

TREASURY ADVICE TO THE MINISTER OF HEALTH ON BUDGET 2007

Purpose of this note

The purpose of this note is to provide you with Treasury's perspective on the proposed Budget 2007 package for Vote Health, with a focus on:

- the match with your stated priorities for Budget 2007 (section 1)
- long-term fiscal and policy sustainability (section 2), and
- optimising performance to ensure your priorities are addressed (section 3).

This note looks at themes in the overall package and identifies initiatives that may improve through further policy or implementation consideration, initiatives that may improve through further performance specification, and initiatives with small capability bids that may be absorbed in baselines. Consideration of capital expenditure, a rollout figure for Budget 2009, and the fit with Government's Families – Young and Old theme are not addressed.

Key messages

Overall, the package fits well with your priorities for the sector. It focuses on the causes of chronic poor health and achieving fiscal benefits in the medium to long-term. However there are some areas where the package could be enhanced to provide you with greater flexibility and better long term outcomes.

Progress towards your priorities could be better assured by requesting the Ministry to undertake further policy development work on some of the proposed initiatives and to improve performance specification. This is consistent with the recent Health Expenditure Review, your value-for-money focus, and will also enable you to shorten the time between announcing decisions and implementing new or enhanced services.

If you want to further focus existing resources on your priority areas you may wish to consider asking officials to fund some of the smaller capability initiatives within baselines by reprioritising existing low priority outputs.

Recommendations

1. **Defer** further consideration of those proposals either not fully developed or not clearly connected to your priorities (as listed in Annex I) to March 2007 for possible inclusion in either Budget 2007 or later budgets. Deferral would:
 - a. enable officials to provide you with enhanced information and policy work on medium to long term implications to better inform your marginal spending decisions
 - b. increase the impact of new policy announcements by shortening the time to actual implementation, and
 - c. increase your flexibility to manage health spending pressures in Budget 2008.

Refer to Annex I

2. **Direct** officials from the Ministry of Health and Treasury to enhance the performance monitoring specifications for proposals listed in Annex II.

Refer to Annex II

3. **Direct** Ministry of Health officials to reprioritise existing resources to fund small Ministry of Health capability bids (listed in Annex III). This would better align existing baselines with your priorities.

Refer to Annex III

4. **Direct** Ministry of Health and Treasury officials to work on ways to highlight the additional investment in the sector through forecast funding track and demographics funding, and link this to expectations of DHBs in the upcoming District Annual Plan rounds.

Yes / No

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For Secretary to the Treasury

Analysis

1. Match with your six stated priorities for Budget 2007

Your 24 August 2006 letter to Hon. Dr. Michael Cullen outlined your priorities for Budget 2007. There is a strong correspondence between these priorities and this package's proposed initiatives, though the Treasury analysis differs slightly from that presented by the Ministry of Health.

Priority	Initiatives that clearly fit with this priority
<p>1. Getting ahead of the chronic disease burden in areas such as healthy eating/ healthy action, cancer control and tobacco control</p> <p><i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i></p>	<ul style="list-style-type: none"> • Extend 'Get Checked' to Include Cardio-Vascular Disease • Implementation of Healthy Eating Healthy Action Initiatives • Cancer Control Action Plan (parts of) • Smoking Cessation • Increase Capacity to Review Emergent Screening Technology
<p>2. Expanded child and youth services, including oral health</p> <p><i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i></p>	<ul style="list-style-type: none"> • Strengthened Child and Adolescent Oral Health Services • Antenatal Down Syndrome Screening Programme • Cochlear Implant Services for Adults and Newborns • Plunket Well Child Contacts (telephone delivery) • Funding for the nursing component of the AIMHI Healthy Community Schools Project • New Vaccines for Inclusion on National Immunisation Schedule • Newborn Metabolic Screening Programme • <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>
<p>3. A population-based approach to primary health care that focuses on access, prevention and early detection</p> <p><i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i></p>	<ul style="list-style-type: none"> • <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i> • Rural Support for Primary Maternity Care • Transitional Funding for Primary Health Care Innovation • Primary Mental Health Care
<p>4. Supporting the health of older people with an efficient and integrated continuum of care</p> <p><i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i></p>	<ul style="list-style-type: none"> • Home-Based Support Services and InterRAI • Aged Residential Care • Stabilise Home-Based Disability Support Services • Support for Family Caregivers
<p>5. Improve the sector's ability to deliver quality, particularly by progressing the health information strategy and various workforce development initiatives</p> <p><i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i></p>	<ul style="list-style-type: none"> • National Systems Development – Tranche I • (parts of) Cancer Control Action Plan (IT and workforce) • Quality and Safety (including medication barcoding etc)
<p>6. Improved cost effectiveness so that all of the health vote goes to where it can do the most good.</p> <p>\$0 million in out years, 0% of package</p>	<ul style="list-style-type: none"> • To Establish the Australia-New Zealand Therapeutic Products Authority <p>[Note: Your cost-effectiveness priority is advanced across a number of proposals]</p>

