

Reference: 20150277 & 20150285

4 August 2015



Thank you for your Official Information Act request, received on 7 July 2015. You requested the following:

“Under section 12 of the Official Information Act, I request the following information:

- All briefings and aide memoires the Treasury sent to the Minister of Finance and/or Minister of Health on Health Benefits Limited (now New Zealand Health Partnerships Limited) since February 2015.”

You sent another request on 10 July 2015. The request was:

“Copies of all advice Treasury provided to the Minister of Health and/or Minister of Finance that mentioned the fiscals risks to Vote Health regarding Health Benefits Limited (NZ Health Partnerships) since January 2015.”

Since the relevant information being released covers both requests we are providing you with a combined response.

As you know part of your request was transferred to the Ministry of Health as we believed that the information was more closely connected with the functions of the Ministry of Health.

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	9 February 2015	Email: RE: MOH Report – National Infrastructure Platform	Release in part
2.	11 February 2015	Email: FW: HBL Transition Interim Governance Group Update #4	Release in part
3.	24 March 2015	Email: RE: HBL Transition Project Managers Report WE 06 March	Release in part

		2015	
4.	30 April 2015	Treasury Report: Progress Report on HBL Transition	Release in part
5.	1 May 2015	Email: RE HBL Update	Release in part
6.	26 May 2015	HBL Transition SEC Paper Briefing	Release in full
7.	25 June 2015	Email: HBL Paperwork	Release in full

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including deceased people,
- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials, and
- names and contact details of junior officials and certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Ben McBride
Manager, Health

Information Being Released

OIA 20150285 + 0277

Doc 1	Page 1
Doc 2	Page 4
Doc 3	Page 6
Doc 4	Page 9
Doc 5	Page 18
Doc 6	Page 20
Doc 7	Page 22

From: Davin Hall [TSY]
Sent: Monday, 9 February 2015 3:56 p.m.
To: ^MOF: Simon Carey
Cc: Ben McBride [TSY]; Aaron Gill [TSY]; Adam Wood [TSY]; Julian Sakarai [TSY]
Subject: RE: MOH Report - National Infrastructure Platform

Hi Simon,

I'm just getting back today, but I spoke with Aaron this morning. In response to your questions:

1. We're supportive of the NIP programme as a means for improving the resiliency of infrastructure in the system and aligning the Health Sector with the overall GCIO mandate to adopt IaaS in addition to the available cost savings. There has been significant assurance undertaken and the proposal has the support of the Interim Governance Board, which includes Treasury representation.

With regard to the short term risk that the DHBs that sign onto the programme by 30 June have an insufficient revenue commitment (based on volume) to meet the agreed minimum threshold, triggering early termination of the contract by HBL, it will be incumbent on HBL to achieve the necessary approval from DHB boards to meet the minimum target over the next 5 months. This will to some extent be a good test of whether DHBs are willing to take over responsibility for achieving shared services savings.

To date, 2 DHBs have approved and 13 DHBs have conditionally approved the NIP. HBL has a high signing confidence level for 10 of the DHBs which provided conditional approval, representing a sufficient proportion of volume to meet the minimum threshold. The Ministry of Health is also progressing negotiations to move server infrastructure to IBM IaaS which would contribute to meeting the minimum target. The contract needs to be signed to address some of the conditions that DHBs had approval, which would then become the responsibility of IBM to meet.

Frankly, I can't definitively say HBL will get all of the necessary DHB boards across the line, particularly given their past track record. However, since the report indicates HBL has committed to seek Ministerial approval before terminating the contract, there would be a future decision point before the indemnity is triggered (i.e., it is not automatic). This would provide an opportunity to potentially address any issues without triggering the full indemnity payment. The Interim Governance Group will be closely monitoring the uptake of NIP which should provide an independent warning of a potential failure to meet the minimum before the 30 June deadline.

The Minister should, however, make clear in approving the indemnity the expectation that it will be funded (if triggered) from the existing Vote Health non-departmental capital appropriation (health capital envelope) rather than from new Crown capital via the future investment fund. As a result of the IBM contract signing, \$5.7M loaned from the health capital envelope to HBL for the NIP business case development will be returned.

2. Since the indemnity is for less than \$10M there is no requirement to Gazette the indemnity and as such I understand an indemnity certificate is not required.

Happy to discuss.

Regards,
Davin

Davin Hall | Senior Analyst | The Treasury
Tel: +64 4 917 6195 | Davin.Hall@treasury.govt.nz

CONFIDENTIALITY NOTICE

The information in this email is confidential to the Treasury, intended only for the addressee(s), and may also be legally privileged. If you are not an intended addressee:

a. please immediately delete this email and notify the Treasury by return email or telephone (64 4 472 2733);

b. any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

From: Simon Carey [mailto:Simon.Carey@parliament.govt.nz]
Sent: Thursday, 5 February 2015 6:01 p.m.
To: Aaron Gill [TSY]
Cc: Davin Hall [TSY]; Ben McBride [TSY]
Subject: RE: MOH Report - National Infrastructure Platform

Hi all,

Just clarifying a couple of things:

- Are you comfortable that this particular programme has been well considered and assessed, and that it is highly likely to be adopted by enough DHBs for it to succeed [Withheld under s9(2)(g)(i)]
- There seems to be an indemnity certificate (for MOF to sign) missing – can you follow up whether this is the case?

