

# The Treasury

## Budget 2022 Information Release

August 2022

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## Treasury Report: Vote Health Budget 2022 - follow up to Bilateral

<b>Date:</b>	24 February 2022	<b>Report No:</b>	T2022/328
		<b>File Number:</b>	DH-1-2-3

### Action sought

	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<b>Note</b> contents of this briefing <b>Sign</b> attached letter to Board Chairs of interim Health NZ and interim Māori Health Authority	25 February 2022 ahead of your Budget Ministers 3 Meeting  28 February for sending letter to interim Health NZ and interim Māori Health Authority

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Jill Caughey	Principal Advisor, Health [39]	N/A (mob)	✓
Jess Hewat	Manager, Health	[35]	

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

<p><b>Refer</b> report to Minister of Health.</p> <p><b>Send</b> attached letter signed by the Ministers of Finance and Health to interim Health NZ and Māori Health Authority Board Chairs, copying in Chief Executives and Chief Financial Officers.</p> <p><b>Return</b> the signed report to Treasury.</p>
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Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

## Treasury Report: Vote Health Budget 2022 - follow up to Bilateral

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### Recommended Action

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We recommend that you:

#### **Strategic choices on the Vote Health package**

- a **note** Treasury's advice on the limited range of options for reducing the size of the Budget 2022 Health package (paragraphs 3 to 5)
- b **indicate** if you would like further advice on options for:
- (i) reducing the size of the new Health investment package below \$1.9 billion, and  
Yes/No
- (ii) spreading the cost of the new Health investment package across both Budget 2022 and Budget 2023 allowances  
Yes/No

#### **Communicating Budget Planning Parameters with interim entities**

- c **note** at the Health bilateral you and the Minister of Health agreed to communicate a monetary range for the rebase and cost pressures uplift to the interim Health NZ and Māori Health Authority Boards and agreed officials as draft Budget planning parameters
- d **note** Treasury officials have worked with the Ministry of Health and Transition Unit to prepare a Budget Planning Parameters letter based on:
- (i) a [33]
- (ii) an indicative cumulative cost pressure uplift ranging from [33] by 2023/24
- e **sign** the letter at **Annex B** communicating draft Budget Planning Parameters to Board Chairs, Chief Executives, and Chief Financial Officers  
*Agree/disagree.*
- f **note** Treasury's final advice on the rebase and cost pressures will be refined ahead of Budget Ministers 5 through continued work with the Ministry, Transition Unit and interim Health NZ.

#### **New investment package**

- g **note** the Ministry of Health and Transition Unit provided advice to the Minister of Health on two options for a revised \$1.9 billion new investment Health package on 23 February, following discussions at the Vote Health bilateral
- h **note** Table 1 sets out indicative options for substituting new Health initiatives in and out to reflect Ministerial priorities and stay within a \$1.9 billion package

- i **indicate** any preferences for what initiatives you would like substituted in and out of the new Health investment package in Table 1 and discuss these with the Minister of Health

**Next steps**

- j **refer** this briefing to the Minister of Health, including the letter at Annex B for signature

*Refer/not referred.*



Jess Hewat  
**Manager, Health**

Hon Grant Robertson  
**Minister of Finance**

## Treasury Report: Vote Health Budget 2022 - follow up to Bilateral

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### Purpose of Report

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1. This report follows up actions from your Vote Health Budget bilateral discussion on 14 February by:
  - providing a final Budget Planning Parameters letter to interim entities for your signature (paragraphs 7 to **Error! Reference source not found.** and Annex B), and
  - outlining options for changes to the new investment package for Vote Health to reflect Ministerial priorities but still fit within a \$1.9 billion envelope (paragraphs 13 to **Error! Reference source not found.**).
2. It also provides further advice on where choices exist in the Health package to scale or defer investment to manage within signalled Budget allowances (paragraphs 3 to 6). This follows from the Weekly Agency Meeting where we understand that you identified a need to further review the Vote Health Budget 2022 package as part of the Budget Ministers 3 discussion.

