

Aide-Mémoire

Meeting with Health NZ on financial performance, 3 July 2024

Date due to MO:	1 July 2024	Action required by:	3 July 2024
Security level:	IN CONFIDENCE	Health Report number:	2024045124
To:	Hon Dr Shane Reti, Minister of Health		
Consulted:	The Treasury: <input checked="" type="checkbox"/>		

Contact for telephone discussion

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Date due: 1 July 2024

To: Hon Dr Shane Reti, Minister of Health

Security level: IN CONFIDENCE **Health Report number:** 2024045124

Details of meeting: 3 July 2024
0930-1000, office of the Minister of Health

**Purpose of meeting/
proposal:**

This is the latest in the series of fortnightly meetings to discuss Health NZ's financial performance.

We recommend that this meeting focus on:

- Health NZ's forecast final position for 2023/24
- Health NZ's opening budget for 2024/25 and underlying assumptions;
- Details of Health NZ's turnaround plan for 2024/25, progress and associated risks.

The material below provides information on what is currently known on these areas and proposes questions you may wish to ask in the meeting and/or subsequently. This has been developed jointly with Treasury officials.



Simon Medcalf

Deputy Director-General

Regulation and Monitoring | Te Pou Whakamaru

Financial performance of Health NZ

1. For much of 2023/24, Health NZ expected to break even once they had made \$540 million of ongoing savings within baselines. Health NZ should now be in a position to discuss their expected end of year financial performance for 2023/24 against their original expectations, and their plans to improve performance in 2024/25 and outyears.
2. The meeting comes at the same time as we are providing advice on the new Chair's recovery plan and in parallel with the Chair's expert team reviewing HNZ's planning approaches to savings and associated assumptions, and the implications on HNZ's 2024/25 detailed budgets.

End of year financial performance for 2023/24

3. At this meeting, Health NZ should be able to update for you the end of year forecast deficit for 2023/24. The end May expectation was for **a \$528 million deficit**.
4. The current run rate at the end of the 2023/24 financial year remains high at an average monthly deficit of around **\$130 million per month**.
5. You may wish to discuss with Health NZ:
 - a. Is there any further update since our last discussion on the expected forecast for the end of the year?
 - b. What cost controls are working, and why?
 - c. What cost controls do not appear to be working, and reasons for that?
 - d. Whether any new issues have emerged that will now need to be accounted for in 2024/25 planning?

2024/25 budget and associated assumptions

6. If the average monthly deficit run rate continues into 2024/25 without intervention, this would lead to a full-year deficit in the 2024/25 financial year of **around \$1.4 billion**.
7. Health NZ management has presented a budget scenario for the 2024/25 financial year to the Board meeting on 27 June 2024. This forecasts **a \$499 million deficit by end June 2025**, suggesting an improvement on the current run rate.
8. We are yet to be apprised of the key underpinning assumptions for this deficit. In relation to ongoing staffing costs, Health NZ has confirmed that this forecast is based on a gradually improving trajectory through the year as the controls and mitigations they are working on, or have put in place, take effect on the financial results.
9. We are also not aware of whether this deficit forecast includes the impact of the pay equity revenue that is now expected to be made in 2024/25.
10. We know that there were already savings expectations for the 2024/25 financial year built into their plans, which will need to have been expanded to drive the improvement to the financial trajectory.

11. You may wish to discuss with Health NZ:
- a. What assumptions are Health NZ making to deliver a forecast \$499 million deficit? What savings and productivity measures anticipated to be deliverable, and does this account for pay equity funding?
 - b. What are the major risks, opportunities, and savings driving the planned \$499 million deficit for 2024/25?
 - c. Uplifts for 2024/25 have now been agreed by Health NZ for their primary and community contracts. Is Health NZ confident these uplifts remain affordable?
 - d. What is the plan to move from the expected deficit in 2024/25 to a breakeven position in 2025/26 and beyond?

Managing performance risks during the organisational reset

12. While the organisational reset of Health NZ will have measurable medium to longer term benefits, it does create increased shorter term performance risks due to the change process. You may wish to ask:
- a. What areas of performance are of greatest risk during the change process, and what controls are being put in place to ensure these are monitored and managed as necessary?
 - b. Is any additional support or expertise needed at this time to support the change process?

Delivery of key priorities

13. The Government Policy Statement (GPS) on Health 2024 to 2027, which includes Government's Health Targets, will take effect from 1 July.
14. As Health NZ works towards strengthening its financial position, ongoing work is also required on performance and output expectations in the New Zealand Health Plan (NZHP).
15. We understand Health NZ's intention is to include the updated financial position within the draft NZHP in July.
16. You may wish to re-confirm that you expect your priorities to be delivered as a key outcome of the Health NZ reset.

Next steps ahead of finalising the budget for 2024/25

17. Budget 2024 requirements for Health NZ included the provision of detailed information surrounding Health NZ's budget for the 2024/25 financial year. This information was to be provided by 12 July 2024.
18. It is important to have a timeline of when information will be available to monitors and Ministers, to understand key decision points over the coming months. It will also be important to clarify the internal monitoring framework that is being put in place, so that progress through the next financial year can be assured.

19. We expect the next steps should include:
- a. A turnaround/recovery plan that focuses on the Health NZ operating model and governance and seeks to reset the organisation and respond to some of the underlying causes of the current issues.
 - b. A financial sustainability plan, that sets a clear course towards break-even, identifies the necessary savings and productivity-releasing initiatives and trade-offs, and sets the financial parameters for the next three years.
 - c. The revised NZ Health Plan, that will need to build on the above and be situated within the financial parameters.
20. The Ministry will work with Health NZ to finalise the timeline and assurance process to support these steps. You may wish to ask:
- a. When will the Chair be able to present a detailed and measurable plan for recovery and financial sustainability?
 - b. What does the Chair see at the key milestones and likely timetable for revising the NZ Health Plan?

END.