Given the timing on this, if you could get back to me in good time on Monday that would be appreciated.

Have a good long weekend,
Simon

Simon Carey | Economic Advisor
Office of Hon Bill English | Deputy Prime Minister, Minister of Finance
7.6 Beehive, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand
T: 04 817 9903 | [Withheld under s9(2)(a)] | F: 04 817 6501 | E: simon.carey@parliament.govt.nz
[Withheld under s9(2)(a)]

From: Aaron Gill [TSY] [mailto:Aaron.Gill@treasury.govt.nz]
Sent: Thursday, 5 February 2015 4:58 p.m.
To: Simon Carey
Cc: Davin Hall [TSY]; Ben McBride [TSY]
Subject: MOH Report - National Infrastructure Platform

[IN-CONFIDENCE]

Hi Simon

Further to my discussion with you on Wednesday. The MoH provided their Minister with a report (attached) covering the necessary Ministerial approvals to allow HBL to enter a contract with IBM on 16 February, to progress the National Infrastructure Platform (NIP).

The approvals include:

- The Minister of Health's consent under section 24 of the New Zealand Public Health and Disability Act 2000 (the NZPHD Act) to the entry by certain Health Sector entities into a co-operative arrangement for NIP.
- The approval of shareholding Ministers of HBL, as required by Section 129 of the Companies Act 1993, for HBL to enter a major transaction with IBM New Zealand Ltd (IBM).
- Joint Ministers' approval under section 160(1)(b) of the Crown Entities Act 2004 to all DHBs; HBL; healthAlliance N.Z. Ltd; HealthShare Ltd; Central Region's Technical Advisory Services Ltd; and South Island Shared Service Agency Ltd borrowing from IBM for a period no longer than seven years.
- Approval, under Section 65ZD of the Public Finance Act 1989 (PFA), by the Minister of Finance to an indemnity for HBL to cover a potential liability to IBM of up to \$9.8 million, should HBL early terminate the proposed agreement with IBM.

Treasury has worked closely with the MoH in preparing this report and support the recommendations.

Kind Regards

Aaron Gill | Senior Advisor | The Treasury

Tel: +64 4 917 6261 | aaron.gill@treasury.govt.nz

CONFIDENTIALITY NOTICE

The information in this email is confidential to the Treasury, intended only for the addressee(s), and may also be legally privileged. If you are not an intended addressee:

- a. please immediately delete this email and notify the Treasury by return email or telephone (64 4 472 2733);
- b. any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

From: Brian McCulloch [TSY]
Sent: Wednesday, 11 February 2015 10:09 a.m.
To: ^MOF: Simon Carey
Cc: Ben McBride [TSY]; Aaron Gill [TSY]; Davin Hall [TSY]
Subject: FW: HBL Transition Interim Governance Group Update # 4

[IN-CONFIDENCE]

Simon

For information only

Below is an update on progress of the Health Benefits Limited Transition Interim Governance Group, sent to DHB Chairs/CEOs by the Chair, Sue Suckling.

Minister Coleman is due to report back to SEC in March, with transition of the business of HBL to a DHB-owned vehicle intended by June.

Brian Mc

Dr Brian W McCulloch | Director | **The Treasury**

Tel: +64 4 917 6077 | *[Withheld under s9(2)(a)]* | brian.mcculloch@treasury.govt.nz

CONFIDENTIALITY NOTICE

The information in this email is confidential to the Treasury, intended only for the addressee(s), and may also be legally privileged. If you are not an intended addressee:

- a. please immediately delete this email and notify the Treasury by return email or telephone (64 4 472 2733);
- b. any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

From: Chris.Picard@moh.govt.nz [<mailto:Chris.Picard@moh.govt.nz>]

Sent: Tuesday, 10 February 2015 4:29 p.m.

To: Chris.Picard@moh.govt.nz

Subject: HBL Transition Interim Governance Group Update # 4

For your information, here is the latest HBL Transition Interim Governance Group update.

HBL Transition Interim Governance Group Update #4

10 February 2015

With the last of the long weekends over, the pace of work has well and truly picked up. The next six weeks are going to be busy completing due diligence on HBL, hA (FPSC) and the four national business cases, as well as developing options for the future DHB-led vehicle.

1. Momentum

A key purpose of the Interim Governance Group is to ensure that momentum on the four national business cases is maintained. We received an update on the National Infrastructure Platform (NIP) programme contract progress since our last meeting.

A paper outlining the Group's rationale supporting the NIP contract has been circulated to you along with letters of support for the proposed platform from the Government Chief Information Officer, National Health IT Board, and the DHB regional Chief Information Officers. The contract signing approval process has been progressed and is now with the Minister of Health and Minister of Finance for consideration.

2. Transition – progress

Options for the future vehicle's high-level functional and structural design are currently being developed. The process involves identifying the functions the new vehicle must perform, and possible structural options including elements such as ownership mix and voting rights. At our next meeting on 19 February the Group will discuss and refine the options in more detail. I will then discuss them with you at a teleconference on 23 February and again at the National DHB Joint Chief Executive and Chair meeting on 2 March. Your input into these discussions is vital. This is an iterative process and your feedback will shape the final design.

