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DISCUSSION PAPER ON THE PROPOSED SALE OF ALDERSEY GROVE ESTATE

The Board of Management of the McLaren Vale and Districts War Memorial Hospital has received an offer from the James Brown Memorial Trust to buy Aldersey Grove Estate, the retirement village owned by the hospital and situated on the hospital grounds.

In considering the offer, the Board has taken in to account the current nature of the retirement village industry, the hospital's core business, and the financial implications.

The retirement village industry.

The industry is becoming more regulated and competitive, with a move to larger corporate involvement as a way of creating economies of scale.

Persons entering Aldersey Grove Estate purchase a licence to occupy a unit. When they leave, a percentage of the sale price (determined by the duration of occupation) is retained by the hospital.

When the hospital built the first units they existed in a less competitive environment, and filled an unmet need in the community. The later decision to expand the village to its current size reflected a positive impact on the hospital's profitability, and a good use of the land.

This is no longer the case; competition is greater, and costs associated with maintenance of buildings, roads and grounds are greater. Slow sales represent a financial risk to the hospital, especially when a resident transfers to aged care, as the resident is entitled to a partial pay-out by the hospital after a certain period if their licence has not been sold - a requirement which effects all retirement villages and carries risks for any organisation that doesn't have the capacity to carry debt until a unit changes hands.

The Board recognises that managing a retirement village in the current regulatory environment requires expertise that the Board does not have and for some time now it has contracted with outside organisations to manage the village on its behalf. The current manager is the James Brown Memorial Trust.

A transfer of ownership of a retirement village can take place without referral to current residents. However the Board has received informal feedback, both positive and negative, from some residents.

The hospital's core business.

The Board has resolved to focus on expansion of clinical activities within the hospital. For example, expansion of in-patient activities to include a formalised palliative care unit is under consideration, and improvements to the day surgery suite are planned.

The sale of Aldersey Grove Estate would facilitate these changes.

The financial implications.

Valuing a retirement village is a complex process. The values of grounds and buildings are offset by amounts that residents have invested in the village through the purchase of their licences to occupy. The offer before the Board from the James Brown Memorial Trust exceeds the current valuation.

The Board has sought other offers as part of a due diligence process, and is currently awaiting a response from another organisation involved in retirement living.

SUMMARY

After due consideration, the Board believes it to be in the best interests of the hospital to sell Aldersey Grove Estate. The retirement village industry is predominately in the hands of larger organisations that have the skills, experience and financial capacity to manage villages so that residents can experience the best outcomes.

If no other offers are received the Board is satisfied with the offer from the James Brown Memorial Trust, given its presence in McLaren Vale as owners of the adjacent aged care facility (Kalyra McLaren Vale), its management of the village, its reputation in South Australia as an experienced and ethical not-for-profit manager of retirement villages, and its involvement in other charitable works.

Because the proposed sale price exceeds \$250,000, under clause 5(b) of the hospital's Constitution the Board is obliged to inform Hospital Members of its intentions, and allow Members to call for a Special General Meeting if they wish to discuss and vote on the matter.

Rule 10.3 of the Constitution requires a request for a meeting of Members to be made in writing and signed by twenty (20) or more Members. The purpose for holding the Special General Meeting must be specifically stated in the written request and that business only will be discussed at the meeting. If a meeting is called, it will be advertised in the Southern Times Messenger and on the hospital website, and convened as soon as practicable.

The Board has set the date of August 31st as the final day to accept requests. Requests should be addressed to the Business Manager, and can be lodged at the hospital's reception desk or be posted to the hospital at: 3 Aldersey Street, McLaren Vale, SA, 5171.

August 15th, 2018