

then costs will increase. Decisions would have to be made about managing or absorbing costs, and efforts to improve equity, coverage, service quality, and maintain safety could be undermined.

There are options for managing down pressures and therefore seeking less funding as part of Budget 2021. These could include:

- a. Delaying or deferring activities or contracts to free up funding (not a long-term solution)
- b. Rationalising specialist services (e.g. consider the scope and function of provincial hospitals)
- c. Changing eligibility criteria (e.g. for Very Low Cost Access, aged residential care, or disability-related services) and how the funding is allocated
- d. Changing the base capitation formula (e.g. aligning it with the DHB Population Based Funding Formula, with weightings for ethnicity and deprivation, and with the age bands adjusted to recognise the higher utilisation and needs of older people)
- e. Looking at specific services that are demand driven and make explicit policy decisions that impact demand (e.g. consider excluding some services from service coverage)
- f. Reconfigure services or establish more formal regional arrangements, which support better integration of services and improved service effectiveness.

I have asked the Ministry to identify options for scaling back cost pressures as part of our Budget 2021 preparation. However, this is likely to exacerbate issues around the sustainability of the Health sector in the short term without avoiding the requirement to provide funding later. Efforts to improve equity, coverage, service quality, and maintain safety could be undermined in an environment where providers are struggling to manage fiscal constraints, creating risks for the populations they serve. Over the coming months I will be engaging with officials about these further, ahead of submitting this information to the Treasury on 29 January 2021.

These issues will also continue to be considered and addressed as part of the Health and Disability Systems Review.

At our meeting next week, I would welcome the opportunity to discuss an appropriate funding envelope from which the Health Budget 2021 decisions can be established.

Capital initiatives

The Crown has set aside \$3.115 billion across to 30 June 2025 for 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.

The Ministry has signalled an extension of the Health Capital Envelope of \$750 million per annum or \$3 billion over the four-year term.

The Ministry has identified several initiatives requesting capital or "as a service" investments, where business cases are not yet available but are in development. The Ministry has been working with Treasury in progressing these programmes.

These programmes align strongly with the Health and Disability Systems review, which recognises advances in digital technologies have huge potential to better support population and whānau-focused health and wellbeing; enabling self-management for people and family/whānau, more