Reference: 20170190

THE TREASURY
Kaitohutohu Kaupapa Rawa

25 July 2017

[redacted]

Thank you for your Official Information Act request, received on 29 May 2017. You requested the following:

> *"Please provide copies of all reports, briefings, memos, updates, aide memoires to the Minister of Finance's office where a paragraph or more mentions the Ministry of Health's financial control environment since July 2016."*

On 22 June I extended the time limit for deciding on your request by an additional 20 working days.

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	31 October 2016	Treasury Report: Vote Health Budget 2017 Ministerial Meeting	Release in part
2.	5 December 2017	Aide Memoire: Vote Health Budget 2017 Ministerial Meeting	Release in part
3.	14 March 2017	Treasury Report: Ministerial Engagement on Health Budget Package and Mental Health	Release in part
4.	15 June 2017	Vote Health Risk Pool and Deficit Support	Release in part

1 The Terrace
PO Box 3724
Wellington
New Zealand

tel. 64-4-472 2733
fax. 64-4-473 0982
www.treasury.govt.nz

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including deceased people,
- advice still under consideration, under section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials,
- certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expressions of opinion,
- confidential information, under section 9(2)(j) – to enable the Crown to negotiate without disadvantage or prejudice, and
- work contact details of officials, under section 9(2)(k) – to prevent the disclosure or use of official information for improper gain or improper advantage.

Please note that document 4 "Vote Health Risk Pool and Deficit Support" provided advice on the deficit support pool that the Minister of Finance chose not to support.

The document "Aide Memoire: Allocating $439m to DHBs in Budget 17" is also relevant to your request. We have already provided a redacted version of this document to you under your request 20170222 for information on the Ministry of Health error in funding DHBs in Budget 17.

Information to be Withheld

There is an additional document covered by your request that I have decided to withhold in full under the following section of the Official Information Act, as applicable:

- advice still under consideration, under section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials.

This document, which is still being considered by Ministers, is noted in the table below:

Item	Date	Document Description	Proposed Action
5.	28 June 2017	Ministry of Health Strategic Financial Capability Assessment – May 2017	Withheld 9(2)(f)(iv)

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Ben McBride
Manager, Health

Information for Release
OIA 20170190

BUDGET-SENSITIVE

THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Vote Health Budget 2017 Ministerial Meeting

Date:	31 October 2016	**Report No:**	T2016/2043
		File Number:	DH-1-2-3-2-4-2016

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**Read** this report in advance of your meeting with the Minister of Health.	2 November 2016

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Ashleigh Brown	Graduate Analyst	s9(2)(k)	N/A (mob)	✓
Ben McBride	Manager, Health and ACC		s9(2)(a)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

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Treasury Report: Vote Health Budget 2017 Ministerial Meeting

Executive Summary

You have your first Budget 17 bilateral with the Minister of Health on 2 November

This meeting is to discuss the health portfolio in the context of determining priorities for Budget 17. It is also an opportunity for you to outline your expectations for the Budget process.

The Minister of Health is expected to outline what the health sector is achieving with Vote Health's baseline resources; discuss cost pressures the sector is facing and what the options are for managing these; and provide early visibility on the Budget initiatives that are likely to be submitted and how they align to Health's Four Year Plan and government priorities.

The Ministry needs to improve its understanding of cost pressures and sector performance…

We have not seen a draft of the Four Year Plan (or any Budget bids), but are looking for a significant improvement on the previous year's plan. We signalled earlier in the year that we expect the Ministry to be able to tell a more coherent performance story for the sector. The new Health Strategy has implementation actions on developing a monitoring framework focused on outcomes, and working with the system to develop a performance management approach. We think these actions are the key to developing a better understanding of cost drivers and telling that story, and as the basis of an investment approach in health. But we don't see any urgency by the Ministry nor are aware of any planning or prioritisation for implementing the Strategy.

We also see a need for a more systematic and collaborative approach to mental health. We are aware that a number of agencies are developing mental health budget bids in the absence of a clear sense of direction from the Ministry or understanding of the sector context. Mental health had been one of the areas you were considering as a priority for the Budget.

…but progress on improving financial management is slow

s9(2)(g)(i) We're experiencing a return to papers being submitted directly to the Minister's office for forwarding on to you without consulting us and indications that the finance team are engaged late in the process. This meeting is an opportunity to stress the importance of lifting the finance function within the Ministry.

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Recommended Action

We recommend that you:

a **note** that the Ministry of Health has not shared its draft four-year plan or Budget bids with us yet

b **raise** the following points in your discussion with Minister Coleman:

- What Budget bids do you intend to submit and how do they align with your Four Year Plan and government priorities? How robust is the quality of evidence/supporting information for these and which ones do you intend to submit as social investment initiatives (Track 1)?
- We're not convinced that there's value in giving DHBs an early funding signal. What is the Minister's view on a funding signal for DHBs this year?
- What work has the Ministry of Health done on improving its understanding of pressures in the system, cost drivers and sector performance?
- How is the Ministry planning and prioritising the implementation of the NZ Health Strategy?
- What progress has been made on developing a social investment approach for the health sector? How is this connected with improving system outcomes and working with the wider social sector?
- What are you doing to improve the financial management and governance of Vote Health?, and

c **indicate** whether you'd like us to report to you on our thinking on an investment approach in health.

Agree/Disagree

Ben McBride
Manager, Health and ACC

Hon Bill English
Minister of Finance

BUDGET-SENSITIVE

Treasury Report: Vote Health Budget 2017 Ministerial Meeting

Purpose of Report

1. This report provides contextual information for your first Budget 17 bilateral meeting with the Minister of Health, which is scheduled for 5pm on Wednesday, 2 November. The purpose of the meeting is to:

   - Discuss what is being achieved with baseline resources, what the cost pressures are, and what the options are to manage these,
   - Get early visibility of the Budget initiatives that are likely to come through, and
   - Raise other current issues including the investment approach for Health and the Ministry's financial management.

