Deloitte.

Health NZ Financial Management Review

For Management Responses – In Confidence

Version 4a, December 2024

MAKING AN IMPACT THAT MATTERS since 1845

Contents

Table of Figures

Statement of Responsibility

This engagement ("**the review**") was performed in accordance with the terms contained in our Consultancy Services Order with the Ministry of Health dated 10 September 2024 (on behalf of the Ministry of Health, Health New Zealand and the Treasury – collectively "**our clients**"). Where Deloitte has provided advice or recommendations to our clients, we are not responsible for whether, or the manner in which, suggested improvements, recommendations, or opportunities are implemented. The management of our clients, or their nominees, will need to consider carefully the full implications of each of these suggested improvements, recommendations, or opportunities, including any adverse effects and any financing requirements, and make such decisions, as they consider appropriate.

The review was advisory in nature and does not constitute an assurance engagement in accordance with Statement of Review Engagement Standards ("RS1") or International Standard on Assurance (New Zealand) 3000 ("ISAE (NZ) 3000") or any form of audit under the International Standards on Auditing (New Zealand) ("ISA(NZ)s") and consequently no opinions or conclusions intended to convey assurance under these standards are expressed.

The matters detailed in our report are only those which came to our attention during the course of performing our review and did not necessarily constitute a comprehensive statement of all the weaknesses or issues that exist or actions that might be taken. Accordingly, management should not rely on our report to identify all weaknesses and issues that may exist in the systems and procedures discussed. The report should be read in the context of the scope of our work.

This report should not be relied upon as a substitute for actions that our clients should take to assure itself that the relevant controls are operating efficiently.

This report is provided solely for our clients' exclusive use and solely for the purpose of the review. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We accept or assume no duty, responsibility or liability to any other party in connection with the report or this engagement, including without limitation, liability for negligence in relation to the factual findings expressed or implied in this report.

Version Control and Contact

Version	Date	Comment
1	29 November 2024	Initial draft for internal review
2	9 December 2024	Client draft for page turn
3	13 December 2024	Revised draft for internal review
4	17 December 2024	Updated report for management responses
4a	20 December 2024	Acknowledging Audit NZ information received

Contact for more information

For more information in relation to this report, please contact David Lovatt, Partner, Deloitte by email dlovatt@deloitte.co.nz or telephone +64 21 490 016.

Executive Summary

Introduction

Deloitte was engaged to undertake a review of Health New Zealand's (HNZ's) financial performance from July 2022 to current, with particular focus on the financial year 2023/24. The review commenced in October 2024 and concluded in mid-December. The full scope of the review is described in Appendix C: Terms of Reference.

Purpose (from the Terms of Reference)

The purpose of the review is to gain a better understanding of the drivers behind HNZ's worsening financial performance and cash position in the fourth quarter of 2023/24. The review is being commissioned jointly between HNZ, the Ministry of Health (the Ministry) and the Treasury.

Background (from the Terms of Reference)

HNZ reported adverse financial performance results from March 2024, after having reported to Ministers and monitoring agencies a forecast break-even position (after allowing for one-offs such as pay equity) up to that date. While higher than budgeted workforce costs have been a significant contributor to the adverse performance, there are other underlying factors that may have also contributed to the adverse position.

Furthermore, since July 2023 HNZ's cash position has deteriorated, and part of this review will assess what drove this downturn in cash holdings and what changes to systems and processes will allow this kind of issue to be identified earlier in future.

Key findings from the review

What caused the decline in Health New Zealand's financial performance during 2023/24?

The decline in financial performance was caused by HNZ losing control of the critical levers that drive financial outcomes. There were many factors at play that gave rise to the growth in expenditure beyond HNZ's revenue, but the key factor was the inability to identify and respond to the disconnect between expenditure and revenue.

What caused the decline in Health New Zealand's cash position during 2023/24?

The decline in cash position was primarily due to increased payments to staff and suppliers that were beyond budgeted levels. The cumulative effect of higher than budgeted costs through the year led to HNZ paying out more cash than it had planned, particularly in the second half of the financial year.

Approach to the review

The review had three concurrent workstreams encompassing data analysis, financial review and good practice expertise to enable a comprehensive review of HNZ's financial situation. Key tasks completed over the 11-week review period included:

- Sourcing financial data to assess the monthly financial position across 2022/23 and 2023/24, to explore underlying causes and to understand the key drivers behind financial movements. This allowed us to better understand the interplay between revenue and expenditure, and how that compared with budgets and financial plans;

- Obtaining and reviewing supporting documentation, such as financial and operational reports to Management and Board, Ministry and Treasury, including formal publications, budgets/plans/actuals, and formal briefings, to construct a timeline outlining the advice, decisions, and actions taken in relation to the deteriorating financial position since July 2023;
- Conducting interviews with key stakeholders to validate findings and gather insights on resource allocation, financial management, and spending decisions. Interviewees also referred us to additional documentation to examine, and shared insights which we have considered in our review; and
- Generating a set of key findings and reviewing those with Deloitte subject-matter experts to identify important learnings and improvement opportunities, that formed the basis of a connected set of recommendations.

Structure of this report

This report has three main components:

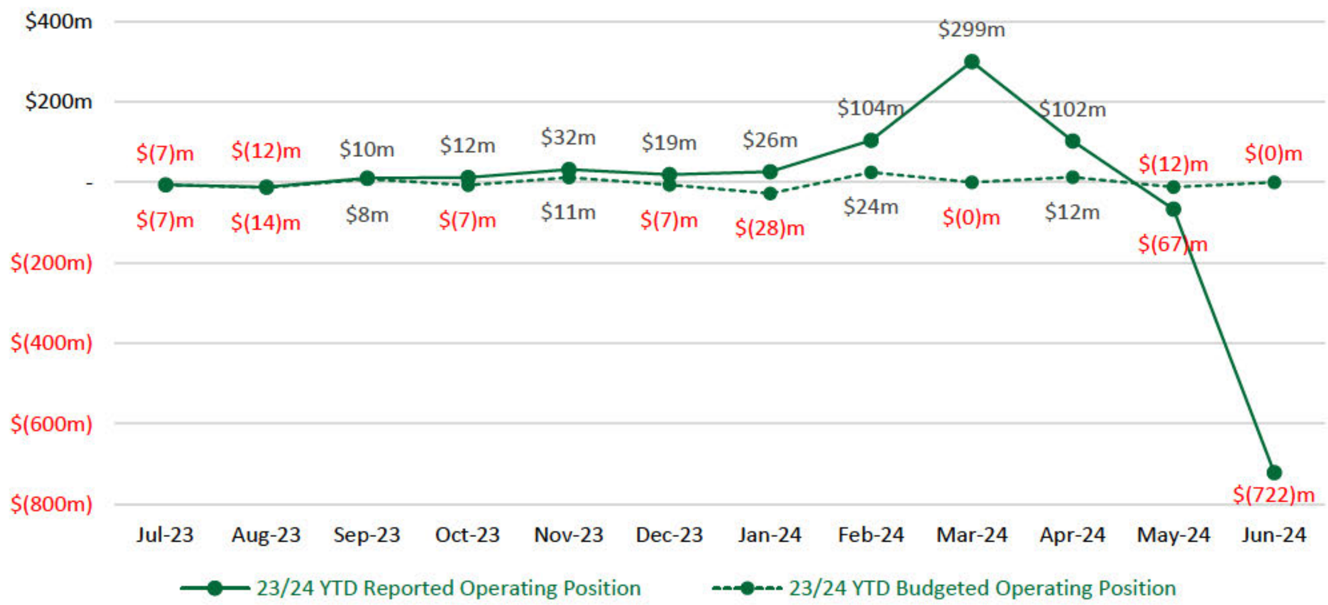
- A description and summary timeline of the events that took place during 2023/24 that relate to the decline in financial performance and cash position of HNZ.
- Key insights and findings derived from our analysis of the financials, documents, interviews, and learnings from better practices.
- Opportunity areas and recommendations for action in response to the insights and findings.

The following four pages present an executive summary of each component, with further details available in the body of the report.

Summary of events during 2023/24

The financial year 2023/24 was a challenging period for HNZ, marked by a series of critical events that unveiled significant underlying financial issues, underscored systemic weaknesses, and highlighted a strong need for improved financial control and transparency.

Figure 1: 2023/24 YTD Reported Operating Position vs Budgeted



Source: [HNZ Consolidated Data Files & Budgets]

Timeline of events

July 2023

HNZ Board approve a planned breakeven operating budget ($0bn) for 2023/24

2023/24 savings programme of $540m outlined

August 2023

Concerns raised from the Treasury regarding the quality and quantity of reporting from HNZ

2022/23 preliminary unaudited result realised at a surplus of $8m, against breakeven budget

September 2023

Retrospective analysis of Care Capacity Demand Management programme signals an over-allocation in nursing resources, with care hours available overtaking care hours required

Ministry provides briefing to Health Minister expressing concern on HNZ data quality and reporting

October 2023

Pay equity of $419m is settled for allied health and midwives

Draft audit opinion provided on 2022/23 results

November 2023

October Finance report first describes an adverse in-month variance in nurse FTEs

Hospital & Specialist Services (H&SS) report highlights an underlying financial deficit

December 2023

Audit paper shows a $1.013bn deficit for 2022/23

Concerns within HNZ on financial performance are raised by the Ministry and the Treasury

Crown Observer appointed to Board of HNZ following recommendation from the Ministry

Controls put in place including roster and leave management

January 2024

November Finance report is shared and first describes adverse year-to-date variance in nurse FTEs

Parties discuss revised budget target, with the Ministry and the Treasury suggesting $650m and HNZ suggesting $583m

The Ministry and the Treasury raises concerns of significant risks of savings shortfall

Weekly check-in meetings established to closely monitor budget and savings targets

February 2024

HNZ Board provide reassurance that they are on track to deliver full savings of $540m

H&SS paper highlights a January year to date $269m overspend

H&SS report on productivity measures, showing concerning picture of declining productivity

HNZ Internal Audit engaged to review nursing FTE controls

March 2024

Finance Minister formally raises concerns to Health Minister on financial performance in a briefing

HNZ Board reaffirm planned breakeven operating budget ($0bn) and target surplus of $583m

CEO briefs Health Minister on overspend areas, specifically nursing personnel

HNZ provides Board papers to Ministry and Treasury for first time

The Ministry and the Treasury raise further concerns regarding ability of HNZ to deliver expected surplus or savings

Roger Jarrold is appointed to the HNZ Board

April 2024

February Finance report received, describing worst-case scenario of $264m surplus

The Treasury share report to Finance Minister raising further concern on nursing overspend

Underlying excess expenditure run-rate of $100m per month revealed

May 2024

HNZ revise worst-case year-end scenario to $237m surplus

Additional cost controls immediately put into place to address financial performance issues

June 2024

Further deterioration in financial performance in May results

Cost controls show some relief on expenditure run rate

The Ministry share that expected revenue for pay equity settlements will not be received in 2023/24

HNZ revise worst-case year-end scenario to $1m surplus with pay equity funding, and a $528m deficit without

Professor Lester Levy appointed Chair of HNZ Board

July 2024

Professor Lester Levy appointed as Commissioner for 12-month term

HNZ provide financial update in joint Ministers meeting, sharing an expected year-end result of a $742m deficit

August 2024

Commissioner appointed Ken Whelan and Roger Jarrold as Deputy Commissioners

September 2024

HNZ share expectations of a 2023/24 year-end deficit of $934m and cash position of $1.063bn

HNZ received $419m in pay equity related to 2023/24 settlements

Kylie Clegg appointed as Deputy Commissioner

October - November 2024

Audit NZ continue to perform audit of HNZ 2023/24 financial results

December 2024

HNZ publish 2023/24 Annual Report, reporting audited deficit of $722m and closing cash position of $840m

Summary of key findings

Key finding:

1. Loss of financial control

- The decline in financial performance in 2023/24 was primarily due to Health NZ losing control of the critical levers that drive financial outcomes.
- A key factor in the lack of control arose from the inability to identify and respond to the disconnect between expenditure and revenue.

This was caused by:

2. Change in operating model

- Moving to a single national system eliminated district governance and management controls such as Boards, Finance & Risk Committees and CxOs.
- The move to national structures reduced local oversight and connectivity, and the ability to see, plan and respond to risks and events as they happened in real time in regions and districts.

3. Insufficient detail in financial plans

- Financial plans lacked necessary details that would enable management to stay within available funding.
- There was a lack of planning around cost drivers, assumptions, output volumes, and service levels.
- Revenue was no longer being signalled down to a district and service level as it had been before.

4. Ineffective savings plans

- Savings plans of more than $500m intended to balance the gap between revenue and expenditure were ineffective.
- There were no supporting action plans, ownership, budget impacts, tracking & reporting, and governance, and the savings were not made.

5. Inaccurate budgets

- Budgets were not consistent with expected revenue or activity levels and did not align with where actual expenditure was going to land in Health NZ.
- They were not based on operational assumptions, were not phased appropriately by month, and provided an inadequate reference point for assessments of monthly financial performance.

6. Complicated information flows and systems

- Financial & reporting systems and spreadsheets were complicated and relied heavily on manual processes.
- This led to multiple versions of the truth, errors, and a lack of clear visibility of required actions.
- Information was available locally but took time to consolidate, aggregate and report to decision-makers.

The impacts were compounded by:

11. Delayed response to issues

- There was a two-month lag time on reporting to senior management, Board and monitoring agencies. Short-term mitigations to over-budget expenditure masked the scale of the underlying performance issues.
- As a result, systemic responses to issues took considerable time to take effect, leading to further deterioration in financial performance.

12. Governance and monitoring responsibilities

- Reports did not contain information the Board and monitoring agencies needed to assess HNZ's financial performance, and there was only a basic statutory accountability framework in place between the Ministry and HNZ during the 2023/24 year.
- Governance and monitoring could have been more sceptical and inquiring around HNZ's performance.

These factors were aggravated by:

7. Organisational changes

- The *Unify to Simplify* transformation programme was implemented across Health NZ during 2023/24.
- Significant changes to organisational structures and people led to a lack of role continuity and clarity.
- This increased the misalignment between financial reporting and management accountabilities.

8. Loss of capability and experience

- As the organisation went through operating model and organisation changes, capabilities and experience were lost that could have mitigated the control failures.
- This occurred at all levels, leading a reduced ability to identify, challenge and respond with experience and proven strategies to address adverse performance.

9. One-offs and timing of costs and revenues

- Significant one-off costs and revenues, such as pay-equity settlements, Covid-related and planned care funding occurred during the year. Revenue was also received in advance and arrears, and there were large releases of revenue accruals and cost provisions.
- These made it difficult to separate the impact of these factors on measures of underlying performance.

10. Recruitment challenges

- The public health sector has for a long time faced recruitment challenges, with a shortage of applicants, high staff turnover and ongoing open vacancies.
- Efforts to increase recruitment led to a rapid increase in total payroll cost and leave liabilities when the hiring & retention environment and context changed.

Summary of opportunity areas

A. Regional and district connections and control points

- Put local governance and control points back into districts and regions, connecting across functions and roles.
- Devolve revenue (available funds) and price signals to operating units at district level to increase visibility of available financial resources.
- Benchmark and improve district financial performance & productivity relative to revenue, cost and price measures.

B. Shared responsibilities and capabilities

- Clearly define how financial, operational, and clinical governance, leadership and management roles will work together at all levels to share responsibilities and make decisions.
- Upskill financial capabilities, resource management, and financial accountability, through training and support structures, across leadership and management roles.

C. Budgeting and production/service planning

- Introduce driver-based budgets supported by production plans (volumes or service levels) across Health NZ.
- Budgets should be developed and maintained in a single budgeting & planning system and be guided by clear instructions and consistent assumptions.
- Costing systems, funding models, service pricing and supporting processes should be reintroduced.

D. Analysis and reporting

- Strengthen analysis and reporting quality, including variance analysis and commentary which should reference production plans, underlying drivers, and comparative measures.
- Reporting should be from consistent and authoritative sources of information for financial and operational measures, aligned with priorities & performance drivers.

E. Savings programmes

- Savings programmes should be supported by clear action plans, ownership, budget impacts, tracking & reporting, and governance. Progress reporting should reference budgets and planned actions.
- Oversight of how savings are banked or disbursed should be formalised, preferably sitting at the governance level or with the executive leadership team.

F. Staffing and rostering

- Reconnect staffing and rostering decisions with production and financial plans and forecasts, in addition to established measures of patient acuity & workload.
- Modernise, align and standardise payroll systems and rostering tools to empower resource decision making for clinical staff and operational management.

G. Resource & financial management systems

- Address fragmented systems and migrate districts to one fit-for-purpose resource management & financial system.
- Eliminate the Excel spreadsheets used for consolidation, journals, business-critical reporting, and analysis.
- Align financial hierarchies and accountability with organisational structures and responsibilities.

H. Adjustments and one-offs

- Review guidance around management of accruals, provisions, treatment of one-offs and write-offs, to improve consistency and alignment between revenue, expenses and underlying financial performance.
- This should also address matters such as revenue in advance/arrears, pay settlements, and expired inventory that proved problematic during 2023/24.

I. Internal audit programme

- Review the internal audit programme to ensure it is aligned to Health NZ's strategy, priorities, and material risks.
- Progress against the implementation plans and recommendations arising from this review should form part of the programme.

J. Monitoring and performance

- Progress has been made in relation to accountability arrangements, with the GPS on Health, Service Coverage and Operational Policy Expectations in place for 2024/25.
- Implementation of the monitoring framework by all parties will require changes to systems, processes, information flows, and how accountabilities are governed and managed to successfully deliver these expectations.

K. Financial management

- Ensure spending remains within available funding and the level of equity support that may be required as part of the reset plan.
- This will require additional improvements to forecasting, planning, and mechanisms for releasing and committing funds through the financial year.

L. Appropriation and output class structure

- Ensure expenditure is appropriately mapped to and reported against appropriations and output classes.
- Consider whether an alternative appropriation and output class structure would better facilitate accurate reporting of spend and the allocation of resources to priorities across the health care system.

Prioritised recommendation areas

Report

Background and Context

On 1 July 2022, Te Whatu Ora – Health New Zealand was established as a Crown Entity under the Pae Ora (Healthy Futures) Act 2022, amalgamating the 20 District Health Boards (DHBs), eight shared services, and functions from Manatū Hauora – Ministry of Health into a single national organisation.

The move to establish Health New Zealand (HNZ), a single national organisation and a single national point of accountability and financial management, marked a significant shift in the way the decentralised public health sector had operated until the era of the Ministry of Health-funded District Health Boards (DHBs) from 2001-2022. Ultimately DHBs were responsible for planning, funding and ensuring the provision of health and disability services for their geographic population, for the majority of public-funded services.

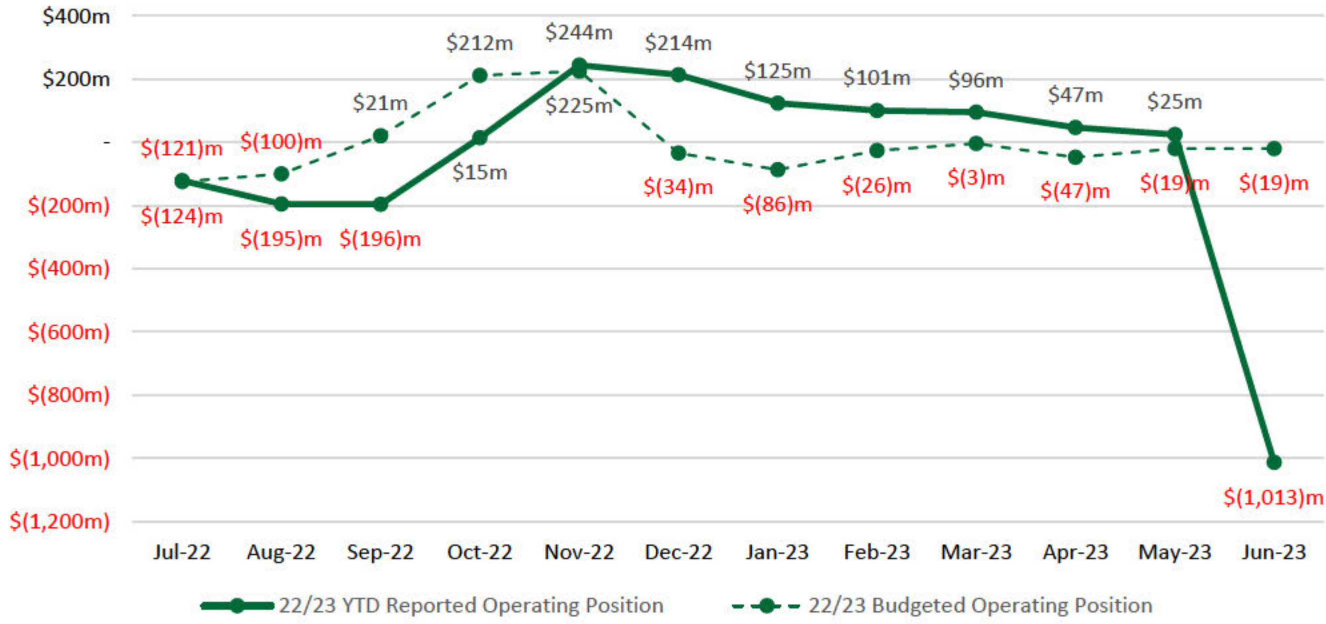
While health services continue to be delivered locally in much the same way as before, the previous DHB functions and operations were all merged into HNZ. HNZ is now responsible for providing, funding, and improving services and outcomes across the health system and from 1 July 2022, subsumed all 28 of these prior entities. All DHB staff, except for CEOs, were transferred to HNZ. This formation resulted in HNZ becoming the largest organisation in New Zealand.

HNZ was formed to give New Zealanders access to consistent quality care, remove complexity and duplication, create opportunities for better practice and innovation which could be better achieved at a national level. Today, HNZ has over 85,000 staff, receives over $26bn in revenue from the Crown and has a $16bn capital asset base.

HNZ was formed at a time when the health sector grappled with rising costs, rising deficits, dealing with some of the most complex Holidays Act 2003 remediation payments and pay equity negotiation challenges as well as the tail-end of a global pandemic. Amalgamating 28 entities into one organisation with new ways of working, that relied on many diverse and underinvested legacy IT systems, was complex and time-consuming. Along with this came the challenging task of transitioning 28 governance and management arrangements into a single broad-span senior leadership team and one Board, with a programme of work to remove duplication, enhance consistency, and address workforce gaps.

