

Joint Treasury/Health Report: UPDATE ON PROPOSED VOTE HEALTH 2007 BUDGET PACKAGE

Date:	9 February 2007	Priority:	Urgent (3 days)
Security Level:		Treasury Report No:	
		Health Report No:	HR 20062659

Action Sought

	Action Sought	Deadline
Minister of Health Hon. Pete Hodgson	Note the recommendations in this report prior to your meeting with Ministry officials to discuss Budget management issues on Tuesday, 13 February 2007	8.30AM, Tuesday, 13 February 2007

Contact for Telephone Discussion (if required)

Health contact

Name	Position	Telephone	1st Contact
<i>[information deleted in order to protect the privacy of natural persons, including deceased persons]</i>			1
Paul Helm	Chief Financial Officer		2

Treasury contact

Name	Position	Telephone	1st Contact
<i>[information deleted in order to protect the privacy of natural persons, including deceased persons]</i>			1
Colin Lynch	Manager Health		2

A. Purpose of Report

This report seeks your decision on the allocation of the \$750 million in Budget 2007. It also provides a basis for discussing items arising since initiatives were submitted for Budget 2007 in December and remaining issues outstanding.

B. Proposed Meeting agenda

The proposed agenda for the meeting on Tuesday, 13 February is as follows:

- I. Note the changes to the proposed package since previous advice (HR 20062549 refers) [Refer Appendix 2]
- II. Discuss the advice on proposed initiatives advised to officials on 30 January 2007 [Section E]
- III. Discuss the advice on initiatives sponsored by other Ministers [Appendix 6]
- IV. Discuss progress on issues raised by The Treasury in December [Section G]
- V. Discuss the approach to the departmental funding included in the proposed package [Appendix 4]
- VI. Discuss the outstanding issues
 - Options to address rising profile [Section F]
 - Indicative Health allocation for 2009/10 [Appendix 5]
 - Capital allocation [Appendix 5]
 - Initiatives Held over for consideration in Budget 2008 [Appendix 7]
- VII. The Way Forward

C. Contents

This report provides updated information and further advice as follows:

Section of the Report	Issue	Appendix reference
	Executive Summary and Recommendations	–
Section D	Update on proposed Budget package (including new or amended initiatives discussed with officials on 30 th January – Ministry recommended options)	Appendix 1
	Changes to the Budget shown in Appendix 1 since your last received advice (HR 20062549 refers)	Appendix 2
Section E	<p>Advice on additional proposals discussed at your meeting with officials on 30 January 2007 as follows:</p> <ul style="list-style-type: none"> • Increase to the pharmaceuticals budget • <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i> • <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i> 	Appendix 3
Section F	Options for addressing rising expenditure profiles of Budget initiatives	–
Section G	Ministry response to the Treasury comments on the proposed Budget package presented at your meeting with officials on 5 December 2006	–
–	Departmental (DE) funding included in proposed Budget initiatives	Appendix 4
–	Outstanding issues from November Bilateral	Appendix 5
–	Initiatives submitted by other Ministers with seeking funding from the Health or FYO allocations	Appendix 6
–	Initiatives expected to be considered from the Health Allocation in Budget 2008	Appendix 7
–	Update on significant fiscal risks (over \$10 million per annum) currently being managed	Appendix 8
–	Unfunded Initiatives that could be implemented during 2007/08 should additional funding become available	Appendix 9

D. Executive Summary

The following table summarises the current status of the Vote Health operating initiatives and includes the proposed initiatives you requested advice on at your meeting with Health officials on 30 January 2007.

Various funding options are presented for these proposed initiatives. Further discussion of these funding options is contained in Section E.

Table 1: Overall summary of proposed Budget 2007 package

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

The proposed contribution from existing Vote Health baselines will have the following impact on the availability of risk reserves in Vote Health:

Table 2: Funding remaining in Risk Reserves after proposed contribution to Budget 2007

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Note the proposed contributions to the package in Tables 1 and 2 differ but this is a timing issue only – the package assumes reserves in 2006/07 are spread forward across a number of years to fund time limited initiatives or partially fund initiatives with declining funding profiles.¹

In spite these contributions from reserves, should you decide to fully implement the package, the rising expenditure profile in the outyears will need to be funded i.e. the deficit shown in Table 1.

