

# The Treasury

## Budget 2012 Information Release

### Release Document

June 2012

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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
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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.

# Vote Health's 4-Year Budget Plan

Analysis and recommendations

# Health's Four-Year Budget Plan

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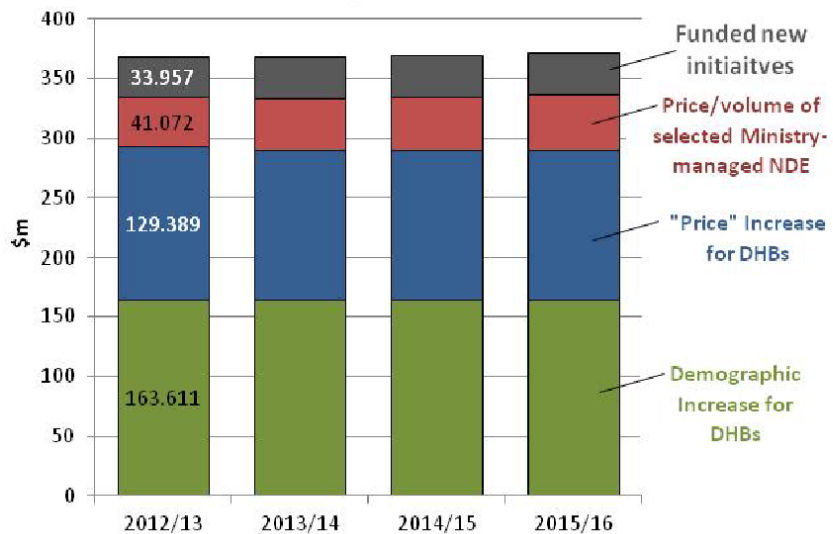
- ▶ Departmental operating and capital plans ✓
  - ▶  $\bar{\nabla}$  declining operating budget.
  - ▶ Prioritising capex to sector support systems
- ▶ Ministry-managed non-Departmental expenditure ✓
  - ▶ Planned price/volume increases are targeted, prioritised.
  - ▶ Further in-depth reviews will feed into Budget 2013
- ▶ District Health Boards – operating ??
  - ▶ Full demographic adjustment plus 1.5% for price pressures
  - ▶ DHBs must maintain services while also funding:
    - ▶ Delivery of higher health targets (cost not estimated)
    - ▶ \$30m of unfunded new initiatives
    - ▶ Deficit reduction (\$30m) and KiwiSaver (\$45m rising to \$67m)
  - ▶ Unclear if DHBs can achieve required efficiencies – esp. beyond 2012/13
- ▶ DHB Capital ??
  - ▶ Seeking  $\bar{\nabla}$  in 2012, above existing  $\bar{\nabla}$  capital envelope.
  - ▶  $\bar{\nabla}$
  - ▶  $\bar{\nabla}$



