Briefing

Health New Zealand
Te Whatu Ora

Update on HNZ Internal Budget 2025/26

Due to MO:	21 March 2025	**Reference**	**HNZ00082800**
To:	Hon Simeon Brown, Minister of Health		
From:	Prof Lester Levy, Commissioner Health NZ Dr Dale Bramley, Interim Chief Executive		
Copy to:	N/A		
Security level:	Sensitive	**Priority**	Urgent
Consulted	N/A		

Action sought	**Action required by**
s 9(2)(f)(iv)	24 March 2024

Contact for further discussion (if required)			
Name	**Position**	**Phone**	**1st contact**
Prof Lester Levy	Commissioner	s 9(2)(a)	
Roger Jarrold	Deputy Commissioner – Finance	s 9(2)(a)	X
Dr Dale Bramley	Interim Chief Executive	s 9(2)(a)	

Attachments	
Appendix 1:	s 9(2)(ba)(i)

Purpose

1. This briefing provides advice on options (along with risks and mitigation) for Health NZ to achieve the s 9(2)(f)(iv) required to shift Health NZ from a forecast deficit position of $1.1billion for 2024/25 to a forecast deficit of $200million for 2025/26. s 9(2)(f)(iv)

Summary

2. Health NZ is in the process of finalising its internal Budget for 2025/26. This budget is the second year in the three-year plan to return to a fiscally neutral position. To reach the expected forecast deficit position of $200million for 2025/26, s 9(2)(f)(iv)

3. A savings plan is under development, with s 9(2)(f)(iv) across the funded sector, productivity gains in hospital and specialist services (HSS), efficiencies in non-personnel costs like health technologies, minimised wage growth assumptions, IT initiatives to improve efficiencies in provision of base services, and continued reduction of back-office functions. Proposed savings will be undertaken with clinical leadership to ensure that safety and patient care is not compromised.

4. The savings plan will be underpinned by maintaining strong controls over recruitment and careful monitoring of one-off costs and other variances. Options for additional areas of third-party revenue are outlined in the brief. s 9(2)(f)(iv)

5. s 9(2)(f)(iv)

6. s 9(2)(f)(iv)

Recommendations

Health New Zealand | Te Whatu Ora recommends that you:

a)	**Note** Health NZ's pathway to the $200million deficit position for 2025/26 is dependent on minimising additional costs, executing a well-managed savings plan, and maximising revenue opportunities. It needs to be underpinned by disciplined, and hands-on governance arrangements.	**Noted**
b)	**Note** options to pursue additional revenue above the areas identified in indicative savings plan are comparatively limited, but still worth pursuing.	**Noted**

c)	s 9(2)(f)(iv)	**Yes/No**
d)	s 9(2)(f)(iv)	**Yes/No**
e)	s 9(2)(f)(iv)	**Yes/No**
f)	s 9(2)(f)(iv)	**Option 1.1** **Option 1.2** **Option 2** **Option 3**
g)	**Note** that Health NZ's internal 2025/26 Budget is still under development and drafts will be shared with you for the Statement of Performance Expectations (SPE) at the end of April 2025.	**Noted**

Hon Simeon Brown, Minister of Health

Date:

Professor Lester Levy
Commissioner

Health New Zealand | Te Whatu Ora

Date: 21 March 2025

Dr Dale Bramley
Interim Chief Executive

Health New Zealand | Te Whatu Ora

Background

7. s 9(2)(f)(iv) The Health Assurance Unit has requested that Health NZ prepare a briefing to you that outlines the current plans for savings in 2025/26, additional options to increase third-party revenue and increase cash reserves. s 9(2)(f)(iv), s 9(2)(g)(i)

8. Planning for Health NZ's 2025/26 Internal Budget is underway with agreed check in points with the Ministry of Health and the Treasury at the end of March, by the end of April to finalise the Statement of Performance Expectations, and finally the end of June. These check in points are as laid out by Cabinet at the end of Budget 2024 (CAB-24-MIN-0148 refers) and indicated in your Letter of Expectations to the Commissioner from earlier this month. As such, the information included in this briefing is point in time and still subject to finalisation over the next two months.

Discussion

An overview of the pathway to Health NZ's target deficit position for 2025/26

9. The pathway for Health NZ's 2025/26 Budget position is dependent on three key factors:

    i. Minimising additional costs and add-ons, including to wage growth, and limiting additional initiatives to only those that are funded by the Crown or have specific benefit to meeting National Health Targets (funded within baselines);

    ii. An executable savings plan that supports continued efficiency and productivity improvements, enabling activity to match population growth and meeting of National Health Targets; and

    iii. Maximising revenue growth, especially third-party revenue streams.

