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.

Joint Report: Improving Transparency of Vote Health

Date:	2 April [2015]	**Report No:**	T2015/538 HR20150492
		File Number:	DH-1-2-3-2-4-2015

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**Agree/disagree** to recommendations.	8 April 2015
Minister of Health (Hon Dr Jonathan Coleman)	**Agree/disagree** to recommendations.	8 April 2015
Associate Minister of Finance (Hon Steven Joyce)	No action. For information.	None.
Associate Minister of Finance (Hon Paula Bennett)	No action. For information.	None.

Contact for Telephone Discussion (if required)

Name	Position		Telephone	1st Contact
[9]				✓
Ben McBride	Manager, Health	04 917 6184 (wk)	021 869 450 (wk)	
Mike McCarthy	CFO, Ministry of Health	04 496 2254 (wk)	0274 372 856 (wk)	

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

Return the signed report to Treasury.

Enclosure: No

Joint Report: Improving Transparency of Vote Health

Executive Summary

Ministers have asked for greater transparency in Vote Health...

The Ministry of Health (the Ministry) and the Treasury have been working together to improve transparency in Vote Health. There has been a desire for Vote Health to be treated on a consistent basis to other Votes. For example, Vote Health did not receive an allocation in this year's budget and their bids were assessed as part of the social sector budget process along with other agency bids.

...the Ministry and the Treasury have agreed that the Health Services Funding appropriation be disestablished...

Following on from the change in budget process it is now important to disestablish the Health Services Funding appropriation to improve transparency. This appropriation has been internally apportioned into three areas:

- Risk pool
- DHB deficit support, and
- Other policy priorities requiring further work before implementation.

The Ministry and the Treasury have agreed that funding for a policy priority should be appropriated to where the expenditure will occur when the policy work is completed. We have also agreed that DHB deficit support should be directly appropriated to the existing capital appropriation. The framework for providing DHBs with support is discussed below.

This leaves the question about what to do about emerging sector risks, i.e. the 'risk pool'. Consistent with the move to treat Vote Health on the same basis as other votes, the Treasury's view is that there should not be a risk pool in Vote Health. The Ministry's view is that there should be a tagged contingency set up for Vote Health. This would require Joint Ministers' approval before funds could be drawn down. The Ministry believes it needs to retain some flexibility for additional funding without having to return to Cabinet.

...and a more robust framework be put in place for providing DHB deficit support

In principle, DHBs should be operating within the funding agreed at the start of the financial year. The Ministry and the Treasury agree that any deficits should be funded firstly from the DHB's balance sheet. If Joint Ministers agree that funding is provided to a DHB, then this should be provided from the DHB deficit support appropriation as equity rather than revenue from other Vote Health appropriations, except in exceptional circumstances, such as the case with Canterbury DHB following the earthquakes when additional services were required to be provided and funded. The Minister of Finance has confirmed that he expects DHBs to manage deficits from their own balance sheets and funding should be provided as equity rather than revenue.

The Ministry and the Treasury will monitor the new arrangements over the next twelve months to ensure they are working as intended. Following Ministers' decisions, officials will make the necessary changes to the appropriations in the 2015/16 Estimates, which will be agreed in the Budget 2015 Cabinet paper.

Recommended Action

We recommend that you:

a **note** that the Treasury and the Ministry of Health (Ministry) are aiming to improve the transparency of funding within Vote Health

b **note** that the Treasury and the Ministry have analysed alternatives to the use of the Health Services Funding appropriation

c **note** that the Treasury and Ministry's view is that the Health Services Funding appropriation be disestablished and DHB deficit support be appropriated to the Deficit Support for DHBs non-departmental capital appropriation

d **note** that Joint Ministers' approval will still be required before expenditure can occur from the Deficit Support for DHBs appropriation

e **agree** that all funding for DHB deficit support be directly appropriated to the Deficit Support for DHBs non-departmental capital appropriation, with the condition that expenditure from this appropriation will require approval by the Minister of Finance and the Minister of Health

Agree/disagree. — Minister of Finance
Agree/disagree. — Minister of Health

f **agree** that DHBs will be eligible for deficit support funding only if they cannot manage their deficits from their balance sheet and that the deficit support will be provided to the DHBs as an equity injection

Agree/disagree. — Minister of Finance
Agree/disagree. — Minister of Health

g **note** that the Ministry and the Treasury have differing views on the options to manage the risk pool without the Health Services Funding appropriation

h **indicate** whether you want to

EITHER:

a. remove the risk pool so Vote Health will manage risks as other votes do (Treasury's preferred option)