Due diligence activities are underway covering HBL, hA (FPSC), and the four national business cases. Information gathering is underway with the final reports to be completed mid-March.

An update to the Ministers on due diligence, transition planning, and progress of the four business cases is due in mid-March.

3. Engagement and ownership readiness

We are scheduling my first DHB Chairs and CEs teleconference for 23 February. You will receive an invitation with the relevant details this week. The delay in establishing these was due to the need to align them with our project activities. The teleconferences will increase in frequency as we get closer to the transition date. Remember, this is your opportunity to discuss the transition with me directly and I encourage you all to attend when your schedule allows. Your input into the process is vital to ensure DHBs have a vehicle that will enable improved health delivery outcomes across New Zealand.

Sue Suckling
Independent Chair [Withheld under s9(2)(a)]
HBL Transition Interim Governance Group

*HBL Transition Interim Governance Group membership:
Sue Suckling, Independent Chair; Ailsa Claire, CEO, Auckland DHB (Northern Region); Lee Mathias, Chair, Counties Manukau DHB (Northern Region); Murray Cleverley, Chair, Canterbury and South Canterbury DHBs (South Island Region); Nigel Trainor, CEO, South Canterbury DHB (South Island Region); Derek Milne, Chair, Wairarapa DHB (Central Region); Deryck Shaw, Chair, Lakes DHB (Midland Region); Michael Hundleby, Acting National Director, National Health Board; Brian McCulloch, Director in the Commercial Operations Group, Treasury; Mary Slater, Assistant Commissioner, State Services Commission; David Wood Interim CEO, Health Benefits Limited.*

Chris Picard
Senior Advisor
Board and Projects
National Health Board
Ministry of Health
DDI: (04) 8163971
[Withheld under s9(2)(a)]

<http://www.moh.govt.nz>
mailto:Chris_Picard@moh.govt.nz

Statement of confidentiality: This e-mail message and any accompanying attachments may contain information that is IN-CONFIDENCE and subject to legal privilege.

If you are not the intended recipient, do not read, use, disseminate, distribute or copy this message or attachments.

If you have received this message in error, please notify the sender immediately and delete this message.

This e-mail message has been scanned for Viruses and Content and cleared by the Ministry of Health's Content and Virus Filtering Gateway

From: Davin Hall [TSY]
Sent: Tuesday, 24 March 2015 10:11 a.m.
To: ^MOF: Simon Carey
Cc: Aaron Gill [TSY]; Ben McBride [TSY]
Subject: RE: HBL Transition Project Managers Report WE 06 March 2015

[IN-CONFIDENCE]

Hi Simon,

For reference, this was the Central Agencies comment we put into the now pulled SEC paper which aligns with the concerns MOF has raised:

The Treasury and State Services Commission support the principle of DHBs exercising greater ownership of the projects currently being advanced by HBL and appreciate the efforts being made by DHB leadership and the Interim Governance Group to achieve that outcome. While moving to a DHB-owned model may be a necessary step, it will not be sufficient in and of itself to achieve the level of savings through shared services that DHBs need to make. Achieving consensus-based decisions has proved difficult and time-consuming for the sector to date, particularly when costs and benefits are unequally distributed and the national interest conflicts with local priorities and Board accountabilities. DHBs' ability to participate in initiatives also varies due to differences in their capability and capacity to implement multiple business changes and in their financial capacity. It will be critical for the operating model embedded in the new agency to identify and overcome these challenges if it is to succeed in delivering the savings required in the sector .

We also note that the transition to a new vehicle may crystallise changes in the value of HBL's assets and liabilities with a corresponding impact on OBEGAL. These impacts need to be clearly identified in advance of a transition.

We're meeting with the Ministry project team today and will continue to push this line.

Regards,
Davin

Davin Hall | Senior Analyst | The Treasury
Tel: +64 4 917 6195 | Davin.Hall@treasury.govt.nz

CONFIDENTIALITY NOTICE

The information in this email is confidential to the Treasury, intended only for the addressee(s), and may also be legally privileged. If you are not an intended addressee:

- please immediately delete this email and notify the Treasury by return email or telephone (64 4 472 2733);
- any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

From: Simon Carey [mailto:Simon.Carey@parliament.govt.nz]
Sent: Monday, 23 March 2015 4:35 p.m.
To: Davin Hall [TSY]; Aaron Gill [TSY]
Subject: FW: HBL Transition Project Managers Report WE 06 March 2015

Davin and Aaron,

See below. Which of you should I be keeping in the loop on this?

Cheers,
Simon

(NB: Jayne is away at the moment, being covered by Peter).

Simon Carey | Economic Advisor
Office of Hon Bill English | Deputy Prime Minister, Minister of Finance

7.6 Beehive, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand
T: 04 817 9903 | F: 04 817 6501 | E: simon.carey@parliament.govt.nz
[Withheld under s9(2)(a)]

From: Simon Carey
Sent: Monday, 23 March 2015 4:33 p.m.
To: Jayne Conaghan
Cc: Michael Johnson
Subject: RE: HBL Transition Project Managers Report WE 06 March 2015

Hi Jayne/Peter,

MOF did have a couple of points of fairly strong feedback on this update. In particular, he wants to see the proposed structure and governance and performance framework of the new entity (he was explicit that he won't sign off on a structure that he hasn't already seen), and also wants to see the plan for ensuring the savings are realised.