In HNZ's first year, 2022/23, the financial year end results revealed a $1.013bn deficit against a breakeven budget. The one-off impact of backdated costs from the pay equity settlements for nursing, midwives, and other health workers (which was agreed on 29 June 2023) had an impact on personnel costs and provisions of $859m, with these costs being fully funded by the Ministry of Health in the following year. In addition, there was a write down of COVID-19 inventory of $284m that had been transferred to HNZ from the Ministry. **[Te Whatu Ora – Health New Zealand Annual Report 2022/2023, Page, 286]**

Figure 2: 2022/23 Reported Operating Position vs Budgeted



Source: [HNZ Consolidated Data Files & Budgets]

These financial impacts were cited as the primary reason for the 2022/23 underlying deficit, however, systemic issues such the continued Holidays Act remediation provision reaching $2.1bn, along with unexpected costs and additional cost pressures continued to exist within the health system. **[Te Whatu Ora – Health New Zealand Annual Report 2022/2023]**

Towards the final quarter of 2023/24 it became increasingly evident that there were emerging financial challenges, demonstrated through a deteriorating financial performance and cash position. The remainder of this report outlines how the sequence of events unfolded throughout 2023/24 and the underlying causes that drove this worsening financial position and ultimately led to a loss of control of the key financial performance drivers. **[Terms of Reference]**

Sequencing of 2023/24 Events

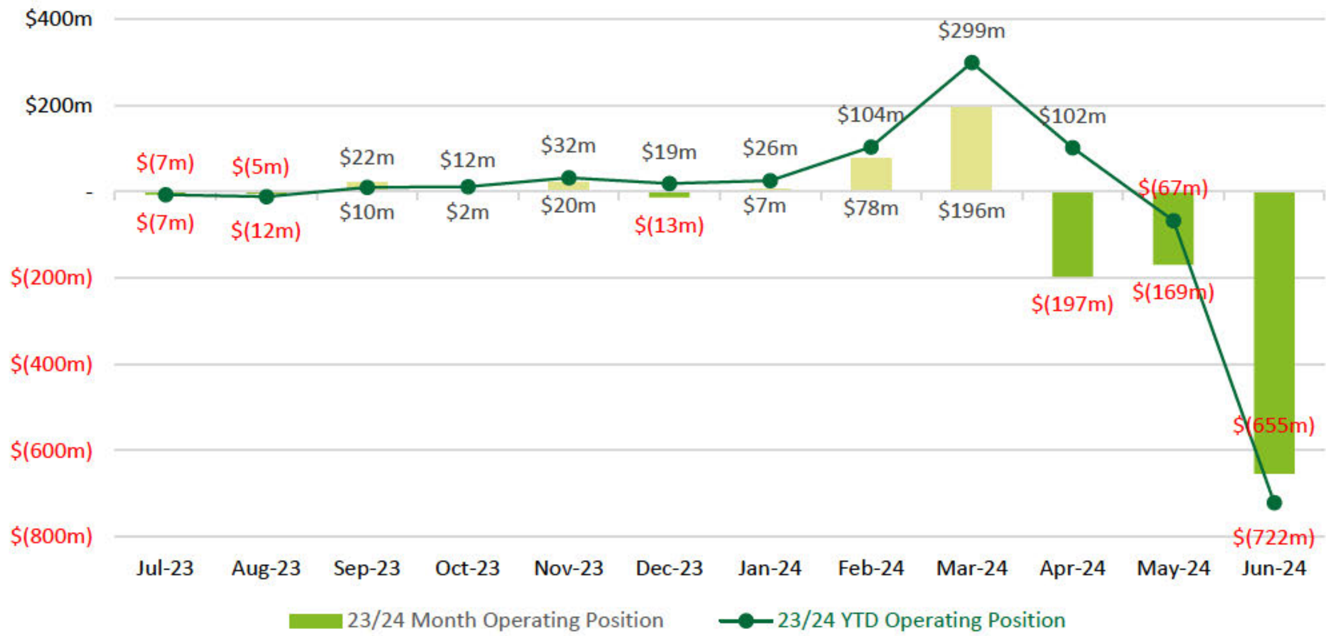
The financial year 2023/24 was a challenging period for Health New Zealand, marked by a series of critical events that unveiled significant underlying financial issues, underscored systemic weaknesses, and highlighted a strong need for improved financial control and transparency.

Overview of the 2023/24 year

Sequencing events from the outset of the financial year, it becomes clear that issues were identifiable earlier than they became apparent at a governance level.

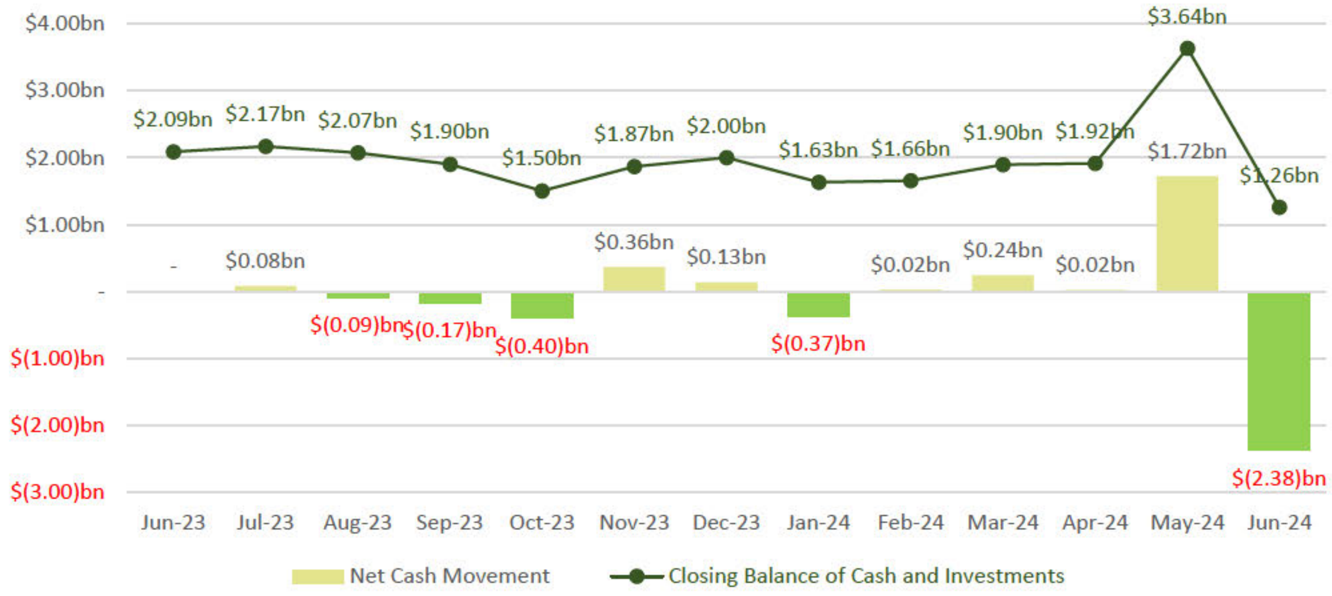
The sequence of events for 2023/24 is based on information received from the Ministry of Health, Treasury, and Health New Zealand (see Appendix B: List of information sources), and a range of interviews conducted across all three organisations (see Appendix A: Acknowledgement of interviews). Additional information and responses to written questions were to be provided by HNZ's auditors, however by the report deadline they had not responded.

Figure 3: 2023/24 Reported Operating Position



Source: [HNZ Consolidated Data Files]

Figure 4: 2023/24 Reported Cash and Investment Position and Net Movements



Source: [HNZ Consolidated Data Files & Te Whatu Ora – Health New Zealand Annual Report 2023/24]

Note cash and investment balances have been consolidated for the purposes of our review. This aligns with HNZ's practice of rolling re-investment of cash into term deposits as reflected in their monthly financial reporting. Further note, movements in Figure 4 are based on the information and data available for the review.

Establishing the year-end target for 2023/24

Throughout our review we have noted confusion around the planned and forecast year-end position for HNZ. This is partly due to timing, as it took several months to close out the ending position for 2022/23 which influenced the expectation for 2023/24, and during the year reported results for one month were sometimes being discussed 1-2 months later even when additional information was available.

In other instances, confusion arose due to different assumptions being made around the timing of revenues (such as for pay equity), the level of savings achievement to be realised, or expectations of under- or over-budget revenue or expenditure crystallising in the remaining months of the year. It is also apparent that different levels of management, governance and monitoring, and different teams (such as within Hospital & Specialist Services (H&SS)) had differing reports of the financial position and expenditure trends even within the same month.

Figure 5 describes the expectations of the year-end position that were communicated and used for comparative reporting purposes, in relation to each period's results. However, there are several instances of inconsistencies of targets discussed across reports, briefings, and letters in a month, creating challenges in capturing an accurate record of the expectations shared.

Figure 5: Year-end Expectations Communicated in Reports for each Period

Reporting period	Year-end Budget Target	Year-end Forecast	Year-end Savings Target
July 2023	$0m (breakeven)	Not reported (HNZ did not perform year-end forecast across the months July to December 2023)	$540m
August 2023	$0m (breakeven)		$540m
September 2023	$0m (breakeven)		$540m
October 2023	$0m (breakeven)		$540m
November 2023	$0m (breakeven)		$541m
December 2023	$0m (breakeven)		$540m
January 2024	$0m (breakeven)	HNZ: $507m Monitoring agencies: $650m	$540m
February 2024	$0m (breakeven)	$507m	$540m
March 2024	$583m	$541m	$525m (forecasted)
April 2024	$583m	$237m	$540m
May 2024	$54m	$(528)m	$541m
June 2024	$54m	$(604)m	$499m (reported actuals)

Source: **[Finance, Risk and Audit Committee Papers & HNZ Proactive Release, Monthly Finance Reports]**

There were several events that impacted expectations of the 2023/24 year-end budget target, prompting several revisions of the target and forecasts throughout 2023/24. The following events explain some of the revised targets and the confusion in the reporting of these figures:

- The 2022/23 audit led to a $1.013bn deficit being reported. A key driver of this result was $859m of pay equity settlements that were accounted for in 2022/23, with the revenue to be recognised in 2023/24. Documents indicate that in response to this, through discussions across January and February 2024, monitoring agencies expected a 2023/24 year-end $650m surplus. **[HNZ Proactive Release, 2023/24 Revised Budget Target and Financial Pressures, Page 154]**
- In discussing January 2024 results, HNZ's CFO shared expectations of a year-end forecast surplus of $507m in the Finance and Audit Committee (FAC) on 8 March 2024, noting a $143m difference from the monitoring agencies forecast expectations. Drivers of this difference were noted to include the leave revaluation impact of pay equity and Holidays Act payments, and Care Capacity Demand Management (CCDM). **[Finance and Audit Committee Agenda and Papers – Friday 8 March 2024 – Discussion and Information Items, Page 72]**
- On 21 March 2024, the CEO of HNZ wrote in a briefing to the Health Minister sharing expectations for a year-end forecast of a $583m surplus and noting that there has been no formal communication from the monitoring agencies regarding the $650m forecast. It also says HNZ continues to work towards the published Statement of Performance Expectations (SPE) breakeven

outcome, as per their operational budget. **[HNZ Proactive Release, 2023/24 Revised Budget Target and Financial Pressures, Page 155]**

- On 22 March 2024, in a letter to the Health Minister, the Chair of HNZ confirms expectations of a $583m year-end forecast, rather than the $507m that was communicated previously. **[HNZ Proactive Release, Letter to Minister of Health, Page 169]**
- In discussing February 2024 results, HNZ's CFO continued to share expectations of a $507m forecast in the FAC meeting on 12 April 2024, noting a $76m difference to the monitoring agencies expectations which had been revised to a surplus of $583m. At the same time, the Board and CEO of HNZ were communicating a $583m forecast to the monitoring agencies. **[Finance and Audit Committee Agenda and Papers – 12 April 2024 – Discussion and Information Items, Page 186]**
- In the following FAC meeting dated 10 May 2024, HNZ's CFO noted the Board had requested financial performance be reported against a revised budget target surplus of $583m to align with monitoring agencies' expectations. The CFO shared a revised year-end forecast of a $541m surplus, noting this is $42m below the revised budget target. **[Finance and Audit Committee Agenda and Papers – May 2024 – Standing Items, Page 18]**
- In the FAC meeting on 24 June 2024, HNZ's CFO noted HNZ was advised they would not receive $529m of pay equity funding in 2023/24. As a result, HNZ revised the year-end budget target of a $583m surplus to a $54m surplus. They then shared that HNZ will not reach this target of $54m and revised their year-end forecast to a $528m deficit. **[Finance and Audit Committee Agenda and Papers – June 2024 – Standing Items, Page 38]**

Month-by-month timeline:
July 2023

Starting in July 2023, through the SPE, HNZ published both financial and non-financial performance expectations along with the baseline figures and targets for the year. **[Statement of Performance Expectations for 2023/24]** The Board approved the planned 2023/24 breakeven operating budget ($0bn), building on the budgeted breakeven position from 2022/23. This included an expected $1.480bn increase in revenue, representing a 6% increase, matched by a corresponding increase in expenditure. **[Finance and Audit Committee Agenda and Papers – Friday 11 August 2023 – Discussion and Noting Items, Page 122]** The SPE also set expectations of a $1.869bn closing cash balance for 2023/24, representing a decrease of $558m from 2022/23. **[Statement of Performance Expectations for 2023/24, Page 43]**

To support in the delivery of the 2023/24 budget, HNZ set a savings programme of $540m, representing 2% of baseline. This total value was broken down into five core initiatives but did not provide detail on how the expected savings would be achieved. **[HNZ Board Papers, Agenda and Papers – August 2023, Page 5]**

The July 2023 Finance Report, which was circulated to the Board in August 2023 and to monitoring agencies (the Ministry and the Treasury) in September 2023, reported a $7m operating position deficit that was in line with budget, and a $2.058bn closing cash balance. **[HNZ Proactive Release, July Finance Report, Page 9]**

The monthly Finance Reports, including the CFO reports and reports included in the Board papers are the primary medium for the Board, the Executive Leadership Team (ELT), and monitoring agencies, to gain visibility on HNZ's financial performance. These are circulated with the Board around one month following the end of the reporting period and to its monitoring agencies in 1-2 months, sometimes longer. This lag time between closing of the monthly accounts and communication of results was not new and was the case over a period of time as indicated through the reporting dates in Figure 6.

Figure 6: 2023/24 Monthly Finance Report Schedule

Period	Date to be shared with the Board	Date to be shared with the Minister
November 2023	22 December 2023	January 2024
Quarter 1 (July - September 2023)	22 December 2023	January 2024*
December 2023	26 January 2024	February 2024
Quarter 2 (October - December 2023)	23 February 2024	March 2024
January 2024	23 February 2024	March 2024
February 2024	22 March 2024	April 2024
March 2024	26 April 2024	May 2024
Quarter 3 (January - March 2024)	24 May 2024	June 2024
April 2024	24 May 2024	June 2024
May 2024	27 June 2024	July 2024
June 2024	26 July 2024	August 2024
Quarter 4 (April - June 2024)	23 August 2024	September 2024

Source: [HNZ Proactive Release, Aide-Mémoire Quarterly and Monthly Performance Reports, Page 58]

The Ministry had previously raised concerns about the quality of HNZ financial performance reporting and ability to report against accountability documents, for example in a June 2023 briefing the Ministry indicated issues around visibility of financial information, reliability, quality and completeness which had been raised directly with HNZ in the 2022/23 year. **[Briefing, Summary of Te Whatu Ora Quarter 3 Performance, Page 9]**

August 2023

In August, correspondence from the Treasury to HNZ raised concerns on the quality and transparency of reporting, specifically on the disconnect between financial and delivery data, outlining it was not clear from the reporting whether budget adherence was at the cost of lower volumes of delivery. **[Treasury - Log of monitoring information requests, Page 4]** We did not sight evidence of these concerns being responded to or addressed in writing.

That month, HNZ closed its provisional accounts for 2022/23 with a small unaudited operating surplus of $8m and a closing cash position of $1.953bn. **[Finance and Audit Committee Agenda and Papers – Friday 11 August 2023 – Discussion and Noting Items, Page 116]** The August 2023 Finance Report, which was circulated to the Board in September 2023 and to monitoring agencies in October 2023, reported a $5m deficit for the month, which was $2m favourable to budget and a year-to-date deficit of $12m, also $2m favourable to budget. It reported a closing cash balance of $1.953bn. **[HNZ Proactive Release, August Finance Report, Page 24]**

September 2023

On 20 September 2023, the Ministry provided a briefing to the Health Minister, Hon Dr Ayesha Verrall, on their assessment of HNZ Q4 2022/23 performance. In this briefing the Ministry notes that whilst HNZ's performance reporting has shown signs of improvement over 2022/23 and there has been positive progress, there remain concerns on the data quality and reporting, notably on the transparency and availability of information, and the clarity of monitor roles and responsibilities. **[Briefing, Summary of Te Whatu Ora Quarter 4 Performance, Page 9]** The same briefing also signalled the 2022/23 financial out-turn was likely to be a deficit of $960m rather than the small surplus of $8m, due to two major items: $415m relating to the transfer of COVID-19 inventory to HNZ from the Ministry, and $550m for nursing pay equity back pay.

CCDM data for September 2023 revealed that available care hours had exceeded the required care hours, a measure that indicates a potential overallocation of nursing resources. **[HNZ Proactive Release, Impacts of Increased Employed Nursing Workforce, Page 314]** This issue was observed through a retrospective analysis (report dated June 2024), and it is understood that this finding was not known at the time. There was no finance report circulated for that month to the Minister's Office as they were in election/caretaker Government status. **[HNZ Proactive Release, October 2023 Documents, Page 17]**

October – November 2023

During October, pay equity settlements of $419m for Allied Health and Midwives were concluded. **[HNZ Proactive Release, Summary, Page 2]** Audit New Zealand provided a draft unmodified opinion on group financial statements and a qualified opinion on group performance information for the year ended 30 June 2023. Basis for the qualified opinion on group performance information was due to adequate records not being maintained to be able to verify performance for cardiac surgery measures. **[Finance and Audit Committee – Friday 8 December 2023 – Discussion and Noting Items Pages 39 - 40]**

In November 2023, internal reporting for H&SS based on October 2023 results highlighted underlying financial issues. The report showed a year-to-date budget overspend of $174m after adjustments for central provision releases and pay equity amounts. H&SS undertook a high-level forecast which projected a year-end budget overspend of $978m, with personnel costs contributing $447m to the unfavourable variance. **[Hospital and Specialist Services - October 2023 YTD Financial Results and Full Year Forecast]** Following these findings, regular meetings were established to understand and address the causes of this deteriorating financial performance. **[Interviews]**

The October 2023 Finance Report, which was circulated to the Board in November 2023 and to monitoring agencies in December 2023, did not highlight the potential issues regarding personnel costs within HNZ. **[HNZ Proactive Release, October Finance Report, Page 40]** It showed nursing full time equivalents (FTEs) were over budget for the month (37,166 FTEs compared to the budgeted 36,535 FTEs), however, the year-to-date FTEs remained within budget, and there was no commentary that spoke to this variance. **[HNZ Proactive Release, October Finance Report, Page 47]** The report described a $2m surplus for the month, $17m favourable to budget and a year-to-date surplus of $12m, which was $19m favourable to budget. It reported a closing cash balance of $1.467bn. **[HNZ Proactive Release, October Finance Report, Page 37]**

The November 2023 Finance Report, showed the first signs of budget overspend for nursing costs, reporting a $81m unfavourable variance. **[HNZ Proactive Release, November Finance Report, Page 81]** There was no commentary indicating underlying issues with FTEs or reasons for the overspend. In this report, figures on nursing FTEs for the month highlighted a small unfavourable variance to budget (36,766 FTEs compared to the budgeted 36,522 FTEs) and figures on nursing FTEs year-to-date also highlighted a small unfavourable variance to budget (36,593 FTEs compared to the budgeted 36,548 FTEs). Commentary, however, continued to state that FTEs were within budget year-to-date. **[HNZ Proactive Release, November Finance Report, Page 86]** The report described a $20m surplus for the month, which was $2m favourable to budget, and a year-to-date surplus of $32m, which was $20m favourable to budget. It reported a closing cash balance of $1.736bn. **[HNZ Proactive Release, November Finance Report, Page 79]**

The November Finance Report was circulated to the Board in December 2023 and to monitoring agencies in January 2024, at which point, the internal meetings established to address H&SS' deteriorating financial performance had increased to a weekly cadence as the issues continued to mount. **[Interviews]**

December 2023

The December 2023 Finance Report presented nursing FTEs continuing to track above budget, reporting 1,040 over budget for the month and 211 over budget year-to-date, but there was no reporting commentary addressing these figures. **[HNZ Proactive Release, December Finance Report, Page 115]** This report was circulated to the Board in January 2024, and to monitoring agencies in February 2024. The report described a $13m deficit for the month, which was $5m favourable to budget and a year-to-date surplus of $19m, which was $26m favourable to budget. It reported a closing cash balance of $1.866bn. **[HNZ Proactive Release, December Finance Report, Page 108]**

The 2022/23 audited results were published in December 2023, showing a year-end $1.013bn deficit, adjusted for pay equity and COVID-19 stock write-downs. This position reflected adjustments of $859m for pay equity settlements (Nursing, Midwifery, Allied Health) that were accounted for in 2022/23, with the funding expected to be received and recognised in 2023/24. It also reflected a $284m COVID-19 stock written down in 2022/23. Without these adjustments, HNZ would have shown a surplus position for the year. **[Te Whatu Ora – Health New Zealand Annual Report 2022/2023, Page 286]**

Crown Observer

On 5 December 2023, the Ministry provided a briefing to the Health Minister, Hon Dr Shane Reti, outlining considerations for the appointment of a Crown Observer to HNZ as a result of a number of concerns raised by the Ministry and Treasury over the 18 months of HNZ's existence. This briefing describes concerns from the Ministry that they have not been able to make informed assessments on how the Board of HNZ are conducting their role and discharging their duties, citing the primary constraint as an absence of open information to support them. Without greater transparency from the HNZ Board, or an improved understanding of the information from which they are making organisational decisions, the Ministry described that they were unable to determine the extent to which progress is being made, and the effectiveness of governance in driving iterative improvement in the context of developing organisational maturity. **[Briefing, Supporting Governance through Crown Observer, Page 3]**

On 18 December 2023, the Health Minister appointed a Crown Observer to HNZ citing significant ongoing challenges surrounding the 2022 Health Reforms. **[HNZ Proactive Release, November Finance Report, Page 52]** The appointment was aimed to address issues such as health workforce shortages and hospital wait times, providing oversight and support to the Board to deliver the expected outcomes outlined by the Government. **[www.beehive.govt.nz, Crown observer to be appointed to Health New Zealand]**

