

OFFICE OF THE  
MINISTER OF HEALTH

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

**ROLE OF THE MINISTER OF FINANCE IN RESPECT OF DHBS**

**PROPOSAL**

1. This paper proposes that the role of the Minister of Finance in relation to District Health Boards, be on a risk based basis. In particular, this would involve:
  - i. joint Ministerial approval being required for DHB decisions that involve significant cost or fiscal risk;
  - ii. the Minister of Health consulting the Minister of Finance on decisions that have a lower fiscal cost or risk; and
  - iii. increased Minister of Finance involvement when a DHB represents a fiscal risk to the Crown through poor performance.
2. This risk based approach would require the Minister of Health to consult with the Minister of Finance on key accountability documents. In the event that there are performance concerns regarding the financial performance of DHBs the Minister of Finance would have an enhanced role.

**EXECUTIVE SUMMARY**

3. This paper recommends the role of the Minister of Finance in respect of district health boards. The Minister of Health would remain accountable for the performance of DHBs.
4. The paper considers two options:
  - i. Option one: Share Responsibility for Ownership Performance  
This would provide the Minister of Finance with the best opportunity to manage fiscal risks within the sector but has some disadvantages in terms of transaction costs and accountability and therefore has not been recommended;
  - ii. Option two: Risk Based Approach  
This tailors the degree of involvement of the Minister of Finance depending on the extent of perceived fiscal risk. This is the recommended approach.

5. A third option was raised which involved splitting responsibility for purchase and ownership risk. However, this would represent a significant change from proposed policy and has therefore not been discussed in this paper.
6. While Option one provides the best risk management framework for the Minister of Finance there are disadvantages which lead officials to recommend option two (Risk Based Approach). It is noted that the risks posed by DHBs are such that the Minister of Finance would need to be more involved during the initial phase of DHBs than would be expected over time.

## **BACKGROUND**

7. Cabinet has agreed that in order to achieve their overall objectives Board members will be responsible and accountable to the Minister of Health [CAB (00) M11/1A(3) rec I refers]. Cabinet has [CAB (00) M 15/10 rec iii refers] requested advice on the role of the Minister of Finance in respect of DHBs, including provisions to be made in the enabling legislation. This paper identifies the risks that the Minister of Finance has an interest in and options for managing those risks.

## **RISKS TO BE MANAGED**

8. The Minister of Finance has a strategic role and responsibility for managing the Crown's overall financial position and its portfolio of assets and liabilities. Accountability for the overall stewardship of the Crown's financial position rests with the Minister of Finance.
9. From a Crown risk management perspective, the Minister of Finance will have a significant interest in the financial performance of the DHBs:
  - i. The combined assets and liabilities of the DHBs will represent a very large component of the Crown's balance sheet. At 30 June 2000, it is expected the combined total assets of HHSs will be \$2.5 billion.
  - ii. The financial performance of the DHBs has the potential to impact significantly on the Crown's overall financial position. Over 1999/00, the operating expenditure on health made up around 19% of total Government expenditure.
10. While the DHB accountability arrangements focus on addressing the purchase and delivery of health and disability services (that is, the purchase performance), there is an equal need to ensure an appropriate level of focus on ownership interest in DHBs. The immediate and continual pressure for health and disability services must not overshadow the equally important need to focus on long term capability, risk management, levels of investment and financial performance of DHBs.
11. If insufficient focus is placed on ownership performance, there is a considerable risk to the Government's ability to achieve its long-term outcomes

in relation to the health and disability sector. Over time, if asset maintenance and replacement are neglected, DHBs may inappropriately run down their productive capacity and not be able to deliver the required level and quality of services. From a fiscal perspective, insufficient attention to capital maintenance will mean that at some future point the Crown as owner may be presented with the need for large capital injections to replace or upgrade assets that DHBs have failed to maintain.

12. To ensure that a strong ownership perspective is maintained that minimises these ownership and other risks to the Crown, it is desirable for the Minister of Finance to assume, in conjunction with the Minister of Health, some specific roles and responsibilities in relation to the ownership performance of the DHBs, particularly their financial performance.

