

The Treasury

Budget 2012 Information Release

Release Document

June 2012

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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.

From: [3]
Sent: Tuesday, 13 December 2011 1:25 p.m.
To: John MacCormick; Ruth Isaac; [3]
Subject: FW: Final draft DHB paper
Attachments: Cabinet paper Budget 2012 - DHB funding signal -(2).DOC

Everyone now agrees on \$320 million

[3]
Office of Hon Bill English | Deputy Prime Minister, Minister of Finance, Minister for Infrastructure
7.6 Beehive, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand
[3]

From: [3]
Sent: Tuesday, 13 December 2011 1:24 pm
To: [3]
Subject: Final draft DHB paper

[3]
Office of Hon Bill English | Deputy Prime Minister, Minister of Finance, Minister for Infrastructure
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Chair
CABINET

BUDGET 2012: INDICATIVE FUNDING SIGNAL FOR DISTRICT HEALTH BOARDS

Proposal

1. This paper seeks agreement for the Ministry of Health to provide an indicative funding signal to District Health Boards for planning purposes based on a total Vote Health operating allocation of \$350 million per annum in Budget 2012.

Budget 2012 and Vote Health

2. The Government has committed to returning to surplus in 2014/15. [6]

3. In October Cabinet agreed that departments should prepare Four-Year Budget Plans demonstrating how they would manage pressures and advance Government priorities within indicated baselines. The Ministry of Health was asked to prepare a plan including two scenarios showing options for managing with \$300 million and \$400 million per annum of new funding. These plans are still being developed.

4. To enable a funding signal to be provided to DHBs it is necessary to decide on a Vote Health funding increase now. We have therefore agreed that the Vote Health allocation for Budget 2012 should be \$350 million. This midpoint figure preserves flexibility within our \$800 million allocation to fund other priorities and pressures, while presenting an appropriately challenging, but credible, funding path for the sector to live within. It is expected that the Minister of Health will also be able to identify reprioritisation opportunities.

District Health Board Funding Signal

5. District Health Boards are traditionally provided with an updated indication of likely funding increases for the next three years in November or December each year to enable them to develop their Annual Plans. A significant Budget decision is what proportion of any Vote Health funding should be passed through to DHBs, and what proportion should be retained for new initiatives and Ministry managed services (including some electives, disability support services and public health – some of which is paid to DHBs for services provided). The total new funding to DHBs is allocated across DHBs on a population and demographic need basis.

6. We propose that DHBs should receive at least *\$320 million per annum* (a 3.16% average increase) to enable them to meet likely cost and demographic pressures with an appropriate focus on cost control. This is because a significantly lower figure would likely increase deficits (which cannot be directly controlled and are a first call on funding) and/or require service and clinical staffing reductions at least in the short term (as efficiency initiatives of this order will take time to

be developed and deliver results). New initiatives and Ministry-managed services (about 30% of the Vote) would be managed from the remaining \$30 million and expected reprioritisation and savings proposals (where there is no deficit risk, and more ability to control service levels and to expand the funding base through changes to entitlements and copayments).

7. Our expectation remains that the Ministry of Health's Four-year Budget Plan will demonstrate credible plans for managing within a \$350 million annual adjustment for the next four years. This should include operational efficiency, policy and service options for managing cost pressures and redirecting funding to where it is most effective.

Consultation

8. This paper has been prepared by the Minister of Finance's Office and the Minister of Health's Office based on advice from the Treasury and the Ministry of Health.

Recommendations

9. We recommend that Cabinet:

- 1 **agree** that the Ministry of Health can provide an indicative funding signal to the District Health Boards for 2012/13, 2013/14 and 2014/15 to enable timely preparation of Annual Plans;
- 2 **agree** that the DHB funding signal shall be based on a Vote Health Budget 2012 new funding allocation of \$350 million per annum, and should assume similar increases in Budgets 2013, 2014 and 2015;
- 3 **agree** that the DHB funding signal will be \$320 million per annum;
- 4 **agree** that the Ministry of Health Four-year Budget Plan shall identify a credible plan, with any necessary savings actions or policy options, for managing both DHB and Vote Health pressures within the indicated funding path over the next four years;
- 5 **note** that final DHB funding decisions will be taken in the Budget 2012 Cabinet paper, likely to be in April.

Hon Bill English
Minister of Finance

Hon Tony Ryall
Minister of Health

Date:

Date: