainability Blueprint Reference Group to be the most appropriate and viable and with relatively broad application across the SLE projects.

### 6.3.1 Prepare business case demonstrating return on investment for SLE

#### Overview

This is a revenue generating strategy that focuses on securing financial support from lead organisations through internal budgetary processes. It involves developing a compelling and cogent case to give senior leadership a basis with which to agree to provide ongoing funding for the costs of sustaining the SLE project.

#### Rationale and key characteristics

If projects are not presented in a purposeful manner that clearly illustrates the benefits to the organisation, they are unlikely to receive ongoing funding.

A 'business case' is a form of advice substantiating an argument for a proposal. It is an essential and useful tool for substantiating the viability of proposals and the justification of a significant allocation or reallocation of financial resources.

A business case describes the current situation, outlines the strategic issues and gives the rationale for investment, which involve addressing a problem or seizing an opportunity. It should present an argument that shows how the proposal will help the organisation achieve its core interests and priorities (such as patient safety outcomes), with a clear return on investment.

A well-written and well-presented business case can ensure that SLE projects are given the level of consideration and financial support that they deserve.

#### Likely financial impact

If project owners and managers are able to demonstrate significant benefits to the organisation, it is possible that considerable organisational funding could be secured for their projects.

#### Major risks and issues

The major risks and issues for this strategy include:

- insufficient evidence to support the problem and likely benefits of implementing the proposal
- a poorly developed argument that is not communicated in a logical manner
- not assessing a broad and realistic range of alternative options for addressing the problem
- failure to accurately quantify the costs and benefits
- not following organisational guidelines or templates when preparing the business case
- the evidence base to support benefit claims of SLE projects is weak or non-existent.

#### Implementation considerations

Business case preparation can be a complex and often costly task. While a business case can sometimes be prepared fairly quickly, it can take some time to build a sound evidence base, particularly if none already exists. It requires a broad range of skills, including problem definition, creative solution development, decision analysis, financial analysis, risk analysis, project development and delivery skills, and good report writing skills. If these skills are not available 'in house' it may be prudent to seek expert assistance. Business cases prepared by external consultants can cost several thousand dollars, depending on the scale of the project and the investment.

### 6.3.2 Pursue a partnership model to facilitate pooling and sharing of resources

#### Overview

This is a cost optimisation strategy that proposes a collaborative partnership model in which individual projects collectively address deficiencies in resource utilisation and efficiency through skills and knowledge sharing, and by providing open access to physical assets and other resources.

#### Rationale and key characteristics

A number of projects have assets and resources that are potentially surplus to their current demand, while others are experiencing demand that cannot be met by current resources. Collaborative arrangements between projects can allow multiple resources to be directed where they are most needed, leading to greater efficiencies and potentially cost dispersal and/or income.

A good partnership model could enable projects that have underutilised resources (for example, expensive 3G manikins that require ongoing and costly servicing and maintenance) to shift some of the costs of owning those resources to another project in exchange for their use. Resources could also be 'rented' to other projects for an agreed fee, particularly for those that are in high demand, which would provide a source of revenue for projects that have assets that are surplus to their needs.

A key consideration for this strategy is the scope and scale of the partnership model. This could range from a small number of geographically proximate projects sharing resources with 'loose' arrangements, to a large-scale brokerage model managed by a central entity, potentially funded in whole or part by participating project lead organisations.

#### Likely financial impact

The financial benefits of a partnership are potentially significant. This, however, would depend on the arrangements of the partnership model, as complex partnership and resource sharing arrangements can be expensive to administer, particularly for broad-based models. Projects would need to evaluate whether the benefits associated with a partnership model outweigh the costs.

#### Major risks and issues

The major risks and issues for this strategy include the following:

- Given that the members of any partnership represent a diverse group of participants, unique project and organisational circumstances, goals and objectives can become barriers to resource sharing.
- The concept of shared resources is frequently accompanied by challenges based on issues of partner territory and competition for opportunities and resources.
- Moving and transporting physical assets can be very costly and increases the likelihood of damage to or deterioration of assets.
- There is potential for disputes to arise between partners if there are perceived issues with equity of access to resources.
- Certain types of insurance covering some assets may place limits on who uses them and where they are located.

