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9 September 2020

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Ref: H202005192

Dear [redacted]

Response to your request for official information

Thank you for your request under the Official Information Act 1982 (the Act) on 14 July 2020 for:

> *"I request a copy of the report conducted by Martin Jenkins consulting in 2019 or 2018 regarding a review of St Johns Ambulance. The report may be regarding funding. I understand the title of the report is "Martin Jenkins review of St Johns Ambulance"."*

On 11 August 2020, the due date for responding to your request was extended under section 15A of the Act as further consultation was required.

A copy of the document *'MartinJenkins' Review of St John'*, released on 12 September 2019, is attached to this letter. Please note this document is released to you in full.

I trust that this information fulfils your request. Under section 28(3) of the Act you have the right to ask the Ombudsman to review any decisions made under this request.

Please note that this response, with your personal details removed, may be published on the Ministry of Health website.

Yours sincerely

Clare Perry

Clare Perry
Deputy Director-General (Acting)
Health System Improvement and Innovation

MARTIN JENKINS

MARTINJENKINS' REVIEW OF ST JOHN

Final Report

12 September 2019

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PREFACE

This report has been prepared for the Ministry of Health, the Accident Compensation Corporation and The Order of St John by Kevin Jenkins, Nick Hunn, Joanna Collinge and Mette Mikkelsen from MartinJenkins (Martin, Jenkins & Associates Limited).

MartinJenkins advises clients in the public, private and not-for-profit sectors. Our work in the public sector spans a wide range of central and local government agencies. We provide advice and support to clients in the following areas:

- public policy
- evaluation and research
- strategy and investment
- performance improvement and monitoring
- business improvement
- organisational improvement
- employment relations
- economic development
- financial and economic analysis.

Our aim is to provide an integrated and compr hensive response to client needs – connecting our skill sets and applying fresh thinking to lift performance.

MartinJenkins is a privately-owned New Zealand limited liability company. We have offices in Wellington and Auckland. The company was established in 1993 and is governed by a Boa d made up of executive directors Kevin Jenkins, Michael Mi ls, Nick Davis, Allana Coulon and Richard Tait, plus independent d rector Sophia Gunn and chair Hilary Poole.

EXECUTIVE SUMMARY

The review brief and its background

The Order of St John is New Zealand's main ambulance service provider. It delivers a core frontline health service under a service contract with the Ministry of Health and ACC.

MartinJenkins was engaged by the Ministry, ACC and St John to assess St John's short-term financial and operational sustainability, specifically in relation to its delivering of emergency ambulance services in accordance with its current four-year contract.

The review brief included assessing the robustness of St John's governance and management practices; financial management practices; service delivery, quality and volumes; and capital asset management practices.

Background to the review

We treated the findings of the 2016 Horn report[1] as a baseline for our review. The Horn report made these recommendations and observations:

- St John has autonomous status, and this autonomy al o requires it to live within its means, and to not come back to the funders t fund poor decisions or cover financial risks that have no been well managed.
- The funders, the Ministry of Health and ACC, need to ac ommodate an increase in demand growth that cannot reasonably be met through provider efficiency gains.
- St John's co-dependent relationship with its funders should involve full disclosure by St John.

Findings

St John's current performance

- **Cost-efficient compared to counterparts – but costs exceed contracted and other revenues** – Two recent reports on St John's operations did not uncover any significant cost inefficiencies in St John's operations and service delivery. Compared to international counterparts, St John appears to be cost-efficient – and this partly reflects the benefit of St John's community model to leverage its volunteers.

  However, in 2018/19, St John's Ambulance Services costs (excluding double-crewing costs that are separately funded) increased by 6.7% from the prior year, from $211 million to $225 million – resulting in costs exceeding total revenues by $11 million.

- **No cross-subsidisation of services** – St John appears to be using appropriate methodologies when allocating costs and revenues to its Ambulance Services operations – and we have no concerns with cross-subsidisation of services across other parts of St John's operations.
- **The Fit for Future programme is creating stronger foundations for St John to strategically manage itself –** and St John is to be commended for this work. The work is in progress, with significant

[1] Horn, M, 2016. An Independent Review of Emergency Road Ambulance Funding

improvements already made in many areas. There are still some critical areas where work is progressing, and until this is complete, the full benefits of the programme will not be realised.

- **Not meeting some contractual obligations and KPIs** – As of June 2019, St John was below target in seven of the 18 areas where it has agreed targets. St John does not always have a clear view of the extent to which internal and external factors, including costs, are affecting KPI performance. Its reporting to NASO on the reasons for not delivering on KPIs tends to be more anecdotal than evidence-based.
- **Investment choices aimed at improving rather than maintaining performance** – St John has introduced several significant projects over the last three years, including the Electronic Patient Report Form (ePRF), 111 Clinical Hub, and double crewing of ambulances. The implementation of these significant projects seems to be tracking well, with generally positive patient outcomes. However, because of St John's increasing deficits, we question whether St John has placed appropriate emphasis on its contractual obligations, which focus on maintaining, rather than improving performance levels.

St John's current financial state

- **Not living within its means** – St John has not ade uately focused on controlling the organisation's costs to the extent needed for i to ve within its means. Ambulance Services deficits were $4 million in 2017/18, $11 million in 2018/19 and are forecast to be $15 million in 2019/20.
- **Financially sound at present because of its reserves** – Although St John has been running down its cash and i vestment reserves to fund its increasing deficits, the $40 million remaining in its reserves in June 2019 means, however, that its current financial position is sound.

What will be needed in the next two years

- **Addressing developing financial pressures** – Although St John is not under immediate financial pressure its financial position is deteriorating and action to address the upcoming pressures is needed now. This will include addressing St John's current cost structure and also reviewing how future cost pressures might be managed.
- **Lack of a workable plan for the remaining two years** – St John has not yet prepared a workable plan for how it might best operate over the next two years under its contract with the Ministry and ACC. This work is criti ally important and needs to be completed before a sound judgement can be made on St John's future financial sustainability.

  Need for one-off funding – Given St John's current position, the $22.14 million in sustainability funding agreed to in principle by Cabinet will almost certainly be needed over the next two years. Even with that funding, St John may still need to use more of its cash and investment eserves to fund its operations (which will increase its operating risks) – and it may need additional financial support.

  As noted above, the financial position over the last two years of the contract (and 2020/21 in particular) will not be evident until completion of a new financial plan that has a primary focus on St John operating within its contractual obligations.

St John's relationship with the Ministry and ACC

- **Resetting the relationship with its funders** – St John and its funders would benefit from resetting their relationship, to take account of and address the issues that come with a bilateral monopoly relationship. While this was one of the goals of the Horn Report, the relationship still faces challenges.

- **Simplifying its reporting** – St John's reporting to funders would benefit from being simplified and shortened. As well as improving KPI reporting, St John could also explore identifying a few, mutually agreed lead indicators of performance, including information that highlights short- and medium-term financial viability. Reporting should also measure performance against the plan for how St John intends to operate over the next two years.

Recommended actions

1. St John should develop a financial and KPI delivery plan, in conjunction with the funders, to demonstrate how it intends to remain financially secure for the remainder of the contract period – and deliver on its contractual obligations

We recommend that St John develop a workable financial and KPI delivery plan, in conjunction with the funders, to demonstrate how it intends to remain financially secure for the rest of the contract. We would expect the plan and planning process to be based on the following elements:

- Developing a reporting format that clearly shows the components of St John's operations that are important to measuring pe formance against the contract
- Developing a wide range of cost-saving and reve ue-enhancing measures, including for capital expenditure a d asset sales
- Strategic discussions with the funders around operational implications and risk appetite for each of the potential savings or evenue enhancing measures (related to the contract) identified by St J hn
- Clear communication to the funders about the cash and investment reserves policies that are to be applied over the contract term
- St John should agree the final financial and KPI delivery plan with the funders.

2. The first tranche of one-off sustainability funding should be released under the timeframes agreed by Cabinet – but release of the subsequent tranches should be cont ngent on St John's delivery of an acceptable financial plan that addresses the parameters of the contract

The first tranche of the $22.14 mi lion in one-off sustainability funding should be released unde the timeframes agreed by Cabinet. This part of the action is based on the Review's findings that, although St John is currently in a stable financial position, con inuing depletion of its reserves will begin to erode tha stability.

The timeframe bef re the planned release of the second tranche of funding shoul allow sufficient time for the financial plan to be developed – and for a parties to ga n a shared understanding of St John's financial risks over the remainder of the contract.

The a tion should be reviewed if circumstances change and the release of th second and third tranches of funding is shown to be critical for St John's short-term viability.

3. St John should as a priority implement agreed structural governance changes and further improvements to Board reporting

St John should continue to implement its Fit for Future programme and urgently address the findings of the PwC Stocktake that "some further improvements are required to move towards reports that are more concise, more focussed on strategic matters, clear on required decision/actions and easy to navigate".

4. The parties should agree to a more strategic approach with measures to ensure higher transparency and closer oversight of performance, decisions and choices

The parties should agree measures to ensure higher transparency and closer oversight of performance, decisions and choices for the remaining period of the contract. This should be based on the development of a more strategic relationship with a focus on face-to-face contact. More formal requirements should include:

- A review of KPIs in the 2019/20 Letter of Expectations, and agreement with St John on where the KPIs need to be adjusted due to changes in service delivery models, or new external factors
- A joint risk management plan, agreed between the funders and St John
- Clearer reporting by St John on performance against the contract.

ABBREVIATIONS

ACC	Accident Compensation Corporation
CSO	Clinical Support Officer
DHB	District Health Board
EAS	Emergency Ambulance Service
ELT	St John's Executive Leadership Team
ePRF	electronic Patient Report Form
Fit for Future	2018 *Organisational Review (Phase 1: Foundational Improvements)* of St John, conducted by PwC
FTE	Full-time equivalent
The Horn Report	The 2016 *Independent Review of Emergency Road Ambulance Service Funding* by Murray Horn
KPIs	Key performance indicators
LoE	Letter of Expectations
MECA	Multi-employer collective agreement
NASO	National Ambulance Service Office
PHO	Primary Health Organisation
PTB	St John's Priory Trust Board
RTB	Region Trust Boards
St John	The Order of St John
ToR	Terms of Reference
WFA	Wellington Free Ambulance

INTRODUCTION

Purpose of this Review

The Terms of Reference for this Review described its purpose as follows:

> *The purpose of this Independent Review (the Review) is to assess the short term financial and operational sustainability of the Order of St John (St John) to provide the Ministry of Health (the Ministry), Accident Compensation Corporation (ACC) through the National Ambulance Sector Office (NASO) and St John with independent advice on the robustness of St John's:*
>
> *a. governance and management practices*
>
> *b. financial management practices*
>
> *c. service delivery, quality and volumes; and*
>
> *d. capital asset management practices*
>
> *in relation to the delivery of emergency ambulance services in accordance with its contractual obligations.*
>
> *Completion of the Review is a Cabinet requirement as a result of Budget 2019 decisions. Findings of the Review will inform longer term strategic work on the nature of ambulance services in New Zealand.*

Key review questions

The Terms of Reference tasked this Review with addressing the following questions:

- *Identify how St John can, in its current configuration, deliver emergency ambulance services in accordance with its contractual obligations, including closing service gaps against current contract and key performance indicators*
- *Identify any actions required by St John to ensure it is financially sustainable over the next two years*
- *Assess the processes St John has in place to deliver on the efficiency opportunities identified in the 2016 independent review ("The Horn Report") of emergency road ambulance service funding*[2]
- *Focus on governance, financial management, management structure, systems, processes and assets to the extent that these support the delivery of emergency ambulance services*
- *Consider cross-over (including cross-subsidisation) between the emergency ambulance service and other St John services.*

Scope of the Review

This Review covers the emergency ambulance services to be provided by St John over the next two years, to the end of the current four-year contract on 30 June 2021. This Review draws on the Horn Report as a key baseline document.

[2] Horn, M, 2016. An Independent Review of Emergency Road Ambulance Funding

For the purposes of our Review we have divided St John's operations into two core services: Emergency Ambulance Services (EAS) and Community Services. St John's other activities, such as fundraising, patient transfers and commercial ventures, effectively provide additional funds (after deducting costs) to support the two core services.

SECTION 1: CONTEXT

Emergency Ambulance Services in New Zealand

St John's Emergency Ambulance Services provides the majority of first responses to medical emergencies in New Zealand.

There are two providers: St John and Wellington Free Ambulance (WFA). St John delivers ambulance services to all of New Zealand except for the greater Wellington region.[3] Both providers are majority funded by the Ministry of Health and ACC.

The Ministry of Health and ACC jointly fund St John. The Ministry purchases the services from funds provided by government in its annual appropriation ACC's purchase of the services is mostly funded by ACC levies and t a lesser extent by an appropriation from government to cover non earners.[4]

Funding is managed through the National Ambulance Secto Office, a business unit that sits within the Ministry of Health and that is ointly funded and governed by the Ministry and ACC.

NASO's functions include providing a single voice for the Crown on strategic and operational issues relating to emergency ambulance services; and managing and monitoring funding and contracts from both parent agencies in relation to the delivery of emergency ambulance services.

St John

Background and history

As the ountry's m in ambulance service provider, St John has had a central place in New Zealand's healthcare system since 1885. It is a charity that now delivers a core frontline health service under a service contract with the Ministry of Health and ACC. New Zealand is one of the few countries in the world where St John is the primary ambulance service provider.[5]

St John's status enables it to act independently of the government outside of its contract for services. This helps the organisation to '*maintain a community-based brand that attracts volunteers, sponsorship and community funding*.'[6]

As a charity, St John employs around 9,400 volunteers, about a third [7]of whom are front-line ambulance staff. Being a charity also comes with challenges, such as not always having formal access to a 'seat at the table' in healthcare and emergency forums. St John must also generate around

[3] Which is serviced by Wellington Free Ambulance https://www.health.govt.nz/new-zealand-health-system/key-health-sector-organisations-and-people/national-ambulance-sector-office-naso/emergency-ambulance-services-eas/emergency road-ambulance-services

[4] Ministry of Health website https://www.health.govt nz/n w-zealand-health-system/key-heal h-sector-organisations-and-people/national-ambulance-sector office-naso/emergency-ambulance-services-eas/joint-ministry-health-and-acc-funding-model emergency-ambulance-services

[5] In Western Australia St John is also the primary provider of ambulance services.

[6] Horn, M, 2016. An Independent Review of Emergency Road Ambulance Funding

[7] The number of clinical volunteers is around 3,500 out of a total of 9,400 volunteers. There were 3,200 paid personnel, which equates to 2,300 paid FTE (St John Annual Report 2018).

30% of its ambulance service delivery budget from fundraising, commercial activities and part charges.

St. John has just concluded one of the most challenging years in its history, including 34 separate strike notices over nine months during the 2018/19 year, the Christchurch Terrorist Attack and the displacement of two hundred support staff for a number of months following a fire in the Headquarters Building.

St John's place in the healthcare system

St John has followed a similar path to the wider New Zealand healthcare system, undergoing gradual centralisation and professionalisation.[8] From the early days of European settlement in New Zealand, a mix of providers offered health care services. This included government, voluntary and not-for-profit sectors, including St John. Over the years, government took over many of these services. However, the ambulance services continue to be managed by St John and Wellington Free Ambulance.

St John operates within the wider context of the New Zealand healthcare system. New Zealand spends less, in total, on health care than most OECD countries. Compared with 30 other high-income countries N w Zealand spends a smaller share of national income on health ca e and has a ower per-head expenditure.[i9] St John is also a part of New Zealand's emergency sector (including New Zealand Police and Fire and Em gency New Zealand).

A 2019 study by University of Auckland researc ers argues that the New Zealand health system is complex and fragmented. For example, New Zealand has 20 DHBs serving populations that range from just over 33,000 to almost 600,000; 32 Primary Health Organisations or networks of GPs and other primary health care providers (which don't necessarily line up geographically with the DHBs); and 2,200 not-for-profit organisations working in the health sector, of which l ss than half receive government funding.[10]

Complicating matters further, the nterim report from the New Zealand Health and Disability System Review[11] sets out how New Zealand's health and disability services are organised in a variety of different ways, including by:

- condit on or issue (e.g. maternity care, mental health and addiction, vision, hearing speech, family violence, oral health care, palliative care)
- life stage (.g. Well-Child Tamariki Ora, youth health services, aged residential care)
- service type (e.g. kaupapa Māori, pharmacy, general practice, nursing, social work, Pacific services, occupational therapy, physiotherapy, podiatry, diagnostic imaging, residential care, rehabilitative support, disability services, laboratory services)
- delivery method (e.g. telehealth or e-therapy, school-based service, mobile service, marae based health service, home based service)
- geographic area
- cultural communities they serve.

8 Other major developments in the New Zealand health and di ability system include the Accident Compensation Act 1972 and the establishing of Distri t Health Boards in 2000.

9 New Zealand Health and Disability System Rev ew, Background for the New Zealand Health and Disability System Review 2018 p. 4

10 'Complex, fragmented' health system is fuelling inequi ies https://www.auckland.ac.nz/en/news/2019/08/04/complex-fragmented-health-system-fuelling-inequities.html Retrieved 9 August 2019

11 New Zealand Health and Disability System Review – Interim Report, page 99.

Wider health sector dynamics

St John is delivering within a complex and fragmented system that is under increasing stress. St John reports meeting service gaps from other parts of the health sector – which increases time spent at treatment centres and on scene (for example increased treatment of aged care residents within rest homes, and increased handover times at EDs).

The changing landscape of the health system will also impact St John

Internationally, health care systems have been undergoing almost continuous reform over the past two decades[12] and several factors are already changing (or may be about to change) the nature of healthcare in New Zealand. These include greater use of data and analytics to generate insight and drive evidence-based decision-making. Care-delivery will move closer to home, helped by remote monitoring and mobile devices.

Higher transparency in cost and quality will drive healthcare organisations to be more successful in how they deliver services. Patients are increasingly becoming "consumers," with the freedom to make decisions a d the responsibility for spending their own money. New workfo ce models and increased competition in attracting volunteers will also impa t healthca e providers.[13]

Population- and geographic factors

The external environment in which St John operates has changed over recent years – these changes include demand increases driven by an ageing population, socio-economic factors the cost of clinical pathways, and increasing rates of long term medical conditions. Other external factors – such as greater traffic c ngestion, changes in the industrial relations environment, and pressures and reductions in services elsewhere in the health system – are also affecting St John.

New Zealand is unde g ing a major demographic shift, with the population continuing to increase. Over the last 18 years, the population has grown by over 1 million p op e, due to more births than death, and immigration. This has c eated a larger cohort of older people needing ambulance services.

More of the population is also moving to urban centres such as Auckland, leading to a decline in rural primary health service, with ambulance services such as St John filling these gaps.[14]These drivers have had an impact on New Zealand's ambulance services, including on the number of calls, incidents, drive time to scene and treatment centres and time spent at the scene.[15]St John also reports an increased complexity of incidents, which also increases time spent at the scene

Population increases and urbanisation have also meant an increase in traffic and congestion, which impacts utilisation, cycle times, hospital absorption capacity and handover times, which, in turn, impacts St John's KPIs.

12 Brai hwaite, J., Matsuyama, Y., Mannion, R., Johnson, J., Bates, D. W & Hughes, C. (2016). How to do better health reform: a snapshot of change and improvement init tives in the health system 2016 p. 843

13 PwC review p 87

14 Health and Disability System Review https://systemreview.health.govt.nz/assets/Uploads/hdsr/aa96cb7177/background-for-the-nz-health-and-disability-system-review-V8-0.pdf p. 88-90

15 The number of 111 calls and EAS incidents have increased significan ly in the past five years (from ~ 455k to ~ 545k). This has been coupled with an increase in incidents (from ~396k to 451k). The time spent at scene has also increased from 23.4 minutes in 2014/15 to 26.3 minutes in 2018/19, as has the time at the treatment centre (up from 22.1 minutes to 26.6 minutes). Also see Figure 3Figure 3 on page 40.

Table 1: Increase in calls, incidents, drive time and time at treatment centre

	2014/15	2015/16	2016/17	2017/18	2018/19
111 calls (national)	454,990	482,002	506,290	533,669	545,507
EAS incidents (St John only)	396,135	416,032	429,712	442,785	451,114
Drive time to scene (min)	11	10.9	11.3	11.5	12.3
Time at scene	23.4	24.6	25.6	26.1	26.3
Drive time to treatment centre (min)	20.4	21.1	21.9	22	21.9
Time at Treatment Centre (min)	22.1	24.4	26.8	27.5	26.6

The Horn Report

Background and main recommendations

In 2015, St John and WFA informed the government that funding for emergency ambulance services was unsustainable. In response, the Ministry of Health and ACC commissioned a review of ambulance funding in New Zealand.

This review, by Dr Murray Horn, was completed in June 2016.

The Horn Report recommended:

1 an annual increase in funding for urban services based on demand growth (minus an amount for expected productivity gains)

2 an annual increase in funding for pr ce pressures

3 an increase in funding for ru al services to reduce (but not eliminate) single crewing[16]. After further advice from the Ministry, Budget 2017 provided the full funding needed to eliminate single crewing.

Recommendations and observations about St John's relationship with its funders

The Horn Repo t made some key observations and recommendations about St John's relationship with the Ministry of Health and ACC:

- **Autonomy** – St John wants to remain an autonomous organisation, with the management discretion this implies and the ability to serve its communities in the way it thinks best. A strong provider brand is also in the interest of the two funders, if they are not being asked to subsidise other activities to support this branding.
- **Living within its means** – The quid pro quo of this autonomy is that St John lives within its means – that is, it does not come back to the Ministry and ACC to fund poor decisions or cover financial risks that have not been well managed.
- **Managing the moral hazard** – St John knows that the Ministry and ACC must *'meet the cost of any provider decisions or omissions that threaten the viability of the ambulance service, at least up to a point.'* To reduce this moral hazard, St John should exercise cost control and

[16] Single crewing specifically relates to ambulance transportations, rather than ambulance responses which could still be undertaken initially by single crew d rapid response vehicles.

'take specific actions to improve [its] financial position, without recourse to the funders, as [its] ability to manage financial risk deteriorates'.

- **Meeting demand growth** – The Ministry and ACC need to accommodate an increase in demand growth '*that cannot reasonably be met through provider efficiency gains.'* Although the Ministry and ACC have little control over emergency service demand, they can influence the cost of meeting that demand.
- **Full provider disclosure** – This requires an '*arms-length funding arrangement inside a strategic relationship that is based on a combination of full provider disclosure and funding conditions'*.
- **'Too important to fail'** – The most likely alternative if St John were to fail would be for a publicly owned entity, like a DHB, to take over ownership of the service. However, due to the need for service continuity and cost of changing providers, St John is, for now, *'too important to fail'*.[17]
- **Accountability** – If the provider's financial flexibility is eroded and accountability arrangements *'proved insufficient to restore financial flexibility, then that would trigger a requirement that the provider needs to have its budget approved by the funder until financial flexibility was restored or a change in management or ownership became inevitable'.*

The Horn Report described as co-dependent the rela ionship between the funders of New Zealand's emergency ambulance service (the Ministry of Health and ACC) on the one hand, and the prov der (St John) on the other.[18]

This co-dependent relationship can also be described as a bilateral monopoly – a market structure that combines a monopsony (where there is a single buyer) and a monopoly (where there is a single seller).[19]

Whilst St John and the funders share the common objective of delivering a high-quality ambulance service that produces good outcomes for patients, the two parties have d fferent inte ests regarding the level of funding and services to be del ered – and must negotiate a final arrangement somewhere between the two perspectives. This is a delicate context for the two parties to navigate, and n practice it affects how well the parties communicate and wo k together.

Developments since the Horn Report

The current four-year contract

John's current four-year funding agreement with the Ministry of Health and ACC (1 July 2017–30 June 2021) was finalised in July 2017. It incorporated the recommendations from the Horn Report.

As with all services in the health sector and elsewhere, the potential for improving standards is limitless. St John's contractual Agreement for Services (2017) with the Ministry and ACC expects St John *'to maintain performance levels and, where possible, improve'.*

However, funding was not dedicated to improving performance levels, but rather to *'ensure financial sustainability in the face of increasing demand and price pressures'.*[20] This explicitly covered many of the external factors

17 Horn Report p. 7-8

18 Horn, M, 2016. An Independent Review of Emergency Road Ambulance Funding p 3 and 7.

19 Although WFA also provides ambulance services, its ize and coverage relative to St John means that there is effectively a monopoly, with St John as e single seller.

20 Ministry of Health, Accident Compensation Corporation and the Order of St John Independent Review – Terms of Reference

referred to above, such as an ageing population, socio-economic factors, and increasing rates of long-term medical conditions. St John agreed to manage within available funding for the duration of the contract, with the exact funding figures being negotiated annually.

The current four-year contract (after two variations) has allowed for:

- Additional baseline funding (including a re-basing of ACC's funding)
- Annual price- and demand-related increases on the baseline funding
- New funding for double crewing (increases of $5.625 million in each year of the contract, reaching $22.5 million in Year 4)
- New funding for three projects (Air Desk Services pilot, Mobile Caller Location, and Whole of Government Radio Network).

Table 2 shows the movement in ACC and the Ministry's funding over the first two years of the contract, to 30 June 2019.

Table 2: Ambulance Services Crown funding over Years 1 and 2 of the contract (excluding projects)

	ACC	MOH	Total
2016/17 base funding*	**$64.3m**	**$76.7m**	**$140.9m**
Year 1 (2017/18) increases			
ACC re-basing	$6m		$6m
New funding arrangement	$2m	$2m	$5m
Full crewing - Year-1 increase	$3m	$3m	$6m
Total 2017/18 increases**	$11m	$5m	$16m
Year 1 (2017/18) total funding	**$75.1m**	**$82.1m**	**$157.1m**
Year 2 (2018/19) increases			
Price and demand increases	$2m	$3m	$5m
Full crewing Year-2 increase	$3m	$3m	$6m
Total 2018 19 increases**	$5m	$6m	$11m
Year 2 (2018/19) total funding	**$80.1m**	**$87.7m**	**$167.8m**

** 2016/17 base funding includes $3m of PRIME and Emergency Management funding*

*** Excludes Air Desk Service Pilot and Mobile Caller Location projects ($0.6m p.a) and Whole of Government Radio Network project ($1.8m in 2018/19)*

St John's contractual obligations

Under its contract with the Ministry of Health and ACC, St John is obligated to deliver on 18 key performance indicators (KPIs). These are set by the funder each year in consultation with St John, and set out in an annual Letter of Expectations (LoE). The LoE for 2019/20 is currently being finalised.

St John provides monthly as well as quarterly reports to NASO. The quarterly reports are discussed with NASO at a Quarterly Review Meeting. In addition, an annual chief executives report is provided to NASO and the Chief Executives of ACC and the Ministry of Health, and this is discussed at the annual chief executives' forum.

St John's KPIs are grouped under the following areas:

1 Urban
2 Rural response times
3 Call volumes
4 Attendance outcomes
5 Clinical Telephone Assessments (CTA)
6 CTA call-backs
7 Patient satisfaction
8 Safety (including double crewing rates and health and safety incidents)
9 Major trauma patient numbers
10 Fall patient numbers
11 Children with multiple complex unmet needs
12 Cardiac arrest.
13 STEMI[21]
14 Stroke patient numbers
15 Youth incidents
16 Pain level and reduction rates
17 Vital signs trends
18 ANTS (Access Number Time-saving Skill), which relates to helicopter dispatch.

A full o erview of KPIs is provided in Appendix 3.

Current work towards the long-term sustainability of the ambulance service

St John, together with Wellington Free Ambulance, is currently working with the Ministry and ACC on determining the long-term sustainability of New Zealand's emergency ambulance service. To date, two workshops have been held.

This work stems from the view of NASO, the Ministry and ACC that a permanent increase in baseline funding for emergency ambulance services should be part of a sector-wide improvement programme and should demonstrate newly created value.

[21] ST-Elevation Myocardial Infarction (STEMI) is a ery serious type of heart attack during which one of the heart's major arteries (one of the arteries that supplies oxygen and nutrient-rich blood to the heart muscle) is blocked.

The Ministry and ACC plan to report to Cabinet by 31 December 2019. A further report to Cabinet in 2020 will provide final advice on the future direction of the ambulance service.

There is also a wider New Zealand Health and Disability System Review underway, the final report for which is due in March 2020. The Ministry/ACC report to Cabinet should both inform and be informed by that wider review.

St John's proposal for additional funding

In December 2018, St John and WFA submitted a proposal for increased funding in Budget 2019, citing a key driver to be the changing industrial relations environment. St John and WFA's proposal would lift government-funding of St John's ambulance services from around 70% to 95%.

In St John's case, this would increase its government funding to $315 million by 2022/23, an increase of $80–87 million per year compared to its current contract. This amounts to an approximately 40–45% increase in projected yearly funding.[22]

There was further correspondence between the Minister of Hea th and St John in early 2019. The Minister told St John that while h was sympathetic to calls for full funding of ambulance services, th re were many other competing demands for the Vote Health dollar.

One-off sustainability funding, subject to conditions

St John wrote again to the Government on 22nd February 2019 saying that it needed additional financial support to address immediate and unforeseen shortfalls that impact on service delivery, ahead of any final decision on longer-term sustainability funding across the emergency ambulance service. St John also advised NASO of this in a letter of 25th February, in response to a phone call with the Ministry.

In May 2019, the Government provisionally provided St John with $22.14 million in one-off sustainability funding over the two years 2019/20 and 2020/21. Cabinet has supported the funding grant conditional on St John meeting the financial and performance measures detailed in an action plan. That action plan also includes this Review of St John.

The total funding gran would be split between the two road providers, St Joh and WFA, based on current funding arrangements for the allocation.

Table 3 shows he funding that would be provided to St John:

Table 3: One-off sustainability funding (excluding Wellington Free Ambulance funding share)

	Cabinet approval 30 Sept 2019	Cabinet approval 31 Dec 2019	Cabinet approval 2020 (in coordination with H&D Review)	Total
Additional funding St John	**$7.59m**	**$6.57m**	**$7.98m**	**$22.14m**

Within this context, St John is currently preparing a business case, which will be finalised in December 2019, separate from the work being led by NASO, the Ministry and ACC. St John wishes this to be considered as a budget proposal.

[22] St John's projected funding under its existing co tract with NASO for FY2019/20 is $183.3 million, with an increase of $80.4 millio being sought for that financial year in the Budget Proposal. Source: St John/WFA B dget Proposal p. 17

The role of this Review

This Review considers the key review questions set out in the introduction to this report, to help determine whether one-off sustainability funding is needed, and whether St John's governance, financial and wider management practices are robust and able to deliver on its ongoing contractual obligations.

This report provides our analysis, findings and a set of recommended actions.

SECTION 2: ANALYSIS

St John's governance and management structures

Background and focus of 'Fit for Future'

St John's governance and management structures are currently undergoing a substantial shift. In 2018, the Priory Trust Board (PTB) commissioned PwC to carry out a review of St John to assess and make recommendations on its readiness to be fit for the future in key leadership and functional areas.[23]

St John is working to create stronger foundations to strategically manage itself – and is to be commended for this work. It is a significa t and posit ve self-initiated shift within a long-standing organisational culture.

Most of the improvements can be described as 'back office' changes, with low visibility for the wider organisation. However, they are having, and will continue to have, a significant impact on how he organisation operates.

[23] The Priory Trust Board (PTB) is St John's de facto governing oard. It is responsible for all matters relating to the immediate general control and supervisi n of the affairs and work of the Order of St John within New Zealand (including appointing and directing the Chief Executive Officer). The PTB subdelegates some authority to the RTBs

Fit for Future's two parts

This programme of improvements is split into two parts:

- **Part 1. Immediate changes to improve the efficiency and effectiveness of the organisa ion** PwC recommended 12 areas for improvement, and over the l st year the Executive Leadership Team (ELT), with the support of the Priory Trust Board, have been implementing these improvements. The recommendations, which were issued in February 2018 are currently at different stages of implementation. On 20 August 2019, PwC shared a draft stocktake eport on Fit for Future and how the improvements were tracking.
- **Part 2**: **Pro iding options on future governance arrangements** – This part is expected to be implemented in 2020.

Overall tracking of Fit for Future

In the governance area, St John has made progress in identifying the changes that will be made. Some of these changes have been implemented, and some have yet to be realised.

According to PwC [24]St John has started to make fundamental changes that, over time, will create significant organisational, governance, management and cultural shifts within the organisation. PwC's findings are set out in Table 4 below, along with their view of the degree of implementation.

[24] PWC Fit for Future 1.0 Programme Stocktake, August 2019

The PwC draft stocktake demonstrates that St John has made progress along a path of continuous improvement, including transferring all employees to a single legal employer with aligned accountability to the Chief Executive and Priory Trust Board, and some standardisation and simplification in systems and processes. Progress is also evidenced in improvements to board reporting, steps to professionalise governance and improve organisational structures, the development of a property strategy and increased St John presence at relevant sector forums.

In those Fit for Future areas where implementation is not tracking well, this is, according to PwC, mainly due to: an overly optimistic scope; resource constraints; and an underestimating of the complexity and change management required. For our own Review, we did not see a timeline for when the outstanding Fit for Future improvements will be implemented.

As well as implementing improvements to governance roles, charters, terms and appointment processes, which were approved by the Chapter in late August 2019, the key outstanding Fit for Future improvements relate t achieving best-practice board reporting; moving Area Committees from the current to a new, more centralised model; and developing and implementing a new rolling forecasting and budget setting approach.

The main goal of the Fit for Future programme was not to reduce costs, but for St John to become a more strategic and future-ready rganisation. However, there may be some efficiencies as the impr vements take hold across the organisation. The cost benefits of Fit for Future are projected to be $3.9 million, which is roughly $3 million lower than the original target ($7 million) over four years (2019/20 to 2022/23).

These benefits are subject to internal and external factors. The Fit for Future delivery costs are expected to be $1.8 million ov r the four years, resulting in net cost savings of roughly $2.1 million if delivery costs are factored in. The programme has been delivered by existing St John staff.

Table 4 provides an overview of how Fit for Future is tracking.

Table 4: Tracking against Fit for Future recommendations[25]

Area	Status	Pend ng	Key achievements
Governance	80%	The impact of these changes is yet to be ealised, but there is an expectation that the quality of gov rnance, leadership, and d cision-making will improve. The Chapter approved the governance changes on 26 August 2019. The changes now need to be implemented on governance roles, charters, terms and appointment processes. Reporting to the PTB still does not provide a consolidated view of critical strategic matters, risks, issues or a list of required PTB actions and decisions. Plans to appoint PTB governors based on competency rather than election need to be implemented. Recommendations addressing conflict of interest between different governance bodies need to be implemented.	Clear delineation of the roles & responsibilities of St John's governance bodies. Introduction of succession planning. Introduction of PTB self-assessment.

[25] PwC, Key DRAFT findings from the PwC Fit for utur 1.0 Stocktake to date (as at 2 August 2019); Fit-For-Future Committee Meeting, 18 April 2019 p 36.

Area	Status	Pending	Key achievements
Board Reporting	50%	Further improvement is still required to achieve best practice board reporting.	Introduced integrated performance reporting and reporting by core functional area. These reports are strategically focused, dashboard-based and include performance metrics relevant to each functional area. This has brought greater transparency, which has supported better decision-making.
Area Committees	50%	Regional Trust Boards to develop and implement transition plans to move Area Committees from the current to the new model.	Completed a detailed 'health-check' of all St John's Area Committees and designed and socialised a new Area Committee model. The new model represents a significant and inter-generational shift from the current membership-based model to a new participation-based model. Once implemented, it is expected to fundamentally change the role and impact of Area Committees n local communities.
Property	75%	Transferring legal property ownership rights to the Priory; finalise delegations; and develop a clear implementation plan to move from the current to the future property portfolio.	Developed and approved a ew 2018-2023 Property Strategy; developed and approved a set of property management / decisio - making pr nciples; amended financial delegations elated to proper y (*draft*); introduced a new national property management team; and dev loped new national processes or property ma ag ment / investmen .
Sector Presence	75%	Finalising & socialising the existing draft stakeholder engagement approach / plan and develop & socialise relationship management plans for each relationship owner.	Developed and approved a new stakeholder engagement strategy; a d reated a clear schedule of forums where St John is represented by senior staff (through this process, St John also gained access to several new forums).

Area	Status	Pending	Key achievements
Products and Services	25%	Standardising all Community Health products and services (St John in Schools, St John Youth, Health Shuttles, Opportunity Shops and Community Care).	Standardised both front and back end processes and interfaces of the Supports Scheme product. Standardised back-end financial flows for Regular Giving, Donations and Telehealth. These changes have reduced duplication and enabled national product management.
Pr cesses and Systems	25%	Identify a d standardise core organisati na processes and systems	Standardised both front and back end processes and interfaces of the Supports Scheme product. Standardised back-end financial flows for Regular Giving, Donations and Telehealth. These changes have reduced duplication.
One St John Employer	100%	Some minor improvements and updates.	Transferred all St John employees to a single legal employer. The impact of this aligned operational accountability of all roles to the Chief Executive / Priory; simplified payroll processes, simplified employment relations with the unions; and removed the requirement to reallocate Crown funds from the national organisation to the regions. This has contributed strongly to a shift in the role and budget responsibilities of the RTBs.

