Briefing for decision

Request for Capital to Operating funding swap for the establishment of the Centre for Digital Modernisation of Health and HealthX Innovation and AI programme

Date due to MO:	6 November 2025	**Action required by:**	13 November 2025
Security level:	IN CONFIDENCE	**Reference:**	H2025074061
To:	Hon Nicola Willis, Minister of Finance Hon Simeon Brown, Minister of Health		
Consulted:	Health New Zealand: ☒ Treasury: ☐		
Proactive release:	This **title** is proposed by the Ministry of Health for proactive release: ☐		

Contact for telephone discussion

Name	Position	Telephone
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Minister's office to complete:

☐ Approved	☐ Decline	☐ Overtaken by events
☐ Needs change	☐ Seen	
☐ See Minister's Notes	☐ Withdrawn	

Comment:

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Purpose of report

1. This report requests that you approve a fiscally neutral capital to operating funding swap to provide s 9(2)(j) of Crown funding for the 2025/26 financial year to Health New Zealand (Health NZ) for the following initiatives:
   a. s 9(2)(j) to establish and operate the Centre for Digital Modernisation of Health (the Centre) to support the implementation of the Health Digital Investment Plan
   b. s 9(2)(j) for the implementation of the HealthX Innovation and AI programme (HealthX).

Background

2. On 28 October 2025, Cabinet approved in principle Health NZ's Health Digital Investment Plan, with the commitment of all funds being subject to relevant business case approval and internal and external Budget decisions [ECO-25-MIN-0175 refers].
3. Cabinet noted that Health NZ will establish the Centre as part of the Health Digital Investment Plan implementation. The Centre will provide the capacity and capability to develop detailed investment cases including alternate financing options.
4. Health NZ has also proposed an investment programme, HealthX, that will enable rapid adoption of proven digital and AI solutions to address system pressures and improve patient care.
5. Health NZ has provided the information to support this briefing and has been consulted on the final draft. The Treasury declined to comment on this briefing due to the investment being below their value threshold.

Centre for Digital Modernisation of Health proposal

6. The Centre will undertake the design, planning and development of investment cases for implementation of Health Digital Investment Plan initiatives and provide capability in innovation, including AI and digital delivery, to support future delivery. This will allow Health NZ to access global expertise that does not exist in New Zealand and build the internal capability to deliver the Health Digital Investment Plan.

HealthX Innovation and AI proposal

7. Health NZ has initiated the HealthX Innovation and AI programme focused on deploying digital and AI tools in clinical settings to address three critical system pressures: Workforce strain, service access inequity, and system inefficiency. Between August 2025 and February 2026, HealthX will deliver monthly clinician-led initiatives that are regionally focused and designed for rapid deployment and measurable impact.

8. Traditional implementation models cannot keep pace with global advancements in AI; HealthX will provide a structured pathway supported by governance and assurance frameworks, ensuring innovations are adapted to New Zealand's context. This pathway will be responsible for evidence-based deployment of technologies such as AI scribes, remote monitoring, and workflow automation. These initiatives require flexible operational funding to support licensing, deployment, and support costs.

Funding

9. Health NZ estimates the Centre will cost s 9(2)(j) to establish and operate in the 2025/26 financial year. These costs are classified as operational expenditure because they do not directly result in the acquisition, development, or enhancement of an asset. Instead, they are considered part of the planning and feasibility phase, which is expensed in the period incurred. Table 1 below is the breakdown of how Health NZ will use the funding for this financial year. The bulk of the operating costs for the Centre is personnel, both within Health NZ and the Strategic Provider. The exact mix of personnel from Health NZ and the Strategic Provider will be refined depending on the skill sets required when the Centre's operating model is finalised.

