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Tumuaki o te Mana Arotake

Performance audit report

Allocation of the 2002-05 Health Funding Package

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Allocation of the 2002-05 Health Funding Package

This is the report of a performance audit we carried out under section 16 of the Public Audit Act 2001.

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Foreword

Through the Health Funding Package, which was introduced in 2002, the Government has injected a considerable amount of new spending into the health sector. The package introduced a three-year horizon for health funding to replace the previous annual funding cycle.

I undertook this audit to provide Parliament with a better understanding of where the Health Funding Package had been allocated between 2002 and 2005.

I found the Ministry of Health had good documentation to support decisions on allocating the package. However, it is not possible to say from this audit how the Health Funding Package was ultimately spent, because district health boards, and many Ministry directorates, did not keep separate records of Health Funding Package funds.

The package has provided more planning certainty than the previous annual funding cycle. However, there has been a concurrent and significant change with the introduction of population-based funding, and uncertainties still exist connected with the new funding arrangements.

District health board deficits decreased following introduction of the package, but have increased in the latest financial year.

The aim to cap new funding available to the health sector through the Health Funding Package has not been achieved. Additional funding has been appropriated for the health sector from outside the Health Funding Package.

K B Brady
Controller and Auditor-General

30 October 2006

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Background to the Health Funding Package

In 2002, the Government introduced a substantial three-year Health Funding Package (the funding package).

The Government introduced the funding package to allow the Ministry of Health (the Ministry) and district health boards (DHBs) to plan their operational spending on health and disability services three years ahead. It provided funding above baseline levels for Vote: Health from 2002-03 to 2004-05.

The funding package (including funding for demographic changes) comprised $501 million in 2002-03, continuing in later years; an extra $496 million in 2003-04, continuing in later years ($997 million total in 2003-04); and another $498 million in 2004-05, also continuing in later years ($1,495 million total in 2004-05).

In all, the funding package as initially announced was new funding of nearly $3,000 million above baseline funding for the three years from 2002-03 to 2004-05.

Components of the funding package

The funding package contained components:

- for inflation;
- for changes in population size and structure;
- to address historical issues in hospital services funding; and
- for new initiatives. A large amount of this funding was used to move DHBs to a population-based funding formula and to fund the Primary Health Care Strategy.

Our conclusions

The effect of the Population-based Funding Formula on the funding package

The Minister of Health had the discretion and delegated authority of Cabinet to change the allocation of the funding package from the original allocation approved by Cabinet. The introduction of the Population-based Funding Formula in 2003 was such a change, which was approved by Cabinet.

The Population-based Funding Formula was a new method for allocating funding to DHBs. Because the funding package was the major source of new funding for DHBs, it was used as a pool of funding to implement the Population-based Funding Formula. The funding package was therefore not allocated uniformly

to DHBs based on existing funding levels, as originally envisaged in the Cabinet Minutes, but was allocated in a way that moved DHBs to the level of funding intended under the Population-based Funding Formula.

Record-keeping by the Ministry of Health

We were satisfied that there was good documentation to support both Cabinet and Ministerial decisions on allocating the funding package. The Ministry has good documentation showing the funding received and how it had been allocated. It also has records showing the allocation of the funding package by appropriation.

The Ministry has records showing how much of the funding package was provided to Ministry directorates, and the amounts allocated from the funding package to individual DHBs. The Ministry does not have records of how the DHBs allocated the funding, as this is the responsibility of the DHBs.

District health board and Ministry directorate approach to allocating the funding package

DHBs treated funds from the funding package as part of their general funding from the Ministry, so they are also unable to say specifically where the funding package money was allocated. DHBs were not required by the Ministry to report specifically how funding package money they received had been used.

Ministry directorates were given flexibility as to how they applied funding package funds. The Ministry sometimes used the funding to implement a Ministry-wide policy. However, most decisions on use of funding were made within the Ministry's directorates. The Ministry stated that this allowed the directorates to manage any funding pressures in their areas.

We were provided with some examples where it was clear how a directorate had decided to allocate funding package funds. However, the funding package was generally seen as a pool of money additional to baseline funding, to be allocated as directorates saw fit. After the first year of new funding, the funding was considered part of baseline funding.

Managing within the funding package

One of the aims of the funding package was to cap the amount of new funding available to the health sector to the amount of the funding package. The funding package was proposed as the entire budget increase for Vote: Health for the three years it applied to.

However, additional funding has been appropriated to Vote: Health from outside the funding package during the same period. This has eroded the principle underpinning the funding package – that health funding will be limited to the money in the funding package except in exceptional circumstances authorised by Cabinet.

In addition, it has been difficult for us and others, such as the Health Committee of the House of Representatives, to work out whether new initiatives have been funded from inside or outside the funding package. This is because some items are shown separately in the Estimates of Appropriations, while others are included within the existing categories of funding. Greater transparency about whether new initiatives were being funded from previously announced funding or from new funding would be useful.

Eliminating district health board deficits

As part of the funding package, the Minister indicated in December 2001 that DHBs must substantially eliminate their deficits by 30 June 2005. We found that the combined DHB deficit did reduce from 2001-02 to 2004-05, but increased in the 2005-06 year.

Innovation and setting priorities

DHBs told us the funding package gave them a small amount of freedom in how to allocate funding, although this freedom was generally achieved by making trade-offs. These trade-offs involved constraining funding for some services to allow a DHB to have funding for certain strategic initiatives.

Implementing the Primary Health Care Strategy

The Primary Health Care Strategy received a significant proportion of the total funding package (about 10% in 2002-03, 14% in 2003-04, and 17% in 2004-05), and the funding package was the major source of funding for implementing the strategy. Funding for the strategy was "ring-fenced", which meant that the funds could be spent only on the strategy. The Ministry distributed the money to DHBs, and they distributed it to Primary Health Organisations.

Greater certainty in planning

The DHBs we interviewed were generally positive about the change from annual funding to a three-year planning horizon, because it had helped them to plan better. DHBs told us that the amount of the funding increase (or any decrease) was not as important as knowing the amount in advance, so that they could plan.

However, most DHBs we interviewed said planning under the funding package was still not easy. This is because there had been, and continued to be, many other changes happening in the health sector at the same time as the funding package was rolled out, which caused some uncertainty about the level of funding DHBs would receive.

Opportunities for more cost-effective services

Some DHBs told us they had already entered into contracts for more than one year before the funding package was introduced, assuming they would receive at least existing baseline funding levels in a future year. Therefore, the three-year horizon of the funding package has not necessarily increased the opportunity to enter more cost-effective long-term contracts.

Part 1
Introduction

1.1 In 2002, the Government introduced a substantial three-year package of new funding to allow the health sector to plan health and disability services with greater certainty than that provided by an annual funding cycle.

1.2 The initial Health Funding Package (the funding package) was $400 million each year for three years. The funding package has since been extended, and more funds have been included to allow for changes in population growth and structure.[1]

1.3 In this Part, we discuss:

- why we undertook an audit of the funding package;
- the scope of our audit;
- our expectations; and
- how we conducted the audit.

Why we undertook our audit

1.4 We decided to audit the funding package for three main reasons:

- The funding package involved a significant amount of new government spending, and it has been the major source of new funding for the health sector since it was announced.
- There has been a lack of clarity and common understanding about where money from the funding package has been allocated, and the relationship of the funding package to other health funding. We therefore wanted to explain to Parliament and other stakeholders where the funding package was allocated in its first three years.
- The funding package committed the Government to providing certain funding levels for three years, which provides an opportunity to examine the effectiveness of a longer-term approach to funding of the health sector.

Scope of our audit

1.5 Our audit examined three main areas:

- the allocation of funds from the funding package;
- whether the benefits anticipated by the Government were achieved; and
- whether the aims of the Ministry of Health (the Ministry) for the funding package were met.

1.6 We looked at where the funding package was allocated in its first three years from 2002-03 to 2004-05. We describe how the funding was allocated, and how

1 Unless otherwise stated, all financial information in this report is as at 30 April 2005. All amounts are goods and services tax (GST) inclusive.

much was allocated to the Ministry and to district health boards (DHBs). We were unable to identify how the money was further allocated because it was generally combined with other funding and not accounted for separately, except for some specific initiatives and by some of the Ministry's directorates.