There are three options proposed:

- i. seek the Ministers of Finance’s agreement to pre-commit these funds against future Budget allocations
- ii. *[information deleted in order to maintain the constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- iii. revisit the proposed 2007 Budget package and prioritise initiatives to reduce the funding required.

Table 3 below shows the remaining funds in the risk reserves if reserves were used to fully address all pre-commitments.

¹ The table below shows the reconciliation of figures provided for the contribution from risk reserves between Tables 1 and 2

	Operating Expenditure proposed (\$ millions)					
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12 & outyears
One-off contribution from risk reserves	113.965					
Re-spread of one-off contribution (to 2011/12 only)	(113.965)	51.965	28.590	15.420	9.460	8.530
Plus: On-going contribution from risk reserves		35.170	56.000	64.000	68.000	68.000
Equals: Contribution from risk reserves (shown in Table 1)		87.135	84.590	79.420	77.460	76.530

Table 3: Funding remaining in Risk Reserves if used to fully address pre-commitments

	Operating Expenditure (\$ millions)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & outyears
Pre-commitments (from Table 1)		-	(54.410)	(80.685)	(82.345)
Balance of funds in risk reserves (from Table 2)	100.930	128.251	127.550	127.528	126.753
BALANCE IN RISK RESERVES IF RESERVES WERE USED TO FULLY REMOVE PRE-COMMITMENTS	100.930	128.251	73.140	46.843	44.408

This indicates the package could be fully funded, but would reduce your capacity to manage risks in the sector, *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*.

RECOMMENDATIONS

It is recommended that you:

(a) note the proposed package of initiatives in Appendix 1 has a rising expenditure profile, that if agreed, would need to be funded, either by pre-committing funds against future Budgets or further reducing risk reserves	Yes / No
(b) note the Ministry has proposed a number of options for funding the new initiatives you discussed with officials on 30 January, although without this additional expenditure, the package can be contained within the \$750 million Health allocation, not only in 2007/08, but also the outyears	Yes / No
(c) note that the proposed new initiatives you discussed with officials on the 30 January could be funded, partially or in full, without pre-committing against the indicative allocations in future Budgets if these were prioritised ahead of other initiatives in the package	Yes / No

(recommendations continued on next page)

<p>(d) agree to either</p> <p>Ministry recommendations</p> <p>i. note that there is sufficient funding for the proposed allocation in Appendix 1 without committing funding against future Budgets should you chose to offset the rising profile against the risk reserves in Vote Health (Table 3 refers)</p> <p>ii. agree to fund the initiatives in the proposed Budget package advised to you in December (HR 20062549 refers) with the funding above the \$750 Health allocation million being offset by increased ACC revenue and contributions from existing risk reserves in Vote Health, i.e. within funding that The Treasury has agreed is available to Health</p> <p>and</p> <p>iii. agree to indicatively allocate funding to the proposed new initiatives pending further advice on policy implications and mechanisms to pass this funding onto the relevant parts of the sector, based on either,</p> <ul style="list-style-type: none"> • Tranche 1: \$20 million ongoing for the pharmaceuticals budget and \$26.4 million ongoing to <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i> • Tranche 2: Add \$10 million ongoing to Tranche 1 to address workforce issues <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i> • <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i> <p>and either</p> <p>iv. seek the Minister of Finance's agreement to pre-commit any additional funds required for the above against the indicative allocations in future Budgets for Vote Health</p> <p>or</p> <p>v. agree to offset the rising profiles against the risk reserves in Vote Health (table 3 refers)</p> <p>Or</p> <p>Treasury recommendation</p> <p>vi. direct officials from the Ministry of Health to further improve the package in Appendix 1 to limit the need to pre-commit against the Budget 2008 indicative allocation for Vote Health</p>	<p>Yes / No</p> <p>Yes / No</p> <p>Yes / No</p> <p>Yes / No</p> <p>Yes / No</p> <p>Yes / No</p> <p>Yes / No</p> <p>Yes / No</p>
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<p>(e) discuss with Ministry of Health officials the way forward in addressing the following outstanding issues given a Budget bilateral with the Minister of Finance has yet to be arranged:</p> <ul style="list-style-type: none"> • The indicative Health allocation for Budget 2009 • The Health capital allocation for Budget 2007 	<p>Yes / No</p>
<p>(f) note the information provided in Appendix 6 concerning initiatives sponsored by other Ministers relevant to Health that are expected to be discussed at Ministers' FYO meeting on 13 February 2007</p>	<p>Yes / No</p>

