

Cabinet

**ACHIEVING SAVINGS IN PRIMARY HEALTH CARE FOR BUDGET 2010  
PRIORITIES**

**PROPOSAL**

1. This paper asks Cabinet to
  - 1) note:
    - i. my intention to find \$12.5m of savings from primary health care funding in association with the sector, made up of:
      - a. PHO Performance Programme (\$10.1m)
      - b. Care Plus (\$2.4m), and;
    - ii. that all proposals in this document are fiscally neutral and will be incorporated into Vote Health's Budget 2010 as outlined in the accompanying Cabinet paper and reflected in the Main Estimates, and;
  - 2) approve:
    - i. changes to appropriations to fund implementing my Budget 2010 Ministerial priorities, including *Better, Sooner, More Convenient Primary Health Care*.

**EXECUTIVE SUMMARY**

2. A package for saving \$12.5m in primary care has been designed to assist in funding front-line services.
3. To realise these savings, settings for the following primary care programmes will be altered:
  - a. PHO Performance Programme
  - b. Care Plus programme
4. Under the arrangements inherited from the previous government, agreement from the primary care sector (DHBs and PHOs) is required to make these changes. Agreement has been reached and changes to the above programmes can be put in place from 1 July 2010 to achieve savings in 2010/11.
5. I propose that some savings achieved from these programmes be reinvested into frontline services being developed as part of *Better, Sooner, More Convenient Primary Health Care*.

**BACKGROUND**

6. Primary health care, which includes Primary Health Organisations (PHOs), general practices and community pharmacies, along with district health boards (DHBs), is one of the areas in health that is subject to the greatest continuing cost growth. I am actively working with the primary care sector

with the aim of reducing this cost pressure, and ensuring available resources are prioritised to front-line services.

7. To this end, in December last year I invited the PHO Service Agreement Amendment Protocol (PSAAP) group, which constitutes representatives of DHBs, PHOs and the Ministry of Health, to work together to identify savings from within existing primary health care funding (capitation funding for PHOs).
8. PSAAP has agreed to savings in the following programmes:
  - a. PHO Performance Programme
  - b. Care Plus programme

## **PROPOSED CHANGES TO ACHIEVE SAVINGS**

### **PHO Performance Programme**

9. The PHO Performance Programme (PPP) monitors an agreed set of clinical performance measures in the primary care sector. This is a Ministry-held demand-driven funding stream, with forecast expenditure in 2010/11 of \$28m.
10. PSAAP has agreed to reduce the per head rate payable to PHOs for achievement of targets from \$8.24 GST excl to \$5.33 GST excl. This will result in reduced expenditure in 2010/11 by \$10.1m.
11. In addition to rates changes, cost growth in the PPP may be able to be managed by limiting the number of indicators monitored and adjusting target thresholds. I have asked the Ministry to explore these options further. Any new arrangements would need to be negotiated through the PSAAP process.

### **Care Plus**

12. Care Plus provides additional funding to PHOs for people who have to visit a general practice more frequently because of a chronic condition or terminal illness. The level of funding paid to a PHO for Care Plus services is dependent on the percentage of the eligible number of Care Plus patients that are actually enrolled in the Care Plus programme. Funding calculations are complex, and also take into account High User Health Card holders.
13. Several options have been investigated for modifying the calculations for Care Plus funding to achieve savings for this demand-driven Ministry-held budget line. Changes proposed have included the movement of payment bands to 5% increments (rather than the current 15 – 50% thresholds). This change is expected to achieve a saving of \$2.4m a year.
14. Current forecast expenditure for Care Plus, without achieving savings from restructuring the scheme, means an estimated additional \$16.06m is required for 2010/11 to cover volume growth. Due to reprioritisation within the Ministry's primary care baseline, this amount has been managed down to a residual pressure of \$11.182m. This forecast expenditure for Care Plus for 2010/11 is included in the Budget 2010 package which is currently before Ministers for consideration and will be decided on at the Cabinet meeting on 19 April 2010.

