

Security classification: Sensitive-Budget

Health Report: Engagement on next phase of Budget 2019

Date:	19 February 2019	Report No:	20190284
		File Number:	AD62-14-2019

Action Sought

	Action Sought	Deadline
Minister Clark	Note	Tuesday 19 February

Contact for Telephone Discussion (if required)

Name	Position	Telephone	Contact Order
Fergus Welsh	Acting Chief Financial Officer, Finance & Performance	s 9(2)(a)	1st Contact
Geoff Tilbrook	Acting Group Manager Financial Strategy and Funding		2nd Contact

Actions for the Minister's Office Staff

Note: This briefing provides background information for discussions with officials at 7.30pm on Tuesday 19 February 2019

Note any feedback on the quality of the report

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Engagement on next phase of Budget 2019

To: Hon Dr David Clark, Minister of Health

Purpose

The attached documentation provides supporting information for your meeting with the Director-General scheduled for 7.30pm on Tuesday 19 February on Budget 2019 and your Vote Health Budget package.

Key point

The discussion with the Ministry of Health officials is likely to cover:

- an overview of the Treasury Vote Team's indicative positions on Vote Health budget initiatives, including partially supported and unsupported initiatives
- your initial views on the Treasury's initial triage of submitted budget bids, refer letter from Minister of Finance dated 13 February 2019
- the current performance of the New Zealand health and disability system, including the pressures facing DHBs
- agree on further advice required to shape the direction and focus of the Vote Health 2019 Budget package and enable the Ministry to provide you with support for the Bilateral process; and
- an overview of the Budget process ahead and next steps.

s 9(2)(g)(i)

Recommendations

The Ministry recommends that you:

- a) **Note** the Treasury Vote team's initial assessment of Vote Health's submitted Budget bids.
- b) **Discuss** your expectations at the meeting with officials, scheduled for 19 February, for shaping a Budget package and next steps to support you in preparing for the upcoming Bilateral meeting with the Minister of Finance.



Fergus Welsh
Acting Chief Financial Officer
Finance and Performance

Minister's signature:

Hon Dr David Clark

Date:

A. Background

1. You are meeting with the Director-General and Ministry of Health officials on Tuesday 19 February in what is the first of two scheduled meetings in preparation for your bilateral with the Minister of Finance on the 2019 Vote Health Budget package. These meetings are scheduled as follows:
 - Tuesday, 19 February at 7.30pm – 8.30pm
 - Tuesday, 5 March at 7.00pm – 8.00pm.
2. The date for the bilateral has not yet been set but is likely to be between 6 and 21 March 2019.
3. This memo presents some background information you may wish to consider in preparing for the meeting with Ministry of Health officials, and shape the direction and focus of the Vote Health 2019 Budget package and enable the Ministry to provide you with support ahead of the Budget Bilateral process.
4. As you will recall the main package of Vote Health budget initiatives was submitted to the Minister of Finance and the Treasury on 14 December 2018, following several months of engagement with yourself. The final Mental Health package was submitted on 18 January. A total of 64 initiatives was submitted, including capital initiatives.
5. The Budget package is currently heavily oversubscribed and some difficult choices will be required to develop an affordable package if current operating allowances are maintained. Vote Health bids alone total [REDACTED] across 4 years, against an indicative total government allowance of around [REDACTED] per annum after pre-commitments).

s 9(2)(g)(i)

D. Budget Timeline (Appendix 4)

14. Attached is a summary of key dates for the Budget over the coming months.
15. As noted above, Treasury Vote teams were expected to finalise initial assessments on 15 February to inform the overall first draft Budget packages by 29 February. These will be considered by Cabinet Committees and Budget Ministers in early March.
16. Bilateral meetings between the Minister of Finance (or yourself as Associate Minister of Finance) and Vote Ministers will be held between 6-21 March.

E. District Health Board pressures (Appendix 5)

17. Additional background information regarding District Health Boards cost pressures has been attached to provide more detail around these cost pressures, detailing:
 - the separate cost components drivers
 - DHBs' 2018/19 budgeted year end results and forecasts as at December 2018
 - and deficit support.

s 9(2)(g)(i)

G. Vote Health Expenditure and Funding Trends (Appendix 7)

19. Appendix 7 contains graphs showing changes in Vote Health operating expenditure on a total and per capita basis. The last graph shows external provider payments as a proportion of DHB expenditure.
20. There are no specific measures of health sector inflation and such measures would likely be circular to some extent as they would be influenced by funding made available for settlements etc. Also, the sector is also quite diverse once contracting outside the DHBs provider arms is considered.
21. The Ministry does however use a combination of the Consumer Price Index (CPI) and Labour Cost Index (LCI) as a proxy for inflation in the Health sector. This is charted in the attached graph "Change in Vote Health Operating Budget per capita spending 2007/08 - 2018/19".
22. Note this chart is not adjusted for the age structure of the population. As the population ages, higher per capita expenditure can be expected.

H. Next Steps

23. Following the outcome of the meeting on 19 February, officials will continue to work on potential options and choices as input into your March bilateral discussions with Minister of Finance.
24. Further liaison with Treasury regarding their initial assessments and during the development of bilateral briefing advice will continue and as we gain a further understanding on their position we will share this information with your Office.

Attachments

s 9(2)(g)(i)

Appendix 4: Budget timeline provided by the Treasury

Appendix 5: District Health Board pressures

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Appendix 7: Vote Health Expenditure and Funding Trends

END.