

**MEMORANDUM TO CABINET SOCIAL POLICY AND HEALTH COMMITTEE**

**SANCTIONS AND REWARDS FOR DISTRICT HEALTH BOARDS**

**PROPOSAL**

1. This paper proposes a complete framework of specific rewards and sanctions for application to District Health Boards (DHBs) as sought by Cabinet [CAB (00) M 15/10 refers]. Rewards and sanctions are tools for managing risks associated with DHB performance against the Government’s expectations. The framework incorporates criteria for application of rewards and sanctions, and an escalation path for their use.

**EXECUTIVE SUMMARY**

2. Formal rewards and sanctions enable the Minister of Health to influence the performance of DHBs to ensure that they deliver on key government expectations arising from the *New Zealand Health Strategy* and the *New Zealand Disability Strategy*. Performance expectations should include recognising and respecting the principles of the Treaty of Waitangi, entering into relationships with mana whenua and closing gaps in the health and disability status of Māori and Pacific peoples compared with other New Zealanders.
3. Formal rewards and sanctions should generally be used in an encouraging rather than punitive fashion and be applied only to DHB management of risks over which DHBs have an ability to respond. Their application should assist the objective of improving health and disability outcomes for a DHB’s population. The types of formal rewards and sanctions that can be applied to DHBs are listed in *Table 1*.

Table 1: Types of Rewards and Sanctions for DHBs

Incentive Dimension	Rewards	Sanctions
governance	?? greater autonomy ?? reappointment of board members ?? appointment of non-elected board members from a well performing DHB to a poorly performing DHB	?? less autonomy ?? appointment of a Commissioner ?? dismissal of board members ?? removal of the board Chair ?? appointment of a Crown monitor ?? Ministerial direction
governance / performance specification	?? publicity recognising good performance and attention to comparatively good performance against other DHBs	?? publicity recognising poor performance and attention to comparatively poor performance against other DHBs
performance specification	?? reduction in frequency and/or detail against which DHBs are monitored	?? increase in the frequency and/or detail against which DHBs are monitored
funding	?? ability to generate and retain surpluses ?? access to funding for pilot initiatives	?? repaying of surpluses ?? removal of a function
governance / funding /	?? others as appropriate (e.g. Ministerial correspondence)	?? others as appropriate (e.g. Ministerial correspondence and Ministerial

performance specification		inquiries)
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## **Application Criteria, Escalation Path and Removal of a Function**

4. It is recommended that the level of DHB performance should be the criterion guiding the application of formal rewards and sanctions to DHBs and the escalation path of rewards and sanctions. The application of specific sanctions and rewards to particular DHBs will be the responsibility of the Minister of Health as the responsible Minister.
5. When applying sanctions and rewards it may be necessary to balance good performance in one function against poor performance in another. It is recommended that in these instances, the specifics of the situation should guide the response while recognising that DHBs are ultimately expected to maximise health and disability outcomes for their populations.
6. The removal of a function from a DHB is a serious sanction needing careful application. It should only be applied when informal strategies and other sanctions have not resolved a performance issue and removal of the function would result in better management of performance risks associated with the function.

## **Role of the Minister of Finance**

7. Where a DHB's financial performance represents a significant fiscal risk, the Minister of Health and Minister of Finance will agree the level and type of involvement of the Minister of Finance. This will be in relation to the Minister of Finance's involvement in the Minister of Health's risk management strategy, to the extent that the strategy involves agreeing the financial components of DHB accountability documents (including any terms and conditions around the support of these documents) and undertaking of a financial review of a DHB.
8. In instances where the level of fiscal risk associated with a DHB's performance has been escalated to the Ministers of Health and Finance for resolution, the Ministers would, subsequent to resolving differences of opinion on the level of fiscal risk, agree the Minister of Finance's level of involvement in the DHB's accountability documents (including any terms and conditions around the support of these documents) and DHB financial review appropriate for the level of fiscal risk.

