

Reference: 20160101

9 May 2016



Thank you for your Official Information Act request, received on 8 April 2016. You requested the following:

- *A copy of Vote Health: Financial Management and Budget 16 dated 25 February 2016*
- *Copies of all reports sent to the Minister of Finance and/or Minister of Health by Treasury or jointly with other officials with the words "Vote health" in the title of the report since January 2016"*

### Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	25 February 2016	Vote Health: Financial Management and Budget 16	Release in part
2.	8 March 2016	Aide Memoire: Budget Meeting with Hon Coleman on Vote Health	Release in part
3.	15 March 2016	Aide Memoire: Meeting with Hon Coleman on Vote Health Bids in Budget 16	Release in part

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

- 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,

- personal contact details of officials under section 9(2)(a) – to protect the privacy of natural persons, including deceased people,
- 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
- confidential information, under section 9(2)(j) – to enable the Crown to negotiate without disadvantage or prejudice.

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

# TOIA 20160101

## Information for Release

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**BUDGET-SENSITIVE****Treasury Report: Vote Health: Financial Management and Budget 16**

<b>Date:</b>	25 February 2016	<b>Report No:</b>	T2016/165
		<b>File Number:</b>	SH-1-6

**Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	<b>Note</b> recommendations. <b>Discuss</b> issues with Hon. Coleman	29 February 2016

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

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Bevan Searancke	Senior Analyst	04 890 7264 (wk)	✓
Ben McBride	Manager, Health	04 917 6184 (wk)	

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

**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

**BUDGET-SENSITIVE****Treasury Report: Vote Health: Financial Management and Budget 16****Executive Summary**

You have signalled your intention to have a bilateral with the Minister of Health to discuss the health portfolio in the context of determining priorities for the social sector funding package in Budget 16.

s9(2)(f)(iv)

In Budget 15, Treasury identified significant financial management issues at the Ministry. While the Ministry has been taking steps to address these issues, the Wellington Property Consolidation issue in particular has not been resolved.

We are actively working with the Ministry, and support its reorganisation, which includes a new CFO position at Tier 2 level, aimed at strengthening financial management across the health system. Treasury's CFO, Fergus Welsh, will be acting as the Ministry's CFO from 1 March.

**BUDGET-SENSITIVE**

**Recommended Action**

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We recommend that you:

a s9(2)(f)(iv) [Redacted]  
and

b **raise** the following points in your discussion with Minister Coleman:

- s9(2)(f)(iv) [Redacted] Does the Minister consider that sufficient progress is being made?
- There are growing pressures, noise in the media, and little by way of a clear strategy for managing the financial sustainability of the sector. What is the Minister’s strategy for managing these issues?
- During Budget 15 there were a number of financial management issues identified. While there may have been steps taken, a number of issues remain, including resolution of the Wellington Property Consolidation issue. How confident is the Minister about financial management?
- s9(2)(f)(iv) [Redacted]

