Ministry of Health
DHB Funding Allocation - Estimates
Process Review: Lessons Learnt and Recommendations

1 August 2017
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Acknowledgements
We have had the full cooperation and assistance of the Ministry’s staff and management team throughout this review. We are also grateful for the time and assistance provided by personnel from other organisations who assisted us with this review.
About this Review

Introduction
The Government approves a Budget for health that includes a total funding package for DHBs that is allocated to individual DHBs using a specific mechanism. The Ministry is responsible for Budget submissions and calculating the allocations to individual DHBs using a Population Based Funding Formula ("PBFF") and other adjustments.

For the recent Budget, individual DHB allocations recorded in the Estimates and Budget were incorrect as the PBFF calculations did not apply the method and adjustments normally applied in the past. Refer to Appendix A for the variances.

Deloitte was engaged to independently review the Ministry’s processes for preparing and submitting DHB funding allocation numbers to the Treasury for incorporation of those numbers into the Estimates and the Budget.

The focus of the review was to identify what happened and how it occurred, with emphasis on identifying lessons learnt and making recommendations to the Ministry to reduce the risk of such errors occurring again.

Note: The scope of the review did not cover:

- Prior year’s DHB funding allocation and Estimates processes, except at a high level to understand the general approach applied in prior years
- The PBFF funding model and adjustments in terms of accuracy or appropriateness of the model, allocation calculations and numbers, assumptions and governance, etc.
- The Ministry’s response to the issue, including communication with DHBs
- Post Budget processes
- Providing assurance over the PBFF model itself, and the underlying processes, information and systems
- Interviews with DHBs or other organisations and agencies.

The approach to the review comprised:
- Interviews with over 16 individuals including relevant Ministry personnel and the Treasury. Refer to Appendix B for the interviewees
- Review of documentation and information supporting the in-scope processes.

Deloitte also facilitated workshop sessions with three DHB representatives to share and obtain input and feedback on preliminary findings, lessons learnt and recommendations. Feedback on lessons learnt and recommendations has also been sought from the Treasury.
DHB Funding Estimates Process (historical)

Each year the Ministry develops an Estimates paper, outlining the “health bid” to be approved by Cabinet, and pending Cabinet’s approval, to be included in the Budget for the Government in the coming financial year. This also sets out the individual DHB allocations of the total funding.

DHBs receive a funding adjustment which is negotiated in total and then allocated between the DHBs. Funding is allocated between the DHBs based on a Population Based Funding Formula (referred to as "PBFF") determined by demographic and other data. The PBFF allocations are then adjusted for a number of factors (including the "top-slice" for more targeted funding initiatives and an assessment of minimum and maximum percentage funding increases).

The result of this is the final allocation to DHBs, which are known / referred to as the "adjusted PBFF". These adjusted PBFF numbers are the basis for the Estimates and DHB Funding Advice.

A high level overview of the Estimates process applied in prior years is set out in the diagram to the right (Fig. 1 – High level overview of previous Estimates process). The Estimates process for determining the allocation of additional funding to DHBs was as follows:

- In November / December, the Ministers of Health and Finance agree a portion of the following year’s Budget to be allocated to DHBs as additional funding above their baseline funding package at a total level
- The DHB Funding team develops an early funding signal for the DHBs based on their adjusted PBFF split of the total funding to be received (including both baseline and any additional funding). This funding signal enables DHBs to undertake planning for the next financial year. The adjusted PBFF allocation is calculated by applying the "pure PBFF" split and then applying adjustments for “top-slices” and the minimum / maximum rates determined by the Ministry and approved by the Minister of Health
- The team within the Ministry responsible for developing the Estimates document will obtain the additional funding allocations for each DHB and enter these into CFISNet. The figures in CFISNet are then used for the Estimates that are presented to Cabinet for their approval. Once these figures are approved by Cabinet they are considered legally binding
- In recent years the Minister of Health has negotiated a further increase (referred to as a "top-up") from that previously approved by the Ministers of Finance and Health. The "top-up" additional funding approved by Cabinet is then allocated on a pure PBFF basis
- After the DHB Funding team determine the complete additional funding allocation for each DHB, this is then included in the DHB Funding Advice provided to DHBs following the release of the Budget for the Government.
What happened?

A decision was made in November / December 2016 not to provide an early funding signal. The following (Fig. 2 – Outline of key events) set outs the key events that follow.

Fig. 2 – Outline of key events

- **November / December 2016**
  Decision was made not to release an early funding signal to DHBs.

- **4 April 2017**
  Finance and Performance entered the DHB allocation into CFISnet using the DHB Funding team’s “pure” PBFF split information, which was based on “pure” PBFF percentages applied only on the additional DHB funding increase scenario ($439m). The DHB Funding team noted that the $439m was the Treasury “preferred” figure and that modelling would wait until there was a confirmed figure.

- **5 April 2017**
  DHB Funding team noted, to Finance and Performance, that the DHB allocations in CFISnet were based on “pure” PBFF splits only. Although identified and known to both teams, the potential significance of this to the Estimates was not recognised.

- **11 May 2017**
  Finance and Performance Inform the Treasury that the Estimates in CFISnet can be finalised - using unchanged figures from 4 April 2017.

- **12 May 2017**
  DHB Funding finalises the fully adjusted PBFF split for each DHB and shares these figures with Finance and Performance and notes the figures in the Estimates were not based on the “adjusted” PBFF model and the “adjusted” figures would be shared with DHBs in their funding advice. DHB Funding also noted that variances at an individual DHB level could be considered significant. The Finance and Performance team made the assumption that variances could be adjusted in the October Baseline Update (“OBU”). Accordingly, CFISnet was not updated for the adjusted PBFF numbers nor was the variance issue raised to members of the Ministry’s executive team.

- **15 May 2017**
  Members of the DHB Funding team met with the Chief Financial Officer and Director of Service Commissioning to discuss and approve an Internal Memo, draft Memo for the Health Report and the draft DHB Funding Advice for the Minister of Health. The Internal Memo set out devolved and non-devolved allocations, as per the Estimates, for each DHB, and sought approval of the Health Report and Advice to be provided to the Minister. The Minister Memo and DHB Funding Advice set out the devolved allocations for each DHB, having applied the fully adjusted PBFF allocations. The Chief Financial Officer and Director of Service Commissioning state they were not aware of these differences as they were not raised or discussed at the meeting. This was a key decision point to agree the DHB funding allocations based on the adjusted PBFF model.

- **16 May 2017**
  The Ministry submit a Health Report (Noting Paper) to the Minister, informing him that the Ministry plans to release detailed funding advice to DHBs on 25 May 2017. The information attached to the Health Report sets out the adjusted PBFF numbers for each DHB and additional devolved DHB funding. It did not identify any variance between the Estimates’ numbers and the adjusted PBFF figures for each DHB.
Note:
The individual DHB allocations recorded in the Estimates and the Budget on 4 April 2017 were not based on the adjusted PBFF allocation model and methodology as had occurred in the past. The DHB allocations for the Estimates and the Budget recorded each DHB’s baseline in CFISnet plus the DHB’s proportion of the $439m funding increase, determined by applying PBFF percentages (referred to as “pure PBFF” split / allocation by the Ministry) against the $439m funding increase only.

Three different business units within the Ministry are involved with or provide input into the Estimates process associated with DHB funding allocations:

- **Finance and Performance** – Responsible for the CFISnet figures submitted in the Estimates as part of the Budget and Estimates sign off
- **Service Commissioning** – The DHB Funding team in Service Commissioning is responsible for calculating the DHB funding allocations using the adjusted PBFF model and supplying this information to Finance and Performance for the Estimates and Budget; and developing the funding advice and Health Report
- **Strategy and Policy** – Strategy and Policy are responsible for the Budget package including new initiatives and non-financial components of the Ministry’s Budget bid, including setting and directing initiatives for the coming year.

**Why did it happen?**

For the recent Budget, individual DHB allocations recorded in the Estimates and Budget were incorrect as the PBFF calculations did not apply the method and adjustments normally applied in the past. DHB funding allocation calculations for Budget purposes have been undertaken without this issue occurring in the past.

There was a new organisational structure in place at the Ministry, with new appointments and personnel involved in the finance processes and DHB funding across the new Finance and Performance and Service Commissioning teams. This included the appointment of both the Chief Financial Officer and Director Service Commissioning. However, a number of the personnel were previously involved in elements of the Estimates process in earlier years, including finance staff and the DHB Funding team running the DHB allocation model.

