Challenges for Nursing Homes in the Provision of Older Persons Care

Private and Voluntary Nursing Home Sector

The insights included in this report are based on independent analysis of publicly available and sector participant data

Statement of Report Methodology

Independent Analysis of Publicly Available Data

Independent analysis of available research and data from Government sources, industry bodies, and academic journals.

Sector Perspective

Engagement with sectoral stakeholders to gain perspective on the current landscape within the Private & Voluntary nursing home sector.

PwC Survey of Private & Voluntary Nursing Home Participants

An independent PwC survey[1] of Private & Voluntary nursing homes was carried out to inform the report. The data collated is representative of Private & Voluntary nursing home beds utilised for the Nursing Homes Support Scheme ("NHSS")/ Fair Deal Scheme.2

Sector Insights Report

Notes: 1) PwC did not audit the self reported data. 2) The Fair Deal Scheme came into effect in 2009 replacing the previous system of public nursing home charges and the private nursing home subvention scheme. The Fair Deal scheme offers financial support for people in long-term nursing home care.
Source: NHI, NTPF, HSE, PwC Survey

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1 Executive Summary

The financial sustainability of the Private & Voluntary nursing home sector is being threatened by the rising cost of care

Over the last three years there has been a marked increase in the number of Private & Voluntary nursing home closures, with 31 nursing homes leaving the sector and the loss of 915 beds[1]. These nursing homes have been primarily located in regional/ rural areas. The closures have led to some residents being relocated from their local communities and the loss of regional employment for nursing home workers.

This trend is indicative of an increasingly challenging operational environment in the sector. Nursing homes are under pressure as they deal with complex resident profiles and incur rapidly rising operational costs driven by infection prevention control (IPC) requirements, recent inflationary pressures, and industry wide staffing shortages. These cost increases are set against the backdrop of marginal increases in revenue streams (Weekly Fair Deal Rates for residents). While the NTPF pricing mechanism for determination of Weekly Fair Deal Rates has successfully funded residents care for many years it is no longer suitable for the current operating environment. The need for reform has been highlighted by the inability of the system to respond to recent increases in the cost of care, including staffing, regulatory compliance, and a higher dependency resident profile.

Closures

31 nursing homes

915 beds

PwC has been commissioned by Nursing Homes Ireland ("NHI"), the national representative body for the Private & Voluntary nursing home sector, with the support of stakeholders, to produce an independent report objectively assessing current sector challenges. The findings of the report highlight the need for action to stem further nursing home closures, and the longer term requirement to reform the Fair Deal Rate pricing mechanism to ensure future bed capacity for Ireland's rapidly growing ageing population. The report includes three high level recommendations:

1	Immediate action to ensure short term viability
2	Reset of the value cost equation for Fair Deal Rates
3	Engagement and transparency on future capacity planning

After 30 years of service to the local community, nursing home owner William O'Sullivan locks the door of St. Kieran's for the last time (November, 2022).

"Residents and staff were bitterly disappointed by the closure of St. Kieran's but cost realities and staffing shortages meant the nursing home was no longer operationally viable"

Notes: 1) Based on Q4 2019 – Q1 2023. | Source: NHI, PwC Analysis | Photo: Rose Mannion

Report summary:

Crisis in the sector

31 nursing home closures[1] and potentially more to come

- The nursing home sector is in crisis as providers struggle to deal with rising operational costs and industry wide staffing shortages. The imminent closure of more nursing homes is likely as limited increases to revenue streams (Weekly Fair Deal Rates) have left providers unable to cover the increased costs of care.
- 33% of nursing homes included in the PwC survey reported an operating loss for 2022 up from 19% in 2021.

Critical role of nursing homes

+ 10% increase in per capita nursing home bed supply frees up 53 acute beds daily

- In line with the objectives of Sláintecare, nursing homes play a critical role in providing care in the community for older persons. They facilitate the discharge of older persons from acute hospital settings either through long term residential care or step down rehabilitation/ reablement services, freeing up acute bed capacity.

Ageing population and increasingly complex resident profiles

Ireland's 85+ population will double over the next 20 years

- Ireland's ageing population, longer life expectancy, and increasing prevalence of chronic diseases will place significant pressure on the healthcare system in the coming years, amplifying the importance of nursing homes.
- Increased use of home support services mean individuals are staying in their homes for longer and those entering nursing homes are now older and of higher dependency. Nursing homes play an important role in providing specialised care for those individuals no longer suitable for home support services.

Rising costs in the provision of a resident's care

36% increase in operational cost of care per resident since 2017

- Recent inflationary trends, sector wide staffing shortages, higher resident dependency, and necessary renovations to meet HIQA regulations, have all led to increases in the cost of providing resident care.
- Resourcing challenges have placed further pressure on nursing homes with increased reliance on higher cost agency staff driving further increases in day-to-day operational expenditure.

Non-viable business case for new bed capacity

c.47% increase in development costs per bed since 2017

- Declining profitability in the sector due to increasing costs and insufficient revenues coupled with rising interest rates, construction costs and land prices has meant that the business case for new nursing homes is no longer commercially viable.
- The same conditions also provide minimal incentives for current nursing homes to make further investments in extensions and upgrades.

Recommendations to ensure current and future nursing home bed capacity

Reform the pricing mechanism for Fair Deal Rates

- Immediate short term action is needed to stem off a further wave of nursing home closures.
- In the longer term, a reset of the value cost equation for Fair Deal Rates and greater engagement between sector stakeholders is necessary to ensure adequate nursing home bed capacity for Ireland's ageing population.

Notes: 1) Based on Q4 2019 – Q1 2023. | Source: PwC Survey, NHI, CSO, Gov.ie, ESRI, PwC Analysis

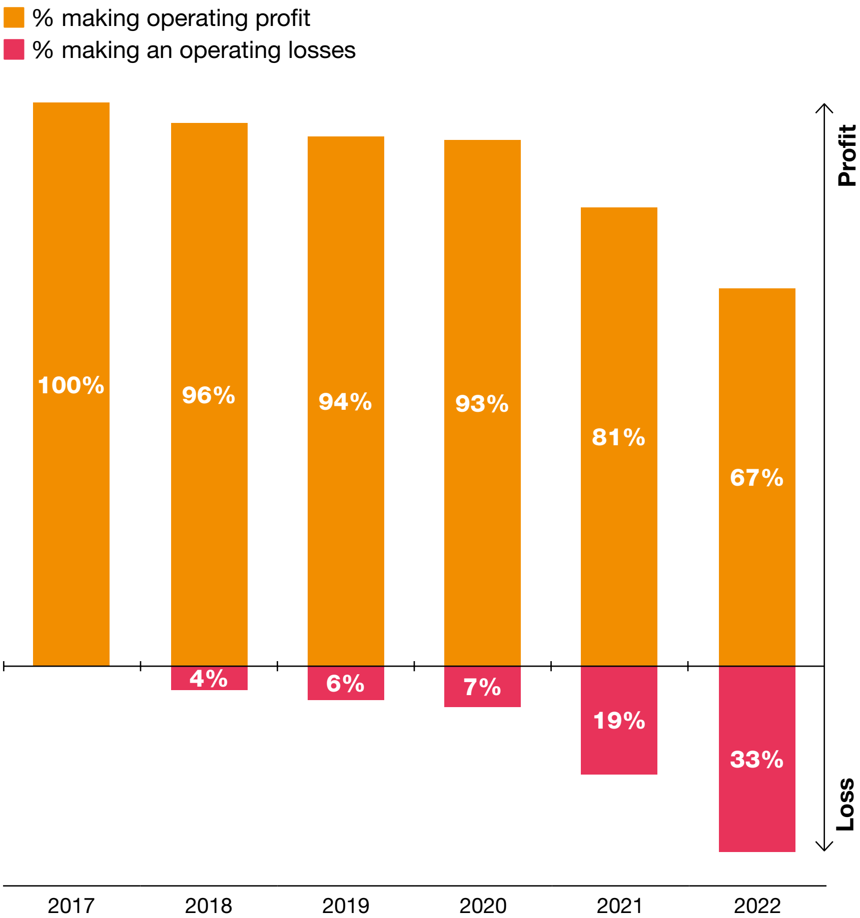
Nursing home closures are increasing despite growing demand for care

Crisis in the sector…

- Rising operational costs, capital expenditure due to increasing HIQA requirements, and industry wide staffing shortages have been factors in the closure of 31 Private & Voluntary nursing homes between Q4 2019 and Q1 2023. This equates to the loss of 915 beds and the relocation of a large number of residents to other nursing homes.
- With operational costs unlikely to fall, and further inflation forecast for 2023 (5%[1]), more nursing home closures are likely as providers struggle to deal with the challenging operating environment.
- 33% of nursing homes included in the PwC survey had negative operating margins in 2022, with their future viability at risk. A potential reduction in nursing home bed capacity against the backdrop of an ageing population would be a challenge for the wider healthcare ecosystem.

33% of nursing homes surveyed reported an operating loss in 2022

Proportion of nursing homes surveyed reporting an operating loss, aggregated nursing homes, 2017-22



Notes: 1) Central Bank of Ireland forecast. | Source: NHI, CBI, PwC Survey, PwC Analysis

Critical role of nursing homes…

- An acute hospital stay for an older person (65 +) is on average twice as long as an under 65. In spite of only accounting for 34% of acute cases older persons represent 55% of bed days[1].
- Nursing homes enable the discharge of older persons from acute hospitals (44% of Fair Deal referrals come from acutes) either through the provision of long term residential care or step down rehabilitation/reablement services, ultimately facilitating the return of the older person to their own home.
- A recent ESRI report found that a 10% increase in per capita long term residential bed supply is associated with 19,000 fewer inpatient bed days per annum and a reduction of 5.3% in average hospital length of stay for delayed hospital discharges.

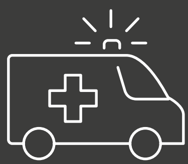
ESRI report findings [2]

+10% increase in per capita long term residential care bed supply

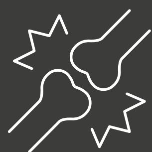
…associated with 19,000 fewer inpatient bed days per annum

..or freeing up 53 inpatient beds daily

and



5.3% reduction in average LOS[3] for delayed hospital discharges



2.5% & 5% reduction in average LOS for patients (aged 85+) with hip fractures or Alzheimer's/ dementia

Notes: 1) Based on HIPE data 2017-2021. 2) 'An analysis of the effects on Irish hospital care of the supply of care inside and outside the hospital' 2019. 3) Hospital length of stay. | Source: ESRI, Sláintecare, HIPE, HSE, Gov.ie, PwC Analysis

Ageing population and increasingly complex resident profiles

- Ireland is at the beginning of a period of rapid growth in its ageing population, with the over 85 population forecast to double in the next twenty years. This age cohort is the predominant user of long term residential care.
- Increased use of home support services means that older persons are entering nursing homes later in life with more complex needs, including being older, of higher dependency, and requiring a greater number of care hours. Nursing homes play a vital role in providing care for those residents whose high dependency needs mean they are not suitable to remain in their own home.
- Forecast population growth combined with longer life expectancy and greater prevalence of chronic illnesses will create significant pressure on nursing home bed capacity in the coming years.

Ireland's 85+ population is projected to more than double in the next 20 years

The 65+ age cohort will grow 18 times faster than the under 65s cohort

Complex resident profile[1]

66%

were classified as high or maximum dependency

56%

of residents have a form of dementia

50%

of residents are aged 85 or older

Notes: 1) PwC Survey Results. | Source: CSO, PwC Survey, PwC Analysis

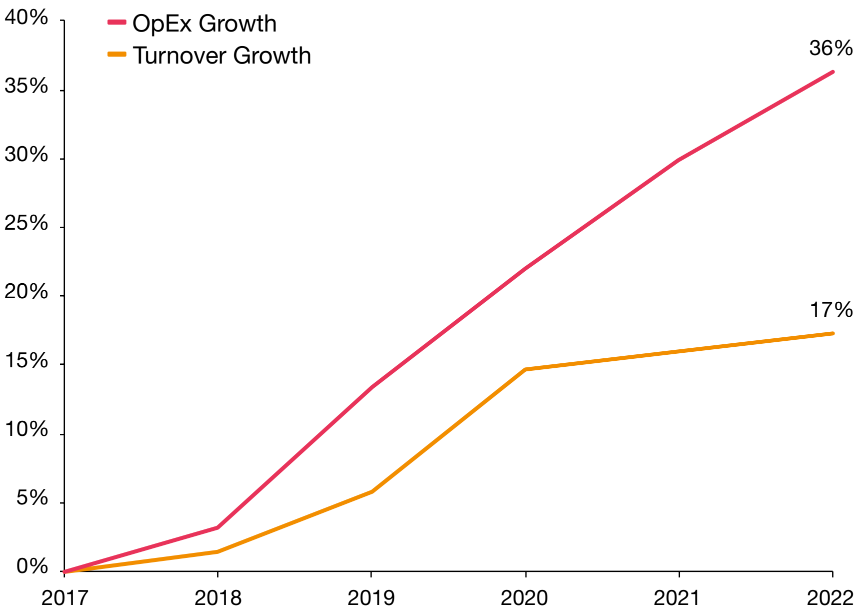
The rising cost of caring for residents is impacting the financial viability of nursing homes and creating an unsettled future for the sector

Rising costs in the provision of a resident's care

- Recent inflationary pressures have added to already rising operational costs for nursing homes. Over the past five years operational costs per resident have increased by c.36%. Costs have risen across nearly all categories of operational expenditure, however the biggest impact has been in staffing, rent, energy, and food costs.
- Staff turnover rates for Private & Voluntary nursing homes remain particularly high for Nurses and HCAs (38% & 54%)[1] leading to increased use of higher cost agency workers to deal with sector wide staffing shortages.
- Capital expenditure per bed has increased by c.82% over the past five years. The significant increase in costs is reflective of the impact of HIQA regulations and in particular S.I. No. 293. Capital expenditure is likely to continue increasing over time in line with increasing HIQA requirements and National Standards.

