

# The Treasury

## Budget 2021 Information Release

### August 2021

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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Not in scope
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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## Treasury Report: Budget 2021 – Briefing for Vote Health Bilateral

<b>Date:</b>	11 December 2020	<b>Report No:</b>	T2020/3595
		<b>File Number:</b>	SH-1-8

### Action sought

	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<b>Discuss</b> the contents of this briefing with the Minister of Health at your bilateral meeting on Thursday, 17 November.	17 December 2020
Hon Megan Woods <b>Associate Minister of Finance</b>		

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Henry Neas	Vote Analyst, Health	[39]	N/A (mob) ✓
Niki Lomax	Vote Manager, Health		N/A (mob)
Jess Hewat	Manager, Health	[35]	

### Minister's Office actions (if required)

**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** Annex 1: Indicative list of Vote Health initiatives for Budget 2021

# Treasury Report: Budget 2021 - Briefing for Vote Health Bilateral

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## Executive Summary

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This briefing is provided ahead of your Budget 2021 bilateral with the Minister of Health on Thursday 17 March. We recommend that you focus the discussion on a high-level strategy for managing the health budget package.

Suggested talking points:

- **To expedite health and disability system reform, the focus in Budget 2021 should be on funding core initial costs, including critical system enablers.** This means providing a moderate amount of funding now, [33]
- **A key strategic choice for Budget 2021 is how to manage cost pressure funding for DHBs.** We recommend providing funding at a level that holds DHB deficits in the short term given that system reform is necessary to properly address DHB's financial performance and significant injections now are unlikely to flow directly to substantial debt reduction.
- **A key consideration in deciding when to progress manifesto commitments should be the limited workforce and infrastructure sector capacity** given COVID-19, delivery of planned care catch-up following recent investment, and forthcoming system reform.
- [33]  
We recommend you consider funding health capital at a [33] Although we expect the funding would take time to be spent, allocating funding Budget at 2021 would help spread the costs of health infrastructure across Budgets.

## Recommended Action

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We recommend that you **discuss** the contents of this briefing with the Minister of Health at your bilateral meeting on Thursday, 17 December.

Jess Hewat  
**Manager, Health & ACC**

Hon Grant Robertson  
**Minister of Finance**

Hon Megan Woods  
**Associate Minister of Finance**

## Treasury Report: Budget 2021 - Briefing for Vote Health Bilateral

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### Purpose of Report

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- 1 You are meeting with the Minister of Health on Thursday 17 December for the first Vote Health bilateral for Budget 2021. This briefing is provided in support of that discussion.
- 2 We recommend that you use this time for a discussion about the strategy for managing the Vote Health Budget 2021 package.
- 3 Note that we have included some information on COVID-19 public health expenditure in the Budget 2021 bilateral briefing for Minister Hipkins. Given recent funding injections through to June 2022, we are not expecting further material funding requests for COVID-19 public health costs.

### Vote Health context

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- 4 The New Zealand health system faces a significant financial sustainability challenge in the short term, with significant and growing DHB deficits. As with most other countries, New Zealand faces long-term fiscal sustainability challenges due to a combination of an ageing population, rising demand for healthcare and lower health labour productivity.
- 5 Unavoidable health cost pressures are expected to consume a considerable proportion of available Budget allowances over the forecast period, and these costs are projected to grow at a faster rate than Budget operating allowances. Whilst it is critical to put in place short term actions and system reforms to improve financial performance and deliver a more efficient and equitable system, [34]
- 6 [34]
- 7 Note that a briefing will be provided to you in early 2021 on opportunities for reprioritising unspent COVID-19 Response and Recovery Fund (CRRF) funding. In the Vote Health context there are opportunities to reconsider \$198 million in funding earlier earmarked for the initiative *A Free Consultation, Including Eye Check, for SuperGold Card Holders*.

### Strategic considerations for Budget 2021

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- 8 A key challenge in Budget 2021 is to strike a balance between fiscal constraint, given the tight fiscal environment, and the need to progress much needed reforms in the health sector whilst also addressing equity issues. Moreover, these reforms are happening in the context of DHBs managing significant deficits, exacerbated by

COVID-19, and requiring large cash injections as a result. Given this context, Treasury's key high-level advice for Budget 2021 is to:

- a Position yourself for system reform by providing a moderate amount of funding for core initial costs to expedite reform, including investing in fundamental reform enablers such as the Health Sector Payments Systems and the National Health Information Platform (subject to satisfactory business cases).
  - b Hold DHB deficits stable in the short term given that system reform is necessary to properly address DHB's financial performance and significant injections now are unlikely to flow through to substantial debt reduction.
  - c Consider limited workforce and infrastructure sector capacity given COVID-19, delivery of planned care catch-up following recent investment, and HDSR (in future) in deciding when to progress manifesto commitments.
- 9 Note that there are still strategic choices about the relative balance of priorities in funding outlined in paragraph 8. [33]

## Health and disability system reform

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- 10 The Treasury is strongly supportive of the current direction of travel of health and disability system reform. Whilst funding the costs of health reform in a difficult fiscal environment will require trade-offs with other priorities, we consider that reforms that are well designed and implemented are central to addressing health inequities and financial sustainability challenges.
- 11 **The focus in Budget 2021 should be on setting yourself up for system reform by funding core initial costs.** [33]
- Cabinet is expected to take decisions on detailed reform proposals and an implementation plan in March 2021.