1.7 We also assessed whether the funding package was allocated in accordance with Cabinet Minutes and Health Reports[2] relating to the funding package.

1.8 We assessed whether the funding package achieved the benefits anticipated by the Government, being that:

- with some exceptions approved by Cabinet, all health funding would be sourced from the funding package and no extra funding would be sought; and
- DHBs would reduce their deficits to zero (or close to zero) by the end of the 2004-05 financial year.

1.9 We also assessed whether the funding package met the Ministry's aims to:

- allow the health sector to be innovative and to set priorities for implementing the New Zealand Health Strategy and the New Zealand Disability Strategy;
- fund the implementation of the Primary Health Care Strategy; and
- give the health sector certainty for strategic, annual, and operational planning, and risk management.

What we did not do

1.10 We did not examine the funding package beyond its initial three-year term, because later years' funding had not been distributed at the time of the fieldwork for our audit.

1.11 We did not examine the issue of productivity[3] in relation to the funding package. We acknowledge that there has been interest in productivity in the health sector, particularly given the large increases in public spending on health. However, the issue of productivity in the health sector is large and complex, and was beyond the scope of our audit.

Our expectations

1.12 We expected that:

- the funding package had been allocated in accordance with Cabinet Minutes;
- allocations had been appropriately approved and documented;
- the health sector had managed budgets within the funding package;
- DHBs had not relitigated the funding package;
- DHBs had eliminated deficits;

2 A Health Report is written advice from the Ministry to the Minister of Health and Associate Ministers of Health.

3 In this context, productivity is the amount of extra services provided for the extra funding supplied.

- the health sector had been able to be innovative and set priorities for implementing the New Zealand Health Strategy and the New Zealand Disability Strategy;
- the funding package had been used to implement the Primary Health Care Strategy;
- the funding package had enabled greater certainty for planning by DHBs; and
- the funding package had created opportunities for more cost-effective services.

How we conducted our audit

1.13 We examined information from the Corporate and Sector Finance section of the Ministry's Corporate and Information directorate about how the funding package had been allocated. We obtained assurance that these allocations were authorised by comparing the Ministry's information with Cabinet Minutes and Health Reports about the funding package.

1.14 We interviewed:

- staff at the Ministry, including the Manager of Finance in the DHB Funding and Performance directorate, staff in the Corporate and Sector Finance section, and senior management (including the Director-General of Health); and
- staff involved in funding and planning at eight of the country's 21 DHBs.

1.15 We chose to conduct interviews at eight DHBs because this provided a sample of more than one-third of all DHBs, and it included large and small DHBs in rural and urban settings and in the North and South Islands.

1.16 We interviewed staff at:

- Auckland District Health Board;
- Waitemata District Health Board;
- Counties Manukau District Health Board;
- Wairarapa District Health Board;
- Capital and Coast District Health Board;
- Hutt Valley District Health Board;
- Canterbury District Health Board; and
- South Canterbury District Health Board.

1.17 We also discussed the funding package with Treasury staff responsible for Vote: Health.

Part 2
Background to the Health Funding Package

2.1 In this Part, we discuss:

- the funding of the health sector;
- the introduction of the funding package;
- how much money was in the funding package;
- the conditions and components of the funding package; and
- Cabinet's original allocation of the funding package.

Funding of the health sector

2.2 Funding for the health sector is provided through the Estimates of Appropriations[1] approved by Parliament for Vote: Health[2] following each year's Budget. Additional funding can also be provided by Parliament between Budgets. Vote: Health is administered by the Ministry, which enters into funding agreements with health providers (through its eight directorates[3]), and with 21 DHBs.

2.3 The scope of the Vote: Health appropriations is broad. For example, each DHB has one appropriation, which covers all the health and disability services that they provide and fund. For most DHBs, each appropriation is for several hundred million dollars. The description of the scope of the appropriation is the same for each DHB, and states that the funds are for "funding of personal and mental health services, including services for the health of older people, provision of hospital and related services and management outputs".

2.4 The Ministry's departmental appropriations are established mainly on a directorate-by-directorate basis. There is little information in the Estimates of Appropriations about how each directorate allocates and spends its funding. The Ministry of Health says this is because a large number of different services are provided under Vote: Health, so it is not practical to define appropriations to the service level.

2.5 DHBs agree District Annual Plans (DAPs) with the Ministry, and these provide greater detail about what services each DHB is providing. DHBs also produce Statements of Intent that set out the intentions and main objectives of a DHB for each year. Each DHB Statement of Intent is presented to Parliament. Statements of Intent and DAPs do not contain any specific detail about the funding package or its components.

1 An appropriation is a parliamentary authorisation for the Crown or an Office of Parliament to incur expenses or capital expenditure. Appropriations are specified by amount, scope and period.

2 A Vote is a grouping of one or more appropriations that are the responsibility of one Minister of the Crown and are administered by one government department.

3 The eight directorates are Clinical Services, Corporate and Information, DHB Funding and Performance, Māori Health, Disability Services, Mental Health, Public Health, and Sector Policy. Each directorate is led by a Deputy Director-General.

History of health funding

2.6 In 1996-97, automatic adjustments to funding were introduced for Vote: Health, initially only for demographic changes. In 1997, Cabinet agreed to a health funding package to maintain the existing level of health and disability services. Included in this package was the "sustainable funding path", which was an adjustment to the Vote to allow for the effects of inflation, technology, and improvements in efficiency, and to allow for some new initiatives. In 1999, funding was agreed for 2000-01. Subsequently, a funding increase was also announced for 2001-02. In December 2001, the Government announced the funding package that is the subject of this report.

Effect of annual funding cycle on health sector planning

2.7 Before the funding package was introduced, health funding was allocated one year at a time to the Ministry, which either contracted directly with the health sector or used it to fund DHBs (or their predecessors). There was no guarantee of the level of funding in future years, although DHBs expected to receive at least as much funding as in the previous year.

2.8 Indicative levels of funding were identified for the next two years, but this could be changed in subsequent Budgets. Therefore, it was difficult for the health sector to plan very far ahead for funding increases, and DHBs were restricted in their ability to plan service delivery or to take advantage of opportunities to fund and deliver services more cost-effectively.

2.9 The environment that DHBs operate in means it is particularly important for them to have certainty about future funding increases. They are large entities that deliver and fund a number of important health services. Changing the mix of services can require considerable lead times for several reasons, such as a tight labour market with critical shortages of trained staff in some areas, the need for specialist equipment, and/or capital requirements (such as operating theatres and wards). Such pressures can, in turn, subject the health sector to stronger inflationary pressures than the rest of the economy.

2.10 In addition, DHBs face considerable increases in demand for some services at different times because of lifestyle and demographic changes. For example, one DHB told us the demand for renal dialysis had increased 16% in one year.

Introduction of the funding package

2.11 The Government introduced the funding package to allow the Ministry and DHBs to plan their operational spending on health and disability services three years ahead.

2.12 The funding package was announced in December 2001, was introduced in the 2002 Budget, and began in the 2002-03 financial year. The funding package provided funding above baseline levels for Vote: Health from 2002-03 to 2004-05.

How much money was in the funding package?

2.13 In all, the funding package, as initially announced, was new funding of nearly $3,000 million above baseline funding for the three years from 2002-03 to 2004-05.

Initial funding package

2.14 The funding package comprised an extra $400 million a year for three years from 2002-03 (that is, $400 million in 2002-03, $800 million in 2003-04, and $1,200 million in 2004-05), giving a total of $2,400 million extra funding in the three years. This funding continued to be provided in later years.

Additional demographics funding

2.15 The Government announced another funding increase for the same period, to provide for population growth and changes in the structure of the population (for example, an increase in the number of elderly patients).

2.16 Called demographics funding, it comprised additional funding of $101 million in 2002-03, $96 million in 2003-04, and $98 million in 2004-05. This funding also continued to be provided in later years (an extra $197 million in 2003-04 and an extra $295 million in 2004-05), giving a total of $598 million in new funding for the three years. Funding for demographic changes had been provided to Vote: Health since 1996.

