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Hon Tony Ryall

Budget 2009 and line by line review of Vote Health

Executive summary

This report outlines a proposed Budget 2009 package for Vote Health that advances all election commitments costed within policy documents, within the \$750 million Vote Health allocation and other available funding sources.

The proposed Budget 2009 package also allows core Vote Health funding arrangements to be maintained (inflationary and demographic adjustments to funder budgets, provision of a risk reserve) which support the sustainability of the health system, allowing per capita service coverage and quality to be maintained and the management of risks within baselines.

A line by line review of Vote Health has identified immediate savings proposed by the Ministry of Health for Budget 2009:

- \$76 million from the 2008/09 year – which includes \$18.8 million (7.9%) of departmental expenditure realised as a result of capping FTEs and forecast savings; and
- Ongoing savings of \$22 million from Ministry-managed non-departmental expenditure (NDE).

In addition, a further *[deleted – confidentiality of advice]* of Ministry-managed NDE has been identified for further review and consideration of alignment with Government priorities by the recently established Ministerial Group.

Future value for money work includes committing to an in-depth review of all Ministry-managed NDE contracts, and progressing a review of Departmental Expenditure. In addition, work is outlined to ensure that key system levers are focused on promoting the achievement of Government priorities, particularly in relation to District Health Boards where the legislative framework prevents a replication of the line by line review undertaken of Ministry-managed NDE.

Advice

1. You are required to provide the Minister of Finance a report by 1pm on 5 February 2009 that includes:
 - a. Budget bids to meet election commitments;
 - b. Budget bids to address pressures that cannot be deferred or funded from within baselines;
 - c. Savings for Budget 2009 identified from a line by line review; and
 - d. Areas of future focus for value for money reviews.
2. This report is structured around these elements and it is recommended that you forward it to the Minister of Finance. Part 1 of this report 'Budget 2009' deals with elements A and B, while Part 2 'Line by line review and value for money work programme' deals with elements C and D.

Part 1: Budget 2009

Budget bids to meet election commitments

3. Building on your response to Health Report 20090039 Budget 2009 – election commitments and pressures, Table 1 summarises the Budget bids that have been completed in order to advance election commitments. Completed Crown Finance Information System (CFIS) templates are attached at Annex 1.

Table 1: Financial summary of Budget bids to meet election commitments (as at 4 February 2009)

All units \$000s	2008/09	2009/10	2010/11	2011/12	2012/13	Notes
First 100 days						
Boost funding for medicines to expand the availability of subsidised medicines		8,900	11,200	13,000	13,800	Includes herceptin. DHBs will be contributing additional funding to ensure a minimum of \$40 million additional funding is provided in 2009/10 (some of which is funded within the \$93.310 million identified below).
Fully fund Plunketline to provide 24 hour service;	1,750	3,500	3,500	3,500	3,500	
Voluntary bonding scheme				9,527	12,070	Costs to be updated pending confirmation of decision on HR 20090050
Other Government commitments						
Boost medical student funding		1,125	3,722	7,543	12,980	Funding to be appropriated to Vote Education
Train 800 additional health professionals for the new elective surgery theatres		20,000	20,000	20,000	20,000	Costings subject to further review
Boost GP training funding		2,500	5,000	5,000	5,000	
Encourage more training in rural and provincial areas		500	1,500	1,000	1,000	
Subsidise re-training for GPs who have postgraduate obstetrics qualification and want to resume maternity care		150	300	300	300	
GP and Lead maternity carer optional visit per trimester for 'at risk' pregnant women		1,408	2,816	2,816	2,816	
Additional wellchild visits during first 9 weeks of baby's life		0	15,360	15,360	15,360	Implementation delayed as per advice on 29 January 2009
Boost hospice care		15,000	15,000	15,000	15,000	
Supplementary funding for price pressures and five Government commitments (refer to notes column for detail) - the additional \$93.310 million DHB funding signalled in December 2008 (CBC Min 32/22 refers):		93,310	93,310	93,310	93,310	Kickstart devolving some hospital services to primary care; Boost funding for subsidised medicines; Respite care for older people and their carers; Improve the quality of supervision and nursing in aged residential care; Longer post-natal stays in birthing facilities
Total	1,750	146,393	171,708	186,356	195,136	

