

Joint Treasury/Health Report: 2007 Vote Health Budget Package - Bilateral Briefing

Date:	23 November 2006	Treasury Priority:	High
Security Level:		Treasury Report No:	T2006/2224
		Health Report No:	20062371

Action Sought

	Action Sought	Deadline
Minister of Finance	Note the recommendations in this report prior to your bilateral with Hon Pete Hodgson on Monday, 27 November 2006	3.30 pm, Monday, 27 November 2006
Minister of Health	Note the recommendations in this report prior to your bilateral with Hon Dr Michael Cullen on Monday, 27 November 2006	3.30 pm, Monday, 27 November 2006
Associate Minister of Finance (Hon Phil Goff)	For your information	
Associate Minister of Finance (Hon Trevor Mallard)	For your information	
Associate Minister of Finance (Hon Clayton Cosgrove)	For your information	

Contact for Telephone Discussion (if required)

Name	Position	Telephone		Contact
		Work	After Hours	
Treasury contacts Colin Lynch	Manager, Treasury Health Section	<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>		2
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Health contacts Paul Helm	Chief Financial Officer Ministry of Health	<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>		1
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**Joint Treasury/Health Report:
2007 Vote Health Budget Package - Bilateral Briefing**

**Proposed Agenda for Meeting between Ministers of Health and Finance on
Monday, 27 November 2006 at 3.30PM**

1. Brief presentation on how the Health sector is performing and strategies for improvement (Stephen McKernan, Director General of Health)
2. Decide on the indicative Health operating allocation for Budget 2009
3. Note the opportunities for capital investment in Health in Budget 2007 (capital allocations for Budget 2007 are to be decided at the February Budget bilaterals)
4. Decide on the source of funding for Coalition initiatives
5. Note the next steps in determining the 2007 Vote Health Budget package
 - Treasury review of proposed Health initiatives
 - February bilateral – decide on Health capital allocation & finalise Vote Health Budget package

Executive Summary

A briefing is attached for the bilateral meeting between the Minister of Finance and Minister of Health on 27 November 2006. The meeting is an opportunity to discuss the proposed agenda items shown above.

Recommended Action

Officials recommend that you read the attached briefing and consider the draft recommendations below for Ministers' bilateral at 3.30 pm on Monday, 27 November 2006.

Colin Lynch
**Manager Health Section
For Secretary to the Treasury**

Debbie Chin
**Deputy Director-General
Corporate and Information**

Hon Dr Michael Cullen
Minister of Finance

Hon Pete Hodgson
Minister of Health

Recommendations

We recommend Ministers:

Health operating allocation for Budget 2007 (page 6 below)

1. **note** the proposed Health operating allocation of \$750 million in Budget 2007 will finance approximately 40 new initiatives and contribute to the following Government priorities within the Families – Young and Old theme:
 - Strong Families
 - Healthy Confident Kids
 - Better Health For All
 - Strong and Safe Communities
 - Positive Aging

Yes / No

Indicative Health operating allocation for Budget 2009 (page 7 below)

2. **note** officials have established a range for the indicative Health operating allocation for Budget 2009 of between \$610 million to \$890 million;
3. **note** Treasury officials recommend an indicative operating allocation at the lower end of this range to provide sufficient fiscal headroom to allow Government to manage within its medium term fiscal strategy and to avoid Health spending crowding out other expenditure;
4. **note** Ministry officials recommend an indicative operating allocation in the range of \$800 million to \$870m which would maintain the value of current health spending (based on CPI and GDP forecasts) and allow the government to continue progressing its Health priorities;
5. **decide** on the amount of the indicative Health operating allocation for Budget 2009

Yes / No

Yes / No

Yes / No

Health Capital Allocation for Budget 2007 (page 10 below)

6. **note** the capital pressures of up to \$141 million included in this report which have some scope for prioritisation;
7. **note** that in accordance with the 2007 Budget timetable you are due to consider capital at your Budget bilateral in February;

Yes / No

Yes / No

Funding of Coalition initiatives (page 12 below)

8. Either

- a. **agree** to fund Coalition Health initiatives supported in Budget 2007 outside the Health allocation as has been the practice in previous Budgets, or,