Table 1: Breakdown of proposed Centre 2025/26 budget

Category	Total ($ million)
Health NZ	
Direct Personnel	s 9(2)(j)
Indirect costs	
Legal	
Quality Assurance & Gateways	
Study Tour	
Subtotal Health NZ	
Strategic Provider	
Direct Personnel	
Travel	
All of Government Fees	
Tooling	
Subtotal Strategic Providers	
Subtotal	
Contingency including delivery of backlog Early Delivery Initiatives	
Total Estimated 2025/26 Centre Costs	

10. Health NZ proposes the Centre's 2025/26 budget be funded by a s 9(2)(j) capital to operating funding swap, from the non-departmental capital expenditure multi-year appropriation Health Capital Envelope (HCE). To avoid a funding cliff for the Centre after 30 June 2026, future funding will be required from Health NZ's future baselines or additional Crown funding to support the Centre's operations. Any detailed investment cases developed by the Centre, requiring Crown funding support to implement, will need to be part of Health NZ's future Budget bids.

11. Health NZ has currently identified six initiatives under HealthX to progress in the remainder of the 2025/26 financial year (Appendix one). At this stage, two initiatives are underway and there are four candidate initiatives, two of which are without confirmed costs. The total estimated cost in 2025/26 is expected to be around s 9(2)(j) in operating expenses. Health NZ proposes the s 9(2)(j) also be funded by a capital to operating funding swap from the HCE. Health NZ has confirmed that it will meet any additional costs above the s 9(2)(j) from its own resources. Ongoing costs will be sourced from Health NZ future baselines. Table 2 below presents the estimated costs of the HealthX initiatives for the 2025/26 financial year.

Table 2: HealthX initiatives for the 2025/26 financial year

Category	Total ($ million)
Initiatives with costs confirmed:	s 9(2)(j)
Heidi AI Ambient Scribe for Emergency Departments	
Spritely Remote Monitoring for Heart Failure Patients	
Candidate initiatives with costs confirmed:	
AI-enabled Dermatology Screening	
Virtual ED Triage for ARC Patients	
Subtotal	
Candidate initiatives with costs yet to be confirmed:	
Radiology AI-Enabled Decision Support	
Clinical Coding AI Automation	
Total cost estimates	

12. Budget 2021 provided s 9(2)(j) in capital funding for investment in data and digital infrastructure and capability and funding for Hira Tranche 1 with the remaining amount for projects to support Health NZ's (previously District Health Boards) data and digital capability uplift programme (the programme). Table 3 below shows the funding available within the HCE for the programme.

Table 3 HCE funding for Data and Digital Infrastructure and Capability programme

Category	Total ($ million)
Funds available for allocation within the HCE	s 9(2)(j)
Spend as at 30/06/2025	
Known cost pressures and pre-commitments	
Subtotal	
The Centre's establishment costs 2025/26	
HealthX innovation and AI programme	
Remaining balance	

13. Health NZ's 2025/26 operating funding is under significant pressure. The Ministry of Health supports the two capital to operating swaps to support progress for needed digital investment through the Centre's establishment and operation and for the Health X innovation and AI programme for the remainder of the 2025/26 financial year. The establishment of the Centre will support the progression of projects within the Health Digital Investment Plan. The HealthX programme will enable rapid adoption of proven digital and AI solutions to address system pressures and improve patient care.

14. The Ministry has relied on the information provided by Health NZ regarding their ability to establish and operate the Centre and the implementation of HealthX within the timeframes in this briefing. We expect Health NZ to provide detailed milestones and monthly reporting to demonstrate delivery.

15. We note that the capital to operating funding swaps will reduce the capital available for any future Data and Digital projects, which will require funding from future Budgets or from Health NZ baselines.

Recommendations

We recommend you:

		Minister of Finance	Minister of Health
a)	**Note** on 28 October 2025, Cabinet approved in principle Health NZ's Health Digital Investment Plan and noted Health NZ will establish a Centre for Digital Modernisation of Health (the Centre) to support the implementation of the Health Digital Investment Plan.		
b)	**Note** Health NZ is seeking a capital to operating funding swap of s 9(2)(j) from the capital funding for the Data and Digital Infrastructure and Capability: Enabling Health System Transformation – Capability Uplift project within the non-departmental capital expenditure multi-year appropriation *Health Capital Envelope* to the non-departmental output expense appropriation *Delivering Hospital and Specialist Services*. This funding will support the establishment of the Centre for the Digital Modernisation of Health.		
c)	**Note** Health NZ is also seeking a capital to operating funding swap of s 9(2)(j) from the same capital funding noted in recommendation b) to support the HealthX Innovation and AI programme for the remainder of the 2025/26 financial year.		
d)	**Note** these are time-limited transfers for one year only in 2025/26 and the s 9(2)(j) reflects the initial cost of the Centre in 2025/26 and the first year cost of the HealthX Innovation and AI programme. Continuation of both work programmes beyond 30 June 2026 is subject to further funding decisions from either Health NZ's future baselines or additional Crown funding.		
e)	**Note** that Budget 2021 provided s 9(2)(j) in capital funding for investment in data and digital infrastructure, Hira and capability, and currently funding of s 9(2)(j) remains uncommitted in the Health Capital Envelope to fund the proposed capital to operating swaps.		
f)	**Note** that under Cabinet Circular CO(18)2 Joint Ministers are authorised to approve fiscally neutral adjustments between appropriations provided certain conditions are met.		
g)	**Note** that the proposed capital to operating swaps fall entirely within the four-year baseline (or forecast period) horizon and therefore meet the conditions in CO(18)2 (rules 32.4 and 34 refer) as fiscally neutral technical adjustments.		

h) **Agree** to a fiscally neutral capital to operating swap to provide the funding required to undertake the work noted in recommendation b) above for the Centre for Digital Modernisation of Health, with the following impacts on the operating balance and net core Crown debt: **Yes/No** **Yes/No**

	$m – increase/(decrease)				
Vote Health	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Operating Balance and Net Core Crown Debt Impact	s 9(2)	-	-	-	-
Operating Balance Only Impact	-	-	-	-	-
Net Core Crown Debt Only Impact	s 9(2)	-	-	-	-
No Impact	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

i) **Approve** the following changes to appropriations to give effect to the swap in recommendation h) above: **Yes/No** **Yes/No**

	$m – increase/(decrease)				
Vote Health Minister of Health	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Non-departmental Output Expense: Delivering Hospital and Specialist Services	s 9(2)(j)	-	-	-	-
Non-departmental Capital Expenditure: Health Capital Envelope (MYA)		-	-	-	-
Total Operating		**-**	**-**	**-**	**-**
Total Capital		**-**	**-**	**-**	**-**

j) **Agree** to a fiscally neutral capital to operating swap to provide funding required to undertake the work noted in recommendation c) above for the HealthX Innovation and AI programme, with the following impacts on the operating balance and net core Crown debt: **Yes/No** **Yes/No**

	$m – increase/(decrease)				
Vote Health	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Operating Balance and Net Core Crown Debt Impact	s 9(2)(j)	-	-	-	-
Operating Balance Only Impact		-	-	-	-
Net Core Crown Debt Only Impact		-	-	-	-
No Impact	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

k) **Approve** the following changes to appropriations to give effect to the swap in recommendation j) above: **Yes/No** **Yes/No**

	$m – increase/(decrease)				
Vote Health Minister of Health	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Non-departmental Output Expense: Delivering Hospital and Specialist Services	s 9(2)(j)	-	-	-	-
Non-departmental Capital Expenditure: Health Capital Envelope (MYA)		-	-	-	-
Total Operating		**-**	**-**	**-**	**-**
Total Capital		**-**	**-**	**-**	**-**

l) **Agree** that the proposed changes to appropriations for 2025/26 above be included in the 2025/26 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply. **Yes/No** **Yes/No**

m) **Note** that following the approval of the proposed capital to operating swap of s 9(2)(j), there is a remaining uncommitted balance of s 9(2)(j) in capital funding in the Health Capital Envelope for allocation to future Health NZ data and digital capability uplift projects.

n) **Note** that the capital to operating funding swaps will reduce the capital available for any future data and digital projects and will need to be replaced in future Budgets or sourced from Health NZ baselines.