## **AGREED RESPONSIBILITIES OF THE MINISTER OF FINANCE**

### **Previous Cabinet Decisions**

13. Cabinet has previously decided that the Minister of Finance will have the following responsibilities with respect to DHBs:
  - i. DHBs will be required to obtain Ministers' of Health and Finance support for major transactions
  - ii. DHBs will be required to obtain Ministers' of Health and Finance approval for all significant capital investments
  - iii. The Minister of Finance's approval will continue to be sought in addition to that of the Minister of Health for capital injections.
14. Further advice is being prepared for Ministers on the definitions of significant capital investments and major transactions (accompanying paper: District Health Board Investment And Balance Sheet Management: Further Work).
15. The advice provided in this paper is consistent with previous Cabinet decisions.

### **Public Finance Act**

16. Mechanisms exist under the Public Finance Act 1989 (PFA) assist the Minister of Finance in managing the fiscal risks associated with the health sector to a limited extent. These are (a more detailed list of responsibilities under the PFA are listed in Annex One):

### *Section 4: Appropriation Required*

17. This section provides the Treasurer/Minister of Finance with some control over the absolute level of expenditure on health as well as the breakdown of that expenditure on key components by requiring any expenditure to have an appropriation by Act of Parliament, which specifies each appropriation by

category. These categories are specified within the vote as line items and are allocated specific funds over the budget cycle that cannot be spent on other areas. The Funding Workstream is considering the nature of the output classes of DHBs.

#### *Section 15: Capital Injections to Crown Entities*

18. This allows for the Treasurer/Minister of Finance, in consultation with the Responsible Minister (the Minister of Health) to determine the terms and conditions under which any capital injection shall be made and to vary such terms and conditions from time to time. As entities included in schedule 4 [reference to follow after 8 May Cabinet] of the PFA DHBs requiring capital injections would be subject to this section.

#### *Section 16: Profit Payable by Crown Entities*

19. This allows the Treasurer/Minister of Finance, after consultation with the Responsible Minister (the Minister of Health), to direct a Crown entity to pay the Crown part or all of any profit (surplus) made. As entities included in schedule 4 of the PFA the DHBs would be subject to this section and should the Crown consider it appropriate DHBs may be required to return surpluses under this section.

#### *Section 9B: Power of Secretary to Obtain Information*

19. The Secretary to the Treasury can request any department or any Crown entity to supply any information necessary for preparing the Estimates and Supplementary Estimates.

#### *Section 29A : Power of Secretary to Obtain Information*

20. The Secretary to the Treasury can request any Crown entity to supply any information necessary to prepare the financial statements of the Crown and satisfy the Treasurer/Minister of Finance that these fairly reflect the Crown's financial position.

### **PROPOSED ROLE OF THE MINISTER OF FINANCE**

22. A number of options were considered for the role of the Minister of finance as set out below (These are discussed in more detail in the following section):

#### *Option 1: Shared Responsibility for Ownership*

23. This option would involve the Minister of Health and the Minister of Finance serving as joint Responsible Ministers. This scenario is analogous to the current HHS model where both the Minister of Health and the Minister of Finance are shareholding Ministers. Under this scenario, both Ministers would need to agree DHB ownership performance targets and would monitor DHB performance against those targets, and against the backdrop of the Crown's wider fiscal interest.

24. This option would provide the Minister of Finance with the best opportunity to manage the fiscal risks associated with the sector. It largely mirrors the arrangements that are currently in place for Hospital and Health Services. Treasury and CCMAU note that they consider that there have been some benefits from this approach, in particular, bringing financial expertise and focus to the sector and providing a consistent joint Crown position. The Ministry of Health considers that this may reduce accountability of the Minister of Health as responsible Minister in some circumstances.
25. Officials note that DHBs will be different in nature to HHSs and as a result the current arrangements for HHSs may not be the most appropriate.
26. While officials consider this option would provide the Minister of Finance with the best opportunity to manage fiscal risks, there are also some disadvantages, which are discussed below, and on balance, this is not the preferred option.

