

The Treasury

Budget 2018 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[2]	to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government	6(b)(i)
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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
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[40]	not in scope	
[41]	that the making available of the information requested would be contrary to the provisions of a specified enactment	18(c)(i)
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Treasury Report: Treasury Report: Update on the Air Ambulance Initiative

Date:	27 February 2018	Report No:	T2018/409
		File Number:	BM-2-4-2018-10

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>note the significant safety, legal and financial risks associated with delaying a decision on funding air ambulances</p> <p>discuss the alternative option presented with the Minister of Health</p>	5 March 2018
Associate Minister of Finance (Hon Dr David Clark)	<p>note the significant safety, legal and financial risks associated with delaying a decision on funding air ambulances and consider the alternative option presented</p>	5 March 2018

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Emily Irwin	Analyst, Health	[39]	N/A (mob) ✓
Carolyn Palmer	Manager, Health	[39]	[23]

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Refer to the Minister for ACC.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Treasury Report: Update on the Air Ambulance Initiative

Executive Summary

There is a Budget bid of \$15 million for Vote Health to reconfigure air ambulance contracts, which expire in October this year. There are significant safety, legal and financial risks associated with current contracts. In order to negotiate new contracts to address these issues, procurement needs to begin in early March. Budget decisions will be announced too late for this timeframe.

Rather than a pre-commitment against the Budget 2018 operating allowance, an alternative solution is to commit to reprioritising funding within the Vote Health baseline. The budget bid would still go ahead, but if this is unsuccessful, savings must be found within Vote Health to continue funding the contracts. As part of the current Budget 2018 reprioritisation process, the Ministry of Health have signalled there may be potential savings in future years.

The primary risk of this option is that the Budget bid will not succeed, and funding for future years will need to be reprioritised within Vote Health. This risk must be weighed up against the risk of failing to reconfigure current air ambulance contracts. If the budget bid is successful, the cost to Vote Health will be offset and the air ambulance contracts will be renegotiated to address the current issues.

Recommended Action

We recommend that you:

- a **note** the significant safety, legal and financial risks associated with delaying a decision on funding air ambulances, and

Agree/disagree.
Minister of Finance

Agree/disagree
Associate Minister of Finance

- b **discuss** the alternative option presented with the Minister of Health.

Agree/disagree.
Minister of Finance

Agree/disagree
Associate Minister of Finance

Carolyn Palmer
Manager, Health

Hon Grant Robertson
Minister of Finance

Hon Dr David Clark
Associate Minister of Finance

Treasury Report: Treasury Report: Update on the Air Ambulance Initiative

Purpose of Report

1. This report highlights the significant safety, legal, and financial risks relating to delaying decisions on the air ambulance bid. It also puts forward an alternative funding option to respond to these risks that avoids a pre-commitment against the Budget 2018 operating allowance.

Analysis

2. The Minister of Health has submitted a budget bid of \$15 million in 2018/19 to reconfigure air ambulance contracts, which expire in October this year. A draft cabinet paper asking to pre-commit funding to this initiative, which Treasury supported, has been delayed.
3. The current contracts breach safety requirements, and pose legal risks due to health and safety legislation. It is essential that new contracts are negotiated. Issues include:
 - a 35 percent of current helicopters are single engine and do not meet Civil Aviation Authority (CAA) regulatory requirements. They require a special dispensation from CAA to fly over urban areas at present.
 - b The aging fleet of helicopters (average age 29 years), where replacement parts will no longer be supported for the dominant model in 5-7 years.
 - c Aviation and clinical crew standards and requirements are often not met, including fatigue management requirements.
 - d Inequity of patient access and clinical outcomes across the country.
 - e The service is unable to implement developments in the CAA regulations and Aeromedical / Air Rescue Standard.
 - f The financial sustainability of the service, resulting in ad-hoc negotiations for additional funding.
4. In order to negotiate new contracts that address these issues, procurement for the new contracts needs to begin in early March. The Ministry of Business, Innovation and Employment have confirmed this timeframe. Procurement cannot begin without securing funding.
5. If funding is not secured by this time, an extension to current contracts will be required in order to wait and see whether the budget bid is successful before beginning procurement. This approach carries the following risks:
 - a Providers will not extend services beyond 31 October 2018 under the current terms and conditions. An extension to current contracts may be as expensive as renegotiating new ones, but will not deliver any of the benefits.
 - b All of the current safety, legal, and financial risks will remain. It may be hard to maintain the special dispensation from CAA to fly over urban areas with another extension to current contracts.

- c It is possible that some providers will leave the market, particularly international providers.

Alternative Option

6. Given these risks, one option is to commit to reprioritising funding within Vote Health to pay for the new contracts, while continuing with the Budget bid. For example, a Cabinet paper could recommend a fiscally neutral adjustment of \$15 million from Disability Support Services (DSS) into air ambulances for 2018/19.
7. There is a budget bid for DSS cost pressures (\$61.7 million for 2018/19) which Treasury supports. This could be amended to include the extra \$15 million reprioritised in 2018/19 for air ambulances. In this case the air ambulance bid would also need to be modified to exclude the health funding for 2018/19.
8. This allows procurement to begin in early March, does not require a funding pre-commitment, and if the budget bids are successful it will not reduce funding for DSS. However, the Ministry of Health would need to commit to continuing to fund air ambulances from baselines in case the air ambulance bid is unsuccessful. As part of the current Budget 2018 reprioritisation process, the Ministry of Health have signalled there may be potential savings in future years.
9. The primary risk of this option is that extra DSS funding may not be approved. The fact that there is a proposed MBU transfer into DSS, and a DSS cost pressure bid submitted, demonstrates that this appropriation is already under pressure. Limited funding in DSS will result in reduced entitlements for disabled people, a particularly vulnerable population group with disproportionately poor outcomes.
10. There is also a risk that the air ambulance bid is not successful, and the Ministry of Health will have committed to funding the new contracts but will not have new funding for this. In this case, the Ministry of Health will have to find the funding from baselines.

Implications for ACC

11. ACC jointly fund air ambulances with the Ministry of Health as part of the National Ambulance Service Office (NASO). Under current health and safety legislation, the ACC Board is liable if any accidents were to occur due to the inadequacies of current air ambulance contracts. Therefore not renegotiating the contracts creates further risk for ACC. For this reason, alongside the other risks described above, ACC is eager to renegotiate these contracts as soon as possible. ACC is likely to be able to absorb these costs into their baselines if necessary, and only requires the Ministry of Health to commit to funding their own portion in order to proceed.

Next Steps

12. If this alternate option is agreed to, the following steps would be required:
 - a Lodge a Cabinet paper recommending the fiscally neutral adjustment of \$15 million from DSS into air ambulances for 2018/19
 - b Amend the DSS and air ambulance budget bids to include an extra \$15 million in DSS and remove \$15 million from air ambulances for 2018/19. We understand there are two other late bids to be submitted (deficit support, and Maniototo Hospital). These changes could be included in the Ministerial letter required for late bids.
 - c If the air ambulance budget bid were to be unsuccessful, direct the Ministry of Health to find baseline funding over the forecast period to fund air ambulances.