The Treasury

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Vote Health Budget 2018 Bilateral Advice

Date:	Friday 9 March, 2018	**Report No:**	T2018/563
		File Number:	DH-1-2-3-2-4-2017

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Discuss contents of this report with Minister Clark at the bilateral on Tuesday 13 March	7.45am Tuesday 13 March, 2018
Minister of Education (Hon Chris Hipkins)	For you information ahead of the bilateral on Tuesday 13 March	7.45am Tuesday 13 March, 2018

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Ashleigh Brown	Analyst, Health	[39]	N/A (mob)	✓
Carolyn Palmer	Manager, Health	[39]	[23]	

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

Return the signed report to Treasury.

Refer the annex to the Minister of Health

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Vote Health Budget 2018 Bilateral Advice

Executive Summary

You are meeting with the Minister of Health at 7.45am on Tuesday 13 March to discuss the initiatives submitted for Vote Health for Budget 2018, and the associated risks and trade-offs. The meeting will also provide the opportunity to discuss the Minister of Health's key priorities to support Budget Ministers in the decision-making process.

In order to prioritise initiatives, Treasury Vote teams have used a Red Amber Green (RAG) framework that prioritises cost pressure initiatives and manifesto initiatives. You received this RAG framework on 7 March 2018 [T2018/515] and a breakdown is included at the top of Annex 1. The red and amber rated initiatives alone exceed both the operating and capital allowances.

For Budget 2018, Minister Clark has submitted [33] initiatives totalling $4.825 billion operating, and $3.159 billion capital. This covers cost pressures, and a combination of primary care, mental health, and other manifesto initiatives. The size of this package along with anticipated cost pressure bids in the next three Budgets would mean that Vote Health is [33] over the signalled funding envelope of $8 billion. Red rated assessments total $634 million, and amber rated total $83 million.

Operating

Minister Clark has identified the primary care manifesto initiatives as his priority. None of these have been rated red or amber. Treasury's view is that significantly investing in primary health care in Budget 18 may make it more difficult to make substantive changes to these proposals following the primary care review and the inquiry into mental health and addiction. Additionally, committing significant investment now [33] over four years) risks not having sufficient funding left over to put together a balanced reform package following the review.

In order accommodate these priorities, other Health initiatives categorised as red or amber would have to be scaled or deprioritised. To illustrate the potential trade-offs that would need to be made to remain within the allowance, we have provided two phasing options for including funding some primary care initiatives this Budget. Trade-offs under these options include not funding most amber rated initiatives and scaling the District Health Board (DHB) cost pressures, for which there are significant risks. These risks include increased financial pressure on DHBs and service failure risk (e.g. [33] and bowel screening).

Capital

Treasury currently supports $850 million of the [33] submitted for capital. This includes $750 million for the capital investment pool and $100 million for deficit support. Dunedin hospital is currently excluded as out of scope. We would recommend scaling the deficit support initiative if you wish to fund the Dunedin hospital initiative.

Recommended Action

We recommend that you:

a. **note** that you are meeting Minister Clark on Tuesday 13 March to discuss the submitted initiatives in his portfolio, and the key trade-offs that may need to be made for Budget 2018

b. **note** that Minister Clark has submitted initiatives totalling an average of $1.2 billion of operating funding per annum and a total of [33] of capital funding

c. **note** that this report provides you with a detailed analysis of the initiatives that have been submitted by Minister Clark, and options for prioritisation within the portfolio(s)

d. **discuss** the following talking points at the meeting on 13 March:

- Does Minister Clark consider any initiatives in addition to the primary care to be a priority? If so, which ones?
- Does Minister Clark agree with Treasury's identified lowest-priority amber/red initiatives in order to make headroom for primary care manifesto initiatives? If not, which amber/red initiatives would he deprioritise in order to make room for primary care?
- Given the risks associated with deprioritising red and amber rated initiatives, does the Minister wish to phase/defer primary care manifesto initiatives?
- What does Minister Clark consider to be a reasonable level of deficit support for District Health Boards given their current financial position? Would he consider scaling this in order to fund the Dunedin hospital initiative?, and

c **refer** the attached Annex to Minister Clark on Friday 9 March

Carolyn Palmer
Manager – Health and ACC

Hon Grant Robertson
Minister of Finance

Hon Chris Hipkins
Minister of Education

Treasury Report: Vote Health Budget 2018 Bilateral Advice

Purpose of Report

1. You are meeting with the Minister of Health at 7.45am on Tuesday 13 March to discuss the initiatives submitted for Vote Health, and the associated risks and trade-offs. The meeting will also provide the opportunity to discuss the Minister of Health's key priorities to support Budget Ministers in the decision-making process. This report provides you with information on the initiatives in the Health portfolio and potential funding options for further consideration.

