

Aide-Mémoire

Fortnightly Ministerial meeting on Health New Zealand's 2023/24 financial performance

Date due to MO:	30 April 2024	Action required by:	N/A
Security level:	IN CONFIDENCE	Health Report number:	H2024040519
To:	Hon Dr Shane Reti, Minister of Health		
Consulted:	Health New Zealand: <input type="checkbox"/> Māori Health Authority: <input type="checkbox"/> The Treasury: <input type="checkbox"/>		

Contact for telephone discussion

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Fortnightly Ministerial meeting on Health New Zealand’s 2023/24 financial performance

Date due: 30 April 2024

To: Hon Dr Shane Reti, Minister of Health

Security level: IN CONFIDENCE **Health Report number:** H2024040519

Details of meeting: 1 May 2024
4.30 – 5.00pm

Purpose of meeting: You met with the Health New Zealand (HNZ) Chair, CE, and CFO on 10 April to gain a first-hand understanding of their 2023/24 financial performance including their forecast end of year position.

You have asked to continue meeting fortnightly with HNZ as they seek to achieve their planned 2023/34 financial position and prepare to start 2024/25 in a breakeven position.

This will be the second fortnightly meeting. We recommend that the meeting aim to cover three related topics:

1. Current forecast year end position and confidence in achieving this
2. Progress with mitigating key financial risks to the surplus position
3. Progress with achieving planned savings



Simon Medcalf

**Deputy Director-General
Regulation & Monitoring | Te Pou Whakamaru**

Background

1. Until February, HNZ had been reporting to their Board and officials that they are performing ahead of planned expectations and would achieve financial breakeven for the financial year.
2. As you know, 'breakeven' for 2023/24 equates to HNZ achieving a significant surplus, due to the effect of various matters including the receipt of revenues relating to pay equity settlements, made last year and funded in the current year, and writing off obsolete Covid stock.
3. In February, HNZ noted that they were facing financial pressures that could result in a surplus ranging from \$264 million to \$502 million, following a review of the following emerging cost pressure risks:
 - a. higher than planned cost growth in nursing, clinical supplies, and maintenance.
 - b. leave revaluation costs due to Holidays Act Remediation payment flow on impacts.
 - c. lower than planned achievement of the expected savings within Hospital and Specialist Services (HSS).
4. The CE then confirmed in writing that they were working towards a target surplus of \$583m for 2023/24, and that emerging cost pressures would be managed to achieve this.
5. You met with HNZ on 10 April to get a first-hand view of their financial situation and the work they were undertaking to manage and improve their position.
6. The meeting scheduled for 1 May is an opportunity to understand what steps have been taken by HNZ to provide you with assurance that they will achieve their planned financial position in 2023/24. It will also enable an understanding of what, if any, consequential impacts there may be on services, infrastructure, or financial performance in 2024/25.
7. As requested by HNZ, the Ministry has formally written to HNZ confirming the expectation that they target a \$583 million surplus in 2023/24 based on what is known currently, noting the potential variance around that figure due to the timing and quantum of factors, such as the receipt of additional funding related to capital charge and pay equity.

Headlines from HNZ April Board Report on finances

8. HNZ has reviewed the following areas of identified cost overrun:
 - a. internal personnel over-recruiting, specifically nursing
 - b. clinical supplies savings
 - c. expenditure on non-critical projects or maintenance
9. HSS were forecasting savings of \$233.84 million versus budget target savings of \$341.93 million, or a variance of \$108.09 million.
10. HSS have been asked to deliver on their agreed savings by the end of the financial year.
11. All other parts of HNZ are expected to deliver on or exceed their 2023/24 saving plans.
12. Reviews of balance sheet accruals have been completed, which have resulted in release of expenditure accruals and income in advance. This will help meet the year end forecast position.

13. Funding analysis has also been completed resulting in further unbudgeted revenue expected from Pharmac.
14. Following March reviews, the forecast surplus has been revised to **\$541million** (as reported at the April Board meeting).
15. HNZ is still left facing cost growth above budget due to an increase in paid nursing hours (March was above budget, although at a lower level than the previous months) and leave revaluation movements.
16. The quantification of these impacts needs further clarification.
17. **It is not yet clear how HNZ intends to achieve the required \$583 million surplus in the time available, unless the actions taken to date are expected to bridge the gap.**
18. **There is also a risk that HNZ may not achieve the current forecast surplus of \$541 million if "agreed" savings and cost management actions aren't achieved.**
19. The Minister of Finance recently wrote in her letters addressed to the Chair of HNZ and you (dated 22 April) that she expects that HNZ expenditure from appropriations align with its appropriation revenue, so all funding is being used for the purposes for which it was provided.
20. The expectation is that HNZ should report any significant variation in its expenditure from appropriated levels via its quarterly reports. We are awaiting their 31 March quarterly report to see how their performance is tracking against appropriations.

Possible questions to ask in the meeting

Confirming current forecast year-end position

- How confident is HNZ of its ability to achieve the currently forecasted \$541 million surplus? Does this require full mitigation of the risks discussed in the previous meeting (and full delivery of the proposed savings)?
- Do they have a plan in action to achieve a year end result that is closer to or meets the \$583 million surplus?
- How is HNZ tracking in its expenditure from appropriations against its 2023/24 appropriation revenue?

Mitigating risks to delivering the surplus

- What monitoring are they doing to ensure that regional and district savings are not resulting in reduced access or quality for patients?
- How do they intend to centrally manage or mitigate the growth above budget in paid nursing hours and leave revaluation movements in 2023/24 and outyears?
- Are there any material impacts due to deferring projects or maintenance?
- How is HNZ ensuring that the approach to risk mitigation is sustainable and does not create new pressures in subsequent years?

Delivering savings

- How are HNZ tracking towards delivery of the planned \$540m savings?

- Where original savings are no longer anticipated, what are these being replaced with to achieve the same target?
- Which of these savings are one-off in nature, and which expected to be enduring?

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