

# Memo

[BUDGET SENSITIVE]



<b>Date:</b>	19 March 2019
<b>To:</b>	Hon Dr David Clark, Minister of Health
<b>CC:</b>	Dr Ashley Bloomfield, Director General, Ministry of Health
<b>From:</b>	Maree Roberts, Deputy Director General, System Strategy and Policy Robyn Shearer, Deputy Director General, Mental Health and Addiction Fergus Welsh, Chief Financial Officer, Corporate Services
<b>Subject:</b>	Updated Budget 2019 advice ahead of your meeting with the Minister of Finance on 19 March 2019
<b>For your:</b>	Noting

## Purpose

- 1) You have a meeting with the Minister of Finance on 19 March 2019 regarding Budget 2019 initiatives. This memo provides you with updated advice for this meeting and responds to issues you discussed with officials on 18 March. Attached is also updated versions of the A3 detailing the individual Budget 2019 initiatives that have been proposed, the A3 summarising the whole Vote Health Budget 2019 package and the A3 detailing the mental health Budget 2019 bids. There is also information on ongoing financial sustainability work attached to this memo as an appendix.

## Requested Advice

Question	Ministry's advice
How is the funding split for Planned Care in Budget 2019?	<p>Planned care funding is split between the Ministry (purchasing approx. \$365 million of procedures from DHBs) and DHBs who funded and purchase approx. \$800 million of procedures. Traditionally, both the Ministry and DHB component (funded within their wider DHB allocation) would receive an uplift to account for population and price growth.</p> <p>s. 9(2)(f)(iv)</p> <p>Breakdown of the electives bid s. 9(2)(f)(iv) per annum):</p> <p>Increase to the national price of [REDACTED]</p> <ul style="list-style-type: none"><li>• Applies the national price increase to the 49,570 Ministry funded planned care procedures. National price is driven by DHB labour costs and operating theatre expenses and measures the cost of</li></ul>

	<p>delivering certain types of procedures. s 9(2)(g)(i)</p> <p>Volume funding of [REDACTED], to purchase a total of [REDACTED] procedures to deliver services for more New Zealanders</p> <ul style="list-style-type: none"> <li>• s 9(2)(f)(iv)</li> </ul> <p>Scaling</p> <p>DHBs are finding it challenging to meet current volume expectations due to external factors such as industrial action and shortage of certain specialists (such as orthopods). This means that even with the proposed funding increase that they may not be able to deliver the volumes sought.</p> <p>Option 1: s 9(2)(f)(iv)</p> <p>A scaling option is to reduce the volume funding by [REDACTED]. This would reduce the total number of additional procedures purchased to [REDACTED]. Increase to match the national price would continue to ensure complex procedures keep getting funded.</p> <p>s. 9(2)(f)(iv)</p>
How much funding is required to maintain low co-payments for VLCA?	<p>Maintaining low co-payments for VLCA requires the Ministry of Health and DHBs to fund the cost pressures VLCA-registered PHOs face.</p> <p>Full coverage of Ministry of Health cost pressures for VLCA-registered practices in 2019/20 is \$s 9(2)(g)(i)</p> <p>This initiative did not provide any additional funding for DHBs to meet their obligations under the PHO agreement. It was assumed that they would meet these pressures through the funding provided in the DHB additional support initiative.</p> <p>However, the current DHB additional support figure leaves some residual cost pressures unfunded by DHBs and this cost will need to be funded by the Ministry of Health to avoid co-payments increasing. The combination of this shortfall and the Ministry of Health's cost pressures results in a total overall package of [REDACTED] per annum required to maintain VLCA co-payments at \$19.</p>
Clarification over the difference in	<p>There are differences in the funding sought for mental wellbeing initiatives outside the primary package between Option 1 and Option 2. Option 1</p>

Suicide Prevention funding figures	<p>includes higher investment in the primary package and lower investment in additional initiatives, to remain at approximately the indicative funding envelope of [REDACTED]. Option 2 includes a smaller primary package, which allows for greater investment in other initiatives even though it remains at approximately the smaller indicative funding envelope of [REDACTED]</p> <p>Option 2 proposes greater investment than Option 1 in:</p> <ul style="list-style-type: none"> <li>• s 9(2)(f)(iv) [REDACTED]</li> <li>• [REDACTED]</li> <li>• [REDACTED]</li> </ul> <p>Note that depending on the need to remain within the funding envelopes originally indicated, we can propose investment at the full amount for [REDACTED] (and other initiatives) in Option 1. This would increase the overall amount of funding allocated to mental wellbeing.</p>
How much funding is being added to the DHB mental health ring-fence?	<p>The Budget package s 9(2)(f)(iv) [REDACTED] per annum in total cost pressure funding going to DHBs, split between [REDACTED] for ring-fenced specialist mental health services and [REDACTED] for other DHB services. The [REDACTED] for ring-fenced specialist mental health services is displayed in the 'mental health' section to represent the total picture of funding going into mental health services within the Budget package. The [REDACTED] for other DHB services is displayed in the 'delivering services for New Zealanders' section to represent the increase in other services DHBs provide.</p>
Health and Disability Review and Budget 2019	<p>The Budget package has been put together to ensure it does not conflict with any of the findings of the Health and Disability System Review. This means the Budget package has been built to:</p> <ul style="list-style-type: none"> <li>• align with public expectations</li> <li>• avoid precluding any changes or locking in funding to areas that may be subject to change</li> <li>• align with the current focus of the review including workforce and data analytic and use of data.</li> </ul>