### **Implementation considerations**

Partnerships would need to be based on agreements that state each partner's role, their expected contribution and a clear procedure for resolving any disputes. Project participants must define the resources important to the partnership, as well as their needs. There would need to be a willingness to share resources, and appropriate pricing mechanisms for sale, purchase and usage would need to be established. Finding consensus is not always easy, particularly regarding aspects of control and accountability for each partner.

The time, cost and resources required to design and implement a partnership model will vary depending on the scale and scope of the model, as noted above. A relatively modest arrangement might involve a simple memorandum of understanding between participants. A more sophisticated model would most likely require more formal/contractual agreements, which places certain requirements and responsibilities on participants.

A number of models for this strategy are currently being investigated by the department.

### **6.3.3 Review assets and resources and rationalise against needs**

#### **Overview**

This is a cost optimisation strategy that proposes eliminating assets and resources of the service or offering that are surplus to meeting the needs of users and beneficiaries. By eliminating surplus assets and resources, the costs of owning and operating them are also eliminated.

#### **Rationale and key characteristics**

Efficient costs are particularly important in the context of capital costs. An oft-cited problem of many government projects is the purchase of assets and facilities that are unnecessarily large or sophisticated relative to the needs of users and beneficiaries (a phenomenon known as 'gold plating').

It is therefore important to ensure that the level and standard of provision of services are the minimum necessary to meet the needs of users and beneficiaries and to achieve the government's objectives. Without this discipline, the cost of providing the service or offering can be unnecessarily high, which can affect the cost to users and beneficiaries if costs are to be recovered or a fee-for-service charged.

Where unnecessarily high standards for assets have been adopted in the provision of SLE, it may prove prudent for assets that are surplus to needs to be sold, redeployed or leased to another project.

#### **Likely financial impact**

The financial benefits of asset disposal can be potentially significant. It can reduce the cost of maintenance as well as the capital replacement cost. If assets are sold, capital from the sale can be 'recycled' to purchase more appropriate assets for the project. Assets that are leased to another project for a fee would provide another source of revenue for the project.



## Major risks and issues

The major risks and issues for this strategy include:

- resistance by some project teams to 'let go' of assets
- establishing the most efficient level of assets and resources is not always simple
- an increase in user and beneficiary demand over time could result in the need for additional assets or facilities, and hence reinvestment
- if the assets are not 'owned' by the project, disposal would require department approval for the sale of assets and recycling of capital
- given the scale of investment in SLE over the last few years, there may not be a significant 'local' market for some assets.

## Implementation considerations

The main considerations for implementing this strategy would be the decision about which assets and resources to eliminate or redeploy. This would require some form of capacity and value analysis regarding user and beneficiary requirements, as well as consideration of likely future growth in demand.

Questions of asset ownership would need to be resolved, and whether any funds from asset sales would be retained by the project or need to be provided back to the department. This may require some form of formal agreement with the department regarding the reinvestment of capital.

### 6.3.4 Share intellectual property assets

#### Overview

Under the funding agreements for 2011–13 projects and the 2013–14 projects, ownership of intellectual property arising from funded projects vests exclusively in the department on behalf of the State of Victoria. The department is committed to disseminating project material and resources for the benefit of the wider clinical education and training community. Knowledge Bank is the department's online catalogue of clinical education and training resources (see <<https://vicknowledgebank.net.au>>). Resources arising from projects are regularly uploaded to Knowledgebank, and all resources are publicly available.

This is a cost optimisation strategy that proposes the further development of the platform for sharing intellectual property assets that have been created by the various SLE projects over the course of the program.

#### Rationale and key characteristics

A significant amount of highly valuable intellectual property assets have been created by almost all SLE (as well as other) projects since the program commenced, including templates, clinical scenarios and online training resources. By making these more accessible to the broader SLE project cohort, the costs of their development can be avoided or reduced and the benefits they provide shared to add further value to the SLE offering.

This strategy would involve providing access to these resources through a centralised database or some form of customised online facility.

