

The Treasury

Budget 2018 Information Release

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[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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[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)
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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.

Minister proposes to withhold whole document

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Signalling DHB Funding for 2018/19

To: Hon Grant Robertson, Minister of Finance, Hon Dr David Clark, Minister of Health

Purpose

This report provides advice on whether to commit to an early funding signal to DHBs in December for the 2018/19 financial year

Key points

- DHBs do not automatically receive funding increases for population change or price and wage increases. They therefore require an annual increase to their funding in order to maintain access to services for their populations. This is allocated through the annual Budget process.
- DHBs expect to receive an indication of what funding they will receive for the 2018/19 year. You have several options available to you:
 - **Option 1 – providing no funding signal** – this provides the greatest flexibility for the Budget process and the least certainty to DHBs.
 - **Option 2 – providing an early funding signal in December** (the Ministry of Health's preferred option) – this provides DHBs with certainty of funding and aids with wage and provider negotiations, but also pre-commits a material part of the Government's Budget operating allowance and could lead to DHBs seeking additional funding above that signalled.
 - **Option 3 – making an early Budget announcement in April** (the Treasury's preferred option) – this provides earlier advice than no signal, without materially impacting the Budget process, but doesn't significantly advance DHBs' ability to negotiate or plan.
- With your agreement, the Ministry of Health and the Treasury will progress work to consider the future annual planning process for DHBs and related timeframes, including those for the funding signal.

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Signalling DHB Funding for 2018/19

Recommendations

The Ministry of Health and the Treasury recommend that you:

Minister of
Finance

Minister of
Health /
Associate
Minister of
Finance

DHB Funding Signal

(seeking your agreement to one of the following three options)

- | | | |
|---|-----------------|-----------------|
| a) Agree not to provide a funding signal or early advice to DHBs for 2018/19 [Option 1], <i>or</i> | Yes / No | Yes / No |
| b) Agree to provide each DHB with a funding signal in December [Option 2 - the Ministry of Health's preferred option], <i>or</i> | Yes / No | Yes / No |
| c) Agree to provide each DHBs with early advice in April 2017 [Option 3 - the Treasury's preferred option]. | Yes / No | Yes / No |

Note: If you agree Option 2 then agreement to the DHB allocation will be sought through a funding signal Cabinet paper, which the Ministry will draft for the Minister of Health; if you agree option 1 or 3 then the DHB allocation will be sought through the Budget 2018 process.

Next Steps

- | | | |
|--|-----------------|-----------------|
| d) Agree that the Ministry of Health and the Treasury will progress work to consider the annual planning process for DHBs and related timeframes, including those for the funding signal. | Yes / No | Yes / No |
|--|-----------------|-----------------|

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Hon Grant Robertson
Minister of Finance

Hon Dr David Clark
Minister of Health and Associate Minister of Finance

Date:

Date:

Signalling DHB Funding for 2018/19

Purpose

1. This report provides advice on whether to commit to an early funding signal to district health boards (DHBs) in December for the 2018/19 financial year.

DHB funding

2. Most DHB funding is allocated by the Crown through the 20 DHB annual operating appropriations in Vote Health. The appropriations are for a flat nominal amount of funding (see Table 1). There is no automatic increase to DHB funding for population change or price and wage increases.

Table 1: Total DHB operating appropriations (at OBU 2017)

Type (\$ millions)	2017/18	2018/19	2019/20	2020/21	2021/22
DHB appropriations	\$12,703	\$12,702	\$12,699	\$12,691	\$12,692

3. DHB costs increase every year. This is driven by increases in remuneration for health workers, increases in the price paid for contracted services (such as primary care and aged care services), and increasing demand for health services (driven by population growth and aging).
4. DHBs therefore, in order to maintain access to services, require an annual increase to their funding, which is allocated by the Government against the annual operating allowance in the Government's Budget (see Table 2).

Table 2: New DHB funding allocations (Budget 2009 to 2017)

Budget 2009	Budget 2010	Budget 2011	Budget 2012	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Budget 2017
\$440M	\$350M	\$350M	\$320M	\$250M	\$275M	\$300M	\$400M	\$439M

Note: efficiency adjusters of approximately 1% were intended through the funding allocated in each of these Budget exercises.

5. As part of Budget 2018, Ministers will want to make choices about the phasing of the commitment to allocate the additional funding for Vote Health signalled in the fiscal plan. Given the current quantum of pressures and manifesto commitments, trade-offs will be required to manage this expenditure.

Options for advising DHBs about funding for 2018/19

6. DHBs expect to receive a funding signal in December, indicating the amount of funding that will be allocated to them in 2018/19. Three options and processes regarding this are outlined in Table 3 for your consideration:
 - a. providing no funding signal
 - b. providing an early funding signal in December (the Ministry's preferred option)
 - c. making an early Budget announcement in April (the Treasury's preferred option).

