

Briefing

Summary of Te Whatu Ora | Health New Zealand Performance – February 2023

Date due to MO:	18 April 2023	Action required by:	N/A
Security level:	IN CONFIDENCE	Health Report number:	H2023022897
To:	Hon Dr Ayesha Verrall, Minister of Health		
Consulted:	Health New Zealand: <input type="checkbox"/> Māori Health Authority: <input type="checkbox"/>		

Contact for telephone discussion

Name	Position	Telephone
Robyn Shearer	Deputy Chief Executive Deputy Director-General, Te Pou Mahi Pūnaha - System Performance and Monitoring	s 9(2)(a)
Jess Smaling	Associate Deputy Director-General, Te Pou Mahi Pūnaha - System Performance and Monitoring	

Minister's office to complete:

- | | | |
|---|------------------------------------|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Decline | <input type="checkbox"/> Noted |
| <input type="checkbox"/> Needs change | <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn | |

Comment:

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Security level: IN CONFIDENCE **Date:** 18 April 2023

To: Hon Dr Ayesha Verrall, Minister of Health

Purpose of report

1. Te Whatu Ora have provided their February 2023 monthly financial and non-financial report. As part of our role as the lead monitor of Te Whatu Ora, this report contains our monthly assessment of the entity's performance.
2. This briefing focuses on a review of the latest available financial information and reports on non-financial performance on an exception basis.
3. This report discloses all relevant information.

Summary

4. Te Whatu Ora has reported a February year to date (YTD) net operating surplus of \$101 million, which is \$13 million favourable to budget.
5. The full year forecast provided in February shows an expected breakeven result which is in line with budget. At this stage, our assessment is that the financial result is more likely to be an underspend of between \$200-\$300 million based on known risks and upside opportunities. Since the February results were finalised, Te Whatu Ora has identified underspends of \$149.2 million relating to the COVID-19 Immunisation Programme which has been transferred to 2023/24.
6. Te Whatu Ora continue to enhance their monthly reporting package, although for example, we have yet to see reporting at an output appropriation level. We expect that some additional reporting requirements will not be able to be addressed until either as part of the 30 June 2023 year end reporting process or in the 2023/24 financial year.

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8. The organisation transformation programme has now entered its next phase of consultation with staff. We will continue to engage with the Board and Executive to seek assurance on the management of the expected growing level of risk at this time.

Recommendations

We recommend you:

- a) **Note** Te Whatu Ora has provided you with its monthly report for February 2023. **Noted**
- b) **Note** actions are underway by Manatū Hauora to address ongoing risks, and to provide advice and support to the interim Board Chair and Board. **Noted**



Robyn Shearer
**Deputy-Chief Executive and Deputy
Director-General**
Te Pou Mahi Pūnaha
System Performance and Monitoring
Date: 18 April 2023

Hon Dr Ayesha Verrall
Minister of Health
Date:

PROACTIVELY RELEASED

Manatū Hauora summary of Te Whatu Ora performance – February 2023

Background

9. You recently received the Quarter 2 Manatū Hauora summary of Te Whatu Ora performance (HR2023020822 refers). This included financial information received for the month of January 2023.
10. Given the focus on non-financial information in the quarterly report, monthly reports now concentrate on financials and identification of material risk to the entity's performance.
11. We recognise that Te Whatu Ora has established processes to get regular reporting of its actual financial performance in place early on in its establishment. We appreciate it has taken time to put in place underlying financial processes while continuing to build capability and capacity.
12. Manatū Hauora has reviewed the non-financial February 2023 report and we have included an update on continuing risks related to data assurance and the organisational transformation programme of work.

Financial assessment of Te Whatu Ora performance by Manatū Hauora February result

13. The February 2023 financial performance report for Te Whatu Ora has reported a year-to-date (YTD) net operating surplus of \$101 million, \$13 million favourable to budget, following a \$24 million operating deficit for January 2023 (vs budgeted \$26 million deficit). Within the result is a \$95 million favourable to budget underlying business as usual variance, that mainly results from underspends, offset by a reported adverse unfunded \$82 million overspend impact from COVID-19 activities.
14. The cash balance at the end of February was \$1.67 billion, which is very similar to the cash position at the end of January. Overall, the cash position of Te Whatu Ora remains positive, although they are still not able to effectively forecast future cash-flows.
15. The full year financial forecast for Te Whatu Ora is reporting a breakeven result, and this has not changed materially from January. Due to expected underspends over the remainder of the financial year versus budget, our analysis of current spending trends currently supports the minimum of a Te Whatu Ora breakeven forecast. Our view of spending trends based on the February result was that an underspend was a more likely outcome in the range of \$200 million to \$300 million for 2022/23.
16. Since the February results were finalised, Te Whatu Ora has identified underspends of \$149.2 million relating to the COVID-19 Immunisation Programme, which has been transferred to 2023/24 (H2023022618 refers). Te Whatu Ora are continuing to review their forecast spend and activities for the remainder of the year and will report an updated forecast year end position as part of their March 2023 results.
17. We continue to reassess our estimated forecast risk range due to the implications of district health board (DHB) 2021/22 year-end audit adjustments for Holidays Act

provisioning and nurses pay equity which could materially affect the 2022/23 financial results of Te Whatu Ora. Nurses pay equity adjustments have the potential to increase the year end underspend further while increased Holiday Act provisioning may partly offset this.