- 2) The Ministry of Health has also made additional changes you requested to the Budget package.
- a) The 'Budget 2019 Vote Health Package' A3 and the 'Overview of the Budget 2019 Vote Health wellbeing package' A3 have been aligned to ensure they present a consistent representation.
  - b) [REDACTED]
  - c) The bids that are not included in the package are listed on the back of the 'Overview of the Budget 2019 Vote Health wellbeing package' A3 to present the next best investment opportunities.
  - d) The coalition and confidence and supply bids have been highlighted to improve visibility.

**END.**

## Appendix 1

There are three ongoing pieces of work on DHB financial sustainability.

### 1. The DHB Performance programme.

The Ministry of Health has established a new directorate focused on DHB performance, and has put in place a range of initiatives to manage performance concerns. A DHB performance programme is one of the key priority work programmes for the Ministry of Health. This work has a focus on ensuring the DHB performance framework provides robust monitoring, engagement and intervention approaches. The DHB performance framework is being developed to ensure it is tightly aligned and integrated with Government priorities and outcomes while delivering service, financial and clinical sustainability, and supports strengthened DHB governance and leadership. The intention is to provide a framework for early intervention when issues arise and to obtain a fuller understanding of both the financial and non-financial performance of DHBs. This includes improving how we measure health outcomes of local populations and improving our understanding of the drivers of DHB deficits. Additional resource has recently been assigned to overseeing this work programme.

The programme has been established with a series of work streams focused on:

- enhanced DHB planning, including strategic planning meetings with DHB governance and leadership (immediate)
- an enhanced performance framework tightly integrated with system outcomes and government priorities (short term) including improved financial and non-financial performance and strengthened monitoring and intervention processes (short and medium)
- strengthened induction, expectation and on-going development for DHB Boards (short and medium)
- consideration of options for devolution (short and medium)
- additional focus on key enablers such as capital planning (medium)
- development of a Ministry and DHB collective improvement programme to deliver short term benefits realisation (short and medium)
- increased focus and management of emerging sector service performance concerns such as those related to waiting times issues (immediate and short term).

The Minister has also taken a number of steps directly to ensure his expectations in relation to financial and non-financial performance of DHBs have been made clear. These expectations have been communicated through a variety of mechanisms, including through:

- Letters of Expectations to DHBs for both 2018/19 and 2019/20
- attendance at national DHB Chief Executive and Chairs meetings
- December 2018 letter to all DHB Chair's reiterating the Minister's performance expectations for the remainder of 2018/19
- February 2019 press release putting DHBs on notice to improve their financial performance and demonstrate they have a plan to return to financial sustainability.

s 9(2)(g)(i)

### 2. DHB Annual plans.

- Non-approval of the plans of the three DHBs whose planned deficits are the most problematic sends a significant signal.
- Specific work with individual DHBs to improve their financial sustainability going forward and inform their planning process for 2019/20.

- Canterbury DHB: the DHB is working with the Ministry and external consultants to develop an operational plan and work programme. This is a comprehensive programme of work which includes financial and service planning and seeks to identify and act upon realistic opportunities for reducing costs.
  - Waikato DHB: A financial review group has been established that will review cost structures to enable the DHB to return to a financially sustainable position over the next three years. Some opportunities are already being identified through this work. The Ministry is represented on the group in an observational/advisory role, and has requested a draft financial recovery plan from the group to support the DHB's 2019/20 planning.
3. Work being done on equity support and sector cash flow
- The Ministry is working with New Zealand Health Partnerships and the Treasury to identify the options to address the current pressures on sector cash while maintaining clear messaging about the need to tightly manage costs.
  - Those four DHBs which received equity support in January this year had additional requirements imposed on them. These include:
    - a requirement for the Boards to provide assurance to the Minister that any cost increases are unavoidable
    - additional expectations about the delegation of key decisions with cost impacts such as recruitment and contracts with external providers
    - additional reporting requirements.