

Submission to the Low Pay Commission Consultation Process 2018

Impact on the Nursing Home Sector of Changes to the National Minimum Wage

Introduction

There are 577 Nursing Homes in Ireland provide approximately 30,000 long-term residential care beds across the Republic of Ireland. The Nursing Home Sector is an important element of the Health Service. The private and voluntary Nursing Home Sector is the main provider of long term residential care in Ireland.

Nursing Homes are labour intensive business and in many cases the main employer in a number of towns and villages throughout Ireland. The private and voluntary Nursing Home Sector, through its 437 homes:

- Provides care in a 'home from home' to over 23,000 people
- Provides direct employment to 26,000+ persons.
- Facilitates direct and indirect employment to approx. 44,000 persons
- It is a very significant employer, with these dedicated health and social care settings acting as economic dynamos with urban and rural communities.
- In many instances the private or voluntary nursing home is the largest employer with the community, playing a key role in supporting local goods and services providers.
- Provides diverse, wide-ranging employment that includes nurses, carers, caterers, admin staff, and ancillary workers. The 437 private and voluntary nursing homes also play a lead role engaging local health and social care professionals including GPs, therapists, dieticians, physiotherapists.

These dedicated health settings within our local communities fulfil a critical and key role for thousands across the country in healthcare delivery and job facilitation. The considerable growth in our older population, is to be welcomed but also presents severe challenges for our health social care services. The recruitment of suitably qualified staff to meet the clinical and healthcare needs of this cohort of the population is considerable. Nursing Home staff fulfil a mix of skilled, semi-skilled and unskilled roles across a range of medical and non-medical functions, contributing over €185 million to the exchequer on an annual basis in direct taxation.

Nursing Home operators also make a significant contribution to the state, through the hundreds of millions that is paid, by the sector, on annual basis in the form of commercial rates, water charges, VAT, licensing and registration fees.

On average, staff costs account for approximately 61% of turnover across the private and voluntary Nursing Home Sector. Evidence would demonstrate that this is rising with increased resident dependency and reduced length of stay. Jim Power "Cost Pressures in the Private & Voluntary Nursing Home Sector" July 2017 report highlights, the national minimum wage has increased by 65.5% between the year 2000 and the beginning of 2017, over the same period, the consumer price index increased by 33.6%.

In payroll terms, based on a sample of Nursing Home Ireland members, approximately 60% of the typical nursing home's payroll costs are attributable to semi-skilled and unskilled workers, with these workers employed across a range of roles and functions from Healthcare Assistant, Housekeeping/ Domestic Staff, Kitchen, Administration and Maintenance Positions.

Workforce Planning

In the 2009 survey of residents in Private and Voluntary Nursing Home 54% of residents were in the high and maximum dependency category

Since then in the latest survey 2014/2015 (Annual private Nursing Home Survey 2014/2015) over 65% of residents in Private and Voluntary Nursing Home care are of high or maximum dependency

This increased figure alone shows a large increase in dependency which will of course have an increased need for additional Healthcare Assistants and Nurses.

The unemployment rate in Ireland was recorded at 6.1 percent in November of 2017, a drop of 0.2 percent from the previous month and down from 7.5 percent a year earlier. The number of unemployed persons fell to 138.1 thousand, a decrease of 3.4 thousand and 29 thousand compared to March 2016. Unemployment Rate in Ireland averaged 10.90 percent from 1983 until 2016, reaching an all-time high of 17.30 percent in December of 1985 and a record low of 3.70 percent in December of 2000. Unemployment Rate in Ireland is reported by the Central Statistics Office Ireland.

However Nursing Homes have reported an inability to recruit suitably qualified Healthcare Assistants despite unemployment rates in Ireland reaching all-time lows. There is a substantial growth in our older population which in turn is increasing the demand for nursing home care throughout the country. At the same time, the sector, must deal with the challenges facing their business arising directly from a global shortage of qualified staff, both Nursing Staff and Healthcare Assistants and competition generally from other sectors of the economy for semi-skilled and unskilled workers.

Exacerbating matters are the increasing operating cost pressures, which are currently being aggravated by wage rate pressures, arising from increases in the minimum wage and proposals for the introduction by some employers in other sectors of the economy of a living wage (€11.50), and public sector pay deals, heighten the financial challenges which must be faced by operators across the Nursing Home Sector. The Department of Public Expenditure and Reform report on Nursing Homes Support Scheme Trends and Figures published in October 2017 highlighted the rising costs in public nursing homes due to pay agreements, increasing the overall pay bill which in turn increases the per-bed costs and puts pressure on the exchequer funding. The report further acknowledges that with the economy approaching full employment, recruitment in the private nursing home sector is become more challenging, possibly resulting in higher pay rates. (Page 13 DPER Report Nursing Home Support Scheme Trends and Figures)

Standard 23 of the National Standards for Residential Care Settings for Older People in Ireland requires that *"there are appropriately skilled and qualified staff sufficient to ensure services are*

delivered in accordance with these standards and the needs of residents” In nursing homes, staffing and labour costs are based upon the following:

- The hourly rate or salary for each employee;
- The number of hours;
- Staff recruitment and training costs; and
- Other direct labour costs such as social insurance etc.

As stated above the majority of nursing home residents are high dependency and require more direct care hours, It is logical therefore that any external factors that give rise to an increase in the hourly rate paid to each employee within a nursing home will have an inflationary impact on overall salary and wage costs. The average rate of pay, €10.35 per hour per HCA, is the basic rate of pay, nursing homes operate on a 24/7 basis 365 days a year, employees, particularly those on hourly rates will be paid a premium for working at night, weekends and bank holidays. Any increase in the minimum wage will therefore not only impact on the basic hourly rate, but also the premia rates paid.