*Option 2: Risk-Based Approach (preferred option)*

27. A second possibility that has less involvement for the Minister of Finance but should be sufficient to manage fiscal risks, would be to tailor the level of involvement of the Minister of Finance to the situation. In particular, this would involve:
  - i. joint Ministerial approval being required for DHB decisions that involve significant fiscal cost and risk;
  - ii. the Minister of Health consulting the Minister of Finance on decisions that have a lower fiscal cost and risk; and
  - iii. increased Minister of Finance involvement when a DHB represents a fiscal risk to the Crown through poor performance.

***Discussion of Options***

*Option 1: Shared Responsibility for Ownership*

28. Ministers taking shared responsibility for the ownership performance of DHBs would provide the Minister of Finance with the best opportunity to manage the fiscal risks associated with DHBs.
29. This would operate much as the joint responsibility under HHS shareholding Minister arrangements currently operates. The emphasis for accountability and approval would centre around the reporting framework for the DHBs.
30. Under this arrangement, any ownership related decisions would need to be jointly agreed by the Ministers of Health and Finance. This would include any decision which:

- i. impacts the balance sheet (including capital injections, investment decisions, debt raising, capital withdrawals etc);
  - ii. impacts the operating or cashflow performance of DHBs (including funding levels, operating costs, purchasing requirements etc);
  - iii. sets performance targets relating to the financial statements of DHBs;
  - iv. relates to the strategic direction of DHBs (including significant changes to service provision arrangements).
31. Within this context, the Minister of Finance would be required to approve, in conjunction with the Minister of Health, the financial component of DHB's:
- i. high level Strategic Plan;
  - ii. annual plan and statement of intent; and
  - iii. any other reporting and accountability documents provided by DHBs.
32. The arrangements under this option should also include provisions for the Minister of Finance to delegate ownership responsibilities to the Minister of Health as the performance of the sector improves. The Minister of Health would then have sole responsibility for any delegated components.
33. Although this arrangement would provide the Minister of Finance with a high degree of comfort around managing the fiscal risks associated with DHBs, there are some disadvantages with this:
- i. it requires a high level of commitment from the Minister of Finance, which may not be reasonable given other commitments within the Minister's portfolio;
  - ii. it may be interpreted as reducing the responsibility of the Minister of Health for performance within the sector;

*Option 2: Risk-Based Approach (preferred option)*

34. Option 2 would reduce the Minister of Finance's role while maintaining sufficient involvement to adequately manage fiscal cost and risks. Our assessment is that this represents the minimum level of involvement the Minister of Finance could undertake while adequately managing fiscal costs and risks.
35. Any decisions that involve significant fiscal cost or risk would require approval from both the Ministers of Health and Finance. These include decisions regarding:

- i. significant capital investments<sup>1</sup>;
  - ii. major transactions<sup>1</sup>;
  - iii. the provision of equity injections; and
  - iv. any terms and conditions around the approval of such decisions.
36. Decisions which involve less fiscal cost and risk but which still represent a risk to the Crown's fiscal position would require the Minister of Health to consult with the Minister of Finance. These include decisions regarding the approval of financial plans and performance targets contained in each DHB's annual plan, strategic plan and Statement of Intent, including:
- i. operating and cashflow statement performance;
  - ii. balance sheet structure and maintenance;
  - iii. capital asset maintenance and replacement plans;
  - iv. any significant changes in a DHB's strategic direction;
- ?? 37. Under this scenario, it is also recommended that the Minister of Finance's role in regard to particular DHB's be escalated depending on the extent to which the DHB is considered to represent a fiscal risk. For example, if the financial performance of a DHB deteriorates and the risk it represents increases, the role of the Minister of Finance should be escalated. The accountability workstream is currently developing the rewards and sanctions framework for DHBs. This has a report back date of August. To reduce complexity and avoid confusion within the sector, it would be preferable for the escalation process in relation to Minister of Finance's role to be defined as part of this framework.
38. Officials therefore recommend that, if Ministers chose to accept this risk-based role for the Minister of Finance, that the escalation path and implications be considered as part of the report back on the rewards and sanctions framework. In order for the Minister of Finance to be able to assess the level of risk in an individual DHB the regular financial performance information will be provided to the Minister of Finance for example the monthly financial report on DHBs. In addition the Minister would be provided with the risk assessment of each DHB. In the event that the Minister of Finance has a different view on the level of risk there would need to be a discussion between the Ministers of Health and Finance to resolve the difference in views. Officials recommend that the process for advising and resolving this difference of view be reported back with the work on incentives and sanctions by 31 August 2000.
39. It is noted that on establishment of the DHBs there is a higher level of risk to the Crown than would be expected as DHBs become more experienced. It is

