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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
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Briefing

COMMUNICATING PLANNING PARAMETERS TO THE HEALTH SYSTEM

To: Hon Grant Robertson, Minister of Finance; Hon Andrew Little, Minister of Health;
Hon Peeni Henare, Associate Minister of Health

Date	20/01/2022	Priority	Routine
Deadline	25/01/2022	Briefing Number	DPMC-2021/22-1218 T2022/47

Purpose

This paper responds to your request for advice on the rationale and possible approaches to communicating priorities, expectations and financial parameters to the health system, to inform critical planning assumptions and support Health NZ and the Māori Health Authority to deliver balanced budgets for 1 July 2022.

It is intended to support discussion at the Joint Ministers' Health Check Up on Tuesday 25 January.

Recommendations

1. **note** that in March 2021, Cabinet agreed to establish a funding framework for health that provides greater budget certainty for the health system and the Crown [CAB-21-MIN-0092 refers];
2. **note** that in October 2021, the Cabinet Social Wellbeing Committee agreed that at establishment, Health New Zealand should be provided with funding sufficient to establish a starting balance sheet with no deficits and to meet its expected costs, and should not be forecasting a deficit position on Day One, and that this would require a significant uplift in ongoing operating funding to rebase the health system in Budget 2022 [SWC-21-MIN-0157 refers];
3. **note** that one of the critical areas of preparation for the health reforms is the development of detailed service plans and accompanying budgets for implementation from 1 July 2022;
4. **note** that to produce balanced budgets for their first full year of operation in 2022/23, a deliverable interim New Zealand Health Plan, and draft Statements of Performance Expectations, the interim agencies will require advance information on Government's expectations and funding provision to inform their planning parameters and assumptions;

5. **note** the intention to provide a draft of the interim Government Policy Statement to the boards of the interim agencies in early February 2022, subject to agreement by the Minister of Health, to provide clarity on Ministers' expectations and priorities for the health system for 2022/23 and 2023/24;
6. **agree in principle** to communicate initial financial parameters to interim Health NZ and the interim Māori Health Authority in February 2022, following the health Budget bilateral meeting, to support the preparation and delivery of balanced budgets for 2022/23 and the production of the interim NZ Health Plan;

Hon Grant Robertson

Hon Andrew Little

Agree / Disagree

Agree / Disagree

7. **agree in principle** that this initial communication should be directed to the chief executives and chief financial officers of those entities, and should:
- i. cover the two fiscal years from 1 July 2022 to align with the intended planning and budget period;
 - ii. include an indication of the anticipated range of total baseline funding for the entities, including rebase, cost pressures and transfers from the Ministry of Health, subject to final Budget 2022 decisions;
 - iii. reiterate the importance of the rebase funding to address existing deficits, and not as an authority to increase expenditure; and
 - iv. set clear expectations around Budget sensitivity and security practices

Hon Grant Robertson

Hon Andrew Little

Agree / Disagree

Agree / Disagree

8. **agree** to determine the parameters and content of this initial communication at the Health Budget 2022 bilateral meeting in February;

Hon Grant Robertson

Hon Andrew Little

Agree / Disagree

Agree / Disagree

9. **note** the expectation that the boards of the interim agencies will receive information of the initial funding parameters when draft budgets for 2022/23 are presented to them in March 2022;

10. should you agree to recommendations 6-8 above, **indicate** your interest in meeting with Boards in the first weeks of March to set clear expectations for financial planning and management throughout the initial two-year period, that parameters are subject to the ongoing Budget decision-making process, and for strict Budget security requirements;

Hon Grant Robertson

Hon Andrew Little

Yes / No

Yes / No

11. **agree in principle** to subsequently communicate further expected funding for new investments and initiatives above the baseline, so that these can be reflected in the NZ Health Plan, once there is sufficient confidence in these matters;

Hon Grant Robertson

Hon Andrew Little

Agree / Disagree

Agree / Disagree

12. **note** that the recommendation 10 above will necessitate a staged approach to communications, with an aim to provide as much information as early as possible to support robust planning, balanced with the need for Ministerial flexibility and to respect Budget sensitivity; and

13. **note** that funding information will be provided on a Budget-in-confidence basis, and that recipients will be clearly told that they may not share it without express Ministerial permission.

