

The Treasury

Budget 2022 Information Release

August 2022

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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- [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] Out of Scope
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Treasury Report: Follow up advice on Budget 2022 Vote Health new investment package

Date:	1 March 2022	Report No:	T2022/410
		File Number:	DH-1-2-3-2

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Indicate whether you wish to spread the cost of the new health investment package across both Budget 2022 and Budget 2023 allowances</p> <p>Indicate any preferences for your preferred new Health investment package</p>	Wednesday 2 March so it can be reflected in package for Budget Ministers' 4

Contact for telephone discussion (if required)

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

Minister's Office actions (if required)

<p>Return the signed report to Treasury.</p> <p>Refer this report to the Minister of Health.</p>
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Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Follow up advice on Budget 2022 Vote Health new investment package

Recommended Action

We recommend that you:

- a **indicate** whether you would like to spread the cost of the new health investment package across both Budget 2022 and Budget 2023 allowances

Yes/No.
- b **note** that this would reduce the pressure on your Budget 2022 allowance by ~\$0.25 billion per annum but increase pressures on the Budget 2023 allowance
- c **note** our advice in Annex 1 on updated options for \$1.9 billion and \$2.0 billion packages for new health initiatives to reflect your feedback following recent advice from officials
- d **indicate** any preferences for your preferred new Health investment package (refer Table 1) and discuss this with the Minister of Health
- e **refer** to the Minister of Health

Refer/not referred.
- f **note** Treasury's near final advice on the rebase and cost pressures will be provided ahead of the Budget Ministers' 5 meeting and we are not seeking decisions through Budget Ministers' 4 on the rebase and cost pressures



Jess Hewat
Manager, Health

Hon Grant Robertson
Minister of Finance

Treasury Report: Follow up advice on Budget 2022 health new investment package

Purpose of Report

1. This report provides further advice following your feedback on our advice last week on the Vote Health Budget 2022 package (refer T2022/328). It covers:
 - spreading the cost of new health investments across Budget 2022 and Budget 2023 allowances, and
 - revised \$1.9 billion and \$2.0 billion new health investment packages for you to test with Minister Little.

Spreading the cost of new health investments across Budget 2022 and Budget 2023 allowances

2. Our previous advice set out key considerations in whether to spread the cost of new health investments across two Budget allowances (refer T2022/328).
3. Budget 2022 is intended to cover two Budgets' worth of health costs. Spreading the cost of new health investments across Budget 2022 and Budget 2023 allowances would be consistent with the approach being taken to Vote Health cost pressures and Public Finance Modernisation clusters.
4. It reduces the pressure on your Budget 2022 allowance by ~\$0.25 billion per annum¹ by shifting costs to Budget 2023. This has the advantage of clearly communicating health's "Budget 2023 share", reinforcing the two-year health budget and the expectation of no new funding for Vote Health being sought through Budget 2023. Moving away from this in future risks undermining the future credibility of the multi-year approach for health.
5. Charging some of the costs of new health investments against Budget 2023 will put added pressure on the Budget 2023 operating allowance and could pose challenges to your fiscal strategy. The draft Budget package already assumes that \$1.7 billion per annum will be charged against the \$4.0 billion per annum allowance in Budget 2023. Adding in half of the new health investment package will increase Budget 2023 pre-commitments to approximately \$1.95 billion per annum which is almost half the allowance. Treasury's upcoming fiscal strategy advice on Thursday 3 March will include further advice on pressures against future allowances (refer T2022/244).

Updated advice on new health investment package

6. You have sought further advice on \$1.9 billion and \$2 billion health packages ahead of Budget Ministers' 4, using Minister Little's ^[33] package as a starting point. Further advice on these packages is in **Annex 1**.

¹ 4-year total is approximately \$0.95-\$1 billion of costs. Exact quantum will depend on the final mix and profile of new investments.

7. Given time constraints we have had a limited opportunity to test our thinking with the Ministry of Health and Transition Unit, but it has been informed by their recent advice and our recent discussions with them.

