

Reference: 20170222

19 July 2017

[REDACTED]
Office of the Leader of the Opposition
LabourResearchOIA@parliament.govt.nz

Dear [REDACTED]

Thank you for your Official Information Act request, received on 19 June 2017. You requested the following:

- 1. When was Treasury first made aware that there was an error with the DHBs allocated share of additional funding for Budget 2017/18?*
- 2. Was Treasury made aware at any stage after the discovery or during the discovery of the error that the Ministry of Health had indicated to any of the DHBs who had been allocated more due to the error that they could keep/retain the funding amount allocated to them in Budget 2017 Vote Health? If so, how was Treasury made aware of this, when were they made aware of it, what was the advice that Treasury gave in response to this? Please provide all copies of emails, advice etc. in relation to this*
- 3. Please provide copies of all emails sent to district health boards and/or letters/advice since 25th May 2017 in relation to the DHB funding allocations*
- 4. Please provide dates and names of all meetings held with DHB staff/CEs/Chairs etc. since 25th May 2017 where one of the main topics or agenda items was the funding allocations for 2017/18 including a precis of what was discussed*
- 5. Please provide copies of minutes, papers presented at meetings, documents that were a part of those meetings or were produced as a result of those meetings*
- 6. Please provide copies of all advice, briefings, aide memoires, updates, emails, reports sent to the Minister of Finance's office where the funding allocations for district health boards are substantially mentioned for a paragraph or more since 25 May 2017*
- 7. Please also include all emails to Ministry of Health mentioning the 2017/18 DHB funding allocations since 25 May 2017.*

Where information is withheld, I request you provide the title and date of the communication/document withheld, the reason for refusal and the grounds in

support of that reason as required by section 19(a)(i) and (ii) of the Official Information Act. ”

I am responding to your request by answering these questions and providing the relevant documents.

Answers to questions

The answers to your questions are as follows:

When was Treasury first made aware that there was an error with the DHBs allocated share of additional funding for Budget 2017/18?

The Treasury became aware at around 4 pm on 24 May 2017 that the allocation of the additional \$439 million for district health boards included in the Estimates was not consistent with the sector funding policy.

Was Treasury made aware at any stage after the discovery or during the discovery of the error that the Ministry of Health had indicated to any of the DHBs who had been allocated more due to the error that they could keep/retain the funding amount allocated to them in Budget 2017 Vote Health? If so, how was Treasury made of aware of this, when were they made aware of it, what was the advice that Treasury gave in response to this? Please provide all copies of emails, advice etc. in relation to this

The Director General of Health informed the Treasury Secretary on 1 June 2017 of a proposal to allow district health boards to retain funding. The proposal had been communicated to the Treasury at working level the day before. Treasury officials were informed on 1 June 2017 by some district health board chief executives that the Director General had also discussed the proposal with them. As the proposal was not put formally to the Minister of Finance, the Treasury did not provide advice on it. See item 3 in the list of documents below.

Please provide copies of all emails sent to district health boards and/or letters/advice since 25 May 2017 in relation to the DHB funding allocations.

Treasury officials have not sent or seen any e-mails, letters or advice to district health boards about funding allocations since 25 May 2017.

Please provide dates and names of all meetings held with DHB staff/CEs/Chairs etc. since 25 May 2017 where one of the main topics or agenda items was the funding allocations for 2017/18 including a precis of what was discussed.

Treasury officials have not been present at any meetings with district health boards since 25 May 2017 at which the funding allocations were one of the main topics or agenda items.

Please provide copies of minutes, papers presented at meetings, documents that were a part of those meetings or were produced as a result of those meetings.

Treasury officials have not sent or seen any documents that were part of meetings at which the funding allocations were one of the main topics or agenda items.

Please provide copies of all advice, briefings, aide memoires, updates, emails, reports sent to the Minister of Finance's office where the funding allocations for district health boards are substantially mentioned for a paragraph or more since 25 May 2017.

See items 2 and 4 in the list of documents below.

Please also include all emails to Ministry of Health mentioning the 2017/18 DHB funding allocations since 25 May 2017.

See item 1 in the list of documents below.

Documents provided

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	25 May 2017	E-mails about draft report on allocation of new DHB funding for 2017/18	Release in part
2.	25 May 2017	Aide memoire: Allocating \$439m to DHBs in Budget 17	Release in part
3.	1 June 2017	Emails on Health estimates issues	Release in part
4.	12 June 2017	Health report: 2017/18 DHB funding advice: post Budget amendments	Release in part

I have decided to release the documents listed above, subject to information being withheld under the following sections of the Official Information Act:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including deceased people,
- certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions, and
- work contact details of officials, under section 9(2)(k) – to prevent the disclosure or use of official information for improper gain or improper advantage.

Please note we have redacted the work contact details of officials in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's own website.

Information to be Withheld

There is an additional document covered by your request, listed in the table below, that we propose to withhold in full under section 9(2)(g)(i) of the Official Information Act – to maintain the effective conduct of public affairs through the free and frank expressions of opinion.

