

Aide-Mémoire

Health New Zealand
Te Whatu Ora

Budget 2025/26 and financial sustainability plan update

Due to MO:	1 May 2025	Reference	HNZ00086026
To:	Hon Simeon Brown, Minister of Health		
From:	Roger Jarrold – Deputy Commissioner, Finance Bevan McKenzie – Chief Financial Officer		
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Consulted	n/a		

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Attachments

Appendix 1: Draft activity by output class

Appendix 2: Work underway to improve third-party revenue

Appendix 3: Funded sector price uplifts 2025/26

Purpose

1. The purpose of this Aide-Memoire is to provide you with an update of Health New Zealand | Te Whatu Ora's (Health NZ) internal budget and savings/efficiency plan for 2025/26. The briefing also sets out further opportunities being explored for increasing third-party revenue since our last briefing [HNZ00082800 refers] and outlines the approach to funded sector uplifts ahead of commencing negotiations which need to be completed before contract variations are finalised.

Summary

2. Health NZ is continuing to develop of the 2025/26 internal budget, production plans, and savings plan. Progress has been made in developing draft indicative activity allocations by output class that continue to be costed and validated; establishing indicative functional allocations for the 2025/26 budget and beginning reconciliation with bottom-up budgets; and confirming funded sector uplifts to begin negotiations with the sector.
3. This update starts to bring together the components of business planning but is not yet a fully integrated picture. Further progress including a reasonable level of cost by region and business units will be provided to you and the Health Assurance Unit (HAU) on 15 May. Some specifics will take longer than 15 May as they are path dependent (e.g., district level budget allocations are dependent on bottom-up matching to top-down allocations and subsequent identification of savings and efficiencies, meaning recruit-to-FTE cannot be determined until after this is completed).
4. Indicative draft activity for 2025/26 reflects a focus on boosting elective treatments and First Specialist Appointments (FSAs) to deliver on the Health Targets. Current estimates are that Health NZ will be targeting a 4.24% weighted activity uplift across hospital and specialist services, with 1.84% driven by both the elective boost and the uplift in FSAs.
5. Indicative functional allocations of the 2025/26 budget have been provided to functions for technical feedback and reconciliation with bottom-up budgets. We are on-track for a \$1,100 million deficit for the 2024/25 financial year and are working through the budget for 2025/26 to achieve the budgeted deficit position of \$200 million.
6. Uplifts have been allocated across the funded sector, reflective of the \$507.0m expected increase to the Delivering Primary, Community, Public, and Population Health (PCPPH) appropriation. Of this, s 9(2)(f)(iv) has been set for annual price uplifts and volume increases, with negotiations to begin shortly in advance of issuing contracts before the start of the new financial year.
7. Our savings and efficiency plan continues to be developed through reconciliation of a top-down model with bottom-up savings opportunities. Health NZ's run-rate entering into the 2025/26 financial year is a key driver for the level of savings needed and achievability of the plan. We will continue to update you as we strengthen and finalise our savings and their integration into budgets.

Background

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

- a) **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);
 - b) S9(2)(f)(iv)
 - c) **Maximising revenue growth**, especially third-party revenue streams.
9. The pathway to our 2025/26 Budget 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. Expenditure run rates for 2024/25 have been decreasing since October 2024, with a net result of \$41 million deficit reported in February and a \$38million deficit reported in March.
10. As outlined in a briefing to you in March [HNZ00082800 refers], we estimated the underlying operating average monthly run-rate loss as of January 2025 to be about \$65 million, adjusting for one-off movements. We now estimate that the underlying average run-rate loss has decreased to about \$60 million (March year to date). Our aim is to continue to reduce expenditure run-rates April to June such that the net monthly result by 30 June 2025 is circa \$55 million excluding year-end adjustments related to items such as actuarial valuations up or down.
11. Our current year-end forecast for 2024/25 is an operating deficit of about \$1,100 million, in-line with our budgeted parameters. This is a bottom-up forecast based on submissions from all districts/functions. We continue focus on containing expenditure run rates and maximising third party revenue in 2024/25.
12. An update on the development of the Financial Sustainability Work programme was provided to you on 21 March 2025 [HNZ00082800 refers] and an update on the Health NZ internal Budget was provided to you on 28 March 2025 [HNZ00083476 refers]. This second briefing set out the cause of change, consolidated budget view by function, a group profit and loss (P&L), and a further P&L for Hospital and Specialist Services (HSS) expenditure.
13. Today's update sets out how we are progressing to finalising the internal budget and our progress on developing the savings and efficiency plan for 2025/26 alongside potential third-party revenue growth opportunities. It is not intended to be a consolidated picture across activity, budget, and savings, as this work is still underway and will be provided to you on 15 May.
14. Some information in this Aide-Mémoire is reliant on completion of other parts of the consolidated activity, budget, and savings picture. We have signalled where information is not yet ready and may take longer than the 15 May deadline due to path dependencies on other work.