Nursing homes, must maintain consistent staffing levels, - highlighting the “double wage” nature of the business and staffing requirements.

Funding

In Ireland, the Nursing Home Support Scheme (NHSS/Fair Deal) is the mechanism by which the state provides financial support to those requiring Nursing Home care. Since its introduction in 2009, increasing numbers of Nursing Home residents and their families have accessed the Fair Deal Scheme as a means of helping to fund the cost of Nursing Home care.

The latest published HSE figures for September 2017 inform at the end of that month 23,078 residents were financially supported by Nursing Home Support Scheme (Fair Deal) funded Residents. The number of residents funded under the Fair Deal has increased steadily since 2009.

The annual budget for the Fair Deal scheme, managed by the Health Service Executive for 2018 is €961.7 million and increase of €21.7 million on the €940 million provided for in 2017. This is further evidence of the increasing popularity of the Fair Deal scheme and its vital role in funding the cost of Nursing Home care. The increased budget for the Fair Deal Scheme has been in acknowledgement of our ageing population and to address demographic pressures and not increases to Nursing Home providers despite increased operating costs.

€12m of the additional 21.7m under the Fair Deal scheme is allocated for 2018 Pay Rate Funding (increase in pay rates under Lansdowne Road). This is an acknowledgement of increased staff costs in the nursing home sector

The increased salary costs must be recognised for all providers – not just HSE

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.

The Department of Public Expenditure and Reform report on Nursing Homes Support Scheme Trends and Figures highlighted this stating *"Compared to the same period in 2016, both the Exchequer funding and client contributions have increased...However, the number of beds has remained flat. This gives an indication of cost pressures emerging in the sector. These pressures may arise from cost inflation with wage increases as a result, and a decreasing nurse to bed ratio."* (Page 12 DPER Report Nursing Home Support Scheme Trends and Figures)

With the State, through the NTPF, enjoying a monopolistic purchaser and dominant position in negotiations with individual nursing homes, nursing homes operate within a constrained economic environment, where their income is fixed and they enjoy very little to no influence in how their income is set. This has significant implications in terms of the Nursing Homes operators' ability to manager and recover cost increases in their business and threatens the sustainability of current provision.

DKM Economic Consultants have carried out an Independent analysis of the Fair Deal and the current pricing model and found that its "operates in an ad hoc manner, lacks rationale, consistency and fairness". The report also went on to cite a lack of reference to efficient cost levels and return on efficient capital.

Conclusion

The nursing home sector, will not have the ability to pass on the cost increases in the form of price increases to their residents. . Any further increase in wage costs, will have to be either absorbed by the business or offset by reductions in non-pay related costs. This has possible implications in terms of the long-term sustainability for some nursing homes, particularly many of the smaller nursing homes, which could have a detrimental effect in the local communities where many of these homes operate as they are often the main employer in these areas.

Nursing Homes Ireland believe that a change to the National Minimum Wage, should only be implemented when it is fair and imperative from a financial viability point of view, when the fees payable to nursing homes under the Fair Deal, are not just inflationary linked, but recognise and reflect the external cost pressures placed on their business as a result of current and future increased in the National Minimum Wage. This requires additional funding year on year to the Nursing Home Support Scheme (Fair Deal) annual budget.

With heightening cost pressures, outside of payroll such as commercial rates, insurance costs, across their business, it is becoming increasingly important to the sustainability and financial

viability of these businesses that the fees payable to nursing homes under the Fair Deal, are not just inflationary linked, but reflect current and future increases in the National Minimum Wages. In order to ensure the long-term viability and sustainability of the sector and to ensure the delivery of additional capacity in the sector to meet the needs of an ageing population, it is vital that nursing home operators are remunerated at a level that can fund both the operating and capital costs of the business. A key element of any payment must be a rate that is cognisant and reflective of increasing payroll cost element of any nursing home's business.

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 national minimum wage in principle, 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 with increased annual budget.

The current situation, where one arm of the State (Department of Jobs, Enterprise and Innovation) is increasing the operating costs of all business, including nursing homes, by advancing higher wages in the form of increases in the minimum wage, has and will continue to directly impact on the financial performance of all nursing homes- public, private and voluntary.

The most obvious response to address an increase in costs, that is, either increase prices or reduce employee hours is, for the reasons outlined previously, not an option available to nursing home operators and therefore increases in salary and wage costs arising from an increase in the minimum wage become an additional cost that must be absorbed by the business.

In order to ensure the long-term viability and sustainability of the sector and to ensure the delivery of additional capacity in the sector to meet the needs of an ageing population, it is vital that nursing home operators are remunerated at a level that can fund both the operating and capital costs of the business. A key element of any payment must be a rate (FDR) that is cognisant and reflective of the increasing payroll cost element of any nursing home's business.

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.

Nursing home operators who are currently tied into contractual arrangements with the NTPF, which were agreed pre the introduction of the minimum wage and may have a period of time yet to run should be taken into consideration.



In a competitive labour market, any efforts or attempts by the private and voluntary nursing home sector to offer a living wage as a means of attracting and retaining staff represents the greatest financial challenge to the sector.

Unless the fee rates paid by the NTPF are cognisant of the increasing staff costs faced by even the most prudent of nursing home operators, it may not be financially viable or sustainable for all nursing home operators to continue to provide the level of care required to meet the needs of our older population. This has implications not just for the nursing home sector or care for our older population.

Deficiencies in long-term residential care supply contribute to delays in discharging patients from acute hospital beds, and contributes to the situation of over-crowding throughout Ireland's accident and emergency departments. This has serious knock on effects throughout the acute hospital and wider healthcare sector.

End NHI February 2018