Item	Date	Document Description	Decision
5.	25 May 2017	E-mails and attachment re draft report on allocation of new DHB funding for 2017/18	Withhold in full under s9(2)(g)(i)

Please note that the information contained in the emails in the above document is included in document 1 of the pack of release information. The draft report is being withheld because it was a draft full of track changes, and officials were still refining their views. Providing the draft information, which differed in some respects from the final decision, might inhibit future free and frank expression of views during the decision-making process.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely



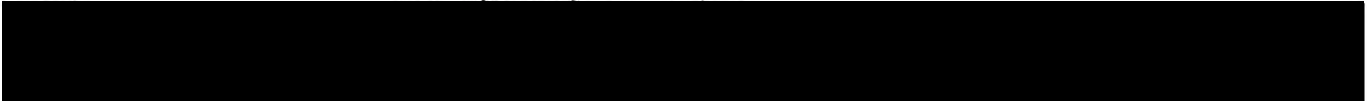
Ben McBride
Manager, Health

Information for Release

OIA 20170222

1.	<u>25 May 2017 E-mails about draft report on allocation of new DHB funding for 2017-18</u>	1
2.	<u>Aide memoire Allocating \$439m to DHBs in Budget 17</u>	4
3.	<u>1 June 2017 Emails on Health estimates issues</u>	8
4.	<u>12 June 2017 Health report 2017-18 DHB funding advice - post Budget amendments</u>	11

From: Ben McBride [TSY]
Sent: Thursday, 25 May 2017 1:05 p.m.



Subject: RE: Draft report on allocation of new DHB funding for 2017/18

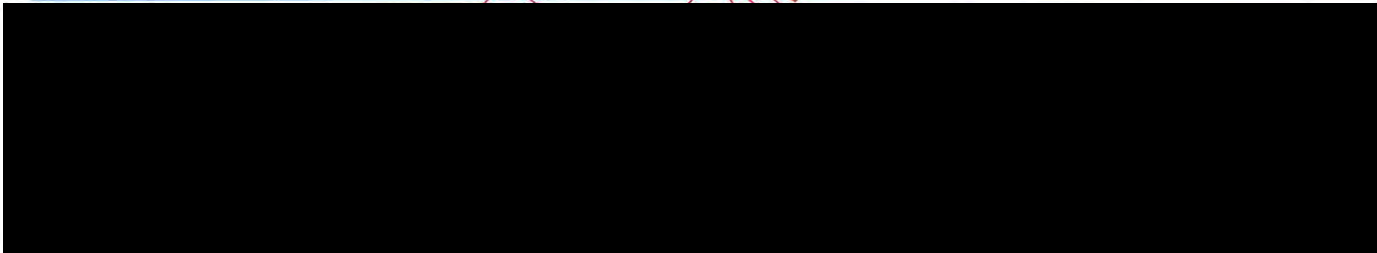
Hi Stephen

Just following up our conversation. Can you let us know when your advice goes to your minister and give us a copy. If it doesn't go by 4pm we will send a note across.

Cheers

Ben

Sent with BlackBerry Work
(www.blackberry.com)



sorry to spam you. 2 points.

The funding split in the Estimates is, for the time being, the only correct split. So instead of "The incorrect funding split for DHBs has been included in the Budget documents", para 1 should probably be with something along the lines of "MOH expects to recommend revisions to the funding split for DHBs included in today's Budget documents, and to seek have these formalised in due course through adjustments to the appropriations."

You might want to include something along the following lines as an annex to the paper. This is just an example. You will need to check and be responsible for the numbers. There is obviously a choice about which column you use as the denominator for calculating the percentage change, which affects how stark the reductions will look.

DHB	2017/18 Increase \$M (Estimates Document)	2017/18 Increase \$M (Proposed MOH Advice)	Variance \$M (Estimates vs Advice)	Variance (Percent change Estimates vs Advice)
Auckland	41.49	52.03	10.54	20.26%

Bay of Plenty	24.62	24.37	-0.25	-1.03%
Canterbury	47.76	45.06	-2.70	-5.98%
Capital & Coast	25.00	21.29	-3.71	-17.43%
Counties Manukau	47.82	41.19	-6.63	-16.10%
Hawkes Bay	17.07	15.08	-1.99	-13.21%
Hutt	13.16	9.5	-3.66	-38.47%
Lakes	11.16	14.61	3.45	23.63%
MidCentral	17.68	12.18	-5.50	-45.16%
Nelson Marlborough	14.85	14.72	-0.13	-0.90%
Northland	20.27	26.56	6.29	23.70%
South Canterbury	6.25	5.07	-1.18	-23.23%
Southern	29.68	24.01	-5.67	-23.62%
Tairāwhiti	5.66	6.12	0.46	7.50%
Taranaki	11.62	8.14	-3.48	-42.70%
Waikato	39.53	43.91	4.39	9.99%
Wairarapa	4.76	3.28	-1.48	-45.12%
Waitemata	49.54	62.15	12.61	20.28%
West Coast	3.90	3.11	-0.79	-25.27%
Whanganui	7.27	6.61	-0.66	-9.94%
Total:	439	439	37.74	8.60%

From: John Marney [TSY]
Sent: Thursday, 25 May 2017 12:00 p.m.

Subject: RE: Draft report on allocation of new DHB funding for 2017/18

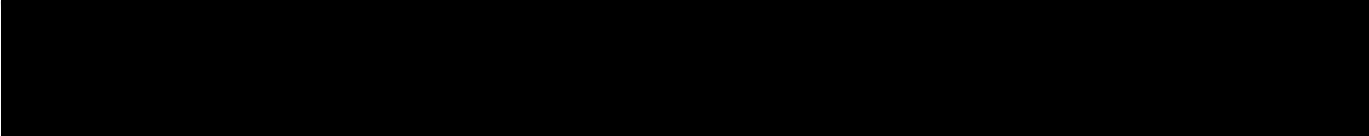
use this version. I have corrected a couple of the more material typos.

From: John Marney [TSY]
Sent: Thursday, 25 May 2017 11:57 a.m.

Subject: RE: Draft report on allocation of new DHB funding for 2017/18

some very rushed suggestions.

From: John Marney [TSY]
Sent: Thursday, 25 May 2017 11:28 a.m.