Colin Lynch
Manager Health
The Treasury

Debbie Chin
Acting Director General
Ministry of Health

MINISTER'S SIGNATURE:

DATE:

E. Additional Initiatives for Inclusion in Budget 2007

1. In a meeting with officials on 30 January 2007, you indicated you are considering adding two new initiatives to the package as follows:
 - *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
 - A contribution of \$10 million per annum ongoing to assist DHBs in addressing workforce issues *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
2. In addition you asked officials to review the existing initiatives for home-based support services (HBSS) both for older people and those with disabilities, and aged residential care (ARC) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. As a result, the additional funding for these sectors has been adjusted for your consideration.
3. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

The Ministry notes that there will also be impacts on the remainder of the Health sector. Unless funding is provided across the sector, there will always be boundary issues.

4. New or revised templates or these initiatives are included in Appendix 3. Options for increases to the HBSS and ARC initiatives are presented for your decision.
5. The options discussed for each of these initiatives discussed below have been grouped into tranches in the table below to facilitate decision-making.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Increase in the Pharmaceuticals Budget

6. An increase in the pharmaceuticals budget will increase the capacity for DHBs and Pharmac to provide community and hospital pharmaceuticals to New Zealanders.
7. Two options for funding this initiative are presented for your consideration. *Option 1* seeks an additional \$20 million in 2007/08 and outyears *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.
8. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
9. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

10. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
11. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
12. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
13. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
14. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
15. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

16. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
17. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

F. Options for Addressing rising Profiles

18. The introduction of a flat funding profile for Health across years has created a mismatch between the availability of funding and the rising expenditure profile that is often a feature of new initiatives.
19. In practice, expenditure profiles for new initiatives are affected by –
 - (a) the extended timeframes required to fully implement some initiatives which may span several years e.g. redeveloping child and adolescent oral health services, antenatal Downs Syndrome screening programme, and suicide prevention
 - (b) growth in the eligibility pool over time, e.g chronic medical conditions
 - (c) operating expenditure requirements associated with capital projects e.g. National Systems Development Programme
20. To the extent these initiatives are amenable to a staged implementation e.g. redeveloping child and adolescent oral health services, the additional funding in the outyears can be requested in subsequent Budgets.

21. In other cases, the commencement of the initiative essentially commits the Government to the additional funding at the time the policy is announced and should be provided for in accordance with standard Budget requirements.
22. These effects make it difficult to balance a package of new initiatives back to a level \$750 million allocation. Dealing with this issue has been a source of contention between Health and Treasury officials.
23. While Cabinet agreed to a certain level of pre-commitment against future indicative Health allocations in Budget 2006, the rules around this are not clear and Treasury officials are of the opinion that Health should manage within the Health allocation into the outyears. This is Treasury's understanding of the agreement between the Ministers of Finance and Health to increase operating funding by \$750 million pa in Vote Health in Budget 2007. From Health officials perspective, an agreement between Ministers to allow the flexibility to pre-commit future allocations up to a certain specified level, say, up to 15% of the allocation would be useful.
24. Treasury considers that all Government spending implications of policy decisions should be fully funded at the time the policy decision is made. Government practice is to manage and announce Budget operating expenditure within allocations over a four period, and to manage to the out-year constraint. As part of Budget 2007, Ministers have agreed to increased operating funding for Vote Health of \$750 million for 2006/07 and each out-year. Any spending decisions in excess of this allocation in the out-years would require additional funding to be agreed by Cabinet and would need to be considered in the context of the overall Budget strategy and Government's fiscal targets.
25. Options to deal with the pre-commitments identified include:
 - (a). Defer or decline to fund some items, either within the December package or the new initiatives proposed on 30th January. Treasury suggested some initiatives that could be deferred or declined funding as part of their December advice.
 - (b). Seek the Minister of Finance's agreement to pre-commit against future allocations

These options are explored further below.

26. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
27. The package as presented in Appendix 1 contains a rising profile relating to the initiatives in Table 6 (the amounts shown are the amounts required in the outyears in excess of that required in 2007/08 and after netting off proposed one-off contributions from existing Vote Health risk reserves).