2. The Ministry of Health's Chief Executive, Chai Chuah, and Chief Financial Officer, Stephen O'Keefe, are also expected to attend the meeting to support their Minister in the discussion.

Budget 17

The Ministry of Health has yet to share its Budget 17 thinking with us

3. At this point we understand that they will be submitting s bids under Track 1 and between s9(2)(f)(iv) bids under Track 2, although this number may be whittled down. We also understand that they are s9(2)(f)(iv)

4. The early funding signal given to DHBs has been subsequently adjusted in each of the last two Budgets, undermining its usefulness as a tool to facilitate planning and manage expectations. Our advice would be to avoid giving an early funding signal for either Vote Health generally or DHBs specifically in Budget 17, and instruct DHBs to plan on the basis of Budget 16.

We haven't seen a draft Four Year Plan but are looking for a significant improvement

5. s9(2)(j)

6. In respect of this year's four-year plan, earlier in the year we placed some clear expectations on the Ministry, in three main areas:

   - Improving its understanding of underlying sector performance, cost drivers and pressures in the system, and presenting a more coherent performance story in Health's four-year plan. This requires more effective engagement with DHBs, in particular,

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- Articulating a clear strategy for how it's managing financial sustainability of the sector, over the medium-to-long-term, and the key strategic choices and trade-offs, and

- Ensuring the four-year plan is an integrated strategy that links to other key strategic areas such as the Digital IT and Workforce strategies and long-term investment plans.

We understand that the Ministry has been progressing work to get a better bottom up view of cost pressures

7. We haven't seen anything yet and are not sure of their approach. Recently we attended a workshop with a number of DHB CFOs and heads of planning that accepted the invitation offered by the new Ministry CFO to bring DHBs into the Four Year Plan process. This is a very encouraging development, welcomed by the DHB participants, but given the timing, we expect the impact on this year's plan to be minimal. We gave the participants the budget context, and the need for health, as a whole, to tell a strong performance story.

Health Strategy

Advancing the Health Strategy is key to improving the Ministry's understanding of the sector that should be articulated in the Four Year Plan

8. The discussion with the DHB participants revealed a lot of frustration with the existing monitoring and reporting regime. This matters because it is integral to the Ministry being able to tell a comprehensive performance story about the sector to demonstrate an understanding of underlying cost drivers. The DHB concerns included:

   - that they provide a lot of data, have no idea how it is used, and receive very little information back from the Ministry from that data. In particular, they are interested in how their performance compares with other DHBs,

   - that much of the data they provide has been provided for years and no longer seemed relevant to the purposes it was originally collected, but is not an insubstantial burden on them,

   - that the annual plan requires a lot of work but is not relevant to how they manage their business, and

   - the misalignment between the annual plan, the four year plan, and the LTIP (those DHBs that had participated in the ICR process were very supportive).

9. The Ministry collects a lot of data from the sector, and has something like 25 databases which it does not consolidate. We've been told that some of the administrators see themselves as owners or custodians of the data. The first chief client officer resigned from the Ministry after 6 weeks in the job.

The implementation of the NZ Health Strategy is a chance to directly address these concerns and lift the Ministry's understanding of the performance of the sector

10. The concerns expressed by the DHB participants can be directly responded to through two core implementation actions from the Health Strategy:

    - Action 14 – Develop and implement a ***monitoring framework focused on health outcomes***, with involvement from the health and disability system, service users and the wider social sector, and

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- Action 15 – Work with the system to develop a ***performance management*** approach that makes use of streamlined reporting at all levels, to make the whole system publicly transparent.

11. In our view, these actions, and others focused on improving data quality and analytical capability (action 25), are among the most critical because they're about getting the basics right, and the Ministry is starting from a low base. We are not aware of any work on these actions, nor are we aware of how the Ministry is managing the implementation of the strategy, including the prioritisation and sequencing of actions. We also think the Ministry needs to think about how the health strategy would change its role and relationship to the sector were the actions to be implemented fully, and successfully.

12. Our experience has been that implementation actions – such as work to improve palliative care – appear in a random way, and that work in some areas has proceeded without connection with implementation actions that should have direct bearing on how that work is developed.

The Investment Approach

The Ministry's work on mental health reveals a narrow approach to social investment

13. The Ministry has a social investment programme in place focused on four areas: s9(2)(f)(iv) s9(2)(f)(iv) While these are constructive, we think the development of the investment approach should not take an overly narrow focus.

14. In the case of mental health, the Ministry is working with the SIU to prepare a mental health test case, this was endorsed by the SSB. Separately we have been working with DPMC to encourage the Ministry to recommend to Ministers that they set up a multi-agency and Ministerial mental health process along the lines of the work on the disability population. This would be an initial response to the pressure other sectors are feeling from people with mental health factors. We prepared a series of A3s on the mental health landscape to help the Ministry. You saw material from these A3s earlier in the budget process when you were considering specific budget priorities earlier in the year.

15. We have suggested that the Ministry provides a scene setting Cabinet paper that recognises the perspective of other sectors, and puts the forthcoming report back on the Prime Minister's Youth Mental Health project in context. This Cabinet paper would establish the process, and should include pretty much all the social sector (MSD, MVC, Justice, Corrections, Police, Education, ACC, as well as Health).

16. To date the Ministry's paper is very much a health perspective that seeks to agree priorities now, while further work continues. We're not sure whether this approach is the Ministry's or is at the direction of the Minister of Health's office. A process similar to the disability one is desirable because it forces the Ministry to take account of other perspectives, and gains buy-in from those agencies and Ministers. While the SIU work is valuable, we don't think it allows for the same engagement by relevant agencies.