My sense is that he's not seeing as much as he would like on HBL. I didn't find the report itself particularly helpful (was out of date and too much into the grainy detail for Ministers), so we might need a separate report for MOF on the two points raised above. Meetings are hard to get at the moment.

Cheers,
Simon

Simon Carey | Economic Advisor
Office of Hon Bill English | Deputy Prime Minister, Minister of Finance
7.6 Beehive, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand
T: 04 817 9903 | F: 04 817 6501 | E: simon.carey@parliament.govt.nz
[Withheld under s9(2)(a)]

From: Jayne Conaghan
Sent: Friday, 13 March 2015 8:53 a.m.
To: Simon Carey; Josh Cameron; Peter McCardle
Subject: FW: HBL Transition Project Managers Report WE 06 March 2015

Morning all,

Please find attached the first draft of a joint ministers HBL report that is proposed to be sent fortnightly.

Simon, can you please see if this meets MoFs needs and let me know any requested changes?

Many thanks,

Jayne Conaghan | Private Secretary (Health) | Office of the Hon Dr Jonathan Coleman
Minister of Health, Minister for Sport and Recreation
6.4 Beehive, Parliament Buildings, Private Bag 18041, Wellington 6160, New Zealand
T: 04 817 9848 | jayne.conaghan@parliament.govt.nz
[Withheld under s9(2)(a)]

From: [Joanne Hogan@moh.govt.nz](mailto:Joanne.Hogan@moh.govt.nz) [<mailto:Joanne.Hogan@moh.govt.nz>]
Sent: Sunday, 8 March 2015 9:11 p.m.
To: Jayne Conaghan
Cc: suesuckling@acemmark.co.nz; Michael.Hundleby@moh.govt.nz; Bradley.Young@moh.govt.nz; Jude.Hamblyn@moh.govt.nz
Subject: HBL Transition Project Managers Report WE 06 March 2015

Hi Jayne

As discussed Friday, please find attached last week's HBL Transition Project Manager's Report.

There are two attachments which should be read together:

- HBL Transition PM Report - summarising key activities covering momentum, transition and engagement activities
- HBL Programme Status Report - provided by HBL on their 4 key programmes of work

•
You will receive these reports weekly ongoing.

Any feedback on how these could be improved would be appreciated. I will also send these through Treasury as requested.

If you have any questions regarding this report, please let me know.

Regards
Jo
Joanne Hogan
Project Manager
Ministry of Health
DDI: 09 580 9090
[Withheld under s9(2)(a)]
Fax: 09 580 9001

<http://www.health.govt.nz>
mailto:Joanne_Hogan@moh.govt.nz

Statement of confidentiality: This e-mail message and any accompanying attachments may contain information that is IN-CONFIDENCE and subject to legal privilege.
If you are not the intended recipient, do not read, use, disseminate, distribute or copy this message or attachments.
If you have received this message in error, please notify the sender immediately and delete this message.

This e-mail message has been scanned for Viruses and Content and cleared by the Ministry of Health's Content and Virus Filtering Gateway

RELEASED UNDER THE OFFICIAL INFORMATION ACT

COMMERCIAL-IN-CONFIDENCE



Treasury Report: Progress Report on HBL Transition

Date:	30 April 2015	Report No:	T2015/848
		File Number:	CM-1-3-108

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Agree to meet with Officials to discuss the content of this report	none

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Davin Hall	Senior Analyst, Health	04 917 6195 (wk) [Withheld under s9(2)(a)]	✓
Ben McBride	Manager, Health	04 917 6184 (wk)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.
Refer copy to the Minister of Health and the Associate Ministers of Finance.

Enclosure: No

COMMERCIAL-IN-CONFIDENCE

Treasury Report: Progress Report on HBL Transition

Executive Summary

This report provides an update on the progress of the due diligence and transition planning process related to the transfer of the functions of Health Benefits Limited (HBL) to a DHB-owned vehicle, since the Minister of Health has not reported back to SEC as anticipated.

In March, the SEC progress report noted in CAB Min (14) 36/13, was postponed by a month to allow the HBL Transition Interim Governance Group (the "transition group") to finalize its proposed model for the DHB-owned vehicle. A "Newco" model has been recommended and is under active consideration by DHB Boards. We understand the intention is now to seek SEC endorsement on 27 May of a DHB-owned Newco, the transfer of HBL assets and liabilities, and the wind down of HBL.

The due diligence to date has been positive and thorough, clarifying the risks posed by an HBL transition (many of which will need to be managed whether or not the transition occurs) and identifying mitigation strategies. However, a significant amount of work needs to occur prior to the transition date if the transition is to be successful. The timeframes to which the transition group are working also necessitate many issues being deferred to after the transition before they can be addressed.

Progress has been made in advancing business case approvals since the transition group was established, but it is clear that the benefits HBL had initially identified in the detailed business cases will not be fully delivered. At this juncture, partial adoption of the business cases appears to be the best-case scenario, with the possible exception of the National Infrastructure Platform.

It has also come to light that some DHBs are seeking to avoid responsibility for repayment of the Crown loans provided to HBL. Treasury does not support a write down of the Crown loans within Vote Health. Officials will work with the Ministry of Health to develop options in relation to the repayment of these loans, in advance of a proposal for a Newco being considered by Cabinet.

