

The Treasury

Treasury advice on the financial performance of Health New Zealand

Information Release

November 2024

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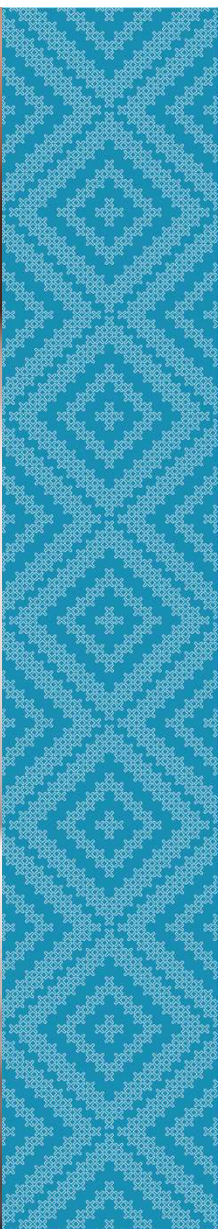
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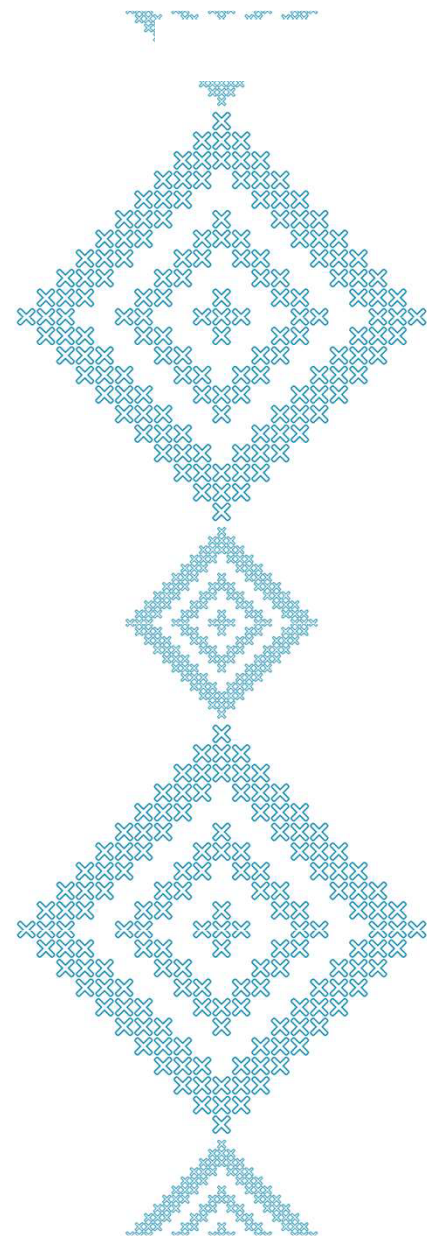
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Introductory briefing for Ministers of Finance and Health on Vote Health

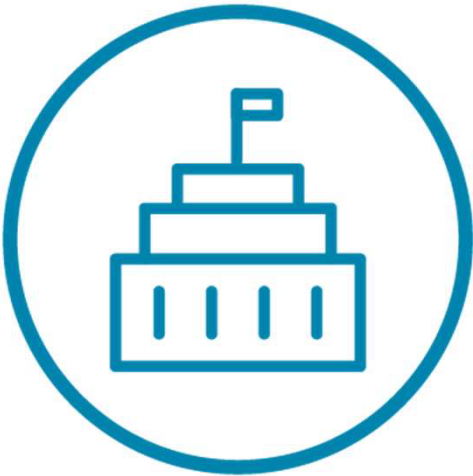
January 2024



Out of scope



Out of scope



Health system performance and reform



Out of scope



Out of scope

Where are we at on health reform?

A snapshot

Financial sustainability and performance

- A significant reform benefit has been the rebase of previous DHB deficits and the creation of a single health finance system.
 - Previous variation in DHB financial performance, including growing deficits, was unsustainable.
 - Te Whatu Ora achieved a breakeven position for 2022/23 (barring technical accounting adjustments).
- Te Whatu Ora has provided much better information on the health budget allocation.
- The consolidation of costs and systems offers opportunities for efficiencies. An efficiency factor has been built into the B24 planning parameters to reflect this.
 - Initiatives were funded via reprioritisation in 2022/23. \$75m was saved by consolidating insurance policies, IT systems and other costs.
- Te Whatu Ora has completed baseline reviews that provide greater depth than originally expected.

Outstanding issues:

- Te Whatu Ora needs to manage its 2023/24 budget, including transparently presenting risk and reprioritisation (see slide 13).
- Decisions are still to be taken on allocative funding mechanisms and output classes.