### Budget 2022 Strategic Choices for Vote Health

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3. As noted in our previous advice, the overall scale of the Health budget package will present challenges in managing within the current Budget 2022 allowances (refer T2022/215, T2022/6).
4. As discussed in Treasury's bilateral advice, **the key area of choice in Vote Health is the overall size and priorities within the new investment envelope**. You have indicated your comfort with a \$1.9 billion envelope over four years and identified certain investments you would like to see included in the new investment package, including additional funding for PHARMAC. Once these priorities are included, there are two scaling options available to further reduce the overall package:
  - **Reducing the size of the new investment package for Health below \$1.9 billion** by scaling key Ministerial priorities or core building blocks of reform. Options in this area would generate relatively small savings but have significant downsides in terms of capturing early gains from reform and/or advancing key manifestos (refer paragraphs 13 to 17).
  - **Spreading the cost of new health investments across both Budget 2022 and Budget 2023 allowances**. This would mirror the approach being taken to Vote Health cost pressures and Public Finance Modernisation clusters. It has the advantage of clearly communicating health's "Budget 2023 share", reinforcing the two-year transitional approach and the expectation of no new funding for Vote Health being sought through Budget 2023. However, it will put added pressure on the Budget 2023 operating allowance and could pose challenges to your fiscal strategy. In particular, the draft Treasury package already assumes that \$1.7 billion per annum will be charged against the \$4.0 billion per annum allowance. If you would like to explore this option further, the Treasury can provide advice on the recommended phasing to inform discussion at Budget Ministers 4.
5. Whilst the **rebase and cost pressures** comprise the biggest component of the Health budget package, it is also the **area where you have the least discretion given Cabinet's commitment to establishing the new entities on a sustainable basis with no deficits**

(SWC-21-MIN-0157 refers). Although the overall level of the rebase and cost pressure uplift could be scaled to manage broader affordability concerns, it would risk Health NZ's ability to deliver no deficits, and this would need to be reflected in the fiscal forecasts and/or risks for the Budget Economic and Fiscal Update. Inflation forecasts (preliminary BEFU) are now higher than when Treasury assessed the cost pressure bid which further reduces the viability of scaling the bid.

6. As set out in our bilateral advice we will continue to work with the Ministry and Transition Unit to refine our advice on the level of the rebase and cost pressures needed to set the future system up sustainably, including considering the implications of Treasury's most recent inflation forecasts. We expect to be in a position to provide near final advice on the level alongside Treasury's Budget Ministers 5 advice and are not seeking final decisions at this stage.

## Budget Planning Parameters – rebase and cost pressures

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### Final letter communicating Budget Planning Parameters to interim entities

7. The Treasury's best current estimate of the level of the rebase and cost pressures was set out in our bilateral advice (refer T2022/215). At the health budget bilateral you agreed to communicate Budget Planning parameters to interim entities to provide better information ahead of final Budget decisions about the pressures Health NZ will face, and the risks and rationing choices associated with different levels of rebase and cost pressure funding. This would reflect a rebase of [33] and a cumulative cost pressure uplift for Vote Health of between [33] (refer to the table in Annex A for more detail).
8. In the interests of receiving the best information ahead of final Budget decisions **we recommend you communicate the uplift associated with the range discussed in paragraph 7 by Monday 28 February at the latest. We consider that the longer that key people in interim entities can have with this information, the better information we are likely to get to inform our final budget advice.** The Ministry of Health and Transition Unit are supportive of this.
9. If Budget Ministers are concerned about affordability of the overall Budget 2022 package, it would be possible to reduce the upper end of the range communicated in the letter. Whilst a lower range would have the potential for revealing options for a tighter cost pressure settlement, there is risk that it will not be seen as credible by interim entities and will not support a meaningful discussion of the trade-offs of different funding levels. As such – and taking into account the potential for shifting inflation assumptions – we consider the best approach remains as previously agreed.
10. **A final letter to interim entities is attached at Annex A for you and the Minister of Health to sign.** We suggest you send a single letter to all Board Chairs given co-commissioning arrangements and the need for national level budgets and plans to be jointly signed off by both Health NZ and the Māori Health Authority. The draft letter sets out the baseline uplift for each interim entity based on the latest working assumption around function transfers and appropriation splits. It also explicitly sets out expectations that:
  - Health NZ will articulate the trade-offs, implications and risks of funding at the lower end of the range compared to the upper end,
  - the information is Budget sensitive and needs to be held in strict confidence, and
  - these numbers are not final allocations and Budget decisions have not yet been made.