### *Budget 2021 reform costs*

- 12 The Transition Unit is still modelling its costs, but is working on a package that would provide for:
- a Structural changes – One-off and ongoing costs to implement structural changes to support a system operating model that delivers better and more equitable health outcomes, including ongoing funding for the DPMC Transition Unit and early establishment funding for the initial form of the Health New Zealand, Māori Health Authority and Public Health Agency entities.
  - b Hauora Māori and locality network approach– Early actions on Hauora Māori and reforming the organisation of primary and community-based services using a locality approach to test the approach and demonstrate progress.
  - c Workforce – Initial actions to build capability focused on leadership, commissioning, digital and data/analytical capability, and cultural capability.
- 13 It is critical that the Transition Unit and the early establishment entities are set up for success and therefore the Treasury is supportive of providing ongoing funding for structural change implementation. A key lesson from large reform programmes, [34] is the need for early certainty and stability of funding to support design and implementation.

14 Additionally, **to set the system up for successful reform it will be important to provide funding for** <sup>[34]</sup> **critical data and digital system enablers**, including:

a Health sector agreements and payments systems – [34]

It is critical that investment is provided in Budget 2021 to mitigate the risks with the existing systems and ensure they are fit for purpose as the health system undergoes structural reform. A small amount of additional funding may be needed to continue work on the programme for the rest of this financial year. Once a satisfactory Programme Business Case has been agreed, we recommend that Ministers consider establishing a tagged contingency for this programme early next year as a precommitment against Budget 2021.

b National health information platform (nHIP) – It is expected that nHIP will establish the data services and capability to support health system reform. We recommend that, subject to Cabinet's agreement to the programme and Tranche 1 business cases, Ministers consider providing some funding at Budget 2021 for the first tranche of the programme.

[33]

15 [33]

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[33]

18 [33]

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20 [33]

## District Health Board cost pressures

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- 21 Despite the unprecedented \$980m DHB cost pressure injection in Budget 2020, the Ministry is forecasting a 2020/21 DHB sector deficit of \$600 million, which includes a 'risk' component of \$200 million. The Treasury considers the \$600 million estimate to be the lower limit of what the 2020/21 deficit could be, given the current uncertainty surrounding COVID-19 response costs and Holidays Act provisioning.
- 22 **A key strategic choice for Budget 2021 is how much cost pressure funding to provide to DHBs.** This decision can either hold deficits stable, give implicit consent to them growing or seek to reduce them – acknowledging that it is difficult to determine what the right level of funding would be to hold deficits stable and that the Ministry has limited levers for ensuring that funding is used for its intended purpose. [34]
- 23 The Treasury and the Ministry of Health will continue to work together and provide further advice on your strategic options in the New Year. **If a “holding pattern” Budget is desirable, you may want to consider setting expectations with the sector now.** We can provide further advice if this is something you wish to consider.
- 24 Both Treasury and the Ministry of Health consider that the \$980 million funding injection made in Budget 2020 is not replicable in Budget 2021, due to pressures on the Budget operating allowance [34]
- 25 [33]
- 26 [34]

## Other Manifesto Commitments

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- 27 We understand that the Minister of Health, in addition to seeking funding for cost pressures and health and disability system reform, will be seeking funding to progress the following manifesto commitments:
- a Purchasing more modern medicines and drugs by increasing funding for PHARMAC by \$200 million. This initiative will have ongoing out-year costs of \$55 million per annum. [34]
- b [33]

c Doubling the number of cochlear implants to 160 per year. This initiative seeks \$7 million per annum ongoing.

28 The Treasury will provide further advice on these initiatives next year but note there are options for phasing these initiatives. Our general recommendation is that Ministers should carefully consider policy choices, cost and sequencing of manifesto commitments in the context of limited health sector capacity due to the COVID-19 response, increased planned care activity and, in future, health reform.

## Capital

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29 There is a need for significant investment in health infrastructure. [34]

In Budget 2020 \$750 million was allocated to the Health Capital Envelope (HCE). In addition, \$300 million was allocated to the HCE from the New Zealand Upgrade Programme (NZUP), as a result of which approximately 40 health infrastructure projects (many smaller scale) are planned or underway.