Yes / No

- b. **agree** that Coalition initiatives will most effectively contribute to achieving the Government's health objectives if they are prioritised against other initiatives within the overall Health allocation;

Yes / No

Next Steps

9. **note** that Treasury will provide advice to the Minister of Health directly on the draft Budget 2007 package, focusing in particular on:

- The long-term fiscal and policy sustainability of the proposed initiatives
- How well the package addresses the Government's and particularly the Minister of Health's priorities
- The value for money of the proposed initiatives

Yes / No

10. **note** any pre-commitments against the Health operating allocation in Budget 2008 can be considered in the February Budget bilateral meeting along with capital;

Yes / No

11. **note** that Health has some \$87 million in unallocated funding in 2006/07 (*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*) and an additional \$30 million to \$38 million per annum continuing into the outyears to manage short term pressures in the Health sector;

Yes / No

12. **note** that a joint briefing will be forwarded to your offices next week on DHB funding advices for 2007/08.

Yes / No

A. Background

1. Vote Health is a significant part of the Families – Young and Old (FYO) theme. This report outlines the proposals for Budget 2007 and sets the direction of future Budgets. The Budget 2007 initiatives reflect the FYO themes, the Minister of Health’s priorities and cost and volume pressures.

B. How the Health Sector is Performing

2. Stephen McKernan, the Director General of Health, will provide a short presentation on recent health gains and strategies for improving sector performance.

C. 2007 Budget - how the proposed allocation will contribute to Government priorities

3. Proposed Health initiatives for Budget 2007 continue to invest in the public health system and encourage better health for all New Zealand families.
4. The following table details the proposed sources of funding for initiatives in Budget 2006 and the proposed initiatives grouped into sub-themes within Families – Young and Old. The grouping of initiatives by sub-themes is also illustrated in Appendix 1.

	Number of Initiatives	Operating expenditure proposed (\$ millions)					
		2007/08	% of 2007/08	2008/09	2009/10	2010/11 + outyears	% of 2010/11
SOURCES OF ADDITIONAL OPERATING FUNDS							
Budget 2007 allocation		750.0	94%	750.0	750.0	750.0	96%
Increased ACC revenue forecast		13.0	2%	13.0	13.0	13.0	2%
Contribution from existing Vote Health baselines		30.2	4%	23.7	15.0	12.7	2%
Funding for Labour-Progressives initiatives ¹		2.5	0%	7.0	5.8	4.2	1%
Total available for operating initiatives		795.7	100%	793.7	783.8	779.9	100%
COST OF PROPOSED INITIATIVES²							
FYO - Strong Families	8	45.6	6%	45.8	48.0	48.5	6%
FYO - Healthy, Confident Kids	6	36.3	5%	54.9	59.4	59.4	8%
FYO - Better Health for All (includes volume & cost pressures)	18	603.3	76%	614.7	607.4	606.4	78%
FYO - Strong and Safe Communities	7	47.2	6%	58.8	60.2	61.7	8%
FYO - Positive Ageing	1	18.3	2%	18.3	18.3	18.3	2%
Total cost of initiatives	40	750.7	94%	792.5	793.3	794.3	102%
BALANCE AVAILABLE FOR SECTOR RISK MANAGEMENT							
Sector Risk Management reserve		45.0	6%	45.0	45.0	45.0	6%
Outyear Surplus / (Deficit)		-		(43.8)	(54.5)	(59.4)	(8%)

1. This is conditional on funding for these initiatives being provided outside the Health allocation
2. Includes Labour-Progressive initiatives

5. Health officials have provided Budget templates detailing the proposed Health initiatives for Budget 2007 to Treasury officials for their review.
6. Treasury officials will provide formal advice to the Minister of Health on whether these initiatives are fiscally sustainable, maximise value for money and adequately provide for the monitoring of progress and the achievement of outcomes. This will assist the Minister of Health in making his final allocation decisions on operating initiatives for inclusion in Budget 2007.

7. While the table above indicates the funding required for initiatives exceeds the funding available, this is expected to change after further review. Should an oversubscription of initiatives remain, it is expected that Health would make a contribution towards this from existing baselines. Should some pre-commitment of future Health operating allocations be required, this is expected to be significantly below the amounts approved in Budget 2006, and can be discussed at the February bilateral.