Area	Status	Pending	Key achievements
Organisational Structure	90%	Deciding on the placement of the Procurement team; finalise the Community Health Services structure; and review Administrative Support structures.	Designed and implemented new organisational structures for: •Fleet, Logistics and Property (Infrastructure) •Community Health Services •Financial Services Introduced co-design as a new and collaborative approach to organisational design. These structural changes have helped to achieve greater regional consistency, reduced spans of control and reduced duplication.
Culture	100%	Transferring the workstream to 'business as usual' or to a standalone culture programme.	Completed a St John cultural diagnostic, which helped to understand St John's current 'baseline' culture; agreed on co focus areas for St John's future culture; developed and approved a 3-phase, 5-year culture programme (including a project plan and change strategy for pha e 1); kicked-of the 'Courage Projec '; and delivered 'Thriving Through Change training and tools.
Finance	80%	Developing and implementing a new rolling forecasting and budget setting approach.	Moved toward national treasury management by establishing national working capital and property development investment funds; changed the entity accounting structure; introduced consistent and equitable 'rules' to guide the allocation of income across the regions and the national organisation. These changes have helped to achieve financial equity across the regions and strong alignment between budgets with operational responsibility.

Implementing the approved changes to St John's governance structure

The biggest change expected from Fit for Future is to St John's governance architecture. However, these structural governance improvements have yet to be implemented because St John's current decision-making structure required them to be approved by St John's Chapter. That approval was granted in late August 2019.

St John's current governance structure is highly complex, with three layers of decision-making boards: The Chapter; the Priory Trust Board; and Region Trust Boards (RTBs). This has created confusion as to the level at which decisions are made (see Appendix 1 for an overview of St John's governance structure).

As a result, decision-making has been slow and inefficient, and staff and stakeholders generally haven't had a clear understanding of St John's governance model. Slow decision-making has affected St John's ability to execute strategy and respond to risk.

Now that approval has been given by the Chapter, St John will m ve to implement a clearer delineation of the roles and responsibilit es of its different governance bodies, and centralise decision-making to the Priory Trust Board.

Improving the quality of Board reporting and oversight, and professionalising the Board

In addition to the complexity in the governance area, specific challenges in relation to the Priory Trust Board were that:

- PTB members have not always had the right level or type of commercial and strategic capability
- PTB and RTB members have held multiple roles on different governance bodi s which presents significant conflicts of interest.
- PTB has been operationally rather than strategically focused
- Rather than operating as a strategic decision-making governance body, the PTB has been a 'forum for information receipt', but also did not receive the right type or amount of information to make strategic decisions
- The PTB has been risk averse and has lacked the necessary power and influence to drive hard change through the organisation.

As of August 2019, it seems that St John and the Priory Trust Board have implemented several improvements to address these issues. These include developing, socialising and approving a PTB Competency and Skills Framework, and a workstream led by PTB member John Whitehead which is improving induction, succession planning, and training and development for PTB members.[26]

The PBT now receives an integrated Performance Report for the organisation as a whole, including a report on extreme and high risks. PwC notes that reporting has reduced in length and is more strategically focused. However, PwC notes that "*some further improvement is required to move*

[26] MartinJenkins Independent Review Areas of Focus, St John's Response to Review Ques ions, 9 July 2019, p. 1

towards reports that are more concise, more focused on strategic matters, clear on required decisions/actions and easy to navigate," and that "*the financial reporting section does not highlight critical financial risks, issues, trends and required decisions/actions in a dashboard presentation* ".[27] We would expect the PTB, as St John's oversight and governance body, to press urgently for these outstanding improvements, especially in relation to the organisation's financial viability.

PwC further notes that St John's reporting to the Priory Trust Board still does not "*provide a consolidated view of critical strategic issues or risks, or a list of PTB actions and decisions that are needed*,"[28] St. John are of the view that whilst a consolidated view might be best practice and a long term goal, the improvements made to Board reporting does already provide the necessary information required.

We also note later in this report that the Board has approved a Long Term Financial Plan which does not provide for financial sustainability within current sources of revenue over the term of the current contract. The PwC stocktake makes reference to the preparations for "*a likely change to Crown funding arrangements* (for the ambulance service) ."[29] Whilst St John is seeking this change, we would have expected that the PTB would also require reporting and oversight of plans to remain financially sustainable if these changes did not eventuate.

Moving toward 'One St John'

As well as governance, the other single biggest change to come out of Fit for Future is the transferring of all St John emp oyees to a single legal employer.[30] This change is now complete and the impact is simpler and more consistent employment arrangements (such as payroll processes) and clearer accountabilities to the Priory Trust Board throughout the organisation.

Other improvements are also contributing to 'One St John,' such as removing the requirement to reallocate Crown funds from the national orga isation to the reg ons, centralising financial management,[31] shifting budget espons bili ies away from the Region Trust Boards, and centralising the fundraising function.[32]

Those changes are starting to contribute to financial equity across the regions, and stronger alignment between budgets and operational responsibilities.

Relationship with other organisations

St John has made recent efforts to build relationships with other organisations across the health and emergency sectors, in order to ensure a more coordinated approach to service delivery at both a strategic and operational level.

27 DRAFT 2 Fit for Future 1.) Programme Stocktake, August 2019

28 DRAFT 2 Fit for Future 1.) Programme Stocktake, August 2019

29 DRAFT 2 Fit for Future 1.) Programme Stocktake, August 2019 p 10

30 Prior to Fit for Future, some staff were employed by the Pr o y, while others were employed by the Regional Trust Boards.

31 Prior to Fit for Future, St John's financial model was reg onally driven. For example, the national ambulance service funding and personnel expenses were accounted for regionally. The majority of the organisation's cash and liquid assets were also h ld egionally; and property portfolios were managed regionally. This created significant variation and inequity amongst the regions (particularly amongst Area Committees) and meant that as an organisation, St John was unable to most efficiently manage cash / capital, prioritise spending or make deliberate strategic investment decisions.

32 Through introducing consistent and equitable 'rules' to guide the allocation of income across the regions and the national organisation.

St John is working on having a ‘strategic seat at the table’ in relevant health forums, to facilitate joint planning. However, more work is needed, particularly sector collaboration to address larger complexities and fragmentation.[33] For more detail on the New Zealand healthcare system, and how St John fits in, see Appendix 2.

St John is seeking to collaborate more with Fire and Emergency New Zealand – for example when responding to Purple incidents (immediately life-threatening). St John also co-locates with Fire and Emergency NZ in 24 locations across New Zealand.

Ambulance services are not formally recognised by the Civil Defence Emergency Management Act 2002 as an emergency service. St John is also not included on the Coordinating Executive Group,[34] which Fire and Emergency NZ and New Zealand Police are a part of. This limits St John’s ability to plan and coordinate with other emergency services.

Cost-efficiency

Compared to international counterpa ts, St John appears to be cost-efficient – and this partly reflects the benefit of St John’s community model to leverage its volunteers. However, costs are continuing to outstrip the revenues available under the contract (and from other sources).

Ac ording to the Fit for Future review, St John is performing moderately well in operational efficiency.

However, its regionally driven governance and organisational structures mean that St John has not been operationally efficient in other areas of the organ ation. This is now being addressed through the Fit for Future pr gramme, including by rationalising the Area Committees.[35]

St John’s support services are, in cost and size, comparable to similar-sized organisations. The organisation’s ICT, finance and HR functions are largely comparable to similar organisations. According to PwC, executive and operational managers typically have high spans of control. For example, five of the ELT have a span of control that is higher than optimum (6–8). Across operational and management roles, some individuals have particularly large numbers of direct reports.[36]

In addition to the Fit for Future programme, the PTB has been engaged in seeking further cost efficiency measures throughout the course of the

33 Fit for Future p. 39

34 A regional civil defence coordination body.

35 Fit for Future p. 22

36 Fit for Future p. 63

contract – and has made specific requests to management to explore the development of cost saving initiatives.

Comparing St John to international counterparts is not a clear-cut exercise, as factors such as scale of service and different uses of volunteers will cloud any comparison. However, this is still one way to get a high-level view of St John's performance and cost-efficiencies.

Compared to ambulance services in jurisdictions in the UK and Australia, St John's delivery of ambulance services appears to be cost-efficient. For example, St John has significantly lower per-response and per-capita costs than the UK and Australia, even when compared to the jurisdictions within the UK and Australia with the lowest delivery costs.[37]

St John's cost per response is 40% lower than the Australian jurisdiction with the lowest cost, and 14.8% lower than the UK jurisdictions analysed. This may be related to St John's high ratio of volunteers to staff compared to Australia and the UK.[38]

St John's corporate costs are higher than international jurisdictions A slightly higher proportion of St John's staff (including volunteers) are classifi d as corporate support personnel, compared to most Australian jurisdictions. A higher proportion of its salaried workforce are also classified as corporat support personnel (although this is comparable to West rn Australia, where St John also provides the ambulance service). This possibly reflects the organisation's approach to its workforce planning [39] It could also reflect the overhead needed by St John to manage its revenue-generating fundraising and commercial activities.

Despite the challenges involved with directly comparing ambulance services, St John's relative efficiency compared to its overs as eers is consistent with the finding that New Zealand spends less, in total, on health care than most developed countries[40].

However, St John reports that the comparat ve gap in the spend on ambulance services is greater than in other parts of the health sector. St John maintains that this is partly due to the failure to introduce the kinds of improvements that omparable ambulance services overseas have made to services, equipment and assets, and paramedic health, safety and wellbeing support.

Although the PwC and Sapere reports have not highlighted any significant inefficienci s in St John s current operations, St John's costs are continuing to grow – and they are continuing to outstrip its revenues. This may mean that St John has been relatively efficient in the activities it has chosen to u dertake in the past, but it is now doing more than it can afford to do under its cont act with MOH and ACC.

Service delivery, quality and volumes

St John's contractual performance

Meeting contractual obligations and KPIs in some areas

NASO provides St John with an annual Letter of Expectations (LoE), consisting of KPIs including NASO strategic priorities relating to wider Ministry of Health and ACC goals. For the 2018/19 LoE, those strategic priorities were Data, Integration (including Clinical Pathways) and Sector

37 Sapere (2019) *Update to comparative analysis of amb ance services in Australia, New Zealand and the United Kingdom*

38 Sapere (2019)

39 Sapere (2019)

40 The Organisation for Economic Co-operation and Development (OECD) (2017), *Health at a Glance 2017: OECD Indicators* Link

Development (including workplace health and wellbeing). The number of KPIs has increased over successive LoEs.

As of June 2019, out of the 18 areas where St John has agreed targets with NASO, seven were below target. Of these seven, five were 1% to 5% below target and two were less than 1% below target. For more detail on St John's KPIs, see Appendix 3.

On the basis of those figures and on St John's January–March report to NASO, the main and most consistent gaps relate to:

1 **Red responses** in both urban and rural areas – that is, incidents that are potentially life-threatening or time-critical [41]

2 **Purple responses** in both urban and rural areas – that is, incidents that are immediately life-threatening.

Between the 2017/18 and 2018/19 Letters of Expectation, additional clinical measures were added to the St John-NASO contract. The contract was also amended to reflect service delivery changes related to the Air Desk, 111 Clinical Hub and double crewing. This was due to ePRF (the electronic Patient Report Form initiative) providing better clinical data, and adding more measures related to patient outcomes.[42]

Over time, the Red and Purple response time targets have been split fr m four into eight, and the time targets for Purple responses have decreased, making them harder to meet.

At the time of the reporting change, Red inciden s made up roughly 45% of all EAS incidents while Purple incidents made up only a ound 1%. Reporting on these together diluted the focus on Purple respons times. St John and NASO decided to split the Purples out and to have tighter targets in order to create more emphasis on Purple response performance.[43]

More detail on KPI delivery gaps is provided in Appendix 4.

In its latest report to NASO, St John r p rts meeting 11 of the 18 agreed KPI areas and is exceeding some of those 11 KPIs. For example:

- Against the 95% target for 111 calls being answered within 15 seconds, St John achieved 96 7% for the quarter. The year-end result was 95.6% St John met the 111 call answering time target for the first time in th year ended 30 June 2019, due to initiatives such as decreased all handling time and improved management of non-urgent and patient ransfer ca s.
- It achieved 96.2% double crewing, against the agreed target of 96%.

Investments to enable St John to deliver on its contractual obligations

Despite frequent reporting (monthly and quarterly), St John does not tell a clear enough story about why KPIs are not being met and what it is doing to address service gaps.

The lack of clear reporting may be due to the complex context in which St John operates, and its many interdependencies with the wider health

41 St John Report to NASO Jan-Mar 2019. Ambulance Commun cations Centres use a colour code response system to prioritise incidents as follows: Purp e – immediately life-threatening; Red – potentially life-threatening or time-critical; Orange – u gent or potentially serious; Green and grey – non-urgent (low acuity).

42 MartinJenkins Independent Review Supplementary Questions 13 August 2019 p. 1

43 MartinJenkins Independent Review Supplementary Questions 13 August 2019 p. 2

sector. However, St John should provide a simpler and clearer explanation for why some KPIs are not being met.

St John and its funders should also make greater efforts to have open, frank and constructive discussions about performance and KPIs.

As well as improving its KPI reporting, St John could also explore identifying a few, mutually agreed lead indicators of performance, including information that highlights short- and medium-term financial viability.

The fact that some KPIs are consistently not met raises the question of whether some KPIs should be renegotiated to become more realistic.

St John is investing in several clinical initiatives and internal projects.[44] Some of these have impacted positively on KPIs, some negatively, and some both positively and negatively.

These initiatives can generally be divided into two categories:

1 Initiatives to **maintain** performance levels (as required by the terms of St John's contract)

2 Initiatives to **improve** performance levels (which, under the term of the current contract, should only be *'where possible'*).

In our discussion of the initiatives below, we have related the elevant initiative to KPI delivery where possible.

1. Initiatives to maintain performance levels

Managing increasing demand through fewer ED admissions

St John is pursuing initiatives that reduce demand on ambulances and Emergency Departments (EDs).These have increased communications and clinical development cost , but have provided savings in field operations cost, as well as in the costs to DHBs. This has contributed to a drop in the percentage of emergency amb lance incidents transported to ED – from 76% of calls in 2010, to 64% in 2018.

The initiatives include

- **Admissio avoidance** – St John is treating low-acuity patients in the community without transporting them to ED. The target is to manage 16.4% of patients in the community per year. In June 2019, 14.9% of incidents were being treated at the scene.[45] St John also aims to transport patients, as applicable, to an urgent care clinic or GP practice. Transport to non-ED facilities has slowly declined since mid-2017 (and currently sits at 1.8% of incidents, against a target of 2.7%), with anecdotal evidence that primary care facility staff are increasingly refusing to accept low-acuity ambulance patients because of high workloads, full appointment schedules, and a lack of available staff and/or space.[46]
- **Healthcare professional CSO triage** – Around 20% of all calls for an ambulance come from a facility with clinically trained staff. In April 2018 St John introduced a dedicated 0800 number for health professionals when requesting an ambulance, instead of calling 111. In June 2019, the proportion of calls from healthcare personnel resulting in a Red

[44] Note we have not focused on double crewing, as specific funding was provided for this under St John's current contract with NASO. The initiatives detailed in h s section pertain to the core part of the contract.

[45] St John Clinical Effectiveness and Right Care ini iatives 30 July 2019

[46] St John Clinical Effectiveness and Right Care initiatives 30 July 2019 p. 5

response (lights and sirens) was 20%, compared to approximately 40% for calls from a 111 call handler. This is resulting in fewer broken breaks for ambulance staff, and better prioritisation.

- **111 Clinical Hub** – Low-acuity callers are informed that an ambulance isn't being sent and that they will be called back by a registered nurse or St John Paramedic.[47] This frees up ambulance resources to focus on the increasing number of high-acuity incidents.[48] In the 2017/18 financial year, over 48,000 incidents (or 10.8% of all incidents) went through this Clinical Hub triage process, and 43.1% of those incidents were clinically managed in the community without the patient being transported to an ED, corresponding to 20,000 fewer ED admissions.[49] According to St John, the 111 Clinical Hub may be contributing to St John not meeting the KPI *'% unique incidents transported to a non-ED location'*.[50] This would make sense, as more patients are now being managed via phone, without a transport going out. We would advise St John and NASO to revisit this KPI, taking into account that dynamic.
- **Reduced part charges as a result of decreasing admissions** – These initiatives have had positive effects on utilisation, but a negative effect on St John's part-charge income stream. A result of fewer ambulance transports is that fewer part charges are there ore being incurred.[51]
- **Patient Care Plans (PCPs)** – These are created for the most frequent 111 callers and for patients with complex care needs. For April to June 2019, 623 incidents were managed wit out an ambulance response for patients with a Patient Care Plan.

Hub and spoke model to reduce response times

St John has also been implementing a 'hub and spoke' model in Christchurch a d in rural areas to maximise utilisation of ambulances and reduce response times. This model is applied differently in urban areas and rural areas [2]

In 20 ural areas St John has Patient Centred Deployment (PCD), which p aces ambulan es nearest to the next expected emergency. In the rural model, an ambulance could start in the spoke, but the hub of the rural model will have additional ambulances that can be deployed.[53]

According to St John, the hub and spoke model *'had a slight negative impact on response times'* due to resources starting and finishing from the same location, and dispatchers tending to group crews at the spoke near the hub for their meal breaks.[54]

47 When called back by a registered nurse, this goes through a subc nt act with the company Homecare Medical.

48 Ministry of Health website, retrieved 11/8/2019 https://www.health.govt.nz/ne zealand-health-system/key-health-sector-organisations-and-people/national-ambulan e-sector-office-naso/emergency-ambulance-services-eas/ambulance-clinical-con rol-centres/st-john-111-clinical-hub

49 St John Annual Report 2018, p. 11

50 St John Report to NASO Jan-Mar 2019 p. 11

51 According to St John, benefits of the 111 Clinical Hub were ncluded in the contract commenced 2017/18 as part of the efficiency expectation. It was assumed hat the 111 Clinical Hub would result in frontline resources being required. Although the 11 Clinical Hub has provided benefits, these have not been as significant as expected at the time f commencement of the contract (the expectation was that St John would defray 8% of calls, but St John es imates this to be running at 4%). Also according to St John, there was no specific consideration of the negative impact of reduced part-charge income of the 111 Clinical Hub on its financial position prior built into the current contract.

