

# The Treasury

## Budget 2024 Information Release

### September 2024

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# Joint Briefing

## Multi-year funding for Vote Health: Conditions for implementation at Budget 2024

<b>Date due to MO:</b>	01/12/2022	<b>Action required by:</b>	07/12/2022
<b>Security level:</b>	IN CONFIDENCE	<b>Health Report number:</b>	H2022015429
		<b>Treasury Report number:</b>	T2022/2607
<b>To:</b>	Hon Grant Robertson, Minister of Finance Hon Andrew Little, Minister of Health		
<b>Consulted:</b>	Health New Zealand: <input checked="" type="checkbox"/> Māori Health Authority: <input checked="" type="checkbox"/>		

### Contact for telephone discussion

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### Minister's office to complete:

- |   |                                    |  |
|---|------------------------------------|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Decline   | <input type="checkbox"/> Noted               |
| <input type="checkbox"/> Needs change         | <input type="checkbox"/> Seen      | <input type="checkbox"/> Overtaken by events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |  |

Comment:

# Multi-year funding for Vote Health: Conditions for implementation at Budget 2024

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**Security level:** IN CONFIDENCE      **Date:** 1 December 2022

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**To:** Hon Grant Robertson, Minister of Finance  
Hon Andrew Little, Minister of Health

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## Purpose of report

1. This briefing seeks your agreement to a proposed set of conditions and check-in points for determining whether the health system is ready to shift to a multi-year funding arrangement from Budget 2024.
2. This paper is presented alongside two accompanying briefings on multi-year funding for Vote Health:
  - a. Multi-year funding for Vote Health: Budget 2024 work programme overview [H2022016892]
  - b. Multi-year funding for Vote Health: Coverage and design considerations for the Budget 2024 health funding track [H2022015438].
3. This report discloses all relevant information and implications.

## Summary

4. Cabinet has agreed to shift to a multi-year funding arrangement for Vote Health from Budget 2024 to align with the delivery of the first full set of planning and accountability documents in the reformed health system – including the Government Policy Statement (GPS) and New Zealand Health Plan (NZHP). This agreement was subject to Ministers being confident that adequate system settings to support improved planning and financial control are in place [SWC-21-MIN-0157 refers].
5. This paper responds to that requirement and recommends a set of conditions that need to be met to shift to multi-year funding at Budget 2024. The conditions are designed to allow officials to assess progress towards a mature accountability framework and provide advice on whether health entities can manage a multi-year funding settlement effectively.
6. The conditions proposed in this briefing will establish minimum requirements for the GPS, the NZHP and other elements of the accountability framework and multi-year settlement. They are focused on ensuring that Ministers have enough information about how cost pressure funding will be used and trade-offs and implications of different

funding levels, how risks have been identified and managed, and how progress will be monitored. We have also identified the capability improvements that Ministers should expect to see during the transition period that would demonstrate entities' readiness to manage three-year funding arrangements.

7. These conditions would form the basis of our assessments of system readiness in the lead-in to Budget 2024 decisions. Assessments will signal whether the system is progressing as expected, whether there are challenges that need to be addressed or additional support put in place, and ultimately whether a move to multi-year funding is desirable and feasible at Budget 2024 – or whether it should be deferred for further consideration at Budget 2025.
8. We propose three formal progress checks in the lead in to Budget 2024:
  - a. In March 2023: Assessment of early progress on developing the GPS and analytical inputs to the NZHP.
  - b. In June 2023: Assessment of progress on the GPS and finalisation of the Pae Ora strategies
  - c. Post-election (late 2023): Assessment of a substantive draft NZHP and the quality of information to support a Budget 2024 submission.
  - d. Before finalising a Budget package: Confirming the approach to the multi-year settlement and any additional conditions that are required.
9. The next Joint Ministers health check meeting is on 7 December 2022. The agenda will include:
  - a. a discussion on the recommendations in this paper and the companion paper on coverage and design choices for the multi-year arrangement; and
  - b. a progress update from health entities and the Ministry of Health on resourcing, capability, planning and governance to deliver the GPS and NZHP.

## Recommendations

We recommend you:

*Conditions for shifting to multi-year funding at Budget 2024*

Minister of Health	Minister of Finance
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a) Agree that the following set of conditions should be met before shifting to a multi-year funding arrangement for health from Budget 2024:

- |      |   |               |               |
|------|---|---------------|---------------|
| i.   | The GPS meets minimum standards and provides expectations that are sufficient to guide the development of the NZHP (paragraphs <b>23-27</b> ).                          | <b>Yes/No</b> | <b>Yes/No</b> |
| ii.  | The NZHP is a fully costed spending plan that responds to the GPS and provides Ministers with a coherent representation of planned activity (paragraphs <b>28-33</b> ). | <b>Yes/No</b> | <b>Yes/No</b> |
| iii. | Processes and plans are in place to respond to performance and financial risks during the multi-year period (paragraphs <b>39-42</b> ).                                 | <b>Yes/No</b> | <b>Yes/No</b> |

- |     |   |               |               |
|-----|---|---------------|---------------|
| iv. | There are clear and commonly understood governance structures and financial delegations that enable funding to be allocated in line with the GPS and the NZHP (paragraphs <b>43-47</b> ). | <b>Yes/No</b> | <b>Yes/No</b> |
| v.  | The health system demonstrates capability to manage a multi-year funding settlement in the transition period to July 2024 (paragraphs <b>48-50</b> ).                                     | <b>Yes/No</b> | <b>Yes/No</b> |
- b) **Note** that a shift to a multi-year funding arrangement would also be dependent on economic conditions being sufficiently stable.
- c) **Note** that evidence of progress towards condition (v) would include:
- i. that the system is forecast to be in financial balance at June 2024;
  - ii. funding streams are being managed in a way that reflects the appropriation and output class structure;
  - iii. reporting and monitoring provide an improved picture of performance and risk, and is used to inform decisions;
  - iv. information to support draw-down of the cost pressure contingencies agreed at Budget 2022 meets requirements;
  - v. establishment of critical financial and planning capabilities and systems; and
  - vi. effective working arrangements between entities.
- d) **Note** that for Budget 2024 the NZHP will cover all health service delivery, including the relevant responsibilities of:
- i. Te Whatu Ora;
  - ii. Te Aka Whai Ora; and
  - iii. Other health entities in the Pae Ora Act: the Health Quality and Safety Commission, Pharmac and the NZ Blood and Organ Service.
- e) **Note** that the conditions set out in this paper represent minimum standards for Budget 2024, based on our assessment of what is feasible for the system in the context of a significant and multi-year reform programme, and that we have specified the additional features that we expect to be in place for Budget 2027.