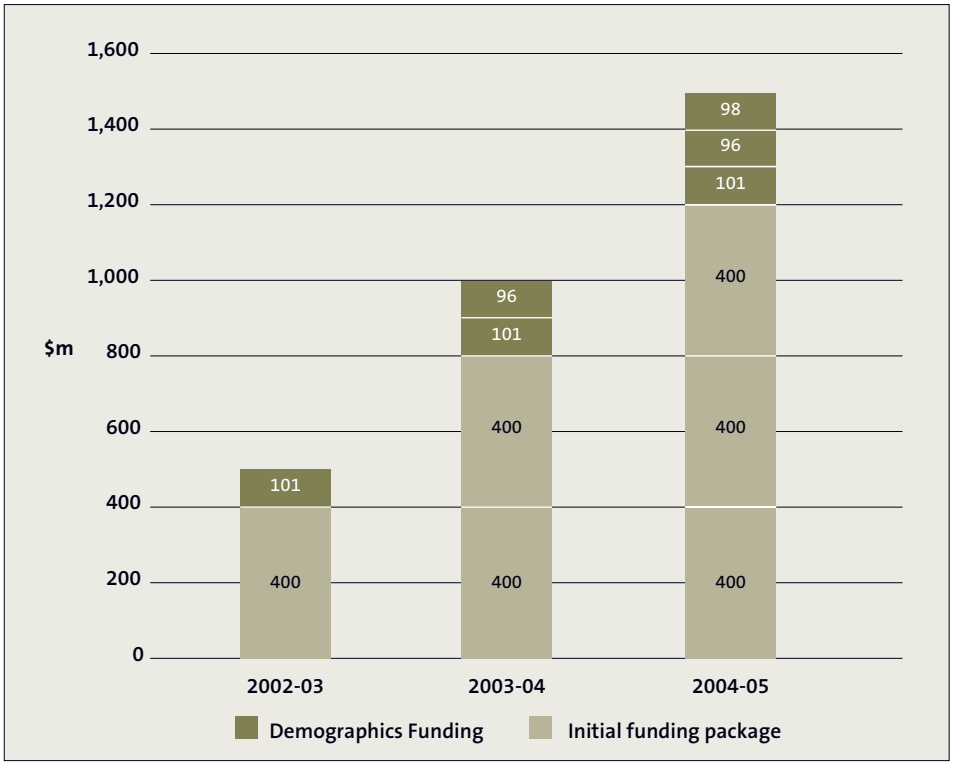
2.17 While demographics funding was separately identified between 2002-03 and 2004-05, it is generally considered part of the funding package and is treated as such in this report, unless otherwise indicated. Demographics funding was formally included as part of the funding package from 2005-06.

The "total" funding package

2.18 Including demographics funding, the funding package as announced therefore comprised $501 million in 2002-03 continuing in later years, an extra $496 million in 2003-04 continuing in later years ($997 million total), and another $498 million in 2004-05 also continuing in later years ($1,495 million total).

2.19 The initial funding package and the demographics funding, as announced in December 2001, are shown in Figure 1.

Figure 1
The Health Funding Package for the three years from 2002-03 to 2004-05



2.20 The funding package was set at this level based on forecast inflation (which is 35% consumer price index and 65% wage price index), and there was no capacity to deal with inflationary pressures above the initial calculation. Inflation did subsequently exceed the prediction the funding package was based on.

2.21 The Government subsequently added more money to the funding package (above that initially announced) during the three years to 2004-05. This is discussed further in Part 5.

2.22 The Government also extended the funding package beyond 2004-05. In the 2003 Budget, additional funding (above the 2004-05 funding) was provided for 2005-06, continuing in later years. In the 2004 Budget, additional funding (above the 2005-06 funding) was provided for 2006-07, continuing in later years.

2.23 Additional funds for the funding package for 2007-08 have not as yet been appropriated, but Cabinet has given a three-year planning signal to the health sector that $750 million would be available in 2007-08 and later years, and a further $750 million in 2008-09 and later years.

Conditions of the funding package

2.24 There were several conditions associated with the funding package:

- DHBs were required to reduce their deficits to (or close to) zero by 30 June 2005.
- The Minister of Health (the Minister) was given complete discretion as to how the funding package was spent, but was expected to fund all new health initiatives from within the funding package (with the exception of some initiatives, such as the meningococcal vaccine strategy).
- DHBs were told they must manage within their budgets, and that no more money would be available to fund health services.

Components of the funding package

2.25 The funding package contained four components:

- the Forecast Funding Track (FFT), also known as the Future Funding Track, which provided for automatic adjustments for inflation (based on the FFT forecast available at that time) and annual adjustments for advances in technology and for efficiency gains;
- demographics funding;
- a revenue catch-up item to address historical underfunding of DHBs; and
- funding for new policy initiatives (mainly the Primary Health Care Strategy – see paragraphs 3.22-3.28).

2.26 The three components other than demographics funding were part of the initial funding package of funding increases of $400 million a year for three years. We discuss all four components in detail in Part 3.

Cabinet's original allocation of the funding package

2.27 Cabinet's original 2002 decision on the allocation of the funding package (including demographics funding, for which the Cabinet decision was made in 2001) is shown in Figure 2. We note that Cabinet subsequently approved additional funds for the funding package, and that the actual allocation of the funding package (see Appendix 1) differs from the allocation originally approved by Cabinet. One of the major reasons for this was adoption of the Population-based Funding Formula, that we discuss in Part 4.

Figure 2
Original allocation of the Health Funding Package (including demographics funding)

Funds available	2002-03 $m	2003-04 $m	2004-05 $m
District Health Board (DHB)/ Ministry directorate funding:			
Forecast Funding Track	148.000	340.940	513.271
Demographics funding*	100.733	197.128	295.173
Revenue catch-up (DHBs only)	120.000	120.000	120.000
Referred services (e.g. laboratory services)	14.000	-	-
Total DHB/directorate Funding	**382.733**	**658.068**	**928.444**
Other commitments:			
Ongoing Mason funding (Mental Health Services)	7.400	7.400	7.400
Medical oncology (cancer drugs)	5.653	5.766	5.882
BreastScreen Aotearoa	2.596	3.734	4.789
Aged residential care pricing	12.502	22.886	35.192
Assisted human reproduction	0.500	0.500	0.500
Well-settled overstayers	3.800	-	-
Primary Health Care Strategy implementation	50.000	165.000	195.000
Unfunded Health Funding Authority contracts from 2001-02	20.000	20.000	20.000
FFT – Non-DHB provider technology adjustment	13.498	28.612	42.918
Total other commitments	**115.949**	**253.898**	**311.681**
Future initiatives and risk management	**2.051**	**85.162**	**255.048**
Total	**500.733**	**997.128**	**1,495.173**

Source: Cabinet Minutes (02) 12/8 (16) and (01) 20/2.

* A more detailed outline of the allocation of demographics funding approved by Cabinet, including the additional demographics funding approved by Cabinet for the 2003 and 2004 Budgets, is provided in Appendix 2.

Actual allocation of the funding package

2.28 For a detailed summary of how the funding package was allocated, see Appendix 1. Appendix 3 summarises how the funding package (including demographics funding) was allocated to the various appropriations in Vote: Health.

Part 3
Components of the Health Funding Package

3.1 In this Part, we look in more detail at the four components of the funding package. In particular, we discuss:

- the FFT;
- demographics funding;
- a revenue catch-up; and
- funding for new policy initiatives.

Forecast Funding Track

3.2 The FFT introduced a mechanism to enable the Ministry and DHBs to manage the increased costs associated with inflationary pressures and technology improvements.

3.3 The FFT is an automatic increase for inflation that is distributed to DHBs and to Ministry directorates for health initiatives that are funded nationally.

3.4 Inflationary pressures occur in the health sector for various reasons, such as increases in labour and other costs, and the FFT includes an adjustment to account for these pressures. The formula for calculating the adjustment is based on the Consumer Price Index (35%) and the Labour Cost Index (65%). However, we note that extra funding for increases in labour costs was provided outside the funding package.

