



Proactive Release

The following documents have been proactively released by the Department of the Prime Minister and Cabinet (DPMC), on behalf of Hon Andrew Little, Minister of Health:

Health and Disability System Reform Briefings October 2021 to January 2022

The following documents have been included in this release:

Title of paper: Health Reforms: Realising the Digital Shift for the Health System

Title of paper: Development of the Interim Government Policy Statement for the Reformed Health and Disability System

Title of paper: Further advice on the Interim Government Policy Statement - Priorities for Inclusion

Title of paper: Health Reform: Choices to Expand the Public Offer

Title of paper: Health Reforms: Public Health Transformation

Title of paper: Health Reforms: Addressing Workforce Supply and Demand

Title of paper: Localities: Setting a Narrative, and Updating on Rollout and Prototypes

Title of paper: Further Advice on the Interim Government Policy Statement – High Level Approach to Priorities

Title of paper: Monitoring Arrangements for the New Health System

Title of paper: Restructure of Vote Health Appropriations to Support Health Reforms

Title of paper: Health Reform – Progress Update and Assurance Framework

Title of paper: Update on the Pae Ora Bill: Select Committee Progress and Further Policy Decisions

Title of paper: Pae Ora Bill: Key Policy Decisions for Recommendation in the Departmental Report

Title of paper: Allocation of Commissioning Budgets Across Future Health Entities

Title of paper: Health Reform: Transfer of Functions from Ministry of Health to New Entities

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**DEPARTMENT OF THE
PRIME MINISTER AND CABINET**
TE TARI O TE PIRIMIA ME TE KOMITI MATUA

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Joint Briefing

RESTRUCTURE OF VOTE HEALTH APPROPRIATIONS TO SUPPORT HEALTH REFORMS

Date due to MO:	06 December 2021	Action required by / Deadline:	N/A
Security level:	IN CONFIDENCE	Health Report:	20212335
Priority:	ROUTINE	Briefing Number:	DPMC-2021/22-1008
To:	Hon Andrew Little, Minister of Health Hon Grant Robertson, Minister of Finance		
Cc:	Hon Chris Hipkins, Minister for COVID-19 Response Hon Dr Ayesha Verrall, Minister for Seniors, Associate Minister of Health Hon Peeni Henare, Associate Minister of Health Hon Aupito William Sio, Associate Minister of Health		

Contact for telephone discussion

Name	Position	Telephone
Fergus Welsh	Chief Financial Officer, Corporate Services	s9(2)(a)
Kevin Davies	Deputy CFO, Corporate Services	

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:



Restructure of Vote Health appropriations to support Health reforms

Security level: IN CONFIDENCE **Date:** 06 December 2021

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

Cc: Hon Chris Hipkins, Minister for COVID-19 Response
Hon Dr Ayesha Verrall, Minister for Seniors, Associate Minister of Health
Hon Peeni Henare, Associate Minister of Health
Hon Aupito William Sio, Associate Minister of Health

Purpose of report

1. This briefing seeks approval from the Ministers of Health and Finance to finalise the new appropriation structure for Vote Health for 2022/23 and outyears, to give effect to the decisions confirmed by Cabinet in SWC-21-MIN-0157 *Health and Disability Reform: National Budget and Funding Settings* [CAB-21-MIN-0430 refers].
2. After the new appropriations have been agreed and established, fiscally neutral transfers of existing funding baselines from the current appropriation structure to the new appropriation structure will be submitted for your approval in the budget technical financial recommendations process in April 2022. These transfers will reflect the agreed functional splits from 1 July 2022 between the Ministry of Health and the newly established Health New Zealand and the Māori Health Authority.
3. Work is also underway to develop the performance measures and intention statements to support the new appropriation structure required for the 2022/23 Estimates of Appropriation for Vote Health.

Summary

4. In October 2021, the Cabinet agreed in principle the overall approach for a new appropriation structure for Vote Health from 2022/23, as part of the national budget and funding settings under the Health and Disability System Reform [CAB-21-MIN-0430 refers].
5. Cabinet also authorised the Ministers of Health and Finance to jointly finalise the appropriation structure for Vote Health, establish new appropriations as required, and reallocate existing funding from current appropriations into the new structure, reflecting the agreed functional splits.



6. Approval from the Minister for COVID-19 Response and the Minister for Seniors are not required because there are no proposed changes to the appropriations that they are responsible for.
7. As part of the *Disability System Transformation*, Cabinet also agreed that Vote Health funding in the *National Disability Support Services* non-departmental output expenses (NDE) would be included in the initial phase of implementing *Enabling Good Lives*, and that the funding will transition from the Ministry of Health to the new Ministry for Disabled People, a departmental agency hosted by the Ministry of Social Development from 1 July 2022 [CAB-21-MIN-0395 refers]. We also expect some funding from associated departmental expenditure (DE) appropriations will transfer to the Ministry for Disabled People because of this decision.
8. This briefing outlines the proposed new appropriation structure and how it will work for the respective entities in the reformed health system from 1 July 2022.
9. While the Ministry of Health remains the administering department for Vote Health, Health New Zealand, the Māori Health Authority and Pharmac will be the main entities that will have financial accountability and reporting responsibilities over the appropriations.¹
10. Information to support the proposed changes outlined in this paper include:
 - **Appendix A** which contains a list of the existing appropriations in Vote Health detailing if these will be retained or replaced, and the proposed new appropriations
 - **Appendix B** which shows the resulting full structure of the new appropriation structure in Vote Health.
11. Officials will finalise the fiscally neutral funding transfers from the old appropriation structure to the new structure and submit these for your approval as part of the budget technical financial recommendations process in April 2022. These transfers will reflect the agreed functional splits between the various entities in the health sector to come into effect from 1 July 2022 including Health New Zealand, the Māori Health Authority and the Ministry for Disabled People.
12. We have consulted with The Treasury and their feedback has been incorporated into our advice in this briefing.

