

Health NZ Financial Management Review

**Response to the review of Health NZ
financial performance**

March 2025

Purpose

The purpose of this document is to provide a Health New Zealand | Te Whatu Ora (Health NZ) management response to the review undertaken by Deloitte of Health NZ financial performance from July 2022 to December 2024, with particular focus on the financial year 2023/24.

Introduction

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.

The purpose of the review was 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 was commissioned jointly between HNZ, the Ministry of Health (the Ministry) and the Treasury. The review was conducted between October and December 2024.

Findings

Key Findings

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.

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.

3. Insufficient detail in financial plans

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

4. Ineffective savings plans

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

Key Findings

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.

6. Complicated information flows and systems

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

Aggravating factors

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.

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.

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.

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.

Our response

In short, Health New Zealand agree with all the recommendations of the Deloitte Report, of which many actions are already underway or largely completed. We also welcome the proposed prioritisation of the actions and aim to establish a more detailed implementation plan to confirm timelines. These are outlined on the following page. The final section of the response details our response in more detail by each action.

Recommendation	Response	Status
A. Regional and district connections and control points.	Agree	Implementation underway as part of Health NZ Reset, completion anticipated by 1 July 2025
B. Shared responsibilities and capabilities	Agree	Implementation underway as part of Health NZ Reset, completion anticipated by end of FY 2025/26
C. Budgeting and production/service planning	Agree	Implementation underway, completion anticipated by end of FY 2025/26
D. Analysis and reporting	Agree	Implementation underway
E. Savings programmes	Agree in principle	Implementation largely completed, with continued improvement over time.
F. Staffing and rostering	Agree	Implementation has commenced, noting this is a multi-year programme of work.
G. Resource and financial management systems	Agree	Implementation largely completed, continued monitoring and alignment through organisational change required.
H. Adjustments and one-offs	Agree	Implementation largely completed, with continued improvements over time.
I. Internal audit programme	Agree	Implementation commenced, in early stages.
J. Monitoring and performance	Agree (MoH response)	Implementation underway
K. Financial management	Agree	Implementation largely completed, with continued improvements over time.
L. Appropriation and Output Class Structure	Agree	First part of work largely complete. Further work that is required is yet to commence.

Prioritised recommendation areas

Opportunity area and recommendations	Do now (2024/25 financial year)	Do next (2025/26 financial year)	Do later (from 2026/27 onwards)
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	▶		

Detailed Response to Recommendations

Recommendation	Management Response
<p>A. Regional and district connections and control points.</p> <p>Strengthen locally connected management, oversight and decision-making at district and region levels.</p>	<p>Agree with findings and recommendations to implement interconnected control points noting:</p> <ul style="list-style-type: none"> • Regional leadership and further devolution of functions at management level is in progress with establishment of Regional Deputy CEOs and spans of control over regional HSS and commissioning. • Revenue aligned with activity-based settings in progress with aim to mature revenue allocation in 2024/25 and shift to revenue allocated to budgets based on activity in 2025/26. • The former Population Based Funding Formula on its own is not sufficient to assess resource allocation due to its historical assumptions that established it as a funding model. Funding allocation requires work on national benchmarking at more granular operational level (e.g. theatre utilisation) and advancing management/clinical maturity to use benchmarking for continuous improvement and refinement. Packaging of national datasets including financial and non-financial information to support operational management decision making needs more work to mature and test it usefulness with frontline managers. • An additional point of control that could be considered at governance level is whether subcommittees of Board may support oversight of regions. As subcommittees, membership may reflect both expertise to work with executive management while also providing Board with assurance that controls are being implemented consistently across Health NZ.
<p>B. Shared responsibilities and capabilities</p> <p>Clearly define how financial, operational, and clinical governance, leadership and management roles will work together at all levels to share</p>	<p>Agree with recommendations and suggested actions noting that some are underway as part of Health NZ Reset including:</p> <ul style="list-style-type: none"> • Governance Code and Accountability Map to clarify responsibilities and accountabilities. • Monthly reviews are in place but requires more rapid data collation and cadence of analysis of both financial and non-financial information to support constructive

