Aged Care Association
NEW ZEALAND

Aged Care Association submission to Te Waihanga | New Zealand Infrastructure Commission on the Discussion Document 'Testing our Thinking: Developing an enduring National Infrastructure Plan'

December 2024

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About the Aged Care Association

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

Our members provide rest home, hospital, dementia, psychogeriatric, respite, and palliative care, as well as care for over 1000 younger people with disabilities.

Sixty six percent of beds are run by religious institutions, charitable trusts, family-owned, not-for-profits, and privately owned facilities. Most of the remaining beds are operated by listed companies (34 percent), with less than 1 percent 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.

The ACA welcomes the opportunity to make a submission to Te Waihanga | New Zealand Infrastructure Commission.

Context

1. New Zealand has over 670 aged residential care facilities, with more than 40,000 beds and 35,000 residents. In comparison, Te Whatu Ora oversees 10,748 public hospital beds.
2. For far too long, New Zealand has been underfunding the aged care sector. The aged care workforce is under-resourced and overworked. Facility owners are stressed and under-funded. Closure of beds due to financial unsustainability and staffing shortages are common in the sector.
3. **It costs upwards of $250,000 to build and bring an ARC bed online and can take several years (approximately 5 years) from land purchase to admitting a resident.**
4. A recent study by Ansell Strategic, factoring in depreciation, amortisation and interest, 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)[1].
5. Between 2013 and 2018, a total of 2,400 beds were added into the sector. This number dipped to 1,900 in the consequent 5-year period.
6. The growth share of subsidy-only or 'standard' beds was less than 1% during this period, despite standard beds being the need of the hour. NZ Super is the only source of income for 40% of people aged 65 and over, and another 20% have only a little more[2]. The access into ARC for this share of the population would depend on the availability of standard beds. But they are becoming a rarity, as more providers move towards accommodation/premium supplements in an effort to remain financially viable.
7. In addition, over 45% of total ARC beds across the country are over 40 years old.
8. **Looking ahead to 2030 and beyond, aged care beds will become extremely limited. A study commissioned by Te Whatu Ora early this year found that if historic build rates continue, there could be a shortage of almost 12,000 ARC beds by 2032[3].**
9. Cost of hospital level care in ARC facilities is less than a quarter of bed-day cost in a public hospital medical ward bed. The estimated cost to the Government for a day of ARC hospital-level care, ensuring that providers breakeven is $372. Whereas the estimated cost of a day in a public hospital is $1,700.
10. A report by the Aged Care Commissioner[4] published early this year noted that older people face prolonged and unnecessary hospital stays because they cannot access either Home and Community Support Services (HCSS) or an ARC home to safely exit hospital. This places

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[1] Ansell Strategic. (2023). *New Zealand Aged Residential Care Financial Performance Study: Summary of Findings Document.* Retrieved from: https://s3.ap-southeast-2.amazonaws.com/assets.ansellstrategic.com.au/app/uploads/2023/10/13071435/New-Zealand-Aged-Residential-Care-Financial-Performance-Study-Summary-of-Findings.pdf

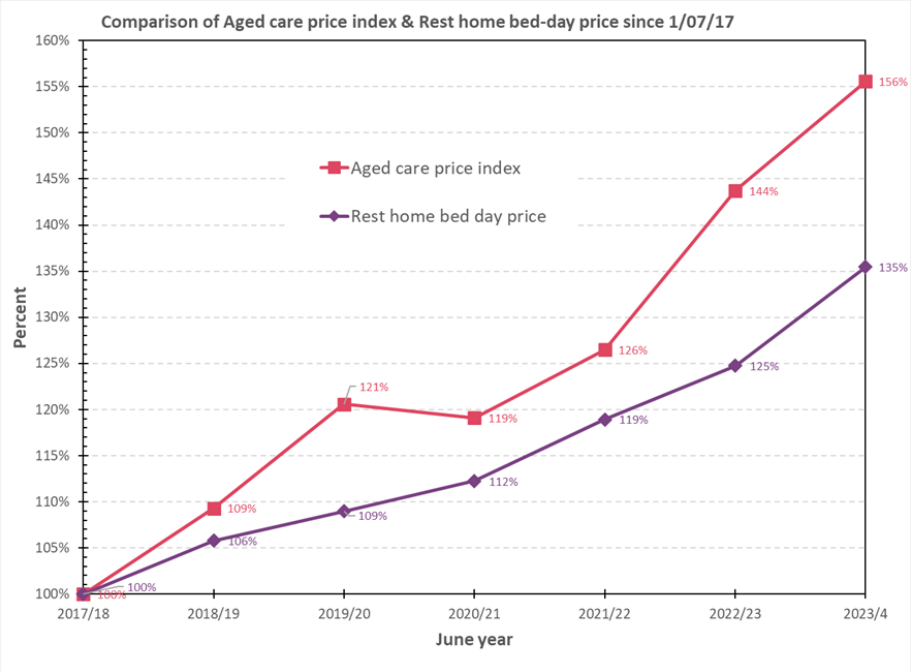
[2] Retirement Commissioner. (2024). *What retirement assets do people have beyond NZ Super and KiwiSaver?* Retrieved from: https://assets.retirement.govt.nz/public/Uploads/Policy/TAAO-RC-Policy-Paper-What-else-do-people-have-beyond-KS-and-NZS_AW.pdf