## Managing security of Budget Sensitive information

11. We recommend you send the letter to Board Chairs, copying Chief Executives and Chief Financial Officers in. We expect a very small number of named officials involved in pulling together budgets to have access to the Planning Parameters. When the initial draft Health NZ budget is discussed with the Boards at their 11 March meeting we expect the Budget Planning Parameters would be explained to Boards. No interim entity officials or Board members will have access to the Planning Parameters until signed Budget confidentiality agreements are in place.
12. As highlighted in our earlier advice there are a number of risks with sharing planning parameters that cannot be entirely avoided; these include the information becoming public and the parameters being seen as a starting point for negotiation. The Ministry as the Monitor of the health system will be responsible for putting in place measures to manage the Budget security risk including confidentiality agreements, and Treasury will work with the Ministry on this.

## New initiatives

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13. In the Health bilateral you indicated you were comfortable with the overall quantum of the \$1.9 billion new investment Health package, but asked for:
  - advice on including funding for PHARMAC within the package,
  - more information on how primary care funding is best allocated, especially on the balance of investment in capitation adjustment versus targeted new initiatives, and
  - more information on several other initiatives, including specialist mental health and neonatal retinopathy screening.
14. The Minister of Health received advice yesterday on inclusion of the initiatives noted above (HR20220262 refers). Whilst some scaling of other initiatives was included, the final recommended package is [33] over the forecast period. Two options to get to a \$1.9 billion package were included in the annex of this advice: one option that prioritised funding reform and related initiatives (including primary care and data and digital) and removed non-reform initiatives; and another option that scaled the priority spending areas of reform, primary care, and data and digital, as well as specialist mental health.
15. A Treasury option for including the requested initiatives whilst maintaining a \$1.9 billion package is shown in the table below. This is similar to the first scaling option provided to the Minister of Health, although it scales ambulance funding instead of payment to family carers for support services.<sup>1</sup> We consider this option preferable to further scaling reform initiatives.
16. There are significant trade-offs with this approach, given the size of additional bids, and the number of bids required to be removed to accommodate them. This package removes initiatives that support public health and equity objectives and is likely to create future funding pressures (for example, for ambulances).
17. Particular trade-offs to highlight include:

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<sup>1</sup> Advice to the Minister of Health (HR20220262) includes an option to scale initiative 14022, Allowing payment to family members for support services. While we have not discussed this option with the Ministry of Health, we do not think it is likely to be viable as this initiative addresses a legal risk and services would still require funding.

a [33]

Primary care initiatives targeted at priority groups should contribute to equity over the transition period.

- b *13965 – Extending School Based Health Services* [33] This initiative includes funding to meet the shortfall of the Budget 2019 allocation to rollout services to decile five schools. Removing this initiative from the package will compromise the completion of the decile five rollout.
- c *13985 – Implementing the Smokefree 2025 Action Plan* [33] Treasury supported this initiative in contingency, subject to the passage of related legislation and Cabinet agreement to a regulation and compliance scheme. There is a risk these will occur without funding being available if this initiative is removed from the package.
- d *14026 – National Bowel Screening Programme – Age Extension* [33] On 16 February 2022, the Social Wellbeing Committee approved the reprioritisation of existing funding for an evaluative implementation of an age extension in at least one DHB [SWC-22-MIN-0012 refers]. The next opportunity to extend this to a national rollout based on the outcome of that evaluative implementation will be Budget 2024 if this initiative is removed from the Budget 2022 package.
- e *13972 – Funding to stabilise* [33] *Well Child Tamariki Ora (WCTO)* [33] We expect some funding will be required to support the sustainability of WCTO services before Budget 2024.
- f *13999 and 14001 – Emergency Road and Air Ambulance Services* [33] Ambulance services are likely to face sustainability challenges due to demand and cost pressures which cannot be met through the general Vote Health cost pressure uplift.

