

The Treasury

Treasury advice on the financial performance of Health New Zealand

Information Release

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CABINET ORAL ITEM BRIEFING TEMPLATE 2024

Oral item: Financial position of Health New Zealand (HNZ)

Hon Shane Reti, Minister of Health

Treasury contact: Amy Russell

Sign out contact: Jess Hewat [35]

Description:

We understand Minister Reti intends to give Cabinet an oral update on HNZ's financial position; and what he has done, and is doing, in response. A Cabinet paper will follow in early July.

Context:

As you know, HNZ is operating in a deficit position in 2023/24, largely due to having substantially overspent its Hospital and Specialist System (HSS) budget for nursing FTE while also failing to make expected savings in other areas. The situation has been enabled or worsened by deficient internal controls, siloed management, and ineffective governance [34]. On its current trajectory, HNZ would deliver a deficit of about \$1.4 billion in 2024/25, using its Budget 2024 cost pressure uplift to pay existing staff, rather than (as intended) to make price and volume increases across the system to meet the inflation and wage pressures.

When you met with the new Chair (Lester Levy) on 18 June 2024 he outlined his ambition to take fast action to return HNZ to surplus over the next 12 months. While planning is in its early stages, Lester noted his intention to seek \$2 billion of savings from HNZ's baselines, with an expectation that about \$1.4 billion of these will eventuate – **with no negative impact on frontline services, including no redundancies of insourced clinical staff**. In fact, service delivery will need to increase; a paper from Minister Reti due to be considered by the Social Outcomes Committee on 26 June notes that achieving the health system targets agreed by Cabinet in March "will require significant improvements in productivity and redistribution of current investment in health services."

Our view:

[34]

While a 'bullish' approach is warranted and welcomed, it will be a huge undertaking to take \$1.4 billion out of the system within a 12 month period. Delivery of this will rely on an organisation that was unable to find \$540 million in planned savings this financial year. Informal material we have seen on early thinking of the plan notes the focus on removing cost from back-office services and outsourcing. [34]

We share Lester's view that both the quantum and the timeline are the right things to aim for, though, on the principle that if you aim for \$2 billion of savings in 12 months, you might achieve \$1.4 billion in 18 months, which would be a good outcome. And if it turns out that the full quantum or shorter timeline prove achievable, that is an even better outcome.

Treasury Recommendation:

Given a lot of uncertainty about what changes would be needed to achieve the desired cost savings at HNZ, we think Ministers should make sure they've seen a detailed, credible plan before pledging their unqualified support. We suggest Ministers wait for the aforementioned Cabinet paper before trying to assess their comfort with the proposed changes.

[34]

Fiscal Implications:

For 2023/24: HNZ forecasted for BEFU a \$507m surplus position for 2023/24. The latest information instead points towards a breakeven or even deficit result. The difference between BEFU and the final year end position for 2023/24 will impact OBEGAL. Finalising year-end can be a long process due to confirming decisions with auditors, so we wouldn't expect this until around August 2024.

For 2024/25 and beyond: Absent additional funding, HNZ will have to draw on its balance sheet to meet any costs it cannot fund from baseline savings and reprioritisation. While manageable in the short term thanks to a strong balance sheet, this approach would, in time, impact the quality of HNZ's asset maintenance programme and its resilience to financial shocks. Experience with District Health Boards tells us this is not a long-term solution, with cash injections eventually being required. Our hope and belief is however that Lester, supported by a new Board, will be able to return HNZ to a breakeven operating position before it exhausts its balance sheet