Submission by

The New Zealand Aged Care Association

to the

Ministry of Business, Innovation and Employment

on the

2020 Minimum Wage Review

19 October 2020

About the NZACA

1. This submission is from the New Zealand Aged Care Association (NZACA) the peak industry body for the aged residential care (ARC) industry in New Zealand. We represent 36,200 beds of the country's rest home industry, or about 91% of the total supply. Our members' services include four categories of care, rest home, hospital, dementia and psychogeriatric, as well as short-term care, such as respite.

2. Our members range from the very small stand-alone care homes from as little as six beds in more remote areas of the country right through to the larger care centres of more than 100 beds, some of which are co-located with retirement villages.

3. Advocating and lobbying to government to shape policies and create an environment that helps our members provide outstanding quality care for older New Zealanders is at the heart of what we do. We provide leadership on issues that impact on the success of our members, for example, the annual contract negotiation with District Health Boards (DHBs), the pay equity settlement and workforce recruitment and retention.

4. We produce valuable research, professional development opportunities, information and publications to help our members make informed business decisions, improve capability and keep them up to date with industry developments. We also run the annual industry conference, which is the showcase event for New Zealand's aged care sector.

5. Any enquiries relating to this submission should in the first instance be referred to John McDougall, Data and Insight Specialist john@nzaca.org.nz or by phone on 04 473 3159.

Overall comment

6. This submission is in response to a letter from Gerard Clark, Manager Employment Standards Policy, MBIE dated 21 September 2020 inviting the NZACA to make a submission on the 2020 minimum wage review. The NZACA thanks MBIE for this opportunity.

7. Care workers in Aged Residential Care (ARC) began receiving new wage rates under The Care and Support Workers (Pay Equity) Settlement Act (2017) in July 2017 which raised their pay well above the then minimum wage. Since then, only a minority of workers in ARC are on the minimum wage. Based on our 2019 Member Profiling Survey, we estimate there are around 2,900 workers on the minimum wage in ARC, all in non-care roles. These constitute around 10% of the estimated 28,000 wage workers in the industry.

8. Workers on the minimum wage are employed in the non-care services of kitchen and catering, cleaning, laundry, maintenance, and gardening. We estimate there are around 8000 workers providing these services in ARC, and of these around 36% are on the minimum wage.

9. The NZACA is a membership body, so we have surveyed our members on minimum wage increases. This survey was to ensure our submission accurately reflects both the effects of the minimum wage increases of recent years and members' expectations of the likely effects of next year's increase. The findings from this survey underlie this submission.

10. Nearly two thirds of ARC providers who responded to the survey employ workers on the current minimum wage of $18.90. The services most frequently provided by workers on the minimum wage are kitchen/catering and cleaning. Some 50% of responding providers have kitchen/catering workers on the

minimum wage. Similarly, 50% of responding providers have cleaning staff on the minimum wage and 30% have laundry staff on the minimum wage.

11. Important context to this submission is that ARC providers are not able to set the price they charge their residents. ARC providers are essentially price takers; the industry has to accept the resident day rate offered by a monopsonist purchaser (the DHBs acting collectively) following an annual negotiation process. Aged care providers cannot opt out of the annual Age-Related Residential Care (ARRC) Services Agreement with the DHBs. There is some scope for them to earn limited revenue above the contract resident day rate through accommodation supplements for premium room services, but this is subject to controls under the ARRC services agreement. In brief, the ARC industry cannot simply recoup cost increases by raising prices, unlike its suppliers.

12. Returns to providers of Aged Residential Care have fallen over the years. Appendix C Financial Modelling of ARC provision, in the independent report *Aged Residential Care Funding Model Review* (EY, August 2019) commissioned by Central Region's Technical Advisory Services (TAS) on behalf of the Government, demonstrates the lack of profitability in Aged Residential Care. The EY analysis confirms analyses commissioned by the NZACA that show increases in the contract resident day rate (including supplement to compensate providers for the Pay Equity settlement) have not kept pace with increases in costs, including wage costs, over the long term. Increasing acuity of admissions at rest home level have not been reflected in increases in the bed – day price and residents are being funded by DHBs only for rest home level care when hospital level care is warranted[1].