Recommendations

We recommend you:

Minister of Health Minister of Finance

- (a) **note** that in October 2021, Cabinet agreed in principle the overall approach to the appropriation structure for Vote Health from 2022/23, as part of the national budget and funding settings under the Health and Disability System Reform [CAB-21-MIN-0430 refers]

¹ A few "smaller" entities in the health system such as the Aged Care Commission and the Health and Disability Commission will also have financial accountability and reporting responsibilities.



Minister of Health Minister of Finance

- (b) **note** Cabinet also authorised Ministers of Health and Finance to jointly finalise the appropriation structure of Vote Health, establish new appropriations as required, and reallocate existing funding from current appropriations into the new structure
- (c) **note** that approval from the Minister for COVID-19 Response and the Minister for Seniors is not required because there are no proposed changes to the appropriations that they are responsible for
- (d) **agree** to establish the following new appropriations from 2022/23 for Vote Health, with the Ministry of Health as Appropriation Administrator for all the appropriations, as follows:

Vote	Appropriation Minister	Title	Type	Scope
Health	Minister of Health	Delivering Primary, Community, Public and Population Health Services	Non-Departmental Output Expenses	This appropriation is limited to primary, community (including mental health), public and population health services at a national, regional, and local level.
Health	Minister of Health	Delivering Hospital and Specialist Services	Non-Departmental Output Expenses	This appropriation is limited to hospital and specialist health services (including mental health services).
Health	Minister of Health	Delivering hauora Māori services	Non-Departmental Output Expenses	This appropriation is limited to developing, implementing and delivering hauora Māori services, supporting the development of hauora Māori providers, developing partnerships with iwi, commissioning kaupapa Māori services and other services developed for Māori, and other related services.
Health	Minister of Health	National Pharmaceuticals Purchasing	Non-Departmental Output Expenses	This appropriation is limited to purchasing pharmaceuticals on the national pharmaceutical schedule and subsidising the supply of pharmaceuticals not on the national pharmaceutical schedule.

Yes / No Yes / No

Yes / No Yes / No

Yes / No Yes / No

Yes / No Yes / No



Minister
of Health

Minister of
Finance

Vote	Appropriation Minister	Title	Type	Scope
Health	Minister of Health	Capital investment in Health New Zealand	Non-Departmental Capital Expenditure	This appropriation is limited to capital investment to establish Health New Zealand.
Health	Minister of Health	Capital investment in the Māori Health Authority	Non-Departmental Capital Expenditure	This appropriation is limited to capital investment to establish the Māori Health Authority.

Yes / No

Yes / No

Yes / No

Yes / No

- (e) **approve** the establishment of a new multi-category appropriation (MCA) titled "Stewardship of the New Zealand health system", to be administered by the Ministry of Health and with the Minister of Health as appropriation Minister, for the departmental functions of the Ministry of Health

Yes / No

Yes / No

- (f) **agree** that the single overarching purpose of the new MCA in recommendation (e) is to enable the Ministry of Health to discharge its role as the chief steward of New Zealand's health system and principal advisor to the Minister of Health

Yes / No

Yes / No

- (g) **agree** that the categories of the new MCA in recommendation (e) will be as follows:

Category Title	Type	Scope of Category
Policy Advice and Related Services	Departmental Output Expenses	This category is limited to the provision of policy advice (including second opinion advice and contributions to policy advice led by other agencies) and other support to Ministers in discharging their policy decision-making and other portfolio responsibilities relating to health.
Regulatory and Enforcement Services	Departmental Output Expenses	This category is limited to implementing, enforcing and administering health-related legislation and regulations, and provision of regulatory advice to the sector and to Ministers, and support services for committees appointed by the Minister under statute.
Sector Performance and Monitoring	Departmental Output Expenses	This category is limited to advising and providing assurance on health sector planning and system performance, including the Government Policy Statement and the New Zealand Health Plan; and monitoring and supporting the governance of health sector Crown entities.

Yes / No

Yes / No

Yes / No

Yes / No

Yes / No

Yes / No

Minister of Health Minister of Finance

Category Title	Type	Scope of Category
Equity, Evidence and Outcomes	Departmental Output Expenses	This category is limited to health science research, leadership, analysis and publishing quality evidence, data and insights.
Public health and population health leadership	Departmental Output Expenses	This category is limited to providing leadership on policy, strategy, regulatory, intelligence, surveillance and monitoring related to public and population health.

Yes / No

Yes / No

Yes / No


Yes / No

- (h) **note** that, in the budget technical financial recommendations process in April 2022, fiscally neutral transfers of funding from the current appropriation structure to the new appropriation structure will be submitted for your approval to reflect the agreed functional splits from 1 July 2022 between the Ministry of Health, Health NZ and the Maori Health Authority
- (i) **note** that work is also underway to develop the performance measures and intention statements to support the new appropriation structure required for the 2022/23 Estimates of Appropriation for Vote Health.

Dr Ashley Bloomfield
Director-General
Ministry of Health
Date:

Stephen McKernan
Director, Health Transition Unit
Department of the Prime Minister and Cabinet
Date:

Hon Andrew Little
Minister of Health
Date:


Hon Grant Robertson
Minister of Finance
Date: 24/1/22

Restructure of Vote Health appropriations

Context

13. In October 2021, the Pae Ora (Healthy Futures) Bill giving effect to the Health and Disability System Reform was introduced to Parliament. The Bill disestablishes the existing twenty District Health Boards and the Health Promotion Agency, establishes Health New Zealand and the Māori Health Authority, and continues the Ministry of Health's role as chief steward of the health system with a new Public Health Agency as a business unit within the Ministry to provide system leadership for public health and advise the Director-General of Health on public health matters.
14. A restructuring of the current appropriations in Vote Health is required to support the new entities and other arrangements introduced by the Bill. The structure proposed in this briefing aligns with the overall approach that Cabinet has agreed in-principle. Cabinet also authorised you to jointly finalise the new structure, and to reallocate funding between the existing and new appropriation structures [CAB-21-MIN-0430 refers].
15. This briefing explains the proposed structure from 1 July 2022. The funding reallocation between the old appropriation structure and the new appropriation structure will be undertaken in the budget technical financial recommendations process in April 2022.

