

Reference: 20150334

3 September 2015



Thank you for your Official Information Act request, received on 5 August 2015. You requested the following:

*“All briefings, aide memoires, advice sent to the Minister of Finance’s office regarding Health Benefits Limited from June 2014 to January 2015.”*

Furthermore on 5 August we received another OIA request from you for the following information:

*All advice, correspondence and reports/briefings mentioning Health Benefits Limited (now NZ Health Partnerships) crown loans (that were paid on 30 June 2015) since November 2014 that was sent to HBL’s shareholding Minister’s offices (Health and Finance)”*

As you know on 12 August we partially transferred this request to the Ministry of Health for response. The remaining information is either covered by the initial 5 August request or publicly available on the Treasury website (please see item 9 below) and was sent to you in a previous OIA reply dated 4 August 2015.

A response to your request is due 2 September 2015.

### **Information Being Released**

Please find enclosed the following documents:

<b>Item</b>	<b>Date</b>	<b>Document Description</b>	<b>Decision</b>
1.	25 August 2014	Email: HBL Health Report	Release in full
2.	29 October 2014	Preliminary Advice on HBL	Release in full
3.	31 October 2014	Email: HBL Update	Release in part
4.	4 November 2014	Email: Final AM – Late SEC Paper Attachment: Aide Memoire – Late SEC	Release in part

		Paper – Future Implementation of Health Shared Services Business Cases	
5.	12 November 2014	Email: Questions for DHB representatives re: HBL	Release in part
6.	14 November 2014	Email: Aide Memoire: Future Implementation of Health Shared Services  Attachment: Aide Memoire Future Implementation of Health Shared Services Business Cases	Release in part
7.	15 December 2014	Email: Health papers expected by tomorrow's deadline	Release relevant part

I have decided to release the relevant parts of the documents listed above.

- 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; and
- under section 9(2)(f)(ii) – to maintain the current constitutional conventions protecting collective and individual ministerial responsibility.

### Information Publicly Available

The following information is also covered by your request and is publicly available on the Treasury website:

Item	Date	Document Description	Website Address
8.	4 August 2015	OIA Response: HBL Documents since January 2015	<a href="http://www.treasury.govt.nz/publications/oiaresponses">http://www.treasury.govt.nz/publications/oiaresponses</a>
9.	October 2014	Treasury Briefing to Incoming Minister - Health	<a href="http://www.treasury.govt.nz/publications/briefings/2014-health">http://www.treasury.govt.nz/publications/briefings/2014-health</a>

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the Official Information Act – the information requested is or will soon be publicly available.

Some relevant information has been removed from documents listed in the above table and should continue to be withheld under the Official Information Act, on the grounds described in the documents.

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 20150334

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**From:** Davin Hall [TSY]  
**Sent:** Monday, 25 August 2014 2:11 p.m.  
**To:** 'Simon Carey'  
**Cc:** Ben McBride [TSY]; Aaron Gill [TSY]  
**Subject:** HBL Health Report - Extension of Crown Loan

Hi Simon,

I wanted to advise you that a Health Report related to a request from HBL for additional access to loans should be coming to the Minister shortly.

#### HBL Proposal

HBL is seeking an increase in its \$8M loan facility for the preparation of the Food, Laundry and National Infrastructure Platform business cases to \$15.1M, including:

- \$4.1M to finance the completion of the business cases
- \$3M in contingent loans to underwrite supplier (IBM) costs related to the early implementation of the Infrastructure Platform business case

The cost overrun related to the business cases is largely due to the due diligence and approval processes as DHBs and the Ministry seek much greater engagement on the business cases (with good reason) than HBL had anticipated. The \$3M contingent loan would only be drawn if the Infrastructure platform business case did not proceed.

This request has come as a surprise to officials, as it was not disclosed through the 2014/15 budget and planning process and represents a significant increase in the proposed budgets for the business cases. DHBs, which will ultimately bare the cost of the business case development process, have evidently not been advised of this request by HBL. Treasury and Ministry officials do not support \$7.1M increase to the loan facility.