## **BACKGROUND**

9. Cabinet has directed officials to report back on a complete framework of specific rewards and sanctions for application by Ministers to DHBs [CAB (00) M 15/10 refers]. Cabinet has also noted that the report back will include criteria for the use of rewards and sanctions, an escalation path for their use, and further advice on the removal of specific functions from DHBs as a sanction [CAB (00) M 19/15 refers]. A process for resolving differences of opinion between the Ministers of Health and Finance on the level of fiscal risk associated with any

DHB is also proposed in response to a previous Cabinet direction [CAB (00) M 19/13 (f)(i) refers].

10. Rewards and sanctions are tools that enable the Minister of Health to influence the performance of DHBs to ensure that they deliver on key government expectations arising from the *New Zealand Health Strategy* and the *New Zealand Disability Strategy*. Specific performance expectations should include recognising and respecting the principles of the Treaty of Waitangi, entering into relationships with mana whenua and closing gaps in the health and disability status of Māori and Pacific peoples compared with other New Zealanders. They should also include meeting requirements for access to services and agreed levels of safety and quality standards.

## COMMENT

### Rationale and Purpose

11. There are rewards and sanctions inherent in the design of the new health and disability sector. In particular, open DHB board meetings, public availability of performance information, election of a majority of board members, and relationships with mana whenua, encourage a DHB to act in the best health and disability interests of its population (as perceived by the population). The framework in this paper incorporates formal rewards and sanctions, over and above those inherent in the sector design. This paper does not explore the interaction between rewards and sanctions inherent in the sector design and those available to the Minister of Health. On occasion these may conflict due to the differing views of the Minister and communities on DHB performance.
12. Formal rewards and sanctions are designed to ensure that the risks over which DHBs have control are managed effectively at the level most appropriate for their management. If risks were not effectively managed by DHBs they would be left inappropriately, through poor performance, to the government to manage. In their infancy, DHBs will not have the same level of capacity to manage risk as when they are fully established.
13. Performance refers to all dimensions of DHB activity. This includes funding of health and disability services for the achievement of health and disability outcomes, governance and operational management of the DHB and management of Crown owned hospital and associated health services. It also includes organisational capability and capacity and DHB relationships with mana whenua.
14. The actual “boundary” determining where risks should be managed (by a DHB as opposed to the government), will depend on a DHB’s capacity for managing risks. This in turn depends on the size of a DHB (in terms of funding and population served) and the responsibilities devolved to it. The boundary is most appropriately defined in the DHB operational policy framework and accountability documents.

15. Once DHBs are fully established it would be useful to review the operational elements of the rewards and sanctions framework. This is because risks, objectives and risk management capacity will change over time as DHBs develop their risk management capability. It is recommended that the operational elements of rewards and sanctions be reviewed as part of the planned review of accountability arrangements in 2003 following two years of operation of DHBs.
16. The formal rewards and sanctions framework does not incorporate rewards and sanctions to apply to boards and individual board members in discharging their duties. Cabinet has previously decided that the Crown Entities reform legislation is likely to provide the legislative transparency for this purpose [CAB (00) M 19/15 refers]. The duties of DHB boards and individual DHB board members have been outlined in section 22 of the New Zealand Public Health and Disability Bill and are consistent with the Crown Entities Initiative.

## **Principles**

17. The framework proposed in this paper is premised on a number of principles. These are that formal rewards and sanctions:
  - i. are tools for incentivising DHBs to manage risks associated with performance against the Government's expectations (including those related to Closing the Gaps for Māori and Pacific peoples)
  - ii. should encourage effective management of risks at the most appropriate level in the health and disability sector
  - iii. should be used in an encouraging rather than punitive fashion
  - iv. should be fair and applied only to DHB management of risks over which DHBs have an ability to respond
  - v. can be applied to performance across all DHB functions
  - vi. should be applied with the objectives of improving health and disability outcomes for a DHB's population including improved access to and/or quality of services.
18. An additional principle is that, in general, other strategies to support a DHB improving its performance should be used before a sanction is applied. Examples include facilitation of a resolution strategy, knowledge sharing, and secondment of staff from other organisations.

