

The Treasury

Treasury advice on the financial performance of Health New Zealand

Information Release

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Improving the financial performance of Health NZ

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Description:

This paper updates Cabinet on the steps the Minister of Health is taking to address financial problems at Health NZ (HNZ). It seeks agreement to the proposal to dissolve the Board and appoint the current Chair as a Commissioner. The paper also informs Cabinet that some noise from the sector is likely as necessary but difficult changes are made at HNZ to return it to a financially sustainable operating position.

Comments:

The Minister of Health gave an oral update at Cabinet on 1 July 2024 regarding financial problems at HNZ, and noted the appointment of the new chair, Dr Lester Levy, as a key mitigation strategy.

Financial situation and proposed response:

Dr Levy's proposed response to HNZ's financial situation centres on a proposal to take \$1.4 billion of cost out of HNZ to return it to a breakeven operating position. While further work is required to get underneath the numbers, we understand from our conversations with Dr Levy that this will happen over two years, with \$900m of reductions planned for 2024/25 and a further \$500m for 2025/26.

If successful, this will mean that HNZ will post a deficit of \$500m in 2024/25 (which will be cleared over future years) but would reduce (though not to zero) the risk of HNZ requiring additional funding from the centre to pay its bills.^[34]

Details of the change plan are still vague as Dr Levy and his team are getting to grips with the nature of the cost overruns in face of sometimes confusing or patchy financial information. The change plan is also likely to be iterated over time, rather than set now for the full year ahead, as the situation is dynamic and each month will reveal new risks and opportunities.

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Dr Levy has committed to achieving annual milestones for the five Health Targets agreed by Cabinet in March 2024 within the available funding. He intends his proposed cost control measures to have the dual effect of taking cost out and increasing output, thus significantly lifting system productivity – as is necessary to keep the health system affordable over the medium to long term.

These are the right goals but achieving them will be extremely hard. HNZ and its predecessor agencies have a poor track record of delivering expected savings. The entity's internal controls are weak, morale is low, clinicians' expectations of autonomy are high, and the relationship between national office and the frontline is generally bad. While we agree with Dr Levy that strong leadership, genuine thoughtful engagement and visible positive change can turn the situation around, we would not want Ministers to underestimate the size of the challenge, or the amount of difficulty and resistance likely to manifest over the next six months.

Proposal to dissolve Board and appoint Dr Levy as Commissioner:

In this paper the Minister of Health also seeks Cabinet's agreement to his proposal (subject to due process) to dissolve the Health NZ Board and appoint Dr Levy as Commissioner. This will signal to the public the serious nature of the problems at HNZ and give Dr Levy a strong public mandate to make significant changes to the entity. It will also, however, place an exceptional burden on one individual.

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Pay equity:

The financial position of HNZ in 2022/23 and 2023/24 has been muddied by delays between HNZ making pay equity payments to staff (in line with its legal obligations) and the Crown providing the associated revenue to HNZ. [34]

While some accounting unders and overs are inevitable in any year, the magnitude of the pay equity payments (in the hundreds of millions) means that we are keen to make sure this is not an ongoing issue.

About \$420m of HNZ's forecast deficit in 2023/24 will be attributable to pay equity payments HNZ has made for which it has not yet received revenue from the Crown. We think we have found a solution whereby the funding that HNZ does in due course received can be provided in such a way that it does not generate an on-paper operating surplus in 2024/25 (such as has caused confusion in the current year). The Ministry and HNZ are working on the details and we hope will provide a drawdown paper for the Minister of Health to take to Cabinet shortly.

Out of scope

Treasury recommendations:

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Fiscal Implications:

This paper has no direct fiscal implications. It notes that if HNZ is not successful in achieving its savings targets then the Minister of Health may need to seek Cabinet approval to make an equity injection at Budget 2025 to ensure the entity remains solvent.