***Check-in points ahead of Budget 2024***

- |    |   |               |               |
|----|---|---------------|---------------|
| f) | <b>Agree</b> that officials will provide advice to the Ministers of Finance and Health on progress towards achieving the conditions in (a) at the following stages: | <b>Yes/No</b> | <b>Yes/No</b> |
| i. | December 2022 Joint Ministers' health check meeting: Check in on capability, resourcing, planning and governance to deliver the 2024 GPS and NZHP.                  |               |               |

- ii. March 2023 progress check: Progress on early development of the GPS and analytical inputs to the NZHP.
  - iii. June 2023 progress check: Draft GPS and Pae Ora strategies.
  - iv. Post-election (late 2023) progress check: Substantive draft of the NZHP and quality of information to support a Budget 2024 submission.
  - v. Before finalising the Budget 2024 package (likely March 2024): Confirming approach to the multi-year settlement and any additional conditions that are required.
- g) **Note** that advice provided at the points specified in (f) would assess whether a shift to multi-year funding at Budget 2024 is feasible based on progress against the conditions in (a).
- h) **Note** that you will receive further updates and advice outside of these formal checkpoints on elements of the planning and accountability cycle, including:
- i. February 2023: health funding model, including budget planning parameters for the three-year settlement.
  - ii. March 2023: Programme plan for design work on funding flows and allocative mechanisms for the distribution of funding within health entities and to service providers.
  - iii. November 2023: Final advice on proposed adjustments to funding flows and allocative mechanisms achievable within the parameters of the NZHP and Budget 2024.

Hon Grant Robertson

**Minister of Finance**

Date:

Hon Andrew Little

**Minister of Health**

Date:

Jess Hewat

Manager, Health

**The Treasury**

Date: 30/11/22

Dr Diana Sarfati

Director-General of Health

**Ministry of Health**

Date: 30/11/22

# Multi-year funding for Vote Health: Conditions for implementation at Budget 2024

## Background

Cabinet has agreed to shift to a multi-year funding arrangement for health from Budget 2024, subject to conditions

10. In October 2021 Cabinet agreed to establish a multi-year funding arrangement for Vote Health from Budget 2024, comprising:
  - a. a three-year funding commitment that covers all cost pressures and new investments in health over a three-year period; and
  - b. a medium-term funding track from year four onwards to support health sector planning and drive investment prioritisation decisions with impacts beyond the three-year funding commitment [SWC-21-Min-0157 refers].
11. Multi-year funding is an important feature of the reformed health system. It is designed to provide funding certainty for longer-term planning and help sustainably manage spending growth.
12. To be successful, a multi-year funding settlement needs to be accompanied by comprehensive accountability measures that reflect system priorities and outcomes, and link long-term strategic direction with service, capacity planning and resourcing. Decisions on multi-year budgets for health are therefore intended to align with the three-yearly direction setting and planning documents in the reformed system: primarily the Government Policy Statement on Health (GPS) and the New Zealand Health Plan (NZHP).
13. In taking these decisions, Cabinet recognised that designing and implementing a fit for purpose accountability framework would take time, especially with the sector focused on change management and moving system structures to steady state in the first two years of the reforms.

## In 2022/23 and 2023/24, transitional funding and accountability settings are in place

14. At Budget 2022 a transitional funding package was agreed for the first two years of the reformed system. This was designed to rebase the system onto a sustainable financial footing and enable the transition from interim arrangements into a more mature operating environment. Information on the internal budget of Te Whatu Ora was not available when Budget decisions were being taken. As a result, some of the Budget 2022 cost pressure funding was agreed as tagged contingencies and announced, with a requirement for Te Whatu Ora to provide information and analysis on its budget.
15. These interim arrangements, specifically the interim GPS and interim NZHP, were not subject to the new statutory requirements in the Pae Ora Act, and the process for developing the documents was not integrated into Budget 2022 bids or advice.



## **Before July 2024 the system will need to progress from the current transitional arrangements to the first full set of planning and accountability documents and processes**

16. Cabinet agreed that a multi-year funding arrangement should only be implemented once Ministers have confidence that adequate system settings to support improved planning and financial control are in place [SWC-21-MIN-0157 refers]. Consequently, in agreeing to the Budget 2022 transitional package, Cabinet noted that the Ministry of Health and the Treasury would provide advice to the Ministers of Finance and Health (Joint Ministers) by November 2022 on the planned approach for the move from transitional to more full accountability arrangements for the health system.
17. This paper responds to this requirement and recommends a set of conditions that Ministers should expect to be met. Meeting these conditions would represent a successful evolution of the interim arrangements into a more mature accountability framework – and demonstrate the ability of the system to achieve meaningful planning and financial control over a multi-year funding arrangement.
18. This paper is accompanied by a separate piece of advice that provides recommendations on the design choices for the multi-year funding arrangement and sets out our proposed approach to developing the health funding model that will be used to estimate the amount of cost pressure funding for the health system across the settlement period (H2022015438 refers). It seeks decisions from you on:
  - a. How the multi-year funding arrangement should respond to changing Ministerial priorities, unexpected cost pressures, and unforeseen system shocks during the settlement period.
  - b. How the design of the multi-year funding arrangement would respond in a situation of reduced affordability – when Ministers may wish to set the funding track at a level below the cost of maintaining current services.
  - c. The coverage and scope of the multi-year funding arrangement – what parts of health spending to include in the arrangement, and the approach to the three-year indicative funding track from Year Four.