4. The proposed Budget bids above are in line with your letter to the Prime Minister which sets out how you intend to deliver on the Government's priorities. Your letter highlights four areas for the health and disability support sector to focus upon within the short term and which will form the foundation for work over the next three years – to ensure maximum benefit is obtained for frontline delivery of health services from available baseline funding. In summary, these four areas are:

- Workforce – a well trained workforce is crucial to the Governments commitment to meet patient needs and expand elective surgery;
- Clinical Leadership and Quality – to ensure that clinicians are more involved in leadership roles across the spectrum of healthcare, with the aim of improving both quality and productivity;
- Moving resources to the front line – the Ministry of Health is leading work to review expenditure across the sector to ensure that spending aligns with Government priorities;

- Infrastructure Capacity – in order to deliver high quality and efficient services the health and disability support sector needs good infrastructure – key areas here are capital, IT and workforce.
5. All of these four areas are addressed in varying ways in the proposed Budget 2009 bids package. There is a significant commitment to workforce initiatives (eg voluntary bonding scheme, additional GP training and more funded student medical places) and to providing the sector the financial ability to deliver on Government priorities. Clinical Leadership and Quality is being addressed through the current development and establishment of clinical networks, principally through existing baseline funding but also by ensuring that clinicians are involved in the various bid initiatives around increasing elective surgery. Infrastructure capacity beyond workforce initiatives is addressed through the separate capital funding bid. The work on moving resources to the front line is addressed in Part 2 of this report.
 6. As per our discussion with you on 28 January 2009 and subsequently with your office staff, there are a number of initiatives in Table 1 that are still subject to finalisation of policy. In particular, this relates to:
 - a. Boosting hospice care - of the \$15 million identified \$12 million will be provided directly to hospice services while additional advice will be provided on the targeted delivery of \$3 million per annum to improve the equity of access for patients with specialist palliative care need whose needs are currently not met due to pressures within hospice services.
 - b. GP and Lead Maternity Carer optional visit per trimester for 'at risk' pregnant women - this initiative may now be piloted initially. Further work is also needed to define 'at risk'.
 - c. Longer post-natal stays in birthing facilities - there are capacity issues that may delay implementation and further advice will be provided.
 - d. Improving the quality of supervision and nursing in aged residential care – additional performance information is to be provided to provide confidence that this funding can be clearly linked to demonstrable quality improvements.
 - e. Training 800 health professionals for the new elective surgery theatres – costs indicated in Table 1 reflect the election commitment of \$20 million per annum, but remain subject to further negotiation with some downside movement possible. It is unlikely that it would be possible to spend a full \$20 million in the 2009/10 year.

Budget bids to address pressures that cannot be deferred or funded from within baselines

7. The Budget 2009 process requires you to identify 'emergency' pressures that cannot be deferred or funded from baselines. There is a clear expectation that pressures are to be managed within baselines inclusive of the election commitment to maintain the Health Funding Package allocation of \$750 million in Budget 2009. While the health system does not have any 'emergency' pressures that can not be managed from within baselines, there are three items that are critical to the current Vote Health funding arrangements which require you to maintain a sustainable health system and manage sector risks within a fixed funding envelope, without returning to the centre for additional funding.
8. The three items critical to the Vote Health funding arrangements are summarised in Table 2. Completed CFIS templates are also attached at Annex 1. While these items do not reflect 'emergencies', they are better classified as 'pressures that cannot be deferred or funded from within baselines' than as bids 'to meet election commitments', hence their inclusion under this category. All budget bids have to be placed in one of these two categories.