Yes/no. — Minister of Finance
Yes/no. — Minister of Health

OR:

b. retain a risk pool for Vote Health (Ministry's preferred option)

Yes/no. — Minister of Finance
Yes/no. — Minister of Health

i if you decide to retain a risk pool for Vote Health [rec h(b)], **agree** to seek Cabinet approval to establish an ongoing tagged contingency for emerging risks in the health sector with Joint Ministers authorised to approve draw downs

Agree/disagree. — Minister of Finance
Agree/disagree. — Minister of Health

j if you decide to abolish the risk pool [rec h(a)], **agree** to return the funds currently in the risk pool to the centre, and

Agree/disagree.	*Agree/disagree.*
Minister of Finance	Minister of Health

k **note** that officials will conduct a review of the arrangements by 31 March 2016 to determine how well they are working.

Ben McBride
Manager, Health Team
Treasury

Sally Britnell
Acting Chief Financial Officer
Ministry of Health

Hon Bill English
Minister of Finance

Hon Dr Jonathan Coleman
Minister of Health

Joint Report: Improving Transparency of Vote Health

Purpose of Report

1. This report seeks Ministers' agreement to improve transparency of Vote Health funding by making the proposed changes to the Health Services Funding appropriation in Vote Health.

Background

Ministers have asked for more transparency around Vote Health funding...

2. Ministers have indicated that they would like more transparency around funding in Vote Health and would like new funding and initiatives in Vote Health to be considered alongside the rest of the social sector. Votes Health and Education have not received allocations in this year's budget process and their bids are being assessed as part of the social sector budget process.

3. The Ministry of Health (the Ministry) and the Treasury are now working together to improve the quality and transparency of Vote Health management.

...and disestablishing the Health Services Funding appropriation is one way to achieve this.

4. Health Services Funding (HSF) is unusual in that no spending occurs directly from this appropriation. The movements out of this appropriation throughout the year reduce the transparency and traceability of expenditure for the Treasury, Parliament and ultimately the public. This has also led to concerns around HSF's alignment with the 2013 amendments to the Public Finance Act (PFA). The amendments now require what is intended to be achieved and performance measures to be published for each appropriation in the Estimates of Appropriations, but this is almost impossible to do for an appropriation from which no expenditure occurs.

5. HSF acts as a contingency within the Vote. This is against typical vote practice as contingencies are normally held at the centre and drawn down into the votes throughout the year as necessary. The use of HSF provides Vote Health with a lot more flexibility than any other vote. A degree of flexibility is desirable so the Ministry can manage most risks within the vote; however, with the use of HSF, the balance between flexibility and transparency has shifted too far. There is scope to manage minor risks within the vote through fiscally neutral adjustments (FNAs), as is the case for other votes.

6. The Ministry and Treasury have agreed that HSF should be disestablished and that the vote can manage without the appropriation. This will increase the transparency of Vote Health funding and make it consistent with that way other social sector votes are managed.

7. HSF has been internally apportioned into three areas, which will need to be re-appropriated or removed from the vote:

    - Risk pool
    - DHB deficit support
    - Other policy priorities requiring further work before implementation

8. There are other options to provide funding for these areas without needing the HSF appropriation. The Treasury and the Ministry have analysed the alternatives and the recommended approach is discussed below.

Other policy priorities

9. There is currently no funding in HSF for policy priorities requiring further work. The Ministry and the Treasury have therefore agreed that a provision for this is no longer required. If in future there is funding in Vote Health for a policy priority that still requires further work, then the funding should be appropriated to where the expenditure will occur when the policy work is completed. There is no need to retain HSF to manage this.

DHB deficit support

10. Practice until now has been that when deficit support for a DHB is approved by Joint Ministers, the funding is normally moved from HSF to the Deficit Support for DHBs capital appropriation from where it can be paid out to the DHB in question (although in some instances funds have instead been transferred to the relevant DHB appropriation as additional revenue). No funding is appropriated to Deficit Support for DHBs at the start of the financial year and it is typically moved out of HSF in the October or March baseline update processes through a FNA.

11. Options for replacing the provision for DHB deficit support in HSF include directly appropriating these funds to the existing capital appropriation or establishing a tagged contingency with the requirement of Joint Ministers' approval to draw down.

