AGED RESIDENTIAL CARE

A briefing from the Aged Care Association
to the Ministers of Health, Finance, Immigration,
Public Service, Seniors and Women

November 2023

Aged Care Association
NEW ZEALAND

TĒNĀ KOE MINISTER

Congratulations on your appointment. We look forward to a very positive and productive relationship with you over the next term of government.

This briefing provides you an overview of the aged residential care sector and the issues it faces due to decades of underfunding.

The key issues we request your help to address are:

» pay parity between aged care nurses and their counterparts working in public hospitals

» pay equity for care and support workers

» the aged care service and funding model review.

We are seeking assurance that your government will help us overcome these problems and every New Zealander when and where they need it.

What ask that you give this health workforce matter priority, set firm expectations of your officials to act fairly and collaboratively, engage with us, and help us achieve an equitable, properly funded aged residential care sector.

We are more than happy to provide further information, data and insight.

Ngā mihi nui

S.J. O'Dowd

Simon O'Dowd
ACA CHAIR

AGED RESIDENTIAL CARE – A SECTOR IN CRISIS

The Aged Care Association (ACA) is the peak sector body for the aged residential care (ARC) sector in New Zealand.

Aged Care Association NEW ZEALAND

40,000
BEDS

35,000
RESIDENTS

670
AGED RESIDENTIAL CARE FACILITIES
Rest home, hospital, dementia, psychogeriatric, respite and palliative care, and care for around 700 younger people with disabilities.

66%
Of beds are run by:
- religious institutions,
- charitable trusts,
- family-owned,
- not-for-profits
- privately owned

34%
Of beds are operated by listed companies

Te Whatu Ora Health New Zealand

10,748
PUBLIC HOSPITAL BEDS

1%
Of beds are provided by Te Whatu Ora

Residents may be:

» very frail and clinically unstable,

» well but disabled and have very high care needs,

» cognitively impaired or with mental health issues, with some requiring a secure environment,

» receiving end of life care.

Funding for aged residential care is a mix of means-tested user-pays and government subsidy.

Aged residential care providers are contracted by Te Whatu Ora to provide care services at a rate that is set annually.

Despite leading the world in the care of the elderly during the Covid crisis, aged residential care services, funded at a rate that is set annually by Government is not perceived with the same esteem as other areas of healthcare either in the public sphere or within government agencies. Being the "second-class citizen" of the health and disability sector has resulted in a sector that is not able to respond to increasing demand, nor remain fit-for-purpose.

For far too long, New Zealand has been underfunding the aged care sector. It has now become unsustainable, with residential facilities closing regularly. The aged care workforce is under-resourced and overworked. Facility owners are stressed and under-funded.

Looking ahead to 2030 and beyond, aged care beds will become extremely limited. And while this will directly impact elderly New Zealanders looking for care, it will also have a huge domino effect on everyone else. From burnt out healthcare workers, to families caring for family members at home, to kiwis facing unbearable hospital wait times, the aged care crisis is affecting us all.

OUR ASPIRATIONS

✓ **Quality staff who stay in the sector due to good conditions and fair pay.**

✓ **Equitable access to aged care, no matter who you are or where you live.**

✓ **Enough aged care beds to meet the projected increase in older New Zealanders.**

✓ **A positive effect on the public health system and country.**

HOW AGED RESIDENTIAL CARE IS FUNDED

Funding for aged residential care is a mix of means-tested user-pays and government subsidy. This is called the bed-day rate.

Aged residential care providers are contracted and funded by Te Whatu Ora to provide care services at a rate that is set annually. Providers are not permitted to charge any higher than this rate for care services but can create additional revenue by way of accommodation supplements for premium rooms.

Government funding is provided annually, at a rate far below what is required for a sustainable aged residential care sector. In addition to the inadequate funding, the contract between Te Whatu Ora and providers is no longer fit for purpose. A contract that works for the sector is required if we are to see investment for the future.

OCCUPATIONAL RIGHT AGREEMENTS IN AGED CARE

Occupational right agreements in aged residential care are becoming much more common, whereby a resident will purchase the accommodation part of their care via a capital investment, and the care portion will be funded in the usual way.

RETIREMENT VILLAGES

Aged residential care is different from retirement village living. Villages provide independent living, whereas aged residential care is dependent living for people who require high levels of day to day and health care. Retirement Villages are entirely privately funded by retirees who purchase an “occupational right agreement” (ORA) by way of a capital investment.

