The Treasury

Budget 2017 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)

[40] Not in scope

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2017/1026 SH-1-6-3



Date: 18 April 2017

To: Minister of Finance (Hon Steven Joyce) Associate Minister of Finance (Hon Simon Bridges) Associate Minister of Finance (Hon Amy Adams)

Deadline: None

Aide Memoire: Terranova: aged-care impacts

On Thursday afternoon, we received a copy of a memorandum from the Ministry of Health to Hon Coleman discussing the impact of the settlement on aged-care residents who meet their costs privately (because they have assets over the subsidy threshold). This note provides some brief commentary.

Aged residential care (ARC) is a regulated-price environment. Prices are negotiated between funders (DHBs) and providers, and will need to be adjusted to reflect higher labour costs resulting from the settlement (this is how the fiscal cost of the settlement arises). The cost of basic care is the same for all residents but is offset by a subsidy for people with assets below the threshold.

Those who do not qualify for the subsidy meet the costs of care themselves – and will therefore pay more when prices increase. The impact of the settlement in this group has been estimated at \$66 per week in 2017/18 rising to around \$113 per week in year five. The fiscal cost associated with fully offsetting that impact is summarised in the Cabinet paper (table 2), being estimated at \$245 million over five years and \$63 million per annum by year 5.

The Ministry of Health memorandum states (paragraph 4) that these estimated impacts are an "absolute maximum parameter". We disagree with this assessment. The impacts are generated by the same costing model that has been used to calculate the overall fiscal and other costs of the settlement. The numbers are reasonable estimates of the likely impacts, but are subject to a significant margin of error in both directions. They are not a maximum. The Ministry has sought funding for the full incremental Crown costs of the settlement as generated by the model, on the basis that those are the costs it expects to incur. The Cabinet paper notes (paragraph 30) the risk that actual costs are higher than modelled costs, exposing the Crown to further fiscal impacts. Similar risks apply to modelled costs passed through to private aged-care residents.

The Ministry's plan to address the impacts for aged care residents has two elements:

• For year 1, [38]

• From year 2 onwards, the Ministry is proposing a change to the ARC subsidy rules so that people with assets over the subsidy threshold no longer meet the full cost of basic care themselves. This will have a direct fiscal impact. It will also introduce a fundamental change to current policy settings, so that in future there is some government subsidy for all ARC costs, irrespective of income. This would address the immediate issue, but is a significant change that Ministers have not really considered to date. If this was an option that Ministers wanted to pursue, it might be worth thinking about it as a transitional arrangement, so that it phases out over time and doesn't become a permanent fixture. Also, if we are going to do this, it is hard to see why we wouldn't just do it from year 1.

To summarise our overall advice. First, in a world of regulated prices, this issue will require a specific solution if Ministers wish to address it: changing models of care on their own are unlikely to be enough, particularly as the impact will be felt immediately in year 1. Second, we recommend resisting the temptation to push the cost and/or the problem of resolving the issue onto DHBs. The likely outcome of that approach is that the cost comes back as a cost pressure at Budget 2018, deficits in 2017/18, or both. We think it will take at least a couple of weeks to develop worked up, costed options.

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