Table 2: Financial summary of pressures which cannot be deferred or funded from baseline

(\$000s)	2009/10	2010/11	2011/12	2012/13
Forecast funding track and demographic funding	553,167	553,167	553,167	553,167
DHB deficit support	53,332	38,332	23,332	8,332
Risk reserve	45,000	45,000	45,000	45,000
Total	651,499	636,499	621,499	606,499

9. Current arrangements for Vote Health are that the first call on additional funding to the Vote is for funding to manage inflationary and demographic pressures in order to maintain per capita service coverage and quality in the health sector. Forecast Funding Track and Demographic (FFT and Demo) adjustor funding is designed to allow these pressures to be managed and is calculated according to an agreed formula (outlined in the CFIS template attached at Annex 1). Increases are applied to both District Health Boards (DHBs) funding and Ministry-managed non-departmental expenditure (NDE) (with some exceptions).
10. Deficit support funding allows the forecast 2009/10 level of DHB deficit requiring support to be managed and will reduce the risk of out-of-appropriation expenditure or service cuts. The level of additional deficit support noted here is consistent with previous advice and the DHB funding package approved in December 2008 (CBC Min 32/22 refers).
11. A risk reserve of \$45 million for 2009/10 has been proposed. This equates to less than 0.4 per cent of Vote Health. This is assessed by officials to be a realistic and manageable level relative to known risks (eg increased DHB deficit risks).

Management of other pressures within Vote Health

12. As discussed with you on 29 January 2009, the two most significant pressures currently known within services funded directly by the Ministry relate to National Maternity Services (under Section 88 primary maternity services notice) and Intellectual Disability (Compulsory Care and Rehabilitation) [ID (CC&R)] Act – provision of additional court-directed secure level care.
13. The approach to meeting these two pressures is to use demographic funding that is applied to the Ministry-managed NDE budget. The maternity pressure will use \$10 million of an available \$39.775 million demographic funding in 2009/10 and outyears, while the ID (CC&R) Act pressure will require \$7.8 million of funding in 2009/10, rising to \$9.8 million in 2010/11 and outyears.
14. A third funding issue that requires action relates to Blueprint Funding for Mental Health Service Development. There is a historic 'in principle' Cabinet decision to roll out Blueprint funding until it is 'fully funded'. This implies providing \$22 million in Budget 2009, and in subsequent years, until 2016/17. Given the capacity constraints in the sector, it is recommended that the in principle decision be rescinded (requiring a new Cabinet decision) and a lesser amount (\$10 million) be funded for top priority services pending further advice. Cabinet can make this decision as part of the Budget 2009 process, while the \$10 million funding can be provided by reprioritising funds within baselines rather than seeking additional funding. This is reflected in Part 2 of this paper, by netting the \$10 million funding required off the savings identified during the initial line by line review of Vote Health. The effect of this decision will be that the Blueprint will not be fully funded until after 2016/17 (unless remedial funding is applied subsequent to Budget 2009).

Capital needs within Vote Health

15. The Ministry has indications from DHBs of likely capital bids requiring Crown contributions of up to \$677.98 million for 2009/10 (a table detailing these bids is attached at Annex 2). A part of this total arises from requests which were unable to be afforded in the 2008 Capital Round (\$238.48 million).
16. Under current capital arrangements full funding needs to be available prior to a project being approved. Officials currently consider that funding of the order \$500 million is likely to be required to meet reasonable DHB capital bids over the next few years and a CFIS template to this effect is included in Annex 1. This is, however, only a provisional estimate at this stage, and further work is currently being undertaken by officials, between now and the Budget bilateral, to provide the relevant information required for an appropriate assessment of this capital bid (eg prioritised and phased capital bid elements).

Summary of Budget 2009

17. The previous two sections summarised Budget bids to be submitted to meet election commitments and address pressures that cannot be funded from within baselines. It also noted how other pressures are to be managed within the Vote and the capital pressures facing the DHB sector.
18. Table 3 presents the proposed Budget 2009 package using Budget bid totals identified in Tables 1 and 2 and including revenue assumptions. The proposed Budget 2009 package is affordable, with a positive balance in all years including a modest surplus in the lowest outyear.

Table 3: Proposed Budget 2009 package, 5 February 2009

Income	All units \$000s	2008/09	2009/10	2010/11	2011/12	2012/13	Notes
	Funding 'envelope'		750,000	750,000	750,000	750,000	
	Estimated Increase in ACC Public Health Acute Services payment to Crown		29,500	29,500	29,500	29,500	Estimate based on last year's figure and assuming status quo arrangements
	Currently unused risk reserves	27,023	56,226	52,181	41,375	23,437	
	Total projected income	27,023	835,726	831,681	820,875	802,937	
Government commitments (refer Table 1)		1,750	146,393	171,708	186,356	195,136	
Pressures that can not be deferred or funded from within baselines (refer Table 2)			651,499	636,499	621,499	606,499	
Balance between income and the cost of commitments and pressures		25,273	37,834	23,474	13,020	1,302	