John Hazeldine

Group Manager, Workforce and Infrastructure Monitoring

Performance and Governance Group

Date:

Hon Nicola Willis

Minister of Finance

Date:

Hon Simeon Brown

Minister of Health

Date:

Appendix 1: HealthX initiatives and candidates

In progress initiatives

September 2025: Heidi AI Ambient Scribe for Emergency Departments

Investment: s 9(2)(j)

- Delivers the Heidi ambient AI scribe to Emergency Departments nationwide, targeting the *Shorter Stays in Emergency Departments (SSED)* health target.
- Reduces clinician documentation time, allowing doctors and nurses to spend more time with patients and less on paperwork.
- Improves clinician efficiency and satisfaction by streamlining administrative tasks and reducing burnout.
- Enables faster patient flow through EDs, supporting the goal of admitting, discharging, or transferring 95% of patients within six hours.
- Requires a s 9(2)(j) investment for 2,000 clinician software licenses, with incremental support costs for rollout to 16+ locations nationally.
- Scalable solution that can be expanded to additional sites as needed, maximizing return on investment.
- Initiative scope: 18x EDs across all regions - Northland, Waitematā, Auckland, Counties Manukau, Waikato, Taranaki, Lakes, Bay of Plenty, Whanganui, Hawkes Bay, MidCentral, Capital and Coast, Hutt Valley, Wairarapa, Nelson Marlborough, Canterbury, South Canterbury, Southern.

October 2025 - Spritely Remote Monitoring for Heart Failure Patients

Investment estimate: s 9(2)(j)

Targets faster access to specialist care for heart failure patients, especially in rural and high-need communities.

- Reduces time to optimal medication from 6–9 months (traditional clinic) to <8 weeks via remote monitoring and assessments.
- Lowers per-patient costs from s 9(2)(j), with proven results in Hawke's Bay.
- Supports health targets:
  - Shorter Wait Times for First Specialist Assessments - patients receive specialist-guided care sooner, improving outcomes and equity.
- Additional benefit: Reduces avoidable hospital readmissions, supporting system efficiency and the SSED target.
- Initiative scope: 200 remote monitoring kits across locations plus 200 monthly license fees.

Candidate initiatives for November – January

AI-enabled Dermatology Screening s 9(2)(j)

- Targets faster cancer diagnosis by enabling rapid, AI-supported skin lesion assessments in high-risk locations.
- Exploring public-private partnership with Mole Map, making use of their workforce and technology.
- Supports health targets:
    - Faster Access to Cancer Treatment - patients move more quickly from suspicion to treatment.
- Initiative scope: TBC regions with high needs, Hort and Ag sectors including seasonal workers.

Virtual ED Triage for ARC Patients s 9(2)(j)

- Targets avoiding unnecessary and lengthy ED visits for aged residential care (ARC) patients by enabling remote specialist consults between ED clinicians and paramedics.
- Supports the health target: *Shorter Stays in Emergency Departments (SSED)*—frees up ED capacity and improves patient experience.
- Initiative scope: Using a regional hub with coverage for Timaru to Kaikoura, and Upper South Island.

Radiology AI-Enabled Decision Support s 9(2)(j)

- Speeds up specialist assessments by providing AI-powered decision support for radiology images, with a focus on prioritizing chest X-ray (CXR) workflows for reporting radiologists using Annalise AI.
- Supports health targets:
    - Shorter Wait Times for First Specialist Assessments – abnormal images are identified and reported sooner, reducing delays for patients requiring urgent FSA or follow-up.
    - Faster Cancer Treatment – earlier flagging of suspicious CXRs supports timely referral and treatment initiation.
    - Improved Patient Safety – prioritisation reduces the risk of abnormal findings being delayed in the reporting queue.
- Initiative scope: Canterbury and Nelson-Marlborough; Chest X-ray (CXR) radiology.

Additional context:

- This initiative is supported by a research grant focused on optimizing radiologist workflow through AI prioritization.
- The TDI project will proceed independently with AI for CXR, CT head, and fracture (#) detection, regardless of this initiative.
- Other regions are currently not included due to readiness and RIS/PACS prioritization.

Clinical Coding AI Automation s 9(2)(j)

- Targets workforce shortages while improving hospital efficiency and data quality by automating clinical coding processes.
- Enables better tracking of health target performance and supports faster reporting for all targets.
- Initiative scope: Locations with Centric and Cortex digital systems