D. Indicative Health operating allocation for Budget 2009

8. In Budget 2006, Cabinet agreed new operating funding of \$750 million and indicative allocations of the same amount for Budgets 2007 and 2008.
9. Ministers confirmed at their meeting on 28 August 2006 that the operating allocation for Vote Health in Budget 2007 will be \$750 million per annum.
10. Under existing arrangements for Vote Health, a rolling 3 year funding path is agreed as part of the annual Budget process. In Budget 2007, it is therefore appropriate to consider the indicative Health allocation for Budget 2009.

Approaches to determining funding

11. Determining an appropriate level for signalling new Health funding for Budget 2009 involves balancing the following factors:
- fiscal trade-offs at the macro level
 - desirability of giving the sector sufficient certainty to encourage sound planning, including for inflationary pressures and demographic change
 - the extent to which funding will enable government priorities to be progressed through new initiatives
 - an assessment of current or emerging pressures that may need to be considered in Budget 2009
12. Each of these factors is considered below. The amounts referred to in these comments are summarised in the following table:

<i>Method of determining 2009 new expenditure</i>	<i>Amount</i>
Increase Vote Health at the same rate as forecast nominal GDP growth in 2009/10 ¹	\$610 million
Nominal Health allocation over Budgets 06–08	\$750 million
\$750 million allocation in Budget 2006 adjusted for inflation (CPI)	\$800 million
Allocation that would provide similar level of funding for new initiatives in real terms as in Budget 2006 after cost and volume pressures	\$850 million
\$750 million allocation in Budget 2006 adjusted by GDP growth	\$870 million
Increase Vote Health at the same rate as forecast tax revenue growth in 2009/10 ²	\$890 million

¹ Based on Treasury 2006 Budget Economic and Fiscal Update forecasts

13. Within the agreed allocation, cost and volume pressures will need to be accommodated. In 2009/10, current forecasts indicate these could range between \$484 million (assuming inflation of 2%) and \$600 million (assuming inflation at 3%) and assuming population changes based on Department of Statistics projections.
14. Health officials note that Health expenditure in all OECD countries except Finland grew faster than GDP between 1990 and 2004, increasing from an average of 7 percent to 8.9 percent of GDP. New Zealand expenditure on health remains below the OECD average as a percentage of GDP.

Fiscal Trade-offs at the Macro Level

15. Forecast growth in GDP and tax revenue can be used to produce potential boundary conditions for health operating expenditure in Budget 2009³. This is predicated on resource growth being used as a medium term constraint.
16. In recent years health expenditure growth has strongly outstripped nominal GDP growth. In the medium to long term, GDP growth will be a constraint for the resources allocated to health expenditure. Treasury forecasts nominal GDP to increase by 5.2% for 2009/10. Applying this growth factor to the health operating budget, predicted to be \$11.764 billion in 2008/09, suggests health expenditure could grow by \$610 million in Budget 2009 and still remain constant as a proportion of nominal GDP.
17. Treasury also forecasts tax revenue growth to be 7.6% for 2009/10. This implies health expenditure increasing as a proportion of nominal GDP and exceeding the current nominal allowances for Budgets 2007 and 2008. Increasing health operating expenditure by \$890 million in Budget 2009 would keep expenditure growth in proportion to revenue growth. While this slows the progression to a lower growth path, it would allow the health sector to adjust over a longer time period. Revenue growth may be a relevant short-term resource constraint because of its implication for borrowing and the government's debt objectives. Over the longer term revenue growth is driven by GDP growth.
18. These forecasts suggest a range from \$610 million to \$890 million may appropriately inform the Budget 2009 increase in health expenditure from a fiscal perspective.
19. The effect of various sizes of allocation on the amount available for new initiatives is illustrated in Appendix 2.
20. Given uncertainty in the future fiscal environment, a lower allocation may be more prudent. A lower indicative allocation is likely to be easier to increase if the fiscal situation becomes more positive than forecast, compared with trying to reduce an indicative allocation if the situation deteriorates. Retaining the flexibility to increase the allocation to Vote Health in the future may avoid prematurely crowding out other government expenditure, given the Budget 2009 allocation currently stands at \$2 billion per annum.