52 In Christchurch, ambulances will start and finish in one location (the hub), which also has a Make Ready model – a dedicated team of specialists who clean, restock and check the equipment on ambulances. Auckland is also moving to a hub and spoke model. Stepping forward: Our plan for the future; 2018-2023

53 MartinJenkins Independent Review, Supplementary Questions 12 August 2019 p 2-3

54 MartinJenkins Independent Review, Supplementary Questions 13 August 2019, p. 2-3

2. Initiatives to improve performance levels

St. John's Letter of Expectations 2018/19 notes a number of "excellent initiatives" over the previous 12 months which support wider sector goals, including the electronic Patient Report Form (ePRF) and the clinical pathway development, described in more detail below. According to St John, the initiatives described below add value and save costs, either to St John or to the wider health system, and contribute to their required efficiency improvements.

ePRF

In FY2015/16, St John rolled out the electronic Patient Report Form (ePRF), replacing a paper-based system. This provides richer and more accessible information sharing between St John and health service providers.[55] However, ePRF may also have increased St John's call length, as paramedics now will spend more time per incident to record information into ePRF. This may be having a knock-on effect on meeting response time KPIs.[56]

ePRF has also increased hand-over time at hospitals, as the wider health system is not yet compatible with the system.[57] St John expects that the hand-over time will decrease when technical integration measures for ePRF are implemented.[58] This points to a wider issue of coordi ati n within the health system.

Cost savings were not a key driver for implementing this initiative, rather the focus was on replacing old technology. However, St John estimates that ePRF has generated savings of $250,000 per year through reducing the number of data processors, eliminating print ng costs, and reducing the transport costs associated with delivering paper records for processing.

Patient Pathways

Through the Patien Pathways initiative, St John is transporting patients longer distances to ensu e they go to the most appropriate hospital for treatment ather than to the closest one. This improves patient outcomes, but also potentially inc eases job cycle times and affects KPI delivery.[59]

S John has not formally measured the impact of longer transport times on KPIs but it elieves that *'the impact is minimal at this point.'* It would be helpful for St John to explain clearly in its reporting to NASO how Patient Pathways is impacting on KPI non-delivery.

D gital, infrastructure, computer and communications

St John's digital, infrastructure, computer and communications expenditure has increased significantly over the course of its current contract. Total personnel and operating costs in this area have increased from $23 million in 2016/17 to $30 million in 2018/19 – a 31% increase in two years. By 2020/21 the percentage increase from 2016/17 is expected to be 44%, with the total cost reaching $32.5 million.[60]

55 2016 Annual Report, p. 15

56 St John MartinJenkins Independent Review Supplementary Ques ions 12 August 2019, p. 3

57 ePRF resulting in St John staff having to print out patient records t ho pitals as a part of the handover process (which also decreases utilisation and impacts negatively on KPI delivery).

58 St John MartinJenkins Independent Review Supplementary Questions 12 August 2019, p. 3

59 The sooner blood flow is restored to the heart, the lower the risk of death and he less damage to the heart muscle (preferably within 90 minutes). New Zealand has nine hospitals able to treat STEMI patients effectively, all of which are in urban areas, and covering only 20 per cent of the geographical area, meaning as few as 30 per cent of New Zealand's population can reach effective treatment within the recommended 90-minute window.

Source: TVNZ, 23 April 2018, *New initiative to get faster treatment to New Zealanders suffering heart attacks New initiative to get faster treatment to New Zealanders suffering heart attacks* https://www.tvnz.co.nz/one-news/new-zealand/new-initiative-get-faster-treatment-zealanders-suffering-heart-attacks Retrieved 13 August 2019

60 MartinJenkins calculations based on financial data provided by St John

Only a portion of the costs of the Digital Programme will be allocated to the cost of Ambulance Services.[61]

St John is implementing four key digital programmes:

- **ICT and digital transformation** – building digital capability to engage and transact with supporters, customers and patients online; developing a digital training management system; and creating an information cyber security programme to reduce risk
- **A new intranet platform for staff and volunteers** – an online system for communication, collaboration, and document sharing
- **Next Generation Critical Communications (NGCC)** – a sector-wide initiative with NZ Police, Fire and Emergency NZ and Wellington Free Ambulance to develop a business case for replacing radio infrastructure with modern mobile communications
- **Information management and business intelligence** – a three-year programme to improve analytics for data-driven decision making, with a new business intelligence platform for reporting purposes and to share data.[62]

According to St John's Integrated Business Plan 2018–23, the organisat on is planning to introduce *'a raft of new digital products'*, for telehealth and telecare products, fundraising, online First Aid training programme, and major events.[63]

St John has divided its ICT Vision into five phas s and is currently entering the third phase. Whereas the first two phases focused on providing reliable services, infrastructure and service desks, the next th ee phases are more focused on optimisation, expansion and transformation, with projects related to data quality, analytics, and innovation.[64]

According to St John, investment in critical digital and infrastructure services has been needed in order to stabilise extreme and high risks that have grown due to earlier cost constraints It can be argued that phases 1 to 3 of St John's ICT Vision were necessa y for St John to maintain performance under its contract; however t John should explore whether the next two phases are nec ssary for the organisation to maintain performance, or whether they are more geared towards improving performance.

If the purpose is impro ing performance, St John could explore pushing these phases out past the end of the contract period (June 2021), given St John's cu r nt cost pressures.

Overall observations on KPI delivery and reporting

As noted earlier, St John does not always have a clear view of the extent to whic internal and external factors are affecting KPI performance, including costs. Its reporting to NASO on the reasons for not delivering on KPIs tends to be more anecdotal than evidence-based.

St John should clearly identify, based on evidence, where it is not delivering on KPIs and the reasons for this. Where a KPI has never been met, or is too hard to achieve, this should be discussed with NASO, and the KPIs adjusted case by case. This would also align with the Horn Report recommendation around full provider disclosure.

It was assumed that the 111 Clinical Hub would result in less resource being needed for the front line. However, the efficiency gains from the 111 Clinical Hub have not been as significant as expected when the contract began.

61 MartinJenkins Independent Review supplementary Que ions 26 August 2019 p. 6

62 St John 2018 Annual Report p. 26

63 St John, Stepping forward: Our plan for the futur 20 8-2023 p. 10

64 St John's ICT and Digital Strategy Update 2017-23 p. 2

According to St John, the expectation was that the organisation *'would defray 8% and it is probably running at 4%.'*

There was also no specific consideration of the negative impact of the 111 Clinical Hub on St John's financial position through reduced part-charge income in the financial assessment before the current contract began.[65]

St John has quantified this cost, and for 2018/19 it estimated that the 17,124 fewer call-outs resulted in $1.46 million less in part charge income.

Recent gains in health, safety and wellbeing of staff, but with issues remaining

St John reports that one of the reasons for actual costs increasing more than was allowed for in its contract is the investments the organisation has made to reduce health and safety risks (outside of double crewing), and to develop leadership, talent and volunteer sustainability.

The specific increase in funding for double crewing provided by NASO under the current contract has had positive impacts on staff health, safety and wellbeing, through helping to reduce fatigue, manual handling injuri s, and the risks associated with lone working.

However, aside from the positive effects of double crew ng, St John staff (particularly at the frontline) continue to experience a physical and mental toll due to threatening behaviour or assault, trauma long shifts and stress. First responders are particularly vulnerable to psych logical and physical harm, and it is imperative that they are adequa ely supp rted

St John reports that the utilisation rates for ambulance staff continue to be too high and unsustainable. This has resulted in moun ing pressure on ambulance crews, leading to St John's decision in 2018/19 to add unbudgeted resources in Christchurch and Tauranga.

To support the health and wellbeing of its staff St John has launched an online hub on workplace health, with plans to create bespoke programmes, information and activities on the site St John has also hired an on-site psychologist.

Workforce developments

St John has also incr ased its clinical workforce over the last few years. This has been driven by a need to manage the increase in demand for its services, and to reduce the number of ambulance incidents attended and transported by single crew (this is covered by double crewing).

- **Double crewing** – St John is two years into a four-year project to elimi ate single crewing through the introduction of 400 additional f ontline paid staff – the Double Crewing Project (DCP). St John is meeting its KPIs with NASO on this project.
- **Clinical practice of workforce improvements** – The standards of clinical practice of emergency medical technicians, paramedics and intensive care paramedics have significantly increased over the last 10 years. St John's workforce has been trained to safely manage low-acuity patients in the community.
- **Increased specialisation** – Paramedics are now starting to specialise in different fields, such as rapid sequence intubation, aviation medicine, and community medicine.

Two reviews are underway looking at St John's future workforce and renumeration, to inform St John's planned budget proposal:

[65] MartinJenkins Independent Review Supplementary Questions 13 August 2019, p.1

- **A workforce review looking at whether the resourcing, support frameworks and ambulance model is fit for the future** – This review is expected to be completed in September 2019.
- **An independent review into the remuneration of the ambulance workforce and the spans of management control** – Initial findings indicate that while some starting positions are broadly comparable in relation to other providers, pay progression is less comparable, and staggered over a longer period, and that spans of management control are too high.[66]

These reviews may propose higher renumeration and increased resourcing.

Delivery of significant projects

As noted earlier, St John has introduced several significant projects over the last four years:

- Electronic Patient Report Form (ePRF)
- 111 Clinical Hub
- Patient Pathways
- Double crewing of emergency ambulances
- National air desk
- Technology infrastructure stabilisation.

For the current contract, the national air desk and double crewing components received separate funding outside the core budget, and as a result, they are not central to this Review. The following analysis focuses on the significant projects that fall under core funding (that is, ePRF, 111 Clinical Hub, Patient Pathways, and the technology infrastructure stabilisation).

St John reports that it follows appropriate project management practices when implementing these projects. It also develops a business case to measure benefits and disadvantages of projects. A Project Management Office delivers the project, and a Project Board oversees delivery. For some significant projects PwC has carried out periodic audits and health checks to provide governance assurance and to ensure the project is aligned with the business.

The implementation of these significant projects seems to be tracking well. Their impact on emergency ambulance services and patient outcomes is also generally positive (fewer ED admissions, creating less pressure on the wider health system; better data collection; patients getting to the most appropriate place of treatment).

[66] Fit for Future, page 21.

Significant projects - impact on St John's contractual obligations

A number of the improvements were required of St John under its annual Letter of Expectations and others are intended to contribute to the delivery of the annual efficiency improvement required under the contract. Although those projects are tracking well, there is not a clear analysis of their costs and contribution to efficiencies. We would also question whether St John has placed appropriate emphasis on its contractual obligations when deciding whether to invest in some of the significant projects that **improve** performance levels as opposed to those that **maintain** performance levels.

The 111 Clinical Hub seems to have contributed to maintaining performance, as fewer ED admissions frees up resources for St John to better deliver on some of its contractual obligations. This has, how ver, come with higher costs – which puts pressure on St John's f nances.

It is less clear what the precise impact of ePRF and Patient Pathways has been *'on the provision of emergency road ambulance services'* (under the Terms of Reference for this Review).

On the one hand, better patient data and getting patients to the most appropriate care improves patient outcomes. O the othe hand, these initiatives may have increased St John's call length, hand over time at hospitals, and job cycle times (and therefore affec ed KPI delivery).

Ultimately, the impact of the significant projec s on ambulance service delivery isn't clear-cut, as there seem to be both positive and negative effects. However, St John should make a cl arer distinction, based on clear evidence, between those significant projects that are focused more on **maintaining** performance levels and those focused more on **improving** performance levels.

St John's financial management

Key issues related to financial management and governance of the contract

Financial management within the terms of the contract

St John is undertaking much-needed changes to its governance and management practices – and its community model and volunteer workforce means it is cost-efficient compared to international peers. However, given its contracted income, the Board and management do not currently have a workable plan for how remain financially sustainable over the remainder of the contract.

At the first signs of impending financial distress we would ha e expected St John to have urgently reviewed and updated its detailed financial plans within the context of the contract – and with appropriate communications to the funders (consistent with the Horn Report's call for full provider disclosure).

Such a plan would have re-set earlier budgets and plans and p ovided St John and the funders with a credible and reliable budget that showed what it would take for St John to operate to the end of the contract with no additional funding.

In addition to this 'breakeven' budget, the financial plan should ideally have also shown a prioritised schedule of additional spending that would be needed to maintain St John's operational performance. This would provide St John and the funders with a clear view of the existing and future cost pressures – and an ability to make informed decisions around St John's future operating priorities, its costs and the available funding.

We see such a plan (and associated budget) as an essential part of managing St John's obligations und r t e contract – and we address this in the Actions in Section 4

In late-2018/early-2019 St John made a direct approach for funding to government. Foll wing this, St John sent a brief communication to the Ministry on cost pressures, possible mitigating actions, and future funding needs. However, neither of these communications was based on a detailed plan to c mply with the existing contract.

This Review ha prompted St John to develop a new financial forecast to test whether it can operate within the limits of its contractual funding. Howeve these forecasts are indicative only – and they have not been signed off by the ELT or the Priory Trust Board. They also do not yet cons tute a workable plan in the context of the contract, as costs continue to be significantly more than available funding, and the proposed cost-saving and revenue-enhancing measures have not been fully developed.

We can understand that St John has seen a need to put considerable effort into developing a new sustainable funding model for New Zealand's ambulance services – and we don't doubt that the PTB undertakes detailed analysis of its strategic and financial risks. In our view, however, St John should have prioritised working on options within the constraints of the existing contract before embarking on a relatively high-risk strategy that would require a new funding model and substantial additional Crown investment.

A key factor that St John highlights in its wider funding work is that Crown funding makes up only 70% of St John's funding needs. This means the price and demand inflators contained in the contract (net of 1.5% efficiency

gains) only apply to 70% of St John's costs – and therefore price and demand increases in the other 30% of costs are not necessarily being met.

This would be a valid concern for St John in years where net increases in fundraising and other revenues are insufficient to cover the price and demand-related cost increases that arise in the 'other' 30% of costs. The reason we don't believe this is currently a concern is that, in the first two years of the contract, net fundraising and other revenues have increased by almost 5% on average per annum – well in excess of the underlying Labour Cost and Producer Price indices used in the contract.

We also understand that a co-dependent relationship between funders and providers can lead to difficulties with communications – and both the Ministry and St John have raised such difficulties with us. However, in an open, full-disclosure partnership, requests for new funding related to an existing contract should ideally go through the appropriate channels – in this case, to officials before Ministers.

St John's operational and investment choices

The Board and management have sought and achieved savings in some areas, but, overall, they have made operational and investment choices that collectively mean costs are continuing to exceed contracted revenues.

St John has incurred an $11 million deficit in Ambulanc Services in 2018/19. This means the existing cost base is going to put considerable pressure on the remaining two years of the contract, particularly when wage settlements are paid and more so if fundraising income starts to come under pressure.

It is the decisions made over the last two years, including reacting to the external drivers of costs, that have re-set the cost-base to its current level – and that cost-base will now impact St John s flexibility to manage its costs over the next two years. That's not to say that the many different decisions that led to the overall increases in costs were unfounded or did not improve patient outcomes – just that the n t cost increases to date have decreased St John's ability to operate within the funding constraints of the contract for 2019/20 – and mor so for 2020/21.

Looking forward, the futu e f nding shortfalls that were communicated to government in late-2018/early-2019 indicated rising cost pressures from wage settlements – which are likely to be substantial, difficult to avoid, and potentially outsi e of the funding adjustment mechanisms that form part of the ontrac However, the estimated funding shortfalls were also based on service improvements that would require a significant increase in front-line staff (around 200 FTE). This level of investment would be well outside the parameters of the current contract.

Financial overview – what has changed over the course of the contract

A detailed financial review is provided in Appendix 5. Below we summarise what has changed since the start of the contract and how this has contributed to St John facing increasing financial pressures.

This Review is based on St John's actual historical results for the first two years of the contract (to 30 June 2019), together with St John's forecast for the 2019/20 year and an indicative, unapproved forecast for 2020/21.

For the purposes of this review we have defined St John's operations into the delivery of two core services: Emergency Ambulance Services and Community Services. These services each have direct revenues and costs – and all other revenues and costs in St John's other business units are allocated to these two services.

St John's current solvency

To date, St John's losses have been funded by cash and investment reserves – and there are no issues with its current solvency

Although its operating deficit has risen to around $11 million in 2018/19, St John has been able to fund the losses using its cash and investment reserves. While this is not a long-term solution (as much of the remaining reserves are needed for working capital and for funding future capital expenditure[67]), it means that St John is currently solvent – and will be able to keep operating over the short to medium term.

Serious financial risk from 2020/21

Because work on a balanced budget has yet to be completed, we are currently unable to determine how much additional funding St John will need over the next two years.

The main concern for St John is that its indicative forecasts are showing a serious financial risk in the 2020/21 year, with signif cantly ncreasing deficits in both 2019/20 and 2020/21. The forecasts also show a decline in cash and investment reserves below what St John believes it needs in order to manage its risks and sustain its operations.

As noted above, we are not confident that the forecasts provided to us for 2019/20 and 2020/21 show a workable plan for how St John might best be able to operate within the funding constraints of the existing contract.

This work is critical in order to measure the size of the problem, and how big a gap there might be between the funding provided by the contract and the costs that must be incurred by St John to meet its service obligations.

With that work not yet comple e, we have been unable to determine how much additional funding St John will need over the next two years, or when this might be needed We believe the onus is on St John to have driven this work in the first instan e, even with the expressed difficulties in engaging with th funders

Our recommended actions for addressing this issue are set out in Section 4, including how the planning process should be led by St John but will require increased engagement and strategic input from both the funders and the pro ider

In t e financial analysis presented below and in Appendix 5, we show the indicative (unapproved) forecasts for 2020/21 that St John provided to us for this Review. The results for this period should therefore be treated with caution and, for this reason, our financial review has focused mainly on the first three years of the contract.