## **We are seeking your agreement to a set of conditions that will need to be met to confirm multi-year funding at Budget 2024**

19. Readiness of the health system for a shift to a multi-year funding arrangement from Budget 2024 will be evident in two ways:
  - a. The maturity of the first iterations of “full” planning and accountability settings and documents (such as the GPS and NZHP), which will determine whether Ministers have the right information at the right times to make informed decisions on a multi-year settlement.
  - b. Increased capability of the system to manage within a fixed multi-year funding settlement that is evident in the transition period.
20. On that basis, we recommend that the following conditions should be met before Budget 2024:

System accountability settings	Capability
<p><b>A.</b> The <b>GPS</b> meets minimum standards and provides expectations that are sufficient to guide the development of the NZHP.</p>	<p><b>E.</b> The health system <b>demonstrates capability</b> to manage a three-year funding settlement in the transition period to July 2024. Evidence includes:</p> <ul style="list-style-type: none"> <li>i. The system is forecast to be in financial balance at June 2024.</li> <li>ii. Funding streams are being managed in a way that reflects the appropriation and output class structure.</li> <li>iii. Reporting and monitoring provides an improved picture of performance and risk, and is used to inform decisions.</li> <li>iv. Information to support drawdown of the cost pressure contingencies agreed at Budget 2022 meets requirements.</li> <li>v. Establishment of critical financial and planning capabilities and systems.</li> <li>vi. Effective working arrangements between entities.</li> </ul>
<p><b>B.</b> The <b>NZHP</b> is a fully costed spending plan that responds to the GPS and provides Ministers with a coherent representation of planned activity.</p>	
<p><b>C.</b> Processes and plans are in place to respond to <b>performance and financial risks</b> during the multi-year period</p>	
<p><b>D.</b> There are clear and commonly understood <b>governance</b> structures and financial delegations that enable funding to be allocated in line with the GPS and the NZHP.</p>	

21. In addition to the conditions listed above, shifting to a multi-year funding arrangement would also be dependent on the stability of economic conditions. Economic shocks or other adverse events that occur before the settlement is agreed could significantly affect the ability to predict health system costs, or require more frequent changes in Ministerial priorities, and necessitate a different approach to funding. We have not defined the kinds of situations where this could occur in this paper, but expect that the threshold for change would be high. Ministers will be advised of any implications of changing economic conditions as necessary.
22. The next sections of this paper:
- a. provide detailed descriptions of the conditions (a-e) above; and
  - b. set out a timeline of milestones and formal progress checks between now and Budget 2024, for your agreement.

**Condition A: The GPS will need to articulate delivery expectations and funding parameters that are sufficient to guide the development of the NZHP**

23. The first full GPS will be the primary vehicle for setting the Government’s priorities and objectives for health, funded by the three-year settlement (including any new initiatives). To do this successfully in Budget 2024 it will need to meet the minimum requirements set out in the following table:

Minimum requirements for the 2024 GPS	Additional features for 2027
<ul style="list-style-type: none"> <li>• Identify <b>priorities</b> for the three-year period, in line with new health strategies published under the Pae Ora Act, and describe the <b>actions and specific requirements</b> of entities that will deliver or advance the priorities.</li> <li>• Establish <b>funding parameters</b> for the three-year period: set out the amount of funding that will be available to support delivery of the GPS and NZHP.</li> <li>• Specify how progress against the priorities in the GPS and wider system performance will be <b>monitored and assessed</b>, including clarifying Ministers' specific performance expectations or targets. This will include measures related to priority outcomes, financial and clinical performance.<sup>1</sup> There may be some measurement gaps at July 2024.</li> <li>• In line with funding parameters, outline the Government's expectations about <b>baseline operation of the system</b> – including minimum service coverage, and any expectations or requirements for how entities operate. Minimum service coverage expectations should be described in the GPS, with further detail appended as necessary so that this gives a single view of requirements for planning purposes.</li> </ul>	<ul style="list-style-type: none"> <li>• Development of additional data sets and more comprehensive indicators.</li> <li>• Further (and potentially more significant) steps towards achieving health reform objectives.</li> </ul>

24. The priorities and funding parameters in the GPS will need to be developed iteratively with the NZHP and the health funding track, and the Government's broader Budget strategy and process. This will ensure that the priorities in the GPS are affordable, deliverable and represent good value for money. Priorities will need to establish a balance between specifying measurable actions or activities and taking an outcomes-based approach (that does not mandate particular inputs or outputs).
25. For Budget 2024, the GPS will be informed by the six health strategies that are mandated by the Pae Ora Act 2022. These will set the longer-term (5-10 year) direction and priorities, which will be developed into more specific three-year objectives in the GPS. The strategies are due to be completed by July 2023.
26. The measures and reporting requirements in the GPS will also be informed by a longer-term outcomes framework that will be delivered alongside the Pae Ora strategies. It will encourage a system-wide approach to working towards agreed aspirations and measures of success. Ministers have previously agreed to initial parameters and for the framework, which will be refined as the Pae Ora strategies are developed (DPMC-2021/22-1550 / HR 20220355 refers). You were briefed recently on the approach to developing the framework (H202201585 refers).