² Ibid

³ Forecasts based on 2006 Budget and Economic and Fiscal Update

21. The current forecast for inflation in 2009/10 of 2% suggests that cost and volume pressures will be in the order of \$484 million. Treasury considers an allocation of \$126 million for new initiatives (consistent with a total indicative allocation of \$610 million) would still compare favourably with recent increases in other votes inside the Families Young and Old Theme.
22. For Budget 2006, after accounting for the Working for Families extension, there was \$267 million in the out years for all other FYO votes compared with \$353 million⁴ in out years for Health net of funding for cost and volume pressures. In Budget 2007, it is currently proposed that, excluding Health, \$320 million per annum is allocated to the FYO votes. Net of current estimates of funding for cost and volume pressures, Health operating funding is proposed to increase by \$261 million per annum.
23. A lower indicative allocation may also drive higher value for money from existing health expenditure. There are currently processes underway, for example service area reviews, which seek to ensure resources are oriented to the highest value health interventions. A prudent fiscal approach, even at this early signalling stage, is likely to reinforce efforts to move resources to meet these goals.

Availability of funding to progress Government Priorities

24. Appendix 2 shows the funding that would be available to progress Government priorities through new initiatives in Budget 2009 after providing for cost and volume pressures⁵, a reserve of \$45 million to manage in-year risks, and before allowing for efficiency savings.
25. Various scenarios are presented assuming inflation of 2%, 2.5% or 3% and options for the Health operating allocation between \$750 million and \$900 million. This is compared with the average of \$235 million available for new initiatives in Budgets 2006-2008⁶.
26. While inflation is forecast to trend down between now and 2009/10, Health officials note inflation has averaged 2.3% over the last 10 years and has only been less than 2% in one of the last seven years.
27. If a low inflation assumption is used in setting the indicative Health operating allocation for Budget 2009, there is a risk this will understate the actual cost pressures resulting in less scope for new initiatives.
28. Health is expected to manage the risk of inflation being different from forecast so it is desirable that there should be similar likelihood that the inflation rate will vary in either direction. That way, Health faces a tighter constraint in a

⁴ After requiring some \$46 million in efficiency savings in the sector and before providing for a \$45 million risk reserve to manage in-year risks

⁵ The funding to address volume pressures are based on the October 2006 Department of Statistics population projections. While these forecast above trend population growth from increasing migration over the next two years, it is forecast to return to trend in 2009/10. If migration remains high, increased demographic funding will be required in 2009/10.

⁶ The amounts by year are \$263 million (Budget 2006), \$230 million (Budget 2007) and \$211 million (Budget 2008). The decline over time reflects the compounding nature of the funding required for cost and volume pressures despite a decline in inflation and the fixed nominal allocation

year when inflation is high, but can recover in a year when inflation is lower. Health officials consider that setting the indicative allocation assuming an inflation rate of 2.5% would provide this balance.

29. An indicative allocation of \$850 million assuming inflation at 2.5% would provide a residual of \$263 million, the same as available in Budget 2006 in nominal terms, although slightly less in real terms (around \$250 million).

Current or Emerging Pressures

30. Recent budgets and policies have underscored a willingness to continue to broaden the role of the public health and disability sector into (for example) the caring domain. The areas in which broadening of service coverage have occurred reflect the Minister's 2006/07 priority areas, such as health of older people, health infrastructure and workforce, and getting ahead of the chronic disease burden.

31. These ministerial and government priorities are likely to continue to guide expanding service coverage through to 2009/10. Recent examples include changes to the income and asset testing regime associated with aged residential care and continued increases of funding into the home based support sector.

32. Attempting to put a cost on ongoing drivers of increased Health expenditure is difficult. Nevertheless, it is possible to roughly estimate a level of funding to support the continuation of current priorities as follows.

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

33. The estimates associated with these drivers have an upper end of \$355 million.

E. Opportunities for capital investment in Health in Budget 2007

34. For Budget 2007, major capital bids are intended to be allocated as part of a bilateral process in February 2007. Making decisions on any potential new capital funding for Health as part of the normal budget processes will enable Ministers to prioritise capital spending across votes, on the basis of more complete information. By this time, the December 2006 National Capital Committee meeting will have taken place and a clearer picture of the extent of funds remaining in the Health Capital Envelope and baselines will be possible.

35. Officials recommend that you make final decisions about Health capital funding for Budget 2007 in the February 2007 bilateral.

