Template 1: Budget Initiative template

Overview and context

Key Question/area	Comment/answer
Agency to complete	
Portfolio of lead Minister	Minister of Health
Portfolio(s) of other Ministers involved (if this is a joint initiative)	N/A
Votes impacted	Vote Health
Initiative title	District Health Boards – Additional Support
Initiative description	This funding will be provided to the 20 DHBs so they can provide health services for New Zealand's growing and changing population and maintain services in the face of price and wage inflation. DHBs have a legislated responsibility to improve, promote, and protect the health of all New Zealanders. They do this through services like hospitals, mental health and maternity care, medicines, primary care, and supports for older people. If DHBs are not funded for these services then they will not be able to meet their legislated responsibilities.
Type of initiative	Non-discretionary cost pressure
If this initiative relates to a priority, please outline the specific priority/ies it contributes to	This initiative aligns with the Budget priorities: • *Supporting mental wellbeing for all New Zealanders* – DHBs are a key provider of specialist mental health services and funder of primary mental health services. • *Supporting child wellbeing* – DHBs are core providers of child and maternity services (including, neo-natal, secondary maternity care, paediatrics, and child development services) • *Improving equity through access to affordable quality health care* – core primary care services are funded by DHBs.
Does this initiative relate to a commitment in the Coalition Agreement, Confidence and Supply Agreement, or the Speech from the Throne?	Yes. The Speech from the Throne states: "Health will also be a top priority. This government will restore funding to the health system to allow access for all. It will invest in the health system to provide the highest levels of care, support and treatment, wherever people live in New Zealand."
Agency contact	Philip Berghan-Whyman (Principal Strategic Projects Analyst, System Strategy and Investment, Ministry of Health, phone: 04 496 2195)
Responsible Vote Analyst	s 9(2)(a) [redacted]

Funding

Funding Sought ($m)	2019/20	2020/21	2021/22	2022/23 & outyears[1]	TOTAL
Operating	s 9(2)(f)(iv)				

No capital funding is sought through this initiative

1. Executive Summary

1.1 EXECUTIVE SUMMARY

A. Short summary of the proposed initiative and expected outcomes.

Health is a top priority for the Government, and it has committed to restoring "…funding to the health system to allow access for all" and to investing so the system provides "… the highest levels of care, support and treatment, wherever people live in New Zealand."

DHBs provide or fund most health services in New Zealand. They have a legislated responsibility to improve, promote, and protect the health of all New Zealanders. DHBs do this through services like hospitals, mental health and maternity care, medicines, primary care, and supports for older people.

DHBs spend around $5 billion each year on purchasing services in their communities (e.g. from general practice and aged care) and a further $8 billion on delivering services (e.g. hospitals). These services provide for all of Government's priority populations and more. This includes: children and young people (for example, maternity, neo-natal, child development) and those needing mental health supports (for example, forensic, secondary, and primary mental health services).

The funding sought will be provided to the 20 DHBs so they can continue providing health services for New Zealand's growing and changing population in the face of price and wage inflation. In 2019/20 we expect to see:

- population increase of 75,710 to 5,000,905 people (a 1.5% increase)
- increase in the number of people aged 65+ of 27,475 (a 3.6% increase)
- increases in remuneration costs of around [redacted] (based on recent settlements) – DHBs directly employ around 65,000 FTE of staff
- general price inflation of 1.8% (based on CPI), which impacts costs such as fuel, power, food, asset maintenance and replacement, and other costs for goods and services purchased by DHBs.

If DHBs are not funded for these services then they will not be able to meet their legislated responsibilities. To manage within their existing funding path, DHBs would ration services and defer assets maintenance, which would mean some people not receiving care they need. If additional funding is not provided, it is also likely that expenditure by some DHBs will increase ahead of their revenue leading to increased deficits and risk of insolvency.

2. The Investment Proposal

2.1 Description of the initiative and problem definition

What is this initiative seeking funding for?