Table 6 – Proposed Initiatives with rising profiles

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

28. For the majority of the initiatives listed in Table 5, the rising profiles are caused by the extended timeframes required to fully implement the initiatives, with the exceptions of –
 - (a) Interim Funding Pool for chronic health conditions (due to growth in the eligibility pool);
 - (b) Increased baseline funding for Environmental Support Services (due to growth in the eligibility pool)
 - (c) Home-based support services for Older People and the implementation of InterRAI (due to increased operating expenditure to support capital).

29. The Health view is that if expenditure were to be constrained by the allocation in the outyears, then in effect, the agreed \$750 million in 2007/08 would not be available to Health to fund initiatives requiring an ongoing funding stream. Officials are already proposing a prudent approach to risk management and recommending that \$45 million of the \$750 million Health allocation is set aside for an in-year risk reserve *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

30. There is a balance to be achieved between over-committing future allocations and therefore reducing flexibility in subsequent years, and allocating funding, enabling it to be announced, and giving the sector greater certainty to plan new initiatives.
31. There are a number of options that are available to address this issue.
 - a. *Reduce the Vote Health package to limit the operating impact to \$750 million in 2007/08 and outyears (Treasury preferred option)*
32. The Treasury's preference is, as far as is practicable, that no pre-commitments are made against future Vote Health operating allocations. To the extent that pre-commitments are used, this can limit the amount of funding available for Budget 2008 initiatives. Pre-commitments can signal a negotiable boundary condition which could then become the new "rising floor" for future funding expectations. A fixed \$750 million increase in baselines provides a clear boundary for the sector to manage within.
33. On 5 December, Treasury provided advice on how the then-proposed Budget package could be improved with a focus on:
 - the match with your stated priorities for Budget 2007,
 - long-term fiscal and policy sustainability, and
 - optimising performance to ensure your priorities are addressed.
34. A number of proposals were offered for consideration by Ministry officials, including absorbing smaller capability bids from within existing baselines and deferral of some proposals to enhance policy development and improve the information base for projected demands and costs. Pre-commitments against future budgets can be reduced by deferring funding decisions to later budgets. The Treasury acknowledges that the Ministry has more detailed information and some initiatives may not be as amenable to deferral as originally thought, nonetheless we consider that the Ministry could have adopted more of our recommendations for change. Given that additional initiatives have been added and spending priorities have altered since the December advice, Treasury recommends that you direct Ministry officials to reconsider these proposals as a means of improving the overall value for money of the Budget package.
35. Table 7 below indicates those spending initiatives that could be deferred or absorbed to assist you in both managing your spending priorities and limiting the need for pre-commitments.

Table 7 – Suggestions by Treasury of initiatives that could be deferred (all or partly) and capability bids that could be absorbed

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

36. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

37. Health officials do not support this approach for the following reasons:

- Priority initiatives could not implemented in 2007/08
- It only defers pressures by not addressing them on a timely basis and does not increase flexibility in subsequent Budgets although Treasury officials have pointed out that it would allow their prioritisation against other priorities at that time
- It would substantially increase the amount of one-off reserves by \$111.940 million over 4 years within Vote Health as the \$82.345 million savings would not be required in full until 2010/11.
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

It will be very difficult to implement any changes reflecting a fairer allocation without some additional funding to mitigate the impact on those 'losers'.

b. Seek Cabinet's approval to pre-commit funds in Budget 2007 (Health preferred option)

38. Rather than seeking Cabinet's approval to advance decisions that pre-commit funding during the year as agreed in the 2006 Budget package, it is proposed that the total pre-commitments required by Health for Budget 2007 are requested as part of the 2007 Budget process. This approach would allow initiatives to get underway once Cabinet agreed the Budget package. Further approval from Cabinet to fund the rising profile of individual initiatives would not be required.

It appears Ministers of Health and Finance may have supported this approach in Budget 2006 when they “agreed that, to accommodate initiatives with increasing outyear operating profiles, further funding for these operating expenses may be pre-committed now and are to be a charge against the indicative allocations in recommendation (b) above” (February 2006 Budget bilateral minute).

In the event and for reasons that are unclear, the resulting Cabinet Budget recommendation adopted a more restrictive approach as it agreed that the Minister of Health might advance decisions that pre-commit the indicative allocations to a maximum of \$50 million in 2007/08, \$65 million in 2008/09, and \$77 million per annum in 2009/10 and outyears against Vote Health (CAB Min (06) 11/7 (25) refers).