Recommendation	Management Response
<p>responsibilities and make decisions.</p>	<p>assessment and reviews at Tier 2 and to support cascade to Tier 3 and below. There is variation across the organisation on how frequent performance is reviewed;</p> <ul style="list-style-type: none"> • A Culture and Leadership programme is currently under implementation to invest in management/clinical leadership whom have budget- holding and/or responsibilities for supervising staff across organisation (about 6,800 staff across the organisation). This training includes establishing a core set of capability and competence requirements supporting key groups (i.e. T3/T4, Group Directors Operations, Clinical Leadership).
<p>C. Budgeting and production/service planning</p> <p>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.</p>	<p>Agree with recommendations and suggested actions noting:</p> <ul style="list-style-type: none"> • Activity based revenue allocation, benchmarking costings and maturing production and service plan at regional and local service levels in progress. Milestones for the remainder of 2024/25 are to mature activity-based reporting in a timely way and cadence to inform regional and local Hospital and Specialist planning. Aim for B25/26 is to set budgets informed by activity-based costing, benchmarking performance and regional plans for service and cost structure efficiencies. • Maturing of processes to manage FTE controls in HSS e.g. CCDM and ratio application where appropriate and alignment with activity and implementation of shared service supports e.g. procurement and supply chain. • National costing work is in progress and will enable return of disciplines in previous environment (e.g. IDFs) to support transparency of benchmarking cost comparisons and facilitate revenue allocation.
<p>D. Analysis and reporting.</p> <p>Strengthen analysis and reporting quality, including variance analysis and commentary which should reference production plans, underlying drivers, and comparative measures.</p>	<p>Agree. Work is underway with first phase of FPIM implementation to assure that national datasets are available and being used by managers. More work is required to support building capability and competence more consistently as there is a variation in organisation maturity to actively use this information for improvement.</p>

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<p>E. Savings programmes</p> <p>Savings programmes should be supported by clear action plans, ownership, budget impacts, tracking & reporting, and governance. Progress reporting should reference budgets and planned actions.</p>	<p>Agree in principle noting that it is important to distinguish between setting budgets with clear assumptions on what is expected (ie operating within budget allocations) vs savings programmes that require supports from multiple teams and functions to execute.</p> <p>Some of the confusion on budget setting highlighted in the 2023/24 internal audit suggest clarity on what is held centrally vs what is already assumed in budgets that managers need as part of their internal operating environment. This can improve with clarity on activity, benchmarking and frontline managers having levers of control to enact change.</p> <p>Pay equity application, Holidays Act leave liability assessments exposed the lack of clarity with which financial assumptions were being translated to frontline management. B25/26 process is aiming to establish this clarity and devolve all revenues and costs relevant to regional management.</p>
<p>F. Staffing and rostering</p> <p>Reconnect staffing and rostering decisions with production and financial plans and forecasts, in addition to established measures of patient acuity & workload.</p>	<p>Agree. The Roster to Payroll programme is currently being scoped including options to roll out a common rostering tool and make iterative moves to simplify the payroll environment. Building on the learnings from implementation of the Holidays Act Remediation programme that has exposed the degree of variation in rostering practices and, agility of payroll systems. This programme will need to sequence over time the steps to change management practices, engage with staff and their unions and support consistency in entitlements being paid.</p>
<p>G. Resource and financial management systems</p> <p>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</p>	<p>Agree. Implementing the FPIM (ERP) solution was fully implemented across Health NZ in Jun 2024. The excel sheet maintained for consolidation is being run in parallel with the automated reporting now available from FPIM and via the Qlik BI tool. Automation of month-end consolidation will improve both reporting timelines and accuracy.</p> <p>Ongoing organisational change will continue to challenge alignment of reporting hierarchies, which requires additional effort to support budget holders for financial analysis purposes. Finance organisational change will reduce variation across the regions,</p>

