



11 8 MAY 2018

Jem Traylen

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Ref: H201803010

Response to your request for official information

Dear Jem Traylen

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 briefing – Information on DHBs Budget 2017 2017/2018 Deficits Budget 2018".

I have decided to grant your request and enclose the following document in full:

- The memorandum: 'Information on DHBs: Budget 2017, 2017/18 deficits, DHB capital, and Budget 2018.'

There is some clarification that needs to be provided with this document.

- The 2017/18 Annual Plan 1st drafts referenced in point 2 and appendix 1 are preliminary drafts produced in July. These numbers are indicative only and do not include some of the efficiencies and savings DHBs identify in their subsequent annual plans. As a result these numbers are often higher than the revised drafts listed in the memorandum.
- The price pressures listed under point 11 are generated as a result of the normal budget process. These figures may differ from any funding received by DHBs in a given year as these figures do not include some efficiencies and savings expected by DHBs as a part of the normal funding process.

You have the right under Section 28 of the Act to ask the Ombudsman to review the scope of the information provided to you.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jarred Griffiths'.

Jarred Griffiths
Ministerial Advisor
Office of the Minister of Health

Security classification: Sensitive-Budget

File number: AD62-14-2017
Action required by: No action required

Memorandum: information on DHBs: Budget 2017, 2017/18 deficits, DHB capital, and Budget 2018

To: Hon Dr David Clark, Minister of Health

Purpose

This report provides information that you have requested on DHBs, their pressures and allocation in Budget 2017, net financial positions for the 2017/18 year, DHB capital, and the process for an early DHB funding signal for Budget 2018. This information relates to the Government's commitment to additional funding for health (60 day plan references 1.3, 1.4, 1.6).

DHBs and Budget 2017

- Budget 2017 provided DHBs with an additional \$439 million of funding towards cost pressures. It brought DHB operating funding for 2017/18 to \$12.683 billion. The new funding was the result of decisions made by the Government of the day (illustrated in Table 1). This included bilateral discussions between the former Minister of Health and the former Minister of Finance.

Table 1: DHB pressures indicated and funding received through the Budget 2017 process

	Ministry estimate of pressure (Nov 2016)	Discussed during bilaterals (Jan – Apr 2017)	Funding appropriated in Budget 2017 (May 2017)
DHB funding (\$millions)	\$530.320	\$429 - \$500	\$439.000

2017/18 DHB Deficits

- DHB draft annual plans for 2017/18 show further increases to net deficits (net deficits from 2014/15 to 2017/18 are summarised in Table 2 and detailed in Annex One).

Table 2: DHB deficits from 2014/15 to 2016/17 and indicative positions for 2017/18

(\$ million)	2014/15 audited actual	2015/16 audited actual	2016/17 audited actual	2017/18 Annual Plans (1 st drafts)	2017/18 Annual Plans (revised drafts)
DHBs in deficit	12 of 20	13 of 20	12 of 20	16 of 20	14 of 20
DHB net position	(65.839)	(57.832)	(118.785)	(236.952)	(140.321)^{1,2}
Depreciation expenses	381.908	381.626	394.752	423.508	421.657
Surplus before depreciation	316.069	323.794	275.967	186.556	281.321
DHBs in deficit before depreciation expenses	3 of 20	3 of 20	3 of 20	4 of 20	1 of 20

¹ This is as at 10 November 2017. This position is fluctuating as DHB plans are finalised (for example, it was \$141 million in the week ending 3 November, but was adjusted following discussions with Whanganui DHB).

² The sum of current annual plan draft budgets received to date is a total deficit of \$140 million. DHBs are now reporting to the Ministry on their actual and forecasted financial results. The current combined forecast for the DHB sector is a deficit of \$153.911 million. This differs to the annual plan draft budget total of \$140 million as that amount represents budgets submitted by DHBs over time from up to four months ago, which have not been updated. The current forecast (\$153.911 million) is DHBs' latest view on what their actual financial results will be for 2017/18. Forecasts are submitted to the Ministry on a monthly basis.

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3. Depreciation has been, compared with 2016/17, a major factor in the 14 DHBs with net deficits in 2017/18. The table illustrates that once depreciation is taken into account, the overall sector position is significantly improved. Only one DHB (Wairarapa) has a deficit after adjusting for depreciation, with two more very close (Tairāwhiti, West Coast). In this context it means that there is cash available for the majority of DHBs to pay operational expenses such as staff and bills. The three DHBs with strained cashflow, plus Canterbury and Southern, may require one-off support from the deficit support appropriation (see Annex One).
4. Two major factors drive increases in depreciation: major capital rebuilding programmes (such as in Canterbury), and the revaluation of buildings owned by DHBs (such as in Waikato and Counties Manakau). Major hospital rebuilds (e.g. Southern DHB) have potential to materially impact future DHB financial results due to the expense of depreciation on buildings.
5. The Ministry is providing you with advice on the DHB 2017/18 annual plans, including the impact if you authorise plans that include deficits. The Annual Plans are a mechanism whereby you can influence DHB financial positions [Health Report 20171538 refers].
6. Annex One provides a time series of each DHBs operating position (surplus or deficit) from 2014/15 to 2017/18.

DHB Capital in 2017/18

7. Because of cost inflation, technology advances, and other related factors, the cost of replacing large capital assets in the health sector is almost always greater than the funding available to DHBs through their depreciation. This makes DHBs reliant on Crown funding for large capital projects.
8. Crown funding contributions to these projects is provided from the Health Capital Envelope, which has a current total appropriation of \$592 million in the 2017/18 year. Note: this is one-off capital funding, rather than an annual operating appropriation.
9. The Capital Investment Committee is reviewing the current list of capital projects potentially requiring a commitment to Crown funding over the next eight months (for example, the purchase of land for the Dunedin hospital redevelopment). The total being reviewed exceeds the available appropriation.
10. Officials will provide you with advice and options on this following the committee's meeting in November.