This initiative seeks funding so that DHBs can:

- **Deliver services for an estimated additional 75,710 people**. This is an increase of 1.5% in New Zealand's population, bringing it to 5,000,905 people in 2019/20. The increase reflects continued high levels of net migration as well as the impact of births and deaths.
- **Deliver services for the additional 27,475 older people**. This is a 3.6% increase in the number of people aged 65+. As people get older, they use health and disability services

[1] If funding is time-limited and does not carry on into out-years please delete the reference to "& outyears"

	more often; those services tend to be more complex; and they may use services (such as home supports) that younger people typically don't need.[2] • **Provide for increased remuneration costs for the DHB-employed workforce**, which employs more 65,000 people across New Zealand, providing and supporting medical, surgical, mental health, and other public health services. Each year, these staff provide for more than 600,000 hospital inpatients, more than a 1 million discharges, 2.5 million days of hospital stay, as well as extensive outpatient services. • **Provide for increased costs in purchasing the goods and services that support the health of New Zealanders**, including (but not limited to): o core funding for general practice, primary mental health, district nursing, and community laboratory services o core funding for aged care and supports, o the supplies and services used by our public hospitals (including those used in the business-as-usual maintenance and replacement of assets. These are non-discretionary cost pressures on services that support the health and wellness of New Zealanders, enabling them to better participate in the community. Those services include priority areas, such as core mental health services (in the community and in hospitals) and hospital level supports for mothers and children (secondary maternity, paediatrics, and neonatal).
Why is it required?	DHBs provide services for the entire population of New Zealand. They spend around $5 billion each year on purchasing services in their communities (e.g. from general practice and aged care) and a further $8 billion on delivering services (e.g. hospitals). DHB costs will increase as they meet increased demand for services and because of price and wage inflation. DHBs have limited ability to control or absorb these cost increases and are not able to meet them through increased productivity or revenue from other sources. Additional Crown funding is therefore being sought. **If DHBs have to manage within their existing funding path then they would:** • **Ration services** - this would mostly mean reducing the levels of planned care procedures delivered. These are procedures that greatly improve people's quality of life and address medical issues that are not immediately life threatening, for example, joint replacements, cataract surgeries, and repairing hernias. They may also undertake significant services changes aimed primarily at cost reduction, rather than managing wellbeing. • When services are rationed, those aimed at prevention and improving equity are usually amongst the first to go, as they are future focused rather than providing immediate countable outputs. • **Defer assets maintenance** – this would result in a further decline in the state of DHB assets, many of which are already aging and in need of replacement. This decline reflects decisions by DHBs to defer maintenance in previous years in order to manage down costs. • This is not a long term strategy for managing costs as when the maintenance is undertaken it is often more costly than would otherwise have been the case. If additional funding is not provided, it is also likely that expenditure by some DHBs will increase ahead of their revenue leading to increased deficits and risk of insolvency. An insolvent DHB would be unable to pay its staff and health and disability services for its population would be strongly at risk. DHBs have been under significant financial pressure since the global financial crisis. The Ministry estimates that although there was significant investment in DHBs over that period, ongoing costs have likely increased by around $320 million per annum more than ongoing Crown funding (see figure below).

[2] A 0.79% increase in demand is projected due to the aging of the population and changes in the mix of age groups and other factors (this excludes population growth).

s 9(2)(f)(iv)

[redacted]

2.2 Options analysis and fit with existing activity

What other options were considered in addressing the problem or opportunity?

Broadly, four options for addressing DHB cost pressures were considered. These following were the key criteria used:

a. Affordability for government

b. DHB sustainability

c. Alignment with Government priorities

d. Alignment with legislative requirements.

- **Option 1: Changing what DHBs are expected or required to deliver or achieve so that the overall cost can be met within current baselines.** This would require no new funding, so it would be affordable; it could make DHBs sustainable; however, the changes would need to be carefully considered if they were to align with the Government's priorities and also still enable DHBs to meet their legislated responsibilities to their populations.
- As the New Zealand Health and Disability System Review is underway, proposing significant changes to DHB responsibilities or legislation pressures was not considered appropriate.
- **Option 2: Not providing any new funding to DHBs for their pressures and requiring them to be more efficient so they can live within their existing funding under current policy settings.** This would be affordable to Government (at least prima facie), but it would not be viable or sustainable for DHBs, requiring them to make efficiencies of around 5 percent of their baseline.
- DHBs have struggled to live within baselines with efficiency requirements of around 1% per annum and they are currently facing rising deficit positions. Not funding their pressures at all would result in larger deficits (rather than lower expenditure), and some DHBs would likely become insolvent (see above) meaning they would be unable to contribute to Government priorities or meet their legislated responsibilities.
- **Option 3: Providing DHBs with funding for their forecast cost pressures** – this is the recommended option. It seeks to balance affordability for the Government with sustaining DHBs, thereby enabling them to meet their responsibilities and contribute to Government priorities.