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<sup>1</sup> The definition and use of 'significant capital investment' and 'major transactions' is included in the report District Health Board Investment and Balance Sheet Management: Further Work

therefore recommended that the Minister of Finance would be involved at the maximum level initially.

40. In particular, I recommend that initially the Minister of Finance, in addition to his usual role under this option:
- i has the ability to request from the DHB any information relevant to the ownership interest;
  - ii agrees the financial components of the DHB's annual plan, strategic plan and Statement of Intent;
  - iii agrees any terms and conditions around the support of these documents; and
  - iv has the ability to request that Treasury, in consultation with the Ministry of Health and CCCMAU, undertake a review of the financial performance of the DHB.
41. I further recommend that the Minister of Finance have this level of involvement with any DHB whose financial performance is poor enough that they are considered a significant fiscal risk.

### **Risk Management Information Requirements**

42. To properly undertake the appropriate risk management role within the health sector (under either option 1 or 2), the Minister of Finance must be able to access any necessary information. In the Accountability paper [reference to follow after 8 May Cabinet] Cabinet agreed:  
“the provisions of Section 26 of the Health and Disability Services Act allowing the Minister of Finance to request financial forecasts and financial information be included in the new legislation”
43. It is recommended that this provision be extended to any information relevant to the economic and financial performance of DHBs or their associated bodies.

### **CCMAU COMMENT**

44. If CCMAU (Health) remains independent of the Ministry, it is not necessary for the Minister of Finance to fully share responsibilities and therefore option two would be appropriate. If ownership monitoring is subsumed within the Ministry then there would be a case to support option one.

### **THE CROWN'S RELATIONSHIP WITH MÄORI**

45. There are no implications for the Crown's relationship with Maori arising from this paper.

## **CONSULTATION**

46. Treasury, CCMAU and the State Services Commission have been consulted and their views have been reflected within this paper.

## **FINANCIAL IMPLICATIONS**

47. No fiscal implications have been identified at this stage.

## **LEGISLATIVE IMPLICATIONS**

48. The decisions taken based on this paper will be incorporated into the New Zealand Public Health and Disability Bill

## **COMPLIANCE COSTS STATEMENT**

49. There are no costs of compliance that have been identified.

## **REGULATORY IMPACT STATEMENT**

50. A regulatory impact statement will be included with the paper.

## **HUMAN RIGHTS IMPLICATIONS**

51. There are no implications relating to Human rights.

## **CABINET**

- i directed officials to report back to the Ad Hoc Ministerial Committee with advice on *inter alia*:
  - A the role of the Minister of Finance in respect of District Health Boards (DHBs), including provisions to be made in the enabling legislation, by 8 May 2000;
  - B development of specific rewards and sanctions for application by the Ministers, and the criteria for their application - report back for those to be incorporated into legislation by 8 May 2000, and on the complete framework by 31 August 2000;
- ii agreed that the provisions of section 26 of the Health and Disability Services Act 1993, allowing the Minister of Finance to request financial forecasts and financial information, be included in the new legislation [CAB (00) M 15/10 refers];