19. The income assumptions are consistent with status quo funding arrangements. The primary source of funding is the Government commitment of \$750 million new operating funding agreed for Vote Health.
20. The Accident Compensation Corporation (ACC) revenue reflects the results of an annual exercise to reconcile the amount of funding provided by ACC at the beginning of the financial year to cover the costs of Public Health Acute Services (PHAS)¹ with the cost and volume of services actually provided.
21. Retaining unused risk reserves within the Vote across financial years is consistent with the current Vote Health funding arrangements which provide a degree of financial flexibility in return for the management of risk within the Vote.

¹ Primarily the costs associated with the provision of accident and emergency services to ACC-funded clients.

Part 2: Line by line review and value for money work programme

Line by line review of Vote Health – framework of processes and timeframes

22. The Ministry has been required to undertake a line by line review of Vote Health and to identify an ongoing value for money work programme [CBC (08) 563 refers]. Within Vote Health, an additional process has also been created in response to the recent announcement of a Ministerial Group which has been established with a purpose, over the next six months, amongst other things:

”To help meet serious Vote Health financial challenges by providing a fresh examination of health sector spending, with a view to identifying low priority/poor quality spending that can be moved to improve frontline health services.”

23. In summary, the three key processes and timeframes associated with reviewing Vote Health expenditure involve:

- a. Immediate savings proposed by the Ministry for Budget 2009 presented to the Minister of Finance for 5 February 2009 (creating headroom to manage pressures within the Vote);
- b. Programmes identified that may not align with Government priorities or be value for money, referred to the Ministerial Group for its analysis and advice within its six month lifespan; and
- c. A longer term value for money work programme for the Ministry of Health that responds to the Cabinet direction to embed a culture of continuous performance improvement by undertaking rolling reviews.

Context of existing value for money work

24. While the Cabinet directive provides a particular mandate for initiating and monitoring a value for money work programme, in practice this will build on and enhance existing work being undertaken within the Ministry and the sector. The following are key initiatives/actions that have been or are currently being pursued to ensure that every dollar is being used well:

- a. Work and actions already undertaken include:
 - i. Restructure of the Ministry of Health during 2007 to ensure it is fit for purpose and to support achieving a higher performing and sustainable health system
 - ii. The establishment of a Health Target regime to provide a sharper focus on accountability and delivery of key Government priorities (currently being refocused to ensure alignment with new Government priorities)
 - iii. A cap has been placed on Ministry FTEs and a number of directorates have been reorganised for further efficiencies
 - iv. Service reviews undertaken of Well child services and Cardio Vascular Disease/diabetes
 - v. DHB accountability documents have been reviewed and amended to reduce compliance costs and increase DHB ownership.
- b. Key current work items include:
 - i. The continued development of the Long Term System Framework
 - ii. Prioritisation – at the margin and within the baseline
 - iii. Non-financial incentives to improve performance.

25. Additional work is noted below in relation to the future value for money work programme.

Immediate savings proposed by the Ministry of Health for Budget 2009 identified from a line by line review of Vote Health

26. Vote Health funding can be categorised into three areas for the purposes of the line by line review and the value for money work programme:
- Ministry departmental expenditure (DE), approximately \$236.752 million
 - Ministry-managed non-departmental expenditure (NDE), approximately \$2.496 billion ie, the Ministry-as-funder function (of which approximately \$761.552 million is contracted directly to DHBs), and
 - DHB funding, approximately \$9.118 billion.
27. The scope of the initial line by line expenditure review is limited to an assessment of Ministry DE and Ministry-managed NDE. DHBs will be the subject of future value for money work. A different approach is required to deal with DHBs than Ministry-managed NDE, because of the different legal framework that applies (DHBs are legally separate from the Crown). Discussion of the future value for money work programme (below) notes some of the levers available to the Ministry for scrutinising, influencing and directing DHB behaviour, and proposed work relating to these levers.
28. Table 4 (below) summarises all immediate savings proposed by the Ministry of Health for Budget 2009 identified from Ministry-managed NDE and DE (as well as netting out the \$10 million funding for Mental Health Service Development – a pressure being managed within baselines - noted in Part 1 of this report). The Minister of Finance has indicated that he anticipates all savings agreed during the Budget process be retained within Vote Health.
29. A holding template securing all excess funding and savings within Vote Health has been provided in Annex 1. The value of this template may change depending on further decisions you may make regarding savings options during the finalisation of the Budget 2009 package.

