

Annual General Meeting CEO Commentary 2019

Distinguished guests, ladies and gentlemen,

I'm extremely proud of the achievements of our teams in financial 2019. However, no doubt the financial result is a concern, and deserves some explanation.

This year the forces of change converged on the aged care sector. The 2016 funding indexation freeze and 2017 changes to ACFI continued to weigh against relentlessly rising costs¹. According to the annual StewartBrown survey the industry average operating loss was \$1.4M².

In the first half of the financial year the Government announced a new single Aged Care Quality and Safety Commission (replacing three Government agencies), a new single *Charter of Aged Care Rights*, and new *Aged Care Quality Standards* (to replace the *Accreditation Standards*).

While this change had been foreshadowed by the Carnell-Paterson report into quality and safety, the extent of the change – the most sweeping reform in the history of aged care – lack of initial detail, and short implementation timeframe was unexpected.

For Harbison, the timing of the announcement posed a special challenge: re-accreditation of our Burradoo services was due by June 2019, would now be done on the newly announced unannounced basis (meaning anytime within a six-month period), and would be against the old *Accreditation Standards*.

¹ 6.2% increase in industry direct care costs

² FY18 \$161k profit i.e. a \$1.5M+ deterioration

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In other words, we would be assessed against the soon-to-be obsolete standards at the same time we were overhauling our business and training our workforce to prepare for the new standards.

As details of the new standards began to emerge, with ongoing silence from the Government about the reforms recommended by the excellent 2017 *Tune Review*, the Government announced a Royal Commission into aged care and began an aggressive and unprecedented campaign of sanctions against providers.

As the situation changed around us, I surveyed my options and made my decisions. Management responded to the increased risk of sanction by dedicating ourselves to successful re-accreditation, and we took the pragmatic decision to defer implementation of the new standards and other business projects until that goal was secure.

Just before Christmas we lodged our applications for re-accreditation and the wait began. An unfortunate aspect of the old accreditation system was that no changes could be implemented once an application was lodged: the assessors had to find the business as described in the application documentation. At Harbison we had big plans for FY19, which were now on hold pending the arrival of the assessment team.

At this pivotal moment the head of care at Burradoo, who led the re-accreditation team, resigned. Knowing there was no time to conduct the usual recruitment process, I approached Harry Varvaressos – former Director of Nursing at Moss Vale - who graciously accepted my request to re-join Harbison as a temporary replacement.

While we waited, we turned our attention to responding to the Royal Commission's request for information from aged care providers. The request required a forensic investigation of five years of records to identify every incident of substandard care. The senior management team worked hard through the festive and holiday season, supported by a team of lawyers and consultants, and examined every complaint, incident, email, letter and resident file.

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At the end of this expensive and exhausting four-week process we were satisfied that we had identified every relevant issue and submitted our report to the Royal Commission. I'm pleased to say that we did not discover anything of major concern, other than a record-keeping system that was fragmented, inconsistent, inefficient, and disorganised. We are in the process of replacing it with a system that is compliant with standards and best practice.

Two key projects for FY19 sat idle on the launchpad during this period. Both were too risky to implement until the uncertainty of re-accreditation was resolved, and both were having dire consequences for our budget.

The first was a project to overhaul our ACFI management system. ACFI is the government funding mechanism, which typically accounts for more than 65% of our operating income. The Government froze the annual indexation of ACFI in July 2016 and tightened the rules in February 2017. Between July 2016 and September 2017 our average ACFI declined by 8%.

By the end of FY18 we had improved ACFI by 5%, but we were still 10% below benchmark and the improvement appeared to have plateaued. We decided the problem might be systemic – something we could change.

We wanted to pull the whole process apart and see whether we could identify and fix the problem, but we needed to wait for re-accreditation before we could devote resources to the issue. In the meantime, we estimated our revenue was probably sub-optimal to the tune of \$1.5M per annum.

The second project was the implementation of a new standard care roster to facilitate improved workforce flexibility. The new roster would introduce standard shifts at both locations, meaning it would be easier for members of the workforce to swap or cover shifts, thereby reducing the impact of unplanned leave such as sick leave.

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Wages typically account for up to 70% of aged care costs. We estimated the inefficiency built into the existing rosters was costing \$450k pa, but did not want to commence the consultation process required to implement the change while our staff were dealing with the uncertainty of re-accreditation *and* the heightened anxiety around sanctions and negative publicity for the sector.

While we held our plans to improve our biggest revenue and expense drivers, we could not hold all our plans and pushed on with three projects that are expected to deliver long-term benefits.

