

Annual General Meeting CEO Commentary 2017

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

2017 marks another surplus, despite reduced Government funding and ongoing investments in change, and a turning point in the history of HarbisonCare, with the finalisation of the Burradoo redevelopment master plan, which paves the way for the realisation of our Living Village Strategy.

The Living Village Strategy will transform HarbisonCare into the most advanced, integrated aged care organisation in the Southern Highlands, with an expanded range of accommodation and care services to meet the changing needs and expectations of our community.

We have planning approval to build dementia care cottages, showcasing the best possible small-scale-living dementia care model, a new two-storey nursing home and independent living units to replace the ageing Hostel, and a retail and wellness precinct that will provide one-stop solutions and social activities for our residents, their friends and families.

The redeveloped site will slightly increase our capacity and realign our mix of services to better meet the expectations and needs of our key stakeholders: the community, our residents, and our workforce.

As we look to the future and consider the drivers that will shape the outlook for our industry it's interesting to imagine the outlook facing our founders in Harbison's first operational years, particularly when Cullen House opened in late 1958.

It was the end of the baby boom. The Menzies Govt. was enjoying a 5th term in office. Alaska and Hawaii were admitted to the United States, Singapore was granted self-government, Castro took Cuba, and the People's Republic of China was celebrating its 10th anniversary.

In Switzerland, women failed to gain the vote. In Nepal, women voted for the first time.

Buddy Holly died. Asterix, Barbie and Mr Squiggle were born. The Marx Brothers retired. Motown Records and the Jim Henson (Muppets) Company were launched. Bonanza became the world's first regularly scheduled colour TV show.

Sputnik and the Boeing 707 took flight. For the first time, transatlantic flights exceed transatlantic ocean voyages. NASA selected the first astronauts, and chimpanzees - Miss Able and Miss Baker - became the first living beings to return safely from space. Pioneer 4 became the first object to leave Earth's gravity and Explorer 6 took the first photo of Earth.

The Xerox plain paper copier, nylon pantyhose, and the Mini car make their first commercial appearances. The Henney Kilowatt mass produced electric car was launched.

The first known human HIV death was recorded in the Congo, and the UN adopted the Declaration of the Rights of the Child.

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In Australia, average weekly earnings were approx. \$40 per week (for males) and the average life expectancy for a 65 year old was approx. 14 years, of which the last 5 would, on average, be marked by illness.

Jump forward to 2015 and average life expectancy at age 65 is approx. 21 years.

Of which the last 5 years is, on average, marked by illness.

Australia may not be driving global economic growth, but we now have the third highest life expectancy in the world (82.5) behind Japan and Switzerland.

We are in the Asian Century. More people (3.7B) now live inside the China/India/Indonesia/Japan circle than live outside it (in 1959 it was North America).

Real people power (in GDP terms) is right on our doorstep. By 2030 the E(merging)7 (China, India, Brazil, Mexico, Russia, Indonesia, Turkey) economies will surpass the G7, and the USA economy will be smaller than China and India. By 2050 the F(rontier)7 (e.g. Mexico, Vietnam, Nigeria) will emerge, meaning economies like Mexico and Nigeria (yes, Nigeria!) may eclipse economies such as Germany and France.

Ageing is not a problem; how we respond to ageing is the problem. Low care is outdated. High care (note level 5 home care Tune recommendations), palliative and dementia care are the future, combined with new disability, preventative and rehabilitation services.

The aged care sector is in transition (driven by demand, competition, technology, policy, and a changing workforce), and growing. We face an adaptability problem, not an efficiency problem.

Four years into the Living Longer Living Better (LLL) aged care reforms the Tune Report recommends further reforms in information, assessment, consumer choice, means testing and access, to create an environment where Government can consider uncapping (deregulating) supply.

An ACFI Review has recently been tabled in Parliament (it's widely agreed ACFI is not fit for purpose), and new quality standards are expected next year after a review of the Accreditation Standards.

Apart from rejecting outright two of the recommendations from the Tune Report, the Government has not yet made any decisions regarding further reform.