Subject: RE: Draft report on allocation of new DHB funding for 2017/18

[SEEMAIL][SENSITIVE]

Hi [REDACTED] – as discussed just now, this just doesn't work. It is now 2 and half hours before MOF stands up. This doesn't own the mistake that we alerted you to yesterday afternoon, it doesn't signal the risks of MOF announcing numbers that you intend to immediately contradict (with no authority), it doesn't even set out what the changes are. This didn't happen because of there was no funding signal; we don't normally use a provision allocation for Budget; and we don't routinely fix it up in OBU. I will send you some comments as soon as I can. j

From: [Megan McInnes@moh.govt.nz](mailto:Megan_McInnes@moh.govt.nz) [mailto:[Megan McInnes@moh.govt.nz](mailto:Megan_McInnes@moh.govt.nz)]
Sent: Thursday, 25 May 2017 11:07 a.m.



Subject: Draft report on allocation of new DHB funding for 2017/18

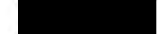
[BUDGET SENSITIVE]

Hi Ben, John

Please find attached the draft report on the allocation of the DHB funding.

Keen for your thoughts/comments and the process going forward.

Cheers



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SENSITIVE

Reference: T2017/1451 BM-2-1-2017

Date: 25 May 2017

To: Minister of Finance (Hon Steven Joyce)
Minister of Health (Hon Jonathan Coleman)

Deadline: Today


THE TREASURY
 Kaitohutohu Kaupapa Rawa

Aide Memoire: Allocating \$439m to DHBs in Budget 17

Yesterday afternoon we received a copy of a report that the Ministry of Health sent to Hon Coleman at some point prior to 18 May about the allocation of the \$439 million of new budget funding to individual district health boards (DHBs). That report explained that the funding signal the Ministry intended to give DHBs at 4pm on Budget day split this amount between them in a way that differed from allocation shown in the Estimates. See the appendix for a summary of the differences. We advised your office of this and signalled to Ministry officials that we considered this problematic. We understand that the funding signal to DHBs has been postponed (we think until tomorrow morning).

The Ministry of Health has yet to provide a definitive explanation for the differences between the Estimates and their revised allocation. Our understanding is that a provisional allocation of the additional \$439 million was used to inform the Estimates (Cabinet decisions on 18 April). This was calculated by applying the pure population based funding formula (PBFF) percentage allocations to the \$439 million. This did not take into account the application of various technical adjusters that affect the amounts individual DHBs actually receive under the funding policy. Those adjustments are normally made prior to – and reflected in – the Estimates each year. In addition, the Estimates this year do not reflect the most recent population data.

The revised allocation

At some point after Budget decisions had been taken on 18 April, the Ministry ran the full DHB funding model (including the technical adjusters and new population data) and produced a revised allocation of the \$439 million. A noting paper was sent to the Minister of Health (*Memorandum: district health board 2017/18 funding advice [20170703]*) signalling differences with the Estimates and indicating that this revised allocation would be announced to DHBs on Budget day, after the Budget statement.

The revised allocation currently has no official status (the only official figures are the Budget numbers) and the Ministry should not announce different figures without the express agreement of both the Minister of Health and the Minister of Finance: fiscally

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neutral adjustments require this approval. However, the revised allocation does, we understand, reflect the established sector funding policy. In particular:

- Pure PBFF allocations are moderated every year through the application of minima and maxima, to avoid excessive volatility in DHBs' funding levels and ensure that all DHBs receive at least a minimum funding increase each year. This year, the minimum and maximum were set at 2.5% and 5.0% respectively.
- Transitional funding adjustments are a consequence of the application of minima and maxima in previous years. For example, a DHB that had its funding increasing capped last year would receive extra funding to bring it back to its proper share of population-based funding (subject to the current year's maximum). A DHB that benefitted from last's year's minimum would have a downward adjustment in the current year (subject, again, to the current year's minimum).
- Top-slicing arrangements take funding off the top of the pure PBFF allocations and redistribute it to particular DHBs (on a non-PBFF basis) for particular purposes. These top-slice arrangements are generally long-standing, with amounts being increased each year. In the current year, it was proposed that an additional \$4 million would be top-sliced to address capacity pressures in forensic mental health (specifically, for the Mason clinic in Waitemata).

Sticking with the Estimates (not recommended)

It is, of course, open to Ministers to decide to depart from these established arrangements for 2017/18, disregard the advice provided by the Ministry of Health earlier this month [*their reference: 20170703*], and stick with the allocation of the \$439 million set out in the Estimates. We do not recommend this approach, however.

- The principle of imposing an annual minimum and maximum on the funding increases of individual DHBs is well understood. It will be difficult to explain why we have abandoned this policy in the current year without warning (although, from the information available to us at the moment, we cannot tell whether any DHB will receive a funding increase of less than 2.5% before top-slicing). It will also be difficult to explain why we have suspended the usual transitional arrangements for those DHBs that were subject to minima and maxima in previous years. Northland and Lakes were capped last year, so lose out if the transitional rules do not apply.
- Top-slicing addresses real costs and the funding will be anticipated by DHBs. The Cabinet paper submitted by Hon Coleman following the most recent (2015) PBFF review noted the following top slices: certain national services (forensic mental health, heart and lung transplants, primary maternity services), the land adjuster (which mitigates the high capital charge in Auckland caused by property values), temporary new initiatives, and bad debts.

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- The allocation in the Estimates is not consistent with the most recent DHB population projections from Statistics New Zealand. It will be hard to justify knowingly sticking with incorrect population figures.

Although individual DHBs do at times contest their individual allocations under the funding policy, most respect the integrity of the current arrangements. We consistently emphasise the importance of adhering to those arrangements in our interactions with DHBs, particularly those (like Canterbury) that seek to justify deficits on the basis that they are underfunded. We think departing from those arrangements at the last minute and with no obvious policy justification will quickly unravel, significantly undermining the credibility of the centre with DHBs.

