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COST PRESSURES IN THE PRIVATE & VOLUNTARY NURSING HOME SECTOR

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EXECUTIVE SUMMARY

This report was commissioned by Nursing Homes Ireland (NHI) to examine the cost pressures facing the private and voluntary nursing home sector and the implications of these cost trends for its future viability. The report is based on a combination of desk-based research, interviews, and a survey of members of the NHI.

DEMOGRAPHIC FACTORS DRIVING REQUIREMENT FOR NURSING HOME PLACES

- The key driver of demand for care places in nursing homes is demographics. Ireland's demographic structure is currently characterised by two features – an expanding population and an ageing population.
- In 1961, there were 315,063 people aged over 65 years of age, accounting for 11.2% of the population. Census 2016 shows that this number had more than doubled to 637,567 in 2016. The over-65s now account for 13.4% of the total population.
- In 1961, the population included 18,535 people aged 85 years or older, and this age cohort accounted for 0.65% of the total population. In 2016, the population included 67,555 people aged 85 years or older, and they accounted for 1.4% of the total population. If the growth of 15.6% seen between 2011 and 2016 were to be replicated over the coming decade, the over 85s would grow to 90,275 by 2026. The growth is likely to be stronger given the current age profile of the population. The cohort of the population aged 85+ is most dependent upon nursing home care and these trends highlight the requirement to have adequate nursing home care to satisfy increased requirements going forward. If adequate places for the older population are not available, this will put intense pressure on the already very stretched healthcare system.
- A medium set of demographic assumptions projects that the population could reach 5.64 million people by 2046 and that the over 65s could reach 1.4 million, accounting for 25.2% of the total population. Those aged 85 years or older could total 262,900, accounting for 4.7% of the total population by 2046.
- The ageing of the population will put increased emphasis on care for older people and the requirement for nursing home places will increase. The State will not on its own be capable of meeting these increased demands, and the private and voluntary nursing home sector will inevitably be asked to play an increasingly important and valuable role in helping Irish society and the health system cope with these demographic changes and the associated pressures. The state currently provides 20% of places and this is declining.
- The Alzheimer Society of Ireland has projected the number of people living with dementia in Ireland will rise significantly in the coming years from 48,000 presently, to 68,216 by 2021 and to 132,000 by 2041. The majority of people with dementia (63%), live at home in the community but a cohort with high dependency care needs, requires the continuous care provided by nursing homes. This will escalate in tandem with the rise in numbers of people with the disease.

COST PRESSURES IN THE PRIVATE & VOLUNTARY NURSING HOME SECTOR

- Cost pressures in the nursing home sector are coming under significant pressure as the economy continues to experience a strong cyclical recovery. The key price pressures are coming from labour costs, commercial rates, insurance costs, and construction costs. All of these costs are driven by domestic factors and the risk is that as the economy continues to recover, these costs will continue to rise and put many nursing home operators under significant financial pressure.
- A survey of NHI members in 2017 shows that on average, staff costs account for 62% of total costs. This high figure is indicative of the labour intensive nature of resident care. The age profile and dependency levels of residents are a key driver of increased staff costs, and dependency levels are increasing considerably, which is being reflected in a halving of the average length of stay by residents within nursing homes.
- The costs involved in operating a nursing home to a high standard of care are very significant and generally have been increasing at a significant rate in recent years.
- Looking ahead to 2018, if we assume that staff costs increase by 3%; food costs increase by 1%; rents increase by 5%; the costs of construction, repairs and maintenance increase by 5%; commercial rates increase by 116% on average due to the ongoing revaluation process; insurance costs increase by 5%; and other costs increase by 2%, then total costs for the private and voluntary nursing home sector would increase by €40 million.
- While all sectors of the economy are currently experiencing rising costs, most have the opportunity to pass on cost increases in the form of price increases to their customers. This option is not open to nursing home operators, due to the State's position as a monopolistic purchaser of nursing home beds and the current pricing model.

THE NURSING HOMES SUPPORT SCHEME

- The Nursing Homes Support Scheme (NHSS) was established by the Nursing Homes Support Scheme Act of 2009. Its aim is to provide financial support to persons requiring long-term residential care.
- A private or voluntary nursing home cannot participate in the scheme unless it has agreed a price with the National Treatment Purchase Fund (NTPF). The NTPF has no role in setting or negotiating prices for public nursing homes. Since the inception of the Fair Deal Scheme, the annual cost has been between €900 million and €1 billion.
- Nursing Homes Ireland (NHI) has highlighted the substantial differential in fees payable under Fair Deal between HSE nursing homes and private and voluntary counterparts. The HSE commands 35% of the budget for 20% of the beds. The State has committed €385 million in the Capital Plan to undertake works necessary to enable its nursing homes meet regulatory physical environment requirements and maintain existing 20% provision of bed capacity within the

nursing home sector. The question has to be asked if this is the best use of scarce exchequer resources.
- The average rate of increase in the Fair Deal Rate paid to private and voluntary nursing homes across the 26 counties over the period January 2011 to January 2016 was 7.2%, which is equivalent to an average annual rate of around 1.4%.

CONCLUSIONS AND RECOMMENDATIONS

- It is essential that the sector is economically viable; that its services expand to meet demand; and that the returns are adequate to ensure continued growth and investment in the sector. It is incumbent on the State through its remuneration mechanisms to make sure that nursing home operators make a sufficient return on their investment and that they continue to provide what is a socially and economically vital service.
- In an environment of increasing cost pressures in the sector, it is incumbent on the State to make sure that operators are placed on a sustainable footing. If they leave the sector, an impossible burden will be placed on the State and on the already very stretched health service.
- Economically viable private and voluntary nursing homes will fulfil a key role within communities across Ireland in facilitating and generating employment – direct and indirect, in supporting local service providers, and in meeting the healthcare needs of our older population.
- The labour market is clearly the biggest issue facing private and voluntary nursing home operators. As the economy moves towards full employment, nursing home operators are finding it increasingly difficult to recruit and retain nurses and health care assistants in particular. The earnings barrier for non-EU work permits is €30,000 per annum. This needs to be amended. Nursing homes are increasingly competing with service sector employers and are finding it increasingly difficult to attract and retain skilled workers.
- While cognisant of the requirement to achieve value for spend, the State must be mindful of the very serious economic and social implications of a failure to appropriately resource long-term residential care. Failure to resource providers and ensure that costs encompassed in delivering care within a labour-intensive 24/7, 365 days a year health setting are taken into account, will have broader cost implications for State spending and will also have serious social implications. Failure to take cost realities into account will prove counterproductive and come at enormous expense to the exchequer.
- An un-published HSE report is reportedly suggesting that the Fair Deal scheme will need an extra €40 million at least, to cover the cost of providing the service to over 24,000 people in 2018, taking it up to least €974.8 million. The suggested €40 million is reflective of demographic pressures only, but based on the trend in the costs faced by private and voluntary nursing home operators, particularly labour costs, a further increase of €40 million will be required to keep private and voluntary nursing homes viable.
- In total, the Fair Deal payment will need to be increased by €80 million in 2018, to maintain the sustainability of the sector.

- The Fair Deal payment system must recognise the cost trends in the sector, otherwise a serious crisis in care for the elderly and the healthcare system in general will become inevitable. Increases in operating costs of the magnitude suggested in this report will undermine the capacity of nursing home operators to meet capital costs or to fund any bank debt or borrowing as associated with the business. Unless the NTPF increases the total payment to match costs and demographic pressures, this will act as a barrier to investment in the sector.

INTRODUCTION

Nursing Homes Ireland (NHI) is the representative organisation for Ireland's private and voluntary nursing home sector. The organisation is committed to ensuring that older persons in the more than 400 private and voluntary nursing homes across the country are provided with the highest quality care and services possible. The NHI vision is for a strong and sustainable private and voluntary nursing home sector, as a vital part of Ireland's health and social care system.

The private and voluntary nursing home sector plays a very significant role in care of the older person in Ireland. From a social, healthcare and economic perspective, this is an extremely important function. Socially, a nation should be judged on how it cares for its older people. The private and voluntary nursing homes provide care for almost 22,000 older people in a 'home from home' in local communities throughout Ireland. The sector directly employs an estimated 24,000 workers in full and part-time employment, with a further 11,000 indirect jobs estimated to be dependent on employment in the sector.

Nursing homes have a wide geographical footprint and so make a significant employment and general economic contribution in regional and rural areas all over the country. However, in addition to the direct economic contribution the sector makes, it crucially provides a very valuable service and relieves the pressure on the State to care for the older population. This contribution will become significantly more important in the future as the age profile of the population gets steadily older.