36. However some material on capital is included here to indicate current thinking.
37. Health has identified a number of priority areas for further capital investment. These are indicative only and intended to inform a decision on an appropriate capital allocation – individual projects will be subject to the completion of business cases together with review by the National Capital Committee (DHB projects).
38. These areas of capital investment are presented in the table below in descending order of priority with the cumulative level of funding required also shown.

	Funding by priority area	Cumulative Funding	Comment
	\$ millions	\$ millions	
Funding Available from existing Health capital Envelope (offset)	(29)	(29)	
Priorities:			
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>			

39. The existing Health capital envelope is expected to have some \$29 million available to contribute towards capital projects in 2007/08. In addition, DHBs are able to contribute towards projects in some instances.
40. Further information on capital pressures and the expected availability of capital in Budget 2007 is provided in Appendix 3.

F. Unallocated funds within existing Vote Health baselines to manage sector risks in 2006/07

	Operating expenditure proposed (\$ millions)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & outyears
Funds held for Risk Management within existing baselines					
Unallocated funds in Health Service Funding NDE after OBU 2006	121.411	42.037	45.173	49.598	49.598
* One-off contribution to Budget 2007 initiatives	(34.400)				
* On-going contribution to Budget 2007 initiatives	-	(11.800)	(11.800)	(11.800)	(11.800)
Available for decisions in 2006/07	87.011	30.237	33.373	37.798	37.798
<i>[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]</i>	-				
	-				
	83.335	56.668	56.668	56.668	56.668
Remaining Funds Held for Risk Management within Existing Baselines <i>([information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice])</i>	170.346	86.905	90.041	94.466	94.466

41. The one-off and ongoing contributions to the 2007 Budget package are expected to change as these initiatives are further reviewed. Note that should it be required, it is proposed to rephase the one-off funding over the earlier years of the package to cover one-off implementation costs associated with a number of initiatives⁷.

42. There are a number of significant pressures not included in the above table that may require funding in 2006/07. These include:

- Transitional funding for regulating complementary medicines and medical devices under the joint Trans-Tasman agency
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- Further operating funding to support priority capital projects

G. Budget initiatives sponsored by Coalition partners

⁷ For this reason, the funding shown as being provided from existing Vote Health baselines in this table does not agree with the contribution from Vote Health shown as a source of funding in the earlier table detailing the proposed Budget package – however this is a timing issue only

43. The Hon. Jim Anderton is seeking funding for a number of suicide prevention and drug abuse education initiatives in Budget 2007. Details of these initiatives are as follows:

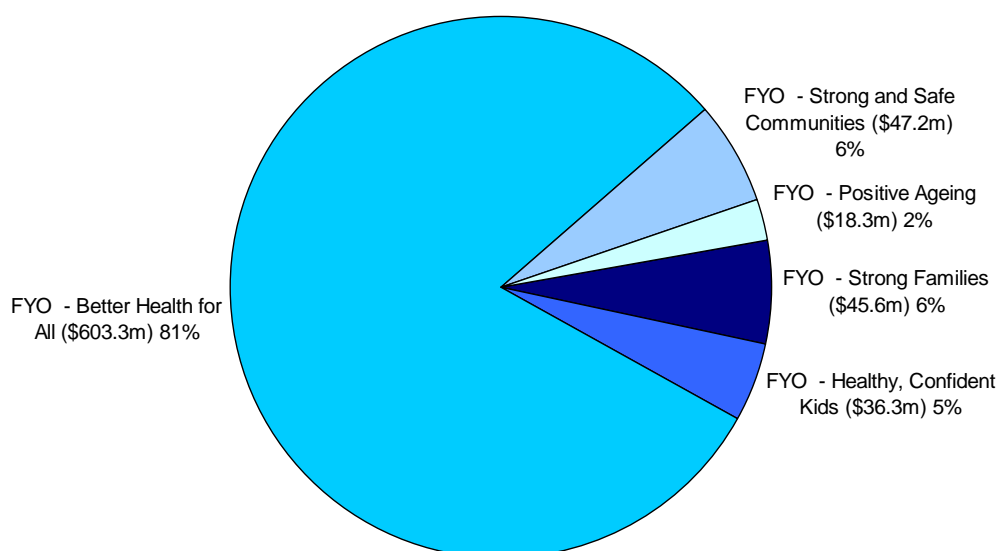
	Operating funding (\$ millions)			
	2007/08	2008/09	2009/10	2010/11 & outyears
SUICIDE PREVENTION				
(a) Evaluated pilots for intensive care after suicide attempt	0.500	1.500	1.800	2.000
(b) Continue rollout of ED Guidelines on Suicide Prevention to DHBs	0.800	0.550	0.250	0.250
(c) Evaluated intensive demonstration sites providing training/support to GPs/PHOs on assessment and management of depression (using new Guidelines as a tool)	0.200	1.500	1.800	-
(d) Ongoing rollout for National Depression Initiative	0.470	1.540	-	-
SUBTOTAL - SUICIDE PREVENTION	1.970	5.090	3.850	2.250
DRUG ABUSE EDUCATION				
(a) On-line drug data	0.150	0.300	0.300	0.200
(b) Mass media / Education on illicit drugs	0.275	1.550	1.550	1.550
SUBTOTAL - DRUG ABUSE EDUCATION	0.425	1.850	1.850	1.850
TOTAL	2.395	6.940	5.700	4.000

