

Briefing Note: Treasury Advice to the Minister of Health on Budget 2008

Purpose of this Note

The purpose of this note is to provide you with Treasury's perspective on the draft Budget 2008 package you have received from the Ministry of Health.

Our comments focus on the long-term fiscal sustainability of the draft package and its relationship to strategic health priorities, and we raise a number of areas which may assist in improving the value of the package, as you finalise it. We have also developed a very short comment on each Budget initiative.

Comments on the Proposed Budget Package

Overall, the package fits well with the previous priorities for the health sector contained within the Ministry's SOI for 2007-2010. The internal process of bid development and scrutiny used by the Ministry was a significant advance upon that employed in previous years. Treasury is fully supportive of the efforts the Ministry is making in this area and acknowledges that Health's internal budget processes are evolving. However, there is still scope to improve the value and strength of the Health Budget 2008 package.

The proposed package lacks a strong strategic theme of how the initiatives build on existing investments to improve long term outcomes and the long-term sustainability of health expenditure. Parts of the package focus on solutions for immediate issues rather than addressing underlying problems within the context of longer-term health strategy. For example, this budget proposes to spend \$6.9 million on stabilising ambulance services. While this is clearly an area that needs investment, the Budget package proposes to provide funding to ameliorate the short term situation rather than waiting for recommendations from the Ministry led review on the sustainability of ambulance services.

The most significant item in this package is FFT and Demo at \$497.4 million per annum. Therefore, it is important to ensure that initiatives seeking additional funding are outside the scope of these automatic adjusters, and that this additional spending drives continued performance in the existing base of expenditure. Framing spending initiatives around the targets need to be seen as helping DHBs to make more progress on the targets, and you could reinforce your expectations through the accountability levers such as the District Annual Plans (DAPs). The strategic value of the FFT funding needs to be given more emphasis as part of the Budget, and highlight how the additional resources will help DHBs and others meet your priorities as well as managing local demand and price pressures.

There are currently a large number of Ministry of Health capability bids in the Budget package. The Minister of Finance has advised Vote Ministers in a letter on the Budget 2008 process (27 Nov 2007) that Senior Ministers' expect departments to manage all wage and capability-related bids from within baselines, unless there are exceptional circumstances.

You may wish to consider whether or not you want to pre-commit funding from future budgets. Although pre-commitments enable rising cost profiles to be managed, they in effect mean that the allocation for a given Budget is exceeded in out-years, and they constrain your freedom to act in priority areas in future Budgets.

Our Suggestions on How You Could Improve the Value of the Package

Increasing your flexibility in Budget 2008 to deal with any emerging pressures:

Clarifying the scope of FFT and Demographics and new initiatives

- Ask DHBs through existing accountability arrangements, such as letters of expectations, District Annual Plans and service agreements, to fund initiatives for price adjustments or service level increases from FFT and Demo. FFT and Demo revenue is untagged providing DHBs with the opportunity to direct new funding to areas of greatest need or highest value expenditure. *e.g. Implementation of InterRAI*

Review the allocation of FFT and Demographics for Ministry Managed funds and examine opportunities for reprioritisation

- Ask the Ministry of Health for advice on how they propose to allocate the new FFT and Demo for the Ministry of Health managed Non-Departmental Expenditure. Not all services face the same cost and volume pressures and funding need not be evenly distributed. This may give you some opportunities to reprioritise this funding to your priority areas. Over the next year, the Ministry is embarking on a review to identify savings and reprioritisation opportunities from the existing base of non-departmental expenditure in time for Budget 2009.

Focus spending on areas that improve long-term health outcomes and/or improve the output generated from existing funding

- Do not fund initiatives in areas where reviews are underway, instead wait for recommendations to ensure investments are the most cost-effective and sustainable in the long-term. *e.g. CVD/diabetes initiative, Ambulances*

Defer undeveloped initiatives

- Defer initiatives where supporting policy analysis has not been done. Ensuring complete intervention logic and meaningful performance information is provided with the initiatives would improve Ministers' ability to assess their impact on outcomes. *e.g. Youth Access to Health Services, SPNHIA*
- Defer or rephrase initiative with ambitious implementation timelines which run the risk of generating operating underspends during implementation. *e.g. Counter Fraud Strategy for Vote Health*

Use the base

- Absorb small initiatives within baselines or FFT and Demo to free up resources to focus on your priorities. *e.g. SPNHIA, Building capacity and Innovation in the Health Sector*
- Absorb Departmental capability bids. The Ministry of Health has been grown rapidly over the past few years.