30 To date, joint Ministers have confirmed allocation of \$249 million of the Budget 2020 HCE funding (\$154 million for Canterbury DHB Tower 3; and \$95 million to replace linear accelerators for radiation treatment across multiple DHBs). The Ministry, supported by Treasury and the Capital Investment Committee, has used information from DHBs on their ten-year capital intentions to inform recommendations for allocating the remaining Budget 2020 funding and a health capital bid for Budget 2021. You will receive a separate report on this in early 2021.

31 [33]

There is not a “right” amount of funding to provide at this Budget and it will take time to be spent. However, given the scale of the investment required over the long-term, **allocating funding at Budget 2021 would help spread the costs of health infrastructure across Budgets.**

32 Under current settings, setting aside additional capital funding at Budget 2021 would also enable funding to be indicatively allocated to projects and provide more certainty and clarity to DHBs that those projects will progress. Delaying further funding would not help improve capital planning or shorten the pre-build phase for health capital projects.

33 Budget 2021 funding should be provided alongside a clear expectation that capital planning, governance, and business case development and delivery processes are strengthened and streamlined as a priority. This includes working towards developing facility design standards, for example for mental health facilities.

34 While health system reform offers the best opportunity to improve capital settings over the medium to long-term, we support work underway in the Ministry’s Health Infrastructure Unit to improve the current system in these areas.

### *Dunedin hospital*

35 [33]

We are awaiting results from the Quantitative Risk Assessment (QRA) and sufficient progress on the design work as part of standard assurances around costings, contingencies and approaches to cost risk management. Further clarity on total cost should be available in February 2021.

36 [33]

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## Annex 1 – Indicative list of Vote Health initiatives for Budget 2021

Information below is based on the letter sent from the Minister of Health to the Minister of Finance at noon today.

<b>HDSR costs and critical enablers - Invite</b>		
<b>Initiative title</b>	<b>Operating average (\$m)</b>	<b>Capital total (\$m)</b>
HDSR initial costs to expedite reform (e.g. for the establishment entities, including the Māori health authority)	100.000	-
Sector payment systems	5.000	59.900
National Health Information Platform	[33]	
[33]		
<b>Total HDSR costs and critical enablers</b>	[33]	

<b>DHB cost pressures - Invite</b>		
<b>Initiative title</b>	<b>Operating average (\$m)</b>	<b>Capital total (\$m)</b>
DHB cost pressure	More modelling needs to be done but we expect the quantum will be less than the \$980 million provided at Budget 2020.	-
DHBs' Capital Investment	-	[33]
<b>Total DHB cost pressures</b>	<b>Less than 980.000</b>	

<b>Manifesto commitments – Invite</b> (as we do not yet have enough information on these to assess whether they should be deferred)		
<b>Initiative title</b>	<b>Operating average (\$m)</b>	<b>Capital total (\$m)</b>
Funding boost for PHARMAC to purchase more medicines	50.00	-
[33]		
80 additional cochlear implants per year	7.000	-
<b>Total manifesto commitments</b>	[33]	

<b>Other cost pressures and priority areas for health – Invite</b> (as we do not yet have enough information on these to assess whether they meet the definition of critical cost pressures)		
<b>Initiative title</b>	<b>Operating average (\$m)</b>	<b>Capital total (\$m)</b>
DSS price and volume pressure	[33]	-
DSS Transformation – continuation of the pilot	15.000	-

funding		
Sustainable funding for Public Health Units	[33]	-
Strengthening service viability and sustainability across the NGO sector for population health and prevention service delivery		-
Immunisation historical underfunding	4.895	-
National Breast Screening Programme price and volume pressure	1.800	-
National Cervical Screening Programme price and volume pressure	7.056	-
Primary Health Care Strategy price and volume pressure	24.349	-
National Maternity Services price and volume pressure	[33]	-
Road Ambulance Services price and volume pressure		-
Air Ambulance Services price and volume pressure		-
[33]		
Well Child Tamariki Ora services price and volume pressure	4.200	-
Child and Community Health – Family Planning cost pressure	0.941	-
End of Life Choice Act implementation	TBC	-
National Bowel Screening Programme (NBSP) Implementation Year 4	15.123	-
National Cervical Screening Programme – Human Papillomavirus (HPV) primary screening	8.729	12.022
BreastScreen Aotearoa (BSA) – IT investment	[33]	
Health National Asset Management Programme (NAMP)	[33]	-
Planned Care Initiative – National Price Increase	48.620	-
[33]		

[33]		
Implement a Smokefree Aotearoa 2025 Action Plan	[33]	-
Establish an Aged Care Commissioner		-
[33]		
Support the roll out of Ola Manuia: the Pacific Health and Wellbeing Action Plan 2020-2025	[33]	-
<b>Total other cost pressures</b>	[33]	
<b>Overall total</b>		