

NHI response to DKM Economic Consultants – May 2015

Analysis of potential measures to encourage the provision of Nursing Home and Community Nursing Unit Facilities

The ageing of the population is to be celebrated and is a measure of the advances in living standards, technology and treatment of medical conditions. Ireland is experiencing an increasing ageing population similar to many countries worldwide and as a nation we need to develop a range of policies and services to address the challenges this presents.

An analysis of the demographics confirm that there will be significant pressure in the area of residential care but also on the wider health and social care system for older people. This pressure on residential care is to increase significantly in the coming years based on the demographic, social and economic pressures.

The lack of a clear and cohesive policy and national strategy for the long-term care of our older population, combined with uncertainty around current and future funding arrangements, poses one of the biggest challenges to the long-term sustainability of the nursing home sector.

A sustainable and viable nursing home sector has a key role to play in addressing the well documented difficulties in our acute hospital emergency departments and addressing challenges of meeting the residential care requirements of an ageing population,

NHI as the national representative organisation for the private and voluntary nursing home sector has a significant contribution to make to the development of services to our older population. Our experience and our ideas will be important in informing and shaping the development of public policy on the care of older people.

Key barriers to additional capacity

- Absence of a Fair Price for Care and acknowledgement of cost of care
- Monopoly purchaser under the Fair Deal
- Arbitrary and unfair process of ‘negotiation’ of rates under the Fair Deal
- Absence of a sophisticated commissioning model
- Absence of a clear cohesive national strategy (a road map for the future). Government need to create an environment, through public policy, to create conducive environment for existing operators
- Ad hoc decisions by government and HSE – in 2014 reducing Fair Deal budget at a time of increased demand
- Uncertainty around funding arrangements, delay in Fair Deal review
- Access to bank funding and requirement for operators to bring 30% equity
- Multi annual funding required for Fair Deal to address and prevent waiting lists

The vital role played by Ireland's nursing home sector

Having high quality nursing home care available to those who need it is an essential part of a well-functioning health service which delivers the care people need, in a way that is affordable, accessible, and, of the highest standard.

Nursing homes provide a more appropriate and affordable alternative for individuals whose specialist care needs would otherwise have to be met in an acute hospital setting. Significantly the costs of providing this care in an acute hospital are a multiple of between five and eight times the cost of providing nursing home care, either publicly or privately.

A major contributor to the current chronic and ongoing crisis in our acute hospitals is the number of beds occupied by patients who have completed their acute care but have not been discharged because arrangements for their post hospital care needs have not been put in place. This care may involve ongoing care in step-down facilities, long term residential nursing care or the provision of home care packages.

There is an absence of clear Government policy in respect of future requirements to ensure sustainability of current provision, support current demand and future growth for those in need of long-term residential care.

It is imperative such a policy is developed given the ageing demographic, the challenges and high cost associated with public sector provision combined with the financial pressure on the private and voluntary nursing home sector.

The challenge for the Minister and the Department of Health is to develop and articulate a clear and unambiguous policy that gives certainty to the private and voluntary sector.

There is a requirement on the Government, Department of Health and Health Service Executive (HSE) to engage constructively with the private and voluntary sector as the people who can deliver more capacity, and take a strategic approach with regards to the issues of funding and future planning.

The private and voluntary sector require greater clarity in relation to the long term funding and financing of nursing home care. The State, as a monopolistic purchaser of nursing home care under the Nursing Home Support Scheme (Fair Deal), has a fundamental role in establishing clear and sustainable policies which can provide greater certainty for funders and providers alike.

Investment in public nursing homes/ community nursing units

Private and voluntary nursing home providers are required to deliver their services at rate which is significantly below the comparative rate in public nursing homes. In terms of value for money for the State, the question needs to be asked as to why is it costing the Exchequer between 58% and 103% more on average to procure public nursing home beds?

The average weekly cost of €1,404 in a public nursing home (based on 2011 HSE figures) is underestimated as evidenced by a statement from previous HSE CEO Cathal Magee to the Oireachtas Committee on Health when he quoted an average weekly cost of care of €1,800.

Furthermore an information and consultation document prepared by the HSE in 2012 for the Midlands region presents details of an average weekly cost per bed in Midlands region public nursing homes of €1,906.

What is clear is that the State is currently paying between 58% and 103% more per resident in a public nursing home than the comparable fee paid in respect of a resident of a private or voluntary home.

Not only has this price differential been acknowledged by the State, but openly questioned by former Minister for Health to a Joint Committee on Health and Children where he stated “we have to ask why 50% additional costs pertain in public long-term institutions and facilities for the care of the elderly which do not apply in the private sector, and have to examine and address that” (November 2011).

The report of the Controller and Auditor General 2010, found that the cost of public nursing home facilities is significantly higher than the prices paid for private and voluntary nursing home care. Furthermore, the report went on to note that the cost of public nursing homes could be further impacted by the costs required to upgrade facilities in line with the HIQA Standard 25 in relation to the physical environment.

It is unlikely, given the current state of Exchequer finances, that the Government will be able to meet the capital funding requirements in respect of new public capacity. At a time of straitened financial circumstances the question that must also be asked is, is this an appropriate use of scarce public resources?