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<p>with organisational structures and responsibilities.</p>	<p>and support transparency and consistency at the local, regional and national level.</p>
<p>H. Adjustments and one-offs</p> <p>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.</p>	<p>Agree. The month-end process has been significantly enhanced and endorsed by the Finance, Risk, and Audit Committee in February 2025. Key to this enhancement is ensuring national alignment as it relates to the matching of revenue to costs. Clear engagement right through to local level, in the form of clear month-end guidance and extensive review of results for clarity and understanding. We have also started to keep time limited initiatives separate as projects to match costs and revenue.</p>
<p>I. Internal audit programme</p> <p>Review the internal audit programme to ensure it is aligned to HNZ’s strategy, priorities, and material risks.</p>	<p>Agree. The Internal Audit function is early in its stages of both maturity and establishment and will in the interim be supplemented by external capability as has been done on two audits to date.</p>
<p>J. Monitoring and performance</p> <p>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.</p>	<p><i>Ministry of Health Response</i></p> <p>Financial performance is a core element of the Ministry of Health’s monitoring function. We are supportive of the changes proposed in Recommendation J, which will help Health NZ to drive a concerted shift away from relying on the manual production of information towards insightful analysis and commentary, thereby producing reports that are useful to Health NZ in managing its operations, as well as for Ministerial and public accountability.</p> <p>The Ministry has a formal monitoring plan in place for Health NZ that defines the areas of focus and information requirements that underpin routine monitoring. This plan has been enhanced to address Health NZ’s recent underperformance and focuses on four domains:</p> <p>Governance, leadership, and accountability – considering the effectiveness of Health NZ’s governance and how this supports decision-making and accountability.</p>

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	<p>Functional design and delivery – considering how Health NZ gives effect to its statutory functions, including the design and operation of these in line with the entity’s intended overall model.</p> <p>Service performance – focusing on health targets and other key service performance expectations such as those relating to access, timeliness, and quality of care. This combines routine data and reporting with insights on service design, pathways, and patient flow.</p> <p>Financial performance – focusing on the entity’s overall financial performance against forecasts and budget plans, tracking delivery during the year, and identify risks. Also considers the maturity of Health NZ’s financial management and reporting functions as important enablers.</p> <p>This monitoring plan is given effect through an ongoing cycle of formal and informal meetings and advice that support the Ministry to gather intelligence, develop insights on performance and report to the Minister of Health. This relies upon the regular exchange of information with Health NZ officials. As Health NZ strengthens the quality and timeliness of its performance reporting in line with the recommendations of this report, the information available to support monitoring will similarly improve.</p> <p>The Ministry is working with Health NZ to ensure that information requirements for monitoring purposes are clearly understood and are embedded into routine process, and that there are appropriate channels for escalation where required. This includes ensuring alignment between the Ministry’s monitoring framework and the internal performance management approach adopted by Health NZ to support its own governance.</p>
<p>K. Financial management</p> <p>Ensure spending remains within available funding and the level of equity support that may be required as part of the reset plan</p>	<p>Agree. Tight fiscal disciplines, managing key levers of control; cash management, recruitment, matching of revenue and costs, focus of weekly and monthly reporting – including providing activity inputs into rolling forecasts have been introduced.</p> <p>Financial Sustainability plans as part of back to budget under-way - frequent check-in and reporting across the system for accountability and transparency as regards progress.</p>

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<p>L. Appropriation and output class structure</p> <p>Ensure expenditure is appropriately mapped to and reported against appropriations and output classes.</p>	<p>Agree. There has been continued refinement of methodology to assign revenue and expenditure to appropriation and output classes to existing design. E.g. improvement of matching third party revenue. Further work is needed to better match activity by output class for better transparency. Further work is also required to ensure time limited funding costs are stopped when funding ends.</p>

