The Treasury

Budget 2017 Information Release

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[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
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[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.

MINISTRY OF HEALTH
MANATŪ HAUORA

File number: HC06-39-8-2

Memorandum: Response to Treasury Aide Memoire 4 August 2016

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Purpose

On 4 August 2016 Treasury and SSC provided an Aide Memoire to Finance Ministers. The Aide Memoire raised five issues which health has been asked to address. This memorandum provides those responses.

1. **Treasury suggested the negotiators use wage rates that are the same as those for Mental Health Assistants (MHAs).**

   The Ministry has revised the costing model and used the MHAs rates.

2. **Treasury sought clear and realistic assumptions about annual wage increases for MHAs over the next five years, and details of how these will affect the cost of a settlement.**

   The Ministry has included an annual adjuster to the wage scale to take into account wage increases. [38]

3. **Treasury had suggested a more realistic assumption about workforce attrition rates was needed.**

   The Ministry accepts that a 5 percent turnover rate is conservative and so has increased the turnover assumption to 15 percent.

   While some segments of residential care have turnover rates significantly higher than 15%, at this stage it is not known what the impact of improved wages and conditions will be on turnover.

4. **Treasury sought information about estimated savings (if any) that could be made by sharing costs with providers.**

   We accept your comments regarding operationalising any settlement as negotiations with funders and providers are pivotal to ensure sector stability. To this end, it is quite possible that negotiations

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with funders and providers take different paths – e.g. different negotiation outcomes with DHBs, Home & Community Support Services, Disability Support Services (residential and community based) and Aged Care Residential.

The Ministry is committed to sharing advice on settlement proposals with key agencies as the bargaining process unfolds, whilst ensuring the principles of 'good faith' bargaining are preserved.

5. Treasury sought a revised assumption for the impact on the aged residential care subsidy as a result of higher prices.

The Ministry has reviewed the assumptions around the proportion of increased costs to be borne by Aged Care Residents paying the maximum contribution rate.

Using current policy settings, average rest home bed day prices would need to increase by 27 percent to cover the cost of the proposed expanded negotiation parameter. As such, 27 percent of the projected cost increase for Aged Residential Care would be funded by residents with assets over the $220,000 threshold – i.e. they will pay a higher daily rate for their care. This adds approximately [38] to the total resident's contribution over 5 years.

The increase in the maximum contribution will mean that people deplete their assets faster and become eligible for the Residential Care Subsidy earlier. By way of example, the first year increase of [38] is equal to approximately [38] days of care at current prices. The fifth year increase of [38] above current levels equates to [38] days of care at the current prices. The median length of stay in aged residential care facilities is currently 18 months.

The Ministry is currently undertaking further analysis of different asset thresholds, eligibility and the financial impact on the residents.

Revised Costing Model

The revised costing, including the changes noted above, delivers a 5-year cost of [38] to the crown and [38] to residents paying the maximum contribution (under current policy settings).