12. The Ministry and the Treasury have jointly come to the view that directly appropriating to the existing capital appropriation is the preferred option. It would be more transparent and logical to appropriate the funds at the start of the year to the appropriation from which the expenditure will occur. This will remove unnecessary transfers between appropriations throughout the year and the amount of funding and its purpose will be visible to Parliament and the public in the Estimates at the start of the year.

13. This year it has come to light that the Ministry and the Treasury have differing views on when deficit support should be provided to DHBs:

    - The Treasury position is that deficit support may be provided from Vote Health in the form of a cash injection from the deficit support pool, subject to the approval of Joint Ministers. However, any deficit should be funded in the first instance by the DHB drawing down funds from its balance sheet.

    - The Ministry's position is that the deficit support pool can be used to maintain the value of DHBs' net assets. In other words, the Ministry is willing to provide deficit support to prevent the DHB from having to meet the cost of the deficit from its balance sheet, even if the DHB can manage the deficit with the cash it holds.

14. The Ministry now accepts Treasury's view that any deficits should be funded firstly from the DHB's balance sheet. This is the same process which operated until 2001. The Ministry believes, based on previous experience, that if deficits are not funded because cash is not required, more DHBs may require letters of comfort and Balance Sheet restructuring (equity) from time to time. There will also be more applications for capital support for projects as capital capacity is run down.

15. The Minister of Finance has confirmed that he expects DHBs to manage deficits from their balance sheet where possible. The Minister of Finance has also indicated that he will not approve further requests to provide DHBs with additional revenue, as opposed to equity. The Treasury and the Ministry have agreed that this is the preferred ongoing approach for providing deficit support to DHBs.

16. In the past, underspends in deficit support have sometimes been rolled over to the next financial year. Last year the underspend was returned to the centre. The Minister of Finance has indicated in his recent letter to the Minister of Health that he expects any underspends in the Deficit Support for DHBs appropriation to be returned to the centre at the end of future financial years. Officials have noted this and intend to proceed on this basis.

Risk pool

17. The risk pool is held in Vote Health to provide the ability to manage emerging health sector risks throughout the year without having to go back to Cabinet. However, this has been used for purposes other than emerging health sector risks, such as policy priorities and managing overspends in other areas of the Vote. Part of the problem is that emerging health sector risks are not defined.

18. The table in the attached appendix shows what the risk pool has been spent on in recent years.

Options for the risk pool

19. In the process of disestablishing HSF there is the option to remove the risk pool from Vote Health and not provide any contingency funding for health sector risks. This is **the Treasury's preferred option** and would put Vote Health management practice in line with the typical practice for all other votes. The associated risk with removing the risk pool from Vote Health is that the Ministry of Health may need to return to Cabinet more often during the year to seek additional funding if any major risks emerge. However, minor risks can still be managed through FNAs throughout the year and any major public health risks can be managed by returning to Cabinet or, in the case of a significant public health emergency, through the provision for public health emergencies in the PFA, Section 25(1)(b). For this reason, the Treasury thinks it is not necessary to provide a risk pool for Vote Health.

20. There are also options to replace, rather than remove, the risk pool in HSF. These options are to establish a tagged contingency with Joint Ministers authorised by Cabinet to approve to draw down from it, or to establish a new appropriation solely for the risk pool.

21. **The Ministry's preferred option** is to establish a tagged contingency to provide transparency in the management of Vote Health's risk and pressures. At the time the tagged contingency is established, Cabinet approval would be sought for Joint Ministers to have authority to approve draw downs from it. Treasury's preferred option is still to treat Vote Health like other votes and not have a risk pool, but if Ministers would like to retain a risk pool for Vote Health, Treasury prefers the option of a tagged contingency over an appropriation.

22. There is also the option of establishing a new appropriation in Vote Health solely for the risk pool. Officials have agreed that establishing a risk pool appropriation does not address the problems of appropriating contingency funding to a Vote and may be difficult to align with the PFA amendments.

Removing the risk pool from Vote Health

23. If the risk pool is removed from Vote Health, you will need to decide what to do with the remaining risk pool funding sitting in the HSF appropriation. The following table shows the amounts that would be made available from "unallocated funds", or the risk pool, in HSF.

