DEPARTMENT OF THE PRIME MINISTER AND CABINET
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Proactive Release

The following documents have been proactively released by the Department of the Prime Minister and Cabinet (DPMC), on behalf of Hon Andrew Little, Minister of Health:

Health and Disability System Reform Briefings October 2021 to January 2022

The following documents have been included in this release:

Title of paper: Health Reforms: Realising the Digital Shift for the Health System

Title of paper: Development of the Interim Government Policy Statement for the Reformed Health and Disability System

Title of paper: Further advice on the Interim Government Policy Statement - Priorities for Inclusion

Title of paper: Health Reform: Choices to Expand the Public Offer

Title of paper: Health Reforms: Public Health Transformation

Title of paper: Health Reforms: Addressing Workforce Supply and Demand

Title of paper: Localities: Setting a Narrative, and Updating on Rollout and Prototypes

Title of paper: Further Advice on the Interim Government Policy Statement – High Level Approach to Priorities

Title of paper: Monitoring Arrangements for the New Health System

Title of paper: Restructure of Vote Health Appropriations to Support Health Reforms

Title of paper: Health Reform – Progress Update and Assurance Framework

Title of paper: Update on the Pae Ora Bill: Select Committee Progress and Further Policy Decisions

Title of paper: Pae Ora Bill: Key Policy Decisions for Recommendation in the Departmental Report

Title of paper: Allocation of Commissioning Budgets Across Future Health Entities

Title of paper: Health Reform: Transfer of Functions from Ministry of Health to New Entities

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant section of the Act that would apply has been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

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TE TARI O TE PIRIMIA ME TE KOMITI MATUA

Key to redaction codes:

- section 9(2)(a), to protect the privacy of individuals;
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TE TARI O TE PIRIMIA ME TE KOMITI MATUA

Briefing

HEALTH REFORM: TRANSFER OF FUNCTIONS FROM MINISTRY OF HEALTH TO NEW ENTITIES

To	Ministerial Group on Health and Disability System Reform; Hon Chris Hipkins, Minister for Public Service; Hon Ayesha Verrall, Associate Minister of Health; Hon Aupito Sio, Associate Minister of Health	**Report No**	DPMC-2021/22-1221
From	Stephen McKernan, Director Health and Disability Review Transition Unit	**Date**	20/01/2022

Purpose

This briefing seeks your agreement to the proposed transfer of functions and full-time equivalent staff (FTEs) from the Ministry of Health (the Ministry) to the interim Māori Health Authority (iMHA) and interim Health NZ (iHNZ), and the proposed transfer plan. Note that this advice has been a collaborative effort across the Transition Unit, Ministry and interim entities, and we will continue to work closely as a collective through the ongoing process.

You are asked to approve a subset of the overall functions and their associated staff, departmental expenditure and accountabilities to formally transfer on 1 March 2022 (tranche 1). With your agreement, the interim entities and Ministry will commence the transfer process, including formal change processes for relevant staff in the tranche 1 transfers.

Officials will come back to you in mid-February with advice on the split of non-departmental expenditure (NDE) and departmental expenditure (DE) for later transfers, in time to complete appropriation changes for outyears funding allocated in Budget 2021.

Recommendations

a. **Note** that the Ministry of Health, Transition Unit and interim entities have worked together to agree the functions and overall quantum of FTEs to transfer from the Ministry to each of the interim entities, and develop the transfer plan.

b. **Note** that the functions transfer recommendations were informed by detailed functional analysis underpinning the design of the system operating model that the Transition Unit developed in early 2021, the Ministry's current state

analysis of its existing staff and functions, and the interim entities' organisational priorities.

