NURSING HOMES OUTLOOK

CHALLENGES & OPPORTUNITIES AHEAD

Ireland's ageing demographic will place significant demands on the Irish healthcare system over the coming years but it will also present significant opportunities for those involved in the provision of healthcare services in the private sector.

Tadhg Daly
Chief Executive, Nursing Homes Ireland
NHI nursinghomesireland

The scale of the challenge was outlined in a report published by the ESRI in October 2017, entitled "Projections of Demand for Healthcare in Ireland 2015-2030", which noted that demand for public hospital services alone could increase by up to 37% in the case of in-patient bed days, while private hospitals can expect demand to increase by as much as 32%.

However, it is Ireland's ageing demographic, that could pose the most difficult challenge. The ESRI has forecast an even greater increase in demand for long-term and intermediate care places for older people and the chronically ill of between 40% and 54% from now to 2030. Similar increases are also projected for the delivery of home care services to older people. High average occupancy rates are evident across many counties (*Fig: 1*) and serve to highlight potential capacity issues across the sector in the near future.

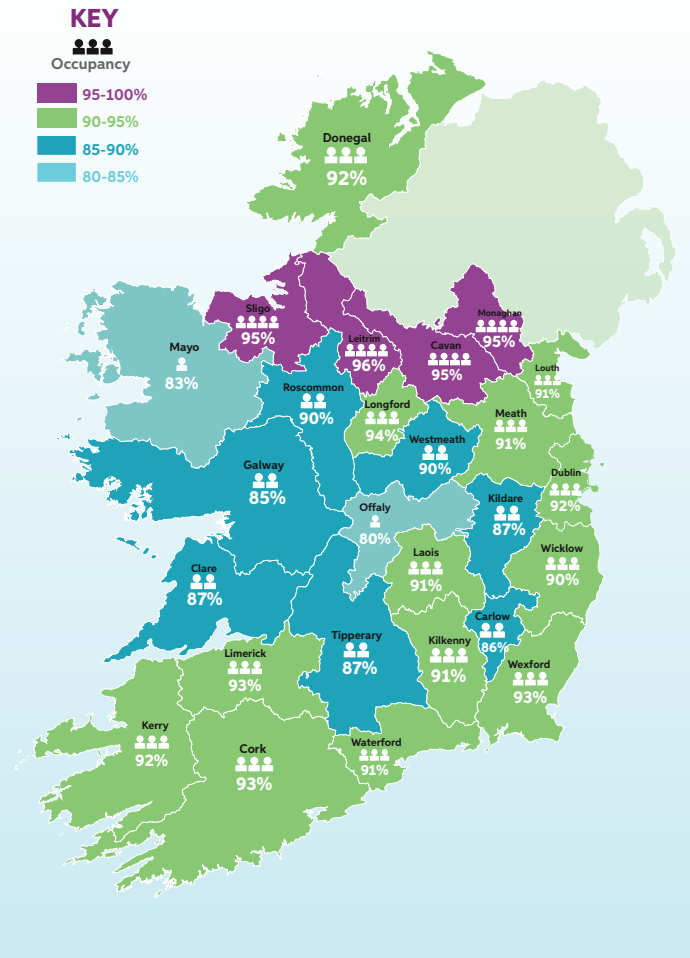
This increased demand will also have major policy implications for future Governments and will lead to significant additional capital expenditure.

For owners and investors in Ireland's private nursing home sector, these trends will also present opportunities to grow capacity to meet this expected demand. But before the sector can contemplate expansion, it has a number of major challenges to overcome, according to **Tadhg Daly**, Chief Executive of Nursing Homes Ireland, the representative organisation for private and voluntary nursing homes in Ireland.

"For our members – who provide the vast majority of beds in the country – the financial viability of their businesses is of utmost importance. It is essential that the sector is financially viable if it's to grow and meet the future demands that will be made on it. However, the State, as the monopoly purchaser of long-term residential care services from private and voluntary sector, needs to be cognisant of the important role that it plays and work to ensure that there is a level playing field for all providers, including those under its immediate remit through the HSE. Presently the State, under the auspices of the NTPF (National Treatment Purchase Fund), adopts a 'take it or leave it' approach with regard to fee negotiation. If a provider is dissatisfied with the Fair Deal Rate offered there is no independent recourse available for them to present their case. Effectively, if you fail to agree a fee with the State your nursing home faces closure. The State itself acknowledges the present funding model falls short, yet its commissioned review of the pricing mechanism is now a year past the deadline that was set for its completion. We require greater urgency from the State to address the substantial issues that are presenting."