Unallocated funds in Health Services Funding

$(million)			
2014/15	2015/16	2016/17	2017/18
2.121	21.438	32.326	8.808

24. If the risk pool is removed from Vote Health, then the risk is transferred to the centre since the Ministry may need to request additional funding from Cabinet during the year. For this reason, Treasury's position is that if the risk pool is removed from Vote Health, the funding currently held in HSF for the risk pool should also be removed from the Vote and returned to the centre.

25. However, another option is to reallocate the risk pool funding in HSF within Vote Health, where it could be used to manage pressures and maintain the current baseline.

Retaining a risk pool for Vote Health

26. A tagged contingency would act in a similar way to a risk pool appropriation except the funding would be held centrally rather than being appropriated to Vote Health. This removes the problem of aligning a risk pool appropriation with the PFA amendments. Joint Ministers' approval would still be required to draw down from the contingency. If you agree a tagged contingency is the preferred option, Cabinet will need to agree to establish a tagged contingency with Joint Ministers' authorised to approve draw downs. The funding currently sitting within HSF for the risk pool can be pulled out of Vote Health and put into the tagged contingency.

27. If a tagged contingency is set up for emerging risks in Vote Health, the Treasury and the Ministry will need to agree when it is appropriate to draw on the tagged contingency. The Ministry's and the Treasury's views differ on what constitutes a risk. It is difficult to draw a distinction between what needs to be funded during the year and what can wait until the next budget round. In practice, we will need to be work through these issues on a case by case basis, with final decisions resting with Ministers.

Next Steps

28. Once you have made decisions on the recommendations in this paper, officials will make the necessary changes to appropriations in the Estimates, which will be agreed by Cabinet in the Budget 2015 Cabinet Paper.

29. Officials will conduct a review and provide this to you in twelve months time to determine how well the new arrangements are working.

30. The Ministry and the Treasury are also working together on improving the quality of reporting in the Vote Health Estimates. We are aiming to ensure national (Ministry-managed) appropriations have a single report and single reporter in the 2015/16 Estimates and to update the statements of what is intended to be achieved for departmental appropriations. We will also aim to update the 2014/15 Supplementary Estimates to have clear and concise explanations of how performance will be assessed for appropriations.

31. We are in the process of establishing a timeline for future improvements to appropriations reporting in the Vote Health Estimates over the next few years. This timeline will include ensuring there is a single reporter for **each** appropriation, considering the structure of appropriations within the Vote (with specific focus on the DHB appropriations) and updating appropriation scope statements.

Appendix: Uses of the risk pool in the Health Services Funding appropriation

Unallocated Fund Transactions	$(million)					
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Pseudophredine Action Plan	-0.622					
Income and Asset testing	-0.911					
DSS Equipment waiting list	-5.000					
Baxters	-5.008					
Electives as a result of ACC changes		-10.000				
Canterbury Earthquake		-3.753				
Cancer Centres - Reduced Waiting Times		-0.200				
Hibiscus Coast Hospice		-0.150				
National Youth Survey		-1.803				
PHARMAC Devices & Support		-0.145				
Golden Bay rest home		-1.000				
Increase Disability Support Services Funding			-10.000			
Elective Funding Incentive to reduce the waiting lists to less than 6 weeks			-9.600			
Sleep overs settlement			-3.200			
Funding for global settlement for Historic Sexual Abuse			-0.800			
Safe Staffing Healthy Workplaces Unit Funding			-0.700			
St John's Horowhenua Urgent Community Care Project Pilot Funding			-0.585			
Tairawhiti DHB Service Improvement				-0.360		
Cancer - Breast Cancer Registers				-0.832		
National Ambulance Sector - St John Part Charges				-3.553		
Health Quality & Safety Commission Funding					-0.120	
Implementing the NZ Refugee Resettlement Strategy					-0.275	
Rheumatic Fever Expansion					-4.000	
Very Low Cost Access (VLCA) Practice Sustainability					-1.000	
West Coast Deficit Support - HSF to West Coast DHB					-0.500	
Children's Action Plan					-1.620	
Reinstate Elective Workforce Productivity Initiative Funding					-5.650	
Total Initiatives	-11.541	-17.051	-24.885	-4.745	-13.165	-
Reprioritisation						
Reprioritised Un-utilised Funding	5.491	34.154		21.810	16.679	
Reprioritised for Budget	-30.104	-51.833	-41.175	-55.909	-66.647	-
Total Reprioritisation	-24.613	-17.679	-41.175	-34.099	-49.968	-
	-36.154	-34.730	-66.060	-38.844	-63.133	-