Transfer of accountability

c. **Note** that at their September 2021 meeting, the Ministerial Oversight Group approved an overall transfer plan, which has since been amended to commence on 1 March 2022 in order to better align with corporate month-end processes, and two later tranches to transfer concurrently to reduce change impacts.

d. **Agree** that the following functions and their associated accountabilities will transfer from the Ministry on 1 March 2022:

i. To iHNZ: **Yes / No**

(i) Health infrastructure

(ii) Employment relations

(iii) Pacific health commissioning

(iv) Some components of DHB performance monitoring and support (acute demand and system flow)

(v) Six data and digital infrastructure and planning teams

ii. To iMHA: **Yes / No**

(i) Māori health commissioning

(ii) Policy

(iii) Other vacant positions that could be repurposed to support establishment

e. **Note** that later tranches of transfers are expected to formally occur by early May 2022, and that confirmation of this date will be provided at the time of seeking your approval to proceed.

f. **Note** that transfer of formal accountabilities will be confirmed via a letter from the Minister of Health to the Chief Executives of the interim entities and the Director-General of Health.

Transfer of FTEs and budget

g. **Agree** to the following overall transfer of FTEs, which will be a mix of filled and vacant positions across the functions that will transfer:

i. 761 FTE to iHNZ **Yes / No**

ii. 66 FTE to iMHA **Yes / No**

h. **Note** that approximately 465 FTEs from three data and digital teams and the COVID-19 health system response and vaccine programme are still to be

confirmed, with further design work underway across the entities to confirm the distribution of resources and the proposed timing of transfer.

i. **Note** that the proposed number of FTEs outlined in recommendation g are the minimum number of FTEs to transfer to the interim entities, as the further work described in recommendation h is likely to result in further FTEs and functions to be transferred.

j. **Note** that the proposed split of non-departmental expenditure will be provided to you in mid-February, along with the proposed total amount of departmental expenditure to inform Budget processes.

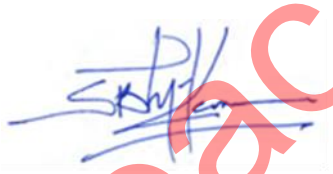
k. **Agree** that the principle applied in deriving the non-departmental expenditure and departmental expenditure split is that the non-departmental expenditure and DE associated with a function will transfer with that function.

l. **Note** that officials are seeking independent advice on the best practice process to conduct transfers from the Ministry to the new entities, in light of the initial transfers occurring ahead of new legislation coming into effect, and will keep the Minister of Health and Minister for Public Service informed on this.

Next steps

m. **Note** that the Minister of Health will be kept updated on progress of the tranche 1 transfers in the first instance, with an overall reform progress update due to Cabinet in March 2022.

n. **Note** that the four agencies will continue to progress design work in the areas mentioned in recommendation h, and come back to you with advice on the recommended transfers in coming months.

 Stephen McKernan Director **Health Transition Unit**	Rt Hon Jacinda Ardern **Prime Minister**
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Hon Grant Robertson **Minister of Finance**	Hon Andrew Little **Minister of Health**
…../…../….	…../…../….
Hon Peeni Henare **Associate Minister of Health**	Hon Carmel Sepuloni **Minister for Disability Issues**
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Hon Chris Hipkins **Minister for Public Service**	Hon Ayesha Verrall **Associate Minister of Health**
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Hon Aupito Sio **Associate Minister of Health**
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DEPARTMENT OF THE PRIME MINISTER AND CABINET
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HEALTH REFORM: TRANSFER OF FUNCTIONS FROM MINISTRY OF HEALTH TO NEW ENTITIES

Executive summary

1 In September 2021, the Ministerial Oversight Group agreed to a transfer plan that outlined three tranches of functions to transfer from the Ministry to the interim entities, commencing in February 2022 (DPMC-2021/22-353 refers). This was then outlined in an update to Cabinet Social Wellbeing Committee in October [SWC-21-MIN-0163]. It is now recommended that the first tranche of transfers formally commence on 1 March 2022 to better align with corporate month-end processes.

2 The Transition Unit, Ministry, iHNZ and iMHA have worked together to agree which functions will transfer from the Ministry to the interim entities, and the FTE associated with the functions. At this stage, 761 FTEs are proposed to transfer to iHNZ, and 66 FTEs to iMHA. A further 465 FTE are yet to be confirmed, so the proposed numbers of FTEs to transfer should be viewed as a minimum number of transfers.

3 The further 465 FTE to be confirmed are from the following functions:

a. COVID-19 Health System Response

b. COVID-19 Vaccine and Immunisation Programme

c. Some national data and digital functions.

