

LAURA FERGUSSON TRUST INCORPORATED

Chairman's Report 2020

Good morning,

Ladies and Gentlemen,

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Sales	11,121	11,635	11,295	10,606	11,314	11,670	8,703
Expenses	11,635	11,389	11,129	10,996	11,693	12,778	11,174
Operating Result	(514)	246	166	(390)	(379)	(1,108)	(2,471)
Capital Grants	36	14	33	71	189	102	7
Gain on Asset Sales	-	-	-	-	-	-	-
Comprehensive Result	(478)	260	199	(319)	(190)	(1,006)	(2,464)

30 June 2020 Audited Summary Financials

Revenue and costs have reduced, by (25.4%) and (12.6%) respectively on the previous financial year with a comprehensive loss of (\$2,464,000) inclusive of \$7,000 in capital grants. The loss comprises \$2,022,000 business as usual and \$442,000 in fees relating to the continued assessment of the Trust's current and alternative service offerings, property, commercial and strategic options.

As a consequence of the Board's decision in November 2018 to conduct an in-depth assessment of the then service offerings and the resultant Transition decision in November 2019, the activities of 2019/20 were vastly different from previous years. No new referrals were accepted unless the services required could be fully completed by 30 June 2020. The impact and timing of Covid-19 meant the ordered redundancy processes that would have normally been followed, were not able to be completed, resulting in greater redundancy costs than might have otherwise been expected. All other operating costs apart from the Transition costs – consultancy and other related costs, were in line with normal business operational expectations and activities.

The organisation was not negatively impacted in any other manner, as a result of Covid-19 in relation to Ministry of Health funding, with the Government guaranteeing revenue streams until 30 June 2020 based on pre-Covid-19 levels. However these revenues contributed towards the additional redundancy costs, incurred for the Residential Services staff. Funding from ACC and the DHB's were relative to the clients in either residential services or attending as out-patients. To this end revenue did fall in relation to out-patient services and LFT was unable to exit the affected staff any earlier than June 2020.

By way of a refresher I'd like to repeat a portion from my address of last year

Despite the very best efforts over an extended period, by LFT's staff, management and supporters, the Trust couldn't continue under the then current business model which was unsustainable in the medium and longer terms.

The immediate focus of Management and the Board was to ensure that the Trust's clients and staff were looked after; LFT worked with them, their families, government funders and agencies to identify alternatives which minimised disruption. Appreciate this wasn't easy for the clients their families and staff ...THIS HAS BEEN ACHIEVED ...

Planning and implementing this significant change has taken the best part of two years. During this time the Board has simultaneously consulted with others as to how the Trust may serve the community in the future. More on that shortly. ONGOING

The vast majority of you will have received the 9 November 2020 Newsletter from Simon and me.

I appreciate this was a detailed document. It was reflective of the substantial contribution from our founding families, supporters, staff, professional advisors and the Board. The contribution of the latter has been stellar, unified and professional.

In the interests of clarity I'd like to touch on some of the key points contained within that document.

Laura Fergusson Trust Incorporated

There has been some negative publicity around our recent activities and decisions. We want to assure you that every action taken by the Board has been in the best interests of LFT Auckland and is directed to assisting current and **future generations** of disabled people on a sustainable basis.

Our eyes and intellect are on the future our hearts and values remain consistently firm and reflect the very best of our heritage and today.

We are well under way with that assessment and have had preliminary engagement with:

Des Gorman a Professor of Medicine in the Faculty of Medical and Health Sciences at the University of Auckland. From 2005 to 2010, he was the Head of the University's School of Medicine. His two doctorates were awarded for in-vivo (i.e. in a living organism) brain injury research. Professor Gorman's non-clinical interests include health system design and funding, and health workforce planning and development. He has more than 300 publications. He is the Chairman of (the Ministry of Social Development's health initiatives) and a member of the Ministry of Health's Capital Investment Committee. His past roles include being a Director of the ACC, Executive Chairman of Health Workforce New Zealand, a member of the National Health Board, and of the Government's welfare reform group (2009-2010). Prof Gorman is currently involved in health reforms in a number of different jurisdictions.

Dr Richard Seemann one of only eleven Rehabilitation Medicine specialists in NZ.

Gretchen Seemann a previous employee of LFT Inc and specialist occupational therapist with many years' experience.