Ben McBride  
**Manager, Health**

Hon Bill English  
**Minister of Finance**

**BUDGET-SENSITIVE**

**Treasury Report: Vote Health: Financial Management and Budget 16**

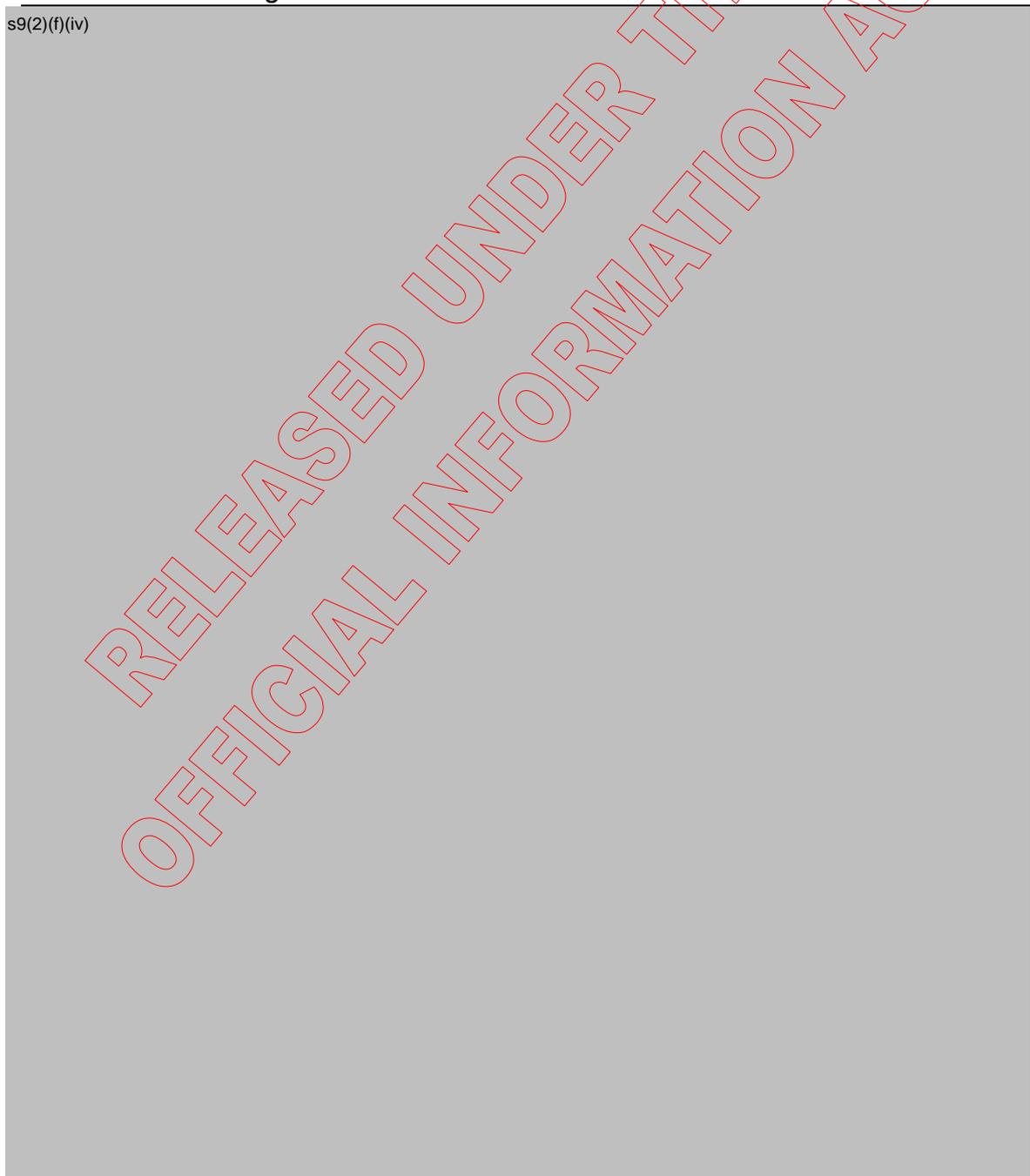
**Purpose of Report**

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1. The purpose of this report is twofold:
  - it provides contextual information, ahead of Budget decisions, and
  - highlights particular financial management issues and progress on these matters.