Operational costs are growing at a higher rate than turnover

Cumulative growth in turnover vs operational expenditure per resident per annum, aggregated nursing homes, 2017-22



6.4% year-on-year increase in the cost of a residents care

in contrast to a

3.1% increase in Weekly Fair Deal Rates[1]

2017-2022

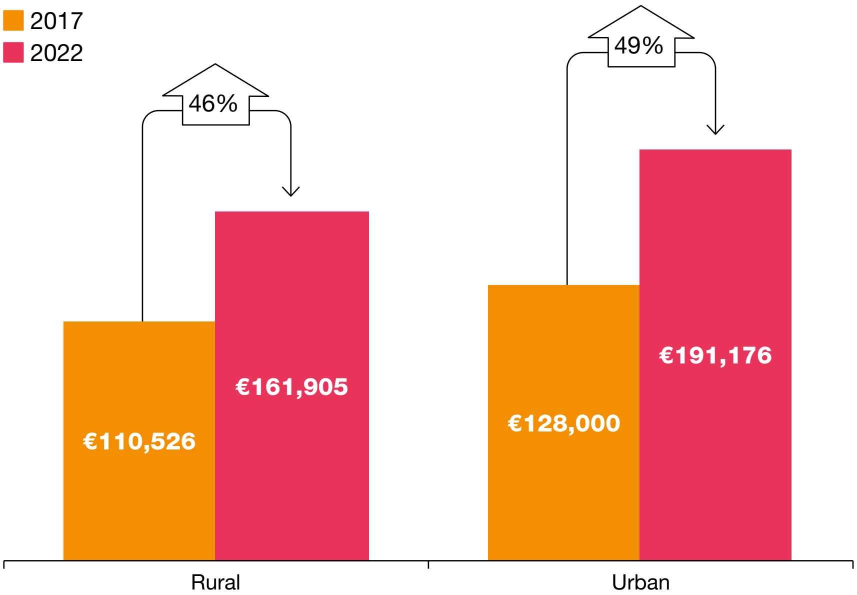
Notes: 1) Based on PwC Survey respondent data 2017-2022

Non-viable business case for new bed capacity

- Despite the necessity for further nursing home capacity to accommodate the ageing population, new developments in the sector are extremely unlikely to commence over the coming years due to insufficient returns for providers to reward the risk of investment.
- Declining profitability in the sector due to increasing costs and insufficient revenues, coupled with rising interest rates, construction costs and land prices has meant the business case for a new nursing home or expansion of existing facilities is no longer commercially viable.
- Given the dominant role played by the Private & Voluntary sector in the provision of 84% of bed supply, future capacity will be severely impacted by the lack of a viable business case.
- The long lead in times involved in new nursing home developments means that the current non-viable business case will have a limited effect on the amount of beds being added to the market in 2023 **but will cause a significant drop in sector expansion from 2024 onwards.**

Development cost per nursing home bed has increased by c.47% since 2017

Sample development costs per nursing home bed[1], 2017-22



Note: 1) Costs calculated from publicly available information relating to the cost of newly built nursing homes during this period
Source: RTE, Aedifica, Business Post, Irish Independent, PwC Analysis

Reform of the pricing mechanism for Fair Deal Rates is required to ensure sector viability

Recommendations to ensure current and future nursing home bed capacity

	Current Situation	Recommendation
1. Immediate action to ensure short term viability	• Nursing home closures are rising in response to the increased cost of care and staffing shortages.	• Provision of the necessary funding to the NTPF to enable them to prevent further nursing home closures and residents being relocated to other homes. This measure is critical to prevent another wave of nursing home closures while the Fair Deal Rate pricing mechanism is reformed.
2. Reset of the value cost equation for Fair Deal Rates	• The present mechanism for determination of Fair Deal Rates does not reflect the current operating environment. Limitations to the framework means Fair Deal Rates do not encompass the differing and increasingly complex profiles of residents nor the accompanying staffing requirements.	• Reform the pricing mechanism to enable Fair Deal Rates to be based on resource allocation that is reflective of a resident's individual care needs. • Redraw what is included in the resident deed of agreement to recognise the changing operating environment since the introduction of the Fair Deal Scheme in 2009, current HIQA requirements in the provision of care, and facilitate the removal of ASC.
3. Engagement and transparency on future capacity planning	• Private & Voluntary nursing homes provide 84% of total bed supply but collaboration on national capacity planning and requirements is limited. At the same time, the business case for investment in new developments and expansion and upgrades to existing facilities has dramatically declined due to recent macro-economic trends and falling operational returns.	• To ensure future nursing home bed supply, an overhauled pricing mechanism for Fair Deal Rates requires a system that can incentivise the development of additional nursing home capacity and provide both a viable return on investment and ensure value for money for the State. • Planning engagement between stakeholders (similar to the Primary Care Centre model) will enable development of additional bed capacity in locations where it is most needed.

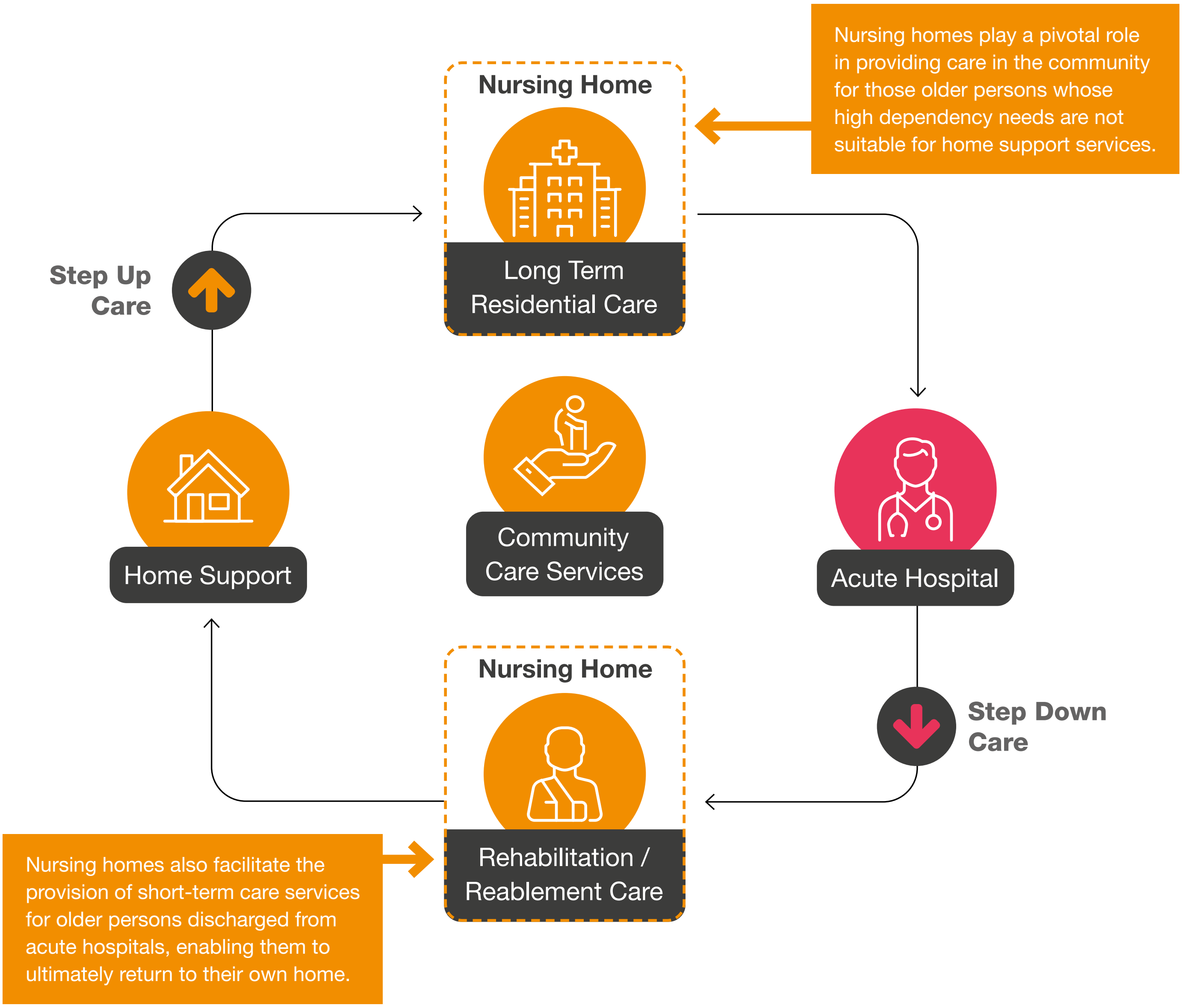
Source: PwC Analysis

2

Critical role of nursing homes in the Irish healthcare ecosystem

Nursing homes are a central component of care in the community for older persons in line with the objectives of Sláintecare

Nursing home position in the Irish healthcare ecosystem



Sláintecare.

Right Care. Right Place. Right Time.

- A core premise of **Sláintecare** is enhanced community care centred on shifting care out of acute hospitals into the community and closer to a person's home where appropriate.
- For older persons (65+) this means providing the necessary care and supports to enable individuals to live in their own homes and communities for as long as possible.

Source: DoH, Gov.ie

Nursing homes relieve pressure on acute hospitals freeing up bed capacity

There is a clear link between the duration of acute hospital stay for an older person and the supply of long term residential care in their local area

Key statistics[1]

An older persons (65+) acute hospital length of stay is on average 2x that of an individual under 65 years

older persons account for 34% of acute cases but represent 55% of bed days

ESRI report findings [2]

+10% increase in per capita long term residential care bed supply

...associated with 19,000 fewer inpatient bed days per annum

..or freeing up 53 inpatient beds daily

and

5.3% reduction in average LOS[3] for delayed hospital discharges

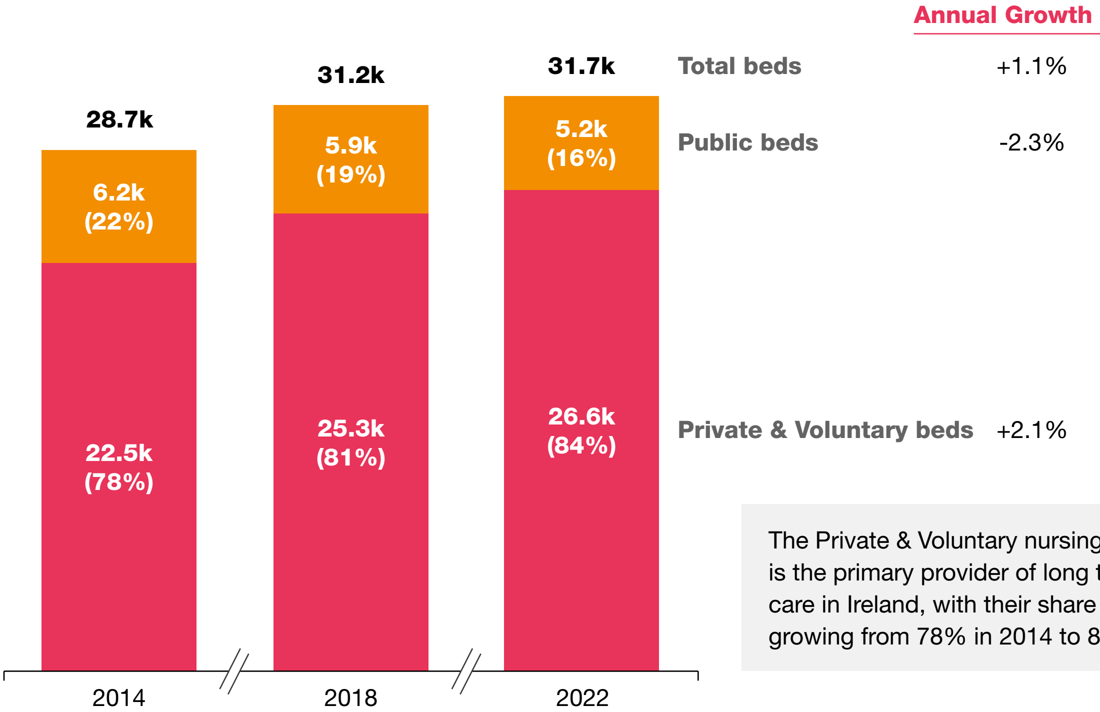
2.5% & 5% reduction in average LOS for patients (aged 85+) with hip fractures or Alzheimer's/ dementia

- A key objective of Sláintecare is the expansion of community based services. The ESRI report contributes to the evidence available on how shifting care to the community can help reduce demand for acute hospital services in Ireland.
- The report illustrates that greater provision of nursing home care services is associated with shorter hospital length of stays, especially within the groups whose care is most amenable to long-term care services (e.g. patients with hip fractures, strokes).

Notes: 1) Based on HIPE data 2017-2021. 2) 'An analysis of the effects on Irish hospital care of the supply of care inside and outside the hospital' 2019. 3) Hospital length of stay. | Source: ESRI, Sláintecare, HIPE, HSE, PwC Analysis

Currently there are c. 31,700 nursing home beds in Ireland with the Private & Voluntary nursing home sector playing an ever-increasing role in the provision of these beds

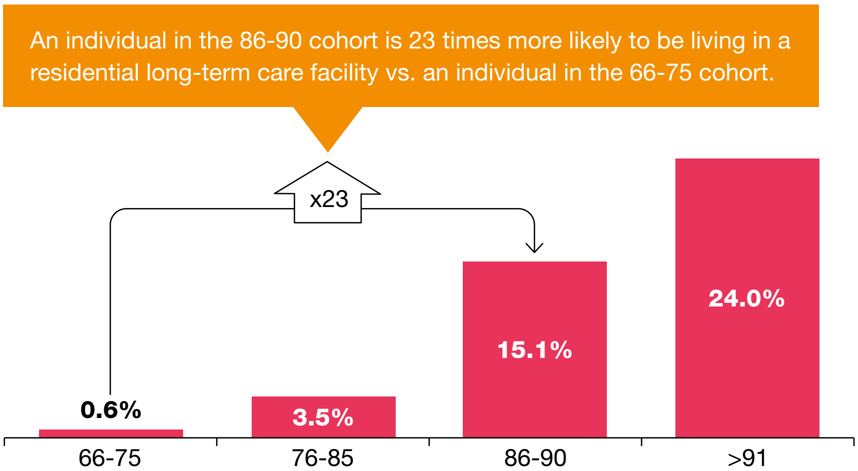
Total number of public, private and voluntary nursing home beds in Ireland, 2014-22



The Private & Voluntary nursing home sector is the primary provider of long term residential care in Ireland, with their share of bed capacity growing from 78% in 2014 to 84% in 2022.

The likelihood of requiring nursing home care increases significantly for individuals aged over 85 years

% of age cohort in residential long term care[1], 2020[2]



15% of the population between the ages of 86-90 years old are in Fair Deal funded residential long term care. The population within this age bracket is set to double within the next twenty years.