2. We recommend no specific decisions are taken at the meeting. This will provide space for you and the other Budget Ministers to consider the relative priority of Minister Clark's initiatives against other Budget pressures.

Budget 2018 Context

Funding sought

3. Overall, $5.5 billion operating per annum and a total of $9.7 billion capital has been sought for Budget 2018. This is broken down in the following tables:

Table One

Operating funding sought

$millions p/a	**Initiatives**	**Pre-commitments + BBC**	**Reprioritisation**	**Total**
Cost pressures	3453.573	117.360	-123.490	**3447.443**
Manifesto Initiatives	2080.906	0.000	0.000	**2080.906**
Total operating	5534.479	117.360	-123.490	**5528.349**

Capital funding sought

$millions p/a	**Initiatives**	**Pre-commitments**	**Reprioritisation**	**Total**
Cost pressures	5810.000	902.139	-2.500	**6709.639**
Manifesto Initiatives	3007.000	0.000	0.000	**3007.000**
Total capital	8817.000	902.139	-2.500	**9716.639**

4. This compares to allowances of $2.6 billion per annum for operating and a total of $3.4 billion for capital. Ministers have expressed a commitment to these allowances in their Budget Responsibility Rules for Budget 2018.

RAG Ratings

5. In order to prioritise the initiatives that have been submitted for Budget 2018, Treasury Vote teams have used a RAG framework that prioritises cost pressure initiatives and manifesto initiatives. You received this RAG framework on 7 March 2018 [T2018/515] and a breakdown is included at the top of Annex 1.

6. For cost pressure initiatives, each initiative has been categorised by the level of risk attached to not funding. The key components of this assessment are impact on service delivery, urgency and timing of impact. Red initiatives have a high risk attached to not funding, amber a medium risk and green a low risk.

7. For manifesto initiatives, each initiative has been categorised by priority. The key considerations of this assessment are scope, implementation and the implications of funding in Budget 2018. Red initiatives have been categorised as having a high priority for Budget 2018, amber a medium priority and green a low priority. RAG assessments of each initiative are based on the Treasury Vote team recommendation, and moderated across workstreams to ensure consistency.

8. At the workstream ministerial meetings, Ministers identified their key priorities for their portfolios for Budget 2018. Not all of these initiatives have been categorised as red (high risk/high priority) or amber (medium risk/medium priority), by the Treasury.

9 The following tables outline the number of initiatives across both capital and operating that have been categorised as red and amber. The tables also show the total amount of funding sought from initiatives that have been identified as a Ministerial priority in a workstream meeting.

Table Two

Operating initiatives

$millions	**Red**	**Amber**	**Red and Amber Total**	**Non-Amber and Red Minister priorities**	**TOTAL of Red and Amber and Minister priorities**
Total cost pressures and manifesto initiatives	2261.862	576.865	**2838.727**		**2838.727**
Reprioritisation			**-123.490**		**-123.490**
Pre-commitments			**67.360**		**67.360**
Between Budget Contingency			**50.000**		**50.000**
Minister priorities				1102.435	**1102.435**
Total	**2261.862**	**576.865**	**2832.597**	**1102.435**	**3935.032**

Capital initiatives

$millions	**Red**	**Amber**	**Red and Amber Total**	**Non-Amber and Red Minister priorities**	**TOTAL of Red and Amber and Minister priorities**
Total cost pressures and manifesto initiatives	4216.291	1885.138	6101.429		**6101.429**
Reprioritisation			**-2.500**		**-2.500**
Pre-commitments			**903.689**		**903.689**
Minister priorities				940.619	**940.619**
Total	**4216.291**	**1885.138**	**7002.618**	**940.619**	**7943.237**

10 The above tables highlight that the red and amber initiatives alone exceed both the operating and capital allowances.

Ministerial Priorities

11 The Ministerial priorities further oversubscribe the operating and capital allowances. As such, trade-offs will need to be made by removing red and amber initiatives in order to allow minister priorities to be added. For the purposes of the bilateral you are attending

with Minister Clark at 7.45am on Tuesday 13 March, Treasury has identified initiatives in the amber and red categories that would need to be deprioritised in order to accommodate Minister Clark's priorities. We have also provided advice on the risks associated with deprioritising these initiatives, as well as advice on Minister Clark's priorities.

