

The Treasury

Budget 2014 Information Release

Release Document

July 2014

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Reference: T2013/2981

DH-1-2-3-2-4-2013

Date: 22 November 2013

To: Minister of Finance
(Hon Bill English)

Associate Minister of Finance
(Hon Steven Joyce)

Associate Minister of Finance
(Hon Dr Jonathan Coleman)

Deadline: Cabinet on Monday 25 November



Aide Memoire: District Health Board Funding Signal for 2014/15

Background

A funding signal is usually given to DHBs in November or December to allow them to complete a first draft of their Annual Plans by March of the following year.

At Cabinet on Monday 25 November we understand that the Minister of Health will be seeking agreement to announce a \$250 million funding signal to DHBs for the 2014/15 year on Thursday 28 November.

Analysis

The indicative allocation for Vote Health in Budget 2014 is \$350 million. The announcement of a funding signal to DHBs is significant for two main reasons:

- It essentially locks in a significant component of the operating allowance for the upcoming Budget.
- It also locks in a split between funding that will go directly to DHBs through the population-based funding formula (\$250 million), and funding that will go towards services that are centrally managed by the Ministry of Health (e.g. Disability Support Services) and/or new health initiatives (\$100 million).

We were provided with a draft report on this proposal yesterday. This report does not set out a rationale for the split between the \$250 million and \$100 million. The Ministry of Health has not yet completed a first draft of its Four-year Plan, so we are unable to use this as a basis for thinking about an appropriate split.

\$250 million represents a 2.25% increase to DHB appropriations, comprising 1.64% for demographics (\$182 million) and 0.61% as a contribution to cost pressures (\$68 million). If the remaining \$100 million is applied to non-departmental output appropriations managed by the Ministry of Health, this would represent a 3.56% increase on these appropriations.

Advice

In terms of the Annual Planning process, it is helpful for the DHBs to receive a funding signal early, but there is no particular need for the DHB funding signal to go out next week. Our view is that any decisions that lock in funding for the Budget should only be made following further analysis.

We also note that the Budget 2014 allowance is under significant pressure, and that the Minister of Health is likely to want to use a significant proportion of the \$100 million for new health initiatives. (For example, a paper called 'Healthy Families NZ', which proposes the establishment of a new community-based healthy eating initiative, is going to CBC on Monday, and will cost \$44 million over four years, funded from reprioritisation in Vote Health and/or the indicative allocation.)

We recommend that you ask the Minister of Health to delay his announcement to DHBs until the week of 9 December, following the provision of a completed draft Four-year Plan to central agencies on 1 December. We are also undertaking some analysis of underspends in Vote Health which may assist in making a decision about allocating the \$350 million between DHB and Ministry-managed services.

However, if you wish to proceed with the announcement next week then there are two ways that you could think about allocating funding:

1. If you wanted to apply the same percentage increase to DHB appropriations and Ministry-managed appropriations within the \$350 million allocation, then this would mean a 2.52% increase to both sets of appropriations, with the following funding implications:

DHB appropriations	\$280 million
Ministry-managed non-departmental output appropriations	\$70 million

2. A significant proportion of the \$100 million (potentially half or more) is likely to go towards new initiatives in Vote Health. The Budget 2014 operating allowance has nearly been fully allocated and there is limited room for discretionary initiatives in other Votes. To help create room in the operating allowance, you could consider reducing the health allocation to \$300 million, with \$250 million going directly to DHBs (2.25%) and \$50 million for Ministry-managed services (1.78%).

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