The activities and processes of preparing of the Estimates and Funding Advice are performed by two (of the three) business units – Finance and Performance, and Service Commissioning, who are accustomed to working towards their respective objectives and key responsibilities. Finance and Performance are responsible for ensuring CFISnet is updated and the Estimates are correct, in a timely manner consistent with the Treasury’s / Budget deadlines. DHB Funding’s key responsibility is to calculate the DHB funding allocations using the adjusted PBFF model, to provide this information to Finance and Performance, and to advise DHBs of their consequent allocations.
A key change in approach – the decision not to provide an early funding signal to DHBs did not result in the Ministry making allowances for the timing and processes required for completion of the adjusted PBFF DHB allocation calculations and entry into CFISnet to ensure correct figures for the Estimates and the Budget.

Had the adjusted PBFF model been run earlier, and the adjusted PBFF allocation used for CFISnet and the Estimates, the particular issue may not have unfolded or occurred in the way it did. However, for the reasons outlined here, this did not occur. There were a number of subsequent opportunities to address or at least manage the issue but these were missed or not taken.

Due to the change in approach, and in the absence of an end-to-end process documentation (and requirements setting out clear ownership, roles and responsibilities, timeframes, etc.) there was a heightened risk of the CFISnet and Estimates issue not being recognised early and it occurring.

When Finance and Performance entered the additional $439m DHB allocation adjustments (provided by DHB Funding) into CFISnet they did not recognise the potential risk of not having the correct figures for CFISnet and the Estimates, assuming that these would be updated for later. However they did not then drive the timing and process with DHB Funding to obtain the correct adjusted PBFF allocations numbers.

A decision not to run the full model from 4 April 2017 until the figures were confirmed by Cabinet was made to ensure accuracy of allocations for funding advice however, the Ministry did not consider the earlier need for that information for the Estimates. When variances were identified, it was unclear to us that all those involved understood what the variances meant and the materiality of the variances (aggregate vs individual, devolved and non-devolved). Ministry executives advised they were not aware that an issue, or potential issue, existed. Ministry documents did not set out the individual level DHB variances between the Estimates and the funding advice.

When the variances between the Estimates and final adjusted PBFF allocations were finally identified, there was an incorrect assumption made by Finance and Performance that the variances could be adjusted for in the October Baseline Update ("OBU"). This assumption, in our view was a key factor in why the numbers were not updated and the issue was not escalated to executive management or the Treasury.

Also the design of quality assurance over the DHB allocations for CFISnet and Estimates was not effective for the process applied. The Estimates sign off process does not require the DHB Funding team (responsible for calculating and providing the adjusted DHB funding allocation numbers) to sign off with / to Finance and Performance.

Those involved in the Estimates process did not work in concert to achieve a key common objective – which was to ensure that the adjusted DHB funding allocations were correctly recorded in CFISnet, the Estimates and the Budget (and were aligned with the DHB Funding Advice).
Lessons learnt

There are a number of lessons to be learnt from this issue:

- Change/s to business-as-usual processes should be fully considered for their impact in terms of the need to affirm or revise processes and timing of consequential activities to meet internal and legislative (Budget) timeframes. In particular the decision on when to run the adjusted PBFF allocation calculations to meet the Estimates timeframes and deadlines should be explicitly considered. The PBFF allocation calculations could be performed earlier based on a draft total funding number for the Estimates purposes.

- Where a change impacts when DHBs receive funding advice, the Ministry should also examine and re-adjust their processes to ensure timely and transparent communication and engagement with DHBs, to enhance shared understanding, coordination and response to consequential flow-on process and operational impacts for the Ministry and DHBs.

- Effectiveness of cross functional processes are dependent on, and require, clear understanding of key objectives, ownership and line of sight of information needed (including purpose of the information and by when) shared understanding of roles and responsibilities, and management of timeframes, process dependencies and effective communication. In the absence of clear understanding, specification and documentation of requirements and processes, there is an undue reliance on institutional knowledge and continuity of individuals in key roles.

- Clear decisions and authority is required when there is a departure from the "standard" business methods, model or processes ("practices") for reporting. Applying a different approach to the accepted practices should only be made after a full consideration of the implications and consequences, and explicit approval of the change with clear decisions and risk management in place.