The public sector should not build new homes as they do not build efficiently and do not operate efficiently.

From a capital and operational funding perspective, encouraging and supporting the private and voluntary sector to develop the nursing home beds now required to meet current and future older person care needs, represents a more effective use of limited Exchequer resources.

A sustainable and viable nursing home sector requires changes to current funding and financing arrangements

The current and future arrangements for the funding and financing of nursing home care must take account of the more acute needs of our ageing population and the actual costs incurred by nursing homes in providing resident centered care to residents. For example nursing homes that also care for dementia residents require a variable payment plan to match the needs of those residents as recommended by the Oireachtas Health Committee (July 2014) and the Dementia Services Information and Design Centre (DSIDC – Jan 2015).

The National Treatment Purchase Fund (NTPF) enjoys a dominant position in its 'negotiations' with nursing home operators on the price to be paid for nursing home care. In the majority of cases, operators must accept the rate proposed by the NTPF, with little or no room for real negotiation on the rate.

In determining the price with nursing home operators, the NTPF does not use formal costing models which reflect the nature of the service provided and the acuity of the resident's care requirements. Critically, the cost of capital and return on investment are not considered by the NTPF in their negotiation of the rate with nursing home operators.

A Fair Price for Care

As a result of its near monopoly position, the State, through the National Treatment Purchase Fund (NTPF) exerts significant control and influence over the rates currently paid for residential care in the market.

As the dominant purchaser of nursing home care, the State has a key role to play, through public policy, in alleviating these concerns and creating an environment which is conducive to stimulating and encouraging the investment which is now required to address the issues of under capacity in the sector.

While the Fair Deal rate represents the price paid, it is important to differentiate between what a nursing home resident pays for their care (under the Fair Deal) versus the actual cost of providing this care.

In a normal market, price is usually greater than cost, and this is what gives a business its profit. However, given the State's dominant market position, as a result of the Fair Deal, nursing homes do not operate in a normal market.

Uncertainty with regard to the fees negotiated between the State and the nursing home owner undermines the confidence of financial institutions, investors and nursing home owners and has contributed to the slowdown in investment in the sector and as a consequence the number of new nursing home beds entering the market.

It is clear from our members that the process adopted by the NTPF in negotiating and setting Fair Deal rates with individual nursing home operators does not factor in capital costs or capital repayments. The current methodology is focussed on meeting the cost of care only.

As a result the financial returns available to nursing home operators and funders are not as attractive as are available in other sectors, and considerably below the 12% proposed by Laing and Buisson as representing an acceptable return.

The price negotiated between the NTPF and individual nursing home operators must take account of the cost of capital and the ability of operators to generate an appropriate return on their investment.

The availability of bank funding is critical to the development of future nursing home capacity. Uncertainty on future Fair Deal Rates has been identified by the banks as one of the impediments to lending to the nursing home sector.

Operators who are dissatisfied with the rate proposed by the NTPF should be afforded the opportunity for right of appeal to an independent third party.

By any comparative measure, private and voluntary nursing homes represent the best value option available to Government for providing long-stay care for older people now and into the future.

Evidence based cost of care model

The sector requires a clear time defined commitment to deliver an evidence based cost of care model that acknowledges the true cost of providing residential nursing home care. This essential element is currently absent from the framework for 'negotiations' between the NTPF and individual nursing homes. The procedures applied to negotiations with nursing home providers must be fair, transparent and consistent.

Where the NTPF 'agrees' a price with a nursing home and the latter is not satisfied with same, that nursing home owner has no recourse to any independent appeal process to question the price identified. As is stands, the only method of appeal is to an appeal body within the NTPF itself or alternatively through the courts.

Dementia Services Information and Development Centre (DSIDC) report published 29th January 2015: *An Irish National Survey of Dementia in Long-Term Residential Care*: "Our findings would lead us to conclude that the complex and high dependency needs of Persons with Dementia in SCUs (Specialist Care Units) now need to be more realistically reflected in fairer resource allocation, in recognition of the skill mix of staff employed in their training needs and the level of care expected to be delivered to residents with dementia. A new funding model is required if the private sector is to be further incentivised, with more funding allocated to private nursing homes in recognition of the specialist services needed to support PWD [Persons with Dementia] including those with behaviours that challenge...In particular, payments made through the NTPF need to be commensurate with level of care, staff training and skill mix and type of non-pharmacological interventions expected to be delivered."

Oireachtas Health Committee, *Report on End of Life & Palliative Care in Ireland (July 2014)*: "In reviewing the current Fair Deal Scheme an evidence-based cost of care model could be used in assessing the real cost of residential nursing home care in Ireland."

Fair Deal should be a reasonable rate based on ROI and capex and not an arbitrary decision by NTPF e.g. county averages. There should also be an agreed annual indexation mechanism to increase rates based on legitimate cost increases. The NTPF previously included a CPI measure so there is precedent there.

Level playing field

There is no 'negotiation' in respect of current public nursing home costs. It needs to be said that the cost of delivery of older person care in the public sector is not the public homes rate published by the HSE. Furthermore the HSE published cost of care figures for individual HSE nursing homes were last published March 2011 – over 4 years ago.

