

The Treasury

Budget 2018 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[2]	to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government	6(b)(i)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
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[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	not in scope	
[41]	that the making available of the information requested would be contrary to the provisions of a specified enactment	18(c)(i)
[42]	information is already publicly available or will be publicly available soon	18(d)

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.



Reference: T2017/2909 DH-1-2-3-4-3

Date: 14 December 2017

To: Minister of Finance (Hon Grant Robertson)
Associate Minister of Finance (Hon Dr David Clark)

Deadline: None
(if any)

Update on Vote Health Budget 2018 Fiscal Pressures

We understand you will be meeting shortly to discuss the DHB funding signal [T2017/2698 refers]. This aide memoire provides an update on the Vote Health fiscal pressures for Budget 2018 and provides options for managing them. The Minister of Health has signalled he intends to implement the following manifesto commitments:

- Full funding of DHB cost pressures.
- Extend Community Services Card and Very Low Cost Access (VLCA) subsidy.
- Lower the VLCA cap by \$10 and non-VLCA fees by \$10.

The table below uses Ministry of Health estimates to illustrate how the funding of these initiatives in Budget 2018 alongside partially funding (50%) Ministry-managed non-departmental (NDE) cost pressures, and the mental health and support workers' pay equity settlement exceeds the Fiscal Plan.

\$m	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	Four years
Budget 2018						
DHB cost pressures		581	581	581	581	2,324
Extending CSC and VLCA subsidy		105	105	105	105	420
\$10 GP reduction	[38]					
[38]						
NDE cost pressures	[33]					
Budget 2019						
DHB cost pressures		-	[33]			
NDE cost pressures		-				
Budget 2020						
DHB cost pressures		-	-	[33]		
NDE cost pressures		-	-			
Budget 2021						
DHB cost pressures		-	-	-	[33]	
NDE cost pressures		-	-	-		
Cumulative	[33]					
Fiscal Plan	21	846	1,535	2,361	3,157	7,920
Variance	[33]					

Note: The table assumes funding NDE cost pressures at 50% and [38]

As Table 1 demonstrates, there is a variance of [33] above the Fiscal Plan's \$8 billion and provides no headroom to fund additional initiatives (including other manifesto commitments, coalition agreements and any new initiatives) in subsequent years.

Options for managing these pressures and commitments within the Fiscal Plan include:

1. Reprioritisation and savings within Vote Health. Potential savings are generally expected to be reasonably limited (e.g. PHARMAC has generated savings of \$160m over the last 5 years in hospital medicines and medical devices).
2. Phasing of manifesto commitments/new initiatives which would also allow these to be managed alongside any primary care reform.
3. Not fully funding DHB cost pressures, although this would be counter to the manifesto commitment and may not be feasible given the current fiscal position of DHBs.
4. Use unallocated funding outside the \$8 billion set aside for Health. This will require a trade-off against funding cost pressures in other sectors.
5. Increasing budget allowances to fund the gap. This is likely to impact the debt target/the Government's fiscal strategy.

Given the level of uncertainty around the funding, the Treasury maintains the view that no early funding signal should be provided to DHBs. DHB funding should be considered through the Budget 2018 process, while retaining an option for an early announcement in April 2018 once Budget decisions are made.

Ashleigh Brown, Analyst, Health, [39]

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