

Reference: 20150514

24 February 2016



Thank you for your Official Information Act request, received on 8 December 2015.  
You requested the following:

- “- Copies of all reports that the Treasury produced on the Ministry of Health’s departmental capital spending issues and capital management process during the 2015 Budget process and since then.*
- Who is undertaking the independent review of the Ministry of Health’s financial management control environment? If it is the Treasury, please provide any reports produced as a result of the review.*
- Copies of any reports or briefings to Ministers offices (Finance and/or Health) regarding the Ministry of Health’s financial management control environment during the Budget 2015 process and since then.*

*For clarification please see page 11 of T2015/327: Ministry of Finance Function: Sustainability of Operating Expenses for what I am referring to.”*

On 22 December 2015 we transferred part of your request to the Ministry of Health. The parts of the request that remain with the Treasury are the first part of the request and any reports or briefings to the Minister of Finance regarding the Ministry of Health’s financial management control environment during the Budget 2015 process (as requested in the third part of your request).

On 27 January 2016 we extended the time limit for deciding on your request by an additional 20 working days.

### **Information Being Released**

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	6 March 2015	Email: FW: Aide Memoire: Ministry of Health Wellington Property Consolidation Project Capital Bid	Release in full

2.	6 March 2015	Aide Memoire: Ministry of Health Wellington Property Consolidation Project Capital Bid	Release in full
3.	9 March 2015	Letter from Gabriel Maklouf to Chai Chuah	Release in full
4.	9 March 2015	Capital Investment Panel Report February 2015	Release relevant information
5.	11 March 2015	Email chain: RE: Aide Memoire: Ministry of Health Wellington Property Consolidation Project Capital Bid	Withhold personal contact details under s9(2)(a)
6.	11 March 2015	Budget 15 capital package tables for Investment Ministers	Release relevant information
7.	26 May 2015	Treasury Report: Ministry of Health Financial Control Environment	Release in full
8.	22 June 2015	Briefing for the Secretary of the Treasury	Release relevant information

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.

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

## 20150514 Binder

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**From:** Davin Hall [TSY]  
**Sent:** Friday, 6 March 2015 11:59 a.m.  
**To:** 'Simon Carey'; ^Parliament: Natalie Maher; 'james.smart@parliament.govt.nz'  
**Cc:** @Aide Memoires [TSY]; Gabriel Makhoul [TSY]; Ben McBride [TSY]; Fiona Ross [TSY]; Paul Helm [TSY]; Julian Sakarai [TSY]; Mary Slater [SSC]; Margaret Mabbett [SSC]; Ricky Utting [TSY]  
**Subject:** FW: Aide Memoire: Ministry of Health Wellington Property Consolidation Project Capital Bid T2015/416 [BUDGET-SENSITIVE]  
**Attachments:** Aide Memoire Ministry of Health Wellington Property Consolidation Project Capital Bid.doc

[SEEMAIL][SENSITIVE]

Good morning,

The attached aide memoire outlines some serious financial management issues that have been uncovered through review of a Ministry of Health capital budget bid for fit out of the Ministry's Wellington headquarters. This bid is included in the package that is coming from the Capital Investment Panel for consideration by Investment Ministers on 12 March. Treasury (and the Panel) do not support the bid.

In short, the Ministry sent up a joint paper (with PMCoE) in March 2014 to the Ministers of Health and Finance seeking approval for the consolidation of their offices in Wellington, which was approved. The paper stated that the capital required (\$24M) would be funded from cash reserves without a requirement for additional Crown funding. It has subsequently come to light (due to an \$18M budget bid from the Ministry) that the Ministry does not have sufficient cash reserves to complete the project, *nor did the Ministry have sufficient forecast cash reserves when the property consolidation was approved by Ministers in 2014.*

Gabs has contacted the Acting Director General he has agreed to an external investigation into the process by which the 2014 advice to Ministers was prepared, the state of the Ministry's financial control environment and processes, and the Ministry's proposals for improving financial controls so that these events do not recur. The Ministry is also developing options related to the financing of the project (which is underway) for consideration by Ministers.

Happy to discuss.

Regards,  
Davin

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

Tel: +64 4 917 6195 | [Davin.Hall@treasury.govt.nz](mailto:Davin.Hall@treasury.govt.nz)

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**BUDGET-SENSITIVE**

Reference: T2015/416

BM-2-4-2015-3



Date: 6 March 2015

To: Minister of Finance (Hon Bill English)  
Associate Minister of Finance (Hon Steven Joyce)  
Associate Minister of Finance (Hon Paula Bennett)

Deadline: 12 March 2015

**Aide Memoire: Ministry of Health Wellington Property Consolidation Project Capital Bid**

The package of budget bids reported on by the Capital Investment Panel for consideration by Investment Ministers on 12 March includes an \$18 million bid from the Ministry of Health ("the Ministry") for a capital injection to fund the fit out of its new headquarters in Wellington. This bid, which is not supported by the Treasury, has exposed a serious failure of financial management within the Ministry that is being investigated and needs to be addressed.

**Approval of Property Consolidation Project**

The Ministry's Wellington Property Consolidation Project is part of the Property Management Centre of Expertise (PMCoE) led Wellington Office Accommodation Strategy business case that was approved by Cabinet in November 2012. The business case offered accommodation solutions for several agencies including the Ministry of Health. In approving the business case Cabinet delegated responsibility to the Minister of Finance and the responsible agency Minister to approve final investment decisions. At the time Cabinet noted that the preferred solution does not require additional Crown funding (SEC Min (12) 21/2).

In April 2014, the Ministers of Health and Finance approved the terms of the Ministry's property consolidation on the basis of a joint report from the Ministry and PMCoE. It was clearly noted in the report that no additional Crown funding was required and that the \$24 million capital investment would be funded from cash reserves. The Treasury was not consulted on the report when it was sent to Ministers. Following approval, the Ministry has proceeded with contract signings and the decanting of staff. To date expenditure has been funded from cash reserves.

**Budget 15**

It has come to light through the budget process that the Ministry does not have sufficient cash reserves to complete the project, *nor did the Ministry have sufficient forecast cash reserves when the property consolidation was approved by Ministers in 2014*. An \$18 million capital injection in Budget 15 has been sought for the Wellington

## BUDGET-SENSITIVE

Property Consolidation Project. This bid represents the equivalent of 90 percent of the department's projected depreciation funding over the next two years, which has been prioritized for expenditure on IT systems.

The Treasury does not support this bid. The advice provided when approval was sought in 2014 did not accurately reflect the Ministry's ability to finance the initiative. It is highly unlikely that this project would have been prioritized at the time if new capital was required. This is a serious failure of financial management by the Ministry.

The bid has also been reviewed by the Capital Investment Panel, which agrees with Treasury's position not to fund the bid and our concerns about the Ministry's financial management practices.

### Treasury response

Treasury officials have met with Ministry of Health officials to signal our concerns with the Ministry's financial management and seek an explanation of what occurred. The State Services Commission has also been informed.

In discussion with the Secretary of the Treasury, the Acting Director-General has agreed to an external investigation into the process by which the 2014 advice to Ministers was prepared, the state of the Ministry's financial control environment and processes, and the Ministry's proposals for improving financial controls so that these events do not recur. We will report to you on the outcome of this review.

Ministry officials agree that a governance failure has occurred and are preparing a report to the Acting Director-General on the situation. They have assured us that an appropriate project governance structure for the property consolidation has now been put in place. Ministry officials also indicated that when the 2014 approval paper was sent to Ministers, the Ministry apparently failed to verify the assumption in the 2012 business case that the Ministry would have sufficient cash reserves to fund the initiative.

The Ministry is currently investigating alternative financing options for the funding of the fit out for Ministers to consider. The Treasury has indicated to the Ministry that we would not support recourse to the non-departmental capital "envelope" that has been set aside to finance DHB health facilities. The current capital envelope, with approximately \$200 million available, is not sufficient to meet the projected capital demands of the sector, particularly in light of the upcoming business case process for a redevelopment of Dunedin Hospital.

You may wish to discuss this matter with the Minister of Health.

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

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

**Paul Helm**, Head of Government Finance Profession and Chief Government Accountant, 04 917 6090

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Gabriel Makhoulf  
Secretary to the Treasury

9 March 2015

Chai Chuah  
Acting Director General  
Ministry of Health  
No 1-3 The Terrace  
Wellington

*Dear Chai,*

#### WELLINGTON PROPERTY PROJECT

I am following up our conversation last week when we discussed the Ministry's bid for \$18m of capital funds for the 'Wellington Property Project'. As you know, approval for the project was given by Ministers last year on the basis that it would be funded from cash reserves. The new bid for funding brings into question the governance and financial management practices of the Ministry.

I was pleased to hear that you share my concerns and that you agree that the circumstances relating to what has now emerged as inaccurate advice to Ministers require external investigation by a suitably qualified independent professional. The review should provide appropriate assurance that whatever has caused this situation is fully understood and that procedures are in place to ensure it will not occur again.

We agreed that both our agencies would work on the terms of reference for the review and ensure it also covers the Ministry's financial management control environment. The latter will help to give you the assurance that you are meeting your responsibilities under section 34 of the Public Finance Act. I suggest the work proceeds as soon as possible.

*Yours sincerely,*  
*Gabriel*

Gabriel Makhoulf

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New Zealand  
tel. 64-4-917-6250  
fax. 64-4-473-0982  
www.treasury.govt.nz



## BUDGET-SENSITIVE

### 22) Wellington Property Project

#### Comments:

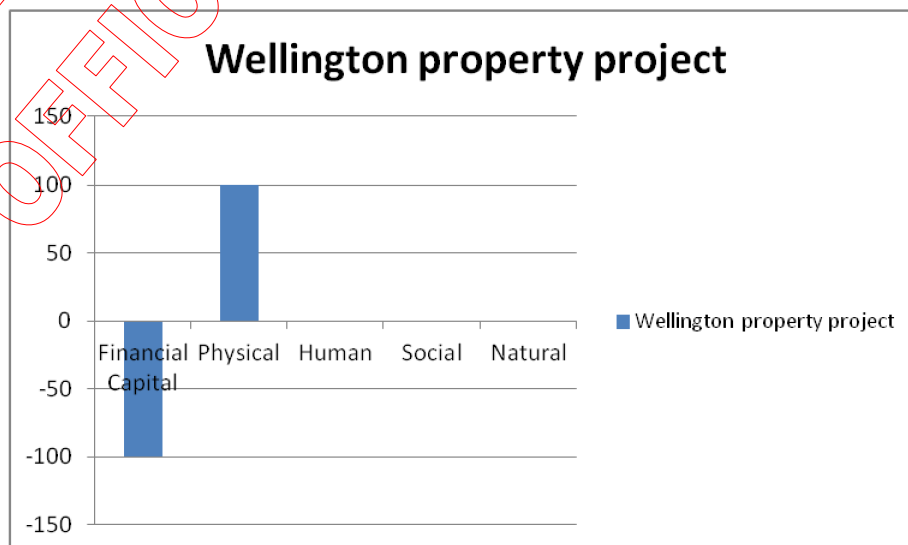
- **Financial Management oversight**-the Panel noted that this initiative was approved by Cabinet in 2012 on the basis that it would be funded from baseline; however due to what are described by the Ministry as miscalculations of cash flow, the Ministry now requires capital to continue the work. Additionally, the Ministry is pre-committed contractually to fund this project;
- **Examination of Ministry of Health financial function**-the Panel recommended that for such an oversight to be approved by ELT at the Ministry highlights there are fundamental weaknesses in the Ministry's financial management capability that should be investigated further by the Treasury;
- **Examination of the whole PMCoE project**-Additionally, since PMCoE led the initial procurement and business case processes for this initiative (as part of the larger Wellington Office Accommodation Strategy), the financial terms outlined in that business case should be investigated as well by Treasury to ensure other discrepancies have not been made.

#### Recommendation:

**Fund from baselines;** Ministry of Health should fund this from baselines or from non-departmental (DHB) funding. It's important that the Ministry of Health is not provided additional funding to cover their own financial mismanagement.

Agency	Name	Alignment*	National Welfare**	Risk of Service Failure***	Implementation Risk	Confidence in Information	Distribution
MoH	Wellington Property Project	0	0	yes	low	medium	0

#### Effect of this initiative on Higher Living Standards Capital Stocks and Flows



Remainder of document not relevant to request



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**From:** Davin Hall [TSY]  
**Sent:** Wednesday, 11 March 2015 9:24 a.m.  
**To:** ^MOF: Simon Carey  
**Cc:** Ben McBride [TSY]  
**Subject:** RE: Aide Memoire: Ministry of Health Wellington Property Consolidation Project Capital Bid T2015/416 [BUDGET-SENSITIVE]

Hi Simon, in response to both of your questions (in reverse order)

1. We only found out about the issue when the budget bid came in early in the new year and I obtained a copy of the signed paper from the office (via Simon D.) as part of normal due diligence. With a little investigating the financial management issue came to light and we engaged with the Ministry to try to find out what happened. In my view, the Ministry should have proactively come forward with the issue when the shortfall was uncovered.
2. We technically had sufficient information available when the paper was put up last March (via MBU forecasts) to uncover that the Ministry's cash reserves were insufficient for this investment, had we seen the paper. In practice, if the paper came to us through the Vote Health Finance team in all likelihood we would have relied on their advice regarding their cash position. However, if the paper came to us from a different part of the Ministry, the normal practice is to confirm with/inform Vote Health Finance that they are on top of the issue and this may have flushed out the cash shortfall. It's not uncommon that papers with financial implications can get out of the Ministry without Vote Health Finance being informed

One of the big questions that the investigation needs to uncover is who put up the paper from the Ministry side and whether the Vote Health Finance Team was consulted at the time.

Happy to discuss.

Regards,  
Davin

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

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**From:** Simon Carey [<mailto:Simon.Carey@parliament.govt.nz>]  
**Sent:** Wednesday, 11 March 2015 9:06 a.m.  
**To:** Ben McBride [TSY]; Davin Hall [TSY]  
**Subject:** RE: Aide Memoire: Ministry of Health Wellington Property Consolidation Project Capital Bid T2015/416 [BUDGET-SENSITIVE]

Ok, so is it correct to say that we didn't know until now, and that we should have known earlier but MOH did not provide the full information to Treasury?

**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 [s9\(2\)\(a\)](mailto:s9(2)(a)@parliament.govt.nz) | F: 04 817 6501 | E: [simon.carey@parliament.govt.nz](mailto:simon.carey@parliament.govt.nz)

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**From:** Ben McBride [TSY] [<mailto:ben.mcbride@treasury.govt.nz>]  
**Sent:** Wednesday, 11 March 2015 8:52 a.m.  
**To:** Simon Carey; Davin Hall [TSY]

**Subject:** Re: Aide Memoire: Ministry of Health Wellington Property Consolidation Project Capital Bid T2015/416  
[BUDGET-SENSITIVE]

Hi Simon

We would have known had we been consulted last year when joint mins signed the report. We know they didn't have the reserves then, they did when cab approved the property paper in Nov 2012 and when the previous CFO left in May 2013.

Ben

Sent from my BlackBerry 10 smartphone.

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**From:** Simon Carey  
**Sent:** Wednesday, 11 March 2015 8:37 AM  
**To:** Davin Hall [TSY]  
**Cc:** Ben McBride [TSY]  
**Subject:** RE: Aide Memoire: Ministry of Health Wellington Property Consolidation Project Capital Bid T2015/416  
[BUDGET-SENSITIVE]

Hi Davin,

MOF has asked whether Treasury would have known about the reserves issue. Is this the kind of thing Treasury should have been aware of and missed, or is it an area where we rely solely on the Ministry to inform us of any pressures? Appreciate this is primarily the responsibility of MOH, but just trying to work out how this came about.

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 s9(2)(a) F: 04 817 6501 | E: [simon.carey@parliament.govt.nz](mailto:simon.carey@parliament.govt.nz)

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**From:** Davin Hall [TSY] [<mailto:Davin.Hall@treasury.govt.nz>]  
**Sent:** Friday, 6 March 2015 11:59 a.m.  
**To:** Simon Carey; Natalie Maher; James Smart  
**Cc:** @Aide Memoires [TSY]; Gabriel Makhoul [TSY]; Ben McBride [TSY]; Fiona Ross [TSY]; Paul Helm [TSY]; Julian Sakarai [TSY]; Mary Slater [SSC]; Margaret Mabbett [SSC]; Ricky Utting [TSY]  
**Subject:** FW: Aide Memoire: Ministry of Health Wellington Property Consolidation Project Capital Bid T2015/416  
[BUDGET-SENSITIVE]

[SEEMAIL][SENSITIVE]

Good morning,

The attached aide memoire outlines some serious financial management issues that have been uncovered through review of a Ministry of Health capital budget bid for fit out of the Ministry's Wellington headquarters. This bid is included in the package that is coming from the Capital Investment Panel for consideration by Investment Ministers on 12 March. Treasury (and the Panel) do not support the bid.

In short, the Ministry sent up a joint paper (with PMCoE) in March 2014 to the Ministers of Health and Finance seeking approval for the consolidation of their offices in Wellington, which was approved. The paper stated that the capital required (\$24M) would be funded from cash reserves without a requirement for additional Crown funding. It has subsequently come to light (due to an \$18M budget bid from the Ministry) that the Ministry does not have sufficient cash reserves to complete the project, *nor did the Ministry have sufficient forecast cash reserves when the property consolidation was approved by Ministers in 2014.*

Gabs has contacted the Acting Director General he has agreed to an external investigation into the process by which the 2014 advice to Ministers was prepared, the state of the Ministry's financial control environment and processes, and the Ministry's proposals for improving financial controls so that these events do not recur. The Ministry is also developing options related to the financing of the project (which is underway) for consideration by Ministers.

Happy to discuss.

Regards,  
Davin

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

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<div>Not relevant to request</div>						
Health	Capital Injection for the Wellington Property Project	Capital Injection for the Wellington Property Project.	18.0	0.0	0.0	The Ministry claims that due to miscalculations of cash flow, the Ministry now requires capital to continue the work. We consider that this should be funded from within baselines without recourse to non-departmental capital.
<div>Not relevant to request</div>						

Remainder of document not relevant to request

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**Treasury Report:** Ministry of Health Financial Control Environment

<b>Date:</b>	26 May 2015	<b>Report No:</b>	T2015/1043
		<b>File Number:</b>	DH-1

**Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Health (Hon Dr Jonathan Coleman)	<b>Note</b> the contents of this report <b>Indicate</b> if you would like to discuss the contents of this report	None

**Contact for Telephone Discussion** (if required)

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Davin Hall	Senior Analyst	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.

**Enclosure:** Yes (attached)

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## **Treasury Report: Ministry of Health Financial Control Environment**

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### **Purpose of Report**

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1. This report responds to the request from your office for additional detail of Treasury views regarding the Ministry of Health's financial control environment noted in the Social Policy Committee (SOC) paper entitled "Recent Trends in Expenses and Risks to Future Sustainability" (SOC 15 (32)). A draft of this paper has been shared with the Ministry of Health.

### **Analysis**

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2. The 23 April 2015 SOC paper entitled "Recent Trends in Expenses and Risks to Future Sustainability" (SOC 15 (32)) included the comment that:

The Treasury has limited visibility of the risks in the Ministry of Health's departmental expenditure. However, as a result of a financial management failure, which was identified during the Budget process, an independent review of the Ministry's financial management control environment is about to be undertaken.

3. The comment in relation to limited visibility of risks in the Ministry's departmental expenditure is largely a reflection the small proportion of operating expenditure (1.3% in 2015/16) in Vote Health that is departmental. The Treasury has made a conscious choice to through our Ministry of Finance programme to focus on non-departmental operating expenditure where the vast majority of spending occurs.

4. The financial management failure referenced was identified as a result of a 2015 Budget bid for an \$18 million departmental capital injection for the Wellington Property Project (the consolidation of the Ministry's office accommodation in Wellington to a single site). The attached aide memoire, which was sent to Finance Ministers on 6 March 2015 to inform the recommendations of the Budget 15 Capital Panel, outlines the nature of the financial management failure. To summarize:

- The Minister of Finance and the Minister of Health approved the terms of the Ministry's property consolidation in April 2014 based on advice that the \$24 million capital cost would be funded from cash reserves.
- While the project has been initiated and funded from cash reserves to date, the Ministry does not have sufficient reserves to finance the remaining \$18 million capital cost over the next two years to complete the project.
- Most critically, the Ministry did not have sufficient forecast cash reserves when the property consolidation was approved by Joint Ministers in 2014 and the paper did not accurately reflect the Ministry's capacity to fund the project.

We consider this to be a serious failure of financial management which brings into question the suitability of the Ministry's financial control environment.

5. Following a discussion with the Secretary of the Treasury in March 2015, the Director-General of Health agreed to an external investigation into the process by which the 2014 advice to Ministers was prepared, the state of the Ministry's financial control environment and processes, and the Ministry's proposals for improving financial

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controls so that these events do not recur. This discussion was confirmed in the attached letter from the Secretary of the Treasury. The investigation, which is underway, is being undertaken by PriceWaterhouseCoopers LLC (PWC).

6. To date, the Treasury has had limited visibility over the investigation and is not privy to the final Terms of Reference although we understand a draft report will be provided to the Ministry in the week of 25 May. Treasury officials have been interviewed as part of the investigation into the 2014 advice and subsequent 2015 Budget bid, and have provided PWC with copies of the documentation to which we have access. We also understand that the Ministry is developing a proposal to outline options in relation to how the \$18 million shortfall will be addressed, once departmental cash reserves are exhausted.

**Next Steps**

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7. Ministry of Health officials have confirmed a joint meeting with Treasury officials will be scheduled once the draft PWC report is received.

**Recommended Action**

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We recommend that you:

- a) **note** the contents of this report
- b) **indicate** whether you would like to discuss the contents of this report with officials  
*agree / disagree*

Ben McBride  
**Manager, Health**

Hon Dr Jonathan Coleman  
**Minister of Health**



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**Briefing for the Secretary of the Treasury  
Meeting with Chai Chuah and Gabriel Makhoulf  
Monday 22 June 2015**

Key areas for discussion:

1. PWC Review of Financial Control Environment
2. *Not relevant to request*
3. [REDACTED]

**PWC Review of Financial Control Environment**

As a result of your letter to Chai on 9 March about the Wellington Property Project PWC has undertaken a review of capital bid governance and quality control processes.

A draft report was sent to Barbara Phillips, DDG Corporate Services on 9 June which we obtained from Mary Slater at the SSC on the understanding that this was the final report (copy attached).

There are no substantive changes to the report from the previous draft provided to the Treasury in May, despite feedback provided by the Chief Government Accountant and the Health Team at a meeting on 4 June. We have an expectation based on discussions with the Ministry and PWC that comments from the Treasury will be incorporated in the final version.

The report, as written, does not provide us with confidence that the failures that occurred around the Wellington Property Project will not reoccur. There is no clear prioritization for the recommendations in the report, nor an implementation plan with clearly defined roles and responsibilities. As the Ministry does not have a current system to capture forward commitments from projects across the department as a whole, they could have future issues if other projects that have been approved come to light where funds are effectively committed twice.

The report outlines failures of governance, capital planning, documentation, reporting and engagement with key stakeholders, including Treasury. Key points include:

- The current CFO was actively involved in the development of the March 2014 advice to Joint Ministers seeking approval for the project and the setting of the \$24 million capital budget for which agreement was sought.
- There is no evidence that the CFO verified the statement in the report to Joint Ministers that the Ministry had sufficient cash reserves to fund the investment.
- The Project board was not advised of the budget being "at risk" until 20 March 2015 (following the Treasury Capital Panel), despite a budget bid being submitted in late 2014.
- The minimum standard for documentation associated with a project of this scale (annual capital plan, business plan, project progress reports) was not provided to PWC, despite being requested (suggesting that they do not exist).

Finally, options for addressing the \$18 million shortfall in the property consolidation project have not yet been shared with Treasury. The budget 15 capital bid indicated that \$14 million would be required in 2015/16.

*Page 2 not relevant to request*