Appropriations for Health New Zealand

16. Health New Zealand's role will be to lead system operations, planning, commissioning and delivery of health services, working with the Māori Health Authority. It is envisaged the assets, liabilities, contracts, and employees of DHBs will transfer to Health New Zealand (or in some cases, the Māori Health Authority).
17. Health New Zealand will both fund and deliver health services at national, regional and local scales, like individual DHBs currently do. Cabinet's decision in October 2021 [CAB-21-MIN-0430 refers] required **new appropriations** for the following services that are the responsibility of Health New Zealand:
 - hospital and specialist services
 - personal health and community-oriented health services.
18. A **new capital appropriation** is needed to establish the balance sheet of Health New Zealand on 1 July 2022.
19. Table 1 (next page) outlines the proposed appropriations for Health New Zealand and their intended use.

Table 1: Appropriations proposed for Health New Zealand from 1 July 2022

Appropriation Title	Type of Appropriation	Use	Scope of the Appropriation
Delivering Primary, Community, Public and Population Health Services (new)	Non-Departmental Output Expenses	Provides operating funding for Health New Zealand's service delivery of primary care, community health (including mental health services), public health and population health services (includes both provision and commissioning of services). This appropriation also includes operating funding for Health New Zealand's public health units.	This appropriation is limited to primary, community (including mental health), public and population health services at a national, regional, and local level. (new)
Delivering Hospital and Specialist Services (new)	Non-Departmental Output Expenses	Provides operating funding for Health New Zealand's service delivery of hospital and specialist services (including mental health services), covering both provision and commissioning of services. This appropriation also includes operating funding for the New Zealand Blood and Organ Service (NZBOS).	This appropriation is limited to hospital and specialist health services (including mental health services). (new)
Capital investment in Health New Zealand (new)	Non-Departmental Capital Expenditure	Recognises the capital injection that will be required to establish Health New Zealand's balance sheet on 1 July 2022.	This appropriation is limited to capital investment to establish Health New Zealand. (new)

20. Funding will be transferred into the two new *Delivering Primary, Community, Public and Population Health Services* and *Delivering Hospital and Specialist Services NDE* from:

- the departmental expenditure (DE) appropriations for functions that are to transfer from the Ministry to Health New Zealand
- the existing twenty DHB non-departmental expenditure (NDE) appropriations, and
- various appropriations that provide non-devolved NDE funding for nationally contracted services administered by the Ministry, such as *National Child Health Services NDE* and *National Mental Health Services NDE*.

Some funding will also be transferred to the new appropriations for the Māori Health Authority (discussed under the **Māori Health Authority** heading in this briefing).

21. **Appendix A** provides further details of all expected transfers of existing baselines from the current appropriations to the new appropriations.

Related matters

22. A new appropriation is also required for the **Combined Pharmaceutical Budget**, currently funded by DHBs (from their DHB NDE appropriations) for the purchase of pharmaceuticals by PHARMAC. This allows funding to be provided directly to PHARMAC for pharmaceutical purchasing. This matter is discussed later under the **Pharmac** heading in this briefing.
23. Appropriations for non-departmental capital funding for **health sector infrastructure** are also separately discussed later in this briefing.
24. Cabinet decisions on the Disability System Transformation will also transfer disability services commissioning responsibility from the Ministry of Health to the Ministry for Disabled People. This will **disestablish** the *National Disability Support Services NDE* appropriation, transferring its baselines to Vote Social Development [CAB-21-MIN-0395 refers]. In addition, some departmental baselines relating to the commissioning of these services and other supporting functions will also transfer. There is currently a *Legal Expenses* appropriation in Vote Health to defend and settle health and disability sector claims. This will be reviewed to see if any of the appropriated funding should also transfer.

Appropriations for the Māori Health Authority


25. The Pae Ora (Healthy Futures) Bill also establishes the Māori Health Authority. The Māori Health Authority is responsible for:
 - (with Health New Zealand) co-commissioning and planning kaupapa Māori services, and monitoring the performance of the system for Māori
 - (with the Ministry of Health) preparing national strategies and advice for the Minister of Health.
26. s9(2)(f)(iv)

27. In accordance with Cabinet's decision on the budget holding responsibilities for the Māori Health Authority [CAB-21-MIN-0430 refers] and as indicated in paragraph 20 above, some funding will be transferred to the *Delivering hauora Māori services NDE* appropriation from the following existing baselines:
 - departmental expenditure (DE) appropriations, for functions transferring from the Ministry to the Māori Health Authority
 - the existing twenty DHB NDE appropriations
 - the NDE appropriations providing non-devolved funding for nationally contracted services.

Table 2: Appropriations proposed for the Māori Health Authority from 1 July 2022

Appropriation Title	Type of Appropriation	Use	Scope of the Appropriation
Delivering hauora Māori services (new)	Non-Departmental Output Expenses	Provides operating funding for the Māori Health Authority's to discharge its responsibilities including co-commissioning of kaupapa Māori health services with Health New Zealand.	This appropriation is limited to developing, implementing and delivering hauora Māori services, supporting the development of hauora Māori providers, developing partnerships with iwi, commissioning kaupapa Māori services and other services developed for Māori, and other related services. (new)
s9(2)(f)(iv)			

Appropriations for the Ministry of Health

28. The Pae Ora (Healthy Futures) Bill continues the Ministry of Health's role as chief steward of the health system with a focus on strategy, policy, regulation and monitoring. A new Public Health Agency is also established as a departmental agency within the Ministry to provide system leadership for public health.
29. In accordance with Cabinet's decision in March and October 2021, several operational and service commission functions currently performed by the Ministry will transfer to Health New Zealand and the Māori Health Authority [CAB-21-MIN-0092 and CAB-21-MIN-0430 refer]. These include:
- the Ministry's commissioning of nationally contracted services using non-devolved funding
 - the Ministry's Sector Operations² functions (operating in Wellington, Whanganui and Dunedin) that are expected to transfer to Health New Zealand
 - the provision of health information systems currently provided on behalf of the sector.

² Sector Operations manages contracts and payments for commissioned health and disability services and claims for pharmaceutical and non-pharmaceutical medical and medically related services.



