

Office of Hon Dr David Clark



MP for Dunedin North

Minister of Health

Associate Minister of Finance

18 MAY 2018

Jem Traylen
Rainbow Wellington

Ref: OIA H201803009

Dear Jem

Response to your request for official information – 2017 October Baseline Update Submission for Vote Health

Thank you for your request under the Official Information Act 1982 (the Act) received on **19 April 2018**. You requested:

"Please provide a copy of the October 2017 Baseline Update Submission for Vote Health."

I have decided to grant your request and enclose the following documents:

- The 2017 October Baseline Update Submission for Vote Health.

I note this information was made available by the Ministry of Health on 11th May 2018, in response to your OIA H201803009 of 19th April 2018.

Information of a commercially sensitive nature has been withheld under section 9(2)(a) the Act.

You have the right under Section 28 of the Act to ask the Ombudsman to review my decision to withhold information by writing to PO Box 10152 Wellington 6143 or by email at info@ombudsman.parliament.nz.

Yours sincerely

A handwritten signature in blue ink that reads "Melissa Turner".

Jarred Griffiths
Ministerial Advisor
Office of the Minister of Health

Hon Grant Robertson
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Grant,

2017 OCTOBER BASELINE UPDATE SUBMISSION FOR VOTE HEALTH

Introduction

I am seeking your approval to items affecting the baseline for Vote Health as part of the October Baseline Update.

I confirm that none of the changes contained in this update require Cabinet decisions at this time.

The proposed changes to baselines are as follows:

- A. Cabinet and Joint Ministers Decisions** made since Budget 2017 and confirmed by the Director-General of Health
- B. Expense or Capital Transfers** including confirmation of in-principle expense and capital transfers
- C. Fiscally Neutral Adjustments** between appropriations and other Votes
- D. Forecasting Changes** of third party revenue and departmental capital
- E. Other Technical Changes** including baseline rollout adjustments
- F. Request for Performance Reporting Exemptions for 2017/18 onwards**

Other Matters – financial implications of the Trans-Pacific Partnership (TPP) on PHARMAC and forecast financial statements

A. Cabinet and Joint Ministers Decisions

All Cabinet and former joint Ministers decisions relating to Vote Health made since Budget 2017 have been included in this update and has been confirmed by the Director-General of Health. These are listed in detail in Table 2 of this letter and outlined in Table A below.

Table A: Cabinet and joint Ministers decisions

DE/NDE/ Capital	Ref	Initiative Title	Appropriation	Authority	2017/18 (\$M)	2018/19 (\$M)	2019/20 (\$M)	2020/21 (\$M)	2021/22 and out years (\$M)
Departmental Expenses	A1	Pay Equity drawdown from Contingency Fund	Managing the Purchase of Services	CAB-17- MIN-0179	1.200	-	-	-	-
Non- Departmental Expenses			Supporting Equitable Pay for Care and Support Workers		22.800	-	-	-	-
Departmental Expenses	A2	Pay Equity transfer from NDE to DE - Equitable Pay to Managing the Purchase of Services	Supporting Equitable Pay for Care and Support Workers		(2.500)	-	-	-	-
			Managing the Purchase of Services		2.500	-	-	-	-
Non- Departmental Expenses	A3	National Maternity Services Settlement drawdown from Contingency Fund	National Maternity Services	CAB-17- MIN- 0185.12	8.400	8.400	8.400	8.400	8.400
	A4	National Bowel Screening Business Case drawdown from Contingency Fund	Public Health Service Purchasing	CAB-17- MIN- 0185.12	1.832	3.713	3.585	3.300	3.300
	A5	Community Organisation Refugee Sponsorship Category		CAB-17- MIN-0427	0.106	0.249	0.249	0.249	0.249
	A6	Southern Partnership Funding Health Sector Operating	Health Sector Projects Operating Expenses	HR2017120 9 and Signed Letter by Minister of Finance	3.508	-	-	-	-
Non- Departmental Capital	A7	Counties Manukau DHB Recladding of Scott Building	Equity for Capital Projects to DHBs and Health Sector Crown Agencies	HR2017132 1/TRT2017/ 2143	(5.000)	5.000	-	-	-
	A8	Southern DHB Intensive Care Unit and Gastroenterology Unit projects	Equity for Capital Projects to DHBs and Health Sector Crown Agencies	HR2017080 5/TRT2017/ 2087	(2.700)	2.700	-	-	-