Stephen McKernan Director Health Transition Unit
20/01/2022

Amy Russell Principal Advisor, Health & ACC Treasury
20/01/2022

Hon Grant Robertson Minister of Finance
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Hon Andrew Little Minister of Health
...../...../.....

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...../...../.....

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Minister's office comments:

- Noted
- Seen
- Approved
- Needs change
- Withdrawn
- Not seen by Minister
- Overtaken by events
- Referred to

COMMUNICATING PLANNING PARAMETERS TO THE HEALTH SYSTEM

Purpose

1. This paper responds to your request for advice on the rationale and possible approaches to communicating priorities, expectations and financial parameters to the health system, to inform critical planning assumptions and support Health NZ and the Māori Health Authority to deliver balanced budgets for 1 July 2022.

Context

2. The health system reforms, which will come into effect on 1 July 2022, represent a significant change to how the publicly-funded health system will be planned, managed and led at national, regional and local levels. Preparing for the transition to the new system is now well underway, including through the interim agencies (interim Health NZ and the interim Māori Health Authority) which have been established for this task.
3. A critical element of preparation is the development of detailed plans and supporting budgets for how the new entities (Health NZ and the Māori Health Authority) will commission and arrange health services, and how they will give effect to their wider statutory functions. These detailed plans and budgets will be essential in balancing the competing demands of ensuring minimal disruption to existing services, supporting initial steps in transformation, and demonstrating sustainability to ensure no return to financial deficits.
4. Ministers have already agreed new multi-year funding arrangements for the health system, including an initial two-year transitional funding settlement, to be agreed at Budget 2022. Ministers have also agreed to the core features of a new accountability framework for the system, including the role of the Government Policy Statement to set priorities and expectations which will drive the NZ Health Plan prepared by the entities. The interim GPS (iGPS) for the first two years is under development, and will be expected to reflect agreed policy direction, specific requirements and funding arrangements when it is finalised after Budget.
5. Interim agencies are currently undertaking early planning work on the basis of this two-year time horizon, with a focus on development of the interim NZ Health Plan (iNZHP), the statements of performance expectations for both entities and supporting budgets. Although the boards of agencies are aware of the key settings which have been announced by Government, ^[34]
6. Prior to 2016, district health boards were provided with a signal of likely expectations and planning and funding parameters in the November or December preceding the start of the fiscal year in question. The funding element of this signal would generally focus on the cost and volume pressures, and the planning signal largely focused on business as usual and Government priorities that had already been announced. The funding advice was supplied as a planning signal subject to budget confirmation and not

for wider distribution. This approach enabled early board and executive consideration and planning to support budget preparation through the January to March period.

7. However, five years ago this early notification of budget was stopped and funding advice switched to post-Budget in May. [34]

Key milestones ahead of Day 1

8. The critical path to 1 July 2022 requires the interaction of a number of important elements over the early months of this year. The transitional nature of the first year and the absence of new arrangements being in place means that key processes and documents will need to be taken forward in parallel: including the Budget, iGPS, iNZHP and funding allocations for Day 1.
9. The table below provides a high-level summary of key actions month by month. A crucial point within this period will be in March when the draft iNZHP and draft budgets are due to be presented to the board of the interim agencies and then to the Ministry and Ministers for review. This milestone needs to be achieved in March in order that detailed budgets can reasonably be ready for Day 1, and a draft iNZHP can be finalised for boards' approval at the start of the financial year.