Officials are continuing to work together under the leadership of the Chief Executives of the interim entities, the Director-General and the Director of the Transition Unit to arrive at agreed recommendations for the future placement of the above functions, how the entities will work together to ensure a smooth transition in the COVID-19 response areas, and the timing of transfers. Your approval will be sought for these areas in due course.

4 The functions and FTEs proposed to transfer in tranche 1, on 1 March 2022 are:

a. To iHNZ: 300 – 320 FTEs

i. Health infrastructure

ii. Employment relations

iii. Pacific health commissioning

iv. Some components of DHB performance monitoring and support (acute demand and system flow)

v. Some data and digital infrastructure and planning

b. To iMHA: up to 66 FTEs

i. Māori health commissioning

ii. Policy

iii. Other positions to support establishment, including vacancies that could be repurposed.

5 Officials have sought independent advice on the best practice process to conduct the transfers from the Ministry, noting that these FTEs will transfer in two steps, the first to the interim entity, and then the second step to the final entity when new legislation comes into effect. We will keep the Minister of Health and Minister for Public Service informed on this.

6 Advice will be provided to you in mid-February on the allocation of NDE and DE across the entities.

Context

7 On 27 October 2021, Cabinet Social Wellbeing Committee (SWC) noted that transfer of key operational functions from the Ministry to interim entities will commence ahead of 1 July 2022, and will broadly occur over three tranches starting in February 2022 [SWC-21-MIN-0163].

8 Early transfer of functions to the new entities is an important step in the overall implementation of reforms. It sends a signal to the sector and communities that the transition is happening and happening at pace, and enables the new entities time to build necessary processes, structures, leadership, capacity and capability for their future functions. It also provides an opportunity to give Ministers confidence that the business processes and governance arrangements in the new entities are sufficient to oversee their full suite of operations and accountabilities from 1 July 2022, and that there are established working relationships across the three national entities that enable them to work together as a single system.

9 Progressing with the transfers at pace is critical for the reasons outlined above. However, it is important to note that these transfers will occur in the context of the health system and Ministry preparing for, and in the near future likely responding to, cases of the omicron variant of COVID-19 in our communities. The Ministry and interim entities will continue to work with best endeavours to meet the planned timelines. As a part of the final readiness assessment, the Chief Executives of the interim entities, Director-General and Director of the Transition Unit will assess whether it is appropriate to progress with transferring particular functions at that point in time given COVID-19 demands. Officials will keep the Minister of Health informed of any potential delays in the first instance.

10 This advice does not cover the detailed design or final size of the respective entities, nor does it provide commentary on the right-sizing of functions. For context, the number of residual FTEs to remain in the Ministry has been presented along with a view of how the size of the Ministry will reduce over time as COVID-19 functions are transferred or become absorbed into business as usual functions as the disease becomes endemic. The purpose of providing this information to you is to provide a sense of what is available to be transferred (i.e. a denominator), and an indicative view of what is required to resource the Ministry in the longer term. Independent advice on the future size and functions of the Ministry has been provided to the Minister of Health.

11 The four participating agencies have worked together collaboratively, with each investing significant time and focus from senior leaders to reach shared advice. Our collective approach has balanced pragmatism - acknowledging that in some cases there was not a

straightforward or obvious answer and we have had to make a best estimate - while working to keep the integrity of the overall system operating model and the intended roles of each of the future agencies intact. The incoming Chief Executives of the interim entities are beginning to get involved in the process and familiarise themselves with the approach and recommendations. There may be some further iterating in later tranches of FTEs and timing of transfers.

Overall transfer plan

12 At their September meeting, the Ministerial Oversight Group agreed to a transfer plan that outlined three tranches of transfer, commencing in February 2022 (DPMC-2021/22-353 refers). The proposed transfer plan has not materially changed, with two exceptions:

a. Tranche 1 is recommended to commence on 1 March 2022 to better align with corporate month end processes, instead of during February as previously noted.

b. Officials are considering progressing tranches 2 and 3 concurrently to minimise the change impact for people, and to simplify processes for the receiving entities. It is not anticipated that progressing these two tranches concurrently would result in any delays. Irrespective of whether these tranches are combined, all transfers will occur before 1 July 2022, with most expected to be completed before the end of May 2022.

