

Treasury Report: Meeting with Minister of Health and Health officials
Wednesday 1 July - agenda

Date:	29 June 2009	Report No:	T2009/1577
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Discuss as necessary with Treasury prior to the Health meeting Use agenda for meeting with Health	Wednesday 1 July, 8pm meeting

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Claire Douglas	Manager, Health	[withheld - privacy]	[withheld - privacy]	✓
[withheld - privacy]	Senior Analyst, Health	[withheld - privacy]	[withheld - privacy]	

Minister of Finance's Office Actions (if required)

Provide attached agenda for MOF for meeting at 8pm on Wed 1 July.

Enclosure: Yes

Treasury Report: Meeting with Minister of Health and Health officials Wednesday 1 July - agenda

Executive Summary

You are meeting with the Minister of Health and Health officials on Wednesday 1 July, 8pm-10pm on health priorities, Budget 2010, and other issues (including DAPs).

A draft agenda to help structure the meeting, and provide for clear decision and action points, is attached. We recommend that you and the Minister of Health:

- Commission the Treasury and the Ministry of Health to come back in 1 month with a range of workable options for Budget 2010 that will illustrate for Ministers the implications of different (low, medium, high) funding paths. This report could provide the basis for a Health Budget strategy report to Cabinet in due course.
- Agree to make a joint response to DHBs on the 2009/10 DAPs that:
 - i. emphasises the changed fiscal environment;
 - ii. signals a lower funding increase in Budget 2010 than forecast FFT and Demo;
 - iii. reinforces government's expectations around productivity improvements and DHBs managing within their budgets.
- Develop a game-plan for ensuring that the Ministerial Review Group delivers options that meet Ministers' needs and for how Cabinet will take the work forward beyond 31 July.

Recommended Action

We recommend that you:

- a Either:
- a. **agree** to use the attached agenda for your meeting with the Minister of Health and Health officials on Wednesday 1 July, 8pm-10pm.

Agree/disagree.

Or:

- b. **advise** the Treasury of any changes you would like made to the attached agenda, and whether you would like to discuss the objectives for the meeting.

Agree/disagree.

Ruth Isaac
Senior Analyst
for Secretary to the Treasury

Hon Bill English
Minister of Finance

Treasury Report: Meeting with Minister of Health and Health officials Wednesday 1 July - agenda

Purpose of Report

1. You are meeting with the Minister of Health and Health officials on Wednesday 1 July, 8pm-10pm on health priorities, Budget 2010, and other issues (including DAPs).

Objectives for the meeting

2. As discussed, the meeting is an opportunity for you to:
 - set the rules of the game between now and Budget 2010 with the Minister of Health given that “within baselines” spending affects the available headroom (ie keep savings to offset Budget 2010 and limit between Budget spending);
 - discuss the level of reprioritisation expectations that are realistically achievable, and what choices Ministers have to attain savings to offset Budget 2010 (and beyond);
 - agree to signal to DHBs to expect a lower FFT and Demo for 2010/11 in DAP letters and discuss how to sharpen the expectations on DHBs for the year ahead through the response to DAPs (separate advice on the DAPs will be provided to you early next week);
 - step up your engagement on managing and monitoring DHB performance as ownership Minister more generally; and
 - commission appropriate follow up work on Budget 2010 options and DHB performance levers to manage to a lower growth path from 2010 forward.
3. You are also keen to hear from the Ministry of Health about how it is working on improving sector performance and managing health to a lower growth path. At the meeting you could also:
 - signal that the concrete priorities for improving sector performance and fiscal sustainability in the next 3-5 years should be the focus of the Director-General’s appearance before ECC in August on Health’s Performance Improvement Actions; and
 - discuss the need for wider Cabinet engagement in setting overall health sector policy and reform priorities to live within a more sustainable growth path, including where to focus first to get traction beyond the Ministerial Review Group from the end of July.
4. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions].*

Key messages

5. At the meeting you could make the following points:
- It is too early to discuss likely Budget allowances for Vote Health, as overall Budget strategy is yet to be determined.
 - In order to maximise the headroom within existing baselines for offsetting pressures on the Operating Allowance in 2010, it is critical that between Budget spending is kept to a minimum. Underspends and savings found between now and Budget 2010 should not be used to fund new initiatives or extensions to existing initiatives or to top up the health capital envelope.
 - **Options are needed for managing health to a lower growth path from Budget 2010**, with different scenarios for the level of contribution from the Operating and Capital Allowances, informed by:
 - realistic savings/reprioritisation expectations and transparency around the choices for Ministers and the tradeoffs involved;
 - realistic productivity performance results from the Ministry's funding arm and DHBs; and
 - the options for getting better leverage over DHB performance in time for 2010/11 and thereafter (to minimise deficits and reduce negative service impacts). This needs to be concrete if DHB funding growth is to be reduced in 10/11 against current expectations.
 - You wish to take a more active role with DHBs as ownership Minister in light of the large adjustments needed in this sector and its fiscal significance/risks, and that the current DAPs round and capital decisions are important existing levers.
 - Current monitoring, accountability and reporting is not yet focussed where it matters (3-5 year horizon needed, more emphasis on productivity improvement and efficiency gains, and clearer articulation of service reprioritisation plans and options).
 - The hospital productivity work programme also needs to be broadened to include, for example, making better use of performance improvement tools such as benchmarking (particularly on cost efficiency and labour productivity), streamlining and strengthening the accountability regime, and actions to strengthen funder-provider purchasing and accountability (all of which are recommended by the OECD).