Substantial increase in St John's government and fundraising income over the contract term

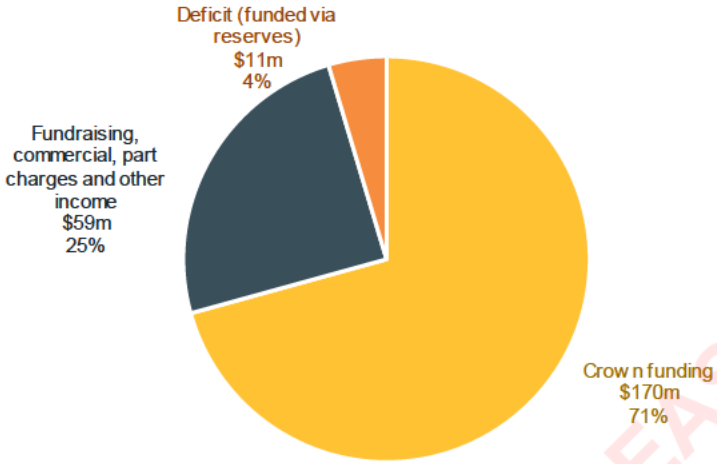
St John receives government and community contracts from the Ministry of Health (to respond to medical emergencies) and ACC (to respond to personal injuries). Together, these government and levy-payer funding streams contribute 71% ($170 million) of St John's annual ambulance

[67] St John's cash and investment reserves have p ovided a buffer' to help manage short term financial risks. However, they are reaching their lower lim ts for this purpose.

services operating costs – which total $240 million for the 2018/19 financial year.

Of the remaining $70 million in costs, $59 million (25%) was funded through fundraising, commercial activities and part charges,[68] and $11 million was effectively funded through St John's cash reserves. See Figure 1 below.

Figure 1: St John's Ambulance Service funding structure 2018/19



The Ministry of Health and ACC contribute differently. While St John charges patients $98 for medical emergency call-outs (with some exceptions), ACC's contribution fully covers the cost of services, meaning that ACC claimants are not charged co-payments.

St John's other core services (such as community and youth programmes) had costs of $13 million in 2018/19. These are funded by fundraising, op-shops, commercial activities and other minor income streams.

The allocations of funding from all sources for 2018/19 (net of the direct and indirect costs of raising 'other funding') are shown in Table 5.

Table 5: Allocat on of St John funding 2018/19

	Ambulance Services	Community Services	Total	Percent Ambulance
Direct funding				
Crow n Funding	$170m		$170m	
Ai Ambulance	$3m		$3m	
Par Charge	$15m		$15m	
O er income	$7m		$7m	
Communit and rder of St John direct		$3m	$3m	
Total direc funding (incl double crewing)	**$195m**	**$3m**	**$198m**	**98%**
Other f ding (net of costs)				
u dra sing	$30m	$2m	$32m	95%
C mmercial	$3m	$5m	$9m	36%
Other transportation	($0m)	$0m	($0m)	100%
Op shops	$1m	$2m	$2m	34%
Events	$0m	($2m)	($2m)	0%
Investments	$0m	$1m	$1m	0%
Total other funding (net of costs)	**$34m**	**$8m**	**$42m**	**81%**
Total funding available to Services	**$229m**	**$11m**	**$240m**	**95%**

Net Investment and Event income could potentially be split across Ambulance Services and Community Services, but these amounts are insignificant in the calculation of the Ambulance Services deficits. Crown funding includes project funding.

In the first two years of the current contract, the Ministry of Health and ACC provided $28 million of new funding to the Ambulance Service, including $11 million of specific funding for double-crewing.

[68] St John charges non-ACC patients a part charg of $98 for medical emergency callouts, bo h when treated by an ambulance officer and/or transported in an ambulance because of a medical emergency. For accident related injuries, ACC pays for the ambulance transport if it takes place wi hin 24 hours of the injury happening and if the injury meets ACC criteria.

Excluding double-crewing funding, the increase in Crown funding over the two years of the contract was 12%. Over that time, St John also increased its fundraising income by $6 million (26%).

This increase was offset slightly by a decline in part-charge income of $1 million (-3%). In total, St John's funding (excluding double-crewing) increased by $22 million from 2016/17 to 2018/19.

Growth in deficits over the first two years of the contract

After the first two years of St John's contract, total increases in revenue ($22 million) have been fully offset by increases in costs ($22 million) – so an $11 million deficit remains

In the two years before the start of the new contract (which began on 1 July 2017), St John incurred deficits in its Emergency Ambulance Services business unit of $10 million to $11 million.[69]

For St John to reduce its annual operating deficits over the first two yea s of the contract term and 'live within its means', it needed to ensure that annual cost increases over that time were lower than the annual increases in revenues. This was achieved in the 2017/18 year (when the deficit was $4 million); however, the cost-control gains were fully revers d in the 2018/19 year.

Consequently, after the first two years of St John's contract, total increases in revenue ($22 million) have been fully offset by increases in costs ($22 million). As a result, St John's latest 2018/19 Ambulance Services deficit of $11 million has reverted back to the level of the pre-contract deficits.

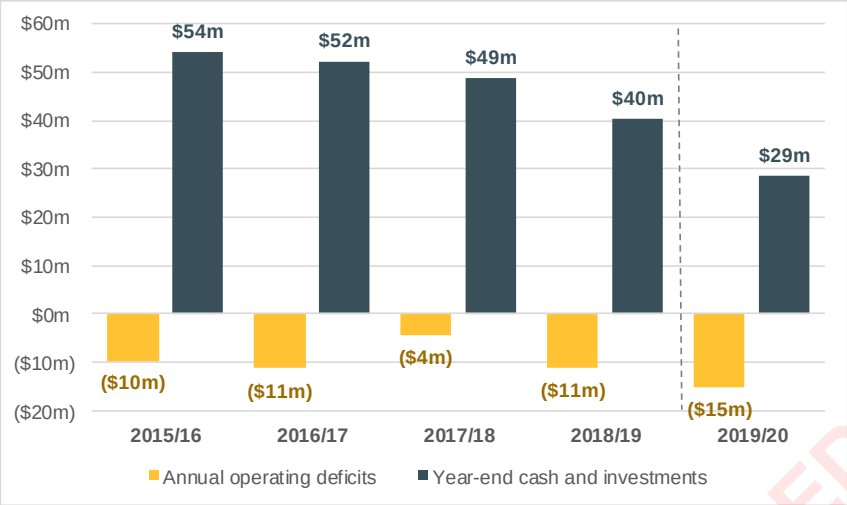
Looking ahead, St John's income (excluding funded double crewing) is expected to increase by $14 million from $214 million in 2018/19 to $228 million in 2019/20 – a 6.5% ncrease. In the same year, operating costs are forecast to increase by $ 8 million (8.0%) from $225 million to $243 million. On this basis, St John's deficit would be $15 million for the 2019/20 year.

Use of cash/investment reserves to fund deficits

So fa , St John has funded its deficits by running down its substantial cash a d investment reserves. However, its inability to control its costs, and its increas ng annual deficits, is reducing the organisation's reserves to below its preferred level of around $40 million – based on a working capital buffer f $20 million and $20 million of property-related reserves (see Figure 2).

[69] After fully allocating St John's supporting costs and revenues to the Emergency Ambulance Services and the Community Services operations.

Figure 2: Ambulance Services deficits and consolidated cash/investments – before any new funding. Actual to 2018/19, then forecast



Based on St John forecast assumptions – before any new Crown funding. The Ambulance Services defic in 2918/ 9 of $11 million is part of St John's consolidated deficit of $13 million.

Reasons behind St John's financial pressures

Personnel costs are St John's biggest driver of cost increases – but most other costs have also increased.

St John's cost in reases of $22 million over the first two years of the contract (excluding the impact of funded double-crewing) were incurred across most of the organisation's cost categories, with significant increases in:

- Direct ambulance personnel costs ($10 million)
- Ambulance Services' share of digital, infrastructure and other common costs ($8 million)
- Bad debts ($2 million)
- Vehicle, computer/communications and occupancy costs ($3 million in total).

To date, the main driver of St John's increases in personnel costs (excluding double crewing) has been an increase in staff numbers in Clinical Development and Communications roles[70].

Combined staffing for these roles increased by 54 FTE from 247 FTE in 2017 to 302 FTE in 2019. St John's new initiatives around its 111 Clinical Hub (which form part of this increase) are described earlier in this report.

The average annual increase in Ambulance Services personnel costs since 2016/17 has been 8% per year. Of this, 6% related to increased FTEs and approximately 2% related to increased wage rates.

[70] Ambulance Services direct personnel costs comprise people working in Field Operations, Clinical Development, Communications and Operations Management and Support.

As noted earlier, St John's current contract with MOH and ACC had a step-change in revenue in the first year (an 8% increase, excluding the impact of double-crewing). In the next three years it uses annual demand and price inflators to increase subsequent funding. The price inflators use appropriate health-sector cost and price indices.[71] The demand inflators use the changes in the total number of St John's incidents, less an efficiency factor of 1.5%.

This means that the contract funding would effectively pick up much of the impacts of wage settlements agreed to date.

Table 6 shows the underlying cost inflators used in each of the contract years, with the jump in the Labour Cost Index (LCI) reflecting the wages settlements in the health sector.

Table 6: Price pressure impacts included in the contract

Contract year	Index year	LCI	PPI	Pric change
2018/19 review	Annual movement to June 2017	1.5%	2.4%	1.7%
2019/20 review	Annual movement to June 2018	3.4%	1.9%	3.0%
2020/21 review	Annual movement to June 2019*	3.9%	1.8%	3.4%

*Actual LCI, and forecast PPI based on MOH forecasts.

Following union negotiations, St John reached a settlement with the collective unions at the end of June 2019. The term of the settlement is for 24 months, running from 1 July 2018 to 30 June 2020. This settlement includes a new shift allowance for staff working rotating shifts from 1 December 2019. This will average out at around 5% per year, which will exceed the LCI adjustments included in the contract for those staff receiving the increases.[72] [73]

The settlement means that the earliest unions can initiate bargaining is 20 April 2020.[74]

For more detail on ecent pay settlements in the New Zealand health sector, see Appendix 6.

Operational changes affecting personnel costs

St John has identified several reasons why, in its view, actual personnel and associated costs have exceeded those anticipated in the contract:

- Inc eased complexity of incidents – which increases time spent at the scene
- Increased traffic congestion – which increases time travelling to and from the incidents
- Meeting service gaps from other parts of the health sector – which increases time spent at treatment centres and at the scene (for example increased treatment of aged care residents within rest homes, and urbanisation leading to a decline in the rural primary health service, with ambulance services such as St John filling these gaps[75])

71 The price formula uses the annual movement of the Labour Cost Index A Salary and Wages Rates – Health Care and Social Assistance times 0.75, plus he annual movement in the Producer Price Index – Inputs – Health times 0.25. The indices are lagged by 2 years so the 2018/19 contract review used an LCI of 1.5% and a PPI of 2.4% (total of 1.7%) and the 2019/20 review used an LCI of 3.4% and a PPI of 1.9% (total of 3.0%). The 2019/20 review wou d have picked up some of the cost pressures from health sector pay settlements up to June 2018 Further settlements up to June 2019 have pushed the Health sector LCI up to 3.9% for that year – and this will be used in the formula for the 2020/21 contract adjustment.

72 St John Report to NASO March-June 2019

73 It also includes a stepped remuneration framework for Patient Transfer Services Officers effective from 1 July 2019. This is in addition to a 3.25% base rate increase for 2018/19 (4% EMAs) and a 3.25% increase for 2019/20.

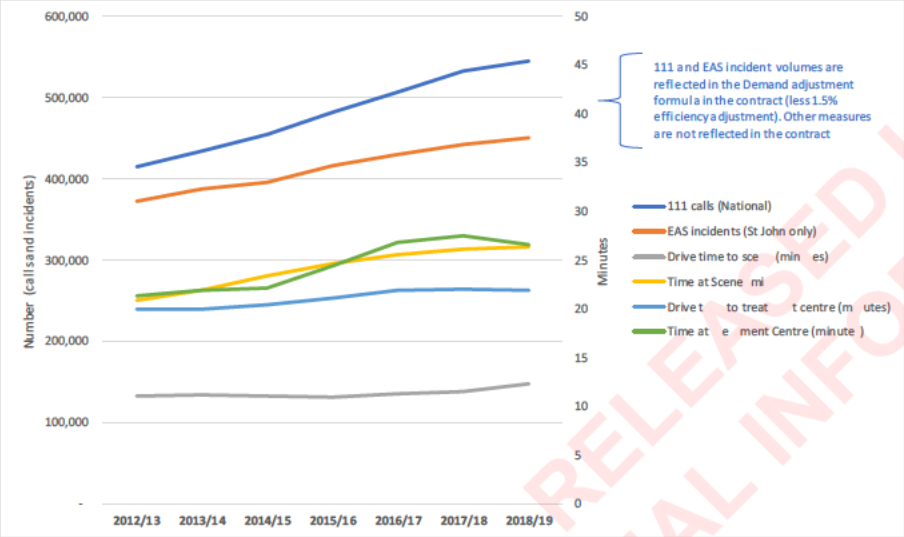
74 MartinJenkins Independent Review, Supplementary Questions 13 August 2019, p.3

75 Health and Disability System Review https://systemreview.health.govt.nz/assets/Uploads/hdsr/aa96cb7177/background-for-the-nz-health-and-disability-system-review-V8-0.pdf p. 88-90

- Increased triage prior to dispatch – which increases communications and clinical development costs, but saves field operations cost, as well as costs in DHBs
- An initial 'base-line' gap in in remuneration levels when compared to the market – which provides little leeway when managing annual increases.

Figure 3 shows the increase in St John's key volume measures from 2012/13 to 2018/19.

Figure 3: St John operational volumes



According to St John, the impacts from these factors (and others) have been seen in:

- Utilisation rates for ambulance staff tha are too high and not sustainable, resulting in mounting p essure on ambulance crews and the addition in 2018/19 of unbudgeted resources in Christchurch and Tauranga
- Difficulties in achieving c st control
- Redu ed part-charge in ome, as the 111 Clinical Hub has shifted St John s workload ff the road so that St John is receiving less income rom patients being transported to the ED.

Indirect impacts of pay settlements

The industrial action in 2018 has also had negative short- to medium-term effects on St John, outside of the wage settlements themselves.

As part of its funding modalities, St John has opted to charge a part charge of $98 to non-ACC patients. The non-completion of ePRF records due to industrial action has resulted in an increase in non-payment of part-charges amounting to $1.5 million.

A substantive non-collection rate for part charges has increased proportionately with the increase in part charge over recent years and has been higher than St John expected. A large proportion of this non-payment is from patients on benefits in areas of high deprivation.[76] [77] While St John is concerned about the impact of debt collection on its brand, this could be further explored, given the organisation's financial situation.

There have been also been costs associated with dealing with industrial action, including legal fees, the employment of additional administrative staff

[76] St John Part Charge Analysis, Updated informa on to SOCC Mar 19

[77] Unlike GPs, St John does not have the ability to provide subsidised or discounted payments for the young, elderly or for people on benefit.

to process paper patient records, and cleaning of defaced vehicles, amounting to around $0.6 million.

Digital and other shared services costs

St John has highlighted several reasons why some of the digital and other shared services costs have increased over the contract term:

- It has invested in critical digital and infrastructure services to stabilise extreme and high risks that have grown due to earlier cost constraints
- It has invested to reduce health and safety risks, and to develop leadership, talent and volunteer sustainability
- It has invested in financial services to provide strategic insights, rather than simple transactional services
- Deferred maintenance and capital expenditure has reached a critical point.

We have not separately identified the costs of these initiatives, and the scope of this Review did not allow us to assess whether these inves ments were necessary. However, those explanations from St John allow an understanding of the significant increases behind some of the p rsonnel and operating costs over the contract period.

Future financial risks

Expected decline in currently strong fundraising

Crown funding (excluding double-crewing funding) is expected to increase by $14 million (4% per year) over the final two years o the contract, with other income (mainly part-charges and fundraising) also expected to increase by $5 million over that time.

Fundraising is currently strong but is expected to decline in the coming years, as St John has exhausted its current donor base. While the number of existing and old donors has rema ned stable over the past five years, the number of new donors has been declining (from 36,000 new donors in 2015, to 21,000 in 2019) [8]

While 'major giving' is in reasing, this comes from only a small number of donors, nd is difficult to forecast and plan around. Kiwibank has decided to eliminate c eques within the next 12 months, which could result in other banks doing the same. This could have a major impact on St John's fundraising eff rts as 35% of donations ($6.8 million) are processed via c eques.[79]

Those impacts are not expected within the current contract term. However, under the existing Crown funding structure the contract effectively manages only around 70% of the overall increases in demand and price pressures, th ough the annual review formulae. That leaves 30% of future cost increases to be met by increases in other funding, and this will be considerably more challenging if St John's fundraising flattens or declines.

Potential risk of decreasing volunteer numbers

St John's 9,000-plus volunteers are an immense asset. They are an in-kind contribution that provides a significant cost-saving to the New Zealand

78 Overview – Fundraising function, July 2019, p 5

79 Overview – Fundraising function, July 2019, p 5.

healthcare system. Volunteers make up over 70% (3,500) of the clinical frontline workforce.[80]

However, there are also risks associated with this model as it becomes increasingly difficult to attract and retain volunteers.[81]

Registration of paramedics

As well as expected pay settlements, there may also be a financial impact from the upcoming registration of paramedics, which the Government has indicated will happen in the near future,[82] potentially in the last year of the current St John-NASO contract.

Paramedics in New Zealand are currently unregistered, which means that they don't benefit from the same regulations and protections that other healthcare professions have. Registration would mean all paramedics would have to meet set levels of qualifications and training. St John believes that this may mean potential pay rises for those paramedics who become registered.

Cross-subsidisation of services

St John appears to be using appropriate cost drivers when allocating costs to Ambulance Services – and we have no concerns with cross-subsidisation of services

Based on the financial analysis undertaken as a part of this Review, St John appears to be using appropriate cost drivers to allocate its overheads and other costs in digital, infrastructure, shared and other support services business units. It also appears that St John uses a fair method of allocating revenues and costs across Ambulance Services and Community Services.[83] We therefore have no concerns that there are any material issues with cross-subsidisation between these two services.

Net revenues from income-generating business units (fundraising, commercial operations, patient transport and op-shops) are allocated to St John's core services based on appropriate drivers. We have reviewed the financial results of the income-generating business units (including patient transport) and confirmed that these had, in all material respects, been allocated to Ambulance Services and Community Services in a reasonable manner.

80 Fit for Future, p 62. Volunteers also deliver community programmes, with around 5,500 volunteers performing roles for services such as Caring Callers, Opportunity Shops, and Health Shuttles.

81 Fit for Future, p 61.

82 TVNZ Exclusive: 'There is a potential for harm' – government set to regulate who can call themselves a paramedic https://www.tvnz.co.nz/one-news/new-zealand/exclusive-there-potential-harm-government-set-regulate-can-call-themselves-paramedic Retrieved 9/8/2019

83 For example, 95% of fundraising revenue is allocated to Ambulance Services, based on the percentage of direct costs incurred by that business unit. 2018/19 Ambulance Services fully allocated costs were $240 million (95% of total costs) and Community Services fully allocated costs (including Order matters) were $4 million (5% of total costs).