Ministry-managed NDE

30. In relation to Ministry-managed NDE each Directorate was asked to identify (by exception) areas that do not or may not align with Government priorities, and/or are not or may not be efficient and/or effective, with a view to realising immediate savings. Immediate savings of \$37.214 million in 2008/09 have been identified by this exercise. It is recommended that these savings are used to manage pressures within the Vote and to advance other Government priorities additional to those funded in the proposed Budget 2009 package, for example the development of clinical networks. Annex 3 provides more details on each of the savings line items identified in Table 4.
31. Savings can also be freed up as a result of rescinding decisions made by the previous Government as well as those in relation to social marketing. The decisions you have indicated previously are also reflected in Table 4 below and total \$20.270 million in 2008/09 with ongoing savings of \$1 – \$2 million per annum. Annex 3 also contains more details on each of these items.

Ministry departmental expenditure

32. A number of actions have taken place in regard to departmental expenditure with a view to freeing-up savings for Budget 2009. A cap has been placed on FTE levels, an efficiency adjustment has been made to directorate budgets and financial forecasts redone to reflect these and other actions such as phasing and deferment of work. The net impact of these actions is that full year savings of \$18.758 million (7.9 per cent of Ministry DE) for 2008/09 are anticipated to be freed for reallocation to Government frontline priorities.

Table 4: Savings for Budget 2009 identified from initial line by line review

	<i>All units \$000s</i>	2008/09	2009/10	2010/11	2011/12	2012/13
Immediate savings from line by line review	Tobacco control	1,000	1,813	2,187	2,187	2,187
	HEHA physical activity and nutrition, prevention of obesity	3,600	7,020	7,020	7,020	7,020
	Minister's innovation fund	1,329	1,334	1,334	1,334	1,334
	Non-devolved mental health and addiction services	4,200	4,200	4,200	4,200	4,200
	PHCS Diabetes Get Checked	4,870	4,870	4,870	4,870	4,870
	PHCS Men's health	600	600	600	600	600
	National Contracted Services - Sundry adjustments and unrealised accruals	1,200	876	876	876	876
	Immunisation - free vaccines for specified communicable diseases	4,000	1,828	1,278		
	Hep C service improvements	3,760	2,000			
	Alcohol and other drug interface with Justice	1,000	800			
	Healthy environments	275	297			
	Pacific youth	400				
	Cancer control	2,300				
	Quality and innovation fund	2,500				
	Oral health	1,400				
	School-based health services	500				
	CVD National Contracted Services	3,000				
	PHCS Diabetes (Obesity)	1,280				
	Sub total	37,214	25,638	22,365	21,087	21,087
Rescinding previous Government's decisions and social marketing						
	Previous Government's decisions rescinded (HR 20082453 refers)	14,770	2,025	1,650	1,050	1,050
	Savings freed up from decisions regarding social marketing (HR 20082531 refers)	5,500				
	Sub total	20,270	2,025	1,650	1,050	1,050
	Total of all savings identified in Ministry-managed NDE	57,484	27,663	24,015	22,137	22,137
Savings realised from DE - FTE cap, phasing, deferment etc		18,758				
	Grand total of immediate savings	76,242	27,663	24,015	22,137	22,137
	Less Funding for Mental Health Service Development discussed in Part 1 of this report		10,000	10,000	10,000	10,000
	Grand total of immediate savings available for managing risks or advancing other Government priorities	76,242	17,663	14,015	12,137	12,137

Further review by Ministerial Group

33. While the previous section outlines the immediate opportunities for savings identified by the Ministry's initial line by line review, this section identifies an additional *[deleted – confidentiality of advice]* of Ministry-managed NDE for referral to the Ministerial Group for further analysis and advice on value for money and alignment with Government priorities.
34. In relation to Ministry-managed NDE, each directorate was also required to rank every programme it manages based on whether it was high or low value for money (in terms of health gain, effectiveness and efficiency), and whether or not it was considered a Government priority. This provided the following categorisation:
 - a. High value, high priority = 1

