

The Treasury

Budget 2012 Information Release

Release Document

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- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Date: 28 October 2011

To: Minister of Finance



**AIDE MEMOIRE: HEALTH BUDGET ISSUES:
FUNDING SIGNAL FOR DHB PLANNING, [6]**

The Minister of Health wishes to discuss two budget issues with you on Monday 31 October:

- Signalling DHBs' likely 2012 Budget allocations in December, to inform their planning
- Christchurch Hospital redevelopment [6]

DHB Funding Signal and Health's Operating Allocation

In recent years, health's operating allocation has been agreed in time for joint Ministers to give a firm budget funding signal to DHBs in December to inform their draft annual plans.

This year, the Ministry of Health has been directed to prepare a 4-Year Budget Plan with two operating allocation scenarios: low \$300m or high \$400m. Final decisions on operating allocations are not scheduled until final 4-year plans are with Budget Ministers in February.

Past years' practice has given DHBs certainty, [7]

It also limits options to manage risks and pressures across government as the budget is developed, and shifts risk onto other votes and government policy priorities.

A firm funding signal helps DHBs' planning, but it is not essential to tell DHBs in December exactly what their population based funding increase will be. All other government agencies (and private sector organisations) budget and plan without this certainty. Relative to DHBs' total budgets, the level of uncertainty they will face is small (their share of the \$100m difference between Health's high and low budget allocation scenarios).

Our preferred approach for this year's planning notice is to inform DHBs that:

- No budget decisions have yet been made on Health's 2012 operating allocation;
- They should begin planning on the assumptions used last year, (i.e.: assume the same nominal increase as in Budget 2011 - consistent with DHBs getting most of Vote Health's higher \$400m scenario for this year's 4-Year Budget Plan); and
- They should include plans to manage with an increase 25% lower than last year (This is consistent with the lower \$300m scenario in health's 4-Year Budget Plan).

If the Minister of Health wants to give a firm funding commitment to DHBs before Budget Plans are finished and Health's allocation finalised, your agreement should be conditional on:

- DHBs' funding increase being less than the \$300m low scenario for Health's Budget Plan;
- The Minister assuring you that all other pressures and initiatives will be managed within the final health allocation (to be decided in February) and reprioritisation within baselines, through a 4-year Budget Plan that includes substantive policy options for savings; and
- Cabinet agreement being sought before notifying DHBs (in past years Cabinet explicitly authorised joint Ministers to set the DHB funding signal).

[6]

Health Capital Budget 2012

The key budget pressures for 21012 are final decisions on Counties Manukau capacity projects driven by strong demographic pressure, but there is currently insufficient information to support a Budget 2012 allocation.

To inform Budget 2012 health capital decisions, Ministers need Ministry of Health advice on:

- urgency (what problems must be addressed in 2012, including other DHBs?);
- affordability (how far is the total package of CMDHB proposals from affordability?);
- potential for avoiding Crown funding; and
- potential to top up the health capital envelope using operating underspends and savings.

You should seek this advice before agreeing to a 2012 health capital allocation, or committing to any specific projects.

John MacCormick, Senior Analyst, Health and Housing wk: [3]

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Minister of Finance

[6]