Retirement Villages often have aged residential care facilities on site, to provide a continuum of care for their residents and some are able to subsidise the aged care part of the business with revenue from the village. However, this is an unsustainable business model and we are seeing a decline in ARC beds being built due to the loss-making aspect of residential care.

Stand-alone aged care facilities do not have this option and are entirely at the funding whim of the government.

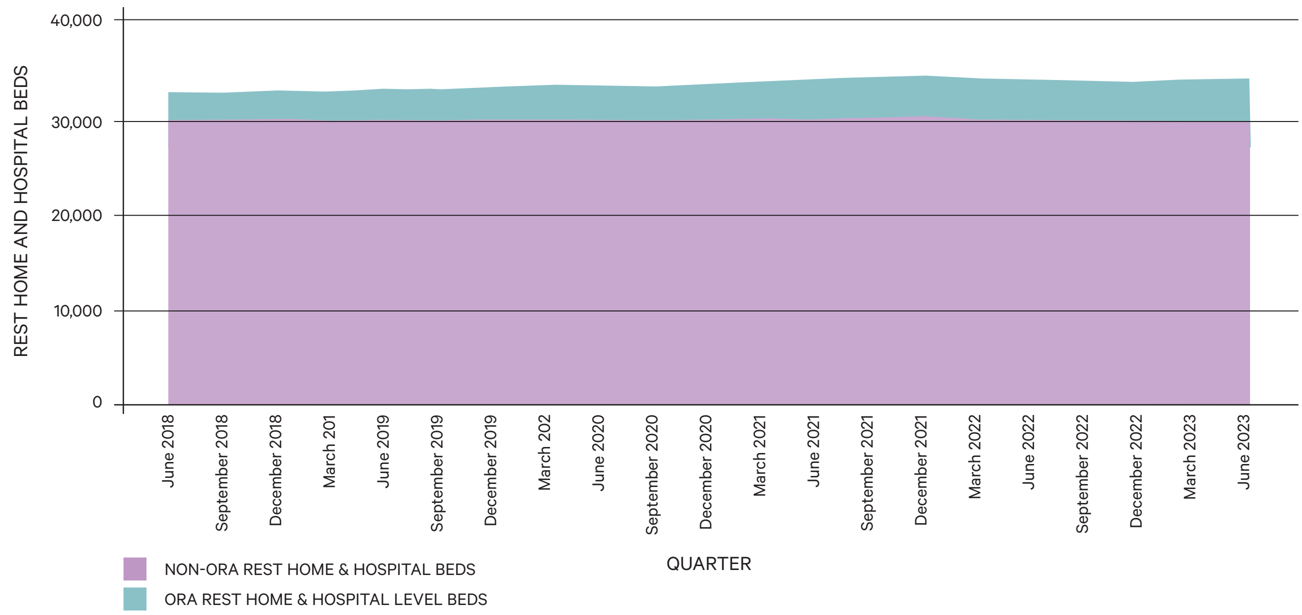
THE COST OF BUILDING

It costs around $250,000 to build and bring a bed online and can take several years from land purchase to admitting a resident.

$250,000

TO BUILD AND BRING A BED ONLINE

TREND IN SUPPLY OF REST HOME LEVEL & HOSPITAL LEVEL CARE BEDS (INCLUDING DUAL SERVICE BEDS) – ORA VS NON-ORA



THE COST OF CARE

THE ACTUAL PRICE TO GOVERNMENT OF A DAY IN ARC HOSPITAL-LEVEL CARE:

» The estimated price to Government of a day in ARC hospital-level care that would provide break even return to providers: $372

» The estimated cost of a day in a public hospital: $1,700

Cost of hospital level care in ARC facilities is less than a quarter of bed-day cost in a public hospital medical ward bed.

ARC HOSPITAL-LEVEL CARE

$372

PUBLIC HOSPITAL

$1,700

“

We know what is needed. With sustainable funding, we can provide solutions that will enable the aged care sector to support the health system, not overload it. We need decision makers to make it a reality.

ORA BEDS

+51.8%

IN THE FIVE YEARS TO JUNE 2023

NON-ORA BEDS

-0.3%

IN THE FIVE YEARS TO JUNE 2023

“

I wanted to take a moment to express my sincere gratitude in letting me fulfil my dreams of becoming a nurse here in New Zealand by gaining knowledge and experience in giving care to the elderly.