He adds that the current system of funding long-term care for the elderly is discriminatory against the private sector, is lacking in transparency and does not represent the best value for money for the State. ▸▸

Fig. 1: AVERAGE OCCUPANCY RATES BY COUNTY



Source: Based on HIQA reports published up to 20 August 2018

Fig.2: FAIR DEAL COUNTY AVERAGES – August 2018

Source: HSE

Fig.3: HOMES IN FAIR DEAL SCHEME CLOSED SINCE 2013

Source: HSE and HIQA

This view is backed up by a 2015 report carried out by DKM Economic Consultants on behalf of the Department of Health, *(1.)* which noted that "while the Fair Deal scheme has delivered many benefits and is a significant advance on what was in place heretofore, its current pricing model operates in an ad hoc manner, lacks rationale, consistency and fairness, only applies to the private sector, and in the long run is unsustainable."

"We hope and expect that these issues will be addressed in the review of price-setting that is taking place. The review is also looking at value for money and this is important. If you look at what the State is paying the public nursing homes, there's a big difference and it's clear that it is not getting value for money as there is an average gap of 65% between what they are paying the private and voluntary sector and what they are paying the public nursing homes. This is not sustainable. Last year the economist Jim Power undertook a piece of research for Nursing Homes Ireland and he highlighted the fact that 35% of the budget was going to pay for just 20% of the beds," Tadhg says.

He also points out that the number of people availing of nursing home care has decreased." If you look at the number of residents that have been funded by the Fair Deal scheme, there has actually been a decrease over the past four years," he says.

"58 fewer people were funded by Fair Deal at the end of 2017. People availing of nursing home care are now presenting with very complex, high dependency healthcare needs that require intensive 24/7 care."

He also points to HIQA's review of healthcare and social care services for 2017 - which noted the closure of five providers last year - highlighting that the existing financial model was too difficult to sustain. *(See Fig: 3: Closures since 2013).*

While addressing the funding environment is of paramount importance to Nursing Homes Ireland and its members, there are other issues that are weighing heavily on the sector and ultimately on its ability to sustain services and generate sufficient profitability to be able to re-invest and expand.

"Some of the other big issues have to do with increased costs including wages, staffing, commercial rates and compliance with the regulations. For most of our members, as much as 62% of revenues are going back out the door in the form of wages and any increase has a big impact on the bottom line," he adds.

An analysis carried out by AIB on nursing homes since 2014, shows that operating costs have been growing rapidly but turnover and the Fair Deal rates have not grown at the same pace and this is impacting on the margins for nursing homes. *(See Figs: 4 & 5).*

"Now that the economy is buoyant again, it's also becoming increasingly difficult to recruit healthcare assistants. The increase in dependency levels leads to a requirement for substantial increases in staffing numbers. So we have people with higher acuity presenting, but there is a severe shortage of healthcare assistants," he says.

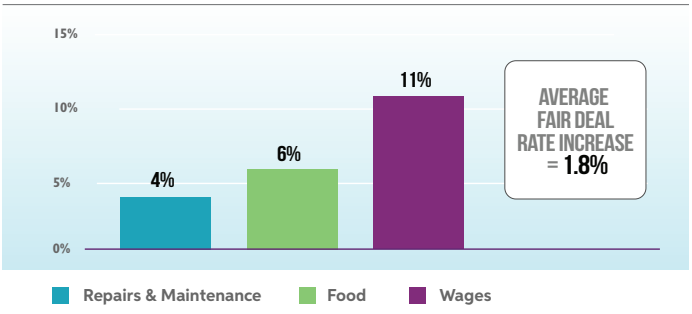
"In addition, commercial rates, food, transportation and utilities have all increased yet there doesn't seem to be an appreciation of this by the monopoly purchaser. Nursing homes can't pass these costs on like other businesses can," he adds.

He points out that the uncertainty surrounding the current funding regime is also having an impact on the sector's ability to expand and acts as a disincentive to prospective investors who will inevitably be needed to fund the development of the additional capacity that will be required over the next 20 years.