Ireland's demographic structure is set to change significantly over the coming decades, with substantial growth in the older segment of the population. The ageing of the population will put increased emphasis on care for older people and the requirement for nursing home care. The State will not on its own be capable of meeting these increased demands, and the private and voluntary nursing home sector will inevitably be asked to play an increasingly important and valuable role in helping Irish society and the health system cope with these demographic changes and the associated pressures.

A medium set of demographic assumptions projects that the population would reach 5.64 million people by 2046 and that the over 65s would reach 1.4 million, accounting for 25.2% of the total population. Those aged 85 years or older could total 262,900, accounting for 4.7% of the total population by 2046.

The reality facing the private and voluntary nursing home sector is that its income is effectively set by the State through the Nursing Home Support Scheme (Fair Deal). The sector virtually faces a monopoly purchaser of its services in the shape of the National Treatment Purchase Fund (NTPF), and it sets fees for those availing of the Nursing Home Support Scheme (Fair Deal). In an environment of scarce Exchequer resources, the NTPF is failing to recognise the sustained cost pressures and the true cost of care, and this is putting significant pressure on many operators.

Operators are experiencing significant cost pressures and in the face of limits on income, there is a steady decrease in net margins and declining EBITA. This is already threatening the sustainability of the sector. If the providers are not adequately compensated, they will exit the sector or be forced to cut back on capital and operating expenditure. This would result in a combination of the closure of nursing homes. less beds and/or declining standards. Neither is acceptable. The reality is that staffing levels cannot be reduced or standards undermined to offset rising costs.

It is essential that the sector is economically viable; that its services expand to meet demand; and that the returns are adequate to ensure continued growth and investment in the sector. It is incumbent on the State through its remuneration mechanisms to make sure that nursing home operators make a sufficient return on their investment and that they continue to provide what is a socially and economically vital service. In an environment of increasing cost pressures in the sector, it is incumbent on the State to make sure that operators are placed on a sustainable footing. If they leave the sector, an impossible burden will be placed on the State and on the already very stretched health service.

The experience in England is very instructive and should act as a wake-up call for the Irish authorities. A recent report from the Care Quality Commission[1] examining the quality of care in the UK found some alarming results for the 4,042 nursing homes it inspected. Of the 158 small nursing homes, 12% were rated as inadequate or requiring improvement; of the 2,188 medium size nursing homes, 31% were rated as inadequate or requiring improvement; and of the 1,766 large nursing homes, 35% were rated as inadequate or requiring improvement. This gives a weighted average of 32% of nursing homes that are inadequate or require improvement and 37% were specifically told that they must improve safety. In response to these findings, the Chief Inspector of Adult Social Care, Andrea Sutcliffe, was quoted as saying that 'the picture for nursing homes is most worrying……many of the homes are struggling to recruit and retain well-qualified nursing staff and that means that this is having an impact on delivering good services to people who have got very complex needs'.[2] In the same article, the head of policy and campaigns at the UK Alzheimer's Society declared that 'without adequate funding , it was no surprise that care providers were being forced to cut corners'.

These inspection results in England followed on from a Care Quality Commission report in October 2016,[3] which warned that adult social care in England was approaching a tipping point. This is being driven by 'a growing and ageing population, more people with increasingly complex conditions, and in a challenging economic climate a greater demand on services but more problems for people in assessing care, and further issues across the health and care sector'.

Ireland faces all of the same challenges, but it is essential that these challenges are recognized and addressed before it becomes an intractable problem.

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[1] 'The state of adult social care services 2014 to 2017', Care Quality Commission, July 2017.
[2] 'Safety alert as watchdog warns that one in three nursing homes is failing', The Guardian, July 6th 2017.
[3] The state of health care and adult social care in England', Care Quality Commission, October 2016.

This report was commissioned by NHI to examine the cost pressures facing the sector and the implications of these trends for its future viability. The report is based on a combination of desk-based research and a survey of members of the NHI.

The first section considers Ireland's demographic structure based on Census 2016 and identifies how demographic trends are likely to influence the requirement for nursing home care in the future.

Section 2 provides an analysis of business costs generally in Ireland and looks specifically at the key cost trends affecting the nursing homes sector and how they could evolve in the future.

Section 3 considers other issues facing the sector and makes recommendations on what needs to be done to ensure the continued growth and viability of the private and voluntary nursing homes sector.

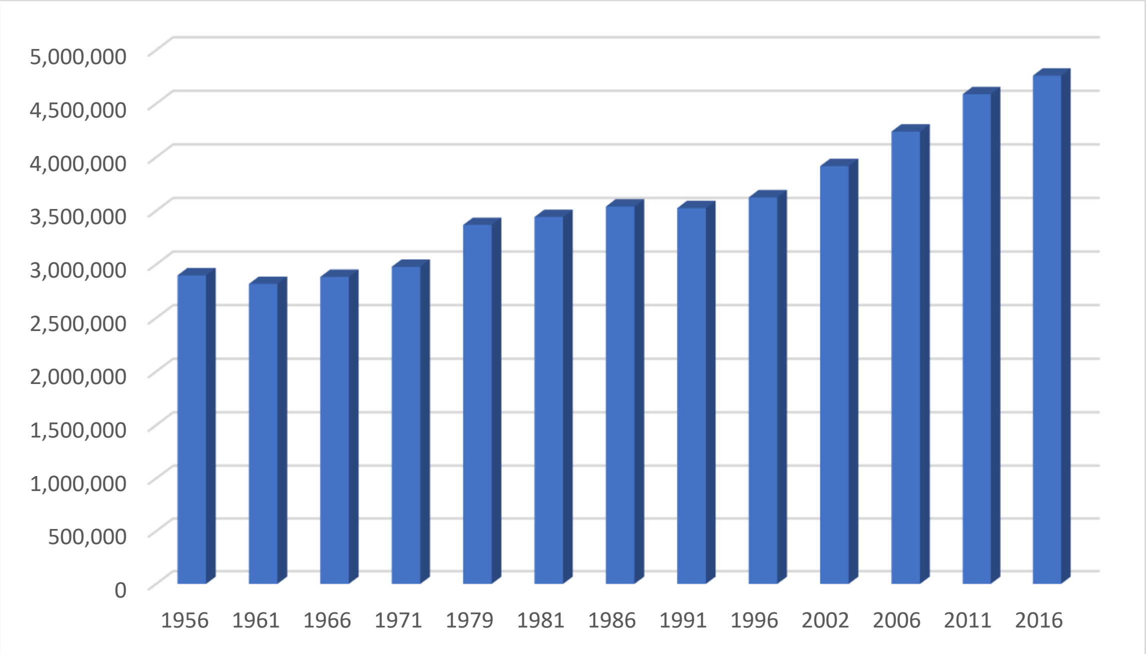
The Conclusions summarises the main issues facing the private and voluntary nursing homes sector and highlights the need for at least €80 million in extra funding under the Fair Deal Scheme in 2018.

SECTION 1
DEMOGRAPHIC BACKGROUND

The key driver of demand for nursing home care is demographics. Ireland's demographic structure is currently characterised by two features – an expanding population and an ageing population.

Census 2016 showed that Ireland's population increased to 4.76 million, which was 3.8% higher than Census 2011 and is 69% higher than in 1961.