— Nurse Janelle-Lyn Tuvera, with Aimee Bay Ungan, Lonsdale Care Centre, Foxton

THE SITUATION RIGHT NOW IN AGED RESIDENTIAL CARE

Aged care has been chronically underfunded by successive governments, resulting in a lack of capital investment in facilities. This comes as the sector grapples with rising costs and an acute shortage of 1200 registered nurses.

It makes it very challenging to attract and retain staff and we fear these valued health professionals will move overseas where conditions and pay are far better.

Many providers have had to close beds, with a number closing their doors for good. In the past year, over 1000 beds have closed permanently and 1200 closed temporarily due to staff shortages. More closures are expected to follow.

The financial returns of ARC operations which rely on the bed-day rate alone are insufficient to support investment in building new capacity and replacing ageing facilities.

To remain operational, many providers are forced to charge accommodation supplements for premium room services, or cross subsidise from retirement village operations, where they exist. Smaller providers, particularly those in rural and low socio-economic areas cannot afford to refurbish or expand to meet demand.

Subsidy-only or ‘standard’ beds are becoming a rarity, as more providers move towards accommodation supplements and ORA beds in an effort to remain financially viable. This raises equity of access issues for New Zealanders who cannot afford a premium charge or an upfront capital ORA purchase.

Underfunding also limits the sector’s ability to attract and retain nurses and discourages innovative practices or new models of care. A survey of ACA members in October 2022 showed annual turnover of registered nurses in aged care to be at an all-time high of 50 per cent.

A recent study by Ansell Strategic shows the issues in stark relief. The table below (*Ansell Strategic, New Zealand Aged Residential Care Financial Performance Study – Findings Summary Document*) shows FY17 and FY22 comparative financial performance, per occupied bed day.

Factoring in depreciation, amortisation and interest, the survey found that more than half (56%) of respondents’ facilities made a net loss in the 2022/23 financial year (equating to a loss of $4.24 per operating bed day).

> “
> **Almost daily we are hearing stories regarding long wait times in Emergency Departments, elective surgery wait times growing and wards overflowing with patients. This is all linked to aged care. Funding the aged care sector properly would improve the whole health system.**

FY17 AND FY22 COMPARATIVE FINANCIAL PERFORMANCE, PER OCCUPIED BED DAY

	FY 2017	FY 2022	% Change
Total Revenue	$169.62	$216.32	28%
Total Expenses	$(145.80)	$(212.38)	46%
EBITDA	**$23.82**	**$3.94**	**- 83%**

The table on the right (*Ansell Strategic, New Zealand Aged Residential Care Financial Performance Study – Findings Summary Document*) shows the average net profit/loss per occupied bed day by region.

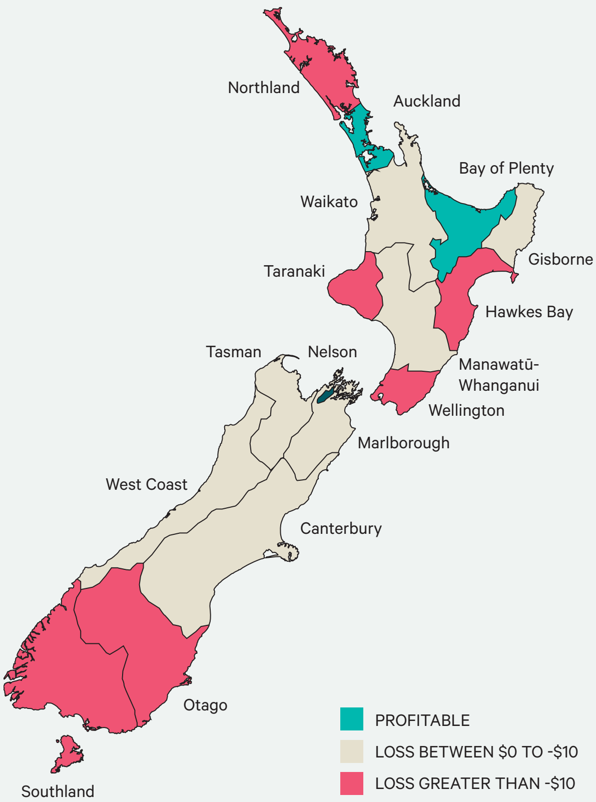
AGED CARE SERVICE AND FUNDING REVIEW

Te Whatu Ora is currently undertaking a review of aged care services and funding models, which includes home and community-based care as well as residential aged care.

Unlike previous substantial reviews of the sector, most notably the 2018 EY review, Te Whatu seems set on allowing only very limited input from stakeholders like the ACA.

