

Reference: 20240552



29 August 2024

Dear [REDACTED]

Thank you for your Official Information Act request, received on 18 July 2024. You requested the following:

Under the Official Information Act, I request copies of all aide memoirs, briefings, memos, notes, reports, or any other advice provided to the Minister of Finance or her Office received during the month of June 2024 concerning the Health portfolio.

The request was extended on 13 August 2024 by 10 working days to accommodate the necessary consultation.

Information being released

Please find enclosed the following documents:

| Item | Date | Document Description | Decision |
|------|------------|--|--|
| 1. | 11/06/2024 | Aide Memoire T2024-1558 Cancer medicines funding sources | Release in part |
| 2. | 12/06/2024 | Aide Memoire T2024-1589 Cancer medicines funding options | Release in part |
| 3. | 13/06/2024 | Aide Memoire T2024-1601 Cancer medicines funding | Release in part |
| 4. | 24/06/2024 | Implementing the Government Health Targets | Release in part |
| 5. | 24/06/2024 | Increasing access to cancer treatments and other medicines | Release in full (except contact details) |

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- soon to be publicly available information, under section 18(d) - the information requested is or will soon be publicly available,

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- names and contact details of officials, under section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting Ministers, members of government organisations, officers and employees from improper pressure or harassment,
- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- confidential information, under section 9(2)(j) – to enable the Crown to negotiate without prejudice or disadvantage, and
- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing, social engineering and other scams. This is because information released under the Official Information Act may end up in the public domain, for example, on websites including Treasury’s website.

Information publicly available

The following information is also covered by your request and will soon be publicly available on the Treasury website:

| Item | Date | Document Description | Website Address |
|------|------------|--|---|
| 6. | 24/06/2024 | Oral Item: Health New Zealand financial position | Will soon be available at: https://www.treasury.govt.nz/publications/search |

Accordingly, I have refused your request for the document listed in the above table under section 18(d) of the Official Information Act:

- the information requested is or will soon be publicly available.

Some relevant information may be removed from within the documents listed in the above table under the Official Information Act upon release.

Information to be withheld

There is an additional document covered by your request that I have decided to withhold in full, including the title, under the following section of the Official Information Act:

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Jess Hewat
Manager, Health and ACC

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Reference: T2024/1558

Date: 11 June 2024

To: Minister of Finance (Hon Nicola Willis)

Cancer medicines funding sources

Purpose

This aide mémoire provides further information on the possible funding sources for additional investment in cancer medicines ahead of your 9:30pm meeting tonight with your colleagues. On 10 June:

- You confirmed that you would like funding to start from 2024/25.
- You also requested Health contingencies, wider Budget contingencies and other reprioritisation options are canvassed, noting that otherwise the funding source should be the Budget 2025 operating allowance.

Note this advice has been developed at pace. We recommend reading it alongside the Ministry of Health's aide mémoire 'Funding options to increase access to cancer treatments and other medicines' (H2024044108). This paper includes a useful table of options, which notes the costs to fund and implement treatments, the number of total medicines and cancers medicines funded, and the number of people impacted.

Context

The Treasury's first best advice remains not to progress this initiative. If you do wish to proceed, you should defer it to Budget 2025 or a later Budget. This would ensure it can be assessed against other investments and would allow entities to provide more analysis, including possible revenue raising options.

If you do decide to progress this funding out-of-cycle, the following Ministerial decisions will be required ahead of updating the draft Cabinet paper developed last week:

- The funding approach
 - Whether to provide an uplift to the Combined Pharmaceutical Budget (CPB) or create a funding ring-fence. The latter option carries legal, financial, operational and precedent risk.
 - This impacts whether you want to purchase all or some of the 13 cancer treatments named in the Manifesto Commitment, or a range of

medicines (including some for cancer). We note of the 13 specified medicines, only 7 are on Pharmac's Options for Investment list.¹

- The quantum
 - Impacted by the approach selected. For instance, if Ministers decide to provide an untargeted increase to the CPB, you can specify the uplift; however
 - Including some of the specified cancer medicines in the Manifesto Commitment will require significant additional funding (~\$1 billion across the forecast period).²
- The funding source
 - Partial reprioritisation from available Vote Health contingencies and the Budget 2025 allowance.
 - Fully funded through Budget 2025 / future Budget allowances.

Treasury position

The initiative

Given the recent significant investment of \$1.774 billion for Pharmac at Budget 2024 and the constrained fiscal environment, Treasury's first best advice remains not to progress this initiative. We note that in 2024, Pharmac has already announced four additional cancer treatments and consulted on a further two.