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<sup>1</sup> Developing these measures will include consideration of the current set of Health System Indicators

27. A detailed description of the characteristics and contents of the GPS for 2024 is provided in Annex One.

**Condition B: The NZHP will need to be a fully costed and credible spending plan that responds to the GPS**

28. The first fully costed NZHP (and its supporting information) will be the primary input to Ministers’ decision-making on the multi-year funding settlement at Budget 2024. It should describe what the settlement is funding and provide assurance that the GPS can be delivered in the amount of funding available – meeting the requirements set out in the following table:

Minimum requirements for the 2024 NZHP and supporting information	Additional features for 2027 NZHP
<ul style="list-style-type: none"> <li>• Set out the <b>transformation</b> required to deliver the GPS over at least the next three years (with a longer-term view taken if possible). This should specify the system shifts, activities and milestones that will deliver on the transformation.</li> <li>• Set out assumed <b>core activity levels</b> across all relevant activities delivered by the health entities: <b>Te Whatu Ora, Te Aka Whai Ora, Pharmac, the Health Quality and Safety Commission and the NZ Blood and Organ Service</b>. These should align with the direction set out in the GPS.</li> <li>• Provide <b>financial costings</b> linked to these activities so that it is clear what level of service is associated with funding levels. Funding distribution should be detailed by output class.</li> <li>• Describe the underlying assumptions about the <b>deliverability</b> of the activities and changes in the plan, based on population needs, service efficiencies and costs and maturity of system enablers (such as the health workforce). Analysis of productivity will need to be developed to inform this.</li> <li>• Include <b>milestones</b> for delivery of actions and <b>measures of performance</b> disaggregated by ethnicity, service, key population characteristics and region. Approaches to evaluation should also be identified. Measures should identify baselines and cover all key priority areas with clear linkages to the GPS.</li> <li>• Guided by the <b>health sector principles</b> in the Pae Ora Act 2022.</li> </ul>	<ul style="list-style-type: none"> <li>• More significant shifts and performance improvement activities.</li> <li>• Initial national service plans for priority services, enablers, pathways or population groups (aligned with overall NZHP).</li> <li>• Time horizon expanded: 3 years funding fixed, 3 years indicative, 20-year planning horizon.</li> </ul>

29. We expect the 2024 NZHP to focus on a small set of system shifts that support the reform objectives, with further significant shifts and performance improvement activities likely in the 2027 NZHP. The most important consideration for Budget 2024 will be establishing a robust costed plan for core service delivery within the new entities and structures created by the reforms.

30. By Budget 2027, the NZHP will be accompanied by a series of planning annexes or national service plans that provide further detail on priority populations, service areas or treatment pathways and enablers. These may be refreshed more frequently than the NZHP and would not normally be approved by Ministers. It will take a significant programme of work to develop a full range of service plans for these areas, and this will not be in place by Budget 2024. We expect them to develop as the system matures and the directions set through the new health strategies and the first full GPS can be translated into more granular actions and analysis. We also note that the way services are planned will evolve as the system matures, so the 2024 NZHP will not be a template for future iterations but rather a basis from which to further develop.
31. There are three planning annexes that will be required for Budget 2024:
  - a. Agency annexes that fulfil Crown Entity requirements – including Statements of Intent (SOIs) and Statements of Performance Expectations (SPEs) that include entity monitoring and reporting requirements (where not covered in the main NZHP).
  - b. A capital plan and asset management plan (as agreed by Cabinet as part of decisions on capital settings for the reformed system – SWC-22-MIN-0063 refers).
  - c. A financial annex to support Ministers’ consideration of the Budget 2024 package. This will be a key input into decisions on the final level of cost pressure funding. It will need to include clearly documented assumptions on the volume, price and workforce improvements that underpin the NZHP – including risks and mitigations, deliverability, and costed options and implications of funding at different levels. The financial annex may not be published in full due to its potential sensitivity but will need to be produced alongside the NZHP.
32. An initial workforce annex or supporting documentation may be produced for Budget 2024, particularly as it relates to changes to models of care and deliverability of the overall NZHP. We expect that this would further mature for Budget 2027.
33. A detailed description of the requirements and contents of the NZHP and annexes for 2024 and 2027 is provided in Annex Two.

*The health funding model will provide funding parameters to guide the development of the NZHP*

34. To ensure that entities can provide a costed draft of the NZHP in time to inform the Budget 2024 process, it will be important to provide an early sense of the potential amount of funding that may be available for the three-year period.
35. By February 2023, we expect to advise you on possible cost pressure funding envelopes for the multi-year settlement, based on initial work on the health funding model for future health expenditure at current policy settings. Subject to further analysis, this is likely to include “high” and “low” estimates of the cost of maintaining current settings for service coverage over the three-year period. It would also include options for a more constrained funding envelope, where the funding track is set at a level that is below the cost of maintaining current settings due to broader affordability constraints based on the government’s fiscal policy. These options are discussed in more detail in the accompanying briefing on design choices for the multi-year settlement (H2022015438 refers).

36. At this point, you will have options about communicating one or more indicative positions (or ranges) of funding parameters for the NZHP to health entities – alongside early work on GPS priorities. This will be a critical input to service planning, without which work on the NZHP may be unduly constrained. It will also ensure that work begins early on planning and costing of services in the NZHP so that Ministers can consider advice on the choices that they have within the funding available. These parameters will not be final and may be refined as the health funding track model is tested and validated to continue to inform drafting and iteration of the NZHP.

*Future budgets should be informed by more detailed financial analysis that will provide more information on system costs over time and support the development of national service plans*

37. The expectations that we have proposed for the NZHP recognise that it is not feasible to conduct a detailed analysis of all baseline costs in the health system before Budget 2024. This level of analysis will need to be developed over time as more detailed service planning takes place (including through the development of the NZHP planning annexes, which will fulfil the role of national service plans for particular service areas or pathways).
38. Ministers should expect to understand in which areas entities will prioritise baseline spending reviews, which if any reviews might be deliverable before July 2024, and to see a clear plan for more detailed, ongoing financial analysis from July 2024. This process could be focused to a particular service or theme (with options to prioritise certain areas of spending based on Ministerial priorities) and we would expect that the health baseline would effectively be reviewed approximately every six years. This process will:
- a. ensure that there is more detailed information to support future budgets;
  - b. support entities' financial management during the three-year settlement; and
  - c. build knowledge and capability for longer term financial and service planning beyond the three-year fixed settlement in future NZHPs.