- b. Low value, high priority = 2
- c. High value, low priority = 3
- d. Low value, low priority = 4

The results of the Ministry's ranking exercise are attached at Annex 4. [*deleted – confidentiality of advice*] worth of programmes have been identified as category 4, with an additional [*deleted – confidentiality of advice*] as category 3. While all of Ministry-managed NDE could be reviewed by the Ministerial Group, significant portions of this money are committed to demand driven services within the disability sector and for maternity services. Consequently, the Ministry considers areas ranked 3 and 4 provide a good starting place for in depth consideration.

- 35. A similar exercise was undertaken in relation to departmental expenditure. The analysis presented in Annex 5 shows a summary of the Ministry's overall departmental work programme's alignment with Government priorities. Some Government priority areas appear to be appropriately addressed, while others appear to receive limited emphasis. The suitability of the relative emphasis and priority can only be fully established through further discussion with you, as we work to clarify Government priority expectations. It is intended that this analysis will aid the completion of a suitably focused 2009/10 Output Plan.
- 36. Given the proportion of DE devoted to administering Ministry-managed NDE, any significant savings realised in NDE are likely to have a flow on effect to DE. In addition, within DE, any reduction in core areas such as policy development (whether associated with a NDE reduction or not) are likely to have subsequent flow on effects within the 'servicing' roles in the Ministry, particularly information technology services.
- 37. It is proposed that the results of both the Ministry-managed NDE and DE exercises will be referred to the Ministerial Group. It is anticipated that programmes or areas rated 3 or 4 would provide a good starting point for the Ministerial Group's consideration and advice when reviewing Ministry-managed NDE. Any further savings realised from Ministerial Group recommendations can be added to the immediate savings proposed by the Ministry and used within the 2009/10 year and beyond to help manage priority pressures identified within Ministry-managed NDE, or to advance other Government priorities.

Areas of future focus for value for money reviews

- 38. The initial line by line review of the Ministry's NDE and DE has been as comprehensive as possible given the time constraints involved. This section outlines the proposed future value for money work programme across Vote Health that builds on the initial review phase and also the existing work being undertaken by the Ministry to improve value for money in Vote Health.
- 39. As noted in the Cabinet Business Committee paper [CBC (08) 563 refers], one off reviews, either line by line or in depth are not the sole, or even the most important means for enhancing value for money in the state sector. Recognising this, the Ministry's approach to enhancing value for money in Health is a multifaceted one that includes developing good performance information, having the levers to drive a culture of continuous quality improvement and robust prioritisation processes.
- 40. In addition to the further line by line review to be carried out by the Ministerial Group, the Ministry of Health's proposed future value for money work programme is based around three broad areas:
 - *Departmental Expenditure* - further detailed line-by-line analysis and clarification of the ongoing role of the Ministry to enable an enhanced focus on, and streamlined delivery of, core priorities
 - *Ministry-managed NDE* - next steps in work to improve management processes, including a review of all contracts
 - *System level improvements* - building on work already underway to enhance accountability and performance management systems (addressing issues around how DHBs are directed, scrutinised and influenced), and to improve prioritisation and decision-making processes across all of Vote Health (to enhance decisions affecting both allocative and technical efficiency)

41. The prioritised work programme alignment exercise commenced as part of this review will be completed, as a part of the 2009/10 planning and budgeting process. This will include a line by line level assessment of resources (mix of personnel, contractors, consultant costs) to perform the agreed work programme efficiently and effectively, with the possibility of further ongoing savings being identified.
42. Other work will also be undertaken to identify any further savings and efficiency potential in major non-personnel related cost item categories (eg, travel).

