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Budget 2024 Information Release

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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
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Briefing

Budget 2024: Proposed health cost pressure planning parameters

Date due to MO: 3 March 2023 **Action required by:** 17 March 2023

Security level: BUDGET SENSITIVE **Health Report number:** H2023020511/
T2023/307

To: Hon Grant Robertson, Minister of Finance
Hon Dr Ayesha Verrall, Minister of Health

Consulted: Health New Zealand: Māori Health Authority:

Contact for telephone discussion

Name	Position	Telephone
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Minister's office to complete:

- Approved Decline Noted
- Needs change Seen Overtaken by events
- See Minister's Notes Withdrawn

Comment:

Budget 2024: Proposed health cost pressure planning parameters

Security level: BUDGET SENSITIVE **Date:** 3 March 2023

To: Hon Grant Robertson, Minister of Finance
Hon Dr Ayesha Verrall, Minister of Health

Purpose of report

1. This briefing provides you with proposed financial planning parameters for Te Whatu Ora and Te Aka Whai Ora cost pressures at Budget 2024, to inform the development of the 2024-2027 New Zealand Health Plan (NZHP). Your agreement is sought to communicate these parameters to entities, subject to the March 2023 Budget progress check.
2. This paper also provides you with an overview of the methodology used to produce the proposed Budget 2024 planning parameters (a top-down health funding model).
3. This report discloses all relevant information and implications.

Summary

4. At Budget 2024, decisions on cost pressure funding for Te Whatu Ora and Te Aka Whai Ora over the three-year funding settlement will be informed by:
 - a. a top-down health funding model that estimates the cost of maintaining existing health policy settings over the three-year period; and
 - b. detailed service planning and costing information in the draft 2024-2027 New Zealand Health Plan (NZHP).
5. The Ministry of Health (the Ministry) and the Treasury have jointly developed the health funding model based on assumptions about the future trajectory of inflation, demographic change, productivity, and other drivers of health costs.
6. As noted in our previous advice on coverage and design of the multi-year funding arrangement for health [HR2022016892 / T2022/2608 refers], this model is designed to be an estimate of the cost of maintaining current health policy settings over the three-year period. The intention of this early modelling is to provide Te Whatu Ora and Te Aka Whai Ora (the entities) with an early indication of the amount of funding that they can expect to be available to meet cost pressures in Budget 2024.
7. Based on the outputs of the health funding model, we recommend an initial set of cost pressure estimates that represent a 6.29% uplift in year one, 5.69% in year two and 5.35% in year three, relative to an assumed health baseline at July 2024.

8. This is based on a model of health expenditure that includes the following components:
 - a. demographic pressure
 - b. inflation
 - c. other drivers of health expenditure not explicitly modelled – including increased demand for services because of technology advancements and changes in expectations of care (also referred to as the “residual”)
 - d. productivity/efficiency.
9. This model does not include estimates for the cost of new initiatives or service improvements that cannot be met within the baseline. It represents an estimate for maintaining current system settings, and additional funding for further priorities will be considered separately as part of the Budget 2024 programme. It is also important to note that there is significant uncertainty about the future trajectory of inflation, and about the starting baseline for the estimates in this paper (especially with regards to pay equity and ongoing Holiday Act costs). If these have a significant impact on projected cost pressures for the multi-year settlement, then you will have the option to re-issue the budget planning parameters.
10. In March, the Ministry and Treasury will provide you with advice on the readiness of the health system to move to a multi-year funding arrangement, based on the conditions that you agreed to in early 2023 [H2022015429 / T2022/2607 refers]. You will have options to proceed with issuing the parameters, specify any additional requirements or concerns, or to consider delaying issuing the parameters and/or proceeding with the multi-year funding approach for Budget 2024.
11. We recommend that you communicate the cost pressure planning parameters to entities via a letter to each of the Board Chairs, subject to sufficient progress being made towards a multi-year funding settlement at the March 2023 Budget progress check. A draft letter is provided for your feedback in **Appendix A**.