Note: 1) NHSS/Fair Deal funded beds only 2) 2020 used to avoid distortion in older age group populations resulting from the COVID-19 pandemic
Source: CSO, NHI, HIQA Annual Reports, HSE National Service Plan 2020, PwC Analysis

3

Factors impacting the demand for nursing home services

Factors impacting the provision of nursing home care services

1

Ageing population

Ireland's 65+ population has seen significant growth over the last decade, growing at a rate almost four times faster than the overall population. This trend is forecast to continue over the next 20 years, with the 85+ category expected to double. Combined with longer life expectancy and greater prevalence of chronic illnesses this, will create significant pressure on nursing home bed capacity in the coming years.

As the over 65 population growth outpaces the under 65 (3% vs 0.2%) it reduces the number of informal carers[1] available to care for members of the elderly population. This also drives a greater onus on the State to provide care services for older persons.

2

More complex resident profile

Ageing demographics and a move towards keeping older persons in their home for as long as feasible has led to a changing nursing home resident profile. Nursing home staff are now caring for a resident that has more complex needs, including being older, of higher dependency, and requiring a greater number of care hours.

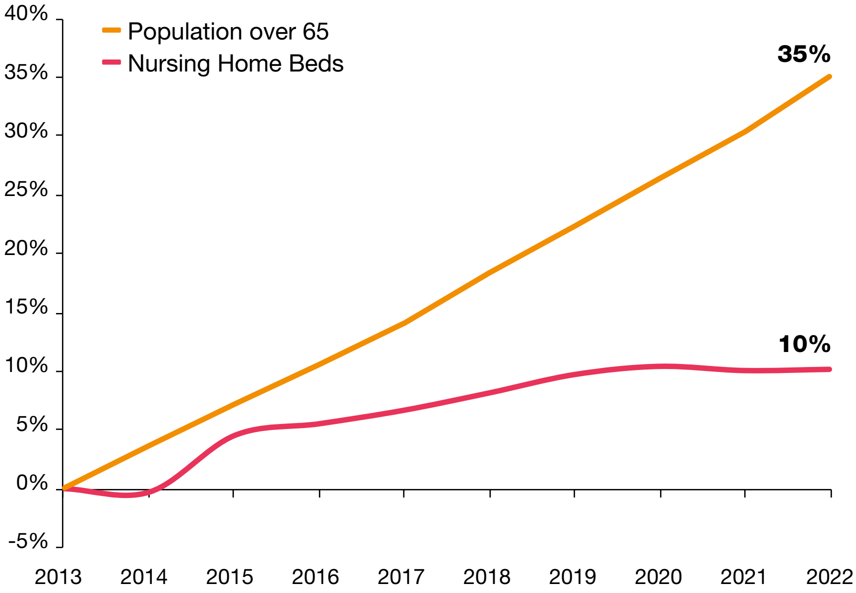
There is increasing prevalence of dementia in nursing homes and at a national level, necessitating a greater care requirement. Over 56% of nursing home residents are estimated to demand some form of dementia support, while 66% are categorised as requiring high / maximum dependency care.

Nursing homes play a vital role in providing care for those older persons not suitable to remain in their homes.

Note: 1) Informal carers refers to a provider of ongoing significant care to a person in need of care in the home due to illness, disability or frailty. | Source: CSO, PwC Survey, HSE

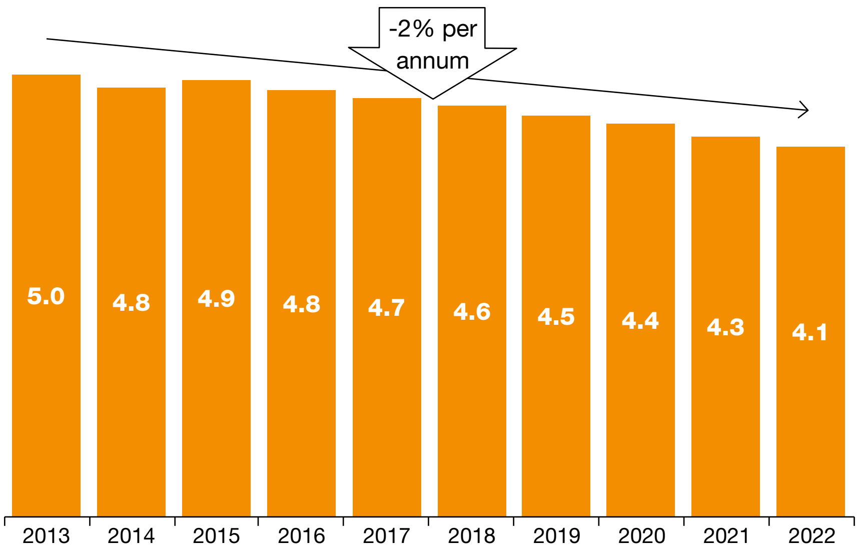
Although nursing home bed capacity has increased over the past decade, the 65+ population has grown at a rate three times faster

Cumulative growth in population aged 65+ vs nursing home bed capacity, 2013-22



The proportion of population 65+ grew by 35% between 2013 and 2022. In contrast, nursing home bed capacity only grew by 10%.

Nursing home beds per 100 over 65 years population, 2013-22

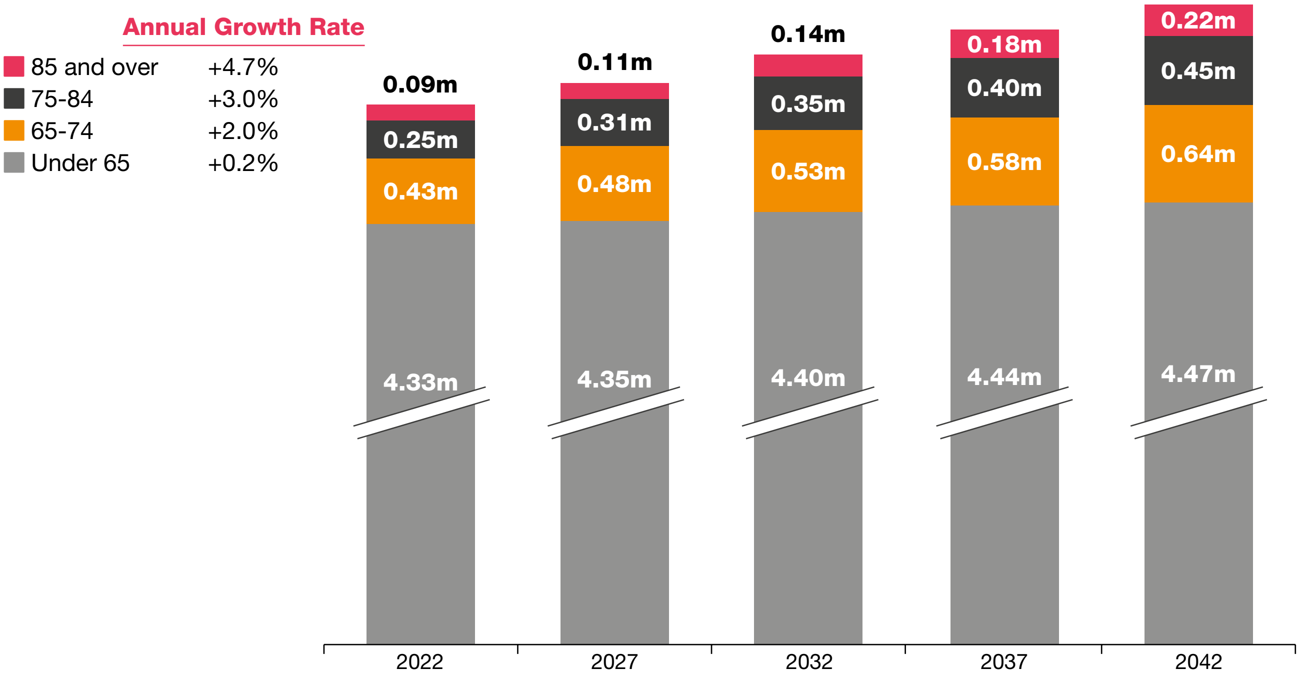


Due to the population ageing at a faster rate than increasing bed capacity, there is a decreasing proportion of nursing home beds available to those over 65.

Source: CSO, NHI Surveys, HIQA Annual Reports, HSE, National Service Plans, PwC Analysis

Further rapid growth in Ireland's ageing population is forecast over the next 20 years, with the number of people aged over 85 expected to double

Irish projected population 2022[1]-2042



	2022	2027	2032	2037	2042
Ratio of <65 yrs : >65 yrs	6:1	5:1	4:1	4:1	3:1

Ireland is at the beginning of a a period of rapid growth in its ageing population, particularly in the 85+ age category, which is expected to double over the next 20 years. These cohorts are the predominant users of long term residential care.

Key statistics

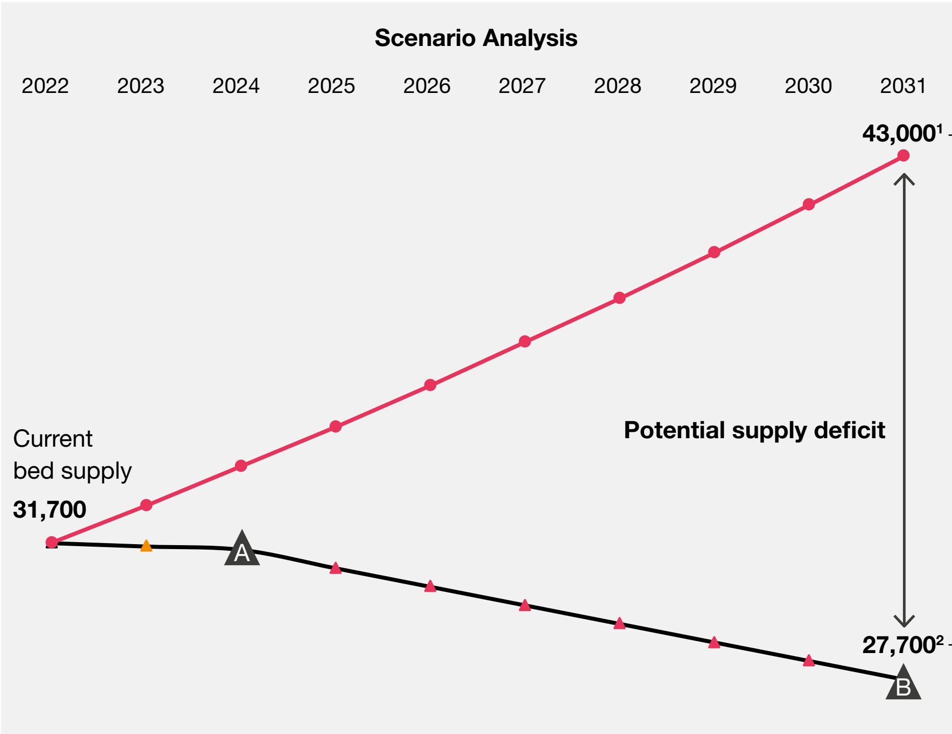
- An individual aged 86-90 is 23 times more likely to be living in long term residential care than a person in the 66-75 cohort
- 51% of individuals aged 80+ have multiple chronic diseases
- Average life expectancy in Ireland is 85 years for a woman and 81 years for a man

Projections also indicate that the ratio between the under and over 65 years will shrink, resulting in less informal carers available for every elderly population member. This, combined with higher levels of labour force participation drives a greater requirement for the State to provide support for older persons.

Notes: 1) The current CSO population estimate was used for 2022 figures. Population projections based on M2F2 prediction factors. | Source: CSO, OECD, NHI

If HSE forecast capacity requirements for 2031 are to be met, a further c.11,000 beds are required in the sector

Forecast capacity requirements and supply of nursing home beds, 2022-31F



Health Service Capacity Review 2018

36% growth in bed capacity is required by 2031, if HSE forecast targets are to be reached.

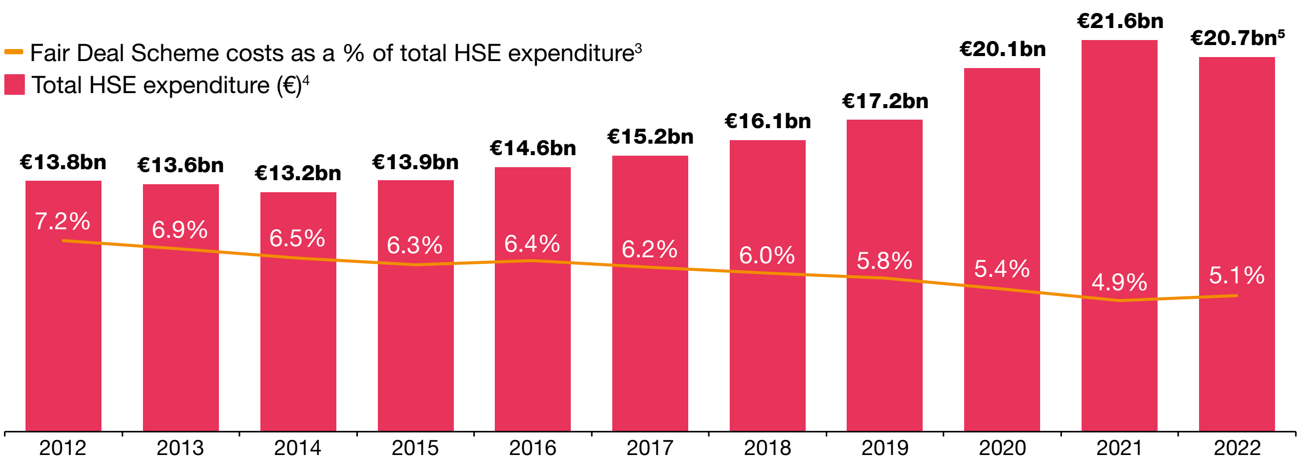
Supply Scenario: continuation of current closure rates

A **2022 to 2024:** If the same rate of nursing home closures continues and new bed capacity is added at historic levels a marginal decrease in sector capacity is likely.

B **2024-2031:** A fall off in new bed capacity due to the present non-viable investment case and a continuation of current closure levels could lead to sector capacity falling at a higher rate.