The Newco proposal is a significant improvement on the healthAlliance proposal that was presented to Cabinet in November 2014. We have a fair degree of confidence that the Newco can be established and manage the existing HBL functions and implementation of the four business cases (to the extent they are approved). DHBs appear to be enthusiastic about the opportunity to own and direct the entity and their engagement is likely to improve from the current state.

In essence, the Newco will be a cooperative venture that will need to respond to the interests of its owners and is by design limited in the extent to which it can drive savings in the sector over their wishes. Where the interests of DHBs are aligned there may be opportunities for additional savings, but achievement of the \$700 million savings target originally set for HBL is still likely to be several years away.

With many of the details of the operating model and performance framework to be developed after the establishment of Newco, we recommend that the transfer of HBL's assets and liabilities to the new entity be deferred until after the Newco is established. The government's leverage over shared services in the health sector will diminish considerably once a transfer occurs and this may be the last significant opportunity to influence its future direction. The Chair of the transition group strongly disagrees with this approach

COMMERCIAL-IN-CONFIDENCE

Recommended Action

We recommend that you:

- a **note** the HBL transition group has developed a proposal, currently under consideration by DHB boards, for the establishment of a DHB-owned Newco to take over responsibility for HBL's functions and implementation of the four business cases
- b **note** that it is proposed that the Minister of Health seek approval from SEC on 27 May for the establishment of the Newco, the transfer of HBL's assets and liabilities and the wind down of HBL
- c **note** that Officials support, in-principle, the Newco approach, but that significant elements of the operating model and performance framework will not be developed until after the Newco is established
- d **note** that Ministers ability to influence the shape of the new entity will diminish considerably once a transfer of HBL's assets occurs
- e **note** that Officials recommend deferring the transfer of HBL's assets and liabilities until the operating model and performance framework are developed
- f **agree** to meet with Officials and the Chair of the transition group to discuss the contents of this report, and
Agree/disagree.
- g **refer** this report to the Minister of Health and the Associate Ministers of Finance.

Ben McBride
Manager, Health

Hon Bill English
Minister of Finance

COMMERCIAL-IN-CONFIDENCE

Treasury Report: Progress Report on HBL Transition

Purpose of Report

1. The purpose of this report is to provide you with an update on the progress of the due diligence and transition planning process related to the transfer of the functions of Health Benefits Limited (HBL) to a district health board (DHB) owned vehicle, since we understand the Minister of Health will not be providing a report back to SEC as signalled in CAB Min (14) 36/13.

Background

2. In November 2014, Cabinet agreed to the establishment of a due diligence and transition planning process for the transfer of HBL's functions to a DHB owned vehicle. At the time, the Minister of Health indicated the preference of DHBs was for healthAlliance (FPSC) Ltd to take over these functions.
3. An HBL Transition Interim Governance Group (the "transition group") with representation from DHBs, the Ministry of Health, Treasury and the State Services Commission (SSC) was established with an independent Chair (Sue Suckling). The transition group has been undertaking due diligence and supporting the development of model for a DHB-owned vehicle to take over implementation of the HBL business cases and its ongoing banking and insurance services.
4. The Cabinet paper noted intention of the Minister of Health to report back to SEC by 31 March on the due diligence and transition planning and progress of the four HBL business cases:
 - Finance Procurement and Supply Chain (FPSC)
 - National Infrastructure Platform (NIP)
 - Food Services
 - Linen and Laundry.
5. In March 2015, the SEC report back was postponed by a month to allow the transition group to finalize its proposed model for the DHB-owned vehicle, which has now been completed and is under consideration by DHB Boards. We understand the intention is now to seek SEC approval on 27 May of a new DHB-owned vehicle, the transfer of HBL assets and liabilities, and the wind down of HBL.

Due Diligence

6. The transition group has undertaken legal and financial due diligence on HBL, including validation of the status of the FPSC, NIP, Food and Laundry business cases, and legal and structural due diligence on healthAlliance (FPSC) Ltd.
7. The HBL due diligence process has identified a long list of risks and issues that will need to be addressed before and after a transition to a new vehicle. Key takeaways from this process include:
 - more transparent organizational planning, budgeting, forecasting and performance measurement processes are required
 - arrangements with healthAlliance (NZ) for IT and finance services need to be formalized and documented

COMMERCIAL-IN-CONFIDENCE

- an impairment of FPSC work in progress will likely be required (with corresponding impacts on DHB financials) due to deferral of finance shared services and supply chain components of the business case (review ongoing to determine impact)
 - substantial improvements in national procurement programme are needed to speed up benefits realization and formalization of agreed service provision is required
 - funding commitments to the FPSC programme are not formally documented and are in dispute
 - significant spending on Oracle support (FPSC) is occurring with little benefit
 - decisions will be required in relation to the Crown loans provided for the development of the Food and Linen and Laundry business cases which come due on 30 June.
8. Work will be undertaken during and after the transition to address the risks identified in the due diligence process and put the new DHB-owned vehicle on a sounder organizational footing.
9. The legal and structural due diligence on healthAlliance (FPSC) concluded that:
- *current structural and functional elements not suited to transitioning from HBL within timeframes*
 - *contractual ambiguity and performance issues could be complicated with transition at this time*
 - *momentum could be impacted due to complexity of transition activities required.*
10. Based on the due diligence process, healthAlliance (FPSC) is not supported by the transition group as the appropriate DHB-owned entity to assume responsibility for HBL's functions. The due diligence undertaken confirms the significant concerns identified by the Auditor General's 2014 report on the healthAlliance group regarding the capability and capacity of the organization. We understand that healthAlliance group may be restructured as a result.
11. The due diligence to date has been positive and thorough, clarifying the risks posed by an HBL transition and identifying mitigation strategies. However, a significant amount of work needs to occur prior to the transition date if the transition is to be successful. The timeframes to which the transition group are working also necessitate many issues being deferred to after the transition before they can be addressed. Many of the risks will still need to be managed whether or not the transition occurs.

