

CEO Address to the Harbison AGM 2018

Mr Chairman, Directors, Deputy Mayor, Distinguished Guests, Ladies and Gentlemen,

One of the challenges in explaining aged care to people is the sector's love of acronyms: ACAP, ACCR, ACAT, RADs, DAPs, RACs and DACs, HCP, CHSP, ACFI and ADS, CSDs, CMAs, CNCs, RUCS, RACF, 4.a's and 4.b's ... and the list goes on.

If I preface an acronym with a lengthy explanation you may, understandably, find your attention drifting. If, on the other hand, I start talking without explaining what it is you may quickly feel disoriented and again find your attention drifting.

However, it's not just acronyms that sometimes need explaining. We often talk about mission and purpose and assume it's obvious why these things are important. And perhaps it is, but tonight I thought I'd start by talking about why it's important and the role it plays for our various stakeholders.

We all like the idea of businesses that are not only financially successful, but also make the world a better place. In the short term these two attributes may appear to conflict. World-class aged care sometimes conflicts with short-term financial objectives, and there is always a danger that the short-term financial imperative wins out.

However, I believe that organisations with a keen sense of mission will not only improve people's lives but also prove over the longer term to be vastly superior businesses. The goals of financial success and a strong sense of mission are not opposed or independent, they are closely connected.

Let's consider the role of mission from the perspective of our stakeholders.

Employees who feel a sense of purpose in their work are more motivated and therefore more productive, engaged and likely to take the initiative. The banking royal commission has recently exposed scandalous behaviours with misguided financial incentives and greed at the root cause. However, once basic needs are covered it is not true that people are primarily motivated by money and, in fact, financial incentives can be demotivating.

What really motivates people is a sense of freedom to do something their own way, a sense that they're getting better at something through practice, and most important of all a sense there is a point

to something they are doing. If you are sceptical just ask a parent how they would feel if they were simply paid to raise their children.

The best advice I would give any young person who's not sure what they want to do is to look for an organisation that empowers its employees, gives them an opportunity to learn, and puts them to work doing something meaningful. What could be more meaningful than fulfilling the basic human need for care and compassion when people can't care for themselves? These organisations will trigger your passion. I want Harbison to be such an organisation.

Customers of purpose-driven organisations are less likely to be provided with services that benefit the short-term financial goals of the business, and more likely to receive services that meet their individual needs. As a result, they are more likely to be satisfied and willing to refer their friends. COTA recently published the results of the *Measuring Quality and Consumer Choice in Aged Care* project undertaken for the Department of Health. 70% of potential aged care consumers said word of mouth was the most important factor in assessing the quality of an aged care service.

Communities are far more likely to support an organisation that has a strong sense of mission because the lives of people are improved, *and* employment, rates, taxes and other benefits are generated for the community.

In our case, we are the largest employer in the Southern Highlands and most of our annual budget is spent in the local community. At a higher level we are part of a system that provides proper care at a fraction of the cost of hospitalisation and provides an option for older people to move into higher density retirement accommodation which in turn creates more options for younger families.

Motivated employees, customers who are fans of the organisation, and a supportive community. Get these inputs right and everyone benefits, *and* long-term financial viability follows.

In 2017 the excellent *Tune Review of the Living Longer Living Better* aged care reforms of 2012 landed on the Government's desk. The review sets out key recommendations regarding further reform designed to transform the sector into a competitive, market-driven, consumer-centric, fiscally-sustainable system. It is disappointing to note that a year later Government is yet to respond to the review

other than to reject out of hand several sensible recommendations in relation to co-payment caps.

The *Aged Care Act* is 20 years old. The ACFI funding system is 10 years old, and widely agreed to be no longer fit for purpose. *Living Longer Living Better* is more than 5 years old and requires a response to the *Tune Review* to realise its full potential. We also await the Government's response to reports on the future of the Bond Guarantee Scheme, Prudential Legislation, ACAR, ACFI, transparency in home care pricing, and the Aged Care Workforce Innovation Strategy Taskforce.

The Government has implemented recommendations from the Carnell-Paterson review of Aged Care Quality after the outrageous events at Oakden, which will result in a single regulatory body – the Aged Care Quality & Safety Commission (or ACQSC), a new Charter of Aged Care Rights, and a new set of Aged Care Quality Standards from July 2019. These recommendations will improve the sector's consumer focus and prevent the Oakden systemic failures from reoccurring.

The Government's recent decision to appoint a Royal Commission into Aged Care Quality and Safety should, in the long run, improve the reform process but in the short term threatens to delay or defer important decisions flowing from work that has already been done. Consumer expectations and behaviour are as much a driver of the need for ongoing reform as changes in government policy. The Royal Commission is due to report in April 2020, by which time the *Tune Review* will be 3 years old.

To understand what is happening in aged care we must consider what is happening across the 4 aged care sectors: residential, home care, Commonwealth Home Support (CHSP) and retirement villages.

Let's consider the present.