17. The work to date, highlights the Ministry's isolated and narrow approach to social investment. It's not evident that they have developed an understanding of what social investment means in the health sector. For example, they haven't made connections to the Health Strategy's outcomes and performance frameworks noted above, nor articulated the differences in roles of the centre, and DHBs. We have shared our thinking on an investment approach in health with the Ministry but have received little interest in following it up with us.

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Efforts to improve the financial management of Vote Health are slipping

18. Earlier in the year we conducted an assessment of the Ministry's current strategic financial capability in a single scorecard. In most areas, capability was either not meeting expectations or only partly meeting expectations. We plan to carry out another assessment by the end of the year and report back to you. This will be informed by the quality of the four year plan and budget bids as well as our observations of the Ministry's engagement and behaviours over the past six months.

19. In recent weeks we've seen the re-emergence of past practices from the Ministry that are undermining the hard won gains to improve the transparency of Vote Health and efforts to improve the financial management governance. These include:

    - The Ministry of Health submitting a paper on the risk pool and pressures in Vote Health directly to the Minister of Health without consulting us but with recommendations that they be forwarded to you. This paper's advice was at odds with the proposed treatment of the risk pool that you and the Minister of Health agreed in June (TR2016/935 refers),

    - A number of papers – Debt to Equity, and one on ambulances – have revealed a lack of communication between parts of the Ministry and the CFO. The CFO has either been unaware or engaged very late in the process. One of the tensions that we highlighted to you when the Ministry restructured its finance function has been borne out. This was the decision not to transfer the DHB capital and operating team from the Service Commissioning Group (the rump of the former NHB) to the reconfigured finance group, and

    - Issues we've highlighted in relation to Canterbury (T2016/2072 refers), also suggest that the Finance team has been involved late in the process.

20. Our strategy as a Treasury has been to support the new CFO to improve financial management within the Ministry. We have an open and constructive working relationship with him. Generally we support the approach he has taken to his job, particularly with his efforts to engage DHBs. However, the issues outlined above, and the lack of engagement with us on the Budget and Four Year Plan thinking, show there is still some distance to go. s9(2)(g)(i)

    In this context, we think it is difficult for the new CFO to effect the changes required.

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Reference: T2016/2358 DH-1-2-3-2-4-2016

Date: 5 December 2016

To: Minister of Finance (Hon Bill English)

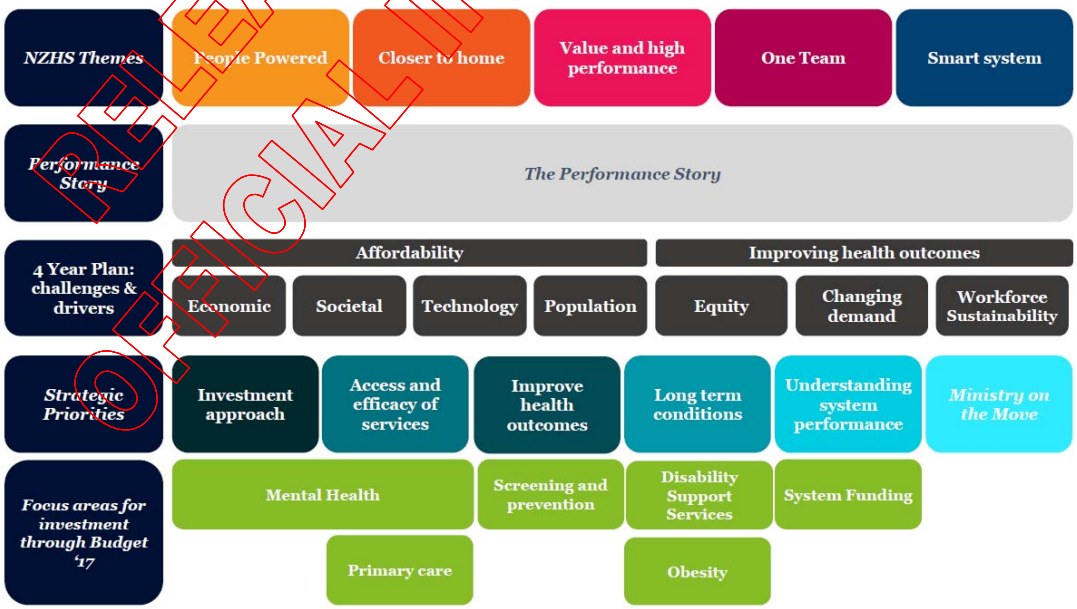
Deadline: 7 December 2016

Aide Memoire: Vote Health Budget 2017 Ministerial Meeting

You are meeting with the Minister of Health on Wednesday, 7 December to continue your discussions on Vote Health in Budget 17. You previously met with Minister Coleman on 2 November (T2016/2043 refers) and agreed to have a follow up meeting focused on:

- The Minister demonstrating robust linkages and **alignment** between the NZ Health Strategy, the Performance Framework, the Four Year Plan and Budget bids
- The Minister confirming whether or not he intends sending a **funding signal** to DHBs this year
- An update on **mental health** including how Health is working with other social sector agencies such as Corrections, Police and Welfare.

Strategic alignment



The Ministry has produced the above diagram which outlines how its Budget 2017 bids align with Health's strategic priorities, the Four Year Plan and the NZ Health Strategy. The performance story is a work in progress. The Ministry has developed a reasonable

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plan for developing a new outcomes and performance framework over the next nine months. It will be led by Sam Kunowski, the recently appointed General Manager of the Funding and Performance team in the Service and Commissioning Group. We're not clear how much engagement it is planning to have with the sector, but we know there is strong interest from DHB CEs and other health sector leaders in the development of these frameworks. We think it's important that the Ministry engages with the sector at an early stage and throughout the process.

In the absence of a more comprehensive framework, the Ministry will be using its current set of system level measures, the health and BPS targets, and population level measures (e.g. health adjusted life expectancy) as its key metrics of system performance. We think this is appropriate as an interim step.