### **Likely financial impact**

The cost of developing intellectual property makes up a large part of the costs of running a successful SLE offering. Sharing these assets could also boost the value to end users and beneficiaries, which could translate into increased usage and willingness to pay.

Costs to deliver this strategy would likely involve establishing an online database or file-sharing service. For cloud-type file sharing services, the investment would be fairly modest.

### **Major risks and issues**

The major risks and issues for this strategy include the following:

- In a perceived competitive landscape for SLE services, there is likely to be an unwillingness of some projects to share high-value intellectual property assets.
- Increased access to intellectual property assets increases the risk of infringement of rights if assets get into the 'wrong hands'.
- Improper application/use of intellectual property assets can occur if there is not sufficient guidance about how they should be used.

### **Implementation considerations**

This strategy will likely require the establishment of policies and practices to identify, manage and use intellectual property resources developed by projects. In line with their general responsibility for ensuring proper and effective use and management of assets, projects should consider putting in place appropriate mechanisms to protect intellectual property that has been identified as being of high value.

To facilitate access and sharing of assets, some form of electronic or online database or file-sharing facility would be required. This would need to be established, along with appropriate protocols for management and access. Given that such facilities have come a long way over recent years, this should not be too difficult to implement.



### **6.3.5 Use common/low-cost technologies to replace complex/high-cost technologies**

#### **Overview**

This is a cost optimisation strategy that proposes replacing complex/high-cost technologies with common/lower cost technologies that perform similar tasks at a similar level of performance.

#### **Rationale and key characteristics**

In some instances, technologies may have been purchased that are unnecessarily sophisticated relative to the actual needs of a particular project or project users. For example, some project owners have indicated that highly sophisticated and complex audiovisual equipment is not being made use of because it requires a competent technician to operate (which comes at a cost to the project). In such instances, it might be worthwhile replacing this technology with something that is simpler to use, and which can be operated with little training.

#### **Likely financial impact**

The financial benefits of replacing high-cost and sophisticated technology assets relate mostly to a reduction in the cost of maintenance, capital replacement cost and the training/technical resource costs associated with operating the asset. If technology assets are sold, capital from the sale can be 'recycled' to purchase common/lower cost technologies that can be easily operated by project staff. Assets could also be leased to another project for a fee, if that project has the requisite technical and financial resources. This would provide a stable source of revenue.

Importantly, by using simple technologies, assets are likely to have a higher rate of utilisation and benefit the project accordingly.

#### **Major risks and issues**

The major risks and issues for this strategy include the following:

- Some project teams might be reluctant to 'let go' of 'gold plated' assets.
- It could be difficult to identify the most appropriate type and 'level' of replacement technology so that it is 'fit for purpose'.
- Asset ownership is highly likely to be an issue and will require approval for sale and recycling of capital by the department.
- Some technology assets might not be easily replaced by lower cost and more common technologies.

#### **Implementation considerations**

The main considerations for implementing this strategy would be the decision about which assets to replace. This would require some form of analysis with suitability of the replacement technology.

As noted above, asset ownership would need to be resolved, and whether any funds from asset sales would be retained by the project or need to be provided back to the department. This may require some form of formal agreement with the department regarding how funds are reinvested.

## 6.4 Strategies for sustaining rural accommodation

The strategies developed for rural accommodation by the reference group focused on simple and practical ideas that are relatively easy and with little cost to implement.

### 6.4.1 Provide bike hire for students using rural accommodation

#### Overview

This is a revenue generating strategy that proposes providing access to bicycles for students without transportation. A modest fee would be charged for daily use of the bicycle.

#### Rationale and key characteristics

Public transport in some rural areas is minimal, and many students using rural accommodation do not have access to a motor vehicle. These students would benefit from access to affordable and convenient forms of local transport. Improving mobility and accessibility will also assist students to assimilate into the communities where they are placed.

This strategy would involve the purchase (or possible donation) of bicycles and bicycle facilities to be hired to students. Bicycles and facilities would be located in close proximity to accommodation units, and would be available for hire on a daily or weekly basis.