## **Rewards and Sanctions**

19. There are a range of rewards and sanctions that can be applied to DHBs depending on a DHB's level of performance. The main types of reward and their associated benefits are outlined in *Table 2*. The main types of sanction and their associated benefits are outlined in *Table 3*.

**Table 2: Description and Benefits of Types of DHB Rewards**

<b>Type of Reward</b>	<b>Description of Reward and Associated Benefits</b>	<b>Incentive Dimension</b>
greater autonomy	This enables greater flexibility in the manner in which DHBs manage their funding of health and disability services, reducing transaction costs of performance management and providing more flexibility for risk management (while meeting the minimum requirements of the DHB operational policy framework). For instance, a DHB showing good performance may not require explicit approval for changes to provider funding arrangements within certain parameters.	governance
reappointment of board members	This involves reappointment of board members by the Minister of Health. The Minister of Health may also jointly appoint non-elected board members from a well performing DHB to a poorly performing DHB.	
publicity	This involves recognition of good performance, awards for good performance, and attention to comparatively good performance against other DHBs.	governance, performance specification
less intrusive monitoring	This is a reduction in the frequency and/or detail against which DHBs are monitored. This reduces the transaction costs of monitoring for the DHB.	performance specification
financial	This involves the ability to generate and retain surpluses as the Minister of Finance “thinks fit” (section 16 of the Public Finance Act 1989). This could be an incentive to good financial management and may allow DHBs to utilise surpluses in a manner that furthers the government’s objectives. Access to funding for pilot initiatives could also be used as a reward, providing funding for this purpose is available.	funding
adding responsibilities	In the initial stages of DHB development, as DHBs demonstrate the minimum capability requirements to manage specific planning and funding responsibilities (including responsiveness to Māori and Pacific peoples), then those responsibilities are added to a DHB in line with Cabinet’s previous decisions on devolution of responsibilities to DHBs [CAB (00) M 22/11 refers].	
others as appropriate	These are any other rewards that may be appropriate for a given level of performance. An example is written communication from the Minister of Health to a DHB commending it for certain aspects of its performance.	governance / funding / performance specification

Table 3: Description and Benefits of Types of DHB Sanctions

Type of Sanction	Description of Sanction and Associated Benefits	Incentive Dimension
less autonomy	This enables less flexibility in the manner in which DHBs manage their funding of health and disability services. For instance, a DHB showing poor performance may require explicit approval for changes to provider funding arrangements within certain parameters.	governance
Minister of Health imposed governance sanctions	<p>These include:</p> <ul style="list-style-type: none"> <li>?? appointment of a Commissioner</li> <li>?? dismissal of board members</li> <li>?? removal of the board Chair</li> <li>?? appointment of a Crown Monitor</li> <li>?? Ministerial direction.</li> </ul> <p>These sanctions form a “ safety net” to ensure that risks associated with very poor DHB performance are managed by building DHB capacity to manage risks. The Minister of Health may also jointly appoint non-elected board members from a well performing DHB to a poorly performing DHB.</p>	
publicity	This involves recognition of poor performance and attention to comparatively poor performance against other DHBs.	governance / performance specification
more intrusive monitoring	This is an increase in the frequency and/or detail against which DHBs are monitored. This increases the transaction costs of monitoring for the DHB while enabling the monitor to have more detailed and/or timely indications of potential risks. When performance is very high risk, intrusive monitoring may be in the form of a review of aspects of a DHB's performance. In some instances this may involve the Treasury, in conjunction with the Ministry of Health, undertaking a review of the financial performance of a DHB.	performance specification
financial	This involves repaying of surpluses to the Crown as the Minister of Finance “ thinks fit” . It removes decision rights over use of surplus funding from the DHB and does not reward a DHB with surpluses generated through poor performance.	funding
removal of a function	This involves the removal of a DHB function to another organisation. It is a serious sanction that would only be applied when the application of informal strategies and other sanctions have not resulted in improved DHB performance.	
others as appropriate	These are any other sanctions that may be appropriate for a given level of performance. An example is written communication from the Minister of Health to a DHB expressing concern with certain aspects of a DHB's performance. Another is a Ministerial inquiry.	governance / funding / performance specification

20. Publicity is a very powerful and adaptable reward or sanction because of the ability to compare performance over twenty-one organisations, and because of locally elected board members' motivation to maintain their reputations amongst local communities. Cabinet has previously agreed that specific DHB performance reports will be made public [CAB (00) M 19/15]. Publicity about performance is likely to be a widely and frequently applied reward and sanction.