The patient transport service has operated at close to break-even in recent years, so there has been no cross-subsidisation of this service with the other business units.[84]

Asset management

For the purposes of this section, 'operational assets' are defined as ambulances, equipment and any other assets that St John uses to deliver ambulance services. Operational assets and property are analysed separately.

Operational assets

The net book value[85] (nbv) of St John's operational assets has increased since the beginning of its current contract, from around $68 million in 2016/17 to around $80 million projected for the second quarter of 2020 This is due to:

- The replacement of critical operating assets that have been subject to servicing issues and product recalls worldwide. The replacements will be funded through finance leases to conserve cash reserves.[86]
- Addressing digital stabilisation issues
- Investment in ePRF
- Upgrading vehicles in rural areas.

Of St John's operational fleet and equipment, vehicles ($26m nbv, $83m cost price (cp)) are the largest category, followed by Digital Infrastructure ($11m nbv, $49m cp) and other Clinical Equipment including Stretchers and Defibrillators ($12m nbv, $48m cp). Together, these amount to a $49 million book value with a cost price of $180 million.[87]

St John has histori ally owned much of its ambulance fleet and assets. Under its current ontract, it has moved to leasing operational response cars and direct finan ing arrangements to save costs and to reduce risk.

As a result of double rewing, St John has opted to invest in rural volunteer First Response Unit vehicles, rather than relying solely on the existing ambulance fleet This involved a global search for best value assets, with vehic es sourced from Germany.[88]

St John reports that the average age of the vehicle fleet has improved in recent y ars through an active lifecycle replacement programme. However, the ifecycle and stability of spare vehicles required to maintain resilience and handle shift handovers continues to be an issue. St John retains a 25% operational spare requirement for surge capacity, winter workload and to replace frontline assets for scheduled service and unplanned repair.[89]

St John's ongoing deficits have meant that funds set aside for capital expenditure have been limited – leading to slower replacement of assets than would be good practice. A recent example is the replacement of 40% of the frontline defibrillator assets, where there has been little to no investment

84 See Appendix 7 for more detail.

85 Net book value is the amount at which an organization records an a et in its accounting records. Net book value is calculated as the original cost of an asset, minus any accumulated depreciation, accumulated depletion, accumulated amortisation, and acc mulated impairment.

86 St John New Zealand Operating Assets nbv 2015-2020

87 St John MartinJenkins Independent Review Areas of Focus, St John's Response to Review Questions, July 2019, p. 12-13

88 St John Mar inJenkins Independent Review Areas of Focus, St John's Response to Review Questions, July 2019, p. 12-13

89 St John MartinJenkins Independent Review Areas of Focus, St John's Response to Review Questions, July 2019, p. 12-13

for two years – despite a demonstrated clinical risk in retaining the Laerdal product, which is facing global recalls and is no longer manufactured.

Operational capital expenditure has been approximately $20 million per year over the last seven years, excluding ePRFs/MDTs.

Property

St John holds a large property portfolio of approximately 310 properties, with a roughly equal split between freehold (48%) and leasehold (52%).[90] St John reports that there is a high degree of deferred maintenance across the property portfolio. The value of St John's freehold buildings is $94 million, and the value of its freehold land is $54.5 million (as at January 2019). The total freehold property and land value is $148.5 million.

St John's current financial and property models have been regionally driven. Much of the organisation's cash and liquid assets are still held regionally (although this is gradually changing), and property portfolios are managed regionally. This has created significant variation and inequity across the regions and has meant that St John has been unable to efficiently manage cash / capital, prioritise or make deliberate strategic investment dec sions

Fit for Future made several recommendations around St John s property management. Based on these recommendations, as of August 2019, St John has:

- Developed and approved a new 2018–2023 Property Strategy (however, there is not yet an implementation plan in place for moving from the current to the future property portfolio)
- Developed and approved a set of property m nagement and decision-making principles
- Begun to amend its financial delegations related to property (still in progress)
- Introduced a new national property ma agement team
- Developed new national processes for property management and investment.

According to the Fit for Future stocktake report, the move to a national, centralised stru ture for overse ing property has increased transparency around property portfolios The changes have also created greater equity around property investm nt decisions and the treatment of property projects.

The F for Future stocktake in August 2019 noted that an 'achieved' improvement has been *'Getting St John to start thinking more commercially a out property management by considering leasing and liquidating assets for reinvestment.'* [91] The stocktake also suggests that as a *'recommended future next step'* St John should develop an asset sales programme and a prior tisation framework for property management and investment decisions.

We agree with these recommendations – and we note that the recent forecasts prepared by St John begin to include proceeds from the sale of property assets from the 2019/20 year onwards. We suggest that this programme be front-loaded as much as possible to alleviate some of the financial risks over the contract period. However, we recognise that any sales processes that involve properties that are seen as community assets will come with challenges – and this may extend timeframes or potentially rule out the sale of some of the properties.

Some improvements related to property are still pending. These include transferring legal property ownership rights to the Priory, finalising delegations, and developing a clear implementation plan.

[90] Fit for Future p. 50

[91] Fit for Future stocktake p. 9

St John is also planning to develop a clearer distinction between ambulance assets and community assets, to allow for separate cost recording and allocation and better understanding of building use.[92]

[92] Fit for Future stocktake p. 40

SECTION 3: FINDINGS

In this section we set out our findings in relation to the key review questions. These findings are focused on how St John has performed against the funding arrangement principles set out in the Horn Report, as well as the requirements set out in the current contract.

Our proposed actions are described in the following section (Section 4).

The basis of our findings and proposed actions are the Horn Report's recommendations and St John's contractual obligations.

At the outset of this Review, we noted the Horn Report's core recommendations for the St John-government funding relationship:

- **Living within its means** – The quid pro quo of St John's autonomy is that it lives within its means – that is, it does not come back to the Ministry and ACC to fund poor decisions or cover financial risks that have not been well managed.
- **Meeting demand growth** – Funders (the Ministry of Health and ACC) need to accommodate an increase in demand growth *'tha annot reasonably be met through provider efficiency gain . Whi e prov ders have little control over emergency service demand, they can influence the cost of meeting that demand'*.
- **Full provider disclosure** – Managing this requires an *'arms-length funding arrangement inside a strategic relationship hat is based on a combination of full provider disclosure and funding conditions'*. These accountability arrangements address the real ty that the funders and St John are co-dependent.

The basis of St John's current contract with Government was to ***maintain performance levels and, where possible, improve***. However, the new funding ***was not dedicated to improving performance levels***. Rather, it was to ensure financial susta nability in the face of increasing demand and price pressures.

How St John can deliver on its contractual obligations in its current configuration

Impact of St John's current cash reserves

Our view is that, although St John has been running down its cash and investment reserves to fund its increasing deficits, the $40 million remaining in its reserves means that its current financial position is sound. There are, however, increasing financial risks and little headroom to cope with further deterioration of its financial position.

In the first year of the contract (2017/18) St John had a small operating deficit and maintained its cash and investment reserves at around $50 million. In the second year (2018/19), St John's costs increased significantly more than its increase in revenue – resulting in an operating deficit for Emergency Ambulance Services of around $11 million and a decline in consolidated cash flow of $10 million.

At 30 June 2019, St John's consolidated cash and investment reserves were $40 million (down from $49 million in June 2018) and net working capital was positive, at around $8 million. St John's funds are held across corporate and community trading and investment portfolios, with investments in shares, term deposits, call and trading accounts. St John has a $20 million credit facility with ASB to manage its quarterly working capital fluctuations.

Around $6–8 million of community funds have been bequeathed to St John, with restrictions around how the funds can be used. Otherwise, St John has access to the remaining reserves. Internally, St John treats $18 million of its $40 million reserves as a property fund – for future investment in replacement of property assets. The remaining $22 million it considers as a community-sourced asset, with sensitivity around using such funds to cover what might be centrally generated operating deficits.

Our view is that because of that $40 million reserve, St John's current financial position is sound. There is, however, little headroom to cope with any deterioration in its position – in an environment of increasing risk as deficits are forecast to increase, and remaining reserves are required for working capital and capital investment.

We understand that St John has raised some short-term wo king capital issues with the Ministry, which relate to the maturity profile of he fixed-term deposits, rather than a shortage of funds. These issues have been dealt with by the contracting parties.

Lack of a workable plan for the remaining two years

St John has not yet prepared a workable plan of how it might best operate over the next two years under the terms of its contract with the Ministry and ACC This work needs to be completed before a sound judgement can be made on its future financial sustainability.

To date, S John has provided us with a forecast for the final two years of the contract that was prepared for a significant budget proposal for additi nal funding This was followed up with an indicative list of areas where costs that were included in the forecast could be trimmed, or revenue could be enhanced. The indicative list has not yet been approved by St John's Executive Leadership Team or the Priory Trust Board.

sing the adjusted budget, the forecasts show the Emergency Ambulance S rvice deficits increasing by $4 million in 2019/20 to a total deficit of $15 million. In 2020/21 the deficit increases by a further $12 million to $27 million.

St John reports that the increasing forecast deficits are largely driven by:

- Existing and anticipated pay settlements exceeding the allowances in the funding formula (with impacts arising from the upcoming workforce review, and the need to consider the high cost of pay-comparability on unsocial hours payments to paramedics)
- Additional resourcing that is needed to reduce clinical risk and staff utilisation ratios
- The need to invest in 111 Clinical Hub infrastructure in 2019/20.

Stepping away from the forecasts and estimates provided by St John, the cost base for Ambulance Services has already grown too large when compared to the available funding and revenues.

It is also inevitable that some of St John's costs will increase substantially over the next two years – such as the increases in personnel costs from pay settlements made to date. The workforce reviews underway may also impact on this. Consequently, St John would need to reverse its cost increases of the last two years by at least $11–15 million just to stand still.

That would be difficult to achieve in the short term. It would also come with significant operational risks, particularly because achieving those savings would require considerable reductions in FTEs, among other cost savings.

Probable need for one-off funding

Given where St John finds itself today, including the fact that its current cost structure is producing significant deficits that cannot be quickly reversed, we suspect that the $22.14 million in sustainability funding will almost certainly be required over the next two years.

Even with this funding, St John may still need to use more of its cash and investment reserves to fund its operations – and it will certainly need to exercise greater cost control than it has shown in the last tw years.

Our view is that the sustainability funding should be relea ed, but later tranches only once certain conditions have been met, most importantly that St John prepare a comprehensive plan for controlling costs over the remainder of the contract period. We expand on these conditions in Section 4, 'Actions'.

Changes since the 2015 report that are causing immediate financial pressures

Although St John is not under immediate financial pressure, its financial position is deteriorating. Even with the benefit of the one-off funding, there will be substantial pressures it will need to deal with in the next two years – and action to address these upcoming pressures is needed now.

St John has identified several factors that have contributed to its increases in costs over and above those anticipated by the price and demand formulae in the contract (which use LCI and PPI inflation indices, and the numbers of incidents and 111 calls). These factors include:

- Increases in the complexity of cases
- Increased traffic congestion
- Meeting service gaps from other parts of the health system
- Increased triage prior to ambulance dispatch (and the resultant decrease in part-charge income)
- Costs incurred in relation to the bargaining and industrial action processes (which took over nine months),[93] with flow-on impacts on services and management

[93] St John estimates the cost of this action to be cl se to $8 million.

- Investment in digital and infrastructure services to stabilise extreme and high risks
- Investment in the Fit for Future programme, health and safety, leadership and financial services
- Spending on deferred maintenance and essential capital expenditure.

The demand pressures and service changes have manifested (among other things) in St John hiring an additional 54 FTE in clinical development and communications roles over the last two years.

The investments in digital and other support services have also contributed to an average cost increase of 13% per year across non-personnel direct operating costs and indirect digital and support costs. Organisational benefits and cost savings from the Fit for Future programme will not manifest until the third and fourth years of the contract, and net cost savings of Fit for Future are only estimated at around $2.1 million.

When looking out over the next two years, because of the cost increases over the first two years of the contract, St John will need to address its current cost structure as well as managing its future cost pressures

St John is relatively cost efficient – but costs are rising and deficits are increasing

Compared to international counterparts, St John appears to be cost efficient – and this partly reflects the benefit of St John s community model to leverage its volunteers.

The PwC and Sapere reports did not uncover any significant issues of cost inefficiencies in St John's operations. When comparing St John to its international counterparts, St John has significantly lower costs per response and per capita. This partly reflects the high numbers of volunteers that are attracted to St John under its community model.

However, in spite of these positive efficiency comparisons, St John's costs are continuing to grow and its deficits a e increasing.

St John's failure to live within its means

St John has not adequately focused on controlling the organisation's costs o the extent required to live within its means throughout the contract

As described earlier in this report, St John knows that the Ministry and ACC mus *meet the cost of any provider decisions or omissions that threaten the viability of the ambulance service, at least up to a point'* – this also reflects the bilateral monopoly relationship described earlier.

To reduce this moral hazard, St John should *'take specific actions to improve [its] financial position, without recourse to the funders, as [its] ability to manage financial risk deteriorates.'* St John should live within its means – that is, it should not come back to the Ministry and ACC to fund poor decisions or cover financial risks that have not been well managed (as recommended by the Horn Report).

We have not sought to second guess St John's assessment of the reasons for its costs increasing in the areas noted above, nor have we sought to prioritise the need for those investments. While some of the improvements to the emergency ambulance service would have been beneficial for patient outcomes and the wider health service, it is not clear that all the changes

have been strictly necessary to the delivery of the contract (that is, to *'maintain performance'*).

The reality is that, despite making cost savings in some areas, St John's Board and management have not adequately controlled the organisation's overall costs to the extent required to live within its means. St John's 2018/19 deficit was $11 million and the embedded cost structure and external cost pressures over the next two years (particularly from wage settlements) will now make it difficult to reduce costs and maintain a sustainable level of reserves over the remaining contract term.

Section 4 sets out the key actions that we believe St John and the funders need to undertake in order to manage the next two years of the contract.

No evidence of cross-subsidisation impacting reporting

St John appears to be using appropriate methods to allocate costs and revenues to its Ambulance Services business unit – and we have no concerns with cross-subsidisation of services

St John appears to fairly allocate its overheads, other shared costs and fundraising and other revenues across its Ambulance Services and other business units. We therefore have no concerns that there ar any material issues with cross-subsidisation between the Ambulance and other services.

Processes in place to deliver on efficiency opportunities

St John's efficiency gains are mainly embedded in the Fit for Future programme of work, and because this work is in its early days, the efficiency gains have not yet been realised through actual cost savings. In any case, St John's wider focus has been on maintaining capability, building resilience, and plugging gaps in its operations – rather than seeking extensive efficiency gains that would negatively impac on performance.

Over the course of the contract to date, the Priory Trust Board has asked management to provide a range of cost-saving measures, but even with these initiatives, the overall costs have continued to rise – and deficits have increased.

Our review did not identify any opportunities to transfer additional revenues from St John's comme cial and fundraising activities to the emergency ambulance service Allocations of revenues and costs across the emergency ambu ance and community services operations were appropriate.

How governance, management, systems, processes and assets support the delivery of the emergency ambulance service

Governance and management, including financial management

The Fit for Future programme is creating the foundations for St John to strategically manage itself – and St John is to be commended for this work.

The Fit for Future programme is driving a significant and positive shift away from a long-standing organisational culture, and it is what we would expect to see from a high-performing organisation. However, because the programme of change is still proceeding, implementation of some critical

areas of oversight are not yet complete – and this could have contributed to St John's difficulty to govern and manage within its contractual arrangements.

Specifically, despite improvements to governance, it is a concern that St John did not, before this Review, have a detailed financial forecast based on planned, secured funding in place.

Systems, processes and assets

St John has implemented various initiatives to manage demand. However, we have found limited evidence of St John taking action to address and close gaps in contractual service delivery within existing resources.

Some of these initiatives impact positively on KPIs and costs, some impact negatively, and others do both, though the exact dynamics can be unclear. It is possible that some of these initiatives, although desirable, were imprudent under the terms of the current contract and were geared more towards improving than maintaining performance. We note recommendation 10.4 o the Horn Report, which states that:

> *'funding for … a wider range of services needs to be considered separately from funding the emergency road ambulance servi e and be assessed alongside other funding priorities….Once funders ha e agreed the new protocols are cost-effective and will be funded, then the Ministry should ensure that ambulance providers are fully compensated for the extra costs they incur in supporting these improved outcomes'.*

St John has started to approach asset management in a mor commercial and transparent way – we see this as a positive development, especially considering the organisation's financial situation. We recommend that St John's planned sale of property assets be front-loaded as much as possible (accepting that there will be challenges in achieving this) to alleviate some of the financial risks over the contract period.

Resetting the relationship

St John and its funders would benefit from resetting their relationship. While this was one of the goals of the Horn Report, the relationship still faces challenges

The Horn Report recommended an *'arms-length funding arrangement inside a strategic relationship that is based on a combination of full provider disclo ure and funding conditions'*.

St John has made efforts to communicate with its funders about its funding situation, including through various letters. However, in some instances St John has not followed appropriate channels when discussing contractual fun ing pressures and securing additional funding. This is not what we would expect of a strategic relationship with *'full provider disclosure'* as described by the Horn Report.

Due to the dual Ministry of Health/ACC funding mandate, NASO has been set up to manage the St John/ambulance service relationship. While this is useful from a legal perspective, it does mean that St John interacts mainly with contractual managers, which doesn't encourage broader and more strategic discussions. This affects the relationship, which is largely one of contract management and reporting rather than a mature, strategic partnership.

The relationship would benefit from more face-to-face meetings at appropriate senior levels, to allow for more dynamic and strategic discussions about St John's performance and risks. This would strengthen the parties' ability to operate in accordance with the Horn Report through a more strategic relationship based on transparency, early disclosure, and a mutual understanding of risks and issues.

KPIs in the Letter of Expectations have also broadened over time, and strategic discussions could usefully include consideration of areas where KPIs should be revised to reflect changes in service delivery models and external factors, and the extent of St John's capacity to contribute to strategic priorities.

Simplifying reporting

St John's reporting to funders would benefit from being simplified and shortened.

As well as improving KPI reporting, St John and NASO could also explore identifying a few, mutually agreed lead indicators of performance, including information that highlights short- and medium-term financial viability.

In short, the reports should give government the information they need to instil confidence in St John's delivery and financial management, so that they can maintain an arms-length relationship. This means full provider disclosure of fundamental risks and the reasons for them.