First, the refurbishment of the Burradoo hostel was necessary for re-accreditation and extended the useful life of the building by at least five years. Immediately after completion of the refurbishment we commenced construction of the new dementia service for Burradoo, on a site adjacent to the hostel.

The short-term cost of this work included a temporary reduction in occupancy, which continued longer than forecast into the second half. Occupancy is the other big revenue driver in our business, so any reduction has immediate impact on our bottom line. I'm pleased to note that since construction of the dementia service concluded the refurbished hostel has enjoyed 95% occupancy.

Second, we implemented a five-year planned maintenance program in FY18 to upgrade obsolete plant and equipment. Old equipment drives higher maintenance costs and increases safety and reputational risks. This work represents significant expense and investment and cannot be delayed.

In conjunction with the upgrade program we began working towards standardising equipment sets, to lower training and maintenance costs and improve quality and safety. To pick one example, an audit identified 11 different bed types at Moss Vale meaning staff had to know how to operate and maintain 11 different systems.

Third, we continued to implement the IT road map developed in FY18 which identified 31 critical IT projects to ensure the integrity and security of our ageing data systems. This list is now down to five active projects, and we have begun to move forward with the rollout of more modern infrastructure and systems, starting with the new Dementia building at Burradoo.

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The re-accreditation assessors finally arrived at Burradoo in late March, and after a three-day audit declared that Harbison had met all 44 of the expected accreditation outcomes.

We immediately set about implementing the new Quality Standards and our original projects to improve ACFI and the care roster. I'm pleased to report that both projects were successfully completed by August – a case of better late than never!

Of course, aged care isn't meant to be easy. For something as common as ageing and death we have as a society been largely reluctant to invest in improving the process. Funding is generally inadequate, expertise is hard to find, and places in which to do it comfortably can be in short supply. For those living with dementia these factors are exacerbated, even as the numbers afflicted continue to grow.

This is the challenging arena in which Harbison chooses to operate, and our strategy is driven by the long-term and a focus on market leadership.

The long-term is important. It allows us to innovate to achieve a vision. We give ourselves permission to experiment and will accept that short-term failure is not a risk but an inherent part of long-term success.

The long-term is important. It reduces the impact of short-term financial results on decision making, to prevent the organisation from becoming reactive when it must be pro-active.

The long-term is important. It allows for the interests of consumers and the organisation to align – something that is critical for consumer centricity and is not always the case in the short-term. In our case, care comes before short-term profits, and not just because the Quality Standards require it. Delivering a great consumer experience consistently-well earns trust from our customers, which earns more customers, possibly even in new business areas.

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To be successful in the long-term we think we need three things:

First is sustainability. We need to think about how we will be funded. How the sector might grow. Why the workforce will come and why they'll stay. How community attitudes can be changed and how the relationship with the Government can be shaped. How we can scale this for the long-term.

Second is professionalism. Ensuring staff are given respect, recognition, and remuneration. Promoting the specialisation of skills and knowledge through ongoing learning and qualifications. Embracing regulation and governance. Investment in research, technology and innovation to improve our care and consumer experience, and the experience of our workforce. We can be very good at this.

Third is a structure that serves the community. Our ownership and operating model leave us free to follow a moral imperative. We can do outreach and education. Our history equates to responsibility and our governance provides transparency. We are predisposed to inclusion and diversity and are open to patronage, fundraising and subsidies. We can allow ourselves to do the right thing.

Of course, in the short-term we show up every day to deliver the basics: care & dignity, safety & cleanliness, activities & comfort, quality food, and an attractive environment. These are important, but they don't make us special. It's simply what everybody deserves and should expect.

In the short-term we are focused on thoughtfully getting the inputs right, confident that the desired long-term financial outputs will follow.

At Burradoo we are about to open our new dementia service – Harbison Dementia Living – after 12 months of construction. This will expand the number of dedicated dementia beds from 32 to 62. The new building includes Australian-first technology such as the Sens Floor system that works with nurse call to alert staff if someone falls or needs assistance in the bathroom.

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While we've been building the new dementia home, we've also been building a new way of care, based on the proven Butterfly model from the UK. In a few weeks our dementia team at Moss Vale will complete an 18-month journey to become one of the very few accredited Butterfly homes in Australia.

We have commenced work on a significant refurbishment of Moss Vale to provide our workforce with access to the best technology and our residents with new communal facilities to match the standards set at Burradoo.

One of these, a new gym and activities room, will include the Motiview system – another Australian first based on special Thera therapy bikes – successfully trialled at Burradoo recently, and specialised HUR rehab equipment developed specifically for older people.