30. Reflecting the expected transfer of functions and associated responsibilities from the Ministry, we propose to **discontinue** the following (current) departmental expenditure (DE) appropriations from 1 July 2022:
 - *Managing the Purchase of Services DE*, due to the transfer of responsibility for commissioning health services
 - *Payment Services DE*, due to the transfer of responsibility for sector operations
 - *Health Sector Information Systems DE*, due to the transfer of responsibility for information systems provided on behalf of the sector.
31. Cabinet had agreed that a multi-category appropriation (MCA) should be established for the Ministry's departmental functions [CAB-21-MIN-0430 refers]. Therefore, for the remaining DE appropriations, we propose that the existing DE appropriations are "moved" into categories within a **new multi-category appropriation**, as shown in Table 3 (next page), alongside some new categories reflecting the stewardship role of the Ministry noted in paragraphs 33 and 34 below.
32. We propose a **new category** within the Ministry's departmental MCA for the Ministry's health science research and leadership work on matters of **equity, evidence and outcomes**. This category covers outputs to deliver research, analysis and publishing of quality evidence, data and insights across health jurisdictions, sectors, different parts of the health system and time horizons.
33. A **new category** is also proposed reflecting the new **Public Health Agency** that is established by the Pae Ora (Healthy Futures) Bill.
34. We propose to **retain** the Ministry's departmental capital appropriation (as a permanent legislative authority) to continue to provide the authority for the Ministry to incur expenditure for the purchase or development of assets by and for the use of the Ministry, as authorised by section 24(1) of the Public Finance Act 1989.
35. We propose to **disestablish** the *Health and Disability System Reform* multi-category appropriation ("interim MCA"), which is a temporary interim arrangement to enable establishment of Health New Zealand and Māori Health Authority in 2021/22. This interim MCA will no longer be required in the new Vote Health appropriation structure. Any residual baseline funding in the categories of the interim MCA would be transferred to their corresponding appropriations under the new structure from 1 July 2022.
36. Table 3 (next page) shows the new MCA appropriation and its proposed categories for the functions remaining with the Ministry from 1 July 2022.



Table 3: Appropriations proposed for the Ministry of Health from 1 July 2022

Appropriation Title	Type of Appropriation	Use	Scope of Appropriation
Ministry of Health – Capital Expenditure PLA (retained)	Departmental Capital Expenditure	This permanent legislative authority (PLA) provides authority for the Ministry's departmental capital expenditure.	This appropriation is limited to the purchase or development of assets by and for the use of the Ministry of Health, as authorised by section 24(1) of the Public Finance Act 1989. (no change)
MCA Title	Type of Appropriation	Use	MCA Overarching purpose
Stewardship of the New Zealand health system MCA (new)	Multi-Category Appropriation (MCA)	This MCA provides operating funding for the Ministry to perform its functions	The single overarching purpose of this appropriation is to enable the Ministry of Health to discharge its role as the chief steward of New Zealand's health system and principal advisor to the Minister of Health. (new)
MCA Category Title	Type of Category	Use of Category	Scope of Category
Policy Advice and Related Services (new)	Departmental Output Expenses	To provide policy advice to, and support, the Minister and Associate Ministers of Health.	This category is limited to the provision of policy advice (including second opinion advice and contributions to policy advice led by other agencies) and other support to Ministers in discharging their policy decision-making and other portfolio responsibilities relating to health. (new)

Regulatory and Enforcement Services DE (new)	Departmental Output Expenses	To implement, enforce, administer health- and disability-related legislations and regulations, and providing regulatory advice to the sector. This also includes support for committees established under legislation, such as the new expert advisory committee on public health.	This category is limited to implementing, enforcing and administering health-related legislation and regulations, and provision of regulatory advice to the sector and to Ministers, and support services for committees appointed by the Minister under statute. (new)
Sector Performance and Monitoring DE (new)	Departmental Output Expenses	To advise on, coordinate sector performance, and monitor health sector Crown entities.	This category is limited to advising and providing assurance on health sector planning and system performance, including the Government Policy Statement and the New Zealand Health Plan; and monitoring and supporting the governance of health sector Crown entities. (new)
Equity, Evidence and Outcomes (new)	Departmental Output Expenses	To provide health science research and leadership work, including research, analysis and publishing of quality evidence, data and insights across health jurisdictions, sectors, different parts of the health system and time horizons.	This category is limited to health science research, leadership, analysis and publishing quality evidence, data and insights. (new)
Public health and population health leadership DE (new)	Departmental Output Expenses	To provide leadership on public health and population health policy and strategy. This directly funds the new Public Health Agency to be created as proposed by the Pae Ora (Healthy Futures) Bill.	This category is limited to providing leadership on policy, strategy, regulatory, intelligence, surveillance and monitoring related to public and population health. (new)

Appropriations for Health sector infrastructure

37. Under current arrangements, the Ministry administers non-departmental capital funding on behalf of the health sector, for:
- new capital asset investments that are being considered (prior to business case approval), which will be delivered by health sector entities such as DHBs (*Health Capital Envelope 2020 – 2025 MYA*³ non-departmental capital appropriation)
 - the new Dunedin Hospital (*New Dunedin Hospital 2021 – 2026 MYA* non-departmental capital appropriation).
38. We propose that these non-departmental capital appropriations are **retained** in the new structure, as shown in Table 4 (next page). While the Ministry will remain as the appropriation administrator, financial accountability and reporting responsibilities will sit with Health New Zealand.
39. You have also received advice, from the Transition Unit and the Ministry, on the processes around capital for health sector infrastructure in the briefing titled “*Future System Settings for Health Capital*” [DPMC-2021/22-652 refers].
40. There are likely to be significant delegations to Health New Zealand to develop, approve, and manage some health capital investment. This will be subject to further advice on capital settings [DPMC-2021/22-652 refers].
41. Currently, there are also two non-departmental output appropriations that provide operating funding to support capital projects:
- *Health Sector Projects Operating Expenses NDE*, and,
 - *Auckland Health Projects Integrated Investment Plan NDE*.⁴
- Essentially these appropriations are required for capital planning and business case development (prior to business cases being approved).
42. We propose to **disestablish** these operating expenditure appropriations (above) and **transfer their funding baselines** to Health New Zealand as it will have responsibility for delivering this work through the Health Infrastructure Unit which is expected to transfer from the Ministry. Funding will transfer to the new *Delivering Hospital and Specialist Services NDE* appropriation referred to in Table 1 (page 8).

