

The Treasury

Budget 2017 Information Release

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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
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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.

Memorandum: Care and Support Workers (Pay Equity) Settlement Agreement – Residents over the threshold

To: Hon Dr Jonathan Coleman, Minister of Health

Purpose

This memo provides you with information on why residents with assets over the threshold might have to pay increased costs, and explores how costs may be reduced and an approach for partially offsetting the impact.

Residents over the threshold

1. There are an estimated 11,070 residents with assets over the threshold who pay the full rest home price for aged residential care e.g. the maximum contribution. As at 1 July the rest home price was in the range of \$884.03 to \$971.53 per week, depending on location (e.g. prices vary on land value).
2. There are an estimated 7.9 million care hours in 2017/18 (\$37 million) rising to 9 million in 2021/22 (\$63 million) associated with providing aged care to those 11,070 residents. The care hours these residents receive are not part of the Care and Support Workers settlement agreement as they do not qualify for government funding.
3. This may result in an increase for these residents of around \$66 per week in 2017/18 rising to around \$113 per week in year five.
4. These costs represent an absolute maximum parameter and the actual amount that residents would pay will depend on the negotiation of contracts between representatives of DHBs and representatives of individual providers and how DHBs choose to manage their future cost pressures.

Aged Residential Care contract negotiations

5. The Aged Residential Care contract is negotiated annually between representatives of DHBs and representatives of providers. These negotiations focus on agreeing a price increase for the cost of care (e.g. the rest home price). Residents with assets above the threshold who pay the full rest home price have to pay this negotiated increase (as they pay the full cost of care).
6. This year (2017/18) these negotiations will also include discussions on what funding is required in order to manage the impact of the Care and Support Worker settlement.

Recommended approach to manage the impact of the Care and Support Worker settlement on residents (maximum contributors)

7. Officials are aware of the need to mitigate the effects on residents with assets above the threshold and to ensure any price rise for them is kept to the lowest level feasible. Officials propose that the best way to manage this is through a transition year (2017/18) and through the annual negotiations for the Aged Residential Care national contract.

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8. For year one (2017/18), it is proposed that DHB representatives and provider representatives will negotiate a price increase (1.5-2%). This will not include the wage cost associated with the settlement. Instead, to address the increased costs associated with the settlement, there will be an interim arrangement where a separate payment will be made on the basis of bed day volumes and prices. DHBs and providers would negotiate these volumes and prices. DHBs have also indicated that this is the preferred instrument for distributing the pay equity funding.
9. As indicated to Ministers this transition year would see those residents with assets above the threshold facing an increase in price of up to \$66 per week. As discussed in the paragraph below, if DHBs can negotiate efficiencies with providers then the impact on those above the threshold may be less.
10. Using bed day volumes and rates also provides an instrument for the government to negotiate expected efficiencies (e.g. ongoing reductions in bed days) alongside the implementation of the Care and Support Worker settlement. This will be a key component of upcoming contract negotiations and help drive the right incentives to change future models of care.
11. For year two (2018/19) and onwards officials propose that the maximum contribution be set at less than the rest home price rise that results from the ongoing implementation of the Care and Support Worker settlement. This will reduce the price rise that residents will need to pay. We will not know the exact price that will be set but would look to roughly halve the impacts that are set out in the Care and Support Worker Pay Equity Cabinet paper. Officials are undertaking further work to model these effects.
12. The offsetting costs will need to be managed through expected declining bed days (i.e. efficiencies due to models of care change and provider business models), better management of the flow into aged care and business-as-usual DHB cost pressure management.

Next steps

13. Officials will need to work with DHB representatives to develop the transition mechanism process further and to put in place contracting negotiation parameters. We propose to report back to yourself and Joint Ministers as discussed at SEC by 8 May 2017 on how these processes will operate.

Why might residents with assets above the threshold have increased costs?

11,000 residents with assets of more than \$220,000 pay for care at a rate pegged to the rest home rate. When the rest home rate is increased to fund providers for the pay equity settlement, these residents will be impacted.

Settlement and legislation

The settlement and legislation will specify how care workers' experience and qualifications translate to new wage rates from 1 July 2017.

Care workers

Care workers' wages will increase as a result of the pay equity settlement.

Providers

Providers' labour costs (and subsequently total service cost) will increase as a result of the higher hourly rates paid to care workers.

Funders

Funders will pay an increased price for services to account for providers' increased labour costs.

Funders are both:

DHBs

Residents

Crown

The settlement cost model includes the Crown funding DHBs for the increased prices they will pay as a result of the settlement agreement.

The settlement cost model does not include the Crown offsetting the increased prices some residents will pay as a result of the rest home price increasing.

- Those residents whose assets are below the asset threshold will not be affected by price increases as a result of a pay equity settlement. The DHB pays all the increase.
- The approximately 11,000 residents with assets above the threshold will pay more because the rest home price will increase and the 'maximum contribution' is set equal to the rest home price.
- Where residents with assets above the threshold are in the dementia, hospital or psychogeriatric categories of care the DHB pays the difference between the price of those services and the rest home price, so both residents and their DHB will pay more.