### **Condition C: Processes will need to be in place to identify and manage financial and performance risks during the settlement**

39. The health reforms create a range of non-statutory and statutory powers for Ministers to intervene if they have concerns about entities' performance (both financial and non-financial). Possible interventions generally span three categories [DPMC-2021/22-1691 / MOH/20220458 refers]:
- a. Internal performance improvement: Entities are equipped to manage issues themselves, with appropriate supervision and support from monitoring agencies and updates to Ministers on a "no surprises" basis.
  - b. Cross-agency involvement: Monitors become formally involved in responding to an issue, taking on roles in providing the expertise and levers to identify, understand and tackle
  - c. Statutory intervention: Where levels of confidence in responding to agencies do not meet Ministerial or public expectations, statutory intervention uses legal powers

under the Pae Ora Act 2022 and the Crown Entities Act 2004 to offer Ministers more direct control over responses to issues.

40. The GPS and the NZHP will establish Ministers' expectations about performance of the system and of health entities. This will include requirements for monitoring outcomes, financial and clinical performance – against which reporting would indicate any need to use the intervention framework. We expect that in general, interventions would progress through the framework – with statutory powers only exercised where all other options have been exhausted.
41. As the system shifts into the first multi-year settlement, it will be important to carefully balance the use of intervention powers with maintaining the accountability of entity boards for their performance.

*You will receive further advice on how the design of the multi-year funding arrangement would respond to risk*

42. Alongside these intervention levers, there are also options for how the design of the multi-year funding settlement and the health funding track model could incorporate flexibility to manage variations and risks during the three-year period. The separate piece of advice referred to in paragraph nine provides you with advice on how the settlement should be structured in order to best mitigate these risks while maintaining the intent of the multi-year funding arrangement (H2022015438 refers).

#### **Condition D: Decisions will need to be made on financial delegations before Budget 2024**

43. The NZHP will need to be accompanied by clear and commonly understood processes and structures governing the health entities and their expenditure.
44. Most decisions on the governance structures and responsibilities of the health entities have been made as part of the reform programme. However, further work is needed on the detailed design and financial delegations that will govern the flow of funding from the three main appropriations (delivering primary, community, public and population health services; delivering hospital and specialist services; and delivering hauora Māori services), both in how funding flows within health entities and how it is distributed to service providers.
45. As noted in our parallel briefing on the Budget 24 programme (H2022016892 refers), decisions on how funding is allocated within health entities (including the mechanisms for its payment to service providers) are for the boards of entities. However, these are a critical element of understanding how funding will be used to achieved Government's objectives (such as to address inequities), and therefore the proposals must be clear and fully aligned with other funding settings to ensure Ministers' confidence to move ahead with multi-year arrangements.
46. These detailed internal settings will need to be finalised by November 2023 so that they can inform and provide assurance to Ministers' decisions on the Budget 2024 package and support our assessment for the second planned checkpoint. Accordingly, Te Whatu Ora (supported by Manatū Hauora and the Treasury), will provide further advice to Ministers by November 2023 on:
  - a. what funding is held and allocated nationally, regionally and locally across the three main appropriations; and

- b. what mechanisms are used to determine:
    - i. the amount held at each level;
    - ii. the distribution of funding at each level (national, regional and local) to providers; and
    - iii. how these mechanisms reflect priority, equity and te Tiriti o Waitangi.
47. This work would include the consideration of the existing population-based formulae for hospital and specialist care, and the capitation formula for primary care.

**Condition E: The system should demonstrate increased capability during the transition period**

48. The performance of the health system under transitional arrangements will provide an indication of system capability to manage a three-year settlement: including the ability to set and deliver on priorities, ensure an adequate level of monitoring transparency to Ministers, and manage cost pressures within a funding settlement over a longer period.
49. Evidence to show that this condition is met will include:
- a. The system is forecast to be in financial balance at June 2024.
  - b. Funding streams are being managed in a way that reflects the appropriation and output class structure.
  - c. Reporting and monitoring provide an improved picture of organisational performance and risk. There is evidence that entities are capably monitoring their own performance and using the information to make good business decisions and to identify and manage risks. This should include evidence that entities are combining financial and non-financial performance measures to understand their productivity and sustainability. In particular, this should include the development of productivity measures and use of comparative analyses such as the Health Roundtable information.
  - d. Information to support draw-down of the contingencies agreed at Budget 2022 meets requirements – including the production of 2023/24 production plans.
  - e. Critical systems and capability to support management of a multi-year funding settlement are in place, including strategic finance, planning, reporting and performance improvement functions (including appointment of key personnel)
  - f. There are effective working arrangements between entities, evidenced by information sharing, advice to Ministers on elements of the accountability framework (such as the draft GPS and NZHP) and the perspective of the Ministerial advisory committee on health reform. This will be important for ensuring consistency and integration across the GPS and the NZHP, and for early identification of any challenges and trade-offs ahead of Budget 2024 decision-making.



50. The evidence listed above is intended to focus on capability improvements during the transition period that will demonstrate readiness to manage a multi-year funding settlement, rather than a full assessment of performance against interim priorities.

