

# Briefing

## Ministry of Health summary of Health New Zealand May 2024 performance

<b>Date due to MO:</b>	9 July 2024	<b>Action required by:</b>	N/A
<b>Security level:</b>	IN CONFIDENCE	<b>Health Report number:</b>	H2024045272
<b>To:</b>	Hon Dr Shane Reti, Minister of Health		
<b>Copy:</b>	Hon Matt Doocey, Minister for Mental Health		
<b>Consulted:</b>	Health New Zealand: <input type="checkbox"/> Māori Health Authority: <input type="checkbox"/>		

### Contact for telephone discussion

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### 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 Withdrawn |  |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:

# Ministry of Health summary of Health New Zealand May 2024 performance

## Background

1. Health New Zealand | Te Whatu Ora (Health NZ) has provided their May 2024 financial and non-financial reports to the Ministry of Health | Manatū Hauora (the Ministry). As monitor of Health NZ, this report contains the Ministry's assessment of Health NZ's performance for May 2024.
2. The Ministry's monthly assessment is focused on financial performance, with any non-financial emerging or continued areas of concern, reported on an exception basis.

## Financial performance

### May 2024 performance

3. The operating result for the month of May 2024 was a **deficit of \$169 million**, which is \$144.4 million adverse to the budgeted deficit of \$24.6 million.
4. The year-to-date (YTD) result was a deficit of \$67 million, which is \$55 million adverse to the YTD budgeted result of \$12 million deficit (Original Break-even budget).
5. Compared to Health NZ's revised target, the YTD May result of \$67 million was \$666 million adverse against their YTD May target of \$599 million surplus.
6. The YTD expenditure was \$1.410 billion over budget, mainly due to personnel costs (both internal and outsourced) and clinical supply cost increases being above budgeted inflationary levels, pay parity expenditure, and pharmacy co-payments. This figure is offset by \$745 million favourable variances in YTD revenue, primarily due to unbudgeted pharmacy co-payments and pay equity funding.
7. Health NZ reported YTD **savings of \$451 million against its original target of \$540 million**. Health NZ is forecasting to achieve total savings of \$525 million by year-end (a shortfall of \$15 million). Realised savings have been applied widely to cover expenditure over budget. For example, across additional depreciation, increased costs for blood services, additional sick leave costs due to COVID-19, uplifts for commissioned services, inflation impact on maintenance and clinical supply costs and pay equity settlements.
8. Health NZ continues to carry vacancies, mainly in medical personnel and allied health. For the end of May 2024, Health NZ reported 550 full time equivalents (FTE) fewer than budgeted in these two areas.
9. As expected, **nursing FTE are significantly over budget** (1,943 FTEs in May and 1,216 FTEs YTD).
10. Reported **capital expenditure was \$1.176 billion (51%) under budget** to the end of April 2024, predominantly in facilities (\$702 million), ICT (\$285 million), and clinical equipment (\$194 million). Key drivers for the YTD under spend include capacity issues, supply chain delays, project resourcing availability and delays caused by timing issues around the development and approval of business cases and delays in procurement processes. Health

NZ is forecasting to spend \$2.562 billion by year-end with purchase order commitments already secured for \$1.192 billion.

11. Health NZ's cash balance as at the end of May was \$3.6 billion (April \$1.9 billion). The balance as at 31 May 2024 was significantly higher than expected as the revenue for the month of June (\$2 billion) was received in May, due to the timing of the King's birthday public holiday. The balance also includes \$195 million for Hauora Māori services consolidated into Health NZ's bank account from 1 April 2024.

### Deficit target forecast 2023/24

12. In May, Health NZ's forecast surplus was revised downwards to **a deficit of \$528 million** from a surplus range of \$237 million - \$317 million reported for April. This represented a significant shift from the previous forecast. This was mainly driven by not receiving Allied Health pay equity revenue in 2023/24, an increase in Holidays Act liability provision and the underlying operational deficit.
13. The May end of year forecast result of \$528 million deficit, has since been subject to further changes following the final valuations for staff liabilities due to be completed as part of the financial year-end process.
14. Health NZ has flagged a significant financial concern that **they will be carrying a \$1.4 billion operational deficit into 2024/25 fiscal year**. It appears at this stage that the forecast operational deficit is predominantly personnel costs, both internal and outsourced. Ministry and Treasury officials are actively engaged in discussions with Health NZ to scrutinise their forecast and recovery plan.

### Next steps

15. The Ministry and The Treasury will continue to support Health NZ's executive and financial teams to improve their financial situation.
16. The Ministry is also available to engage with you to discuss priority areas and assurance on known areas of concern.



Simon Medcalf

Deputy Director-General

**Regulation and Monitoring | Te Pou Whakamaru**

Date: 5 July 2024

Hon Dr Shane Reti

**Minister of Health**

Date:

## Minister's Notes

PROACTIVELY RELEASED