We recognise the benefits increasing access to cancer medicines would provide individuals and their whānau. Whilst there will always be need for increased access to medicines, progressing this initiative will force difficult funding trade-offs with other areas of the health system that could have a greater impact on more patients' care and quality of life. Treasury considers that an additional investment could be prioritised in areas such as primary care or acute mental health services.

If progressed

If Ministers wish to progress this initiative, Treasury's preferred option is to provide an uplift to the CPB. This would maintain the integrity of Pharmac's model, which prioritises investment towards medicines deemed to have the highest value for money. We strongly advise against seeking to progress this initiative outside of Pharmac's

¹ s18(d)

We note the report the 13 cancer medicines were included in was technical in nature and not intended to take purchasing decisions. It highlighted availability differences between the two countries, rather than uptake or outcome differences. The report focused on medicines funded in the two countries for solid tumour cancer treatment, using a particular methodology to assess clinical benefit. It found 20 treatment gaps, 17 of them palliative in nature, between the two countries across nine solid tumour types.

² Funding will be required across five years from 2024/2025 – 2028/29 & outyears given funding will be provided in 2024/25. H2024044108 includes four year funding profiles but this can be updated for the Cabinet paper.

existing model and would have concerns about the value for money of such a proposition and its impact on Pharmac's ability to negotiate with suppliers. This option is expected to benefit fewer people (less than 1,000 cancer patients per year), have legislative and legal risks, limit negotiation leverage and will further increase costs. It would also create challenges regarding equity of access to medicines.

Funding options have been prepared at pace and the implementation costs for Pharmac and Health New Zealand are still being worked through. Lack of time to identify the implementation costs increases the risk of further funding being sought later. If Ministers progress funding, Treasury would support establishing a tagged contingency for Health New Zealand and Pharmac's operating expenditure to give health entities sufficient time to accurately quantify implementation costs.

Health contingency options

There are very limited options available for reprioritisation within Vote Health given the volume of Vote Health contingency funding returned through the Budget 2024 process. Reprioritising existing Vote Health existing contingencies would only partially offset the costs required for this initiative (depending on what funding level / approach you decide). Utilising these contingencies would involve challenging decisions regarding investments that have been recently announced as part of Budget 2024.

Ministers could choose to reverse Cabinet's policy and funding decision taken on Heated Tobacco Products on 10 June 2024, which provided \$300.179 million over the forecast period (CAB-24-MIN-0204 refers).

Table 1 Vote Health contingency or reprioritisation options

| Type of option | Name of option | Operating savings (23/24 to 28/29, \$m) ³ | Operating savings (annual average, \$m) | Comments |
|--------------------|-------------------------|--|---|--|
| Tagged contingency | Bowel screening | (75.408) | (18.852) | Not clear that reprioritising funds away from a targeted investment in bowel screening to increase access to medicines would represent an increase in value for money or improved outcomes for cancer sufferers. |
| Tagged contingency | Well Child Tamariki Ora | (59.934) | (14.984) | Not clear that reprioritising funds away from a targeted investment in Well Child Tamariki Ora to increase access to medicines would represent an increase in value for money. |

³ The appropriate forecast period for any savings depends on the financial year in which the decision is taken. Forecast period will be rolled out at October Baseline Update (OBU) to become 2024/25 to 2028/29. Subject to Ministers agreement, the funding available for savings includes funding remaining in the 2023/24 financial year.

| | | | | |
|------------------------|-------------------------|------------------------|-----------|---|
| Tagged contingency | Heated tobacco products | (300.179) ⁴ | (75.045) | <p>Drawdown of this contingency was agreed by Cabinet on 10 June alongside final policy decisions. Orders in Council to enable this policy are expected to be agreed by the Executive Council on the 24 June, for the policy to go live from 1 July. Ministers could choose to reverse the policy and funding decision they have taken and reprioritise the funding to increase access to medicines.</p> <p>Treasury did not support this initiative in Budget 2024. A rapid literature review by the Ministry of Health found no clear independent evidence that heated tobacco products are significantly less harmful than cigarettes.</p> |
| Possible total savings | | (435.521) | (108.880) | |

s9(2)(f)(iv) and s9(2)(j)

There is no capacity for Health New Zealand to reprioritise funding from existing baselines for this initiative given it is already running a large operating deficit.