**Vote Health in Budget 16**

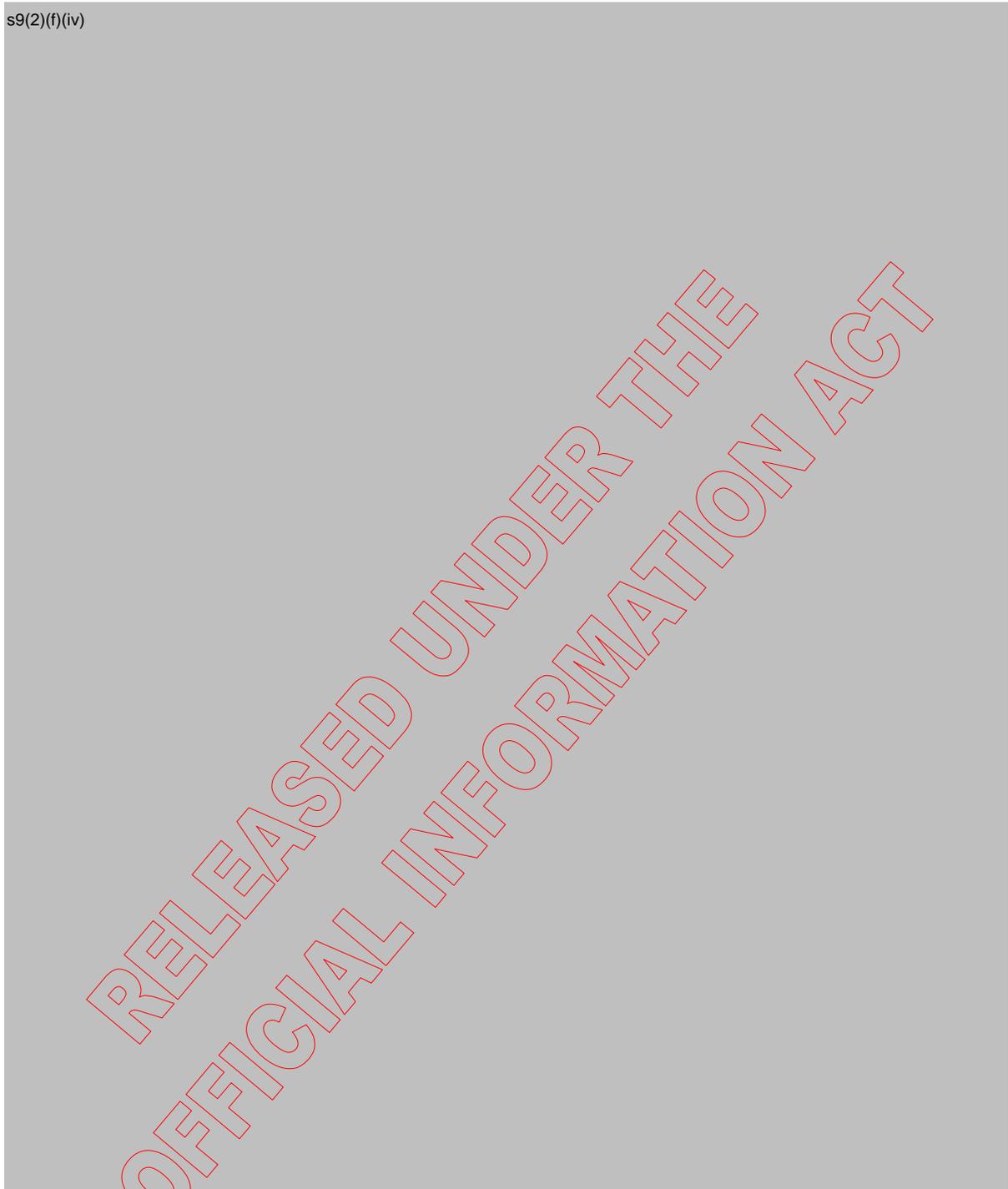
s9(2)(f)(iv)



Page 5 withheld under s9(2)(f)(iv)

**BUDGET-SENSITIVE**

s9(2)(f)(iv)



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***The Departmental Capital process highlights underlying issues with the Ministry's financial management practices***

s9(2)(f)(iv)



20. Of the s9(2)(f) departmental capital bids submitted, only s9(2)(f)(iv) s9(2)(f)(iv) was accompanied by a business case as required for capital investments requiring new Crown funding. s9(2)(f)(iv)



**BUDGET-SENSITIVE**

**BUDGET-SENSITIVE**

s9(2)(f)(iv)

23. The Ministry of Health will participate in Tranche 3 of the Investor Confidence Rating (ICR) rollout process between July – December 2016. The ICR will provide another lens on these issues s9(2)(f)(iv)

s9(2)(f)(iv)

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redevelopment (and major redevelopments more generally) will be jointly undertaken this year with the Ministry.

