

The Treasury

Budget 2018 Information Release

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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.

From: Bevan Searancke [TSY]
Sent: Monday, 4 December 2017 4:55 PM
To: 'Sebastian Doelle'
Cc: Carolyn Palmer [TSY]; Davin Hall [TSY]; Ashleigh Brown [TSY]
Subject: Highlight Fiscal Pressures in Health
Attachments: 3888398_Highlight Fiscal Pressures - sent to Sebastian Doelle 4 Dec 2017.XLSX

Hi Sebastian,

We've done further analysis on fiscal pressures in Vote Health based on the Budget 18 information the Ministry of Health submitted on Friday.

The first tab in the spreadsheet highlights the gap from the fiscal plan in the first two years. The Ministry has reduced out year expenditure to balance the total to the \$8 billion in the fiscal plan. We think this future expenditure path will be challenging to achieve. We've calculated estimates of future DHB cost pressures - see 'Indicative DHB cost pressures' in the second tab which shows that if total estimated DHB cost pressures are funded this alone will use up all of the \$8 billion of funding in the fiscal plan.

Happy to have a chat about this analysis.

Regards, Bevan

Bevan Searancke | Senior Analyst | **The Treasury**
[39]

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Ministry of Health Recommended Budget 18 Package
Indicative DHB cost pressures for the remainder of the forecast period

\$m	2017/18 Es	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	Four years
[33]						
Fiscal Plan	21	\$846	\$1,535	\$2,361	\$3,157	\$7,920
[33]						

Funding Gap Based on Ministry Options as at 1 December 2017

\$m	2017/18	2018/19	2019/20	2020/21	2021/22	Total	2017/18	2018/19	2019/20	2020/21	2021/22	Total	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Proposed increase in health funding (from fiscal plan)	21	846	1,535	2,361	3,157	7,920	21	846	1,535	2,361	3,157	7,920	21	846	1,535	2,361	3,157	7,920
Proposed spend per Ministry workings below	20	1,015	1,728	2,325	2,912	8,000	20	1,215	1,740	2,254	2,771	8,000	20	918	1,633	2,352	3,076	8,000
Variance	1	(169)	(193)	36	245	(80)	1	(369)	(205)	107	386	(80)	1	(72)	(98)	9	81	(80)