Recommendations

We recommend you:

Budget Planning Parameters

Minister of Finance *Minister of Health*

- a) **Note** at Budget 2024, decisions on cost pressure funding for Te Whatu Ora and Te Aka Whai Ora over the three-year funding settlement will be informed by a top-down health funding model that estimates the cost of maintaining existing health policy settings over the three-year period.
- b) **Note** that the Ministry of Health (the Ministry) and the Treasury have jointly developed the health funding model based on assumptions about the future trajectory of inflation, demographic change, productivity, and other drivers of health costs.

- c) **Agree** to communicate the following cost pressure planning parameters for Budget 2024, covering 2024/25 – 2026/27, to Te Whatu Ora and Te Aka Whai Ora, subject to the outcome of the March 2023 Budget progress check: **Yes/No** **Yes/No**

Appropriation	Delivering Hospital and Specialist Services (\$m)			Delivering Primary, Community, Public and Population Health Services (\$m)			Delivering Hauora Māori Services (\$m)		
	24/25	25/26	26/27	24/25	25/26	26/27	24/25	25/26	26/27
Baseline	13,656	13,670	13,686	8,834	8,789	8,780	235	235	235
2024/25	859	859	859	555	555	555	15	15	15
2025/26		826	826		531	531		14	14
2026/27			823			528			14
Planning parameters (potential cost pressure uplift)	859	1,685	2,507	555	1,087	1,615	15	29	43
Entities receiving funding from this appropriation	Te Whatu Ora			Te Whatu Ora, Te Aka Whai Ora			Te Aka Whai Ora		

- d) **Note** that if the March 2023 progress check indicates any concerns with entities' readiness for multi-year funding at Budget 2024, you will have the option to highlight these concerns with entities, specify any additional requirements or defer communicating the parameters.
- e) **Note** that the funding parameters will only be updated if inflation forecasts change significantly or if there are major changes to the health baseline before the Budget 2024 process begins.
- f) **Provide any feedback** on the attached draft letters to entities communicating the cost pressure planning parameters (**Appendix A**).
- g) **Note** that while the parameters have been set by appropriation, entities will have flexibility to propose changes in the distribution of funding across appropriations as the NZHP is developed, with the final distribution agreed by Cabinet as part of the Budget 2024 process.
- h) **Note** that final decisions on the level of cost pressure funding for the appropriations covered by the health funding model will be taken in Budget 2024 and will be informed by detailed bottom-up service planning and costing information through the NZHP.
- i) **Note** that the cost pressure estimates in this paper are intended to reflect the maintenance of existing policy settings and do not include

the cost of new initiatives or additional service improvements, which will be the subject of future advice.

Affordability scenarios

- j) **Note** that the Treasury Budget 2024 cost pressure templates will request information on cost pressure funding scenarios that are less than the planning parameters to identify trade-offs and the potential impacts of funding health below the estimated cost of maintaining current policy settings.

Hon Grant Robertson

Minister of Finance

Date:

Hon Dr Ayesha Verrall

Minister of Health

Date:

Jess Hewat

Manager, Health

The Treasury

Date: 3 March 2023

Dr Diana Sarfati

Director-General of Health

Ministry of Health

Date: 3 March 2023

Budget 2024: Proposed health cost pressure planning parameters

Context

1. In October 2021, Cabinet agreed to establish a multi-year funding arrangement for Vote Health from Budget 2024, subject to Ministers having confidence that adequate system settings to support improved financial control and planning are in place [SWC-MIN-0157 refers]. Subsequently, the Minister of Finance and the previous Minister of Health agreed to a set of detailed conditions that will need to be met to proceed with the multi-year funding arrangement [H2022015429 / T2022/2607 refers]. The relevant briefings are attached to this paper for your reference (**Appendix B**).
2. Successful fulfilment of these conditions would represent a significant transition from existing interim arrangements to the first full set of accountability documents required by the Pae Ora Act 2022. The Ministry and the Treasury will be reporting to you on progress with these conditions at the following progress check points in the lead-in to Budget 2024:
 - a. March 2023: Progress on the early development of the Government Policy Statement (GPS), analytical inputs to the NZHP and information on entity performance.
 - b. June 2023: Draft GPS and final Pae Ora Strategies, analytical inputs to the New Zealand Health Plan (NZHP) and information on entity performance.
 - c. Post-election (late 2023): Substantive draft of the NZHP and assessment of the quality of information available to support a Budget 2024 submission.
 - d. Before finalising the Budget 2024 package (likely February/March 2024): Confirming the approach to the multi-year settlement and any additional conditions that are required.
3. Our earlier briefings also included advice on the design of the multi-year funding arrangement, including which parts of Vote Health should be accounted for in the multi-year funding arrangement, the time horizon for health expenditure modelling and how the design and composition of the settlement will mitigate risks and variations [H2022015438 / T2022/2608 refers].
4. The size and makeup of the three-year settlement for health will be determined by a combination of high-level modelling of future health expenditure and detailed operational planning and budgeting in the first full NZHP. This will require an iterative process throughout 2023 whereby the model is used to set overall parameters for the three-year settlement, but detailed Budget decisions and trade-offs will be based on the detailed and costed NZHP and supporting financial information.
5. As part of this process, our advice in December 2022 [H2022015429 / T2022/2607 refers] noted that we would advise Ministers in February 2023 on the health funding model and budget planning parameters for the three-year settlement. This will enable the entities to undertake detailed work on the NZHP with a meaningful indication of the funding that may be available to meet core cost pressures over the three-year period.

Proposed cost pressure planning parameters

6. The Ministry and the Treasury have developed a high-level model to estimate the cost of maintaining existing health policy settings over the three-year period (2024/25-2026/27). Details of the model and the underpinning assumptions are provided in the next section of the paper.

Table One: Proposed cost pressure planning parameters for Te Whatu Ora and Te Aka Whai Ora for Budget 2024

Appropriation	Delivering Hospital and Specialist Services (\$m)			Delivering Primary, Community, Public and Population Health Services (\$m)			Delivering Hauora Māori Services (\$m)		
	24/25	25/26	26/27	24/25	25/26	26/27	24/25	25/26	26/27
Baseline	13,656	13,670	13,686	8,834	8,789	8,780	235	235	235
2024/25	859	859	859	555	555	555	15	15	15
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2026/27			823			528			14
Planning parameters (potential cost pressure uplift)	859	1,685	2,507	555	1,087	1,615	15	29	43
Entities receiving funding from this appropriation	Te Whatu Ora			Te Whatu Ora, Te Aka Whai Ora			Te Aka Whai Ora		

7. The proposed parameters would result in a 6.29% uplift in year one (in nominal terms), 5.69% uplift in year two, and 5.35% uplift in year three, relative to the baselines for each year assumed at July 2024. This would represent a significant proportion of current budget allowances.
8. The planning parameters represent officials' current best estimate, based on top-down modelling only, of the cost to maintain current policy settings over the three-year period. These estimates will be refined over the course of 2023 in preparation of the NZHP and formal submission of a Budget 2024 initiative. The parameters are an estimate only and should not be used by entities as a final or fixed amount of funding.
9. Importantly, the cost pressure estimates do not include any provision for new investments or system or service improvements that would put further pressure on Budget allowances. Further detail is provided later in the paper on our assumptions about what kinds of costs are covered by this modelling.
10. Once communicated, we recommend that the parameters are only updated if inflation forecasts change significantly or there are changes to the starting baseline that mean that the parameters no longer reflect the likely cost of maintaining current policy settings.
11. The proposed cost pressure planning parameters are consistent with recent growth in health expenditure: from 2016/17, district health board spending increased by an average of 6.6% per annum. Cost pressure uplifts agreed at Budget 2022 (excluding the health system rebase) were approximately 6.4% per annum.

