OPERATIONAL REVIEW: SWITZERLAND

BUSINESS ENVIRONMENT

Hirslanden remains the largest private hospital group in Switzerland, with its primary competitor being the Swiss public hospital sector.

Although the Swiss economy grew at a slower rate than in the previous year, it still appears strong when compared with its European neighbours. Minor deflation was experienced while the level of unemployment remained stable at low levels. Switzerland thus remains attractive to foreign workers and professionals, also in healthcare.

The year under review was the first full 12 months regulated by the revised Swiss Health Insurance Act (KVG) introducing fundamental changes in the Swiss health sector not seen since the KVG’s establishment in 1996, and presenting numerous legal and political uncertainties. As reported before, the changes involved:

• the introduction of fixed fees for inpatient services based on the new Swiss Diagnosis Related Grouping (DRG);
• a new hospital financing system which redefines the funding ratios of the cantons versus the health insurance companies; and
• the revision of the hospital planning that led to new hospital lists, defining those hospitals that are eligible to treat generally insured patients. Many rules were introduced provisionally or at very short notice, some even with backdated effect. Hirslanden succeeded in meeting the challenge of interpreting these rules most appropriately from both a strategic and operational point of view, while simultaneously contributing to the group’s growth strategy.

The above mentioned challenges not only confronted Hirslanden, but all Swiss hospitals. Hirslanden had been well prepared to meet these challenges, with all 14 hospitals amongst the first in Switzerland to render accounts according to the new system. With regard to supplementary (private/semi-private) insurance, Hirslanden managed to conclude contractual agreements with health insurers.
As previously reported, despite the fact that the new system is operational, there are still a number of areas that have not been finalised and remain uncertain:

- the applicable base rate per canton of the DRG pricing;
- hospital lists in some cantons are still under debate or being legally challenged;
- restrictions in cantonal legislation could impact the business;
- highly specialised medicine (HSM) developments can have an impact on the future patient profile of some hospitals; and
- cantons subsidising public hospitals.

Prior to the new hospital financing system’s coming into force, approximately a third of Hirslanden’s patients had only general insurance. This proportion increased to 39.6% during the year under review, from 32.2% during the prior year, mainly due to the fact that 13 of the 14 Hirslanden hospitals have been included on the cantonal hospital lists, with the obligation to admit patients with general insurance. Hirslanden, however, continues to position its hospitals as leading operators in the supplementary insurance segment by aiming, firstly, to differentiate itself from its competitors and, secondly, to differentiate between insurance categories. Hirslanden believes that it is the definer of quality leadership and therefore market differentiation, firstly via the medical service offered to the patients and, secondly by providing the highest standards of (non-medical) patient care. This high quality includes swift access to treatment, leadership in cutting-edge medical technology, having the best experts in medical fields and a measurable excellence of (non-medical) patient care. In order to further maintain the public’s experience of the added value of supplementary insurance without creating differences in medical service quality, Hirslanden has re-launched its Hirslanden Privé programme. This means that all hospital departments which come into contact with privately insured patients can offer care tailored to the individual needs of the patients.
INPATIENT ADMISSIONS
+2.6%

NORMALISED REVENUE
+5%

AVERAGE INCOME PER CASE
+2%

PATIENT SATISFACTION LEVEL
87%

BUSINESS PERFORMANCE
The 5% normalised revenue growth was achieved through inpatient admissions increasing by 2.6% during the reporting period, while the average length of stay decreased slightly and the average revenue per case increased by 2.0%, due to higher acuity levels.

The normalised EBITDA margin of Hirslanden increased from 21.9% to 22.6%.

During the period under review, Hirslanden invested the following amounts:

• R741m (CHF82m) (2012: R456m (CHF54m)) on capital projects and new equipment to enhance its business;
• R498m (CHF55m) (2012: R413m (CHF49m)) on replacing existing equipment; and
• R317m (CHF35m) (2012: R292m (CHF35m)) on repairing and maintaining property and equipment, which was charged through the income statement.

For the next financial year the budget is:

• CHF58m for capital projects and new equipment;
• CHF52m for replacing existing equipment; and
• CHF34m for repairs and maintenance.

Incremental EBITDA resulting from capital projects in progress or approved is budgeted to amount to CHF6m and CHF15m in 2014 and 2015 respectively.

The number of fully operational inpatient beds increased to 1,487 (2012: 1,479) during the period under review, due to an additional eight inpatient beds that were opened at Klinik St. Anna early 2013.

BUILDING PROJECTS
Investment in repairs and maintenance, new and replacement equipment and expansion projects are essential for Hirslanden to maintain its leadership in quality healthcare. Hirslanden is known for its use of cutting-edge medical technology, thereby enabling it to maintain its position as a preferred employer
and partner of choice for the leading experts in the various medical fields.

Building projects completed during the period under review were:

- The Group’s largest construction project, the new wing (Enzenbühl Trakt) at Klinik Hirslanden in Zurich, was substantially completed during the period under review, and formally opened during May 2013. With a total area of around 16,710 square metres, the wing will house doctors’ practices, specialised centres of medical competence, a modern intensive care unit, operating theatres and an additional 72 inpatient beds and eight ICU beds. A whole floor will be dedicated to Hirslanden Privé (the private insurance offering). The new wing is state-of-the-art in terms of comfort and care, and also, with the integration of a whole range of centres of medical competence and interdisciplinary teams, positions Klinik Hirslanden well towards becoming even more of a private hospital with the character of a traditional Swiss university hospital.