[3] Sapere. (2024). *A review of aged care funding and service models.* Retrieved from: https://www.tewhatuora.govt.nz/assets/For-the-health-sector/Specific-life-stage/Health-of-older-people/FINAL_A-review-of-aged-care-funding-and-service-models_strategic-assessment.pdf

[4] Aged Care Commissioner. (2024). *Amplifying the voices of older people across Aotearoa New Zealand.* Retrieved from: https://www.hdc.org.nz/media/o3tb5dfa/amplifying-the-voices-of-older-people-across-aotearoa-new-zealand-march_2024.pdf

additional capacity constraints on the hospital care system, directly contributing to delays in emergency and specialist care services.

11. Funding for aged residential care is a mix of means-tested user-pays and government subsidy.
    a. Aged residential care providers are contracted and funded by Te Whatu Ora to provide care services at a rate that is set annually.
    b. 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.
    c. Government funding is provided annually, at a rate far below what is required for a sustainable aged residential care sector. The chart below compares the cumulative effect of increases in the rest home bed day rate with increases in the cost of providing aged residential care as indicated by the Statistics NZ's Aged Care Price Index (which includes wage cost increases).



ACA submission on the discussion questions

What are the most critical infrastructure challenges that the National Infrastructure Plan needs to address over the next 30 years?

12. The Association appreciates the emphasis given towards recognizing the need for investing in New Zealand's health infrastructure in the Discussion Document. However, the focus on healthcare infrastructure seems to be limited to hospitals alone.
13. The Association strongly recommends that the National Infrastructure Plan recognize the need for health infrastructure from a wider perspective, of which aged residential care needs to be a core focus. By overlooking the ARC sector's role in reducing pressure on acute services, the government would miss one of the greatest opportunities the government has to reduce costs and improve the efficiency of acute care.

14. Poor availability of ARC beds will not only have a direct impact on elderly New Zealanders looking for care, but 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.
15. Our key ask here is that the National Infrastructure Plan announce an Aged Care Capital Assistance Programme, similar to the Australian Aged Care Capital Assistance Program announced recently, for small to medium providers in ARC to build, extend, or upgrade aged care services.
16. This could ensure a controlled and targeted spend via a grants system to those ARC providers and communities with the least ability to raise direct capital for this provision.
17. The ARC sector is currently the government's largest public private partnership, and we have members who have the capacity to lead PPP contracts to expand the provision of residential care beds.

How can te ao Māori perspectives and principles be used to strengthen the National Infrastructure Plan's approach to long-term infrastructure planning?

18. While narratives often focus on the Māori population who prefer to age at home, there's also a significant population of families who do not have the capacity to care for their seniors at home and hold down employment at the same time. However, the lack of culturally appropriate care provision can be a significant deterrent for elderly Māori in accessing aged care services.
19. There is a need to partner with iwi and hapū organisations (potentially through PPP models where possible) to build and expand aged care facilities - residential, dementia and psychogeriatric, day programmes, respite programmes - that better reflect the te ao Māori perspectives around aging and death.

What are the main sources of uncertainty in infrastructure planning, and how could they be addressed when considering new capital investments?

20. With respect to aged care provision, despite estimates of our ageing population highlighting the need for increasing the supply of aged care beds, to date there has been no government-led discussion signalling a way forward on how these needs would be met. The state has left all provision planning to the private sector. Yet, despite being the largest funder of the sector, the government has set the funding rate at a level that has been insufficient to sustain the business, let alone expand.
21. To ensure the optimal use of infrastructure, it is essential to understand the demand for it. In the case of ARC, the demand is clear from population estimates and the demographic changes that the country has witnessed in the last few decades.
22. Given that ARC serves a core public service, and the government can aim for better outcomes across the wider healthcare sector with comparatively minimal investment in ARC through a PPP model, the government must look into how infrastructure development in this sector can be improved.

How can the National Infrastructure Pipeline be used to better support infrastructure planning and delivery across New Zealand?

23. The National Infrastructure Pipeline must recognize and include a dedicated development plan to address the needs of our ageing population. This could incentivise service providers and capital investors to work with government to address what is a well-documented need.
24. One of the major outcomes of this would be the reduction of need in the more expensive acute health services provision.