	• **Option 4: Providing DHBs with additional funding above those indicated for their pressures in 2019/20.** Scaling DHBs funding for current pressures may not be sufficient to fully meet their ongoing funding needs. A separate bid for ongoing sustainability funding is a possibility; however, this needs to be considered in the context of affordability for the Crown and alignment with the Health and Disability Service Review. The Crown continues to have the option of providing DHBs with equity support to help manage their ongoing financial positions.
What other similar initiatives or services are currently being delivered?	While the Ministry of Health funds some services for some populations and ACC funds accident-related costs, district health boards are unique in providing health services for the entire population of New Zealand. Note: ACC does reimburse the Crown, through the Public Health Acute Services payments, for the estimated cost of accident-related health services provided by public hospitals. This is done at the end of the financial year and results in the Crown recovering about $500 million. The Ministry of Health purchases complementary services in addition to DHBs. For example: • DHBs purchase core primary health care services from general practice (e.g. core capitation) and the Ministry purchases primary care services that enhance access for particular populations (e.g. free under 13s and Very Low Cost Access). • DHBs purchase disability supports for people aged 65+ and the Ministry of Health purchases disability supports for those under that age. • The Ministry purchases national screening services (for example, breast and cervical screening), and DHBs provide the treatment and care for those identified through those services.
What other, non-spending arrangements in pursuit of the same objective are also in place, or have been proposed?	The New Zealand Health and Disability System Review is underway. This is a wide-ranging review designed to future-proof our health and disability services. The review includes seeking independent advice and analysis and engaging with DHBs in developing its recommendations. An interim report is expected by July 2019 and a final report by 31 March 2020.
Strategic alignment and Government's priorities/direction	The Prime Minister has announced a long term plan to build a modern and fairer New Zealand. As part of the plan, the Government commits to improving the wellbeing of all New Zealanders and their families, and ensuring that the economy is growing and working for all. The health system has an important role in supporting all of these goals. A strong, equitable public health system that is performing well and is focussed on the right things is central to driving the Government's goal of ensuring that: • all who are able to are earning, learning, caring and volunteering • to supporting "healthier, safer, more connected communities, and • to making New Zealand the best place in the world to be a child. The Ministry of Health has identified four key priority areas for the health and disability system: • a strong and equitable public health and disability system • Mental health and addiction • Child wellbeing • Primary health care and prevention. DHBs fund or provide most health services in New Zealand. It is therefore critical that they are appropriately funded if these goals are to be achieved. When funding is not sufficient, it can result in inequitable allocation of resources and health outcomes.
2.3 Outcomes	
Overall outcomes expected from this initiative	This initiative will support improved overall health for all New Zealanders through the health and disability services provided by DHBs. This occurs in relation to: • an increase in the number of people receiving health services (population growth); • people receiving additional supports that they may not have needed before (relates mostly to population aging); and,

	• people continuing to receive the sorts of services that are currently available compared with the counterfactual position where DHBs ration services (or are otherwise unable to provide them) leading to a deterioration in the overall health of New Zealanders. Improved health enables benefits across other domains, such as: • being better able to learn and earn; improvements in subjective wellbeing; • improved social consecutiveness (including enabling people to care and volunteer); and, • reduced reliance on Government supports (such as benefits and allowances). Efforts to improve outcomes for priority populations (for example, children) and to priority domains (for example, mental health and wellbeing) are built on maintaining and improving core services. Funding new services but allowing core services to deteriorate would be unlikely, on net, to result in good outcomes for New Zealanders.
2.4 Implementation, Monitoring and Evaluation[3]	
How will the initiative be delivered?	The new funding will be allocated to DHBs as part of their baseline funding for 2019/20. The DHBs are required to outline their intentions for how funding will be spent as part of their Annual Plans. These Plans are in response to the Minister's Letter of Expectations which outlines Government's priorities for health to be delivered by DHBs. DHBs are established organisations with experience of delivering to meet the health needs of their population and managing their financial position. The Ministry of Health and Minister of Health are strongly involved in the planning and performance of DHBs.
How will the implementation of the initiative be monitored?	DHBs will outline their intentions through the annual planning process, which requires plans to be developed with the Ministry of Health and sign off from the Minister of Health (and Minister of Finance for those plans with higher financial risk). These plans are monitored and reported on a monthly basis for financial results and quarterly for non-financial targets. Other reporting by DHBs includes: • their annual reports • regular public reporting against a set of performance measures (currently being developed) that focus on health outcomes and optimal resource use. These measures should be in place for the 2019/20 financial year. The Ministry of Health is working to develop a DHB Performance Programme. The overall objective of the DHB Performance Programme is to obtain a fuller understanding of both the financial and non-financial performance of DHBs. This includes development of a new performance framework to improve how we measure health outcomes of local populations and improving our understanding of the drivers of DHB deficits.
Describe how the initiative will be evaluated	As noted above, the Ministry of Health and Minister of Health are strongly involved in the planning and performance of DHBs.