As far as Living Longer Living Better is concerned, we are in the messy middle, and the ideas that got us here are not the ideas that will move us forward. In fact, responding to the problems of today with the ideas of yesterday is a trap for any organisation in our sector.

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So in addition to policy, what are the other key drivers governing the outlook for aged care?

- Demand (Southern Highland advantages: catchment, population growth, ageing population, positive socio-economic demographics, low market penetration, upside from additional services)
- Cash flows
- New stock
- Values
- Pressure on governments
- Consumer directed care and choice
- One stop shops
- Multi-story integrated facilities
- Estimated shortage of approx. 60,000 RAC beds
- Residential property prices (noting a decrease in home ownership and increase in the incidence of mortgages among the 65+; changing RAD/DAP preferences - 42% RAD, 35% DAP, 23% blend - due to uncertainty caused by declining tenure)
- Interest rates
- Major consolidation (especially among listed groups; Asian demand for biggest/best/oldest; decline in number of unprofitable providers)
- Increasing competition (especially for the best talent and resources)
- Inflated costs, and
- A need for the NFP sector to remain relevant.

The blurring between RESI and home care will gather pace, and our workforce will be increasingly mobile between the two modes of care.

Overlay all that with digital disruptions across all sectors and it's easy to see how pace can get in the way of progress!

So how do we respond?

The Living Village Strategy is designed to ensure that HarbisonCare has the right product and service mix, has the systems and facilities to support extra services and diversified revenue streams, the ability to provide multiple offerings to the market, a strategy to deal with later entry into residential aged care, a brand and reputation that differentiates it from competitors and keeps it relevant, and the working environment to attract and retain the large number of staff required to provide the standard of care we all expect in this community.

Unlike other sectors, we cannot offshore our workforce. Technology will augment but not replace care workers. Despite expected advances in medical science and technology we do not expect a pill to replace our need for people.

Like other aged care organisations HarbisonCare now has 4 or 5 generations in one workplace. This poses challenges: how we source, train, motivate and deploy our staff needs to take into account this diversity. 2/3 of aged care organisations report skills shortages.

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Volunteerism is increasingly important and increasingly challenging (noting 25% of 65+ Nordic retirees volunteer, but also noting as an aside that Nordic local governments have been burdened by high rates of failure from moving too quickly to deregulated CDC).

So the back end, if you like, of our capabilities hinges on our people, but also requires ongoing investments in our clinical standards and systems, development of care models and methodologies, expertise in resource allocation, scheduling and operations, and nurturing of our culture, mission and purpose.

On the “front end” we need to improve the management of our customer touch points, embrace a sales culture that reflects our increasing orientation to market, and optimise government and consumer contributions to pay for the cost of providing quality aged care.

To our community I say:

“We’re here for you”. Regional communities face additional challenges in aged care compared to metro locations, and we are here to help ensure Highlanders have the facilities they need for the future.

The Southern Highlands skews older than average (noting as an aside by year 2100 approx. 17M 65+ Australians; but world-high GDP per capita – the Switzerland of Asia?) so we need to plan for the future as the baby boomers transition from “go-go” to “go-slow” and in frailty to “no-go” (Productivity Commission terminology).

Our Living Village Strategy and continuing operational improvements will ensure that HarbisonCare is ready to play its part in meeting those community needs.

While financial sustainability is imperative, the biggest test of any organisation is how they serve the most disadvantaged in their community. This business is personal. We want to engage deeply with you, and ensure that we are fit for the future.

To our team I say:

- Learn from the best
- Put people not the regulator at the heart of what you do
- Practice leadership
- Be transparent
- Adapt creatively
- Involve and be involved in your community
- Bring dedication to your role (“can do”)
- Actively promote safety, and
- Understand that, particularly for our younger staff, purpose often trumps money.

HarbisonCare is well placed to take advantage of the opportunities presented by the ongoing transition of aged care into a modern, consumer-centric, market-driven industry.

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The past 60 years, and the past five years in particular, have created a momentum that we intend to carry forward.

I look forward to an exciting 2018. I thank our volunteer Board for their commitment and support. I commend the CEO's report to you for more information about our achievements this year, and thank you for your attendance.

David Cochran
Chief Executive Officer
24 October 2017