## Financial Management

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### ***The Wellington Property Consolidation issue remains unresolved***

29. In Budget 15, significant financial management failures at the Ministry were identified as the result of a Budget bid for the Wellington Property Consolidation (Aide-Memoire T2015/416 refers). The Ministry bid for \$18 million of new funding to cover the fit out costs for the consolidation of its Wellington offices to Molesworth Street despite having informed Ministers that this would be funded from its balance sheet when approval was sought.
30. The Director-General initiated a PriceWaterhouseCoopers (PWC) review of the issues surrounding the property consolidation and a broader review of financial management systems within the Ministry. These reviews confirmed the lack of coherent financial controls within the Ministry and a need for substantial change. s9(2)(g)(i)
31. The Ministry indicates that a sale-and-lease-back proposal to fund the Wellington Property Consolidation as an operating lease has been developed and is under consideration by the Ministry's Auditors. The Treasury has had limited visibility of the proposal as it has been developed and will reserve making an assessment on its merits until such time as the proposal achieves the approval of the Ministry's Auditors and is presented to us. s9(2)(f)(iv)
32. s9(2)(f)(iv)
- s9(2)(f)(iv)
- A recent Official Information Act request (T2015/2991) for documentation related to the property consolidation will likely result in this issue entering the public realm, generating criticism of the Ministry's handling of the situation. Given the lack of a resolution over the last 11 months of how the property consolidation will be funded, we recommend you raise this issue with the Minister of Health.

### ***Treasury is actively supporting the reorganisation of Ministry of Health to strengthen its financial management***

33. The Ministry's reorganisation (primarily at Tier 2) will come into effect on 1 March with most ELT roles filled by acting appointments while permanent recruitment processes continue. There has been a relatively high use of consultants (PWC) at the Ministry over the last year. A major aspect of the reorganisation is the consolidation of the finance function in health with the CFO joining the ELT (currently Tier 3). The new CFO will have a broader ambit, including strategic financial management, which will provide visibility across the entire Vote.
34. Treasury supports changes to the finance function at Health and is actively helping them implement the change. We were approached to help with the selection of the new CFO and Treasury's CFO, Fergus Welsh, has been appointed as Acting CFO at the Ministry. We think this provides a real opportunity to strengthen financial management across the health system. s9(2)(g)(i)
- Appointment of a high quality CFO will be a critical success factor. Treasury will seek to engage with the new CFO early and often to support and influence the direction of change at the Ministry.

**BUDGET-SENSITIVE**



Reference: T2016/384

SH-1-6

Date: 8 March 2016

To: Minister of Finance (Hon Bill English)

Deadline: 9 March 2016

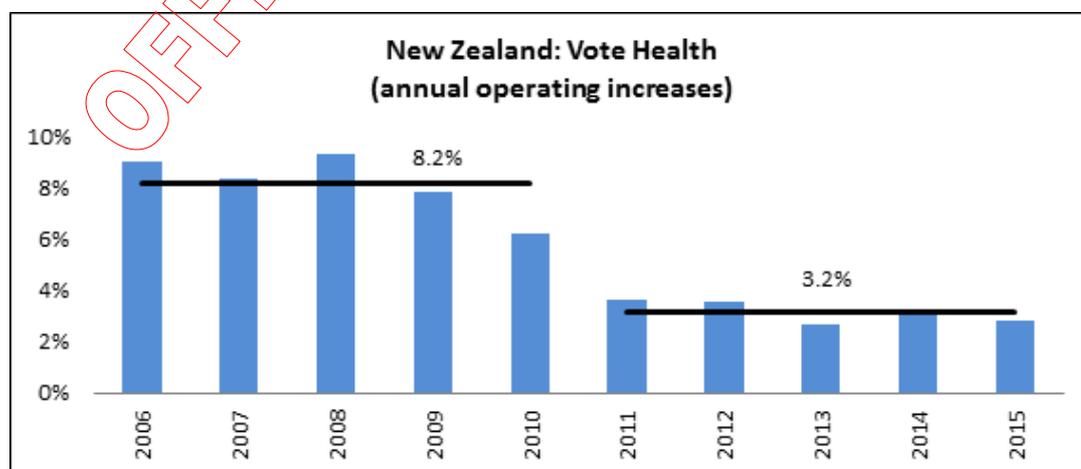
**Aide Memoire: Budget Meeting with Hon Coleman on Vote Health**