The HSE published rate is not the amount required by those public homes to run their activities on an all-inclusive cost basis. A host of cost categories have been excluded in arriving at these figures and consequently analysts are not in a position to truly compare the cost delivery of care in the public sector versus the private sector. This needs to happen if there is an honest and true focus on securing value for money.

Employment Incentive Investment Scheme

The nature of the sector means significant capital expenditure is required by nursing homes to expand capacity to meet the requirements of Ireland's ageing demographic. The extension of the Employment and Investment Incentive Scheme (EIS) in Budget 2015 to the nursing home sector is a welcome measure in this regard.

EIS in the nursing home sector will support the creation and retention of employment in small and medium sized enterprises across the economy. Part of this value added aim includes a positive impact on Exchequer cash flows such as increased payroll taxes, corporation tax, as well as savings on social protection payments.

There is a funding gap which is not currently being met and which act as a significant challenge to the current private sector providers in adding capacity in the sector. EIS could clearly be an important factor in helping to alleviate this problem.

It is a step in the right direction in terms of Government policy and is a positive move towards enabling the sector to fulfil its potential to increase the additional bed required and create sustainable jobs in urban and rural communities across Ireland.

EIB/ ISIF funding

Potential access to European Investment Bank (EIB) funding for nursing home operators. Also funding from the Ireland Strategic Investment Fund (ISIF).

ISIF funding is to assist employment creation and is ideally placed for the nursing home sector given the dependency on staff.

Planning applications – new and extensions

In our 2014 survey of members it is clear that the sector has responded and increased capacity over recent years. The survey conducted by BDO (and due for publication June 2015) confirm that a significant number of our members have added additional bed numbers and many other members have plans to extend.

Since the completion of the 2009/2010 Annual Private Nursing Home Survey there has been a decrease in the number of nursing homes operating in Ireland from 447 in 2010 to 437 in 2014. Despite this there has been a 9.0% increase in private and voluntary nursing home bed numbers – 20,590 to 22,342.

In the eleven year period to 2014 there was a 49% increase in the supply of private beds. There was a net increase of 29 private nursing homes in the same period.

The number of beds in the private and voluntary sector in 2014 have increased by 1,752 beds while at the same time the total number of nursing homes in operation has reduced by ten homes. This is indicative of a trend which confirms additional capacity added by existing providers.

Approximately 42% of Survey respondents indicated that they intended to develop additional bed numbers in their facilities in the coming year indicating that this trend is set to continue. On average these respondents planned to develop 19 beds.

However the current arbitrary NTPF criteria of 'local market price' and 'county averages' is illogical and if this policy continues may stymie current plans and the additional capacity required and will further stymie development in rural locations based on the current low level of NTPF fees.

This model of existing providers increasing capacity is a significant element of the as the existing operators have the experience together with a proven track record in what is a highly regulated market.

Planning

Planning is currently on a local authority by local authority basis with no national planning guidelines. There is a lack of understanding with planners about the new standards that nursing homes are operating to. Certain counties have included nursing home criteria in their development plans.

County Development plans need to address the requirement for the availability of zoned land particularly in urban areas.

There is a requirement for engagement with the Department of the Environment on reduced planning and development fees.

Nurse recruitment

The difficulty in recruiting and retaining nurses is one of the major challenges facing the nursing home sector. There is real and present threat to existing bed capacity if increasing numbers of nurses are not recruited, with nursing homes having no option but to potentially close beds at a time of increased demand for nursing home care.

The addition of extra beds will place further pressure on an already difficult situation regarding nurse recruitment.

There is urgent and imperative requirement for immediate engagement with stakeholders to deliver a workforce plan for the entire health service (public, private and voluntary) that will place the substantial growth in requirement for gerontological nursing at the centre of it.

Conclusion

The private and voluntary sector has over the years ‘stepped up to the plate’ and responded to the increased demand for residential care for our ageing population. The sector is characterised by experienced and resilient operators who are committed to providing high quality, person centered care in local communities throughout Ireland.

The current providers have the experience, knowledge and proven track record.

We believe the future requirements can be met by the current experienced providers with the right conditions.

Department of Health strategy must ensure that the increasing numbers of our population that require nursing home care are able to access the care they need in a timely and cost effective manner

The Department of Health and the Government must address the issue of a ‘Fair Price for Care’ if they wish to enable the private and voluntary nursing home sector to provide the additional bed numbers which are forecast to be required.

The model of funding must provide a sustainable basis for the delivery of high quality nursing home care and also allow for on-going investment in service development. The nursing home sector is vital part of health service provision, a significant employer, contributing significantly to the national economy and has significant potential for future growth and development. However, the sector needs to be actively supported by public policy and to be prioritised within public spending in order to enable this growth and development.

This is a key moment for the increasing number of older people requiring long term residential care in Ireland. This report provides an opportunity to the Department of Health to address the issues highlighted in this NHI submission and give a clear direction on policy and funding in respect of long term care.

Nursing Homes Ireland, May 2015