Amount of funding package allocated to the Forecast Funding Track

3.5 Figure 3 shows the forecast and actual allocations from the funding package for the FFT. The differences between forecast and actual amounts are because of changes in the rate of inflation after the forecast had been made.

Figure 3
Allocations from the Health Funding Package for the Forecast Funding Track

	2002-03 $m	2003-04 $m	2004-05 $m
Forecast	148.000	340.940	513.271
Actual	161.499	369.552	556.188

Source: Ministry of Health (2005).

3.6 Figure 4 provides a detailed summary of actual FFT allocations.

Figure 4
Forecast Funding Track allocations from 2002-03 to 2004-05

Appropriation	Description	2002-03 $m	2003-04 $m	2004-05 $m
District Health Boards (DHBs)				
DHBs	Forecast Funding Track (FFT)	101.310	205.052	308.853
DHBs	FFT – Technology Hospitals	-	41.388	62.082
Total District Health Boards		**101.310**	**246.440**	**370.935**
Ministry of Health co-ordinated services				
Disability Support Services	FFT	20.867	51.957	83.230
Health Services Funding	FFT – Tagged	15.000	15.000	15.000
Health Services Funding	FFT – Non-DHB Provider Technology Adjustment	13.498	28.612	42.918
National Services	FFT – Clinical Services directorate	0.123	0.306	0.490
National Services	FFT – Māori Health directorate	0.398	0.991	1.587
National Services	FFT – Mental Health directorate	1.283	3.952	6.330
National Services	FFT – DHB Funding and Performance directorate	5.480	13.480	21.578
Public Health Services Purchasing	FFT	3.540	8.814	14.120
Total Ministry of Health		**60.189**	**123.112**	**185.253**
Total Forecast Funding Track allocations		**161.499**	**369.552**	**556.188**

Source: Ministry of Health (2005).

3.7 The FFT also comprises adjustments in funding for technology and a nominal reduction in funding for efficiency savings.

Technology adjustment

3.8 The technology adjustment is an additional 0.5% of eligible baseline funding[1] to provide for changes arising from new technology. DHBs were initially required to show how the adjustment had been spent on new technology.

1 In 2002-03, the hospital share was incorporated in the revenue catch-up.

3.9 The adjustment is for changes that allow the health sector to:

- increase service quality;
- lower costs without reducing quality; and
- provide a new service not previously available.

Efficiency adjustment

3.10 The purpose of the efficiency adjustment was to encourage DHBs to improve their efficiency by not fully compensating them for cost increases. The efficiency adjustment was initially set at zero which required improvements in efficiency to be reported, while allowing for all funding package money to be retained if the required improvements were made. The efficiency adjustment has subsequently been adjusted to 0.5% of eligible baseline funding for 2006-07, meaning that DHBs have their funding reduced on the assumption that efficiency or productivity improvements will compensate for this reduction in funding. DHBs were required to report on improvements in efficiency (but not those specifically related to funding package money) through the annual planning and reporting process.

Reporting requirements for technology improvements and efficiency adjustment

3.11 Each DHB was required by the Operational Policy Framework component of its Crown Funding Agreement with the Crown to report in its DAP and Annual Report how it achieved these technology and efficiency adjustments. The Crown Funding Agreement is one of the documents that set out DHBs' accountabilities.

3.12 The Ministry did not enforce the reporting requirements for the technology adjustment or the efficiency adjustment after 2002-03. We did not see evidence of such reporting in DHB DAPs and Annual Reports we reviewed. None of the DHBs we interviewed had had their funding reduced for failing to meet reporting requirements for the technology or efficiency adjustments.

Demographics funding

3.13 Demographics funding provides for changes in the total number and structure of the population.

3.14 When demographics funding was introduced, the main demographic changes were population growth and an increase in the average age of the population. Older people tend, on average, to have a greater need for health services. Both these demographic changes, therefore, increase the demand for health services.

3.15 In addition, the population is becoming more ethnically diverse. There are increasing numbers of Māori and Pacific Islanders, who tend, on average, to have greater health needs than other New Zealanders.

3.16 Demographics funding is designed to enable funders to manage the increased demand these changes place on the health system. The Ministry and the Treasury expected the funding would be used to increase the volume of services provided, in response to the greater demand.

Who receives demographics funding?

3.17 Figure 5 summarises the actual allocation of demographics funding for the three years 2002-03 to 2004-05. We note that the Disability Services directorate received an additional $8 million in demographics funding annually from 2003-04, to address financial difficulties.

Figure 5
Demographics funding allocations from 2002-03 to 2004-05

Appropriation	Description	2002-03 $m	2003-04 $m	2004-05 $m
District Health Boards (DHBs)				
DHBs	**Demographics funding – DHBs**	**69.138**	**166.494**	**270.443**
Ministry of Health co-ordinated services				
Disability Support Services	Demographics funding – Disability Services directorate	19.103	38.813	64.117
Health Services Funding	Demographics funding – Corporate and Information directorate	7.000	-	-
National Services	Demographics funding – Clinical Services directorate	0.065	0.181	0.314
National Services	Demographics funding – DHB Funding and Performance directorate	2.648	8.122	14.132
National Services	Demographics funding – Māori Health directorate	0.212	0.588	1.017
National Services	Demographics funding – Mental Health directorate	0.683	2.344	4.012
National Services	Demographics funding – Clinical Training Agency	-	-	0.215
Public Health Services Purchasing	Demographics funding – Public Health directorate	1.884	5.227	9.518
Total Ministry of Health		**31.595**	**55.275**	**93.325**
Total demographics funding		**100.733**	**221.769**	**363.768**

Source: Ministry of Health (2005).

How is demographics funding calculated?

3.18 The Ministry calculates the average cost of health services by age and gender. This allows health expenditure to be expressed according to the number of people in different population groups and the amount spent for each person in these groups.

3.19 The average cost is applied to the average annual population by age and gender using population projections revised each year by Statistics New Zealand. The predicted population changes allow the Ministry to calculate the growth in cost from one year to the next. The existing level of funding from Vote: Health is multiplied by the percentage growth factor to determine the required increase in funding.

Revenue catch-up

3.20 In 2002-03 and each subsequent year, $120 million was allocated to DHBs to resolve all "outstanding hospital pricing and volume issues" (that is, to address historical issues about the amount of services that hospitals had to provide and the funding given to provide those services). We consider that the revenue catch-up was compensation for historic underfunding of hospitals.

3.21 In 2002-03, $4.05 million of the $120 million was used to correct errors in the previous year's DHB funding, and $15.4 million was set aside to cover the diseconomies of scale in small DHBs. The remainder of the $120 million was allocated to DHBs according to their existing shares of hospital funding.

Funding for new policy initiatives

3.22 The Ministry received a significant part of the funding package to fund new policy initiatives (see "Other allocations" in Appendix 1). The largest part of that funding (more than $500 million over three years) was allocated to the Primary Health Care Strategy, for which it was the major source of funding.

3.23 The Primary Health Care Strategy is the Government's major programme to improve New Zealanders' health and to reduce inequalities in health services for Māori, Pacific Island, and low-income groups. The Primary Health Care Strategy is implemented by Primary Health Organisations (PHOs). A PHO is a group comprising doctors, nurses, and other health care professionals.

3.24 The Primary Health Care Strategy received a significant proportion of the total funding package (about 10% in 2002-03, 14% in 2003-04, and 17% in 2004-05). Funding for the strategy was "ring-fenced", which meant that the funds could be spent only on the strategy. The Ministry distributed the money to DHBs, and they

distributed it to PHOs. The Ministry calculates and tracks the payments to PHOs based on their enrolled populations and various performance measures.

3.25 Figure 6 shows the amounts allocated from the funding package to the Primary Health Care Strategy. Appendix 4 shows in greater detail where the Primary Health Care Strategy funding was allocated.

Figure 6
Allocations from the Health Funding Package to the Primary Health Care Strategy

2002-03 $m	2003-04 $m	2004-05 $m
53.820	167.127	300.996

Source: Ministry of Health (2005).

3.26 Funding for the Primary Health Care Strategy from the funding package was subsequently increased to advance its implementation.

3.27 Cabinet also approved $20 million for existing contracts that had no ongoing funding, $35 million during the three years for aged residential care, and $14 million for pharmaceutical and laboratory services in 2002-03 only.