We recommend that you communicate these parameters to entities following the March progress check

12. Communicating the funding parameters to entities after the March progress check will provide you with an opportunity to reiterate your expectations for entities' planning for a multi-year funding arrangement and to highlight any concerns – including your expectations about how entities will manage financial risks.
13. The advice you will receive in March will provide an assessment of whether it is feasible and desirable to continue to work towards a multi-year settlement at Budget 2024. If there are significant concerns about entities' progress and it appears that it would be more prudent to defer the multi-year arrangement and focus instead on a single-year Budget, then you may wish to defer communicating the cost pressure parameters completely.
14. At Budget 2022, planning parameters were communicated to board chairs, chief executives and chief financial officers within what was then the interim Health New Zealand and the interim Māori Health Authority (refer T2022/47). We recommend a similar approach for Budget 2024.
15. A draft letter to these officials communicating Budget planning parameters is provided in **Appendix A**. The letters reinforce the expectations of the entities outlined in our advice to you on conditions for multi-year funding [HR2022016892 / T2022/2608 refers]. We would welcome your early feedback on the draft letter. We will finalise the letter, with any necessary additions, after the March progress check.

Appropriate security protections are in place to support this process

16. Officials on the Budget 2024 Steering Group [H2022016892 refers] from Te Whatu Ora and Te Aka Whai Ora have signed Budget confidentiality agreements in advance of this advice being prepared. Membership of the Steering Group has also been narrowed, where possible, to include only senior officials and those directly working on the NZHP.
17. We have consulted the Budget 2024 Steering Group on the design of the health funding model and the process for setting the cost pressure planning parameters. We have sought their early input on the assumptions that underpin the funding model but have not shared detailed values or the parameters themselves.

We have set the planning parameters by appropriation

18. Setting parameters by appropriation aligns with the new operating model and reinforces the need to manage the primary and community appropriation distinctly from the hospital and specialist services appropriation. It will give greater transparency of allocative choices and trade-offs across and within appropriations, and better enables decisions on different levels of funding uplifts across appropriations.
19. At this early stage, it would not be feasible to model cost pressures separately by appropriation, which would require a detailed analysis of projected demand for services by appropriation. The planning parameters are instead based on applying a single model to a derived baseline for each appropriation. However, we would note that these assumptions therefore maintain existing allocations that may not be in keeping with your medium-term strategy (e.g., to increase funding proportionally for hauora Māori services, or to re-balance between hospitals and community-based care).

20. It will be possible, therefore, for either the Ministry or health entities to recommend a shift of activities across appropriations as part of the development of the GPS and NZHP, or to recommend different cost pressure uplifts be applied to different appropriations.
21. Where entities wish to recommend a shift between appropriations, this should be proposed as part of the process for developing the NZHP. Any changes would need to be identified and justified in the supporting information to the NZHP, and final decisions will be made by Cabinet on your recommendation as part of the Budget 2024 process. Once Budget 2024 decisions have been made, previously agreed processes for transferring any funding between appropriations will apply [SWC-21-MIN-0157 refers]. These include Cabinet decisions to allow the Minister of Health only to agree to fiscally neutral transfers from the Delivering Hospital and Specialist Services appropriation into the Delivering Primary, Community, Public and Population Health Services appropriation.

Composition of the funding model used to produce the parameters

22. The Ministry and the Treasury have developed a model of future health expenditure to produce the estimates set out in Table One. The model builds on work done to estimate cost pressures for Budget 2022. The components of the model are set out in Table Two below.

[38]

23. The rest of this section provides you with a brief overview on the approach and rationale to each of the components. Where possible, we have made assumptions that are consistent across government (with deviations where appropriate).

Features of the model – similarities with previous and international approaches

24. The model was developed in conjunction by the Ministry and Treasury with input from entities. We consulted a group of subject matter experts from the Ministry and the Treasury on the initial set up and design of the model. Alongside this, we drew on some work commissioned through the New Zealand Institute of Economic Research (NZIER) on

health inflation, and a literature review undertaken by Treasury on wider cost drivers in health.

25. The funding model for the Budget 2022 transitional funding package provided a useful test case for this iteration. The Budget 2022 model included multipliers for demographic pressure, inflation and other cost drivers (but did not include a separate negative multiplier for productivity).
26. While some of the assumptions in the model are uncertain, we have sought to develop a single estimate for the funding parameters. Our original approach to develop a high and low estimate yielded results that were too narrow to be of meaningful use. In our view, a single estimate will be simpler to communicate and will avoid the risk of implying a defined target area for Budget decisions that may prove to be undeliverable. The areas of uncertainty within each of the assumptions is noted below.