"Anyone investing in the sector needs to be able to secure their investment and the most important investors are the existing operators. If you have the monopoly purchaser capping your fee income, then it's financially unattractive to add on additional beds or expand capacity. In addition, for new operators looking at the sector, the forecast demand for additional capacity might look like a great opportunity on paper but when they scratch below the surface and do the maths, it's not as attractive as it might seem. When you would be expecting the numbers availing of nursing home care to be increasing, it is actually stagnant for the past number of years."

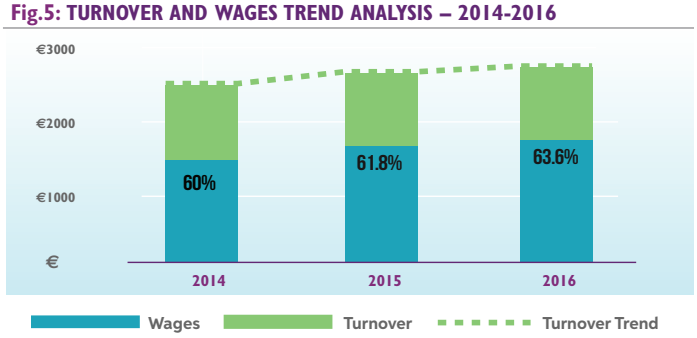
"Providing 80% of the capacity within our nursing home sector, private nursing homes are essential not just for provision of long-term residential care but for ensuring the State has a proper functioning health system. But if it keeps going the way it is now, we will have even more pressure on existing operators and we might even see a reduction in capacity which is in nobody's interest. We would be hopeful that the Government will take all this into account and that is why the ongoing review is so important not just for our members but for the future as well. The signals that they send to the private and voluntary sector need to be clear and unambiguous so that the sector can respond," he concludes. ■ *(1.) "Potential Measures to Encourage Provision of Nursing Home & Community Nursing Unit Facilities" (Dec 2015).*

Fig.4: KEY COST ANALYSIS – 2014-2016



Source: AIB Data

Fig.5: TURNOVER AND WAGES TREND ANALYSIS – 2014-2016



Source: AIB Data

SUPPORTING IRISH NURSING HOMES

AIB has been to the fore in supporting Ireland's nursing home sector in recent years and the bank sees plenty of opportunities for operators and investors.

Anne Bannon
Head of Healthcare & Life Sciences, AIB Business Banking

With a growing elderly population, a strong demand for both long and short-term care beds and improved economic conditions, the outlook for the Irish nursing homes sector remains positive, providing both opportunities and some challenges for the key stakeholders.

"AIB's lending to the nursing home sector has increased significantly as operators seek loan finance for new builds, extension of existing homes, shareholder buyouts and acquisitions in practically every county in Ireland.," says **Anne Bannon**, Head of Healthcare & Life Sciences, AIB Business Banking.

"There is a trend towards larger homes and consolidation in the sector as existing operators seek to increase bed numbers to get economies of scale and new investors enter the market. Larger homes can be more efficient and generate funds for reinvestment and expansion." she says.

"As cost pressures continue to build, the financial model underpinning smaller homes is becoming more difficult to sustain, especially where investment is required to ensure regulatory compliance into the future. Twenty private and voluntary nursing homes with 535 beds in total, have closed over the past five years and all had less than 40 beds." she says.

"There is evidence that smaller homes have lower Fair Deal rates, almost 80% of homes, with less than 40 beds, have Fair Deal rates below the county average rate. The national average Fair Deal rate for these homes was €910, €52 below the national average rate of €962 in August 2018" adds Anne. *(See Fig: 2)*

"Many smaller homes will need to secure significantly higher Fair Deal rates and/or scale up to remain viable in the future. Larger homes are generally able to secure higher Fair Deal rates. The average Fair Deal rate for homes with over 100 beds was €1,132, €170 above the national average in August 2018" she says. *(See Fig: 6)*