13 As noted in the October SWC paper, the transfer plan has been developed based on an assumption that formal accountability for a function will transfer with it by default [SWC-SUB-21-0163]. We have taken transfer of accountability to mean that the receiving entity will become responsible for the performance and delivery of a function, the associated FTEs, departmental and non-departmental expenditure and, where applicable, be delegated statutory accountabilities. The Chief Executive of the receiving entity will be accountable to the Minister of Health for the function. The Director-General and Ministry as the steward of the system will monitor the functions in the interim entities, as a part of its overall system monitoring role.

14 The Ministry currently has approximately 2,500 FTEs that are a mix of permanent and fixed term staff. This total includes staff employed to work on the Ministry's COVID-19 response and COVID-19 Vaccine and Immunisation Programme, hence the baseline number of FTEs is higher than what the Ministry has had in pre-COVID-19 years, and would not have been expected to continue at this level. Of the 2,500 FTEs, 130 are anticipated to transfer to the new Ministry for Disabled People, being in teams focussed on disability support services and disability policy. Contractors have not been included in the count of Ministry FTEs or the FTEs to be transferred but will instead be addressed in later advice relating to transfer of DE. Officials are currently working through how many of the Ministry's existing contractors are likely to be in place beyond 1 July 2022.

Approach to reaching agreement on FTEs

15 The Transition Unit, Ministry, iHNZ and iMHA have worked together to form a concrete view of how the different functions will be carried out across the entities in the short and medium term, and the capacity and capability requirements for each entity. The analysis was informed by:

a. detailed functional analysis developed by the Transition Unit when designing the future system operating model, which articulated the roles and some of the practical day-to-

day activities of the different entities across the system for every category of function in the health sector (e.g. strategy, policy, service delivery etc).

b. the current number of FTEs within the Ministry, and the allocation of these FTEs across its existing functions.

c. due diligence on the functions proposed to transfer in tranche 1, which involved descriptions of the work programmes currently undertaken by the Ministry teams and upcoming commitments and milestones, risks and challenges (e.g. legal liabilities), current mitigation strategies and implications (financial and other) for the receiving entities.

d. the interim entities' organisational priorities, including priority areas for transformation and transition. This has included where current FTEs are required to support transition activities to enable permanent entity establishment.

16 Officials looked at where functions would be carried out in future, and used the following broad categories to support the approach to allocating resources:

a. the function would be performed solely by the Ministry, whereby the function, the FTEs and budget would remain in the Ministry

b. the function would be performed solely by one of the new entities, whereby the function, teams and budget would transfer intact / wholesale to the receiving entity

c. the function would be performed across or by multiple entities, whereby FTEs and budget would be distributed across the relevant entities, with the proportion of FTEs and budget determined by a best estimate of future requirements.

17 The approach to agreeing functions and FTEs to transfer was slightly different for each entity, to take into account the different contexts and requirements they have. iHNZ will be inheriting live operational functions, which are already underway with established teams. The focus for iHNZ was to ensure continuity of operations and that the work transfers seamlessly. On the other hand, iMHA will be establishing itself as a new entity and will need to build many of its functions. Most of the functions iMHA will inherit will be split across multiple entities, and existing expertise in Māori health is limited. The focus for the iMHA transfers was to transfer more corporate roles than for iHNZ to support recruitment and establishment, and a number of vacant positions to enable the iMHA to recruit people with the right skills and experience for its future role. The Ministry has also proposed to support the iMHA by providing fixed term secondments (such as some policy staff) to support establishment.

18 The Ministry and interim entities have reached agreement on most functional areas to transfer, the number of FTEs and DE associated with these functions, presented in the table below. There are a number of areas (described in the following subsection) where officials are still working through the practicalities of how a function would work day-to-day across entities and where resources best sit. With that in the mind, the number of FTEs to transfer to the new entities below is a minimum, and is likely to increase as officials work through outstanding areas. The DE may also be amended following financial due diligence.