While there is frequent and detailed reporting (both monthly and quarterly) from St John to funders, this is overly detailed, and focused on outputs rather than outcomes. This is not the fault of any specific party, but probably a result of how the reporting format has evo ed.

St John also does not always draw a cl ar line between delivery and non-delivery of KPIs, al ng with a statement of the key reasons for non-delivery and how this is impacting ov rall costs. The reports also include medical jargon that thos outside St John may find hard to understand.

St John is not obligat d to report on its full financial picture to NASO – that is, the proportion of its operations that are not government-funded, such as comm nity services and commercial activities. This means government does not have a full view of how St John's overall financial picture is tr cking. It wou d be helpful if the Ministry of Health and ACC, as St John's primary funders, had a clearer picture of how St John is tracking overall. This is especially important given St John's looming financial issues and its 'too ig to fail' status.

SECTION 4: ACTIONS

Actions to remain financially sustainable

This section sets out the four actions proposed by this Review in order for St John to continue to be financially sustainable for the rest of the contract period.

1 **St John should develop a financial and KPI delivery plan, in conjunction with the funders, to demonstrate how it intends to remain financially secure for the remainder of the contract period – and deliver on its contractual obligations**

2 **The first tranche of one-off sustainability funding should be released under the timeframes agreed by Cabinet – but release of the subsequent tranches should be contingent on St John's delivery of an acceptable f nancial plan that addresses the parameters of the contract**

3 **St John should as a priority implement agreed structural governance changes and further improvements to Board reporting**

4 **The parties should agree to a more strategic approach with measures to ensure higher transparency and closer oversight of performance, decisions and choices**

1. St John should develop a financial and KPI delivery plan, in conjunction with the funders, to demonstrate how it intends to remain financially secure for the remainder of the contract period – to deliver on its contractual obligations

We recommend that St John develop a workable financial and KPI delivery plan, in conjunction with the funders, to demonstrate how it intends to remain financially secure for the rest of the contract period. We would expect the plan and planning process to be based on the following elements:

- **Development of a reporting format that clearly shows the components of St John's operations that are important to measuring performance against the contract.** As well as showing fully allocated financial statements for the Emergency Ambulance Service, the reports should show a consolidated view of the balance sheet, and financial ratios that demonstrate St John's financial sustainability.
- **Development of a wide range of cost-saving and revenue enhancing measures, including for capital expenditure and asset sales** – This work should include an assessment of risk and return for each measure. We suggest that a 'base case be set where the identified net savings are such that St John would require no new funding over the contract term. St John should in the first instance, prioritise these identified savings and new revenue initiatives.
- **Discussions should be held with the funders around operational implications and risk appetite** for each of the potential savings or revenue enhancing measures (related to the contract) identified by St John
- **Clear communication to the funders about the cash and investment reserves policies that are to be applied over the contract term** – including how large the consolidated net cash/investment funds need to be (and why), along with wider discussion of St John's working capital requirements and risks.
- **St John shou d gree the final financial and KPI delivery plan with the funders**

..

2. The first tranche of one-off sustainability funding should be released under the timeframes agreed by Cabinet – but release of the subsequent tranches should be contingent on St John's delivery of an acceptable financial plan that addresses the parameters of the contract

The first tranche of the $22.14 million in one-off sustainability funding should be released under the timeframes agreed by Cabinet. This part of the action is based on the Review's findings that, although St John is currently in a stable financial position, continuing depletion of its reserves will begin to erode that stability.

The purpose of making subsequent tranches contingent on delivery and agreement of the financial plan is to ensure that, as early as practicable, St John and the funders have a shared understanding of St John's

forecast finances over the remainder of the contract – and whether the short-term sustainability funding will be sufficient to support St John's viability over that time. The timeframe before the planned release of the second tranche (31 December 2019) should allow sufficient time for the plan to be developed.

The action should be reviewed if circumstances change and the release of the second and third tranches of funding are shown to be critical for St John's short-term viability.

3. St John should as a priority implement agreed structural governance changes and further improvements to Board reporting [94]

St John should continue to implement its Fit for Future programme, to fully embed robust governance and management arrangements and strong strategic partnerships which support effective management and delivery of the current contract.

St John should urgently address the findings of the PwC Fit o Future Stocktake that "some further improvements are required to move towards reports that are more concise, more focussed on strategi matters, clear on required decision/actions and easy to navigate"

4. The parties should agree to a more strategic approach with measures to ensure higher transparency and closer oversight of performance, decisions and choices

The parties should agree measures to ensure higher transparency and closer understandi g and oversight of performance, decisions and choices for the remaining period of the contract. This should be based on th d velopment of a more strategic relationship with a focus on face-to-face contact. More formal requirements should include:

- A review of KPIs in the 2019/20 Letter of Expectations, and agreement between St John and NASO on where the KPIs need to be adjusted due to changes in service delivery models, or new external factors. This review should also consider whether any changes are required to KPIs relating to St John's contribution to NASO's wider strategic priorities, with regard to available resources and capacity
- A joint risk management plan, agreed between the funders and St John
- Clearer reporting by St John on performance against the contract, including:
  - delivery against KPIs, and actions being taken to close any reported service gaps

[94] A key action from the PwC Fit for Future Stocktake.

- identifying a few, mutually agreed lead indicators of performance, including information that highlights short- and medium-term financial viability
- actual and forecast revenues and costs (including capital items) and the cash/investment and working capital position and performance against the new plan. The ongoing reporting formats should be developed in conjunction with the development of the financial plan described in Action 1
- status of risks in the joint risk management plan, identification and status of any new risks, and any risk mitigations being undertaken
- attendance by a NASO representative at Priory Trust Board meetings as an observer and advisor. St John should provide this representative with board papers at the same time as PTB members.

APPENDIX 1: ST JOHN'S GOVERNANCE STRUCTURE

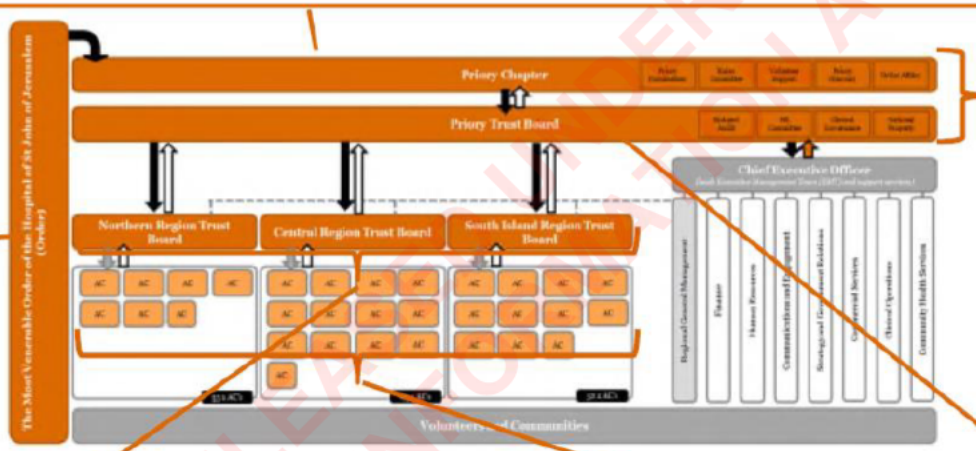
From PwC Fit for Future Review, p. 26

Priory Chapter is the formal governing committee of the Priory. Chapter delegates the authority to act 'on all matters relating to the immediate general control and supervision of the affairs and work of the Order of St John within New Zealand' (except some supervisory roles) to the PTB. The Chapter is headed by the Prior, Chancellor and Deputy Chancellor (if appointed). Other members include the Bailiffs Grand Cross and Dames Grand Cross, three elected Order Members (Officer or above), three appointed members and the immediate past Chancellor.

There are five specialist **Chapter Advisory Committees:** Priory Nominations, Rules Committee, Volunteer Support, Priory Honours and Order Affairs.

There are four specialist **Priory Trust Board Advisor Committees:** Risk and Audit, Human Resources, Clinical Governance and National Property.

The Order is the highest St John entity, with overall authority for St John worldwide. The Grand Council and the Grand Prior govern the Order. The Order delegates 'the immediate general control and supervision of the affairs and work of the Order and the Order Members resident in New Zealand' to the Priory as an 'establishment' of the Order.



Priory Trust Board (PTB) is responsible to Chapter for exercising the authorities delegated to it by the Chapter i.e. all matters relating to the immediate general control and supervision of the affairs and work of the Order of St John within New Zealand (including appointing and directing the Chief Executive Officer). The PTB sub-delegates some authority to the RTBs. The PTB comprises the Chancellor, the Deputy Chancellor, two members of each Region Trust Board (RTB) and up to six other Members.

There are currently three **Region Trust Boards** (RTB): the Order of St John Northern Region Trust Board, the Order of St John Central Region Trust Board and the Order of St John South Island Region Trust Board. The RTBs are responsible to the PTB for exercising the authorities sub-delegated to it by the PTB i.e. the activities and operations of St John' within the relevant region and the authority to undertake such activities and operations on behalf of the Priory. RTBs are responsible for the establishment, conduct and performance of the Area Committees. The RTBs are administered by a board of trustees, which comprises 4-8 elected (by electoral committees) and up to 8 appointed (by a majority trustee vote) Members.

Area Committees undertake particular work within local communities. The Area Committees are also the mechanism that drives St John's electoral system, where each Area Committee has one vote. There are currently 148 Area Committees.

PwC

APPENDIX 2: THE NEW ZEALAND HEALTHCARE SYSTEM

The New Zealand health and disability system is dominated by several key players:

- **Central government** – who raises revenue through taxes and allocates a proportion on this to health and disability services, predominantly through Vote Health.
- **Ministry of Health** – responsible for advising the Minister of Health and government on health and disability issues and in leading the system through planning, regulation and purchasing of support services.
- **Ministerial Advisory Committees** – responsible for advising the Minister of Health on areas within their scope.
- **District Health Boards** – 20 geographically determined crown entities governed by boards of elected and appointed members and charged with planning, funding and providing health services for their population.
  - **Primary health organisations (PHOs)** ensure the provis on of essential primary health care services, mostly throug general practices. PHOs are funded by the DHBs.
- **Non-DHB crown entities** – these are crown en ities with othe responsibilities in the health and disability sect r and include PHARMAC.
- **Health and disability service providers** – both DHB owned and non-DHB providers who provide a range of services in hospitals, residential facilities, and in the community ***St John falls into this category.***
- **Accident Compensation Corporation (ACC)** – provides no fault compensation for a cident and injury.[95]

Public se tor funding, which encompasses funding through Vote Health and Vote abour Market (ACC), accounts for approximately 80% of all health expe diture with th remainder coming from private insurance (5%) and out-f-pocket payments (15%).[96]

Lookin toward the future, factors that will impact the New Zealand healthcar system will include:

- The population is projected to grow by nearly a million people between 2018 and 2038.
- The population will include a greater proportion of people aged over 65 years.[97]
- Long-term conditions such as cancer, cardiovascular disease and mental illness will continue to contribute the most to ill health and death in New Zealand.[98]

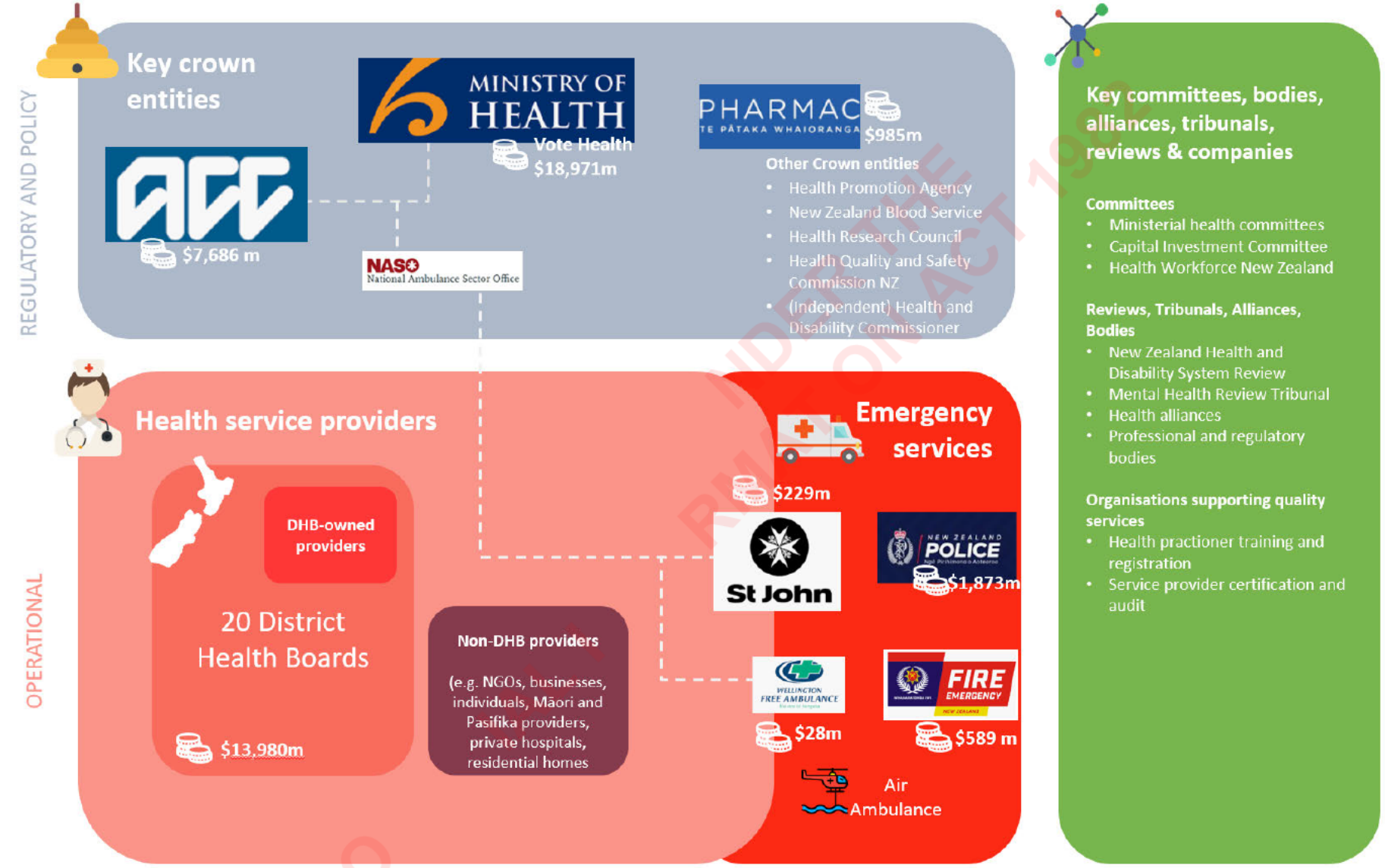
95 New Zealand Health and Disability System Review, Background for the New Zealand Health and Disability System Review 2018 p. 2

96 OECD. (2017). Health at a Glance 2017: OECD Indicators. Paris: OECD Publishing. Retrieved from http://dx.doi.org/10.1787/health_glance-2017-en

97 New Zealand Health and Disability System Review, Background for the New Zealand Heal h and Disability System Review 2018 p. 4

98 New Zealand Health and Disability System Review, Background for the New Zealand Heal h and Disability System Review 2018 p. 3

Figure 4: St John's place within the NZ health system



APPENDIX 3: ST JOHN / NASO KEY PERFORMANCE INDICATORS

Table 7: KPIs for 2018/19[99]

Measure	Target for 2018/19
Urban response times	
Purple incidents reached in 6 minutes	50%
Purple incidents reached in 12 minutes	95%
Red incidents reached in 8 minutes	50%
Red incidents reached in 20 minutes	95%
Average time to reach orange incidents	Report only
Average time to reach green incidents (for those an ambulance locates at)	Report only
Average time to reach grey incidents (for those an ambulance locates at)	Report only
Rural response times	
Purple incidents reached in 10 minutes	50%
Purple incidents reached in 25 minutes	95%
Red incidents reached in 12 minutes	50%
Red incidents reached in 30 minutes	95%
Average time to reach orange incidents	Report only
Average time to reach green incidents (for those an ambulance locates at)	Report only
Average time to reach grey incidents (for those an ambulance locates at)	Report only
Call volumes	
#111 calls received	Report only
# unique incidents	Report only
# ambulance responses	Report only
# unique incidents attended by ambulance	Report only
#/%unique ncidents attended by triage prior y	Report only
Attendance outcomes	
#/% unique i cide ts attended and not transported	Report only
#/%unique incidents transported to a non-ED lo ation	Report only
#/%unique incidents attended and t ansported to ED	Report only
#/%of status 4 patients transported to ED By hour of the day	Report only
#/% of patients not referred to ED (by ambulance or private transport), who were subsequently found to be status zero or one (within 24 hours of preceding ambulance attendance).	Report only
Clinical Telephone Assessment (CTA)	
Denominator = total number of unique incidents in your coverage area Numerators are as described for unique incidents in your coverage area	
# unique incidents reviewed by CTA	Report only

[99] From St John's yearly Letter of Expectations with NASO.

