

# The Treasury

## Budget 2015 Information Release

### Release Document July 2015

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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.

Reference: T2015/150

DH-1-2-3-2-4-2015

Date: 5 February 2015

To: Associate Minister of Finance (Hon Paula Bennett)

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

Deadline: 9 February 2015

## **Aide Memoire: Meeting with Minister of Health**

You are meeting with Hon Dr Jonathan Coleman, Minister of Health, on 9 February to discuss the Health budget. This aide-memoire provides you with key background information and possible discussion points for your meeting.

### ***Cabinet has agreed the DHB funding signal at \$275 million***

On 10 December 2014, the Cabinet Committee on State Sector Reform and Expenditure Control (SEC) agreed to increase funding to DHBs by \$275 million<sup>1</sup> in 2015/16 [SEC Min (14) 18/1 refers].

This increase is to fund demographic pressures that the Ministry of Health (MoH) estimated at \$234 million with the remaining amount of \$41 million to be a contribution to other DHB cost pressures. DHBs will need to absorb remaining cost pressures of approximately \$150 million through reprioritisation and efficiency savings.

### ***Health initiatives are being considered alongside other agencies as part of the Social Sector Budget***

In recent years, Vote Health has received a pre-determined allocation for new funding in the Budget not only for DHBs but also for MoH-managed appropriations. This Ministry-managed non-departmental expenditure (NDE) represents about a fifth of Vote Health operating expenditure and includes a number of important services lines, including disability support services for the under 65s, nationally-funded mental health and maternity services, and various screening and other programmes.

The following table shows the DHB and total Vote Health allocations for the past three years.

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<sup>1</sup> The Minister of Health had asked Cabinet to agree to a \$320 million increase. Treasury's preference was for a \$250 million increase given the fiscal pressures across the public sector.

**Table 1: Recent health allocations**

\$m	Budget		
	2012	2013	2014
<b>DHB funding signal</b>	320	250	250
<b>Total allocation</b>	350	350	350

For Budget 2015, Cabinet has only agreed the DHB funding signal upfront. MoH has submitted a significant number of budget initiatives (45 as at 4 February) for Vote Health to be considered alongside bids submitted by other social sector agencies. We understand the Minister of Health is aware of the number of bids. We are yet to hear how many bids will be withdrawn following the meeting of the Social Sector Board on 4 February. The social sector agencies are working towards a package of approximately \$500 million for 2015/16, but the total initiatives for Vote Health alone currently total \$524 million (this includes the DHB funding signal of \$275 million).

There are material cost pressures affecting the Ministry-managed NDE service lines that need to be managed as part of this process<sup>2</sup>. These cost pressures will include demographic demand growth, wage and price inflation, and other factors. As for DHBs, it is unlikely that these pressures can be fully funded, so we will be looking to the sector to deliver substantial efficiencies. To maintain current levels of service provision, it is likely that a reasonably large injection of new funding will be needed - in addition to the \$275 million already agreed for DHBs – or Ministers will need to make choices on what services are to be altered or cut back.

A significant number of the MoH bids relate to NDE “cost pressures”. As yet we have received little or no information about how those cost pressures have been calculated (are they price, demographic, volume or wage pressures?) or the extent to which the Ministry has assumed that certain pressures will be absorbed within baselines. Chief Executives have agreed that agencies would provide this information as part of the Social Sector Budget prioritisation process so that ministry-managed NDE cost pressures can be fairly represented alongside those of other sectors.

***Improvements can be made to Vote management practices to support the Social Sector budget prioritisation process***

Detailed information will be needed to support any additional spending bids relating to Vote Health (Manifesto commitments and Ministerial priorities were the criteria agreed by the Social Sector Board). In the past, this has not been necessary for Health because of its predetermined allocation, and its practice of using under-spends to fund new initiatives at the end of the budget process.

We think there are a number of fiscal management practices that can be improved in Vote Health, particularly in light of recent amendments to the Public Finance Act, that will support the new budget process by providing Ministers with greater scrutiny over

<sup>2</sup> During discussions on the DHB funding signal the Ministry had indicated they would be seeking \$150m for non-DHB funding.

## BUDGET-SENSITIVE

movements of funding within and across years. We briefed Finance Ministers last year on our concerns (T2014/1737), which centred on the use of an appropriation called Health Services Funding that we recommended be disestablished and alternative arrangements put in place. We would also like to improve the quality of the MoH's reporting in budget documents and its performance reporting. We are engaging with the MoH on these issues and will work with them to raise the quality of their fiscal management and reporting practices over time.

### ***Possible discussion points for your meeting***

#### *Budget allocation for Vote Health*

The MoH has found the adjustment to being part of the budget process, from having its own allocation, challenging. The Minister of Health is likely to raise funding for Vote Health in Budget 2015 and may possibly seek greater certainty on Health funding in advance of the Budget process.

We suggest that you respond by stating:

- the fiscal strategy presents some tough choices for Budget 2015, there are a number of fiscal pressures across the social sector, and Ministers will need to review options and trade-offs to determine an appropriate Budget package
- you understand that the MoH has submitted a significant number of Budget initiatives (at last count 45) and given fiscal pressures this is unrealistic
- indicate to the Minister that he/Ministry of Health will need to support the process agreed by the Social Sector Board and prioritise the initiatives that are most important for delivering results which should be based on high quality supporting information and analysis.

#### *Fiscal management practices*

It is possible that the Minister is reluctant to disestablish the Health Services Funding appropriation as it could potentially reduce flexibility. We think you should:

- provide clarity to the Minister that recent changes to the Public Finance Act reinforce the requirement for appropriations to be supported by the provision of meaningful information to assess performance
- encourage MoH to work constructively with Treasury to improve the quality and transparency of Vote management practices for Vote Health.

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