19 It is also worth noting that there will be some transferring between iMHA and iHNZ in areas where iMHA would have a particular interest or direct or co-commissioning role, such as population health and public health programmes, mental health programmes, and national commissioning and planning of primary and community services. The iMHA and iHNZ are

also considering shared roles that could exist across their entities in key areas, which may not result in formal transfers of FTE, but rather shared appointments and teams. These discussions remain ongoing and will be a part of future advice.

Table 1. Agreed functions and overall number of FTEs to transfer

Receiving entity	**Proposed functions to transfer**	**Total proposed FTE to transfer across all tranches**
iHNZ	*Tranche 1 – proposed to transfer 1 March 2022* - Health infrastructure - Employment relations - Pacific health commissioning - DHB performance monitoring and support (some components; described below) - Data and digital (some components; described below) *Tranches 2 and 3 (proposed to transfer early May 2022)* - Workforce - Audit and compliance - Mental health programmes - National commissioning and planning of primary and community services - Population health and public health programmes	761
iMHA	*Tranche 1 – proposed to transfer 1 March 2022* - Māori health commissioning - Policy - Other positions to support entity establishment, such as corporate roles and vacancies (note that some may occur in later transfers) *Tranches 2 and 3 (proposed to transfer early May 2022)* - National commissioning and planning of primary and community services (TBC)	66

Areas to be confirmed

20 As noted above, there are a number of areas where the agencies are continuing to confirm either the final number of FTEs to be transferred. These areas are:

a. COVID-19 Health System Response

b. COVID-19 Vaccine and Immunisation Programme

c. Some national data and digital functions.

Across the above areas, the placement of approximately 465 FTEs is to be confirmed.

21 In the case of the COVID-19 response and immunisation programme (a and b) there has been in principle agreement that most roles are operational in nature and therefore would transfer, with the final number and timing to be confirmed. The further work takes into consideration the distribution of resources across the Public Health Agency, iHNZ and iMHA. The incoming leadership of iHNZ have already signalled a desire to receive COVID-19 functions, in particular the management of the sector's response to COVID-19, as an early transfer in order to ensure these functions are well embedded in the future entity; further advice will follow on this in due course. Note that the National Immunisation Programme has been agreed to transfer out of the Ministry to iHNZ, but the timing of this is yet to be confirmed.

22 The Ministry's data and digital directorate has nine teams. Six are already proposed to transfer to iHNZ in tranche 1 and three teams still to be confirmed. The six teams that are transferring in tranche 1 are teams that either more directly support the sector and their operations (e.g. health sector payments) or are necessary for iHNZ to be across before receiving functions in later tranches (e.g. digital strategy and investment). Officials from the participating agencies recommend that Ministers agree to proceed with the six teams proposed to transfer in tranche 1, and make any further data and digital transfers in a later tranche. The Treasury and Public Service Commission have suggested that no data and digital functions transfer until all are resolved through joint governance (described in paragraphs below).

23 The functional areas still to be worked through relate to where national data collections will be held in future, how data will be managed and governed including reporting and data standards and the future information communications technology (ICT) and associated capability requirements for each entity. Consideration of the iMHA data and digital requirements are yet to be fully scoped and may result in some data and digital transfers to iMHA.

24 The Ministerial Oversight Group have previously received advice that the national data collections will transfer to iHNZ. The national data collections are a significant asset for the system, both as a mechanism to report key indicators of population health and system performance, but also as an operational asset that enables service planning. The reforms present an opportunity to think about the national collections and other datasets as strategic assets for the system. This may involve more closely aligning data management, governance and access arrangements and protocols with the future government direction led by Stats NZ, including Māori data sovereignty requirements. For this reason, the four agencies wanted to work through options more thoroughly before arriving at where the functions, FTEs and budget will ultimately sit and how the agencies will practically work together.

25 To work through this, the collective agencies have established a Data and Digital Governance Group, comprised of senior leaders to work through options and agree a recommended way forward. The approach of standing up shared governance to rapidly work through a system wide issue is one that could be adopted in future, and we anticipate that this process will provide valuable lessons for working effectively as one system through complex problems.

