

3 NOVEMBER 2009

NEXT STEPS FOR BUDGET 2010 AND A FUNDING SIGNAL FOR DHBS

Key Points

- The Ministry of Health's In-Depth Reviews of Ministry-managed non-departmental appropriations cover many of the potential areas for savings for Budget 2010. They offer a good foundation for the work required by 30 November for Budget Ministers, or earlier if the Minister wishes to give a firm funding signal to DHBS this month.
- The Minister of Health needs **as firm an estimate as possible of the bankable savings** he can commit to in Budget 2010 when seeking Cabinet's agreement to an early funding signal for DHBS.
- Final decisions on specific savings can wait, but the Minister of Health should **indicate the areas in which he is comfortable for the Ministry of Health to pursue savings**, reprioritisation and copayment options.
- The Minister of Health should seek the Ministry's advice on **scenarios/options to deliver ongoing savings of, say, \$100m, \$150m and \$200m** for reprioritisation in Budget 2010.

DHB Funding Signal

A firm funding signal for DHBS will require Cabinet agreement as it constrains other budget decisions for Vote Health and for all other Votes. A November announcement could follow consultation with the Minister of Finance and a decision at the 23 November Cabinet meeting.

The feasible size of the DHB funding signal depends on:

- ↑ The size of the indicative Health allocation for Budget 2010
- ↑ The scale of achievable savings to supplement the indicative Health allocation
- ↓ The amount of funding the Minister wishes to set aside for other budget initiatives
- ↓ The amount Ministers consider should be held at the centre to manage DHB deficit risks
- ↓ The size of a feasible "efficiency adjustment" deduction from DHBS' FFT/Demo
 - The ability of DHBS to manage with lower funding rate increases depends on government setting strong expectations/pressure to manage cost growth down and giving DHBS enough flexibility and discretion to make necessary service delivery and reconfiguration decisions to achieve this.
 - If DHBS are overly constrained in how they can reduce costs in the face a markedly lower funding track, the budget constraint will not "stick" as the cost of the resulting DHB deficits hits the Crown's fiscal position.

Building on the Ministry's In-Depth Reviews

More detail is needed on expenditure and effectiveness in the areas reviewed. This includes more clear consistently presented information on the composition of expenditure, and historical trends decomposed where possible into price, volume and quality changes.

Where possible and material, information should be provided at the level of **programmes or policy components** over which Ministers can make prioritisation choices.

The maternity review did this well, for example, with the issue of obstetrician LMCs.

It will not be possible for the Ministry to deliver this level of detail for many programmes in November.

“Bottom up” reviews are useful to identify options for Ministers to consider. But where there is limited information to make decisions at the centre and where responsibility for allocating resources is devolved, **“top down” savings targets** may be necessary to establish expectations and drive change.

For example, in disability support services it appears that the Ministry of Health has inadequate information to provide detailed prioritisation and savings options to the Minister. Instead the review has identified funding pressures to maintain current service coverage that exceed identified savings options by a factor of five, and discusses options that will be explored to contain cost pressures. A target for savings in this area to achieve at least a nil increase in Budget 2010 could be set.

Other key areas to consider for savings include:

- a) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- b) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- c) Issues and options identified in earlier line-by-line review work, such as:
 - *[deleted – confidentiality of advice]*
 - *[deleted – confidentiality of advice]*
 - some refugee and migrant health services funding
 - low priority mental health expenditure identified in the line-by-line review
 - *[deleted – confidentiality of advice]*

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

2 NOVEMBER 2009

INITIAL REACTIONS AND COMMENTS ON MINISTRY OF HEALTH IN-DEPTH SPENDING REVIEWS

Note: These are our initial reactions to the Ministry's reports. As we have not yet had an opportunity to discuss or clarify any of these points with the Ministry, there may be a number of errors and/or misreadings of the Ministry's reports.

OVERALL:

The Ministry of Health has made good progress in this in-depth review work. This can help with the Health budget assessment due by 30 November or 22 December.

