

# The Treasury

## Budget 2013 Information Release

### Release Document

July 2013

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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.

## Treasury Report: Health Capital Envelope

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<b>Date:</b>	15 October 2012	<b>Report No:</b>	T2012/2612
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### Action Sought

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	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p><b>Note</b> the contents of this report.</p> <p><b>Indicate</b> your views on reserving all or part of the health capital envelope prior to a decision on the Canterbury DHB redevelopment.</p> <p><b>Refer</b> this report to the Minister of Health.</p>	Friday, 19 October 2012.

### Contact for Telephone Discussion (if required)

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Name	Position	Telephone	1st Contact
Davin Hall	Senior Analyst	[3]	
Ruth Isaac	Manager, Health & Housing		✓

### Actions for the Minister's Office Staff (if required)

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<p><b>Return</b> the signed report to Treasury.</p> <p>If agreed, forward copy to the Minister of Health.</p>
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**Enclosure:** No

## Treasury Report: Health Capital Envelope

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### Executive Summary

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The Health Capital Envelope (HCE) is approximately [6] There is currently no clear direction as to whether these funds will be accessible to smaller health capital projects or whether they should be held in reserve until a decision is taken regarding the Canterbury District Health Board (DHB) redevelopment.

A request for funding of Taharoto Mental Health Centre (\$15 million) will be put before Ministers in mid-October. A further request for funding related to urgent seismic repairs at the Grey Base Hospital (\$6 million) is also anticipated shortly. These requests will bring the issue of access to the HCE to the fore.

We recommend that you discuss this issue with the Minister of Health and agree a strategy for handling health capital spending between now and Budget 2013.

Treasury's view is that you should reserve as much of the HCE as possible at this stage, while meeting urgent needs (option 2 below). Ministers should consider any further health capital spending options in the context of the Vote Health Four-Year Plan for Budget 2013.

### Communications

There are no communications implications for this report.

### Recommended Action

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We recommend that you:

- a **note** that there is uncertainty regarding access to the health capital envelope (HCE) prior to a decision on the Canterbury District Health Board (DHB) redevelopment
- b **note** that a decision is needed on access to the HCE to inform planning and prioritisation by the Capital Investment Committee (CIC)
- c **agree** to discuss with the Minister of Health a strategy for health capital decision-making prior to a decision on the Canterbury DHB redevelopment

*Agree / disagree.*

d **indicate** which of the following options Joint Ministers support:

<b>Option 1:</b> Fully reserve the existing Health Capital Envelope.	<i>Agree / disagree.</i>
<b>Option 2: [Treasury's Recommended Option]</b> Partially reserve the existing Health Capital Envelope <sup>[6]</sup> but provide access to \$30m for urgent priorities (e.g., Taharoto, Grey Base urgent seismic repairs).	<i>Agree / disagree.</i>
<b>Option 3:</b> Do not reserve the existing Health Capital Envelope.	<i>Agree / disagree.</i>

e **agree** that Joint Ministers should advise the Chair of the CIC of the Government's decision and that the CIC should notify Ministers if the available funds are insufficient to meet the needs of urgent priorities that arise, and

*Agree / disagree.*

f **refer** this report to the Minister of Health.

*Refer / not referred.*

Ruth Isaac  
**Manager, Health & Housing**

Hon Bill English  
**Minister of Finance**

## Treasury Report: Health Capital Envelope

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### Purpose of Report

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1. This report provides an update on health projects that will be seeking capital funding in the near term and seeks a decision from Ministers on whether some or all of the unspent funds in the Health Capital Envelope (HCE) should be reserved until the decision on the funding of the Canterbury DHB redevelopment is taken.

### Background

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#### Health Capital Envelope

2. The current HCE is approximately <sup>[6]</sup> . These funds have been appropriated but not yet committed to specific projects (other than \$5 million earmarked by the Minister of Health for Hawke's Bay Mental Health Unit). There is an element of uncertainty as to how much funding is available from the HCE in the pre-Budget period given upcoming decisions related to the Canterbury DHB redevelopment.
3. According to the Ministry of Health (the Ministry), the Minister of Health has indicated that no additional capital funding will be made available in the 2013 Budget other than for the Canterbury DHB's redevelopment and public private partnerships (PPPs).
4. The Ministry has previously advised the sector that although capital allocation decisions are made annually as part of the Budget process, the working assumption for new Crown capital funding for the health sector over the next 10 years would be approximately <sup>[6]</sup> .
5. The Ministry is working on the assumption that the existing <sup>[6]</sup> budget remains available for health capital projects with the Canterbury DHB's Christchurch Hospital and Burwood Hospital redevelopments <sup>[6]</sup> being funded outside the HCE. The Ministry has sought advice from the Treasury on this matter. We have advised that a decision from Ministers is required.