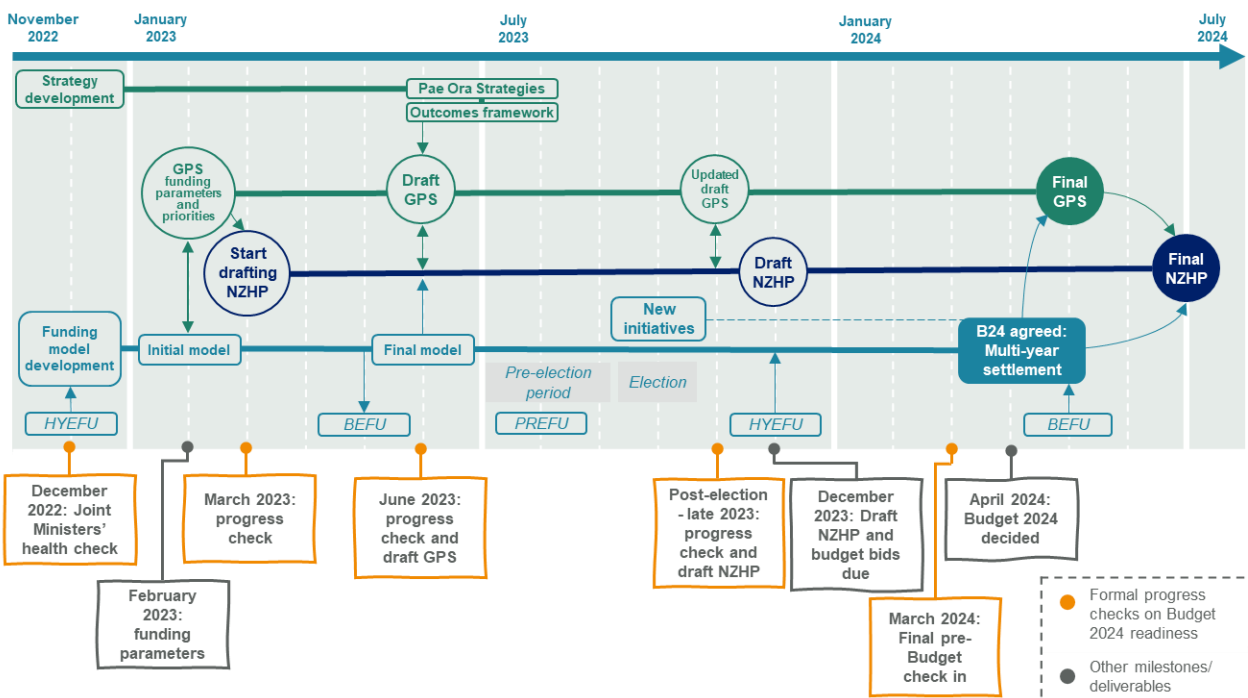
**The system will need to demonstrate progress towards meeting these conditions at specific points in the lead-in to Budget 24**

51. Below, **Figure One** outlines the interactions between the GPS, the NZHP and the Budget 2024 process and identifies the points at which readiness for a multi-year funding settlement should be assessed.

52. The proposed progress checks will give Ministers oversight of system readiness ahead of the critical Budget 2024 milestones. We anticipate several formal checkpoints over the period, with the aim so far as possible that any challenges can be identified with enough time to put in place extra support or requirements. If progress were insufficient at the progress checks, Ministers would have an option to defer the shift to a multi-year funding for a year or two until the conditions have been met.

53. These checkpoints are lined up with the timing of the Ministerial Advisory Committee’s assessments. Analysis to support the progress checks will be led by the Ministry of Health and the Treasury. Health entities will be consulted in the development of the advice and will have the opportunity to consult their boards. This approach was undertaken for the development of this advice as well. We also anticipate that the Ministerial Advisory Committee for the health reform programme and the Office of the Auditor General (who are required under the Pae Ora Act 2022 to audit the NZHP) will support these assessments.

**Figure One: Development of accountability documents and check in points ahead of Budget 2024**



54. At each progress check, the Ministry of Health and the Treasury will undertake an assessment of progress against all the conditions (A-E) that are set out in this paper.

55. Our assessments will need to be made in advance of Budget 2024 to support Ministers' decision-making, and therefore will be based on a judgment of progress at the time and the likelihood of the conditions being met by July 2024. This will not always lend itself to a precise determination, but will need to be informed by the available evidence and the perspectives of system leaders and more independent voices (including the new Ministerial advisory committee on the health reforms). As the new system progresses, more information will be available to support these assessments, particularly as monitoring and reporting improves. For example, our assessment of whether the system will be in financial balance at June 2024 will be more accurate in November 2023 than in March 2023.
56. The table at **Annex Three** provides more detail on the areas that we expect to focus on at each check in point, and the role of agencies, entities and entity boards in providing advice to Ministers on system readiness.

## Equity

57. Incentivising longer-term planning and investment will support the reform system shifts towards more equitable outcomes. The proposals in this paper seek to ensure that the multi-year funding arrangement for health is aligned as closely as possible to planning and direction setting. This will support Ministers to make decisions on priority actions and measures to improve health equity with a much greater level of certainty about the operational planning and financial capacity to deliver them.
58. If implemented well, multi-year funding for health could be an important lever to drive better allocation of resources that will be needed in the long-term to achieve health equity.

## Te Tiriti o Waitangi

59. Establishing good processes for Budget 2024 will also support the health system to meet te Tiriti o Waitangi obligations. The strengthened longer-term planning and investment referred to in paragraphs 57-58 will enable the Government to establish clear priorities for changes in the way health services are delivered to better serve Māori and meet the Crown's obligations under Te Tiriti o Waitangi.
60. The GPS and the NZHP will establish priorities and expectations about how the system will provide choice of quality services for Māori hapū, whānau and hapori that meets their needs and aspirations. Aligning these documents with Budget 2024 decision-making will mean that there is much greater transparency for Ministers and the public about what services and changes will be provided in the funding available.
61. The further advice that is referred to in this paper on funding flows and allocative mechanisms will need to consider how these mechanisms will uphold te Tiriti, ensure equitable levels of service and contribute to equitable health outcomes for Māori and ensure Māori exercise decision making authority on matters.

## Next steps

62. The next Joint Ministers health check meeting is on 7 December 2022. The agenda will include:

- a. A discussion on the recommendations in this paper and the companion paper on coverage and design choices for the multi-year arrangement; and
  - b. A progress update from health entities and the Ministry of Health on resourcing, capability, planning and governance to deliver the GPS and NZHP.
63. An update for this meeting on GPS progress is included in the accompanying paper on the Budget 2024 work programme (H2022016892 refers).
64. You will receive further advice on readiness of the health system to shift to a multi-year funding arrangement at the check in points set out in **Figure One** and described in detail in **Annex Three**. You will also receive advice outside of these formal check in points on the health funding model and elements of the accountability framework as they are developed.