Figure1: Population of Ireland



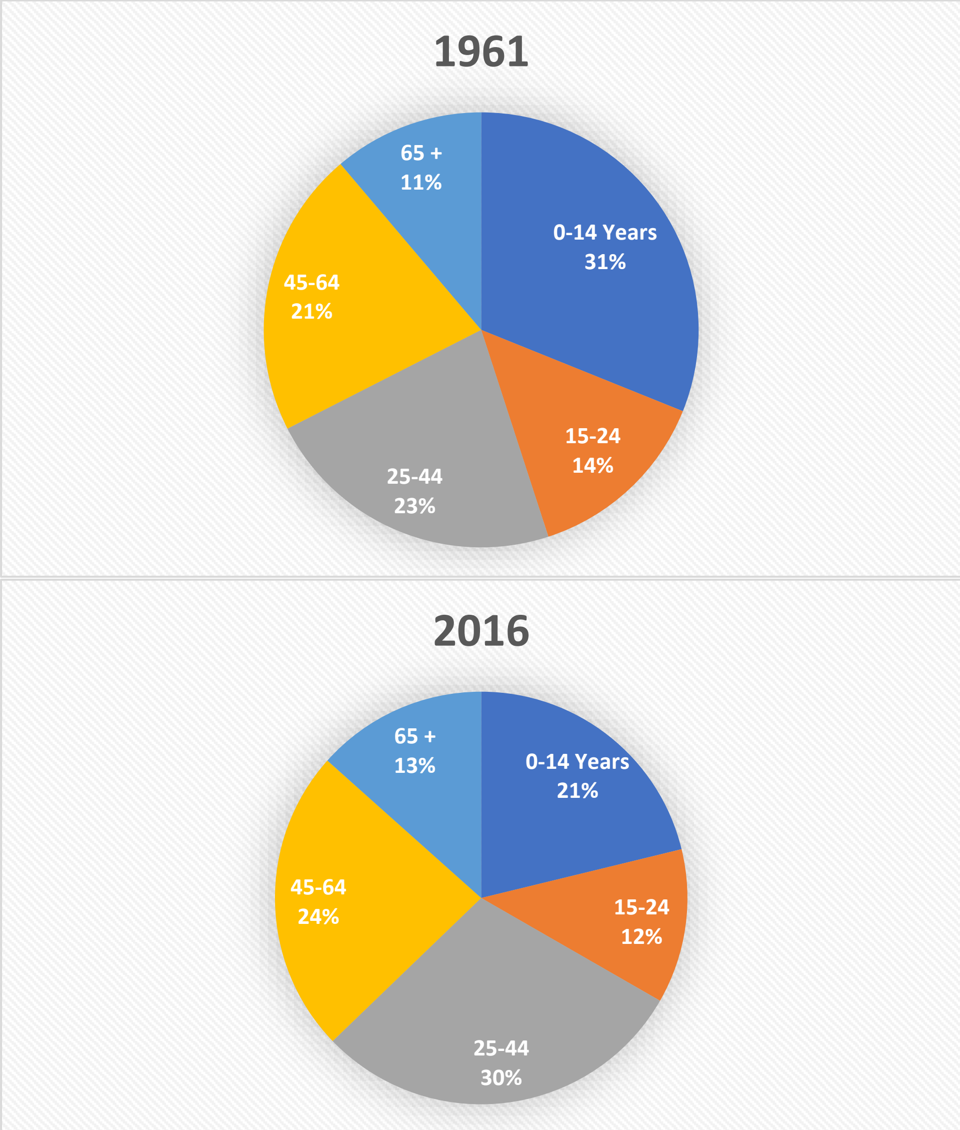
Source: CSO, Census of Population 2016.

In line with the recent strong growth in population, the age profile is changing significantly. In 1961, there were 315,063 people aged over 65 years of age, accounting for 11.2% of the population. Census 2016 shows that this number has more than doubled to 637,567. The over-65s now account for 13.4% of the total population.

Figure 2 shows the breakdown of population by age cohort in 1961 and 2016.

- In 1961, the population included 18,535 people aged 85 years or older, and accounted for 0.65% of the total population.
- In 2016, the population included 67,555 people aged 85 years or older, and accounted for 1.4% of the total population.

Figure 2: Age Breakdown of Population 1961-2016



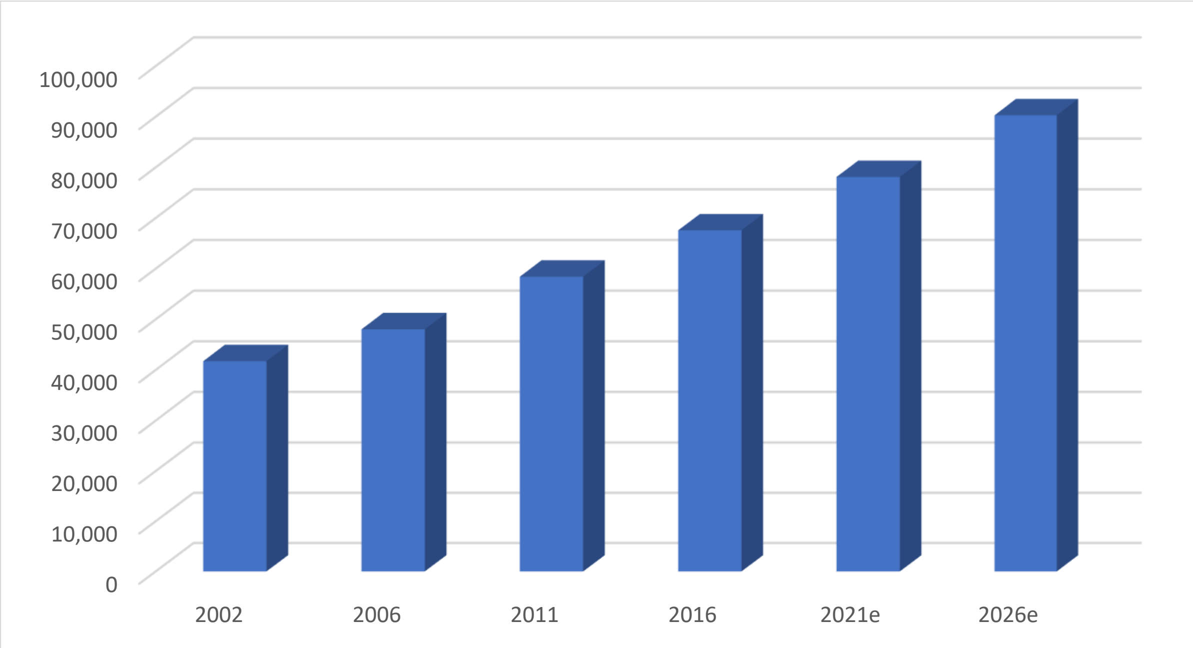
Source: CSO Census of Population

Population growth is driven by mortality rates, birth rates and migration flows. By definition, it is difficult to forecast future population growth, particularly because migration flows are driven by many diverse factors that are difficult to quantify and forecast. In 2013, the CSO[4] extrapolated a number of population projections based on varying assumptions on fertility rates, mortality rates and migration. A medium set of assumptions projected that the population would reach 5.64 million people by 2046 and that the over 65s would reach 1.4 million, accounting for 25.2% of the total population. It projects that by 2046, those aged 85 years or older will total 262,900, accounting for 4.7% of the total population.

[4] Population and Labour Force Projections 2016-2046, CSO, April 2013.

The CSO shows in Census 2016 that the population aged 85+ - those most dependent upon nursing home care – expanded by 15.6% over the period 2011 to 2016 from 58,416 to 67,555. If this growth were to be replicated over the coming decade, the over 85s would grow to 90,275 by 2026. The growth is likely to be stronger given the current age profile of the population.

Figure 3: People Aged 85+ (Based on 2011-2016 Growth Rate)



Source: CSO

Census 2016 shows that despite the proportion of 'older persons' (persons aged 65+) residing in nursing homes being reduced from 4.1% to 3.7% over the period 2011 to 2016, the nursing home 'population' increased by 9.4% over the five-year period, from 20,802 to 22,762. The significant growth in numbers availing of nursing home care is reflective of the substantial growth in the older population. The population aged 85+ - those most dependent upon nursing home care (approximately one in five persons) – grew by 15.6% in the corresponding period according to the CSO.

These demographic statistics and projections show clearly the potential requirement for nursing home places over the coming decades. It is incumbent on all stakeholders to ensure that there are sufficient nursing home places to satisfy potential requirements. If sufficient nursing home places are not available, a further significant burden will be placed on an already very stretched public health service. It will adversely impact on the ability of the entire population to access acute hospital care, as an increasing number of beds within the acute sector will be occupied by a significant number of people who could more appropriately be cared for in the long-term residential care sector. Future healthcare provision on its own is a major challenge for Ireland, but when combined with the ageing population, the seriousness of the challenge becomes immense. Solutions have to be found to achieve the best possible outcome for the population of the country.

SECTION 2
COST PRESSURES IN NURSING HOMES

This section considers the cost environment for business in general in Ireland and then goes on to look specifically at the key cost elements in the nursing home sector and how they are evolving.