#### Projects on the Horizon

8. Of the projects on the immediate horizon, there are six small-to-medium sized builds and two large building programmes (encompassing more than one build each) contemplated for Canterbury <sup>[6]</sup>

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<sup>1</sup> Capital expectations data provided by the National Health Board on 10 October 2012.

### **Chart 1: Crown Capital Funding Expectations (Capital Intentions Next 10 Years)**

[6]

9. The existing HCE is insufficient to meet the stated capital needs of the small-to-medium sized projects in the pipeline. Funding a part of the Canterbury redevelopment from the HCE would further limit the opportunity for these projects to move forward.
10. While some projects may have scope for downsizing or cancellation, access to the existing HCE prior to a decision on the Canterbury DHB redevelopment will be required if urgent projects (i.e., Taharoto, Grey Base urgent seismic repairs) are to be approved. Joint Ministers will be asked to approve both of these projects before the end of 2012.

#### **Small / Medium Current Projects**

11. There are currently four DHBs with active business cases for small-to-mid-sized builds that are estimated to require approximately \$158 million in Crown capital should all of them come to fruition.
12. The Waitemata DHB is seeking \$15 million from the HCE to redevelop the Taharoto Mental Health Centre. The detailed business case (DBC) was endorsed by the CIC in September and will be presented to Joint Ministers for approval in mid-October. The existing Taharoto facility is not fit for purpose and the Treasury supports the business case for redevelopment.
13. The Hawke's Bay DHB is developing a single stage business case for a mental health facility requiring \$5 million in new capital. This funding was announced by the Minister of Health following the sale of Napier Hospital.
14. [6]
15. Recently, however, severe seismic issues have been identified at Grey Base which require the evacuation of parts of the hospital and remediation to address immediate safety concerns. A special request for approximately [6] to fund urgently needed seismic repairs will also be presented to the CIC in October. This would bring the facility to 33% of the Building Code. Work continues to determine the full extent of the seismic challenges facing the facility, determine the full cost of short-term remediation and prepare options for redevelopment.

16. Some, but not all, of this cost represents amounts projected in the Grey Base IBC. Decisions regarding the extent of seismic remediation will need to be taken in the context of the longer term plans for the facility and the extent to which sunk costs could flow through to a new facility.
17. [6]
- These projects
- will not be reviewed by the CIC until 2013, and the Treasury has not yet received detailed information.

### Canterbury / [6]

17. The Canterbury DHB [6] redevelopments would be among the largest in New Zealand history. Combined, the capital intentions are approximately [6] new Crown funding would be required. Canterbury DHB is developing a DBC for approval in February 2013 under the auspices of the Partnership Group [6]
18. The Canterbury redevelopment is likely to require a Crown capital contribution of between \$500 million and \$700 million. Access to the existing HCE allocation for this project could help to fund some of this cost.
19. [6]

### Options for Consideration

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20. There are broadly three options for access to the Health Capital Envelope in advance of a decision on the Canterbury DHB redevelopment:
- Option 1:** Fully reserve the existing Health Capital Envelope.
- Maximum flexibility for Government decision-making about the funding of the Canterbury DHB redevelopment.
  - Delays funding of urgent priorities identified by the CIC and officials.
- Option 2: [Recommended Option]** Partially reserve the existing Health Capital Envelope but provide access to some funds for urgent priorities (e.g., Taharoto, Grey Base urgent seismic repairs).
- Significant flexibility for Government decision-making about the funding of the Canterbury DHB redevelopment.

- Permits access to funding for urgent priorities identified by the CIC and officials.

**Option 3:** Do not reserve the existing Health Capital Envelope.

- Limits flexibility for Government decision-making about the funding of the Canterbury DHB redevelopment.
- May result in sub-optimal prioritisation of funding from the existing Health Capital Envelope.

## Recommended Course of Action

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21. To ensure a consistent message is provided by the Government to the DHB sector, we request that you discuss with the Minister of Health a strategy for health capital decision-making prior to a decision on the Canterbury DHB redevelopment and write to the Chair of the CIC advising the Committee of the Government's decision.
22. We recommend that, in light of the pending decision on the Canterbury DHB redevelopment and existing urgent requests for access to the Health Capital Envelope, Joint Ministers should agree and inform the CIC that:
  - [6] million of the current HCE should be reserved until the Canterbury DHB redevelopment decision is taken.
  - \$30 million of the current HCE would be available for urgently required capital projects (e.g., Taharoto, Grey Base urgent seismic repairs).
  - The CIC should notify Ministers if the available funds are insufficient to meet the needs of urgent priorities that arise.
23. We note the Ministry of Health's Four-Year Plan will need to provide advice to Ministers on options for capital expenditure over the forecast period, including for Budget 2013, and the implications of different capital expenditure paths for the sector. Reserving the funds (options one and two) in the HCE for the interim period does not preclude the funding of smaller projects at a later date if Ministers so decide.