Despite forecast capacity requirements, spend on the Fair Deal Scheme as a proportion of overall health expenditure has steadily declined over the last decade

Fair Deal Scheme vs total HSE expenditure, 2012-22



Notes: 1) Projected HSE capacity figures include long and short term beds. 2) Assumes that new capacity is added to the market in 2023 and 2024 at historic levels. No new stock is added after 2024 to reflect non-viable investment case and capacity is reduced in line with bed reductions seen in 2022. Public sector capacity changes are not included. 3) Based on National Service Plan closing budgets. 4) Based on total expenditure as per the HSE Annual Reports and Financial Statements. 5) Based on National Service Plan 2023 | Source: HSE, NHI, HIQA

Public healthcare expenditure on other older persons services has grown, with an increased focus on home support provision…

Breakdown of Fair Deal Scheme and Older Persons Services spend per capita over 65, 2020-22

- The benefits of keeping older persons in their home and local community for as long as feasible through both home support services and intensive care packages is widely recognised by all those in the provision of older persons care.[1]

- Public healthcare spending on older persons services (not incl. Fair Deal) has grown significantly since 2020. While expenditure on the Fair Deal Scheme has declined during the same time period.
- This reflects a policy shift towards other community services for older persons such as home support.

Notes: 1) The Government has committed to establishing a new statutory home support scheme, including the development of a regulatory framework and financing model. | Source: HSE, National Service Plans, CSO, DoH, Gov.ie, PwC Analysis

…however the level and complexity of care required by older persons entering nursing homes is beyond what can be provided by home support services

Residents are now older, of higher dependency, and requiring more specialised care

Nursing home resident profile	5 year change (2017-2022)[1]
Over half of residents have a clinical dementia diagnosis	15%
Two thirds of residents are high/ max dependency	5%
50% of residents are aged 85+ years	5%
2.5 years average length of stay	32%

- The number of nursing home residents with a clinical diagnosis of dementia and high/max dependency level continues to rise. This is driven by a growing ageing population, longer life expectancy, and increased use of home support services. As a result nursing home residents now have far higher and more specialised care requirements than before.
- Despite HIQA requiring long term residential care homes to meet standards for the provision of care for residents living with dementia, the Fair Deal Scheme does not currently allocate additional funding for cognitive impairment, including dementia.
- Reducing average length of stay for nursing home residents is reflective of older persons remaining in their homes for longer through increased use of home support services. Resultantly, the dependency levels of individuals entering nursing homes is higher than before.
- COVID-19 and the increased mortality rates recorded in 2020/2021 are likely to have reduced the percentage of nursing home residents with dementia, high/max dependency levels, aged 85+, and the average length of stay for a resident.

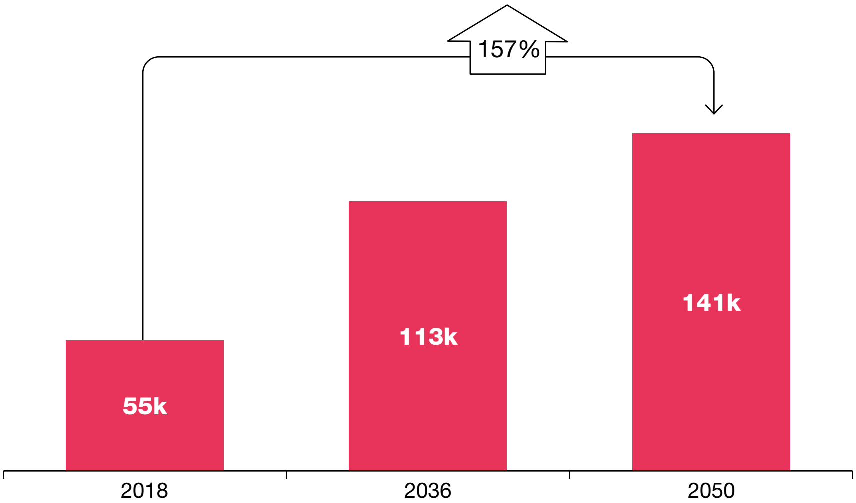
Notes:1) Based on PwC Survey results. | Source: NHI, PwC Survey

As the number of individuals with dementia and chronic diseases increases significant pressure will be placed on the Irish healthcare system

Number of individuals with dementia in Ireland, 2018–50F

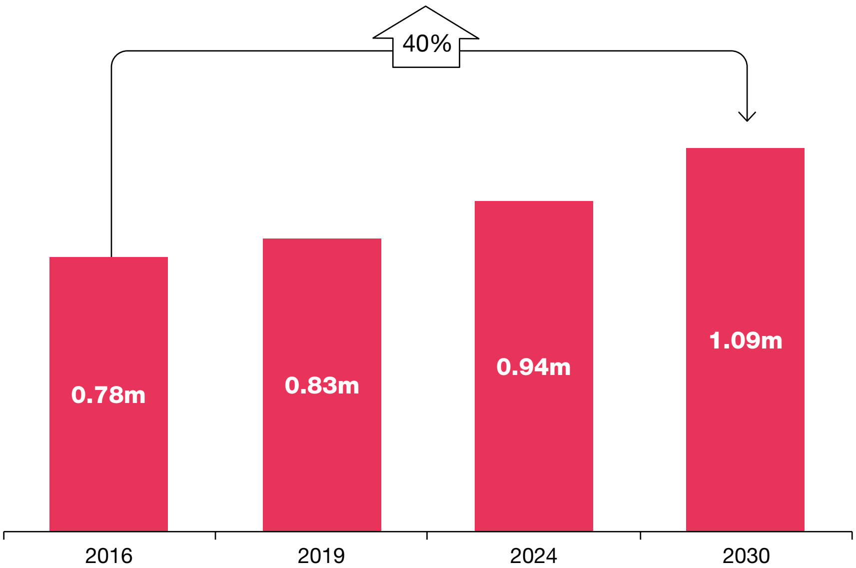
A person's risk of developing dementia rises signficantly with age[1]:

65+	**80+**
1 in 14	1 in 6



% of total population	1.1%	1.8%	2.5%

No. of individuals aged ≥ 50 years living with at least one chronic disease, 2016-30F



- Due to the high levels of long term care required for individuals in these situations, growth in this category will have a significant impact on healthcare services and place further importance on nursing homes as a provider of specialised care.

Note: 1) Prince, M et al (2014) Dementia UK. | Source: CSO, ESRI, PwC Survey, The Alzheimer Society of Ireland, Source: HSE National Framework for the Integrated Prevention and Management of Chronic Diseases in Ireland 2020 – 2023, EPICC Chronic Disease Burden in Ireland 2022, RCSI Response to Public Consultation for 'Ireland 2040 - Our Plan' , Pericin et al. 2022

4

Increased costs in the provision of nursing home care

Rising costs in the provision of care for residents has created a difficult operating environment for nursing homes

Cost of Care

PwC Survey Findings[1]:

Operational costs +36%[2]	Recent inflationary pressures have added to already rising operational costs for nursing homes. Over the past five years operational costs per resident have increased by c.36%. Costs have risen across nearly all categories of operational expenditure, however the biggest impact has been felt in staffing, rent, energy, and food costs.
Capital expenditure costs +82%[3]	Capital expenditure per bed has increased by c.82% over the past five years. The significant increase in costs is reflective of the impact of HIQA regulations and in particular S.I. No. 293 of 2016. Recent increases in construction costs have also contributed to expenditure growth.
Staff turnover rate 38% Nurse 54% HCA	Nursing homes are being faced with rising staff costs and increased use of higher cost agency workers as they deal with sector wide staffing shortages. Staff turnover rates for Private & Voluntary nursing homes remain particularly high for Nurses and HCAs (38% & 54%) as they compete in a competitive labour market for healthcare staff.
31 nursing home closures[4]	Increased operational costs and staffing challenges have led to the closure of 31 Private & Voluntary nursing homes between Q4 2019 and Q1 2023, with the entities predominantly located in rural/ regional areas. This equates to a reduction of 915 beds. Further closures are likely as providers struggle to deal with the rising costs of care.

Increased costs in the provision of care for a resident has not been matched by NHSS/ Fair Deal Rates

6.4% year-on-year increase in the cost of a residents care

in contrast to a

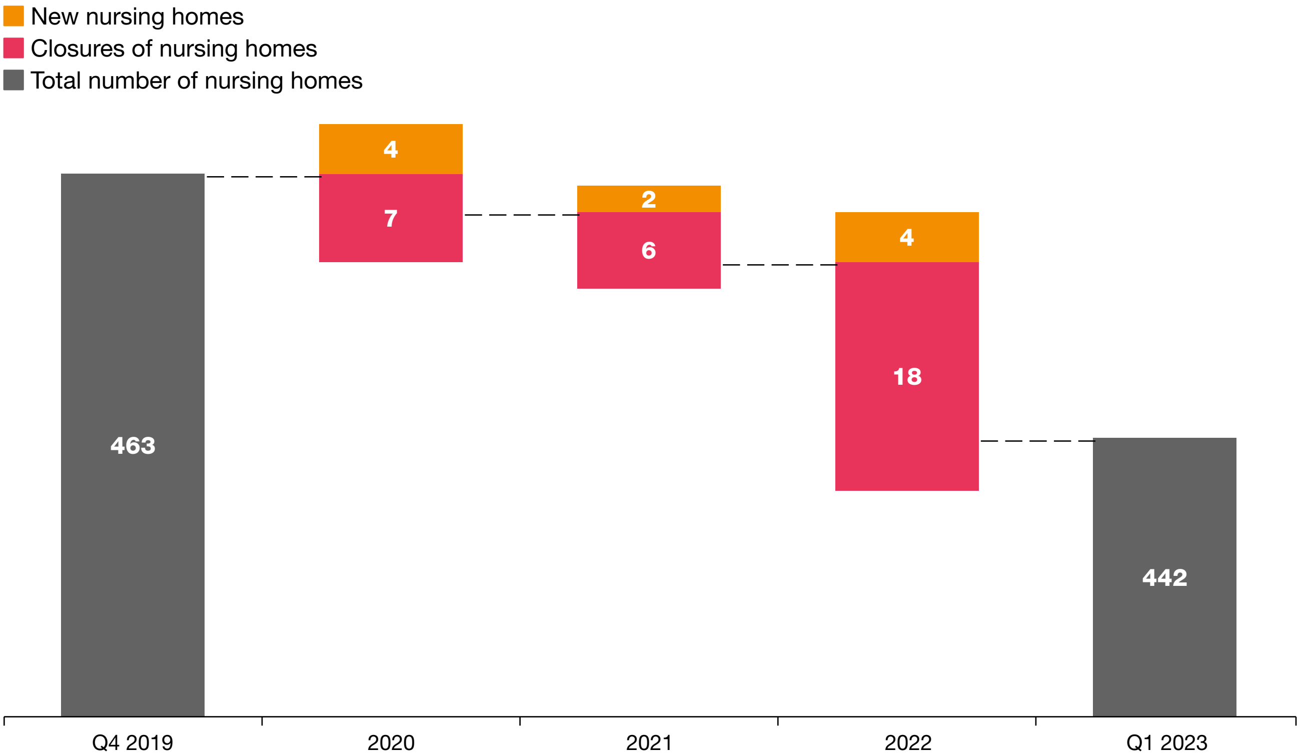
3.1% increase in Weekly Fair Deal Rates[5]

2017-2022

Notes:1) Based on years 2017-2022. 2) Per resident basis. 3) Per bed basis. 4) Based on Q4 2021 to Q1 2023.5) Based on Weekly Fair Deal Rates reported by PwC Survey respondents and analysis of data for 2017-2022. | Source: NHI, PwC Survey

Rising operational costs have seen 31 nursing homes close in the last 3 years, predominantly located in rural/regional areas. This equates to a reduction of 915 beds nationally

Breakdown of nursing home closures and openings, 2019-2023[1]



- Since year end 2019 the number of Private & Voluntary nursing homes has decreased by 5%.
- All nursing home closures were small facilities (less than 50 beds), independently run with the exception of two group nursing homes, and predominantly located in rural/regional locations.
- Rising operational costs and staff resourcing challenges, particularly for those located in rural/regional areas are the key drivers behind the closures.
- In Europe multiple large nursing home groups have recently declared insolvency as homes failed to control increasing costs.

The closure of nursing homes in rural locations impacts residents care and the effective provision of community based older persons services.

Job losses associated with the nursing home closures also affects local communities. The Private & Voluntary nursing home sector currently employs c. 35,000 individuals across a range of clinical and support roles.