However, it will be less effective in situations where communities have different perspectives on the performance of the DHB and/or the performance expectations of DHBs from those of the Minister of Health.

21. While it is intended that there is a high degree of national consistency in the expectations of DHBs, the different sizes of DHBs and the potential for a different mix of responsibilities between DHBs during their establishment, will limit comparison of some aspects of DHB performance. The areas of performance that will be compared will depend on performance expectations specified in operational documents.
22. Cabinet has previously noted that section 16 of the Public Finance Act 1989 will allow DHBs to generate and retain surpluses, or repay their surpluses to the Crown “as the Minister (of Finance) thinks fit” [CAB (00) M 19/15 refers]. The ability to generate and retain surpluses can be used as a reward for DHBs where the Minister of Finance agrees to this. Another financial reward is having access to funding for pilots of new initiatives to good performing DHBs, assuming funding was available for this purpose. Pilots can raise expectations of wider application if successful, and this fiscal risk would need to be carefully managed.
23. Altering a DHB’s level of autonomy is a very strong reward or sanction. Cabinet has requested a report back, by 30 November 2000, on different modes of autonomy, and associated rewards [CAB (00) M 15/10 refers]. It is likely that a specific level of autonomy will be associated with the application of a package of specific rewards and sanctions.

### **Criteria and Escalation Path**

24. It is recommended that the level of risk associated with a DHB’s performance should be the criteria guiding the application of formal rewards and sanctions and the escalation path of rewards and sanctions. Good performance needs strong rewards and *vice versa*. The use of strong messages also sends signals to DHBs, other than those to which a sanction or reward is being applied, about what is acceptable performance and what is not.
25. There is a general correlation between the level of performance and type of reward or sanction. *Table 4* illustrates the types of rewards that could generally be applied for different levels of DHB performance and illustrates an escalation path of rewards for increasing levels of good performance. *Table 5* illustrates the types of sanctions that could generally be applied for different levels of DHB performance and illustrates an escalation path for increasing levels of poor performance.
26. In some instances escalation involves the stronger application of a specific type of reward or sanction. An example is moving from public acknowledgement of good performance to strong public praise of performance when a DHB’s performance goes from good to excellent (and *vice versa* for poor performance).

In other instances escalation involves the application of a different reward or sanction. An example is moving from the appointment of a Crown monitor to replacing the DHB with a Commissioner when the level of performance moves from poor to very poor.