Recommended way forward

The Estimates are the numbers approved by Cabinet and for the time being these are the only correct figures. However, as discussed above, we do not believe they are consistent with the established funding policy and we think sticking with these numbers will prove problematic. As a technical matter, amending the estimates is fairly straightforward. This is a fiscally neutral adjustment that can be agreed jointly by the Ministers of Health and Finance and given effect via the October baseline update.

If Ministers are minded to stick with the established funding policy (as we recommend), you may wish to consider the following approach:

- (i) Instruct the Ministry of Health to signal to DHBs at the first opportunity (probably tomorrow) that the numbers in the Estimates, while the official numbers, do not fully reflect the established funding policy. Therefore, officials expect to recommend some fiscally neutral adjustments, which will affect the amounts allocated to individual DHBs. The overall funding increase of \$439 million will not be affected. Any changes are subject to Ministerial approval. DHBs can use the numbers in the Estimates for planning purposes for the time being, but should be aware that these may change. We do not suggest giving DHBs a revised allocation just yet (see point (ii)).
- (ii) Direct the Ministry of Health to provide detailed advice to Ministers about the reasons for the differences between the Estimates and their revised allocation, and confirm that the revised allocation is consistent with the established funding policy. The Ministry should allow time for a thorough QA as part of this process.
- (iii) As soon as possible thereafter (say, within a couple of weeks), communicate the revised allocations to DHBs, together with an explanation for the changes. At the same time, indicate that the changes will be given formal effect through a fiscally neutral adjustment, along with any other adjustments to DHB funding in the October baseline update.

John Marney, Principal Advisor, Health, ^{s9(2)(k)}
Ben McBride, Manager, Health, ^{s9(2)(k)}

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APPENDIX

These are Ministry figures. We cannot independently verify the new allocations.

\$m	Budget Estimates	MOH revised allocation	Variance
Auckland	41.49	52.03	(10.54)
Bay of Plenty	24.62	24.37	0.25
Canterbury	47.76	45.06	2.70
Capital & Coast	25.00	21.29	3.71
Counties Manukau	47.82	41.19	6.63
Hawkes Bay	17.07	15.08	1.99
Hutt	13.16	9.5	3.66
Lakes	11.16	14.61	(3.45)
MidCentral	17.68	12.18	5.50
Nelson Marl.	14.85	14.72	0.13
Northland	20.27	26.56	(6.29)
South Canterbury	6.25	5.07	1.18
Southern	29.68	24.01	5.67
Tairāwhiti	5.66	6.12	(0.46)
Taranaki	11.62	8.14	3.48
Waikato	39.53	43.91	(4.39)
Wairarapa	4.76	3.28	1.48
Waitemata	49.54	62.15	(12.61)
West Coast	3.90	3.11	0.79
Whanganui	7.27	6.61	0.66
Total:	439	439	37.74

From: Ben McBride [TSY]
Sent: Thursday, 1 June 2017 3:22 p.m.
To: Gabriel Makhoulf [TSY]

[REDACTED]

Subject: RE: Health estimates issue

Thanks Gabs that's very helpful. I'll ask Stephen when we're formally going to be seeing the plan so we can brief mof. We're going to have issues with the proposals

Sent with BlackBerry Work
 (www.blackberry.com)

[REDACTED]

Thanks Ben. In brief, on the estimates issue, Chai said that:

- the Deloitte review should be completed by mid-June and that they would share it with us;
- they were "owning the problem" (and proceeding as you had heard). He thought around half (?) of the shortfall would come from "deficit support funding which would no longer be needed" and "the balance from NDE". He said that they would work with us on this, not least because it would need joint Ministerial sign-off.

I listened and didn't agree (or disagree) to anything. Nor did I repeat the 'CFO as single point of contact' issue which I've already spoken to him about.


He also touched on some other issues which I'll talk to you about separately.

Gabs

Gabriel Makhoulf | Secretary & Chief Executive | The Treasury/Kaitohutohu Kaupapa Rawa

s9(2)(k)

[REDACTED]

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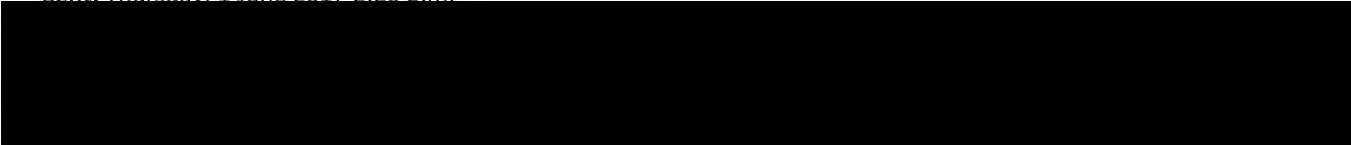
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[UNCLASSIFIED]

From: Ben McBride [TSY]

Sent: Thursday, 1 June 2017 2:20 p.m.



Subject: RE: Health estimates issue

Hi Gabs

Davin and I are currently at a workshop in Auckland with senior healthcare leaders developing the long term investment plan for the region.

We've had conversations with two of the DHB CEs who are highly exercised by the funding issue. They've received phone calls this morning from chai reassuring them that they'll get extra funding and have been told that the pbff will transition back to its correct path over a number of years. They are equally concerned with the integrity of the funding formula. They're writing letters and coming down in numbers to discuss with the ministry.