DE/NDE/ Capital	Ref	Initiative Title	Appropriation	Authority	2017/18 (\$M)	2018/19 (\$M)	2019/20 (\$M)	2020/21 (\$M)	2021/22 and out years (\$M)
Non- Departmental Capital	A9	Waitemata DHB Mason Forensic Clinic and Capital Recycling Approach	Equity for Capital Projects to DHBs and Health Sector Crown Agencies	HR2017125 8/TRT2017/ 2144	(13.400)	11.000	2.400	-	-
	A10	Construction of Acute Services Building at Christchurch Hospital additional funding	Equity for Capital Projects to DHBs and Health Sector Crown Agencies	HR 20171273/T RT2017/ 2230	(19.710)	-	-	-	-
			Health Sector Projects		19.710	-	-	-	-
Departmental Expenses Total					3.700	-	-	-	-
Non-Departmental Expenses Total					34.146	12.362	12.234	11.949	11.949
Non-Departmental Capital Total					(21.100)	18.700	2.400	-	-

A1. Pay Equity drawdown from Contingency Fund – Budget 2017 established a tagged contingency fund of \$24.0 million to cover one-off annual leave liability and implementation costs of the Pay Equity settlement. Former joint Ministers agreed that a call against this tagged contingency could be made to contribute to the increased annual leave liability of Care and Support Workers in the Aged Residential Care, Home and Community Support Services, and Community and Residential Living sectors, and to partially meet implementation costs to be incurred by the Ministry of Health. Subsequent to this drawdown, a further transfer is required based on more up-to-date leave liability data to move funding from non-departmental expenditure (NDE) to departmental expenditure (DE). Refer to A2 below.

A2. Pay Equity transfer from NDE to DE - Equitable Pay to Managing the Purchase of Services – Of the \$24.0 million Pay Equity tagged contingency fund referred to above, \$20.0 million was originally earmarked as a contribution towards the impact of the settlement on providers' leave liabilities and \$4.0 million for implementation costs.

Based on information available at the time, a paper provided to former joint Ministers from the Ministry of Health and Treasury took a prudent approach and advised that the cost of leave liability should be revised to \$22.8 million. To absorb the expected additional \$2.8 million in leave liability within available contingency funding, the allowance for implementation costs was reduced from \$4.0 million to \$1.2 million or

around 30% of the expected full cost of the implementation phase. As implementation of the Pay Equity settlement scheme progressed, better information has become available and the cost of the leave liability was revised to be between \$14.0 million to \$15.0 million or potentially \$7.8 million less than that allocated. The Ministry of Health is seeking our agreement to move \$2.5 million of funding previously allocated to meet the cost of leave liability to support part of the original implementation costs.

- A3. National Maternity Services Settlement drawdown from Contingency Fund –** Budget 2017 established a contingency of \$8.4 million ongoing, for additional support to allow for a six percent fee increase for community Lead Maternity Care (LMC) midwives under the Primary Maternity Services Notice 2017. This settlement is in relation to the outcome of the mediation process to the pay equity action brought by the New Zealand College of Midwives in the High Court. Former joint Ministers approved the Ministry of Health's request to utilise this funding.
- A4. National Bowel Screening Business Case drawdown from Contingency Fund –** Budget 2017 established a contingency fund to implement the National Bowel Screening Programme at both Southern and Counties Manukau District Health Boards. Former joint Ministers approved the business case for implementation to support the drawdown from the contingency fund. A business case to establish the national information technology solution to support the programme will be provided to us at a later date.
- A5. Community Organisation Refugee Sponsorship Category –** Cabinet agreed to pilot a community organisation refugee sponsorship category, as an alternative form of admission for 25 refugees in 2017/18 to complement the existing refugee quota. The pilot allows for a total of up to 30 individuals to enable family groups to be resettled together.
Note: The Ministry of Health is seeking our agreement to correct a technical error and apply the correct appropriation for the funding of this initiative. Cabinet had approved a paper that the Ministry of Health was not consulted on, that included an appropriation that does not exist within Vote Health.
- A6. Southern Partnership Funding Health Sector Operating –** former joint Ministers authorised in August 2017 an early in-principle expense transfer from 2016/17 to 2017/18 to cover the operating costs of the Southern Partnership Group who have planning, development and governance over the Dunedin Hospital redevelopment project.
- A7. Counties Manukau DHB Recladding of Scott Building in Hospital Redevelopment –** former joint Ministers authorised further funding totalling \$13.0 million from the Health Capital Envelope across two financial years to fund the recladding of the Scott Building at the Middlemore campus project, \$8.0 million in 2017/18, and \$5.0 million in 2018/19.

