Aide-Mémoire

Health New Zealand
Te Whatu Ora

Health NZ 2024/25 Internal Budget Update and Follow-up

Due to MO:	28 March 2025	**Reference**	HNZ00083476
To:	Hon Simeon Brown, Minister of Health		
From:	Interim Chief Financial Officer Deputy Chief Commissioner – Finance		
Copy to:	Hamiora Bowkett, Executive Director Health Assurance Unit		
Security level:	Budget - Sensitive	**Priority**	Urgent
Consulted	n/a		

Contact for further discussion (if required)

Name	Position	Phone	1st contact
Roger Jarrod	Deputy Commissioner – Finance	s 9(2)(a)	X
Richard Aldous	Interim Chief Financial Executive	s 9(2)(a)	

Attachments

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

Purpose

1. You requested further information on Health NZ's Internal Budget 2025/26 following a meeting with officials on 24 March 2025.
2. This briefing outlines for the draft Internal 2025/26 Budget: the cause of change, a consolidated view by function, a group profit and loss (PNL) and further PNL for Hospital and Specialist Services (HSS) expenditure. A summary of provider payment budgets is also provided. These tables are outlined in **Appendix 1**. Underpinning assumptions are prepared at **Appendix 2**.
3. These are point in time estimates and further work is continuing ahead of finalisation.

Key points

Starting Position

4. As outlined in our briefing to you last week on the draft savings plan (HNZ0008280 refers), 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.
5. s 9(2)(f)(iv)

Group PNL and a functional view of the draft 2025/26 Budget

6. As requested, a draft Group PNL is presented at **page 3 of Appendix 1**. This slide **compares 2024/25 Budget to draft 2025/26 Budget** and shows:
   a) increase in forecast revenue by $1.4bn to $29.7billion, a 5.1% increase on the 2024/25 Budget. This includes growth in third party revenue of $100m from the savings plan, including increased recovery from ACC, Pharmac and MSD
   b) increase in forecast expenditure by s 9(2)(ba)(i) . This assumes productivity improvements by holding headcount constant year on year, s 9(2)(j) and reprioritisation in the funded sector.
7. s 9(2)(g)(i)
8. s 9(2)(ba)(i)

9. Expenditure is then allocated by function in **page 4 of Appendix 1.** In this view of the budget, it's more insightful to **compare the 2024/25 forecast to the draft 2025/26 budget** to illustrate that:

    a) Delivery service expenditure budgets are set to increase by $727m or 2.7% compared to the forecast of 2024/25, with the majority being Hospital & Specialist Services and Commissioning ($378million and $365million respectively). The exception is the NPHS allocation decreases by $37million or 8.9%, reflecting several time limited appropriations that ended on 30 June 2024 (e.g. Establishment of the NPHS, Breast-screening Critical infrastructure).

    b) Enabling Services expenditure budgets are set to decrease by $166m or -6.7% compared with forecast of 2024/25, reflecting the finalisation of the change process in 2024/25 and continued right-sizing of resourcing, including through IT optimisation and back-office functions.

10. Savings plans are allocated across both the PNL an functional views and are required to be achieved for the budget position to be realised.

Cause of change

11. As outlined in the briefing to you last week, a successful pathway to a budget position of $200m deficit in 2023/24 is predicated on:

    a) Successfully holding on the falling run-rate in the remaining four months of 2024/25. This vigilance will put downwards pressure on the savings target, as discussed above.

    b) Taking action to minimise additional costs and add-ons to the budget, limiting increased costs to unavoidable price increases and initiatives that are specifically agreed with you or the Commissioner and related to the delivery of Health Targets.

    c) An executable savings plan that maximises revenue and supports continued efficiency & productivity improvements, enabling activity to meet population growth and Health Targets.

12. Heading into 2025/26 there are increased costs as outlined at **page 5 of Appendix 1**. These include:

    a) Recent announcements in Outsourced Planned Care ($179m) and Primary Care payment incentives ($95m)

    b) Increased activity in services delivered by Health NZ (in addition to the outsourced planned care) of about s 9(2)(ba)(i)

    c) The mental health ring fence (made up of acute services delivered by Health NZ and through the funded sector (s 9(2)(ba)(i))

    d) Funded sector uplifts to primary, public and community care providers (s 9(2)(ba)(i))

    e) s 9(2)(j)

    f) s 9(2)(j)

s 9(2)(j)

g) Annualisations of costs that were only partial impacts in 2024/25 such as Ministerial announced additional SMOs, demographic growth in commissioning (s 9(2)(ba)(i))

h) Contingency reserve s 9(2)(ba)(i)

13. There remain key choices for the causes of change that may further bring these costs down further that you may wish to discuss with us further when we meet. These include:

a) s 9(2)(g)(i)

b) s 9(2)(g)(i)

14. We would not recommend changes to underlying assumptions for wage or price uplifts, or one-off impacts to a more favourable affect. Doing so can have flow on repercussions for other modelling and forecast assumptions into 2025/26.

Hospital and Specialist Services

15. A PNL view is prepared at **page 8 of Appendix 1.** Financially, comparing to the 2024/25 forecast expenditure, expenditure to HSS is expected to increase by $366million or 2.2%. Within this increase are:

a) increases to activity to respond to the most urgent demand and need for health care and support efforts in meeting health targets

b) budgeted reductions from the savings plan in clinical supplies through accelerated procurement and supply chain initiatives, along with infrastructure (ie laundry, food, etc) and non-clinical supplies

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

16. Work is underway to finalise the expected service delivery activity volumes across the country and production planning for districts. Forecast activity is established by determining population growth and the changes in health needs of our communities. It is also then informed by the productivity and performance of our hospitals and services. s 9(2)(ba)(i) :

a) s 9(2)(ba)(i)

Funded Sector

17. The most current available distribution of expenditure across the key categories of the funded sector is provided at page 9 of Appendix 1. Further work is required to finalise the allocation. A further update will be made early next week as a matter of urgency.

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

19. s 9(2)(g)(i)

Next steps

20. We are scheduled to discuss this matter with you further at our regular Officials meeting on Monday 31 March.

21. Our focus will continue to be to refine the budget and savings allocations to functions for further stress testing and refinement before finalisation ahead of June. This includes ensuring that sufficient allocation of funding is available to meet expected activity levels and interim health target milestones, and clinical review to ensure no unintended impacts on the delivery of services is made through these budget allocations.

22. Our next expected engagement with you on the draft Budget is in the finalisation of the Statement of Performance Expectations, due to you by the end of April.