MINISTRY OF HEALTH
MANATŪ HAUORA

Appendix 4 : Draft letter to the Minister of Finance submitting Budget 2021 initiatives

4 December 2020

Hon Grant Robertson
Minister of Finance
Parliament Buildings
Wellington

Dear Grant

Planning for Budget 2021 – Vote Health

Thank you for your letter dated 27 November 2020 outlining the process for Budget 2021 and inviting me to detail any manifesto commitments and cost pressures in the Vote Health portfolio that may need to be funded over the next three Budgets.

New Zealand has a good health and disability system overall but it is clear we have significant systemic issues when it comes to improving health outcomes for those most in need.

Vote Health represents a significant public investment in the wellbeing of New Zealanders and their families. The Vote directly supports the day-to-day operation of strong and equitable public health and disability services delivered by a skilled workforce in our communities, hospitals and other care settings. Funding in the Vote plays a key role in supporting population health across the life course, including improving health equity for Māori and other groups, and helps facilitate the delivery of key system priorities including child wellbeing, mental wellbeing, wellbeing through prevention and primary health care.

A priority for the next three years is implementing the recommendations from the review of New Zealand's health and disability system which sets out a path for a stronger, more sustainable system with clear lines of accountability that is more responsive to the needs of local communities. However, while this work programme is implemented, it will still be necessary to maintain the existing health system and manage its demands.

Staying within the Government's Budget 2021 $10.5 billion funding commitment over four years ($2.625 billion per annum) will require trade-offs, phased delivery of some of the Government's commitments, and reprioritised savings within the managed national services and District Health Board (DHB) devolved funding.

While I continue work with my Associate Ministers and the Ministry in developing the overall Health package further, the unmoderated indicative funding requirements (operating and capital) for Vote Health for Budget 2021 are:

POTENTIAL BUDGET OPERATING PACKAGE – LONGLIST	2021/22 $ millions	Total cost over 4 years $ millions	% of total initiatives (4 years)
Manifesto Commitments	283.8	1,294.7	22.9%
Other Initiatives outside Manifesto Commitments	168.1	1,065.1	18.8%
Cost Pressures – DHBs Budget 2021	564.0	2,256.0	39.9%
Cost Pressures - DSS related activities Budget 21	120.0	480.0	8.5%
Cost Pressures – Other Budget 21	130.7	564.9	10.0%
Total Operating Package	**1,266.6**	**5,660.6**	**100.0%**

POTENTIAL BUDGET 2021 CAPITAL PACKAGE – LONGLIST	2021/22 $ millions	Total cost over 4 years $ millions	% of total initiatives (4 years)
Capital initiatives – DHBs and Crown entities	750.0	3,000	92.7%
Capital initiatives - Other	29.8	235.2	7.3%
Total Capital Package	**779.8**	**3,235.2**	**100.0%**

Government Manifesto commitments

Health has again been identified as a priority for this Government. Building on the significant investment made to date the following objectives have been identified as priorities for this Government:

Objective 1: Keeping New Zealanders safe from COVID-19

Objective 2: Building a Stronger Health System

Objective 3: Rollout of Expanded Mental Health Services

Objective 4: Rebuilding our Hospitals

Objective 5: Improving Access to Oral Health Care

Objective 6: Reduce Barriers to Accessing Healthcare

As outlined in the Labour Party Manifesto, the estimated 4-year operating cost of these policies was estimated at approximately $1.005 billion over 4 years or an average of $251 million per annum; with an additional $12.5 million in capital required.

I appreciate that a large Budget 2021 would leave very little for new initiatives in subsequent budgets unless significant reprioritisation or material savings can be identified. Some of these commitments require further policy development to progress them to the point that funding implications will become clear. This will assist in informing the phasing of these activities across future Budgets.

In addition to responding to the Health and Disability Review and current CRRF funding for keeping New Zealanders safe from COVID-19, for Budget 2021 I see the following manifesto commitments as priorities to progress ahead of any changes resulting from the Health and Disability Review:

- Significant $200 million funding boost for PHARMAC to purchase more medicines.
- Improving Access to Oral Health Care, specifically with respect to Oral Care Emergency Grant and investing $176 million to improve access to dental care for people on the lowest incomes with urgent oral health needs by increasing the maximum Work and Income grant for emergency oral health care from $300 to $1,000.
- Improve access to dental care by investing in 20 additional mobile dental clinics to make it more accessible for children and young people for $28 million over 4 years.
- Invest $28 million to double the number of publicly funded cochlear implant procedures for those that are hearing impaired to 160 each year.