FTEs to remain in the Ministry

26 With the proposed number of FTEs to transfer, around 1,200 FTE will remain at the Ministry on 1 July 2022 if all 465 FTEs that are yet to be confirmed also transfer to one or both of the new entities. As mentioned in the introduction, a further 130 FTE are proposed to transfer to the Ministry for Disabled People leaving around 1,100 FTE in the Ministry. Of these 1,100 FTE, the Ministry estimate that around 200 FTE will be working within the Public Health Agency.

27 There are two key points to note when considering the size of the future Ministry:

a. A number of areas are temporarily inflated due to additional staff supporting the COVID-19 response and vaccination programme. This is not limited to the teams working directly on these functions; it also includes corporate and other support staff who have been brought in to support the heightened demand for operational management that comes with a larger Ministry, and time-limited teams with many contractors, secondees and fixed term staff. By virtue of these functions transferring or winding down, the number of corporate and support FTEs will reduce. The Ministry estimate that by July 2024 their FTEs will be closer to 850 in total, including the Public Health Agency and Te Aho o Te Kahu / Cancer Control Agency.

b. Like the new entities, the Ministry is undertaking a process of organisational design and change. The way FTEs are distributed across its remaining functions at 1 July 2022 may not be what is required in future, and as such, there may be internal movement with functions increasing and decreasing in size.

28 As mentioned in the introduction, the purpose of this briefing is not to provide advice on the final size of the Ministry. The focus is instead on whether the functions that remain are the ones required for the Ministry of the future, and align with the Cabinet decisions taken in March 2021. I am confident that the exercise undertaken by the four agencies, and the work that will continue over the coming months, is leading towards an appropriately focussed Ministry with functions that are required to be an effective steward of the system, without obvious duplication of roles across entities. Officials will continue to work together on detailed design of functions that are cross cutting (such as public health and monitoring) to ensure the divisions between entities are clear.

Departmental and non-departmental expenditure

29 As mentioned above, advice on the recommended allocation of NDE and DE will be provided in mid-February. Decisions taken on which functions will transfer and where will be reflected in baseline updates where possible.

30 Consistent with our overall approach, the approach to working through the allocation of funding across the agencies has been to be as pragmatic and as simple as possible, while taking care to ensure that each of the agencies will be resourced to fulfil their role and

functions to the extent possible in existing resources. The following subsections outline some of the principles that have been used to guide the approach.

31 In the interim period, NDE and DE will not be formally transferred across entities. Instead, funding will be managed internally by the responsible agency via different cost centres while the interim entities are departmental agencies within the Ministry. This arrangement is proposed until new legislation comes into effect and new appropriation structures are stood up on 1 July 2022.

Non-departmental expenditure

32 The Ministry's NDE (based on the October 2021 Baseline Update) is approximately $7.2 billion, $1.8 billion of which is allocated to disability support services and is therefore not in scope for transfer to iHNZ or iMHA. The remaining $5.4 billion funds a range of national contracts, some of which are managed by DHBs, other services such as the collection of the New Zealand Health Survey, public health, or is allocated to stand alone funds that the Ministry uses to support innovation, provider and workforce development, such as the Māori Provider Development Scheme. Approximately 7,900 contracts are funded from Ministry NDE, of which 680 are contracts with DHBs.

33 There is a parallel process underway to work through the NDE funded contracts to determine which agency should be the contract holder in future. However, officials are working to a broad principle that where possible, NDE will follow the function; that is the contracts and associated funding will sit with the entity responsible and accountable for commissioning the delivery of health services in line with Government and other policy objectives. For example, the Māori Provider Development Scheme fund will transfer with the Māori health commissioning team, who currently manage this fund.

34 The Ministry's non-departmental capital expenditure (based on the October 2022 Baseline Update) is approximately $0.9 billion. The key areas of spend relate to the Health Capital envelope 2020-2025 (approximately $0.772 billion, including the New Dunedin Hospital), Equity Support for DHB deficits ($0.114 billion) and Residential Care Loans ($0.020 billion). Officials provided a joint briefing (dated 6 December 2021 – Briefing: HR 20212335 | DPMC-2021/22-1008) to the Minister of Finance and Minister of Heath in relation to the treatment of these items to support the health reforms.