THE BUSINESS COST ENVIRONMENT IN IRELAND

The National Competitiveness Council produces an annual assessment of business costs in Ireland and how they compare with other similar countries. While it does not break business costs down by specific sector, it does provide a good assessment of the relative cost environment facing business operators in general. Specifically, it focuses on those costs which affect business most and which are largely domestically determined. The most recent report, *Costs of Doing Business in Ireland 2017*[5] report does give some cause for concern in relation to the recent trends in business costs. Its key findings include:

- Ireland remains an expensive location in which to do business with a price profile, which can be described as 'high cost, rising slowly';
- Total Hourly Labour Costs in Ireland in 2016 averaged €30.40 per hour, which is the 8th highest in the Euro Zone and is 2% higher than the Euro Area average and 12% higher than the UK;
- In 2016, Irish labour costs grew by 1.6%, compared with growth of 1.6% in the EU-28, 1.4% in the euro area, and 1.5% in the UK. Labour costs in Administrative & Support Services increased by 2.3% in 2016;
- In 2017, Ireland had the 2nd highest monthly minimum wage (€1,546) and the 5th highest in PPP (Purchasing Power Parity) terms amongst 18 countries considered;
- Ireland was the 5th most expensive location in the euro area for prime retail rents. Rents increased by 31.5% since 2014;
- Commercial rates increased as a proportion of total Local Authority revenue from 24% in 2002 to 36.5% in 2016. Over the same period, the proportion of funding received from Central Government fell from 46% to 24%;
- In the period 2011 to 2016, as a proportion of total Local Authority expenditure, commercial rates have increased from 34% to 36%;
- The cost of 1,000 litres of diesel in Ireland in January 2017 was €1,269 making Ireland the 6th most expensive country in Europe;
- Industrial electricity prices for SME energy users are 2.9% higher in Ireland than the euro area average;
- Water and waste-water costs for industrial users compare favourably to those in competitor markets;
- Ireland had the 4th highest SME interest rates in the Euro Area in 2016. They were 14.2% above the Euro Zone average; and

[5] 'Costs of Doing Business in Ireland 2017', National Competitiveness Council, June 2017.

- In January 2017, the interest rate on loans of up to €1 million was almost double the euro area average for new business.

NURSING HOME COST STRUCTURE

As the Irish economy continues to recover, it is clear that many of the costs of doing business are rising, particularly labour costs as the economy moves inexorably towards full employment with its concomitant shortages of labour. This is feeding directly into the cost environment facing by the operators of nursing homes. Table 1 provides a breakdown of the typical costs faced by nursing home operators based on the survey of NHI members conducted by the author of this report. These are averages – there are considerable variations between different nursing homes, based on size etc.

Table 1: Costs Items as % Total Costs (average)

COST CATEGORY	% OF TOTAL COSTS
Staff	62.0%
Food	4.8%
Rents	3.2%
Interest Rate Costs	2.8%
Light & Heat	2.7%
Repairs & Maintenance	2.6%
Commercial Rates	1.3%
Pensions	2.8%
Resident Outlays/Entertainment	1.3%
Insurance	1.1%
Agency Costs	1.0%
Cleaning	1.0%
Medical Supplies	1.0%
Laundry	0.7%
Recruitment	0.7%
Professional Fees	0.7%
Legal Fees	0.5%
Waste	0.5%
Gardening	0.5%
GP Fees	0.5%
Staff Training	0.4%
Motor Expenses	0.4%
Water Rates	0.4%
HIQA Compliance	0.4%
Telephone/Broadband	0.3%
ICT	0.3%
Paper & Postage	0.3%
Stationery	0.3%
Clothing & Bedding	0.2%
Sundry Costs	9.6%

Source: Survey of NHI Members, April 2017.

The survey of NHI members shows that on average, staff costs account for 62% of total costs. This is a very high figure, but is indicative of the labour intensive nature of resident care. Age profile of residents, increased resident dependency needs and reduced length of stay are all growing features of the sector, which has significant implications for staffing requirements. Hence trends in the labour market in general and labour costs in particular are key for nursing home operators and have a disproportionate impact on the cost structure of nursing home operators. These pressures are exacerbated by the worldwide shortage of nurses and carers.

PAYROLL AND LABOUR COSTS

On average, staff costs accounted for 60.8% of turnover in 2016. This is up from 55% in 2010. Table 2 provides an average breakdown of staff costs. Healthcare Assistants and Registered Nurses together account on average for almost 63% of total staff costs. In the survey, members of the NHI expressed serious concerns about payroll costs; the ongoing and expensive requirement for staff training and upskilling; the loss of staff to the HSE who can pay higher rates and the consequent pressure to pay more to retain staff; and the general difficulty in recruiting skilled staff in general, but nursing staff and healthcare assistants in particular. All of these difficulties are compounded by the restraints imposed by the current level of Fair Deal rates payable by the HSE.

The pressure on labour costs is being exacerbated by the increased recruitments costs resulting from the domestic scarcity of staff and the requirement to recruit in international markets.

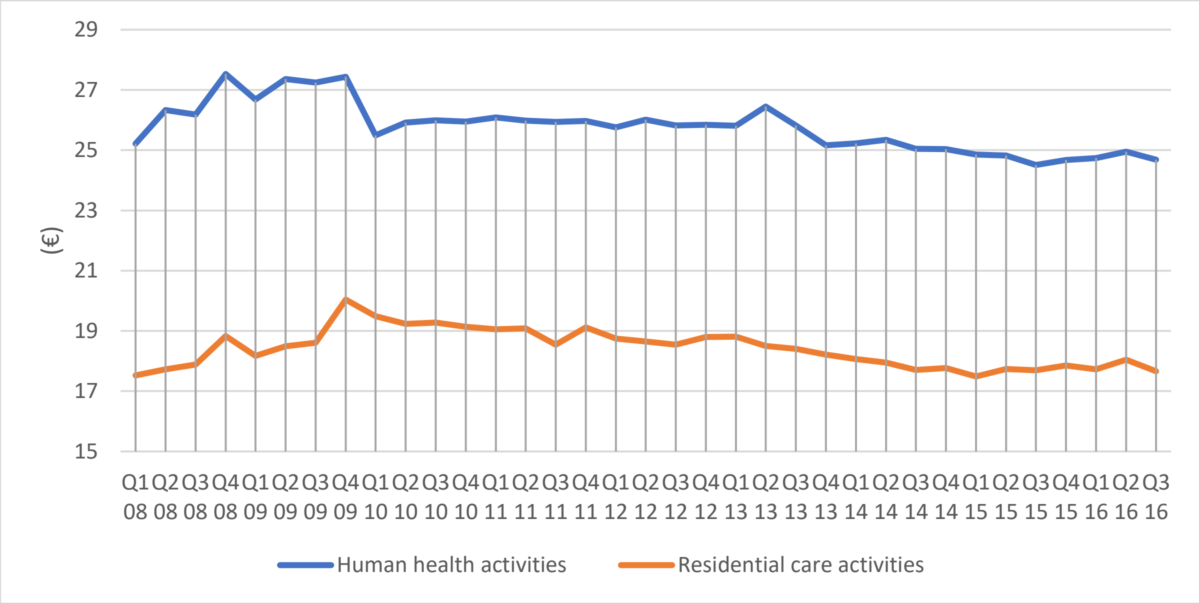
Table 2: Breakdown of Labour Costs

FUNCTION	% OF TOTAL STAFF COSTS
Healthcare Assistants	36.0%
Registered Nurses	26.9%
Management & Administration	19.8%
Catering Staff	6.2%
Domestic Staff	6.2%
Maintenance Staff	3.0%
Finance/HR Staff	1.9%

Source: Survey of NHI Members, April 2017.

As unemployment increased during the economic recession, wages across the economy in both the public and private sector declined. For example, Figure 3 shows that between the final quarter of 2009 and the third quarter of 2015, average hourly earnings in Human Health Activities declined by 10.7% and by 11.7% for Residential Care Activities.

Figure 4: Average Hourly Earnings



Source: CSO

The decline in earnings reflected general labour market conditions and Government cuts to public sector pay under the terms of the Financial Emergency Measures in the Public interest (FEMPI) legislation. With the economy now recovering strongly; with an unemployment rate of 6.3% suggesting that the labour market is now approaching full employment; and with pressures emerging to increase public sector pay and completely reverse the FEMPI measures by 2020, it is clear that wage pressures in the public and private sector will increase from here on. For nursing home operators, rising labour costs are a matter of concern, but the ability to hire labour in a tight labour market is an even bigger challenge. These problems are compounded by the global shortages of nursing and caring staff.

In June 2017, the Workplace Relations Commission (WRC) published findings aimed at extending the Lansdowne Road Agreement and the previous Public Sector agreements. The proposed agreement, which will unwind the FEMPI measures, will cover the period from 1st January 2018 to 31st December 2020.

In 2018, it is proposed that:

- 1st January annualised salaries to increase by 1%;
- 1st October annualised salaries to increase by 1%.

In 2019, it is proposed that:

- 1st January annualised salaries up to €30,000 to increase by 1%;
- 1st September annualised salaries to increase by 1.75%.

In 2020, it is proposed that:

- 1st January, annualised salaries up to €32,000 to increase by 0.5%:
- 1st October annualised salaries to increase by 2%.

These proposed increases will add considerably to the wage costs of nursing homes. The challenges will be exacerbated by the unique constraints imposed upon private and voluntary providers within the nursing home sector, with the NTPF's dominant role in setting the fee payable to the nursing home constraining wages within the sector. This presents considerable challenges when nursing homes have to compete against other healthcare providers that are operating in a more open market.