Closures

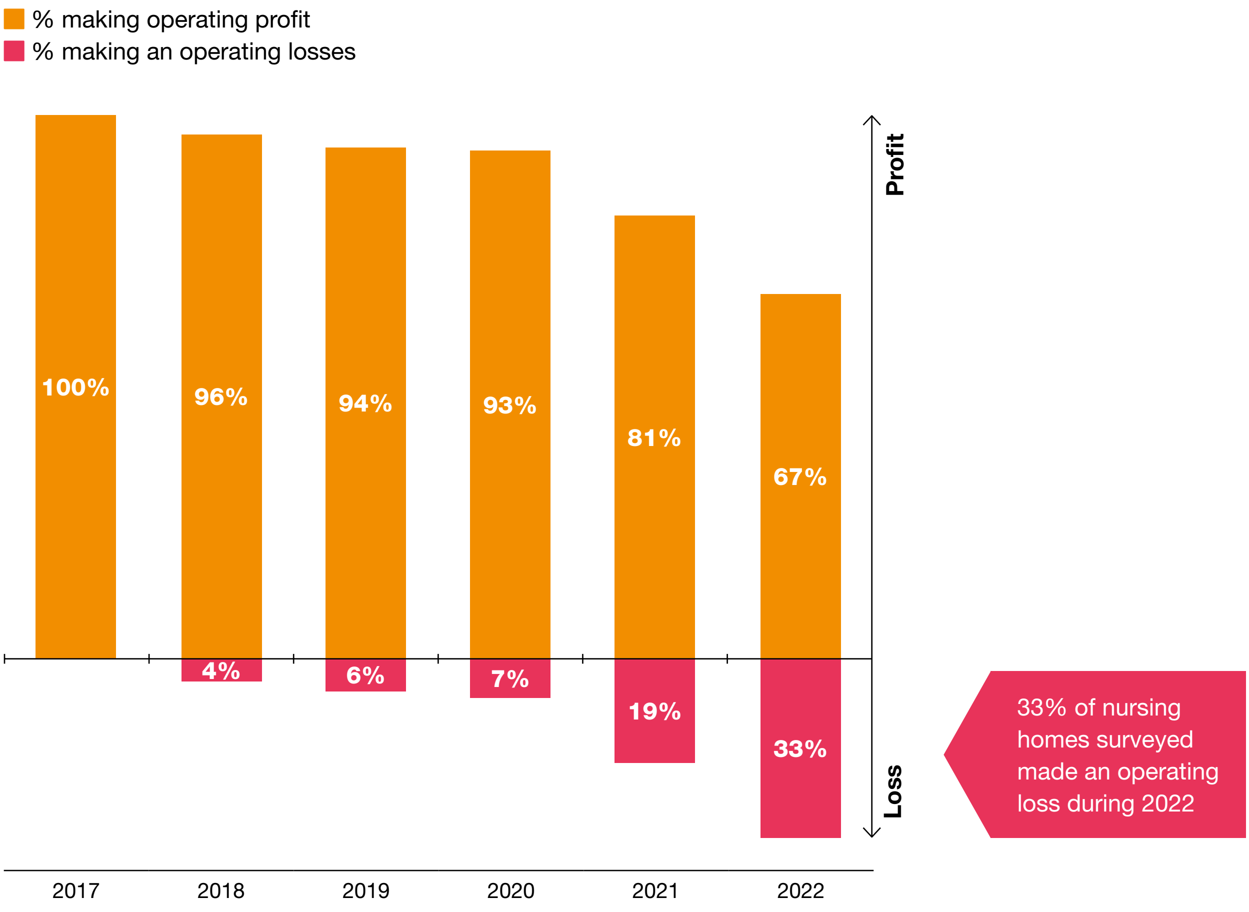
31 nursing homes

915 beds

Notes: 1) Data based on Q4 2019 and Q1 2023. Source: NHI, HIQA Annual Reports, Healthcare Business International, Oireachtas, PwC Analysis

Further nursing home closures are likely, with 33% of those surveyed reporting negative operating margins in 2022

Proportion of nursing homes surveyed reporting an operating loss, aggregated nursing homes, 2017-22



- With operational costs unlikely to fall, and Government supports to reach an end in the near future, the long term viability of those nursing homes with negative operating margins is at risk.
- Further inflationary pressures are expected over the next year with the most recent Central Bank estimate forecasting a 5% increase for 2023, placing additional stress on Private & Voluntary nursing homes.
- With demand for nursing home beds predicted to grow significantly in the coming years, potential reduced bed capacity could be a huge challenge for the sector.

Source: PwC Survey, Central Bank of Ireland

Increasing staff, rent, energy, and food costs have created a very challenging operating environment for nursing homes, particularly over the last 2 years

Staff Costs

↑ 17%

increase per staff member per bed

2017-22

Rent Costs

↑ 23%

increase per bed

2019-22

Energy Costs

(Excluding TIPS)

↑ 71%

increase per bed

2020-22

Food Costs

↑ 13%

increase per bed

2020-22

Other cost increases per bed

2017-22

↑ 59%	↑ 34%	↑ 23%
Recruitment Costs	Insurance costs	Medical purchases & consumables

Findings

- The PwC Survey found that nursing homes had experienced sharp increases in costs across a broad range of operational expenditure categories.
- Recent inflationary trends, industry wide staffing shortages, and the financial burden of increasing regulatory requirements are amongst the key drivers of rising costs that have created a very challenging operating environment.
- Staff costs represented c.60% of operational expenditure for nursing homes in 2022. They have been impacted by wage inflation, and the increased use of higher cost agency workers due to resourcing challenges.
- Rent has consistently accounted for c.13% of operational expenditure over the last 3 years, however recent market and inflationary trends has led to increases.
- Energy and food costs combined were c.10% of operational expenses in 2022 and are amongst the categories that have experienced the largest cost increases over the last two years.

Unlike other industries that can reduce energy usage and engage in cost cutting measures, nursing homes do not have this option as they are providing an essential service.

Source: PwC Survey

> *“Staff shortages are presenting in nearly every area, but particularly in Nursing, HCAs, and Chefs…*
>
> *Without the availability of staff in Ireland, we are relying predominantly on overseas recruitment.”*

Independent Nursing Home Provider

Drivers of increasing staff costs

1. Competitive labour market for healthcare staff

Staff resourcing, particularly for Nurses and HCAs, is a challenge for both public and private healthcare providers. This is due to a number of factors, including a competitive global market, emigration, and an ageing workforce. These challenges are also set against the backdrop of Ireland’s ageing population, with rising demand for care across the broad range of older persons services (incl. community, home, and residential care services).

2. Increased use of agency workers due to industry labour shortages

Difficulties in recruiting staff and high turnover levels has lead to an increased use of agency workers in nursing homes and the wider healthcare sector.

With Private & Voluntary nursing homes struggling to compete in a competitive labour market, agency costs now make up 12%[1] of overall staffing costs per bed compared to 3% in 2017. This cost is likely to increase further in the future with no immediate solutions to sector staffing shortages.

3. Wage inflation

A combination of external economic inflationary trends in 2022 and a competitive labour market has led to rising wage costs for direct nursing home staff. Staff costs for nursing homes are likely to rise further in the coming years as the minimum wage converges with the living wage in 2026.

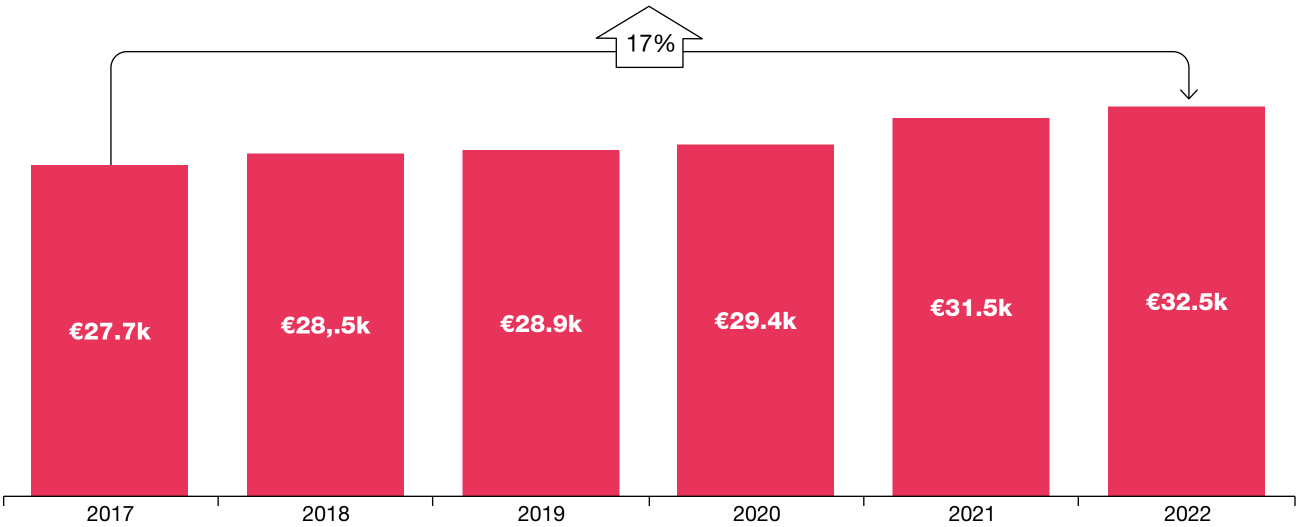
4. High staff turnover

In the context of a competitive labour market, staff turnover rates across both Private & Voluntary nursing homes and HSE organisations have grown significantly in recent years. As a result, overseas recruitment in countries such as India and the Philippines has become a necessary annual operational expense. The PwC survey indicated that recruitment costs per bed across nursing homes had increased by 59% between 2017 and 2022.

Notes: 1) Based on participants of PwC Survey. | Source: NHI, CSO, PwC Survey

The average cost of a staff member per nursing home bed has increased by 17% over the last five years, with the largest increases occurring in 2021 and 2022

Cost (€) per staff member[1] per bed, aggregated nursing homes, 2017-2022



- There has been a 17% increase over the past five years in the average cost of a staff member per nursing home bed.
- Higher turnover rates and greater competition for HCAs and Nurses have forced many homes to rely heavily on more expensive agency staff to avoid shortages.
- Direct wage costs also continue to increase as nursing homes attempt to attract and retain staff.

Other staff costs

Recruitment

59% increase in recruitment costs per bed (2017 to 2022) driven by high staff turnover and increased need to engage in overseas recruitment.

Housing

Provision of accommodation for overseas recruits for the initial period of their employment (alongside visa expenses) has become a regular expense for nursing homes.

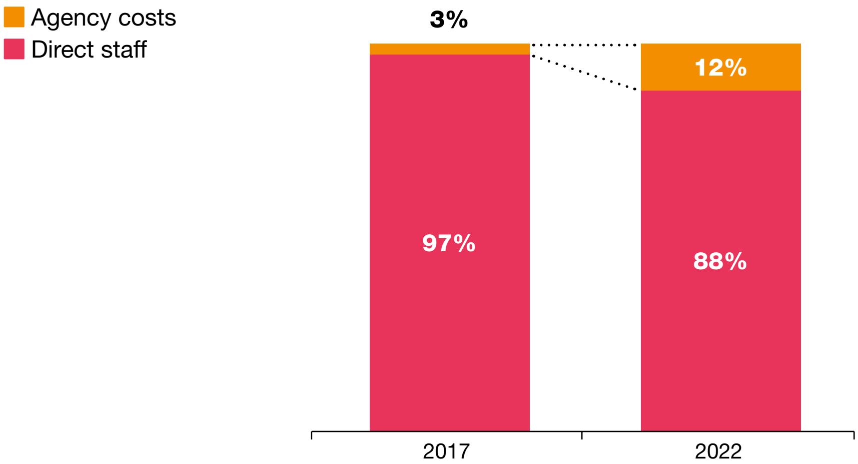
Transport

Difficulties for staff trying to access nursing homes located in rural areas via public transport has created a need for nursing homes to provide staff transport.

Note: 1) Cost per staff member refers to the average cost including all types of staff employed by the nursing home. | Source: PwC Survey

As nursing homes continue to struggle with staff shortages, there has been an increasing reliance on higher cost agency staff to fill vacant positions

Agency costs as a proportion of overall staff costs per bed (%), aggregated nursing homes, 2017-22

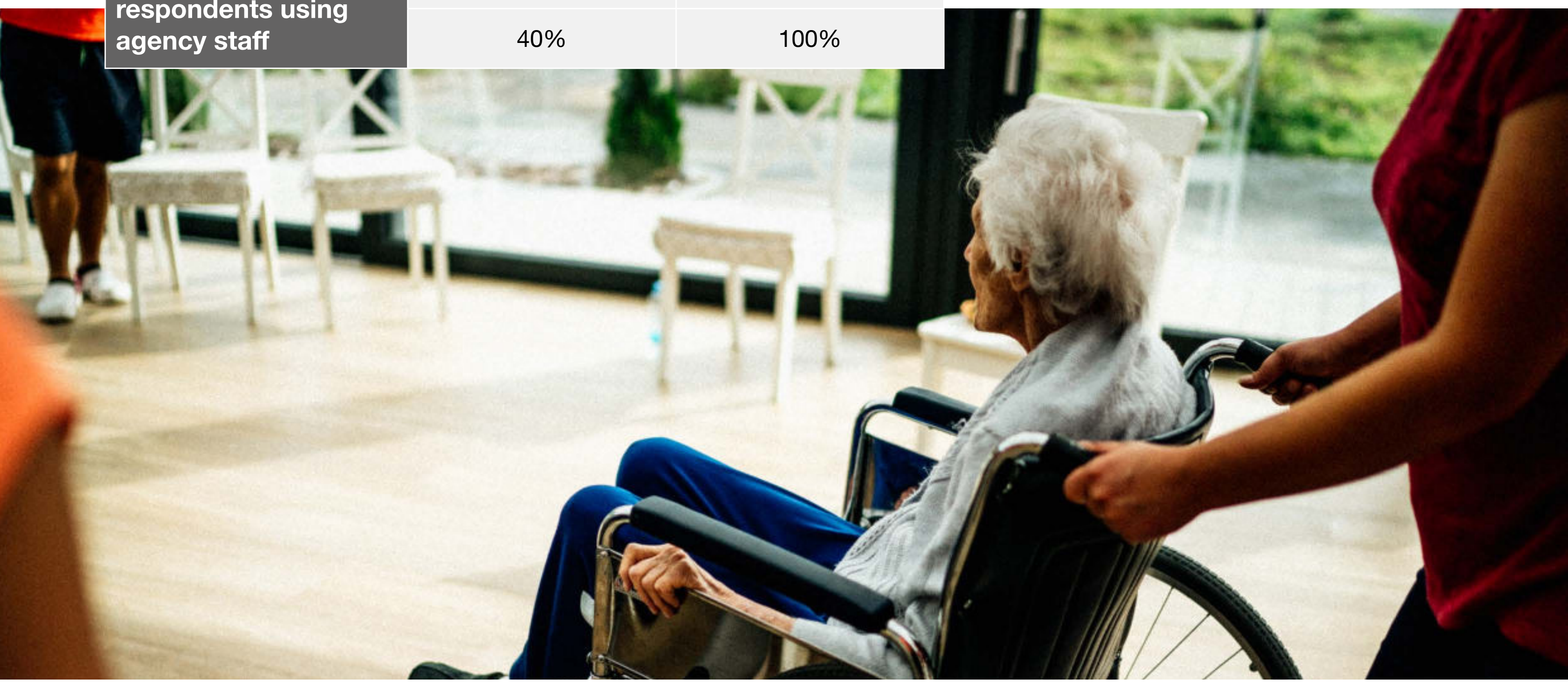


% of survey respondents using agency staff	2017	2022
	40%	100%

- Agency costs made up 12% of total staff costs in 2022, compared to 3% in 2017.
- As the sector continues to struggle with resourcing challenges, the use of agency staff will likely inflate costs further in the future, ultimately impacting profitability.