Departmental expenditure

35 Where teams or business units are moving intact to interim entities, the process to identify the associated DE is relatively straightforward. Generally, where whole teams are transferring, the full cost of FTE and other associated DE will transfer with the positions. However, where teams or cost centres will be split across future entities, the Ministry and interim entities will apply pro-rate funding to follow FTEs. Further advice will be provided on this in February 2022.

Tranche 1 transfers

36 A subset of functions have been identified for the first tranche of transfers, proposed to formally transfer on 1 March 2022. The functions in tranche 1 are:

a. To iHNZ:

i. Health infrastructure

ii. Employment relations

iii. Pacific health commissioning

iv. Some components of DHB performance monitoring and support (acute demand and system flow)

v. Some data and digital infrastructure and planning

b. To iMHA:

i. Māori health commissioning

ii. Policy

iii. Other positions to support establishment, including vacancies that could be repurposed.

37 Across the above functions, the proposed FTEs to transfer in tranche 1 are:

a. *To iHNZ:* 300 – 320 FTEs

b. *To iMHA:* up to 66 FTEs

The 66 FTEs comprise of filled positions that will transfer, and vacancies. Secondments will be made to the iMHA to support establishment, but may not be the final positions that transfer. The vacant positions will transfer from 1 March 2022.

Note that funding awarded to iMHA and iHNZ in Budget 21 for establishment or change costs is already available to the interim entities.

38 The following criteria were used to select these functions for tranche 1:

a. *Ease of transfer* – functions that could be transferred relatively intact or without significant change were prioritised to go early to allow more time to plan for functions with more complex transfer or change requirements (e.g. health infrastructure).

b. *Enablers* – enablers were prioritised to be in place and operational in the new entity early to support the smooth transition or build of following functions (e.g. data and digital, some corporate roles to iMHA).

c. *Early organisational priorities* – functions that were required to progress priorities for 2021/22, or to allow time to make progress on transformation of the function prior to 1 July 2022 and realise early benefits against reform objectives (e.g. Māori health service improvement, Māori health policy, DHB performance monitoring and support, Pacific health commissioning).

d. *Management of future liabilities or risk* – areas where the transition to new structures poses financial or performance risk, and would be best managed by the future entity that would inherit that risk or liability (e.g. employment relations).

39 Due diligence has been undertaken on the above functions, with further financial due diligence across all tranches to follow. The focus of the tranche 1 due diligence was to surface any risks or liabilities for the receiving entities, and to understand the current mitigations in place. The process also highlighted where there are corporate roles dedicated, either by design or by circumstance, to particular functional areas (e.g. finance

support to health infrastructure). Officials determined on a case by case basis whether the corporate role(s) should transfer with the functional teams, or instead be loaned until institutional knowledge is built in the receiving entity.

40 Officials have prepared a week-by-week timeline of the process leading to formal transfer on 1 March. The timeline draws on the checklist of the conditions that must be met in both the giving and receiving entities that was described to SWC in October [SWC-21-SUB-0163] (e.g. reporting lines have been determined in the receiving entity, change process has been undertaken in the giving entity), and will be monitored by the Chief Executives of iHNZ, iMHA, the Director-General and Director of the Transition Unit. Pending your approval, in mid-February the joint leaders will collectively assess the readiness to proceed with the transfer on 1 March as planned, and keep the Minister of Health updated on progress.

41 The transfer process will include a change management approach that seeks to reinforce the objectives of the reform and embed the culture of the future entities (including those that remain in the Ministry) early. The Ministry and interim entities are working together to identify practical changes (e.g. co-location of interim entity staff) and other ways, such as whakatau, to signify that the transfers are a genuine change for employees, and a mark of the new system.

42 Officials have sought independent advice on the best practice process to conduct the transfers from the Ministry, noting that these FTEs will transfer in two steps, the first to the interim entity, and then the second step to the final entity when new legislation comes into effect. We will keep the Minister of Health and Minister for Public Service informed on this.