A small number of the proposed initiatives in the package do not seem to align with your stated priorities. These are:

- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- *EnergyWise Home Grants Scheme*
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- *Sexual Health Education*
- *Environmental Support Services*
- *Additional Funding for Health Disability Commissioner Services*
- *Autism Spectrum Disorder*
- *(parts of) Cancer Control Action Plan (palliative care)*
- *Preventing Family Violence*
- *Preventing Drug Abuse – Progressives Bid*
- *Epiqual (Statutory and Ministerial Committees)*
- *Suicide Prevention and National Depression Initiative – MoH bid*
- *Suicide Prevention – Progressives bid*

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]. There may be a valid rationale for funding some of these initiatives, but if you wish to focus more exclusively on the six stated priorities above, the remainder may be a low enough priority to defer for later consideration.

Funding small capability bids from within existing baselines may focus resources on your priorities

Several small bids within the package seek additional departmental resources for the Ministry of Health. Overall staffing levels in the Public Service have increased for the sixth consecutive year with 5% increases in the year ended June 2006. Part of this growth has included the increased numbers employed in policy ministries. Often the bids are small but can add to substantial increases across the Public Service. Increases in policy capability should be coordinated to avoid the risk of overheating the market for analysts. Central agencies can give you more advice once all Budget 2007 bids are received. For the Ministry of Health, you may wish to explore why high priority initiatives with departmental resource implications are not funded from existing resources.

For example the *Increase Capacity to Review Emergent Screening Technology* bid seeks \$0.100 million pa for an additional FTE and sector consultant support for the National Screening Unit. You may wish to explore further with your officials whether this funding can be met from within the Public Health Departmental Expense appropriation (of nearly \$44 million).

The amounts sought are small but suggesting reprioritisation to the Ministry of Health to meet these requirements may send a signal about aligning baseline activity with your priorities. A list of initiatives that Treasury considers have resource implications that could be absorbed from within existing baselines is provided in Annex II. In total they represent \$1 million (less than 1%) of Ministry of Health departmental baselines.

Deferring initiatives may lead to implementation closely following announcement

Budget 2006 resulted in pre-commitments against Budget 2007 totalling \$76 million pa in the out-years. To date, only \$59.5 million of pre-commitments were made against Budget 2007, for an unanticipated initiative for additional electives. In retrospect, the pre-commitments (and associated announcements) in Budget 2006 were not required.

In addition, several initiatives announced at Budget 2006 and which are seeking additional funding in this budget – *Healthy Eating Healthy Action*, *Long-Term Support Services for People with Chronic Medical Conditions*, and *A Strengthened Child and Adolescent Oral Health Service* – will be significantly under-spent in 2006/07. This represents a significant time-lag between the Budget 2006 announcements and implementation. Together these points illustrate that pre-commitments may not be necessary to advance your priorities.

Previous experience suggests that holding back funding may help officials focus on developing appropriate policy work. You may wish to consider the advantages of deferring funding decisions to ensure that:

- Officials can more fully develop the underpinning policy analysis, operational planning, and performance management settings to ensure fast and effective implementation; and
- you are provided with better information on costs and risks before making marginal spending decisions and committing marginal resources.

This package includes examples where this approach might lead to better results. For example, work will not be completed on how to apply funding for *Stabilise Home-Based Disability Support Services* until June 2007. This suggests decisions on funding should be made at a later time when final requirements are more certain.

2. Long-term fiscal and policy sustainability

Carefully expanding services would ensure more efficient resource allocation and avoid unintentionally raising expectations

A number of bids expand the range of publicly funded health services. Given limited resources and uncertainty about how people respond, any expansion of services should be prioritised rigorously and carefully managed to avoid unintentional demand escalations.