3.28 We note that some new health initiatives, such as the meningococcal vaccine programme, were funded separately from the funding package.

Part 4
Accounting for Health Funding Package allocations and changes

4.1 In this Part, we discuss whether our expectations were met that:

- the funding package had been allocated in accordance with Cabinet Minutes; and
- allocations had been appropriately approved and documented.

4.2 We discuss:

- the effect of population-based funding on allocation of the funding package;
- Ministry record-keeping; and
- the use of funding package money, including its use by DHBs and the Ministry.

The effect of population-based funding on allocation of the funding package

4.3 As discussed above, the Minister had the discretion and delegated authority of Cabinet to change the allocation of the funding package from the original allocation approved by Cabinet. The introduction of the Population-based Funding Formula in 2003 was such a change, which was approved by Cabinet.

What is the Population-based Funding Formula?

4.4 The Population-based Funding Formula is now the main method for determining how much health and disability funding DHBs will receive. The formula provides a simple method of allocating all funding available for DHBs, including their share of the funding package. It does not determine funding for services. It was phased in from 1 July 2003, and DHBs were progressively moved to their target level of funding as determined by the funding formula from that date.

How is the Population-based Funding Formula calculated?

4.5 A DHB's funding is primarily determined by the population within its area.

4.6 The Ministry also considers the demographics of a DHB's population in determining its share of funding. Four demographic variables are considered – age, gender, ethnicity, and level of socio-economic deprivation – and are measured by a five-tier scale. An average cost is assigned to each demographic group, and that cost is then multiplied by the population of that group within each DHB.

4.7 There is also a policy-based weighting for unmet need, a rural adjustment, and an adjustment for overseas visitors.

4.8 The Ministry has made changes to the formula since its introduction, such as changing the way the rural adjustment is calculated, but the basic determinants have remained.

4.9 Because the Population-based Funding Formula focuses on funding DHBs based on their resident population rather than on funding specific providers to provide services, the formula does not take into account where the DHB provides the services for its population. A DHB therefore pays for all services that its population receives, wherever in the country the people receive those services.

4.10 A DHB is also paid for any services it provides to people who are resident in another DHB's area. For example, if a DHB does not provide a particular service, it would arrange for another DHB to provide the service on its behalf. It would then reimburse the other DHB for the cost of providing that service. These payments are called inter-district flows, and they can have a significant effect on a DHB's total funding.

The effect of the Population-based Funding Formula on the funding package

4.11 The Population-based Funding Formula is relevant to the funding package because it affects the way funding package money is allocated to DHBs. The Population-based Funding Formula determines the proportion of health funding received by individual DHBs from the funding allocated to all DHBs.

4.12 When the Population-based Funding Formula was introduced, some DHBs were significantly overfunded according to the new formula, and some were significantly underfunded.

4.13 Because the funding package, particularly its demographic component, was the major source of new funding for DHBs, it was used as a pool of funding to implement the Population-based Funding Formula.

4.14 Demographics funding was not allocated uniformly to DHBs based on existing funding levels, as originally envisaged in the Cabinet Minutes, but was allocated in a way that moved DHBs to the level of funding intended under the Population-based Funding Formula. This change in allocation was approved by Cabinet.

Ministry record-keeping

4.15 We were satisfied that there was good documentation to support both Cabinet and Ministerial decisions on allocating the funding package. The Ministry has good documentation showing the funding received and how it had been allocated. It also has records showing the allocation of the funding package by appropriation.

4.16 The Ministry has records showing how much of the funding package was provided to Ministry directorates.

4.17 The Ministry also has records showing the total amounts allocated from the funding package to individual DHBs. The Ministry's funding advice to DHBs records new FFT and demographics funding that the DHBs receive each year, and the percentage increase in their funding. FFT and demographics funding for previous years become part of the DHBs' baseline funding in succeeding years. The Ministry does not keep records of how DHBs allocated the funding, as this is the responsibility of the DHBs.

Use of Forecast Funding Track and demographics funding

District health board approach

4.18 DHBs treated funds from the funding package as part of their general funding from the Ministry, so they are unable to say specifically where the funding package money had been allocated. DHBs were not required by the Ministry to report specifically how funding package money they received had been used.

4.19 Most DHB staff we interviewed told us that they did not regard FFT or demographics funding to be related to anything specific. Rather, they regarded it as part of their total "basket of money" to be distributed as they, and their Board, considered fit. DHBs told us that FFT and demographics funding would sometimes be used to fund price increases for services, while on other occasions the funding would be used for new initiatives. The Ministry advised us that Ministers, including the Minister of Finance, have given DHBs clear messages that inflation-based funding should be reflected in contracts with non-governmental organisation providers.

4.20 The advantage of this approach is that it gives DHBs flexibility in how they apply their additional FFT and demographics funding, enabling them to manage areas of pressure within the funding available. For example, DHBs told us they generally pay demographics funding to suppliers of services, but this was considered on a case-by-case basis. It also means that there were no separate administrative requirements from the funding package imposed on DHBs.

4.21 The disadvantage of this approach is that it means that it is not possible to track specifically how funding package money was used. According to the Ministry, this risk has been recognised by Ministers, who have made clear the Government's expectation for use of this funding.

Ministry of Health approach

4.22 In 2005, the Minister's Office asked the Ministry to justify its need for FFT and demographics funding.

4.23 The Ministry reported that, as with DHBs, it had been given flexibility as to how it applied additional FFT and demographics funding. Although the Ministry sometimes needed to use funding to implement a Ministry-wide policy, most decisions were made within the Ministry's directorates, which the Ministry stated allowed the directorates to manage any funding pressures in their areas.

4.24 The Ministry did not always include FFT and demographics funding in its contracts with service providers. Some multi-year contracts included an agreed increase or FFT increases. For other ongoing contracts, the Ministry considered whether FFT and demographics funding should be applied. Considerations included:

- whether there had been increases in previous years;
- whether the provider was a DHB;
- the Minister's requirements for certain services; and
- service quality and performance issues.

4.25 Ministry directorates also indicated that they used demographics funding as they saw fit to manage whatever pressures they faced within their sector. For example, the Clinical Services directorate, which is responsible for the Primary Health Care Strategy, stated that demographics funding was used to manage the pressures generated by PHOs being set up at a faster than expected rate.

4.26 The Ministry also checked whether the additional services being funded by demographics funding were being recorded in contracts with providers. Responses from the Ministry directorates indicated that each had a different approach to the use of demographics funding. Some directorates had used demographics funding to fund areas where there were pressures, while others had used it to increase funding for new policy initiatives that they believed merited support.

4.27 Responses from directorates indicated that they generally did not differentiate between additional FFT funding, the technology adjustment, and demographics funding. FFT and demographics funding was regarded generally as a pool of money additional to baseline funding when the additional money was provided each year, to be allocated as directorates saw fit. We were provided with some examples where it was clear how a directorate had allocated additional FFT (including the technology adjustment) and demographics funding. After the first year of new funding, the funding was considered part of baseline funding.

Part 5
Have our expectations for the Health Funding Package been met?

5.1 In this Part, we discuss whether our expectations for the funding package have been met.

5.2 Taking into account the benefits anticipated by the Government and the aims of the Ministry (see paragraphs 1.8-1.9), we expected that:

- the health sector had managed budgets within the funding package;
- DHBs had not relitigated the funding package;
- DHBs had eliminated deficits;
- the health sector had been able to be innovative and set priorities for implementing the New Zealand Health Strategy and the New Zealand Disability Strategy;
- the funding package had been used to implement the Primary Health Care Strategy;
- the funding package had enabled greater certainty for planning by DHBs; and
- the funding package had created opportunities for more cost-effective services.

Managing within the funding package

5.3 We have previously noted that one of the aims of the funding package was to cap the amount of new funding available to the health sector to the amount of the funding package. The funding package was proposed as the entire budget increase for Vote: Health for the three years it applied to.

5.4 The Ministry emphasised that, as a condition for agreeing to the three-year funding, the Government expected the health sector to manage within the funding available. In particular, the Ministry warned DHBs that any funding required to fund DHB overspending would not be available for new policy initiatives.