You are scheduled to meet with the Minister of Health at 12.30pm on 9 March 2016 to discuss Vote Health in the context of the Budget. We understand that your meeting tomorrow will focus on Vote Health’s core business and baseline spending, and there will be a second bilateral meeting to discuss Budget 2016 initiatives.

We recently provided you with a substantive report on Vote Health and Budget 16 to prepare you for your bilateral Budget meetings with Hon Coleman (report T2016/165 refers). This aide-memoire provides you with supplementary information for your meeting tomorrow and questions you may like to raise with Hon Coleman.

**Vote Health’s baseline and sustainability**

Core Crown expenditure on health increased to \$15.6 billion for 2015/16. Growth in health spending has slowed over the past six years, but without any major structural changes to the health system or the range of services provided. Further detail on Vote Health in the context of the social sector is provided below in **Annex 1**.



**BUDGET-SENSITIVE**

In the 2014/15 financial year, there was a decline in financial performance in spending through district health boards (DHBs), with larger than anticipated deficits. Latest projections for 2015/16 indicate that the total deficit number should improve from last year, but significant risks remain.

There is little evidence that the Ministry has an overarching strategy at the centre for managing financial sustainability over the medium-term. We think the Minister/Ministry can do more to drive the sector's direction. It is still unclear at this time what the Ministry's role will be in the new Health Strategy, which is yet to be finalised.

We also see an opportunity for the Ministry of Health to work more collaboratively with other parts of the social sector. For example, working with the Ministry of Social Development on the BPS-1 target helping to get people back into work.

s9(2)(j)



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**BUDGET-SENSITIVE**

s9(2)(j)

**Key points to raise with Hon Coleman**

We suggest you raise the following points at your meeting:

- There are growing pressures, noise in the media, and little by way of a clear strategy for managing the financial sustainability of the sector. How well does the Ministry of Health understand the cost drivers in the health sector and what is the Minister's strategy for managing these issues including reprioritisation options and trade-offs?
- The 0-5 and Youth Reviews identified gaps in evaluation and understanding service effectiveness. What is the Ministry of Health doing to improve its understanding of the effectiveness and evaluation of health services?
- How well is the Ministry of Health collaborating with other parts of the social sector to improve outcomes for vulnerable populations e.g. on BPS-1?

s9(2)(j)

Pages 4 and 5 withheld under s9(2)(f)(iv)