Quote from survey respondent:

"Agency labour costs are c. 2.2X the cost of a payroll employee"

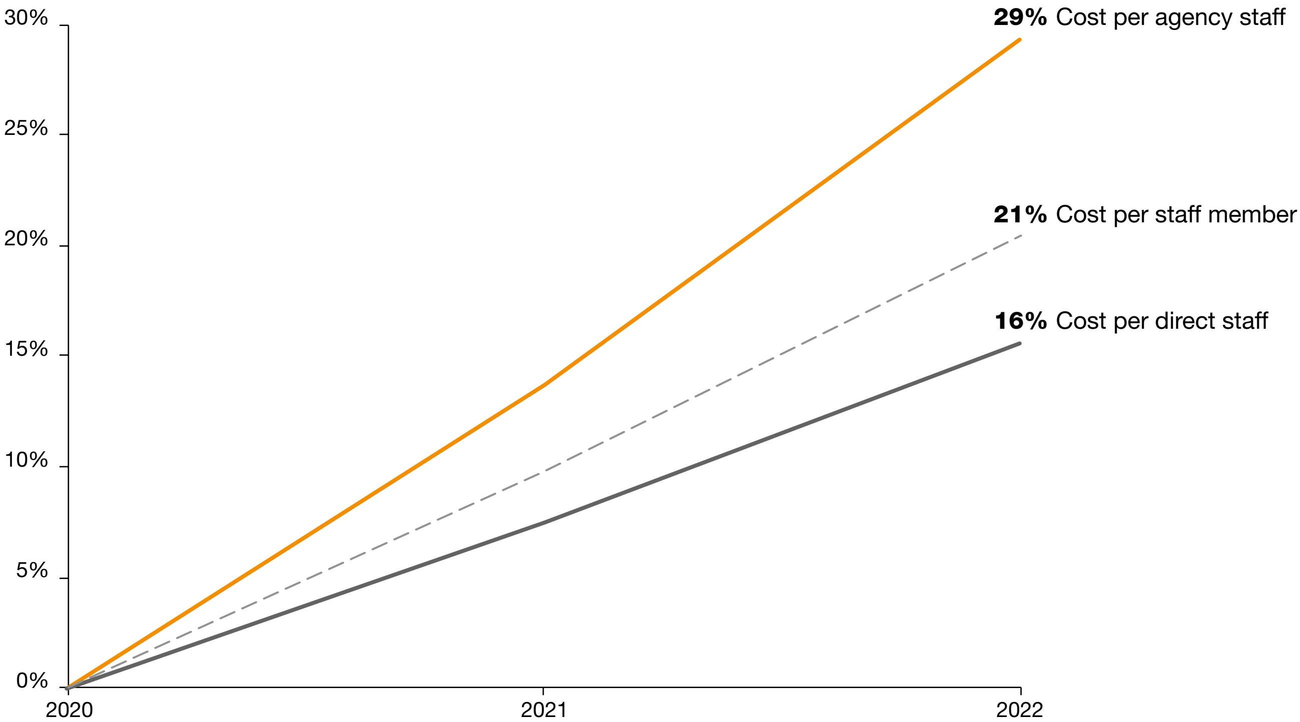


Source: PwC Survey

Increased staff costs per worker have been driven by wage inflation and greater reliance on higher cost agency staff

Case study: Staff costs in a nursing home group

Cumulative growth in costs per staff, case study, 2020-22



Overview

Cost per staff member represents the average cost of employing all types of staff members including direct and agency staff. Cost per direct staff relates to those directly employed by the nursing home. Cost per agency staff is those employed from external agencies on an ad-hoc basis.

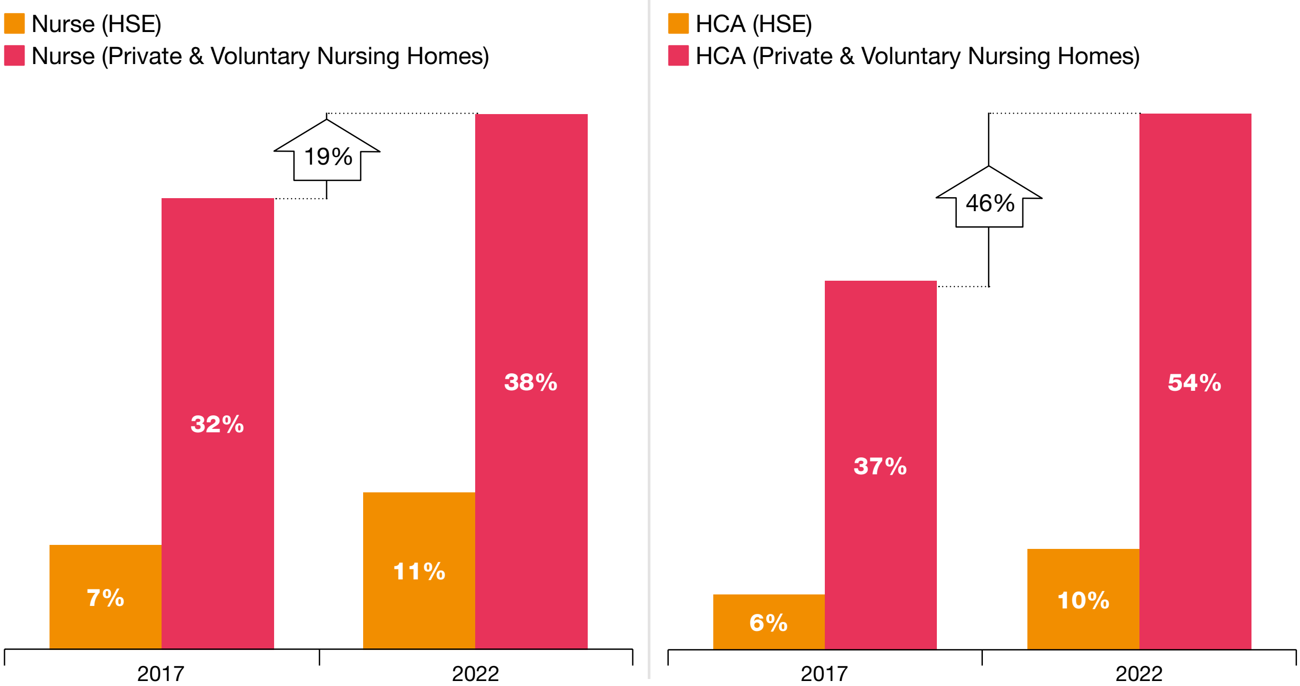
Findings

- **Case study:** Wage inflation for direct and agency staff, as well as an increased reliance on agency workers due to sector resourcing challenges, has led to cost per staff increasing by 21% over the past two years.
- Although cost per agency staff has increased by 29% since 2020, cost per direct staff has also increased by 16%.
- **Agency wages are higher and increasing at a faster rate year-on-year (14%) than direct staff members.**

Source: PwC Survey

Staff turnover remains high in the Private & Voluntary nursing home sector

Comparison of HSE and Private & Voluntary nursing home staff turnover rates (%), aggregated nursing homes, 2017-22



- The differential in terms and conditions (e.g. wages, benefits, pensions) between equivalent roles in the Private & Voluntary nursing home sector and publicly funded HSE organisations is a contributing factor to the high turnover rates.
- Sector stakeholders have reported a consistent trend of overseas recruits departing for HSE roles upon completion of their initial 1 year work visa with their employer.

In last six months of 2021 a NHI survey found that on average;

4.36 HCAs & 2.15 Nurses

left employment with Private & Voluntary nursing homes for roles with the HSE

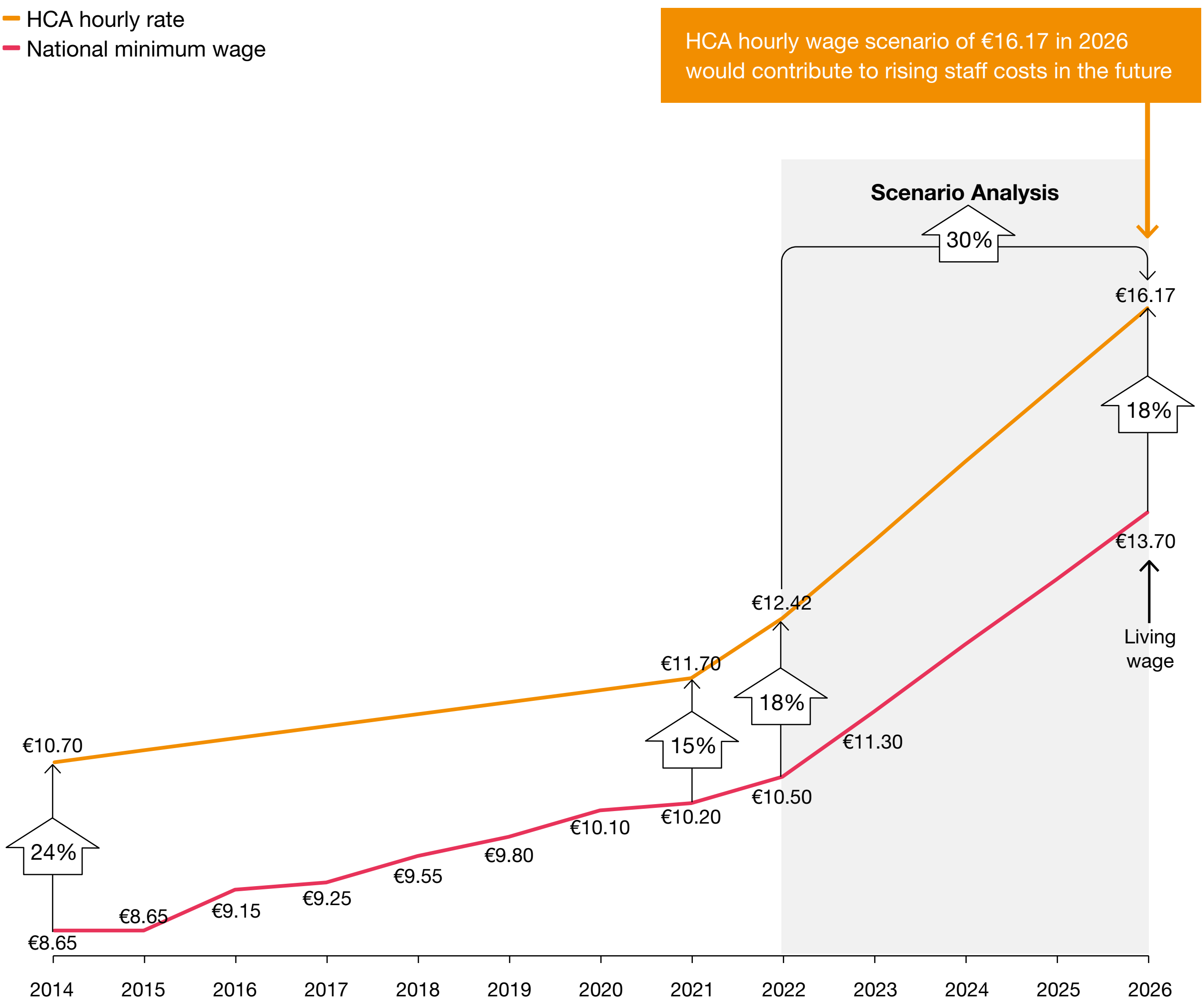
"Last year 55% of the staff who left our nursing home went to the HSE and the remainder of departing staff either left the healthcare sector or left the country. At any one time we have at least four vacant positions that we are trying to fill in direct care."

Independent Nursing Home Provider

Source: PwC Survey, NHI, Gov.ie, HSE

The convergence of the minimum wage with the living wage in 2026 may generate further rises in staffing costs for nursing homes

HCA hourly rates (€) in Private & Voluntary nursing homes compared to the national minimum wage, 2014-26F

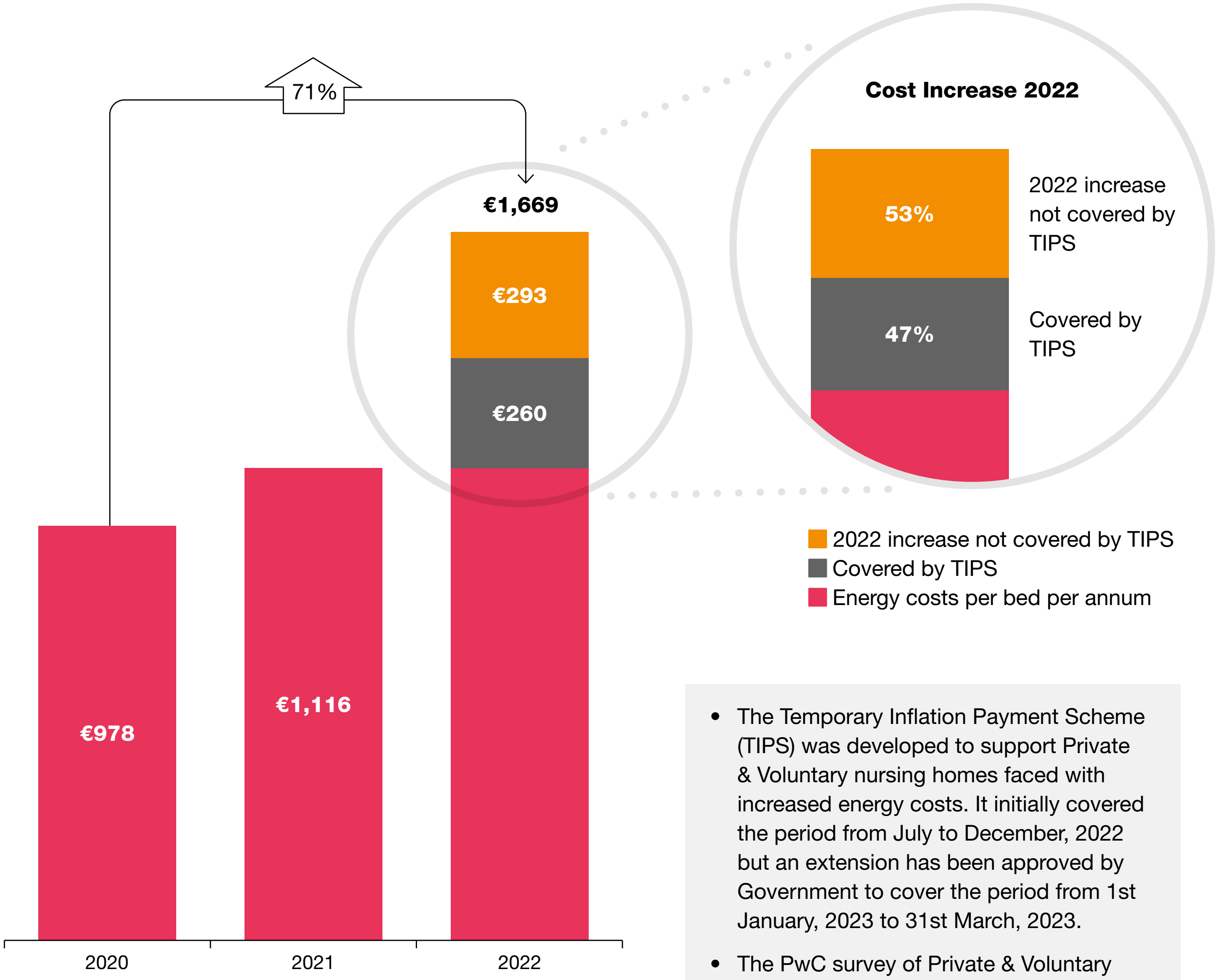


- HCA hourly rates in Private & Voluntary nursing homes grew by 16% between 2014 to 2022, from €10.70 to €12.42. On average (2022) HCA wages are c.18% above the minimum wage.
- However, the national minimum wage in Ireland has been growing more quickly than HCA wages and there are plans for this to converge with the national living wage in 2026, at an estimated rate of €13.70 per hour.
- Given the important role carried out by HCAs, wages must remain above the minimum/living wage. If the 18% differential continues, HCA wages could grow by 30% between 2022 and 2026 to reach an hourly wage of €16.17.