Next Steps

Treasury officials can discuss or provide further information on the areas outlined above if desired.

Claire Douglas
Manager, Health
for Secretary to the Treasury

Vote Health Budget 2008 Summary of Initiatives

\$ millions	Outyear Costs	Treasury Comments
Funds available		
Budget 2008 Allocation	750.000	
Additional PHAS revenue from ACC	16.000	
Total Funds Available	766.000	
Effectively committed initiatives		
FFT & Demo - DHB portion (net of savings)	397.000	Letters of expectations, service agreements and DAPs can be used to increase outputs from this portion of the Budget
Risk reserve top-up to \$45 million	4.103	
Reorientation of Child and Adolescent Oral Health Services	18.000	Operating associated with already committed capital. It is not clear how this bid has been scaled.
National Systems Development Programme (NSDP)	33.157	Project already half-way through. Review baseline funding after implementation.
Precommitments	51.100	Some precommitments may not be fully committed yet leaving potential opportunity to revisit in Budget 08
Total Effectively committed initiatives	503.360	
Remaining funds for priorities and other initiatives	262.640	
Signalled Priorities		
FFT & Demo - MoH portion	100.377	Potential to redistribute this funding to Ministerial priority areas where this does not impact on service delivery.
A programme to match DHB savings from joint initiatives dollar for dollar up to 0.5% of base funding	43.065	Incentives are good. Need to develop distribution mechanisms. Essentially a cash injection which could offset DHB pressures <i>[deleted – confidentiality of advice]</i> .
Human Papilloma Virus (HPV) Vaccine	17.420	Two separable components to bid. HPV - weak evidence most cost effective intervention, strongly supported by public - defer. Weak justification for social marketing campaign - defer/absorb in MoH baselines.
Health Select Committee Inquiry into Obesity and Type 2 Diabetes	13.000	Response noted by Cabinet. Absorb DE component within baselines.
Total signalled priorities	173.862	
Remaining funds for remaining initiatives	88.778	
Remaining initiatives grouped by Ministerial Priority		
<i>Chronic Disease</i>		
Smoking Cessation	8.000	Substitution of drug should be funded from baselines.
Housing Retro-fitting for and additional 12,000 high deprivation homes	0.000	No information provided. Strong evidence backing. Cross-government initiative. Risk of creating a precedent.
<i>Child and Youth services</i>		
Youth Access to Health services	13.271	Policy work not complete. Unclear what the outcomes and outputs will be. Defer until policy work done.
<i>Primary Health</i>		
Auckland Regional Migrant Settlement Strategy	0.000	Supported.
Primary Health Care initiatives	30.000	
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<i>Infrastructure and Workforce</i>		
Maori Nursing Workforce Initiatives (9 projects)	1.784	
Pacific Health Provider and Workforce Development	2.600	Workforce development is a key medium-term priority.
Additional funding to support the ambulance service - stabilisation of the sector	6.900	Still awaiting Select Committee recommendations and outcome of Ministry led sustainability review. Defer or treat as a risk.
Clinical Training Agency	10.000	No information provided. Needs to align with workforce taskforce recommendations and ongoing work.
Investing in medicines - Formulary and SQM infrastructure support	2.200	Part of Confidence and Supply agreement with United Future
Sanitary Works Subsidy Scheme (SWSS) for Sewerage	0.000	Strong bid that lends itself to use of one-off funding. Potential links to government response to Rates review.
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		
<i>Health of Older People</i>		
Implementation of InterRAI (including precommitted funding)	6.400	Some funding was provided in B07. Defer and review potential for DHB contributions and options to fund through baseline funding.
<i>Value for Money and System performance</i>		
Building Capacity and Innovation within the Health Sector	7.000	Good idea. Underdeveloped, no clear understanding of outcomes, defer until policy work is complete.
Service Planning and New Health Intervention Assessment Framework	1.580	Policy work not yet complete. Outcomes could alternatively be achieved by creating incentives for DHBs. Defer and explore alternative options for implementation.
Implementation of a Counter Fraud Strategy for Vote Health	0.000	<i>[deleted – confidentiality of advice]</i> . Policy work underdeveloped. Implementation timeframe overly optimistic, defer.
<i>Electives</i>		
Orthopaedic, Cataract and Electives Initiative Budget Adjustment	20.000	Price increase. Expect further price increases in future years. Removes incentives for DHBs to find efficiencies.
Total Remaining initiatives by Ministerial Priority	109.735	
Total Cost of the package	786.957	
Precommitment against Budget 2008 required	-20.957	Constrains future Budgets. Recommend no precommitments.