The package includes three newborn screening initiatives that appear to be cost effective and backed by strong evidence. These seem to fit closely with your child health priority and are good examples of preventative approaches to health. However, currently screening technologies are not subject to a prioritisation process, such as the SPNHIA process applied elsewhere in the sector. Screening technologies may be cost-effective but are they the highest priority new technology compared with other available alternatives?

Deferring some service extensions may allow better prioritisation across a wider range of services to occur. Furthermore, there may be tactical advantages to developing such initiatives in the context of the Well Child Service Review. Any changes emerging from this review may be appropriately prioritised against and integrated with any proposed screening services.

Increasing information on demand for new services may improve some initiatives. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. Funding is restricted by eligibility criteria that are more or less arbitrarily defined according to

available resources. You may wish to obtain more information on the number, circumstances, and associated risks of those people who just fail to meet the proposed criteria before providing additional funding.

Extend 'Get Checked' to Include Cardio-Vascular Disease and Implementation of Healthy Eating Healthy Action Initiatives both directly address long-term cost pressures and Treasury supports this investment in improving long-term outcomes. However, the analysis of the costs proposed under these initiatives would improve through further modelling and policy work. This would allow the likely medium term fiscal savings to be properly considered against future costs. *Implementation of Healthy Eating Healthy Action Initiatives* could be improved through further specification of intended activities, outputs, and performance targets, particularly as there will be an obesity target next year.

Support for Family Caregivers seeks a relatively small amount of funding to 'respond to intermediate demands for respite'. This could create expectations for higher funding of home caregivers in the future, potentially a very large group. This creates a significant risk to medium term fiscal outcomes. Seeking further analysis on these initiatives to improve information on longer term demand pressures and fiscal risks will enable you to better manage future demands against later budgets.

Additional funding to maintain existing services can undermine the principle that automatic adjusters are supposed to maintain real purchasing power

The most significant item in this package is *FFT and Demographics* - at \$474.8 million per annum. Given this high level of investment it is important to ensure initiatives seeking additional funding within the package are outside the scope of these automatic adjusters.

You may wish to consider how the strategic value of this funding could be better explained to the public and how your high level expectations could be reinforced through accountability levers such as the District Annual Plan process or the EXG reviews. The current devolved funding model sees most spending decisions made at the DHB level consistent with local needs and national priorities. Additional Budget 2007 investment in the sector is consistent with seeking continued dynamism *in the sector*, both through these new resources and the existing baseline funding.

You may wish to consider directing your officials to strengthen the positive messages on the use of FFT/demo as part of Budget 2007 and driving those messages through accountability processes such as the DAPs. *FFT and Demographics* can be highlighted positively as additional resources going to the sector to help DHBs and others meet your priorities as well as managing local demand and price pressures.

Furthermore, this package contains initiatives that could have been expected to be funded from automatic adjusters. For example, *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. Yet a similar situation with District Health Boards and PBFF targets is managed annually through the application of demographic funding to the funding package. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. Deferring this initiative may allow an alternative funding option, such as the use of the automatic adjusters, to be investigated.

Cochlear Implant Services for Adults and Newborns seeks to extend this service from the current 30 implants annually to 50. This number has been capped since 1999. This is a nationally provided service that receives FFT/demo increments each year, so some of this funding should be met from within cumulative FFT/demo increases to the sector.

Increasing your flexibility in Budget 2008 makes it easier to deal with emerging spending pressures

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

Given your sustained commitment to remaining within the \$750 million indicative allocations for Budgets 2006, 2007, and 2008, you may wish to explore alternative ways of getting the most value out of these increases over time. One choice you have is when to announce funding increases. Your flexibility in future budgets can be increased by reducing pre-commitments through deferring funding now. This would:

- Increase your choices at the margin
- Give you more information when you decide to act
- Maximise the impacts of announcements in later budgets.

3. Optimising performance ensures your priorities are addressed

Ministers ability to assess the impact of initiatives on outcomes could be improved by including greater performance specification

Several initiatives could benefit from improved output specification and performance monitoring. In some cases this may involve better specification of outputs, report-backs, performance targets and monitoring arrangements.

For example, *Rural Support for Primary Maternity Care* seeks funding for premium payments to provide an incentive for rural midwives to continue practising in a rural location. Your officials could improve this initiative by:

- investigating why midwives are leaving rural locations
- examining future population pressures – how many rural midwives will be needed?
- considering alternative service delivery models, perhaps different workforce solutions?
- ensuring that a monitoring framework is established to confirm that the initiative encourages midwives to remain in rural locations.