3. Wellbeing Impacts and Analysis

Note: quantifying precisely the full benefits that accrue as a result of publically funded health services is challenging. The analysis below assumes a minimally positive return, not as a realistic estimate of what the

[3] This doesn't necessarily have to include a full implementation and evaluation plan, however the information provided must provide confidence that the proposal will be successfully delivered and there is a plan to ensure that the outcomes described are actually achieved.

benefits are, but rather to illustrate that even a minimal improvement in outcomes for those effected produces a positive return for the Crown.

3.1 Wellbeing domains – People's experience of wellbeing over time

Domains	Impact(s) description	Who are affected?	Magnitude of impact	How big?	Realised in	Evidence base	Evidence quality
Health ✚ Primary	Improved overall health	All New Zealanders. This includes births (children) and net migration (adults).	Assume 75,710 more people (the projected increase in population) receive health services that improve their health status by a minimum of 1%.	See magnitude	<5 years		Moderate
		People who are aging into the 65+ age band.	Assume 27,475 more older people (the projected increase in the population aged 65+) receive health services that improve their health status by a minimum of 1%.	See magnitude	<5 years		Moderate
		Planned care is provided across the entire population. When services are rationed, if is often the most vulnerable populations that miss out.	Assume that 135,159 planned care procedures do not take place. This volume is based on DHBs having to absorb the cost of the bid by not delivering this many procedures at a national price per procedure of $5068 – this is illustrative only, not a policy suggestion).	See magnitude	<5 years		Moderate
Jobs and earnings	Increased remuneration and additional jobs for health workers	DHB employed staff, such as doctors, nurses, and allied health professionals across New Zealand's 20 DHBs. Note: there will likely also be increases for non-DHB employed workers employed by community providers.	DHBs employed around 65,000 FTE of staff. Recent Multi-Employer Collective Agreements have resulted in increases in remuneration with an annualised impact of around 4.77% per annum.	See magnitude	<5 years		High
	Avoid lost work and productivity	Working age New Zealanders	Some of the people who don't receive care (counterfactual) will be unable to work at the usual capacity. This can also impact their subjective wellbeing.		<5 years		Moderate
Income and consumption	Avoid Crown costs for Job Seeker and disability allowances	Working age New Zealanders.	Some of those people would receive Government allowances that they would otherwise not need to access.		<5 years		Moderate
Social connections	Avoid social isolation / lack of connectedness	All New Zealanders.	People who are unwell can become isolated. They may be unable to provide the supports that they would otherwise contribute (for example, looking after grandchildren and enabling parents to earn or learn).		<5 years		Moderate

3.1 Wellbeing capitals – Sustainability for future wellbeing	
Wellbeing capitals	Please fill out the table below to demonstrate how your initiative may contribute positively, negatively or neutrally to the four capitals.

Capitals	**Describe the impact and its magnitude**	**Realised in** <5 / 5-10 / 10+ years
Financial/Physical	**Decrease.** This initiative draws down financial capital to fund the cost of the DHBs additional costs **Maintain.** This contributes to the ongoing business-as-usual maintenance and replacement of assets by DHBs.	<5 years as the cost is immediate
Human	**Increase/maintain.** The public health and disability system is a key supporter of human capital in New Zealand. It supports the physical and mental health of all New Zealanders, enabling them to participate in society (whether that be through earning, learning, caring, volunteering, or in other capacities). The initiative supports the ongoing maintenance of human capital for the existing population and increasing human capital as the population grows and ages.	<5 years.
Natural	**Maintain**. This initiative has no impact on natural capital.	N/A, as no impact
Social	**Maintain/increase.** The services provided by DHBs, particularly home supports for older people, enable those people to remain in their communities, where they are able to participate in society. The number of older people in New Zealand is increasing.	<5 years.

3.2 Risk and resilience narrative	
Does the initiative respond to or build resilience?	Funding this initiative will allow DHBs to focus their efforts on managing their existing financial positions rather than putting them under further pressure. Many DHBs are already at risk financially, operating significant deficits. If this initiative is not funded then this is very likely to worsen. A good public health and disability system, like New Zealand's, is fundamental to the country's resilience. It supports people when they are unwell and aids them in recovering and continuing to participate in society (earning, learnings, caring, and volunteering). Preventative services are often the first to be reduced or stopped when DHBs are required to find efficiencies, along with initiatives intended to improve equity or support those who are most at risk.