Dr Diana Siew Auckland Bioengineering Institute, University of Auckland

Diana Siew's role in the NZ Innovation environment is to support and help develop NZ's medical technology sector to grow the economy through partnerships and collaborations between firms, researchers, clinicians/end-users and government

Three other long standing not for profits who have taken a very similar path to LFT Inc and for the same reasons; are respectful of our achievements and recent actions and would like to investigate opportunities to collaborate for the betterment of the disabled community. Alliances could be research based, financial, need assessment, technology assistance or general partnering.

All are exciting prospects which LFT Inc will actively examine and assess. Once there are one or more material opportunities, we will engage with you the members in a proactive forum to assess your views and garner a level of informed interest.

I stress again that the path or paths that LFT Inc pursues will provide assistance to disabled people in accordance with the Constitution and Rules of the Society, and the principles of its Founders. After the trauma and distress of the last 24 months, we are in a position to be looking forward and optimistic about that future.

Background to the Current Situation

1. LFT Auckland's current position is the culmination of a more than decade-long battle to maintain LFT Auckland's historic service offerings in the face of a deficient Crown funding model, increased costs and regulatory burdens, and a changing landscape for disability services.
2. Under the Crown funding model:
 - a) The Crown is responsible for and controls the delivery of health services to the Disabled sector
 - b) Through various Crown Health agencies, service providers such as LFTI are contracted to deliver services defined by the Crown agencies and remunerated according to generic pay schedules
 - c) Crown payments were based solely on a needs assessment that was conducted in advance of treatment by the Crown Needs Assessment and Service Coordination Service. The services that were actually required by clients often turned out to be greater than assessed and it was extremely difficult for LFT Auckland to change or update the contract of services (and funding) to reflect the actual needs of clients.

- d) LFT Auckland was only paid for actual clients but was required to maintain capacity to deliver complex and highly specialised services to anyone who might be referred to it by a Crown agency (it had no control over when and how that might occur).
- e) Crown payments also did not cover the cost of maintaining / replacing buildings, new equipment or new technology – the normal costs of running a sustainable organisation.

3.

- 4. Despite the emotional stress involved for all of us, I ask that you please consider this from the perspective that nowhere in the Western world has all the money for free health services that it would like. We have mouldy and leaky hospitals, we cannot afford drugs which would likely save lives, but the Ministry has to operate within a Treasury budget. There was no use simply protesting funding deficiencies along with every other part of health sector. We had to do everything in our power to both make ourselves efficient and be able to prove to Crown funders that our funding requests were fact based necessity, not just a wish-list.
- 5. We first improved our approach to costs. Assisted by PwC we established a model – understood to be a first in the industry – that gave management a clearer idea of the cost of providing care and additional information on which to base improved operating efficiency. As a result, we were able to complete an exhaustive analysis of our operations and reduce more than \$1 million in operational costs over a 12 month period.
- 6. Despite industry leading management practices and wholeheartedly dedicated staff, LFT Auckland still struggled to break even before increasing costs overtook revenues. These cost increases did not relate to efficiency. They concerned core operational matters which were material in their own right and overwhelming in aggregate. In particular:
 - i. No provision could be made for the maintenance of aging buildings which were not fit for purpose.
 - ii. No provision could be made for buildings which were beyond maintenance and repair, and required replacement.
 - iii. A national shortage of skilled staff placed pressure on the cost of temporary staff.
 - iv. Changed immigration rules created difficulties in recruiting staff and also resulted in some longstanding staff members having their visa renewals declined.
 - v. The impact of the Pay Equity Settlement Act 2017 (which led to significant increases in staff costs) was only partially reimbursed under the Crown funding model.

The Decision to Cease Services

By 2019, the Board faced the situation that despite exceptional effort, management dedication and improvements in operational efficiency, LFT Auckland's existing operations were not sustainable. Moreover, the prospect of raising the tens of millions of dollars required for building replacement and refurbishment was neither feasible nor justifiable for an operation which would continue to post losses.

However, in the spirit of the Founders, we sought an independent analysis of, and challenge to, our preliminary conclusions. That independent analysis was undertaken by the acknowledged industry experts in New Zealand and was, we were told, the most comprehensive assessment and search for possible solutions ever undertaken in our sector. The conclusions from the independent analysis were impossible to ignore – there was no scenario or possible combination of new and / or existing services that could be maintained on a sustainable basis.