Effects observed as a result of changes to the minimum wage since 2018

13. We asked our members some specific questions on possible effects of increase in the minimum wage since 2018. First, we asked if the increases have affected their business's ability to recruit good workers. Most respondents (62%) said there has been no effect, but 26% said there has been some positive effect. A minority (12%) said there has been a negative effect.

14. Members were asked whether the increases in the minimum wage since 2018 affected their business's ability to retain workers. The most common responses (63%) is that it had no effect on their ability to retain workers, but nearly a third (32%) noted that the increases have had a positive effect on retention.

15. Another question we asked members is whether the increases in the minimum wage since 2018 affected the morale and/or performance of their workers on the minimum wage. Nearly half (46%) of respondents reported a positive effect. A slightly larger percentage (48%) reported no effect on morale or performance.

16. Members were asked to indicate the effect increases in the minimum wage since 2018 had on pay relativities of non-care workers who were paid above the minimum wage. For half (50%) of respondents the minimum wage increase and care worker's Pay Equity increases are both reasons for pressure to increase pay for non-minimum wage workers more than the typical LCI increase. Some 9% of respondents identified the minimum wages increases as the main source of pressure for above-LCI

[1] *Caring for our older Kiwis: the right place at the right time*, NZACA (2018)

increases, but this was outweighed by 20% who identified care worker's Pay Equity increases as the main source of such pressures.

17. Respondents were asked about the effects of the increases in the minimum wage since 2018 on the financial health of their ARC facility or group. The great majority (81%) of providers who have workers on the minimum wage reported that increases in the resident-day price since 2018 have not fully off-set the increases in the minimum wage since 2018. One provider pointed out an indirect effect of the increases as follows:

The minimum wage impact itself is relatively minor (now that caregivers are paid much higher). However, we received 6 letters from suppliers stating that they had to put their prices up as a result of the last minimum wage increase so the main impact to the business are cost increases related to the minimum wage increase.

18. In summary the increases in the minimum wage since 2018 have:
- had a positive effect on morale/performance of non-care workers;
- had no significant effect on recruitment and retention of non-care workers;
- contributed to pressures to pay above - LCI increases to non-minimum wage workers;
- had adverse impacts on the financial health of providers as they have not been fully compensated for by increases in the contract resident-day price.

Responses to changes in the minimum wage

19. The survey included questions on how providers responded to the minimum wage increases since 2018. Only a minority of respondents say they are making more use of part-time or casual workers to keep their wage costs down. Some 5% of respondents said the minimum wage increases were the main reason for making more use of part-time and casual workers, and 9% said the minimum wage increase was one reason among others for doing so. A further 5% said they are not making any more use of part-time or casual workers yet but are planning to do so.

20. Aged Residential Care providers vary in the extent to which non-care services are provided by their own employees or are outsourced to contractors. We therefore asked our members about the effects the increases in the minimum wage may have had on use of out-sourcing. Very few providers reported making more use of outsourcing due to the minimum wage increases. Some 4% said they have not yet made more use of outsourcing of non-care services yet but are planning to do so.

21. Respondents were asked to comment in general about the effects of the minimum wage increases and their business's response to these increases. The dominant theme is that the increases in the minimum wage have contributed to the financial strains of running an ARC business.