Status of Business Cases

12. According to information provided by HBL to the transition group, as of 9 April, the status of the four business cases is as follows:

National Infrastructure Platform

- 15 DHBs approved the NIP business case with nine back-to-back contracts signed.
- Minimum share of sector capacity (70%) required to maintain pricing is expected to be achieved by 30 May deadline.
- Appears to be on-track.

COMMERCIAL-IN-CONFIDENCE

Food Services

- Auckland Metro DHBs have signed back-to-back contracts at national contract rate.
- One additional DHB is needed to sign on by 31 May to avoid a 6% cost increase for Auckland boards. The Tairāwhiti, Southern and Hawkes Bay DHB boards will consider signing contracts before the deadline.
- Union legal action underway in Auckland DHB and threatened in Southern DHB if the board proceeds with contract.

Linen and Laundry

- Nine DHBs have approved the business case, eight of whom are existing clients of the contracted provider. Hawkes Bay DHB has declined.

• [Withheld under s9(2)(f)(iv) and s9(2)(g)(i)]

Finance Procurement and Supply Chain

- Re-planning exercise is complete and revised business case is to be released to DHBs for decision-making.

• [Withheld under s9(2)(f)(iv)]

- Separate SEC report-back required.

13. Progress has been made in advancing business case approvals since the transition group was established, but it is clear that the benefits that HBL had initially identified in the detailed business cases will not be fully delivered. At this juncture, partial adoption of each of the business cases appears to be the best-case scenario, with the possible exception of the NIP which should be rolled out nationally over time.

Crown Loans

14. Through the due diligence process, it has become clear that a number of DHBs do not accept the obligation to repay the Crown loans advanced to HBL if they do not approve the business cases. These loans, which were advanced by the Crown to facilitate the development of detailed business cases (DBC's), were provided on the basis that they would be repaid via vendor finance if business cases were approved or repaid by DHBs if the business cases were not approved.
15. Ministry officials have confirmed that the 2013/14 planning advice provided to DHBs clearly indicated there was a contingent liability payable by DHBs if the business cases did not proceed.
16. By December 2014, a total of \$11.6M was authorized by the Ministers of Health and Finance to be loaned to HBL. While the loans in relation to the NIP are expected to be repaid before the end of the fiscal year, decisions will be required regarding the treatment of the loans for the Linen and Laundry and Food business cases which come due on 30 June.
17. In approving the Newco proposal (see below), Whanganui DHB included a resolution that the DHB Board:

COMMERCIAL-IN-CONFIDENCE

“Agree that the WDHB accepts no liability for the costs of developing the Linen Laundry and Food business cases, given that WDHB neither initiated nor approved the development of these business cases and expects the liability to be assumed by the shareholding Ministers”

18. The Treasury does not support a write down of the Crown loans within Vote Health. Officials will work with the Ministry of Health to develop options in relation to the repayment of these loans, in advance of a proposal for Newco being considered by Cabinet. The treatment of these loans is a key factor in determining the shape of the balance sheet for Newco.

Transition Group Proposal for a “Newco”

19. The transition group has proposed that DHBs establish a new multi-parent subsidiary company to continue the development and implementation of the four HBL business cases and management of HBL’s banking and insurance functions. The new company would also be structured as a vehicle for developing future business cases, should DHBs decide to pursue other opportunities.
20. Under the proposed Newco model:
- All 20 DHBs would have equal ownership through Class A shares, with Class B shares held in the same proportion as is currently the case with HBL (FPSC investment)
 - There would be a seven person board with four DHB directors (one from each region) and three independent directors (nominated by board, approved by all DHBs)
 - The Chair would be nominated by the board and approved by all DHBs
 - Unanimous approval of all DHBs would be required for Newco’s annual plan and budget
 - The 2015/16 core budget of \$6 million will be funded by DHBs on PBFF basis, consistent with current HBL funding.
21. The “Newco” is intended to be operated in accordance with three principles:
- Co-creation with DHBs – joint work between Newco and its DHB owners
 - National good – Newco and DHBs will maximize shared services opportunities for the national good
 - Sophisticated mechanisms – “sophisticated mechanisms” will be established for collective action and pursuing shared services opportunities.
22. We understand the Newco proposal has the support of all DHB Chairs and CEs (including Canterbury), and has the formal support of 11 DHB Boards (as of 28 April). All DHB Boards have been asked to review the proposal and provide their unconditional approval by 1 May.
23. A transfer of assets and liabilities from HBL to the Newco under the Health Sector (Transfers) Act 1993 has been identified as the most appropriate mechanism to affect the transfer.
24. The Newco proposal is a significant improvement on the healthAlliance proposal that was presented to Cabinet in November 2014. We have a fair degree of confidence that the Newco can be established and manage the existing HBL functions and implementation of the four business cases (to the extent they are approved). DHBs appear to be enthusiastic about the opportunity to own and direct the entity and their engagement is likely to improve from the current state.