In communicating the decision to cease services, we were conscious of our obligations to our clients, staff and various Crown Agencies. Communications took place virtually simultaneously across Auckland, Waikato and Whanganui, so all relevant stakeholders were informed at the same time.

When we informed the Ministry of Health that we were stopping the provision of existing services, they said they had no record of our advising them about underfunding. . As indicated earlier, we have vigorously communicated the inadequacy of funding to successive governments and various agencies over an extended period.

Upon recognising that cessation of existing services was unavoidable, our focus was on ensuring clients were settled with new service providers.

We did not want to be distracted or compromised in this important task by engaging in public comment or press debate. As a result, all clients and most staff have relocated to new service providers certified to provide the same services as were previously available from LFT Auckland. This was achieved despite the significant disruption of COVID-19. Our CEO, Heather McLeish and her team, have worked with officials from Crown Agency funders. Their performance has been outstanding.

The Future of Laura Fergusson Trust Incorporated

As noted earlier LFT Auckland's commitment to provide assistance to disabled people in accordance with its Constitution and Rules, and the principles of its Founders is unchanged. It will simply provide that assistance in a different way.

Analysis is well under way to determine how that may happen in the future. Any method of future assistance must be sustainable. That is, LFT Auckland must be able to continue to follow the values of the Founders for the long term. It will not enter into financially unsustainable contractual obligations.

Despite the difficult decisions we have made and the isolated position in which we have found ourselves at times, we have found strength in the support we have received from the founding families, the Women's Committee, members and long term supporters of LFT Auckland.

LFT Auckland is now embarking on a further chapter in its very proud history. It will together with your goodwill, again succeed with the dignity, grace, commerce and determination that were Founder hallmarks and which are deeply embedded in the DNA of LFT Auckland today.

Omahu and Great South Roads

The primary process that will enable these visionary objectives is dependent upon the effective divestment of the Great South Road site. The practical issues associated with that were

- a) The site is most valuable sold as one block.
- b) The number of parties which are capable of acquiring such a large site and taking on the development expenditure are extremely limited and the parties with capacity are well known within the industry.
- c) We were independently advised that the appropriate process would be to approach those parties individually and very quietly.
- d) In order to understand precisely what we were selling we had to engage with independent experts as part of a due diligence process which involved, planning, legal, geotechnical, environmental, property, economic, valuation, financial and other investigations.
- e) We had to do that in such a way as to minimise disruption for our staff and our clients.

The various iterations of these complex activities are well advanced, and we are actively progressing on a positive path.

Many of you will be familiar with the mechanics of major transactions and having been part of substantial enterprises yourselves will understand such matters are commercially sensitive and confidential. As such you will appreciate I'm not at liberty to say more in this regard but would ask for your good wishes, backing and commitment.

Thank You

Heather, Shelley, Janet, Gretchen, Michelle, John and previous senior leaders and valued staff who have done an exceptional job.

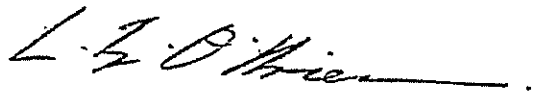
LFT Ambassador Gen for your outstanding communication skills and polish.

The Founding Family representatives: Geordie Fergusson, Roddie Mingaye, Anna Yates, Belinda Wigley, Chris Paykel, JoJo and Jocelyn Stevenson plus Gary Paykel, and the LFT Inc Women's Committee. You have been the enabler for assisting past and future generations of New Zealander's with disability. That is a colossal achievement worthy of great praise.

Life time Members, Members and supporters for your unwavering support of LFT Auckland and the community it has served for more than 50 years.

To the Board; John, Shelley, Allan, Rob, Simon, Richard and the early contribution of John Burton. Your intelligence, equanimity and resolve to remain focussed even when under personal and collective attack has been outstanding. Your support for the disabled community of Auckland and New Zealand is exemplary. I've been proud of our friendship and the opportunity to work alongside each of you.

The future is ours to build, and create more success, on the shoulders of those who have come before us.

A handwritten signature in black ink, appearing to read "C. O'Brien", with a long horizontal flourish extending to the right.

Chris O'Brien
Chairman
30 November 2020