Other health sector capital

43. Cabinet agreed that Health New Zealand should be provided with sufficient funding (the “rebase”) to establish itself without a deficit from Day 1 [CAB-21-MIN-0430 refers].

³ MYA stands for “multi-year appropriation”

⁴ Currently the *Auckland Health Projects Integrated Investment Plan NDE* does not have a baseline in 2022/23 or outyears.

44. The existing *Equity Support for DHB deficits* non-departmental capital appropriation that provides capital funding for DHB deficits will be **disestablished and any residual funding returned to the Crown** to contribute towards the cost of the rebase.
45. We propose to **retain** the *Residential Care Loans – Payments* non-departmental capital appropriation, which is administered by the Ministry for the provision of interest-free loans to people entering aged residential care facilities. We expect the administration of these loans (currently undertaken in Sector Operations in the Ministry) will transfer to Health New Zealand.
46. Table 4 (next page) shows the proposed non-departmental capital appropriations that will be in the new appropriation structure.

Table 4: Non-departmental capital appropriations proposed for the health sector from 1 July 2022

Appropriation Title	Type of Appropriation	Use	Scope of Appropriation
Health Capital Envelope 2020-2025 MYA (retained)	Multi-year non-departmental capital expenditure	This provides funding for new investments being considered by health sector Crown entities (eg, Health New Zealand).	This appropriation is limited to the provision or purchase of health sector assets, providing capital to health sector Crown entities or agencies for new investments, and reconfiguration of District Health Board balance sheets. (no change)
New Dunedin Hospital 2021-2026 MYA (retained)	Multi-year non-departmental capital expenditure	This provides funding for the construction of the New Dunedin Hospital and associated projects.	This appropriation is limited to capital expenditure on the construction of the New Dunedin Hospital and associated projects. (no change)
Residential Care Loans – Payments (retained)	Non-departmental capital expenditure	This provides funding for interest-free loans to people entering aged residential care facilities. Administrative function also transferred from the Ministry (Sector Operations) to Health New Zealand.	This appropriation is limited to the provision of interest-free loans to people entering into aged residential care facilities. (no change)

Appropriations for New Zealand's COVID-19 response

47. The Ministry of Health is currently responsible for coordinating and funding New Zealand's national response to COVID-19 including the vaccination programme.
48. Two multi-category appropriations (MCAs) that provide funding for this response will continue into the new Vote Health appropriation structure (ie, **retained**), as agreed by Cabinet [CAB-21-MIN-0430 refers]. These are shown in Table 5 (next page).

Table 5: Appropriations to be retained for NZ's COVID-19 response from 1 July 2022

Appropriation Title	Type of Appropriation	Use	Scope of Appropriation
National Response to COVID-19 Across the Health Sector MCA (retained)	Multi-Category Appropriation (MCA)	This MCA provides operating funding to implement a national response to COVID-19 across the health sector.	The single overarching purpose of this appropriation is to implement a national response to COVID-19 across the health sector. (no change)
Category Title	Category Type	Use of category	Scope of Category
National Health Response to COVID-19 (retained)	Departmental Output Expenses	This category is for operating expenditure incurred in managing and coordinating the response.	This category is limited to managing and coordinating the overall national health response to COVID-19. (no change)
COVID-19 Public Health Response (retained)	Non-Departmental Output Expenses	This category is for the on-going public health system response to COVID-19.	This category is limited to the on-going public health system response to COVID-19. (no change)

Appropriation Title	Type of Appropriation	Use	Overarching purpose
Implementing the COVID-19 Vaccine Strategy MCA (retained)	Multi-Category Appropriation (MCA)	This MCA provides operating funding to implement the COVID-19 vaccine strategy.	The single overarching purpose of this appropriation is to implement the COVID-19 vaccine strategy so as to minimise the health impacts of COVID-19. (no change)

Category Title	Category Type	Use of category	Scope of Category
Supporting the Implementation of the COVID-19 Vaccine Strategy (retained)	Departmental Output Expenses	This category is for the provision of advice on: the vaccine strategy, purchase of vaccines and other therapeutics supporting the immunisation programme.	This category is limited to advising on the COVID-19 Vaccine Strategy, administering the purchase of COVID-19 vaccines and other therapeutics, and supporting the delivery of an immunisation programme for COVID-19 vaccines. (no change)
Implementing the COVID-19 Immunisation Programme (retained)	Non-Departmental Output Expenses	This category is for the delivery of the vaccine strategy.	This category is limited to delivering approved vaccines through an immunisation programme as part of minimising the health impacts of COVID-19. (no change)
Purchasing Potential and Proven COVID-19 Vaccines and Other Therapeutics (retained)	Non-Departmental Output Expenses	This category is for the purchase of vaccines, other pharmaceuticals and therapeutic products.	This category is limited to obtaining potential and proven vaccines and therapeutics as part of minimising the health impacts of COVID-19. (no change)

Appropriations for the Pharmaceutical Management Agency (Pharmac)

49. Pharmac will continue to exist unchanged under the arrangements of the health system reform.
50. Under the existing appropriation structure, the *National Management of Pharmaceuticals NDE* appropriation funds Pharmac's operations. Its pharmaceutical purchasing budget (also referred to as the "combined pharmaceutical budget") is presently funded by DHBs from funding appropriated under each DHB's non-departmental appropriation.
51. We propose that the *National Management of Pharmaceuticals NDE* appropriation is **retained** for Pharmac's administrative functions.
52. There will also a **new** *National Pharmaceuticals Purchasing NDE* appropriation to give effect to Cabinet's decision that a separate appropriation is created for pharmaceuticals over which Pharmac will have financial accountability and reporting responsibilities [CAB-21-MIN-0430 refers].
53. Table 6 (next page) shows the resulting appropriations for Pharmac.

