

Briefing

2022/23 Annual Report for Health New Zealand | Te Whatu Ora

Date due to MO: 1 December 2023 **Action required by:** 4 December 2023

Security level: IN CONFIDENCE **Health Report number:** H2023032852

To: Hon Dr Shane Reti, Minister of Health

Consulted: Health New Zealand: ☐ Māori Health Authority: ☐

Contact for telephone discussion

Name	Position	Telephone
Simon Medcalf	Deputy Director-General, Regulation and Monitoring Te Pou Whakamaru	s 9(2)(a)
Jess Smaling	Associate Deputy-Director General, Regulation and Monitoring Te Pou Whakamaru	s 9(2)(a)

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 Withdrawn | |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:

2022/23 Annual Report for Health New Zealand | Te Whatu Ora

Security level: IN CONFIDENCE **Date:** 1 December 2023

To: Hon Dr Shane Reti, Minister of Health

Purpose of report

1. As required by the Crown Entities act 2004 during the week of the week of 20 November 2023, Health New Zealand | Te Whatu Ora provided the caretaker Minister of Health with a copy of their 2022/23 annual report, which has been audited by John Ryan, Controller and Auditor-General. The new Government is now responsible for presenting the Annual report to the House of Representatives.
2. This briefing provides a review of the annual report, an overview of the associated audit findings and a summary of the performance of Health New Zealand for the 2022/23 year against a range of indicators.
3. This briefing confirms that in line with the provisions of the Crown Entities Act 2004 (CE Act), Health New Zealand has also provided a copy of their 2023/24 Statement of Performance Expectations (SPE), that was finalised and published earlier in the year, to be presented with the 2022/23 annual report.

Summary

4. Under the requirements of the CE Act, all Crown entities are required to provide a series of accountability documents to be presented in the House of Representatives by their responsible Minister. These entity specific documents primarily include the Statement of Intent (SOI) (covering the medium term), an annual SPE and an annual report.
5. The Ministry of Health | Manatū Hauora (the Ministry) supports the process for these documents to be presented by working with entities to ensure the provision of documents to your office and to the House office as required, and by providing you with summary information about the documents to be presented.
6. All Crown entities are required to produce an annual report as soon as practicable after the end of each financial year under the CE Act.
7. As part of this process, Crown entities are required to provide the report to their responsible Minister no later than 15 working days after receiving the audit report. The responsible Minister of the Crown entity must then present the Crown entity's annual report to the House of Representatives within 5 working days after the responsible Minister receives the annual report or, if Parliament is not in session, as soon as possible after the commencement of the next session of Parliament.

8. Entities must publish their annual reports within 10 working days of supplying them to the Minister, Health New Zealand provided their annual report on 21 November 2023 and may need to publish their report before the House is in session.
9. Due to the timing of audit processes, the health Crown entities have finalised their 2022/23 annual reports during the period where the Government is being formed. Once the House is in session the annual report should be presented as soon as possible.
10. Additional briefings are being provided to you for the other 7 health Crown entities who will each be providing accountability documents to you now for presentation to the House of Representatives following completion of their annual reports.

Code of Expectations for health entities' engagement with consumers and whānau

11. A new requirement for some Crown entities is that under section 60 of the Pae Ora (Healthy Futures) Act 2022, health entities (as defined under the Act) are required to report annually on how they have given effect to the code. Health New Zealand has outlined their progress to date in their annual report.

Opportunities to influence priorities in the accountability documents required by the Crown Entities Act

12. You have an opportunity to set expectations about your priorities for the health Crown entities through any updates you may request to entity 2023/24 Statement of Performance Expectations and through your next Minister's Letter of Expectations. You can also request that entities prepare a new SOI at any time.

Health New Zealand Annual Report

13. This is the first year that Health New Zealand has prepared an annual report.
14. The audited annual report for Health New Zealand provides information on the 2022/23 financial year, measured against requirements specified in their 2022/23 SPE.
15. The Ministry has reviewed the annual report for Health New Zealand and the associated Audit New Zealand report and makes the following comments:
 - The annual report complies with the requirements of the CE Act.
 - Without further modifying their opinion, auditors draw attention to following disclosure regarding the performance measure on delivery of Cardiac surgery within timeframes based on clinical urgency. Health New Zealand disclosed that adequate records were not maintained to be able to verify their reported performance for the measure.
 - The annual report complies with generally accepted accounting practice in New Zealand.
16. The key themes in the foreword of the annual report for Health New Zealand include:
 - The consolidation of 28 entities.
 - Inequity of access and outcomes.
 - Impacts of Cyclone Gabrielle.