The Ministry of Health's thinking: 'Living within Our Means'

6. The Minister of Health will need to establish an agreed overall strategy for managing health within a lower growth path and wider Cabinet mandate to get the gains needed in the next 3 to 5 years. He recently commissioned work from the Ministry of Health which begins to consider how the health sector will live within a tighter budget constraint looking forward. The Ministry's report ("Living within our Means") may be forwarded to you prior to the meeting on Wednesday.
7. The Ministry's report provides a good basis for thinking about the issues that need to be worked through and the options for controlling costs in the sector in the medium term. It illustrates that the Ministry clearly understands the challenges ahead. Further work is needed to illustrate the implications/tradeoffs of living within different funding paths in Budget 2010 and 2011 including the actions Ministers will need to take in respect of DHBs to make a tighter budget constraint stick.

8. The Ministry of Health is aware that the next 6 months provides a window for making some difficult decisions to get Health on a more sustainable path, but should be asked to identify the highest priority issues to tackle (most traction in light of the challenge, more easy to tackle now than later if Ministers are willing) and the opportunity costs of different choices. Realism is needed around the extent of change on multiple fronts that Ministers, the Ministry and DHBs can successfully implement at once and in time for 2010/11. Many issues would need to be worked through before most of the ideas in the Ministry's report could be implemented *[deleted – confidentiality of advice]*.
9. It would be helpful for you to reinforce that further advice on savings is needed and that tougher choices need to be put before Ministers including around (a) the level of new initiatives that can be pursued in the future (and your expectations in this regard across the state sector), and (b) the implications for future service coverage.

Recommended outcomes from the meeting

10. We recommend that you and the Minister of Health:
 - a. Commission the Treasury and the Ministry of Health to come back in 1 month with a range of workable options for Budget 2010 that will illustrate for Ministers the implications of different (low, medium, high) funding paths. This should include the savings choices, management strategies, and policy changes that would need to be pursued, as well as the scope for new initiatives. This report could provide the basis for a Health Budget strategy report to Cabinet in due course.
 - b. Agree to make a joint response to DHBs on the 2009/10 DAPs that:
 - a. emphasises the changed fiscal environment;
 - b. signals in general terms to expect a lower funding increase in Budget 2010 than forecast FFT and Demo;
 - c. reinforces government's expectations around productivity improvements and DHBs managing within their budgets.
 - c. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*.

MEETING WITH MINISTER OF HEALTH AND HEALTH OFFICIALS

Wednesday 1 July 2009

SUGGESTED AGENDA

Key issues: health priorities, Budget 2010, and other issues (including DAPs)

a Living within a lower growth path (1): Budget 2010

- a. critical to maximise headroom to offset B2010 (ie limit between budget spending of underspends or reprioritised funds)
- b. your expectations around 'new initiatives' in B2010: Minister of Health assuming significant new investment to meet his priorities
- c. what is the range of savings options – within current settings vs making some tougher choices?
- d. what is the pathway from B2010? Is FFT&Demo viable longer term?
- e. signal a low capital allocation for Health for Budget 2010
- f. **next steps:** joint report back in 1 month on Budget options under different scenarios (low, medium, high) to get a sense of the choices under different fiscal parameters. *Could suggest Treasury lead.*

b Living within a lower growth path (2): DHB performance and cost control

- a. what changes need to go hand in hand with lower funding for DHBs in B2010 to make it stick? which options do Ministers want to consider further?
- b. suggest making a joint response to DHBs on the 2009/10 DAPs that:
 - emphasises the changed fiscal environment
 - signals in general terms to expect a lower funding increase in Budget 2010 than forecast FFT and Demo (and resets capital expectations)
 - reinforces government's expectations around productivity improvements and DHBs managing within their budgets

c Living within a lower growth path (3): health policy priorities and reforms

- a. signal your expectations for the finalisation of the MRG work (incl options)
- b. emphasise the need for a broad and bolder approach to the hospital productivity work programme
- c. wider Cabinet engagement in the strategic choices we will need to be making to get health to a lower growth path and improve sector performance
- d. that you are looking for concrete actions with a 3-5 year focus in the ECC engagement with the DG of Health