Less than 10% of the aged care workforce is under 24 – the average age is 49. We have developed a learning & development strategy, overseen by our new Education Advisory Group, which is a long-term plan to ensure we attract and retain the talent we need, and to ensure they are supported to be competent, confident, and happy in their work.

In partnership with the NSW Government and a local registered training organisation we have enrolled more than 50 staff in fully funded partial qualifications in *Certificate III Individual Support*, *Certificate IV in Ageing Support*, and *Key Management Skills*.

For most of these people this represents an opportunity to complete their first Australian professional qualification. More opportunities will be provided over the next three years, and we have also created our first traineeships for local year 11 students who otherwise might not have progressed from year 10.

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We have improved our environmental sustainability and reduced our exposure to gas and electricity prices with a 100kW solar system at Burradoo and a planned 50kW system at Moss Vale.

Like Harbison the residential aged care sector is reporting financial pressure despite record revenue driven by demographics and increasing investment driven by competition. The cost of providing everyday living services exceeds the Basic Daily Fee by more than 15%. More than half of all providers reported a loss in FY19. In regional settings this proportion is almost 75%.

The Government has extended the term of the Royal Commission and appears to be using the commission to defer implementation of the reform agenda outlined by the Tune Review in 2017. The Government has reintroduced ACFI COPE indexation³, ignoring that the Wage Price Index would be a more appropriate way to align funding and expense growth.

Harbison has a clear plan and short-term financial concerns are easing. We face increasing demand and competition, changing regulation, and a workforce shortage confident that new services such as flexible care, new technologies, and innovative new approaches will deliver value over the long-term.

We are busy implementing the new Quality Standards and pleased that so many of the plans we laid before we knew the intent and detail of the new standards are perfectly aligned with the new requirements.

Motiview is a great example. More than 50 residents recently competed as the only Australian team in the *World Roads for Seniors*, an international cycling competition between nursing home residents! Our team travelled a virtual 261km in a week, which placed them 78th from 100 teams.

³ Commonwealth Own Purpose Expenses

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This was an amazing result considering we only had one bike available for the trial. Our team captain, who lives with Parkinson's, spent almost 8 hours on the bike for a combine distance of 105km! The goals of the project include physical and social improvements for our residents and based on the trial results we have committed to purchasing four more bikes this year to make the program a permanent option for residents.

Related to the Motiview project, we have established a Southern Highlands chapter of Cycling Without Age, an international movement to preserve the right of older people to feel the wind in their hair on a bike (albeit specially built trishaw). This weekend we completed the 35km social race in the *Bowral Classic* as a test run for entering two teams, including residents, in next year's event.

Re-accreditation, Butterfly, the Burradoo hostel, demolition of older and no-longer-fit-for-service rooms, Burradoo dementia, the Royal Commission, new IT and learning & development strategies, planning for Moss Vale, realigning our care rosters without reducing a single position, increasing the number of qualified staff, introducing new medication management and clinical quality indicator systems, improving our feedback processes, introducing our next-of-kin evenings and the Resident Advisory Committee, lobbying local and State government, executing our long-term programmed maintenance plan, expanding our multi-generational schools and pre-schools programs, launching our first class of students for partial qualifications, regular spots on the radio, creating new roles like our Transition Nurse, creating our Wellbeing group to combine pastoral and mental health care, developing our brand & marketing strategies & roadmaps, adding the six pillars of customer experience to our core values of respect, optimism, authenticity and dedication, delivering a budget and three-year forecast, securing additional places and developing new services.

It's been a busy year!

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I would like to thank my staff for turning up every day to do their very best, especially my executive and management team, without whom our ambitions would need to be set much lower.

I thank our committees – the Medical Advisory Committee, Clinical Governance Committee and its sub-committees, the Information & Communications Technology Committee, Education Advisory Group, Resident Advisory Committee, WHS Committee, and Art Committee for their ongoing work. These committees comprise of volunteers and staff who go above and beyond expectations and form a critical part of our governance framework.

I would like to acknowledge Don Ross and Doug Drysdale for their seminal contribution to our new dementia service at Burradoo, and hope they are pleased with the way it has been realised.

I thank the Board for their fearless support this year. They have worked harder than ever to monitor and understand the issues and hold me to account.

And finally, I thank the members and our volunteers for their ongoing interest and support. We simply wouldn't be Harbison without you.

I make no excuses for our financial result and accept full responsibility. I would make the same decisions again and believe we have a deeper understanding of our business and a stronger team of managers than at any time since my appointment. We are playing a long game, creating our future leaders, and investing in our future. This has been our best year yet, and the best is yet to come.

Thank you.