

The Treasury

Treasury advice on the financial performance of Health New Zealand

Information Release

November 2024

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Health Joint Ministers' Meeting 18 June 2024

Date due to MO: 14 June 2024

Action required by: 18 June 2024

Security level:

Health Report number: H2024044170

To: Hon Nicola Willis, Minister of Finance
Hon Dr Shane Reti, Minister of Health

Consulted: Health New Zealand: Māori Health Authority:

Contact for telephone discussion

Name	Position	Telephone
Simon Medcalf	Deputy Director-General, Regulation and Monitoring Te Pou Whakamaru	[35]
Fergus Welsh	Chief Financial Officer, Corporate Services Te Pou Tiaki	[35]
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Minister's office to complete:

- Approved Decline Noted
- Needs change Seen Overtaken by events
- See Minister's Notes Withdrawn

Comment:

Health Joint Ministers' Meeting 18 June 2024

Security level: IN CONFIDENCE **Date:** 14 June 2024

To: Hon Nicola Willis, Minister of Finance
Hon Dr Shane Reti, Minister of Health

Purpose

1. This aide memoire provides an annotated agenda and supporting material to inform the Health Joint Ministers' meeting with the Board Chair, Dr Lester Levy and Crown Observer of Health New Zealand | Te Whatu Ora (Health NZ), Ken Whelan on Wednesday 18 June 2024 at 3pm.

Annotated Agenda for Discussion

Out of scope

Ministerial Expectations of Health NZ

4. *Commentary*
 - a. A new Chair and a refresh of the Board are the opportunity for Health NZ governance to be free and frank with Ministers and their monitoring agencies about the scale of its challenges and what actions may be necessary to make Health NZ both sustainable and able to meet Ministerial expectations of performance.
 - b. Health delivery responsibilities and risk are now concentrated in one organisation. Any underperformance of systems, processes, or services has significant consequences, so we must get onto things more quickly than when we had a distributed health system. The stakes have never been higher for all of us, with funding extremely tight.
 - c. Lester understands the challenges outlined above. His commitment, exemplified recently by his time as a Crown monitor at Canterbury District Health Board, is to ensure clear alignment of expectations between the Minister, the Ministry of Health | Manatū

Hauora (the Ministry), and Health NZ, with each party understanding what role it must play.

- d. However, and noting the time it is still taking to lift the performance of the Canterbury district, the importance of workforce alignment with the vision and direction of the Minister, Chair and Board cannot be understated.
- e. There are high expectations of the new Chair and the Minister of Health has committed to supporting him as he seeks to deliver on his expectations.
- f. Achieving a breakeven financial result in 2024/25 is very unlikely and a free and frank discussion around what is feasible and to what timeframe is necessary. This is scheduled between Lester and the Minister of Health for the day after Joint Ministers (see Appendix B). A Treasury official will attend and will update the Minister of Finance's office on the outcome.

5. [33]

6. *Questions for you to ask the Chair*

- a. What is your approach to investing and commissioning when times are tough, especially in the areas of Health Targets, primary care, aged care, and specialist services, to achieve longer term success?
- b. What do you need from Ministers and their agencies now?
- c. What significant differences will you expect to see in Health NZ's performance in 3 years' time?
- d. How can this joint Ministers forum be used to best support you in your role as Chair?

The Chair's early reflections and intentions

7. *Commentary*

- a. The Chair has met with the Minister and Director-General of Health to share and discuss his priorities.
- b. Initial feedback includes a closer shared relationship with central agencies, the need for a better understanding of core cost pressure drivers, and a drive for productivity.
- c. The Chair has also supported more ambitious health target milestones.
- d. The Ministry and the Treasury understands the incoming Chair intends to implement a series of 60- or 90-day plans across the business, and to shift away from the highly centralised model to a regional structure with four regional HR and Finance teams reporting to a single regional leader responsible for overseeing a budget (both costs and revenue).

8. *Questions for you to ask the Chair*

- a. What have you already identified to lift performance and live within budget?
- b. What prioritisation and accountability changes will be needed to deliver on Health Targets?
- c. What key messages do you have for Health NZ staff now?

- d. What needs to improve so that all parties:
 - i. share relevant information with one another openly and early, and
 - ii. establish an early consensus on planning and budgeting assumptions?

Observations from the Crown Observer

9. This is an opportunity for Ken to feedback on his observations and thoughts as Crown Observer and answer any questions.

Minister's comments and general discussion

10. Health NZ is facing a period of significant financial constraint while delivering more ambitious target milestones, managing winter pressures, overseeing ongoing workforce challenges, and improving commissioning in the funded sector.
11. High quality service planning coupled with delegated accountability for delivery of agreed plans is critical.
12. A no surprises approach is critical for all of us.

Next steps

13. We suggest holding these meetings monthly and, subject to your agreement, will work with your offices to confirm the timing of the next meeting.
14. We invite the Minister of Finance to indicate to officials if there is anything she wants visibility of in the interim.