## **ROLE OF THE MINISTER OF FINANCE**

- b noted that the Minister of Finance has an interest in DHBs as a result of the associated fiscal risks arising from the DHBs comprising a significant component of the Crown's balance sheet and operating budget;
- c noted that papers on the Minister of Finance's role in relation to investments and major transactions will be considered by SPH on 13 June 2000 [SPH (00) 62 and 66 refer];
- d agreed that the Cabinet decision on section 26 of the Health and Disability Services Act, referred to in paragraph (a)(ii) above, be widened to enable the Minister of Finance to also request any information relevant to the economic and financial performance of DHBs or their associated bodies;
- e agreed that a risk based approach be taken regarding the Minister of Finance's roles in DHBs involving:

joint Ministerial approval being required for some DHB decisions that involve significant fiscal risk;

the Minister of Health consulting the Minister of Finance on decisions that have a lower fiscal risk; and

increased Minister of Finance involvement when a DHB represents a fiscal risk to the Crown through poor performance;

- f agreed that the Minister of Finance would initially have maximum involvement (as DHBs are established), and that the Minister of Finance in addition to his usual role:

would have the ability to request from the DHB any information relevant to the ownership interest;

would agree to the financial components of the DHB's Annual Plan, Strategic Plan and Statement of Intent;

would agree to any terms and conditions around the support of these documents; and

would have the ability to request that Treasury, in conjunction with the Ministry of Health and CCMAU, undertake a review of the financial performance of the DHB;

- g noted that the approach referred to in paragraph (f) above would require the Minister of Health to consult with the Minister of Finance in regard to key accountability documents prior to supporting such documents;
- h agreed that, for the Minister of Finance to be able to assess the level of risk in an individual DHB, the regular financial performance information and the risk assessment of each DHB will be provided to the Minister of Finance by the Minister of Health;

- i directed officials to incorporate a process for advising and resolving any differences of opinion between the Ministers of Finance and Health regarding the fiscal risk of any DHB as a part of the report back on incentives and sanctions referred to in paragraph (a)(i)(B) above;
- j directed officials to incorporate the four aspects of the Minister of Finance's role referred to in paragraph (f) above into the process for advising and resolving any differences of opinion, for any DHB whose financial performance has been poor enough that they represent a significant fiscal risk.

## Annex One

### MINISTER OF FINANCE'S ROLE UNDER PUBLIC FINANCE ACT 1989

<b>Section</b>	<b>Implications</b>
4	<p>Appropriations made via an Act in Parliament are required for any expenditure or incurring of expense or liability.</p> <p>Separate appropriations are required for each category or class of expenditure or liability.</p> <p>Can only appropriate expenditure for maximum of 5 years.</p>
7	<p>The appropriation must be classified either 'Mode B' (costs to be incurred by a department or Office of Parliament in the supply of a specified class of outputs) or 'Mode C' (expenses to be incurred on a specified class of outputs produced by a department and purchased by the Crown or by another person)</p>
9	<p>The Treasurer is responsible for laying Estimates for the financial year before the House of Representatives, setting out:</p> <ul style="list-style-type: none"> <li>?? the amounts to be charged to each appropriation within each vote;</li> <li>?? the details of capital contributions, including impact on net worth and impact on borrowings</li> <li>?? the estimated net worth of Crown entities</li> </ul>
9B	<p>The Secretary to the Treasury can request any department or any Crown entity to supply any information necessary for preparing the Estimates and Supplementary Estimates.</p>
10	<p>The Treasurer's approval is required for a department to spend trading revenue</p>
12	<p>The Treasurer can approve up to 1% of the total amount appropriated in additional expenditure in the last 3 months of any financial year.</p>
14	<p>The Treasurer's agreement is required for a department to retain any operating surplus</p>
15	<p>The Treasurer, in consultation with the Responsible Minister, shall determine the terms and conditions under which any capital injection shall be made and may vary such terms and conditions from time to time.</p>
16	<p>The Treasurer may, after consultation with the Responsible Minister, direct a Crown entity to pay the Crown part or all of any profit made.</p>

23	Investment of public money – rules around what can be done and the powers of the Treasurer and Treasury
24	Crown entities do not require Treasurer or Treasury approval for bank accounts, less rules around use and less power of Treasurer to direct regarding the use of the funds.
25	Any money that belongs to a Crown entity may be invested by the entity in the same manner as public money is invested by the Treasury