12 While this bilateral will be useful to understand Minister Clark's priorities, we recommend emphasising that final decisions will be made by Budget Ministers and there are considerable risks attached to not funded red and amber categorised initiatives. Due to the large number of red and amber rated initiatives submitted for Budget 2018, it is highly likely that not all of Minister Clark's priorities will be able to be funded through Budget 2018, but some could be picked up in Budgets 2019 and 2020.

Vote Health Funding

13 Vote Health has a fixed nominal baseline and receives an annual budget funding increase reflecting demographic growth, population ageing, wage and other pressures, as well as some discretionary funding for new initiatives.

14 Vote Health baseline funding in the 2017/18 financial year is $16.8 billion, comprising departmental and non-departmental operating expenditure, and capital expenditure. Operating expenditure totals $16.1 billion, with $12.6 billion devolved to District Health Boards (DHBs) and $3.5 billion is Ministry of Health managed departmental and non-departmental expenditure. The remaining $700 million is capital expenditure.

15 The baseline increases for Vote Health over the last three Budgets are summarised in the table below.

Table Three: Vote Health Budget Increase 2015-2017

	Budget 15	**Budget 16**	**Budget 17**	**Budget 2018 (red/amber rated)**
DHBs	300	400	439	581
Non-DHBs	100	150	124	194
Total	400	550	563	775

Budget 2018 Health Initiatives

16 For Budget 2018, the Minister of Health has submitted 35 initiatives totalling [33] billion operating, and [33] capital. This covers cost pressures, and a combination of primary care, mental health, and other manifesto initiatives.

Operating

17 We have used our RAG assessments to provide options below for consideration. These options take into account high risk/high priority initiatives, allowance constraints, and Ministerial priorities. Red-rated assessments total $634 million, and amber-rated total $83 million (Table four below).

Table Four

Red, amber, and priority initiatives			
Initiative	Average sought p.a.	Vote team assessment	Total over 4 years
DHB Cost Pressures	581.00	549.00	
Air Ambulance cost pressures	15.00	15.00	
[38]			
Total	[37]		
Disability cost pressures	54.95	54.95	
Maternity cost pressures	23.00	23.00	
Bowel Screening Programme	16.77	16.77	
[33]			
[38]			
[33]			
Integrated Therapies for 18-25 year olds	5.67	2.62	
[33]			
Total	**775.06**	**737.87**	**3,101.27**
Supergold Card	[33]	0.25	
Free under 14s	6.10	-	
Extending low cost GP fees to CSC holders	[33]	-	
Additional GP training places	[38]	-	
Reducing GP fees by $10		-	
Total	[33]		

- Minister Clark has previously identified the primary care manifesto initiatives as his priority. These are currently excluded from the initiatives rated red and amber, and trade-offs will need to be made if you wish to include these initiatives in the Budget package.

18 We understand that the Minister of Health expects to present a primary health care Cabinet paper (the paper) covering these primary care manifesto initiatives at the Cabinet Business Committee on Monday 12 March, though this is still to be confirmed.

19 In our recent advice (TR2018/468 refers) we raised a number of concerns with the paper:

- It is effectively a pre-commitment against the Budget 2018 allowance and pre-empts Budget decisions and restricts options available to Budget Ministers.

- Investing significantly in primary health care settings in Budget 18 may make it more difficult, if the Government wants to make substantive changes to these proposals, following the primary care review (the review) and the inquiry into mental health and addiction.

- Committing significant investment now [38] risks not having sufficient funding left over to put together a balanced reform package following the review, and

- There should be a whole of system approach taken in the paper which includes the broader implications for Accident Compensation Corporation (ACC) and the

Ministry of Social Development.

20 In addition, we understand the sector has raised a number of concerns with implementing the package of initiatives on 1 July 2018 and this now looks to be an unrealistic timeframe. These concerns include the time needed to conclude successful negotiations, implementing the changes, and that it coincides with the busy winter period for GP practices.