Another issue for nursing home operators is the minimum wage. The national Minimum Wage was introduced in Ireland under the National Minimum Wage Act 2000. It was initially introduced at an hourly rate of €5.59 per hour. In January 2017, it was increased to €9.25 per hour. Between 2000 and the beginning of 2017, the minimum wage increased by 65.5%. Over the same period, the consumer price index increased by 33.6%.

The monthly minimum wage expressed as a proportion of average monthly earnings shows that in 2016, Ireland stood at 44%, up from 41.8% in 2008. This level is higher than the UK at 41% and the Netherlands at 42.7%.

An analysis undertaken by BDO on behalf of NHI examining the impact of changes to the national minimum wage on the nursing home sector highlighted the issues for the sector at the beginning of 2016. It concluded:

- An increase of 5.8% in the minimum wage from €8.65 to €9.15 (this came into effect 1st January 2016) would likely result in additional costs of circa €34,000 to €79,000 per annum for a nursing home. For the average nursing home, assuming a Fair Deal Rate of €900 and occupancy of 93%, this would require a 2.2% increase in a nursing home's Fair Deal rate to absorb the increase;
- A further increase in the minimum wage to €10.50 from €9.15 would cost individual operators €83,000 to €196,000 per annum. Assuming a Fair Deal Rate of €900 and occupancy of 93%, this would require a 5.5% increase in a nursing home's Fair Deal rate to absorb the increase; and
- The mandatory introduction of the living wage (€11.50) would result in additional payroll costs of €146,000 to €343,000 per annum. Assuming a Fair Deal Rate of €900 and occupancy of 93%, this would require a 9.7% increase in a nursing home's Fair Deal rate to absorb the increase.

In July 2017, the Low Pay Commission recommended an increase of 30 cent in the national minimum wage to €9.65 from January 1st 2018. This would represent an increase of 3.2% in the minimum wage. This increase would add an estimated €18,758 to €43,586 to the labour costs of nursing home operators.

Research conducted in the UK market by Draca, Machin & Van Reenan[6][7] on the UK care home sector showed that following the introduction of the minimum wage, 'wages were significantly raised, and firm profitability was significantly reduced by the minimum wage introduction'. The authors picked the care home sector in the UK because it is

[6] 'Examination of the Financial Impact on the Nursing Home Sector of Changes to the National Minimum Wage', BDO, July 2016.

[7] '*Minimum Wages & Firm Profitability*', Mirko Draca, Stephen Machin & John Van Reenen, February 2010.

characterised by a large concentration of non-unionised, low-wage employees working in small firms. There is also product market regulation in the sector insofar as a significant fraction of home residents had their care paid for by the Government. The Government paid a capped price for beds, which was not increased in line with the minimum wage, with the result that many homes had limited scope to increase prices and so margins were squeezed. These findings resonate with Irish nursing home operators.

It is estimated that approximately 60% of the typical nursing home's payroll costs in Ireland are attributable to semi-skilled and unskilled workers.[8] Such activities would include catering and kitchen staff; housekeeping staff; health care assistants; administration and maintenance staff. Not all of those staff are earning minimum wage. Recent data from the CSO estimate that in the period from the second to the final quarter of 2016, 15.1% of staff in the *Caring, Leisure & Other Services* sector earned the minimum wage or less; and just 5.4% of workers in the *Human Health & Social Work Activities* sector.

The key issue is that increases in the minimum wage will affect other wages and premia paid to staff who work outside of normal hours. Nursing homes operate 24 hours per day and 7 days per week, so such premium payments are part of the cost model. In addition, given the labour-intensive nature of the sector, it is not feasible to respond to higher labour costs through reductions in employee numbers. Hence, the reality is that unless income increases, margins will tighten and ultimately nursing homes will be forced out of business.

Nursing home operators are not opposed to increases in wages, but believe that in order to remain viable, there will be a requirement to ensure that income growth will offset wage pressures. The fees paid under the Fair Deal scheme will need to reflect the reality of higher labour costs.

The reality facing nursing home operators in a tight labour market is that they will be competing with all other sectors for skilled and non-skilled workers. Under the current limitations on their income, they will struggle to compete and the risk is that many may be forced out of business. As stated previously, the loss of beds in an environment where the requirement for beds is increasing will create serious problems for the overall healthcare sector.

COMMERCIAL RATES

Local authorities have a statutory obligation to levy commercial rates on any property used for commercial purposes. The levying and collection of rates are matters for each individual local authority, which applies an Annual Rate on Valuation (ARV) to the valuation of each property to calculate the amount payable in rates. A revaluation process is under way across the country at the moment and it is resulting in a significant increase in the rates liability of nursing home owners.

[8] BDO, July 2016.

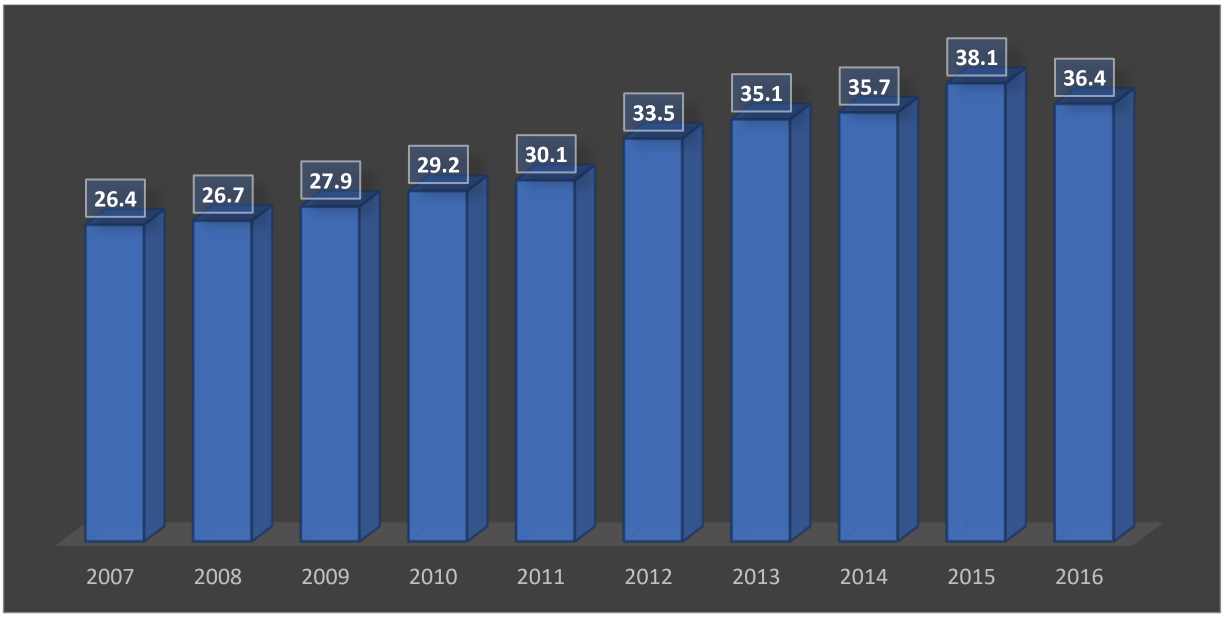
In South Dublin County Council, the Valuation Office has stated that the revaluation has resulted in a revised Rateable Valuation of €472.5 million for 2018. In order to collect the same level of rates in 2018 as in 2017 an ARV of 0.28 would be required, up from 0.162 in 2017. As a consequence, nursing home operators are facing a significant increase in the commercial rates bill. This story is being replicated for operators across the country and is imposing a significant extra cost burden on a sector that is already experiencing a significant tightening of margins.

The reality is that for local authorities, central government funding has been reduced in recent years and increased reliance is being placed on commercial rates to bridge the deficit. Figure 4 shows that commercial rates as a percentage of total local authority funding has been increased from 26.4% in 2007 to 38.1% in 2015 and 36.4% in 2016. Effectively business is being asked to take a greater cost burden of local authority activities. Nursing homes are at the forefront of this trend and it is further exacerbating the cost pressures on the sector. If nursing homes are in mid contract with HSE/NTPF under Fair deal, they have no way of recouping increased commercial rates costs.

A survey of NHI members in late April/early May 2017 showed that where revaluations have occurred, increases ranged from 17% to 277% and averaged 116%. The average rates bill, under the Proposed Valuation notices are equivalent to €1,087 per bed per annum, which is around 2.2% of the average Fair Deal rate of €930 per bed per week.

