

The Treasury

Budget 2011 Information Release

Release Document

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Joint Treasury / SSC Report: Advice for Health Discussion at Cabinet Expenditure Control Committee

Date:	13 September 2010	Report No:	T2010/1718
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note the contents of this report prior to ECC meeting Refer a copy of this report to the Minister of State Services	Tuesday, 14 September 2010 ASAP
Associate Minister of Finance (Hon Simon Power)	Note the contents of this report prior to ECC meeting	Tuesday, 14 September 2010
Associate Minister of Finance (Hon Steven Joyce)	Note the contents of this report prior to ECC meeting	Tuesday, 14 September 2010

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Chris Bunny	Manager, Health, Treasury	[1],[2]	
John MacCormick [1],[2]	Senior Analyst, Health, Treasury Performance Specialist, State Services Commission		

Minister of Finance's Office Actions (if required)

If the Minister of Finance agrees, forward a copy of this report to the Minister of State Services

Enclosure: No

Joint Treasury / SSC Report: Advice for Health Discussion at Cabinet Expenditure Control Committee

Purpose of Report

1. On Tuesday 14 September, the Cabinet Expenditure Control Committee will discuss Vote Health. The Ministry of Health has prepared a paper to support this discussion titled: *Drivers of Vote Health expenditure and possible options for controlling expenditure growth over the next five years*.
2. This report provides comment on the Health paper, and suggests some issues Ministers may wish to explore at the meeting. This report has been prepared by the Treasury with input from the State Services Commission.

Analysis

Focus of the report and ECC discussion

3. The Minister of Health's paper focuses on the medium term strategic issues involved in managing health expenditure which the Minister of Finance and Minister of Health earlier agreed should be the focus of the Committee's discussion.
4. As joint Ministers agreed, the Ministry proposes to report back separately on a number of other issues, and as earlier agreed, these will be addressed in separate reports:
 - Information on current financial risks to the sector and strategies for managing these will be addressed through existing processes such as Joint Ministers' sign off of the 2010 DAPs, and the Ministerial group overseeing state sector employment negotiations.
 - A separate report to ECC by the end of October 2010 will provide an overview of the Ministry's financial management capability.
 - A separate paper to ECC by the end of November 2010 will provide a high-level assessment of MRG reform progress and expected results.

Health Expenditure trends and drivers of Health Expenditure

5. The Minister's paper provides a useful overview of recent trends in health expenditure and the main drivers of costs in the sector, and the scale of the "performance challenge" in managing the sector with a lower rate of funding growth in future.
6. Table 2 in the Health report estimates the size of the "performance improvement challenge" for Vote Health as a [2]
This is derived as the gap between:
 - A "top down" estimate of price and volume pressures (based on full demographic adjustment, eliminating DHB deficits and full "FFT" price adjusters for inflation, labour costs and technology); and
 - A scenario assuming that future Health budget allocations will in future be the same share of the total operating allowance as received by Health in 2010.

7. This is a useful way to illustrate the scale of the productivity and expenditure control challenge in the Health sector, but it is important to note that this is an illustrative scenario and should not form the basis for setting a Budget 2011 health allocation.
8. The Treasury notes that the Ministry's "constant budget share" scenario in Table 2 assumes a 42% share of the operating allowance (starting from a \$461m share of the \$1.1billion operating allowance in Budget 2010, [2] This assumes *time limited* one-off funding of \$41m in 2010/11 (reflecting previous underspends) is repeated and ongoing.
9. Excluding time-limited increases from underspends, Health's share of the Budget 2010 operating allowance was 38%, or \$420m. The cumulative performance improvement required to live with 38% of the budget operating allowance [2]

[2]

13. Issues the Committee may wish to discuss include:

- What the key risks are to achieving productivity gains of the size estimated for the current post-MRG implementation work;
- Whether the capability and investment is in place to deliver these productivity gains; and

[2]

19. While some illustrative costings are provided, the potential gains from policy options outlined in the paper are generally not quantified, or their relative scale and timing explained. Whether these steps are sufficient to manage health expenditure to a lower future funding track will depend on:
 - The extent to which savings can be captured as a lower rate of growth in health expenditure (rather than reinvested in new services or “buying change” from providers);
 - The speed with which options can be implemented and their transition costs; and
 - Future fiscal conditions and health’s share of future budgets.
20. The committee may wish to explore with the Minister of Health and attending officials whether the potential productivity gains from the various “next steps” options discussed in the paper can be quantified and ranked.
21. At this stage, we do not consider that there is enough information for Ministers to take shortlising decisions that take any of the options in the Health paper off the agenda.
22. While supporting further work on the specific options identified in recommendation (b) we recommend that Ministers also direct the Ministry to develop further analysis and options for more effective targeting of health services and subsidies, such as those as outlined in the paper.

Recommended Action

We recommend that you:

a **note** that the Minister of Health's report to Cabinet Expenditure Control Committee asks Ministers to indicate areas for further work by the end of May 2011;

b [6]

Agree/disagree.

c **note** that without further information on potential scale of savings achievable from each of the options outlined in the Health report, we do not consider that there is enough information for Ministers to take shortlising decisions that take any of the options in the Health paper off the agenda;

d **agree** to ask that ECC direct additional work by the Ministry of Health by May 2011 (or earlier where possible) that will enable Ministers to take firm decisions on options to:

- Increase productivity, enhance system performance, efficient and effective service delivery configurations; and

[2]

Agree/disagree.

e **refer** a copy of this report to the Minister of State Services.

Agree/disagree.

Chris Bunny
Manager, Health
for Secretary to the Treasury

Hon Bill English
Minister of Finance