Table 4: Level of DHB Performance and Associated Rewards

Good <sup>1</sup>	Very Good <sup>2</sup>	Excellent <sup>3</sup>
<p><i>Performance Situations</i></p> <ul style="list-style-type: none"> <li>?? minimal gaps in meeting requirements for access to services and agreed levels of safety and quality standards</li> <li>?? DHB meets governance expectations</li> <li>?? DHB meets operational management expectations</li> <li>?? hospital delivered services meet safety and quality expectations</li> <li>?? hospital meets service requirements of the DHB</li> <li>?? hospital meets balance sheet and financial performance expectations</li> <li>?? DHB meets requirements of the operational policy framework and the New Zealand Public Health and Disability Bill</li> </ul>	<p><i>Performance Situations</i></p> <ul style="list-style-type: none"> <li>?? no gaps in meeting requirements for access to services and agreed levels of safety and quality standards</li> <li>?? DHB exceeds some governance expectations</li> <li>?? DHB exceeds some operational management expectations</li> <li>?? some hospital delivered services exceed safety and quality expectations</li> <li>?? hospital exceeds service requirements of the DHB</li> <li>?? hospital exceeds balance sheet and financial performance expectations</li> <li>?? DHB meets requirements of the operational policy framework and the New Zealand Public Health and Disability Bill</li> </ul>	<p><i>Performance Situations</i></p> <ul style="list-style-type: none"> <li>?? DHB consistently exceeds requirements for access to services and agreed levels of safety and quality standards</li> <li>?? DHB consistently exceeds governance expectations</li> <li>?? DHB consistently exceeds operational management expectations</li> <li>?? hospital delivered services consistently exceed safety and quality expectations</li> <li>?? hospital consistently exceeds service requirements of the DHB</li> <li>?? hospital consistently exceeds balance sheet and financial performance expectations</li> <li>?? DHB meets requirements of the operational policy framework and the New Zealand Public Health and Disability Bill</li> </ul>
<p><i>Available Rewards</i></p> <ul style="list-style-type: none"> <li>?? public acknowledgement of good performance</li> <li>?? public availability of information on performance against other DHBs</li> </ul>	<p><i>Available Rewards</i></p> <ul style="list-style-type: none"> <li>?? public praise for very good performance</li> <li>?? public availability of information on performance against other DHBs</li> <li>?? less intrusive monitoring of areas of good performance</li> <li>?? greater autonomy in areas of good performance</li> <li>?? mentoring other DHBs</li> <li>?? addition of more responsibilities</li> <li>?? ability to retain surpluses and access to funding for pilots in areas of good performance</li> </ul>	<p><i>Available Rewards</i></p> <ul style="list-style-type: none"> <li>?? strong public praise for excellent performance</li> <li>?? DHB identified as exemplary</li> <li>?? public availability of information on performance against other DHBs</li> <li>?? less intrusive monitoring, i.e. more exceptions based, across all areas of performance</li> <li>?? greater autonomy</li> <li>?? ability to retain surpluses and access to funding for pilots in areas of good performance</li> <li>?? addition of more responsibilities</li> <li>?? mentoring other DHBs</li> <li>?? appointment of ministerially appointed board members to additional DHBs</li> <li>?? reappointment of board members</li> </ul>

<sup>1</sup> meets performance expectation in review period and emergent risks are managed effectively

<sup>2</sup> exceeds some performance expectations in review period

<sup>3</sup> consistently exceeds performance expectations over several review periods

Table 5: Level of DHB Performance and Associated Sanctions

Improving <sup>1</sup>	Poor <sup>2</sup>	Very Poor <sup>3</sup>
<p><i>Performance Situations</i></p> <p>?? some gaps in meeting requirements for access to services and agreed levels of safety and quality standards</p> <p>?? DHB does not fully meet governance expectations</p> <p>?? DHB does not fully meet operational management expectations</p> <p>?? hospital delivered services do not fully meet safety and quality expectations</p> <p>?? hospital does not fully meet service requirements of the DHB</p> <p>?? hospital does not fully meet balance sheet and financial performance expectations</p> <p>?? DHB does not meet some requirements of the operational policy framework and/or the New Zealand Public Health and Disability Bill but remedial action commenced</p>	<p><i>Performance Situations</i></p> <p>?? gaps in meeting requirements for access to services and agreed levels of safety and quality standards</p> <p>?? DHB does not meet some governance expectations</p> <p>?? DHB does not meet some operational management expectations</p> <p>?? some hospital delivered services do not meet safety and quality expectations</p> <p>?? hospital does not meet some service requirements of the DHB</p> <p>?? hospital does not meet some balance sheet and financial performance expectations</p> <p>?? DHB does not meet some requirements of the operational policy framework and/or the New Zealand Public Health and Disability Bill but with no remedial action</p>	<p><i>Performance Situations</i></p> <p>?? DHB consistently does not meet requirements for access to services and agreed levels of safety and quality standards</p> <p>?? DHB consistently does not meet governance expectations</p> <p>?? DHB consistently does not meet operational management expectations</p> <p>?? hospital delivered services consistently exceed safety and quality expectations</p> <p>?? hospital consistently exceeds service requirements of the DHB</p> <p>?? hospital consistently exceeds balance sheet and financial performance expectations</p> <p>?? DHB does not meet some requirements of the operational policy framework and/or the New Zealand Public Health and Disability Bill</p>
<p><i>Available Sanctions</i></p> <p>?? public acknowledgement of below standard performance and the steps being taken to address this</p> <p>?? public availability of information on performance against other DHBs</p> <p>?? Ministerial direction</p> <p>?? Ministerial inquiry</p>	<p><i>Available Sanctions</i></p> <p>?? public attention to poor performance</p> <p>?? public availability of information on performance against other DHBs</p> <p>?? more intrusive monitoring of areas of poor performance</p> <p>?? less autonomy</p> <p>?? loss of ability to retain surpluses and loss of access to funding for pilots in areas of poor performance</p> <p>?? being mentored by other DHBs</p> <p>?? Ministerial direction</p> <p>?? Ministerial inquiry</p> <p>?? appointment of a Crown monitor</p> <p>?? dismissal of a board member</p> <p>?? dismissal of the board Chair as the Chair</p>	<p><i>Available Sanctions</i></p> <p>?? strong public attention to very poor performance</p> <p>?? public availability of information on performance against other DHBs</p> <p>?? more intrusive monitoring across all areas of performance</p> <p>?? loss of ability to retain surpluses and loss of access to funding for pilots in areas of funding performance</p> <p>?? being mentored by other DHBs</p> <p>?? Ministerial direction</p> <p>?? Ministerial inquiry</p> <p>?? appointment of a Crown monitor</p> <p>?? dismissal of a board member</p> <p>?? dismissal of the board Chair as the Chair</p> <p>?? removal of a function (used with care)</p> <p>?? replacement of the board with a Commissioner</p>