- Expectations and the processes around raising and escalating potential issues, problems or risks to executive and senior management should be both explicit and clear. This includes ensuring there is effective assessment of the "significance" or "materiality" of the issues and the appropriateness of the recommended response (including any assumptions made).

- Standardised "checks and balances" including focused quality assurance can support and strengthen the process, but they also require due consideration of how the change impacts the process and associated risks (including other factors above). Involvement of DHBs in certain aspects of the Ministry’s processes would help promote and enhance transparency and consistency of funding allocation processes.

- Where issues arise with DHB funding variances, CFISnet or Estimates processes, early engagement with the executive and the Treasury would assist in developing a response to issues and also support how the Ministry communicates issues with the Minister and other impacted stakeholders.
Recommendations

The DHB funding allocation and Estimates process leading to the Budget is a key Ministry process. The lessons learnt from what occurred this year lead to a number of recommendations which are set out below.

These recommendations focus on implementing the appropriate structure, practices and controls across the Estimates process for DHB funding allocation to reduce the risk of a similar issue occurring.

1. **Early development of the adjusted PBFF allocation numbers** – At the earliest opportunity (e.g. November / December), the Ministry runs and applies the adjusted DHB funding allocation (scenarios) and model for CFISnet. The Ministry should then continue to monitor and update CFISnet / Estimates for the approved and adjusted DHB funding post Cabinet decision. ‘Placeholder’ figures should not be used as a substitute for adjusted DHB allocations.

2. **Formalise business processes, applying project management disciplines, including change management** – The end to end CFISnet/ Estimates and DHB allocation process needs to be specified and documented, applying project management disciplines across Finance and Performance and DHB Funding, which clearly set out:
   i. End to end processes and information requirements, including clear objectives, roles and responsibilities (document RACI model), interdependencies, key control and decision points and quality assurance requirements, issue/risk escalation, milestones /reporting timeframes and sign off processes. Finance and Performance owns and drives the process and reliability of the Estimates
   ii. Communication approach including nature, extent and timing of internal and external meetings and engagement required, and reporting structures to support joined-up and timely communication ahead of key milestones and formal reporting (refer also 3)
   iii. Robust change management processes, to support process and decision making, ensuring clear understanding of change impact, potential resolution/s and monitoring the approved response.

3. **Engagement and involvement of key stakeholders** – Specify and document the key communication and decision points (and timetable dates) for preparing the Estimates document and Funding Advice. The Ministry determine the nature, extent and timing of involvement of key stakeholders – including DHBs and Treasury in the process. Planned, regular, timely and transparent communication with stakeholders would enhance management of expectations, change and resolution of issues.

4. **Redesign and integrate quality assurance activities across the process** – Quality assurance activities need to be enhanced by ensuring:
   i. Key decision points and supporting documents are identified with specific checks and balances and quality assurance implemented across the information, methods/rules, models and processes
ii. Supporting documentation specified and developed to inform and validate the review, approval and sign-off processes that ensure consistent and correct application of allocation models and methods

iii. CFISnet/Estimates sign-off by Finance and Performance should be countersigned by DHB Funding and any funding advice with potential financial implications are signed off by Finance and Performance.
## Appendix A: Variances Table – Estimates vs Funding Advice