10. The pathway needs to be supported by continued reductions in expenditure run rates in the balance of 2024/25. This downward pressure ensures that the monthly operating loss leading into 2025/26 minimises the efficiency savings needed s 9(2)(f)(iv). Expenditure run rates for 2024/25 have decreased month-on-month since October 2024, with a net result of $41.4million deficit reported in February.

11. We conservatively estimate the underlying operating net result run-rate as of January 2025 to be about $65million, adjusting for one-off movements. Our aim is to continue to reduce expenditure run-rates March to June such that the net monthly result by 30 June 2025 is circa $55million excluding year-end adjustments related to items such as actuarial valuations up or down. While the fourth quarter (Q4) is typically a period where expenditure run rates increase, a range of management controls have been put in place to moderate growth including:

i. Establishment of a Funding Board that now reviews any proposals for new or increased operating spending greater than $1million, and capital greater than $5million;

ii. Rolling monthly financial forecasts across every business unit, with any material increases in expenditure run rates challenged and validated;

iii. Establishment of an HR Oversight group that now reviews all payment changes or recruitment of non-clinical staff, complimented by Regional DCE approvals of frontline staff;

iv. Clinical oversight through the Clinical Senate and Clinical Leadership teams;

v. District by district audit of payroll to ensure consistent application of MECAs; and

vi. S9(2)(g)(i)

12. s 9(2)(f)(iv)

13. Achieving average net result by 30 June 2025 will be challenging given costs associated with expected increased acute cases with the onset of winter, higher number of public holidays compared with other quarters, and delivery on Health Targets. These need to be mitigated and managed through the controls outlined above.

14. Concerted efforts will also be required in Q4 to maintain control over recruitment, contracting and programme delivery. Risks are continuously monitored through monthly reporting to the Finance, Audit and Risk Committee (Chaired by the Deputy Commissioner and with independent members and observers from the Ministry and Treasury) and is managed through cost minimising decisions and the $200million risk reserve and other contingency allocations within the 2024/25 Budget.

15. s 9(2)(j)

Intended expenditure actions to meet the target deficit position for 2025/26

16. As the new financial year commences, there will be concerted efforts to manage budgets through minimising cost add-ons and executing a dedicated savings plan. Assumptions underpinning the Health NZ 2025/26 Budget are outlined at **Appendix 1**.

Minimising cost additions

17. Keeping tight management of recruitment is critical to delivering on the 2025/26 financial result. Strict recruitment controls have been in place throughout 2024/25, with frontline recruitment decisions requiring the sign-off of the Regional Deputy Chief Executive and with a demonstrated link to areas of service delivery need. This has been coupled with regular close monitoring of recruitment pipelines and the establishment of the HR Oversight group. The expectation is for these controls to remain in place throughout 2025/26. Alongside this control is monitoring of clinical safety so that there are no compromises made to delivery of services.

18. Health NZ is also ensuring focus is maintained on government priorities. Funding specific initiatives in Budget 2025/26 will only be available for initiatives that either have crown funding (such as current Budget 2025 bids) or have had explicit agreement with the Minister such as the planned care boost (at a cost of $179million in 2025/26) or the primary care performance incentive payments (at a cost of $95million in 2025/26). Continued scrutiny on payments to suppliers could yield funding sources for further initiatives.

19. We intend to have a phased budget for both service delivery and the funded sector, such that released revenue is made on the basis of activity delivered and expected performance achieved. We will withhold revenue where performance does not meet expectations. This has not been done with the funded sector before but needs to be done to bring further transparency to performance; an area of where there is a lot of upside, which our current reviews are now identifying.

20. Holding a risk reserve (at a cost of $200million) is also available as a risk mitigation tool. It is intended to manage demographic growth and unbudgeted cost pressures emergent throughout the year. The fund could also be used to support small investments if not required to offset the deficit position. Importantly, the risk reserve is created through the accrual and timing of savings realised across the organisation. If we don’t deliver savings, the reserve is not there to be used.

s 9(2)(f)(iv), s 9(2)(g)(i)

s 9(2)(f)(iv), s 9(2)(g)(i)

22. s 9(2)(f)(iv), s 9(2)(g)(i)

Revenue streams to assist with meeting the target deficit

23. S9(2)(g)(i)

24. S9(2)(j)

S9(2)(j)

ii. s 9(2)(f)(iv), s 9(2)(j)

iii. S9(2)(f)(iv)

iv. s 9(2)(f)(iv)

b. s 9(2)(f)(iv)

s 9(2)(f)(iv), s 9(2)(g)(i)

28. s 9(2)(f)(iv), s 9(2)(g)(i)

Next steps

36. We will be available to discuss these matters and any outstanding key issues at Officials next Monday 24 March.

37. s 9(2)(f)(iv)

38. We will provide a more fulsome update of the internal Budget as part of the finalisation of the SPE by 30 April 2025.