

## In Confidence

Office of the Minister of Health

Chair, Cabinet Government Administration and Expenditure Review Committee

## Health Sector Agreements and Payments Transformation Update

### Proposal

- 1 This paper responds to your invitation to provide an initial update regarding the Ministry of Health's progress with transforming Health Sector Agreements and Payments [CAB-21-MIN-0088 refers] and seeks your agreement to note the Ministry's progress so far, and its plans for delivery of the first tranche of the programme.

### Relation to government priorities

- 2 The Health Sector Agreements and Payments programme helps enable the Government response to the Health and Disability System Review (HDSR) which is a key priority for this Government [Speech from the Throne, 26 November 2020 refers]. The programme will also improve the health sector's ability to address the Government's equity agenda.

### Executive Summary

- 3 The Ministry of Health operates systems which enable the management of agreements and distribution of payments to funders and providers of health and disability community-based care. The Health Sector Agreements and Payments programme will modernise these systems and their associated business processes, to enable health sector reforms and improvements in equity, as well as mitigating the risk of system failure. The programme will also improve the data and information available to policy processes and operational decision making.
- 4 Since funding drawdown for Tranche 1 was approved in August 2021, the Health Sector Agreements and Payments programme has made significant progress:
  - 4.1 Enhanced governance arrangements have been established, with the engagement of four external governance group members.
  - 4.2 A delivery sequence and phases have been agreed. The programme has designed an iterative approach (supported by an independent Gateway assurance review) which will enable it to start delivering value and benefits early.
  - 4.3 The programme has engaged a programme delivery team with leadership and subject matter expertise from other transformational payments programmes in the public sector.

- 4.4 Design work is underway for three service types.
- 5 The programme is on track to complete Tranche 1 by December 2022, which will see the new systems processing agreements and payments for at least four of the approximately seventy services currently supported by the legacy systems. This will give service commissioners and providers a clearer view of the new systems' potential to support both future innovation and health sector reform flexibility. Additionally, moving the remaining services into the new systems will be accelerated by being able to re-use the broad set of patterns developed in Tranche 1.
- 6 Due to the significant contribution this programme will make to enabling the health and disability system reforms and advancing the government's equity agenda, I recommend that the Committee directs the Ministry of Health to provide six-monthly progress reports to joint Ministers (Minister of Finance and Minister of Health) from June 2022.

## Background

- 7 On 25 March 2021 the Cabinet Government Administration and Expenditure Review (GOV) committee endorsed the business case to invest in transforming the Health Sector Agreements and Payments systems and invited me to report back to the committee on progress by September 2021, and on updated governance arrangements including external support [GOV-21-MIN-0006 and CAB-21-MIN-0088 refer].
- 8 A subsequent Ministry of Health briefing to the Minister of Finance and myself ('Joint Ministers') in July 2021 [Health Report 20211216 refers] included a Treasury recommendation for the progress report to include updates on:
- 8.1 procurement planning;
  - 8.2 change management;
  - 8.3 health sector engagement, including how the Ministry is working with the Transition Unit to ensure alignment between Health Sector Agreements and Payments and health system reforms, and to mitigate associated risk;
  - 8.4 financial and non-financial implications of system change for service providers and funders.
- 9 Joint Ministers agreed with the Treasury's recommended topics for the progress report and that in view of the breadth of information required, the report should be rescheduled to November 2021. Subsequently, due to pressures on Cabinet committee agendas, the report was again deferred to early 2022, and the Ministry instead provided an interim briefing to Joint Ministers.
- 10 On 2 August 2021, Joint Ministers endorsed the Detailed Business Case for the Health Sector Agreements and Payments programme and authorised the

drawdown of \$67.42 million (including project contingency) for Tranche 1 funding from the tagged contingency set aside in Budget 2021.

- 11 The Health Sector Agreements and Payments systems enable the management of agreements and distribution of over \$9 billion per annum in payments to funders and providers of health and disability community-based care.
- 12 By transforming these systems, the Health Sector Agreements and Payments programme will support the implementation of the Government's response to the Health and Disability System Review, address equity issues, improve the availability of agreements and payments data to health system users (including policy and decision-makers), and mitigate the growing risk of failure of the current legacy systems.

### **The programme has already made significant progress**

- 13 Although funding drawdown for Tranche 1 was only recently approved (August 2021), the programme has already made significant progress. Enhanced governance arrangements have been established, and a delivery sequence and phases have been agreed. The programme's iterative approach will enable it to deliver early, and to refine its approach to subsequent phases based on what is learned from initial delivery. An independent Gateway assurance review in May 2021 supported the programme's approach and assessed successful delivery as 'probable'.
- 14 The programme has:
  - 14.1 Established an Agile operating framework, to enable the lower risk, iterative approach to development proposed in the business case.
  - 14.2 Engaged around 90 staff, including people with leadership and subject matter expertise from other recent transformational payments programmes such as those at Inland Revenue and ACC.
  - 14.3 Established enhanced governance arrangements, including four members external to the Ministry to give the governance group a stronger sector-facing perspective.
  - 14.4 Established regular engagement with the Health and Disability Transition Unit ('the Transition Unit') to ensure design work is aligned with health sector reform planning.
  - 14.5 Commenced 'future state'<sup>1</sup> design work on three agreements and payments services (Combined Dental, National Travel Assistance, and Bulk Funded Agreements) and is engaging with commissioners and providers on the first of these.