Planning and accountability documents

- A goal of reform was to provide clearer, more aligned and sophisticated planning across the system.
- The New Zealand Health Strategy and other Pae Ora strategies were published in mid-2023.

Outstanding issues:

- Development of the Government Policy Statement has been slower than expected.
- Work on the New Zealand Health Plan appears broadly on track but is unlikely to fully meet expectations set by Ministers.

Workforce and Infrastructure

- Improvements in workforce and infrastructure are critical to demonstrating reform progress and value to the health sector and public. They are also crucial to futureproofing the system.
- A Workforce Strategic Framework (Manatū Hauora) and Workforce Plan (Te Whatu Ora) have been published, [34]

[33]

- An Infrastructure Investment Plan is in development by Te Whatu Ora, linked to a clinical services plan.

Outstanding issues:

- Despite important pay equity/parity developments in 2022/23, reform progress in the workforce and infrastructure has been slow (see slides 18-23).
- To date, receiving clear communication on infrastructure investment planning details and options has been challenging.

Rebalance system to primary care

- We supported investing further in primary care to reduce flow on costs in Hospital and Specialist Services in the longer term. Localities were intended to provide integration across providers and local input to service commissioning.

Outstanding issues:

- The primary care policy is still high level and implementation has been slow with only 12 prototype localities in place (out of a projected ~60).
- Officials have not begun work on a new primary care funding model.

Reporting

- Consolidating the DHBs into a single entity should create more transparent and consolidated reporting.
- Te Whatu Ora has published its first annual report.

Outstanding issues:

- Te Whatu Ora is facing data collation challenges.
- Current reporting does not yet align financial and non-financial information or provide sufficient depth to meaningfully show system performance, delivery and risk.
- Reform reporting and assurance processes are still being developed.

Where are we at on health reform?

Key challenges

The health system has many long-standing challenges, particularly in increasing workforce, infrastructure and funding to keep up with the growing demand for services. We broadly supported both the diagnoses and the prescription within the reports from the Health and Disability System Review panel. We think the reformed system has the potential to deliver significant benefits for New Zealand compared to the previous system.

However, a reform of this scale and complexity was always going to take time to address the challenges it inherited (the scale of some of which has only become apparent since amalgamation of DHBs and associated better visibility of the system as a whole). In some areas, more time and investment is needed to realise benefits, accompanied by clearer communications to Ministers, the workforce and the public. In other areas we recommend specific interventions to get things back on track.

Aspects of implementation have been delayed and timeframes for key products have slipped:

- Te Whatu Ora has yet to determine its operating model. This has led to confusion about roles and responsibilities. It has also taken longer than expected to build its capacity and capability, and still has some way to go here (in part because it inherited a messier situation from DHBs than was expected). Decisions are still to be made on new operational reform roles, particularly at the regional level, such as the Regional Integration Teams.
- Having said that, improvements have been made in some areas, e.g. in the financial information available to Te Whatu Ora decision-makers.
- After a slow start, Manatū Hauora and Te Whatu Ora are making progress on key documents required for Budget 2024. Maintaining this momentum during the next few months and keeping attention on medium-term planning (alongside short-term activity to deliver your immediate priorities) will be critical to realising the gains available over the next two to three years.

Governance is not as tidy or strong as it could be:

- We find it difficult to assess the performance of the Te Whatu Ora Board. Direct engagements are rare and usually attended by management. The Board appears to be heavily focused on operational detail, leading to challenges in the distinction between its role and that of management (and creating delays to work due to the need for Board consultation and sign-out). Lines have sometimes been blurred between Ministerial, Board and managerial decision-making, e.g. about capital projects.
- We cannot see evidence that the Board is communicating a clear strategic direction to Te Whatu Ora, asking probing questions of the management team, setting clear performance expectations or identifying and managing key risks. This has been especially notable in relation to organisational productivity, [34]

Communication of reform progress has been poor:

- The reform journey has been poorly communicated to Te Whatu Ora staff and the wider health sector. This has fuelled a concern that reform has created a lot of central bureaucracy without delivering the intended benefits. The frontline is impatient to see the delivery of reform objectives, and further changes that do not visibly deliver these could impair morale and engagement.
- Manatū Hauora's [Roadmap](#) should, supported by appropriate comms, help to explain to the sector how the changes made so far will, supported by those to come, collectively shift the system over the coming months and years. Some benefits will take a long time to materialise, which is fine provided the logic is clear and implementation is on track.

What is needed?