Due to phasing of the project, part of the funding is being transferred to 2018/19 as no current baseline funding exists for outyears.

A8. Southern DHB Intensive Care Unit and Gastroenterology Unit projects – former joint Ministers authorised \$4.7 million from the Health Capital Envelope to fund additional costs for the Southern DHB Intensive Care Unit and Gastroenterology Unit projects. It is expected that the funding required will be \$2.0 million in 2017/18 and \$2.7 million in 2018/19. Due to phasing of the project, part of the funding is being transferred to 2018/19 as no current baseline funding exists for outyears.

A9. Waitemata DHB Mason Forensic Clinic and Capital Recycling Approach – former joint Ministers authorised \$18.4 million from the Health Capital Envelope to fund the replacement of the leaky Tanekaha Unit at the Mason Forensic Clinic [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] Funding is expected to be incurred as follows, \$5.0 million in 2017/18, \$11.0 million in 2018/19, and \$2.4 million in 2019/20. Due to phasing of the project part of the funding is being transferred to 2018/19 and 2019/20 as no current baseline funding exists for outyears.

A10. Construction of Acute Services Building at Christchurch Hospital additional funding – former joint Ministers authorised moving funding from Equity for Capital Projects to Health Sector Projects within the Health Capital Envelope to cover the costs associated with the level of seismic bracing required for the services, partitions and equipment to complete the construction of the Acute Services Building.

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B. Expense or Capital Transfers

In March and June 2017 former joint Ministers authorised in principle expense and capital transfers for Vote Health to move any expected underspends in 2016/17 to 2017/18. The actual amounts to transfer from 2016/17 to 2017/18 were uncertain at the time and they agreed to confirm the final amounts once known. The following are the confirmed expense and capital transfer amounts.

Table B: Expense and Capital Transfers

DE/NDE/Capita	Ref	Initiative Title	Appropriation	MBU 2017	June 2017	Actual In-principle (\$M)
				MBU Proposed In-principle (\$M)	June 2017 Proposed In-principle (\$M)	
Departmental Expenses	B1	Development of indicator targets for women aged 45 to 49 years screened through BreastScreen Aotearoa (BSA)	Managing the Purchase of Services	-	0.045	0.045
	B2	National Bowel Screening programme	Managing the Purchase of Services	1.500	-	1.065
			Health Sector Information Systems	1.200	-	0.777
Non-Departmental Expenses	B3	Syrian Refugees	Public Health Service Purchasing	5.500	-	5.500
			Public Health Service Purchasing	1.500	-	0.758
	B4	Healthy Homes Initiatives	Public Health Service Purchasing	-	0.566	0.566
	B5	Auckland Medical Centre	Auckland Health Projects Integrated Investment Plan	0.400	0.720	0.720
	B6	Orthopaedic and General Surgery	National Elective Services	8.000	-	4.628
	B7	Ophthalmology Electives	National Elective Services	1.000	-	1.000
	B8	Electronic Oral Health Record Programme	National Health Information Systems	-	0.250	0.250
	B9	Mental Health - Proceeds of Crime	National Mental Health Services	-	3.900	3.900
	B10	Mental Health - SACAT and other underspend	National Mental Health Services	-	2.000	0.921

DE/NDE/Capital	Ref	Initiative Title	Appropriation	MBU 2017	June 2017	Actual In-principle (\$M)
				MBU Proposed In-principle (\$M)	June 2017 Proposed In-principle (\$M)	
Non-Departmental Expenses	B11	Problem Gambling Services	Problem Gambling Services	3.800	-	3.800
	B12	Canterbury DHB Earthquake Repairs	Health and Disability Support Services - Canterbury DHB	8.000	-	5.598
Equity for Capital Projects for DHBs and Health Sector Crown Agencies			40.000	-	40.000	
Non-Departmental Capital	B13	Health Capital Envelope	Equity for Capital Projects for DHBs and Health Sector Crown Agencies	-	143.000	119.245
			Health Sector Projects	-	56.000	52.492
	B14	Hospital Redevelopment	Health Sector Projects	30.000	-	30.000
	B15	Deficit Support	Deficit Support for DHBs	-	38.300	36.924
Total Departmental Expense Transfers				2.700	0.045	1.887
Total Non-Departmental Expense Transfers				28.200	7.436	27.641
Total Non-Departmental Capital Transfers				70.000	237.300	278.661
TOTAL EXPENSE AND CAPITAL TRANSFERS				100.900	244.781	308.189