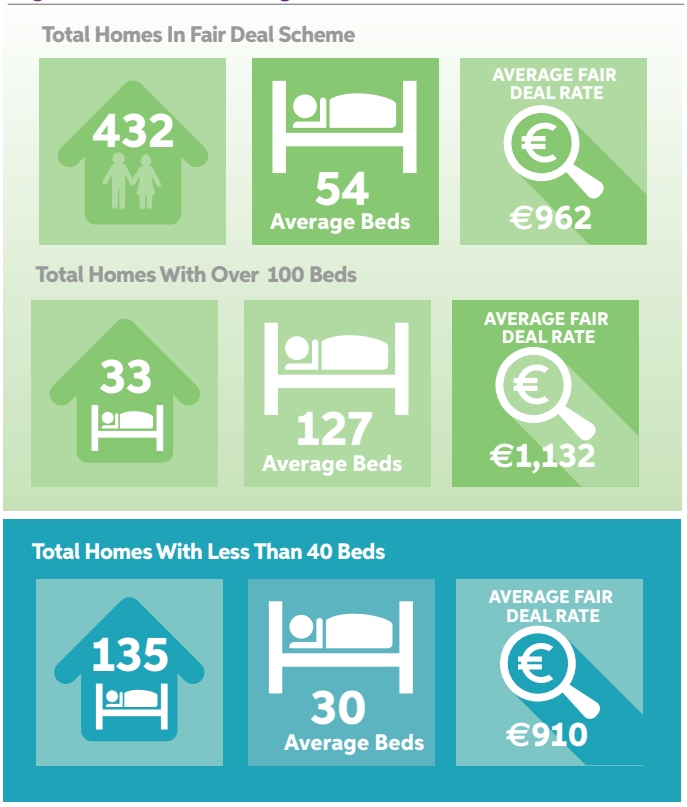
She points out that some nursing home operators may not have the appetite or resources to undertake the investment required to expand their bed capacity. However, she also adds that there are a number of nursing home operators who are actively seeking to achieve scale by acquisition.

"In many areas of the country especially where the Fair Deal rates are low, it may be more attractive to grow by acquisition rather than investing in a new build," she says.

John Kenneally, 'Kenneally Property' explains: "an established business generates immediate cash flow which can be used to fund investment in new beds if the existing nursing home has room to expand and if there is sufficient demand in the area. The cost per bed is likely to be significantly lower than the cost per bed of a new build. In addition, a new build could be a lengthy process that could take four or more years before a stabilized trading level is reached after planning is granted and development takes place."

"While in many parts of the country, demand for nursing home beds exceeds supply, in some parts of the country, occupancy levels are still below 90%. *(See Fig: 1)*. Based on the demographics, demand for beds in all areas will increase to some degree in the future. Excess capacity should fill up over time and there will be a requirement for new beds in the future," adds Anne.

Fig.6: FAIR DEAL RATES – August 2018



Sourcse: HSE website, HIQA

Mary-Clare Roche-Nagle
Head of Residential & Nursing Home Care, AIB Corporate Banking.

"Consolidation in the market looks set to continue," says **Mary-Clare Roche-Nagle**, Head of Residential & Nursing Home Care, AIB Corporate Banking.

"A number of European investors have made significant investments in the sector having acquired existing nursing home groups in order to create a platform for further expansion," she says.

"Many homes have changed hands in the last 18 months across the country with multiples ranging from eight times EBITDA and exceeding ten times in some instances. There is currently high demand for modern, purpose-built nursing homes with a number of interested investors and operators willing to purchase which is proving attractive for potential sellers," she adds.

She also points out that there has been an increase in the number of new nursing home developments over the last number of years, an activity which almost completely halted during the recessionary years.

"The majority of the new development activity has been predominately Dublin-based. It is no coincidence that Dublin has a strong demand for nursing home beds and it also has the highest Fair Deal Rate across the country and this is fuelling development activity. However, construction costs continue to increase with investors and operators carefully balancing and considering the cost benefit of such projects given the 'capped' nature of revenues under the Fair Deal scheme once the home is operational. More recently, there has been an increase in new nursing home development activity outside Dublin. The total project cost per bed, excluding site costs, is currently ranging from €110,000 to €165,000," she says.

"The sector will continue to evolve with some new lending structures being introduced which may facilitate further bed capacity and investment not only in Dublin but across the country where demand is also clearly evident across many counties. Overall, the outlook for the sector continues to be positive."

"AIB understands the key role nursing homes play in Ireland's healthcare sector and we are committed to supporting its future development. We have a range of products and services to assist with business expansion, asset finance and working capital," says Anne Bannon.

"In addition to our Sector Specialist teams in both Business and Corporate Banking, we have a team of dedicated Business Advisors and Asset Finance Representatives across the country who are keen to develop relationships with existing and prospective new customers in the Nursing Home Sector," she concludes. ■

CASE STUDIES

Two AIB customers and nursing home owners share their views about the sector.

Set up in 2007 in the picturesque village of Kinsale, Co. Cork, Haven Bay Care Centre is owned by **Owen O'Brien** and is one of the biggest nursing homes in Cork.