Wider Budget contingencies and other reprioritisation options

The Treasury does not maintain a centralised list of reprioritisation options across Government. Agencies are expected to undertake reprioritisation within the Votes they administer and if there are no options available or the trade-offs are not acceptable, then funding is considered from the Between-Budget Contingency or as a pre-commitment against a future Budget allowance. It is not usual practice to undertake reprioritisation between agencies outside the annual Budget process, particularly for new spending initiatives. We do not recommend undertaking a reprioritisation exercise for this specific initiative given the time available and the precedent it sets.

As part of Budget 2024, the Treasury reviewed all existing tagged contingencies established in previous Budgets and recommended the majority be returned to the centre, outside of those for collective bargaining. You agreed to return most of these to offset the Budget 2024 operating allowance. The notable exception to this was the Lower North Island Rail Integrated Mobility – Rolling Stock contingency in Vote Transport, which you agreed to maintain for existing purposes (T2024/705 refers). \$383.9 million operating remains in this contingency over the forecast period. A number of tagged contingencies were also established in Budget 2024. However, most are less

⁴ This total is inclusive of 2028/29 and assumes flat costs into outyears (i.e \$84m in both 2027/28 and 28/29).

than \$100 million over the forecast period, with the remaining for cost pressures for frontline agencies or Government commitments (e.g. the Regional Infrastructure Fund and Partnership Schools).

The Budget 2025 operating allowance

Vote Health's pre-commitment against the Budget 2025 operating allowance is already 57%, and there is only \$882 million remaining after pre-commitments and non-discretionary spending (yet to be formally committed), before any funding is committed to cancer medicines. Committing additional funding for this initiative would greatly reduce the Budget 2025 allowance available to cover cost pressures and Government priorities, and will mean additional savings and/or spending constraint.

Next steps

We can provide you with additional information on any of the above sections. Following direction on your preferred approach for this initiative (including funding source), we will work with the health entities to update the Cabinet paper for lodgement this week.

Lydia Verschaffelt, Analyst, Health
Jess Hewat, Manager, Health, s9(2)(g)(ii)



Reference: T2024/1589

Date: 12 June 2024

To: Minister of Finance (Hon Nicola Willis)

Cancer medicines funding options

Purpose

This aide mémoire provides further advice on the cancer medicines initiative to support discussion at your 9:30pm meeting tonight. It follows our advice yesterday on our position and funding sources (T2024/1558 refers).

We understand that following yesterday's meeting, you and your colleagues are considering the Ministry of Health's option E 'Purchase the 13 cancer treatment outlined in the Manifesto (outside of Pharmac CPB)' and possibly option D 'Purchase maximum number of the 13 cancer treatments listed in manifesto from CPB' (H2024044108 refers). We understand that the health entities are providing additional detail on these options. Please note, as with yesterday, our advice has been developed at pace.

As noted in T2024/1558, our first best advice remains not to progress this initiative.

Option E: Purchase the 13 cancer treatments outlined in the Manifesto (outside of Pharmac CPB)

Treasury considers this the least preferable option of those presented. We are concerned that the creation of a new medicine purchasing business unit in the Ministry of Health or Te Aho o Te Kahu | The Cancer Control Agency would break the Pharmac model and carry significant financial, legal, implementation and precedent-setting risk.

Option E would unnecessarily duplicate some of Pharmac's functions, but without Pharmac's independence, purchasing leverage and cost control measures. It would shift away from the current model, which provides a clear framework that enables investment to go towards those medicines deemed to have the highest value for money.

Compared to the other options presented, this option is the most likely to leave the Crown as the price-taker, and would remove any leverage in commercial negotiations with the suppliers of those particular drugs. ^{s9(2)(g)(i)}

Noting the existing pressures on the fiscal position, this decision would create substantial risk to manage pharmaceutical expenditure and could hinder the Government's long-term fiscal strategy. It would also establish a difficult precedent of Ministers deciding which pharmaceuticals should be purchased and risk that future investment goes to the loudest voices rather than the greatest need.

13 cancer medicines

We understand the primary appeal of this option is that it would purchase the 13 cancer treatments outlined in the National Party's Manifesto Commitment, from the Cancer Control Agency's 2022 report 'Understanding the Gap: an analysis of the availability of cancer medicines of Aotearoa.'

The report was technical in nature and not intended to guide purchasing decisions. It highlighted availability differences between Australia and New Zealand rather than uptake or outcome differences. The report focused on medicines funded in the two countries for solid tumour cancer treatment, using a particular methodology to assess clinical benefit.