39. This approach would enable all the pre-committed funding to be announced at the time of the Budget.
- c. Seek Cabinet approval to seek pre-commitments against future Budget allocations if required*
40. Officials could seek Cabinet agreement that the Minister of Health may advance decisions that pre-commit the indicative allocations for future Budgets to cover these rising profiles as part of the recommendations in the 2007 Vote Health Budget package. This approach was adopted in Budget 2006 (CAB (06) 11/7(25) refers) when the level of pre-commitments was set at \$50 million, \$65 million and \$77 million for the subsequent 3 years.
41. In the event, Cabinet was not asked to pre-commit funding relating to any of the 2006 Budget initiatives² as it was possible to defer consideration of the additional funding requirement until Budget 2007 or fund it from the pool of indicatively allocated funding established in Budget 2006. In part this was because initiatives were not developed as quickly as anticipated in Budget 2006.
42. However, the rising profiles of initiatives have been more heavily scrutinised in Budget 2007 and it is highly probable Cabinet approval to pre-commit this funding would be requested. There is also likely to be less funding available from risk reserves within Vote Health baselines which may make recourse to pre-committing against future allocations more likely.
43. Health would be unable to commit or announce ongoing funding relating to the initiatives with rising profiles in excess of the 2007/08 amounts until Cabinet approval was obtained. Seeking such approval may delay the implementation of some initiatives.

G. Review of Initiatives

44. On 5 December 2006, Treasury officials presented advice to you in relation to the then-proposed package of Budget 2007 initiatives. Treasury officials made the following suggestions in order to help you tighten the strategic coherence of the package of Budget initiatives, assess value-for-money and the long-term impact by:

² Cabinet approval was however requested to pre-commit funding for additional elective services (CBC Min (06) 16/23 refers)

- deferring initiatives to enhance policy development and improve the information base for projected demand and costs; increasing the impact of public announcements by shortening the interval between initiative announcement and implementation; and increasing your flexibility in Budget 2008 by avoiding pre-committing your allocation
 - improving the performance specification of your initiatives to enable better assessment of progress towards addressing your priorities
 - absorbing small policy capability bids within the Ministry of Health to encourage better alignment with your strategic priorities
 - highlighting the major portion of investment in Vote Health for Budget 2007 going into the automatic price and volume adjusters and the positive contribution this makes to the Health Sector.
45. You requested Health officials to undertake further policy, costing and performance specification work.
46. While some of the templates have been updated to incorporate better performance specification as a result of these discussions, none of the Treasury recommendations to defer, absorb or scale funding have been adopted by the Ministry. Copies of these updated templates are attached in Appendix 3.
47. Further information on the advice offered by Treasury officials to you on specific initiatives together with the response from Health officials is available on request.

APPENDIX 1 – BUDGET 2007 INITIATIVES (OPERATING EXPENDITURE)

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[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

APPENDIX 2 – CHANGES BETWEEN PACKAGE PRESENTED IN DECEMBER 2006 (HR 20062549) AND PACKAGE SHOWN IN APPENDIX 1

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[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

APPENDIX 3 – BUDGET INITIATIVE TEMPLATES – NEW, REVISED OR SPONSORED BY OTHER MINISTERS

The following Budget initiative templates are attached:

Name of Initiative on Template	Reason for change
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>	
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>	
Smoking Cessation programmes	Additional information provided on existing baselines and further describes the linkages to the current Tobacco Control Programme.
Free diabetes 'Get Checked' programme	Templates updated as a result of the December/January review.
Stabilise home-based disability support services	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>
Home-based support services (Health of Older People) & Implementation of InterRAI	
Aged Residential Care	
Increase pharmaceutical funding	New initiative
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>	New initiative
NZ Sign Language Act Implementation Initiative	Updated template submitted from Ministry of Social Development
Annual adjustment – NZ Superannuation	New initiative submitted from Ministry of Social Development addressing issue of flow-on impacts to Community Services Card resulting from annual adjustment to superannuation and veterans' pension rates
Education services to support a universal newborn hearing screening programme	New initiative submitted from Ministry of Education addressing issue of funding for educational services for recipients of cochlear implants

APPENDIX 4 – DEPARTMENTAL EXPENDITURE PROPOSALS

Included in the initiatives proposed for Budget 2007 and shown in Appendix 1 is funding to increase departmental capability by \$35.600 million in 2007/08 and \$25.835 million per annum in the outyears, with a corresponding increase in Departmental Expenditure (DE) appropriations.

