

The Treasury

Budget 2015 Information Release

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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
- [2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [3] 6(e)(iv) - to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.
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- [6a] 9(2)(ba)(ii) - to protect information, where the making available of the information would be likely otherwise to damage the public interest
- [7] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [8] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [8a] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting the collective and individual ministerial responsibility
- [9] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [10] 9(2)(h) - to maintain legal professional privilege
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [12] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [13] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [14] Not in scope

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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: T2015/779

SH-1-6-9

Date: 17 April 2015

To: Minister of Finance (Hon Bill English)

Deadline: None

Aide Memoire: District Health Boards Funding - Budget

You requested advice about providing District Health Boards (DHB) with \$25 million of additional revenue funding as part of the overall Budget 2015 package and the effect this will have on the consolidated forecast DHB deficit. This would raise the DHB funding increase to \$300 million a year. The impact of this change on the total Vote Health Budget allocation is shown in the following table.

Vote Health	2015/16	2016/17	2017/18	2018/19	Total	Average
Current package*	372	400	382	367	1,521	380
Plus \$25m	25	25	25	25		
Total*	397	425	407	392	1,621	405

* Includes reprioritised savings of \$9.8 million per annum.

Two options for providing this additional funding to DHBs are outlined below, of which we strongly prefer the first. Both options involve increasing the Budget 2015 allocation for Vote Health by \$25 million a year. The difference relates to how (when and on what basis) funds are transferred to DHB appropriations – which has implications for the expected impact on their consolidated forecast deficit.

The consequences for OBEGAL of providing additional funding to DHBs depends on whether the funds are sourced from inside or outside the operating allowance:

- If the additional funds for DHBs are sourced from outside the allowance, this would negatively impact OBEGAL by a corresponding amount less any reduction in the consolidated forecast DHB deficit. For example, if the forecast deficit were to fall by \$10 million, the effect of providing \$25 million of additional funding would be to negatively impact OBEGAL by \$15 million.
- If the additional funds were sourced from inside the allowance (with offsetting reductions in spending elsewhere), then there would be a positive impact on OBEGAL equal to the amount of the reduction in the consolidated forecast DHB deficit.

Option 1: Increase DHB appropriations using (mainly) a formula-based approach

This is our preferred option. It would involve increasing DHB appropriations by allocating the additional funds through the PBFF formula. It could also involve ring-fencing some of the additional funds for Canterbury to help with earthquake-related costs, although we have not yet reached a view on whether this would be justified. The details would need to be worked out with the Ministry of Health over the next few days, so that the allocation of funds to DHBs can be included in the 2015 Estimates of Appropriations.

This is the most transparent approach, consistent with recent decisions you and Hon Coleman have made regarding the management of Vote Health. It is also consistent with the formula-based funding approach to DHBs, and it does not introduce perverse incentives into the system by rewarding individual DHBs for running deficits or encouraging on-going funding negotiations during the financial year. It is possible that this option may somewhat undermine the future credibility of early DHB funding signals (if that practice continues), but we view this as a relatively minor drawback.

Under this option, the consolidated DHB forecast deficit is expected to decrease by between \$6 million and \$18 million per annum, depending on how the funds are allocated across DHBs. This assumes that some DHBs will run smaller deficits than they otherwise would and some may return a small surplus, reducing the aggregate deficit. However, we would expect other DHBs to use the additional funding to increase expenditure to manage demographic and other cost pressures, so the forecast deficit is likely to fall by less than the amount of new funding. Specifically:

- The lower end of this range (\$6 million) represents the impact on the consolidated DHB deficit of a pure PBFF distribution (new funds allocated on the basis of demographic change).
- The mid-point (\$10-12 million) represents the impact of targeting new funds to those DHBs currently receiving the minimum (1.5%) increase. These DHBs are typically better-funded on a per capita basis than other DHBs, but a smaller nominal funding increase gives them less flexibility to manage year-on-year inflationary pressures (making them more prone to deficits).
- The top end of the range (\$18 million) represents the impact of allocating \$10 million to Canterbury and targeting the balance to DHBs on the minimum.

The annex to this note contains draft recommendations that Hon Coleman could table at Cabinet seeking (a) agreement to the additional \$25 million for DHBs and (b) delegated authority for the Minister of Finance and the Minister of Health to agree the details of how these additional funds will be reflected in the Estimates. Officials would then provide Joint Ministers with further advice on specific proposals next week.

Option 2. A new appropriation to manage DHB deficits through injections of additional revenue during the year

This option would involve establishing a new appropriation that could be used to cover DHB deficits through a targeted provision of additional revenue during the year. This option is expected to reduce forecast consolidated DHB deficit by the full amount of the additional funding (\$25 million) because the money would be allocated (as additional revenue) to offset specific DHB deficits as they arise.

There are significant drawbacks to this option. It would introduce perverse incentives by providing additional revenue to poor performing DHBs on the basis of their poor performance. This would reduce incentives for DHBs to manage within their appropriated funding. We would expect this to lead to (even more) protracted and difficult negotiations with individual DHBs during the year, and to a deterioration in the overall financial performance of the sector over time.

This option would reduce transparency within Vote Health by resurrecting the concept of a discretionary funding pool that can be used to offset DHB deficits with additional revenue injections. This would be a direct contradiction of the work done this year to introduce more consistency to the treatment of DHB deficits and greater transparency to financial management within Vote Health by abolishing the Health Services Funding appropriation and making clear that the purpose of the DHB deficit support pool is to provide an equity injection to DHBs in the event of a cash shortfall that cannot be managed from the balance sheet.

[8a]

[9]

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ANNEX

DRAFT RECOMMENDATIONS TO GIVE EFFECT TO OPTION 1

agree to increase funding for district health boards by a further \$25m per annum as part of Budget 2015, bringing total new funding for district health boards in Budget 2015 to \$300 million per year.

note that this is expected to reduce the consolidated forecast DHB deficit by between \$6 million and \$18 million per annum, depending on how the funds are allocated across DHB appropriations.

authorise the Minister of Finance and the Minister of Health to decide how this additional \$25 million will be allocated to DHB appropriations, with this allocation to be reflected in the 2015 Estimates of Appropriations.