Increase to Combined Pharmaceuticals Budget

8. We understand you raised a question about funding an increase in the Combined Pharmaceuticals Budget (CPB) for two years only. Whilst this would reduce the pressure on your Budget 2022 allowance, we recommend you fund the costs on an ongoing basis to avoid a “baseline drop-off” that will likely need to be managed against the Budget 2024 allowance. [34]

Next Steps

9. Treasury will reflect your decisions from this paper in the final Budget Ministers’ 4 slides that will be sent to you on Friday 4 March.
10. Treasury is not seeking decisions on the final level of the rebase and cost pressures through Budget Ministers 4. We will provide our near final advice on the rebase and cost pressures in time for your Budget Ministers’ 5 Meeting in March. This will include bottom-up information from the initial draft Health NZ budget and considering the implications of the higher inflationary pressures coming through BEFU forecasts (refer T2022/328). Prior to your Budget Ministers’ 6 Meeting we will provide updated advice to reflect final economic forecasts along with any additional information coming out of Health NZ’s ongoing internal budgeting process.

Annex 1: Revised new investment packages

1. You requested further advice on \$1.9 billion and \$2 billion health packages ahead of Budget Ministers' 4, using Minister Little's [33] package as a starting point. You requested a package that:
 - [33]
 - removes [33] *Well Child Tamariki Ora (WCTO) Enhanced Support Pilots* (initiative 13963);
 - considers scaling *Funding to stabilise WCTO* (13972);
 - focuses phasing and scaling in the following areas: reform initiatives, investment in primary care; data and digital; and specialist mental health and addiction services.
2. Option A sets out a [33] option that reflects these parameters, building on the \$1.9 billion package recommended by Treasury in previous advice [T2022/215 refers]. The package:
 - reinstates the portion of initiative 14022 (Allowing payment to family members for support services) not funded by Vote Health that had been excluded from the [33] package, reflecting our understanding that this is a legal obligation that would require funding
 - removes initiative 13884 (Addressing the burden of diabetes for Pacific communities), which we consider to be a reform initiative of [34] than other initiatives
 - would have implications for the delivery of health system reforms, for example by reducing investment in foundational data and digital initiatives and primary care changes that are central to the reforms.
3. As noted in the body of this report, we have not yet tested this package with the Ministry of Health and Transition Unit or obtained their view of its implications for delivery of initiatives, for example where initiatives have been scaled.
4. Given the parameters in paragraph 1, we consider that a \$1.9 billion package could not be achieved through additional scaling of reform initiatives, without impacting the critical transformation elements necessary within the first few years of the new entities operating. Therefore, this package contains some scaling or deferral of priority initiatives, and reflects the indicative \$1.9 billion package as set out in our previous advice.

Option A: \$2.0 billion package

Initiatives to add – full or scaled			MoF	Initiatives to reduce – remove or scale			MoF
Minister Little (Ministry of Health and Transition Unit) [33]				package [HR20220262 refers]			
13865	Equity adjustments to capitation – [33]	86.000		13860	Hauora Māori Commissioning – [33]	[33]	
				13875	Māori provider development – [33]		
				13876	Pacific provider development – [33]		
13964	Neonatal Retinopathy Screening	6.996		14022	[33]	(38.200)	
13970	Transforming and extending the reach of specialist mental health and addiction services	100.000					
14007	Increase in the Combined Pharmaceutical Budget	191.000					
[33]							
Total additions – Ministry & TU package			[33]	Total reductions – Ministry & TU package			[33]
Treasury adjustments to package							
14022	Allowing payment to family members for support services – <i>restore the portion that sits outside Vote Health</i>	38.200		[33]			
				13963	[33] Well Child Tamariki Ora Enhanced Support Pilots – <i>scale to \$6.15m to enable existing pilots to continue</i>	[33]	
				13972	Funding to stabilise and redesign Well Child Tamariki Ora – <i>scale to \$28.2m</i>		
				13970	Transforming and extending the reach of specialist mental health and addiction services – [33]	[33]	
				13884	Addressing the burden of diabetes for Pacific communities – <i>remove</i>	(38.000)	
				13863	Health workforce development – <i>scale to \$107m</i>	[33]	
				14262	Critical data and digital foundations – <i>scale to \$220m</i>		
				13878	Comprehensive primary care teams – <i>scaled to \$102m</i>		
				[33]			
				14240	Meeting the demand for organ donation and transplantation – <i>start in 2023/24, reducing spend over the forecast period</i>	[33]	
		38.200		Total reductions over forecast period – Treasury			(251.425)
TOTAL PACKAGE – TREASURY							[33]

Option B: \$1.9 billion package [T2022/328 refers]

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

* 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.