

**Treasury Report: Achieving Savings in Primary Health Care for Budget 2010 Priorities - Cabinet Briefing**

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<b>Date:</b>	16 April 2010	<b>Report No:</b>	T2010/628
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**Action Sought**

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	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	<b>Read</b> the attached report ahead of Cabinet  <b>Table</b> the suggested alternative recommendations	Monday 19 April 2010

**Contact for Telephone Discussion (if required)**

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>		<b>1st Contact</b>
[withheld - privacy]	Analyst – Budget/Funding, Health	[withheld - privacy]	[withheld - privacy]	✓
[withheld - privacy]	Analyst – Policy, Health	[withheld - privacy]		
Claire Douglas	Manager, Health	[withheld - privacy]		

**Minister of Finance's Office Actions (if required)**

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None.
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**Enclosure: Yes**

[Achieving Savings in Primary Health Care for Budget 2010 Priorities \(Treasury:1806388v1\)](#) [Add to worklist](#)

## Treasury Report: Achieving Savings in Primary Health Care for Budget 2010 Priorities - Cabinet Briefing

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### Purpose of Report

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1. The purpose of this report is to provide you with additional information on the Minister of Health's Cabinet paper "Achieving Savings in Primary Health Care for Budget 2010 Priorities", which will be discussed at Cabinet on Monday 19<sup>th</sup> April.
2. The paper proposes savings of \$12.5m per annum in primary care as a result of a reduction in the negotiated rate payable to Primary Healthcare Organisations (PHOs) for achievement of targets in the PHO Performance programme (\$10.1m) and a modification to the funding calculation for the Care Plus programme (\$2.4m).
3. The Minister of Health proposes to use \$4.8m of this funding for a proposed, but yet to be agreed, 'Flexible Funding Pool' for use by successful *Better, Sooner, More Convenient* Primary Health Care (BSMC) business cases, and \$7.7m for an increase in the Vote Health risk reserve.
4. We are also aware that the Minister of Health may request additional capital for the Vote Health Budget 2010 package at this Cabinet meeting so this note also provides some background information on the health capital position.

### Background

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5. The primary health care component of Vote Health's Budget 2010 package, as it stands currently, is as follows. The savings and spending initiatives proposed in this paper are in addition to the Vote Health package as proposed in the 2010 Budget Cabinet paper.

\$ million	2010/11	2011/12	2012/13	2013/14
<b>Funding to address price and volume pressures:</b>				
PHO Performance Programme	3.722	3.772	3.772	3.772
Very Low Cost Access Programme	7.500	7.500	7.500	7.500
Primary Health Care Plus Programme	11.182	11.182	11.182	11.182
<b>Total Funding</b>	<b>22.404</b>	<b>22.454</b>	<b>22.454</b>	<b>22.454</b>
<b>Savings:</b>				
Primary Care – Management Fee: savings resulting from a reduction in the primary care management fee paid to PHOs	(1.690)	(2.190)	(2.190)	(2.190)
<b>Net Funding Increase to Primary Care</b>	<b>20.717</b>	<b>20.264</b>	<b>20.264</b>	<b>20.264</b>

6. The Ministry of Health did not consult with Treasury during the preparation of this late paper, despite the paper having significant implications for the Vote Health Budget 2010 package and the overall Budget estimates.

### Primary Care Savings Proposals

#### PHO Performance Programme Savings

7. The paper proposes savings of \$10.1m in the PHO Performance Programme, as a result of a negotiated reduction from \$8.24 to \$5.33 in the per capita rate paid to PHOs for achievement of PHO performance targets.
8. There is no discussion in the paper of the implications of this reduction for PHO participation in the PHO Performance Programme, which is voluntary.

#### Care Plus Programme Savings

9. The paper also proposes savings of \$2.4 million a year as a result of changes to the payment bands used to calculate Care Plus funding for PHOs.
10. The level of funding paid to PHOs for Care Plus services is based on the percentage of eligible patients enrolled in the Care Plus programme. Currently, Care Plus payments are based on wide bands of enrolments as a proportion of eligibility – for example, a PHO with 81% of its eligible patients enrolled in Care Plus would be funded at the 100% rate. The changes proposed would move the bands to 5% increments, meaning that the same PHO would be funded at 85% and so would receive less funding.
11. The paper provides no indication of the costs and risks of these changes or of the options considered before the preferred band was chosen. For example, what is the impact of moving to 10% bands?
12. Given the lack of information provided in the paper, and the absence of consultation, we recommend you seek assurance from the Minister of Health that the savings proposed are low risk and will not result in adverse outcomes.

