Health NZ: a diagnosis and the first step to recovery

Kathy Spencer

As I see it, Health NZ's poor operational performance and current budget blow-out are due to three factors.

Firstly, the way that 20 District Health Boards were merged into Health NZ from July 2022 seriously handicapped the organisation from the start. Secondly, Health NZ's management has yet to fix the problems it inherited from the flawed reform process. The third is that the government is not providing Health NZ with enough funding to get our health system onto a more stable and successful footing.

Addressing the reforms first, Health NZ says that it does not expect to start "adding value" until 2026/27 – its fifth year of operation. Four years of deteriorating performance is a high price to pay for the benefits promised by the previous government, but yet to be realised, from restructuring our health system.

The transition process was hasty and failed to get the DHBs ready to be successfully merged. Health NZ is already restructuring itself, having concluded that it is too centralised, and that some of its senior management roles are too large.

Further evidence comes from the state of the systems inherited by Health NZ for managing clinical data, HR, payroll, and finances. The Minister of Health advised Cabinet earlier this year:

"While the task of modernising this data infrastructure is very significant, there has been relatively limited progress in the past two years."

Better groundwork might have included, for example, having the DHBs move to common financial and HR systems prior to merging.

Since Health NZ took over in July 2022, there are signs that its changing management team has yet to gain control over the merged organisation. Recently, it said that its local teams and regions had become disconnected from decision-making, with less ownership of budgets and internal controls.

One consequence was that, in May this year, the organisation realised it had hired 10.4% more nurses than budgeted for (ie an excess of 3,558 nurses). Health NZ said:

"In filling roles over the last 24 months, the Care Capacity Demand Management (CCDM) method for rostering nurses became uncoupled from affordability."

Disturbingly, Health NZ talks about the size of its own nursing workforce as if it is something to be observed and commented on, rather than something under its control.

In terms of financial management, information from Health NZ showed a 2023/24 budget of $26.3 billion – of which $13.3 billion was for hospital and specialist services, and $9.0 billion was for primary and community services.

At the end of March this year, the forecast was for a surplus of $300m. By the end of the financial year, this had shifted to a deficit of $934m – a negative swing of 4.7% of budget in a 3-month period.

More important than the over-spend, however, is that Health NZ reported a "continued deterioration in operational performance", including that "waiting times for primary and specialist care are still often longer than before the pandemic".

In the latest Health Survey, 21% of adults reported not seeing a GP about a medical problem because they couldn't get an appointment in time, and 13% of adults reported that cost had prevented them from seeing a GP about a medical problem at some time in the previous 12 months.

After many years of neglect of our primary health sector: one in four GP practices reported in August this year that they were closed to new enrolments; 90% of GP practices were reluctantly increasing the fees they charge to patients; and 70% were charging for services that used to be free. Other practices are closing their doors altogether due to financial pressure.

When primary care isn't working well, it leads to health conditions going undiagnosed or deteriorating, preventable hospitalisations, and crowded Emergency Departments.

ED attendances have increased by 10% in the last 2 years and the times spent waiting are far too long, with only around 70% of patients leaving ED within 6 hours compared to the target of 95%. The answer is not to expand ED capacity, but to ensure that the vast majority of people are treated in primary care instead.

Other signs of primary care failure include very low immunisation rates for children under two, and worsening rates of hospitalisation of under 5s for conditions that could have been treated in primary care.

Turning to the third factor, is the Prime Minister right when he assures us that there's no problem with the amount of funding going into Health?

Advice from officials shows that Health NZ funding for 2024/25 included a 6.3% increase to meet cost pressures from inflation, population growth and ageing, and the emergence of new medical treatments.

This was accompanied by a commitment to further increases of 5.7% in the 2025/26 year and 5.3% in the 2026/27 year. For comparison, officials reported average DHB expenditure growth of 6.6% a year since 2016/17.

What needs to happen

While these funding increases might maintain the status quo, they will not be enough to get the health system onto a sound footing, or come anywhere near meeting the government's own performance targets.

To do that, the first step is to ensure that New Zealanders have timely and affordable access to a GP.

In 2022, the previous government was advised to significantly increase overall funding for primary care, and to increase the weightings for ethnicity and socioeconomic status in the capitation funding formula.

It's now up to the coalition government to act on that advice.

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