Improved management processes for Ministry-managed Non Departmental Expenditure

43. The Ministry of Health continues to manage a significant portion of Vote Health directly, approximately \$2.496 billion in 2008/09 or 21.5% of the total Vote. This covers a range of services that have not been devolved to DHBs, such as responsibility for disability support services for people under 65, the Clinical Training Agency (workforce development functions), significant portions of Public Health funding, Well Child and some maternity services. Four items of work have been identified in relation to this funding.
44. In early 2008 the Ministry conducted the first phase of a line by line review of programmes funded by the Ministry. This resulted in recommendations about improved planning and reporting processes which are under development. However, the Ministry has concluded that a necessary step in tackling the value for money issues associated with Ministry-managed NDE is to carry out a line by line review of all contracts to develop a more specific information base to work from.
45. Reviewing all Ministry-managed NDE contracts will be a major undertaking given that there are approximately 13,000 contracts and other service agreements, covering the array of services noted above. When reviewing these contracts, considering linkages between health system programmes and those in other social sectors will also be important in achieving optimum value. Cross-portfolio service considerations proved an important part of the previous Well Child services review.
46. The second work item involves improving the process for allocating FFT and Demo adjustments to Ministry funded programmes. FFT and Demo funding is provided to manage inflationary and demographic pressures. The Ministry portion of FFT and Demo is currently distributed to directorates which then decide on how to allocate the funding across their programmes. However, there is a need to allocate inflation and demographic funding across directorates to ensure the allocation is efficient and effective and that funding goes where the pressures are greatest.
47. As an immediate step the Ministry has committed to manage Maternity services volume pressures and Intellectual Disability (Compulsory Care and Rehabilitation) [ID (CCR)] Act pressures out of Demo funding applied to Ministry-managed NDE, rather than seeking additional funding through the Budget process or requiring reprioritisation within baselines.
48. The third work item involves increasing the transparency of how the Vote Health-held risk reserve operates. This will involve developing guidelines regarding its purpose, and how it is accessed (acknowledging that use of its funds currently requires the agreement of the Ministers of Health and Finance).
49. The fourth work item in relation to Ministry-managed NDE reflects the Treasury-led Review of Accountability Documents (ROADs). ROADs requires greater specification of performance measures for NDE. Improved planning and prioritisation of services funded through Ministry-managed NDE is also required.
50. Table 5 summarises the four work items identified in relation to Ministry-managed NDE. All of this work will need to link with the wider Long Term System Framework work programme particularly in relation to work on the roles and responsibilities of the Ministry of Health and work on planning and funding of national and regional services.

Table 5: Future Value For Money Work Programme for Ministry NDE

Work programme item	Issues to be addressed	Timeframe
Line by line contract review	Detailed analysis of individual contracts within programmes	12 months
Allocation of FFT/Demo	Processes are required for allocating FFT/Demo	In time for Budget

	to Ministry services across Directorates to where inflationary and demographic pressures are greatest rather than automatically passing on adjustments to all budgets/baselines.	10/11. Needs to link with line by line contract review.
Management of risk reserves	Increasing the transparency of management and utilisation of risk reserves	June 2009
Prioritisation processes and performance reporting	ROADS requires greater specification of performance measures for NDE. Improved planning and prioritisation of services funded through Ministry-managed NDE is also required.	Improved performance measures required for 09/10 Estimates. Will need to link to line by line contract review.

System level improvements

51. The Director General's review of the Ministry of Health in 2006 recommended a strengthened focus on improving system performance and sustainability. To achieve this goal, there have been a number of changes to the Ministry, for example an increased focus on prioritisation through the Health and Disability Systems Strategy Directorate and the establishment of the Sector Capability and Innovation Directorate to act as a key change agent working collaboratively with DHBs, PHOs and other NGOs. In addition, the review recommended long term strategy development for the health sector which has resulted in the establishment of the Long Term System Framework to better position New Zealand's health system to ensure clinical and financial sustainability in the future.
52. The key work that is already underway, and will be developed further over the next few months, to improve overall system performance is outlined in Table 6.