5.5 Notwithstanding these intentions, additional funding has been appropriated from outside the funding package for three reasons:

- additional funding that Cabinet agreed to at the time of the funding package – for example, funding was allocated to the Mental Health Blueprint initiative ($25 million in 2004-05 and $50 million in 2005-06) and the meningococcal vaccine strategy ($82 million in 2003-04, $30.3 million in 2004-05, and $33.3 million in 2005-06);
- additional funding allocated as a result of changes to demographics funding and FFT assumptions; and
- additional funding as a result of new policy initiatives. We have listed some of these in Figure 7.

Figure 7
Additional funding for some new policy initiatives outside the Health Funding Package

Initiative	2003-04 $m	2004-05 $m	2005-06 $m
Medsafe funding	1.050	0.000	0.000
Residential worker training	1.000	-	-
Alcohol and drug abuse prevention	0.620	0.620	0.620
National Drug Intelligence Bureau	0.150	0.150	0.150
Rural and urban action on illicit drugs	2.555	2.555	2.555
Asset revaluations*	27.665	36.945	36.945
Asset testing	-	0.676	104.900
Orthopaedics	-	10.000	40.000
Depression initiative	-	0.300	-
People at risk of suicide	-	0.700	0.700
National Drug Policy Contestable Fund	-	0.427	0.871
Drug Policy Secretariat	-	0.140	0.140
Community Action on Youth and Drugs Evaluation	-	0.344	0.194
One-for-one needle exchange	-	1.000	1.000
Addictions Court clinician	-	0.191	0.191
Central regional drug youth residential treatment	-	1.460	1.068
Drug Foundation	-	0.300	0.283
Total	**33.040**	**55.808**	**189.617**

Source: Ministry of Health (2005)
* Asset revaluations result from DHBs revaluing assets because of changes to financial reporting standards.

5.6 We note that additional funding was also provided for a pay settlement for nurses.

5.7 We do not have any comment on the worthiness of the new policy initiatives. We recognise that, subject to appropriations, the Government is entitled to make funding and spending decisions as it wishes. However, an increasing number of new initiatives were funded from outside the funding package. A good example is the funding for orthopaedics in 2004-05 and beyond. This approach erodes the principle underpinning the funding package – that health funding will be limited to the money in the funding package, except in exceptional circumstances authorised by Cabinet.

5.8 In addition, it has been difficult for us and others, such as the Health Committee, to work out whether new initiatives have been funded from inside or outside

the funding package. This is because some items are shown separately in the Estimates of Appropriations, while others are included within the existing categories of funding. It would be useful if there were greater transparency about whether new initiatives were being funded from previously announced funding or new funding.

Avoiding relitigation of the funding package

5.9 The Ministry told DHBs that the Government expected the sector to "live within" the funding package.

5.10 DHBs we spoke to generally appeared to accept the method for allocating the funding package and their shares of it, and did not seek to question the method. Some DHBs mentioned that the funding package saved time previously spent on arguing for more funds.

5.11 Given the amount of new funding that flowed to DHBs, we consider that they would be unlikely to question the funding package. DHBs we interviewed also generally believed that the Population-based Funding Formula was a satisfactory way of distributing funds.

Eliminating district health board deficits

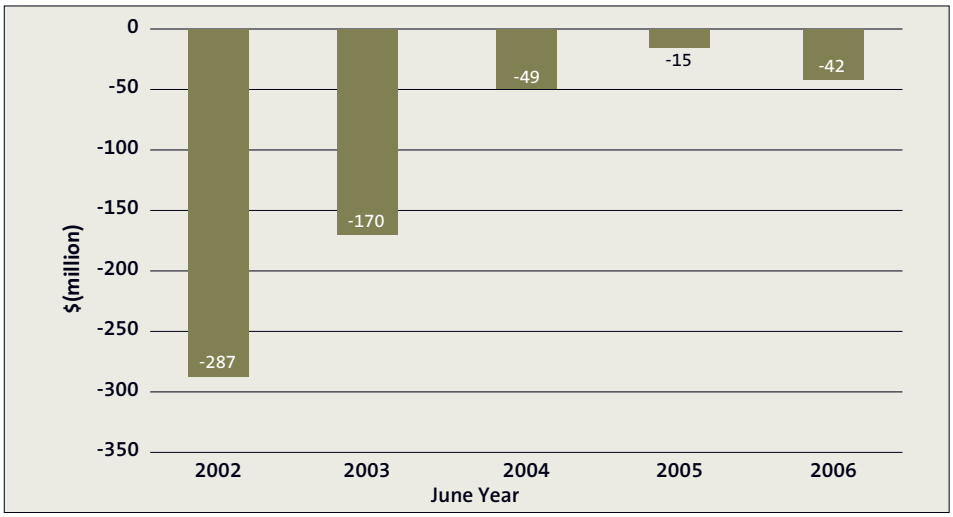
5.12 As part of the funding package, the Minister indicated in December 2001 that DHBs must substantially eliminate their deficits by 30 June 2005. The "deficit trend" target was that DHBs would have a combined deficit of $80 million in 2002-03, reducing to zero by the end of the 2004-05 financial year.

5.13 Figure 8 sets out the actual combined DHB deficit for the years 2001-02 to 2005-06 inclusive.

5.14 Figure 8 shows that the combined DHB deficit reduced from 2001-02 to 2004-05. The combined deficit was $287 million in 2001-02, but had reduced to $15 million in 2004-05. However, we note that deficits have increased in the latest year, with the combined deficit in the year to 30 June 2006 being $42 million. Accordingly, although the original deficit targets have not been achieved, the latest combined deficit shows a substantial improvement compared with the 2001-02 position. Systemic deficits in the DHBs have now been largely eliminated, except for problems still being addressed at the Auckland DHB.

5.15 This result is not surprising, given the significant amount of additional funding that has been provided to both the Ministry and DHBs through the funding package.

Figure 8
Combined district health board deficit trend from 2001-02 to 2005-06



Source: Statistics New Zealand.

5.16 We also note that, when the funding package was first announced, some funds were not allocated to specific initiatives for the three years of the funding package. These were described as "Future Initiatives and Risk Management". The amounts were $2 million for 2002-03, $85 million for 2003-04, and $255 million for 2004-05. Some of these funds were used to fund DHB deficits for the relevant years.

Innovation and setting priorities

5.17 One of the aims of the funding package was to allow DHBs and others in the health sector the opportunity to be innovative and to set priorities for implementing the New Zealand Health Strategy and the New Zealand Disability Strategy.

5.18 DHBs told us they had a small amount of freedom in how to allocate funding, although this freedom was generally achieved by making trade-offs. DHBs told us these trade-offs involve constraining funding for some services to allow a DHB to have funding for certain small strategic initiatives.

5.19 Although the health sector received significant new funding, DHBs said that some of this has been tagged for specific purposes. Two areas of significant new funding have been primary health care and mental health. DHBs have had little to do with determining the allocation of the primary health care funding, as its allocation

was determined by the Ministry and was not at the discretion of DHBs. DHBs were responsible for transferring this funding to the relevant providers.

5.20 DHBs have had more control over how to spend the mental health funding within the limitations of the "ring-fence" placed around the funds. However, they told us it has been difficult to spend all the mental health funding, mainly because of a shortage of experienced mental health workers.

Implementing the Primary Health Care Strategy

5.21 A significant proportion of the funding package was spent on the Primary Health Care Strategy, and the funding package was the major source of funding for implementing the strategy.

Greater certainty for planning

5.22 The DHBs we interviewed were generally positive about the change from annual funding to a three-year planning horizon.

5.23 DHBs told us the amount of the funding increase (or decrease) was not as important as knowing the amount in advance, so that they could plan. The early funding certainty that the funding package provided was important in allowing quality decision-making, because it took some time to either increase or reduce services in response to changes in funding. Some DHBs also said another benefit was the time saved from not having to renegotiate funding levels every year.

5.24 Some DHBs said that having the funding package was fundamental to certainty, and that out-years of their planning documents were not as robust without the three-year horizon. All DHBs we spoke with agreed that, whether the advice they received was about a percentage increase in funding or about a specific amount, it was the certainty that was important. However, the DHBs differed in the degree of certainty they attached to the advice of a percentage change.