We note that:

- Of the 13, only seven are on Pharmac's Options for Investment list.
- A majority are palliative treatments – that is, they reduce the symptoms of cancer and may briefly extend life but do not treat or cure the underlying disease.
- Several other cancer medicines are more highly ranked on Pharmac's Options for Investment list than any of the 13.

We also note that none of the 13 treatments are for blood cancers. However, the \$1.774 billion uplift for Pharmac at Budget 2024 covered funding for purchases Pharmac was progressing, including for multiple myeloma treatments (a type of blood cancer), which Pharmac publicly consulted on in April 2024. ^{s9(2)(f)(iv)}

Funding the 13 medicines also provides treatment to a smaller cohort compared to other options. Health officials note that in the first 12 months of Option E, fewer than 1,000 people would benefit from access to these medicines – possibly much fewer, depending on timeframes. Even at full scale, from 2027/28, it is estimated that fewer than 1,000 people would receive treatments.

We understand Pharmac has provided updated advice today on Option D in terms of work it could do progress or address the remaining six medicines not on the Options for Investment List. This advice shows that for Option D, each year, over 173,000 New Zealanders would benefit from medicines funded for a range of conditions in addition to the ~2,400 people who would benefit from cancer medicines under this option, including ~600 people for the six cancer medicines.

s9(2)(g)(i)

Implementation risks

We recently received further information that suggests **a range of implementation risks associated with progressing purchasing of the 13 specified medicines**. We have not had time to test this information and caveat as such, but we understand that:

- Health NZ would need to increase services to deliver these medicines, such as infusion capacity, specialised delivery, imaging, biopsy and support for a higher risk of adverse events requiring hospital inpatient care.
- Some of the medicines would require genomic sequencing. New Zealand currently only has two labs to do this and we understand they currently have limited capacity.

Health entities have estimated implementation costs could be \$98 million over four years for Health NZ (further detail below). The Ministry is also providing updated advice today on Option E implementation considerations.

If you do wish to progress Option E

If you do wish to progress this option, we recommend you **provide a funding cap** in an attempt to manage expenditure, and **place outyears funding in contingency** until more detail is provided by the health entities. This may limit your ability to fund the full 13 medicines, but will provide you with some control over costs. We can provide you with further advice on this if required.

Option D: Purchase maximum number of the 13 cancer treatments listed in the manifesto from the CPB, and other options

Option D would require ~\$1 billion over five years. This would be a substantial uplift of an additional ~\$800 million to the CPB, above the recent \$1.774 billion Budget 2024 increase.

As noted in T2024/1558, Vote Health's pre-commitment against the Budget 2025 operating allowance is already 57%, and there is only \$882 million remaining after pre-commitments and non-discretionary spending (yet to be formally committed). This is before any funding is committed to cancer medicines, which would significantly reduce the allowance. **Other options remain to provide a lower funding uplift to the CPB, which would provide more headroom in the Budget 2025 allowance** for other priorities or cost pressures to be assessed and progressed.

If Option D is selected, we recognise the need for additional Pharmac and Health NZ funding to deliver these additional medicines. However, timeframes and the specific medicines remain uncertain, as does the degree of additional health system support and capacity that would be required. **We would consequently consider supporting some implementation funding being appropriated for 2024/25, with the rest placed in contingency** to allow health entities to provide further planning and costing detail.

Health NZ is currently operating a large operating deficit and we are concerned about the entity's ability to see, understand and manage costs in the hospital system. This further supports placing any operational funding for this initiative in contingency, s9(2)(g)(i) .

If this initiative is progressed, five years of funding should be provided to align with the forecast period. Please refer to T2024/1558 for our advice on funding sources. We can work with health entities further on costings once an option has been chosen and update the Cabinet paper.

Lydia Verschaffelt, Analyst, Health
Jess Hewat, Manager, Health, s9(2)(g)(ii)



Reference: T2024/1601

Date: 13 June 2024

To: Minister of Finance (Hon Nicola Willis)

Cancer medicines funding

Purpose

This aide mémoire follows T2024/1558 and T2024/1589. It provides further information on possible funding sources to progress the Ministry of Health's Option D 'Funding as many of the cancer treatments on the pre-election list as possible, or their more effective replacements' [H2024044108A refers]. Our first best advice remains not progress this initiative and we again note this advice has been developed at pace.

Option D

We understand Option D is currently the preferred option. It provides funding of some 54 medicines as either new listings or widening access to existing ones. Pharmac has a high level of confidence in its ability to provide good (often better) treatments for the patients covered by the 13 treatments, earlier and at much better prices.