21 We recommended in our earlier advice that you should not support the paper and table alternative recommendations. The key change was for Cabinet to direct the Minister of Health to report back to Cabinet by 21 March 2018 on further phasing options for implementing the primary health care initiatives including implications for ACC and the Ministry of Social Development.

Phasing and targeting options for the primary health care initiatives

21. Our first best advice, when doing a major review, would normally be to defer implementation of any initiatives until the outcomes of the review can be considered. However, as raised in our previous advice, we recognise the public debate that has been taking place and the manifesto commitments the Government has made in relation to primary health care.

22. In the context of the primary health care package submitted as part of Budget 2018, our advice is to provide a small amount of funding in Budget 2018 focused on addressing important issues such as reducing health inequities. This would leave the majority of notional primary health care funding available to put together a balanced reform package following the review.

23. Given that Minister Clark has identified primary care as a priority, we have suggested two potential primary care options below with trade-offs against red and amber rated initiatives. For each option we have provided an option to either remove amber with limited DHB scaling, or scaled DHB cost pressures to equal funding required for priority initiatives (refer to table five and six). Risks associated with each option are detailed further below.

24. There are a range of other possible phasing and targeting options that could also be considered.

Option one (Treasury recommended)

Option one includes:

- Free doctor's visits for Under 14s
- Additional GP training places, and
- One free health check (including eye check) for SuperGold card holders (scoping during 2018/19).

25. The cost of these three initiatives would be [33] over four years. Ministers could also agree to fund a small amount for cost pressures ($4 million per annum) which would increase this package to around [33] over four years.

Table Five: Option One (Treasury recommended)

	Initiative	Option 1a	Option 1b
Ministerial Priorities	Free under 14s	6.10	
	Super Gold Card	[33]	
	GP Training places	[33]	
	Primary care cost pressures	4.00	
	Total	40.00	40.00
Medium risk/Medium priority initiatives recommended to be removed if trade-offs are required.	[33]		
	Integrated Therapies	2.62	
	[33]		
	[33]		
	Bowel Screening	16.77	
	[38]		
	Total	27.94	
High risk initiatives recommended to be removed if trade-offs are required	DHB Cost Pressures*	12.05	40.00
	Total	40.00	40.00
*Would scale DHB cost pressures to $568.942m p.a. and $541m p.a. respectively			

Option Two (Minimal primary health care package)

26. Option two would be option 1 ([33] plus funding of $320 million over four years to reduce co-payments for Community Services Card (CSC) holders in non-very low cost access (VLCA) practices. This would equate to a total funding package of around [33] As the CSC is available for those on low incomes, limiting the reduction to CSC holders would focus the initiative on the more vulnerable and high need people to address health inequities. CSC holders in VLCA practices are already paying a lower co-payment of $18.

27. Ministers could also agree to fund an amount for cost pressures ($10 million per annum) which would bring this package to around [33]

28. The risks associated with this option are the same as option one, but with a larger scaling of the DHB cost pressure initiative.

29. In addition, the Ministry of Health has noted that the implementation of this initiative is likely to create sustainability issues for VLCA practices, along with the risk that VLCA practices may want to shift to non-VLCA practices. This fiscal risk is highlighted in the Cabinet paper discussed above.

30. The sector has also raised a concern that there is an inconsistency between the CSC and the definition of high needs within the Primary Health Organisation Services Agreement (it is defined as persons who are Māori, Pacific or persons residing in NZ Deprivation Index decile 9 and 10). The Ministry of Health and the sector may need to undertake further work to resolve and or mitigate these issues.

	Initiative	Option 2a	Option 2b
Ministerial Priorities	Free under 14s	6.10	
	Supergold Card	[33]	
	GP Training places	[33]	
	Primary care cost pressures	10.00	
	Targeted CSC co-payment reduction	80.00	
	Total	125.00	125.00
Medium risk/Medium priority initiatives recommended to be removed if trade-offs are required.	[33]		
	Integrated Therapies	2.62	
	[33]		
	[33]		
	Bowel Screening	16.77	
	[38]		
	Total	27.94	
High risk initiatives recommended to be removed if trade-offs are required	Scale DHB Cost Pressures*	97.05	125.00
	Total	125.00	125.00
*This would scale DHB cost pressures to $483.942 million p.a. and $456 million p.a. respectively			

Table Six: Option Two

Risks

Risks associated with scaling DHB cost pressures

31. While the DHB initiative has been identified as high risk, there is an option for scaling. However, there are a number of risks:

    - This is a manifesto initiative,
    - The DHBs are under significant financial pressure as evidenced by the increasingly worse deficit position, and
    - DHBs have been required to find efficiency dividends over recent years, placing further pressure on their baselines.