In 2018 there are approximately 207,000 Australian residential aged care places provided in approximately 2,700 facilities owned by approximately 900 providers. There are now approximately the same number of home care as residential care providers, up from approximately 500 in 2016. There are approximately 85,000 Australians receiving home care, with a waiting list of more than 120,000. Approximately 785,000 Australians receive CHSP services from approximately 1,600 providers. CHSP is due to merge with home care by 2022. There are more than 170,000 Independent

Living Units (ILUs) (Harbison provides 34) in more than 2,300 retirement villages, with less than 30% of them co-located or near a residential facility. It is estimated that 134,000 additional ILUs will be required by 2036 to meet demand.

33% of people aged 70+ are accessing aged care services. This proportion increases to 70% of people 85+ years old. Three quarters of the 70+ and more than half of the 85+ group receive CHSP services.

The average age of people moving to a retirement village – so called “Over 55 Living” – is now 77 (compared to 85 entering residential care). The average aged of residents in a retirement village is 80 years, and 33% are 85+. More than 75% of people receiving home care are aged 75 to 94. Just under 60% of people in residential care are 85+ years old (average age 86 years) compared to just under 40% in retirement villages.

Still with me? Why does this matter? Harbison has a strategy of providing a full continuum of care across a range of settings from a home to ILUs to Assisted Living Apartments (ALAs) to residential care. This provides customers with the peace of mind that we will care for them as their needs change, no matter what, and it provides Harbison with the potential for diversified earnings: rent or management fees, care fees, development profits and resale margins.

Continuum of care used to mean transitioning people from one service and type of accommodation to another as their needs changed. The data shows people increasingly prefer to access care in the setting of their choice, with a strong preference to age in place. Continuum of care now means being able to deliver care services flexibly across a range of settings – including the private home - to suit individual preferences.

Now, let's consider the future.

Care and accommodation will uncouple, and funding will belong to consumers instead of providers. Consumers will be expected to contribute more to their costs. Home care and residential care will merge into a single aged care system, which in turn may merge with disability support.

Retirement villages are increasingly likely to be a care setting and as a result ILUs are being designed to support care delivery, be better integrated with the community, and co-located with residential care.

Demand for residential care facilities is shifting to high, often palliative, often short-term care (sector average stay is 2.7 years, but average stay of people entering in the last 3 years is 17 months) and there is an increasing need for high dementia care (by 2026 the Government estimates more than 75% of residents will have high dementia care needs).

High-turnover high-care facilities are likely to be smaller, which makes them easier to co-locate with ILUs and ALAs.

There is no longer a demand for hostels (59% of residents could, in theory, be in home care), so they need to be replaced or converted.

New care models are emerging based on a convergence of traditional care services, new technologies, and new workforce strategies. Building design needs to be future-flexible and is increasingly important in driving operational efficiency.

By 2020 the NDIS will support more than 460,000 people (2017 91,000) with significant permanent disability under the age of 65. These people will need to transition to aged care when they turn 65 and may prefer a continuum of care. The NDIS will compete with aged care for skilled employees.

Uncertainty surrounding reform, funding, workforce, transparency, dementia resourcing, additional service fees, and deregulation mean some providers are slow to respond to a rapidly changing market, particularly where decisions on capital investment are required.

In 2018 the average result for residential aged care was a loss. Costs rose faster than funding thanks to changes in ACFI and a funding indexation freeze.

According to the most recent StewartBrown survey more than 45% (2017 34%) of residential facilities made a loss. Alarmingly the proportion increases to more than 47% (2017 36%) of inner regional facilities and 63% (2017 52%) of outer regional and remote facilities. This trend is projected to continue for 2019.

The results of profitable top quartile facilities show higher accommodation supplement income due to constant development and redevelopment, indicating newer facilities. Newer facilities are more operationally efficient and make it easier to increase fees to cover costs. Newer facilities also tend to have higher occupancy because they are more attractive and imply a higher quality of life

(COTA research found that consumers believe you can't have high quality care without high quality of life).

Harbison has just completed a refurbishment of the Burradoo Hostel, and has commenced construction of the Burradoo Dementia Centre. In August 2017 we gained master plan approval to develop our Burradoo property with a campus designed around the needs of our residents - with a full continuum of care options - and we are about to lodge a DA for a replacement of the Burradoo Hostel which we hope to open by 2022. Further stages will include an expansion of our retirement village.

At Moss Vale we hold a DA for ILUs and we are assessing options to refurbish the entrance and common areas and give the almost 25-year-old hostel a mid-life refurbishment. For the longer term we are confident we have some good ideas to capitalise on the growth of Moss Vale and developments such as Coomungie Gardens.

These projects are planned to ensure we are relevant and competitive in the market for seniors' accommodation and provide our residents with the quality of life and companionship that comes from fantastic facilities, regular activities and being embedded in a community.

We are meeting the increasing demand for palliative and dementia care with our Butterfly Household program, an expanded relationship with PACCS, and new training programs. We are also investing in our systems to create greater scale. My commentary in the Annual report sets out further details.

But to ensure we are viable for the long term we are working first and foremost on our culture. A *purpose*-driven culture of care at the centre of everything we do creates a superior value proposition and ensures we enjoy a fantastic reputation in our community.

Reputation is a powerful factor in a community-based organisation. It is almost certain potential residents will seek the opinion of existing and previous customers, and if they are local may want to live where their friends live.

In 2019 we are working on generating better short-term financial outcomes than 2018, but as purpose-driven managers our real focus will always be on our residents, employees and community.

David Cochran
CEO
23 October 2018