B1. Development of indicator targets for women aged 45 to 49 years screened through BreastScreen Aotearoa (BSA) – A project was established to develop breast screening targets for women in the 45-49 year aged group. The University of Otago was not able to complete this task in 2016/17 and a transfer of \$45,000 into 2017/18 is required.

B2. National Bowel Screening programme – In April 2016 Cabinet approved \$39.312 million over four years for the establishment of a national bowel screening programme. Funding in 2016/17 was \$2.945 million to cover managing the purchase of services, \$2.5 million to develop the IT solution and \$6.456 million non-departmental expenditure to establish the programme in the Hutt Valley and Wairarapa DHBs. Due to resourcing

there has been a delay in development of the IT solution and the establishment of the programme in both Hutt Valley and Wairarapa DHBs. This transfer allows for funding to be transferred to 2017/18 to complete the programme in line with revised timeframes.

- B3. Syrian Refugees** – In 2016/17 the Ministry of Health received targeted funding to improve health outcomes for new refugee populations following the Government's decision to admit an additional 250 Syrian refugees into New Zealand. This funding has not yet been fully utilised as there have been delays in setting up specific services for refugees. Specifically, the majority of these additional refugees have settled in the Southern DHB area, which has not previously been a refugee settlement area, and did not have any existing services. This transfer allows for uncommitted funds to be carried forward to 2017/18.
- B4. Healthy Homes Initiatives** – the contract with Counties-Manukau DHB is taking longer than anticipated. This transfer is to ensure that funding for the housing-related interventions required by the Healthy Homes Initiatives can be maintained in 2017/18.
- B5. Auckland Medical Centre** – Funding was provided in 2016 OBU for an Integrated Investment Plan across the three Auckland Metro DHBs and the implementation of an Auckland Health Investment Planning Group. Issues with securing appropriate resources and establishing a project team has put the project behind schedule.
- B6. Orthopaedic and General Surgery** – Budget 2015 funded \$50.0 million over three years for more elective surgery and the reduction of pain programme. The Orthopaedic and General Surgery initiative is part of this programme. The District Health Boards are committed to deliver on this initiative, however due to timing and lost capacity as a result of industrial action some of this funding is now required in 2017/18.
- B7. Ophthalmology Electives** – funding of \$2.0 million was committed in the 2016/17 year for DHBs to improve the provision of ophthalmology services. This funding is available to DHBs once an agreed service plan has been submitted. Plans were due in February 2017 and service delivery did not start until the second half of the fiscal year. Funding is required to be carried forward to 2017/18 to deliver this service.
- B8. Electronic Oral Health Record Programme** – The Electronic Oral Health Record (EOHR) Programme is underway and services were contracted for management, business and data analysis, and change management services. Delivery has been slower than forecast, predominantly resulting from the need to establish the EOHR Programme Design Group and effectively engage with clinical and other stakeholders across all 20 DHBs, so delivery will fall into 2017/18. The remaining funding is required in 2017/18 to cover these costs.
- B9. Mental Health - Proceeds of Crime** – This is time-limited funding for the Methamphetamine Action Plan which was announced in late 2016 under the Proceeds

of Crime programme. Additional funding of \$3.212 million was received in September 2016 and is required in 2017/18 to complete the action plan and other activities under the programme.