Budget bids

Health submitted s proposals for the **Track 1** scoping exercise being: s9(2)(f)(iv) s9(2)(f)(iv) and long acting contraception. s9(2)(f)(iv) Track 1 bids are due at the end of January.

We are yet to see the detail on **Track 2** initiatives but we expect they will align with the priority areas outlined in the diagram above. There have been indications that the Ministry will also be seeking departmental and DHB capital funding. The deadline for submission of these bids was extended to 14 December as a result of the earthquakes.

Four Year Plan

We expect to receive Health's final Four Year Plan on 5 December. The Ministry recently provided us with a draft. From an initial review, it looks to be a significant improvement on last year albeit it was coming off a low base. We like that it is taking a more customer-centric approach and showing the value that the health system provides for New Zealanders. It is also focusing more on the sector and the Ministry's role in the system, which is positive.

The Ministry had some engagement with the sector as it was developing its plan, and in particular, organised sector workshops with representatives from a number of DHBs. The plan signals that this engagement will increase over the next 12 months, which is encouraging. We have also been pleased to see the Ministry's Senior Leadership Team taking greater ownership of the plan and being more engaged in its development.

As noted above, a key area for improvement is developing the performance framework which should then allow the Ministry to better measure and track progress and sector performance and assist with making more informed strategic choices and trade-offs.

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Funding signal

As discussed at the previous meeting, there seems to be little value in giving DHBs a funding signal. We think Minister Coleman needs to be clear about whether he is planning to send any signal this year and if so what he plans to communicate.

Mental health

In the Track 1 scoping exercise, there were a number of mental health bids that came through from across the social sector with little alignment or understanding of sector context. Sir Peter Gluckman raised at the Social Investment Panel that there needs to be a compelling integrated cross-sector narrative for mental health.

We think that the Ministry needs to work more closely with its counterparts from other government agencies to develop this narrative based on robust analysis and evidence.

Assessment of Ministry of Health financial capability

We reported our initial assessment of the Ministry's current strategic financial capability to you in June this year (T2016/1087 refers). We are in the process of finalising our latest assessment and will report this to you shortly. This update reflects the period from May – November 2016.

The Ministry's finance area has been bedding in its new structure and the new CFO and leadership has come on board. Green shoots of improvement are evident in some areas, but a major cultural shift will be required within the Ministry before the finance area is able to function as a strategic partner to the organisation. The lack of a joined-up finance function across the entire Vote remains a key area of concern.

s9(2)(g)(i)

Fergus Welsh is Acting CFO.

Key points to raise with Hon Coleman

We suggest you raise the following points at your meeting:

- What engagement will you be having with the sector, and in particular with DHBs, in the development of the new performance and outcomes framework?
- What progress has been made on improving your understanding of pressures in the system, cost drivers and sector performance?
- Will you be sending a funding signal to DHBs this year and if so what will it be?
- What is the latest position on mental health and how are you ensuring there is an integrated approach across the social sector?

Bevan Searancke, Senior Analyst, Health, +64 4 890 7264
Ben McBride, Manager, Health, Health, +64 4 917 6184

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Ministerial Engagement on Health Budget Package and Mental Health

Date:	14 March 2017	**Report No:**	T2017/555
		File Number:	DH-1-2-3

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	Read prior to meeting with Hon Coleman on 16 March	Thursday 16 March
Associate Minister of Finance (Hon Simon Bridges)	None. For information.	Not applicable
Associate Minister of Finance (Hon Amy Adams)	Read prior to meeting with Minister Coleman on mental health	Thursday 16 March

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Ashleigh Brown	Graduate Analyst	s9(2)(k)	N/A (mob)	✓
Ben McBride	Manager, Health		s9(2)(a)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

BUDGET-SENSITIVE

Treasury Report: Ministerial Engagement on Health Budget Package and Mental Health

Executive Summary

This paper briefs you for two meetings: a meeting with the Minister of Health on the health budget package, and a meeting on the mental health budget package involving the Ministers of Health, Social Development, Justice, and Education.

- The **draft health package** circulated to Minister Coleman is tight. It does require some trade-offs, but is manageable. The quantum is less than last year, but with the addition of TerraNova, would be substantially larger. s9(2)(g)(i) We have provided options for additional spending beyond the draft package, which are largely aimed at mitigating risks associated with cost pressures facing the sector.
- We think that there should be a case for significant investment in **mental health**, particularly in recognition of the struggle social sector agencies are facing developing a response to achieving outcomes for people with mental health related conditions. However, that case hasn't been made this budget. The mental health package presented by the Ministry of Health is an assemblage of bids separately developed by individual agencies, not under a coherent strategy, and without an understanding of the mental health population, workforce, and interventions across the social sector. We think that the Ministry of Health's refreshed mental health strategy needs to be reconfigured as a cross-sector strategy overseen by Ministers. We have provided options for additional mental health spending.

Recommended Action

We recommend that you:

a. **note** that we have provided speaking points on the individual budget proposals in the attached spreadsheet of operating (and separate spreadsheet for capital) initiatives for your discussion with Minister Coleman

b. **agree** to push for the establishment of a cross agency mental health strategy overseen by relevant social sector ministers, rather than a health-led strategy, and

Agree/disagree
Minister of Finance

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c. **note** that while we don't think there is a strong case for a contingency for mental health given the underdevelopment of the budget bids and the need to increase understanding of the mental health landscape (including population, workforce and interventions), we have provided options for increasing mental health funding, including options for a contingency.

Ben McBride
Manager, Health

Steven Joyce
Minister of Finance

BUDGET-SENSITIVE

Treasury Report: Ministerial Engagement on Health Budget Package and Mental Health

Purpose of Report

1. This report briefs you on:

   - the draft package for Vote Health, including the risks, trade-offs and implications associated with this quantum for your meeting with Minister Coleman, and
   - the mental health package presented by Minister Coleman for his meeting with the Ministers of Education, Social Development, Justice, and Housing.