The survey highlighted that for revaluations undertaken to date, it is clear that nursing homes are being expected to shoulder a larger proportion of the Commercial rates burden compared to other businesses under the revaluation programme. 100% of revalued nursing homes are experiencing an average increase of 116%, while a survey of ISME members undertaken in April 2017 found that only 61% expected an increase, and on average that increase was expected to be 95%.

Figure 5: Commercial Rates as % of Local Authority Funding

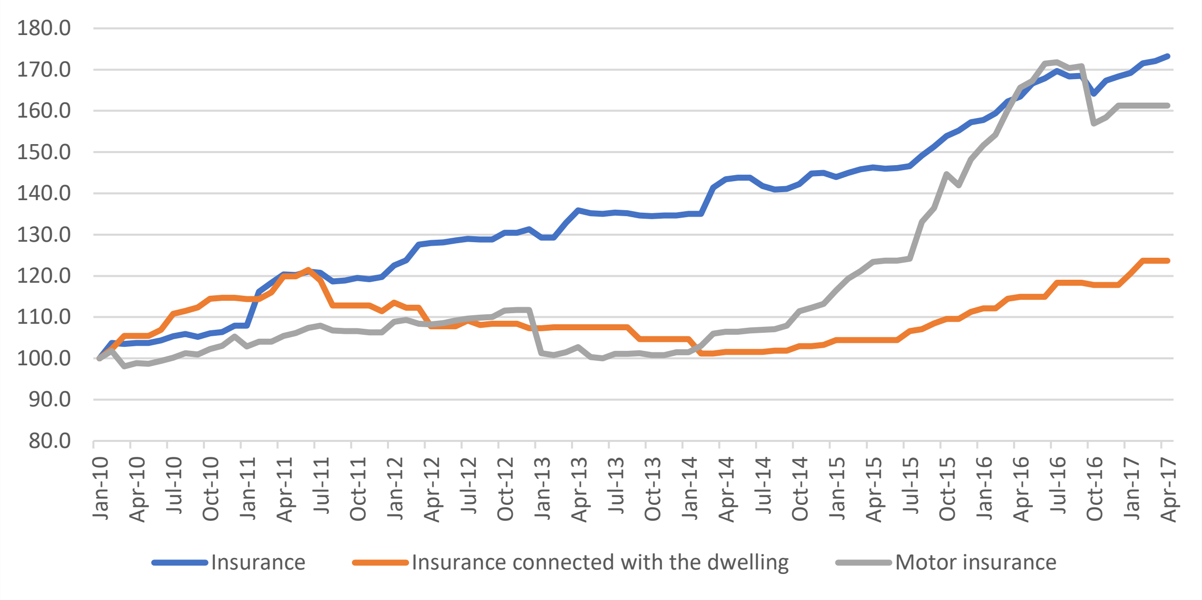


Source: Eurostat

INSURANCE COSTS

Insurance costs have been highlighted as an issue of serious concern for Irish consumers and businesses in recent years. There is a lack of micro-level price data available for commercial insurance. However, key categories of insurance at the consumer level do provide a useful proxy. Between January 2010 and April 2017, average insurance costs have increased by 73.2%, with motor insurance up by 61.3% and dwelling insurance costs up by 23.7%.

Figure 6: Consumer Insurance Costs



Source: CSO

From a business perspective, the key insurance costs are commercial, motor, property, professional indemnity, employer's liability and public liability. The National Competitiveness Council (NCC)[9] has stressed the need to measure micro-level price data for business insurance and stressed the requirement for policymakers to assign responsibility for improving insurance cost competitiveness of commercial insurance and accord it sufficient priority.

In the survey of NHI members, considerable emphasis was placed on rising insurance costs as a significant issue for the private and voluntary nursing home sector. The survey shows that between 2010 and 2016, the average insurance cost per bed increased by 136%.

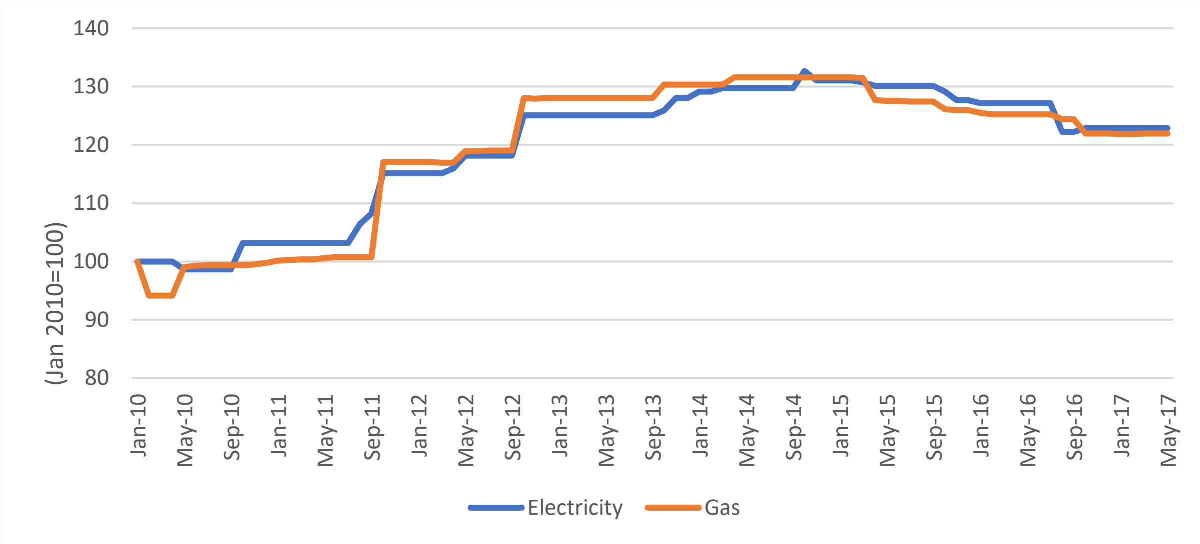
HEATING & ELECTRICITY COSTS

Given the nature of nursing homes, heating and electricity costs are an important element of the cost environment for nursing home operators. Between January 2010 and March 2015, electricity prices increased by 30.7% and gas prices increased by 31.5%. In line with lower oil prices, electricity prices declined by 6% and gas prices by

[9] National Competitiveness Council Bulletin, NCC92016), Insurance Costs, Competitiveness Bulletin 16-2, January 2016.

7.2% between March 2015 and May 2017. There is no certainty about where prices will go over the next couple of years, but if OPEC succeeds in limiting oil supply, the risks to oil prices and hence electricity and gas prices would appear to be on the upside.

Figure 7: Electricity & Gas Price Trends

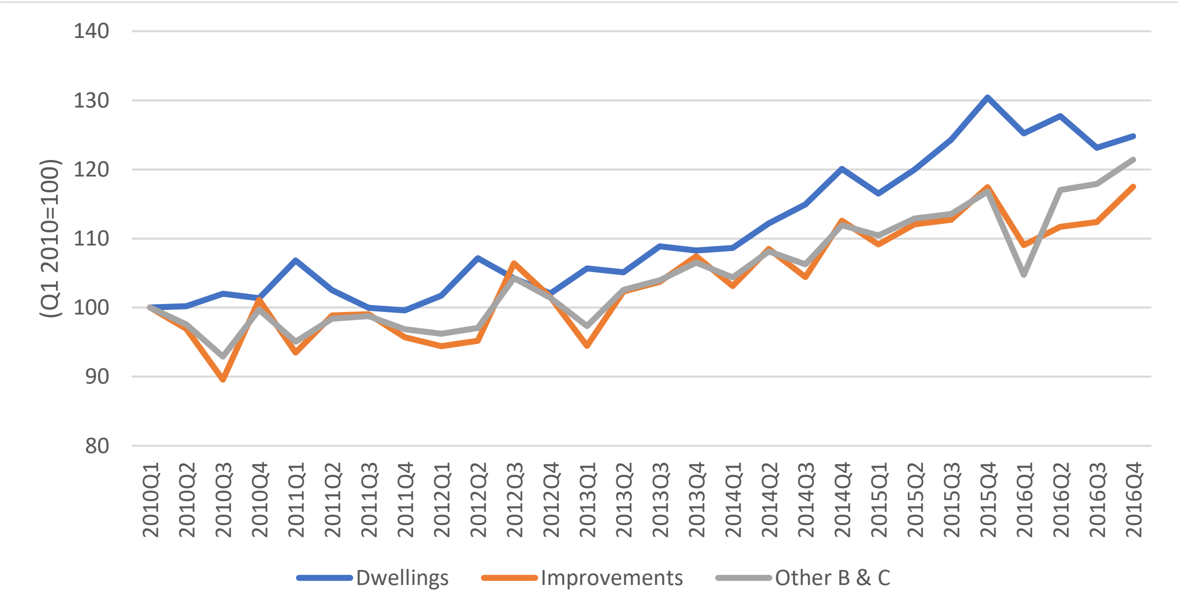


Source: CSO

CONSTRUCTION COSTS

For nursing home operators, construction costs are important as many operators are increasing bed numbers and upgrading facilities. Construction costs fell sharply during the recession, but costs are now increasing in line with the strong recovery in the construction sector.