5.25 Most DHBs we interviewed said that planning under the funding package was still not easy. This was because there had been, and continued to be, many other changes in the health sector at the same time as the funding package was rolled out. Some examples include the consolidation of DHBs, the change to the Population-based Funding Formula, and the need for DHBs to reduce their deficits, as well as other changes.

5.26 In addition, some DHBs were uncertain about what their final funding would be after inter-district flows had been calculated. Inter-district flows are DHB-to-DHB payments for services provided by one DHB to the resident population of another DHB.

5.27 Staff at one DHB told us that the inter-district flow for their DHB was $160 million out of total funding of $840 million, and differed by $18 million from the previous year. The actual funding a DHB will receive is uncertain until after a DHB has provided its services. Uncertainty about the final inter-district flow hampers accurate planning.

Opportunities for more cost-effective services

5.28 Some DHBs told us they had already entered into contracts for more than one year before the funding package was introduced, assuming they would receive at least existing baseline funding levels in a future year. Therefore, the three-year horizon of the funding package has not necessarily increased the opportunity to enter more cost-effective long-term contracts.

5.29 The greater certainty afforded by the funding package has meant that DHBs have not had to increase or reduce services suddenly to match funding levels. By having more time to adjust to changes in funding levels, DHBs have been able to change the volumes of services more efficiently.

Appendix 1
Allocation of the Health Funding Package

Funding available from the Health Funding Package

Description	2002-03 $m	2003-04 $m	2004-05 $m
2002-03 Health Funding Package	400.000	400.000	400.000
2003-04 Health Funding Package	-	400.000	400.000
2004-05 Health Funding Package	-	-	400.000
Other Initiatives and Risk Management	-	-	19.277
Residential care loans write-off	-	-	4.000
Holidays Act for Ministry providers	-	-	8.888
Health Funding Package to 2004-05	**400.000**	**800.000**	**1,232.165**
Demographics funding (2001-02 – 2004-05)	100.733	197.128	295.173
Demographics funding – 2003 Budget	-	31.641	60.350
Demographics funding – 2004 Budget	-	-	23.400
Demographics funding	**100.733**	**228.769**	**378.923**
Accident Compensation Corporation (ACC) Public Health Acute Services	22.162	22.274	22.274
ACC Pharmaceuticals and laboratories	10.300	10.300	10.300
Additional ACC	**32.462**	**32.574**	**32.574**
Reappropriations from 2001-02	20.000	-	-
Reappropriations from 2002-03	-	41.195	37.800
Reappropriations of Healthpac (GST refund)	-	8.546	-
Forecast 2003-04 surplus	-	(9.359)	-
Reappropriation from 2003-04	-	-	8.814
Reappropriations	**20.000**	**40.382**	**46.614**
Transfer for risk management	-	13.567	-
Single Transferable Vote: transfer from departmental output class District Health Board Funding and Performance	-	-	5.190
Transfers from within Vote: Health	**-**	**13.567**	**5.190**
Re-phasing between years within Vote: Health	(32.136)	32.136	-
Expense transfer	(13.000)	16.000	(3.000)
March Baseline Update 2004 re-phasing	-	(40.000)	40.000
Re-phasing between years	**(45.136)**	**8.136**	**37.000**
Funding available	**508.059**	**1,123.428**	**1,732.466**

Allocation of Health Funding Package money

Description	2002-03 $m	2003-04 $m	2004-05 $m
Forecast Funding Track 2002-03	148.000	133.000	133.000
Forecast Funding Track 2003-04	-	192.940	192.940
Forecast Funding Track 2004-05	-	-	172.330
New Amendments Mental Health (to District Health Boards)	-	0.339	0.339
Forecast Funding Track	**148.000**	**326.279**	**498.609**
Demographics funding (2001-02 – 2004-05)	100.733	182.128	182.128
Demographics adjustment (to Disability Support Services – National)	-	8.000	8.000
Demographics funding (2001-02 – 2004-05)	-	-	98.045
Demographics funding – Budget 2003	-	31.641	56.695
Demographics funding – Budget 2004	-	-	18.900
Demographics funding	**100.733**	**221.769**	**363.768**
District Health Board funding allocated	-	137.258	130.237
Population-based funding formula smoothing reserve	-	-	20.900
Transitional payment	-	-	1.500
			130.237
			20.900
Moving to Population-based Funding Formula	**-**	**137.258**	**152.637**
Initial funding path	50.000	165.000	195.000
September 2003 changes	-	0.500	68.800
Achieving low cost access	-	-	20.100
Primary Health Care Strategy	**50.000**	**165.500**	**283.900**
Accident Compensation Corporation (ACC) Public Health Acute Services	-	3.476	3.476
ACC Pharmaceuticals and Laboratories	-	10.300	10.300
Additional ACC funding to District Health Boards	**13.000**	**13.776**	**13.776**
Transfers to Deficit Support	-	39.137	-
Transferred to Deficit Support	**-**	**39.137**	**-**
Other allocations:			
Revenue catch-up (DHBs only)	120.000	120.000	120.000

Referred services	14.000	-	-
Ongoing Mason funding	7.400	7.400	7.400
Medical oncology (cancer drugs)	5.653	5.766	5.882
BreastScreen Aotearoa	2.596	3.734	4.789
Aged residential care pricing	12.502	22.886	35.192
Assisted human reproduction	0.500	0.500	0.500
Well-settled overstayers	3.800	-	-
Unfunded HFA contracts from 2001-02	20.000	20.000	20.000
Revenue injection – Counties Manukau DHB	9.900	-	-
Primary Health Organisation CPI adjustment	-	3.473	3.473
Health Workforce Advisory Committee	-	0.254	0.600
Minister's Forum	-	0.200	-
SARS	-	3.177	-
Electives catch-up	-	2.500	-
Mental health	-	10.000	-
Adjustment for Welltrust	-	0.206	-
National Immunisation Register	-	-	8.606
Home insulation and heating	-	-	1.000
Disability Services Directorate Risk Pool	-	14.320	0.080
Innovations Fund	-	2.000	2.000
Healthline	-	1.400	4.644
Royal NZ College of GPs	-	0.291	0.709
Improving opportunities for overseas-trained doctors (up to $4.5 million approved)	-	-	4.500
Māori Provider Development Fund (non-departmental operating expense)	-	-	1.226
Breast screening (45-49/65-69 years)	-	-	13.200
DHB receivable relating to Primary Health Care Strategy	-	-	4.851
Healthline evaluation and publicity	-	0.142	0.027
Māori Provider Development Fund	-	1.460	-
Extra Fertility Cycle	-	-	4.000
Sexual health campaign	-	-	1.225
Single Transferable Vote for DHBs	-	-	2.608
Orthopaedics project	-	-	20.000
Primary Health Organisation (PHO) adjustment	-	-	3.500
Total "other" allocations	**196.351**	**219.709**	**270.012**
Total allocated	**508.084**	**1,123.428**	**1,582.702**

Funds remaining after allocations	(0.025)	0.000	149.764
Other items:			
Funding for PHOs	-	-	10.000
DHB capital charge write-off	-	-	2.907
Funds remaining assuming priorities are all funded	**(0.025)**	**0.000**	**136.857**
Funds required for planned DHB deficits	-	-	35.000
Risk reserve for deficits above plan	-	-	50.000
Provisioning for DHB deficits	**-**	**-**	**85.000**
Funds remaining	**(0.025)**	**0.000**	**51.857**

Source: Ministry of Health (2005)