Table 6: Work programme to improve overall system performance

Lever	Future work
Targets and performance measures	Reshaping health targets and performance information to drive performance improvement and improve measurement of hospital productivity
Hospital productivity	Respond to Government's priority to develop a comprehensive programme to accelerate increases to hospital productivity
Public reporting	Expanding hospital benchmarking information that is publicly available
Prioritisation and Decision making	An improved Budget process to identify the next best spend across all of Vote Health Processes for reprioritisation of existing spend into higher value areas Development of health economic analysis capability
Financial and non-financial Incentives	Explicit use of incentives to improve performance including reputational effects, earned autonomy, and greater use of funding levers (including review of capital financing – debt / equity arrangements)
Models of care	Identifying the economic impact of new models of care to enable us to better assess their value for money
Service Planning and service reconfiguration	Implementing a national planning process to enable us to improve our management of services that for efficiency and effectiveness reasons are best done nationally Implementing regional decision making and planning processes to enable the more efficient configuration of services Shared services by DHBs
Sharing best practice	Implementation of Sector Capability & Innovation directorate work programme
Ministry's role as a manager of national operational functions, and as a planner and funder of selected services	Planned work in this area includes confirming the Ministry's core ongoing role and purpose
Other accountability mechanisms	Minister's letter of expectations of 09/10 (February) to DHBs and DHB planning guidelines to address value for money

53. As noted above, the legislative framework associated with DHB funding determines the extent to which the Ministry can scrutinise, influence and direct DHB action. The Ministry is already undertaking work on some of the key levers it has in relation to DHBs, but these still do not allow the Ministry to undertake the same level of scrutiny and direction as is possible in relation to Ministry-managed NDE.

Recommendations

The Ministry recommends that you:

- a) **Note:** that a set of Crown Finance Information System (CFIS) templates representing a proposed Budget 2009 package for Vote Health, including the Ministry's proposed savings, is attached as Annex 1 to this paper Yes / No
- b) **Note:** a holding template is included which secures all excess funding and savings currently identified and proposed by the Ministry within Vote Health, consistent with the letter from the Minister of Finance dated 17 December 2008 Yes / No
- c) **Note:** that there are likely to be ongoing amendments to the proposed Budget 2009 package as policy details are finalised, but that at present there is only just over \$1 million surplus funding available in the lowest outyear Yes / No
- d) **Note:** that there are significant pressures being managed within Vote Health baselines, including in relation to maternity services and Intellectual Disability (Compulsory Care and Rehabilitation) [ID (CC&R)] Act – provision of additional court-directed secure level care both of which will be managed from within the Ministry-managed NDE demographics adjustor in 2009/10 Yes / No
- e) **Note:** there is a historic 'in principle' Cabinet decision to roll out Blueprint Funding for Mental Health Service Development until it is 'fully funded' Yes / No
- f) **Note:** that due to capacity constraints within the sector that it is proposed to provide Blueprint Funding for Mental Health Service Development an additional \$10 million funding (rather than the \$22 million implied by the 'in principle' decision) and that this funding can be found by reprioritising within baselines, pending further advice Yes / No
- g) **Agree:** to using the Budget 2009 process to allow Cabinet to rescind the current 'in principle' decision, so that \$22 million does not need to be provided for Blueprint Funding for Mental Health Service Development within the 2009 Budget Yes / No
- h) **Note:** that a CFIS template seeking \$500 million of additional capital funding in the 2009/10 year is included as part of Annex 1, but that this total is subject to further review and advice from the Ministry Yes / No
- i) **Note:** that the immediate line by line review is limited to DE and Ministry-managed NDE, and that DHBs will be the subject of future value for money work. Yes / No
- j) **Note:** that it is intended to refer all work areas and programmes that may not align with Government priorities or provide value for money within both DE and Ministry-managed NDE (as summarised in Annexes 4 and 5) to the Ministerial Group for its consideration and advice Yes / No
- k) **Note:** that the proposed future value for money work programme, subject to discussions with Ministerial Group, includes: Yes / No
- Further detailed line-by-line analysis of Departmental Expenditure and work to clarify the ongoing role of the Ministry to enable an enhanced focus on core priorities
 - Next steps in work to improve management processes for Ministry-managed NDE overall
 - System level improvements building on work already underway to enhance accountability and performance management systems, and to improve prioritisation and decision-making processes across Vote Health
- l) **Sign:** the attached letter to the Minister of Finance and **forward** two copies of this report to the office of the Minister of Finance by 1.00 pm on 5 February 2008 Yes / No

Stephen McKernan
Director-General of Health

MINISTER'S SIGNATURE:

DATE:

Ministry Contact 1:	
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