The *Environmental Support Services* bid could more clearly articulate what outputs the Ministry of Health foresee purchasing to improve services. This bid is based on a recent review of ESS and so better output specification could improve the link to your current priorities.

The *Cancer Control Action Plan* bid relates to your chronic disease burden priority and makes good use of underlying evidence. This initiative could lead to better results by:

- improving the specification of what outputs will be purchased (for the IT component) that may lead to better investment, and
- establishing a performance monitoring framework to integrate the four strands of the proposal (palliative care, data management, workforce development and nurses).

A list of initiatives that Treasury considers could benefit from improved performance specification and monitoring arrangements is provided in Annex III.

Conclusions

Some bids are in the early stages of development and would benefit from more work.

Other bids are not clearly connected to your current priorities and deferral may better focus your additional Budget 2007 resources on your high priority areas.

This will improve the quality of the Budget 2007 package by:

- a. giving officials more time to provide improved information and policy work on medium to long term implications, with the objective of better informing your marginal spending decisions
- b. allowing you to announce policies close to the time of actual implementation, and
- c. increasing your flexibility to manage health spending pressures in Budget 2008.

Directing Ministry of Health officials to absorb small amounts of capability funding within baselines should also increase the Ministry's focus on your priorities.

Some bids would be improved by more explicitly stating what they are buying and how we will measure what they have delivered. In some cases this may involve better specification of outputs, report-backs, performance targets and monitoring arrangements.

We would see long-term advantages in better explaining the strategic value of the single biggest item in your package – *FFT and demographics*. Further value would be gained from sharpening expectations on DHBs for what they are doing with these additional resources, in delivering on your priorities and managing local demand and prices pressures. These messages could send useful signals for the upcoming DAP round.

Annex I: Initiatives that could improve with further policy and costing work

Initiative	Benefits from deferral	Defer?
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		
Stabilise Home-Based Disability Support Services \$4 million in out years	Implementation of funding better developed	Yes / No
Support for Family Caregivers \$1.6 million in out years	Better estimation of flow-on expectations effects to other areas where families provide care	Yes / No
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		
Extend 'Get Checked' to Include Cardio-Vascular Disease \$3.3 million in out years	Better assessment of cost forecasts	Yes / No
Implementation of Healthy Eating Healthy Action Initiatives \$12.8 million in out years	Better specification of intended outputs to be purchased	Yes / No
Environmental Support Services \$12.9 million in out years	Better specification of outputs to be purchased	Yes / No
Autism Spectrum Disorder \$5.2 million in out years	Better alignment of the package with current priorities	Yes / No
Antenatal Down Syndrome Screening Programme \$15 million in out years	Will allow an opportunity for prioritisation against other technology expansions	Yes / No
Newborn Metabolic Screening Programme \$0.5 million in out years		Yes / No
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		

Annex II: Initiatives where improved performance specification may lead to improved results

<i>Initiative</i>	<i>How increased performance monitoring would improve the proposal</i>	<i>Direct Ministry of Health to work with Treasury to improve performance monitoring specifications?</i>
Rural Support for Primary Maternity Care \$2 million in out years	Provide a means of checking whether initiative is increasing numbers of rural midwives	Yes / No
Environmental Support Services \$12.9 million in out years	Better link initiative to your priorities	Yes / No
Cancer Control Action Plan \$6.5 million in out years	Better linking of different components of plan	Yes / No
Smoking Cessation <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>	Better coordination with existing anti-smoking strategies	Yes / No
Implementation of Healthy Eating Healthy Action Initiatives \$12.8 million in out years	Better specification of performance targets and how these link to the proposed obesity target	Yes / No
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		Yes / No

Annex III: Initiatives where funding within baselines may improve the Ministry's focus on your priorities

<i>Initiative</i>	<i>Work you may wish to fund within existing resources</i>	<i>Direct Ministry of Health to reprioritise existing resources?</i>
Increase Capacity to Review Emergent Screening Technology	\$0.1 million in out years	Yes / No
Smoking cessation (departmental component)	\$0.3 million in out years	Yes / No
Support for Family Caregivers	\$0.1 million in out years	Yes / No
Suicide Prevention and National Depression Initiative – MoH bid	\$0.510 million in out years	Yes / No
Suicide Prevention – Progressives bid		