# Health's Four-Year Budget Plan

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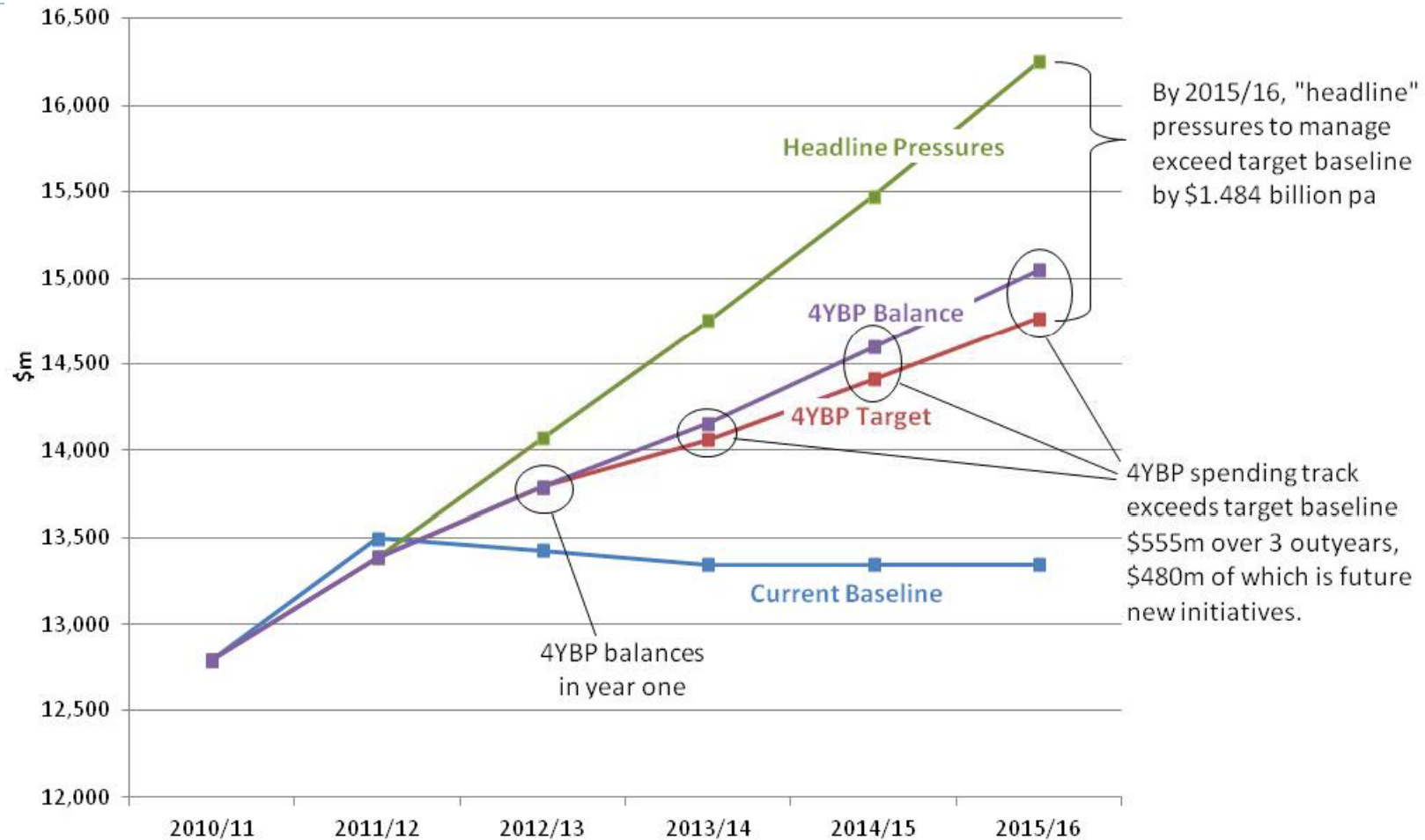
New spending in Vote Health  
Budget 2012



[9]