	System settings Lead: TU, supported by Ministry, Treasury, and PSC	Budget 2022 and expectation setting (iGPS) Lead: Ministry/TU, supported by Treasury	HNZ and MHA accountability documents and internal budgets Lead: iHNZ and iMHA
Jan	Advice on MHA budget holding responsibilities	Draft iGPS submitted to Minister of Health (following initial engagement with iMHA Board)	
Feb	System outcomes and indicator framework Intervention framework	Budget 2022 bilateral Draft iGPS shared with iHNZ/iMHA boards	
Mar	Capital settings (Tsy lead with TU and Ministry) System data requirements and monitoring/evaluation approach	Final appropriation splits and associated baseline changes confirmed Iterations of iGPS content following board and Ministers' feedback	Draft iNZHP for review by boards, then Ministry/TU/ Tsy/Ministers Draft budgets for review by boards, then Ministry/TU/ Tsy/Ministers
Apr		Cabinet decisions on Budget 2022 (Tsy lead) Finalise iGPS content	
May		Budget 2022 iGPS published	
Jun			Final draft iNZHP
Jul	Day 1 – legislation enacted		Statements of Performance Expectations to be signed off by boards
Sep			iNZHP signed off by boards for Ministerial approval

10. The advice which follows considers how best to support the critical path above, and how to enable effective planning by the interim agencies in a compressed timetable.

These issues will also be relevant to Budget 2024

11. Although not the subject of this advice, we would note that the timeliness and detail of early planning parameters for the health system will also be highly relevant to the development of the first fully-costed NZ Health Plan, which is due to be approved following Budget 2024. There are similar issues regarding clarity of funding arrangements for the three-year plan, in the absence of an agreed funding track or index. We expect that Health NZ will commence work on the first Health Plan soon after July 2022 and will need to return to this issue in due course.

Rationale for early communication of parameters

It is critical that Health NZ and the Māori Health Authority make early planning assumptions to enable them to put in place budgets that live within the overall funding allocation

12. Interim agencies must undertake significant activity in advance of Day One task to develop initial budgets and plans for new entities in order to deliver a seamless transition which minimises risks of disruption to staff, services and patients. The scale of this activity will include consolidating multiple DHBs into a single balance sheet and developing national service plans for delivery over two years.
13. Preparatory work underway by interim agencies will need to serve multiple purposes to ensure the system is ready to deliver:
 - a) analysis by agencies needs to cover whether the consolidated bottom-up budget coming from DHBs is deliverable within Health NZ's overall baseline including Budget 2022 funding, and if not, what needs to change. This information will be critical to the boards considering the first full draft of the initial Health NZ and MHA budgets in early March, and will be a useful input into the remainder of the Budget decision-making process;
 - b) similarly, development of the iNZHP will need to be bounded within clearly defined parameters to ensure that it provides a feasible and affordable set of priority actions and areas of focus. Although the iNZHP will not be a fully costed plan, it will nonetheless need to highlight core deliverables for the health system which are underpinned by realistic assumptions, and be set in the context of overall baseline funding to enable a view of the degree of performance improvement opportunities that might be possible; and
 - c) the new entities will also need to produce statements of performance expectations (SPEs) for 2022/23 under the Crown Entities Act. The SPEs in the first two years will play a crucial role by providing for a fuller planning basis for service delivery, including the iNZHP but going further to capture the wider services and budgets not highlighted in that initial plan.
14. All of the above should be in place in advance of 1 July 2022, so that the statutory boards of the new entities, when formally established, will be able to agree to them promptly and in line with legal requirements. This will require substantial work to develop and iterate drafts over the months prior. In the context of new organisations that cannot draw upon the inherited plans of their predecessor entities to any significant extent, this task will be even greater.

15. As noted above, over the past five years, DHBs have only been advised of their funding envelopes following Budget day when allocations become public. [34]

16. The reformed system and new funding settings offer an opportunity to mark a change from the recent past, and to support improved financial planning and management capability and culture by providing planners and finance teams with better information and a longer real planning period. In our view, the status quo notification in May is too late to meaningfully assist the new entities to firm up their potential resourcing envelopes. Moreover, it will not support the new entities to agree their plans and embed accountabilities in advance of 30 June.