- B10. Mental Health - SACAT and other underspend** – In 2016/17 the Ministry reprioritised \$5.0 million within National Mental Health Services for a range of initiatives which continue into 2017/18. This is time-limited funding to service mainly the Substance Addiction (Compulsory Assessment and Treatment) - SACAT.
- B11. Problem Gambling Services** – Problem Gambling Services are funded by way of ring fenced funding sourced from the Problem Gambling Levy, which is set by the Government on the advice of the Gambling Commission. Problem Gambling follows a three-year service plan. The Ministry procured additional funding through the Levy as part of the 2012/13 - 2015/16 Strategic Plan, with the intention of progressing changes that deliver improved services to problem gamblers. Court proceedings in 2014 and 2016 have prevented the Ministry from progressing those changes. The Ministry now has service delivery plans in place from 2017/18 onwards, that rely on prior year funding to be carried forward.
- B12. Canterbury DHB Earthquake Repairs** – In 2013/14 Canterbury DHB Earthquake Repairs paid the Crown \$290.0 million of insurance proceeds for the damage caused by the Canterbury earthquake. This is held on the DHB's behalf and used to fund their earthquake repairs projects, consisting of both operating and capital projects. To date \$87.0 million has been spent, leaving a balance of \$203.0 million. [REDACTED] This transfer will ensure that any unutilised funding from 2016/17 will be available in 2017/18 to enable the repairs to continue.
- B13. Health Capital Envelope** – This is appropriated funding that is yet to be allocated against capital projects but is required in outyears to fund future projects as they are approved. During 2016/17, additional one-off funding was appropriated under the Equity for Capital Projects appropriation for a debt to equity swap.

The in-principle transfer request in June 2017 was calculated and based on the total year-to-date forecast results for the overall appropriation, which had a mix of equity for capital projects and a baseline for converting DHB debt funding to equity. This was considered a prudent approach for forecasting the upper limit for the total appropriation. This is consistent with the approach taken for all other appropriations, pending final results for the year.

The final audited year end results included an underspend of \$23.633 million related directly to the ring fenced debt to equity funding and this is being returned to the Crown. Accordingly there is a difference between the actual underspend and the final transfer sought.

B14. Hospital Redevelopment – This transfer is required to fund the ongoing hospital redevelopments in 2017/18 for Canterbury Hospital, Grey Base Hospital, Buller Hospital, and Southern Hospital.

B15. Deficit Support – In 2016/17 DHBs have made greater use of the overdraft facility of the DHBs' shared banking arrangement. This has deferred the need for an equity injection from the Deficit Support appropriation. [REDACTED]

[REDACTED]

This funding is required to provide an equity injection to DHBs' with the most vulnerable balance sheets in 2017/18. Note that we are required to approve deficit funding before payment to individual DHBs.

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C. Fiscally Neutral Adjustments

Transfers between appropriations, other votes and an explanation for each adjustment are listed below, and the amounts are specified in Table 2 attached to this letter.

Table C: Fiscally Neutral Adjustments

DE/NDE/ Capital	Ref	Initiative Title	Appropriation	2017/18 (\$M)	2018/19 (\$M)	2019/20 (\$M)	2020/21 (\$M)	2021/22 & outyears (\$M)
Non- Departmental Expenses	C1	DHB Additional Support Budget 2017 Funding Redistribution	Health and Disability Support Services - Various DHBs	(37.812)	(37.812)	(37.812)	(37.812)	(37.812)
			Health and Disability Support Services - Various DHBs	37.812	37.812	37.812	37.812	37.812
	C2	Exemplar Youth Services - enhancement to youth addiction alcohol and other drug treatment services in Metro Auckland	National Mental Health Services	(0.416)	(0.416)	(0.416)	(0.416)	(0.416)
			Health and Disability Support Services - Waitemata DHB	0.416	0.416	0.416	0.416	0.416
	C3	Dedicated Methamphetamine Treatment Pathway (Social Detoxification) to Northland	National Mental Health Services	(0.085)	(0.085)	(0.085)	(0.085)	(0.085)
			Health and Disability Support Services Northland DHB	0.085	0.085	0.085	0.085	0.085
	C4	In-Between Travel Part B transfer to DHBs	National Disability Support Services	(3.809)	(3.809)	(3.809)	(3.809)	(3.809)
			Health and Disability Support Services - Various DHBs	3.809	3.809	3.809	3.809	3.809
	C5	Devolution of Drivers of Crime to DHBs	National Mental Health Services	(2.906)	(2.906)	(2.906)	(2.906)	(2.906)
			Health and Disability Support Services - Various DHBs	2.906	2.906	2.906	2.906	2.906
	C6	Devolution of Diabetes Care Improvement Package (DCIP) to DHBs	National Personal Health Services	(3.100)	(3.100)	(3.100)	(3.100)	(3.100)
			Health and Disability Support Services - Various DHBs	3.100	3.100	3.100	3.100	3.100