We recommended that the Ministers of Finance and Health:

- Add more financial expertise to Te Whatu Ora's Board and direct them to share Board papers with Manatū Hauora
- Focus joint monthly meetings at a governance level
- Set concrete, measurable performance expectations, including via the GPS and Letters of Expectations

You can access advice on reform from many sources

- Alongside this Treasury advice, you have received briefings from the health entities, the Policy Advisory Group in DPMC, the Public Service Commission, the Ministerial Advisory Committee and the Hauora Māori Advisory Committee, as well as Ken Whelan's first quarterly report in due course. Each will provide its own perspective on reform. You could also request Manatū Hauora's *System Reform Quarter One Progress Report*, which provides the system's own "bottom-up" assessment of its current state.

We recommend changes to the Te Whatu Ora Board, and can advise on other intervention levers if desired

- You have several intervention levers available to you regarding the composition, direction and monitoring of Te Whatu Ora's Board. To improve system governance, we think you should:
 - put more financial expertise on the Board
 - direct the Board to provide Manatū Hauora with all Board papers
 - consider directing Manatū Hauora attendance at Board meetings for the first 6-12 months (subject to feedback from Ken Whelan on the desirability of this).
- We encourage you to meet with the Board, ask questions of reform progress, and make your broader expectations for them and the system clear. We can provide you with any supporting advice from a financial and/or monitoring lens ahead of such a meeting.

Joint Ministerial meetings should focus on governing fiscal performance

- The Minister of Finance and Minister of Health previously met monthly with health entity Board and management representatives and Treasury and Manatū Hauora monitoring officials. We recommend these meetings continue but be refocused at governance level (with monitoring officials and Board members only attending, and possibly the external Te Whatu Ora Finance & Audit Committee independent chair if desired). They could usefully concentrate on issues of fiscal performance and risk (including system productivity / sustainability) where both Ministers have a strong interest.

You have many ways to set performance expectations, including via the GPS and Letters of Expectations

- You have received advice from Manatū Hauora on GPS priorities and packages. The GPS is a helpful opportunity to set your priorities and direct any desired system shifts. We can also provide your office with draft material to include in Letters of Expectation on important or contentious areas in Vote Health, such as capital (see slides 18-20). Performance expectations are more powerful when they are concrete and measurable.

Out of scope



Out of scope



Out of scope

2023/24 Te Whatu Ora operating Budget

Considerable financial risk remains within Te Whatu Ora's 2023/24 budget. We'd like to see more transparent reporting and greater realism on savings and reprioritisation.

Context

- At Budget 2022 cost pressure funding for Te Whatu Ora for 2022/23 and 2023/24 was placed in contingency, to be drawn down once Te Whatu Ora had provided sufficient information about its financial and delivery planning for the year in question. Ministers approved the 2023/24 cost pressure drawdown in September 2023.
- While it was inevitable that Te Whatu Ora would need the cost pressure funding held in contingency, the drawdown process gave monitors access to a lot of information we may otherwise have struggled to get. However, due to a lack of quality reporting monitors are struggling to reconcile performance against the commitments set out in the drawdown information.

Out of scope of request

Savings

- The 2023/24 Te Whatu Ora budget built in an ambitious level of savings (\$541m or 2% of baseline) that we think will not be fully realised. We are worried about the lack of implementation plans to support realisation of savings and reporting on progress to date. What information we do have is not encouraging; at 30 November 2023, Te Whatu Ora had realised \$129.77m of its phased year-to-date target of \$203.98m of savings but was still forecasting to achieve the full \$541m by year-end through finding unspecified new savings.
- The Te Whatu Ora Board has not yet reallocated \$150m of its forecast savings for 2023/24. We do not think the savings will materialise; if they do, any decision about their reinvestment should be made in conversation with Ministers.
- If savings were to fall well below what was budgeted, it is likely that Te Whatu Ora would run a structural financial deficit (excluding a surplus they should show as a result of audit adjustments for 2022/23), though we note they continue to project a break-even position for 23/24 (again, excluding the audit adjustments).

Reporting

- Reporting from Te Whatu Ora is better than we received from DHBs. However, we (and, as far as we can see, the Te Whatu Ora Board) are still not receiving clear, accurate monthly reporting on delivery volumes, savings and expenditure against forecasts (bringing the volume and expenditure information together to demonstrate any productivity or sustainability problems) with commentary on variances, risks and mitigations. Without this, it is very difficult to assess agency performance (financial or delivery) and identify areas of concern.
- Te Whatu Ora has committed to providing regular reporting on productivity from December 2023. We expect first sight of this data any day now.

Rest of slidepack out of scope