Health entities have estimated the costs of the initiative at \$825 million over four years. This increases to \$1.063 billion over five years to cover the full forecast period with funding beginning in 2024/25 as directed (noting these costings have been developed at pace and flatline in the final three years and outyears).

Table 1. Estimated total operating cost of Option D

| | 2024/25 (\$m) | 2025/26 (\$m) | 2026/27 (\$m) | 2027/28 (\$m) | 2028/29 & outyears (\$m) | Total (\$m) | Average p/a (\$m) ¹ |
|-------------------------------------|------------------|------------------|------------------|------------------|--------------------------------|------------------|-----------------------------------|
| Pharmac CPB | 108.000 | 146.000 | 175.000 | 175.000 | 175.000 | 779.000 | 194.750 |
| Pharmac Implementation | 2.000 | 3.000 | 3.000 | 3.000 | 3.000 | 14.000 | 3.500 |
| Health NZ Implementation | 38.000 | 52.000 | 60.000 | 60.000 | 60.000 | 270.000 | 67.500 |
| Total | 148.000 | 201.000 | 238.000 | 238.000 | 238.000 | 1,063.000 | 265.750 |

¹ Note divided by four.

Approach

On the basis the initiative is being progressed as per Option D:

- **We support the Pharmac Combined Pharmaceutical Budget (CPB) costs.** However, the funding is significant, particularly in the context of the current fiscal environment and the recent \$1.774 billion Pharmac uplift. As with previous increases to the CPB, we have limited ability to scrutinise the \$779 million given the independence of Pharmac's model and commercial sensitivity considerations. However, previous investments in PHARMAC have been relatively cost effective and the entity has a strong track record of delivering good health outcomes from the funding it manages.
- **We support Pharmac's implementation funding** given the scale of work, the ongoing purchasing, assessment and maintenance these medicines represent. We have not tested any detailed costings but consider the baseline funding increase proportionately relative to the funding increase of this scale.
- **We support the \$38 million Te Whatu Ora | Health New Zealand (Health NZ) implementation funding being appropriated for 2024/25, with the rest placed in contingency pending review** of further planning, implementation and costing detail. Costings have been developed at pace, and the timeframes and degree of additional health system support and capacity required for Health NZ to deliver these medicines remains uncertain. There is an option to scale the amount of implementation costs in contingency, but we recommend including the full amount at this stage.

Broader funding context

We understand that you are interested in reprioritisation options from within Vote Health (see below) and across government to offset the cost of this initiative. We do not keep a central repository of reprioritisation options across government. We support Ministers reprioritising funding within Votes throughout the year. However, the best process to reprioritise funding across Votes is the annual Budget cycle.

Budget 2025 operating allowance

We therefore do not suggest you run a separate reprioritisation process to offset the cost of this initiative specifically. Rather than moving rapidly to find immediate savings options in the next week, **it would be better to pre-commit the total cost of this initiative (less any reprioritisation options selected from within Vote Health – see below) from the 2024/25 year to 2028/29 and outyears against the Budget 2025 operating allowance.**²

The pressure on the allowance means that nearly all new spending commitments at Budget 2025 will have to be offset by savings in any event. Given the effective choice

² As previously noted, Vote Health's pre-commitment against the Budget 2025 operating allowance is already 57%, and there is only \$882 million remaining after pre-commitments and non-discretionary spending (yet to be formally committed), before any funding is committed to cancer medicines.

you have is therefore between finding savings now or later (i.e., as part of Budget 2025), we recommend the latter approach. This approach gives you more time to find savings in a structured, deliberate way that is designed to ensure they do not cut against your priorities.

We do not support the cost of this initiative being charged (a) outside allowances, (b) against future allowances (i.e., those beyond Budget 2025), or (c) against the Between-Budget-Contingency (BBC).

- a) would directly, negatively impact your fiscal track;
- b) would represent poor public finance practice and undermine the credibility of these future allowances; and
- c) the BBC is insufficient to fund the cost of this initiative. Additionally, the purpose of the BBC is to fund small, urgent initiatives that cannot be funded through reprioritisation rather than partially offsetting the cost of a single, large initiative.

The size of this pre-commitment does re-emphasise the importance of ensuring that your Budget 2025 design realises sufficient headroom to pay for this and other commitments [T2024/1487 refers]. We also recommend your messaging to Cabinet seeks to mitigate the precedent risk that a large Budget 2025 pre-commitment creates at this stage of the cycle.