#### Health Report Recommendation

The Health Report recommends a \$2.2M increase in the loan facility which should be sufficient to meet HBL's cash flow needs through the completion of the business cases decision-making processes. In the absence of some additional cash flow (or other assurances of continued financial support), HBL has indicated the business case processes may need to be wound down. Given the potential for gains to the sector, estimated at \$238M (NPV) by HBL, officials support seeing the decision-making through to completion. The Health Report also makes recommendations for conditions to increase the transparency of reporting and improvements to financial management.

Treasury supports the recommendations.

#### Review of Health Shared Services

In our view, the additional funding request from HBL is symptomatic of broader issues with HBL's operating model and the institutional settings in which it is working. HBL will not meet its gross savings target of \$700M within 5 years, which in hindsight may have been too ambitious. Establishing a gross savings target may have also created some misaligned incentives related to cost and benefit trade-offs, leading to a 'big-bang' approach to most initiatives. The overall performance of HBL has not been optimal, even when taking into account the challenging environment in which they must operate, and the relationships between the organization and both the Ministry and DHBs needs significant improvement.

Officials will be developing advice for the incoming government regarding a review of the shared services model in the health sector. Ministry officials have indicated support in-principle for such a review and we will work with them to coordinate advice as far as possible. The CE of HBL has also indicated frustration with the current settings and support for a review process.

Happy to discuss.

Regards,  
Davin

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

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**TREASURY PRELIMINARY ADVICE ON HBL – KEY POINTS  
MEETING WITH MINISTER COLEMAN, 29 OCTOBER 2014**

HBL was established in July 2010 to work in partnership with all DHBs to deliver “back-office” cost savings through reducing administrative, support and procurement costs for DHBs. These savings would then assist DHB’s ability to live within their baseline funding.

Treasury still considers that there is scope to make further savings within Health, and where appropriate DHBs should be expected to make savings. Such savings can be delivered through a national solution, a regional solution or some grouping of the willing.

To date HBL has already made a significant investment in four business cases and it is important to extract as much value as possible from this investment. We don’t want to see the urgency of actions in respect of FPSC, and subsequent decisions, undermining the value of the three other business cases.

We understand the Ministry of Health view is that HBL initiatives should be folded into health Alliance (hA). While hA may be part of the eventual outcome, it is Treasury’s view that it would be premature to decide to transfer projects to hA and disestablish HBL without fully understanding the problem and risks.

**RISKS**

1. Treasury officials are unsure of the extent of the problem that is trying to be solved. There is a basic lack of information/analysis around the problem, risks around the solution, and other options – problem definition and due diligence needs to inform decision-making.
2. The announcement of the proposed transfer might be premature, and might not actually be achievable (e.g. if hA did not agree to the transfer for any reason) or the best solution.
3. Treasury officials are unsure of what benefits might be realised from the proposed transfer. The transfer could well compound the issues being faced by HBL.
4. OAG concerns about hA’s capability. In addition if hA is prepared to accept transfer without due diligence, this should also raise concerns.
5. No due diligence has been completed into the proposed transfer, or into the commercial elements of the proposed transfer, including what terms hA might insist on.
6. Does hA have the necessary skills? hA is currently a delivery mechanism (of willing parties) rather than an integrator.
7. HBL directors have their own duties under the Companies Act and may not agree that a transfer to hA is the best course of action or in the company’s best interests. Ministers are constrained in their ability to issue directions to HBL to achieve a specific solution (e.g. transfer specific assets to a specific party).

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### ALTERNATIVE OPTIONS

1. Stop HBL from pursuing any new work on future shared services initiatives (beyond 4 business cases).
2. Consider replacement of Chair/composition of HBL board (if the concerns relates to the governance of the company)
3. Independent external assurance process to find out what has happened with FPSC programme and to help frame future options from FPSC and 3 other business cases
  - FPSC: where has the money gone? What did we get for it? Is the \$200 million the true cost of completion? What should the original cost have been? How much of the change in cost was due to scope change? What are other delivery options? How far can existing data hub model be expanded to drive benefits?
  - GCIO mandate could be advanced to undertake assurance on FPSC and NIP.
  - External assurance of laundry and food (NPV benefits, potential sub-national options).
4. Establish decision-making period for DHBs following assurance process (90 days?)
  - Share assurance results
  - Allow DHBs to make in or out decisions
  - Proceed with willing participants and renegotiate with vendors
5. Review the approach to DHB shared services, focused on the role of HBL:
  - Scope for future savings
  - HBL's performance to date
  - International best practice for shared service delivery among autonomous entities
  - HBL Mandate and relationship to the sector/central government
  - Savings targets and related institutional incentives
  - Funding
  - Decision-making processes
  - Regional/Sub-regional/Supra Regional vs. national solutions
  - DHB accountabilities (local vs. national good)

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**From:** Davin Hall [TSY]  
**Sent:** Friday, 31 October 2014 2:38 p.m.  
**To:** 'Simon Carey'  
**Cc:** Ben McBride [TSY]; Fiona Ross [TSY]; Fiona Chan [TSY]; Aaron Gill [TSY]; [TSY]  
**Subject:** HBL Update - Commercial-in-Confidence

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

Hi Simon,

Further to Tuesday's pre-Cab briefing on HBL, we met with Minister Coleman on Wednesday night and have been working with the Ministry of Health on their SEC paper related to transferring HBL's functions to healthAlliance. While they have taken on board some of our concerns about the risks involved, there is not a willingness to reconsider the decision to establish healthAlliance as the preferred option for taking over HBL's functions and business case implementation. In our view, the analysis undertaken by the Ministry has not been sufficient to land a preferred option at this time and there is a large amount of due diligence that is needed to inform options analysis (which has been very light to date and has not included MOH legal).

In the event that MOF discusses this issue with Minister Coleman over the weekend, we thought it might be helpful to share our preliminary Treasury comment and recommendations on the paper that has been shared with Health:

#### **Treasury Comment on draft HBL paper**

To date the Crown has made a significant investment in four business cases and it is important to extract as much value as possible from this investment. HBL also has responsibility for critical elements of health sector infrastructure, notably, the shared banking arrangement for DHBs through which over \$1 billion per month flows. While healthAlliance (hA) may be part of the eventual outcome, it is Treasury's view that it would be premature to decide to transfer projects to hA and disestablish HBL without fully analysing the available options and risks. The Treasury agrees with the need for extensive due diligence to provide assurance to the government that all issues are fully understood and that the best option is taken based on this analysis. In our view it is premature to adopt a preferred option given the state of the information available and the analysis to date. Given the importance of ensuring this due diligence is appropriately carried out before final decisions are taken, we recommend a report back to Cabinet in early 2015. Moreover, a transfer from HBL could be executed in several ways, including a change of ownership, a transfer of some or all of the assets with the agreement of the HBL Board and the receiving entity, or through transfer by Ministers (the Minister of Health and Minister of Finance) under Health Sector (Transfers) Act 1993.

#### **Treasury Recommends that the Committee:**

a) **Agree** that a due diligence process be undertaken by the Ministry of Health, Treasury and the State Services Commission to inform decision-making on options related to the transfer of functions from HBL, including whether to transfer these functions to healthAlliance or another entity/entities

b) **Agree** that the due diligence should include:

- a) Understanding HBL's current financial position including usual financial statements (balance sheet, profit and loss, cashflow); current contracts and any other financial commitments including Crown loans or permissions; and key personnel; clarity on all HBL undertakings, programmes and ongoing business, valuation of assets including IP
- b) Further validation of FPSC costs/benefits and expenditure/progress to date, including independent assessment of 'go-no go' decision analysis. This assessment would involve appropriate experts such as the Government Chief Information Officer, Treasury and international advisors;
- c) Validation of the Food, Linen and laundry and National Infrastructure Platform business cases and a review of implementation issues for each programme
- d) Analysis of options for progressing implementation of the HBL business cases and carrying out existing functions of the organization by the Ministry, Treasury and SSC. This would include an assessment of the

capability and capacity of other entities to implement business cases and undertake existing functions, governance arrangements and management expertise

- e) Potential fiscal implications for the Crown
- f) Consultation with DHBs, including financial implications including operational costs, funding requirements of business case implementation, B-class shareholdings in HBL and asset valuation
- g) Appropriate decision-making frameworks for progressing implementation of business cases
- h) Mechanisms for transferring responsibilities between agencies for implementing business cases; and

c) **Agree** that the Minister of Health and the Minister of Finance report back to SEC in February 2015 with the results of the due diligence process, a preferred way forward and transition plans for implementing the preferred way forward.

Happy to discuss. We'll keep you informed as the work progresses and put together and AM before SEC on Wednesday.

Regards,  
Davin

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

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**From:** Davin Hall [TSY]  
**Sent:** Tuesday, 4 November 2014 2:20 p.m.  
**To:** 'Simon Carey'; ^AssocMOF: Kathleen Lambert; ^Parliament: Bridie Wilkinson  
**Cc:** @Aide Memoires [TSY]; Fiona Ross [TSY]; Ben McBride [TSY]; Fiona Chan [TSY]; Aaron Gill [TSY]; Adam Wood [TSY]; Julian Sakarai [TSY]  
**Subject:** Aide Memoire regarding late Health SEC Paper - Future Implementation of Health Shared Services Business Cases  
**Attachments:** Final AM - late SEC paper on health shared services

Good afternoon,

Attached is an aide memoire regarding the late paper the Minister of Health will be presenting at SEC tomorrow that proposes the wind down of Health Benefits Limited (HBL) with a preferred option, subject to due diligence, of the implementation of HBL business cases and other functions being taken over by healthAlliance (FSPC) Ltd..

The Treasury does not support the preferred option presented in this paper. Our view, is that while a review of HBL is certainly justified, it is premature to adopt a preferred option for the future direction of shared services delivery. We recommend that Cabinet direct the Treasury, SSC and Ministry of Health, with support from the Government Chief Information Officer and technical advisors where necessary, to undertake a due diligence process, prepare a robust options analysis, and develop a preferred way forward.

As well as ensuring the preferred way forward for the future of shared services in the health sector is supported by robust analysis, the proposed review would also ensure that lessons are learned from the HBL experience so that they can inform future shared services initiatives in the public sector.

Alternative recommendations are included as an appendix.

Happy to discuss.

Regards,  
Davin

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Reference: T2014/1843

CM-1-3-108

Date: 4 November 2014

To: Minister of Finance (Hon Bill English)

Associate Minister of Finance (Hon Steven Joyce)

Associate Minister of Finance (Hon Paula Bennett)

Deadline: 8:30 a.m. on 5 November 2014

**Aide Memoire: Late SEC paper – Future Implementation of Health Shared Services Business Cases**

The Minister of Health has submitted a late paper for consideration at SEC on 5 November 2014 that proposes the wind down of Health Benefits Limited (HBL) with a preferred option, subject to due diligence, of the implementation of HBL business cases and other functions being taken over by healthAlliance (FPSC) Ltd. healthAlliance (FPSC) Ltd. is a subsidiary company of a Crown entity subsidiary (healthAlliance (NZ) Ltd.) that is owned by the northern region district health boards (DHBs) and HBL.

[Withheld under s9(2)(f)(ii)]

Treasury's recommendations are found in appendix A for you to consider tabling at the meeting as joint owner of HBL.

The Treasury does not support the preferred option presented in this paper. We think it is too soon to make a decision on a preferred option for the transfer of HBL's functions to healthAlliance (FPSC) Ltd., particularly given the significant capacity and capability risks at the healthAlliance Group that the OAG identified earlier in 2014. We are concerned that the interests of the Crown may not be best served under the preferred option. Ministers can set a clear direction for the changes they want to make to shared services in the health sector now, but they do not need to be rushed into making a decision on the preferred entity to be responsible for carrying them out.

The Treasury's view, is that while a review of HBL is certainly justified, it is premature to adopt a preferred option for the future direction of shared services delivery. While healthAlliance (FPSC) Ltd. may be part of the eventual solution, the analysis to date has been superficial at best and does not provide a sufficient basis for decision-making. In addition, Ministers would have less direct influence over healthAlliance (FPSC) Ltd. than they currently have over HBL (for example, the DHBs appoint directors to the healthAlliance Board rather than Ministers) which needs to be considered from a governance and accountability perspective.

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The proposed approach risks repeating the mistakes made when HBL was originally established, namely deciding on a corporate form before giving due consideration to the best way of delivering the functions to be undertaken.<sup>1</sup>

We agree with the need for extensive due diligence to provide assurance to the Government that all issues are fully understood and that the best option is selected based on this analysis. We recommend that Cabinet direct the Treasury, SSC and Ministry of Health, with support from the Government Chief Information Officer and technical advisors where necessary, to undertake a due diligence process, prepare a robust options analysis, and develop a preferred way forward. The SSC supports this approach, noting that the SSC has statutory responsibilities in relation to machinery of government changes and that the Cabinet Manual (5.14) requires Ministers to consult the Minister of State Services on such changes.

As well as ensuring the preferred way forward for the future of shared services in the health sector is supported by robust analysis, the proposed review would also ensure that lessons are learned from the HBL experience so that they can inform future shared services initiatives in the public sector.

In addition to the due diligence activities outlined in the paper's recommendations, we recommend that:

- the validation of the Finance Procurement and Supply Chain (FPSC) programme should include a review of progress and expenditures to date;
- options analysis should include an assessment of alternative entities' management expertise, capability and capacity to implement business cases and undertake HBL's existing functions, and governance and accountability arrangements (including analysis on the option of establishing a new entity to carry out these functions); and
- appropriate consultation with DHBs should be required to ensure broad sector buy-in is achieved for the preferred way forward and that DHBs' significant B-class shareholdings in HBL are recognized.

With regard to FPSC expenditure to date, we note that the paper states \$72 million has been spent so far, while as of the end of June 2014, the Ministry reported expenditure of \$56 million. Given that the project was in a re-planning phase, this volume of expenditure over such a short time frame needs to be explained.

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<sup>1</sup> The Treasury comment on the original establishment paper ("Improving the Health System: Further Elements Paper Four: Establishment of a Shared Services Organisation for District Health Boards" SOC (10) 47) noted:

"...international experience tells us that the risk of failure is high. These concerns have also been highlighted by an independent Quality Assurance report. Our concern centres on the priority given to establishing an entity before determining how shared service arrangements would work in practice. In Treasury's view, we do not think the case for a company over other organisational choices has been made given the large number of unanswered questions and outstanding issues around the business model (with the right incentives) that might operate."

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Given the importance of ensuring this assurance process is appropriately carried out before final decisions are taken, we recommend that the Minister of Health and the Minister of Finance report back to Cabinet in March 2015 on the findings of the review, options considered, the preferred way forward, and a transition plan for implementing the preferred way forward.

**Davin Hall**, Senior Analyst, Health, 04 917 6195  
**Ben McBride**, Manager, Health, Health, 04 917 6184

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**Appendix A: Treasury Recommendations**

**Recommendation 7**

Replace:

**Agree** that, of the options available, and subject to a due diligence process, a refreshed and strengthened healthAlliance (FPSC) Ltd. is best placed to implement the business cases;

with Treasury recommendation:

**Agree** that, the Treasury, the State Services Commission and the Ministry of Health, with support from the Government Chief Information Officer and technical advisors where necessary, undertake a due diligence process, prepare a robust options analysis, and develop a preferred way forward.

**Recommendation 8**

Delete recommendation

**Recommendation 9**

Replace:

**Note** that I intend to report back to Cabinet by 31 March 2015 on a due diligence process and transition planning, and progress on the four business cases;

With Treasury recommendation

**Agree** that the the Minister of Health and the Minister of Finance report back to Cabinet by 31 March 2015 on the findings of the review, options considered, the preferred way forward, and a transition plan for implementing the preferred way forward.

**Recommendation 10**

Replace:

**Agree** that the due diligence and transition planning process will involve officials and the organisations involved, in the following key activities:

- 10.1 Understanding HBL's current financial position including usual financial statements (balance sheet, profit and loss, cashflow); current contracts and any other financial commitments including Crown loans or permissions; and key personnel; clarity on all HBL undertakings, programmes and ongoing business, valuation of assets including intellectual property;
- 10.2 Further validation of FPSC costs, including independent assessment of 'go-no go' decision analysis. This assessment would involve appropriate experts such as the Government Chief Information Officer and international advisors;

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- 10.3 Validation of the Food Services, Linen and laundry, and National Infrastructure Platform business cases, including implementation issues for each programme;
- 10.4 Strengthening healthAlliance (FPSC Ltd's) ability to implement business cases including: ensuring plans to address OAG's concerns around capacity and capability are being progressed; ensuring right governance and management expertise to guide business case development;
- 10.5 Likely funding arrangements (capital and operating) required during transition and for implementation of business cases, which includes potential fiscal implications for the Crown;
- 10.6 Appropriate decision-making frameworks for progressing implementation of business cases;
- 10.7 Advice on any required transfers between agencies, for example assets, liabilities or personnel, and the best mechanisms to achieve these transfers e.g. Health Sector (Transfers) Act 1993; and
- 10.8 Any legal or commercial barriers to using healthAlliance (FPSC Ltd) as the agency responsible for implementing or overseeing implementation of business cases. This could include: commercial terms required by the agencies involved; directors company duties; review of HBL and healthAlliance constitutional arrangements.

With Treasury recommendation:

**Agree** that the due diligence and options analysis undertaken by Treasury, State Services Commission and Ministry of Health officials, with support from the Government Chief Information Officer and external experts as necessary, will include:

- 10.1 Understanding Health Benefits Limited's current financial position including financial statements (balance sheet, profit and loss, cashflow); current contracts and any other financial commitments including Crown loans or permissions; key personnel; clarity on all Health Benefits Limited undertakings, programmes and ongoing business, valuation of assets including intellectual property;
- 10.2 Further validation of Finance Procurement and Supply Chain programme costs and benefits, progress and expenditures to date, and an independent assessment of 'go-no go' decision analysis.
- 10.3 Validation of the Food Services, Linen and laundry, and National Infrastructure Platform business cases, including implementation issues for each programme;
- 10.4 Analysis of options for progressing implementation of the Health Benefits Limited business cases and carrying out existing functions of the organization, including an assessment of the management expertise, capability and capacity of alternative entities to implement business cases and undertake existing functions, and governance and accountability arrangements.
- 10.5 Likely funding arrangements (capital and operating) required during transition and for implementation of business cases, including any potential fiscal implications for the Crown;

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- 10.6 Appropriate decision-making frameworks for progressing implementation of business cases;
- 10.7 Advice on any required transfers between entities, for example assets, liabilities or personnel, and the best mechanisms to achieve these transfers;
- 10.8 Legal and commercial analysis of any issues related to transferring responsibility for progressing implementation of the Health Benefits Limited business cases and carrying out existing functions of the organization; and
- 10.9 Consultation with District Health Boards on the preferred way forward recognizing their significant B-class shareholdings in Health Benefits Limited.

**Recommendation 12**

Replace:

**Note** that it is expected that Health Benefits Limited will be wound down once appropriate transitional plans have been decided.

With Treasury recommendation:

**Note** that a letter of expectations will be sent to Health Benefits Limited to reflect the decisions taken by Cabinet.

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**From:** Davin Hall [TSY]  
**Sent:** Wednesday, 12 November 2014 2:43 p.m.  
**To:** ^MOF: Simon Carey  
**Cc:** Ben McBride [TSY]; Fiona Ross [TSY]; Aaron Gill [TSY]  
**Subject:** Questions for DHB representatives re: HBL

[IN-CONFIDENCE]

Hi Simon,

For the meeting with Minister Coleman and the DHB representatives this afternoon regarding HBL, we thought some questions for MOF to ask the DHB representatives might be useful.

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

Proposed questions for DHB representatives:

- What confidence do you have that all 20 DHBs can arrive at a consensus on a new approach for the implementation of the HBL business cases?
- Is there a clear view amongst DHBs about the nature and cause of the problems to date? What are they?
- Can you see any role in the implementation for HBL as an entity? What changes to HBL would you recommend?
- Are you confident that DHBs can commit the necessary resources to making shared services in the sector successful?
- Given the concerns expressed recently by the Auditor General, do you think healthAlliance has the capability and capacity to take on HBL's functions? Would the sector get behind healthAlliance as a shared services agency?

Regards,  
Davin

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**From:** Davin Hall [TSY]  
**Sent:** Friday, 14 November 2014 4:03 p.m.  
**To:** 'Simon Carey'; ^Parliament: Natalie Maher; ^Parliament: Bridie Wilkinson  
**Cc:** Ben McBride [TSY]; Fiona Ross [TSY]; Gabriel Makhoulf [TSY]; Aaron Gill [TSY]; Fiona Chan [TSY]; @Aide Memoires [TSY]; [Withheld under s9(2)(g)(i)] Adam Wood [TSY]; Julian Sakarai [TSY]  
**Subject:** FW: Aide Memoire: Future Implementation of Health Shared Services Business Cases T2014/1936 [COMMERCIAL-IN-CONFIDENCE]  
**Attachments:** Aide Memoire Future Implementation of Health Shared Services Business Cases.doc

[IN-CONFIDENCE]

Good afternoon,

Attached is an aide memoire regarding the paper the Minister of Health will be taking to Cabinet on Monday regarding the Future Implementation of Health Shared Services Business Cases.

We have significant concerns about the Addendum paper, which recommends the transfer of HBL functions to healthAlliance (FPSC) Ltd. While all DHBs have committed to taking ownership of the programme, we do not agree with the assertion that all DHBs also support the move to healthAlliance. Our soundings with senior officials in the sector suggest that DHBs are divided and several do not agree with the healthAlliance option.

We're available for pre-Cab briefings should this be required.

Regards,  
Davin

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Reference: T2014/1936

CM-1-3-108

Date: 14 November 2014

To: Minister of Finance (Hon Bill English)

Associate Minister of Finance (Hon Steven Joyce)

Associate Minister of Finance (Hon Paula Bennett)

Deadline: 10:00AM on 17 November 2014  
(if any)

### **Aide Memoire: Future Implementation of Health Shared Services Business Cases**

The Minister of Health will be presenting an Addendum paper to Cabinet on 17 November regarding the Future Implementation of Health Shared Services Business Cases. The paper follows discussions at SEC on 5 November and a meeting between the Ministers of Finance and Health and senior district health board (DHB) officials on 12 November.

At SEC and the subsequent meeting with DHB officials, a clear direction was provided by Ministers that DHBs need to put forward a proposition about how to best implement the Health Benefits Limited (HBL) business cases and that all DHBs need to sign up to the proposal.

DHB Chairs and CEs met via teleconference on 13 November to discuss a draft proposal that commits DHBs to take ownership of the implementation of the HBL business cases and designates healthAlliance (FPSC) Ltd as the entity of choice for progressing implementation.

We are concerned that the approach to DHBs was made on the basis of the healthAlliance (FPSC) Ltd proposal, rather than a genuine request for their proposed solution as agreed in SEC Min (14) 15/1. On the basis of soundings with senior officials representing several DHBs, we understand that while DHBs are “unanimously and strongly committed to taking ownership of the programme and taking responsibility for advancing shared programmes and achieving material sector savings”, DHBs are divided on whether healthAlliance (FPSC) Ltd should take over from HBL.

The Treasury has significant concerns that the Addendum paper does not accurately portray the position of all DHBs with regard to healthAlliance (FPSC) Ltd and that without full support from the sector an imposed solution has a high risk of failure. There remain a large number of unanswered questions that should be resolved through

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a due diligence process, in consultation with HBL and healthAlliance, before a decision is made on the form of the entity or entities implementing shared services.

We lack confidence that a Ministry of Health-led process will result in an outcome that reflects the best interests of the Crown. The Ministry does not appear to be accepting any divergence from a healthAlliance-focussed outcome.

The Treasury recommends that the Government does not agree to the recommendation in the Addendum paper to transfer the functions of HBL to healthAlliance (FPSC) Ltd at this time, and that the SEC minute be confirmed with the following amendments:

**Agree** that a joint working group of Treasury, State Services Commission, Department of the Prime Minister and Cabinet, Ministry of Health, and District Health Board officials be established to develop options for the implementation of the Health Benefits Limited business cases and oversee the due diligence and transition planning process outlined in recommendation 10 of SEC Min (14) 15/1.

**Agree** that the joint working group report back to the Minister of Finance, the Minister of State Services and the Minister of Health by 28 February 2015.

**Davin Hall**, Senior Analyst, Health, 04 917 6195

**Ben McBride**, Manager, Health, Health, 04 917 6184

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**From:** Davin Hall [TSY]  
**Sent:** Monday, 15 December 2014 4:45 p.m.  
**To:** ^MOF: Simon Carey  
**Cc:** Ben McBride [TSY]; Aaron Gill [TSY]  
**Subject:** Health Papers expected by tomorrow's deadline

[IN-CONFIDENCE]

Hi Simon,

I just wanted to give you a heads up on the papers we expect to come through by mid-day tomorrow from the Ministry on HBL (2) [REDACTED] and share our preliminary views.

[Information not relevant to Request]

All of the papers are still in draft but we're comfortable with the broad direction agreed to date and there is significant urgency to process the HBL papers this week.

#### HBL Loan Facility and Governance Group Terms of Reference

This paper will seek:

- Joint Ministers' endorsement of the TOR for the HBL transition governance group (incorporating MOF's feedback from last week), and
- Joint Ministers' approval for the increasing the loan facility currently provided to HBL by \$4.5M so that the company will have sufficient resources to keep project teams in place until decisions are made on the business cases.

We are comfortable with the revised TOR and have worked with the Ministry to reflect MOF's feedback.

We also support the extension of the loan facility, as it is a necessary contingency to ensure that sufficient project team resources will remain in place at HBL while the due diligence processes are undertaken by the governance group. As business cases achieve necessary approvals, vendor financing arrangements are expected to take the place of Crown loans. However, because of the due diligence process, these approvals will not coincide with HBL's original timetable (with the potential exception of the Auckland region food business cases – see below) creating a funding gap.

Failure to keep the project teams intact could undermine the ability of HBL and its successors to deliver on the benefits identified in the business cases by adding additional delays and realizing key person risk. The loans would be released by the CFO of the Ministry of Health to HBL in-line with expenditure. The \$4.5M loan facility would be appropriated from the existing health capital envelope.

#### Approval for Auckland Metro DHBs to enter into vendor financing arrangements

The Auckland Metro DHBs are seeking the Minister of Health's approval to enter into food services agreements with Compass as part of the HBL Food programme, with a target signing date of **18 December**. (I see Jayne has just sent through the request from the DHBs)

While the approval rights for the contract signing are with the Minister of Health under the NZ Health and Disability Act, the vendor financing arrangements in the contract will also require the approval of the Minister of Finance under the Crown Entities Act. The vendor financing is akin to a loan between Compass and the DHBs to cover the cost of HBL's business case development and project implementation. The quantum of the vendor finance arrangement is approximately \$1.8M across the 3 DHBs.

The Ministry is still reviewing the overall food contract arrangements and preparing advice for the MOH, but should the MOH approve the Auckland food services proposal, we would support MOF approving the vendor finance arrangement within the agreement.

Approving this arrangement would reduce the call on the \$4.5M Crown loan facility mentioned above.

[Information not relevant to Request]

Happy to discuss any of the above. If anything comes up as the papers are finalized that affects our advice, I'll let you know ASAP.

Regards,  
Davin

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