Source: BDO, NHI, Gov.ie, The Irish Times, PwC Analysis.

The TIPS support scheme covered a proportion of the increase in energy costs in 2022, but nursing homes still funded more than half of the additional cost per bed

Energy costs (€) per bed per annum, aggregated nursing homes, 2017-22

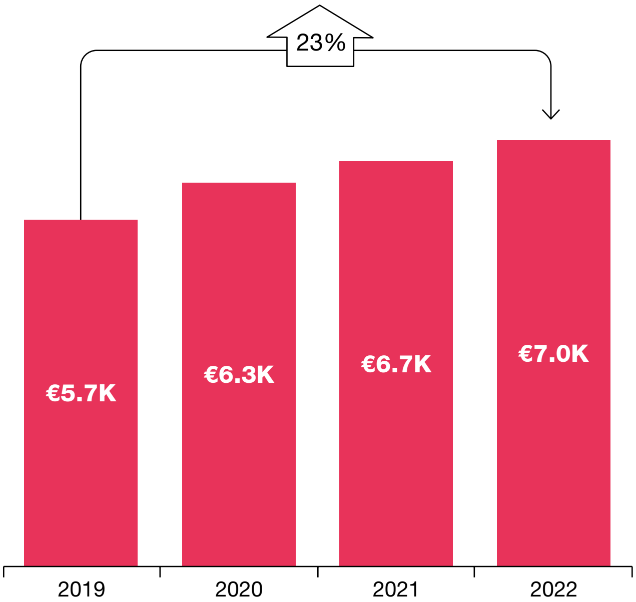


- The Temporary Inflation Payment Scheme (TIPS) was developed to support Private & Voluntary nursing homes faced with increased energy costs. It initially covered the period from July to December, 2022 but an extension has been approved by Government to cover the period from 1st January, 2023 to 31st March, 2023.
- The PwC survey of Private & Voluntary nursing homes showed a 71% increase in energy costs between 2020 and 2022.
- Of the 2022 increase only 47% was covered by TIPS, with the remainder (53%) of the increase covered entirely by the nursing home.

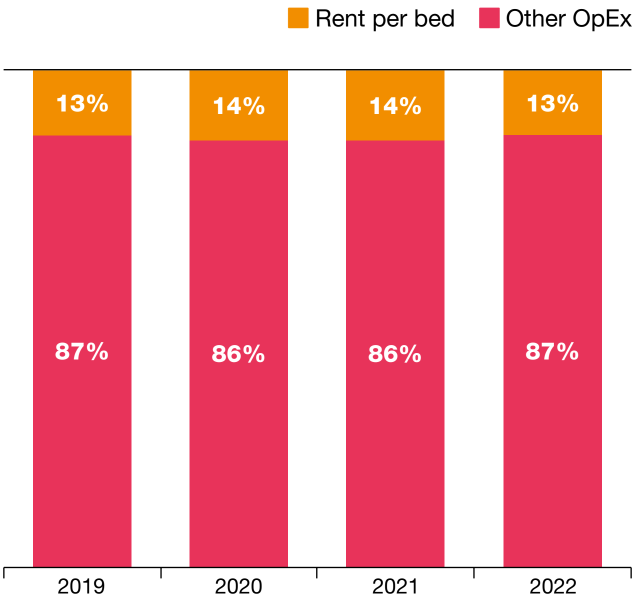
Source: PwC Survey, HSE, Gov.ie

Nursing home rents have risen over the past three years, however the proportion of operating expenses it represents has been consistent

Rent (€) per bed per annum, aggregated nursing homes, 2019-22



Rent per bed as a proportion of total OpEx per bed (%), 2019-22

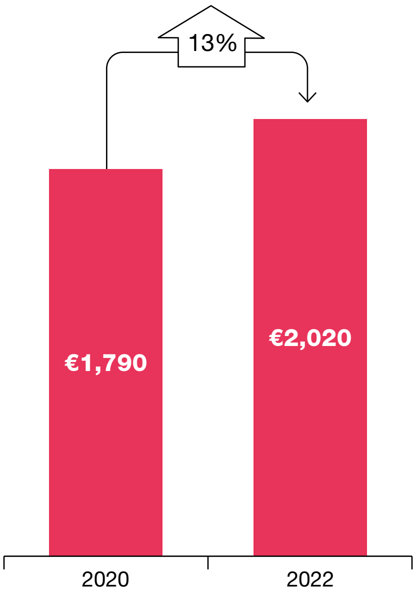


- Over the past 3 years many homes have been acquired or built by investment funds and switched to an 'OpCo/PropCo' structure.
- Many nursing homes have fixed agreements with the 'PropCos' relating to yields and interest rates that have led to rents increasing over the past four years. This coupled with CPI related increases and overall Irish property market trends has led to rents per bed increasing by 23% between 2019 and 2022.
- These rents are similar to the cost of financing for nursing homes and although rents have been increasing in recent years, its proportion of total OpEx has been largely consistent.

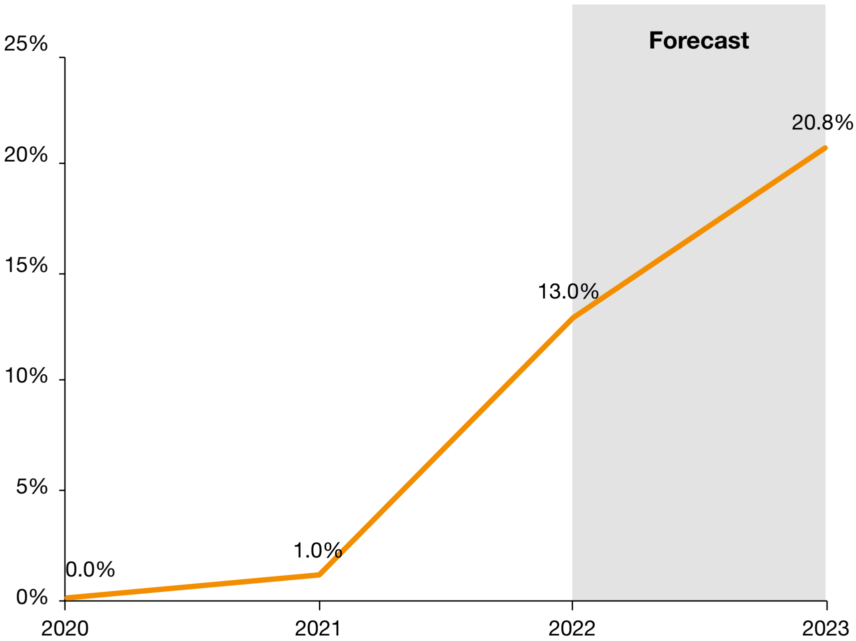
Source: PwC Survey

Food costs per bed have increased by 13% over the last 2 years, and are likely to increase further in line with inflation forecasts

Food costs (€) per bed per resident, aggregated nursing homes, 2020-22



Cumulative growth in food inflation[1], 2020-23

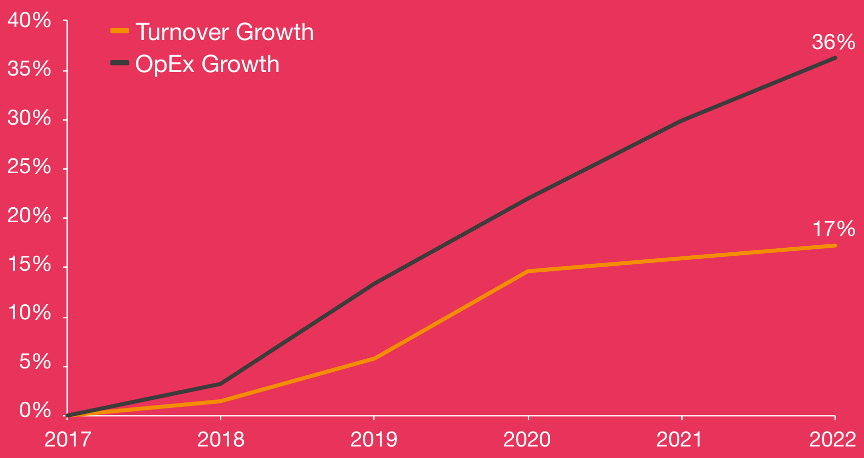


- Food costs per bed increased by 13% between 2020 and 2022. This is reflective of economy wide inflationary trends and record inflation levels for food in 2022 (12%).
- The Ukraine War and resultant impact on global trade, commodity prices, and operational costs for the agricultural sector have been key drivers of rising food costs. With political tensions not expected to subside in the near future, food costs are forecast to continue rising albeit at a slower rate than 2022. This will represent continued operational cost pressures for nursing homes.

Note: 1) Based on December year end figures and Central Bank forecasts. | Source: PwC Survey, CSO

Operational costs have grown at a higher rate than turnover, with the gap significantly increasing between 2020-22

Cumulative growth in turnover vs operational expenditure per resident per annum, aggregated nursing homes, 2017-22

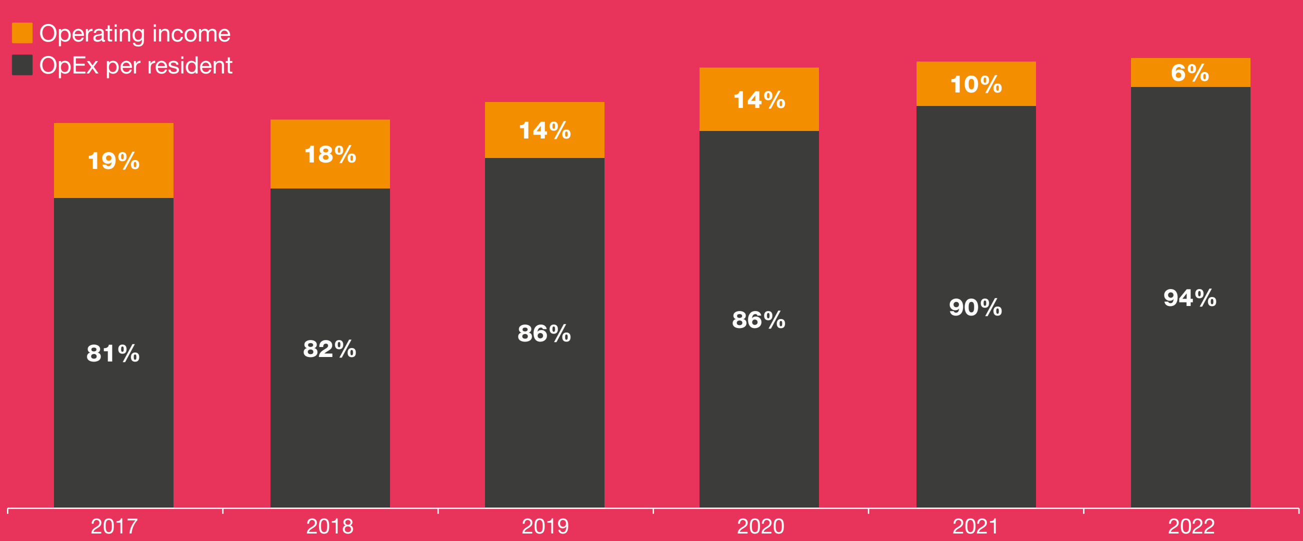


- The larger increase in turnover in 2020 is related to Government supports provided to help with increased costs incurred due to COVID-19 outbreaks. Although these supports have now ended, many costs originally related to COVID-19 are now embedded in the day-to-day running of a nursing home.

- Recent inflationary pressures have further driven up already rising operational costs, whereas turnover has only increased at a marginal rate.
- A private nursing home requires a certain level of financial viability to continue providing services. As costs have risen faster than Fair Deal Rates in recent years, additional service charges (ASC) have come to the fore.