DE/NDE/ Capital	Ref	Initiative Title	Appropriation	2017/18 (\$M)	2018/19 (\$M)	2019/20 (\$M)	2020/21 (\$M)	2021/22 & outyears (\$M)
Non- Departmental Expenses	C7	DHB Funding Hyperbaric Services creation of National Services Top Slice	Health and Disability Support Services - Various DHBs	(2.293)	(2.293)	(2.293)	(2.293)	(2.293)
			Health and Disability Support Services - Various DHBs	2.293	2.293	2.293	2.293	2.293
Other Votes	C8	National Ambulance Services St John Mobile Caller Location	National Emergency Services	0.030	0.060	0.051	0.051	*0.051
			Vote Business, Science and Innovation	(0.030)	(0.060)	(0.051)	(0.051)	*(0.051)
Non- Departmental Capital	C9	Canterbury DHB - Transfer of Earthquake repairs funding from equity to revenue	Equity for Capital Projects to DHBs and Health Sector Crown Agencies	(4.000)	-	-	-	-
Non- Departmental Expenses			Health and Disability Support Services - Canterbury DHB	4.000	-	-	-	-
Non- Departmental Capital	C10	Dunedin Hospital Redevelopment - Detailed Business Case additional funding	Health Sector Projects Operating Expenses	6.000	-	-	-	-
			Health Sector Projects	(6.000)	-	-	-	-
Non- Departmental Expenses	C11	Canterbury DHB Specialist Mental Health Services - Detailed Business Case additional funding	Health Sector Projects	(1.000)	-	-	-	-
			Health Sector Projects Operating Expenses	1.000	-	-	-	-
Total Fiscally Neutral Transfers				-	-	-	-	-

*This funding transfer runs until 2022/23

- C1. DHB Additional Support Budget 2017 Funding Redistribution** – allocation of new funding in Budget 2017 Estimates were based on the pure population based funding formula (PBFF). This adjustment is to reflect the correct method of funding allocation using an adjusted PBFF that takes into account various technical adjustors.
- C2. Exemplar Youth Services - enhancement to youth addiction alcohol and other drug treatment services in Metro Auckland** – the youth addiction treatment service has reached maturity and is now ready to be devolved to Waitemata DHB. This adjustment is to transfer funding to Waitemata DHB from 1 July 2017 to deliver this service.
- C3. Dedicated Methamphetamine Treatment Pathway (Social Detoxification) to Northland** – the social detoxification treatment service has reached its maturity and is now ready to be devolved to Northland DHB. This adjustment is to transfer funding to Northland DHB from 1 July 2017 to deliver this service.

- C4. In-Between Travel Part B transfer to DHBs** – Part B was settled in part on 1 April 2017 when a new policy and funding framework was introduced to provide guaranteed hours of work for 24,000 support workers across the home and community support sector (the Guaranteed Hours Funding Framework). These figures represent the annual funding amount from 1 July 2017 onwards transferred to the 20 DHBs.
- C5. Devolvement of Drivers of Crime to DHBs** – four initiatives under this programme have been successfully implemented:
- locally accessible programmes for repeat drink-drivers;
 - screening for alcohol problems and brief interventions;
 - nationally consistent enhanced AOD services for youth and;
 - low cost, high volume, community-based treatment for offenders with AOD problems.
- All of these initiatives except, locally accessible programmes for repeat drink-drivers are now ready to be devolved to relevant DHBs from 1 July 2017.
- C6. Devolvement of Diabetes Care Improvement Package (DCIP) to DHBs** – \$12.4 million initially provided in Budget 2013 was made available nationally over four years to implement packages of care that were person-centred and encouraged people to work collaboratively with their health professionals to develop management plans. The devolution of funding from 1 July 2017 will support DHBs to focus on actions to implement services within the frameworks of *Living Well with Diabetes; a plan for people at high risk of or living with diabetes* and the associated Quality Standards of Care, which are a focus for the 2017/18 DHB annual plans.
- C7. DHB Funding Hyperbaric Services creation of National Services Top Slice** – this service is provided nationally by two DHBs – Canterbury and Waitemata. The DHBs have agreed that this initiative should be recognised and funded as a national service from 1 July 2017 ongoing. This adjustment reflects the funding changes to the 2017/18 funding advice of all 20 DHBs.
- C8. National Ambulance Services St John Mobile Caller Location** – transfer of Telecommunications Development Levy funds from Ministry of Business, Innovation and Employment (MBIE) to The Priory in New Zealand of the Most Venerable Order of the Hospital of St John of Jerusalem (St John) for the purposes of funding ongoing costs for emergency call answering system necessary to support the Mobile Caller Location service. This funding transfer runs until 2022/23 and has been confirmed with MBIE.
- C9. Canterbury DHB - Transfer of Earthquake repairs funding from equity to revenue** – funding is required from the Earthquake Insurance Proceeds appropriated in the Health Capital Envelope to meet the expense obligation for Canterbury DHB.
- C10. Dunedin Hospital Redevelopment – Detailed Business Case additional funding** – former joint Ministers authorised further funding to be drawn down from the Health Capital Envelope to complete the Detailed Business Case for the Dunedin Hospital