It may be possible for further revenue to be earned through bicycle advertising or sponsorship by local businesses, similar to that of the Melbourne Bike Share scheme.

#### Likely financial impact

The financial benefits of this strategy would depend largely on the hire rates for bicycles. Melbourne Bike Share currently charges around \$10 per hour. This rate seems high for students. An appropriate fee might be in the order of \$40 to \$50 per week. If student placements take up nine months of the year, the total earnings from one bicycle could be as high as \$1,800 over that period, assuming 100 per cent utilisation.

The costs of implementing this strategy would relate to bicycle and facility purchases; however, as noted above, projects could seek donations from local bicycle stores or businesses.

#### Major risks and issues

This strategy is not seen as high risk; however, some risks and issues might include:

- possible requirements and costs for insurance
- theft or damage of bicycles
- not a significant take-up by students results in costs not being recovered.

#### Implementation considerations

The main consideration for implementing this strategy will be to test the potential demand for bike hire with a range of potential customers prior to incurring any cost. Second, assuming there is sufficient demand for bike hire at the rural accommodation site, the lead organisation would need to determine how to acquire the bikes. Suggestions include purchasing the bikes outright, seeking in-kind donations from local business or for the lead organisation to allow an external provider to hire bikes utilising the rural accommodation as the site to collect and return bikes to (the lead organisation could then charge a space rental fee). This initiative will require considerations regarding maintaining the bikes and a system for managing the hire and return of bikes.

## **6.4.2 Use long-term rentals to offset broader accommodation costs**

### **Overview**

This is a revenue generating strategy that proposes renting a proportion of accommodation assets to long-term tenants for market rent and using the income to fully or partially fund the costs of rural accommodation.

### **Rationale and key characteristics**

Market rent for some forms of accommodation may be large enough to significantly offset the costs of owning and operating student rural accommodation. This, however, would mean a trade-off between income and accommodation availability for students.

This strategy would involve private tenants entering into a formal long-term lease of one or more properties within the health service's accommodation portfolio. For this strategy to succeed, properties would need to be appropriate to market demand. For example, a family home located in a residential area is more likely to be suitable for long-term private rent than motel-style accommodation located on a hospital campus.

### **Likely financial impact**

The financial benefits of this strategy could be fairly significant, depending on the location and type of accommodation available. For example, a three-bedroom house in Ballarat could generate around \$18,000 in income, assuming rental of \$350 per week.

### **Major risks and issues**

This strategy is not seen as high risk; however, some risks and issues might include:

- reduction in the availability of accommodation for use by students reduces number of clinical placements
- possible damage to property by private tenants.

### **Implementation considerations**

The main considerations for implementing this strategy would be developing a suitable lease agreement and property administration.

### 6.4.3 Introduce a cleaning bond

#### Overview

This is a cost optimisation strategy that proposes introducing a cleaning bond to eliminate or reduce the costs of cleaning student accommodation.

#### Rationale and key characteristics

Annual cleaning costs are a significant component of accommodation operating costs and can range from \$30 to \$50 per square metre. In order to eliminate or reduce this cost, health services would introduce a cleaning bond that students would pay up front, on the basis that it would be refunded if the property is left cleaned to the satisfaction of the health service. If not, the bond is forfeited and used to pay for the cost of cleaning.

#### Likely financial impact

The financial benefits of this strategy are likely to be moderate, and would depend on the type and size of accommodation, as well as the cleaning costs themselves. However, it might be possible to set the bond slightly above the cost of cleaning to generate a small amount of income.

#### Major risks and issues

This strategy is not seen as high risk; however, some risks and issues might include:

- the cost of cleaning exceeds the bond if accommodation is left in a particularly poor state, though this would still go some way to offsetting the cost
- the ability for students to pay an upfront bond in addition to the other costs associated with a rural clinical placement.

#### Implementation considerations

This strategy is simple to implement and would likely require a simple bond agreement between the health service and the student, along with financial administration of the bond paid.



## 6.4.4 Sponsorship and naming of accommodation buildings

### Overview

This is a revenue generating strategy that proposes 'selling' naming rights for accommodation units that are located on health service property.