**Annexes:**

Annex One: Detailed requirements of the GPS for Budget 2024

Annex Two: Detailed requirements of the NZHP for Budget 2024

Annex Three: Detailed description of Budget 2024 progress checks

**ENDS.**

## Annex One: Detailed requirements for the 2024-2027 GPS

Main document	Core annexes
<p><b>Statutory purpose:</b> Articulates Government priorities for the publicly funded health sector and sets clear parameters for the development of the NZHP.</p>	<p><b>Outcomes framework</b></p>
<p><b>Characteristics:</b> The GPS identifies priorities and describes the actions that will deliver (or advance) the priorities over the 3-year period. It also sets the Government’s expectations about “baseline” operation of the system – how much funding is available, service coverage, and how entities operate. The GPS should be informed by the health strategies required under the Pae Ora Act 2022.</p>	<p>Measures longer-term outcomes (and sits alongside the health strategies). Updated less frequently than the GPS, but should underpin GPS measures and indicators.</p>
<p><b>Contents:</b></p> <p><i>Priorities for the publicly funded health system</i></p> <ul style="list-style-type: none"> <li>Identify areas of priority for the health system over the 3-year period and specify expected outcomes for each priority.</li> <li>Describe how priorities give effect to Te Tiriti o Waitangi.</li> <li>Specify the actions that the Government expects to take place in the 3-year period to deliver (or advance) the priority outcomes</li> <li>Specify the Government’s priorities for engaging with, and improving health outcomes for, Māori</li> <li>Specify the Government’s priorities for improving health outcomes for rural people, disabled people, women, rural communities, and other populations.</li> <li>Cross-references to other government priorities.</li> </ul> <p><i>Parameters for system and service planning</i></p> <ul style="list-style-type: none"> <li>Specify the total funding available to the health system over the 3-year period across the three relevant appropriations</li> <li>Articulate the Government’s baseline expectations for coverage of the publicly funded health system – and any significant changes to service coverage arising from its priorities.</li> </ul> <p><i>Ministerial expectations for health entities</i></p> <ul style="list-style-type: none"> <li>Set principles which inform how entities design and deliver their functions – including principles that describe how allocative funding decisions should be made, and important behaviours or actions that will be required to give effect to the GPS.</li> </ul> <p><i>Monitoring and data requirements</i></p> <ul style="list-style-type: none"> <li>Specify the mandatory data sets to be reported by entities, and headline metrics used to monitor system performance and progress towards priority outcomes. Informed by/supports longer-term outcomes framework. The indicators and measures in the GPS should be copied for the Vote Health Estimates (and there should not be additional measures included in the Estimates).</li> </ul>	<p><b>Minimum service coverage expectations</b></p> <p>Minimum access requirements including co-payments for core services, to set baseline expectations – currently the Service Coverage Schedule.</p>
	<p><b>Related documents</b></p> <p><b>Business rules (if necessary)</b></p> <p>Core business rules for health entities including related to financial management – consolidating statutory requirements.</p> <p><b>Eligibility direction</b></p> <p>Determines who is eligible for publicly funded healthcare (set in regulations).</p> <p><i>The GPS is intended to replace Crown funding agreements and annually-set letters of expectation (at least for Te Whatu Ora and Te Aka Whai Ora), although Ministers will have the ability to issue specific directions via Letters of Expectation should they wish to, including in response to any concerns about performance. Letters of expectation may be used as a safeguard in the early phases of the new system.</i></p>

## Annex Two: Detailed requirements for the 2024-2027 NZHP

### Statutory plan (signed by Minister of Health)

**Statutory purpose:** To provide a 3-year costed plan for the delivery of publicly funded health services.

**Characteristics:** The NZHP is a fully costed service delivery plan that response to the priorities in the GPS. It should describe what activities and changes the settlement is funding and provide assurance that the GPS can be delivered in the amount of funding available.

#### Minimum requirements

- Set out the **transformation** required to deliver the GPS over at least the next three years (with a longer-term view taken if possible). This should specify the system shifts, activities and milestones that will deliver on the transformation.
  - Include links to outcomes – e.g. service configuration and delivery, models of care, shift of activity to community, intersectoral view
  - Include a health needs assessment of the current state and future trends (for 2024, this is expected to be based on existing data and information)
- Set out assumed **core activity levels** across all relevant activities delivered by the health entities: **Te Whatu Ora, Te Aka Whai Ora, Pharmac, the Health Quality and Safety Commission and the NZ Blood and Organ Service**. These should align with the direction set out in the GPS.
  - Services in hospital vs community settings, minimum primary and community services vs discretionary services
  - A mix of targets (e.g. increase in enrolment in successful type 2 diabetes programmes), and planning assumptions (e.g. bed growth)
  - Priority populations: Key actions and changes for Māori, Pacific and other priority populations
  - Provide a prioritisation framework for developing investment priorities and activities that flow from the GPS
- Provide **financial costings** linked to activities so that it is clear what level of service is associated with funding levels. Funding distribution should be detailed by output class (based on updated output classes).
- Describe the underlying assumptions about the **deliverability** of the activities and changes in the plan, based on population needs, service efficiencies and costs and maturity of system enablers (such as the health workforce). Analysis of productivity will need to be developed to inform this.
  - Workforce e.g. workforce supply, change to support shifts in models of care, workforce distribution/composition
  - Digital e.g. digital models of care, addressing technical debt
  - Capital e.g. key changes in capacity/configuration/delivery
- Include **milestones** for delivery of actions and **measures of performance** disaggregated by ethnicity, service, for key population characteristics and by region. Approaches to evaluation should also be identified. Measures should identify baselines and cover all key priority areas with clear linkages to the GPS.
  - E.g. Equity, access, activity levels (e.g. planned care), performance/productivity, enablers, locality roll-out targets
- Guided by the **health sector principles** in the Pae Ora Act 2022.
- Wider goals: summary of how actions are supporting wider government goals e.g. employment, environment
- Across all the above: Describe how the actions in the NZHP will achieve equitable outcomes; engage with Māori, protect Māori interests and aspirations, and empower Māori to improve their health.
 