<table>
<thead>
<tr>
<th>DHB</th>
<th>2017/18 Increase $M (Estimates Document) (“pure” PBFF)</th>
<th>2017/18 Increase $M (Proposed MoH Funding Advice) (“adjusted” PBFF)</th>
<th>Variance $M (Estimates vs Funding Advice)</th>
<th>Difference as percentage of total DHB Estimate of appropriation in Budget 2017 (%)</th>
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</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>41,419</td>
<td>52,033</td>
<td>10,614</td>
<td>0.86%</td>
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<tr>
<td>Bay of Plenty</td>
<td>24,622</td>
<td>24,366</td>
<td>-256</td>
<td>-0.04%</td>
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<tr>
<td>Canterbury</td>
<td>47,755</td>
<td>45,062</td>
<td>-2,693</td>
<td>-0.20%</td>
</tr>
<tr>
<td>Capital &amp; Coast</td>
<td>25,002</td>
<td>21,293</td>
<td>-3,709</td>
<td>-0.50%</td>
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<tr>
<td>Counties Manukau</td>
<td>47,822</td>
<td>41,191</td>
<td>-6,631</td>
<td>-0.48%</td>
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<tr>
<td>Hawkes Bay</td>
<td>17,072</td>
<td>15,076</td>
<td>-1,996</td>
<td>-0.41%</td>
</tr>
<tr>
<td>Hutt</td>
<td>13,155</td>
<td>9,500</td>
<td>-3,655</td>
<td>-0.94%</td>
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<tr>
<td>Lakes</td>
<td>11,157</td>
<td>14,610</td>
<td>3,453</td>
<td>1.11%</td>
</tr>
<tr>
<td>MidCentral</td>
<td>17,681</td>
<td>12,185</td>
<td>-5,496</td>
<td>-1.10%</td>
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<tr>
<td>Nelson Marlborough</td>
<td>14,852</td>
<td>14,715</td>
<td>-137</td>
<td>-0.03%</td>
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<tr>
<td>Northland</td>
<td>20,266</td>
<td>26,563</td>
<td>6,297</td>
<td>1.13%</td>
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<tr>
<td>South Canterbury</td>
<td>6,248</td>
<td>5,070</td>
<td>-1,178</td>
<td>-0.66%</td>
</tr>
<tr>
<td>Southern</td>
<td>29,681</td>
<td>24,013</td>
<td>-5,668</td>
<td>-0.67%</td>
</tr>
<tr>
<td>Tairawhiti</td>
<td>5,661</td>
<td>6,120</td>
<td>459</td>
<td>0.29%</td>
</tr>
<tr>
<td>Taranaki</td>
<td>11,616</td>
<td>8,142</td>
<td>-3,474</td>
<td>-1.02%</td>
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<tr>
<td>Waikato</td>
<td>39,525</td>
<td>43,910</td>
<td>4,385</td>
<td>0.39%</td>
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<tr>
<td>Wairarapa</td>
<td>4,760</td>
<td>3,282</td>
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<td>Waitakere</td>
<td>49,544</td>
<td>62,147</td>
<td>12,603</td>
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<td>West Coast</td>
<td>3,896</td>
<td>3,115</td>
<td>-781</td>
<td>-0.61%</td>
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<tr>
<td>Whanganui</td>
<td>7,267</td>
<td>6,609</td>
<td>-658</td>
<td>-0.30%</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>439,000</strong></td>
<td><strong>439,000</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>

Source: The Ministry of Health (prepared post Budget day)
## Appendix B: Interviewees

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Byron Gill</td>
<td>Team Leader, DHB Funding &amp; Operating</td>
</tr>
<tr>
<td>Chai Chuah</td>
<td>Director-General of Health and Chief Executive</td>
</tr>
<tr>
<td>Emma Hicks</td>
<td>Group Manager, Financial Strategy &amp; Planning</td>
</tr>
<tr>
<td>Fergus Welsh</td>
<td>Group Manager, Finance &amp; Performance</td>
</tr>
<tr>
<td>Jill Lane</td>
<td>Director Service Commissioning</td>
</tr>
<tr>
<td>John Hazledine</td>
<td>Chief Advisor, DHB Funding &amp; Operating</td>
</tr>
<tr>
<td>Malcolm Standage</td>
<td>Chief Transition Advisor, Strategic Investment Planning</td>
</tr>
<tr>
<td>Megan McInnes</td>
<td>Senior Advisor, Strategy &amp; Policy</td>
</tr>
<tr>
<td>Mhiari McHugh</td>
<td>Manager, Systems Outcomes - DHB Funding &amp; Operating</td>
</tr>
<tr>
<td>Phillip Berghan-Whyman</td>
<td>Principal Strategic Projects Analyst, Strategy &amp; Policy</td>
</tr>
<tr>
<td>Phillip McConville</td>
<td>Senior Advisor, DHB Funding &amp; Operating</td>
</tr>
<tr>
<td>Ruth Lagolago</td>
<td>Principal Analyst, Finance &amp; Performance</td>
</tr>
<tr>
<td>Sam Kunowski</td>
<td>Group Manager, System Outcomes</td>
</tr>
<tr>
<td>Stephen O'Keefe</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>Ben McBride</td>
<td>The Treasury</td>
</tr>
<tr>
<td>Davin Hall</td>
<td>The Treasury</td>
</tr>
<tr>
<td>John Marney</td>
<td>The Treasury</td>
</tr>
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</table>
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