Demographic pressures

27. We have estimated the impact of demographic pressures on future expenditure based on an established methodology that combines:
 - a. demographic cost weights¹
 - b. projected change in total population (taken from the Half-Yearly Economic and Fiscal Update, HYEPU)
 - c. projected change in population in each demographic group (taken from Statistics NZ 2021 data).
28. This reflects the effect of population growth, changing age structure, health status, and death related costs on health expenditure. We have not included a range for demographic pressure in the model. While there is a degree of uncertainty relating to the cost impact of population ageing, we did not consider this substantive enough to include uncertainty parameters.

Inflation

29. [38]
30. While we have used a single forecast for inflation rather than a range, it is very important to note that there is significant uncertainty about future inflation trends and how these will affect the health sector – particularly given the longer time period covered by the allocation, the long lead time between initial modelling and actual budget decisions, and significant geopolitical uncertainty. While some evidence suggests that inflation in the health sector differs from economy-wide inflation, there are benefits to using a consistent approach across Government and to the transparency and robustness of using Treasury's forecasts.

¹ A cost weight is the national average expenditure per head per year for a person in a particular demographic group. The model uses the same demographic cost weights used for Budget 2022.

31. HYEFU 22 outlines three alternative inflation scenarios. ^[38]
32. Given the uncertainty about inflation, it will be important for entities to consider the possible impacts of higher or lower inflation on their costs so that Budget planning can be adapted should inflation forecasts change significantly over the course of 2023. We recommend that you highlight this in your letter to entities communicating the planning parameters. It will also be part of Treasury's Budget 2024 cost pressure template.
33. A significant change in inflation forecasts (up or down) would likely mean that the planning parameters would be reissued.

Other "residual" drivers of health expenditure

34. The health funding model also includes a component to reflect other drivers of health expenditure that we have not modelled separately. The use of components like this is well established in health expenditure modelling and literature both overseas and in New Zealand³, and is often referred to as the "residual". These components generally incorporate expenditure that is driven by:
- a. increased demand for care that is driven by technology or process enhancements and innovations that result in an expansion in the number of people who receive care, particularly if it meets previously unmet need (e.g. through improved diagnostics)
 - b. increased demand for existing services as expectations of health services increase, particularly as the health reforms take effect and improve access to care
 - c. other, unknown drivers of cost that have been observed in literature.
35. It is difficult to quantify and disaggregate these kinds of drivers of health expenditure, which is why it has become common to combine them into a single multiplier. The inclusion of these components is generally supported by analysis of historical health expenditure, which shows that there is a residual growth in expenditure that cannot be explained by modelled variables such as inflation or demographic change.
36. ^[38]

[38]

³ We have examined modelling and publications from the OECD, NZ TSY, UK OBR and the NSW TSY to inform this advice.

[38]

37. As work on the NZHP progresses, we will be able to deepen our understanding of these other cost drivers to inform decisions on cost pressures at Budget 2024. [38]

Productivity/efficiency

38. We have included a small adjuster in the model to reflect expected productivity gains in the final year of the three-year budget envelope. This is for a range of reasons.
- a. Some assumptions about efficiency are already built into the Te Whatu Ora baseline for the first two years of the envelope, as time-limited funding for Te Whatu Ora establishment, localities and primary care teams will come to an end. Efficiency savings realisation was factored into the profile of these funding streams. We do not expect significant further productivity improvements in the first two years of the settlement.
 - b. Productivity in the health sector is generally lower than that of the wider economy, a factor often called the "Baumol Cost Disease". The literature review from NZIER (referred to in paragraph 24) supported this assumption.
 - c. [38]
 - d. Different appropriations and service areas will have different productivity expectations because of their different labour and capital mix. As noted in paragraph 19, it is not currently feasible to model these differences without the detailed service planning and analysis that will be part of the NZHP.
39. We will continue to refine and verify productivity expectations for the system, both drawing on and informing detailed service planning that entities will be working on for the NZHP.