<sup>1</sup> 'Future state' is how new business processes and technology will deliver agreements and payments in the future, and how health service users, providers and funders will experience it.

- 14.6 Drafted an engagement approach for the sector (including providers, peak bodies and Māori and disabled health service user representatives) which is currently going through a consultation process.
- 14.7 Undertaken procurement processes to identify potential partners with expertise to ensure that technology components work together as a coherent whole, and that technology aligns with business strategy and goals.
- 14.8 Undertaken a procurement process to shortlist potential providers of Agreements Lifecycle Management capability, with these vendors to be progressed to a Request for Proposal early in 2022.
- 15 Tranche 1 will see the new processing systems able to handle agreements and payments for at least four services. Tranche 1's focus is on establishing and proving a platform which can then be used for the remainder of the approximately seventy Health and Disability services currently supported by the legacy system.
- 16 Tranche 1 will demonstrate to service commissioners and providers the potential for the new systems to support both future innovation and health sector reform flexibility. Further, the new services will provide a set of broad patterns that will accelerate the process of moving the remainder of the services into the new systems over the following 18-month period (Tranche 2). At this early point in the delivery phase, the programme is on track to complete Tranche 1 by December 2022 as scheduled.

### **The programme is managing procurement processes to achieve timely outcomes**

- 17 The programme will develop the new systems by integrating software components (a 'modular' design), rather than buying a single monolithic system that does everything. This approach, together with prototyping, will enable the programme to achieve its planned outcomes in a timely manner and to avoid situations where the programme is delayed by procurement processes.

### **The programme is working with the health sector and keeping aligned with reforms**

- 18 The programme has a wide range of stakeholders across the health and disability sector which it plans to engage with, and to keep informed on outcomes and progress.
- 19 The programme has a governance board with key stakeholders as members, including a senior member of the Transition Unit.
- 20 In addition to the governance board, four associated stakeholder advisory groups are being set up to provide leadership and advice to the programme.

- 21 The programme will also link into existing Ministry and sector decision making and advisory groups.
- 22 The programme engages with funding and commissioning groups to be aware of their strategic plans when designing the future state. The programme is also planning direct engagement of users in design, development and testing, which will help to ensure a high-quality solution.
- 23 I am committed to fulfilling the special relationship between Māori and the Crown under Te Tiriti o Waitangi. The programme plans to meet the Crown's Te Tiriti partnership obligations by ensuring Māori representation and involvement in governance, advisory and design groups within the programme. The programme is working with the Ministry's Digital Equity lead and Māori Health directorate to inform this planning.
- 24 The new systems will be agnostic of health structure changes – they are being designed to work independently of sector and organisational form.
- 25 The timing of Tranche 1 aligns with the reforms – the current systems will continue to work when Health New Zealand and the Māori Health Authority are formally established on 1 July 2022. It doesn't matter that Tranche 1 finishes six months after the new organisations are stood up. In fact it's beneficial because as organisational roles, responsibilities and functions become clarified, the programme will have time to target its change management planning and activities to the appropriate groups.
- 26 The transformed systems will support the health sector reforms by:
  - 26.1 providing the flexibility to reduce or remove inequity by changing the way health service agreements and payment processes are structured
  - 26.2 paying claims faster, leading to more equitable outcomes for recipients
  - 26.3 improve the experience of those entitled to free or subsidised community health services
- 27 In particular, the Māori Health Authority will need greater flexibility than the legacy system can provide, to design service agreements and payments that remove barriers for Māori health providers and service recipients.
- 28 It's important to note that while the new systems will create the potential for such benefits, some of them will depend on a willingness by service commissioners to make operational policy changes.

### **The programme is planning for and managing change**

- 29 The programme will develop change management plans, including change impact assessments, communications, training, business readiness and change implementation.
- 30 The change management plans will be developed within a common framework but tailored to the needs of stakeholders for specific changes. This

tailoring will involve the Ministry groups, funders, commissioners and providers who are most affected by the changes. There are also smaller opportunities for the programme to make direct improvements to access and support for health service users.

- 31 A current example of tailored change management is the design work for the Combined Dental Agreement. The programme has tailored its communications and engagement plan to work with the specific stakeholders with the most influence on future change, those most affected by it, and those with key roles in enabling it. The programme has therefore included the Oral Health Group (industry advisory group), a representative working group of dentists, and providers of Practice Management systems for the dental industry, in the work to define the Combined Dental Agreement future state.
- 32 Although recently announced changes to the disability sector are likely to affect transaction volumes, the programme does not expect them to significantly alter the programme scope, as future state design has already taken those potential changes into account. Therefore, I do not anticipate significant changes to costs or timeframes. The programme will complete a formal change impact assessment to confirm this.