Risks associated with not funding amber rated initiatives:

32. Deprioritising amber rated initiatives to incorporate Minister Clark's primary care priority would raise a number of specific risks detailed below:

[33]

[33]

[38]

National bowel screening programme

- Roll out could be delayed, however, there is a public expectation about the roll out timing, and delaying this would deny access to screening for at-risk populations. There is an option to roll out to a smaller number of DHBs at a significantly reduced cost, and to further scale DHB cost pressures correspondingly.

[33]

Integrated therapies

- This is a manifesto initiative, but could be deferred until the Mental Health Inquiry is completed.

33. We have not included maternity or disability support cost pressures as an option for deprioritisation as we consider the risks of not funding these are significant (as detailed below) and would also create increased pressures on future Budget allowances.

Maternity:

- If no additional funding is received it creates a risk around workforce retention, increased rates of in-utero harm and adverse health events, and increased inequity across service access and health outcomes.

[38]

Disability Support Services

- Inability for the Ministry of Health (through DSS) to meet its obligations to fund the pay equity settlement (Terranova).
- Reduced allocation of future essential support needs for disabled people (against the System Transformation principles and vision)
- Inability to fund provider cost pressures arising from a range of sources (DHB Multi Employer Collective Agreement's, support staff relativities in the wake of pay equity, general CPI) and against a background of previous minimal price increases (including no funding increase in 2016/17)
- Inability to invest in early intervention in order to reduce future cost pressures (these can often increase independence and therefore reliance on funded services in the future)
- Would need to consider reducing equipment spend for the elderly population which is likely to result in early entry to costly residential services - putting more funding pressure on DHBs.

Capital

34. The Minister of Health submitted [33] of capital requests, which are included across both the infrastructure and social wellbeing work streams. Treasury moderated assessment for the capital package using the RAG ratings is as below:

Table Seven

Capital initiatives

$millions	Red	Amber	Total	Vote Health
Social Wellbeing	197.25	21.89	**219.14**	**45.6%**
Infrastructure	1574.63	0.00	**1574.63**	**47.6%**
Total	**1771.88**	**21.89**	**1,793.77**	**47.38%**

35. This includes scaling the Health capital request as seen below:

Table Eight

$m	Ministry Submitted	Treasury moderated assessment
Deficit Support	100.00	100.00
Dunedin Hospital	[37]	-
Capital Investment Pool	[33]	750.00
Total	[33]	850.00

a. There are further scaling options available for the capital initiatives:

- The deficit support initiative was submitted late, and Treasury provided an initial assessment of $100 million for 2018/19. Further work is required to confirm what an appropriate number for deficit support is, but we anticipate there will be options to scale.

- For the capital investment pool, the moderated Treasury assessment supports funding $750 million. There are further scaling options for this initiative, but as the funding quantum reduces, risks and trade-offs increase. The Ministry of Health considers $520 million to be the viable minimum, and this would be the lowest quantum we would support.

- The Dunedin hospital initiative is currently considered out of scope, but could be included and scaled to [37] to reflect the amount of money anticipated to be spent in 2018/19. Including this initiative would require trade-offs against another capital initiative (e.g. could scale deficit support to [37] to include Dunedin hospital).

Talking Points

35 We recommend you discuss the following:

- Does Minister Clark consider any initiatives in addition to the primary care to be a priority? If so, which ones?
- Does Minister Clark agree with Treasury's identified lowest-priority amber/red initiatives in order to make headroom for primary care manifesto initiatives? If not, which amber/red initiatives would he deprioritise in order to make room for primary care?
- Given the risks associated with deprioritising red and amber rated initiatives, does the Minister wish to phase/defer primary care manifesto initiatives?
- What does Minister Clark consider to be a reasonable level of deficit support for DHBs given their current financial position? Would he consider scaling this in order to fund the Dunedin hospital initiative?