2. We have provided a table of the Minister's bids for the basis of your discussion with Minister Coleman with an additional column with our comments on each bid.

Health Bids in the Draft Package

3. The current draft package for health is for s million per annum. This is lower than the s9(2)(f)(iv) million per annum provided in Budget 16, although the gross figure including Terranova would be considerably larger. The package includes:

   - s9(2)(f)(iv) million for DHBs, which is the same as last year and s million less than bid for. This is tight but should be manageable.
   - s9(2)(f)(iv) million for other cost pressures (primary care, disability and ambulance services)
   - s9(2)(f)(iv) million for new initiatives including electives, bowel screening, maternity services, disability support and pharmaceuticals.

4. s9(2)(f)(iv)

s9(2)(j)

Track 1

6. Health submitted one Track 1 initiative to provide free long-acting reversible contraceptives (LARCs) to low income women and beneficiaries. This bid stacks up well against social investment principles and was supported in full by the Social Investment Panel. There is strong evidence supporting the impact of unwanted pregnancies on the life course and this initiative seeks to reduce this by removing

s = s9(2)(f)(iv)

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barriers to this contraceptive type. This intervention is supported by both national and international data and is supported alongside MSD work to address access to LARCs. This initiative is $4.375 million per annum on average and not included in the draft package, and is additional to the s million for the social sector package.

7. s9(2)(f)(iv)

As previously advised, we understand Minister Coleman is likely to seek a higher figure, these are the areas we think he might push on

8. This could be in the s9(2)(f)(iv) million per annum but we have heard numbers up to s9(2)(f)(iv) There are a few key areas we think the Minister might push on which we will discuss below.

Table 1 Bids Minister Coleman might push for

Initiative	Full funding requested	Draft package	Tsy comment
DHBs	s9(2)(f)(iv)	s9(2)(f)(iv)	Assumes 1% efficiency gains
Primary care cost pressures	$9.585 million	s9(2)(f)(iv)	s9(2)(f)(iv)
Disability support cost pressures	$44.562 million	s9(2)(f)(iv)	s9(2)(f)(iv)
Electives	s9(2)(f)(iv)	$6 million	s9(2)(f)(iv)
s9(2)(f)(iv)			
Total	s9(2)(f)(iv)	s9(2)(f)(iv)	

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DHBs

9. The total estimated cost pressures facing DHBs are s9(2)(f)(iv) million per annum assuming no efficiency gains. The Ministry have bid for $439 million requiring 0.75% efficiencies s9(2)(f)(iv) We have recommended funding s9(2)(f)(iv) s9(2)(f)(iv) which is tight, but should be manageable. With more headroom we would recommend providing DHBs with additional funding.

Table 2 DHB Cost Pressure Breakdown

Cost pressure type	Amount
Volume	s9(2)(f)(iv)
Wage	
Price	
Total	

Disability Support and Primary Care

10. For both the primary care and disability support cost pressure bids we have scaled them to exclude price pressures. For primary care the draft package includes s9(2)(f)(iv) million of the requested $9.585 million and disability support has s9(2)(f)(iv) million of the $44.5 million requested.

11. The Ministry of Health has been signalling financial pressures in the disability area for a couple of years, but has not clearly articulated the extent of these pressures or how they have arisen (it is probably due to a combination of demand growth and funding restraint, with some past reprioritisation of resources into other parts of the Vote). We are not unsympathetic to the request for new funding, but we do think it is important to get a comprehensive sense of existing and short-term funding pressures at the same time as considering medium-term reform so we have a clear idea of where we're starting from.

Electives

12. The electives initiative has also been scaled from s9(2)(f)(iv) to $6 million per annum. s9(2)(f)(iv) Additional funding was provided last year ($24 million) even though the sector has been exceeding the electives target each year, and the Ministry have asked for in principle expense transfers of $9 million in the electives appropriation in their March Baseline Update after experiencing capacity constraints in this area. The draft package $6 million represents supporting the on average target increase in electives by 4000.

s9(2)(f)(iv) *and Mental Health*

13. It is also anticipated that the Minister will push on mental health and s9(2)(f)(iv) We have previously provided advice on these areas (T2017/143). At this stage, without a clear strategy guiding these areas, any significant investment would make it increasingly difficult to make any meaningful change in the future. We will discuss this below.

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14. s9(2)(f)(iv)

15.

If you wanted to provide additional funding to Vote Health…

16. We have previously provided you advice on funding options should you want to provide an additional s9(2)(f)(iv) to the social sector package (TR2017/463). We advised which health initiatives we would recommend scaling up or including. As outlined in the previous advice, the suggested additional funding would largely mitigate the risks identified earlier. This would include full funding for the disability and primary care pressures along with some good value spend on pharmaceuticals and ambulance services.

17. With a bit more headroom we would also suggest funding the full DHB cost pressure bid (an additional $39 million). This would push the social sector package out to s9(2)(f)(iv) billion or s9(2)(f)(iv) billion after pre-commitments and the unused MVCOT contingency and the Health package would increase to s9(2)(f)(iv) million per annum

18. s9(2)(g)(i) If Vote Health were to receive s9(2)(f)(iv) million per annum it would either increase the social sector package to s9(2)(f)(iv) er annum (or s9(2)(f)(iv) after pre-commitments and the unused MVCOT contingency) or require difficult trade-offs across the social sector.

19. If you wanted to provide Vote Health with increased funding of $650 million per annum we would advise full support for cost pressures in:

    1. (9780) DHBs (although it is our understanding the Ministry may now be seeking s9(2)(f)(iv) per annum which is larger than initially requested).
    2. (9782) Pharmaceuticals s9(2)(f)(iv)
    3. (9786) Ambulance services ($13m)
    4. (9738) Primary care ($9.5m)
    5. s9(2)(f)(iv)
    6. (9781) Disability support services ($44.5m)

20. There are promising new initiatives that could be included in the package:

    - s9(2)(f)(iv)
    -

BUDGET-SENSITIVE

21. These initiatives are discretionary but will invest in improving outcomes for children. This would leave you with[s] million additional headroom which could be used to provide additional funding to DHBs.