54. We will be undertaking further work on the processes for Pharmac to discharge its financial accountability and reporting responsibilities over these appropriations. We will present further advice on this matter in early 2022.

Table 6: Appropriations proposed for the Pharmaceutical Management Agency (Pharmac) from 1 July 2022

Appropriation Title	Type of Appropriation	Use	Scope of Appropriation
National Management of Pharmaceuticals (retained)	Non-Departmental Output Expenses	Provides operating funding for Pharmac to perform its administrative functions.	This appropriation is limited to services relating to the national management of pharmaceuticals. (no change)
National Pharmaceuticals Purchasing (new)	Non-Departmental Output Expenses	Provides operating funding for Pharmac to purchase pharmaceuticals for the health sector that are on the pharmaceutical schedule as well as subsidies for non-schedule pharmaceuticals.	This appropriation is limited to purchasing pharmaceuticals on the national pharmaceutical schedule and subsidising the supply of pharmaceuticals not on the national pharmaceutical schedule. (new)

Appropriations for the New Zealand Blood and Organ Service (NZBOS)

55. Under existing arrangements, DHBs fund the New Zealand Blood and Organ Service (NZBOS) from within their non-departmental expenditure (NDE) baselines.
56. There may also be elements of funding from the *National Personal Health Services NDE* and *National Planned Care Services NDE* appropriations for organ donation services. This is subject to further analysis and will be included (if those elements exist) in the baseline transfers submitted for your approval.
57. Under the new health system structure, NZBOS remains unchanged, and with the transfer of DHB responsibilities to Health New Zealand, we expect that Health New Zealand will fund NZBOS from the *Delivering Hospital and Specialist Services NDE* appropriation (see Table 1, page 8).

Appropriations for other health sector Crown Entities

58. Under existing arrangements, the *Monitoring and Protecting Health and Disability Consumer Interests NDE* appropriation provides funding for the Health Quality and Safety Commission (HQSC), Health and Disability Commission (HDC), and Mental Health and Wellbeing Commission. We propose to **retain** this appropriation under the new appropriation structure (Table 7, next page).

59. Under existing arrangements, the *Aged Care Commissioner NDE* appropriation provides funding for the Aged Care Commissioner [CAB-21-MIN-0222 refers]. We propose to **retain** this appropriation because the appropriation Minister for this appropriation is the Minister for Seniors (Table 7, next page).

Table 7: Appropriations proposed for the other health sector entities from 1 July 2022

Appropriation Title	Type of Appropriation	Use	Scope of Appropriation
Aged Care Commissioner (retained) Appropriation Minister: Minister for Seniors	Non-Departmental Output Expenses	Provides operating funding for the office of the Aged Care Commissioner.	This appropriation is limited to the functions of the Aged Care Commissioner (no change)
Monitoring and Protecting Health and Disability Consumer Interests (retained)	Non-Departmental Output Expenses	Provides operating funding for the offices of the Health Quality and Safety Commission (HQSC), Health and Disability Commission (HDC), and the Mental Health and Wellbeing Commission.	This appropriation is limited to the provision, purchase, and support of services that monitor and protect health and disability consumer interests. (no change)

Other miscellaneous appropriations under Vote Health

60. Under existing arrangements, there are three non-departmental "other" expense appropriations which allow for expenditure other than on outputs (ie, services):
- the *International Health Organisations NDE* appropriation funds New Zealand's membership of the World Health Organisation (WHO) and our contribution to specific WHO projects
 - the *Legal Expenses NDE* appropriation funds the legal defence and settlement of health- and disability-related claims against the Crown
 - the *Provider Development NDE* appropriation supports the development of service providers, for vulnerable populations such as Māori and Pacific peoples.
61. We propose to **retain** only the *International Health Organisations NDE* and *Legal Expenses NDE* in the new appropriation structure, because these arrangements will continue from 1 July 2022 (Table 8, next page).
62. We envisage some of the existing funding baseline in *Legal Expenses NDE* may transfer from Vote Health to Vote Social Development as some of this funding has been provided to defend or settle disability-related claims [CAB-21-MIN-0395 refers], but this is subject to further analysis of its existing baseline and a report-back to Cabinet in early 2022.

63. The *Provider Development NDE* appropriation will be **disestablished** because of the transfer of responsibilities to Health New Zealand (for Pacific provider development) and the Māori Health Authority (for Māori provider development).

Table 8: Appropriations proposed for other Vote Health expenses from 1 July 2022

Appropriation Title	Type of Appropriation	Use	Scope of Appropriation
International Health Organisations (retained)	Non-Departmental Other Expenses	Provides funding for NZ's WHO membership and specific WHO projects.	This appropriation is limited to the Crown funding New Zealand's World Health Organization (WHO) membership and contributing to specific WHO projects. (no change)
Legal Expenses (retained)	Non-Departmental Other Expenses	Provides funding legal defence and settlement of health-related claims. Note: disability-related funding baselines will be transferred to Vote Social Development.	This appropriation is limited to funding the defence and settlement of health-related or disability-related legal claims against the Crown. (no change)

Other matters

Health Services Funding NDE

64. The funding in this appropriation was provided for initiatives to improve the long-term financial sustainability and performance of District Health Boards. We propose to **disestablish** the *Health Services Funding NDE* appropriation and **transfer its existing baseline** between:
- the Ministry's *Sector Performance and Monitoring DE* category of the *Stewardship of the New Zealand health system MCA* appropriation (Table 3, page 12), and
 - Health New Zealand's *Delivering Hospital and Specialist Services NDE* appropriation (Table 1, page 8).

Health Workforce Training and Development NDE

65. This appropriation funds the provision, purchase and support of workforce development for the health sector. It is expected that Health New Zealand would be primarily responsible for engaging the sector's hospital-, specialist- and any directly provided community-based health workforce.