<sup>1</sup> does not meet some performance expectations, but with remedial actions identified and commenced during the review period

<sup>2</sup> does not meet some performance expectations, but with no remedial action identified within the review period

<sup>3</sup> consistently does not meet performance expectations over several review periods

## Application

27. It is recommended that the actual application of specific sanctions or rewards to particular DHBs will be a matter for decision by the Minister of Health guided by the level of risk associated with their performance. Rewards and sanctions can also be applied by the Ministry of Health acting as the Minister of Health's agent.
28. When applying sanctions and rewards across all of a DHB's functions, it may be necessary to balance good performance in one area against poor performance in another. It is recommended that in these instances, the specifics of the situation should guide the response while recognising that DHBs are ultimately expected to maximise health gain for their populations.

### **Removal of Functions**

29. Cabinet has sought further advice on the removal of specific functions from DHBs as a sanction [CAB (00) M 19/15 (d)(ii) refers]. Removal of functions from DHBs should be considered as a serious sanction. A function should only be removed from a DHB when the application of informal strategies and lower level sanctions has not resulted in improved DHB performance. Assuming all other actions have been taken, a function should only be removed from DHBs when removal of the function would result in better management of performance risks associated with the function.
30. The removal of functions from DHBs needs careful application as it could encourage inappropriate risk sharing by DHBs and an associated diminishing of accountability and motivation. This behaviour can be managed by setting a time limit for which the sanction applies and providing a clear, graduated and negotiated pathway for developing a DHB's capacity to manage the function. Progress towards development of the necessary capacity can also be encouraged through the use of rewards.
31. The function that could most practically be removed from DHBs is the funding of specific health and disability services which could be given to another DHB and/or the Ministry of Health. However, the impact of this action on providers of health and disability services would need to be considered. They may find a change in funding agency unsettling. It could have an adverse effect on their ability to plan and to rely on the relationship built up with a DHB over time. It would be sensible to apply this sanction only if the funding function were being very poorly managed over a period of time with significant risks to the health and disability status of the population.
32. It would be problematic to remove aspects of DHBs' governance and operational management, and management of Crown-owned hospital and associated health services functions. This is because they are smaller areas of activity which are highly integrated. Governance and operational management of the DHB is also a core DHB function. Governance sanctions would be more appropriate than removal of a function for these aspects of DHB activity.