We have made assumptions about the health baseline as of July 2024

40. Each component in the model is applied to an assumed baseline for each of the three years as at July 2024. We have made some assumptions about what funding will be agreed as part of the health baseline at July 2024 so that our estimates of future costs are as accurate as possible. However, there are some significant uncertainties about what will be included in baselines at July 2024 – [33]

These will impact the final cost pressure uplift. If there are significant changes to the baseline before the Budget 2024 process begins then it may also be appropriate to reissue the planning parameters. Our approach to estimating the July 2024 baseline is summarised in Table Three on the following page.

Table Three: Approach to estimating the July 2024 health baseline

Included in the baseline	Excluded from the baseline
OBU22 (including adjustments for limited funding that ceases/decreases within the three-year period)	Time limited funding that ceases/decreases within the three-year period (e.g. COVID, set up of localities (B22), entity establishment (B21) etc)
[33]	
Holidays Act ongoing costs that are already included in entity baselines (agreed as part of the health system rebase in Budget 2022)	Other assumed new investments at Budget 2024, including Ministerial priorities and manifesto commitments

The cost pressure model will continue to be refined to support the NZHP and Budget 2024 decisions

- 41. The assumptions will continue to be refined to support work on the NZHP and eventual Budget 2024 decisions. Further modelling work is not expected to result in updated planning parameters (unless there are significant changes in inflation forecasts as noted in paragraph 10), but instead will validate and support assumptions being made as part of bottom-up planning (for example, on productivity) and inform Ministers’ future decisions.
- 42. Final decisions on the level of cost pressure funding for the appropriations covered by the health funding model will be taken in Budget 2024 and informed by detailed operational planning and costing information in the draft NZHP (and supporting information).

The parameters are limited to the expected cost pressures associated with maintaining current health policy settings

- 43. The proposed cost pressure planning parameters do not represent the full amount of additional funding that may be agreed for Vote Health at Budget 2024. The parameters have been designed to model the cost of maintaining existing policy settings (such as eligibility, service access, co-payments, and their consequences for equity and unmet need) across the three main Vote Health appropriations, and not to explicitly include improvements or new initiatives.
- 44. While some degree of improvement should be expected within the baseline funding and cost pressure uplift – and this should be a significant area of focus for the NZHP – the funding scenario described in this briefing would not be anticipated to support major new priorities, programmes or areas of expansion. You will have choices about making new investments to deliver improvements to services and outcomes as part of considering priorities for the GPS and NZHP, informed by the fiscal environment,

capacity constraints and government objectives. As an example, at Budget 2022 new investment was around \$250 million per annum per Budget allowance.

45. In a complex system, it is difficult to define the “maintenance of current policy settings”. We have, however, made some assumptions about the kinds of costs that we would expect to be considered as cost pressures in Budget 2024. These assumptions have informed the design of the cost pressure model. It will also be important to establish clear expectations about what may be funded as a cost pressure at Budget 2024 and what should be considered as a new initiative so that entities can plan and prepare advice on the NZHP.
46. Examples of the kinds of pressures that we would expect may be funded within our core cost pressures in Budget 2024 include:
 - a. increases in the cost of delivering health services due to inflation
 - b. funding to account for increases in population size and makeup
 - c. funding that would allow for the health system to respond to reasonable variations in cost (e.g., moderate increases in inflation beyond forecasts, severe flu, regional events)
 - d. funding to respond to increased demand for services as a result of technology improvements and increased patient expectations. This includes advancements in equipment, techniques and procedures, new treatments for conditions, and expanding existing methods to wider patient populations.
47. [33]
48. Consideration of new funding initiatives at Budget 2024 will be aligned to decisions on priority areas of focus for the health strategies, GPS and NZHP, as well as the Government’s broader Budget 2024 strategy. These decisions will be supported by an investment strategy, which will inform our advice on priorities and trade-offs for new investment at Budget 2024. Ministry officials will develop the investment strategy in the first half of 2023.
49. The estimates are also limited to the three appropriations that fund Te Whatu Ora and Te Aka Whai Ora (Delivering primary, community and population health services; delivering hospital and specialist services; and delivering hauora Māori services). These make up the majority of health funding, but the multi-year settlement will also include pharmaceuticals funding, delivery costs for other health entities, and funding for the Ministry of Health.
50. [33]

The Treasury will ask entities to outline options to respond to a cost pressure funding level lower than these parameters in its Budget 2024 templates