DHB funding in Budget 2018

Estimated amount of new funding for DHBs in Budget 2018

11. You recently received advice on the Ministry's estimate of the Vote Health package for Budget 2018 (refer 2nd Tier Briefing to the Incoming Minister, Annex E). This included a preliminary estimate of \$580 million for DHB operating pressures. Capital funding pressures are not included in the table.

Table 3: Highly indicative Budget 2018 package

Budget 2018 (\$millions)	2018/19
DHB estimated demographic pressures	300.000
DHB estimated price/wage pressures	280.000
Total estimated operating pressure	580.000

12. The operating pressure of \$580 million reflects a projected population increase in 2017/18 of 78,190 people, the continued ageing of the population, and increases in the cost of delivering services due to general price inflation and the impact of wage and service provider negotiations.
13. Officials will update this pressure estimate and advise you of the result by early December. This involves incorporating up-to-date population projections from Statistics New Zealand, estimating

likely remuneration pressures, and updating cost inflation assumptions to reflect the Treasury's most recent projections.

14. The DHBs financial performance during 2017/18 will provide additional insight to be considered in determining the 2018/19 funding pressure for DHBs.

Early funding signal to DHBs

15. You have indicated that you support an early funding signal to DHBs for 2018/19. This would optimally occur prior to the last working day in December in order to support DHBs to develop more accurate and realistic annual plans. Providing an early funding signal to DHBs is consistent with the messages in the 2017 Deloitte Report on funding allocation.
16. The necessary steps in providing a funding signal would be:
 - a. Finalise the Ministry's calculation of forecast DHB cost pressures for 2018/19 (see below)
 - b. Cabinet to:
 - i. agree the total additional new funding for DHB Pressures (subject to Budget day confirmation), and
 - ii. delegate the power to the Ministers of Health and Finance to jointly agree the individual DHB allocations.
 - c. Determine the funding split between DHBs (the individual allocations)
 - d. Ministers of Health and Finance sign off individual DHB funding allocations
 - e. Provide signal to DHBs via formal funding advice prior to 22 December 2017.

END.

RELEASED UNDER THE OFFICIAL INFORMATION ACT

Annex One: DHB net financial positions from 2014/15 to 2017/18

1. This annex provides information on each DHB's net financial result from 2014/15 to 2016/17, as well as the planned results indicated in DHB draft annual plans.
2. For Capital & Coast and Southern DHBs, the deficits reflect an agreed path to breaking even.

DHB (\$000)	2014/15 audited actual	2015/16 audited actual	2016/17 audited actual	2017/18 Annual Plans (at 1 July 2017)	2017/18 Annual Plans (at 1 October 2017)
Auckland DHB	355	2,872	3,162	(39,000)	-
Bay of Plenty DHB	(990)	(1,275)	373	-	(2,739)
Canterbury DHB	(17,936)	(473)	(52,833)	(54,083)	(53,644)
Capital & Coast DHB	(3,982)	(11,918)	(24,768)	(21,000)	(21,000)
Counties Manukau DHB	3,017	2,870	(12,940)	(35,560)	(20,000)
Hawke's Bay DHB	3,054	4,366	3,566	2,000	1,500
Hutt Valley DHB	(7,539)	(6,963)	(3,799)	(999)	(2,103)
Lakes DHB	(4,045)	(5,262)	(4,312)	(4,204)	(3,751)
MidCentral DHB	(1,854)	(2,278)	663	(3,243)	(3,796)
Nelson Marlborough DHB	1,717	1,554	3,230	3,500	3,500
Northland DHB	412	142	(2,225)	(8,000)	(5,200)
South Canterbury DHB	180	(1,154)	139	(1,866)	11
Southern DHB	(27,180)	(33,543)	(21,870)	(14,000)	(14,000)
Tairāwhiti DHB	(2,973)	(6,658)	(6,093)	-	-
Taranaki DHB	(3,787)	(3,669)	(1,670)	(2,850)	(2,000)
Waikato DHB	(2,939)	3,989	1,610	(19,003)	(10,000)
Wairarapa DHB	(3,355)	(1,927)	(2,796)	(3,134)	(3,159)
Waitemata DHB	3,018	2,957	3,291	(30,000)	-
West Coast DHB	(1,047)	(897)	(800)	(1,194)	(2,041)
Whanganui DHB	36	(567)	(712)	(4,316)	(1,899)
Sector Total	(65,839)	(57,832)	(118,785)	(236,952)	(140,321)

Deficit support appropriation summary

3. Deficit support, while addressing the deficit for the 2017/18 year, is only a one-off and does not address the underlying shortfall in funding that gave rise to the deficit. We currently have \$86 million for deficit support in 2017/18 and outyear funding of \$39 million per annum. DHBs that are in deficit are essentially spending additional funding, which means it is possible for them to run out of cash to pay bills and staff if their balance sheet is not favourable enough to use overdraft funding. DHBs can apply for one-off deficit support funding to prevent this occurring.
4. This means the underlying drivers of the deficits still need to be addressed. There are already several requests from DHBs for this support funding in 2017/18 (Wairarapa, West Coast, Tairāwhiti, Canterbury, Southern DHBs) which currently total more than the allocated limit, and more are anticipated given the present deficit position. These will all be assessed by the Ministry of Health and Treasury based on the DHBs' cashflow information, and we will then provide advice to the Ministers of Health and Finance on these requests.

END