## UTILISING SAVINGS FOR IMPROVED FRONTLINE SERVICES

### Better, Sooner, More Convenient

15. *Better, Sooner, More Convenient Primary Health Care* (BSMC) is our initiative to deliver a more personalised primary health care system that provides services closer to home, and makes Kiwis healthier.
16. This initiative acknowledges that primary health care has a part to play in helping reduce acute demand pressure on hospitals, by better managing chronic conditions, and proactively supporting high need populations.
17. As part of the new arrangement for funding, contracting and performance monitoring associated with this initiative, I propose to establish a Flexible Funding Pool by combining several existing funding streams for use by BSMC successful business case developers which have been identified as capable of implementing transformational change. I will be bringing more details of these arrangements to Cabinet in the near future.
18. The Funding Pool will provide primary health care organisations in the new environment with flexibility to put in place the appropriate range and models of service delivery that best meet local/regional needs and contribute to achievement of agreed outcomes.
19. It is proposed that current Care Plus funding for the primary care groupings in *Better, Sooner, More Convenient*, be one of the streams moved to the Funding Pool. An additional \$4.8M will be required to shift payment calculation from an enrolment in a programme basis, to a capitation basis. I propose that a proportion of the savings identified in this paper be used to fund this initiative. These groupings cover more than 60 per cent of the enrolled population.
20. I propose that the balance of the savings be retained in Health Services Funding appropriation, to manage risks in the health sector. The delegation for allocating this funding is a joint one between myself and the Minister of Finance.

### CONSULTATION

21. No formal consultation was undertaken during the preparation of this paper.

### FINANCIAL IMPLICATIONS

22. The current Primary Care budget for 2010/11 is as follows:

	\$million
Baseline	162.454
New funding in budget 2010	20.764
Less savings in this paper	(12.500)
Plus <i>Better, Sooner, More Convenient</i>	4.800
<b>Primary Care budget for 2010/11</b>	<b>175.518M</b>

## LEGISLATIVE IMPLICATIONS

23. There are no legislative implications.

## HUMAN RIGHTS IMPLICATIONS

24. There are no human rights implications associated with this proposal.

## REGULATORY IMPACT AND COMPLIANCE COST IMPLICATIONS

25. A regulatory impact assessment is not required, as this paper does not involve an amendment to an Act or Regulations.

## GENDER IMPLICATIONS

26. There are no gender implications associated with this proposal.

## DISABILITY

27. There are no specific implications associated with this proposal for people with disabilities.

## PUBLICITY

28. There should be no negative publicity associated with this proposal, as the changes outlined in the proposal have been negotiated with the primary care sector.

## RECOMMENDATIONS

29. It is recommended that Cabinet:

- 1) **Note** savings of \$12.5 to be achieved from Care Plus and the PHO Performance Programme.
- 2) **Approve** the following reduction in Vote Health baselines, to reflect savings from the PHO Performance Programme and the Care Plus programme, with a corresponding impact on the operating balance:

Vote Health Minister of Health	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Non-Departmental Output Expenses: Primary Healthcare Strategy	-	(12.500)	(12.500)	(12.500)	(12.500)
<b>Total Operating</b>	-	(12.500)	(12.500)	(12.500)	(12.500)

- 3) **Approve** the following changes to appropriations, to fund the implementation of *Better, Sooner, More Convenient*, in the Primary care sector, with no impact on the operating balance:

Vote Health Minister of Health	\$m – increase/(decrease)				
	2005/06	2006/07	2007/08	2008/09	2009/10 & Outyears
Non-Departmental Output Expenses: Primary Healthcare Strategy		4.800	4.800	4.800	4.800
<b>Total Operating</b>		4.800	4.800	4.800	4.800

- 4) **Approve** the following changes to appropriations to increase the funding to manage risks within the health sector, with no impact on the operating balance:

Vote Health Minister of Health	\$m – increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Non-Departmental Output Expenses: Health services Funding	-	7.700	7.700	7.700	7.700
<b>Total Operating</b>	-	7.700	7.700	7.700	7.700

- 5) **Agree** that recommendations to effect these decisions will be included in Health Budget 2010.

**Hon Tony Ryall**  
Minister of Health

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