Ministry Workings

BUDGET '18 PORTFOLIO OVERVIEW																				Notes regarding scaling and phasing options	
Initiatives	Ref	OPTION 1: ~\$1 billion						OPTION 2: ~\$1.2 billion						OPTION 3: ~\$900 million							
		2017/18	2018/19	2019/20	2020/21	2021/22	4 year Total	2017/18	2018/19	2019/20	2020/21	2021/22	4 year Total	2017/18	2018/19	2019/20	2020/21	2021/22	4 year Total		
100 day plan	[33]																				
Government commitment and coalition commitment	Extending School Based Health Services (including health checks for all year 9 students)	2	[33]																		Full roll out of services to all public secondary schools (an additional 200,000 students) will require an estimated additional 260 nurse FTEs (based on current nurse:student ratios). It would take approx. five years to build up the workforce to this level. Option 2 would allow expansion of services (as additional nurses are recruited) over approx. five years, commencing in 2018/19. Option 1 and Option 3 involve staged increase in funding, which would mean a longer total time required to expand services (more than five years).
Government commitment	Extending mental health services in earthquake affected schools	3	-	10.0	10.0	10.0	10.0	40.0	-	10.0	10.0	10.0	10.0	40.0	-	-	-	-	-	-	Cost estimates are taken from the Labour Party manifesto. Estimates based on one mental health professional FTE for every 500 primary and intermediate age student. Option 3 would involve deferring funding decisions on this initiative to Budget 2019.
Government commitment	[38]																				
Government commitment	Extending Community Services Card and VLCA subsidy	5	[33]																		Cost estimates include subsidy of GP fees, and changes to practice management and government information systems required to implement the initiative. Option 1 costings are based on a start date of 1 July 2019, and on restricting current VLCA practices from shifting to this new scheme. Option 3 would involve deferring funding decisions on this initiative to Budget 2019. All cost estimates are subject to confirmation of total Community Services Card cohort. Both options set the buy out price at a level that should result in 80 percent of practices joining the scheme, which will ensure that Community Services Card holders will have a choice of practice.
Government commitment	Lowering the VLCA fee cap by \$10 and lowering fees for non-VLCA by \$10	6	[38]																		
Government commitment	Additional GP training places	7																			
Coalition commitment	Free doctor's visits for all under 14s	8	-	4.9	4.9	4.9	4.9	19.6	-	4.9	4.9	4.9	4.9	19.6	-	4.9	4.9	4.9	4.9	19.6	Children under 13 currently receive free GP visits. Cost estimates are based on a cohort of 56,000 children aged between 13 and 14 receiving free GP visits, including \$3.3 million pa for daytime visits, \$1 million pa for after hours visits and \$600,000 pa for pharmacy.
Government commitment	Additional Plunket and Tamariki Ora nurses	[33]																			
Cost pressures	DHB cost pressures	10	-	581.0	581.0	581.0	581.0	2,324.0	-	645.0	645.0	645.0	645.0	2,580.0	-	549.0	549.0	549.0	549.0	2,196.0	The allocation is to fund cost increases from price inflation, wage negotiations, general cost pressures facing the economy, and changes in service delivery driven by population growth and changes in the composition of the population across age, ethnicity, and gender. Option 1 is based on fully funding the estimated cost pressure of \$581 million (4.58% of base DHB funding). Option 2 includes a technology adjustment of 0.5%, which would increase the allocation to \$645 million. Option 3 includes an efficiency adjustment of -0.25%, which would reduce the allocation to \$549 million. An additional option for scaling could be including an efficiency adjustment of -0.50%, which would reduce the allocation to \$518 million. Previous Governments have included various combinations of these adjustments: including (i) an efficiency adjustor of -0.5% offset by a technology adjustor of +0.5%; and (ii) efficiency adjustments from around 0.5% to around 1.0% with no adjustment for technology. An adjustment to the allocation of 0.5% equals \$64 million.
Cost pressures	Nationally purchased services cost pressures	11	15.0	135.0	135.0	135.0	135.0	555.0	15.0	135.0	135.0	135.0	135.0	555.0	15.0	135.0	135.0	135.0	135.0	555.0	Current year 2017/18 is split as follows: Maternity services \$6 million, Disability Support Services \$9 million. This cost estimate is net after reprioritisation, and would have been previously covered by risk pool funding which has now been centralised. For forecast period, the annual cost pressure estimates are based on delivery of ongoing service levels in the following areas: - Primary care: \$7 million, Maternity: \$14 million, [33] Emergency Services Air Ambulance: \$15 million, Electives: \$31 million, Disability Support Services: \$65 million.

BUDGET '18 PORTFOLIO OVERVIEW																					
Initiatives	Ref	OPTION 1: ~\$1 billion						OPTION 2: ~\$1.2 billion						OPTION 3: ~\$900 million						Notes regarding scaling and phasing options	
		2017/18	2018/19	2019/20	2020/21	2021/22	4 year Total	2017/18	2018/19	2019/20	2020/21	2021/22	4 year Total	2017/18	2018/19	2019/20	2020/21	2021/22	4 year Total		
[33]																					
New initiative	Substance Addiction (Compulsory Assessment and Treatment) Act 2017	14	[33]																		
[33]																					
New initiative	Bowel screening	16	-	17.4	17.2	15.8	16.7	67.1	-	17.4	17.2	15.8	16.7	67.1	-	17.4	17.2	15.8	16.7	67.1	Cost estimates are based on rolling out bowel screening to an additional 5 DHBs in 2018/19 (currently 5 DHBs are running the initiative).
Total			20	1,015	1,137	1,143	1,139	4,454	20	1,215	1,220	1,215	1,213	4,884	20	918	923	931	944	3,736	

Assumed future Budget allocations if we are to remain within \$8 billion over 4 years (no adjustment for increasing base)

Budget 2019	591	591	591	1,773	Budget 2019	519	519	519	1,558	Budget 2019	711	711	711	2,132
Budget 2020		591	591	1,182	Budget 2020		519	519	1,039	Budget 2020		711	711	1,421
Budget 2021			591	591	Budget 2021			519	519	Budget 2021			711	711
Total \$8B over 4 years				8,000	Total \$8B over 4 years				8,000	Total \$8B over 4 years				8,000