51. This is consistent with our December 2022 advice. Entities will be asked to articulate options and trade-offs that would be made if less cost pressure funding were available at Budget 2024. This will help to ensure that costings are robust and Ministers have as much information as possible to make trade-offs and prioritise at Budget 2024. The Treasury is likely to set two “affordability” scenarios to anticipate the plausible scaling questions that might be raised through the Budget decision-making process. In setting these scenarios the Treasury will consider current allowance settings, health’s historic share of budget allowances, and which scenarios are likely to show meaningful trade-offs. The scenario will be issued as part of the Treasury cost pressure template in April 2023.

Equity

52. Multi-year funding, associated accountability and financial planning capability will be an important lever to drive better allocation of resources. This is a key step to addressing health inequities given that, historically, funding allocations in health have not resulted in equity for all population groups.
53. We expect the development of the GPS and NZHP to surface advice and decisions for Ministers on ways to improve outcomes for all population groups and address inequity, within available resource.

Te Tiriti

54. The planning parameters aim to support entities in the development of the NZHP by providing an indication of the amount of funding that will be available to meet cost pressures at Budget 2024. This measure supports better financial accountability and planning, which will support the health system to meet its obligations under te Tiriti o Waitangi by helping to enable the reform system shifts towards more equitable outcomes.
55. As the parameters reflect the cost of maintaining current policy settings only, any new initiatives which would reduce barriers to access to healthcare or reduce inequity for Māori in the system are not within the scope of this paper. It is already well evidenced that the current system and current policy settings result in inequitable outcomes for Māori.
56. Detailed planning and costing of service delivery by entities as part of the development of the NZHP may provide opportunities to shift or refocus funding to areas which may benefit Māori, such as through better access to services. However, this would be limited to the allocation and distribution of the cost pressure uplift – funding to provide new additional services would need to be considered as part of the new initiative process.

57. The model used to derive the planning parameters also accounts for increasing demand for services because of technology improvements and increased patient expectations in the new system as an additional cost pressure. This could include advancements in equipment, techniques, and procedures as well as new treatments for conditions and expanding existing methods to wider patient populations. This choice accounts for improvements in the system which will benefit Māori communities as well as other population groups.

Next steps

58. Subject to any feedback that you have on the proposals in this paper and the draft letter in **Appendix A**, we will progress work on the March 2023 Budget progress check. Milestones over the next two months include:

Step	Timing
March 2023 Budget progress check – including confirming your approach to communicating Budget planning parameters	March 2023
Letters sent to entities to communicate Budget planning parameters	April 2023

ENDS.

Minister's Notes

Appendix A: Draft letter to entities communicating the Budget 2024 cost pressure planning parameters

Tēnā koutou [recipients TBC – will include entity Board Chairs, Chief Executives and Chief Financial Officers]

Budget 2024: Cost Pressure Planning Parameters to support entity planning and budgeting

As you will be aware, Cabinet has agreed to establish a multi-year funding arrangement for Vote Health from Budget 2024, subject to Ministers having confidence that adequate system settings to support improved financial control and planning are in place. Multi-year funding supports long-term planning and budgeting and will help us to achieve better outcomes from the reformed health system. However, it is a departure from standard annual budgeting – and it is important that the right settings are in place. This funding package is intended to cover three-years of fixed funding to cover all cost pressures and new investments in the health system.

This letter provides you with draft Budget 2024 planning parameters for the core cost pressure portion of the multi-year settlement. The purpose of the planning parameters is to give an early indication of the potential quantum of funding that might be available to meet health cost pressures in Budget 2024. This is not a formal allocation and should not be treated as such; it is an estimate to support Te Whatu Ora and Te Aka Whai Ora in the development of the New Zealand Health Plan (NZHP) leading into Budget 2024.

Final Budget allocations will be decided by Cabinet as part of the Budget 2024 process and will be informed by the Government’s broader Budget 2024 strategy and the detailed planning and budgeting work Te Whatu Ora and Te Aka Whai Ora will be undertaking as part of the development of the NZHP.