**Table 1: Initiatives to substitute in and out of the Health package**

Initiatives to add – full or scaled			MoF	Initiatives to reduce – remove or scale			MoF
<u>Equity adjustments</u>			✓/✗	<u>Primary care package</u>			✓/✗
13865	Equity adjustments to capitation – [33]	86.000		13860	Hauora Māori Commissioning – [33]	[33]	
				13875	Māori provider development – [33]		
				13876	Pacific provider development – [33]		
<u>Other new initiatives</u>				<u>High package</u>			
13964	Neonatal Retinopathy Screening – scaled from \$7.0m based on the Ministry of Health’s indication that there may be a ~\$1.8m scaling option	5.200		13885	Improving access to primary health care services for transgender people – remove	(2.182)	
13970	Transforming and extending the reach of specialist mental health and addiction services – [33]	50.000		13886	Introducing a rights-based approach to health care for intersex children and young people – remove	(2.516)	
14007	Increase in the Combined Pharmaceutical Budget – full	191.000		13965	Extending School Based Health Services – remove	(12.548)	

[33]		13985	Implementing the Smokefree 2025 Action Plan – <i>remove</i>	(33.000)	
		14026	National Bowel Screening Programme – Age extension – <i>remove</i>	(36.141)	
		[33]			
		14240	Meeting the demand for organ donation and transplantation – <i>remove</i>	[33]	
			<u>Medium package</u>		
		13963	[33] Well Child Tamariki Ora (WCTO) Enhanced Support Pilots – <i>remove</i>		
		13972	Funding to stabilise [33] Well Child Tamariki Ora (WCTO) – <i>remove</i>		
	13999	Emergency Road Ambulance Services – cost pressures – <i>scaled from \$166m to \$116m*</i>	(50.060)		
	14001	Emergency Air Ambulance Services – cost pressures – <i>scaled from \$90.7m to \$63m*</i>	(27.712)		
<b>Total</b>	<b>368.380</b>	<b>Total</b>	<b>(368.058)</b>		

\* Where possible we have reflected scaling options proposed by the Ministry of Health and the Transitions Unit. Initiatives 13970 on the additions side, and 13860, 13875, 13999 and 14001 on the subtractions side have been scaled arbitrarily to maintain the ~\$1.9b package size. These scaling options have not been tested with the Ministry of Health.

## Next steps

18. The Treasury will continue to provide iterative advice on the Vote Health Budget 2022 package over the coming weeks to feed into Budget Ministers’ discussions. Key next steps include:
- Near final advice on the rebase and cost pressures in time for your Budget Ministers 5 Meeting in March. A key input into this will be the Budget Planning Parameters we recommend you communicate via the letter attached to this report.
  - Advice on the Health Capital Envelope and capital settings for the reformed system ahead of a Joint Ministers’ discussion on 7 March.
  - An expectation-setting discussion you and the Minister of Health have with Board Chairs and Chief Executives on financial management and capital on 16 March.

## Annex A: More detail on rebase and cost pressure funding

The table below was included in our earlier bilateral briefing (refer T2022/215). It sets out the funding sought by the Minister of Health, the range Treasury recommends you use as a basis for communicating Budget planning parameters to interim entities, and what is currently reflected in the Budget Ministers 3 package.

### Rebase and cost pressure funding – HYEUFU forecasts

	Planning parameters				MoH sought (updated for HYEUFU)
	Low end		Current Treasury Vote team recommendation		
	2022/23	2023/24 (Budget 23)	2022/23	2023/24 (Budget 23)	[33]
<b>Rebase</b>	[33]				
<b>+ 2022/23 cost pressures</b>	<b>1,007</b> (5.34%)	1,007	<b>1,207</b> (6.4%)	1,207	
<b>+2023/24 cost pressures</b>		<b>+1,103</b> (5.45%)		<b>+1,308</b> (6.4%)	
<b>Cumulative uplift</b>	[33]				

[33]

Annex B: Letter communicating Budget Planning Parameters (attached)