17. To enable the new entities to develop robust plans prior to the start of the financial year, the interim agencies should gain earlier budgeting and planning assumptions and parameters. Agencies will need time to understand the operational challenges they will face and what needs to be in place on Day One to respond to these.

18. In the absence of this information:
 - a) agencies will be required to make their own assumptions to plan effectively – risking either an under-estimate that may lead to unnecessary rationing decisions and anxiety, or an over-estimate that may produce plans that are not deliverable and require significant reduction to live within the final funding allocation;
 - b) the compressed timeframe for development and delivery of the key outputs will be further pressured as agencies will need to take a more complex approach to planning, risking a failure to deliver on time for Day 1. Agencies need to prepare for delivery on priorities in advance of the year, or else there will be a lag on investment decisions and outcomes. If detailed numbers are not known in advance of Budget day, SPEs will not be available until well into the first financial year of entities; and
 - c) there is a risk that agencies' assumptions will be communicated to Ministers in considering iterations of their budgets and the iNZHP and may become public, creating the conditions for an unmanaged negotiation over the size of the budget and active bidding through their draft plan.

19. Providing early signals to the entities as to both Government's delivery expectations (via the iGPS) and indicative parameters for baseline uplifts will enable better informed planning and support delivery within the required timeframe, and aligns with the focus of the Day One consolidation and iNZHP work underway.

[33], [34]

21. While these risks cannot be entirely avoided, we consider that they can be managed to a significant extent by the approach to communication and the presentation of the information provided. We note that these risks did not materialise with any significant impact in the years prior to 2016. We should expect responsibilities to be fulfilled and confidences maintained.
22. Any signals should be caveated as “planning assumptions” that are subject to the Budget process and associated confidentiality requirements, for a specified audience only. It should be made clear that Ministers will not accept requests from the entities for further funding, and Ministers should reiterate key messages such as the importance of rebase funding being directed to fund existing deficits, and not increasing expenditure.
23. Risks can also be managed through both the content and timing of communications – as set out in the sections below.
24. In our view, the greatest risk is in not sharing the proposed information, because of the subsequent impacts on the development of the iNZHP and SPEs. We have advised on the need for a shift in the planning and financial management culture in health, and continuing with the status quo undermines this shift, while risking the delivery of a balanced budget and an unclear operating position for the new entities on Day One.

Options for content of communications

25. There are a number of options to consider in relation to the breadth and level of specificity of planning parameters to be communicated to the interim agencies.
26. First, in relation to Ministers’ priorities and expectations for delivery from the health system, the iGPS will be the key vehicle. We are already intending to share a draft of the iGPS with the boards of both interim agencies in February, subject to approval by the Minister of Health. The draft iGPS will provide an indication of the likely areas of focus which Government will require, and therefore inform the development of the iNZHP.
27. The draft iGPS in February will not be complete – it will not at this stage include new priorities related to Budget 2022 decisions which have not been made, and further refinement and prioritisation will be needed through engagement over February and March. However, it will provide a strong steer of likely priorities and our view is that it should be provided to the boards as early as possible, appropriately caveated.
28. In relation to setting financial parameters for system planning, we believe this should be aligned with the approach to sharing the iGPS as far as possible. This would mean that Ministers are able to communicate both their expectations for the health system and the funding to be provided, in a coherent form that promotes effective planning. There are options for the content of the financial parameters which may be provided:

- a) **Time horizon:** in our view, the parameters should be for two years (2022/23 and 2023/24) to match the period of the transitional funding arrangements to be agreed through Budget 2022, as announced at the Half Year Economic and Fiscal Update, and to mirror the timeframe for the iNZHP. While it would be possible to provide a signal for the first year only, this would risk undermining the effectiveness of the Plan and the spirit of the new multi-year approach.
- b) **Scope of funding:** we recommend that the funding parameters should cover the core appropriations for Health NZ and the Māori Health Authority. This would include funding for hospital and specialist services, primary and community health services, and for hauora Māori. Although it may be possible to share only funding parameters for Health NZ, excluding hauora Māori would likely impact on the interim Authority's ability to plan for its commissioning budget, and to partner effectively with Health NZ. Moreover, it would risk the appearance of inequity in the treatment of the two entities.
- c) **Categories of funding:** we recommend that the initial funding signal should include parameters for core (or non-discretionary funding) relating to:
 - i) baseline funding adjustments for Vote Health, including an indicative range of funding for cost pressures in the period. This would provide the minimum information needed for entities to deliver a balanced budget for day-to-day services and operations, and articulate risk with the upper and lower end of the range (ideally providing as narrow a range as possible at the time). It should include ^[33]

and
 - ii) rebasing the health system to remove historic deficits. This should provide comfort to entities of the intention to provide a deficit-free starting position and promote financial responsibility in the new entities. We do not believe it will be necessary to indicate a defined quantum for the rebase at this stage given likely movement in year-end forecasts, however the communication should clarify the Government's intent to address deficits and ensure a firm baseline for planning.

29. We do not recommend sharing parameters around new investment as part an initial communication in mid-February. Noting the realities of the Budget process, the evolving response to and planning for Omicron, the more discretionary nature of new investment initiatives, and the bottom-up budgets from DHBs that will focus on BAU delivery, we consider that sharing parameters for new investment risks raising expectations and limiting Ministerial flexibility at this stage of the process.

30. However, we do consider you should share the new investment decisions with the entities once there is sufficient certainty to do so. Experience shows that providing limited notice of new funding can hinder planning and commissioning decisions, with an impact on timely delivery of services and outcomes. In the content of new entities and the development of the iNZHP, this risk may be expected to increase. Moreover, communications which are limited to baseline and non-discretionary issues will risk the appearance of prioritising maintenance over transformation through Budget 2022, in particular in relation to investment in hauora Māori, Pacific health and addressing equity. Funding for new investment and initiatives will be a crucial element of the Government's overall reform messaging.

31. A delay to communications on this element should therefore be reduced as far as possible. This recognises that in the first instance it may take the form of a relatively high-level indication of total new investment, rather than a more detailed or itemised list, respecting Budget process and preserving Ministerial flexibility. This is likely to require a multi-stage approach to communications as there is greater certainty in new investments, with Ministers taking further decisions on additional signalling at the relevant time.
32. The recommendations above would mark a change from the status quo. We believe this is justified, on the grounds that the greater the willingness of Government to share caveated assumptions, the stronger the basis for the agencies to develop their plans (and the fewer potential mitigations for their failing to do so). This would also usefully support a reset in relationships with the new entities, and encourage a strengthened, trust-based financial management culture from the outset; while retaining Ministerial decision-making control throughout the Budget process.

Options for timing of communications

33. Based on our assessment of the critical path to 1 July 2022, there are a number of options for the timing of a communication to the interim agencies. Each of these balances three factors: the timeliness of the information to support early planning, the possible precision of the information given the ongoing processes for Budget and the iGPS, and the desired content of key outputs (i.e., budgets, SPEs and the iNZHP). Broadly speaking, the earlier the information is provided, the less certain it can be, but the more time for the agencies to develop more robust documentation before Day 1. We have also considered the need for Ministers to retain flexibility as to decision-making as affordability considerations (including available Budget allowances) are firmed up.
34. Of the available options, **we recommend that initial communications to the agencies be made as early as possible following the health Budget bilateral meeting in February**. This is because:
 - a) this timing would provide the maximum available time to enable analysis and changes prior to initial budgets (and the first draft of the iNZHP) going to the boards in the first week of March. The interim agencies are new organisations and while they will collectively have the skills and knowledge needed to plan and set budgets, it will take time to organise that knowledge so that their leadership and boards can make decisions. This points to a need to provide the greatest possible support and information to expedite their processes;
 - b) this timeline would coincide with preparation and analysis for the Budget Ministers' meeting and health bilateral meeting in February. It would enable joint Ministers to make an explicit decision, as part of the health bilateral meeting, on the elements to be shared with the interim entities subsequently based on the confidence of Budget proposals;
 - c) the timeline would also fit with the start date for the permanent chief executives of the new entities, allowing for alignment of messaging in initial discussions with those individuals; and