Appendix 2
Allocation of demographics funding recorded in Cabinet Minutes

Description	2002-03 $m	2003-04 $m	2004-05 $m
Demographics funding: Northland District Health Board	1.829	3.600	7.371
Demographics funding: Waitemata District Health Board	3.709	7.303	18.641
Demographics funding: Auckland District Health Board	9.005	17.729	26.593
Demographics funding: Counties Manukau District Health Board	4.432	8.726	13.207
Demographics funding: Waikato District Health Board	5.554	10.935	23.878
Demographics funding: Lakes District Health Board	1.113	2.192	4.079
Demographics funding: Bay of Plenty District Health Board	2.324	4.575	12.329
Demographics funding: Tairawhiti District Health Board	0.602	1.186	1.779
Demographics funding: Taranaki District Health Board	1.242	2.446	3.669
Demographics funding: Hawkes Bay District Health Board	1.762	3.469	9.104
Demographics funding: Whanganui District Health Board	0.612	1.204	1.806
Demographics funding: MidCentral District Health Board	2.047	4.030	11.433
Demographics funding: Hutt Valley District Health Board	1.448	2.851	4.420
Demographics funding: Capital & Coast District Health Board	4.658	9.170	13.756
Demographics funding: Wairarapa District Health Board	0.425	0.837	1.685
Demographics funding: Nelson Marlborough District Health Board	1.333	2.624	7.277
Demographics funding: West Coast District Health Board	0.725	1.427	2.141
Demographics funding: Canterbury District Health Board	6.631	13.055	19.584
Demographics funding: South Canterbury District Health Board	0.587	1.155	2.459
Demographics funding: Otago District Health Board	2.934	5.776	8.665
Demographics funding: Southland District Health Board	1.254	2.469	5.098
Demographics funding: National Services**	9.570	18.841	29.397
Demographics funding: Disability Support Services – National	36.096	69.811	109.254
Demographics funding: Public Health Service Purchasing	0.841	1.717	3.458
Demographics funding: Health Services Funding	-	31.641	37.834
Total	**100.733**	**228.769**	**378.917**

Source: CAB Min (01) 20/2; CAB Min (03) 13/9(27); CAB Min (04) 13/3(33).

* Includes additional allocations in 2003 and 2004 Budgets.

** Funding for National Services is divided among several Ministry of Health directorates.

Appendix 3
Health Funding Package as announced in December 2001: Allocation by appropriation

Appropriation	Description	2002-03 $m	2003-04 $m	2004-05 $m
District Health Boards	Hospital services catch-up	120.000	120.000	120.000
District Health Boards	Forecast Funding Track (FFT)	101.310	205.052	308.853
District Health Boards	FFT – Technology Hospitals	-	41.388	62.082
District Health Boards	Demographics funding – District Health Boards	69.138	134.853	201.937
Total District Health Boards		**290.448**	**501.293**	**692.872**
Disability Support Services	FFT	20.867	51.957	83.230
Disability Support Services	Aged residential care pricing	12.502	22.886	35.192
Disability Support Services	Demographics funding – Disability Support Services	19.103	38.813	59.024
Total Disability Support Services		**52.472**	**113.656**	**177.446**
Sector Policy Departmental Output Class	Assisted Human Reproduction	0.500	0.500	0.500
Total Sector Policy Departmental Output Class		**0.500**	**0.500**	**0.500**
Health Services Funding	FFT – tagged	15.000	15.000	15.000
Health Services Funding	Primary Health Care Strategy implementation	50.000	165.000	195.000
Health Services Funding	New initiatives/ contingencies	2.050	85.162	255.049
Health Services Funding	FFT – Non-DHB provider technology adjustment	13.498	28.612	42.918
Health Services Funding	Demographics funding – Corporate and Information	7.000	-	-
Total Health Services Funding		**87.548**	**293.774**	**507.967**
National Services	FFT – Clinical Services	0.123	0.306	0.490
National Services	FFT – Māori Health	0.398	0.991	1.587
National Services	FFT – Mental Health	1.283	3.952	6.330
National Services	FFT – DHB Funding and Performance	5.480	13.480	21.578
National Services	Ongoing Mason funding	7.400	7.400	7.400

National Services	Medical oncology	5.653	5.766	5.882
National Services	Well-settled overstayers	3.800	-	-
National Services	Referred Services	14.000	-	-
National Services	Unfunded Health Funding Authority contracts from 2001-02	20.000	20.000	20.000
National Services	Demographics funding – Clinical Services	0.065	0.181	0.301
National Services	Demographics funding – DHB Funding and Performance	2.648	8.122	13.401
National Services	Demographics funding – Māori Health	0.212	0.588	0.973
National Services	Demographics funding – Mental Health	0.683	2.344	3.881
Total National Services		**61.745**	**63.130**	**81.823**
Public Health Services Purchasing	FFT	3.540	8.814	14.120
Public Health Services Purchasing	BreastScreen Aotearoa	2.596	3.734	4.789
Public Health Services Purchasing	Demographics funding – Public Health	1.884	5.227	8.656
Total Public Health Services Purchasing		**8.020**	**17.775**	**27.565**
Total appropriations for the Health Funding Package		**500.733**	**1,000.128**	**1,488.773**

Source: Ministry of Health (2005).

Appendix 4
Allocation of Primary Health Care Strategy funding

	Year approved	2002-03 $m	2003-04 $m	2004-05 $m
Funding received				
Original Cabinet Minute approving Health Funding Package and allocation of funding package	2002	50.000	165.000	195.000
Transfer of funding to Health Services Funding from National Services for Primary Health Care Strategy	2003	3.820	-	-
Additional funding from funding package to increase funding to Primary Health Organisations (PHOs) to recognise increases in the Consumer Price Index (CPI)	2003	-	-	3.473
Additional funding for Primary Health Care Strategy initiatives from funding package	2003	-	-	31.000
Additional funding for Primary Health Care Strategy initiatives from reappropriation of 2002-03 unspent baseline funding	2003	-	0.500	37.800
Transfer of funding provided in 2002-03 to 2003-04 (expense transfer)	2003	-	1.504	-
Funding for retention and recruitment of primary healthcare workers in rural communities	2003	-	0.123	0.123
Achieving low cost access	2004	-	-	20.100
Primary health care annual price adjustment	2004	-	-	10.000
Additional allocation of funding from funding package to increase funding to PHOs to keep track with CPI increases	2005	-	-	3.500
Total funding received		**53.820**	**167.127**	**300.996**
Allocations				
Under-6 policy ($ to District Health Boards (DHBs))	2002	8.200	8.200	8.200
Primary Health Care Strategy systems development ($ to Information Services)	2003	1.437	3.048	3.801
Rural Reasonable Roster – Regions where doctors and nurses have onerous on-call arrangements ($ to DHBs)	2003	1.356	2.133	2.133
Encourage set up of PHOs and acceptance of funding based on population ($ to DHBs for PHOs)	2003	3.820	3.820	3.820
Establishment of PHOs ($ to DHBs for PHOs)	2003	1.431	0.671	0.671
Devolved primary care	2003	11.613	11.613	11.613
Retention and recruitment of primary healthcare workers in rural areas ($ to DHBs for PHOs)	2003	-	8.606	8.606
Additional funding for PHOs ($ to DHBs for PHOs)	2003	-	19.069	19.069

Funding for PHOs based on population ($ to DHBs for PHOs)	2003	-	61.731	61.731
Rural Reasonable Roster – regions where doctors and nurses have onerous on-call arrangements	2003	-	0.560	0.560
Additional funding from budget to increase funding to PHOs to keep track with CPI increases ($ to DHBs for PHOs)	2003	-	-	3.473
Nursing scholarships	2004	-	0.240	0.280
Funding for cost of claims processed by Healthpac	2004	-	-	0.571
Changes to timing of implementation of reduction in pharmaceutical co-payments; low patient fees; Care Plus initiative for people with chronic illness and high use of services.	2004	-	2.331	2.469
Funding for PHOs based on population ($ to DHBs for PHOs)	2004	-	-	49.919
Care Plus initiative for high users of primary healthcare services	2004	-		0.767
Care Plus initiative for high users of primary healthcare services through PHOs – funding delayed from 2003-04 ($ to DHBs for PHOs)	2004	-	-	2.129
Funding for PHOs based on population enrolled ($ to DHBs for PHOs)	2005	-	-	88.197
Additional funding from the health funding package to increase funding to PHOs to keep track with CPI increases	2005	-	-	3.500
Total allocations	**-**	**27.860**	**122.022**	**271.509**
Funds remaining in Primary Health Care Funding Stream		**25.960**	**45.105**	**29.487**

Source: Ministry of Health (2005).

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