44. In previous Budgets, similar initiatives have received funding outside the Health operating allocation under the Coalition arrangements. Health officials recommend this approach is again adopted in Budget 2006.
45. The Health operating allocation is considered separately from the remainder of the Families Young and Old Theme. The Treasury considers that to optimise allocation of resources within Health requires all potential initiatives to be considered together. The Treasury considers that Hon Jim Anderton's bids will most effectively contribute to achieving the Government's health objectives if they are prioritised within the overall Health package.

H. DHB Funding Advices for 2007/08

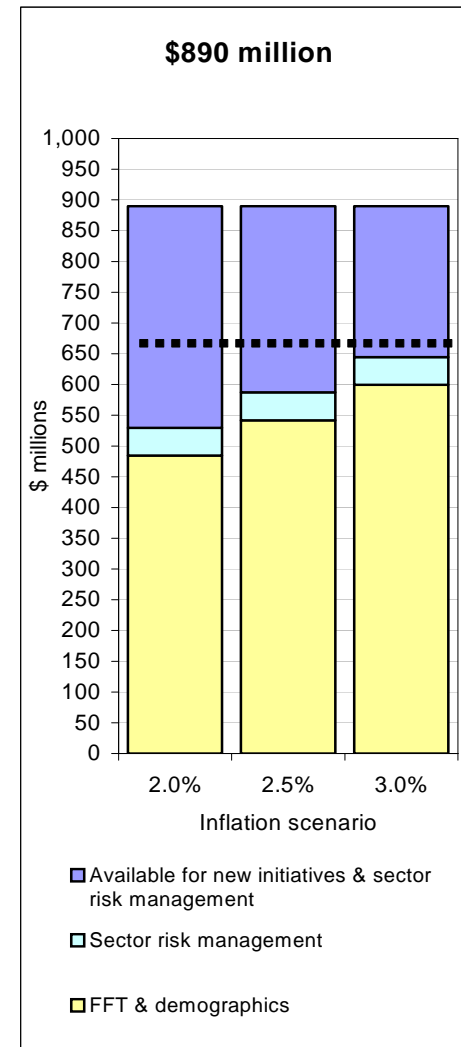
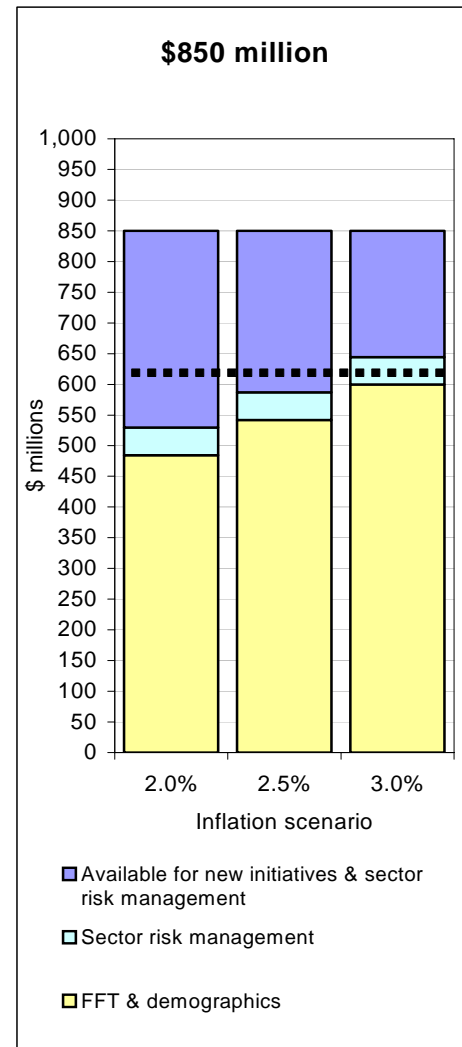
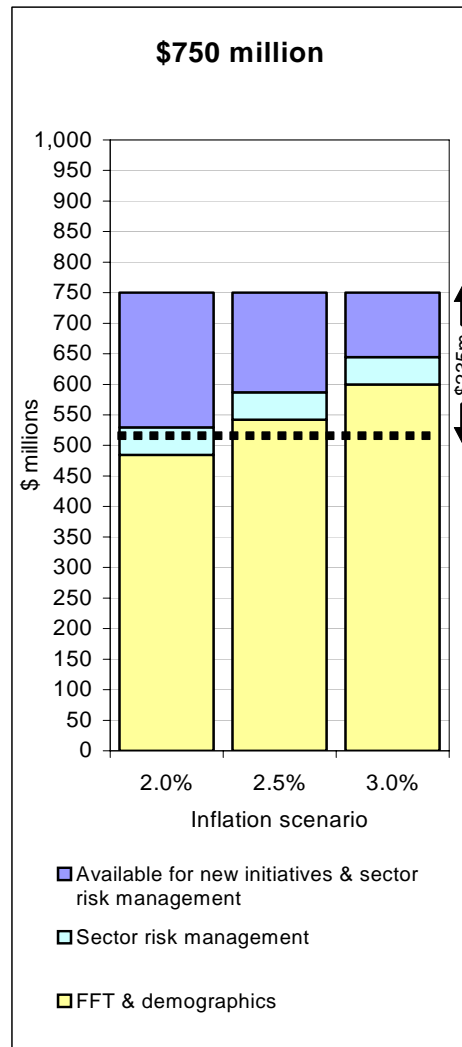
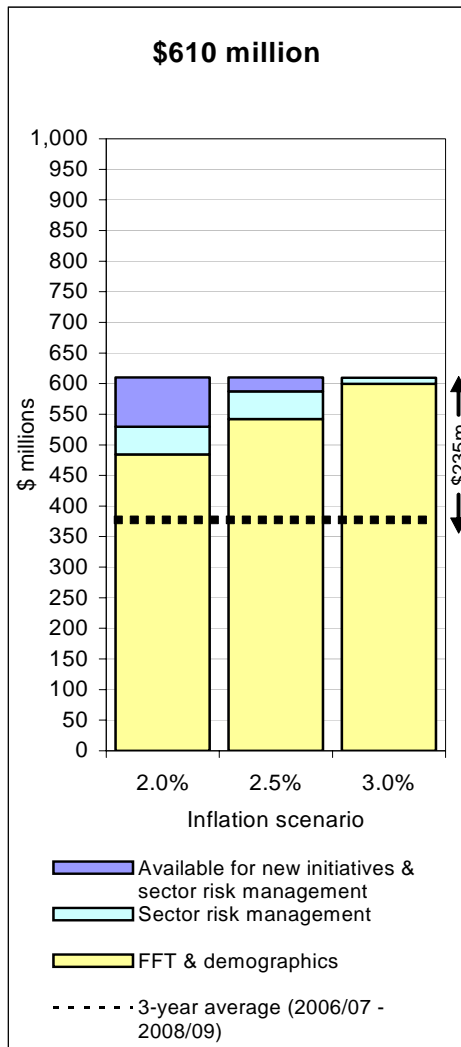
46. Officials are currently preparing a briefing on the DHB Funding advices for 2007/08 and managing cost and volume pressures. The DHB funding advices are expected to be distributed on the 11 December 2006. A joint briefing will be forwarded next week for your consideration.