43 Note officials are exploring whether the employment relations function from Technical Advisory Services (TAS) could transfer into iHNZ concurrently with the employment relations team from the Ministry. The benefit of transferring the teams together is to enable a ‘one team’ culture across this function, and to better manage risk of financial liabilities from industrial relations negotiations prior to 1 July. Officials will further advise the Ministers of Health and Finance on this option.

Interim arrangements

44 Whilst the interim entities are departmental agencies, the ability to share capability and resources is significantly more straightforward due to the existing Departmental Agency Agreements. As mentioned above, DE and NDE will not formally transfer ahead of 1 July 2022, the departmental agency arrangement enables the funding to be managed internally by the different entities via different cost centres.

45 The interim entities will be partly supported by Ministry corporate functions and technology in the short term, which gives the three agencies time to plan and work through corporate transition. The extent to which all or some combination of the three agencies continue to share corporate resources on an ongoing basis is still being considered.

46 Ministers have consistently been advised that there are some functions where capability and capacity are underpowered for the future requirements of the system, and where workforce retention is vital to maintaining overall critical mass for the system. There is a risk that where multiple agencies have a common requirement for capability that is already constrained and difficult to source, the three agencies will inadvertently compete for the same talent or will fail to deliver on system priorities due to individual agencies struggling to resource critical work programmes. To avoid this, officials have agreed to develop shared work programmes for the short-medium term in key areas, and shared recruitment strategies. Workforce

capacity and capability will continue to be a challenge beyond the transition / interim period, however, these steps to work collectively in the short-term will support strong foundations for the system moving forward.

Consideration of risks

47 Transferring of functions across entities is not without risk, particularly at a time when the health sector is responding to multiple demands and pressures. Officials have built in risk mitigations into the process to ensure risks are sufficiently monitored and managed. These are:

a. *Risk to transfer* – as mentioned in the introduction, the ongoing demands on the Ministry and sector to respond to COVID-19 may mean it is not feasible to proceed with transferring some functions on a precise date. This will be monitored by all four agencies, and options on how to proceed will be developed if required.

b. *Readiness of agencies to transfer* – officials have developed a clear week by week timeline and checklist to ensure what is required of each agency is understood, and monitored against. The Chief Executives of the interim entities, Director-General and Director of the Transition Unit will jointly confirm readiness to proceed with tranche 1 in mid – late February based on the jointly developed checklists.

c. *Performance of the function* – the due diligence process will surface any existing risks to performance of the function, along with risks that may emerge as a result of transfer. Where possible, functions are transferring with existing leadership and with teams as intact as possible to ensure continuity of the day to day work.

d. *Accountability for the function* – letters will be issued from the Minister of Health to the Ministry and interim entities to clarify accountability for the transferred functions, and convey any expectations. Communications will also be provided to the sector.

Consultation

48 The interim entities and Ministry have contributed to the development of this advice. The Treasury and Public Service Commission were consulted, and will continue to be engaged through the transfer process.

Next steps

Tranche 1 transfers

49 Pending your approval, officials will embark on the change process for employees in functions due to transfer on 1 March 2022. The joint leadership group (Chief Executives of the interim entities, Director-General and Director of the Transition Unit) will confirm readiness to proceed on 1 March 2022 in mid-February and keep the Minister of Health informed on progress against this milestone. Cabinet will be updated on progress in March, as a component of the quarterly reforms progress update from the Minister of Health.

Further advice and decisions

50 Officials will continue to work through the allocation of DE and NDE across the agencies, and provide advice in mid-February on the recommended split of funding. This advice will

account for future decisions from the Ministerial Oversight Group on the allocation of commissioning budget across HNZ and MHA from 1 July 2022.

51 Officials from across the four agencies will continue to work through the allocation of COVID-19 and data and digital functions. The boards of the interim entities have indicated a desire to have visibility of this process and advice. It is our intention to also involve relevant cross-government stakeholders such as Stats NZ and the office of the Government Chief Digital Officer in working through options for future data and digital functions. We will return to you with advice by April 2022.

52 As stated, tranches 2 and 3 are proposed to transfer around May 2022. We will seek your approval to proceed with transfer of these tranches in April 2022, and update you on the outcome of the financial due diligence process.