### **Role of the Minister of Finance**

33. Cabinet has previously decided that a risk based approach will be taken regarding the Minister of Finance's roles in DHBs [CAB (00) M 19/13 refers]. Cabinet has also decided that, initially, the Minister of Finance would have maximum involvement in DHBs and in addition to his usual role would have an ability to request information relevant to the ownership interest, agree the financial components of DHB accountability documents (including any terms and conditions around the support of these documents) and the ability to request that Treasury in conjunction with the Ministry of Health undertake a review of the financial performance of the DHB [CAB (00) M 19/13 refers].
34. Cabinet has directed officials to incorporate a process for advising and resolving any differences of opinion between the Minister of Finance and Health regarding the fiscal risk of any DHB as part of this paper and that this process incorporate the Minister of Finance's role in relation to the ability to request any information relevant to the ownership interest from a DHB, agree financial components of DHB accountability documents and ability to request that the Treasury, in conjunction with the Ministry of Health, undertake a review of the financial performance of the DHB [CAB (00) M 19/13/ refers]. It is proposed that:
- i. The Minister of Health provides regular financial performance information and the risk assessment of each DHB to the Minister of Finance [CAB (00) M 19/13 refers]
  - ii. Where the Ministers of Health and Finance agree there is a significant level of fiscal risk associated with a DHB's financial performance, they would determine the level of involvement of the Minister of Finance in the Minister of Health's risk management strategy to the extent that the strategy involves agreeing the financial components of DHB accountability documents (including any terms and conditions around the support of these documents) and undertaking of a financial review of a DHB
  - iii. Any disagreements on the level of fiscal risk associated with a DHB will be solved at the lowest officials level possible (involving officials from the Ministry of Health and Treasury) until agreement can be reached on the level of fiscal risk. If agreement can not be reached by officials then:
  - iv. The Minister of Finance can request additional information relevant to the ownership interest in DHBs, and economical and financial information from DHBs to help determine the level of fiscal risk [CAB (00) M 19/13 refers]. If the Minister of Finance still has a difference of opinion with the Minister of Health on the level of fiscal risk on receiving additional information, then:
  - v. The Ministers of Finance and Health will jointly determine and agree a process for resolving differences of opinion on the level of fiscal risk

- vi. Subsequent to resolving differences of opinion on the level of fiscal risk, the Ministers of Health and Finance will agree the Minister of Finance's level of involvement in the DHB's accountability documents (including any terms and conditions around the support of these documents) and financial review of the DHB appropriate for the level of fiscal risk. This decision clarifies Cabinet's previous decision about increased Minister of Finance involvement when a DHB represents a fiscal risk to the Crown through poor performance [CAB (00) M 19/13 (e) (iii) refers].
35. Financial performance that would warrant the involvement of the Minister of Finance, because it represents a significant fiscal risk, would be performance very significantly below that planned. Another instance would be very large planned deficits that are not related to the carry forward of surpluses. Large scale equity injections which are unplanned and result from very poor performance are another example.

## **CONSULTATION**

36. This paper has been prepared by an interagency working group led by the Ministry of Health working with the Health Funding Authority, Te Puni Kokiri, The Treasury, and the State Services Commission. The Department of Prime Minister and Cabinet, and Ministry of Pacific Island Affairs have been consulted. The Office of the Auditor-General has been consulted on this advice in terms of any implication for the functions of that Office and implications for parliamentary accountability. The Crown Health Association, a representative of hospital and health service (HHS) organisations, has also been consulted confidentially on the paper. This is because of HHSs' substantial interest in the establishment of DHBs.

## **FINANCIAL IMPLICATIONS**

37. Full identification of the one-off costs and ongoing fiscal impacts of the proposed structural changes, including those related to the establishment of DHB accountability arrangements, were included in the report back of the Fiscal Implications Working Group [CAB (00) M 2/4 refers].

## **LEGISLATIVE IMPLICATIONS**

38. The proposed framework of sanctions and rewards does not have any legislative implications beyond those which have already been considered by Cabinet, in relation to the inclusion of some rewards and sanctions in the New Zealand Public Health and Disability Bill [CAB (00) M 21/13 refers].