The initiatives that require increased DE are listed in the table below.

	Operating Expenditure proposed (\$ millions)					Treasury suggests this capability bid is absorbed within existing baselines
	2007/08	2008/09	2009/10	2010/11	2011/12 & outyears	
PROPOSED BUDGET 2007 PACKAGE	850.135	902.000	923.105	922.805	921.875	
Consisting of:						
Departmental Expenditure	35.600	30.535	28.985	25.835	25.905	
Non-Departmental Expenditure	814.535	871.465	894.120	896.970	895.970	
Departmental Expenditure over \$1 million per annum						
National Systems Development (NSD) - Tranche I	17.700	14.700	14.700	14.700	14.700	
Implement the Australia New Zealand Therapeutic Products Authority (ANZTPA)	4.500	-	-	-	-	
Improve patient safety using bedside verification of drugs in DHB hospitals	2.500	2.500	1.100	0.100	0.100	
Transitional support for complementary medicines & medical devices sectors to transition to ANZTPA	7.980	10.390	10.440	8.460	8.530	
Total (initiatives with DE over \$1m per annum)	32.680	27.590	26.240	23.260	23.330	
Departmental Expenditure under \$1 million per annum						
Additional elective volumes	0.500	0.500	0.500	0.500	0.500	
Autism Spectrum Disorder work programme	0.120	0.180	0.180	0.180	0.180	
Cochlear implant services for adults and newborns	0.060	0.080	0.050	0.030	0.030	
Provide support for family caregivers	0.100	0.100	0.100	0.100	0.100	suggest absorb
National Drug Policy - Online drug data & information system (Progressive Party initiative)	0.100	0.100	0.100	-	-	
National Drug Policy - Mass media/education campaign on illicit drugs (Progressive Party initiative)	0.025	0.050	0.050	0.050	0.050	
Programmes to prevent family violence	0.160	0.160	0.160	0.160	0.160	
Sexual health education & to reduce sexually transmitted infections	-	-	-	-	-	
AIMHI Healthy Community schools - nurse component & project evaluation	0.175	0.100	0.100	0.040	0.040	
Additional funding for National Health Epidemiology & Quality Assurance Committee (EpiQual)	0.500	0.500	0.500	0.500	0.500	
Increased baseline funding for Environmental Support Services (ESS)	0.370	0.290	0.320	0.330	0.330	
Suicide prevention (Progressive Party initiative)	0.150	0.225	0.225	0.225	0.225	suggest absorb
Suicide prevention & National Depression Initiative	0.160	0.160	0.060	0.060	0.060	suggest absorb
Transitional funding for primary healthcare innovation	0.100	0.100	-	-	-	
Increase capacity to review emergent screening technology	0.100	0.100	0.100	0.100	0.100	suggest absorb
Smoking cessation programmes	0.300	0.300	0.300	0.300	0.300	suggest absorb
Total (initiatives with DE under \$1m per annum)	2.920	2.945	2.745	2.575	2.575	
TOTAL DEPARTMENTAL EXPENDITURE	35.600	30.535	28.985	25.835	25.905	

Treasury officials had suggested that the DE funding associated with some initiatives should be absorbed within existing Vote Health DE baselines. These total to \$0.810 million in 2007/08 and are noted the table above.

While these amounts are not material in terms of the overall Budget package or the DE funding shown above, the Ministry notes it is already absorbing DE pressures of approximately \$12 million in 2006/07 and has in place a process to prioritise the DE funding required for new programmes during the year and discuss with you periodically any resulting pressures that may arise.

Given this existing mechanism, the Ministry's preference is not to absorb additional funding outside of the existing arrangements.

APPENDIX 5 – OUTSTANDING BUDGET ISSUES FROM JOINT MINISTERS BILATERAL SCHEDULED FOR NOVEMBER 2006

A briefing was prepared for the bilateral meeting scheduled between yourself and the Minister of Finance in November but the meeting was not held (HR 20062371 refers).