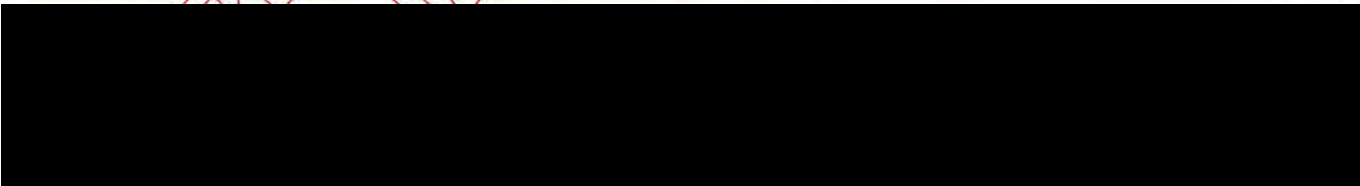
From our perspective we have yet to receive any formal communication from the ministry outside your meeting with chai. We don't know where the extra funding is coming from (it has to be ongoing), we don't know what occurred, we're not aware if mof has been briefed, if he has, has he approved (and on what basis), etc etc.

I'm meeting the cfo tomorrow, it would be very helpful to know what chai discussed with you and whether you agreed anything.

Thanks

Ben

Sent with BlackBerry Work
(www.blackberry.com)



Subject: Health estimates issue

[UNCLASSIFIED]

Hi Gabs

A quick head's up on the estimates issue and how the Ministry is proposing to respond following the conversation they had with the Minister on Monday.

In short, the Minister of Health has said that they need to own the mistake and doesn't want to take the course we recommended (the person I spoke to said that he agreed with it completely and that they should). Instead this means that the Ministry has committed to find the additional \$38m that the DHBs that are worse off with the number in the Estimates (see the red number below). I was told that they will be looking for this in the Non Departmental Expenditure. This \$38m is **ongoing** baseline funding. s9(2)(g)(i)

s9(2)(g)(i)

We're waiting to hear back officially from them, so told my contact that we are not going to act on the information he's just given me. But it's completely appropriate for you to ask Chai tomorrow what their proposed course of action is – we've heard nothing from them all week (outside this call). We think this approach is highly problematic. It's contrary to the PBFF formula, gives a windfall gain to some DHBs, is different to the amount that Parliament approved (from \$439m to \$477m), and creates problems for the future.

DHB	2017/18 Increase \$M (Budget Estimates)	2017/18 Increase \$M (PBFF min/max/top slice)	Variance \$M	Variance Percent change
Auckland	41.49	52.03	-10.54	-20.26%
Bay of Plenty	24.62	24.37	0.25	1.03%
Canterbury	47.76	45.06	2.70	5.98%
Capital & Coast	25.00	21.29	3.71	17.43%
Counties Manukau	47.82	41.19	6.63	16.10%
Hawkes Bay	17.07	15.08	1.99	13.21%
Hutt	13.16	9.5	3.66	38.47%
Lakes	11.16	14.61	-3.45	-23.63%
MidCentral	17.68	12.18	5.50	45.16%
Nelson Marlborough	14.85	14.72	0.13	0.90%
Northland	20.27	26.56	-6.29	-23.70%
South Canterbury	6.25	5.07	1.18	23.23%
Southern	29.68	24.01	5.67	23.62%
Tairāwhiti	5.66	6.12	-0.46	-7.50%
Taranaki	11.62	8.14	3.48	42.70%
Waikato	39.53	43.91	-4.39	-9.99%
Wairarapa	4.76	3.28	1.48	45.12%
Waitemata	49.54	62.15	-12.61	-20.28%
West Coast	3.90	3.11	0.79	25.27%
Whanganui	7.27	6.61	0.66	9.94%
Total:	439	439	37.74	8.60%

Ben

Ben McBride
Manager, Health and ACC, The Treasury

§9(2)(k)

§9(2)(a)

ben.mcbride@treasury.govt.nz



Database number: 20170929

Security classification: In-Confidence

File number: AD62-14-2017
Action required by: 9 June 2017

2017/18 DHB Funding Advice: Post Budget Amendments

To: Hon Dr Jonathan Coleman, Minister of Health
Hon Steven Joyce, Minister of Finance

Purpose

This report asks Ministers to approve changes to DHB funding appropriations for 2017/18. The amendments are recommended to adjust the appropriations as contained in the Budget 2017 Estimates (the Estimates). The allocations in the Estimates were incorrectly based on a provisional allocation and the amendments are required to reflect the standard DHB funding allocation model. These changes are fiscally neutral across DHBs but will change individual DHB allocations.

Key points

- Cabinet agreed (Cab-17-Min-0185.12 refers) to a funding increase for DHBs of \$439 million for 2017/18. Cabinet also agreed to a particular allocation of this new funding to individual DHBs, and this was reflected in the Estimates.
- A provisional allocation of the additional \$439 million was used to inform the recommendations that Cabinet agreed to and used to set the Estimates. This was calculated by applying the pure population based funding formula (PBFF) percentage allocations to the \$439 million.
- This is not the correct method for applying the PBFF percentages. The Ministry of Health's (the Ministry's) standard funding model approach, which has been used for more than 10 years, takes into account the various technical adjusters that affect the actual allocations that DHBs receive.
- The DHB allocations in the Estimates were not intended to be used to set DHB funding advice. Officials recommend that DHBs should be funded on the basis of the standard funding model and that amended funding advice is sent to them.
- The advice on the results of applying the standard funding model approach was not received by the Minister of Health until Budget day.
- Ministers are asked to approve this amended funding advice as set out in this report and the resultant changes to DHB appropriations. Appendix One shows the difference between the standard funding model results and the information in the Estimates. This report is in lieu of a submission from the appropriation Minister to the Minister of Finance under Cabinet Office Circular CO (15)4.
- If Ministers approve the changes, the Ministry will formally notify DHB Chairs and CEOs. The due date for the submission of Annual Plans is already being extended from 16 June 2017 to 30 June 2017 to allow DHBs additional time to complete their plans. Pending Ministers agreement of this advice, it may be further extended to approximately mid-July if required for DHBs to take account of the amended funding advice.
- The Director-General of Health acknowledges the error made by the Ministry. He has commissioned an independent review by Deloitte of the process that led to this error. The focus of the review will be on understanding what led to the error, what lessons can be learnt and to make recommendations for change. An interim report on the factual issues is due mid June 2017 and a final report with recommendations is due by the end of June 2017.