## **HUMAN RIGHTS ACT 1993**

39. The advice provided in this paper does not have Human Rights Act implications.

## **REGULATORY IMPACT STATEMENT**

40. A Regulatory Impact Statement is not required for this proposal as it is of a machinery nature.

**PUBLICITY**

41. Any publicity related to the establishment of DHB accountability arrangements will be managed within the overall Communications Strategy developed for Health Sector Change.

**AT THE MEETING ON 11 SEPTEMBER 2000, FOLLOWING REFERENCE FROM THE CABINET SOCIAL POLICY AND HEALTH COMMITTEE (SPH), CABINET:**

CAB (00) M 30/5

**DISTRICT HEALTH BOARDS: SANCTIONS AND REWARDS**

a **noted** the contents of the submission under CAB (00) 597;

**Performance Rewards and Improvement Tools: the Principles**

b **noted:**

- i. that the Government's policy objective of health and disability outcomes will inform development of the monitoring and benchmarking frameworks for District Health Boards (DHBs);
- ii. the performance of DHBs in contributing to this policy objective will inform the application of performance rewards and improvement tools to DHBs;

c **agreed** that performance rewards and improvement tools for DHBs:

- i. should provide incentives for DHBs to manage risks associated with DHB performance against the government's performance expectations (including those relating to closing the gaps for Maori and Pacific peoples);
- ii. should encourage effective management of risks at the most appropriate level in the health and disability sector;
- iii. should be used in an encouraging rather than a punitive fashion;
- iv. should be fair and applied only to DHB management of risks over which DHBs have the ability to respond;
- v. can be applied to performance across all DHB functions;
- vi. should be applied with the objective of improving health and disability outcomes for a DHB's population including improved access to and/or quality of services;
- vii. will be informed by the objective measures of health and disability outcomes that are being developed as part of monitoring and benchmarking frameworks to provide a comprehensive set of performance indicators across all dimensions of DHB performance;

d **noted** that the following types of performance rewards and improvement tools are available for application to DHBs:

***Performance Rewards***

- i. greater autonomy;
- ii. reappointment of board members;
- iii. appointment of non-elected board members from a well performing DHB to a poorly performing DHB;
- iv. publicity recognising good performance and attention to comparatively good performance against other DHBs;
- v. reduction in the frequency and/or detail against which DHBs are monitored;
- vi. ability to generate and retain surpluses;
- vii. access to funding for pilot initiatives;
- viii. others as appropriate (e.g. Ministerial correspondence);

#### ***Performance Improvement Tools***

- ix. less autonomy;
- x. appointment of a Commissioner;
- xi. dismissal of board members;
- xii. removal of the board Chair;
- xiii. appointment of a Crown monitor;
- xiv. Ministerial direction;
- xv. acknowledgement of poor performance against other DHBs and assistance to achieve best practice;
- xvi. increase in the frequency and/or detail against which DHBs are monitored;
- xvii. repaying of surpluses;
- xviii. removal of a function;
- xix. others as appropriate (e.g. Ministerial correspondence and Ministerial inquiries);

#### **The Application of Performance Rewards and Tools**

- e **agreed** that the level of DHB performance be the criterion guiding the application of specific performance rewards and improvement tools to DHBs and the escalation path for their use;

- f **agreed** that the actual application of specific performance rewards and improvement tools to particular DHBs will be a matter for decision by the Minister of Health, and, in the circumstances described in paragraph (h) below, in consultation with the Minister of Finance;
- g **agreed** that the removal of a function from a DHB is a strong performance improvement tool which should only be applied when informal strategies (e.g. supporting boards with expert advice) and other performance improvement tools have not resolved a performance issue, and where the removal of the function would result in better management of risks associated with the function;

### **Role of the Minister of Finance**

- h **agreed** that where a DHB's financial performance represents a significant fiscal risk or the Ministers of Health and Finance have a different opinion on the level of fiscal risk, the Ministers would meet to jointly agree, taking account of the level of fiscal risk, on:
  - i. the Minister of Finance's level of involvement in the financial components of the DHB accountability documents (and any terms and conditions around the support of these documents); and
  - ii. whether there is a need to undertake a review of the financial performance of the DHB.