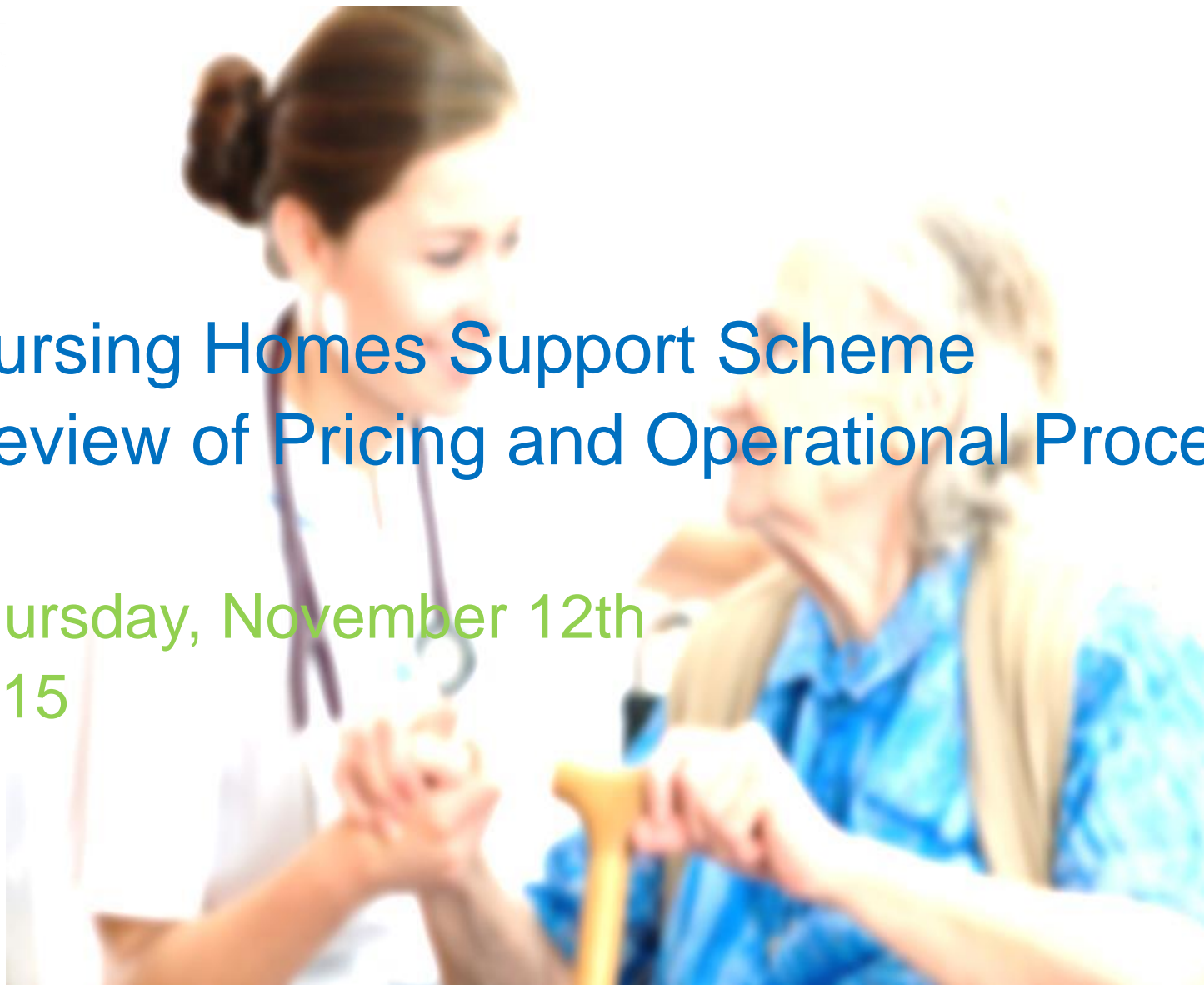


Nursing Homes Support Scheme Review of Pricing and Operational Processes

Thursday, November 12th
2015



Background



- Terms of reference required Deloitte to review aspects of the processes and administration of the Scheme, in particular the effectiveness of processes for verifying financial declarations, and the processes and methods of setting prices in public, private and voluntary homes;
- Our work was part of the wider review of the Scheme undertaken by the Department of Health.
- Work commenced in late 2013, and concluded in the spring of 2014. Report issued to Department in August 2014, published in 2015.
- Work involved site based reviews, review of external submissions and stakeholder consultation, including with NTPF, HIQA, HSE, HSE Estates, NHI

Report Structure

- Part 1: Process Review
- Part 2: Review of Effectiveness of Financial Declarations
- Part 3: Review of Pricing Processes



Report Findings

- **Part 1: Process Review**
 - Where funding exists, bottlenecks are minor;
 - Some variations and lack of standardisation in processes across the system;
 - Scope to improve on robustness of periodic financial reviews;
 - Some lack of clarity in literature;
 - Certain non client facing activities could be centralised;

- **Part 2: Review of the effectiveness of Financial Declarations**
 - Need to develop a standard operating procedure for initial assessment of declarations;
 - Need to develop a consistent approach to review of financial declarations at key trigger points;
 - Establish a programme of random spot checks;
 - Establish a process to carry out more in-depth reviews following death of client.