Operating income per resident has declined significantly in response to higher operating costs and could further impact the financial viability of many nursing homes

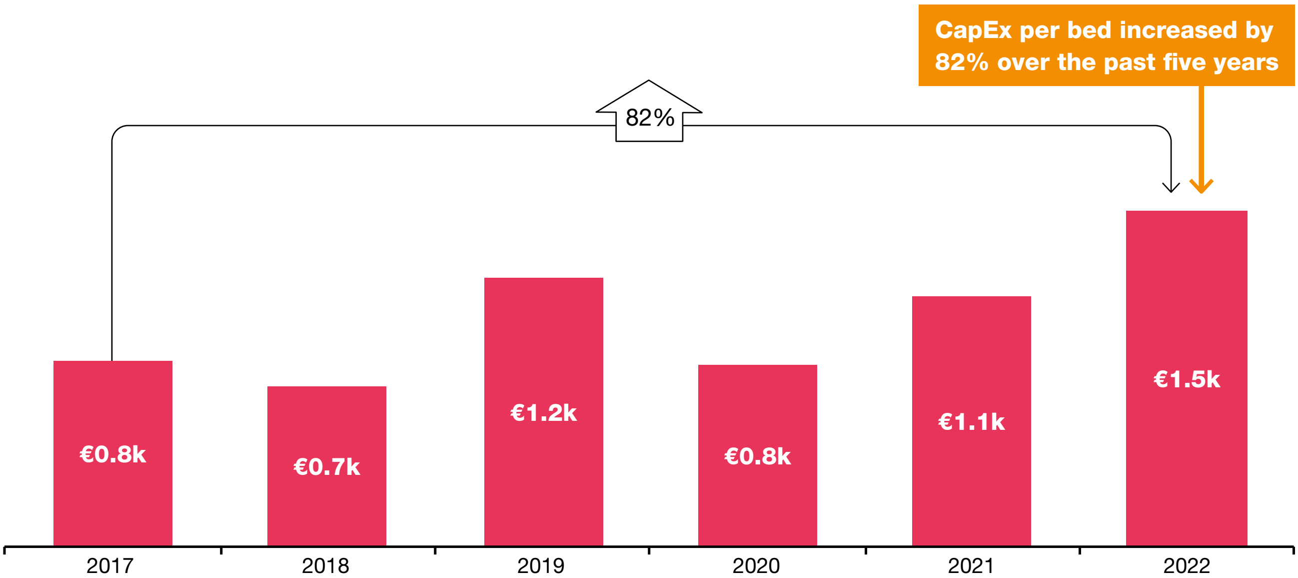
Operating income and expenditure per resident as a proportion of annual turnover, aggregated nursing homes, 2017-22



Source: NHI, PwC Survey

Capital expenditure has also increased significantly reflecting the impact of HIQA regulations and in particular S.I. No. 293

Capital expenditure (€) (excl. new builds) per bed per annum, aggregated nursing homes, 2017-22



In addition to CapEx, 'repairs and maintenance' per bed has increased by 24% over the last five years

- The introduction of S.I. No. 415/2013 in 2014, and amended in 2016 through S.I. No. 293, necessitated significant capital expenditure from nursing homes in order to remain HIQA compliant.
- A clear increase in spend per bed in the Private & Voluntary sector is evident in 2019, in anticipation of the 2021 deadline for compliance. As expected spend in 2020 was severely impacted by COVID-19.
- As the operational impact of the pandemic has reduced, capital expenditure increased again (2021/2022) to meet the delayed 2022 compliance deadline.
- While increasing regulatory standards are a positive move for the sector, many smaller and non purpose-built nursing homes have incurred significant capital expenses, and lost earnings due to reduced bed counts.
- Build-related cost inflation has also seen prohibitive increases making it even more costly for nursing homes trying to remain HIQA compliant.
- Unlike Private & Voluntary nursing homes, public nursing homes capital expenditure requirements are funded by a separate HSE budget (HIQA Regulatory Compliance Programme, within the HSE Capital Plan), distinct from weekly Fair Deal Rates.
- The vast majority of nursing homes were built over 10 years ago and are likely to require further renovation and adaption in the coming years to meet increasing HIQA prescribed requirements and National Standards[1]. Private and Voluntary nursing homes unable to afford further upgrades face becoming non-compliant as a result.

Note: 1) HIQA National Standards for Residential Care Settings for Older Persons in Ireland 2016. | Source: PwC Survey, CBRE, HIQA

While the NTPF pricing mechanism for determination of Fair Deal Rates has successfully funded residents care for many years it is no longer suitable for the current operating environment. The need for reform has been highlighted by the inability of the system to respond to recent increases in the cost of care, including staffing, regulatory compliance, and a higher dependency resident profile.

Role of NTPF

- Since the introduction of the NHSS in 2009 the NTPF has played an important role as the designated body to agree Weekly Fair Deal rates with Private & Voluntary nursing homes.
- The NTPF has statutory independence in the performance of its functions.
- They operate within the context of a fixed annual budget as set in the Government's annual Estimates process.
- The NTPF carries out negotiations with each nursing home as opposed to collective organisations.
- Agreed Weekly Fair Deal Rates per resident are fixed for the term of agreement, typically 24 months.

The objective of the NTPF is to agree a price with each nursing home that offers value for money to the State having regard to the following criteria:

Pricing Criteria

1. Costs Reasonably and Prudently Incurred (e.g. payroll, food, energy)
2. Prices Previously Charged (provides continuity for both nursing homes and State budget)
3. Local Market Price (prices charged by other nursing homes in the same county)
4. Budgetary Constraints (as designated by the State)

Recent reviews of the NTPF rate setting mechanism have noted the following:

The rate setting mechanism can result in inconsistencies, with identified cases of similar nursing homes (size, location etc..) and differing Fair Deal Rates.

The methodology fails to fully capture factors such as dependency mix, operating costs etc.

NTPF nursing home financial reviews are primarily based on historic data, meaning due consideration is not given to the prospective financial year.

Providers are deterred from the sector as the mechanism for assessing and determining rates doesn't adequately incorporate possible increases in costs over time or the need for a fair return on capital.

Source: Gov.ie, NTPF

5

Non-viable business case for new nursing home capacity

Increased financing, construction, and land costs are impacting nursing home development costs

Increased costs of financing

- ECB interest rates have risen rapidly from 0% in July 2022 to 3.75% in May 2023, impacting investment appetite and viability for all categories of investors.
- There remains significant uncertainty about future interest rate movement with most experts predicting further rate increases in 2023 to help stem inflation.

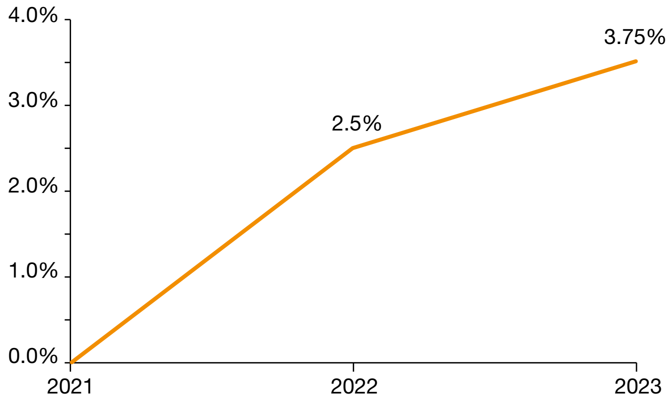
Rising construction costs

- Commercial construction costs have increased by c.42% between 2020 to 2022.
- The impact of rising energy costs and other supply-side shocks have led to a dramatic rise in construction costs for all development types.

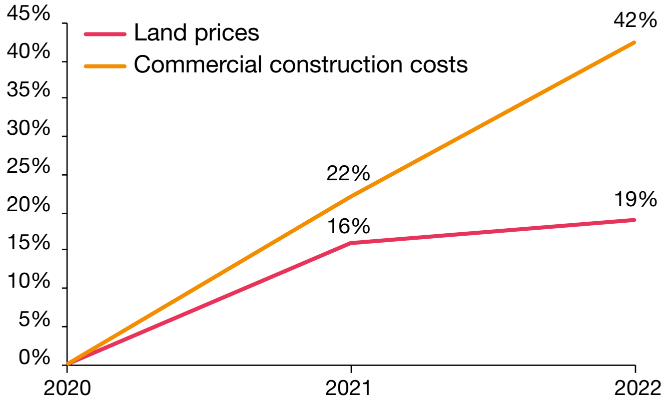
Rising land costs

- Land prices have increased by c.19% between 2020 to 2022.
- Cost of site development for nursing homes varies significantly depending on location, but supply constrictions in the national housing market has driven up land values.

ECB interest rates[1] (%)



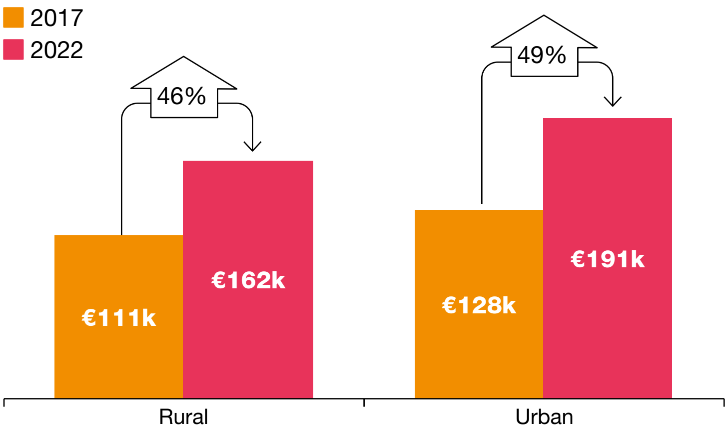
Cumulative growth (%) in land and commercial construction prices



Note: 1) Relates to ECB Fixed Rate Tender as of May 2023 | Source: SCSI, ECB, IPAV, NHI, RTE, Aedifica, Business Post, Irish Independent, PwC Analysis

Both rural and urban nursing home developments have experienced significant increases in development cost per bed over the last 5 years

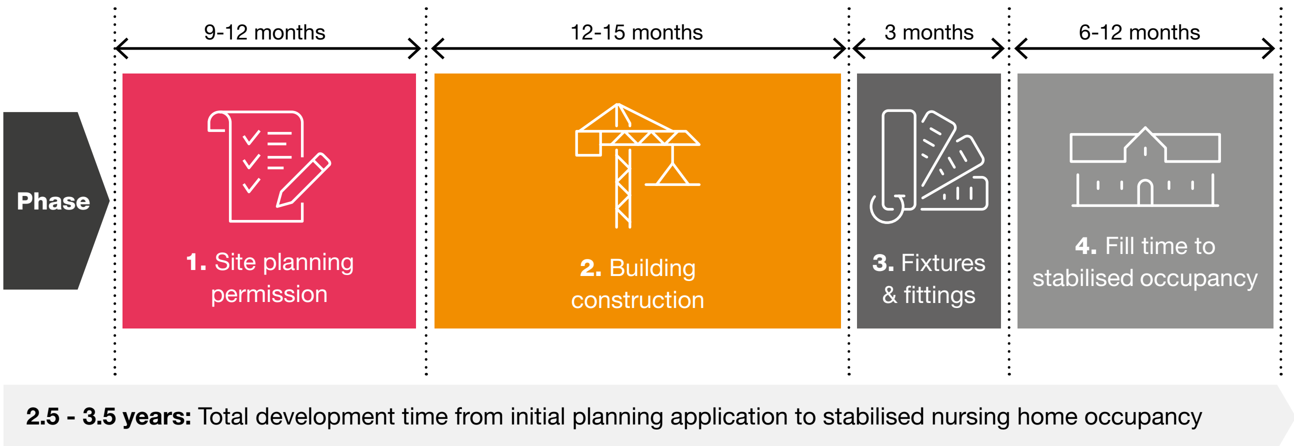
Sample development costs per nursing home bed,[1] 2017-22



- Development costs per nursing home bed have significantly increased in both rural and urban settings by 46% and 49% respectively over the past 5 years.
- Factors including rising land prices, construction costs and increased cost of financing have combined to push development costs significantly higher.
- Return on capital employed (via resident fees/Fair Deal Rates) is insufficient to justify current investment costs in the development of a new nursing home or further upgrades in existing facilities.
- Given the dominant role played by the Private & Voluntary sector in the provision of 84% of nursing home bed supply, future capacity will be severely impacted by the present diminishing business case.
- In a first for the sector in Ireland, a public private partnership has been agreed at €24 million a year for 25 years to design, build, finance and maintain 7 community nursing units, containing 530 beds. A total investment cost of €600m.

New nursing home bed capacity coming on stream over the next two years is the result of locked in development costs from investments that occurred pre 2022

Illustrative timeline for delivery of a new nursing home facility



Note: 1) Costs calculated from publicly available information relating to the cost of newly built nursing homes during this period
Source: SCSI, ECB, IPAV, NHI, RTE, Aedifica, Business Post, Irish Independent, PwC Analysis

No new nursing home capacity will be added as long as the prospective returns on investment remain lower than development costs

Investment Case Study: Prospective Fair Deal rates vs estimated threshold for new capacity development[1]

Case study:

- Analysis of a 2023 investment case for a new 90 bed nursing home facility in the Midlands revealed that current Fair Deal Rates are below the estimated threshold for new capacity development.
- As increases in the cost of care have outpaced growth in average Fair Deal Rates[2], operating income is no longer sufficient to cover the increased costs of construction.

Note: The case study is representative of a specific investment and point in time. Minimum rates required for investment feasibility fluctuate over time and are subject to a number of factors including but not limited to, macroeconomic conditions, nursing home size, location, etc.

Long lead in times involved in new nursing home developments mean the current non-viable investment case will have a limited effect on the amount of beds being added to the sector in 2023 **but will cause a significant drop in bed capacity expansion from 2024 onwards.**

Note: 1) Estimated threshold for new capacity development is based on the development cost per bed of a new 90 bed facility and assumes there are no additional forms of income for the operator such as ASC. Based on construction costs and operating environment remaining unchanged. All other financial parameters are held constant for the purposes of analysis. 2) Based on PwC Survey Results. | Source: PwC Analysis

6

Recommendations for the sector

Recommendations to ensure current and future nursing home bed capacity

> *"There is a need for everyone to come to the table and meet the reality of both nursing home care costs and investment entailed to provide specialised, person-focused care to people requiring nursing home services"*
>
> Independent Nursing Home Provider

	Current Situation	Recommendation
1. Immediate action to ensure short term viability	• Nursing home closures are rising in response to the increased cost of care and staffing shortages.	• Provision of the necessary funding to the NTPF to enable them to prevent further nursing home closures and residents being relocated to other homes. This measure is critical to prevent another wave of nursing home closures while the Fair Deal Rate pricing mechanism is reformed.
2. Reset of the value cost equation for Fair Deal Rates	• The present mechanism for determination of Fair Deal Rates does not reflect the current operating environment. Limitations to the framework means Fair Deal Rates do not encompass the differing and increasingly complex profiles of residents nor the accompanying staffing requirements.	• Reform the pricing mechanism to enable Fair Deal Rates to be based on resource allocation that is reflective of a resident's individual care needs. • Redraw what is included in the resident deed of agreement to recognise the changing operating environment since the introduction of the Fair Deal Scheme in 2009, current HIQA requirements in the provision of care, and facilitate the removal of ASC.
3. Engagement and transparency on future capacity planning	• Private & Voluntary nursing homes provide 84% of total bed supply but collaboration on national capacity planning and requirements is limited. At the same time, the business case for investment in new developments and expansion and upgrades to existing facilities has dramatically declined due to recent macro-economic trends and falling operational returns.	• To ensure future nursing home bed supply, an overhauled pricing mechanism for Fair Deal Rates requires a system that can incentivise the development of additional nursing home capacity and provide both a viable return on investment and ensure value for money for the State. • Planning engagement between stakeholders (similar to the Primary Care Centre model) will enable development of additional bed capacity in locations where it is most needed.