- The end of year financial result including the one-off impacts such as substantial pay equity settlements for nursing, the write-off of COVID-19 inventory transferred from the Ministry and Holidays Act remediation.
- The evaluation of land and buildings resulted in a net increase in asset value.
- Capital and data and digital infrastructure projects that need further prioritisation.
- Standing up a strengthened National Public Health Service and extending the life of the COVID-19 infrastructure and systems.
- Early workforce actions include a \$14.4 million investment to increase the workforce in primary care, nursing, and other professions.
- The winter plan.
- National Health Workforce Plan.

17. The 2022/23 audited financial result for Health New Zealand is below:

\$ Million		
	2022/23 Actual Result	2022/23 Budget Result
Health New Zealand	(1,103)	Break-even

18. The annual report for the year ended 30 June 2023 revealed a deficit of \$1,013 million, which contrasts with their SPE budgeted break-even result and the unaudited small operating surplus that was initially reported. Their final audited financials were impacted by several one-off factors:

- An audit adjustment for pay equity settlements amounting to \$859 million for nursing, allied health and midwifery staff were agreed subsequent to balance date but recorded as costs in the 2022/23 financial year in accordance with international accounting standards, while the associated revenue funding will be recognised in 2023/24.
- An audit adjustment for the substantial write-down of COVID-19 inventory due to obsolescence resulted in a \$284 million impact.
- Other one-off less material unbudgeted items included the cost of a public holiday for commemorating the Queen's Memorial Day (\$30 million), North Island weather event recovery (\$14 million), and the cost of the monkey pox vaccine (\$8.5 million).
- Excluding these one-off expenses, the underlying operating result would have likely been a surplus of between \$200 million and \$300 million.
- On a financial position basis, Health New Zealand ended the year strongly with closing cash of \$2,019 million, up \$1,333 million over the year due to a positive net operating cash-flow of \$1,915 billion.
- The year-end financial position also included a net property valuation increase of \$1,090 million which, after allowing for the \$1,103 million operating deficit, resulted in an overall net equity increase of \$78 million.
- The year-end audit adjustment for the accrual and provisioning of \$859 million of pay equity settlements, will materially impact the financial forecast result for

2023/24. This is because most of this cost had been included in the entity's 2023/24 budget to match the related revenue funding. Our current financial forecast estimate is that this adjustment could change the budgeted breakeven operating result to a surplus of ~\$650 million.

h. Supporting communications have been prepared regarding the deficit result for Health New Zealand.

19. The Ministry notes that stronger appropriation and output class reporting would be valuable for the 2023/24 annual report. The Minister has the opportunity to agree with the entity that supplementary information is included in an update to the 2023/24 SPE to support more visibility of the link from output classes to the appropriations to be included in the next annual report. Other updates to the 2022/23 SPE may also be required to reflect the expectations of the new Government. We will provide separate advice on this in February 2024.

Statement of Performance Expectations


20. In line with the provisions of the CE Act, Health New Zealand has also provided a copy of their 2023/24 SPE, that was finalised and published earlier in the year, to be presented with the 2022/23 annual report.

Recommendations

We recommend you:

- a) **Note** the responsible Minister of the Crown entity must present the Crown entity's annual report to the House of Representatives within five working days after the responsible Minister receives the annual report or, if Parliament is not in session, as soon as possible after the commencement of the next session of Parliament
- b) **Note** that the annual report for 2022/23 and the Statement of Performance Expectations for 2023/24 should be presented to the House of Representatives together
- c) **Note** the Health New Zealand annual report for the year ended 30 June 2023 revealed a deficit of \$1,013 million. Supporting communications have been prepared regarding the deficit result
- d) **Note** that we will provide further advice on possible updates to the 2023/24 Health New Zealand Statement of Performance Expectations to strengthen both the Statement of Performance Expectations and the subsequent 2023/24 annual report in February 2024
- e) **Agree** to present the annual report for 2022/23 and the Statement of Performance Expectations for 2023/24 for Health New Zealand to the House of Representatives as soon as possible.

Yes/No



Dr Diana Sarfati
Director-General of Health
Te Tumu Whakarae mō te Hauora
Date: 1 December 2023

Hon Dr Shane Reti
Minister of Health
Date:



Simon Medcalf
Deputy Director-General
Regulation and Monitoring
Te Pou Whakamaru
Date: 30 November 2023

Minister's Notes

PROACTIVELY RELEASED