### **There are unlikely to be significant cost implications for the health sector**

- 33 The Ministry has advised me that it does not anticipate significant change management costs – financial or otherwise – for providers or other sector stakeholders who will use the new systems. This is because much of the change will happen behind the scenes, for example in the technology that will support the new systems.
- 34 Advice from DHB Funding and Planning Managers confirms the Ministry's view that there are unlikely to be significant cost implications for the health and disability sector. However, this assumption will be tested at appropriate points through the transition. In addition, the programme budget includes a modest allowance (\$5 million) to cover any potential implementation costs across the sector.
- 35 The Ministry will provide me with further detail on financial and non-financial implications for funders and providers, and advice on managing any associated equity issues, in the proposed June 2022 update to Joint Ministers.

### **Key risks and issues**

- 36 The key risks and issues highlighted in the detailed business case remain under active management. These include risks relating to identifying a fit-for-purpose solution; capability and capacity; stakeholder engagement; data and information usage; transition planning and partnership.
- 37 One new key issue has emerged:

Issue	Mitigation
With an extensive Ministry work programme, including the COVID response and health and disability reforms, competing priorities need to be managed to prevent delays to the programme, for example, provision of technical environments for system development and testing.	The Ministry will mitigate this by early signalling of programme requirements, and extensive use of cloud computing facilities to provide flexibility.

## Next steps

38 The next steps are to:

- 38.1 Continue to analyse how community health agreements and payments work currently, highlighting where existing policy positions need to be changed in order to support the desired health service user experience.<sup>2</sup>
- 38.2 Use procurement processes to determine the most appropriate modern solution for creating, capturing and managing agreements and contracts – to be completed by March 2022.
- 38.3 Design of the future state for 'bulk-funded agreements and payments', 'subsidies', and 'population-based funding' – to commence by March 2022.
- 38.4 Continue design and build of the future state for 'national contracts with invoice payments'. Identify and quantify the expected benefits of implementing the future state by June 2022.

39 Due to the significant contribution this programme will make to enabling the health and disability system reforms and advancing the government's equity agenda, I propose ministerial oversight be maintained by way of regular progress reports to Joint Ministers from June 2022.

## Financial implications

40 This paper has no additional financial implications. The programme's financial implications were disclosed to Cabinet when it endorsed the programme business case [GOV-21-MIN-0006 and CAB-21-MIN-0088 refer].

## Legislative Implications

41 The proposals in this paper do not require any changes to legislation.

<sup>2</sup> An example is National Travel Assistance, where the existing policy is that recipients must initially cover costs themselves and claim them back subsequently. Some can't afford to cover the cost, and therefore forgo the associated health service that they were entitled to.

## Impact Analysis

- 42 The proposals in this paper do not require a Regulatory Impact Statement.

## Population Implications

- 43 The transformation of the Health Sector Agreements and Payments systems will future proof the Ministry's ability to contribute to improved health outcomes by enabling more effective, efficient and adaptive evidence-based funding of health services in New Zealand. The programme will have a specific focus on engaging with Māori and Pasifika stakeholders to apply an equity lens to both technology and process solutions.

## Human rights

- 44 The proposals in this paper have no human rights implications.

## Consultation

- 45 The Treasury, Department of Internal Affairs, Department of the Prime Minister and Cabinet, Ministry of Business, Innovation and Employment, and Statistics New Zealand, were consulted on this paper.

## Communications

- 46 No communications are planned for this progress report, other than proactive release of this Cabinet paper as noted below.

## Proactive Release

- 47 I propose to proactively release this Cabinet paper, and associated minutes, in whole or in part if appropriate under the OIA, within 30 working days of Cabinet making final decisions.

## Recommendations

I recommend that the Committee:

- 1 note this paper responds to your invitation to report back on progress with transforming Health Sector Agreements and Payments [CAB-21-MIN-0088 refers]
- 2 note that the Health Sector Agreements and Payments programme is established, enhanced governance arrangements are in place, a delivery sequence and phases have been agreed, a highly experienced programme team has been engaged, and design work has commenced
- 3 note that at this early point in its delivery, the programme is on track to complete Tranche 1 by December 2022, which will see the delivery of Agreements and Payments for at least four services into the new processing systems



- 4 note that Tranche 1 will establish and prove a platform for a subsequent 18-month tranche (Tranche 2) to deliver the remainder of the services into the new systems
- 5 note that the new systems will be health sector structure agnostic, and a key enabler for health reforms and new or re-configured services
- 6 note that the programme will engage across the sector, including the use of stakeholder advisory groups, partnering with Māori through governance, advisory and design groups, and liaising with the Transition Unit
- 7 direct the Ministry of Health to provide six-monthly progress reports to joint Ministers from June 2022.

Authorised for lodgement

Hon Andrew Little

Minister of Health