Contacts:	John Hazeldine, Chief Advisor, DHB Funding and Performance, Service Commissioning	s9(2)(a)
	Mhairi Mchugh, Manager, DHB Capital, Service Commissioning	s9(2)(a)



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- The Treasury has been consulted and agrees with the proposed changes to the appropriations and Estimates set out in recommendations (f) and (g).

DHB Funding Advice 2017/18 Post Budget Amendments

Recommendations

The Ministry recommends that you:

- | | Minister of Health | Minister of Finance |
|--|--------------------|---------------------|
| a) Note DHB funding allocations in the Budget 2017 Estimates (the Estimates) were incorrectly based on a provisional allocation and that amendments are required to reflect the standard DHB funding allocation model. | Yes / No | Yes / No |
| b) Agree to amend the DHB funding allocations shown in the Estimates to reflect the standard funding model subject to recommendations (c) to (e) below. | Yes / No | Yes / No |
| c) Agree that the minimum funding increase on population funding be set at 2.5% and the maximum at 5% | Yes / No | Yes / No |
| d) Agree that in recognition of additional demand pressure from rising prison rolls that the Mental Health Forensic Top-slice is increased by the average percentage increase plus \$4 million, a total of \$8.843 million. | Yes / No | Yes / No |
| e) Note that other top-sliced funding is increased at either the average rate of increase or the minimum rate depending on service type. | Yes / No | Yes / No |
| f) Approve the following changes to appropriations to give effect to the decision in recommendation (b) above, with no impact on the operating balance: | Yes / No | Yes / No |

	\$m – increase (decrease)				
	2017/18	2018/19	2019/20	2020/21	2021/22 and outyears
Vote Health					
Minister of Health					
<u>Non-Departmental Output Expense</u>					
Health and Disability Support Services - Auckland DHB	10.614	10.614	10.614	10.614	10.614
Health and Disability Support Services - Bay of Plenty DHB	(0.256)	(0.256)	(0.256)	(0.256)	(0.256)
Health and Disability Support Services - Canterbury DHB	(2.693)	(2.693)	(2.693)	(2.693)	(2.693)
Health and Disability Support Services - Capital and Coast DHB	(3.708)	(3.708)	(3.708)	(3.708)	(3.708)
Health and Disability Support Services - Counties Manukau DHB	(6.631)	(6.631)	(6.631)	(6.631)	(6.631)



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Health and Disability Support Services - Hawkes Bay DHB	(1.996)	(1.996)	(1.996)	(1.996)	(1.996)
Health and Disability Support Services - Hutt DHB	(3.655)	(3.655)	(3.655)	(3.655)	(3.655)
Health and Disability Support Services - Lakes DHB	3.453	3.453	3.453	3.453	3.453
Health and Disability Support Services - Mid-Central DHB	(5.496)	(5.496)	(5.496)	(5.496)	(5.496)
Health and Disability Support Services - Nelson-Marlborough DHB	(0.137)	(0.137)	(0.137)	(0.137)	(0.137)
Health and Disability Support Services - Northland DHB	6.297	6.297	6.297	6.297	6.297
Health and Disability Support Services - South Canterbury DHB	(1.178)	(1.178)	(1.178)	(1.178)	(1.178)
Health and Disability Support Services - Southern DHB	(5.668)	(5.668)	(5.668)	(5.668)	(5.668)
Health and Disability Support Services - Tairāwhiti DHB	0.459	0.459	0.459	0.459	0.459
Health and Disability Support Services - Taranaki DHB	(3.474)	(3.474)	(3.474)	(3.474)	(3.474)
Health and Disability Support Services - Waikato DHB	4.385	4.385	4.385	4.385	4.385
Health and Disability Support Services - Wairarapa DHB	(1.478)	(1.478)	(1.478)	(1.478)	(1.478)
Health and Disability Support Services - Waitemata DHB	12.603	12.603	12.603	12.603	12.603
Health and Disability Support Services - West Coast DHB	(0.781)	(0.781)	(0.781)	(0.781)	(0.781)
Health and Disability Support Services - Whanganui DHB	(0.658)	(0.658)	(0.658)	(0.658)	(0.658)
Total operating	-	-	-	-	-

- g) **Agree** that the proposed changes to appropriations for 2017/18 above be included in the 2017/18 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply. Yes / No No
- h) **Note** the Ministry has commissioned an independent review by Deloitte of the processes that led to this error and will provide joint Ministers with the results of the review. Yes / No No


Keriana Brooking
Acting Director
Service Commissioning
Ministry of Health


Stephen O'Keefe
Chief Financial Officer
Ministry of Health


Hon Dr Jonathan Coleman
Minister of Health


Hon Steven Joyce
Minister for Finance

Date: 12.6.17.