Figure 8: Construction Sector Deflator



Source: CSO, Quarterly National Accounts

Figure 8 shows the trend in construction costs since the first quarter of 2010, broken down into dwelling costs, improvements, and other building and construction activity. Between the first quarter of 2010 and the final quarter of 2016, the average cost of construction for dwellings increased by 24.8%; the average cost of construction for improvements increased by 17.5%; and the average cost of other building and construction increased by 21.4%. Over the past couple of years in particular, construction costs have started to rise strongly in line with the economic recovery.

The latest survey from the Society of Chartered Surveyors and PwC (SCSI)[10] shows 75% of respondents nationwide indicating that construction costs increased in 2016. This is continuing in 2017. SCSI tender price inflation is running at an annual rate of 6% and this is being driven by the increased level of activity across the construction sector. The report concludes that if price inflation continues to grow at the current level, it is anticipated that pricing levels will return to 2006 heights over the next few years.

The considerable costs incurred by nursing homes, largely small to medium-sized businesses, in complying with regulatory physical environment standards are clearly demonstrated in the NHI Annual Survey 2014/15. It shows that the average cost incurred per nursing home over a 36-month period to meet HIQA compliance requirements amounted to €579,430. The average total capital expenditure experienced by the 152 nursing homes that participated in the survey was €1,136,942. The survey pointedly states that 'Given the large cost of compliance with the Standards, it is perhaps unsurprising that some operators, unable to achieve a satisfactory Fair Deal rate were unable to fund the necessary expenditure and were forced to take the decision to close their homes'.

IMPLICATIONS OF PROJECTED COST INCREASES IN 2018 FOR THE PRIVATE & VOLUNTARY NURSING HOME SECTOR

Looking ahead to 2018, if we assume that staff costs increase by 3%; food costs increase by 1%; rents increase by 5%; the costs of construction, repairs and maintenance increase by 5%; commercial rates increase by 116% on average due to the ongoing revaluation process; insurance costs increase by 5%; and other costs increase by 2%, then total costs for the private and voluntary nursing home sector would increase by €40 million.

While all sectors of the economy are currently experiencing rising costs, most have the opportunity to pass on cost increases in the form of price increases to their customers. This option is not open to nursing home operators, due to the State's position as a monopolistic purchaser of nursing home beds and the current pricing model.

[10] SCSI/PwC Construction Survey Report 2017, May 2017.

SECTION 3
THE NURSING HOMES SUPPORT SCHEME

THE NURSING HOMES SUPPORT SCHEME (FAIR DEAL SCHEME)

The Nursing Homes Support Scheme (NHSS) was established by the Nursing Homes Support Scheme Act of 2009. Its aim is to provide financial support to persons requiring long-term residential care. Once an individual has been assessed as requiring care which necessitates 24-hour nursing care, a financial assessment is carried out to determine the financial contribution that an individual should make towards the cost of their care. This contribution is based on the financial means of the individual. Then the state, through the Health Service Executive (HSE), pays the balance of the cost in public, private and voluntary nursing homes approved under the scheme.

All nursing homes must be registered with the Health Information and Quality Authority (HIQA), which is also responsible for regulation and inspection against Care and Welfare Regulations and National Quality Standards.

A private or voluntary nursing home cannot participate in the scheme unless it has agreed a price with the National Treatment Purchase Fund (NTPF). The NTPF has no role in setting or negotiating prices for public nursing homes. Since the inception of the Fair Deal Scheme, the annual cost has been between €900 million and €1 billion.

Analysis of fees payable under the Nursing Home Support Scheme (Fair Deal) highlights that HSE nursing homes are paid a national average of 53% more than their private and voluntary counterparts. Across the country, private and voluntary nursing homes are tasked with providing care for fees that are up to 199% below those payable to HSE counterparts.

In 2015, The Department of Health commissioned DKM Economic Consultants[11] to analyse the requirements for nursing home care in the period 2015-2035 by geographic area; the likely gap in the absence of additional measures to encourage provision; the reasons for the current lack of investment in facilities and what reasons have the most significant effect; the potential policy options for addressing the problem; and how the preferred set of options perform under cost benefit analysis.

The findings present a stark assessment that should be carefully considered by relevant stakeholders in their planning for nursing home and wider healthcare need. Of considerable alarm is the highlighting in the report of the fact that the fees payable by the State to nursing home providers are not acknowledging regulatory costs. The report states that 'In short, it is untenable that the State quality regulator can assess differentiated dependency levels and in doing so impose costs on nursing homes, while

[11] 'Potential Measures to Encourage Provision of Nursing Home and Community Nursing Unit Facilities, DKM Economic Consultants/Ronan Daly Jermyn/Aecom, 30th July 2015.

the State price regulator claims it is unable to reflect the same factor in its pricing decisions'.

The DKM report made a number of very significant points that are of direct relevance to the financial sustainability of the nursing home sector:

- 'The lack of reference to efficient cost levels and return on efficient capital in the Fair Deal negotiations represents a disconnect from the reality that the State expects the private sector to potentially provide 80% of nursing home capacity going forward. It is unsustainable in terms both of rational market operation and enabling new investment in areas of the country where payment rates are lower.'
- 'Our consultations and analysis indicate that the main barrier to new investment in nursing homes is how the pricing model of the Fair Deal Scheme is operated with regard to private nursing homes. This manifests itself, in terms of:

    1. Uncertainty around future income streams;

    2. Inadequate income levels to enable a return on investment in many parts of the country outside Dublin;

    3. Lack of reference to dependency levels of residents.'

- 'Because the scheme [Fair Deal] does not address different levels of dependency in patient care, it increases risk for operators with respect to deterioration of residents subsequent to their admittance, and discourages some of the more sophisticated financing options.'
- 'There is no standard objective assessment basis for setting the price, related to either efficient capital and operating costs or the level of dependency of residents; while the NTPF does use some benchmarks, in the final analysis the rate for each nursing home is a matter for ad hoc negotiation. The most important factor appears to be the "going rate" in the particular county.'
- 'Long term price deals are difficult to negotiate. The NTPF has indicated that there are no constraints from their perspective on agreeing long term price deals, and indeed has agreed terms for as long as nine years. However, because the prices struck don't reflect dependency levels or nursing home costs, operators are reluctant to enter into long term deals, as they hope to negotiate a better deal in the future. Our understanding is that any longer-term deals entered into to date have been in Dublin, where prices are much higher than in the rest of the country.'
- 'Lack of reference to the level of dependency of residents:

    (i) discourages the development of more specialised facilities (for dementia, etc.) where more expensive care is required, and

    (ii) creates an incentive to actively discourage acceptance of high-dependency residents by nursing homes."

A key conclusion of the DKM analysis is that 'In summary, given the level of services the Exchequer procures from the private nursing home sector, several hundred million euros per annum, the pricing model for doing so has developed in an ad hoc way, and lacks rationale, consistency and fairness'.

It is important to note the dependency levels of residents availing of nursing home care are increasing. This is reflected in a halving of the average length of stay by residents within nursing homes. The Review of the Fair Deal[12] scheme, published in July 2015, stated: 'When the scheme first commenced the average length of stay was approximately 4 years and at end 2014 had reduced to 1.9 years in private and in public facilities for those who had entered long-term residential care since the scheme commenced.' Increased dependency care needs mean that there is 'requirement for increased clinical and labour-intensive care on a per-resident basis and also associated medical and therapeutic costs.'

The Department of Health review also concluded that based on utilisation rates prevailing in 2015 and projected increases in the number of older people, there will be a requirement to have over 33,000 NHSS beds in the system by 2024, which would represent an increase of approximately 9,000 extra beds compared to 2015. Under current payment conditions, it is far from certain that the market will be willing or able to deliver this number of extra beds. Perversely, the current payment model threatens the sustainability of current provision.

The reality facing the private and voluntary nursing home sector is that its income is effectively set by the State through the Nursing Homes Support Scheme. The sector virtually faces a monopoly purchaser of its services in the shape of the National Treatment Purchase Fund (NTPF). It sets fees for those availing of the Nursing Homes Support Scheme (Fair Deal). The NTPF is squeezing fees and is failing to recognise the true cost of care, which is rising strongly. This is putting significant pressure on many operators and threatening their viability.