Table 3: Options for communicating DHB funding

Option	Advantages	Disadvantages	Process
<p><u>Option 1: No funding signal</u></p> <p>DHBs plan on a notional increase (e.g. the same increase as in the previous year or a minimum increase)</p>	<p>Not providing a funding signal allows Ministers to consider all votes through the Budget process. It allows the opportunity cost of the funding decision and all other initiatives, options, and trade-offs to be properly considered.</p> <p>This ensures consistent adherence to the Budget requirements agreed through the Budget 2018 strategy Cabinet paper.</p> <p>Ministers can consider and make choices on the size and composition of Vote Health funding, considering broader Budget decisions and the Government's fiscal strategy.</p>	<p>The Ministry of Health and DHBs have limited time to negotiate the annual plans and Budgets. This has risks associated with it as the plans are the DHB's key accountability document. It may incentivise short term decisions and resource allocation over strategic thinking and innovation.</p> <p>DHBs negotiate contracts with providers and wages with unions without certainty of funding.</p> <p>This option would not be considered favourably by the DHBs and could impact on the relationship between the Minister/Ministry of Health and the DHBs.</p>	<p>No further action would be required other than communicating this decision to DHBs. The Ministry will provide a report to the Minister of Health with a draft communication to the DHBs on the intended process before 22 December.</p>
<p><u>Option 2: Early funding signal in December</u></p> <p>Provide a funding signal in December advising DHBs of their funding package for the upcoming year (as done in Budget 2016 and earlier years)</p> <p>Ministry of Health recommendation</p>	<p>Provides DHBs with earlier certainty about their finances, enabling them to:</p> <ul style="list-style-type: none"> plan how they use their resources to increase access and consider options to innovate and improve service quality undertake informed wage negotiations with unions (e.g. Resident Medical Officers) and price negotiations with service providers produce more accurate budgets and forecasts earlier in the planning process. <p>Earlier planning and budgeting:</p> <ul style="list-style-type: none"> enables earlier advice to Ministers on DHB intended financial positions and earlier annual plan signoff provides a firmer position, earlier in the financial year, for performance management of both financial and non-financial targets. <p>Supports a good relationship between the Minister/Ministry of Health and the DHBs.</p> <p>Early announceable for additional health funding.</p>	<p>An early signal pre-commits the Government to a specific allocation outside the Budget process, removing Ministers ability to trade-off between other votes in the context of wider Government priorities and the fiscal strategy.</p> <p>Creates an opportunity for DHBs to lobby through the planning process to increase funding.¹</p> <p>Reaffirms the precedent that Budget pre-commitments are allowed, or risks treating Vote Health as unique.</p>	<p>The Ministry of Health would prepare:</p> <ul style="list-style-type: none"> a Cabinet paper (for the week of 4 December), a joint report for the Minister of Finance and Minister of Health to agree the individual DHB allocations (for the week of 11 December), and draft letters to the DHBs (prior to 22 December). <p>A decision would also be needed on the quantum of funding to seek through the Cabinet paper.²</p>

¹ In Budgets 2015 and 2016 the final allocation through the Budget process was greater than that signalled in the previous year.

² Advice on this matter has been provided to the Minister of Health (refer HR20171638, which has been provided to his office concurrently with this report).

<i>Option</i>	<i>Advantages</i>	<i>Disadvantages</i>	<i>Process</i>
<p><u>Option 3: Early Budget announcement in April</u></p> <p>Announce DHB allocation in April once final Cabinet decisions are made</p> <p>Treasury recommendation</p>	<p>Partially mitigates the disadvantages associated with Option 2 (e.g. gives DHBs additional planning time compared to no signal)</p> <p>Allows Ministers to consider and make choices on Budget package, and composition of health allocation</p> <p>Vote Health adherence with the Budget process as agreed in the Budget 2018 strategy Cabinet paper.</p> <p>Reduces lobbying risk.</p>	<p>Reduction in planning time compared with Option 2. This may drive short term thinking and the continuation of status quo behaviours.</p> <p>DHBs negotiate provider contracts and wage negotiations without any certainty of funding (noting that for the 2018/19 year, provider contract negotiations generally need to be completed prior to April).</p> <p>Unlikely to be considered favourably by DHBs and could have relationship impacts.</p>	<p>Treasury can provide further advice on this process. The Ministry would provide a report to the Minister of Health with a draft communication to the DHBs on the intended process before 22 December.</p>

Next steps

7. The process for each of the options is described in the table above. The Ministry has consulted with the Treasury and provided advice to the Minister of Health on the recommended allocation for DHBs and options for the overall Vote Health package for Budget 2018 (refer HR20171638).
8. Regardless of which option is decided, the Ministry and the Treasury recommend that work is undertaken to consider the annual funding process and related planning timeframes for DHBs. This would include considering how the process might be changed to better accommodate both a strong Budget process and positioning DHBs well in their negotiations, planning, and budgeting processes.

END.