

# The Treasury

## Budget 2018 Information Release

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Reference: T2018/300 DH-1-2-3-2-4-2018

Date: 14 February 2018

To: Minister of Finance (Hon Grant Robertson)  
Associate Minister of Finance (Hon David Clark)  
Minister of State Services (Hon Chris Hipkins)

Deadline: Thursday 15<sup>th</sup> February 2018  
(if any)

## **Aide Memoire: Vote Health Budget 2018 Package**

You are meeting with the Minister of Health on Thursday 15 February 2018 to discuss the Vote Health package submitted for Budget 2018. This aide memoire discusses this package and provides scaling and deferral options to consider in your discussion with the Minister of Health.

While there are scaling options available within the package (outlined below), these will be insufficient to bring the package within the signalled amount in the Fiscal Plan. Therefore decisions will need to be taken regarding the two largest operating components (the DHB cost pressures, and the primary care package). There are also options to scale the capital expenditure.

We recommend you use your meeting to raise the following points:

- How does the current package fit within the signalled fiscal envelope for Vote Health?
- What level of comfort does the Minister of Health have about scaling the DHB cost pressure initiative given the current fiscal positions of DHBs and current/upcoming employment relations negotiations?
- What options are available for phasing primary care initiatives given the current pressure on the operating allowance?
- How confident is the Minister that the Dunedin Hospital business case will be investment ready early in 2018/19, and therefore requiring funding in Budget 2018?

Over the forecast period, the Minister of Health is seeking, on average, **\$1.2 billion operating per annum**, and **\$2.636 billion capital expenditure**. This creates significant strain on the overall operating and capital allowances.

The package is summarised in the table below, which sets the Budget 2018 package against the fiscal plan, including cost pressure estimates for subsequent budgets.

<b>Table 1: Submitted Vote Health Budget 2018 Package</b>						
<b>\$m</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Total</b>
<b>Budget 2018</b>						
DHB cost pressures		581	581	581	581	2,324
Other cost pressures	17	151.96	147.96	139.96	135.96	592.84
Primary care package	[38]					
Mental Health package		[33]				
Other manifesto	50.093	106.592	126.208	116.854	111.705	511.452
<b>Budget 2019 (Ministry of Health estimates)</b>						
DHB cost pressures		[33]				
NDE cost pressures						
<b>Budget 2020 (Ministry of Health estimates)</b>						
DHB cost pressures		-	-	[33]		
NDE cost pressures		-	-			
<b>Budget 2021 (Ministry of Health estimates)</b>						
DHB cost pressures		-	-	-	[33]	
NDE cost pressures		-	-	-		
<b>Cumulative</b>	[33]					
<b>Fiscal Plan</b>	<b>21</b>	<b>846</b>	<b>1,535</b>	<b>2,361</b>	<b>3,157</b>	<b>7,920</b>
<b>Variance</b>	[33]					
Reprioritisation						

Using Ministry of Health estimates for sectoral cost pressures over the forecast period (DHB, disability support, and other non-departmental cost pressures), fully funding the operating package would leave a shortfall of [33] compared to the fiscal plan allocation for Health.

Additional to the Vote Health package, there are flow on costs for Vote Social Development and Vote Labour Market (ACC) associated with elements of the primary care package (the expansion of the Community Services Card (CSC)), [37]

[37] and free visits for under 14 year olds). Current estimates for these costs are [38] for Vote Labour Market (ACC) and [38] for Vote Social Development over the forecast period. [38]

## Scaling Options

There are a number of options available to reduce the Vote Health operating package, as outlined in table 2 below.

Option	Initiatives (\$m p.a average)	Key points	Reduction (\$m per annum)
Mental Health Package	<ul style="list-style-type: none"> <li>[33]</li> <li>Extending services in earthquake affected schools (\$5.5)</li> <li>Expansion of school based health services [33]</li> <li>Pilot integrated therapies for 18-25 year olds (\$5.675)</li> </ul>	<p>There are options to scale and defer these initiatives to better align with the timing of the outcomes of the mental health inquiry.</p> <p>(e.g. Treasury would recommend deferring school based health services until post-inquiry)</p>	[33]
Bids with capital components submitted without business cases	<ul style="list-style-type: none"> <li>[33]</li> <li></li> <li></li> <li></li> </ul>	<p>These initiatives have capital or near capital requirements and as such require business cases. Options to defer.</p> <p>(This would also decrease capital expenditure by \$19.42m)</p>	[33]
Initiatives submitted that are not manifesto	<ul style="list-style-type: none"> <li>[33]</li> <li></li> <li></li> </ul>	<p>These initiatives are not manifesto. However, the organ donation is a high value proposal.</p>	[33]
			[33]

There may also be options within projects to scale (e.g. reducing the number of DHBs to rollout the next phase of the bowel screening programme).

## Considerations for the two largest operating components

Taking into account the above options, the package remains over the fiscal envelope and will require decisions regarding the largest components of the package. These are:

- District Health Board (DHB) cost pressures (\$581 million), and
- The primary care manifesto package ([37]).

There is an option to apply an efficiency gain to the DHB cost pressures (e.g. a 0.25% efficiency dividend would scale the initiative to \$549 million per annum), however, given the current year deficit position of DHBs, and the deterioration of DHB capital stock, scaling may place DHBs under more pressure.

It is also a significant year for state sector bargaining, and expectations in the sector for pay rises are high. DHBs have already signalled that the current nurse settlement is unaffordable and may require additional Crown funding. This settlement sets a precedent for future wage negotiations in the health sector, and junior doctors are awaiting the outcome of the nurse settlement.

Given this, we recommend that you ask the Minister of Health what options there are for phasing and re-profiling the primary care manifesto initiatives. This would help align the package with the primary care review, and make pulling together a package of reform options more feasible within the fiscal envelope.

Options for phasing and re-profiling the primary care package include deferring the [37] until after the inquiry ( [37] ).

## Capital Expenditure

In addition to the options provided in table 2 to scale capital expenditure, below are potential scaling options for the two large capital initiatives.

- Dunedin Hospital [37]
  - Recommend scaling (to fund design/project costs est. [37] and deferral. The likelihood of the project delivering an investment-ready detailed business case in June 2018 is low and the cost range remains highly uncertain. Service design is still underway, scope of the project is yet to be agreed, the site has not been selected, and the capacity of the New Zealand market to build the hospital is limited (significant market sounding work required).
- Capital Investment Pool [33]
  - We have recommended scaling and deferral of this initiative to \$700 million to align with projects that are likely to be investment ready in 2018/19.

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