4. Costing understanding and options

4.1 Detailed funding breakdown

Please provide a breakdown of the costs of this initiative

This funding is intended to cover the following pressures on DHBs arising in the 2019/20 year.

($m)	2018/19	2019/20 and outyears
Demographics (population growth)	s 9(2)(f)(iv)	[redacted]
Demographics (population aging)		
Remuneration pressures		
Price pressures		
Total		

Description of pressures and assumptions

- The demographic pressures are based on historical utilisation rates for health services and projected populations (prepared for the Ministry of Health by Statistics New Zealand). If births, deaths, net migration, or other demand factors are significantly different to what has been projected then this could impact overall DHB costs.
- Population growth is projected to increase costs by [redacted]; aging is projected to increase costs by [redacted]
- The remuneration pressures are based on analysis of MECA settlements impacting 2019/20. The annualised cost increase has been assumed a[redacted] but the amount sought has been adjusted for Crown funding already provided towards the settlements.
- If these settlements have significant flow-on to the rest of the sector then this could increase DHB costs ahead of what has been estimated.
- Price pressure have been estimated based on CPI[redacted]. This covers a broad range of costs and it is expected that some costs will increase by more than this and other by less.

Other notes

- This initiative is intended to allow DHBs to manage ongoing pressures arising in 2019/20. It does not include any additional components towards sustainability or deficit reduction. The initiative aims to provide DHBs with significant funding so that their financial position does not worsen and to allow them to focus their efforts on managing their existing financial positions (rather than adding further challenges).
- DHBs may face one-off costs in particular years that impact on their financial positions. The assumption is that these are, overall, neutral to their position (overs and unders).
- Three separate but related bids are being proposed through the Budget 2019 for District Health Boards:
    - **An increase to the Health Capital Envelope**, which funds capital projects in the health sector (including Crown contributions to some DHB projects) – that initiative provides for capital funding, whereas this bid provides for operating funding.
    - **An increase to the appropriation for equity support to DHBs**, which will allow for deficit support payments to DHBs. That bid relates to the DHBs current financial position, whereas this bid relates to forecast pressures from 2019/20.
    - **A contingency for increases in DHB capital charge**, which seeks a one-off contingency to manage the expected increase in capital change in 2019/20. That bid is for one-off funding of a fiscally neutral amount, whereas this initiative is for ongoing funding.

4.2 Options for scaling and phasing	
Scaling, phasing or deferring - including 75% and 50% scenarios	<table><tr><th>50%</th><th>75%</th><th>80%</th><th>91%</th><th>100%</th></tr><tr><td>s 9(2)</td><td>[redacted]</td><td>[redacted]</td><td>[redacted]</td><td>[redacted]</td></tr></table> The impact of scaling the new funding allocation to DHBs in Budget 2019 is described in section 2.1. We would expect to see a combination of DHBs rationing the delivery of non-acute services, deferring asset maintenance, and increased DHB deficits. Scaling or deferring the initiative is problematic because: • Much of the remuneration pressure relates to MECA settlements that have already been agreed (in consultation with both Cabinet and the Treasury) • Many volume pressures (such as those for acute care, primary care enrolment, and aged residential care) are essentially unavoidable. • Prices in the health sector will increase just as they do for the rest of the economy (e.g. food, fuel, and other basic goods and services). • The "low hanging fruit" in terms of savings have already been made by DHBs. Given their financial positions, it would be problematic to expect them to absorb half or 25% of their pressures. Historically, they have struggled with efficiency targets in the ballpark of $100M. • When services are rationed, it is often preventative services or those that aim to improve equity outcomes that are scaled back or stopped.

5. Collaboration

5.1 Collaboration and evidence	
What type of cross-agency and/or cross-portfolio initiative is this?	This is not a cross-agency and/or cross-portfolio bid where there is collective responsibility. Given the breadth of health services, they can impact across society, including: social development (welfare and development); justice; and education.
Agencies and Ministers that have been engaged in initiative development	The Treasury and the Minister of Finance have been engaged with the development of this initiative.
Impact of cross-agency collaboration	Engagement with the Treasury has aided the Ministry in developing the initiative, including reality testing assumptions about the level of pressures facing DHBs.
Risks and challenges	The Treasury have been very helpful. The Ministry recognises the difficulty of managing an initiative of this magnitude within the operating allowance.