*The information in the NZHP may be presented or structured differently than the list above.*

### Annexes or specific national plans

*Only shaded annexes are required for Budget 2024. Other annexes are indicative only and will be developed further as part of the development of the 2027 NZHP. Most annexes will not normally be approved by Ministers.*

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[33]

- **Capital Investment Plan and Asset Management Strategy – required for Budget 2024 [SWC-22-MIN-0063 refers]**

[33]

#### Financial annex – required for Budget 2024

*This annex would be separate from the public version of the NZHP*

- Financials linked to activities by appropriations, output classes and regions. Includes production plans.
- Key underpinning workforce information – FTEs and outsourced services, linked to activities, appropriations, output classes and regions.
- Key funding and activity changes compared to previous years supported by numbers/analysis e.g. activity/volume growth, wage growth, price growth, FTE growth (split by that driven by activity/volume vs other factors). Includes breakdowns by appropriations and output classes.
- Financial risks (both upside & downside), quantified where possible. Includes strategy for managing risks, including approach to risk reserve/contingency, risk mitigations and risk owners.
- Options and trade-offs/implications of different funding levels covering:
  - Low end of funding track
  - High end of funding track
  - A reduced affordability scenario
- Opportunities available for efficiencies and performance improvement over the multi-year settlement, quantified to the extent possible. Includes efficiencies, reducing variability across geographic areas, rebalancing of the system toward primary and community care (whilst maintain service stability in other areas).
- Impact of the delivery of the plan on capital stocks (human, physical) and ability to keep delivering in the medium/long term.

## Annex Three: Detailed description of Budget 2024 progress checks

Milestone	What milestone covers	Who leads advice	Role of entity boards
<b>December 2022 Joint Ministers' health check meeting</b>	<ul style="list-style-type: none"> <li>Discussion on the proposals in this paper and the companion paper on coverage and design choices for the multi-year arrangement.</li> <li>Check in on the establishment of GPS and NZHP work: resourcing, capability and planning.</li> </ul>	Ministry of Health Treasury Input from Te Whatu Ora and Te Aka Whai Ora	Consulted
<b>February 2023</b>	<ul style="list-style-type: none"> <li>Advice on health funding track model and parameters for the multi-year settlement.</li> </ul>	Ministry of Health Treasury	Informed (subject to Ministers' decision)
<b>March 2023 progress check</b>	<p><b>Assessment against the conditions in this paper – in particular:</b></p> <ul style="list-style-type: none"> <li>Progress on early development of GPS: early priorities, progress on dependencies (such as the Outcomes Framework, Strategies and Service Coverage Schedule) and development of reporting requirements.</li> <li>Programme plan for design work on funding flows and allocative mechanisms for the distribution of funding within health entities and to service providers.</li> <li>Improvements in monitoring and reporting: whether reporting captures productivity measures, and whether work to update output classes has been completed (which will provide analytical inputs to the NZHP).</li> <li>Entities' financial performance and the standard of information to draw down on cost pressure contingencies.</li> <li>Evidence of effective working arrangements between entities, including early sharing of work on the GPS and NZHP.</li> </ul> <p>Funding parameters communicated after the March check in (subject to decisions on the February advice).</p>	Ministry of Health Treasury	Consulted
<b>June 2023 progress check</b>	<ul style="list-style-type: none"> <li>First draft GPS with provisional priorities, actions and reporting requirements.</li> <li>Finalisation of the Pae Ora Strategies and outcomes framework (due in July 2023).</li> <li>Progress on reviewing the Service Coverage Schedule.</li> <li>Entities' financial performance and improvements in monitoring and reporting.</li> </ul>	Ministry of Health	Consulted

Milestone	What milestone covers	Who leads advice	Role of entity boards
	<ul style="list-style-type: none"> <li>Progress on design work on funding flows and allocative mechanisms.</li> <li>Analytical inputs to the NZHP.</li> </ul>		
<b>Post-election progress check (late 2023 – with substantive work completed in August-October 2023)</b>	<p><b>Assessment against the conditions in this paper – in particular:</b></p> <ul style="list-style-type: none"> <li>Draft NZHP: Whether the draft NZHP and supporting financial information meets minimum requirements for Budget 2024 (or can meet them by December 2023).</li> <li>Draft GPS: Progress on clarifying costing and communicating any post-election updates to the GPS; whether reporting requirements have been established; revisions to the Service Coverage Schedule.</li> <li>An agreed approach to further baseline analysis from July 2024.</li> <li>Whether there is evidence that entities are acting on insights from improved monitoring and reporting.</li> <li>Entities' financial performance.</li> <li>Whether a single financial management system is in place.</li> <li>Whether decisions on funding flows have been made.</li> </ul>	Ministry of Health Treasury	Boards may wish to approve draft NZHP
<b>December 2023</b>	<p>Formal budget submission of:</p> <ul style="list-style-type: none"> <li>Cost pressure bids.</li> <li>New initiatives.</li> </ul> <p>Submissions will be supported by the draft NZHP and GPS.</p>	Ministry of Health Te Whatu Ora Te Aka Whai Ora	Boards approve draft NZHP
<b>March 2024 progress check</b>	<b>Final pre-Budget check in:</b> Confirming approach to the multi-year settlement and any additional conditions that are required.	Ministry of Health Treasury	Informed
<b>April 2024</b>	<ul style="list-style-type: none"> <li>Final decisions on the multi-year settlement (funding track and any new initiatives)</li> </ul>	Treasury, with health entities	Informed
<b>May 2024</b>	<ul style="list-style-type: none"> <li>Publication of 2024-2027 GPS</li> </ul>	Ministry of Health	Consulted
<b>June 2024</b>	<ul style="list-style-type: none"> <li>Publication of 2024-2027 NZ Health Plan</li> </ul>	Te Whatu Ora, Te Aka Whai Ora	Boards approve final NZHP