- At Klinik Stephanshorn, the health centre was opened as planned in September 2012. The centre consists of five doctor practices and a walk-in emergency.

The major ongoing expansion projects are as follows:

- Klinik Stephanshorn will open its new intensive care unit (ICU) during July 2013. The creation of an ICU is especially important for the hospital to obtain the inclusion of certain medical services on the canton of St. Gallen’s hospital list, expected to become effective at the beginning of 2014.
- A new centre at Berne main station, offering basic medical care, specialist and emergency consultation and other services, will be opened in August 2013.
Hirslanden is also investing in structural maintenance and innovative medical technology:

• At Klinik St. Anna in Lucerne, around 70 rooms have been renovated in the last three years. All of the hospital’s wards will have been brought up to the newest standards by 2015.
• For the treatment of tumours, TrueBeam linear accelerators were installed at the radiotherapy unit at Klinik Hirslanden in Zurich, and the radio-oncology unit at Clinique Bois-Cerf in Lausanne. The cutting-edge technology device enables both conventional radiation and stereotactical radiotherapy, with a precision of less than one millimetre.
• A da Vinci robot, a system for minimally invasive surgical treatment, was brought into service at Klinik Beau-Site in Berne in February 2013. It is now the third unit of this type in the Hirslanden group.

The number of licensed beds is expected to increase from 1,487 to 1,561 during the next financial year.

NEW MANAGEMENT STRUCTURE
Hirslanden improved its organisational structure to better exploit the benefits available to the group. Since September 2012, all corporate services have been assigned to one member of the group’s executive committee, with another member representing the 14 hospitals. At the same time, the number of group management members was reduced by one.

The new organisational structure will relieve the hospitals from some administrative responsibilities, which will enable them to concentrate more on their core activity, namely the provision of quality medical care. It will also enable the corporate services at head office to be more efficient, with synergies that benefit all 14 hospitals.

SUSTAINABILITY
QUALITY
The quality management of Hirslanden is based on a strong process orientation underpinned by ISO 9001:2008 certification of all hospitals. The outcome measurement and publication of all Swiss hospitals is regulated by the Swiss Association of Quality Assurance (ANQ). Hirslanden performed well compared to public hospitals and the group’s public quality report is also still more transparent than those of other Swiss hospitals.

PEOPLE
As elsewhere in the world, healthcare in Europe is challenged by a significant shortage of nurses. Hirslanden is therefore continuously expanding its engagement in the training and education of medical staff. With modern working conditions and regular employee satisfaction surveys, Hirslanden further aims to maintain a low staff turnover rate and long-term staff commitment. In the future, with centres of expertise specialised in remuneration and employer branding, Hirslanden will continue to position itself as an employer of choice in the healthcare industry.

As one of the largest employers in the Swiss healthcare industry, Hirslanden is strongly active in training, and employs 700 apprentices and students in 27 professional groups (e.g. in State Certification, Degree and Post-degree). Of the apprentices and students, 599 are in medical profession areas. There are also 89 assistant doctors who have completed a part of their medical doctor studies in one of the group’s hospitals.
ENVIROnMENT
Strict and comprehensive environmental legislation and regulations apply in Switzerland, with which Hirslanden fully complies, ensuring that the group maintains the highest degree of environmental protection.

Klinik Hirslanden, Klinik Im Park and, as of 2013, Klinik Stephanshorn were recognised as CO₂-reduced businesses by the Swiss Energy Agency for the Economy on behalf of the Swiss Federal Office of Energy. This achievement recognises the contracted commitment to reduce CO₂ emissions within operations.

The new wing at Klinik Hirslanden in Zurich fulfils the stipulations of the MINERGIE® standards for buildings, and has been issued the provisional MINERGIE® certificate (valid until completion of construction). This certificate of construction is a non-compulsory building standard enabling the rational use of energy and a broad use of replaceable energy sources with simultaneous improvement of quality of life, guarantee of competitiveness and reduction in environmental impact.

The Engineering Services teams at the hospitals, under the guidance of the group’s Head of Real Estate, are responsible for managing the group’s environmental impacts, and continue to focus on improving existing measures. A new position within this department has been filled, to assume responsibility for managing, inter alia, the group’s energy projects. The environment manager project leader formed a Sustainability and Environment Management working group in 2012. This group has evaluated proposals to strengthen the vision, basic values and strategy in the area of ecological sustainability.

OUTLOOK
As reported previously, public private partnerships (PPPs) are implicit in Hirslanden’s strategy. Hirslanden is actively seeking opportunities for such partnerships, which are mutually beneficial to both parties. A current PPP is the radiotherapy centre at the hospital in Männedorf, of which construction commenced at the beginning of 2013, with the unit’s inauguration due in 2014. This will create comprehensive radiation treatment, with a linear accelerator that will allow tumours to be treated during outpatient treatment sessions.

Hirslanden further continues to see significant growth potential in its existing hospitals and is following a consistent and sustainable strategy, investing approximately 10% of its revenue in maintenance, replacement, expansion and acquisitions.