Timeframes for the review are extremely tight and we do not have a lot of confidence that the funding crisis of ARC will be fixed, let alone acknowledged.

AVERAGE NET PROFIT/LOSS PER OCCUPIED BED DAY BY REGION



PAY DISPARITY BETWEEN ARC AND TE WHATU ORA NURSES

This year $200 million per annum has been provided for the sector to reduce the pay disparities between ARC nurses and their counterparts working in Te Whatu Ora hospitals.

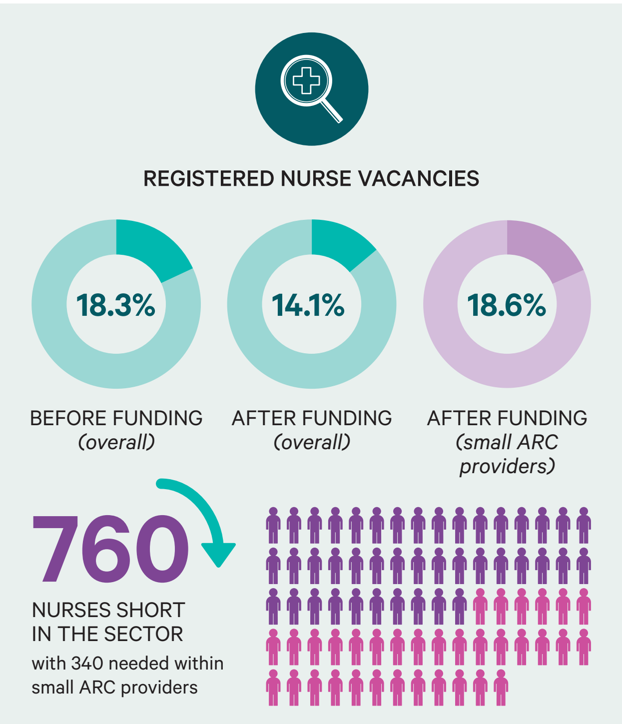
The initial payment allowed most providers to increase nurses pay rates to within five percent of Te Whatu Ora nurses, but a pay equity settlement and a new collective agreement for hospital nurses has once again widened the pay gap.

The ACA's latest survey shows that the funding to remedy pay disparities between ARC nurses and nurses working in public hospitals has enabled providers to attract and recruit nursing staff.

There has been no further commitment to pay parity, and the aged care sector is paying the price in nurse shortages, as many leave for better paid roles in hospitals here and in Australia.

Overall nurse vacancies in the sector have dropped from 18.3% before the funding, to 14.1% now, and while that is a good result, it means the sector is still short 760 nurses.

It is worth noting that the vacancy rates for small ARC providers is much higher than the overall average, at 18.6% (340 nurses), putting these facilities at risk of having to close beds due to staffing shortages.



PAY EQUITY FOR CARE AND SUPPORT WORKERS

Care and support workers in the aged care, home and community support, mental health and disability sectors have had their wages set by legislation since 2017. That legislation will expire on 31 December 2023.

A pay equity claim, under the Equal Pay Act, was lodged to set an equal pay rate after the legislation expires. The claim covers around 65,000 care and support workers, 22,000 of whom work in the aged residential care sector.

Since then, Te Whatu Ora and Manatū Hauora have directed their efforts to undermining the pay equity process to reduce the cost of the settlement to an amount that they consider to be more palatable.

It is our understanding that while a paper seeking funding was completed, it was never submitted for Cabinet approval. We believe that this is because Te Whatu Ora and Manatū Hauora underestimated the extent of undervaluation of care and support workers in its original costings.

Unions have recently made new pay equity claims against hundreds more employers, presumably in an effort to ensure the whole workforce benefits from a settlement.

Extra funding will be required to support employers and peak bodies as we navigate this extra claim.

> **"Not liking the result of a pay equity process is not a reason to stop the process. It seems to us that Te Whatu Ora, despite all the evidence to the contrary, just don't want to believe how underpaid the care and support workforce is.**

CONCLUSION

In summary, the value we place on the health and wellbeing of our elderly population is an important gauge of a country's priorities and values. With approximately 40,000 aged care beds, aged residential care is New Zealand's largest public / private partnership. But it is rapidly becoming a 'partnership' in name only.

The signal being sent to the sector by successive Governments is that they are willing to see the sector decline – despite the impending tsunami of aged care demand.

The sector is getting ever closer to accepting that signal. When every day you care for a resident is a cost, the message being received loud and clear is that other uses for our land and buildings are likely to be much more viable.

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