The main decision required from this meeting was the indicative Health allocation for Budget 2009 which was expected to be decided as part of the 2007 Budget process, the 3 year time frame giving some assurance for planning purposes. Officials understand there may not be a Budget bilateral meeting for Health. It may therefore be appropriate for this issue to be addressed by way of letter between Ministers.

A decision was also required on how the Progressive Coalition initiatives would be funded. You have since advised that these will be funded from the Health allocation (HR 20062549) and this decision is reflected in the inclusion of these initiatives in Appendix 1.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

As noted above, there is one-off funding of some \$32.595 million available within existing Vote Health baselines in 2006/07 after providing substantial contributions to the 2007 Budget package.

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it is recommended that you consider transferring a substantial proportion of this to the Health capital envelope to reduce pressures on the Government's capital allocation.

A further contribution to the Health capital envelope to alleviate pressures on the Government's capital allocation could be considered from this one-off funding depending on other Health priorities.

APPENDIX 6 – INITIATIVES SUBMITTED BY OTHER MINISTERS SEEKING FUNDING FROM THE HEALTH ALLOCATION

There are a number of initiatives submitted by other Ministers where it was earlier thought you might be approached to contribute funding from the Health allocation. With the possible exception of the two initiatives sponsored by Ruth Dyson that you were advised of prior to Christmas (HR 20062636 refers), this has not proven to be the case.

In Budget 2006, Cabinet noted that the Minister of Health is able to make prioritisation decisions within the allocation agreed for Vote Health (CAB Min (06) 11/7(25). This confirmed earlier arrangements.

In December, you were advised of two initiatives sponsored by the Hon. Ruth Dyson and prepared by her officials in the Ministry of Social Development (HR 20062636 refers):

\$ millions	2007/08	2008/09	2009/10	2010/11 & outyears
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				

You subsequently wrote to the Minister of Finance submitting these initiatives for Ministers to consider as part of the Families – Young and Old (FYO) allocation, separate to the \$750 million Budget allocation for Vote Health.

As your expectation is that these initiatives will be considered as part of the Families – Young and old allocation, no provision for these initiatives has been made in the proposed Health allocation shown in Appendix 1.

Since December, the Ministry has been advised of three further initiatives as follows:

\$ millions	2006/07	2007/08	2008/09	2009/10	2010/11 & outyears
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>					
Setting New Zealand Superannuation and Veteran's Pension Rates at 66 per cent of the net average wage - Health costs associated with raising community service card thresholds ³	0.375	1.500	1.500	1.500	1.500
Education services to support a universal newborn hearing screening programme	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				

³ *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

The Ministry understands you have recently agreed with the Hon. Benson-Pope (subject to Cabinet and funding approval) to support increasing the superannuation and veteran's pension with the flow-on Health costs to come from the FYO allocation.

The Ministry understands the Department of Education has submitted the initiative for education services to support a universal newborn hearing screening programme to come from the FYO allocation. The Treasury has submitted advice for the meeting of Ministers on the 13 February 2007 that an alternative option would be to fund this initiative from the Health allocation. As this funding is for educational services, the Ministry supports consideration of this initiative from the FYO allocation.

Appendix 1 detailing the proposed Health allocation does not include any funding relating to the initiatives discussed above. It does however include an initiative, \$1.8 million per annum for three years, to provide funding for the Energywise Grants scheme to Vote Climate Change and Energy Efficiency. This is in recognition of the health benefits of this scheme.

**APPENDIX 7 – INITIATIVES EXPECTED TO BE CONSIDERED FOR FUNDING
FROM THE HEALTH ALLOCATION IN BUDGET 2008**

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

APPENDIX 8 – SIGNIFICANT FISCAL RISKS (OVER \$10 MILLION PER ANNUM)

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

APPENDIX 9 – UNFUNDED INITIATIVES THAT COULD BE CONSIDERED FOR INTER-BUDGET FUNDING

As a result of the prioritisation process used to arrive at the proposed package of Budget 2007 initiatives, some initiatives have been scaled back from their original levels or not funded. You may wish to consider allocating funding to these initiatives if additional funds become available from Vote Health baselines during the course of 2006/07 and 2007/08.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

These initiatives are not included in the package of initiatives proposed to be funded in Budget 2007. It is suggested that Health officials intend to regularly update and report this list of unfunded initiatives for your consideration during 2007/08.

For further information of these initiatives please refer –

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]