### Rationale and key characteristics

Naming rights is a financial transaction and form of advertising in which a business or other entity purchases the right to name a facility or event, typically for a defined period of time. It is a trend that has expanded in recent years to include public facilities as viable opportunities for the sale of naming rights. For example, the Royal Children's Hospital in Melbourne is pursuing a naming rights campaign to enable it to 'attract and retain the brightest minds; and to acquire the state-of-the-art equipment necessary to continue as a world leader in paediatric care'.

This proposed strategy would leverage the business and wider community's desire to support health services and attract population to rural and regional areas. It would also help students to feel welcomed by the community. Suitable local businesses, local community groups or charities would provide funds in exchange for the right to have their name on a building. Naming rights might be a one-off payment or a fixed payment schedule over a defined period of time.

### Likely financial impact

The financial benefits of this strategy could be significant, particularly for highly visible buildings on health service sites, or where there is a strong sense of community. The cost of implementing this strategy would likely involve legal and commercial advice to establish an appropriate model.

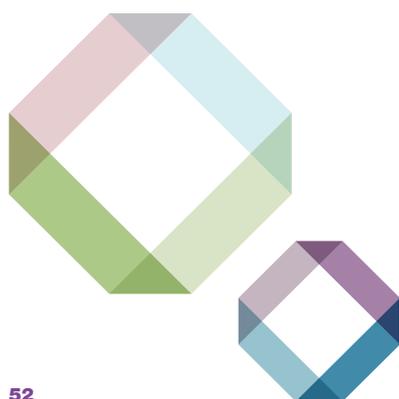
### Major risks and issues

This strategy is not seen as high risk; however, some risks and issues might include the following:

- Consultation with the department will need to occur to ensure that sponsorship and naming rights of accommodation buildings can be pursued given the obligations and enduring clauses of the funding agreements under which the project was supported.
- Community perception of commercial sponsorship might be negative for what is effectively a public asset.
- Naming rights of rural student accommodation may not be seen to be attractive by potential beneficiaries.

### Implementation considerations

This strategy would require external legal and commercial resources to implement. The most appropriate approach for setting a price would possibly involve some form of expression of interest and tender for the naming rights. Furthermore, the naming rights sponsor would need to fit with the general use of the building and not conflict with health services' needs and requirements.



## **6.4.5 Make accommodation available for private rental during downtime using Airbnb (or similar accommodation booking service)**

### **Overview**

This is a revenue generating strategy that proposes opening rural student accommodation for private short-term rental using Airbnb (or similar accommodation booking service), an online peer-to-peer holiday accommodation service.

### **Rationale and key characteristics**

Rural Accommodation Project owners noted that student occupancy fluctuates throughout the year, ranging from 20 per cent up to 90 per cent, with higher occupancy generally between February and November. Given there is spare 'capacity' during the year, it makes sense to generate income from that capacity by leveraging opportunities for private rental.

Airbnb is an online marketplace for private holiday rentals that connects users with properties to rent. Health services would use the service to meet the demand for low-cost rural and holiday accommodation while charging above market rent. A broad range of property types are available on Airbnb, which makes this suitable for some of the unique characteristics of rural student accommodation.

### **Likely financial impact**

The financial benefits of this strategy could be significant, particularly in areas where there is high tourist demand during low student-occupancy periods (for example, November to January). The cost of setting up and administering an Airbnb account is negligible, and cleaning, laundry and similar costs are typically charged back to guests. Airbnb also insures all properties listed on the service for up to \$900,000.

### **Major risks and issues**

This strategy is not seen as high risk; however, some risks and issues might include:

- potential for property damage, which makes accommodation uninhabitable and therefore unavailable to students when needed
- depending on when properties are made available for private rental, this could impact availability to students
- possible negative views by the community for using student accommodation for private rental
- private users disturbing health service operations
- consultation with the department will need to take place to ensure contractual obligations or restrictions are not breached if the property is made available for private use.

### **Implementation considerations**

It is free to create a listing using Airbnb and it is a very simple process. Health services would need to fill out a form listing property and neighbourhood details and the house rules and upload up to 24 photographs, which are then published on the Airbnb website. Pricing is determined by the health service and can be charged for nightly, weekly and monthly stays, as well as seasonal pricing. Organisational approvals would, of course, be required to implement this strategy.