The centre's state-of-the-art on-site facilities include a doctor's surgery, a podiatry clinic, physiotherapist and hair salon. With demand for places at a high and a waiting list in place, the nursing home has recently undergone a significant expansion over the last 12 months and, backed by AIB, it has plans to extend again in 2019.

"We originally had 79 rooms and we have just added on an extension with an additional 21 rooms for which we have received HIQA approval. Due to demand for quality care we also have plans to add another 28 beds during 2019," says Owen O'Brien.

"While the Fair Deal rates aren't going up, everything else from rates and insurance and staff costs are."

With a background in civil engineering, he was conscious of the different regulations for the sector, particularly those relating to construction. "The nursing home was constructed with the impending HIQA regulations in mind. The regulations are good as they standardise everything, but they are also important and they are there for a reason," he says.

He welcomes the HSE review of the Fair Deal system that is underway and says that, at an operational level, it has improved over the past few years.

"The Fair Deal does what it says on the tin and, in many ways, it actually is fair, although there are huge inconsistencies between what the private sector gets and what the public sector gets which need to be addressed. Overall, however, it seems to be working and while in the past there were delays in processing payments, the system is a lot better and more streamlined now," he says.

"While the Fair Deal rates aren't going up, everything else from rates and insurance and staff costs are. That's a major concern but once your contract is up under the Fair Deal, you have to renegotiate your deal, so it's important to make sure that your increased costs are reflected in this. Some renegotiate it every year, others every two or three years and others fix it for a period of time which - like fixing a mortgage rate - offers a degree of comfort and certainty," he says.

Like many nursing home operators, staffing is becoming an important issue for Owen. With 100 full and part-time staff, however, he says that, so far, Haven Bay, has coped well.

"We are fortunate to have fantastic staff and management and that is so important in any nursing home. Being located in Kinsale has helped," he adds. ■

With a back-ground in human resources in the medical industry, including stints working for Boston Scientific in Ireland as well as a hospital management company in Saudi Arabia, **Philip O'Donnell** and his wife Anne Mc Gilloway own and manage the Áras Uí Dhomhnaill nursing home in Milford, Co. Donegal.

The couple first bought the nursing home back in 2011, having previously managed the nearby Lake House nursing home in Portnablagh for four years. It now has 48 beds – 46 of which are currently occupied.

"Originally we were approached by a group of local business people who had invested in building Áras Uí Dhomhnaill and they asked us to come up with a rescue plan for it. The rescue plan was not accepted by their bank at the time and was put into receivership. We then asked the investors if they were happy for us to bid for it and they gave us their blessing. With a bank loan as well as investment from two private investors, myself and my wife, we bought it from the receiver in May 2011," says Philip.

"In 2015, the nursing home was performing well enough for us to buy out the shares held by the private investors," he adds. The finance to buy out the departing shareholders as well as a refinancing of a previous business loan, was provided by AIB, says Philip.

"AIB had previously given us money to build a house in 2013 at a time when it was difficult to get finance. The bank was extremely efficient and quick at making decisions," he says.

The home currently employs 46 staff on a full-time and part-time basis but, as Philip explains, the retention and hiring of staff is a challenge.

"AIB had previously given us money to build a house in 2013 at a time when it was difficult to get finance. The bank was extremely efficient and quick at making decisions."

"Staff retention and hiring is difficult now and if we had to advertise for qualified staff, it would be very difficult as most people who want to work are already working," he says.

Like many nursing home owners operating within the private sector, he is critical of how the National Treatment Purchase Fund (NTPF) sets the rates under the Fair Deal Scheme.

"I think the Fair Deal Scheme is great per se, but I have difficulties with it when it comes to the NTPF telling us what we can charge as I feel it's unfair," he says.

"As a private business, we operate it in a very efficient manner and we are very good when it comes to managing our costs. When I submit my accounts and show all expenditure to the NTPF, they can actually see how efficient and competitive we are. Yet when it comes to nursing homes that are not as efficient or competitive as ours, they end up paying a lot more because of their inefficiencies. So, in effect, they are rewarding the homes that are inefficient at a time when they should be encouraging and incentivising them to become more competitive when it comes to managing their overheads. That's wrong and I think there should be some form of incentive for nursing homes to keep their costs down and they should be rewarded in some way for doing so. If there was some form of incentive or bonus, this would also incentivise other nursing homes to become more competitive and it would save the NTPF a lot of money," he says. ■