The average rate of increase in the Fair Deal Rate paid to private and voluntary nursing homes across the 26 counties over the period January 2011 to January 2016 was 7.2%, which is equivalent to an average annual rate of around 1.4%.

In July 2017, media reports[i] suggest that an unpublished HSE report suggests that the health service needs an injection of €320 million in 2018 to meet the growing demands of older people. The report suggests that the Fair Deal scheme will need an extra €40 million at least to cover the cost of providing the service to over 24,000 people in 2018, taking it up to least €974.8 million. The suggested €40 million is reflective of demographic pressures, but based on the trend in the costs faced by private and voluntary nursing home operators, particularly labour costs, a further increase of €40 million will be required.

[12] 'Review of the Nursing Homes Support Scheme, A Fair Deal', Department of Health, July 2015.

CONCLUSIONS

Demographic developments pose the biggest challenge to policy makers over the coming years. The growing and ageing population has significant implications for the provision of healthcare in general and care for older people in particular. The ageing of the population will put increased emphasis on care for older people and the requirement for nursing home places will increase. The State will not on its own be capable of meeting these increased demands, and the private and voluntary nursing home sector will inevitably be asked to play an increasingly important and valuable role in helping Irish society and the health system cope with these demographic changes and the associated pressures.

It is essential that the sector is economically viable; that its services expand to meet demand; and that the returns are adequate to ensure continued growth and investment in the sector. It is incumbent on the State through its remuneration mechanisms to make sure that nursing home operators make a sufficient return on their investment and that they continue to provide what is a socially and economically vital service. In an environment of increasing cost pressures in the sector, it is incumbent on the State to make sure that operators are placed on a sustainable footing. If they leave the sector, an impossible burden will be placed on the State and on the already very stretched health service.

Economically viable private and voluntary nursing homes will fulfil a key role within communities across Ireland in facilitating and generating employment – direct and indirect, in supporting local service providers, and in meeting the healthcare needs of our older population.

The State must ensure it is cognisant of the dominant and unique role it fulfils in the procurement of long-term residential care services from private and voluntary providers. The role assumes considerable responsibility. Providers are operating within a hugely imbalanced market that is distorted by State abuse of its dominant role. The extent of the discriminatory economic practice that operates within our nursing home sector is unprecedented within Irish public policy and requires redress. DKM pointed out that 'it is untenable that the State quality regulator can assess differentiated dependency levels and in doing so impose costs on nursing homes, while the State price regulator claims it is unable to reflect the same factor in its pricing decisions'.

The reality facing the private and voluntary nursing home sector is that its income is effectively set by the State through the Nursing Home Support Scheme. The sector has a monopoly purchaser of its services in the shape of the National Treatment Purchase Fund (NTPF), and it sets fees for those availing of the Nursing Home Support Scheme (Fair Deal). The absence of independent oversight is of considerable concern to providers, and it is understandable operators – particularly small or medium sized providers – feel under duress when tasked with negotiating an appropriate fee for care with the body acting on behalf of the State. Providers have spoken of an overwhelming desire by the NTPF to drive down the fee payable and thus overriding the reality of costs incurred to meet residential care needs.

It is a cause of considerable alarm that the analysis undertaken informs the State, through the NTPF, is squeezing fees and seeking to do so at the behest of essential services. This is placing considerable, unwarranted cost pressures upon nursing home providers across the State, threatening jobs and in some instances their very viability. It defies economic logic that legitimate costs being incurred to provide specialist care are not being recognised by the purchasers of care and by default the State.

Nursing homes, which are 24/7, 365 days-a-year healthcare settings, are exceptionally labour intensive. Furthermore, extremely high cost burdens are incurred through high-level compliance and regulatory requirements, and other high-intensive business costs such as commercial rates, insurance, heating and electricity.

It is clear from the foregoing analysis that the key costs facing nursing home operators, which primarily consist of labour costs, commercial rates, insurance, and construction costs are generally increasing in line with the cyclical improvement in the economy. Heating and electricity costs are influenced by global oil prices rather than domestic forces. All of these costs look set to continue to rise and this fact must be recognised by the State.

The survey of NHI members highlighted how the aforementioned costs are imposing considerable financial pressures on nursing home operators. Other issues highlighted in the survey include:

- The compliance and regulatory burden;
- Staff training and constant pressure to up-skill staff;
- Difficulty in retaining staff and particular difficulty in preventing staff from leaving to join the HSE;
- Inspections by the Health Information and Quality Authority (HIQA):
- Residents in the private and voluntary nursing home sector tend to be higher dependency, and this does not get reflected in the fair deal rate;
- The claims culture;
- The downward pressure on margins and EBITA;
- Low room rates;
- The debt burden resulting from the requirement to invest in facilities, both in terms of size and standards. HIQA Physical Environmental Standards are key drivers in this regard;
- Access to nursing and other caring staff and general problems in obtaining a highly skilled workforce;
- There is a 'one size fits all' approach adopted by the NTPF and no account is taken of the quality of the service and care provided;

- The implementation of legislation without the provision of proper roadmaps and guidance on the implications of the legislation. The Assisted Decision-Making Capacity Act 2015 is cited as an example;
- Nursing home operators are paid the same fees for maximum and high dependency residents as for medium or low dependency residents; and
- There is never ending pressure to increase staffing levels to maintain high quality care for residents and to comply with regulatory requirements and cope with increased dependency levels.

The costs involved in operating a nursing home to a high standard of care are very significant and generally have been increasing at a significant rate in recent years. The more pertinent issue is that many of those costs are likely to rise as the economy continues to move closer to full capacity.

The labour market is clearly the biggest issue facing operators. As the economy moves towards full employment, nursing home operators are finding it increasingly difficult to attract health care assistants in particular. The earnings barrier for non-EU work permits is €30,000 per annum. Nursing homes are increasingly competing with service sector employers and are finding it increasingly difficult to attract skilled workers.

The State must be mindful of what is occurring in England and of the national crisis enveloping the UK's social care sector. In July 2017, The Care Quality Commission, the regulator of health and social care services in England, stated one in three nursing homes was failing their official inspections and social care was in a precarious state. Andrea Sutcliffe, chief inspector of adult social care at the Commission stated homes are struggling to recruit and retain well qualified nursing staff and it was impacting upon delivering good services to people. State spending on social care has been cut by a cumulative £6bn in England since 2010 and discontent concerning pay has presented a crisis in the recruitment of staff. The BBC reported in April 2017 that 900 carers were quitting social care on a daily basis due to State resourcing not matching the requirement for care services. In March 2017, it reported that 95 care firms had cancelled their contracts with UK councils, stating they could not deliver the services for the amount they were being paid. The crisis presented is, to a considerable extent, arising because of cuts to social care funding and the consequences arising are presenting a huge crisis within the UK.

The 400+ private and voluntary nursing homes are essential providers of jobs within urban and rural communities across the country. It is essential that the nursing home sector is economically viable; that its services expand to meet demand; and that the returns are adequate to ensure continued growth and investment in the sector. 24/7 healthcare within a highly regulated setting comes at a cost. Failure by the State to recognise costs incurred presents serious implications for national and local economy, healthcare and social care. Furthermore, it will present serious and increased expenditure for the State to compensate. With the ageing of the population presenting continued, growing requirement for nursing home care, it is essential care providers are economically viable and on a sustainable financial footing.

An un-published HSE report is reportedly suggesting that the Fair Deal scheme will need an extra €40 million at least to cover the cost of providing the service to over 24,000 people in 2018, taking it up to least €974.8 million.

The suggested €40 million is reflective of demographic pressures, but based on the trend in the costs faced by private and voluntary nursing home operators, particularly labour costs, a further increase of €40 million will be required to keep private and voluntary nursing homes viable.

In total, the Fair Deal payment will need to be increased by €80 million in 2018, to maintain the sustainability of the sector.

While all sectors of the economy are currently experiencing rising costs, most have the opportunity to pass on cost increases in the form of price increases to their customers. This option is not open to nursing home operators, due to the State's position as a monopolistic purchaser of nursing home beds and the current pricing model.

The Fair Deal payment system must recognise the cost trends in the sector, otherwise a serious crisis in care for the elderly and the healthcare system in general will become inevitable. Increases in operating costs of the magnitude suggested in this report will undermine the capacity of nursing home operators to meet capital costs or to fund any bank debt or borrowing as associated with the business. Unless the NTPF increases the total payment to match costs and demographic pressures, this will act as a barrier to investment in the sector.

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[i] 'HSE needs extra €320m to look after the elderly', Philip Ryan, Sunday Independent, 16th July 2017.