January 2024

On 15 January 2024, the Ministry shared a briefing to the Health Minister outlining key monitoring issues with regards to HNZ's performance and the Board. The briefing describes concerns from the Ministry that they cannot be fully assured of the Board oversight and decisions on HNZ's priorities. **[Ministry, Briefing on HNZ performance for Q1 2023/24, Page 6]**

The briefing highlights that the Ministry recognised there was substantial progress made by HNZ, notably that the Quarter 1 report was a significant improvement on previous quarters, as it improves visibility on the progress of delivery of priorities for HNZ. **[Ministry, Briefing on HNZ performance for Q1 2023/24, Page 7]**

In the briefing, the Ministry also outlined they were implementing a new quarterly monitoring cycle for the health system in order to strengthen their monitoring capabilities. This approach embeds the Monitoring Plan that had been recently agreed between the Ministry, HNZ Board, and Chief Executive. **[Ministry, Briefing on HNZ performance for Q1 2023/24, Page 4]**

This briefing also notes a concern from the Ministry in needing to further understand HNZ's financial forecasts, with the Ministry yet to receive a full financial forecast for 2023/24. It states that HNZ signalled a forecasted year-end surplus of $400m - $500m, however, due to 2022/23 results outcome, the Ministry expects a surplus of between $650m - $750m. **[Ministry, Briefing on HNZ performance for Q1 2023/24, Page 8]**

The January 2024 Finance Report, which was circulated to the Board in February 2024 and to monitoring agencies in March 2024, reported an expected year-end surplus of $507m. The report outlined a $7m surplus for the month, which was $28m favourable to budget, and a $26m surplus year-to-date, which was $54m favourable to budget. It reported a closing cash balance of $1.603bn. **[HNZ Proactive Release, January Finance Report, Page 124]** Financial results showed that nurse FTEs were continuing to increase beyond budgeted levels and commentary in these reports did not flag any personnel cost-related risks. **[HNZ Proactive Release, January Finance Report, Page 132]**

It was in January that the Treasury and Ministry raised their concerns about a potential shortfall in the $540m savings target, highlighting the lack of implementation plans to support realisation of savings and expressed that the information received so far was not encouraging. **[Treasury Proactive Release, Introductory briefing for Ministers of Finance and Health on Vote Health, Page 24]**

February 2024

In February, the Board relayed positive expectations to the Ministry and the Treasury that they were across the financials and reaffirmed their confidence in achieving the full savings targets, stating $361m of the $540m target had been realised so far. **[HNZ Proactive Release, Chair briefing to Ministers on Fiscal Sustainability, Page 117]**

For the first time, the February Finance Report raised concerns about increased nursing FTEs and associated costs. This report was circulated to the Board in March 2024 and the monitoring agencies in late April 2024 and attributed these overspends as an emerging concern. The report outlines a $78m surplus for the month, which was $25m favourable to budget, and a year-to-date surplus of $104m, which was $79m favourable to budget. It reported a closing cash balance of $1.625bn. **[HNZ Proactive Release, February Finance Report, Page 198]**

H&SS raised further issues on expenditure, with a paper shared to the Finance and Procurement SLT Subcommittee in February highlighting a significant underlying overspend, forecasting a year-end $665m deficit, based on actuals to January 2024, then a seasonally reflective run-rate plus known additional costs**. [Finance and Procurement SLT Subcommittee, Hospital & Specialist Services, Page 20]**

March 2024

In March 2024, a letter from the Finance Minister, Hon Nicola Willis, expressed concerns about HNZ's financial position, particularly regarding the savings targets and H&SS productivity, suggesting the solution lies in a capable Board that is meaningfully monitoring and controlling HNZ's financial performance. **[HNZ Proactive Release, Finance Minister briefing to Health Minister in March, Page 150]** In response to the Minister's scrutiny, the HNZ Board reinforced its confidence in achieving a year-end target of a $583m surplus. **[HNZ Proactive Release, Response to letter from Minister of Finance, Page 169]**

The Ministry continued to raise concerns that the oversight of the HNZ Board was inadequate and that it was not clear if HNZ was on track to deliver the expected surplus in 2023/24, or the proposed savings, in full. The Ministry and the Treasury continued to seek assurance that one-off savings were not being used to fund ongoing investment or offset expected H&SS savings that are not being achieved. **[Quarter 2 2023/24 Monitoring Report - Health New Zealand | Te Whatu Ora 21 March 2024 Briefing: 2024036625]** March 2024 also marked the first time that HNZ Board papers were shared with the Ministry and Treasury. **[Quarter 3 2023/24 Monitoring Report- Health New Zealand | Te Whatu Ora 27 June 2024 Health Report number: H2024042526]**

The March 2024 Finance Report, which was shared to the Board in April 2024 and to the monitoring agencies in May 2024, revealed that nursing FTEs were greater than budget by 2,079 in the month and 878 year-to-date, highlighting unbudgeted CCDM costs as the largest risk. **[HNZ Proactive Release, March Finance Report, Page 194]** The report described a $196m surplus for the month, which was $220m favourable to budget, and a year-to-date surplus of $299m, which was $300m favourable to budget. It reported a closing cash balance of $1.730bn. **[HNZ Proactive Release, March Finance Report, Page 185]**

It is counterintuitive that signals of declining financial performance are accompanied by a monthly surplus rather than the expected deficit. This surplus position in March was driven by increased revenue and the one-off release of balance sheet accruals which did not change the underlying drivers of declining performance. Material movements included:

- Additional pay equity funding of $22m in Nursing and $82m in Allied Health. **[HNZ Consolidated Data Files]**
- Unbudgeted Pharmac funding of $70m. **[HNZ Consolidated Data Files]**
- Additional Pharmaceutical Cancer Treatment (PCT) revenue from 2022/23 wash-up of $30m. **[HNZ Proactive Release, March Finance Report, Page 188]**
- Release of expenditure accruals of $89m and release of income in advance of $11m following a balance sheet review. **[HNZ Proactive Release, March Finance Report, Page 185 and 188]**

That month, HNZ had also shared a brief to the Ministry explaining areas of expenditure outside budget, specifically on the internal personnel over-recruitment. The Board of HNZ communicated expectations of a positive year-end position to the monitoring agencies, sharing that they were set to achieve a breakeven operating position, as per the published SPE. **[HNZ Proactive Release, 2023/24 Revised Budget Target and Financial Pressures, Page 155]**

Throughout the months of February to April, on the request of the Chief Executive of HNZ, Internal Audit started to become involved in reviewing nursing costs and recruitment to understand why these costs had increased significantly in excess of budget. The findings of the Internal Audit assessment were shared in a report dated August 2024 to senior management and the HNZ Finance, Risk and Audit Committee (FRAC) Chair. **[Nurse FTE Controls Review]**

The accumulation of these challenges led to the appointment of Roger Jarrold to the Board of HNZ at the end of March 2024 in order to address the issues and gaps identified. **[HNZ Proactive Release, Letter to Minister of Health, Page 395]**

April 2024

In April 2024, the Treasury shared a briefing to the Finance Minister highlighting further concerns that were emerging regarding HNZ's financial management, pointing to poor internal monitoring and reporting. **[Treasury Proactive Release, Pages 57]** At the same time, the Ministry was briefing the Health Minister that HNZ was now in an underlying operating deficit and were concerned that planned H&SS savings would not be delivered. **[Briefing on HNZ performance for Feb 24]**

Further discussions between HNZ and its monitoring agencies were held on a suitable year-end target. Reports received by the Treasury in April indicated a revised worst-case scenario of a $264m surplus and a best-case scenario of a $502m surplus. The Board of HNZ shared a target of a $583m surplus and an expected operating breakeven position, as per the published SPE, and the Ministry shared expectations of a $650m surplus. **[Treasury Proactive Release, Pages 60 - 68]**

The April 2024 Finance Report, which was circulated to the Board in May 2024 and to monitoring agencies in June 2024, showed that the financial position had deteriorated further, revealing a deterioration in the underlying expenditure run rate of $100m per month as a result of the additional nursing FTE. The report described a $197m deficit for the month, which was $245m unfavourable to budget, and a $102m surplus year-to-date, which was $274m unfavourable to budget. It reported a closing cash balance of $1.730bn. **[HNZ Proactive Release, April Finance Report, Page 252]**

Within this report, HNZ revised their year-end expectations, communicating a worst-case scenario of a $237m surplus and a best-case scenario of a $317m surplus. **[HNZ Proactive Release, Update – April Financial Result, Page 231]** This was also considered in a risks and opportunities analysis that detailed the assumptions underpinning the $237m figure. **[HNZ Proactive Release, Updated financial information on 23/24 year-end expected position, Page 242]**

The April 2024 deficit of $197m was a $393m adverse movement from the surplus of $196m reported in March 2024. As highlighted in Figure 7 (below, on page 25), nursing costs were reported as a key driver of the results, with nursing FTEs greater than budget by 3,522 for the month of April. **[HNZ Proactive Release, April Finance Report, Page 251]** The movement in the operating position from March 2024 to April 2024 is a result of the pay equity funding and other one-off revenue and balance sheet accrual releases in March, which combined totalled $304m.

May – June 2024

A briefing shared in May described the December cost controls as ineffective. Immediate cost control measures were put in place, including a pause on recruitment, improved leave management, and restrictions on non-essential travel. The purpose of these measures was to curb the escalating costs and bring some stability to the financial situation. [HNZ Proactive Release, Update – April Financial Result, Page 231]

Whilst informal financial updates in June reported some relief arising from cost control measures, formal results for May 2024 presented a financial position that had worsened. The May 2024 Finance Report, which was circulated to the Board in June 2024 and to the monitoring agencies in July 2024, described a deficit position that was $129m unfavourable to budget for the month [HNZ Proactive Release, May Finance Report, Page 302] and a year-to-date $86m deficit, which was $711m unfavourable to budget. [HNZ Proactive Release, May Finance Report, Page 303]

Also in this report, HNZ communicated that the target budget surplus of $583m would not be achieved and revised their expectations to a $1m surplus, with the assumption that pay equity revenue was received. Otherwise, they faced a $528m deficit. [HNZ Proactive Release, May Finance Report, Pages 302-304] The same report detailed an updated risks and opportunities assessment that substantiated the $1m projected surplus. [HNZ Proactive Release, May Finance Report, Page 304] However, in a briefing to the ELT in June there were different financial figures recorded, communicating a potential deficit of $622m without pay equity funding. [17 June ELT Meeting, Update Internal Budget 2024, Page 1]

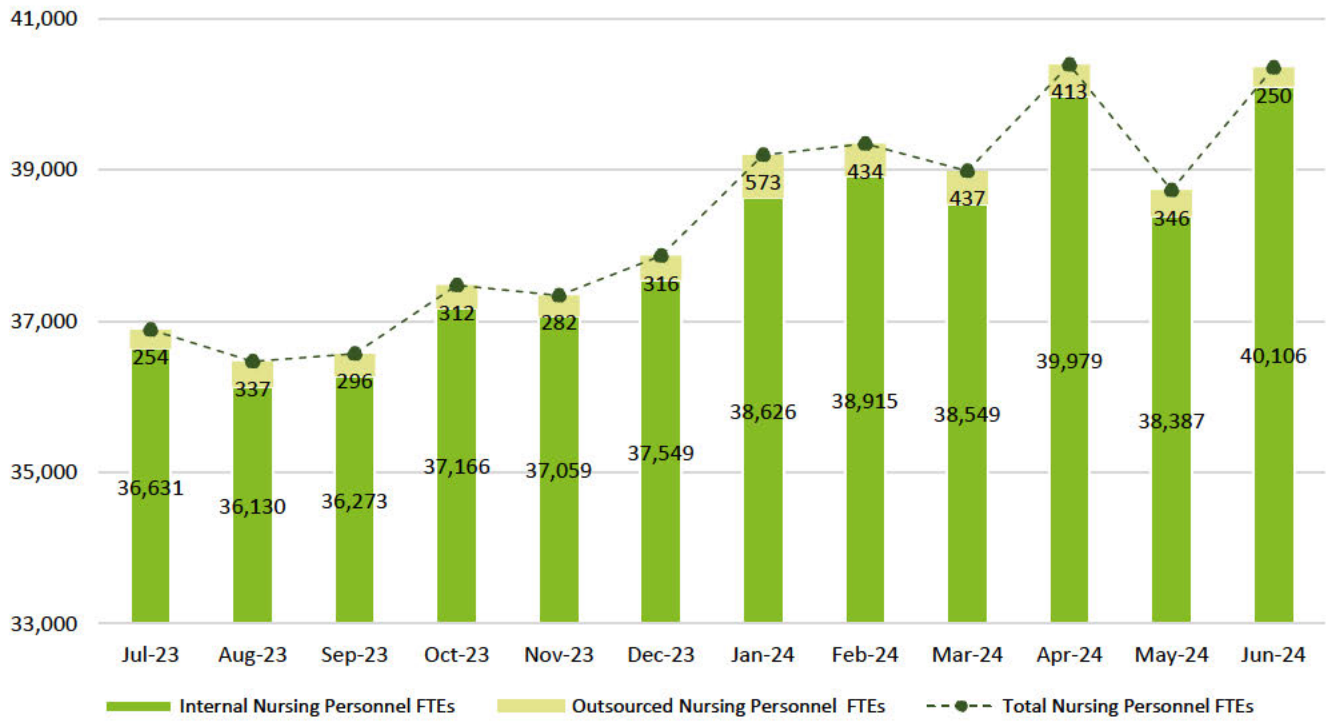
Finally, in June 2024, a paper was shared, communicating the findings from an analysis into the impacts of the increased nursing workforce, discussing the over-recruitment and its financial implications. This paper described a 12.2% growth in nursing FTEs since July 2022 and a growth in outsourced personnel of 52.2%. Nursing FTEs at the end of May totalled 38,726 FTEs at a cost of $4.526bn year-to-date, with outsourced FTEs adding 287 FTEs at a cost of $44m year-to-date. [HNZ Proactive Release, Impacts of Increased Employed Nursing Workforce, Page 309]

Calculation and reporting of nursing FTE and costs

There is not a direct correlation between reported nursing FTE numbers and costs, due to significant pay equity releases between September 2023 and March 2024 that masked underlying monthly costs.

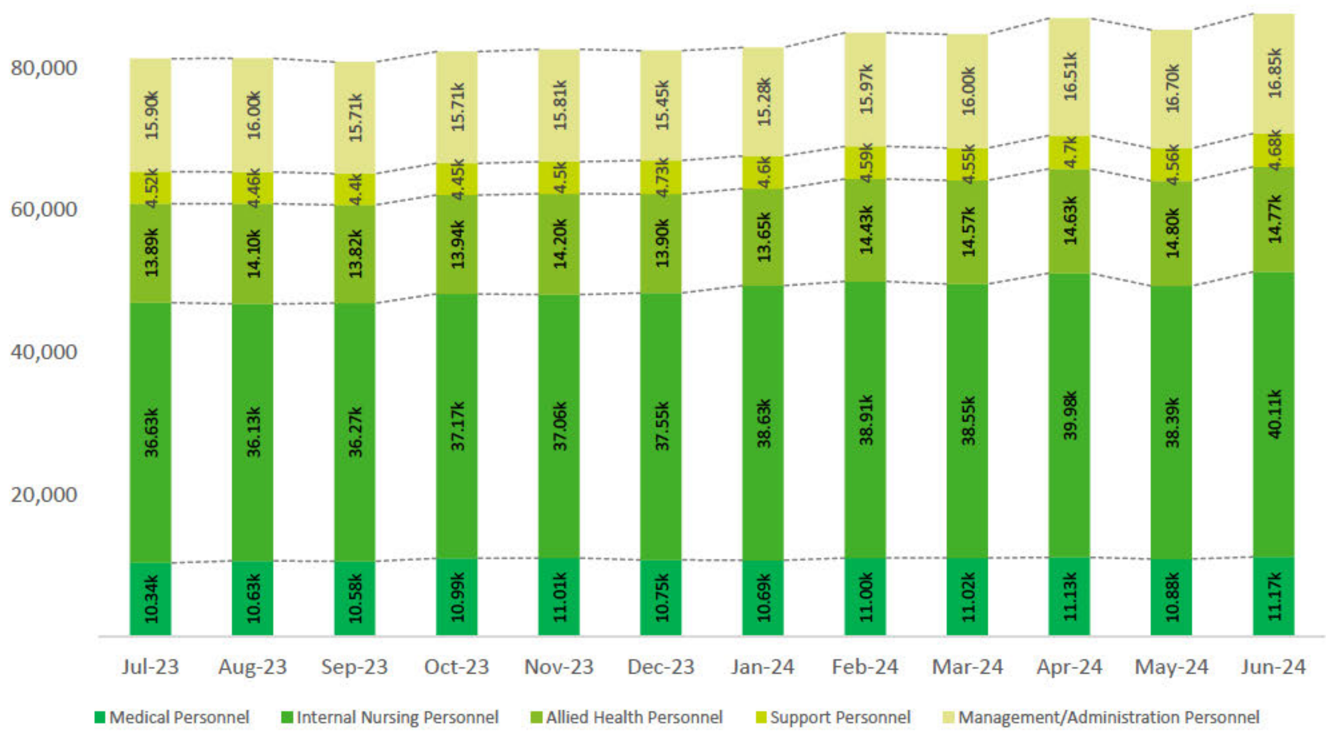
In addition, there is a dip in the reported measure (accrued nursing FTE) for May 2024 due to its calculation method. Accrued FTE takes into account paid FTE plus leave accrual adjustments, plus an accrual adjustment to estimate payroll costs from the last pay-run to the end of the month. [HNZ Proactive Release, Aide-Mémoire Impacts of Increased Employed Nursing Workforce, Page 311] Due to growth in the nursing workforce, at this time staff are getting relief from pressures to take up their leave and nursing overtime hours have significantly reduced. [HNZ Proactive Release, Aide-Mémoire Impacts of Increased Employed Nursing Workforce, Pages 315 – 316]

Figure 7: 2023/24 Month-End Accrued Nursing Personnel FTE



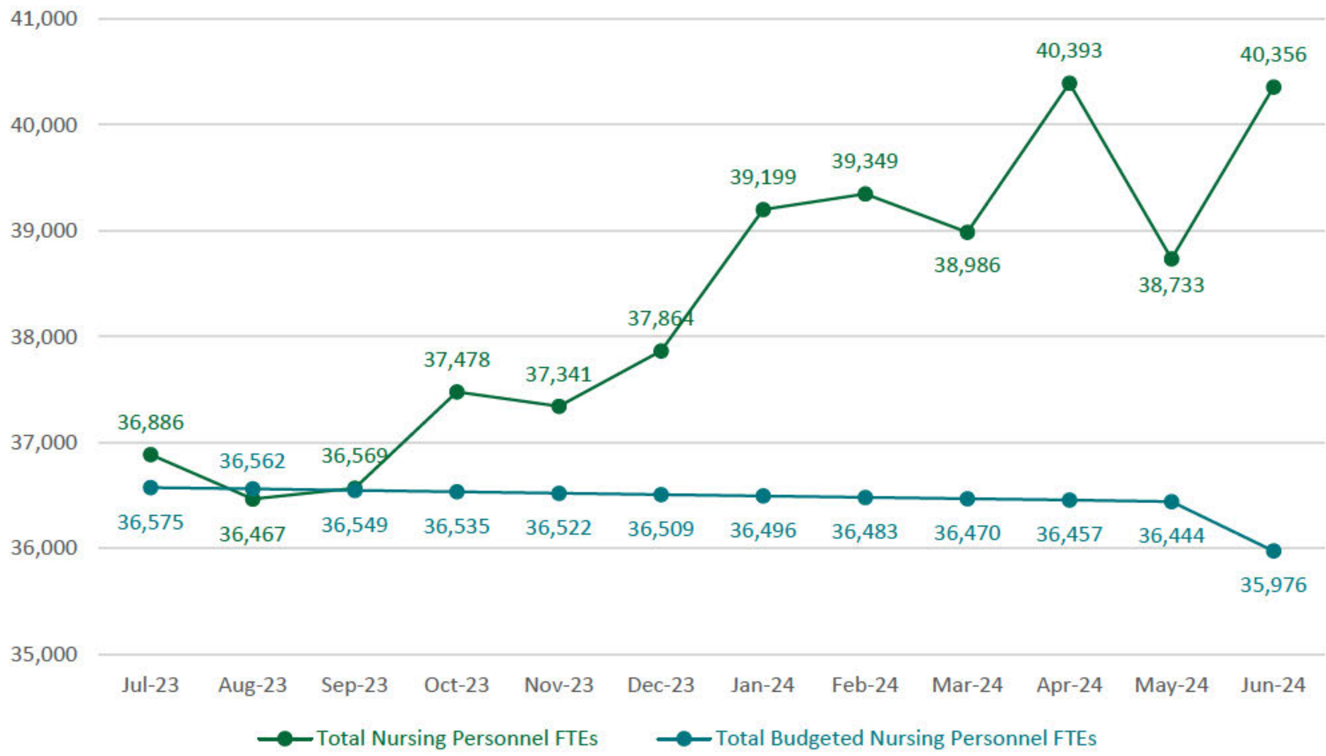
Source: [HNZ Consolidated Data Files]