Non-Vote Health Budget 2024 decisions and tagged contingencies

Given its recency, we have also considered whether any Budget 2024 decisions could be revisited to help offset the costs. The scrutiny applied, by you and Budget Ministers, to all Budget 2024 submissions means that we judge there are unlikely to be many decisions that, if reconsidered, could result in immediately-realizable savings acceptable to you and Cabinet.

We have also looked at tagged contingencies in other Votes. As part of Budget 2024, we reviewed all existing tagged contingencies and recommended the majority be returned to the centre, outside of those for collective bargaining. You agreed to return most of these.

The notable exception to this was the **Lower North Island Rail Integrated Mobility – Rolling Stock contingency in Vote Transport**, which you decided to maintain for existing purposes [T2024/705 refers]. \$455.4 million operating remains in this contingency over the forecast period. Treasury’s concerns regarding this initiative (i.e., its value-for-money and the likelihood it could lead to further funding requests relating to maintenance) are unchanged.

You could accordingly opt to return this contingency to the centre to offset the cost of this initiative. **If you wish to take this option, we recommend discussing with the Minister of Transport as soon as possible.** This is because:

- This programme, and the existence of Crown funding, is listed under “major public transport projects” in the revised Government Policy Statement on Land

Transport (GPS). The GPS has been lodged and is being considered by ECO on 19 June 2024.

- We understand that you and the Minister of Transport will very shortly (i.e., today or tomorrow) receive a briefing requesting draw down of this tagged contingency, with the Funding Agreement associated with this initiative to be signed imminently.

Table 2. Non-Vote Health contingency / reprioritisation options

| Type of option | Name of option | Operating savings (23/24 to 28/29, \$m) | Operating savings (annual average, \$m) | Comments |
|--------------------|-------------------------|---|---|---------------------|
| Tagged contingency | Lower North Island Rail | (455.400) | (113.85) | See comments above. |

Health funding context

Health NZ's financial position

We do not support directing Health NZ to fund Pharmac's or its implementation costs through its baseline. Health NZ is currently operating in a deficit position. The new Chair is planning to make substantial changes to return to breakeven, with plans being discussed with the Minister of Health next week.

There will be a strong and sustained focus on Health NZ finding significant savings; however, these will be required within the organisation to limit the size of the deficit. These savings, whether from efficiency and productivity improvements and/or from removing costs from the system, will consequently not be available to be reprioritised to this initiative.

s9(2)(f)(iv) and s9(2)(g)(i)

s9(2)(j) and 9(2)(f)(iv)

Possible results of any decision by Ministers not to fund direct additional costs arising from this or other policy changes are therefore:

- Health NZ may stay for a longer time in deficit, which will increase the likelihood of it running down its cash reserves and needing a funding injection at Budget 2025; and/or
- Health NZ will reduce its sense of responsibility for its deficit to the tune of the unfunded costs.

The second risk is lessened due to the strong sense of accountability of the new Chair (enforced by clear messages from the Minister of Health). The first is harder to manage.

Realistically, there is a limit to how quickly the Board and management of Health NZ can take costs out of the system without either generating higher costs in the medium to long-term (e.g. by making false economies in screening or primary care), or causing more public noise than is tolerable to Ministers. As noted above, our view is that the safer course for Ministers is to provide Health NZ additional funding for this initiative's implementation costs for the first year only and place the remainder in contingency pending further review.

Vote Health Budget 2024 decisions and tagged contingencies

As part of the Budget 2024 process, Treasury and Health officials advised Ministers on savings options, including returning health initiatives from Budget 2019 and Budget 2022. Budget 2024 also returned the bulk of Vote Health's remaining tagged contingencies, (\$414.253 million total operating expenditure, 2023/24 – 2028/29). Headroom for further savings and reprioritisation options with the health system is consequently minimal.

The table below outlines remaining Vote Health contingencies that could be reprioritised and Budget 2024 initiatives, yet to be fully implemented, that could be repurposed for the initiative. Again noting that reprioritisation of these would be challenging given the rigorous scrutiny of the Budget 2024 process and the recent public announcements of many of these investments.