66. The Māori Health Authority may also use a portion of this NDE to fund training for education and training for the primary and community care workforce.
67. We propose to **disestablish** the *Health Workforce Training and Development NDE* appropriation and **transfer its existing baseline** to Health New Zealand and the Māori Health Authority, split between the following three non-departmental output expense appropriations:
- *Delivering Primary, Community, Public and Population Health Services NDE*
 - *Delivering Hospital and Specialist Services NDE*
 - *Delivering hauora Māori services NDE.*

Problem Gambling Services NDE

68. We propose to **retain** the *Problem Gambling Services NDE* appropriation which is funded by levies imposed under section 319 of the Gambling Act 2003 for:
- the provision, purchase, and support of services that minimise the harm from gambling, and
 - tracking the Problem Gambling memorandum account movements (administered by the Ministry).

The funding in this appropriation will be used by Health New Zealand to deliver problem gambling services in accordance with the requirements of the Gambling Act 2003 (Table 9).

Table 9: Appropriation proposed for Problem Gambling Services from 1 July 2022

Appropriation Title	Type of Appropriation	Use	Scope of Appropriation
Problem Gambling Services (retained)	Non-Departmental Output Expenses	Provides problem gambling services and used to track memorandum accounts.	This appropriation is limited to the provision, purchase, and support of services that minimise the harm from gambling, in accordance with the Gambling Act 2003. (no change)

Special arrangements for baseline management (post-implementation)

69. Cabinet also authorised the Minister of Health to approve fiscally neutral adjustments from the *Delivering Hospital and Specialist Services NDE* to the *Delivering Primary, Community, Public and Population Health Services NDE* if any subsequent need arises to adjust baselines once Health New Zealand is operating [CAB-21-MIN-0430 refers].

Performance information (non-financial) for ex-ante and ex-post reporting

70. It is outside the scope of this briefing to provide advice on the performance framework for the entities that will operate in the reformed health system from 1 July 2022.
71. You will be shortly receiving joint advice (from the Transition Unit, the Ministry of Health, the Public Service Commission and The Treasury) on the interim Government Policy Statement and the performance monitoring and reporting framework for the reformed health system including the practicalities of the application of that monitoring framework to Health New Zealand and the Māori Health Authority.
72. However, restructuring the appropriations in Vote Health has flow-on implications for performance reporting for accountability purposes, and for non-financial performance information. We expect that where several current appropriations have been consolidated into one appropriation, Parliament and Ministers will require information to be reported at a lower level to see how specific areas of funding are intended to be applied (ex-ante) and have been applied (ex-post), and the impact made by the services funded.
73. Non-financial performance information, in the form of reportable intention statements, performance measures, performance standards and responsibilities for year-end reporting, for the proposed new appropriation structure will be submitted as part of the preparation of the 2022/23 Estimates of Appropriations for Vote Health. The draft Estimates are expected to be available in late March / early April 2022 and the Estimates are expected to be finalised by mid-April 2022. When completing these, we will also engage with the Office of the Auditor-General to ensure that they are comfortable with the level of specificity applied for each appropriation.
74. From the restructuring of the Vote Health appropriations, most of the operating expenditure funding will lie in the four main appropriations that fund Health New Zealand, the Māori Health Authority and Pharmac's pharmaceutical purchases (Table 10). This is because most of the baselines from the twenty District Health Boards (\$16,117 million of devolved funding based on 2021/22 baselines), along with another the \$2,602 million of non-devolved funding⁵ will be transferred to these appropriations.

Table 10: Appropriations that will hold most of Vote Health funding from 1 July 2022

Appropriation Title	Type of Appropriation	Entity
Delivering Primary, Community, Public and Population Health Services (new)	Non-Departmental Output Expenses	Health New Zealand
Delivering Hospital and Specialist Services (new)	Non-Departmental Output Expenses	Health New Zealand
Delivering hauora Māori services (new)	Non-Departmental Output Expenses	Māori Health Authority
National Pharmaceuticals Purchasing (new)	Non-Departmental Output Expenses	Pharmac

⁵ \$1,468 million in nationally contracted services (excluding disability services which are being transferred to Vote Social Development), \$403 million for primary health care services, \$493 million for public health services, \$225 million for workforce, and \$11 million for problem gambling services.



75. For the appropriations not related to Health New Zealand, the Māori Health Authority and Pharmac, we expect that existing arrangements for ex-ante and ex-post performance reporting will remain unchanged.
76. As noted in paragraph 54, we will be undertaking further work and will provide further advice on the ex-ante and ex-post performance reporting arrangements for Pharmac in early 2022.
77. The next two sections of this briefing outline how we expect ex-ante and ex-post performance reporting will operate for Health New Zealand (HNZ) or the Māori Health Authority (MHA).

Ex-ante performance information (non-financial) for HNZ and MHA appropriations

78. When the Transition Unit (TU) provided you with advice on the interim New Zealand Health Plan in September 2021, the TU confirmed that, prior to the development of the first fully costed New Zealand Health Plan in 2024, Health New Zealand and the Māori Health Authority will need to produce their own Statements of Intent (SOI) and Statements of Performance (SPE) that are aligned but separate to the interim New Zealand Health Plan [DPMC-2021/22-272 refers].
79. The Crown Entities Act 2004 allows the definition of output classes as a key accountability input to each Crown entity's SPE. Output classes are groupings of services ("outputs") that need to be reported as revenue and expenditure in an entity's Annual Report. These output classes are now referred to as "reportable outputs". Reportable outputs are directly funded (in whole or in part) by the Crown through appropriations, or through levies and fees. Entities set out their forecast performance for the coming year in relation to the services they plan to deliver and the standards they expect to meet, appropriately grouped under each reportable output. The results are then presented in the respective entities' Annual Reports.
80. Up until 2021/22, District Health Boards (DHBs) express ex-ante non-financial performance information in their SOIs and SPEs through their DHB Annual Plans. The reportable outputs for DHB SPEs were coordinated centrally by the Ministry and had grouped services along the continuum of care as follows:
 - Prevention services
 - Early detection and Management Services
 - Intensive Assessment and Treatment Services
 - Rehabilitation and Support Services.
81. Having reportable outputs at a high level like this enables flexibility in service delivery but does not necessarily provide strong visibility of service delivery. There is an opportunity when setting the reportable outputs for Health New Zealand and the Māori Health Authority to shift these to a more useful set of service-focussed categories (eg, public health, mental health, maternity and WellChild, and planned care), giving greater utility to their use in the broader monitoring and evaluation framework.