Figure 8: 2023/24 Internal Personnel FTE by Category



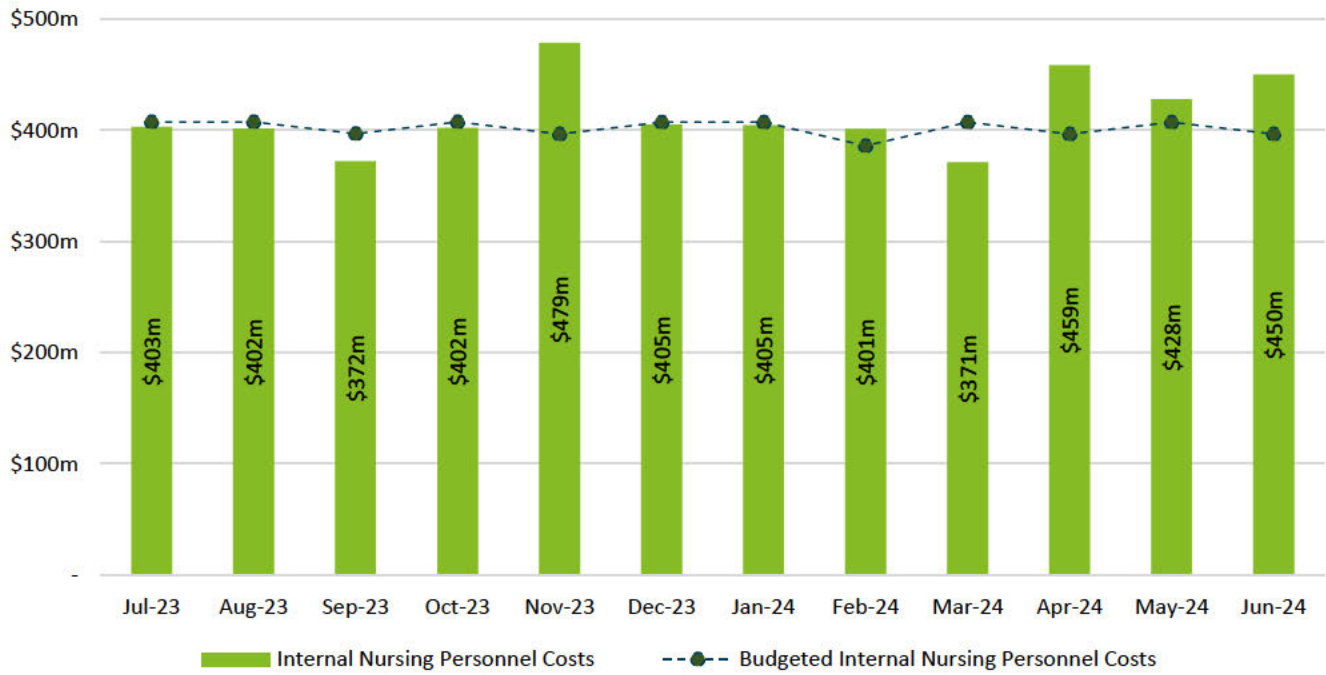
Source: [HNZ Consolidated Data Files]

Figure 9: 2023/24 Accrued Nursing Personnel FTE against Budget



Source: [HNZ Consolidated Data Files & Finance and Audit Committee Agenda and Papers]

Figure 10: 2023/24 Internal Nursing Personnel Costs against Budget



Source: [HNZ Consolidated Data Files & Budgets]

Appointment of the Commissioner and Deputy Commissioners

On 11 July 2024, the Health Minister wrote a letter to Professor Lester Levy, who was appointed Chair of the Board at HNZ from 1 June 2024, expressing strong concern with the performance of HNZ. This letter highlighted the dissatisfaction with the overall Board performance to date and concern for their ability to support the organisation to turn around performance. Due to these concerns, the Minister notified Professor Lester Levy that he was considering options in relation to the Board under the Pae Ora (Healthy Futures) Act 2022, including potential dismissal of all members of the Board. **[HNZ Proactive Release, Letter: Minister Reti, Page 393]**

The following day, 12 July 2024, Professor Lester Levy responded on behalf of himself and Roger Jarrold (Board member, appointed in March 2024). They outlined that in the short time involved with HNZ, they had identified a number of critical performance issues including, but not limited to, the financial domain. They expressed support for the Health Minister to take the necessary steps to best position HNZ for a successful performance turnaround. **[HNZ Proactive Release, Letter: Professor Lester Levy, Page 395]**

On 22 July 2024, the Health Minister announced the appointment of Professor Lester Levy as Commissioner for a 12-month term, replacing the Board of HNZ, in order to restore the performance of the organisation to ensure financial balance and strengthen governance and management. **[www.beehive.govt.nz, Commissioner replaces Health NZ Board]**

On 1 August 2024, the Commissioner appointed Ken Whelan and Roger Jarrold as Deputy Commissioners. In late August, Kylie Clegg was appointed as the third Deputy Commissioner. The Deputy Commissioner roles are to support in the strategic oversight of the financial turnaround of HNZ.

Close of the financial year, July – December 2024

On 25 July 2024, HNZ provided a financial update in a joint Ministers' meeting, providing a preliminary view of the 2023/24 financial results. In this update, HNZ anticipate a 2023/24 end-year result of a $742m deficit, sharing that June 2024 financial results highlighted a continued deterioration in performance, due to over expenditure in personnel, primarily nursing. **[HNZ Proactive Release, Financial Update: Joint Ministers Meeting, Page 410]**

On 18 September 2024, HNZ provided an update to the Health Select Committee on its 2023/24 year-end financial performance, which were highlighted as provisional, as the auditing of its 2023/24 accounts were still in progress. HNZ provided a letter to the Health Select Committee on 25 September 2024 to address information requests and provide further insight into the 2023/24 financial performance. In this letter, HNZ indicated they were anticipating an unaudited $934m deficit and a closing cash balance of $1.063bn for 2023/24. **[Select Committee Hearing, Pages 9 - 11]**

On 3 December 2024, HNZ published its Annual Report and confirmed its audited 2023/24 financial results, reporting a deficit of $722m against a breakeven target, and a closing cash and cash equivalents of $840m. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 195 - 244]** The deficit of $722m was lower than the previously expected $934m deficit due to changes in accounting treatment and the modelling of provisions, including Holidays Act remediation payments and redundancy provisions.

Key contributors to financial performance during 2023/24

The 2023/24 $722m deficit was driven by rising cost pressures, offset by unbudgeted revenues. There are a number of factors that caused this deficit, and the most material drivers are outlined below:

- Crown Funding revenue was favourable to budget by $290m mainly due to unbudgeted Hauora Māori funding following the disestablishment of the Māori Health Authority and transfer of services into HNZ, along with unbudgeted planned care funding, both with offsetting costs. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 245]**
- Other Funding from the Crown/Crown Entities was favourable to budget by $566m primarily due to higher-than-budgeted ACC contract revenue driven by demand and improved billing, additional Pharmac funding from increased demand and subsidy rates, and unbudgeted funding for disability services with offsetting expenditures. Additional revenue also came from non-resident patient demand and legal settlements. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 245]**
- Personnel costs were $797m over budget due to unbudgeted volume-driven costs from higher average FTEs, particularly in nursing, and price-driven costs from pay rate changes exceeding budgeted levels, including settled multi-employer collective agreement (MECA)'s and other allowances. These were partially offset by vacancy savings in medical, allied, and administrative staff. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 245]**
- Outsourced personnel costs were $257m over budget due to the need to backfill rosters, vacancies, and staff leave with outsourced staff, as well as unbudgeted outsourced staff for specific projects and initiatives. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 246]**
- Clinical supplies were $537m over budget mainly due to COVID-19 stock write off and consumption, higher hospital pharmaceutical costs with some offset by Pharmac funding, and unachieved savings from procurement activities. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 246]**
- Infrastructure, non-clinical supplies, and other expenses were $110m over budget largely due to unbudgeted expenditures by Enable, rent, utilities, storage costs, and increased project cost provisions for the Holidays Act remediation payments, partially offset by the release of provisions due to updated modelling. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 246]**

Key contributors to declining cash position during 2023/24

The 2023/24 closing cash and investment balance of $1.257bn (includes $840m cash, $389m short term deposits and $28m term deposits) represents a $832m deterioration from the 2023/24 opening cash and investment balance of $2.089bn (includes $2.019bn cash, $43m short term deposits and $27m long term deposit). **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 196 & 213]** Cash and investment balances have been combined for this assessment given the rolling re-investment of cash into investments deposits.

Stripping out investments, liquid cash deteriorated by $1.179bn. As Figure 4 shows earlier in this report, net cash movements are reported as stable until May 2024, where there is a net cash inflow of $1.72bn and then in June 2024, where there is a net cash outflow of $2.77bn. A review of financial data highlights that this movement is driven mostly by operating cash flows. **[HNZ Consolidated Data Files]**

Figure 11 (below, on page 30) shows that the material inflow in May is driven by an increase in receipts due to the timing of funding received that month, a result of both May's appropriations ($1.87bn) and June's appropriations ($2.15bn) being paid in May due to a public holiday. Additionally, in June, there was a true-up of receipts at year end based on what revenue had been confirmed back to HNZ, reducing the total receipts amount. [HNZ Consolidated Data Files]

Outside of the normal operating revenue and expenditure cash inflows and outflows, there are several material movements in cash and short term/long term investments identified that drive the deterioration from the cash position at the start of 2023/24 to the end. These movements are based on the information and data available for the review however is subject to limitations in constraints due to the inability to obtain detailed cash flow workings and inability to validate the completeness and accuracy of data.

1) A $312m cash inflow in relation to the net revenue and cash arising from the amalgamation of the Māori Health Authority:
    a. Cash inflow of $175m unbudgeted Hauora Māori funding (with offsetting costs). [Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 245]
    b. Cash inflow of $137m from cash transferred from the amalgamation of Māori Health Authority. [Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 196]

2) A $440m cash inflow in relation to the timing of pay equity between 2022/23 and 2023/24:
    a. Cash inflow of $859m from pay equity settlements accrued for in 2022/23. Expenditure was recorded in 2022/23 and the revenue was received in 2023/24. [Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 244]
    b. Cash outflow of $419m for pay equity settlements to Allied Health and Midwifery in 2023/24. Funding for these settlements was received in September 2024. [Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 199]

3) A $336m cash inflow derived from funds re-invested back into short term and long-term deposits. During the year $1.886bn of investments matured, this along with $336m (total of $2.222bn) was re-invested back into short term deposits. [Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 196]

4) A $728m net cash outflow in relation to the inflow Crown capital contributions and outflow for capital spend and Holidays Act remediation payments:
    a. Cash outflow of $763m for the purchase of capital items, which is the sum of a $682m capital contribution from the Crown and a $1,445m outflow for the purchase of capital items. [Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 196 & 236]
    b. Cash inflow of $35m for Holidays Act remediation payments, which is the sum of a $275m capital contribution from the Crown and a $240m outflow for Holidays Act remediation payments. [Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 196, 236 & 231]

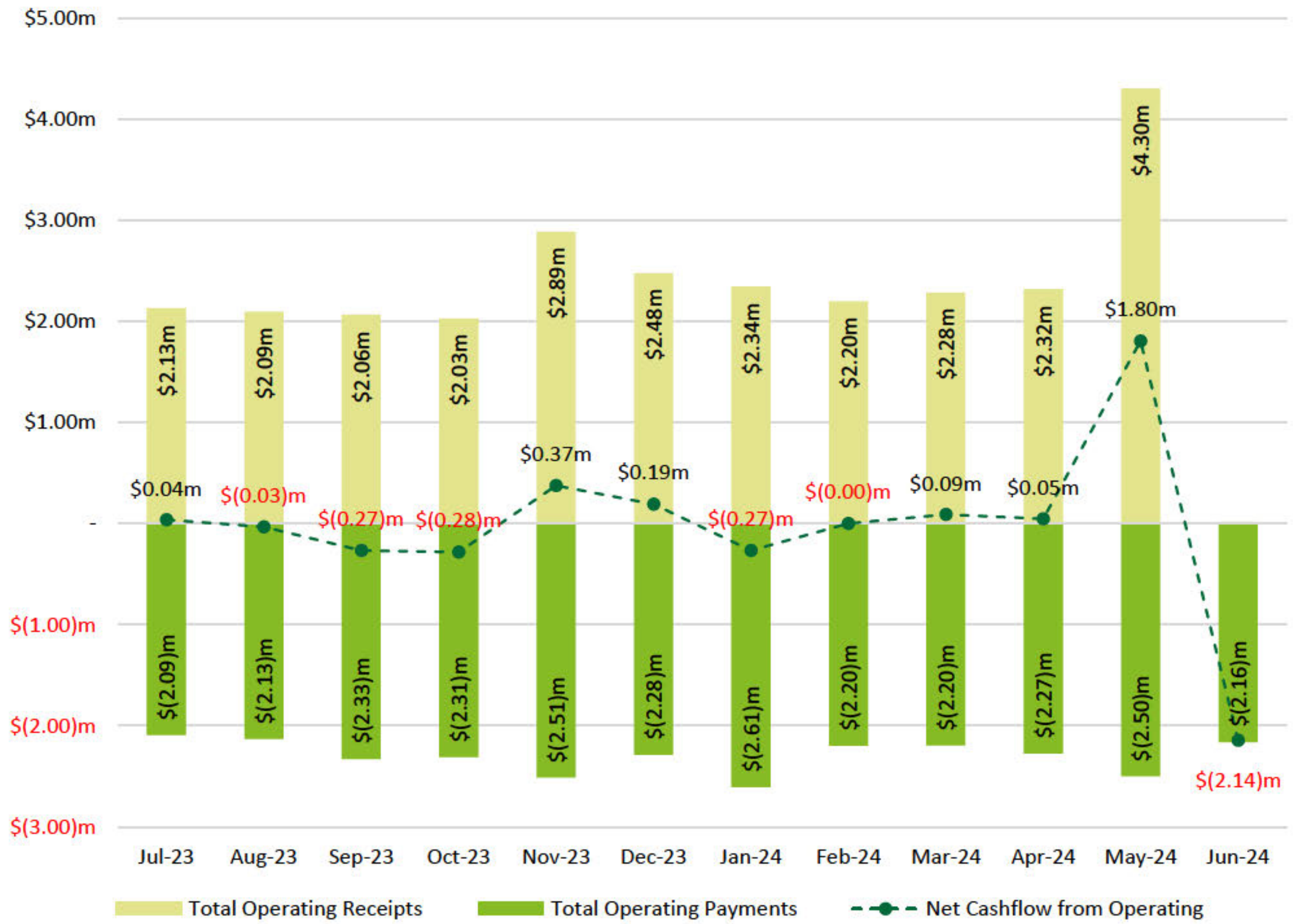
5) A $1,106m cash outflow in relation to over expenditure:
    a. Cash outflow of $489m for additional personnel costs as a result of an increase in FTEs and salary price changes. [Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 245]

b. Cash outflow of $257m for additional outsourced staff costs. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 246]**
c. Cash outflow of $110m for infrastructure and non-clinical supplies expenditure. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 246]**
d. Cash outflow of $250m for hospital pharmaceutical costs as a result of increased clinical supplies costs and inflationary pressures. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 246]**

6) A $86m cash outflow in relation to miscellaneous movements.

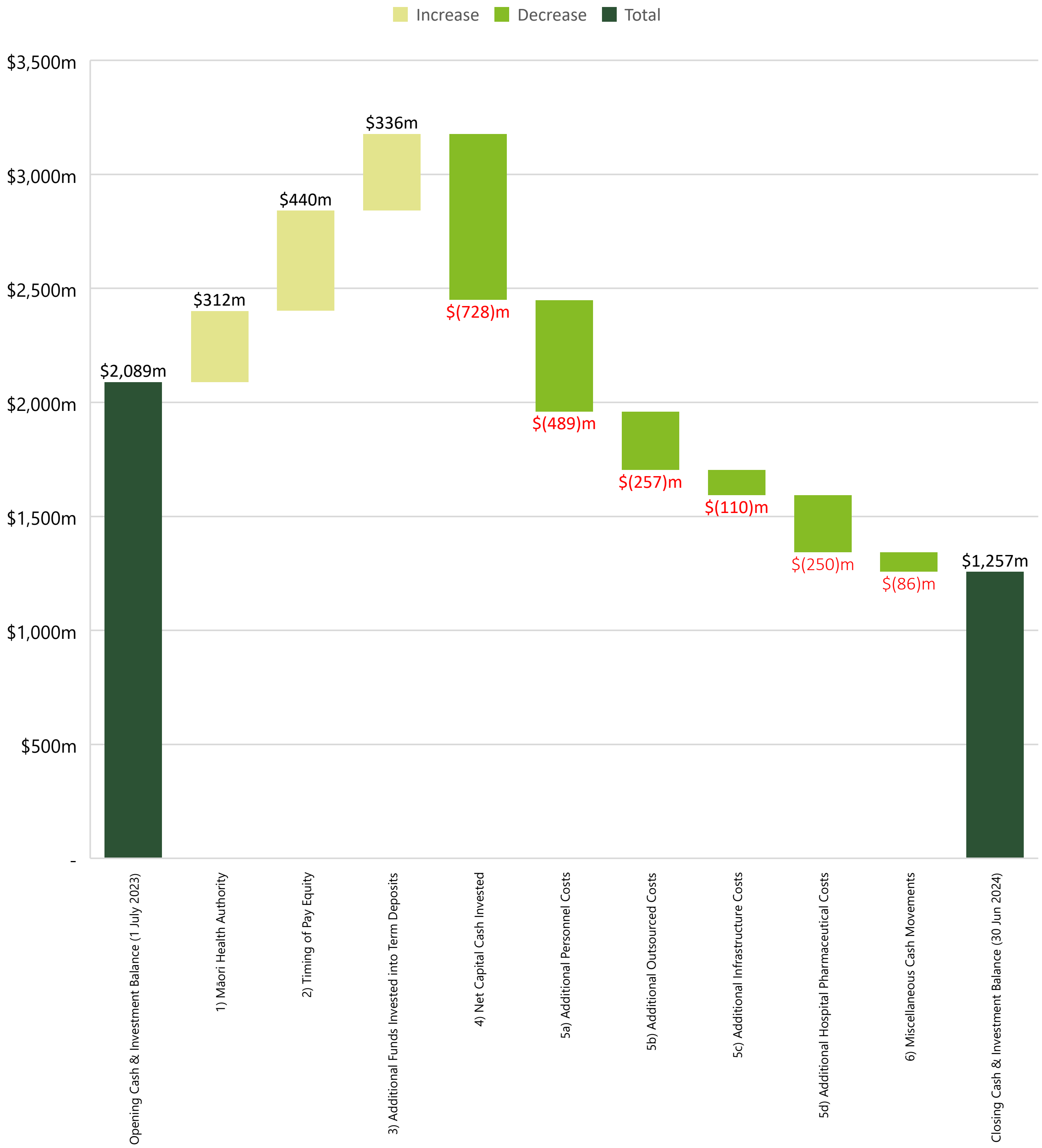
These movements are shown in Figure 12 (on page 31) and exclude normal operating revenue and expense cash items. In addition to these movements, there were revenue accruals and other provisions releases creating fluctuations in revenue in expenditure. While these are not cash movements, it did create challenges regarding the accounting of cashflow which are outlined in the key insights section (9. One-offs and timing of costs and revenues) later in this report.

Figure 11: 2023/24 Operating Cashflow – Receipts & Payments



Source: [HNZ Consolidated Data Files]

Figure 12: Analysis of Deterioration in 2023/24 Cash and Investment Position



Source: [Key movements and understanding has been taken from Te Whatu Ora – Health New Zealand Annual Report 2023/24]

Key Insights

The decline in financial performance in 2023/24 was primarily due to Health NZ losing control of the critical levers that drive financial outcomes.

Key finding:

1. Loss of financial control

There were many factors at play that gave rise to the growth in expenditure beyond HNZ's revenue, but the key factor is that there was a lack of control to identify and respond to the disconnect between expenditure and revenue.

An effective system of financial control in a large and complex public sector organisation such as HNZ hinges on several interrelated components that collectively promote accountability and transparency:

- **Governance Frameworks:** A robust governance framework establishes clear roles and responsibilities for financial management. It ensures that decision-making processes are transparent and that there is oversight at multiple levels, including the Boards and the FAC/FRAC. This framework should align with legislative requirements and ethical standards, fostering a culture of integrity within the organisation.

- **Risk Management Processes:** Effective risk management identifies, assesses, and mitigates financial, operational, strategic and compliance risks. A structured approach, such as establishing a risk register focused on key drivers of financial and operational performance, enables proactive monitoring of potential financial threats. By integrating risk management into financial planning and reporting, organisations can respond swiftly to emerging issues, thus safeguarding assets and public trust.

- **Budgeting Practices:** Sound budgeting practices involve comprehensive and participatory processes that reflect the organisation's priorities and strategic objectives. This includes setting realistic revenue targets, aligning expenditures with planned activities, and employing zero-based budgeting when necessary to evaluate all expenses. Regular budget reviews and adjustments ensure that financial resources are allocated efficiently and effectively, facilitating responsiveness to changing circumstances.

- **Financial Reporting:** Financial reports must be precise and generated promptly to reflect the true state of the organisation's finances. This accuracy is vital for informed decision-making, as stakeholders and monitoring agencies rely on these reports to assess financial health and performance. Timely reporting enhances responsiveness, allowing management to address issues proactively and make strategic adjustments as needed.

- **Integration of Financial Systems with Operational Systems:** Seamless integration between financial and operational systems is essential for comprehensive data analysis and improved efficiency. This integration enables real-time monitoring of financial transactions related to operational activities, facilitating better resource allocation and financial planning. It also reduces data silos, ensuring that all departments operate in a coordinated way with consistent and up-to-date information, which is crucial for cohesive organisational functioning.

- **Compliance Requirements:** Adherence to legal, regulatory, and policy frameworks is crucial. Compliance mechanisms should include regular audits, both internal and external, to verify that financial operations meet required standards. Training staff on compliance obligations fosters an environment of accountability, ensuring that everyone understands their role in upholding financial integrity.

- **Performance Monitoring Mechanisms:** Continuous performance monitoring is vital for evaluating the effectiveness of financial controls. Key performance indicators (KPIs) should be established to assess financial health, operational efficiency, and service delivery outcomes. Regular reporting and analysis of these metrics enable informed decision-making and prompt corrective actions where necessary.

The interaction among these components creates a comprehensive financial control system. Governance frameworks guide risk management strategies, while effective budgeting reflects compliance with established policies. Performance monitoring feeds back into governance and budgeting processes, allowing for adjustments based on real-time data. Together, these elements forge a cycle of accountability, ensuring that public funds are managed judiciously and transparently, ultimately enhancing stakeholder confidence in the organisation's financial stewardship.

HNZ's Board was required under the Pae Ora (Healthy Futures) Act 2022 to ensure it "*operates in a financially responsible manner and, for that purpose, endeavours to cover all its annual costs (including the cost of capital) from its net annual income*" (clause 16). This outcome was not achieved during 2023/24, and it is apparent from our review that all elements of the system of financial control were not in place to allow it to maintain control of the actions that were driving expenditure beyond its revenue.

The appropriate organisational and governance mechanisms to exert control were not in place for an entity of HNZ's size, scale and responsibilities. The lack of controls and robust review processes around financial information hindered its ability to address the financial imbalance promptly and effectively.

This was caused by the following factors:

2. Change in operating model

Moving to a single system stripped away management and governance, such as district FRACs, Boards, and CXOs, and the ability to course-correct and respond locally.

The transition from multiple systems and processes to a single entity (HNZ) led to the centralisation of management and governance structures. This involved the removal of previously decentralised district FRACs, Boards, Chief Executive Officers, and other executive roles including Chief Operating Officers and Chief Financial Officers. Along with the organisational consolidation, the move to a single entity hinted at a unification of systems and processes across all 28 entities under one umbrella, when in practice little had changed below senior management roles.