Are we focusing on the right problems, and are there others we should consider?

25. We reiterate the points mentioned in the previous questions that ARC needs to be a core focus in government's planning for health infrastructure.

What changes would enable better infrastructure investment decisions by central and local government?

26. Local governments could include aged residential care in their long-term investment plans. If need for localised provisions (including for dementia and psychogeriatric units) are clearly identified, local governments could play a vital role in fulfilling the Central government's 'ageing in place' strategy by allowing seniors to age in community.
27. Highlighting the need for ARC infrastructure at a local level could also encourage developers to recognise the opportunity for investment and assist the state in the provision of required services.

How should we think about balancing competing investment needs when there is not enough money to build everything?

28. The Association recommends creating a multi-decade nationwide strategy for the ARC sector in close consultation with the sector. This consultation should be extended to small and medium providers as well, and it could provide greater cohesion for the next 50 years.
29. In consultation with the sector, it would also be possible to design and develop multi-use models within ARC, wherein some of the facilities could help provide secondary support to acute services e.g. respite and rehabilitation services for hospitals, vaccination, etc. There is a notable lack in central government leadership currently around this infrastructure topic.

How can we build a more capable and diverse infrastructure workforce that draws on all of New Zealand's talent?

30. The Association recommends constituting a design group with representation from the sector, to work with government officials on infrastructure planning. To date, the ARC sector is constantly referred to Health NZ when it comes to long term planning. However, this has not been successful as Health NZ, with its wider mandate, has shown a lack of initiative in creating innovative infrastructure partnerships in ARC.

What approaches could be used to get better value from our infrastructure dollar? What's stopping us from doing this?

31. Having a clear programme for infrastructure maintenance would be key to extend the lifespan of government's infrastructure investments.
32. For years the government's contribution towards ARC has been short-sighted. It has failed to provide the level of funding required for providers to invest in infrastructure maintenance or refurbishment. As a result, a significant share of ARC facilities in the country today are over 40 years old.
33. If corrective measures are not taken immediately, facilities will be compelled to permanently shut down its beds, as we have been occurring increasingly over the last couple of years. As building new beds is significantly more expensive than refurbishing existing ones, if the government doesn't act soon, the country will face significantly higher capital investment costs.
34. The Association therefore strongly urges the government to consider an Aged Care Capital Assistance Programme.

What strategies would encourage a better long-term view of asset management and how could asset management planning be improved? What's stopping us from doing this?

35. The Association strongly recommends that the National Infrastructure Plan look beyond public infrastructure to identify other core services that are currently being invested into by private players as well.
36. The ARC sector is unique in that it provides a key healthcare provision, wherein the infrastructure investment comes directly from private providers. However, years of underfunding has crippled the ability of private providers to maintain, refurbish and expand these services. A Capital Innovation Grant could be a right step in this regard, wherein with a partial investment, the Government could significantly ease the pressure on hospitals and primary health centres.
37. By incorporating risk management conditions and environmental considerations to ensure reduced carbon emissions in the construction and operation of ARC facilities into the grant application, the government could play a further role in ensuring reduced risks in its infrastructure investment and national planning.

Are any changes needed to our infrastructure institutions and systems and, if so, what would make the biggest difference?

38. Reiterating the points mentioned above, the Association would strongly encourage that in designing the National Infrastructure Plan, the government must widen the scope of what is considered public infrastructure.
39. The government must look for more nuanced ways to partner with business in areas of evidenced need that reduces the expansion of larger ticket items. For instance, investing in building more ARC beds with wider scope for provision of clinical services using its highly trained staff to reduce the pressure on hospitals.

What regulatory settings need to change to enable better infrastructure outcomes?

40. The Association has been following the conversations around the Resource Management Act (RMA), where the enjoyment of property rights is the guiding principle in the proposed reforms.
41. However, it is worth highlighting that aged residential care has not been included in these considerations. This is despite ARC providing valuable service in the form of residential care for the most vulnerable population, many of whom call these facilities their 'home' for years.
42. The Association has heard from its members that the regulatory requirements and the cost of compliance while expanding or building a new facility can be significantly high, which is a deterrent to infrastructure investment.
43. As a country, given that the need for nearly 12,000 beds by 2032 has been explicitly identified, regulatory settings for ARC could be eased to boost increased infrastructure investment into the sector. We recommend consulting with a working group proposed in Point No. 30, to identify and assess the way forward for the same.

Do you have any additional comments or suggestions that you would like us to consider as we develop the National Infrastructure Plan?

44. The Association recommends assigning priority to sectors with well documented infrastructure shortages.
45. A working group for each priority area with wide representation from the sector should be formed to design the long-term delivery plan over the next 30 to 50 years. This could also include designing the funding mechanisms to develop better partnerships between the government and private businesses.