The Health Package at Budget 17

22. The Ministry is seeking new funding for reform in a number of key areas, including s9(2)(f)(iv) mental health and disability support. We support reform in these areas. However, for primary care and mental health, the Ministry really needs to do more work on its proposals before seeking funding. Work in the disability area is more advanced, although detailed design work leading to a preferred (costed) option, as well as a clearer story about baseline cost pressures, is needed.

23. s9(2)(f)(iv)

24.

Capital

25. The DHB capital investment pool bid, seeking s9(2)(f)(iv) ver four years, does not require out year funding at this time, leaving a s9(2)(f)(iv) bid in 2017/18 (reduced to s9(2)(f)(iv) due to a revision in the balance of the health capital envelope to $121 million). Discussions with the Ministry and DHBs are on-going, to test the likelihood of investment-ready business cases emerging in 2017/18 (annex two outlines the current status of the business cases). We recommend funding a maximum of s9(2)(f)(iv) subject to broader capital constraints.

Mental Health

There is growing pressure to get a better handle on mental health…

26. Mental health is a common thread across social investment and, understandably, a priority area for social sector agencies struggling with developing a response to achieving outcomes for vulnerable populations. s9(2)(g)(i) s9(2)(g)(i) with funding for specialist mental health and addiction services within DHBs ring fenced since 2001 to protect it from appropriation by DHBs for other health pressures. Expenditure is heavily weighted to the severe/acute end of the spectrum, with little capacity, given the nature of their needs, for reprioritisation further along the spectrum. This means that there has been little ability to increase investment in the early years of life, even though the evidence shows that increased intervention can prevent the development of problems later in life, particularly those that impact on other sectors.

BUDGET-SENSITIVE

BUDGET-SENSITIVE

27. The Ministry has not been able to articulate a clear picture of the mental health landscape, including the mental health population (and how it overlaps across agencies), unmet need, the workforce (including capacity), and the nature and effectiveness of interventions available. Other social sector agencies have been frustrated that the concerns they are experiencing from people with mental health related conditions have been inadequately recognised. As a result a number of them (MSD, Housing, Education, Corrections and Justice) submitted budget bids, in the absence of an understanding of the mental health landscape, including capacity within the workforce to meet their needs.

…but the response has been slow

28. We have advised you previously that the Ministry has been slow to respond to these pressures. The Ministry looked to the Social Investment Unit to undertake work on the mental health population, but for various reasons (including disruption to StatsNZ from the Kaikōura earthquake) this work wasn't able to be completed, and no other cross agency data exercise was attempted. At the November check-in, the Social Investment Panel advised the Ministry to develop an overarching mental health narrative grounded in the literature, which wasn't medico-centric and that all agencies could identify with. This work was not undertaken by the time that the Social Investment Panel considered the Track 1 bids at the end of February, and the panel was disappointed with the lack of progress since the check-in.

29. In the last month the Ministry has started working on a mental health strategy, which it aims to report to Cabinet in early May for approval for public consultation. It also prepared a number of A3s as a way of showing how the budget bids fit into a coherent mental health package, after agencies had developed their bids.

30. But as has been reported (T2017/547 refers), the Social Investment Panel did not consider that the presentation of bids amounted to a coherent package. Furthermore, they and said that substantially more time would be required to develop with the wider social sector, and then consult, on a mental health strategy if Ministers wanted to see the change in the sector that was needed to achieve the Government's social investment objectives. The Panel said that a lot more work was needed on the definition of mental health, unmet need and current access to services, workforce capability, how to shift ingrained attitudes in the medical workforce, and alternative methods of delivery such as s9(2)(g)(i) early in the life cycle. Careful consideration of an implementation strategy should also be undertaken alongside the development of the strategy proper.

The work hasn't been completed to make a major investment in mental health this budget…

31. The Social Investment Panel's views on the mental health package aligns with ours. Based on our experience of the NZ Health Strategy, we don't have confidence that the Ministry will develop an effective mental health strategy in the specified timeframes, if at all. We think that a mental health strategy needs to be cross sector, and overseen by a group of Ministers, not solely the Minister of Health. The work that the Ministry has prepared for the ministerial meeting on Thursday is in the direction signalled by the Social Investment Panel (in particular the Chief Science Advisors who have deep expertise in the area). But it has been developed by the Ministry in a very short space of time and then presented to other social sector agencies, rather than developed jointly with them, and with input of the appropriate health and social sector experts.

32. We don't think there is a strong case for a contingency given the state of where the work is at. We think that agencies, particularly the Ministry of Health, need to be incentivised to focus on a genuine cross sector mental health strategy, rather than working out what to spend money on. Outside the Track 1 bids (which have been heavily scaled), no other agency other than Health has Track 2 bids. The other Track 1

BUDGET-SENSITIVE

BUDGET-SENSITIVE

bids were assessed as being quite underdeveloped, and the supported Track 1 bids were scaled because components of the bids failed to meet the threshold.

33. However, should Ministers want a contingency there are a number of options:

- An **untagged contingency** could have the advantage of requiring agencies to develop genuine cross-agency bids, or existing bids to be worked up. The disadvantage of an untagged contingency is that it could divert agency effort on the work required to develop the strategy, both on joint bids, or the Track 1 bids already developed

- A **tagged contingency** could include any/all of these bids from Track 1 that failed to meet the threshold (or components that didn't), given that effort has already gone into developing these bids. The contingency could be drawn down on and approved by Ministers once they had been assessed by the Social Investment Panel. The advantage of a tagged contingency is that agencies who have developed bids for consideration could be rewarded for their efforts. The disadvantage of a tagged contingency is that it could divert agencies into focusing on their bids at the expense of cross agency activity.