COMMERCIAL-IN-CONFIDENCE

25. In essence, the Newco will be a cooperative venture that will need to respond to the interests of its owners and is by design limited in the extent to which it can drive savings in the sector over their wishes. Where the interests of DHBs are aligned there may be opportunities for additional savings, but achievement of the \$700 million savings target originally set for HBL is still likely to be several years away.


Transition Group Proposed Next Steps

26. Following confirmation of unconditional support by DHBs on 1 May (assuming this is achieved) the transition group has developed a proposed timeline for Ministerial and Cabinet decision-making. Key milestones follow:
- 5 May – Final DHB proposal for Newco signed by DHBs
 - 6 May – Report to Minister of Health on Newco proposal
 - 20 May (at the latest) – Minister of Health to brief Minister of Finance: seeking agreement for DHB-owned Newco proposal
 - 27 May – SEC consideration of Newco proposal: approval to be sought for proposal, instructions for preparation of Order in Council to transfer HBL assets, HBL wind down process
 - 22 June – Cabinet consideration of Order in Council to transfer HBL assets
 - 30 June – HBL assets transferred to Newco
27. We note that the transition group's terms of reference clearly states that the group reports directly to the Minister of Health and Minister of Finance and would expect that the reports from the transition group would be provided to Joint Ministers as the owners of HBL. The Treasury representative on the transition group will raise this matter.
28. According to the transition group's plan, the establishment of the Newco would be followed by a 90 day transition period, under the leadership of an interim Chair and an interim CE, in which:
- development and implementation of the business cases (including a benefits realization plan) would be progressed
 - a performance framework would be developed
 - "sophisticated mechanisms" for enabling DHBs to work together collectively and maximize shared service opportunities for the national good would be developed.
29. The rationale provided for this approach, which has merit, is that the owners of the Newco need to undertake the review of the operating model coming from HBL and develop a model with which they are comfortable. As part of this operating model, performance management elements would be included (KPIs, budgets, reporting requirements). The Minister of Finance can direct the Newco to provide a Statement of Intent which will include this information.
30. With many of the details of the operational model and performance framework to be developed after the establishment of Newco, at this juncture we recommend a deferral of the transfer of HBL's assets and liabilities to the new entity until the Newco is established and the shape of the new model is made clearer. The government's leverage over shared services in the health sector will diminish considerably once a transfer occurs to a multi-parent subsidiary, and this may be the last significant opportunity to influence its future direction.

COMMERCIAL-IN-CONFIDENCE

Transition Group Chair's view

31. [Withheld under s9(2)(g)(i)]



RELEASED UNDER THE
OFFICIAL INFORMATION ACT

From: Davin Hall [TSY]
Sent: Friday, 1 May 2015 10:16 a.m.
To: ^MOF: Simon Carey
Cc: Ben McBride [TSY]
Subject: RE: HBL Update

Hi Simon,

Further news from the Ministry on the HBL transition:

-18 DHBs have now approved the proposal (the final 2 are expected today)
-Tairāwhiti DHB has now approved the food services contract (which avoids a 6% cost increase for the Auckland DHBs).

The Ministry also indicated they share the concerns of the transition group Chair about deferring the asset transfer from HBL.

The vehemence of the response suggests to me that there's no real back up plan if Ministers don't agree to the proposal.

Regards,
Davin

Davin Hall | Senior Analyst | The Treasury
Tel: +64 4 917 6195 | Davin.Hall@treasury.govt.nz

CONFIDENTIALITY NOTICE

The information in this email is confidential to the Treasury, intended only for the addressee(s), and may also be legally privileged. If you are not an intended addressee:

- a. please immediately delete this email and notify the Treasury by return email or telephone (64 4 472 2733);
- b. any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

From: Simon Carey [<mailto:Simon.Carey@parliament.govt.nz>]
Sent: Thursday, 30 April 2015 3:28 p.m.
To: Davin Hall [TSY]
Subject: RE: HBL Update

Thanks Davin

Simon Carey | Economic Advisor
Office of Hon Bill English | Deputy Prime Minister, Minister of Finance
7.6 Beehive, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand
T: 04 817 9903 | [04 817 9903](tel:048179903) | F: 04 817 6501 | E: simon.carey@parliament.govt.nz
[Withheld under s9(2)(a)]

From: Davin Hall [TSY] [<mailto:Davin.Hall@treasury.govt.nz>]
Sent: Thursday, 30 April 2015 3:24 p.m.
To: Simon Carey
Cc: Ben McBride [TSY]
Subject: HBL Update

[SEEMAIL][SENSITIVE]

Hi Simon,

As mentioned this morning, our report on HBL is in the afternoon bag (final version attached for reference). We are seeking a meeting with the Minister to discuss the report and wish to include the Chair of the transition group in this discussion. I had a bit of a challenging conversation with the Chair this morning who made it clear she would like to have an opportunity to discuss the proposal directly with MOF. There is a difference of opinion over whether the operating model and performance measures are sufficiently developed to meet the Minister's expectations and

therefore whether the transfer of HBL's assets and liabilities should proceed on 30 June. We've heard a lot about new ways of working and sophisticated mechanisms, but based on the documentation we are not convinced.