The change in operating model led to a loss of institutional knowledge, governance and management capacity and proximity to operational teams, and the lack of ability to respond quickly to emerging problems. Previously there had been comprehensive layers of governance and a tighter control process in place at a local level, with 28 governance bodies providing oversight that were replaced with one single Board and executive leadership team at HNZ. The scrutiny turned away from a focus on local district performance into a view of operational and financial information at a national level, which inevitably meant there was a loss of oversight of the levers available for real-time district decision making and accountability. It also meant the system had moved from many distinct risk pools to a single risk pool where financial impacts could be amplified in scale and scope across the entire organisation.

Decision-making used to occur at the district level, close to operational activities, ensuring that decisions were locally informed and often made swiftly. The newly centralised health system has created a disconnect between senior decision-makers and the reality of what was happening at the local operational level. While the new operating model had developed important national approaches that support good national and local practices, the loss of local accountability and oversight means regions and district teams are disconnected from decision making resulting in less ownership of budgets and internal controls to manage their own resources. [HNZ Proactive Release, Aide-Mémoire Lifting performance by empowering our regions, Page 397]

This centralisation removed the ultimate review and oversight lever without putting adequate substitutes in place. Consequently, one Board and one ELT were managing a complex and large organisation that meant there was now a long lead time between the identification of operational problems and appropriate responses from the Board.

National spans of management control (i.e., the breath of service coverage the ELT manages) are in many cases now too large and insufficiently agile to be effective in lifting performance. [HNZ Proactive Release, Aide-Mémoire Lifting performance by empowering our regions, Page 397] ELT meeting minutes demonstrated that the effort of understanding was focused on a national level not a district level which meant losing the ability to address unique district problems.

Streamlining processes and systems to achieve financial sustainability also proved challenging with real-time data not being available to analyse under this operating model. The non-standard and manual processes that HNZ operated meant compiling and assessing information took significantly longer. As an example, manual calculations based on payroll data extracted from multiple systems with inconsistent coding were used to compute overspend in payroll. [Treasury Proactive Release, Treasury Report: Health New Zealand 2023/24 year end position: update and next steps, Page 61]

The previous levers and mechanisms at a district level meant there was an opportunity to critically question cost overspend and hold budget holders to account. The April 2024 financial reporting update noted that there are key limitations for decision makers further from the line at local levels (due to cumbersome and manual payrolling), which limited the ability to monitor and respond quickly to emerging trends and to know reasonably quickly whether their decisions are having their intended effect. **[HNZ Proactive Release, April Financial Result, Page 233]**

The Board reporting and ability to identify risks and responses to mitigate these also lacked as there was not an effective mechanism in place to oversee the financial controls. Results from 2022/23 external audit and findings associated to the financial information systems and controls identified that the transition from previous district entities to a single health system would have put HNZs core systems, processes, and control activities under strain and therefore it was also possible that controls may not have continued to effectively mitigate the risk of fraud and error through a period of change. **[HNZ Proactive Release, Te Whatu Ora – Health New Zealand: Audit for the year ended 30 June 2023, Page 99]** This highlighted the vulnerabilities that existed from the rapid change in the operating model.

Better Practice

A hybrid governance structure like those used by multi-national organisations with diverse operating units, subsidiaries and geographic spread, where strategic decisions are centralised, and operational decisions are made locally supported by an appropriate governance and monitoring framework, allows for a better balance between local decision-making and centralised oversight.

3. Insufficient detail in financial plans

Financial plans lacked the necessary detail to enable management to stay within available funding.

In our evaluation of HNZ's financial management processes, review of monthly reporting, data files and internal documents, it is evident that there is a lack of financial and operational planning around cost drivers, assumptions, output volumes and service levels in place that not only help to manage expenditure but integrate volume and service-based metrics to provide a comprehensive view of where revenue should be allocated. **[Interviews]**

Prior to the disestablishment of DHBs, financial and operational plans were prepared. Whilst the level of information and practice of these varied between districts, the more robust and successful plans where those that included analysis around patient volumes, services delivery and the revenue required to pay for those services. Annual plans were reviewed and approved for the following year to enable tracking to progress. As an example, DHB annual plans were jointly signed off by the Minister of Health and Minister of Finance, historical plans are still available online. **[Auckland DHB Annual Plan 2021/22]** While DHBs still faced financial challenges, financial plans looked at how these would be addressed; this provided a much clearer understanding of results to allow for appropriate decision making.

Under the new operating model, HNZ lacked a cohesive national and local operational focus on detailed operational and financial planning. In addition, revenue was no longer being signalled down to a district and service level as it had been before. Without a cohesive approach and a lack of appropriate planning there was no way of monitoring variances effectively or determining appropriate responses to rectify issues.

A robust financial planning process that can occur at a local, regional, or national level, necessitates a comprehensive understanding of details about drivers and assumptions, output volumes, service levels, and a comparison of services delivered versus those pending. Without these details, HNZ could not conduct an effective variance analysis or match revenue with activity and expenditure accurately. The absence of such detailed information hampered HNZ's strategic decision-making and undermined the credibility of budgets and cost savings plans.

There was no plan in HNZ during 2023/24 that demonstrated an understanding of what would need to be true to stay within the income for the outputs and services to be procured or provided by HNZ.

While the Statement of Performance Expectations for 2023/24 had been developed to outline the expected income and expenditure by output class, there is no clear link to underlying financial plans, and the allocation of expenditure to output class requires attention as detailed in this year's SPE. **[Statement of Performance Expectations 2024/25]** This led to a misalignment between revenue and expenditure which would have existed even if better financial control had been exercised.

Better Practice

Comprehensive financial and operational plans should integrate detailed volume and service-based metrics, ensuring that all financial projections are closely aligned with actual service demands and capacity. Plans should demonstrate what funding is required to support health care and meet expenditure. Financial plans are a tool for management to closely monitor against performance data and identify emerging trends and inform decision making.

4. Ineffective savings plans

Savings plans of more than $500m intended to balance the gap between revenue and expenditure were ineffective.

HNZ aimed to achieve $540m in savings at the start of the financial year, which were imperative to ensuring the affordability of the health services expected to be provided over 2023/24. **[HNZ Proactive Release, July Finance Report, Page 9]** A savings plan was implemented nationally, and each district also developed a cost savings plan and took action in line with their plan. **[HNZ Proactive Release, Roadmap to 2023/24 year-end. Page 218]**

However, there were no supporting action plans, ownership, budget impacts, tracking & reporting, and governance applied to the savings programme, and consequently the savings were not made. HNZ could not provide comprehensive reports to show savings were being achieved since August 2023. **[HNZ Proactive Release, Letter from Minister of Finance, Page 151]**

Certain savings initiatives may have required investment, particularly in IT systems or digital technology, to achieve savings. This is notably applicable to initiatives like business improvement which aim to modernise operational practices within HNZ. **[HNZ Proactive Release, May Finance Report, Page 369]** However, we are unable to understand whether accompanying strategies were in place to achieve sustained cost reductions for the organisation, due to the lack of comprehensive planning.

Ultimately the savings plan was never achievable. At a district level if they did not achieve a month's saving target, some districts would spread it across the remaining fiscal year months, leading to an ambitious and unrealistic savings target by year-end that could not be met. **[Interviews]**

There was never buy-in to the savings from operational teams, and significant savings requests were not getting attention. [Interviews] Although some level of reporting was produced such as actual against budget in monthly management reporting and finance updates, there was no clear direction for how the savings plan would be achieved. And where savings were reported to have been achieved, they were available to be spent elsewhere or may already have been spent through variances to budget.

In a paper to the Health Minister, senior management continued to communicate that HNZ was on track against the savings programme up to the end of December 2023 [HNZ Proactive Release, 2023/24 Revised Budget Target and Financial Pressures, Page 155] which would have led monitoring agencies to believe that HNZ was on track to deliver against the full savings target. If the risk to achieving these savings had been raised earlier, then monitoring agencies could have been better placed to provide advice and guidance.

Through quarterly performance reporting, it was highlighted that there was an extreme risk that HNZ would not find enough savings [HNZ Proactive Release, Aide-Mémoire 2023/24 Quarter 2 Report, Page 140] with no direct mitigation, raising concerns from monitoring agencies about execution and confidence in the savings target.

An effective savings plan of this magnitude would require robust tracking and monitoring mechanisms, including an independent validation that the plans balanced ambition with reality and the ability to deliver. However, a focused review on overspending and a management programme to effectively review and course-correct to stay on track towards savings was missing. In January 2024, the Ministry urged HNZ to improve internal performance monitoring, as HNZ could not show that savings were being achieved despite projecting $540m in savings. The Ministry indicated that it needed to understand the assumptions behind HNZ’s forecasts. [HNZ Proactive Release, Letter from Minister of Finance, Pages 150 - 151]

Even in March 2024, the Board was receiving information from management on the trajectory for improvement and that there were a range of actions to mitigate overspend at year end. There was discussion that the Board's preferred position was that any savings that freed up funding be applied to new investments as agreed between the Board and Minister. [HNZ Proactive Release, 2023/24 Revised Budget Target and Financial Pressures, Page 157]

Figure 13: 30 April 2024 Savings Programme Report

Drivers of savings	YTD savings ($m)	YTD Target ($m)	Annual Target ($m)	Full Year Forecast ($m)
Savings achieved in 2022/23	115.83	-	-	139.00
Organisational change, optimisation and contingent workforce reductions	57.76	86.12	138.15	82.65
Vacancies reduction	76.99	98.88	118.65	93.65
Business improvement	2.22	100.00	120.00	20.00
Commissioning consolidation	75.00	75.00	90.00	90.00
Clinical supplies optimisation	24.58	80.75	74.00	20.00
Additional unplanned savings and budget improvements from reviews	209.50	-	-	211.70
Revenue maximisation	4.65	-	-	7.00
Total Savings 1 Jul-23 to 30 Apr-24	450.69	440.74	540.80	525.00

Source: [HNZ Proactive Release, May Finance Report, Page 369]

An additional late 2023/24 savings plan implemented by HNZ was intended to balance revenue and expenditure. Again, the plan failed as HNZ continued to spend over $130m each month beyond its income. **[Briefing on Financial Scrutiny – Health Select Committee, Page 2]** The savings plan, which should have set a clear direction, improved accountability, and reduced overspending, was ineffective and the Board continued to receive information that savings targets could be achieved and there was no robust questioning or review of information that shed light on the fact that it could not.

Due to the lack of programme governance and reporting, we cannot validate year-to-date savings achieved or confirm whether these savings were banked or invested appropriately in line with HNZ priorities. We assume any savings were applied towards budget over-runs in other expenditure lines.

Better Practice

Savings programmes should be backed by comprehensive plans that clearly outline action plans, establish ownership and accountability, and enable transparent monitoring and tracking. The performance of savings programmes is overseen by a governance group to effectively intervene when initiatives are not meeting expectations and ensure achieved savings are intentionally used within the organisation.

5. Inaccurate budgets

Budgets were not consistent with expected revenue or activity levels and did not align with where actual expenditure was going to land in Health NZ.

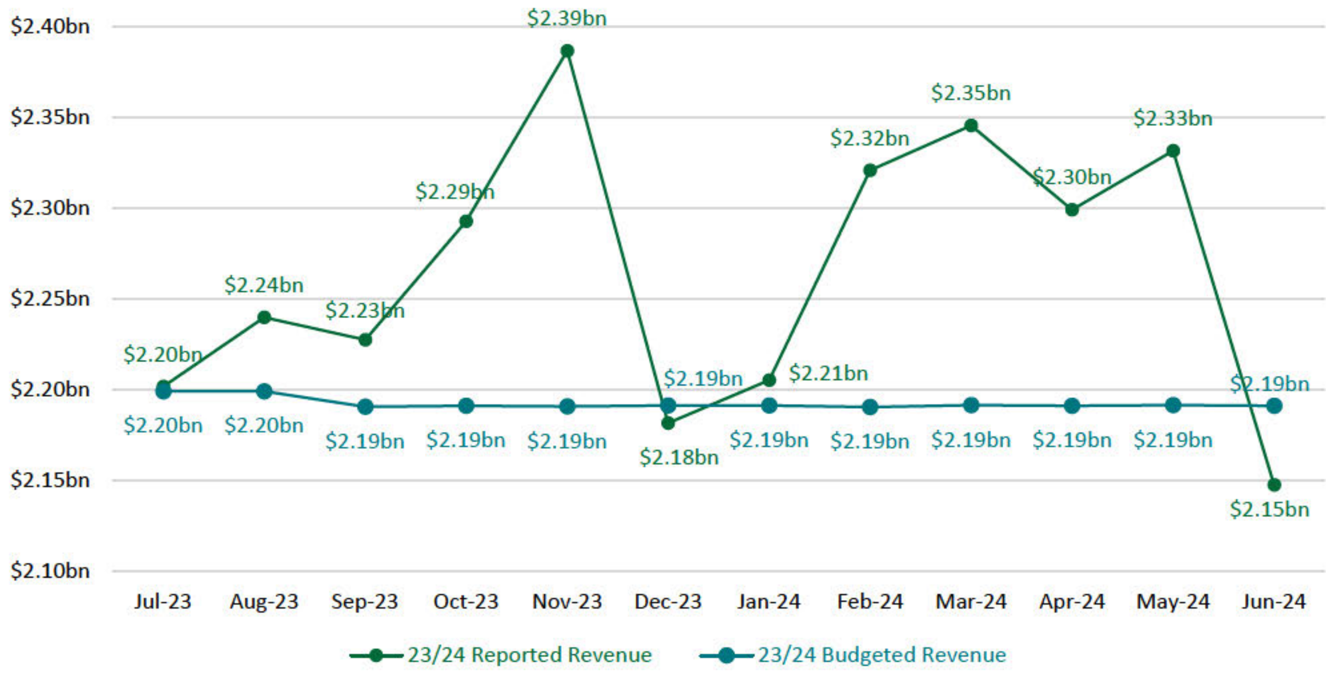
Budgets at both the operational and national levels should have been utilised as crucial monitoring tools to manage costs, cashflows, and track performance. They are essential for identifying early signs of financial deterioration and enabling decision-makers to determine whether to commit to specific expenditures or take corrective actions.

At the operational level, budgets were found to be inaccurate and inconsistent with aggregate financial plans, failing to align with actual expenditure. Inadequacies in systems, processes and capabilities did not enable HNZ to fully plan, budget and forecast for significant items such as personnel costs. **[HNZ Proactive Release, Update – April Financial Result, Page 233]** Regional teams indicated that budgets were flawed and there was no buy-in, leading to a disconnect between meeting targets and tracking progress. **[Interviews]**

This was accentuated by the misalignment between the budget hierarchy and the organisational hierarchy that emerged through the organisational changes and transformation programme. Responsibility Centre managers would not have full control for all the actual costs hitting their accounts and may not have had budgets that were sufficient to cover the costs they faced. There was a belief in some areas of HNZ that additional budgets existed centrally that would cover known over-spending, such as hiring beyond budgeted FTE. **[Interviews]** In reality no such budgets existed.

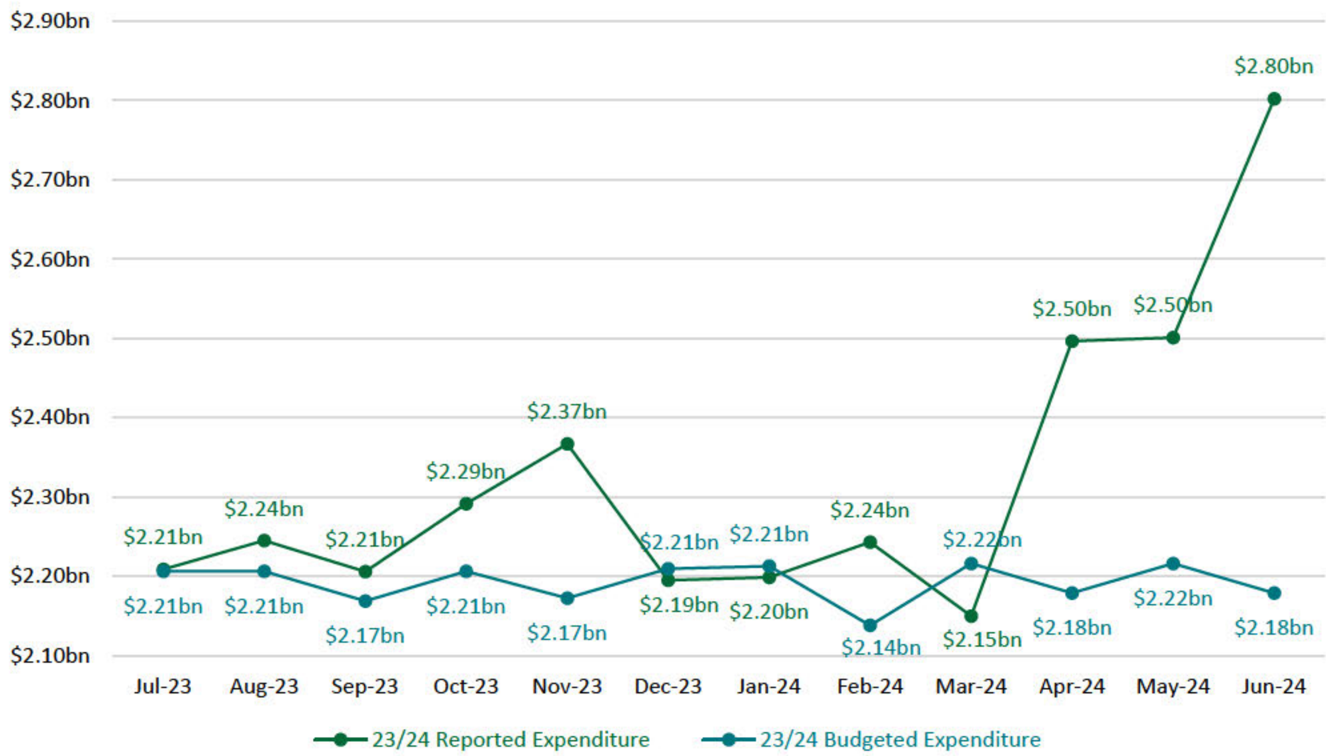
A review of financial data revealed that budgets were not phased according to anticipated patterns, such as monthly spending and revenue/cost accruals throughout the year. Instead, they were largely flat lined, which impeded efforts to assess actual performance against budgeted on a monthly basis.

Figure 14: 2023/24 Reported Revenue against Budgeted



Source: [HNZ Consolidated Data Files & Budgets]

Figure 15: 2023/24 Reported Expenditure against Budgeted



Source: [HNZ Consolidated Data Files & Budgets]

The failure to accurately phase budgets resulted in unmanaged costs and cashflows, preventing decision-makers from making informed expenditure commitments or correcting spending paths promptly. Inconsistent budget setting and lack of accountability led to unexpected overspending and financial deficits which went undetected for a period of time.

Budgets were also not consistently communicated to holders of delegated financial authority. **[Interviews]** They were often not set in advance of the year or loaded into relevant systems, leaving decision-makers uncertain about committing to specific expenditures resulting in overspend. In some instances, there were unrealistic targets which each district expected to have a plan to achieve, the reporting of this varied across districts. **[Interviews]** Mechanisms to intervene were ineffective due to changes in management roles, or not all regions were equipped with the resources or capabilities to manage a budget or savings plan effectively. **[Interviews]** Inaccurate budgets led to a misconception that HNZ was performing favourably against budget on a monthly and year-to-date basis. For example, the November performance report (dated 16 January) indicated that the planned budget for the year was forecasted to be achieved. **[HNZ Proactive Release, Appendix Three – November Performance Report (16 January 2024), Page 76]**

Viewing budgets simply as year-end targets without strategic phasing reduced visibility on expected financial performance, and inadequate linkage of budgets to reporting exacerbated planning and financial management issues.

Better Practice

Budgets should be underpinned by realistic financial and operational plans, with timing of revenue and expenditure aligned with expectations and underlying assumptions are consistently applied across the organisation. It is imperative to closely monitor and track performance to hold budget holders accountable and take prompt corrective action as needed.

6. Complicated information flows and systems

Financial & reporting systems and spreadsheets were complicated and relied heavily on manual processes.

The complex network of financial systems and spreadsheets within HNZ has significantly contributed to the challenges faced in managing and understanding its finances. From 1 July 2022, HNZ began amalgamating financial processes from various entities, which created significant challenges due to the disparate working methods inherited at district levels and the integration of multiple information systems.