Table 3. Vote Health contingency / reprioritisation options

| Type of option | Name of option | Operating savings | Operating savings (annual average, \$m) | Comments |
|----------------|----------------|-------------------|---|----------|
| | | | | |

³ For this reason, Health NZ was excluded from the baseline savings process at Budget 2024.


| | | (23/24 to 28/29, \$m) ⁴ | | |
|--------------------------------|---|------------------------------------|-----------|---|
| Tagged contingency | Bowel screening | (75.408) | (18.852) | Established at Budget 2022, to lower the age of screening for all Māori and Pacific peoples from 60-74 years to 50-74 years of age. Treasury supports extending this programme, as it is likely to produce significant public and private value through early identification and treatment and help reduce inequitable outcomes for Māori and Pacific peoples. |
| Tagged contingency | Well Child Tamariki Ora | (59.934) | (14.984) | Established at Budget 2022 to strengthen and reduce persistent inequities for priority populations, such as families with higher needs, whānau Māori, Pacific families and families living in rural areas and/or higher deprivation communities. This programme expands on the 2019/20 review and is subject to Ministers' agreement that health entities have accurately represented the findings. Health entities are currently in the process of developing a drawdown request, though we would note that progress has been slow. |
| Tagged contingency | Heated tobacco products | (300.179) ⁵ | (75.045) | Drawdown of this contingency was agreed by Cabinet on 10 June 2024 alongside final policy decisions. Orders in Council to enable this policy are expected to be agreed by the Executive Council on the 24 June, for the policy to go live from 1 July. Ministers could choose to reverse the policy and funding decision they have taken and reprioritise the funding to increase access to medicines. Treasury did not support this initiative in Budget 2024. A rapid literature review by the Ministry of Health found no clear independent evidence that heated tobacco products are significantly less harmful than cigarettes. |
| Budget 2024 Initiative (15804) | Breast Screening Extension of Eligibility | (35.880)* | (8.970) | The Treasury did not support progressing this initiative at Budget 2024 due to capacity and capability concerns, and a limited market for screening services. |
| Budget 2024 Initiative (15800) | Emergency Department Security | (39.074)* | (9.7685) | The Treasury did not support progressing this initiative at Budget 2024. We instead recommended funding be directed towards health investments that would provide a stronger value for money proposition and deliverability. |
| Budget 2024 Initiative (15801) | Gumboot Friday | (30.000)* | (7.5) | The Treasury did not support progressing this initiative at Budget 2024, as we considered there is insufficient workforce capacity to meet projected service demand. |
| Possible total savings | | (540.475) | (135.119) | |

*These options include funding for the 2024/25 financial year, which will likely be difficult to return.


⁴ The appropriate forecast period for any savings depends on the financial year in which the decision is taken. Forecast period will be rolled out at October Baseline Update (OBU) to become 2024/25 to 2028/29. Subject to Ministers agreement, the funding available for savings includes funding remaining in the 2023/24 financial year.

⁵ This total is inclusive of 2028/29 and assumes flat costs into outyears (i.e., \$84 million in both 2027/28 and 2028/29).

s9(2)(j) and 9(2)(f)(iv)

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s9(2)(f)(iv)

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Next steps

Following direction on your preferred funding source(s), or request for further advice of any of the above options, we will work with the health entities to update the Cabinet paper for lodgement next Thursday.

Lydia Verschaffelt, Analyst, Health
Jess Hewat, Manager, Health, s9(2)(g)(ii)

Implementing the Government's five health targets

Hon Shane Reti, Minister of Health

Treasury contact: Amy Russell

Sign out contact: Jess Hewat s9(2)(g)(ii)

Description:

This noting-only paper updates Cabinet on preparations by Health NZ (HNZ) and the Ministry of Health to implement five health targets agreed by Cabinet in March 2024.

Comments:

Minister Reti noted to Cabinet in March 2024, before he knew of HNZ's financial difficulties, that target achievement was going to require significant improvements in productivity and delivery performance at HNZ, as well as significant financial reprioritisation. The latest data we have seen shows that target performance has continued to decline across most measures, so the delivery challenge remains large. It will likely be exacerbated by HNZ's need (as per our pre-Cab briefing for an oral item at Cabinet on 24 June refers) to find \$1.4 billion of savings in its baselines in 2024/25 to achieve a breakeven financial result.

The new chair of HNZ, Lester Levy, seems confident that both the savings and the required service improvements can be delivered in the expected timeframes. We welcome this confidence but note that this would represent a very substantial productivity increase in a system where productivity has declined year-on-year for the last decade s9(2)(g)(i)

As such, we consider that the risk of HNZ not achieving its target "performance milestones" for 2024/25 remains high.

Treasury Recommendation:

Express support for the ambition in the paper but note that the risk of non-achievement of the 2024/25 milestones seems high, given the combined delivery and financial challenges at HNZ.

Fiscal Implications:

None.

