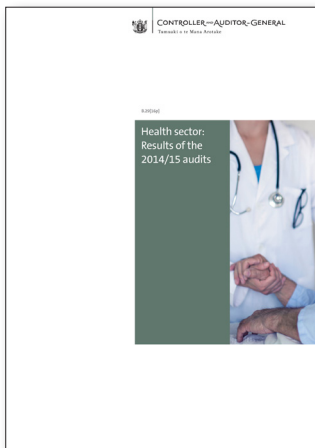




# Summary of our report

## Health sector: Results of the 2014/15 audits



The performance of the health sector greatly affects all New Zealanders. In 2014/15, the Government spent just over \$15 billion on health, which is the second-highest area of spending after social security and welfare.

Financial sustainability has been a challenge for district health boards (DHBs) for a long time. Previously, we had seen some improvements in the overall financial results, with deficits decreasing in the last few years. That trend reversed significantly in 2014/15, although much of the increase in deficits came from just two DHBs: Southern and Canterbury.

In general, DHBs are doing reasonably well at marshalling their resources for current operational needs. However, we found that their planning for the future and ability to deal with uncertainty or change is limited.

We saw indications in our 2014/15 audits that some DHBs are especially focused on achieving a particular financial result, and are basing their decisions on how they account for expenditure and revenue on this objective. This suggests that there is too much focus on the “bottom line”, which could detract from other important objectives, such as sound asset management and financial resilience.

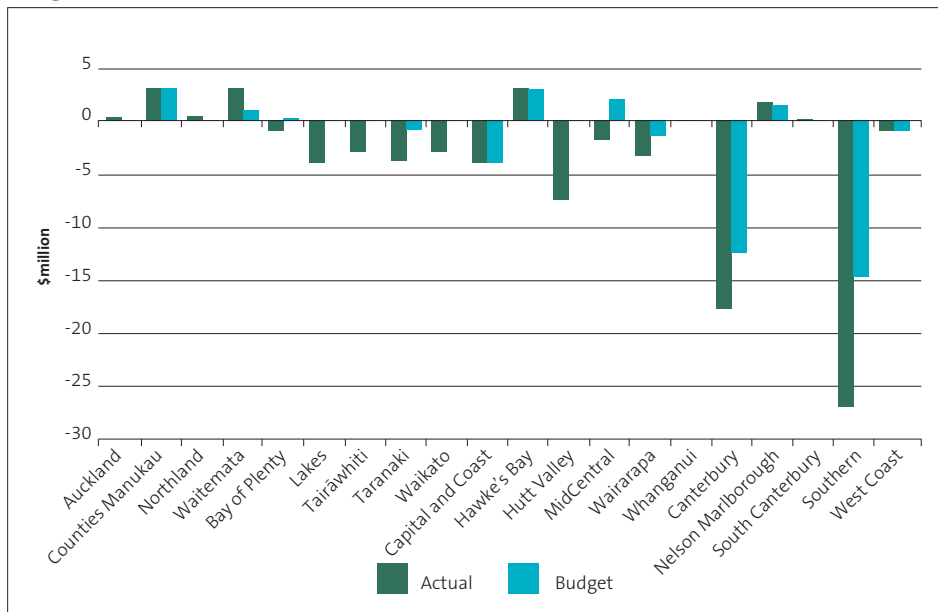
Among the many costs contributing to financial pressure on DHBs is the capital charge that the Government places on DHBs’ net equity. It is not clear what the capital charge regime is actually achieving in the health sector. If anything, it appears to be giving DHBs an incentive to use debt funding.

Other financial stresses result from the overall pressures the DHBs are operating under. These pressures include growing demand from population growth and demographic change, particularly the ageing of the population. A strategic response to such change is the updated New Zealand Health Strategy, which the Minister of Health launched in April 2016. The Strategy notes that maintaining services as they are currently provided will probably become unaffordable, and that an increased emphasis on maintaining health and illness prevention is needed. The sector needs to continue controlling its finances carefully and maintain service quality as it moves to new ways of doing things.

### Vital statistics:

- 56 pages
- Presented to Parliament on Thursday 9 August 2016
- Contact: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)

### Budgeted and actual financial results for district health boards, 2014/15



There were two significant structural changes in the sector in 2014/15. One was the replacement of the Southern DHB board with a commissioner, after several years of poor financial results from the DHB. Our report sets out the main findings from our audit of Southern DHB.

The other major change was the winding-down of Health Benefits Limited (HBL) and its replacement with a DHB-owned entity. In 2015, we inquired into HBL. We found that developing shared services for multiple entities is difficult and creates both risks and opportunities. We noted 11 lessons that are applicable to any shared-services programme, which we recommend to any agency developing programmes involving multiple entities.

DHBs collectively manage physical assets worth \$5.7 billion. Many of these assets are essential to providing healthcare. We have found several areas of weakness in the way DHBs manage their assets and associated capital expenditure. They appear to be unduly focused on delivering short-term results. In our view, DHBs need a longer-term perspective on managing assets and related capital investment.

The role of information and information technology in the provision of health services continues to grow. This places an increasing obligation on the sector to manage its information responsibly and securely. We found that DHBs had made slow but steady improvements to their information technology security, which we encourage them to continue. We are still concerned about the adequacy of DHBs' business continuity and information technology disaster recovery planning. Some DHBs may be delaying the development of these plans because they expect national initiatives to provide solutions, but it is important that DHBs manage such risks in the meantime.

The health sector faces many challenges, and our audits reveal some weaknesses and matters that need to be worked on. But we also see much that is positive, and many significant achievements and improvements despite the challenging environment.