Redevelopment, including the costs for investigations and legal fees associated with the search for a new hospital site.

- C11. Canterbury DHB Specialist Mental Health Services - Detailed Business Case additional funding** – funding is required from the Health Capital Envelope to meet the costs associated with the preparation of a Detailed Business Case by 31 March 2018, health planning and architects. Funding will also support the procurement for the next stage of the redevelopment costs.

New Zealand accounting standards treats these costs as operating expenditure rather than capital, although the total funding continues to form part of the broader Health Capital Envelope.

D. Forecasting Changes

The following table shows the reforecast of third party revenue relating to Medsafe and Natural Health Products and for Departmental Capital.

Table D: Forecasting changes

DE/NDE/Capital	Initiative Title	Appropriation	2017/18 (\$M)	2018/19 (\$M)	2019/20 (\$M)	2020/21 (\$M)	2021/22 & outyears (\$M)
Third Party Departmental Revenue	Medsafe	Regulation and Enforcement					
	Current forecast		9.304	9.304	9.304	9.304	9.304
	Change to forecast		0.817	0.817	0.817	0.817	0.817
Revised forecast for Medsafe to reflect the updated fees review			10.121	10.121	10.121	10.121	10.121
Third Party Departmental Revenue	Natural Health Products	Regulation and Enforcement					
	Current forecast		1.400	1.400	1.400	1.400	1.400
	Change to forecast		(1.400)	(1.400)	(1.400)	(1.400)	(1.400)
Revised forecast for Natural Health Products due to uncertainty of when legislation will pass			-	-	-	-	-
Total revised forecast for third party revenue			10.121	10.121	10.121	10.121	10.121
Departmental Capital	Departmental Capital Expenditure Reforecast	Ministry of Health - Capital Expenditure					
	Current forecast		8.000	8.000	8.000	8.000	8.000
	Change to forecast		2.427	0.339	0.339	0.339	0.339
Revised forecast for Departmental Capital Expenditure to reflect the change in depreciation due to the increase in capital investment			10.427	8.339	8.339	8.339	8.339

E. Other Technical Changes

Table E: Other Technical Changes

DE/NDE/ Capital/Type	Ref	Initiative Title	Appropriation	2017/18 (\$M)	2018/19 (\$M)	2019/20 (\$M)	2020/21 (\$M)	Final Year of Funding 2026/27 (\$M)
Non- Departmental Expenses	E1	Water Fluoridation (Assistance) ten year time limited funding	Public Health Service Purchasing	3.000	3.000	3.000	3.000	3.000
DE/NDE/ Capital/Type	Ref	Initiative Title	Appropriation	2017/18 (\$M)	2018/19 (\$M)	2019/20 (\$M)	2020/21 (\$M)	2021/22 & outyear s (\$M)
Non- Departmental Expenses	E2	Supporting Equitable Pay for Care and Support Workers baseline adjustment	Supporting Equitable Pay for Care and Support Workers	-	-	-	-	116.000
Baseline Rollout	E3	Loan Hedge Contracts Funding Transfer Auckland & Lakes DHBs	Health and Disability Support Services - Auckland DHB	-	-	-	-	0.797

E1. Water Fluoridation (Assistance) ten year time limited funding – funding for the Water Fluoridation initiative in Budget 2017 was intended to be time limited to 10 years. The financial recommendations in Budget 2017 had funding in outyears as ongoing. This adjustment reflects the time limited adjustment to ten years with funding ending in 2026/27.