82. Reportable outputs are key to monitoring and tracking expenditure and performance in Government priority areas, and allows us to more directly assess how funding is translating to actual service delivery and its subsequent impacts against key indicators. For example, separate reportable outputs for –
- mental health would improve oversight of the delivery of mental health services
 - public health services will enable us to ensure that funding is “protected” for these services which have historically been de-prioritised in favour of more immediate and tangible needs.
83. In the case of non-devolved funding (ie, funding in non-DHB appropriations such as *National Mental Health Services NDE*), non-financial performance information is currently expressed in the annual Estimates of Appropriations and the Ministry’s Output Plan. As responsibility for these services are being transferred from the Ministry to Health New Zealand and the Māori Health Authority, we expect the non-financial performance information in the Estimates should reflect the ex-ante performance expectations set in their SPEs and their reportable outputs.
84. The Ministry of Health and the Transition Unit will work with the interim boards of Health New Zealand and the Māori Health Authority to define the reportable outputs and develop the SPEs in early 2022. This is a joint process, in which the Minister of Health has a role particular through the confirmation of the SPEs for Health New Zealand and the Māori Health Authority. We will provide you with further advice on the proposed groupings of reportable outputs when they become available. We are also very conscious of the need for greater transparency and accountability for the four main non-departmental expenditure appropriations listed in Table 10 (page 22).
85. To meet the deadlines for producing the 2022/23 Estimates of Appropriation, we expect the Estimates will simply state that Health New Zealand’s and the Māori Health Authority’s ex-ante performance information will be expressed in their respective SOIs and SPEs (which, in turn, are likely to be finalised only after the Estimates are finalised).
86. While normally there is also a requirement for the Minister of Health to table SPEs and SOIs in the House of Representatives, the Crown Entities Act 2004 does not set a deadline for tabling these ex-ante accountability documents for newly established entities in their first year of operation (ie, Health New Zealand and the Māori Health Authority). The Act allows the Minister to set a timeframe for SOIs and SPEs to be ready, but it requires these ex-ante accountability documents to be prepared as soon as practicable.

Ex-post performance reporting (non-financial) for HNZ and MHA appropriations

87. Quarterly and annual reporting are typically the mechanisms through which Crown entities report intra-year and year-end performance information to Ministers. These usually report against expectations set in their SOIs and SPEs. The Crown Entities Act 2004 also requires the Minister responsible for the Crown entity to present the entity’s annual report to the House of Representatives.

88. We expect the Annual Report process is unlikely to change for the Health New Zealand and the Māori Health Authority. However, intra-year reporting processes are subject to the performance framework that is established for these entities from 1 July 2022, about which you are receiving advice shortly as noted in paragraph 71.
89. Some revisions to the performance framework for the Ministry would also be required to reflect to functions that have transferred to Health New Zealand and the Māori Health Authority, and the new functions resulting from the establishment of the Public Health Agency in the Ministry.

Equity

90. This briefing proposes a set of appropriations for Vote Health that directly gives effect to Cabinet decisions [CAB-21-MIN-0430 refers], and the intent of the Pae Ora (Healthy Futures) Bill 2021.
91. The purpose of the health system reform introduced by the Bill is to:
- protect, promote, and improve the health of all New Zealanders
 - achieve equity by reducing health disparities among New Zealand's population groups, for Māori; and
 - build towards pae ora (healthy futures) for all New Zealanders.

Consultation

92. We have consulted The Treasury in preparing our advice for this briefing, and their advice has been incorporated into this briefing.

Next steps

93. Subject to your joint approval of the new appropriations, the Ministry will:
- by mid-January 2022 and working with The Treasury, establish the proposed new appropriations in the Treasury's CFISnet system so they are available to accept the proposed fiscally neutral transfers in the 2022 March Baseline Update (MBU) or, at the latest, the budget technical financial recommendations process in April 2022
 - by end of February 2022, finalise the fiscally neutral transfers of funding from the current appropriations structure to the new structure
 - by end of February 2022, subject to confirmation with the Ministry of Social Development, finalise the fiscally neutral transfers of funding from Vote Health to Vote Social Development that will give effect to Cabinet decisions on the Disability System Transformation

- in the budget technical financial recommendations process in April 2022, submit the fiscally neutral transfers from current Vote Health appropriations to the new appropriations and, to give effect to Cabinet decisions on the Disability System Transformation, from Vote Health to Vote Social Development
- use the new appropriation structure for funding decisions for 2022/23 and outyears in Budget 2022 and any other baseline changes from 1 July 2022.

94. In the new year (2022), you will also receive advice on the following:

- proposed function transfers from the Ministry of Health to the new entities (Health New Zealand and the Māori Health Authority) and to the Ministry for Disabled People
- in early March 2022, details of the fiscally neutral transfers of current baselines from the current appropriations structure to the new structure (as proposed in this briefing) and transfers from Vote Health to Vote Social Development, for which your approval will be sought in the April budget technical financial recommendations process
- by mid-March 2022, further advice on the monitoring and reporting framework, including the processes for managing Pharmac's two appropriations (see Table 6, page 18), so that you can confirm your comfort with the proposed settings before Budget 2022 decisions are finalised
- by mid-March 2022, draft intention statements and performance information for inclusion in the 2022/23 Estimates of Appropriations for Vote Health so that you can confirm your comfort with them before they are finalised for Budget 2022.

95. If some function transfers between the Ministry of Health, Health New Zealand and the Māori Health Authority are expected prior to 30 June 2022, there may also be some consequential changes to performance information (and measures) in the 2021/22 Supplementary Estimates. These changes will also be advised in March 2022.

96. Due to the restructuring of the appropriations in Vote Health, there will also be an additional section included in the 2022/23 Estimates of Appropriation for Vote Health that maps the funding transfers between the current and new appropriations.