34. The Ministry currently proposes that Cabinet will consider the mental health strategy for public consultation in May. We think you should take the opportunity of the discussion on the mental health budget package to push for the establishment of a genuine cross agency mental health strategy rather than assuming the model that the Minister of Health has proposed.

…but there are a number of mental health bids in this budget that should be funded...

35. s9(2)(f)(iv)

36.

...

37.

38.

Pages 11-13 withheld under s9(2)(f)(iv). Page 14 withheld under s9(2)(j). Pages 15 and 16 withheld under s9(2)(f)(iv), s9(2)(g)(i) and s9(2)(j).

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Vote Health Risk Pool and Deficit Support

Date:	15 June 2017	**Report No:**	T2017/1561
		File Number:	DH-1-2-3-2

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	**Agree/disagree** to recommendations	19 June 2017

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Ashleigh Brown	Graduate Analyst, Health	s9(2)(k)	N/A (mob)	✓
Ben McBride	Manager, Health		s9(2)(a)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Vote Health Risk Pool and Deficit Support

Executive Summary

The Ministry of Health have requested that uncommitted funding ($11.566 million) in the Risk Pool for Emerging Health Sector Risks ("risk pool") be carried forward from 2016/17 to 2017/18. They have also requested an in-principle expense transfer of $36.924 million for the Deficit Support for DHBs appropriation ("deficit support").

Treasury does not support these transfers as neither meet requirements and expectations set out by Cabinet and Joint Ministers regarding expense transfers and underspends. Not approving these transfers would send a consistent message about the treatment of underspends and support work done over recent years to improve the transparency of Vote Health and better align it with the Public Finance Act (PFA) and budget processes.

We are also concerned that some district health boards are operating with very weak balance sheets, refusing to draw down deficit support and relying on overdraft facilities in order to minimise their exposure to the capital charge, in the expectation that the Government will roll forward unused deficit support so that it continues to be available to them once they finally run out of road.

If (as we recommend) you do not agree to the proposed transfers, there is some real risk that either or both of the deficit support and risk pool will be over-subscribed in 2017/18. In practice, this does not create any more fiscal risk for the Crown than if unused funding is carried forward now. If necessary, the Ministry of Health can come to Cabinet during the year to seek additional funding. The consequences for government expenditure in 2017/18 would be the same, although it may make it harder to manage within the between budget contingency or Budget 18 allowances.

If, on the other hand, you do support the proposed transfers, then we suggest that the Minister of Health takes a paper to Cabinet as soon as possible seeking formal approval.

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Recommended Action

We recommend that you:

a **agree** to not roll forward the underspend of $11.566 million in the Risk Pool for Emerging Health Sector Risks tagged contingency from the 2016/17 year to 2017/18

Agree/Disagree
Minister of Finance

b **agree** not to approve the in-principle expense transfer of $36.924 million for the Deficit Support for DHBs appropriation, and

Agree/Disagree
Minister of Finance

c If you disagree with either of the above recommendations, **confirm** that the Minister of Health should seek Cabinet approval for the proposed transfers before year end.

Yes/No.
Minister of Finance

Ben McBride
Manager, Health

Hon Steven Joyce
Minister of Finance

Treasury Report: Vote Health Risk Pool and Deficit Support

Purpose of Report

1. The Ministry of Health are requesting a transfer of uncommitted funding in the risk pool tagged contingency and the underspend in the DHB deficit support appropriation from the 2016/17 year to 2017/18. This report provides context around this and recommends that you do not agree to roll forward these funds.

Transfers requested

2. The table below provides summary information about the risk and deficit support pool since 2015/16 and the requested transfers of unused funding from current financial year to 2017/18. The key points are:

   - The risk pool in 2017/18 is much smaller than in previous years. The Ministry of Health would like to supplement this amount by rolling forward uncommitted 2016/17 funding of $11.566 million
   - The deficit support pool in 2017/18 is around the same level as in previous years, although the appropriation was temporarily boosted in 2016/17 through a carry-forward of unused funding from the previous year. The Ministry is seeking to carry forward unused 2016/17 funding of $36.924 million.

Risk pool and deficit support pool

($m)	2015/16	2016/17	2017/18	2018/19 & outyears
Vote Health Risk Pool for Emerging Health Sector Risks (tagged contingency)				
Amount available	21.438	32.326	8.808	-
Drawdown	-21.438	-20.760		
Remaining balance	-	11.566		
Carried forward	-	?		
Deficit support for DHBs (non-departmental capital appropration)				
Amount available	55.000	74.624*	50.000	39.211
Drawdown	30.376	37.700		
Remaining balance	24.624	36.924		
Carried forward	24.264	?		

* includes amount carried forward from 2015/16

History

3. Over the last few years, we have worked hard to improve transparency in Vote Health, align Ministry practices with the Public Finance Act (PFA), and integrate Vote Health fully into the Budget process.

4. Until 2015/16, the risk pool and deficit support were managed within the Health Services Funding appropriation (HSF). The HSF had two core functions: as a risk pool for emerging sector risks and as the holding appropriation for DHB deficit support.

However, in practice, the Ministry also used the HSF to pool and carry forward underspends from across the Vote and to fund discretionary initiatives. These arrangements lacked transparency, were inconsistent with the PFA, and allowed the Ministry of Health to bypass the budget process (whereby Budget Ministers – and ultimately Cabinet – make trade offs between bids and across Votes).

5. Therefore, the decision was taken to normalise the treatment of underspends in Vote Health and disestablish the HSF. The HSF was replaced by a tagged contingency for the risk pool and a separate capital appropriation for deficit support [T2015/538 refers]. It was made clear that the standard rules would apply for any future underspends. If the Ministry of Health wanted to top up either the risk pool or the deficit support pool, the expectation was that they would bid for additional funding through the Budget (trading this off against other cost pressures and discretionary initiatives).