Simon Medcalf

**Deputy Director-General of Health
Regulation and Monitoring | Te Pou
Whakamaru**

Date: 14/06/2024

Jess Hewat

**Manager, Health
The Treasury | Te Tai Ōhanga**

Date: 13/06/2024

Appendix A: The latest news on Health NZ's financial position

2023/24 position

1. At time of writing, Health NZ has not yet compiled full financial data for May 2024. Trend figures from about 60% of payroll systems have indicated that weekly nursing payroll costs have been rising rapidly since the beginning of the calendar year, and expenditure peaked in April at \$80-100m over for the month.
2. If actions taken to control spending are starting to have an effect, then expenditure should continue to reduce across May and June. Health NZ currently estimates it may be able to reduce costs by \$90-100m by the end of June, through restraints on recruitment, active management of staff leave and overtime, and delaying or cancelling discretionary projects.
3. [25]
4. Based on April data, Health NZ expected to deliver a year-end surplus of about \$220-330m against a target of \$583m, representing a functional overspend in the hundreds of millions. We anticipate Health NZ will now be expecting to achieve the higher end of this range but we have not yet had confirmation of that. However, this is predicated on the receipt of funding for pay equity in the current year. If the funding is not provided until the 2024/25 financial year, the actual result for Health NZ is likely to dip into deficit for the current financial year.
5. Whilst it is not yet available, there should be an update presented at the meeting of the 31 May financial results from Health NZ, which will help to understand the impact that the recent cost control initiatives are having.

Outlook for 2024/25

6. If the current trends and trajectory were to continue unabated, Health NZ indicates that it will need to use all, or nearly all, of the cost pressure uplift it received at Budget 2024 (which was intended to pay for inflation costs and price and volume uplifts throughout the year) to meet the cost of existing staff.
7. This means that, unless it can significantly restructure its cost base, Health NZ will only be able to meet cost increases (including price uplifts to primary care contracts, and wage increases in employment agreements) via running down its balance sheet due to running an operating deficit (which would buy it at most about another 12 months without causing cash flow problems) or receiving additional funding from the centre. The latter will be exceptionally challenging in the current fiscal environment.

Appendix B: Email to Dr Lester Levy on reporting approach

Note: This is principally for the information of the Minister of Finance, as the Minister of Health receives fortnightly reporting from Health NZ on these matters.

Kia ora Lester,

Following our discussion last week, I wanted to set out the information that we think would be most useful for the next meeting with Minister Reti on HNZ finances (scheduled for next Wednesday morning, 19 June).

I recommend that HNZ prepare materials covering the matters below, and that you share these (including with the Ministry and Treasury) by the end of this week to enable time for rapid discussion early next week, if necessary, in advance of the meeting.

Of course, there may be other aspects to raise beyond those below. I am keen to try to keep these meetings as focused as possible on the critical issues. I welcome your thoughts on any additional points.

1. May 2024 results

- Summary of actuals for May and any revisions to the year-end forecast as a consequence – using the same reporting approach as previous months, and showing the effect of removing distorting factors such as pay equity.
- Any update on the effectiveness of the existing cost control measures, drawing on this information.
- On the assumption that these results are unlikely to change the broad trajectory of financial performance, I recommend this is a brief check-in for context and we do not focus here unduly.

2. Pathway to financial sustainability

- This should set out options/scenarios for achieving financial sustainability within the coming three-year period. I think the options could simply be to achieve break-even in (i) 12 months, (ii) 18 months, and (iii) 24 months.
- For each option, a simple model should indicate the implications of delivering break-even within these timeframes. This should highlight the critical cost variables – personnel numbers; wage growth; funded sector price uplifts – and what assumptions would need to be made to deliver a balanced budget.
- For the options that require more than 12 months to deliver (i.e. which will push beyond 2024/25), this should also indicate the likely financial position in the intervening years (i.e. the potential short-term operating deficit), and impact on HNZ cash reserves.
- The starting point for these options should be based on current run rate (i.e. based on the forecast year-end position for 23/24 and the average rate of spending over Q4 23/24, annualised) and not on the original 23/24 budget. In each case, the options

would need to track the required improvement between that starting point and delivering within the 24/25 appropriations.

- Within each of these options, activity assumptions should be clear that target milestones will be delivered, and indicate in broad terms the trade-offs required to do so.
- This should support a discussion on the relative risks of different approaches, and what is feasible and achievable.

3. Controls and reforms to deliver

- This should build on the current materials to indicate the core steps required to support sustainability. It should identify the matters within the control of HNZ, any issues within the wider control of Government (i.e. where there may be a role for the Ministry and Ministers), and other factors outside of our collective control.
- This would likely include (as matters for HNZ) structural options, digital/data systems, and cost control mechanisms. It should set out a timeline for actions and requirement for investment.
- Related to the above, this should include a focus on nursing costs as the core driver of current \$700m overspending, to support a discussion on a realistic pathway to addressing the issues. A counter-factual would be helpful here to consider the need for wider interventions. For example, if nursing recruitment is constrained to only allow for clinically-critical posts and new graduates, and if turnover returns to historic levels, how long would it take for the \$700m overspend to be balanced out? [38]

Minister's Notes