Date: 15/6/17

Background

1. Cabinet agreed (Cab-17-Min-0185.12 refers) to a funding increase for DHBs of \$439 million for 2017/18. Cabinet also agreed to a particular allocation of this new funding to individual DHBs, and this was reflected in the Budget 2017 Estimates (the Estimates).
2. A provisional allocation of the additional \$439 million across DHBs was used to inform Cabinet decisions on the Estimates. This was calculated by applying the pure population based funding formula (PBFF) percentage allocations to the \$439 million.
3. This is not the correct method for applying the PBFF model to DHB funding allocations and the Ministry has since calculated the DHB allocations using the standard funding model approach. Applying the PBFF percentage allocations to the \$439 million increase is similar to providing all DHBs with the same percentage increase on their population based funding, ie, applying national average population growth and aging to individual DHBs. The standard funding model approach is to apply the PBFF percentage allocations to the full pool of population funding including new funding. This model funds DHBs for their own local population growth, adjusts for any prior over or under funding and then adjusts the resulting increases to ensure that funding increases sit within a minimum and maximum range.
4. DHBs also receive funding of approximately \$345 million of top-sliced funding outside of the population model, for example for heart and lung transplants and mental health forensic services. Applying the PBFF to the increase in funding makes no allowance for changes to the top-slices while the standard funding model includes adjustments to the top-slices.
5. Appendix One shows the difference between the standard funding model results and the provisional allocation used in the Estimates. Officials recommend that DHBs should be funded on the basis of the standard funding model and that amended funding advice is sent to DHBs. Ministers are asked to approve the amended funding advice as set out in this report.

Review of Ministry Processes

6. The Director-General of Health acknowledges the error made by the Ministry. He has commissioned an independent review by Deloitte of the process that led to this error. The focus of the review will be on understanding what led to the error, what lessons can be learnt and to make recommendations for change. An interim report on the factual issues is due mid June 2017 and a final report with recommendations is due by the end of June 2017. The Ministry will provide joint Ministers with the results of the review.
7. As part of the process of informing DHBs of the error and to provide an additional level of assurance, the Ministry is involving finance, funding and planning managers from three DHBs in working through the calculation method for determining the final amounts allocated to DHBs.
8. An independent reviewer has checked that the information in this report accurately reflects a change from the current estimates allocations to the increases as calculated using the standard funding model.

DHB Funding Advice using the Standard Allocation Model

9. The detailed funding advice comprises \$12.166 billion baseline funding, and a \$439 million (3.61 percent) increase to manage growth (covers demographic and a portion of cost growth). See Appendix Two.
10. DHBs' funding will be allocated using the Population Based Funding Formula (PBFF) and subject to a minimum (2.50 percent) and maximum (5.00 percent) increase.
11. The PBFF has been updated for the most recent DHB population projections supplied to the Ministry by Statistics New Zealand.



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Transitional Funding

12. DHB devolved funding is made up of three categories "population share" (\$12.2 billion), "top-slices" (\$345 million) and "transitional funding" (\$61 million). Some DHBs have historically received more funding than their PBFF share. This can occur for various reasons, for example when the PBFF model was reviewed in 2015 there were some shifts in PBFF shares that could not be managed in a single year. This additional funding above PBFF share is called "transitional funding" and is a mechanism used to manage the transition of DHBs funding back to their PBFF shares over time. Transitional funding is intended to decrease gradually so that DHBs funding transitions over time to their PBFF share. The maximum annual dollar decrease in transitional funding was set at one percent of a DHBs funding. This year we have reviewed this maximum and decided it was leading to some fluctuations in funding levels and contributing to high numbers of DHBs on minimum funding. We have therefore changed the maximum decrease to 0.5 percent of DHBs funding. We will review how this is working again next year.

Top-sliced Funding

13. DHB devolved funding includes a number of top slices for specific services/initiatives. These have been increased by 3.61 percent as appropriate, however for Forensic Mental Health services an additional \$4 million has been added from within the \$439 million.
14. There is growing pressure on forensic mental health services due to the prison population growing at a greater rate than the general population. The Ministry and the Department of Corrections are working to strengthen responses to people in prison who need mental health services. To meet current pressure in the interim, it is recommended that the top slice increase by the average growth rate (3.61 percent) plus an additional \$4 million bringing the total increase to \$8.843 million.
15. The detailed funding advice also includes funding from Budget 2016 and Budget 2017 for more publically funded pharmaceuticals. For the 2017/18 year, \$29 million was allocated in Budget 2016 and an additional \$20 million has been allocated in Budget 2017. This will be allocated to DHBs using the PBFF (Appendix Three). Note that this is consistent with the treatment of this funding in the Estimates.
16. After all adjustments total top-slice funding for 2017/18 will be \$345 million plus the additional pharmaceutical funding described above.

DHB Annual Plans 2017/18

17. As part of the funding advice to DHBs we are setting expectations for financial performance for 2017/18 and out years, (these expectations are attached in Appendix Four. The cumulative sector result based on these expectations is a deficit of \$47.5 million. There is a risk that the actual deficit will be higher than this depending upon the results of Annual Plan budget discussions with DHBs.
18. The due date for the submission of Annual Plans is already being extended from 16 June 2017 to 30 June 2017 to allow DHBs additional time to complete their plans. Pending Ministers agreement of this advice, it may be further extended to approximately mid-July if required for DHBs to take account of the amended funding advice. We will keep you apprised of the sector position following receipt of second draft budgets.
19. The cash requirements for DHBs will be much lower than the actual deficit but there is a risk that the current allocation of \$50 million for 2017/18 could be exceeded and we are working with the Treasury to establish the materiality of this risk and options for managing it.
20. For out-year planning assumptions, the DHBs will continue to be asked to assume the same level of increase.



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Financial

21. The recommendations in this paper change allocations among DHBs as shown in Appendix One. These changes are fiscally neutral across DHBs and officials recommend that the changes referred to in this paper be included in the 2017/18 Supplementary Estimates, and that in the interim these costs be met from Imprest Supply.