**COST OF PROPOSED INITIATIVES
BY SUB-THEMES
OF FAMILIES - YOUNG & OLD
2007/08**



	Number of Initiatives	Operating expenditure proposed (\$ millions)					
		2007/08	% of 2007/08	2008/09	2009/10	2010/11 + outyears	% of 2010/11
SOURCES OF ADDITIONAL OPERATING FUNDS							
Budget 2007 allocation		750.0	94%	750.0	750.0	750.0	96%
Increased ACC revenue forecast		13.0	2%	13.0	13.0	13.0	2%
Contribution from existing Vote Health baselines		30.2	4%	23.7	15.0	12.7	2%
Funding for Labour-Progressives initiatives ¹		2.5	0%	7.0	5.8	4.2	1%
Total available for operating initiatives		795.7	100%	793.7	783.8	779.9	100%
COST OF PROPOSED INITIATIVES²							
FYO - Strong Families	8	45.6	6%	45.8	48.0	48.5	6%
FYO - Healthy, Confident Kids	6	36.3	5%	54.9	59.4	59.4	8%
FYO - Better Health for All (includes volume & cost pressures)	18	603.3	76%	614.7	607.4	606.4	78%
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FYO - Positive Ageing	1	18.3	2%	18.3	18.3	18.3	2%
Total cost of initiatives	40	750.7	94%	792.5	793.3	794.3	102%
BALANCE AVAILABLE FOR SECTOR RISK MANAGEMENT							
Sector Risk Management reserve		45.0	6%	45.0	45.0	45.0	6%
Surplus / (Deficit)		-		(43.8)	(54.5)	(59.4)	(8%)

Budget 2009 - Funding available for New Initiatives & Sector Risk Management, depending on size of allocation & projected inflation



The \$235 million band shown by the dotted line in each graph is the funding expected to be available for new Health initiatives in Budgets 2006 to 2008 after funding cost and volume pressures and providing a \$45 million reserve for sector risk management. This level of funding is achieved when the dark shaded areas drop below the dotted line.

APPENDIX 3

Health capital for Budget 2007

Fiscal position

1. The total capital expenditure in Budget 2006 was \$2.7 billion. There is less than one third of this level of capital expenditure available in Budget 2007. The Budget 2007 capital allocation is set at \$858 million in total (over four years). The allocation will be under considerable pressure, with large bids likely from the justice, housing, and education sectors.
2. There has been a significant level of capital investment in the Health sector since 1999/00 totalling approximately \$2.4 billion as shown in the Table below.

Actual Capital Expenditure \$m	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Total	%
Capital Projects	-	-	9	99	112	67	136	424	18%
Debt Rollover or Refinancing	-	24	108	227	664	68	288	1,379	58%
Equity Injections and Deficit Support	13	38	129	146	64	59	41	489	21%
Residential Care Loans	-	-	5	23	21	21	14	83	3%
Total Capital Expenditure	13	63	250	495	861	214	479	2,375	100%

3. The majority of the funding providing has been provided to replace private sector debt with Crown debt or to rollover existing Crown debt. This funding is fiscally neutral to the extent the overall liabilities recognised by the Crown do not alter.
4. The funding provided for residential care loans is repaid over time, net of any of bad debts that are required to be written off.
5. Expenditure to provide debt or equity for new capital projects has totalled \$424 million between 1999/00 and 2005/06. In addition, a further \$867million has been appropriated through to 2009/10 million for capital projects. Capital projects require funding to be in place before they are approved. The outyear funding, with the exception of some \$29 million, has either been committed to approved capital projects or set aside for particular projects subject to business case and Ministerial approval.
6. The funding that has been made available for capital projects has resulted in major hospital re-builds in most regions. In this context, significant Health capital pressures have already been addressed.
7. The Treasury considers that many of the items being identified as pressures in the 2007 capital allocation can readily be phased until at least Budget 2008 or beyond and that there are alternatives to funding health capital items as part of Budget 2007.
8. Treasury considers that there are sufficient resources within the Vote to accommodate a significant operating-capital swap. In addition, while it may not be reasonable to expect DHBs to fund the full cost of new capital acquisitions, DHBs are able to fund a significant proportion of their capital projects from internal cash flows generated by depreciation.

Health Capital Priorities

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

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

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

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

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

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

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