To live within a smaller funding envelope will require choices to be made about whether to progress these initiatives, how they might be phased, and whether they can be scaled, or I look at what existing programmes may be able to be repurposed.

I have considered previous funding decisions. In my view Budget 2019 and 2020 initiatives are less likely to be able to be reprioritised as they have been ringfenced for specific initiatives.

However, one opportunity that we may want to reconsider is funding secured for the "Annual Free Health Check for Seniors including an eye check as part of the SuperGold Card" as part of Budget 2020. $197.9 million was approved over four years for the implementation and rollout and this is yet to proceed, and the funding has not been spent.

If the Government decided not to proceed with this initiative, maintaining consistency with the policy intent could see some of this funding redirected towards for example, establishing an Aged Care Commissioner, the development of a Dementia Action Plan, and support for eye health services.

Another opportunity would be to look at repurposing existing investment in some programmes that are already underway into Manifesto priorities. For example, approximately $8 million is currently invested annually in the fruit in schools programme. This could be repurposed to directly support the proposed Manifesto commitment to expand the Free and Healthy School Lunch programme being led by the Ministry of Education, with support from the Ministry of Health.

I would welcome the opportunity to discuss these areas with you further, as well as discussing the relative priority of these commitments and what may be phased over subsequent budgets.

I have been advised that the Improving Access to Oral Health Care Manifesto initiative is being led by the Ministry of Social Development (MSD), with support from the Ministry of Health, and is a cost against Vote Social Development. MSD has provided Hon Carmel Sepuloni with a briefing

recommending that it prepare a Cabinet paper seeking a pre-budget commitment to increase the Work and Income special needs grant for dental care from $300 to $1000. MSD modelling showing that the required funding is significantly less than estimated in the Labour Party health policy (the policy estimated that the cost would be $176 million over four years). While this initiative falls outside of my portfolio, because of its direct health benefits I support this initiative also being progressed in Budget 2021 as a priority.

I note that the reforms indicated in the Health and Disability System Review have yet to be costed and are likely to be significant. These reforms would best be actioned in subsequent Budgets.

Cost Pressures faced by Vote Health

This most significant cost pressures arise in DHBs and DSS related activities which are forecast to make up almost $684 million or 48% of the total operating cost pressures in Vote Health.

DHB Cost pressures

As we have discussed previously, the DHB financial positions are complex. Their bottom lines are the result of operating decisions made throughout the financial year, affected by many factors, including collective negotiations, local decisions, seasonal impacts, and non-cash costs from capital investments. Underfunding DHBs is likely to result in further increasing deficits and impacts on services.

At this stage, we do not recommend a Budget 2021 DHB baseline uplift of a similar scale to that at Budget 2020. As previously discussed, this assumes that as part of the health and disability system reforms it will be necessary to 'refloat' the health system, however, we do not recommend that this occurs before the implementation of system reform, including new governance and accountability arrangements and levers for financial control.

DHBs will, however, require an annual increase to their funding to maintain access to existing services and to contain deficit growth. This is allocated by the Government against the annual operating allowance in the Budget. The Ministry's view is that a new funding allocation of between $500 million and $600 million would appropriately fund DHBs for their 2021/22 pressures, allowing them to maintain current service levels for New Zealanders.

The operating pressure of $510 million reflects projected demographic pressures of 1.88% in total, with a population increase in 2021/22 of 0.79%, with a combination of population growth of 0.79% and aging and mix of 1.10%; and projected increases in the cost of delivering services due to general price inflation of 1.2% and the impact of wage and service provider negotiations of 1.5%.

Other non-DHB related Cost pressures

As is the case for previous Budgets, cost pressures faced across the heath system make up a significant component of any Health budget, and this requirement is expected to continue in the future.