This information is Budget Sensitive, and we expect it to be held in strict confidence by Chairs and a small number of officials in both entities that are responsible for working on the NZHP and budgets that have signed budget confidentiality agreements. In due course this information can be shared with Board members to support Board discussions on the NZHP and internal entity budgets, but it must be held in strict confidence.

The Budget planning parameters for Te Whatu Ora and Te Aka Whai Ora for the three-year period 2024/25 – 2026/27 are as follows:

Appropriation	Delivering Hospital and Specialist Services (\$m)			Delivering Primary, Community, Public and Population Health Services (\$m)			Delivering Hauora Māori Services (\$m)		
	24/25	25/26	26/27	24/25	25/26	26/27	24/25	25/26	26/27
Baseline	13,656	13,670	13,686	8,834	8,789	8,780	235	235	235
2024/25	859	859	859	555	555	555	15	15	15
2025/26		826	826		531	531		14	14
2026/27			823			528			14
Planning parameters (potential cost pressure uplift)	859	1,685	2,507	555	1,087	1,615	15	29	43
Entities receiving funding from this appropriation	Te Whatu Ora			Te Whatu Ora, Te Aka Whai Ora			Te Aka Whai Ora		

These parameters have been calculated relative to the baselines for each year assumed at July 2024. A number of assumptions have been made about funding that will be appropriated before July 2024; a detailed explanation has been provided to the finance teams in each of the entities.

We recognise that there is significant uncertainty about future inflation trends and how these will affect the health sector. Given this uncertainty, we expect entities to clearly articulate the impacts of higher or lower inflation as part of the development of the fully costed 2024 NZHP. This information will be used when Budget 2024 decisions are taken, should inflation forecasts change significantly over the course of 2023.

Requirements that need to be in place in order to shift to multi-year funding in Budget 2024

To be successful, a multi-year funding settlement for Te Whatu Ora and Te Aka Whai Ora at Budget 2024 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.

As you are aware, Manatū Hauora and the Treasury will provide Ministers with advice on a series of progress checks on system readiness for the transition to a multi-year funding arrangement, the first of which was completed in March 2023.

The progress checks are based on a set of conditions that were agreed in early 2023 and which Te Whatu Ora and Te Aka Whai Ora officials and Boards were consulted on. The conditions are designed to allow a robust assessment of the system’s progress towards a mature accountability framework and establish minimum requirements for the GPS, NZHP and other elements of the multi-year settlement.

The conditions include the following and are documented more fulsomely in ‘Multi-year funding for Vote Health – conditions for implementation’:

- The GPS meets minimum standards and provides expectations that are sufficient to guide the development of the NZHP
- the NZHP is a fully costed spending plan that responds to the GPS and provides Ministers with a coherent representation of planned activity
- Processes and plans are in place to respond to performance and financial risks during the multi-year period
- 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
- The health system demonstrates capability to manage a multi-year funding settlement in the transition period to July 2024

The table below sets out the timeline for the remaining progress checks before Budget 2024. Each progress check will require information to be provided by Te Whatu Ora and Te Aka Whai Ora.

Progress checks	Key inputs
March 2023 progress check	Adequacy of programme and resourcing arrangements, progress on early development of the GPS, progress on analytical inputs to the NZHP, detailed plan and milestones for the funding flows work, key information on entity performance (including quality of 2023/2024 cost pressure drawdown, improvements in monitoring and reporting, achieving financial balance)
June 2023 progress check	First draft GPS, finalised Pae Ora strategies, progress on analytical inputs to the NZHP, and key information on entity performance (including achieving financial balance, updated output classes, single financial management system in place, and further improvements in monitoring and reporting)
Post-election progress check	Substantive draft of the NZHP, assessment of the quality of information available to support a Budget 2024 submission,

	quality of draft GPS, funding flows decisions, and key information on entity performance
March 2024 progress check	Final pre-Budget check-in; confirming approach and any additional conditions

[NB: you will have options to add any additional conditions based on the outcomes March 2023 progress check]

Nā māua noa, nā

Hon Grant Robertson
Minister of Finance

Hon Dr Ayesha Verrall
Minister of Health

Appendix B: December 2022 advice to Joint Ministers on Budget 2024 settings for Vote Health