18. Te Whatu Ora continue to enhance their monthly reporting package. It is pleasing to see 2 new reporting tables included in the financial performance report this month, which help to better explain the underlying operating result. These tables are:
 - A table showing a 'High level view of unders and overs in the YTD operating result'. The table lists both positive (underspend) and negative (overspend) impacts against budget within the YTD operating result, which mostly evens out. However, there is no commentary to explain why these particular items are listed while other material budget variances are not included.
 - A table listing 'Known reform related Savings and Efficiencies realised year to date'. Total estimated YTD savings are \$45.72 million which is \$74.1 million on an annualised basis. This table will help the Board monitor progress against the Budget 23/24 savings target.

Reporting issues and actions

19. Despite the additional supporting analysis, we do not expect consistency in reporting between months and completeness of the financial information to be fully addressed until the 2023/24 financial year, as Te Whatu Ora continues to establish and bed in its new processes as part of its finance roadmap.
20. From 2023/24 we expect budgeting to be more aligned to the organisational structure, a finalised opening balance sheet position to be clear (once the 2021/22 DHB audits are completed), and an improved overall consolidation process and financial database for reporting to be in place, with 90 percent of the organisation (by value) expected to be utilising the Finance, Procurement and Information Management system platform (FPIM).
21. It must be recognised that consolidating 29 agencies is a significant task and requires a focus on multiple areas of activity alongside on-going work to transfer over and embed new functions to Te Whatu Ora as part of the transition and cannot all be undertaken to the same level of maturity at once. Accordingly, not all aspects of a mature financial function can be expected to be in place on day one, with the initial focus on ensuring internal controls are established and operating effectively, cost centres established and reports available to track financial performance of the entity.
22. We appreciate the regular contact and communication that the Treasury and ourselves have with the Te Whatu Ora Chief Financial Officer and her team. It is critical to the successful establishment of the financial functions and meeting the respective agencies responsibilities, that we continue to have strong relationships and clear and transparent lines of communication.
23. We will continue to work with Te Whatu Ora in its next phase of maturing their financial functions (for example, forecasting and tracking initiatives more systematically) and building its associated capability. This process commenced as part of developing their work on the 2023/24 cost pressure contingency bid process.

24. We continue to work with Te Whatu Ora to obtain additional information and greater levels of underlying detail as required, as well as understanding where some aspect of this work sits in their road map. The following ongoing issues continue to be discussed with Te Whatu Ora:
- a. Modifying the high-level financial risk summary slide to provide an estimated risk range versus the current forecast breakeven of Te Whatu Ora.
 - b. Te Whatu Ora providing expenditure appropriation and output class reporting to their Board and Manatū Hauora.
 - c. The provision of more detailed financial information, and in a format more easily able to be loaded into our data analysis and reporting tool. We do not expect access to this data until the start of the 2023/24 financial year.

Regular Joint Monitor Meeting

25. On 31 March 2023, a meeting was held between the Secretary of Treasury, the Director-General of Health and senior and expert advisors. This is a monthly discussion to provide an extra degree of assurance across financial and capital matters. It provides increased collective oversight of financial sustainability risks through the early stages of the health reforms transition.

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27. We will provide you with a more fulsome report on the discussions and actions agreed in a separate health report.
28. At a regular performance meeting with Te Whatu Ora executives on 11 April 2023, we committed to ensuring clear written communication between us on expectations, to make sure there is shared understanding on prioritised requirements.

Continued and Emerging non-financial Areas of Concern

Data and analysis

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30. A number of Manatū Hauora staff provided feedback and comments to the Te Whatu Ora review of Clinical Data publication, and we are expecting the outcomes and recommendations of the review in April 2023. We will provide a further update when this is received.

Organisation transformation – impact/progress

31. The first tranche of organisational change formally started on 30 March 2023. Consultation documents were provided to all staff in Commissioning; National Public Health Service; Service Improvement and Innovation; and Finance services. Staff have

until 28 April 2023 to provide feedback with an expectation that final decisions will be issued on 2 June 2023. Further waves of organisational change will occur throughout 2023.

32. We are cognisant of the fact that organisational change is a significant and challenging process, but at the same time we need to see meaningful progress in service improvement. Even though a reduction in performance is expected during a change process, there is a growing level of risk that needs to be managed. The Chief Executive has acknowledged these concerns and is focussed on ensuring core service delivery and management of clinical risk; along with delivering to your priorities.
33. You attended the Te Whatu Ora Board meeting on 24 March 2023 where you reconfirmed your expectations as outlined in the Letter of Expectations. The Te Whatu Ora Board signalled that they have a clear understanding of the expectations and there is an opportunity for us and Treasury to support the interim Board Chair and her Board to drive the necessary change.

Next steps

34. We continue to meet with the Te Whatu Ora finance team each month to obtain explanations to questions raised and to request additional information where possible.
35. Issues which remain unanswered are escalated to the Chief Financial Officers.
36. At the recent meeting of the Secretary of Treasury and Director-General of Health, a number of actions were agreed to address ongoing concerns. You will receive a more detailed update in a separate health report.

ENDS.

Minister's Notes

PROACTIVELY RELEASED