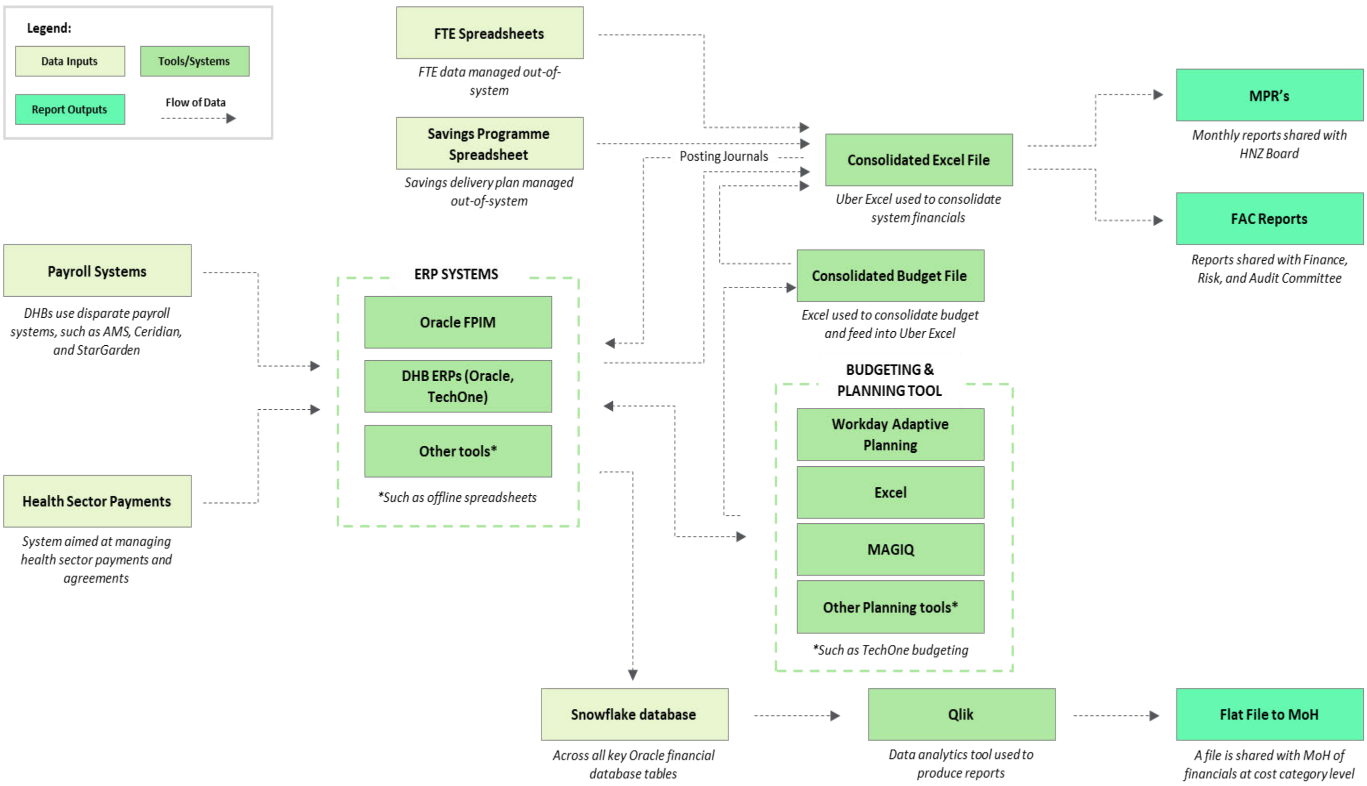
At inception, HNZ identified 75 infrastructure projects underway and 4,000 digital applications in the clinical and corporate space needing evaluation and integration. **[Te Whatu Ora – Health New Zealand Annual Report 2022/2023, Page 39]** Payroll systems provided the greatest challenge as systems were fragmented across entities, there were 8 different payroll systems including 35 different rostering systems with differing levels of capability. **[HNZ Proactive Release, Briefing: Roster to Pay Programme – Further Detail, Page 377]** Old legacy systems failed to provide necessary information or capabilities to manage payroll complexities, a particular challenge with Holidays Act remediation payment issues persisting over several years. Some systems did not offer detailed views of staff costs, limiting deep analysis and timely decision-making. Producing a consistent, timely, and stable picture of personnel costs was extremely difficult, time-consuming, and prone to manual errors. **[HNZ Proactive Release, April Financial Result, Page 233]**

Despite intentions to unify and simplify processes, complexities in financial management and reporting persist. This means there remains a heavy reliance on legacy systems, which are not universally or consistently used providing vary levels of data and reporting and inconsistency to be able to easily identify or compare information. The system limitations had been a challenge for DHBs prior to amalgamation, therefore some of the problems such as manual processing were not new and continue to exist.

Over time each district has moved towards Oracle FPIM as the consistent finance and procurement system solution however these are based on legacy technology and are organised around separate instances for each district. HNZ's full move to Oracle FPIM has taken time, with four remaining entities going live during 2023/24. **[HNZ Proactive Release, Detailed Financial Risk & Mitigation, Page 347]**

There has been limited progress made in addressing the issues of poor state, fragmented financial IT systems, much of which relies on legacy platforms that are no longer effectively supportable. **[HNZ Proactive Release, Letter from Ministry of Health, Page 394]** Due to delays and no streamlined approach to financial reporting, the storage of financial information continues to heavily rely on manual collection and consolidation of data using spreadsheets, leading to discrepancies in reported data and a lack of clarity over the source of truth as there are other platforms like Qlik which also produced monthly reporting where results may differ from other reporting systems.

Figure 16: Information and Data Flow of HNZ during 2023/24



Source: [Interviews]

Notably, one major issue was through a significant reliance on the use of an Excel file to manage the consolidated financials of the organisation. This spreadsheet was the primary data file used by HNZ to manage its financial performance. It consolidated files from each district into a single spreadsheet, and key reports, such as the monthly finance report, were produced from it. The use of an Excel spreadsheet file to track and report financial performance for a $28bn expenditure organisation raises significant concerns, particularly when other more appropriate systems are present on the IT landscape.

This Excel file is flawed in that:

- Financial information was often 'hard-coded,' making it difficult to trace to the source or have updated data flow through.
- Errors such as incorrectly releasing accruals or double-up releases were not picked up until following periods.
- Changes to prior periods and FTE errors in district financial reporting Excel submissions, would not flow through to consolidated file.
- The spreadsheet can be easy to manipulate information as there is limited tracking to source information where information is not flowing directly from accounting systems.
- It is highly prone to human error, such as accidental typing of a number or omission of a zero.

Furthermore, top-side adjustments at a consolidated (corporate) level, particularly through abnormal accrual releases, were made to the consolidated reporting. In many instances these adjustments were lacking support or clear rationale, making it difficult to understand the reason behind the adjustment. Some material adjustments, such as COVID-19 stock write-offs and pay equity adjustments, were posted in one lump sum rather than being phased appropriately, further distorting monthly results. **[Interviews]** The impacts of these adjustments were not always communicated to districts, thereby creating multiple versions of the truth regarding the organisation's financials.

The cumbersome process of collecting data also meant monthly financial reporting usually took 12-15 days to consolidate and 5 days to analyse. **[Interviews]** Adding to that the time associated with the creation of the monthly finance reports and circulation of these to the Board, there was an inevitable challenge of obtaining real-time financial information from one source of truth.

Better Practice

An integrated financial management system across the organisation should automate data collection and reporting, reducing the reliance on manual spreadsheeting and enhancing data accuracy. A standardised approach in financial practices across an organisation ensures consistent financial reporting, improve the quality of real time information allowing for effective analyse and make decisions.

These factors were aggravated by:

7. Organisational changes

The *Unify to Simplify* transformation programme was implemented across Health NZ during 2023/24. Significant changes to organisational structures and people led to a lack of role continuity and clarity.

The formation of HNZ resulted in a challenging organisational structure during 2022/23, where there was a single Executive Leadership Team overseeing many legacy elements including district and regional structures, legal entity subsidiaries, and transitional roles. In 2023/24, the *Unify to Simplify* transformation sought to introduce new, streamlined organisational structures that consolidated what had gone before.

Predominantly, the resulting organisational changes resulted in lines of accountability that went up to national roles, with limited regional and district accountability. Many individuals and teams had their reporting lines switched to national control where these managers covered multiple districts or a national responsibility. **[HNZ Proactive Release, Lifting Performance by Empowering Regions – consultation document, Page 428]** This led to teams that were dispersed and functionally aligned within their area of expertise rather than diverse, multi-functional teams with a geographic orientation.

These changes during 2023/24 proved disruptive for managers and their teams and was the catalyst for a loss of experienced staff whose roles were disestablished or materially affected.

Given the rapid pace and shift of operating model from a decentralised to a national orientation, this ultimately eroded institutional knowledge, created a lack of role continuity, and confusion around responsibilities. Additionally, it increased the complexity of aligning financial reporting with management accountabilities as budgets could not be realigned during the financial year to reflect the emerging organisational structure. In addition, due to inconsistencies in practices, and systems that continue to persist, the new national management roles must deal with increased complexity and diverse ways of working in areas that previously had not shared reporting lines. As outlined in Figure 16 (above, on page 42), numerous systems and inconsistent coding practices continue to be used. **[Treasury Proactive Release, Treasury Report: Health NZ 2023/24 year end position update and next steps, Page 61]**

The breakdown in connection between operational units and functional business partners at a district level also meant that less support was available to budget-holders and decision-makers while the changes were being implemented during 2023/24. The substantial organisational changes made HNZ susceptible to losing robust monitoring and oversight of control at the district and national level.

Towards the end of 2023/24, it has been acknowledged the current organisational structure reduced oversight, leading to plans to establish four deputy Chief Executives (DCEs) to build capability and capacity in regions. This initiative aimed to remedy issues where regions and local teams were disconnected from decision making, resulting in less ownership of budgets and internal controls to manage resources. **[HNZ Proactive Release, Aide-Mémoire Lifting Performance by Empowering Regions – consultation document, Page 429]**

A proposal prepared by HNZ in July 2024 outlined that the disconnect between regions and local teams from decision making had led to less ownership of budgets and internal controls to manage resources effectively. **[HNZ Proactive Release, Aide-Mémoire Lifting Performance by Empowering Regions – consultation document, Pages 425 – 453]**

While these problems are being addressed through the consultation document and proposal outlined within it, undeniably, the significant changes to the organisational structure of HNZ had an impact on internal monitoring and accountability throughout the organisation, ultimately leading to a loss of control.

Better Practice

Clear role definitions by job descriptions and responsibilities that align financial reporting with management accountabilities provides clarity over roles within a large organisation. A robust governance framework that includes transparent communication channels should filter to regional and national leaders. Strong internal monitoring controls and accountability should be maintained to retain connection throughout the organisation.

8. Loss of capability and experience

As the organisation went through operating model and organisation changes, significant capabilities and experience were lost that could have mitigated the control failures.

The transition from a decentralised to a centralised system removed layers of CEOs and governance bodies (in line with the Pae Ora (Healthy Futures) Act 2022 which created one new Board) without introducing compensating control points to effectively monitor and oversee a large complex organisation. These changes had a two-fold effect: the removal of critical governance layers, as described under 'change in operating model'; and the loss of capabilities and experience that came with it.

Institutional knowledge of the day-to-day operations and dealing with unique issues between districts was lost thus removing critical oversight and the ability to have robust challenge and questioning from senior management and governance.

CEOs, FRACs and the Board played critical roles at a DHB level as part of identifying, understanding, and mitigating risks and being able to challenge and hold to account. Board and FRAC compositions varied with clinical, operational, and financial experience including independent representation. The financial literacy will have varied between districts but the ability to focus on one DHB and their core issues and socio-economic challenges allowed a more in-depth focus into the review into the finances which is now lost.

Accountability in DHBs sat with district CEOs and CFOs collating and analysing results on a monthly basis which were reported to the Ministry of Health through monthly reporting returns (CFIS schedules). While DHBs also faced the pressures that HNZ face, such as with staffing and rising costs, Holidays Act remediation payment issues, growing deficits, and the impacts of COVID-19, their experience and ability to pinpoint issues, monitor and course correct would likely have proved valuable during these financial difficulties.

This loss of experience and capabilities amplifies many of the other key issues highlighted throughout this report. The previous Board oversight mechanisms and ability to assess management override of controls and fraud risk was the first line of defence in mitigating risks supported by other external and internal audit processes and functions. This capability was lost through centralisation. HNZ internal audit programmes, such as a fraud review across entities, were designed to bridge these gaps however the breath and scale of review at a national level would naturally be more challenging. **[HNZ Proactive Release, Te Whatu Ora – Health New Zealand: Audit for the year ended 30 June 2023, Page 100]**

Overall, the operating model and organisational changes within HNZ resulted in the loss of significant capabilities and experience, diminishing the organisation's ability to maintain effective control and oversight. This has led to challenges in managing financial and operational issues, highlighting the need for improved financial capability and experience in key management, operational and clinical roles.

Better Practice

Strong and effective financially capable management and governance, fostering a culture of learning, retaining critical skills and capability at all levels of an organisation will assist in maintaining capability even during implementation of significant transformational change.

9. One-offs and timing of costs and revenues

Significant one-off costs and revenues, such as pay equity settlements, COVID-19 related write offs and planned care funding occurred during the year. Revenue was also received in advance and arrears, and there were large releases of revenue accruals and cost provisions.

The health sector has faced significant challenges over the past few years, particularly during the COVID-19 global pandemic. This unprecedented period brought substantial additional COVID-19 response revenue and cost considerations, which were uncertain at times.

Additionally, the health sector continues to grapple with costs related to Holidays Act remediation payments, a complex and significant financial burden. The liability exceeds $1.8bn in 2024 ($2.1bn in 2023) **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 232]** and will remain a substantial item on the balance sheet until remediation is complete. Pay disparities in the New Zealand health sector are also being addressed through pay equity settlements **[Te Whatu Ora Board Paper 16 Feb 2023, Addressing the impacts of pay disparities in the health funded sector]**, some of which are backdated and paid in lump sums.

The accounting treatment and recording of these revenue and costs added complexities and challenges and largely coincided at a time during the formation of HNZ.

While COVID-19 national response revenue in 2022/23 ($1.58bn) was funded through the Ministry of Health and expenses ($1.75bn) were largely recognised over time, revenue did not cover all associated costs (national COVID-19 response resulted in a net deficit of $173m, this did equalise in 2024. **[Te Whatu Ora – Health New Zealand Annual Report 2023/24, Page 35]** In addition, Health NZ maintained a substantial supply of COVID-19 inventory, particularly rapid antigen tests (RATs). This inventory should have been systematically written off over time due to its perishable nature as it was retained for an extended period. Although some districts wrote off COVID-19 inventory earlier, data records and financial reporting indicate that the majority of the balance was written off at once, significantly impacting the deficit, as evidenced by the $284m write-down in 2022/23. A further write off of $103m was accounted for in 2023/24. **[Te Whatu Ora – Health New Zealand Annual Report, 2023/24, Page 246]**

Pay equity was funded through the Ministry and DHBs had used external advisors to calculate Holidays Act remediation payment provisions dating back a number of years. Payroll calculations were and continue to be increasingly complex due to limitations within the legacy systems and interpretation with legislative requirements. There is no stable or single source of truth, with over 20 payroll environments across the sector, varying approaches across districts, and a lack of a single master data file for employees. Producing a consistent, timely, and stable picture of personnel costs is extremely difficult, time-consuming, and prone to manual errors. **[HNZ Proactive Release, Update – April Financial Result, Page 233]** Timing of payments and release of employee entitlement provisions were therefore sporadically performed not necessarily based on rational or in accordance with accounting principles resulting in fluctuations. **[HNZ Consolidated Data Files]**

There were noticeable fluctuations in monthly results due to the timing and release of other accruals. For example, in the March 2024 Finance Report, there were some major adjustments to revenue, a significant release of an accrual not required ($89m), a release of income in advance of $11m, and the recognition of additional Pharmac revenue of $63m. **[HNZ Proactive Release, Ministers meeting: Financial update, Page 355]**

A review of the data file shows instances where accruals were released at a corporate level while actual costs and accruals were recorded at the district/entity level. As examples there were released pay equity provisions, MECA accruals written off, and reversals of NZ wide annual leave accruals. The release of accruals was managed through the corporate general ledger, resulting in mismatched accounting treatments. Overall, the release of accruals generally was inconsistent and often lacked rationale, leading to significant month-to-month variations in accrual releases. In another case, double release of an accrual occurred in error and was subsequently identified and addressed in the following month.

Assumptions taken around revenue accruals, income in advance and funding changes to Pharmac were also not monitored or managed closely enough throughout the year resulting in financial reporting variations and swings in actual against budget.

Cash flow analysis that was fundamental to financial management was not occurring and it was apparent through a review of the monthly management papers presented to the Board that there was not insufficient detail to understand the deteriorating cash position.

At a briefing on financial scrutiny with the Health Select Committee, the HNZ Commissioner noted that he would expect there to be a real focus on cash and there to be a cash flow analysis done every week. This was a new discipline being put in place but had not been done before. **[Briefing on Financial Scrutiny – Health Select Committee, Page 5]** It was further identified that in order to get cash flow information, this still needed to be obtained by going back to the districts' accounting systems to get any information. **[Briefing on Financial Scrutiny – Health Select Committee, Page 10]**

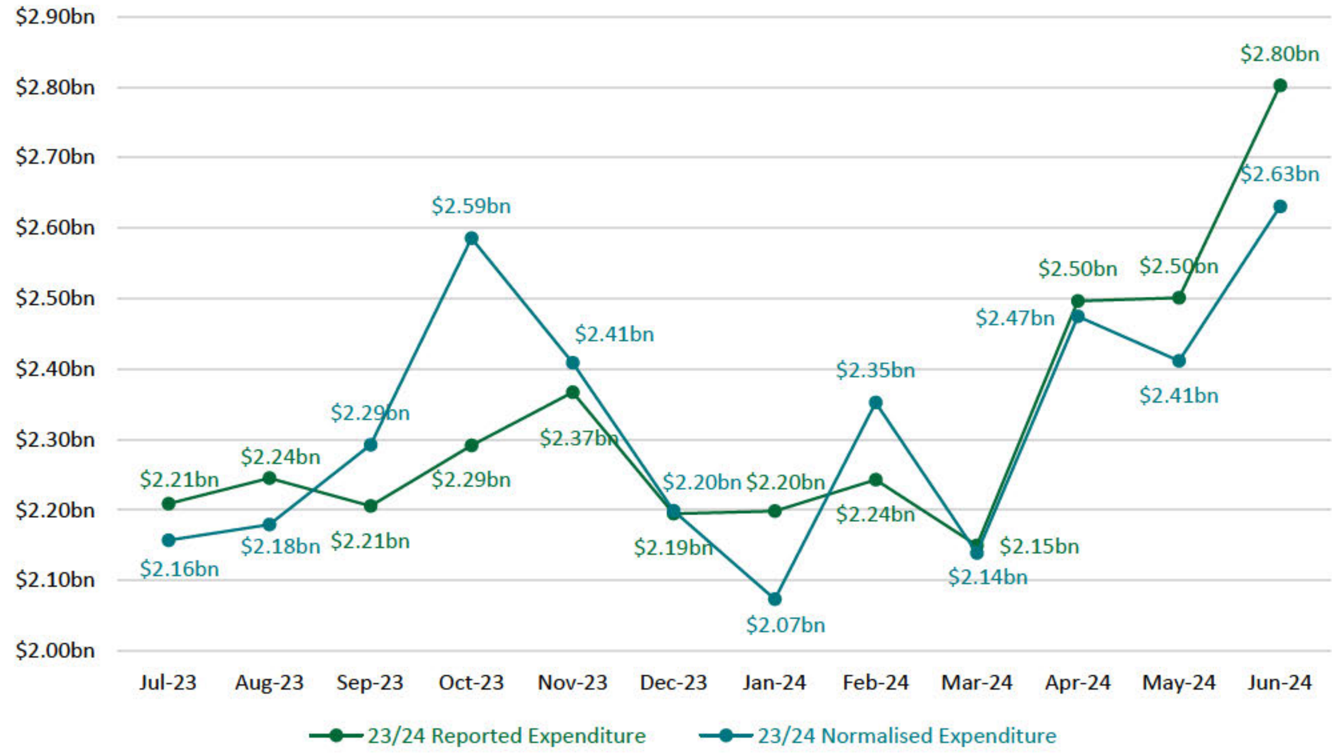
The resulting effect of all these one-off accounting treatments and adjustments was that the actual financial performance of HNZ was unclear. Monthly finance reports cascaded up to the Board contained management commentary that placed a heavy emphasis on points surrounding pay equity, Holidays Act remediation payments, and COVID-19 stock. Consequently, by focusing on these items, leadership attention appeared distracted from the true performance and led to a false perspective that HNZ was performing adequately and in-line with the budget.

An analysis of the underlying expenditure trends was critical to understanding the true performance of HNZ. Monthly finance reports noted that underlying performance was showing improvement in March 2024, however significantly deteriorated in April 2024 attributable to an increase in nursing FTEs. While this was a contributing factor, the underlying run rate deteriorated much earlier. **[HNZ Proactive Release, Roadmap to 2023/24 year end, period ended 31 March 2024, Page 216]**

To assess the extent to which one-offs obscured underlying performance, we have analysed the 2023/24 financial data and applied a simple re-phasing calculation to achieve an approximate normalised expenditure. This analysis removes the significant provision releases and re-phases these on a flat 12-month basis across 2023/24. In our analysis, adjustments were made to pay equity nursing provisions, pay equity allied health provisions, Holidays Act remediation payment provisions, and COVID-19 write-offs, in order to reach a simplified view on the normalised expenditure.

Figure 17 demonstrates that by adjusting expenditure to remove these items, it becomes apparent that expenditure was tracking significantly above budget earlier than when signals were first raised, notably in September and October 2023.

Figure 17: 2023/24 Reported Expenditure against Normalised



Source: [HNZ Consolidated Data Files] used to form basis of the monthly financial reports. Differences will arise from the audited annual report due to final year-end adjustments.

Better Practice

Areas requiring significant assumptions or judgements, or complex accounting should be supported with rationale and management papers.

Assessing core operating revenue and expenses by normalising or stripping out outliers or 'noise' will allow for a more meaningful analysis of the true performance and underlying run rate allowing for swifter action to take place where there are budget deviations.

10. Recruitment challenges

The public health sector has for a long time faced recruitment challenges, with a shortage of applicants, high staff turnover and ongoing open vacancies.

The New Zealand public health sector has faced significant recruitment challenges, particularly during and shortly after the COVID-19 border restrictions. This period saw a shortage of applicants and relatively high turnover rates, leading to a reactive recruitment approach with minimal financial consideration due to the constrained market. This continued the pre-COVID-19 situation where ongoing open vacancies were a common occurrence and were often planned and budgeted for.

In the 2023/24 fiscal year, HNZ made substantial efforts to enhance recruitment and grow its workforce. The organisation launched several international recruitment campaigns aimed at attracting healthcare professionals to New Zealand. By January 2024, the organisation reported that over 900 individuals had arrived in New Zealand for roles with Te Whatu Ora through the Accredited Employer Work Visa scheme since its inception in July 2022. **[HNZ Proactive Release, Aide-Mémoire Quarterly and Monthly Performance Reports, Page 59]** In addition, 9,742 health sector workers had been approved for the Accredited Employer Work Vias since July 2022, with 3,944 of these workers approved to work at Te Whatu Ora. **[HNZ Proactive Release, Aide-Mémoire Quarterly and Monthly Performance Reports, Page 119]** This resulted in significant workforce increases across regional and national staff in H&SS, with majority of the workforce increases being observed in nursing. According to data from the Nursing Council of New Zealand, there was a 10% year-on-year increase in the number of nurses working in New Zealand, including a 25% year-on-year rise in internationally qualified nurses. **[HNZ Proactive Release, Aide-Mémoire Impacts of Increased Employed Nursing Workforce, Page 310]** By June 2024, HNZ reported the highest number of nurses in the country in the past five years.

To add to this, over the past three years nursing wages have increased substantially by 30%, driven largely by pay equity and MECA settlements. **[HNZ Proactive Release, Aide-Mémoire Impacts of Increased Employed Nursing Workforce, Page 315]** Wage increases, coupled with broader economic conditions, contributed to a sticky job market, which in turn drove significantly lower staff turnover rates. **[HNZ Proactive Release, April Financial Result, Page 232]**

These macro-conditions marked a turning point in the recruitment environment, whereby for years the public health sector had faced a high-friction environment that posed difficulties in recruiting and were now facing a low-friction environment with an influx of applicants. This created conditions that if gone unchecked, would leave an organisation vulnerable to over-recruitment.

