

The Treasury

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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.

FOUR YEAR PLAN

ASSESSMENT AND RECOMMENDATION ON FINAL FOUR-YEAR PLANS SUBMITTED BY MINISTERS TO MoF AND MoSS

[7]

Recommendation for 2014

Agree that the Ministry of Health provide a new 4-year Plan for Budget 2014; and

Note that the current 4-year Plan will be referred to SEC for detailed discussion, which should be informed by a report back on:

- a) Concrete changes DHBs are making to meet the \$80m savings challenge identified in the 4YP for 2013/14, focusing on internal operational and business model changes within DHBs' control;
- b) DHBs' plans for further changes over the next four years to meet the cumulative \$1.1 billion savings required over four years;
- c) Progress by Health Benefits Ltd, including savings realised to date, SOI objectives, current projects in development, potential future projects, and options to accelerate progress including options to improve governance and financing arrangements;
- d) Family Carers policy changes – a full assessment not only of direct costs to Ministry-managed funding, but implications for DHBs,[6]
- e) The Ministry of Health's assessment of how the sector is managing within a lower growth path and risks to the sector's continued financial performance; and
- f) Any further risks or policy decisions that Ministers may need to make in 2013/14.

Reasons for recommendation

For a large and complex sector, the plan represents a good starting point that will benefit from further refinement and updating. The financials will need to be updated once decisions are taken on funding requests, and risks relating to cost pressure management (especially after Family Carers decisions and DHBs' 2013/14 annual plans) become clearer.

Success for the plan's intentions relies on wider health sector and (to a lesser extent) social sector support. This will require in-depth sector engagement on individual change initiatives and on the Ministry's overall strategic direction. The achievability of the agenda set out in the plan, and timeframes for doing so are not entirely clear. Greater clarity on this for Budget 2014 would be useful.

Key Feedback Points to Ministers of Finance & State Services

Overall assessment of the Plan

Given the size and complexity of the sector, the plan provides a good overview. It will benefit from further refinement and updating of medium-term intentions as key decisions are made (e.g. Canterbury DHB hospital rebuild, [6] Family Carers, DHB annual plans), and assessment of capability requirements and/or determining success measures are completed.

Strong aspects of the Plan

A clear description of the key initiatives in a large and complex sector.

Medium-term intentions realistic and align to Government priorities.

Connections with social sector work programme outlined in section on delivering on strategic direction.

Areas for future development

The plan reflects the difficulties of achieving clarity and coherence in health sector strategy, and shaping the Ministry's leadership role effectively (the difficulties have been noted previously, as in the Ministry's recent PIF review). The plan notes the (often overly) complex range of actors, funding approaches, intervention levers and layers of decision making in the system, but these current arrangements are largely taken as fixed constraints to manage within. The Ministry will need to find opportunities to develop more coherent arrangements and a more focussed sector leadership role for the Ministry to deliver the pace of change required. In other words, the Ministry of Health should show either why the current system settings are best for delivering the level and pace of change needed or more information on how it will guide system change to ensure this.

A stronger assessment of the financial and service risks facing DHBs under a lower funding path is needed, with concrete options for addressing these. Departments were asked to identify savings options equivalent to 5% of current expenditure in their plans – which may have been an inappropriately high target for Vote Health, given the size of the vote, the extent of devolved funding, and the priority accorded to Health in the Government's budget strategy. However, the plan offers almost no advice on the options Ministers could consider and the trade-offs they may face, to ensure the sector can deliver on the Government's priorities while managing within available resources. Future plans would be improved by linking more clearly to strategic policy options with budget implications.

Future plans could also provide greater detail on how and when the intentions and initiatives within the plan will be progressed including how sector support will be achieved, and a more detailed analysis of risks to achievement with clear plans for treatment / mitigation.

Assessment of the Four Year Plan

Overall Comments:

A clear and comprehensive narrative description of initiatives in a large and complex sector.

Given the complexity and scale of change required to achieve these and Government's expectations / priorities will require considerable sector support and careful management of resources and costs over the four year period.