Production planning and service delivery activity for 2025/26

15. A core input into the 2025/26 internal budget are the production plans and service delivery activity, setting out what Health NZ intends to deliver over the next financial

year. We currently have high-level draft activity allocations across output classes which are being consolidated by functions in the coming weeks. A draft version of these indicative activity allocations by output class is available in **Appendix 1**.

16. The activity set out in this briefing continues to be costed and validated as part of our reconciliation of the top-down, bottom-up budgets. As noted, the information in this briefing is not a consolidated and integrated picture of our 2025/26 budget and activity. Further progress towards an integrated picture will be provided on 15 May, with continued refinements as planning and budgets are finalised into June.
17. Some activity presented in the appendix is updated from figures you have previously seen because of updated data, changes in methodology to reflect new data sources, or use appropriate year-on-year comparator figures for forecasting. We have signalled where this is the case, and when any updated information will be provided if necessary.

Finalising hospital and specialist service activity is a priority

18. Hospital production and capacity planning with regions is underway as they work through their initial budget allocations along with savings and efficiency requirements. We will provide you an updated view on production and capacity planning by 15 May, and will indicate areas of significance and priority such as elective procedures and FSAs, noting that we expect further refinement will be required beyond 15 May to finalise planning work for 2025/26.
19. Alongside these detailed plans, assessments will be undertaken to ensure sufficient resources are available and productivity improvements assumed. A capacity risk assessment is also to be completed at this time which may lead to further adjustments, of which we will keep you updated.
20. s 9(2)(f)(iv)

This is driven by a significant uplift in planned care treatments through the Electives Boost, as set out in your recent announcements, and FSA recovery activity and investment. s 9(2)(f)(iv)

Further detail is set out in **Appendix 2**.

21. To deliver this level of additional activity ^{s 9(2)(f)(iv)}, Health NZ will need to expand service delivery and improve productivity. Potential productivity and service change requirements are not yet tested across regional service delivery networks, and we are working with regions at pace to determine the impacts and work needed to deliver these activity uplifts.

Health NZ internal budget for 2025/26

We are continuing to progress the development of our internal budget

22. Indicative functional allocations of the 2025/26 budget have been provided to functions for technical feedback and reconciliation with bottom-up budgets. This is also being

¹ Weighted activity is calculated using the 2024/25 HSS price, with a baseline for the calculation being the \$ value of the activity set out in the 2024/25 budget and production plan.

reconciled with the draft production plans and savings/efficiency allocations. The information set out below are point-in-time updates and are inclusive of the allocations as they have been made to functions from a top-down perspective.

23. Health NZ has also completed the draft Statement of Performance Expectations 2025/26 (SPE) based on our overall budget parameters, inclusive of 2024/25 forecast and 2025/26 budget, appropriation and output class allocations, P&L, balance sheet and cashflow statements [HNZ00085672 refers]. The SPE and the figures provided in this section therefore align.
24. The table below shows the consolidated P&L for Health NZ as per the draft SPE. The forecast net result for 2024/25 is a \$1,100 million deficit which is \$52 million favourable to the result advised to you 28 March 2025 [HNZ00083476 refers]. The budgeted position for 2025/26 (\$200 million deficit) is unchanged.
25. S9(2)(f)(iv)

s 9(2)(f)(iv)

Revenue (\$million)	2024/25 forecast	s 9(2)(f)(iv)
Appropriations – Crown funding ex MOH	24,622	
Other funding ex Crown/Crown entities	3,137	
Third party and other revenue	429	
Interest received	127	
Total revenue	28,316	
Expenditure – Operating Costs		
Personnel costs	12,306	
Outsourced personnel	421	
Outsourced services	866	
Clinical supplies	2,530	
Depreciation and amortisation	905	
External service providers	10,096	
Capital charge	515	
Interest expense	7	
Infrastructure, non-clinical supplies and other	1,770	
Total expenditure	29,416	
Surplus/(Deficit)	(1,100)	

26. We expect to finalise the internal operational budget by early June following in-depth reviews by the Chief Executive and functional Tier 2 leaders. Bottom-up budgets developed by functions within national guidance and parameters are being reconciled to these allocations. While we anticipate technical adjustments between functions, we do not expect these to be significant in dollar terms – pending outcomes of Chief Executive and Tier 2 leader reviews of what is required to live within the allocations.
27. The initial functional allocations are set out in the table below. There are no changes to the 28 March briefing [HNZ00083476 refers], and these are the figures provided to

regions and functions for reconciliation with their bottom-up budgets.