As this is a rather live issue at the moment there have been some developments today at the meeting of the HBL transition group which arrived too late in the piece to include, but will be useful additional context:

- The transition group has agreed to modify the proposed process for approvals so that the Minister of Finance will receive the its report next week when it is finalized (para 27 indicates this is an issue that would be raised).
- The transition group will be working to clarify the elements of the Newco operating model that the DHBs have agreed to, and what is planned for the 90 day transition period. This should be helpful for all involved and will hopefully inform a discussion with the Minister.

Happy to discuss.

Regards,
Davin

Davin Hall | Senior Analyst | **The Treasury**

Tel: +64 4 917 6195 | Davin.Hall@treasury.govt.nz

CONFIDENTIALITY NOTICE

The information in this email is confidential to the Treasury, intended only for the addressee(s), and may also be legally privileged. If you are not an intended addressee:

- please immediately delete this email and notify the Treasury by return email or telephone (64 4 473 2733);
- any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

RELEASED UNDER THE OFFICIAL INFORMATION ACT

IN-CONFIDENCE

Report Back on the Future Implementation of Health Shared Services Business Cases (State Sector Reform and Expenditure Control (SEC) Committee 27 May)

Responsible Person: Ben McBride 917 6184

First Contact Person: Davin Hall 917 6195

Purpose

1. A late SEC paper is seeking approval for the establishment of a new district health board (DHB)-owned multi-parent subsidiary company (Newco) to take over responsibility from Health Benefits Limited (HBL) for shared services in the health sector. There are no fiscal implications arising from this paper.

Comment

2. The Treasury supports the principle of DHBs exercising greater ownership of the projects currently being advanced by HBL. The Interim Governance Group (IGG), which was established to oversee due diligence and transition planning, has delivered a proposal for a DHB-owned multi-parent subsidiary company as the optimal vehicle for accomplishing this shift. DHBs have unanimously endorsed the Newco model.
3. The due diligence undertaken by the IGG has been positive and thorough, clarifying the risks posed by an HBL transition (many of which will need to be managed whether or not the transition occurs) and identifying mitigation strategies. A significant amount of work, currently underway, needs to occur prior to the transition date if the transition is to be successful. The timeframes to which the IGG are working also necessitate many issues being deferred to after the transition before they can be addressed.
4. Progress has been made in advancing business case approvals since the IGG was established, but it is clear that the benefits HBL had initially identified in the detailed business cases (NPV \$759M) will not be fully delivered. At this juncture, partial adoption of the business cases appears to be the best-case scenario, with the possible exception of the National Infrastructure Platform. This is expected to deliver NPB benefits of \$302M to \$409M over 10 to 15 years.
5. The Newco proposal is a significant improvement on the proposal presented to Cabinet in November 2014 to use healthAlliance (FPSC) as the new shared services vehicle. We have a fair degree of confidence that the Newco can be established and manage the existing HBL functions and implementation of the four business cases (to the extent they are approved). DHBs appear to be enthusiastic about the opportunity to own and direct the entity and their engagement is likely to improve from the current state.
6. In essence, the Newco will be a cooperative venture that will need to respond to the interests of its owners and is by design limited in the extent to which it can drive savings in the sector over their wishes. Where the interests of DHBs are aligned there may be opportunities for additional savings, but achievement of the \$700 million savings target originally set for HBL is still likely to be several years away.
7. With the transition to a multi-parent subsidiary company owned by DHBs, the government will lose significant leverage to drive shared services savings. While the paper identifies a number of levers that will be used to maintain oversight and monitor performance, the Minister of Health may need to use directive powers if DHBs do not collaborate effectively.

IN-CONFIDENCE

8. DHB decisions related to the HBL Finance Procurement and Supply Chain programme are likely to require changes in the valuation of HBL's assets and liabilities that will crystallise with the transfer of assets to the Newco. This will have a flow on impact on OBEGAL in 2014/15.

Treasury Recommendation

9. Treasury recommends that you **support** the recommendations in this paper.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

From: Davin Hall [TSY]
Sent: Thursday, 25 June 2015 6:09 p.m.
To: 'Simon Carey'
Subject: HBL paperwork

[IN-CONFIDENCE]

Hi David

I just picked up the message that MOF will be out of the office a lot over the next month and to warn you of anything on the way. There is some HBL paperwork in the pipeline that will need MOFs approval in the next couple of days (typically last minute stuff). Largely procedural but time sensitive.

Regards,
Davin

Davin Hall | Senior Analyst | **The Treasury**
Tel: +64 4 917 6195 | Davin.Hall@treasury.govt.nz

CONFIDENTIALITY NOTICE

The information in this email is confidential to the Treasury, intended only for the addressee(s) and may also be legally privileged. If you are not an intended addressee:

- a. please immediately delete this email and notify the Treasury by return email or telephone (64 4 472 2733);
- b. any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

RELEASED UNDER THE OFFICIAL INFORMATION ACT