In some areas the Ministry has identified real efficiency improvement options and/or areas where current service mix should be changed and/or government share of costs reduced.

More detailed and accessible information would be useful on where the money is going and how it has changed. Each section gives a short prose description of aggregate spending trends, but:

- Only Public Health provides a table breaking down the components of total spending covered by the review;
- Explanation of past expenditure trends is incomplete – its hard to identify the relative scale of changes in unit price, quantity and standards. We believe more detail of this nature will be useful to the Minister of Health and expected by Finance Ministers;
- Some significant spending in these areas are not included, for example: 33% or \$304m of Disability Support Services funding. In some cases the reason for this is clear - as where other reviews are already underway, but it is difficult to get the full picture for each area;
- In some areas, information on related spending in other parts of Vote Health is needed to give a full picture – e.g.: health promotion communications funded outside of the public health appropriations reviewed here;
- The poor quality information available to the Ministry on Disability Support Services spending is of particular concern given the risks in this area and MOH's role as purchaser. The Ministry has outlined practical steps to address this, but it is unclear if these can be delivered in time to secure savings for Budget 2010;
- In some areas the summary information presented in the report is clearly drawn from a substantial base of more detailed information and analysis, but in other areas its unclear whether the Ministry of Health has more detailed information.

The reviews assume *“that the Government's intention is to maintain existing per-capita service coverage and access”* and that the Government's objectives in each area are not subject to review.

- If this *“maintain existing coverage and access”* assumption is applied to individual programmes and services, options to cut back less effective or lower priority programmes cannot be considered. The only options then are *“efficiency”* options within programmes to contain cost inflation and expanding coverage.
- Value for Money assessments can't then be made to reprioritise between different areas, or even between related programmes.

[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions].

- If some options have been excluded by *[deleted – free and frank]*, these judgements should be for Ministers to make with appropriate advice.
- Its unclear why the number of people affected by an option is a risk criterion. A small change in cost/access/coverage spread over a larger group may involve both less risk to health outcomes and less risk of resistance from groups more heavily affected by more localised but intensive changes.
- For example, we don't believe that *[deleted – confidentiality of advice]*

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Disability Services

- The Ministry has acknowledged that it has limited information on the costs and outcomes across this area of its spending, and has limited “levers” to control costs.
 - This is a concern given the wide variability in unit costs across NASCs etc.
 - As DSS funding is not “entitlements” – it is unclear from the report why it is hard to control cost and volume growth
 - *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
 - Could external price benchmarks be used here – eg with similar ACC funded services, other jurisdictions?
- The review doesn't clearly explain the \$42 million cost pressures signalled for Budget 2010 – against which only \$8 million of savings options are identified. (eg why have volumes increased so much?)
- 33% or \$304 million of the Ministry's DSS expenditure is excluded from the review and it is unclear what this covers and why its excluded
- Broader options for changing standards, rationing, and copayments could be considered – eg hearing aid part-subsidies, asset testing for modifications and disability support etc.
- Risk analysis seems very conservative, notwithstanding the sensitivity of some cases in this area – based more on presentation issues than on potential health impact?
- Important to coordinate work in this area with related policy change eg in Invalids benefits, ACC funding/coverage.

Mental Health

- *[deleted – confidentiality of advice]*
- More information needed on where the recent funding increases have gone – Price/Quantity/Standards since access rates levelled off some years ago
- Q: are some primary mental health services being effectively double-funded through primary health capitation and additional mental health funding?
- *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*

- Support the Ministry's proposal to review the whole suite of promotion programmes at local regional and national level – including mental health, alcohol, tobacco, sexual health etc cutting across this and public health.

Public Health

- Range of options appear not to be considered although identified in earlier line-by-line reviews.
- For example:
 - *[deleted – confidentiality of advice]*
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 - Uptake rates assumed for HPV vaccinations
 - Overlap with DHB funding – eg tobacco cessation programmes
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*