<b>Section</b>	<b>Implications</b>
29A	The Secretary to the Treasury can request any Crown entity to supply any information necessary to prepare the financial statements of the Crown and satisfy the Treasurer/ Minister of Finance that these fairly reflect the Crown's financial position.
41	Crown entities must prepare financial statements as soon as practicable after the end of the financial year. This section specifies the information to be included.
41C	Crown entities names in 6 <sup>th</sup> schedule (including HHSs) must, not later than one month before the commencement of each financial year of the Crown entity, deliver a draft statement of intent relating to that financial year and each of the following 2 financial years to the Responsible Minister.
41D	contents of statement of intent
41E	The governing body of a Crown entity must consider any comments on the draft statement of intent made by the Responsible Minister
41G	The Responsible Minister may from time to time by written notice to a Crown entity in the 6 <sup>th</sup> schedule direct the entity to modify the statement of intent (there are rules around this about Gazetting this direction etc).
41H	A Crown entity may modify its Statement of Intent by writing to the Responsible Minister
41I	Crown entities named in 6 <sup>th</sup> schedule must provide an annual plan to the Responsible Minister as soon as practicable after the end of the financial year
44	financial statements must be included in the annual plans (41I)
54	The Crown is not liable for debt incurred by a Crown entity
45B	The Crown entity must provide any information the Responsible Minister requests (except under special circumstances)
54	The Crown is not liable for debt incurred by a Crown entity
59	The Treasurer may give a guarantee or indemnity in respect of the performance of any person, organisation or government (there are some rules around this)
79	The Treasury may request information from a department in relation to the financial management, financial performance, or banking activities of the department or in relation to the management or control of any Crown asset or liability.

### *Important Schedules*

4 <sup>th</sup> schedule	lists Crown entities subject to Act
5 <sup>th</sup> schedule	lists Crown entities requires to include statements of service performance in their annual financial statements
6 <sup>th</sup> schedule	lists Crown entities required to prepare statements of intent
7 <sup>th</sup> schedule	list Crown entities subject to section 16

## **REGULATORY IMPACT STATEMENT**

### **Objective**

1. The objective of this paper is to agree the role of the Minister of Finance in respect of district Health Boards.

### **Statement of the problem and the need for action**

2. The Minister of Finance has a strategic role and responsibility for managing the Crown's overall financial position and its portfolio of assets and liabilities. Accountability for the overall stewardship of the Crown's financial position rests with the Minister of Finance.
3. From a Crown risk management perspective, the Minister of Finance will have a significant interest in the financial performance of the DHBs as the combined assets and liabilities of the DHBs will represent a very large component of the Crown's balance sheet (\$2.5 billion). Also the financial performance of the DHBs has the potential to impact significantly on the Crown's overall financial position as it represents almost 20 per cent of total Government expenditure.
4. This paper considers options to enable the Minister of Finance to manage those risks.

### **Feasible options to achieve desired objectives**

5. The paper evaluates two options to enable the Minister of Finance to manage the fiscal risks of DHBs:
  - i. Option one: Share Responsibility for Ownership Performance  
This would provide the Minister of Finance with the best opportunity to manage fiscal risks within the sector but has some disadvantages in terms of transaction costs and accountability and therefore has not been recommended;
  - ii. Option two: Risk Based Approach  
This tailors the degree of involvement of the Minister of Finance depending on the extent of perceived fiscal risk. This is the recommended approach.

### *Non-regulatory measures*

6. If agreed the proposals would require the Ministry of Health to provide regular financial performance and risk evaluation information to the Treasury in order that the Minister of Finance may make an assessment as to the level of risk in individual district health boards.

### *Regulatory measures*

7. The proposals would incorporate the role of the Minister of Finance within the regulations of the New Zealand Public Health and Disability Bill, by setting provision for involvement should it be warranted by the level of risk.

### **Statement of the net benefits of the proposals**

8. The proposal will enable the Minister of Finance to manage fiscal risks while ensuring that the Minister of Health remains the responsible Minister for district health boards.

### **Consultation**

9. The following agencies were consulted in preparation of this paper: Treasury, Crown Company Monitoring Advisory Unit, and the State Services Commission.