Treatment of Underspends

6. The rules governing the treatment of underspends are set out in Cabinet Office circular CO 15(4), with funding being returned to the centre unless it meets specific criteria. Transfers across financial years can normally only be made where a factor outside the department's control has delayed a specific and discrete project. Underspends in departmental appropriations may be rolled forward, but only if they arise from efficiency or savings initiatives.

7. Additionally, when Cabinet agreed in Budget 2015 to establish the risk pool, it also noted that any unspent funds would be retained at the centre at the end of the financial year; and that if additional funding was required in 2017/18 and outyears, the Ministry could seek this via the budget process.

8. Similarly, the previous Minister of Finance made clear to the Minister of Health that he expected underspends in the deficit support appropriation to be returned to the centre [T2015/538 refers], and this has been the standard practice since 2013/14. Joint Ministers did agree to carry forward unused deficit support funding forward from 2015/16 (for reasons discussed below), but on the express condition that any balance at year-end 2016/17 would be returned to the centre.

Recommended approach

9. The Ministry of Health did not bid in Budget 16 or Budget 17 for additional funding for either the risk pool or deficit support. As a result, they are now in a situation where the remaining funding may be inadequate to cover risks in both the risk pool and deficit support for the 2017/18 year. Therefore, they are requesting a transfer of the unallocated portion of the risk pool from the 2016/17 year to 2017/18 and an in-principle expense transfer for the remaining portion in the 2016/17 year of the DHB deficit support appropriation. Neither of these transfer requests meet requirements and expectations set out by Cabinet and Joint Ministers, as outlined above. We therefore recommend that you do not approve them.

10. If you did want to roll forward the funding we would suggest that the Minister of Health take a paper to Cabinet before year end seeking formal approval given that the requests do not meet the formal criteria.

11. If, on the other hand, you agree not to roll forward funding (as we recommend), this does create some risk of a shortfall in either the risk pool or the deficit support pool (or both) in 2017/18. In that case, the Minister of Health might need to go through Cabinet to seek additional funding during the course of the year, probably as a call on the

between budget contingency or a pre-commitment against the Budget 18 allowances. Nevertheless, we think this is preferable to agreeing to roll forward funding now on a "just in case" basis, for a number of reasons:

- It is consistent with the requirements laid down by Cabinet regarding expense transfers and underspends.
- It sends a consistent message about the treatment of underspends and therefore supports work done over several years to improve transparency in Vote Health and align practices with the PFA and usual Budget processes.
- It reduces the temptations for the Ministry of Health to find alternative uses for unused money, including using temporary underspends to introduce initiatives with long-term cost implications. (As an example of this, the Ministry's initial plan to deal with the Budget 17 Estimates problem was to use the previous year's deficit support underspend to compensate district health boards.)

12. From a Crown expenditure point of view, it is no worse if unused funds are initially returned to the centre and then eventually reallocated to Vote Health over the course of the year (if needed) than if they are simply rolled forward now. The impact on the fiscal indicators would be the same either way, but agreeing the transfers now would reduce Cabinet oversight, raise questions about the transparency and accountability within Vote Health, and encourages DHB gaming of the capital charge (see below). Not rolling funds over now might make it harder than it otherwise would be to manage within the between budget contingency and the Budget 18 allowances, if you are particularly focused on holding to those numbers.

13. The following paragraphs provide more specific comments on each of the funding pools.

Risk pool

14. We are not opposed in principle to the risk pool being maintained at a reasonable level in out-years, although we would like decisions to be taken through the budget process. We were initially sceptical about the value of maintaining a health sector risk pool because any systemic fiscal risks (for example, relating to a pandemic or natural disaster) would need to be managed from the centre anyway. The Ministry had typically used the funds to manage political risks (by funding discretionary initiatives) or backfilling in areas where Budget decisions had been taken not to provide additional funding. In some cases, funding was committed before approval had been sought from Joint Ministers.

15. However, over the last year, we have seen an improvement in the Ministry's financial practices regarding the risk pool, with more transparent processes and a tighter focus on managing unanticipated sector risks. For the time being, we are comfortable that the rules put in place when the contingency was established are ensuring sufficient oversight and transparency. While it is unusual to have a Vote specific risk pool, given the size and complexity of Vote Health, we think having a small amount of in-year flexibility at the margins is justified.

Deficit support pool

16. We do think the deficit support pool for DHBs needs to be maintained, but we are wary of increasing its size on an ad hoc basis. The appropriation is visible to DHBs, and there is some risk that increasing available funding may encourage weaker financial management by DHBs with large deficits in the expectation of additional Crown funding.

17. We are also concerned that some DHBs have got into the habit of operating with very weak balance sheets, refusing to draw down deficit support and relying on overdraft facilities in order to minimise their exposure to the capital charge. This is inconsistent with operating policy framework and transfers risk to the Crown. This is main reason why the deficit support appropriation has been underspent in each of the last two years at the same time as the Ministry of Health is warning that it may be over subscribed next year.

18. Around this time year, we signalled to district health boards that it was not acceptable for them to run persistent overdrafts while relying on an implicit guarantee of emergency Crown funding to bail them out in the event of impending cash insolvency. Unused deficit support was rolled forward for one year to give the sector time to sort itself out, but it was made clear that it would thereafter operate on a "use it or lose it basis" with underspends being returned to the centre. Despite this, some DHB's are still refusing to draw down deficit support in the current year. The key risk here is Southern, which has approval to draw down $40 million in deficit support this year but has chosen to only draw down $20 million to minimise its capital charge. It is likely to request a further $20 million early in the next financial year.

19. The deficit support appropriation has been underspent at year end in each of the last three years, despite the Ministry consistently warning that it would be oversubscribed. Having said that, we do accept that pressures are increasing. The pool would have almost (but not quite) exhausted this year, if we had not rolled forward unused funding from 2015/16.