The Role and Impact of Price



- Given the fixed nature of the Fair Deal budget, pricing has a direct impact on capacity and waiting times;
- Neither price considerations nor demand underpin the budget setting for Fair Deal;
- Price is key to incentivising the private and voluntary sectors to provide capacity;
- Price as reported is in effect an average cost calculation for LTRC facilities in the public sector;
- For owners and operators, price determines financial viability, reinvestment capability and return on capital;
- For finance providers, price and price certainty is key to their interest in providing finance;
- For the consumer, price of Fair Deal has no direct bearing

Key Issues

- Budget setting for Fair Deal and the future
- Public Policy and public beds
- Price setting
- An integrated strategy
- Meeting future infrastructure needs
- Who will pay?

Budget setting and the future



- Given the fixed nature of the Fair Deal budget, pricing has a direct impact on capacity and waiting times;
- Neither price considerations nor demand explicitly underpin the budget setting for Fair Deal;
- 80% of the beds in private and voluntary facilities are subject to rigorous price negotiations with NTPF, 20% public beds are not.
- No explicit recognition of growth in demand or need for additional beds in budget setting process
- Lack of coordination of wider public sector impact on budget setting - e.g. HIQA requirements.
- Requirement for an additional 9,000 places by 2024 will require a 6% annual increase in Fair Deal budget annually at current prices to fund increased need. Equates to approximately €35m per annum . Needs ring-fenced funding.
- In the absence of a change in structure of the Scheme , particularly the resident contribution, the Fair Deal budget in 2024 will need to increase by 50% over current levels at current prices. This equates to €300m.
- Difficult to expect that the structure will not change over time; likely to be increases in the resident contribution from the current level of 25% of the total cost.

Public Policy and Public Beds



- The role of the HSE as a purchaser and provider of care; HSE sets and accepts prices for units under its control;
- No clear public policy on public nursing home ownership (20% of bedstock);
- Prices in public nursing homes; in reality a cost allocation over the number of available beds, excluding capex;
- Currently c.5200 places in public nursing homes costing €1390 per week per available bed compared to €894 per week for Fair Deal- questionable value for money; significant variations across facilities exist;
- Limited focus on driving out efficiencies in public homes; higher cost being justified on the basis of public sector pay structures, age of facilities, complexity of care but this has not been explicitly demonstrated;
- Fair Deal Review commits to a Value for Money review on public facilities to identify and address cost distorting factors that cannot be attributed to inherent differences between public and private sectors and residents profile; pricing needs to be based on an objective and consistent model;
- Role of public homes in future provision of LTRC places unclear, particularly given cost of HIQA compliance;
- Needs to be addressed as part of longer term integrated planning for the sector.

Price setting

- Pricing arrangements for existing operators at commencement of Fair Deal were largely inherited;
- Whilst NTPF adopt a consistent approach to price negotiations, and have standardised templates and processes, the financial assessments undertaken of homes do not directly affect the pricing process;
- Since 2009 , progress has been made in narrowing inherited price differentials;
- NTPF approach to pricing has largely been driven by the market and benchmarking;
- The system lacks a transparent pricing model:
 - Optimum size of units;
 - Staffing ratios;
 - Acuity of patients;
 - Return on investment;
- Initially based on annual contracts, with a move towards multi-annual contracts;
- Clear role for NTPF in setting prices for public homes, and for other areas of care;
- Section 39 homes- introduction to Fair Deal and pricing has created very significant difficulties, largely due to inherited parity on pay with public sector, and age of facilities;



Clear need for an integrated strategy for the sector



- The lack of a single, clear integrated strategy for the sector and its future development is a major impediment to meeting future need,
 - Co-ordinated planning of the range of services available to the elderly;
 - Co-ordination of various public sector stakeholders (Department/HSE/NTPF/HIQA)
 - Central involvement of private and voluntary sectors, given the significance of those sectors to future provision;
 - An evidence based analysis of bed requirements (number and type) , care model, their location, and timeframes;
 - Clarity on role of public sector;
 - Clarity on future regulatory requirements and attendant costs;
 - Clear pricing methodology, with capability to differentiate pricing for specialist care facilities (e.g. dementia specific care units)

Meeting future infrastructure needs in the sector

- 9000 places needed by 2024- c 1,000 places per year, equivalent to 13-17 facilities.
- Total investment likely to be of the order of €1-€1.2bn.
- Significant equity gap- €300m-€400m.
- Concentration risk may limit availability of bank debt;
- The future procurement and financing of new capacity:
 - Public sector role
 - Ballincollig model
 - Capacity of existing operators to fill the gap?
 - PPP Structure- DBFO
 - Provision of medium term contracts to operators vital with price certainty;
 - Role of ISIF/healthcare funds/REIT's
 - PropCo/OpCo model;
 - Provision of more complex care facilities
 - Role of home based care
 - Limited use of tax incentives



Who pays?

- Currently the State pays c €600m for Fair Deal. The resident pays c.25% of the total, or c.€200m. Another €400m is expended on public facilities/ contract beds.
- By 2024, at current prices, the State will be paying c €900m in the absence of a change in structure of the Scheme (with the residents contribution by then at €300m), increasing at the rate of c.€35m per annum.
- It seems unlikely that the State will continue to subvent an increasing need at current levels when the financial costs are very significant.
- Of the current residents' contributions of c.€200m to Fair Deal , approximately €25m comes from the 7.5% annual asset contribution. Increasing this to 11.5% to 13.5% annually yields €13m-€20m per annum.
- Reducing the Asset Disregard could yield €13m per annum.
- The State will do well to recoup more than 10- 15% of the increased cost of Fair Deal in 2024 from residents (which would be equivalent to a resident contribution of c 28% versus 25% today)
- Replacing costly public beds over time by the private sector makes eminent sense.
- Increasing contributions from residents however seem highly likely



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