A number of initiatives are yet to have business cases, measures, capability impacts or decisions finalised which will impact on the final make-up of intentions of this plan.

Four Year Plan Framework:

Section	Comments
<p>1.0 Strategic Direction (includes tradeoffs & strategic risks)</p>	<p>Clear and comprehensive narrative with a wide range of change initiatives characterised as being achieved via continuous innovation.</p> <p>This may understate the complexity and scale of change required to achieve Government's expectations / priorities within the sector resource constraints.</p> <p>[7] there is a lack of compelling linkages between components of the plan, and a concern that wider health and social sector buy in will not be achieved.</p>
<p>2.0 Medium Term Intentions</p>	<p>A broad range of medium-term intentions with alignment indicated to government priorities, a number of which still either require decision on funding are made, business cases to be finalised, and/or quantification of capability implications and success measures.</p> <p>Sustainability of the health system is described as requiring service model changes and productivity/efficiency gains over the four year period that are far larger than those achieved to date. Much of DHBs' success in managing costs to date has been through labour cost constraint, more "passive" savings (eg: lower interest costs, Pharmac savings from patent expiry, exchange rate appreciation), and procurement initiatives (eg HBL) rather than through business model changes of the kind the 4YP says will be required in future. Our view is that more ambitious savings options may need to be pursued to reduce risks (eg more targeted services and funding, accelerated implementation of HBL shared service initiatives, faster moves to regional-level service management).</p> <p>[7] as discussed above a number of sections in the medium term intentions are not yet complete [7]</p>
<p>3.0 Organisational Capability</p>	<p>Organisational capability and workforce section relating to the Ministry is robust and aims to enable the necessary support for sector change. The plan is ambitious with a risk that the number of planned capability initiatives are not all sufficiently achieved therefore impacting on delivery of necessary changes in the sector.</p> <p>Monitoring progress and expected impact over the term of the 4YP will be critical to success, and this could be aided by clearly prioritising which capability initiatives will make the most difference.</p> <p>[7] acknowledging the agency section is more defined than for the sector, [7] elements are present and developed.</p>

Section		Comments
4.0	Workforce	<p>Internal: included in section above.</p> <p>Non-departmental: The 4YP makes ambitious claims about managing costs and also effecting change within tight financial constraints. Achieving both will be a significant challenge and risk within the sector.</p> <p>The plan signals [10] While outside of the timeframe for this plan, information about preparing for how this might be addressed was not clearly evident.</p> <p>[7] elements are described, however comment above on management of costs in the sector is a concern [7]</p>
5.0	Total Financial impact	<p>The Plan does not balance in out-years, meaning considerable savings will need to be found in future Budgets.</p> <p>The Plan needs to show how key fiscal risks will be managed. In particular:</p> <ul style="list-style-type: none"> - Payment of Family Carers: The 4YP provides only for the lowest cost of options currently being considered at \$23m per year, with no flow-on costs to programmes funded by DHBs, [6], and which requires legislation. Options are needed to manage if a higher cost option is adopted – costs could be up to [9] per year. - DHB deficit risks – in particular sensitivity of DHBs’ financial position to labour cost pressures.
6.0	Operational risks	<p>Given the complexity / scale of change, risks could include time delays / limits on stakeholder support for initiatives impacting on achievement of proposed new delivery models and Government expectations / priorities. Coordination of overlapping decision-making processes across multiple levels of the sector is a particular challenge in taking opportunities for improvement.</p> <p>More detail on specific actions for risk treatment / mitigations would be useful.</p> <p>[7]; this section lacks sufficient detail [7]</p>
7.0	Savings Ideas	<p>[6]</p> <p>[6] are outside the scope of Vote Health and do not contribute directly to reduction of Vote Health Expenditure.</p> <p>[7] savings options provided, less than 2% of total current expenditure. While there is work ongoing on other options to manage costs and improve resource allocation in Ministry-managed budget lines, this will not deliver options for Ministers in Budget 2013.</p>