- d) although information provided this early will necessarily be less certain given the ongoing Budget process, we would prioritise time for the agencies to embed these assumptions over precision. Moreover, earlier communication will support Health NZ to make progress in determining baselines for appropriations. Further changes arising from Budget discussions can be updated in due course if required; but the time cannot be used again.
35. As above, the initial communication in February would include a range for only the non-discretionary funding components relating to baseline, cost pressures and rebase funding for Health NZ and the Māori Health Authority, where Ministers have less real decision-making ability given that the decision to defer or scale these initiatives will have a direct bearing on the ability of the interim entities to deliver balanced budgets, creating risk of deficits in future. Any insights from the internal budget exercise can be used to inform final Budget decisions.
36. We have considered alternative options for timing, but each is considered to be less preferable:
- a) Providing a signal in late January or early February prior to the Budget bilateral would have advantages in terms of the deliverability of the initial agencies' budgets, and could allow Health NZ to compare revenue with aggregate budget forecast and start to build a view of how change programmes, risk contingencies and performance expectations might be set. However, given that the Treasury's budget bid assessment would not yet be complete, this would mean a lower degree of confidence in the communicated parameters. While it would provide more time for the first budgets and draft of the iNZHP to be prepared, they would ultimately not be as effective given the information itself would be significantly less certain.
 - b) A signal in March or April could mirror Budget 2022 decisions and allow more time for agreement of priorities for the iGPS; but it would minimise the time for the agencies to undertake their work and mean they would need to develop their own assumptions, with the risks set out above.

Approach to communications

37. Should you agree in principle to providing an early signal of planning and financial parameters, managing the flow of information will be essential to ensuring that it informs the necessary processes, but is not shared more widely. We propose:
- a) We would communicate information to the chief executives and chief financial officers (or their equivalent, pending recruitment) of iHNZ and iMHA in the first instance.
 - b) We would set strict requirements that this information not be shared outside of a list of named individuals, without Ministerial agreement.
 - c) The boards of the agencies would not initially be provided the same information but would be made aware of it when draft budgets and the draft iNZHP are presented to them for initial review in March. Boards would effectively become part of the list of named individuals at that point, and restrictions on sharing would remain in place.

- d) To support the above, both Ministers may wish to meet with the boards in early March to communicate clear expectations around the Budget and planning process, including financial expectations. This could be in addition to the Minister of Health's proposed regular meetings with board chairs and agency chief executives.
- e) The boards will be required to provide full transparency on their budgets and planning, to enable officials to report to joint Ministers as these progress and to identify issues in good time.

Consultation

- 38. This advice has been developed in consultation between the Transition Unit, the Treasury and the Ministry of Health. We will continue to work closely on the next steps to ensure alignment with Budget 2022 process, and provide further joint advice in advance of the Health Budget bilateral meeting, pending Ministers' response in principle to the proposals in this paper.

Next steps

- 39. Subject to the views of joint Ministers, we will develop proposals for the content of early communications to the interim entities, to be presented for agreement at the health Budget bilateral meeting in February.
- 40. The Minister of Health will separately receive advice from the Ministry of Health and the Transition Unit on the iGPS by end January. This will seek agreement to share the early description of priorities and expectations in the iGPS with the interim agencies. We expect to propose that, subject to the Minister's agreement, this be taken forward as soon as possible, and that further information on financial parameters would be communicated later in February.