HNZ's decision-making on nursing recruitment was guided by the CCDM programme, which was about balancing care required with the workforce profile. However, this tool and supporting processes revealed inadequacies in its financial controls to manage recruitment within budget given variability between districts and how staffing budgets had previously been managed. The disconnect between CCDM and budget availability, coupled with the loss of local, regional, and national internal monitoring controls, led to recruitment approvals being based on service needs without budget consideration. **[HNZ Proactive Release, Aide-Mémoire Impacts of Increased Employed Nursing Workforce, Page 313]** An internal audit of nursing FTE controls conducted in July/August 2024, found that five out of six locations that were reviewed, had approved nursing hires based on CCDM council approval, under the mistaken belief that there were centrally held funds available to cover the increase in staff costs. **[Nurse FTE Controls Review, Page 4]**

Despite operating with a lower vacancy rate for employed nurses, the expected reduction in outsourcing costs did not materialise. Budgets assumed that vacancy savings would provide headroom and reduce outsourcing costs. However, even as vacancy rates substantially dropped from 7.2% at the end of January to 6.2% at the end of February, outsourced personnel numbers did not decrease as anticipated. In June 2024, HNZ reported an increase of 4,312 FTE (12.2%) in nursing and increase of 98 FTE (52.2%) in outsourcing since July 2022. **[HNZ Proactive Release, Aide-Mémoire Impacts of Increased Employed Nursing Workforce, Page 309]**

As HNZ attempted to address the personnel challenges, they were challenged by the fragmented systems and inconsistent processes across the organisation. Operating with over 20 separate payroll environments and varying policies and procedures across locations, HNZ lacked a unified master data file of employee information. This fragmentation made it extremely difficult and time-consuming to produce a complete, timely, and accurate picture of personnel costs. For decision-makers removed from the front line, there was limited opportunity to monitor and respond quickly to these emerging trends. **[HNZ Proactive Release, April Financial Result, Page 233]**

As an example, the challenges to manage agency costs was multifaceted. Firstly, there was no uniform way of coding the costs for allowances beyond base salary in the payroll systems, making it hard to identify and separate costs. Secondly, there was variation in what allowances are honoured across different districts and regions, and definitions or allowance schemes seem to have evolved over time. And finally, tighter controls being instructed to districts/regions are not consistently complied with as there is competition for these resources. **[Finance and Procurement SLT Subcommittee, Hospital & Specialist Service, Page 8]**

Similar challenges existed for locums as there was no national rate card to comply to, inability to extract consistent detailed data and there was no centrally led procurement process for these locum/outsourced services. **[Finance and Procurement SLT Subcommittee, Hospital & Specialist Service, Page 8]**

Better Practice

Personnel decisions should be part of financial planning, understanding service delivery, volumes and output. Using tested business intelligence and rostering tools to track staff usage, overtime and other payroll factors will ensure there is proactive management of staffing and allow for information to be analysed. Insights generated from a single system coupled with an understanding of financial planning will allow for sound recruitment decisions.

The impacts were compounded by:

11. Delayed response to issues

There was a lag time of up to two months on reporting to senior management, Board and monitoring agencies. Short-term mitigations to over-budget expenditure masked the scale of the underlying performance issues.

HNZ has never gained momentum in being able to produce timely and accurate information to allow for robust analysis and take proactive action when issues arose.

Information flow was poor and slow, this has resulted in HNZ largely reviewing financial information retrospectively. This approach has prevented management and the Board making informed decisions swiftly and missing the opportunity to implement corrective actions at the right time that could have mitigated adverse effects on financial performance. Where corrective actions were taken, particularly in March 2024, they were one-offs that masked the scale of the underlying issues and sent a signal that performance was on an improving trajectory when it was not.

Critical action and prompt responses that resulted in systemic corrections would have alleviated issues which were driving 2023/24 performance. One of the key contributors to significant cost overspend and loss of financial control was due to delayed responses to understanding and addressing staff expenditure which had trended above the monthly budget. However, awareness and acceptance of this issue took time to emerge at national and governance levels due to inconsistent measures of FTE being used, and costs being reported on a year-to-date rather than monthly basis.

An internal audit performed by HNZ reviewing Nursing FTE Controls, outlined that nursing level assumptions not being accurate. **[Nurse FTE Controls Review Page 1-19]** With no source of truth and the reliance on information provided through CCDM, nurses were being hired out of budget. It was from November that meetings were being held to understand the causes of H&SS's deteriorating financial performance, and by January 2024, these meetings had increased to a weekly cadence as the issues continued to mount. **[Interviews]**

Interventions taken between November 2023 and March 2024 to address hiring issues included, but were not limited to:

- Rebasing regional and local budgets including FTEs to align costs to funding and accountabilities;
- Review of rosters to reduce unnecessary overtime or outsourced staffing against established staffing;
- Management / admin recruitment freeze; and
- Extracting payroll data to provide more real time insights on whether changes are occurring between month-end. **[HNZ Proactive Release, Aide-Mémoire 2023/24 Budget – Response to Financial Pressures, Pages 173 and 174]**

Due to the delays in responding to this critical issue, further preventative controls were put in place but took considerable time to take effect. Additionally, when some of these controls were implemented, process change instructions lacked clarity and adequate consultation with other key parties. Hiring freezes and additional approvals for recruitment were not applied retrospectively, allowing several recruitment cases already underway to continue without the necessary approval, thus missing the opportunity to realign recruitment activities to the required levels. **[Nurse FTE Controls Review, Page 8]**

The effect of this three-month delay was that financial performance continued to deteriorate further than it would have otherwise, if reporting had been clearer, actions had been quicker, and the effectiveness of actions had been greater.

Delayed response time clearly resulted in issues compounding further. Additional factors (explained earlier in the report) contributed to the rapid deterioration in financial performance due to delayed response to key issues:

- The ineffective savings programme;
- A lack of budget phasing to anticipate higher monthly costs; and
- Inconsistent practices around accruals and write-offs.

The reasons for these delays were due to an accumulation of issues stemming from a rapid change in the organisational structure, inaccurate information, the inability, and lack of experience to understanding financial information, limited accountability, and appropriate governance oversight.

As a result, the final few months of the financial year were inevitably going to produce large deficits, since the first half of the year recorded more-or-less breakeven results that did not genuinely reflect key issues that were occurring and going unnoticed for a period of time.

Better Practice

One financial platform and the use of streamlined digital tools and data analytics across the organisation allows for an accurate flow of information and real time reporting. This allows the ability to analyse data in a timely manner and respond to critical issues to implement corrective action at the right time. There is a higher level of visibility and transparency across the organisation for the right decisions to be made.

12. Governance and monitoring responsibilities

Reports did not contain information the Board and monitoring agencies needed to assess HNZ's financial performance. There was only a basic statutory accountability framework in place between the Ministry and HNZ during the 2023/24 year.

There were five fundamental issues with the governance and monitoring responsibilities in relation to HNZ.

Firstly, the Board did not receive information at the right time to enable the right decisions to be made. Issues that had been identified at operational levels of HNZ were not escalated to the Board with supporting recommendations for action for several months, and that delay allowed the financial impact to worsen. For example:

- Reports and documents shared with the Board did not contain sufficient information to provide a clear picture of HNZ's financial performance. The Board was not receiving clear and accurate reporting on delivery volumes, savings, and expenditure against forecasts. This lack of comprehensive data

made it difficult to assess performance (financial or delivery) and identify areas of concern. **[Treasury Proactive Release, Page 24]**
- The monthly finance reports prepared by management were shared with the Board two months after the financial month-end they referred to. These reports often did not feature insightful or actionable variance commentary, delaying the identification and escalation of emerging issues, as identified internally in October 2023, but only as 'emerging issues' in February 2024 Board Reporting. **[HNZ Proactive Release, October Finance Report, February Finance Report, page 198]**
- The information being delivered to the Board did not paint the full picture of known issues. For example, the spending on nursing was significantly over budget yet there was limited escalation on the matter, and a three-month delay in identifying the issues to governance (as noted above).

Secondly, the Board included highly experienced, competent industry, and health experience, however it is claimed to have lacked the necessary financial capability which would have supported active enquiry into the information it was receiving. **[HNZ Proactive Release, Letter from Health Minister, Page 394]** It is essential for a Board in this context to interpret financial information and understand its implications, ask challenging questions, and receive additional insights. The appointment of Roger Jarrold onto the Board in March 2024 was intended to provide financial capability and an additional level of inquiry to the Board's work.

Thirdly, HNZ kept monitoring agencies at arm's length. Monitoring agencies did not have visibility over HNZs performance and were not receiving relevant information to understand the exact picture and extent of the financial loss of control until interventions were too late to be effective. Specific issues that surfaced through the review include:

- Without greater transparency of the HNZ Board or understanding of the information from which HNZ were making organisational decisions, the Ministry were unable to determine the extent to which progress is being made, and the effectiveness of governance in driving iterative improvement in a context of developing organisational maturity. **[Supporting governance through Crown Observers, 5 December 2023, H2023033305]**
- Concerns were raised that the governance was not as strong as it could be. Treasury noted it was difficult to assess performance of HNZ Board, with direct engagements rare and usually attended by management. **[Treasury Proactive Release, Page 19]**
- The lines of responsibility between Ministerial, Board and managerial decision making such as on capital projects were blurred. **[Treasury Proactive Release, Page 19]**
- There were also indications that the information used to make judgements about HNZ's financial position and risk 'is partial, sketchy and often confusing'. **[Treasury Proactive Release, Page 64]**
- The Ministry indicated they lacked visibility. HNZ failed to respond to data requests regarding delivery from Joint Ministers in January 2024, nor did they have this reporting to the Board and monitoring officials. **[HNZ Proactive Release, Letter from Ministry of Finance, Page 151]** The Ministry often received information late, and concerns were expressed about not getting the appropriate access to Board papers. **[HNZ Proactive Release, Expectations of the Board, Page 89]**
- Concerns were raised that it was not clear that HNZ was on track to deliver the expected surplus in 2023/24 or proposed savings in full. The Ministry and the Treasury continued to seek assurances on this. **[Quarter 2 2023/24**

Monitoring Report- Health New Zealand | Te Whatu Ora 21 March 2024 Briefing: 2024036625]

Fourthly, the exact roles and duties of each party were poorly understood. The absence of an agreed monitoring framework beyond the basic statutory mechanisms resulted in a lack of understanding of the roles and responsibilities that the Board, FRAC, Treasury and the Ministry should have regarding oversight of HNZ. Specifically:

- The roles and accountability framework among various parties involved with HNZ was not clear and therefore difficult to hold anyone to account for particular aspects of governance and monitoring.
- The FRAC, pivotal for financial oversight, was not routinely receiving critical information that would highlight the scale and nature of HNZ's financial issues. There was a notable deficiency in the scrutiny over key judgements made by management in applying accounting policies and making estimates. The FRAC needed to exercise more rigorous oversight before the Board approved the financial statements. [HNZ Proactive Release, Aide-Mémoire Response to OAG Audit of Health NZ for the year ended 30 June 2023, Page 165]
- While Treasury, the Ministry of Health and Ministers asked questions of HNZ, these were relatively late in the financial year due to delayed or a lack of appropriate information. Given the nature of the reporting in the first year of HNZ and the first half of 2023/24, monitoring agencies could have played a more active and critical role in seeking the understanding and assurances needed to ensure that the Board had sufficient insights to effectively oversee HNZ.

And finally, the absence of information and the poor quality of that which they received, should itself have raised concerns and signalled a need for the Board, the Ministry, and the Treasury to take on a more sceptical and inquisitive role on HNZ's performance and proactively take further steps to investigate. Specifically:

- The poor quality and frequent absence of crucial information should have prompted earlier and more robust challenges to management. However, the Board failed to insist on higher standards of reporting and accountability. This oversight allowed inadequate practices to persist, eroding the overall governance framework.
- Early and robust challenges to management based on quality information was essential for maintaining high standards of governance. The Board could have been more proactive in requiring accurate, comprehensive, timely and insightful reports. By doing so, they could have identified and addressed issues sooner, ensuring that HNZ operated efficiently and effectively.
- Monitoring agencies were regularly requesting and asking for information and improvements to be made to the quality of reporting. While questions were raised it was not until March 2024 that HNZ shared Board papers with the monitoring agencies as HNZ had not responded to requests in a timely manner. The Ministry expected the role of the new Crown Observer to be an important in providing independent advice and to support oversight, however, at this point the financial issues were already systemic. [Quarter 1

2023/24 Monitoring Report – Health New Zealand | Te Whatu Ora, 15 January 2024, 2023033095]

Better Practice

Strong governance, monitoring and oversight is critical to the success of an organisation and providing robust oversight. A Board is accountable to stakeholders and should assume directly responsibility in managing risk, understanding financial performance and providing rigorous challenge and direction throughout the organisation. Appropriate information should flow to the Board to allow for sound decision making.

Recommendations

In response to the review findings, better practices were highlighted through Deloitte partner expertise and industry knowledge. Reflecting on these practices enabled the identification of twelve opportunity areas to address the underlying issues and reduce the likelihood of reoccurrence.

Each opportunity area represents a set of recommendations that address our findings. The table below indicates the relationship between key insights (numbered 1-12) and the recommendations (lettered A-L).

Relationship between key insights and recommendations	1. Loss of financial control	2. Change in operating model	3. Insufficient detail in financial plans	4. Ineffective savings plans	5. Inaccurate budgets	6. Complicated information flows and systems	7. Organisational changes	8. Loss of capability and experience	9. One-offs and timing of costs and revenues	10. Recruitment challenges	11. Delayed response to issues	12. Governance and monitoring responsibilities
A. Regional and district connections and control points	✓	✓		✓				✓			✓	✓
B. Shared responsibilities and capabilities	✓	✓	✓				✓	✓				
C. Budgeting and production/service planning	✓		✓		✓	✓			✓			✓
D. Analysis and reporting	✓		✓	✓	✓	✓					✓	✓
E. Savings programmes	✓			✓								✓
F. Staffing and rostering	✓		✓			✓				✓	✓	
G. Resource & financial management systems	✓					✓	✓	✓		✓	✓	
H. Adjustments and one-offs	✓		✓		✓				✓			
I. Internal audit programme	✓											✓
J. Monitoring and performance	✓										✓	✓
K. Financial management	✓		✓	✓	✓			✓			✓	
L. Appropriation and output class structure	✓	✓	✓		✓	✓						✓

Recognising that the implementation of these recommendations will require time, and some will be more of a challenge than others, it is imperative to establish a detailed plan and roadmap to guide their successful integration. We have indicated a rough prioritisation (do now, do next, do later) in the following section of the report.

We acknowledge that agencies have already initiated responses to the challenges encountered in 2023/24. Therefore, the following recommendations will also need to be evaluated, integrated, and prioritised in alignment with those efforts.

A. Regional and district connections and control points

Strengthen locally connected management, oversight and decision-making at district and region levels by implementing the following:

- Establish local governance and control points at district and region levels that bring together financial, operational, and clinical management, ensuring accountability across all areas and connecting across functions and roles.
- Reintroduce revenue at an operating unit level based on funding levels, production plans, service levels and standard pricing. This allows revenue to be used as a lever to manage resourcing and activity levels as well as variations from plan, accounting for out-of-district provision, and increasing visibility of available financial resources.
- Use an objective metric, such as the Population-Based Funding Formula, as a yardstick to assess relative over- and under-budgeting and funding of services in each district, assess actual spend against the funding budgets, and objectively compare resource allocation to meet service needs across the organisation.
- Routinely perform benchmark analysis to identify over- and under-performing districts, leveraging lessons learned and information sharing between districts to improve overall organisational performance.

By implementing these interconnected control points, HNZ will address a number of the challenges posed by the loss of oversight and delays to identify and respond to emerging issues. This approach will lead to more effective responses to these issues, as decision-makers will be in close proximity to operations and equipped with greater knowledge of the resources and levers available to them.

B. Shared responsibilities and capabilities

Clearly define how financial, operational, and clinical governance, leadership and management roles will work together at all levels to share responsibilities and make decisions.

It is crucial for HNZ to bring clarity to roles, provide clear delineation of responsibilities across the organisation, and to start addressing any gaps in institutional knowledge around health service management that may have emerged within the transition. This will require attention to the following areas:

- Establish a hybrid operating model structure that facilitates decision-making closer to operations, while retaining regional and national oversight and consistency where required in its functions, operations, and decision-making. Consider the models used by multi-national and diverse organisations with multiple business units, subsidiaries and geographical spread as a potential approach that balances national oversight with local decision-making.
- Clearly define roles, responsibilities, and expectations across the operating model.

- Establish a quarterly business review process that provides an objective assessment of the financial management and performance of operating units, escalating any matters requiring further attention to central governance.
- Equip managers and leaders with the capabilities necessary to operate in a financially responsible manner, endeavouring to cover all annual costs from net annual income as required by the Pae Ora (Healthy Futures) Act, and the obligations under the monitoring framework associated with the Government Policy Statement on Health.
- Support a culture that prioritises financial sustainability and encourages continuous sharing, learning and improvement for the collective benefit of HNZ.

These measures are designed to address the uncertainties that arose from the rapid changes in the operating model. By delivering these actions, HNZ will be better equipped to operate with enhanced clarity and effectiveness, particularly in face of ongoing operating model changes to come.

C. Budgeting and production/service planning

Introduce driver-based budgets, which for many functions are supported by production plans (volumes or service levels), across Health NZ that will provide management with an effective tool to manage costs and resources.

Achieving this will require the following improvements to budgeting and production/service planning:

- Establish production/service plans that underpin the financial budgets (with exception for enabling services), integrating key drivers such as demand, utilisation, workforce and known commitments.
- For enabling functions, integrate strategic, business and financial plans into the budgeting process, incorporating key drivers such as staffing and service levels required to support front-line operational service delivery.
- Phase budgets to reflect the anticipated timing of revenue and expenditure, based on historical trends or reasonable expectations for how these will change throughout the year.
- Deploy a fit-for-purpose budgeting and forecasting tool that provides visibility and effective monitoring of budgets from responsibility centres up to central levels. (Noting that HNZ already has some options available within its current portfolio of systems.)
- Clearly communicate and coordinate the budget formation process, including setting consistent underlying assumptions. Incorporate assumptions within the budgeting and forecasting tool where possible to minimise risk of inconsistencies.
- Utilise the budgeting and forecasting tool capabilities to enable real-time visibility into expenditure and variances, enabling thorough monitoring and tracking of budget performance.
- Establish standard costing methods that enable the development of revenue vs expenditure variance analysis at a district level thereby improving visibility on financial performance throughout the organisation.

These elements will bridge the current disconnect between budgets and production/ service planning, thus mitigating the issue of inaccurate and inconsistent budgets. This will also help to instil confidence in the budgets and better commitment across management (finance, operations, clinical) to operate within available revenue.

D. Analysis and reporting

Strengthen analysis and reporting quality, including variance analysis and commentary which should reference production plans, underlying drivers, and comparative measures.

Quality financial reporting is essential for providing insights to enhance financial management and decision-making. To achieve this for HNZ, will require focus on the following key areas:

- Present financial reports at a level of detail that allows the user to understand the true performance of the organisation.
- Conduct variance analysis down to a district level, with reference to production and service plans to provide insights into what has changed against plans (e.g., volumes, service levels, costs) and identify actionable levers that can be used in response.
- Undertake routine and ad-hoc deep-dive analysis, such as scenario modelling, as required to better assess options and inform decision-making.
- Perform regular review of cash forecasts and analysis of cash trends on a daily / weekly / monthly basis. As part of ongoing reporting, reconcile cash movements to financial performance.
- Support financial reporting with constructive commentary, offering wider context and pre-empting strategic insights useful for decision-making.

These enhancements in financial reporting will provide HNZ with a better understanding of the organisation's true underlying financial performance, preventing one-off adjustments and accounting treatments from masking any underlying issues.

E. Savings programmes

Savings programmes should be supported by clear action plans, ownership, budget impacts, tracking & reporting, and governance. Progress reporting should reference budgets and planned actions.

There is a need to redesign HNZ’s savings programmes with establishing the following key characteristics and processes:

- Conduct rigorous benchmarking, costing and measurement to identify where there is reasonable expectation that sustainable savings can be achieved within the organisation.
- Support saving initiatives with comprehensive plans that allow management to intervene and adjust plans when initiatives are not meeting expectations.
- Where saving plans require an investment to generate potential savings such as technology implementation, support these initiatives with a robust internal business case that enables costs and savings to be monitored and tracked over the life of the initiative.
- Establish an explicit decision process on how savings will be banked or applied in the organisation. Oversight of how savings are banked or disbursed should be formalised, preferably sitting at the governance level or with the Executive Leadership Team.

The proposed recommendations shift away from regarding savings programmes as tools for balancing revenue and expenditure. Instead, they an important mechanism to channel efforts towards enhancing productivity and maximising enduring cost-saving opportunities.

F. Staffing and rostering

Reconnect staffing and rostering decisions with production and financial plans and forecasts, in addition to established measures of patient acuity & workload.

In order to realign staffing and rostering decisions with production and financial plans and forecasts, a series of enhancements across systems, processes, and decision-making policies are essential. These include:

- Deploy electronic rostering systems that are integrated with personnel, payroll, and financial systems.
- Align payroll systems across the organisation to consistently record and report payroll information.
- Build consolidated payroll reporting through business intelligence tools that enables the organisation to draw consistent comparisons between districts and regions as well as a national view.
- Integrate recruitment and rostering decisions with financial plans and production plans to ensure alignment against budget availability and service delivery targets.
- Provide guidance for management where staffing and rostering decision-making requires trade-offs between budget, service delivery, and workforce performance.
- Improve the use of rostering tools to manage the financial implications of rostering decisions, including the use of overtime and agency staff.

These enhancements aim to tackle the significant challenges HNZ experience, particularly stemming from the fragmented systems and inconsistent process to managing personnel costs. This will set up HNZ to produce an accurate and timely overview of staffing requirements, availability, and costs, facilitating prompt response to emerging trends and empowering decision making for clinical staff and operational management.

G. Resource and financial management systems

Address fragmented systems and migrate districts to one fit-for-purpose enterprise resource planning (ERP) system. Eliminate the Excel spreadsheets used for consolidation, journals, business-critical reporting, and analysis. Align financial hierarchies and accountability with organisational structures and responsibilities.

This will require investment to the following technologies:

- Adopt a fit-for-purpose ERP system that provides a single source of truth and feeds into a business intelligence tool to connect financial, operational and workforce data. (This is likely to be a consolidation of the multiple Oracle FPIM systems into a single, integrated, fully featured ERP solution for the organisation.)
- Align financial hierarchies and accountability with organisational structures and responsibilities.