Communication

22. If Ministers approve the changes, the Ministry will formally notify DHB Chairs and CEOs and DHBs will be sent amended advice.
23. The Ministry will work with your office on communications. The Ministry will accept responsibility for the error and identify in our communications how we intend to ensure this does not occur in the future.

END.

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Appendix One

Summary of DHB increase allocations methods for 2017/18

DHB	A 2017/18 Increase Standard Methodology	B 2017/18 Increase May 2017 Issued Package	C = A-B Variance
Auckland	52,032,897	41,418,654	10,614,244
Bay of Plenty	24,366,163	24,622,242	-256,079
Canterbury	45,061,564	47,754,540	-2,692,976
Capital & Coast	21,293,463	25,002,451	-3,708,989
Counties Manukau	41,191,097	47,821,583	-6,630,486
Hawkes Bay	15,075,732	17,071,585	-1,995,852
Hutt	9,499,659	13,156,324	-3,656,665
Lakes	14,610,196	11,166,991	3,453,204
MidCentral	12,184,697	17,680,830	-5,496,133
Nelson Marlborough	14,715,357	14,852,141	-136,784
Northland	26,562,993	20,266,494	6,296,498
South Canterbury	5,069,817	6,248,081	-1,178,264
Southern	24,012,674	29,680,629	-5,667,955
Tairāwhiti	6,120,064	5,660,941	459,123
Taranaki	8,142,060	11,615,931	-3,473,871
Waikato	43,909,561	39,525,159	4,384,402
Wairarapa	3,281,880	4,759,590	-1,477,710
Waitemata	62,146,605	49,543,714	12,602,891
West Coast	3,114,913	3,895,835	-780,922
Whanganui	6,608,610	7,267,285	-658,676
Total:	439,000,000	439,000,000	-

Appendix Two

Summary of DHB increases for 2017/18

DHB	2017/18 DHB Funding Package Starting Point \$millions	2017/18 increase \$millions	2017/18 Total Funding \$millions	Percentage Increase
Auckland	1,192.29	52.03	1,244.32	4.36%
Bay of Plenty	664.78	24.37	689.15	3.67%
Canterbury	1,319.15	45.06	1,364.21	3.42%
Capital & Coast	709.70	21.29	730.99	3.00%
Counties Manukau	1,322.18	41.19	1,363.37	3.12%
Hawkes Bay	463.90	15.08	478.98	3.25%
Hutt	372.61	9.50	382.11	2.55%
Lakes	296.96	14.61	311.57	4.92%
MidCentral	478.37	12.18	490.56	2.55%
Nelson Marlborough	400.57	14.72	415.29	3.67%
Northland	533.10	26.56	559.66	4.98%
South Canterbury	170.60	5.07	175.67	2.97%
Southern	816.92	24.01	840.93	2.94%
Tairāwhiti	153.49	6.12	159.61	3.99%
Taranaki	325.15	8.14	333.29	2.50%
Waikato	1,068.05	43.91	1,131.95	4.04%
Wairarapa	130.96	3.28	134.24	2.51%
Waitemata	1,392.63	62.15	1,454.78	4.46%
West Coast	124.25	3.11	127.37	2.51%
Whanganui	210.18	6.61	216.79	3.14%
Total:	12,165.83	439.00	12,604.83	3.61%

Appendix Three**Summary of funding allocations after additional pharmaceutical funding**

DHB	2017/18 Total Funding \$millions	Budget 2016 - Additional Pharmaceutical funding \$millions	Budget 2017 - Additional Pharmaceutical funding \$millions	2017/18 Total Funding after Additional Pharmaceutical Funding \$millions
Auckland	1,244.32	2.74	1.89	1,248.94
Bay of Plenty	689.15	1.63	1.12	691.90
Canterbury	1,364.21	3.15	2.18	1,369.54
Capital & Coast	730.99	1.65	1.14	733.78
Counties Manukau	1,363.37	3.16	2.18	1,368.71
Hawkes Bay	478.98	1.13	0.78	480.89
Hutt	382.11	0.87	0.60	383.57
Lakes	311.57	0.74	0.51	312.82
MidCentral	490.56	1.17	0.81	492.53
Nelson Marlborough	415.29	0.98	0.68	416.95
Northland	559.66	1.34	0.92	561.92
South Canterbury	175.67	0.41	0.28	176.37
Southern	840.93	1.96	1.35	844.24
Tairāwhiti	159.61	0.37	0.26	160.24
Taranaki	333.29	0.77	0.53	334.59
Waikato	1,131.95	2.61	1.80	1,136.37
Wairarapa	134.24	0.31	0.22	134.77
Waitemata	1,454.78	3.27	2.26	1,460.31
West Coast	127.37	0.26	0.18	127.80
Whanganui	216.79	0.48	0.33	217.60
Total:	12,604.83	29.00	20.00	12,653.83

Appendix Four**DHB Financial Performance Targets for 2017/18 and out years.***Surplus/Deficit figures \$ million*

DHB	Expected Performance		
	2017/18	2018/19	2019/20
Auckland	-	-	-
Bay of Plenty	-	-	-
Canterbury	- 17.0	-	-
Capital & Coast	- 21.0	- 16.0	- 8.0
Counties Manukau	-	-	-
Hawkes Bay	2.0	2.0	3.0
Hutt	- 1.0	-	-
Lakes	-	-	-
MidCentral	-	-	-
Nelson Marlborough	3.5	4.0	5.0
Northland	-	-	-
South Canterbury	-	-	-
Southern	- 14.0	- 7.0	-
Tairāwhiti	-	-	-
Taranaki	-	-	-
Waikato	-	-	-
Wairarapa	-	-	-
Waitemata	-	-	-
West Coast	-	-	-
Whanganui	-	-	-
Total:	- 47.5	17.0	-

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