E2. Supporting Equitable Pay for Care and Support Workers baseline adjustment to 2021/22 onwards – the government settled out of court the TerraNova pay equity case brought before the Employment Court in 2012. In Budget 2017, Cabinet agreed to fund the settlement costs of care and support workers in aged and disability residential care and home and community support services. This baseline adjustment is required to reflect the intentions of CAB-17-MIN-0179, that funding for 2021/22 onwards should be \$472.0 million (instead of \$356.0 million) as per table below.

	\$m – increase (decrease)					2021/22 & outyears
	2016/17	2017/18	2018/19	2019/20	2020/21	
Vote Health Minister of Health Non-Departmental Output Expense Supporting Equitable Pay for Care and Support Workers	-	279.000	348.000	377.000	356.000	472.000

E3. Baseline Rollout - Loan Hedge Contracts Funding Transfer Auckland & Lakes DHBs – Budget 2017 (CAB-17-MIN-0150.12) required a technical adjustment for Lakes

and Auckland DHBs to bring revenue forward to cover the loss in 2017/18 from the cancellation of loan hedge contracts with the change in converting Crown Loans into Equity. This budget rollover adjustment removes the decrease to the baseline in 2021/22.

F. Request for Performance Reporting Exemptions for 2017/18 onwards for Vote Health

I am seeking your approval for the exemption from end-of-year performance reporting for those appropriations listed in Annex 1. The Annex provides reasons for why these exemptions are sought. Any exemptions and the reason for the exemption are disclosed in the Estimates.

Other Matters

Financial Implications of the Trans-Pacific Partnership (TPP) on PHARMAC

The Trans-Pacific Partnership (TPP) free trade agreement was formally ratified by Cabinet in May 2017 to have a common set of high-quality rules across Asia-Pacific. New Zealand is now working with the other ten remaining countries on options to bring the TPP into force, potentially during 2018 under the TPP11 agreement.

The Transparency and Anti-corruption Annex TPP12 provision currently requires PHARMAC to make administrative changes for greater transparency, including a new review mechanism. Formal notice regarding the shape of a future agreement is likely to be forthcoming following the November APEC Trade Ministers' meeting in Vietnam.

[REDACTED]

[REDACTED]

Forecast Financial Statements

The baseline update also includes forecast financial statements, although approval for these is not sought from you. The baseline changes sought in this letter have been incorporated in the forecast financial statements of Vote Health, together with the adjustments necessary to accurately reflect estimated operating expenditure, capital expenditure and cashflows.

Recommendations

I recommend that you:

1. **note** the Director-General of my department has confirmed that all Cabinet decisions relating to this Vote made after the Budget Update are reflected in Table 2 attached to this letter;
2. **agree** the changes to 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22 baselines as set out in Table 2;
3. **agree** that all proposed changes to appropriations and departmental capital injections for 2017/18 be included in the 2017/18 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
4. **agree** the multi-year exemptions from end-of-year performance reporting for those appropriations listed in the Annex 1;

[REDACTED]

Yours sincerely

Hon Dr David Clark
Minister of Health

RELEASED UNDER THE OFFICIAL INFORMATION ACT

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Annex 1: Proposed exemptions from end-of-year performance reporting

Criterion 3: A multi-year exemption is sought for as long as the appropriation exists on the basis that end-of-year performance information for the appropriation or category is not likely to be informative

Vote	Appropriation/ category title	An exemption is sought under S.15D(b)(ii) of the PFA as additional performance information is unlikely to be informative because...	2017/18 (\$000)
Health	Supporting Equitable Pay for Care and Support Workers	<p>This appropriation is an interim measure to enable providers to be reimbursed for additional costs incurred under the Care and Support Worker (Pay Equity) Settlement Act 2017.</p> <p>Note: Performance information for National Disability Support Services will be reported in the Minister's Vote Health Report in Relation to Selected Non-Departmental Appropriations; and performance information for aged residential care services purchased by DHBs can be found in DHBs' Annual Reports</p>	\$279,000

Criterion 4: A multi-year exemption is sought for the following appropriation(s) under S. 15D(b)(iii) of the PFA as the amount (or annual average equivalent) of each of these non-departmental expense appropriations is less than \$5 million

Vote	Appropriation/ category title	2017/18 (\$000)
Health	Auckland Health Projects Investment Plan Integrated	\$650