s 9(2)(f)(iv)

Group (\$million)	2024/25 budget	s 9(2)(f)(iv)
Delivery Services		
Hospital & Specialist Services	15,364	
Commissioning	9,139	
National Public Health Service	426	
Hauora Māori Health Services	777	
Pacific Health	146	
Delivery - Other	6	
Subtotal	25,857	
Enabling Services		
Data & Digital	704	
Finance	203	
Infrastructure & Investment	933	
People & Communications	210	
Enabling - Other	145	
Subtotal	2,195	
Contingency/risk reserve	1,345	
Total expenditure	29,397	

* Reflects ending of time-limited funding, with reduction in costs to match: e.g., BreastScreen Aotearoa, HPV.

28. S9(2)(f)(iv)

29. As information is finalised with regions and functions, it will be provided to you and the HAU concurrently. It will then be provided as part of a final consolidated package to you and the HAU on 15 May. This will be consistent with, and respond to, the HAU request provided to Health NZ on 24 April.

We are progressing opportunities to increase our third-party revenue

30. In our previous advice to you, we indicated Health NZ was exploring opportunities to increase our third-party revenue streams from ACC, Pharmac, and Disability Support Services (Ministry of Social Development – MSD) [HNZ00082800 refers]. Initial calculations suggest this could lead to a growth in third-party revenue of at least s 9(2)(f)(iv) [HNZ00083476 refers].

31. S9(2)(f)(iv)

a) S9(2)(f)(iv)

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- b) negotiating with MSD on service delivery models to reduce financial risk and potential underpayments; and
- c) s 9(2)(f)(iv)

32. Further detail of these opportunities is set out in **Appendix 2**.

There are options for 2025/26 funded sector allocations ahead of commencing negotiations with the sector

33. Health NZ must make a suite of price and volume uplifts across the funded sector, including primary care, as part of our contractual obligations and to respond to price and volume pressures placed on the sector. You are receiving a separate detailed briefing on this soon.

34. In the 2025/26 financial year, the Delivering Primary, Community, Public and Population Health (PCPPH) appropriation will increase by \$507 million. An option is to allocate funding as set out below and detailed at **Appendix 3**.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

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

The bulk of the price uplifts are proposed to be spent across Primary Health Organisations (PHOs), Aged Care services, mental health and addiction services, and a small number of services where pre-determined price uplifts exist such as laboratory and emergency services.

36. Alternatively, there are other options that could be considered. Further options will be prepared in a related AM for you tomorrow.

37. These allocations must be confirmed and negotiated as an order of priority to allow Health NZ to issue contracts as soon as possible. We can discuss any of the above allocations before we engage with the sector if needed.

38. We are continuing to work through these final allocations and are in the process of integrating and reconciling them into the P&L. We will provide you an update on this on 15 May.

Hauora Māori Uplifts

39. Uplifts to Hauora Māori contracts are being managed consistently with the rest of the funded sector, with cost pressure allocations still being determined. A further update to will also be available by 15 May.

Savings and Efficiency Plan

Continued improvements in our 2024/25 run-rate are reducing pressure on 2025/26 savings requirements

40. As advised in March [HNZ00083476 refers], reducing expenditure run-rates in 2024/25 will support reducing cost pressures in 2025/26, and the savings requirements for us to meet the budgeted deficit position of \$200M.
41. As stated in paragraph 10, we have good momentum in improving our financial performance with our underlying average run-rate loss decreasing to about \$60 million (March year-to-date). Delivering a \$200 million deficit in 2025/26 means we must trade at no more than an average net monthly loss of \$17 million in 2025/26. A continued downward trend in net loss per month in 2024/25 will result in fewer savings required to achieve the budgeted position, giving us more headroom and flexibility in achieving savings in 2025/26. If the average monthly loss increases in the remainder of 2024/25, we risk needing to identify further savings to meet next year's budgeted position.
42. Since our March advice, we have provided initial savings targets to all functions as part of their indicative budget allocations, noting that these are exclusive of 2024/25 savings which are embedded into budgets. Key savings domains align with those overviewed in our March advice:
 - a) Maximising third party revenue including to cover costs already incurred by Health NZ
 - b) Value for money prioritisation of third party spend
 - c) Further back-office efficiencies through IT simplification and management/administration right-sizing
 - d) Service model changes in HNZ delivery.
43. Health NZ is aware of the need to integrate savings plans with budgets in a way that is monitorable and traceable, in line with the recommendations of the Financial Management Review conducted by Deloitte. While in 2024/25, savings were fully allocated to Responsibility Centres, and therefore incorporated into budgets. The key issue was that many of the savings did not have clear and actionable plans to be achieved and so were held at Regional and National levels pending further development. This reflected the lack of maturity in Health NZ's financial planning and management, alongside the timing and scale of savings required.
44. In 2024/25 we have strengthened forecasting and reporting, including at a regional level, as per the recent findings by Deloitte. With much greater visibility of actuals vs forecast (including budget), and enhanced clarity of drivers of financial outcomes, we are seeing improvements to expenditure run rates through more timely and targeted controls nationally, regionally and locally. This means we are starting from a better position leading into 2025/26.
45. S9(2)(f)(iv)