22. Most of our members seek to be good employers who pay above the minimum wage, but the consequence of the recent increases is that it is becoming increasingly difficult to do so, because the annual increase in the contract resident-day price are not sufficient to cover cost increases. The following quote from a member encapsulates the challenges that arise:

Most of our non-care staff are paid above the minimum wage, with the exception of new staff hired who do not have any experience or training. When the minimum wage increases, there is significant pressure to increase (the pay of) *all of the non-care staff as some of their wage is suddenly equivalent or close to the new minimum wage. They suddenly feel de-moralised, not appreciated and that their loyalty and/or experience is not acknowledged. There is significant financial strain on a business to increase a large proportion of wages to maintain the pay gap between the newly hired, other non-care staff as well as care staff with additional responsibilities and then the nurses to reflect their skills and experience. What this could mean for us as a business is for us to reassess roles and the structure of these as the gap between minimum wage and staff with qualifications is narrowing so that it may mean we employ less staff on solely for non-care work. This would reduce opportunities for people seeking work without higher qualifications.*

Another provider notes that:

(This organisation) *does not want to be a minimum wage employer. We have a soft policy to pay a minimum of $0.50 above the minimum wage. This differentiation will become harder to maintain as the minimum wage continues to experience significant % increases*

Expected effects of 2021 indicative minimum wage increase

23. We now turn to the expected effects of the indicative adult minimum wage of $20.00 from 1 April 2020 (5.8% above the current $18.90). As noted above, currently around 36% of workers in the non-care services of kitchen and catering, cleaning, laundry, maintenance, and gardening are on the minimum wage. If the indicative figure of $20.00 is implemented in April 2021 we expect this percentage to rise to 43% (allowing for a 2% increase for non-care workers not falling within the ambit of the minimum wage in 2021).

24. In our minimum wage impacts survey, we asked members about the effects they expect if the Government's indicative minimum wage for 2021 of $20.00 is implemented. Nearly two-thirds of respondents (63%) said they expect a negative impact on the financial bottom line, and that no further actions to control wage costs are possible. Some 12% said measures already in place to control wage costs will help offset the impact on the financial bottom line. A further 17% said they would take further measures to control wage costs, such as reducing hours available for workers.

25. Members were asked to comment on how the current and continuing COVID-19 environment is likely to affect their business's ability to manage next year's increase in the minimum wage if it is the indicated $20.00.

26. As is well known, the likelihood of infection with COVID-19 resulting in serious morbidity or death rises steeply with age. In New Zealand concerted action by ARC providers, the NZACA, DHBs and Government, limited outbreaks in March-May 2020 to 6 rest homes (across 5 clusters) and 16 COVID-19 related deaths of ARC residents[2]. We know from overseas that the risk of COVID-19 poses to ARC residents is very high,

[2] *The Long-Term Care COVID-19 situation in Aotearoa New Zealand*, Etuini Ma'u et al (2020). Online report on LTCcovid.org.

as illustrated by the 652 fatalities in Australian Government-subsidised residential aged care facilities in Melbourne to October 2020[3].

27. The Government created a dedicated fund of $26 million to partially compensate aged care providers for the cost of precautions associated with isolating new residents and those returning from hospital, purchasing PPE, additional cleaning costs, increased staffing and other costs. This only covered the March-May lockdown period. The COVID-19 Leave Support Scheme has been drawn on to cover the costs of cover for at-risk workers taking leave.

28. The COVID-19 Leave Support Scheme is continuing but there are no other continuing programs to compensate ARC providers for the costs of COVID-19 precautions and preparations. The COVID-19 environment has continuing consequences for the Aged Residential Care industry. including:

- Our members report that elevated expenditure on PPE (including gloves, masks, face shields and gowns) is ongoing at COVID-19 Alert Levels 1 and 2. Many providers require caregivers to wear masks and gloves at all times, changing them at least three times a shift. Prices of PPE have remained extremely high; members have reported that the cost of disposable masks are now 10 times pre-COVID levels. Prices are expected to stay high for the duration of the pandemic internationally.
- There has been a great increase in absences for sickness compared to pre-COVID 19 levels, not all of which are covered by the COVID-19 Leave Support Scheme. Workers are expected to stay away when they have any respiratory symptoms, and they must not work while waiting for results of COVID tests. The costs of covering absences for sickness is a major cost to our members.
- If the statutory sick leave is increased to 10 days (which the Labour Party has indicated will happen if they lead the next government) this will also have an effect.
- Other ongoing costs resulting from the continuing COVID-19 pandemic include increased costs of medical supplies and costs of extra cleaning.
- Additional staff have been engaged by some providers to monitor visitors. As one respondent to our survey stated:

  We have increased activity and reception hours to meet the COVID demands for screening visitors and providing more support to residents when in lockdown to assist with social isolation.
- While the pandemic continues internationally the risk of COVID escaping MIQ remains. How the Auckland August cluster began remains unknown. In this situation aged care providers remain prepared to reintroduce measures required at alert levels 3 and 4 such as isolating new admissions and providing support to residents if visiting and outings are again restricted.

29. On 1 July 2021 care workers will receive their last increase under the Pay Equity Settlement. The increases are in the range 5-9%, depending on qualification level. The hourly rate for care workers at Level 0 will rise from the current $20.50 to $21.50; this is a small margin above the indicated minimum wage of $20.00. Respondents to the survey said the reduced margins between the minimum wage and care worker pay rates is source of discontent among those at the lower end of the Pay Equity

[3] https://www.health.gov.au/resources/covid-19-cases-in-aged-care-services-residential-care

qualification scale. This is seen as negating the key purpose of the Pay Equity settlement i.e. that the skills and responsibility of care workers should be compensated at a wage significantly above the minimum wage. At the time of the implementation of the Pay Equity settlement in 2017, the Level 0 rate was 20.6% above the minimum wage. It is now 8.5% above and will be 7.5% above in July next year assuming the indicated minimum wage of $20.00 is implemented. This eroding margin presents a recruitment challenge for the ARC industry.

30. Some respondents to the survey noted that increases in the minimum wage result in pressure from workers receiving more than the minimum wage for a pay rise that restores previous relativities. Currently 51% of employees providing non-care services receive a wage that is more than the minimum and up to 20% above it. The indicated increase in the minimum wage to $20.00 will cause pressure on employers to grant percentage increases for most non-minimum wage workers that exceed what they would otherwise receive. As a respondent noted:

All other staff expect a wage increase when the minimum wage increases as a beginning unskilled worker earns relatively close to other workers with experience and as a small business owner we cannot absorb any increases.

31. Another cost pressure on ARC providers is the need to increase pay of Registered Nurses to compete with the DHB hospitals. That current funding of ARC is not sufficient for RN pay parity has been recognised by the DHBs. They acknowledge that recent increases in the contract resident-day price have only been sufficient to restore relativities that prevailed prior to the 2019 NZNO DHB MECA. One consequence of the pay differential is high turnover of RNs - ARC providers are perpetually bearing the cost of recruiting (frequently from overseas) and training RNs only to have them attracted away by DHB hospitals after a few years.

Conclusion

32. The NZACA view is that any further accelerated increases in the minimum wage should be deferred until after the COVID-19 pandemic, at least. We propose the increase in the minimum wage next year should be in line with the increase in the CPI or the private sector LCI. If the increase is around 2%, the 2021/22 minimum wage would be $19.28. Such a realistic increase would have the following benefits:

- Providing workers on the minimum wage with a reasonable wage increase and job security at a time of serious job losses in other sectors of the economy, due to COVID-19[4].
- Avoiding the knock-on effect of ARC providers having to increase the wages of non-minimum wage workers at an accelerated rate to maintain relativities.
- Maintaining non-care workers' hours i.e. less likely they will be reduced to control costs.
- Mitigating the financial strain on NZ's aged care providers arising from the COVID-19 pandemic.

33. The NZACA would welcome the opportunity to discuss this submission with MBIE officials.

END

[4] See for example https://www.careers.govt.nz/job-hunting/whats-happening-in-the-job-market/covid-19-and-the-labour-market/