### Primary Care Spending Proposals

#### Funding for a Flexible Funding Pool

13. The paper proposes channelling \$4.8m of the identified savings into a 'Flexible Funding Pool' to be used by the nine primary care groupings who submitted business cases under the *Better, Sooner, More Convenient* primary health care reforms.
14. Currently, PHOs receive primary care funding via eight different funding streams for the delivery of specific programmes or outputs. The changes proposed would combine several of these funding streams and allow them to be used flexibly by the business case groups to 'put in place the appropriate range and models of service delivery that best meet local/regional needs'.
15. Again, the paper provides no indication of the costs and risks of these changes, nor of the full range of possible options that could achieve the desired goal of putting in place the appropriate range and models of service delivery that best meet local/regional needs. While paragraph 17 notes that Cabinet will receive a paper in the near future discussing the policy details underpinning the *Better, Sooner, More Convenient* reforms, we are concerned that Ministers are being asked to agree to these changes ahead of receiving the details necessary to make a fully informed decision.

16. Therefore, Treasury recommends that you table alternative recommendations (see below) which:
  - a. Hold the funding in the Health Services Funding appropriation pending Cabinet agreement to the policy details underpinning the *Better, Sooner, More Convenient* primary health care reforms – an approach often used for initiatives not yet through the policy phase.
  - b. Correct an error in the current recommendations which seek funding for 2006/07 and outyears rather than 2010/11 and outyears.

#### Funding for an Increase to the Risk Reserve

17. The paper also proposes an increase of \$7.7 million to Vote Health's risk reserve.
18. Vote Health currently has a risk reserve of *[deleted – negotiate without prejudice]* (comprising of baseline funding and a proposed one-off increase of *[deleted – negotiate without prejudice]* in the current Budget 2010 package) and DHB deficit provisioning of *[deleted – negotiate without prejudice]*.
19. On 31 March, Budget Ministers agreed to give Vote Health an additional \$20 million ongoing, in addition to Health's agreed allocation of \$400 million, as further provisioning for risks in Vote Health. *[deleted – negotiate without prejudice]*.
20. We are not aware of any increased risk to Vote Health since Budget Ministers confirmed the Health Package that would justify additional risk provisioning.
21. Treasury therefore recommends that you do not approve this further increase to Vote Health's risk reserve, and request that the funding (\$7.7 million ongoing) be returned to the centre to be used to top up the 2010/11 between Budget contingency.

#### **Capital**

22. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*.
23. After allowing for agreed elective theatres in Auckland and Waitemata (\$39.9 M), there is currently \$171 million available for new health capital in the health capital envelope. The average annual central funding of health capital projects has been around \$140 million over the last ten years.
24. A new health capital process is being developed following Cabinet's decisions to improve the quality of health capital decision-making. As well as the time taken for the new process to get up and running, a key constraint is the development of service planning, which will take time. Without the supporting service planning to support facility reconfiguration to achieve productivity improvements, the new process will have difficulty putting up high quality proposals for decision. Any urgent matters can be met within the \$171 million. Thus current funding is likely to be sufficient to meet urgent needs and proposals that can be developed for decision in 2010/11.
25. Consequently, Treasury recommends that Vote Health receive no additional capital in 2010/11 if sought at this late stage.

## Recommended Action

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We recommend that you:

- a **agree** to recommendations 1, 2 and 5 in the 'Achieving Savings in Primary Health Care for Budget 2010 Priorities' Cabinet paper, once you have received assurance from the Minister of Health that the savings proposed are low risk;

*Agree/disagree*

- b **table** the following alternative recommendations in place of recommendation 3:

- i. **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)			
	2009/10	2010/11	2011/12	2012/13
<b>Non-Departmental Output Expenses:</b> Health Services Funding	-	4.800	4.800	4.800
<b>Total Operating</b>	-	<b>4.800</b>	<b>4.800</b>	<b>4.800</b>
<b>Total Capital</b>	-	-	-	-

- ii. **note** that this funding is being held in the Health Services Funding appropriation pending Cabinet agreement to the policy details underpinning the *Better, Sooner, More Convenient* primary health care reforms;
- iii. **direct** the Ministry of Health to seek agreement from Cabinet on the proposed use of this funding and any changes to appropriations, before any commitment against this funding is made; and
- c **do not approve** recommendation 4. This will have a positive impact on the operating balance of \$7.7 million in 2010/11 and outyears.

Claire Douglas  
**Manager Health**  
**for Secretary to the Treasury**

Hon Bill English  
**Minister of Finance**