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S9(2)(f)(iv)

Next steps

46. Health NZ will provide you with updated information on 15 May. This will include:
 - a) updated production and capacity planning;
 - b) an updated internal budget, including functional allocations and a consolidated P&L;
 - c) an updated savings and efficiency plan aligned to internal budget, including savings targets and identified areas of savings/efficiencies; and
 - d) some additional context on progress to completing the recruit-to FTE calculations, although these will be finalised and completed in June.
47. Incorporation of Crown revenue resulting from Budget decisions will follow, alongside capital planning for the 2025/26 financial year.

Appendix 1 – s 9(2)(f)(iv)

s 9(2)(f)(iv)

Appendix 2 – Work underway to improve third-party revenue

1. As set out in the 2023/24 Annual Report, the total revenue to Health NZ other than Vote Health funding totals approximately \$3.7 billion per annum and includes:
 - a) \$2.6 billion from other Crown entities (including MSD, Pharmac, and Oranga Tamariki)
 - b) \$0.4 billion in ACC patient revenue
 - c) \$0.6 billion in other revenue.
2. The \$0.6 billion in other revenue comprises of a various mix of income sources, such as donations and bequests received, rental and accommodation revenue, trial and research, insurance claims, retail sales, carpark, laundry, pathology charges, equipment rental, and training fees.

ACC revenue

3. ACC funds Health NZ \$376 million to provide a set of specific contracted services. Of these, 85% of reimbursements are across five agreements: Non-Acute Rehabilitation (NARP), Elective Surgery, Clinical and Nursing Services, and the Spinal Cord Rehabilitation service. In the 2025/26 financial year, a budget uplift of 2% has been s 9(2)(f)(iv)
4. Health NZ is also reactivating its ACC Revenue Optimisation Programme under new national leadership to reduce variation and the level of uncaptured revenue from ACC. An initial assessment suggests a conservative \$35 million revenue opportunity (10% of total annual paid ACC revenue) through performance uplift, audit recovery, and system improvements [HNZ00085458 refers]. The early stages of this work include:
 - a) In Waikato, s 9(2)(b)(ii)
 - b) Preparations for a programme of work to assess, validate and mitigate revenue and payment leakage risk across the organisation. This will also extend to understanding internal contract management and price management with ACC, and potential opportunities for improvement. As part of this, an internal audit review is underway on all ACC revenue.

Pharmac Revenue

5. Pharmac reimburses Health NZ \$515 million to cover the cost of Pharmaceutical Cancer Treatments (PCTs), \$111 million to cover haemophilia treatments, and \$145 million to cover other treatments annually.
6. Health NZ also spends an estimated \$145 million per annum for pharmaceuticals which are not on the funded Pharmac schedule but are prescribed by clinicians to meet specific patient need. Pharmac has no legislative obligation to reimburse this cost to Health NZ. Mitigating this cost may be difficult due to the often complex nature of the treatments provided to patients, however Health NZ will continue to explore potential

opportunities to reduce this cost or find a pathway to reimbursement from Pharmac.

MSD Revenue

7. S9(2)(f)(iv)

8. MSD has indicated there will be no uplift on 2024/25 prices. s 9(2)(i)

Health NZ is exploring options to redesign service delivery models to redress the financial risk in two cases, namely reducing variation and agreeing clearer eligibility criteria for the CDS.

Other revenue

9. The Ministry of Justice pays Health NZ between \$10 million and \$12 million per annum for coronial and forensic pathology services, depending on volume. We are validating the potential losses being made in this contract but currently estimate this at \$1 million per annum.
10. Oranga Tamariki funds Health NZ \$4 million per annum for Gateway Services to provide residential care for youth. We are validating the potential losses being made in this contract but currently estimate this at \$1 million per annum.
11. Other revenue has previously included non-resident hospital debts, which Health NZ was able to log with Immigration NZ and recover at a high rate. Due to changes in the Privacy Act 2020, third parties have not been able to share debt information with Immigration NZ which limits our ability to recover non-resident hospital debt.

Appendix 3 – Funded sector price uplifts 2025/26

s 9(2)(f)(iv)

s 9(2)(f)(iv)

s 9(2)(f)(iv)