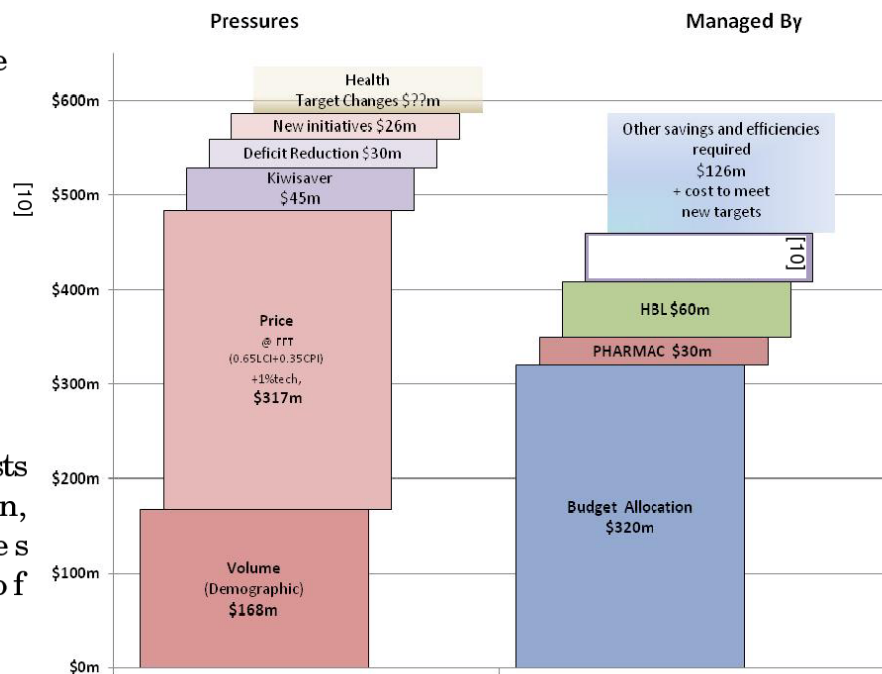
# Pressure versus funding



# DHBs' cost pressures

- ▶ The key issue is whether DHBs can absorb the costs and pressures they face without deficits or unintended service reductions.

**DHBs' Cost Pressures in 2012/13 and how they are to be managed**



- ▶ But DHBs face additional costs for kiwisaver, deficit reduction, unfunded Budget '12 initiatives and the (unquantified) cost of new health targets.

# Further risks

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[8]

- ▶
- ▶ “Baseline holes” as time-limited funding runs out. e.g. National Elective Services appropriation could fall in nominal terms in 2012/13 even with 4YBP providing for a \$12m new initiative
- ▶ Externally driven initiatives
  - ▶ E.g.: the Youth Mental Health project
  - ▶ 4YBP assumes DHBs will largely absorb costs, estimated at \$5m pa, but could be much higher (options up to \$40m)
- ▶ New Initiatives in Future Budgets
  - ▶ The 4YBP signals \$80m annual increases for new initiatives in future budgets. This is not funded within the \$350m allocation, resulting in the 4YBP exceeding the target baseline.



# Measures underway

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- ▶ How does Health plan to control cost growth and fill the gap between the 4YBP balance and the target baseline (\$350m pa increases)?
  - In-depth reviews of four areas of expenditure
  - Further shared services and procurement savings (HBL, PHARMAC)
  - Hospital productivity and quality/safety initiatives
  - Strengthened incentives in funding
  -

[10]

While these would be difficult to quantify individually, it isn't clear that as a package they can deliver enough to manage sector pressures.





# 2014/15

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- ▶ Further options to be explored to manage down cost pressures

- Reducing service costs
  - Underway: e.g., HBL, regional collaboration, PHARMAC savings, National Health Committee
- Reduce service demand
  - E.g., clinical networks, new workforce roles, reduce errors
- Private involvement
  - More private insurance
  - Investigate co-payments targeting: prescriptions, primary care and aged care

[6]



# Our recommendations: Operating

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- ▶ **approve** only the first year (2012/13) of Health's Four-year budget plan;
- ▶ **agree** that funding for 11 new initiatives be approved as a tagged contingency
- ▶ **agree** that final decisions on initiatives to be funded from this contingency will be subject to further advice to Budget Ministers on whether DHBs can sustainably deliver the DHB-funded initiatives, deficit reductions and increased performance against health targets described in the 4YBP;
- ▶ **direct** the Ministry of Health to report for Budget Ministers' 28 March meeting with this advice, including a quantified estimate of DHBs' costs to deliver on changes to government's health targets;
- ▶ **invite** the Minister of Health to seek a Cabinet Strategy Committee discussion of the Government's 2-3 year objectives for health sector reform, and options to manage fiscal and service pressures, to inform the planned 2012 review the DHB <sup>161</sup>
- ▶ **direct** the Ministry of Health to report for Budget Ministers' 28 March meeting on options to increase targeting (via copayments) of funding for community pharmaceuticals, primary care and residential aged care, including options to:
  - ▶ begin implementing any changes in 2012/13; and
  - ▶ deliver up to \$240m per year when fully implemented (sufficient to fund three \$80m per year increases for new initiatives in 2013-2015 as signalled in the 4YBP);



# Our recommendations: Capital

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- ▶ **approve** a small (\$50m) or zero allocation to the Health Capital Envelope in 2012/13;
- ▶ **invite** the Minister of Health to commission advice to the Ministers of Health and Finance from the National Health Board and Capital Investment Committee by 30 April 2012 on capital prioritisation, and the risks and benefits of proceeding with or deferring the capital projects identified in the 4YBP.