**Bevan Searancke**, Senior Analyst, Health, 04 890 7264**Ben McBride**, Manager, Health, Health, 04 917 6184

IN-CONFIDENCE

Reference: T2016/436

DH-1-2-3-2-4-2016



Date: 15 March 2016

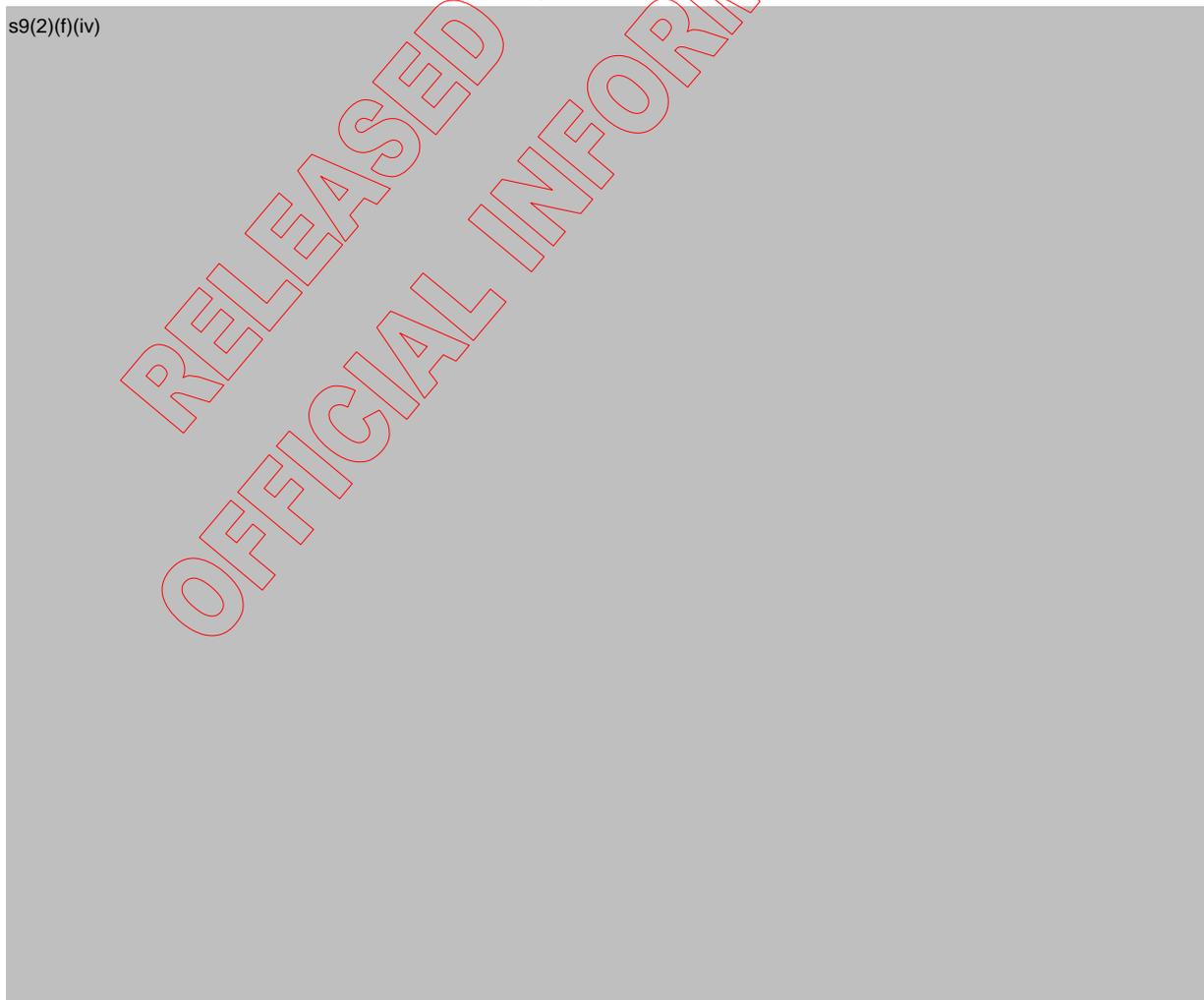
To: Minister of Finance (Hon Bill English)

Deadline: For your meeting on 16 March, 11:30am

**Aide Memoire: Meeting with Hon Coleman on Vote Health Bids in Budget 2016**

You are meeting with Hon Coleman and Hon Bennett on Wednesday 16 March to discuss the bids for Vote Health in Budget 2016. This meeting is in addition to earlier meetings which discussed the Health landscape more generally.

s9(2)(f)(iv)



IN-CONFIDENCE

s9(2)(f)(iv)



s9(2)(g)(i)

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