## 6.5 Strategies for sustaining small capital and equipment

The strategies developed for small capital and equipment by the reference group were few, given that they generally present limited scope for optimising costs and generating revenue. The below were deemed to be the most viable options for these projects.

### 6.5.1 Review supplier arrangements and pursue bulk purchasing

#### Overview

This is a cost optimisation strategy that proposes new procurement and spending processes to achieve measurable and sustainable savings through improved supply agreements and bulk purchasing of goods and services.

#### Rationale and key characteristics

Supplier costs can be a significant component of overall operational, maintenance and capital replacement costs. These costs can be reduced through improved procurement processes that deliver maximum financial benefit for the project.

Cost reduction can be achieved when the unit price of a good or service is reduced as a consequence of a 'bulk purchase' order by multiple projects combining their orders. For example, if replacement of IT equipment is required for a number of small capital and equipment projects in a given year, it would benefit these projects to collaborate to leverage their buying and drive down the purchase price of new equipment.

Another strategy to improve a project's bottom line is to regularly review supplier contracts. For example, a learning facility may have costs associated with internal and external cleaning, repairs and maintenance and gardening services. Projects should look at exactly how much they are spending, what they are getting in return and what other suppliers in the marketplace are charging for similar goods and services. A good policy is not to have the life of a contract exceed one year. This forces annual bidding or at least renewal discussions with current suppliers. Almost always these discussions will result in lower cost of goods and services, while a multi-year contract will usually favour the vendor.

#### Likely financial impact

The financial benefits of this strategy would depend largely on the value of the supply contracts that could be renegotiated or the value of the purchases that could be made through a collaborative buying arrangement with other projects.

The costs of implementing this strategy would be mostly administrative and unlikely to be significant.

#### Major risks and issues

This strategy is not seen as high risk; however, some risks and issues might include the following:

- Negotiating contracts and agreements could undermine relationships with existing suppliers.
- It could be difficult to align project partners to achieve the best bulk purchasing outcomes.
- If there are few suppliers with market power, it may be difficult to achieve significant savings.

### **Implementation considerations**

The main consideration for implementing this strategy would be the type of arrangements that would be required for collaborative purchasing. Projects would all need to agree on the type of good or service to be purchased, which can be difficult if, for example, if there are significantly different requirements or pre-existing supply agreements are inflexible.

When negotiating existing or new contracts, it is essential to plan the strategy by defining what the priorities are, such as low-price, high-specification goods or services or favourable warranties. It will be important to consider the different offers that suppliers can make and what you are willing to concede or compromise on.

## **6.5.2 Open learning centres for community use**

### **Overview**

This is a revenue generating strategy that proposes making learning centres and facilities available for use by community users for a fee.

### **Rationale and key characteristics**

New investment in cultural and community facilities is diminishing in rural and regional areas as local governments contend with rising costs and shrinking revenues. Some of the learning facilities funded as part of the HWA/ department program might be suitable for hosting regular or ad hoc events and activities such as adult education, community groups and faith-based groups.

Assuming there is available capacity, projects could charge on an hourly or daily basis for evening and weekend use of the facility. Rates would be comparable to that of local government or commercially owned premises. Additional revenue could be generated for using equipment such as audiovisual and other such assets.

### **Likely financial impact**

The financial benefits of this strategy would depend largely on the current supply of community space within the local government area, demand from community and other groups, and prevailing prices. Cleaning and other costs associated with the use of the space would be recovered as part of the rental price.

### **Major risks and issues**

This strategy is not seen as high risk; however, some risks and issues might include:

- potential for damage to property and/or equipment
- internal asset management policies that might constrain the way in which the facility can be used
- some users and activities might not be acceptable to the local community (for example, the activities of some faith-based groups).

### **Implementation considerations**

This strategy would be fairly straightforward to implement and may only require a simple short-term lease agreement between the project lead organisation and the user of the space. Clearly, use of the asset by external parties would need to be approved by the lead organisation.