- Dedicate resources to build insightful performance dashboards that are user-friendly and enable self-service across the organisation.
- Make use of other digital tools that improve the efficiency and effectiveness of various financial tasks across the organisations, such as in-built system controls, workflow, and other automation and AI capabilities.

These enhancements address the fragmented systems and eliminates the use of Excel spreadsheets used for business-critical reporting and processes. Fully leveraging capabilities of modern enterprise systems to improve productivity, consistency and visibility across the organisation will improve speed, accuracy, and confidence.

H. Adjustments and one-offs

Review guidance around management of accruals, provisions, treatment of one-offs and write-offs, to improve consistency and alignment between revenue, expenses and underlying financial performance.

To enable this, it is critical that the following practices are put in place:

- Develop guidance on revenue accounting policies and processes, such as routine revenue reconciliation procedures, to ensure consistent and accurate revenue accounting treatment across HNZ.
- Prepare accounting papers for significant transactions and adjustments, maintaining clear documentation for the rationale and supporting evidence in accounting treatment applied.
- Provide clear guidelines for robust accrual and provision management, including comprehensive documentation of calculations, regular review and reconciliation of accruals/provisions, and adherence to applicable accounting standards.
- Consider whether there should be a standard measure of underlying operating revenue and expenses that is reported consistently over time, either on a monthly or quarterly basis, that eliminates the distorting impact of one-offs and timing differences.
- Regularly review accounting practices to ensure these remain relevant/ compliant with audit findings, regulation settings, and other relevant requirements.

These actions should address matters such as the accounting for, and monitoring of, revenue in advance/arrears, pay settlements, and expired inventory that proved problematic during 2023/24. This will help in supporting leadership in performing their oversight duties through greater visibility on the underlying performance.

I. Internal audit programme

Review the internal audit programme to ensure it is aligned to HNZ's strategy, priorities, and material risks.

There is a need to review and – where necessary – adjust the internal audit programme, considering the following:

- Review the internal audit plan to ensure alignment with HNZ's strategy and risks using key inputs such as the enterprise risk framework, previous audit findings, performance expectations, and other relevant resources.

- Develop implementation plans to address findings and recommendation as part of this review and incorporate review of these into the internal audit plans.
- Enable a proactive approach to addressing anticipated risks for the organisation by continuously monitoring the risk landscape and updating the internal audit plan accordingly.

Internal audit is an important adjunct to the organisation, in a supporting role to verify the work that staff, management and governance are already undertaking around risk and control. In addition, effectively ensuring the findings and recommendations from this review are implemented successfully will enable the organisation to leverage valuable lessons learned, ensuring HNZ's resilience against similar situations in the future.

J. Monitoring and performance

Progress has been made in relation to accountability arrangements, with the GPS on Health, Service Coverage and Operational Policy Expectations in place for 2024/25. Implementation of the monitoring framework by all parties will require changes to systems, processes, information flows, and how accountabilities are governed and managed to successfully deliver these expectations.

The monitoring of HNZ should be pragmatic and encourage a focus on HNZ's progress and outcomes relative to strategic goals and performance expectations. As part of next steps, we suggest the following considerations:

- Establish streamlined performance reporting dashboards to deliver effective performance reporting within the monitoring framework. Utilise digital tools to enhance reporting speed and efficiency, allowing for more time to provide insightful commentary.
- Develop processes to operationalise the monitoring framework, including outlining roles and responsibilities to deliver on monitoring requirements (e.g., reports, plans, briefs) and schedule of meetings between parties.
- Establish channels between HNZ and monitoring agencies to ensure formal monitoring requirements are complemented with more informal briefings as well as strategic working sessions, allowing for transparent, free and frank discussions between all parties.

The above actions will address prevailing challenges by facilitating the timely circulation of appropriate information to relevant agencies, enhancing visibility of performance, and clarifying lines of responsibilities. This also helps to build a constructive relationship and culture, encouraging healthy tension and scrutiny between parties.

K. Financial management

Ensure spending remains within available funding and the level of equity support that may be required as part of the reset plan.

HNZ has obligations under the Pae Ora (Healthy Futures) Act to operate in a financially responsible manner and endeavour to cover all its annual costs (including the cost of capital) from its net annual income. HNZ has indicated this will not be possible until 2026/27, and it may require equity support to address sustained costs that will run in excess of income over the next two financial years.

- Delivering on the reset plan and path to financial sustainability will require additional improvements to forecasting, planning, and mechanisms for releasing and committing funds through the financial year, to ensure expenditure remains on the intended pathway and to manage variations as they arise during the year.
- Where additional resources are required, such as for investment into infrastructure or IT systems, HNZ should ensure there is a robust business case underpinning those investments, an effective programme management office to monitor and assure the work, and good benefit realisation practices in place to deliver the promised outcomes.

This will address the need to demonstrate financial responsibility within the range of performance expectations advised to Parliament and the level of equity support that may be required, while allowing for the inherent variability of health services demand and costs and investing for future operating and service delivery models.

L. Appropriation and output class structure

Ensure expenditure is appropriately mapped to and reported against appropriations and output classes.

The appropriation and output class structure and HNZ's mapping of expenditure to those categories does not facilitate accurate reporting of financial information, for example in the case of corporate and some national functions. It also does not facilitate the allocation of resources to priorities that do not align with traditional settings of care such as primary & community or hospital & specialist services, as increasing integration across these areas is a key lever for improving productivity over time.

- Ensure expenditure is appropriately mapped to and reported against appropriations and output classes.
- Conduct a review of how cost allocation to appropriations and output classes is being undertaken by HNZ and improve the attribution to the existing structure.
- Consider whether an alternative structure would better reflect a meaningful attribution of expenditure and supports the planned investments required in priority areas to enhance productivity.
- All parties (the Treasury, Ministry, and HNZ) to work together on this and the path to implementation.

This will address issues of misalignment between statutory reporting obligations and HNZ's operating model and financial reporting, as well as facilitating the long-term move of resources to increase HNZ's options around health service delivery models and productivity improvements.

Addressing Findings and Recommendations

HNZ is currently navigating through a challenging financial situation, which will require all opportunities to be taken to embed robust financial management.

The recently published Statement of Performance Expectations for 2024/25 reveals that HNZ is forecasting an increased deficit of $1.1bn (against $722m for 2023/24) despite anticipating an additional $1.1bn in revenue this year.

The economic landscape is further complicated by health cost inflation rates, which historically and currently outpace general cost inflation, the effects of population growth on service demand, capacity challenges in primary care, and the impact of recent long wait times for services – which combine to cause costs to grow faster than funding.

Additionally, HNZ faces ongoing workforce-related financial challenges, including increased employee costs and the need for improved workforce management across the country to address shortages and reduce unplanned outsourced costs.

Immediate action (do now)

Due to the mounting pressure on the organisation to control and manage costs, enhance productivity, and identify cost-saving opportunities to meet service delivery targets within available funding, immediate action is recommended for HNZ (and where relevant, its monitoring agencies) on the following opportunity areas:

- E. Savings programmes
- F. Staffing and rostering improvements
- H. Adjustments and one-offs
- J. Monitoring and performance
- K. Financial management
- L. Appropriation and output class structure

These changes will only be effective with strengthened and locally connected management and governance to ensure effective delivery, adequate oversight for early identification of issues and decision-making close to operations. This necessitates the implementation of the following:

- A. Regional and district connections and control points
- B. Shared responsibilities and capabilities

By focusing on these areas, HNZ can better manage its immediate financial challenges and improve overall operational efficiency.

Upcoming priorities (do next)

Looking into the next financial year 2025/26, HNZ (and where relevant, its monitoring agencies) should focus on continuing to build on financial control levers and enhance financial reporting that is based upon reliable data with strong integrity. The following priorities should be established:

- C. Budgeting and production/service planning
- D. Analysis and reporting
- G. Resource & financial management systems

In addition to the above, it is crucial the organisation establishes effective governance and enterprise risk management through:

- I. Internal audit programme

Noting that some of the work commenced during 2024/25 will take more than a single year to complete, activity should also continue on the following areas:

- F. Staffing and rostering improvements
- J. Monitoring and performance

Future improvements (do later)

Finally, looking further into the future from 2026/27 onwards, we expect that earlier recommended work on payroll and rostering systems, and implementation of a fit-for-purpose enterprise resource and financial management system, will reach implementation. These will enable a single source of truth of people and financial data to allow for real time data analysis and improve productivity and performance of operational and finance activities.

To that end, work can continue and conclude on:

- F. Staffing and rostering improvements
- G. Resource & financial management systems
- L. Appropriation and output class structure

Appendix

Appendix A: Acknowledgement of interviews

Name	Role	Organisation
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	
[redacted]	[redacted]	
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	Health New Zealand
[redacted]	[redacted]	
[redacted]	[redacted]	Ministry Of Health

[redacted]	[redacted]	Ministry Of Health
[redacted]	[redacted]	Ministry Of Health
[redacted]	[redacted]	The Treasury
[redacted]	[redacted]	The Treasury

[redacted]

Appendix B: List of information sources

Document Title
Auckland DHB Annual Plan 2021/22
Audit New Zealand: Health New Zealand – Information for Deloitte review (December 2024)
Board Papers July 2023 to June 2024 • 16 Feb 2023 Addressing the impacts of pay disparities in the health funded sector • Agenda and Papers – August 2023
Briefing on Financial Scrutiny, Health Select Committee (Hansard Transcript)
Briefings to the Minister • Aide-Mémoire - Annual Report 2022-23 • Aide-Mémoire - Budget 2023 Approach • Aide-Mémoire - Budget 2024 Progress Update • Aide-Mémoire - Health Sector Agreements & Payments programme – RIPA Engagement • Aide-Mémoire - May 2023 Monthly Performance • Aide-Mémoire - Revising Estimates of Appropriations 2023/24 post hearing question (PHQ) #236 • Aide-Mémoire - Te Whatu Ora Performance Management Processes • Aide-Mémoire - Te Whatu Ora: Impact of proposed reduction Budget 2022 contingency and balance of Budget 2021 contingency for Data and Digital Foundations and Innovation • Budget 2024 progress update: scope and approach to review and design health system funding flows and allocative mechanisms • Draw down of the Improving pay relativities for funded sector health workers – tagged operating contingency • Drawdown of the tagged operating contingency for improving pay relativities for funded sector health workers – FY2023/24 and out years • Drawing down the budget 2022 Addressing Future Health System cost pressures contingency (2023/24) • Employers passing on the 2023/24 funding uplift to support workers • Establishing funding baselines for Holiday Act Remediation • Free and Frank Advice – pay disparity funding to general practices and the GenPro document Securing Pay Parity and Pay Equity for nurses employed in general practice & urgent care • Health Sector Agreements and Payments Programme Tranche 3 Funding Drawdown • Inclusions of general practices in the pay disparity funding • Letter of Expectations 2023/24 for Health Infrastructure • Memo – Addressing the impacts of pay disparities in the Health Funded Sector • Ministerial Quarterly Report FY2022/23 • Monthly Finance Report – August 2023 • Monthly Finance Report – July 2023 • Monthly Finance Report – June 2023 • Monthly Finance Report – May 2023 • Pay disparities and ARC negotiations

- People, Culture, Development and Remuneration Committee: Addressing the impacts of pay disparities in the Health funded sector
- Single Stage Business Case National Data Platform (NDP) - Design, build, and implementation of core NDP and migration of and access to priority datasets June 2023
- Te Pae Tata Q4 milestones update June 23
- Te Whatu Ora Data and Digital Foundations and Innovation: Budget 2022 contingency drawdown
- Te Whatu Ora May Monthly Performance Dashboard
- Te Whatu Ora Monthly Performance Report – June 2023
- Te Whatu Ora Statement of Performance Expectations 2023-2024
- Te Whatu Ora Board Paper – Addressing the impacts of pay disparities in the Health Funded Sector
- Update on the 2023/24 operating budget of Te Whatu Ora ahead of the forthcoming detailed briefing to seek draw down of the cost pressures tagged contingency funded in Budget 2022

HNZ Consolidated Data Files & Budgets (Excel)

- Budget 2023-24 by OU 28.7.2023
- HNZ Reporting FY2023-24
- HNZ Reporting FYE June 23 (31.10.23) Final Financials
- NZ by Entity Full Year Budget FY2023

Executive Leadership Team Meeting Agenda – 18 June 2024

- Activity Reporting: Board update – 28 May 2024 approved plan / demographic update
- Appendix 1 - Final May result with best- and worst-case forecast
- Memorandum to Health NZ ELT: Update Internal Budget 2024 – issues to resolve together

Executive Leadership Team Papers (July 2023 to June 2024)

Finance and Audit Committee Agenda and Papers (July 2023 to September 2024)

- Thursday 20 July 2023
- Friday 11 August 2023 – Discussion and Noting Items
- Friday 8 September 2023
- Friday 13 October 2023
- Friday 10 November 2023
- Friday 8 December 2023 – Discussion and Noting Items
- Friday 9 February 2024
- Friday 8 March 2024
- Friday 12 April 2024
- Friday 10 May 2024
- Monday 24 June 2024
- Tuesday 30 July 2024
- Monday 23 September 2024

Finance and Procurement SLT Subcommittee, Hospital and Specialist Services

Health New Zealand – Aide Mémoire - Impact of Increased Employed Nursing Workforce, 26 June 2024 (from HNZ to Hon Dr Shane Reti, Minister of Health)

Health NZ Financial Reporting from FY 2023/24 Proactive Release, October 2024 (HNZ Proactive Release)

- Aide-Mémoire 2023/24 Budget – Response to Financial Pressures
- Aide-Mémoire 2023/24 Quarter 2 Report
- Aide-Mémoire Lifting performance by empowering our regions

• Aide-Mémoire Quarterly and Monthly Performance Reports • April Finance Report • August Finance Report • Briefing: Roster to Pay Programme – Further Detail • Chair briefing to Ministers on Fiscal Sustainability • Detailed Financial Risks & Mitigation • Expectations of the Board • February Finance Report • Finance Minister briefing to Health Minister • Financial Update: Joint Ministers Meeting • Impacts of Increased Employed Nursing Workforce • January Finance Report • July Finance Report • Letter from Minister of Finance • Letter from Ministry of Health • March Finance Report • May Finance Report • November Finance Report • October Finance Report • October 2023 Documents • Response to letter from Minister of Finance • Roadmap to 2023/24 year-end, period ended 31 March 2024 • Summary • Te Whatu Ora – Health New Zealand: Audit for the year ended 30 June 2023 • Update – April Financial Result
Hospital and Specialist Services – October 2023 YTD Financial Results and Full Year Forecast
Log of monitoring information requests to Te Whatu Ora, 2022-24 (the Treasury)
Nursing FTE Controls Review (from Internal Audit to CEO) • Agenda – Finance and Procurement SLT Subcommittee – Hospital & Specialist Services • Cost Containment Table (Version 3) • Finance and Procurement Subcommittee – Terms of Reference • (Version 0.1) • Memo – H&SS Underlying result and full year Forecast • Memo – H&SS 2023/24 Budget Targets • Minutes – Finance and Procurement SLT Subcommittee – Hospital & Specialist Services
Proactive Release of Treasury advice on the financial performance of Health NZ (Treasury Proactive Release) • Introductory briefing for Ministers of Finance and Health on Vote Health • Treasury Report: Health New Zealand 2023/24 year end position: update and next steps
Quarterly Performance Report – 1 April to 30 June 2024 (available via Te Whatu Ora Website)
RNZ Webnews (Radio New Zealand) Documents: Housing NZ finances September 2024 • Quarter 1 Monitoring Report- Health New Zealand | Te Whatu Ora • Aide-Mémoire Joint Ministers' meeting with Health New Zealand | Te Whatu Ora Board • Quarter 2 2023/24 Monitoring Report- Health New Zealand | Te Whatu Ora • Quarter 3 2023/24 Monitoring Report- Health New Zealand | Te Whatu Ora • Appendix 1 Excerpts from: Direction Setting, June 20F4

• Aide-Mémoire Meeting with Health NZ on financial performance, 3 July 2024
Select Committee Hearing, 18 September 2024 (HNZ)
Statement of Performance Expectations 2024/25
Te Whatu Ora – Health New Zealand – Annual Report 2022-2023 (available via Te Whatu Ora Website)
Te Whatu Ora – Health New Zealand – Annual Report 2023-2024 (available via Te Whatu Ora Website)
Te Whatu Ora ELT Paper – Budget 2024: Update on Budget initiatives
The official website of the New Zealand Government • Commissioner replaces Health NZ Board • Crown observer to be appointed to Health New Zealand
Timeline of key Ministry advice on Health NZ performance • Appendix 1 Health New Zealand Monitoring Summary Report – Quarter 1 2024/25 • Appendix 2 Health system monitoring summary report – Quarter 1 2024/25 • Appointment of Crown Observer • BIM: Health system performance • Briefing for meeting with HNZ • Briefing on HNZ Board appointment • Briefing on HNZ performance for Q3 2022/23 • Briefing on HNZ performance for Q4 2022/23 • Briefing on HNZ performance for Dec 2023 • Briefing on HNZ performance for Q1 2023/24 • Briefing on HNZ performance for Q2 2023/24 • Briefing on HNZ performance for Feb 2024 • DG and Secretary to Treasury meeting with HNZ Board • Governance – Crown Observer • HNZ advice to Minister commits to year end surplus of $583m • HNZ advice to Minister reports April month result of $245m overspending and new year-end forecast position of $237-317m surplus (i.e., effective operating deficit) • HNZ Board papers shared with Ministry for first time • Joint Ministers meeting with HNZ Board • Letter from Board Chair to DG confirming arrangements for sharing Board papers • Letter from Board Chair to Minister of Health refutes MoF allegations • Letter from DG to Board Chair reasserts need for papers to be shared, and other matters • Letter from MoF to Minister of Health highlights concerns with Board governance • Minister of Finance letter to HNZ Board Chair • Roger Jarrold appointed to HNZ Board • Response from Board Chair does not commit to sharing papers

Appendix C: Terms of Reference

Purpose

The purpose of the review is to gain a better understanding of what the drivers were of Health NZ's (HNZ) worsening financial performance and its cash position against the signed-off FY23 & FY24 appropriations and budget. The review is being commissioned jointly between HNZ, the Ministry of Health (the Ministry) and the Treasury to gain a clearer understanding of what led to the significant change in the financial performance, and the cash position of HNZ in the fourth quarter of 2023/24.

HNZ reported adverse financial performance results from March 2024, after having reported to Ministers and monitoring agencies a forecast break-even position (after allowing for one-offs such as pay equity) up to that date. While higher than budgeted workforce costs have been a significant contributor to the adverse performance, there are other underlying factors that may have also contributed to the adverse position.

Furthermore, since July 2022 HNZ's cash position has deteriorated, and part of this review will assess what drove this downturn in cash holdings and what changes to systems and processes will allow this kind of issue to be identified earlier in future.

Objective

The objective of this review is to:

- Understand what caused the decline in the actual financial performance of HNZ and to analyse in more detail the financial results reported from July 2022, to better understand the causes and what systems and processes need to change to identify these earlier in the future.
- Assess the maturity of HNZ's financial management processes and controls, forecasting and reporting, including elements such as accruals and revenue recognition.
- Understand how the Board and Senior HNZ management gained buy-in for the financial plans and results for 2023/24.
- Recommend changes or actions that will realign the reporting and avoid these challenges in the future.

Scope

This engagement will require a short analysis of HNZ's financial performance and does not replace the external audit responsibilities. It will require analysis of HNZ's financial results and movements in those results from July 2022 to current, with particular focus upon the 2023/24 financial year, and may require an examination and evaluation of material HNZ financial records. It is expected to include:

- Understanding and investigating material unbudgeted movements in HNZ's financial performance across the years at both a national and district level; contributing outputs (in particular Hospital and Specialist Services); what drove these changes; and what impact did they have on the HNZ reported results?

- Review the nature of the material transactions, including how they were accounted for by HNZ and how they were forecast in the HNZ consolidated year end results, assessing whether these were forecast and reported in a timely manner.
- Review significant balance sheet movements between months and assess the appropriateness of these balance sheet changes, including how they reflected the activities of HNZ (e.g., monthly balance sheet provision and accrual changes).
- Consider how well integrated decision-making is with financial management governance and organisational performance and examine the disconnect between the split out of financial and non-financial performance reporting at a governance level.
- Assess the information provided to the Board and to the Finance, Risk and Audit Committee, and assess their responses to this information as per the documented Board and FRAC minutes.
- What has HNZ already put in place to minimise the risks of continued deterioration in financial performance occurring in the future?

Approach

Phase 1 – Engage David Lovatt from Deloitte to lead the review, with appropriate forensic and auditing expertise to support him in undertaking this assignment.

Phase 2 – Understand the context of the HNZ operating position beginning from July 2022, with a particular focus upon the 2023/24 financial year, including an assessment of the levers of control in HNZ. While the selected independent reviewers will have their own approach to undertake this assignment, we would expect that they discuss the findings of the independent assessment undertaken by Brent Goldsack and Leo Foliaki on the HNZ operating environment and any other findings relevant to this assignment.

Phase 3 – Through targeted interactions with key members of the HNZ team and Audit NZ, identify significant assumptions, policies, processes, transactions and changes to HNZ financial activities through examination and evaluation of HNZ's financial records.

- Assess the suitability and transparency of the assumptions made, particularly around accruals and balance sheet management.
- Determine the effectiveness of the policies and processes in place during the period, for areas such as revenue recognition.
- Assess the nature of the major transactions that impacted upon the HNZ financial results, and how they had an impact on the worsening HNZ financial position at the time based on experience and publicly available good practice guidance on aspects of resource planning, budgeting, forecasting, risk management and allocation.
- Review the effectiveness of financial management, reviewing internal mechanisms and financial control measures to assess financial governance, adherence to budgetary constraints, and the spending decisions made.
- Document a timeline clearly outlining the findings, advice, decisions, and actions in relation to the deteriorating financial position since 1 July 2022.
- Identify any opportunities for improving HNZ's processes and approach and assess these against what has already been put in place as a consequence of the situation in 2023/24.

Phase 4 – Report back on the findings of the review.

- Facilitate a workshop with key stakeholders (the Ministry, HNZ, the Treasury and Audit New Zealand) to discuss and present the findings and recommendations.
- Capture the results in a draft report and seek feedback and action responses from HNZ management and the HNZ Commissioner to finalise report.

Outputs

This review will produce a report outlining the underlying causes of and responses to the financial situation, including recommendations for necessary actions moving forward. This work will support the ongoing monitoring of HNZ by the Ministry and the Treasury, as well as assisting the Commissioner’s work on improving HNZ’s financial management processes and capabilities, ensuring that all the learnings gained from the findings of this review are built into the new ways of working for all the respective agencies.