The purpose of these initiatives is to maintain current capacity and capability for increasing demand and inflationary pressures. The costs are largely driven by factors such as increased demand and expenditure due to an aging population and other demographic changes, expanding clinical options and rising costs. If these costs are not funded and policy settings are not changed

then costs will increase. Decisions would have to be made about managing or absorbing costs, and efforts to improve equity, coverage, service quality, and maintain safety could be undermined.

There are options for managing down pressures and therefore seeking less funding as part of Budget 2021. These could include:

a. Delaying or deferring activities or contracts to free up funding (not a long-term solution)
b. Rationalising specialist services (e.g. consider the scope and function of provincial hospitals)
c. Changing eligibility criteria (e.g. for Very Low Cost Access, aged residential care, or disability-related services) and how the funding is allocated
d. Changing the base capitation formula (e.g. aligning it with the DHB Population Based Funding Formula, with weightings for ethnicity and deprivation, and with the age bands adjusted to recognise the higher utilisation and needs of older people)
e. Looking at specific services that are demand driven and make explicit policy decisions that impact demand (e.g. consider excluding some services from service coverage)
f. Reconfigure services or establish more formal regional arrangements, which support better integration of services and improved service effectiveness.

I have asked the Ministry to identify options for scaling back cost pressures as part of our Budget 2021 preparation. However, this is likely to exacerbate issues around the sustainability of the Health sector in the short term without avoiding the requirement to provide funding later. Efforts to improve equity, coverage, service quality, and maintain safety could be undermined in an environment where providers are struggling to manage fiscal constraints, creating risks for the populations they serve. Over the coming months I will be engaging with officials about these further, ahead of submitting this information to the Treasury on 29 January 2021.

These issues will also continue to be considered and addressed as part of the Health and Disability Systems Review.

At our meeting next week, I would welcome the opportunity to discuss an appropriate funding envelope from which the Health Budget 2021 decisions can be established.

Capital initiatives

The Crown has set aside $3.115 billion across to 30 June 2025 for to the provision or purchase of health sector assets, providing capital to health sector Crown entities or agencies for new investments, and reconfiguration of District Health Board balance sheets.

The Ministry has signalled an extension of the Health Capital Envelope of $750 million per annum or $3 billion over the four-year term.

The Ministry has identified several initiatives requesting capital or "as a service" investments, where business cases are not yet available but are in development. The Ministry has been working with Treasury in progressing these programmes.

These programmes align strongly with the Health and Disability Systems review, which recognises advances in digital technologies have huge potential to better support population and whānau-focused health and wellbeing; enabling self-management for people and family/whānau, more

individualised and tailored care, a more joined up health system, and improved patient and workforce experience.

The most significant investments relate to:

Sector Payment systems - For over 12 years investment into the systems and processes that are used to deliver the Health Payments systems has been deferred in favour of more direct health spending. The value being processed through these systems over that period has grown considerably, with upwards of $10 billion of NDE and DE now flowing through the combined systems each year. The ability to add existing features to these systems is no longer appropriate and the underlying stability of these applications is such that any additional functionality will further increase the failure risk. Transformation of these systems is overdue. New more efficient processes, increased digitisation, new and innovative funding models are all integral to the Ministry and Sector future plans, including a number of those identified in the Health and Disability Services, and cannot be delivered with our current solution set. Further, the inherent instability is such that maintaining BAU service is no longer a given.

Modernising the patient healthcare experience through the National Health Information Platform (nHIP): - Funding was provided in Budget 20 to progress the business case and planning for this initiative. The Health and Disability System Review report notes advances in digital technologies have huge potential to better support population and whānau-focused health and wellbeing; enabling self-management for people and family/whānau, more individualised and tailored care, a more joined up health system, and improved patient and workforce experience. This programme's services and related change activities will modernise the experience for the workforce and enable different models of care, improve provider workflow and efficiency gains, and collaborative working across the sector and broader government. Funding is now required to deliver the new digital operating model. There is significant support across the system for nHIP. Furthering investment in nHIP will avoid future duplicate spend across the system.

I am excited about the opportunities the Government has to continue to drive change in the health sector and improve the lives of New Zealanders.

I look forward to discussing further with you the opportunities available through Budget 2021 and outyears for Vote Health and seek your support to progress these through the Budget 2021 process.

Yours sincerely

Hon Andrew Little
Minister of Health