Increasing access to cancer treatments and other medicines

Hon Dr Shane Reti, Minister of Health

Hon David Seymour, Associate Minister of Health

Treasury contact: Lydia Verschaffelt

Sign out contact: Jess Hewat s9(2)(g)(ii)

Description: This paper seeks agreement to an out-of-cycle funding increase for Pharmac's Combined Pharmaceutical Budget (CPB) and for Health New Zealand | Te Whatu Ora (Health NZ) to increase access to cancer treatments and other medicines.

Comments:

Our main concerns with the paper reflect:

- This funding would be on top of the recent CPB increase at Budget 2024 (\$1.774 billion across the forecast period), which included funding to continue access to existing cancer medicines and for new cancer treatments (multiple myeloma). This was already a significant investment, particularly in the current constrained fiscal environment.
- That as an out-of-cycle funding request, this initiative is not being assessed and traded-off against other investments as part of the standard Budget process. This is both across Government and also within Vote Health. For instance, we consider funding of the same quantum could have a greater impact in terms of the number of people benefitted and improved health outcomes, in other areas of the health system, such as primary care or mental health, at this time.

Treasury Recommendation: While we recognise the benefits further increasing access to cancer and other medicines would provide individuals and their whānau, we **do not support** this paper.

If Ministers wish to progress this initiative:

- Our preferred option is to increase the CPB as recommended, but we note that a lower quantum could be funded (such as per Options A – C outlined in Table 3).
- We support the proposed option to maintain the Pharmac model. We note that funding outside of the model would benefit fewer New Zealanders, further increase costs, have legislative and legal risks, and reduce negotiation leverage.
- We support Health NZ's operating expenditure from 2025/26 being placed in contingency given the uncertainty regarding the additional health system capacity needed to deliver these medicines. A reportback with further implementation planning and costing detail will help provide Ministers with more visibility and assurance of these costs.

Fiscal Implications:

The paper seeks funding of \$825.000 million from 2024/25 to 2027/28, including:

- \$604.000 million for Pharmac's CPB costs;
- \$11.000 million for Pharmac's operating costs;
- \$38.000 million for Health NZ's implementation costs in 2024/25 only; and
- \$172.000 million for the remainder of Health NZ's implementation costs (held in contingency).

Forecast period

This paper provides funding over a four-year period beginning in 2024/25. As noted in the recs, at the October Baseline Update (OBU) later this year, the five-year forecast period will include the 2028/29 year. A further \$235 million will consequently be managed against the Budget 2025 allowance for the policy once the forecast period is rolled forward at OBU.

Impact on allowances

This paper seeks a \$252 million average per annum precommitment against the Budget 2025 operating allowance (accounting for the 2028/29 funding). This would increase Vote Health's pre-commitment against the Budget 2025 allowance from 57% to 68%. After accounting for Budget 2025 pre-commitments and non-discretionary spending (yet to be formally committed), only \$629 million per annum, or 26% of the Budget 2025 allowance, will be available to cover all other cost pressures and Government priorities.

OBEGAL impact

The fiscal impacts from this decision are being managed from funding sources set aside by the Government. However, as there is no funding from the Budget 2025 operating allowance available to allocate for the 2024/25 year, the costs expected to be incurred in that year, which are being treated as a pre-commitment, will therefore directly impact on the operating balance before gains and losses (OBEGAL). In addition, the decision to manage a portion of the costs in the 2024/25 year against the Between-Budget Contingency (BBC) will mean the funding that was set aside in 2024/25 for that year will be more than fully allocated. Consequently, any future decisions that have costs in the 2024/25 year and managed against the BBC will have a direct impact on OBEGAL. Overall, the decisions sought in this paper would adversely impact OBEGAL by \$126 million in the 2024/25 year.

Funding profile (over four years)

| Operating (\$m) | | | | | | |
|---|---|----------------|----------------|----------------|--------------------|-----------------|
| Funding source | Function | 2024/25 | 2025/26 | 2026/27 | 2027/28 & outyears | Operating total |
| Between- Budget Contingency | Health NZ Hospital Services operating (2024/25 only) | 38.000 | - | - | - | 38.000 |
| Prime Minister's Emerging Priorities Fund | Pharmac operating | 2.000 | 3.000 | 3.000 | 3.000 | 11.000 |
| Budget 2025 Operating Allowance | Pharmac CPB; and Health NZ Hospital Services operating (2025/2026 onwards in contingency) | 108.000 | 198.000 | 235.000 | 235.000 | 776.000 |
| Total | | 148.000 | 201.000 | 238.000 | 238.000 | 825.000 |