

The Treasury

Budget 2015 Information Release

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Reference: T2014/2163

DH-1-2-3-2-4-2014

Date: 8 December 2014

To: Associate Minister of Finance (Hon Paula Bennett)

Cc: Minister of Finance (Hon Bill English)
Associate Minister of Finance (Hon Steven Joyce)

Deadline: 9 December

Aide Memoire: Background on the Vote Health Budget Process

This note provides you with brief overview of how Vote Health has been treated in the budget process in recent years, as requested. It complements our recent report *Advice on District Health Board Funding Signal for 2015/16* [T2014/2057] which was discussed at Fiscal Issues on 2 December.

The Minister of Health is seeking a decision about the funding signal for District Health Boards (DHBs) for the 2015/16 year at SEC tomorrow (10 December).

District Health Board funding signal

Each year around late November or early December, DHBs typically receive an indication of the amount of new funding they are likely to receive in the next financial year. This funding signal is meant to be indicative, but in practice it tends to be treated as a final decision and is not re-visited during the budget process.

There is no legislative basis for the DHB funding signal. The Ministry of Health sees it as a necessary precursor to DHBs being able to complete a first draft of their Annual Plans by March, and as a tool for managing (down) the expectations of DHBs.

In our view, it would be timely to revisit this arrangement for three main reasons:

- The fiscal strategy is going to present some tough choices for the Government over the next four years. Providing a funding signal to DHBs so early in the budget process significantly reduces Ministers' ability to make informed trade-offs between health and other areas of government spending.
- Although the Ministry asks DHBs to complete a draft of their Annual Plans by March in a given year, in the past two years Annual Plans have not been finalised until after the commencement of the financial year to which they apply. For example, around

half of the Annual Plans for the current (2014/15) financial year are still outstanding. This weakens the argument for an early funding signal.

- The choice about how much new funding should go to DHBs should be accompanied by real options for Ministers to manage the health budget at different levels, but the Ministry has not provided this advice as part of the funding signal decision in recent years.

Health allocation

There is a long history behind the use of some kind of funding allocation for Vote Health. Funding for DHBs takes up the majority of new funding for the Vote, and as large and complex institutions it makes sense for DHBs to have a fairly high degree of funding certainty for planning purposes.

The most recent version of the 'indicative allocation' for Vote Health began in 2010 in the aftermath of the global financial crisis. It was designed to work alongside the development of 'Baseline Alignment Proposals' which were the precursor to Four-year Plans.

The basic idea was that Ministers would determine early in the budget process (generally September/October) how much new funding was likely to be needed for Votes that consume the majority of new funding (generally health and education). Four-year Plans could then be completed on the basis of these indicative allocations. The intention was that this would shift the relative focus of Ministers and officials to the baseline spend in a Vote, rather than just the marginal amount of new spending available in that year's budget.

Cabinet has not determined indicative allocations in advance of Budget 2015. However, our view is that it would be an unhelpful exercise for the Ministry of Health to complete a Four-year Plan on the basis of no new funding, since that is an unrealistic scenario. As such, this year we asked them to plan on the basis of a \$400 million allocation per budget across the four year period, with the idea being that they should demonstrate how the sector will deliver on the Government's priorities at that level of funding.

In terms of the indicative allocation concept as a whole, there is a trade-off between the level of certainty provided to the sector and the degree of flexibility available to Cabinet in an environment of fiscal constraint. We think there is merit in considering whether the balance between these objectives is optimal. We are also concerned that the current process is entrenching a focus on annual (rather than multi-year) planning.

Table 1: Recent health allocations

\$m	Budget		
	2012	2013	2014
DHB funding signal	320	250	250
Total allocation	350	350	350

Consultation

Given the short timeframe in which we prepared this note we have not discussed it with the Ministry of Health. The Ministry has institutional memory regarding the current arrangements (particularly in terms of working with DHBs) which we would want to unpack before reaching a view on the best way forward.

Next steps

We would be happy to discuss this note with you at a future Fiscal Issues meeting.

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