#/% unique incidents closed by CTA	>3%
#/% incidents sent to CTA sent back for ambulance response	Report only
#/% grey incidents sent to CTA called back within 10 minutes	Report only
#/% green/grey incidents sent to CTA called back within 30 minutes	Report only
#/% green/grey incidents sent to CTA closed by CTA nurse	Report only
#/% green/grey incidents sent to CTA closed by paramedic	Report only
Patient satisfaction	
#/% 111 calls answered within 15 seconds	95%
#/% 111 calls abandoned	Report only
#/% callers who report being highly satisfied with • Call taking • Response time • Overall experience	>80% very satisfied
Safety	
% responses in transporting ambulances that are double crewed	Report only
# serious adverse events identified	Report only
#/% SAC1 and SAC2 incidents closed within contract guidelines	100%
#/% health and safety incidents and % of these that are serious	Report only
#/% of patients not referred to ED (by ambulance or private transport), who were subsequently found to be status zero or one (within 24 hours of preceding ambulance attendance)	Report only
Major trauma	
# major trauma patients	Report only
#/% major trauma patients transferred to a major trauma hospital as a primary destination	Report only
Falls	
# non and minor injury/non transport fall patients	Report only
#/% non and minor injury/non transport falls patients referred to a falls prevention servic Reported nationally and by DHB	250 per month
Children with multip e complex unmet needs	
# Children with mul iple complex unmet needs referred to an appropriate service	Report not required unless specifically requested
Cardiac arrest	
# cardiac arrest patients	Report only
/% cardiac arrest patients surviving ED By all patients, Māori non-Maori	Report only
#/% cardiac arrest patients surviving to 30 day rom admission By all patients, Māori non-Maori	Report only
STEMI	
# STEMI patients By all patients, Māori, non-Māori	Report only
#/% STEMI patients that get to hospital within recommended timeframes By all patients, Māori, non-Māori	Report only
Stroke patients	
Stroke patients	Report only
#/% of status 1 and 2 stroke patients arriving at hospital in under 4 hours By all patients, Māori, non-Māori	Report only
Recognising stroke	Report only
Youth	

# youth incidents By all patients, Māori, non-Māori	Report only
# youth mental health incidents By all patients, Māori, non-Māori	Report only
#/% youth alcohol-related incidents By all patients, Māori, non-Māori	Report only
Pain	
Patients with fractures are assessed for the level of their pain	80%
Reduction in pain for patients with fractures	Report only
Vital signs trends	
Vital signs trends	Report only

APPENDIX 4: ST JOHN CONTRACTUAL SERVICE GAPS

Table 8: St John key contractual service gaps (Apr-Jun 2019)[100]

Area	Target	Actual	Key reason	Action taken
Urban Red 8 min	50%	44.8% (Auckland) 41.6%	Resourcing increases outside double crewing below activity growth volumes. Non-contractual internal initiatives that have been introduced to improve patient care (For Auckland) Population growth and traffic congestion	Additional ambulance personnel deployed[101] Performance improvements plans are being developed for Auckland and Rodney Territory (Auckland)
Urban Red 20 min	95%	92.5%	Resourcing increases outside doub c wing bel w activity growth volumes.	Additional ambulance personnel
Urban Purple 6 min	50%	47.7%	9 determinants were recent ch ged from Red and Orange incidents/callouts to Purple. This has impacted on reported performance.	
Urban Purple 12 min	95%	90.5%	Resourcing increases outside doub e crewing below activity growth volumes.	Additional ambulance personnel deployed
Rural Red 12 min	50%	45.8%	The geographical location and the distance to the closest station or closer units being already co mitted and the resource having to respond from a neighbour g station The Rural Red 30 min target has never been achieved and remains a difficult and potentially unachievable target.	According to St John, there are limited options to address these missed incidents without additional rural resources.
Rural Red 30 min	95%	89.8%		
Rural Purple 25 min	95%	90.5%		
Called back within 30 minutes	95%	94.7%	Nurse resourcing was under establishment causing low performance, but this is increasing against target.	Nurse FTEs increased.
% unique incidents transported to a non-ED location	3%	2%	111 Clinical Hub may be impacting this. Crews need a mobile directory of services, listing available non-ED options.	

[100] St John Report to NASO April-June 2019

[101] PwC DRAFT 2, Fit for Future 1.0, Programme S ocktake August 2019

APPENDIX 5: SUPPLEMENTARY FINANCIAL ANALYSIS

In this Appendix we summarise St John's historical financial trends – and then review the assumptions made for the remaining two years of the contract.

St John has prepared a preliminary 'indicative' forecast for the last two years of the contract (2019/20 and 2020/21) that is associated with a proposed budget proposal for additional funding.

St John has also prepared a list of potential cost-avoidance / revenue-enhancing considerations for Year 4 of the contract (2020/21). These considerations have not yet been approved internally by St John's ELT or PTB – and there is a high chance they will change. However, to provide some context for the final year of the contract, we have included these preliminary considerations in the 2020/21 results (where shown).

Due to the 2020/21 results not yet being approved by St John, we have not focused our analysis on the costs or revenues shown in that year – and readers should also treat the results for Year 4 of the contract with caution.

Overview

Defining the Emergency Ambulance Service within St John

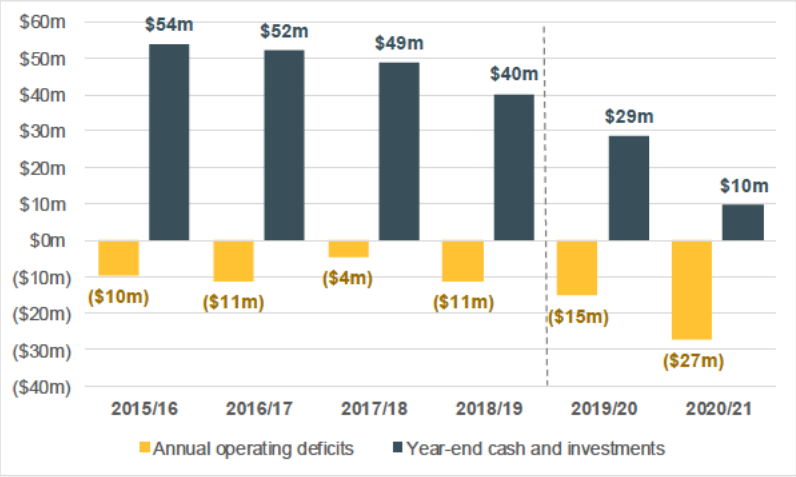
For the purposes of our review we have summarised St John's operations into the delivery of two core services: Eme gency Ambulance Services (EAS or Ambulance Services) and Community Services. These services each have direct revenues and costs – and all other revenues and costs in St John's other business units are allocated to these two services.

Consolidated results for St John

Using St John's cost and revenue allocations, the Community Services business unit operates at close to 'break-even'. This means the deficits for Ambulance Services are very close to St John's reported consolidated deficits and the St John's consolidated cash and investment balances provide he best guide t the financial sustainability of St John and the EAS

To date, defi its have been funded through running down St John's ubstantia cash and investment reserves – but with forecasts for significant deficits over the next two years, this will be unsustainable over the contract term. This raises questions about St John's financial management and planning and the need to prepare a financial plan that is more consistent with the contract. We address this in the body of the Report.

Figure 5: St John's Ambulance Services deficits and consolidated cash/investments – before any new funding. Actual to 2018/19, then forecast

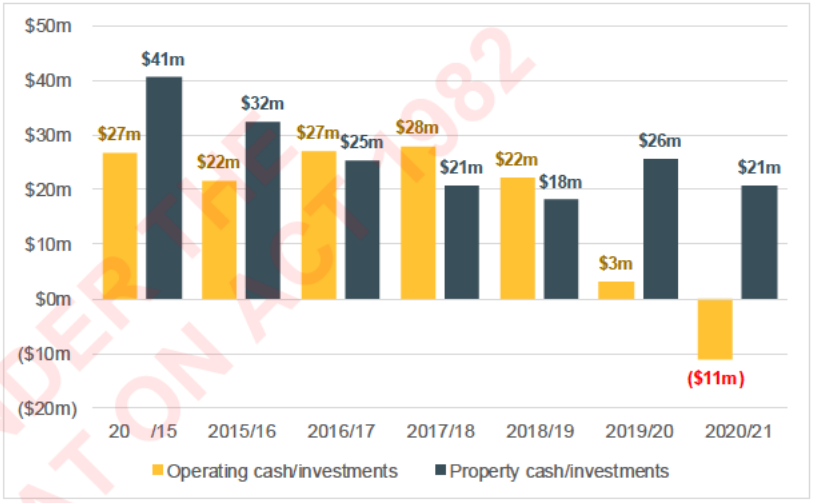


Based on budget proposal assumptions with 2020/21 adjusted for draft cost reductions – and before any new Crown funding.

The forecast $11 million decline in cash/investments from 2018/19 to 2019/20 mainly results from the Ambulance Services operating deficit of $15 million, offset by property income (sales and fundraising) which is forecast to exceed property capital expenditure.

St John maintains separate operating and property cash reserves and targets an operating cash balance of around $20 million to allow for working capital movements and other short-term fluctua ions. Property cash reserves relate to funds that have been identified as needed for future property expenditure – although this is an internal decision, and most of these funds could be used for other purposes.

Figure 6: St John consolidated cash/investment reserves



Bank verdrafts are an integral part of St John's cash management practice and are grouped as part of cash and cash e uiv ents for the purposes of preparing St John's statutory financial statements. St John currently has a $20 million ve draft facility with ASB.

The operating cost increases (and deficits) over the contract period are largely driven by actual and forecast increases in St John's personnel costs.

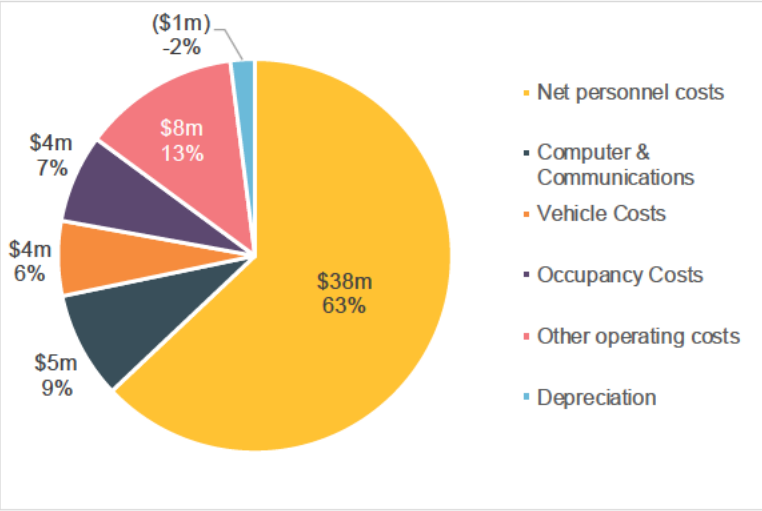
Table 9: St John operating costs

Actual to 2018/19, then forecast	Contract years					Increase	CAGR
	2016/17	2017/18	2018/19	2019/20	2020/21	2017-2020	2017-2020
Personnel costs	$185m	$198m	$218m	$240m		$55m	9%
Less double crew ing funded costs*	($3m)	($9m)	($15m)	($20m)		($17m)	81%
Net personnel costs	**$182m**	**$189m**	**$204m**	**$219m**		**$38m**	**7%**
Computer & Communications	$14m	$13m	$17m	$20m		$5m	11%
Vehicle Costs	$10m	$11m	$13m	$14m		$4m	11%
Occupancy Costs	$9m	$10m	$12m	$14m		$4m	14%
Other operating costs	$38m	$43m	$41m	$46m		$8m	6%
Depreciation	$26m	$25m	$25m	$25m		($1m)	(2%)
St John operating costs	**$279m**	**$292m**	**$312m**	**$337m**		**$58m**	**6%**

* We exclude new double crewing costs in the personnel cost analysis because, to the extent they are specifically funded, those costs mask the underlying trends that we are highlighting. (The analysis only excludes the portion of double crewing costs that are fully funded under the contract). 2020/21 forecasts are not available.

Personnel costs currently make up 67% of total operating costs – and contribute 63% ($38 million) of the forecast $58 million increase in costs from 2016/17 to 2019/20.

Figure 7: Total St John cost increases from 2016/17 to 2019/20



After excluding double crewing costs to the extent they are directly funded through the contract.

Ambulance Services – historical trends to June 2019

Table 10 shows the income, costs and deficits for the Ambulance Services business unit for the last 3 years, which includes the first two years of the contract. Since 2016/17, the direct and allocated funding of St John's Ambulance Services has increased by $22 million. This increase in funding has matched the increase in costs over that time, but it has not eliminated the $12 million deficit that existed in 2016/17.

Table 10: Ambulance Services funding and costs

		Year 1	Year 2	Increase	CAGR
	2016/17	2017/18	2018/19	2017-2019	2017-2019
Total income / funding	$192m	207m	$214m	$22m	6%
Total operating costs	$203m	$211m	$225m	$22m	5%
Ambulance Services deficit	**($11)**	**($4m)**	**($11m)**	**$0m**	**(1%)**
Year-end cash & inves ments (St John)	**$52m**	**$49m**	**$40m**	*(Consolidated)*	

Funding and costs exclude ouble crewing A these net to zero, excluding double crewing has no impact on the deficits or the consolidated cash alance shown in the tab e.

Although he increa ing annual deficits have been funded through St John's cash reser es, at June 2019 the consolidated accounts show that cash and investment balances are still substantial – at $40 million. The key financial risks for St John appear in the following two years and we over this risk in the Indicative Forecasts section on page 68.

Funding to June 2019

Crown funding increased by $28 million from 2016/17 to 2018/19, but $11 million of this was targeted funding for double crewing.

Table 11: Ambulance Services funding

		Year 1	Year 2	Increase	CAGR	2018/19 %
	2016/17	2017/18	2018/19	2017-2019	2017-2019	total funding
Crow n funding	$142m	$158m	$170m	$28m	9%	74%
Less double crew ing direct funding	($3m)	($9m)	($15m)	($11m)	107%	
Net Crown funding	**$138m**	**$149m**	**$155m**	**$17m**	**6%**	
Fundraising	$24m	$28m	$30m	$6m	12%	13%
Commercial	$3m	$3m	$3m	($0m)	(4%)	1%
Part-charges	$16m	$16m	$15m	($1m)	(2%)	7%
Other income	$11m	$11m	$11m	($0m)	(1%)	5%
Total income	**$192m**	**$207m**	**$214m**	**$22m**	**6%**	**100%**

2016/17 double crewing funding is pre the current contract (as advised by St John).

The $17 million increase in Net Crown funding is an annual increase of 6% per annum since 2016/17. Fundraising income also increased by $6 million

(12% per annum) over the first two years of the contract, but this was partially offset by a decline in Part-Charge income of $1 million.

St John's strong performance in securing increased fundraising revenue has helped to mitigate the impact from its significant increase in costs – but part-charge income has been negatively impacted during the recent industrial action.

Operating costs to June 2019

Table 12 shows a breakdown of Ambulance Services costs.

Over the first two years of the contract period, all cost categories have increased, apart from depreciation.

Direct personnel costs were $136 million in 2018/19, comprising 60% of total Ambulance Services costs. Allocated digital and other shared services costs were $38 million in 2018/19 (17% of total costs). Personnel costs increased by $10 million between 2016/17 and 2018/19, with Allocated costs increasing $8 million.

Table 12: Ambulance Services costs

		Year 1	Year 2	Increase	CAGR	Percent of
	2016/17	2017/18	2018/19	2017-2019	2017-2019	increase
Personnel - direct (excl funded double-crews)	$126m	$127m	$136m	$10m	4%	47%
Other direct operating costs	$32m	$36m	$37m	$5m	8%	23%
Allocated costs (mainly digital & shared services)	$30m	$33m	$38m	$8m	1 %	37%
Depreciation & amortisation	$16m	$15m	$14m	($2m)	(5%)	(7%)
Total Ambulance Services Costs	**$203m**	**$211m**	**$225m**	**$22m**	**5%**	**100%**
Key components of direct operating costs						
Vehicle Costs	$6m	$6m	$7m	$1m	8%	20%
Bad Debts	$5m	$7m	$7m	$2m	16%	33%
Computer & Communications	$8m	$7m	$8m	$1m	6%	18%
Occupancy Costs	$2m	$3m	$3m	$1m	17%	16%
Other	$12m	$13m	$12m	$1m	3%	12%
Total other direct operating costs	**$32m**	**$36m**	**$37m**	**$5m**	**8%**	**100%**

Costs exclude funded double crewing.

The $10 million increase from 2016/17 to 2018/19 in direct personnel costs was driven by increases in FTEs and by a modest 2% per annum increase in average salary costs per FTE. Field s a f FTEs remained relatively stable (excluding the movement due to double crewing), with the other main increases in FTEs being in Clinical Development and Communications services.

Table 13: Ambulance Services FTEs (excluding volunteers)

		Year 1	Year 2	Increase
	2016/	2017/18	2018/19	2017-2019
Field Ope ations	1 242	1,330	1,439	197
Comms	140	153	161	22
Clinica Development	108	122	140	33
Ops Mgt and Support	22	21	23	1
m bulance Se ices	**1,511**	**1,626**	**1,763**	**252**

* Inclu ing double crew ing

Several groups of health workers in New Zealand have reached pay s ttlements in the last few years, creating flow-on effects across the system, including for St John. These impacts will potentially flow into St John's pay negotiations with its unions, but the price pressure inflators in the contract will go some way to meeting this cost.

Table 14 shows the underlying cost inflators used in each of the contract years, with the jump in the LCI reflecting the wages settlements in the health sector.

Table 14: Price pressure impacts included in the contract

Contract year	Index year	LCI	PPI	Pric change
2018/19 review	Annual movement to June 2017	1.5%	2.4%	1.7%
2019/20 review	Annual movement to June 2018	3.4%	1.9%	3.0%
2020/21 review	Annual movement to June 2019*	3.9%	1.8%	3.4%

*Actual LCI, and forecast PPI based on MOH forecasts.

The personnel component of the cost increases in allocated digital and other support services were driven by a combination of increases in average costs per FTE (6% per annum) and by increases in FTEs (4% per annum).

Overall, St John has identified several reasons why it believes actual costs have exceeded those anticipated in the contract. These are listed in the body of the report under 'St John's Financial Management' in Section 2.

Ambulance Services – indicative forecasts

Forecast costs to 2020/21

In the two years from 2018/19 to 2020/21, the costs of St John's Ambulance Services are forecast to increase by $40 million, which is an 18% increase on 2018/19 costs – and an average annual increase of 9% per annum.

Table 15: Ambulance Services forecast costs

		Year 3	Year 3	Year 3	Year 4	Year 4	Year 4
	2018/19	2019/20	$ increase	% increase	2020/21	$ increase	% increase
Total operating costs	$225m	$243m	$18m	8%	*$265m*	*$22m*	*9%*
					Draft - unapproved		

2020/21 based on an indicative, unapproved budget.

Of the $18 million increase in costs in 2019/20, $12 million (65%) was from direct personnel expenses (excluding the impact of double c ewing); and $5 million (27%) was from new operating lease costs that will be used as an alternative way to fund capital expenditure. Vehicle cost increases are in line with increases in front-line crews.

Table 16: Budget proposal – breakdown of forecast costs for 2019/20

	2018/ 9	Year 3 2019/20	Increase 2019/20	CAGR 2019/20	Percent of increase
Personnel - direct (excl funded double-crew s)	$136m	$148m	$12m	9%	65%
Personnel - Digital and Infrastructure	$12m	$12m	($0m)	(2%)	(1%)
Personnel - Shared and Other pport Services	$24m	$23m	($1m)	(4%)	(6%)
Personnel - sub-total	**$172m**	**$182m**	**$10m**	**6%**	**58%**
Other direct operating cos s	$37m	$45m	$7m	19%	40%
Other allocated costs	$2m	$2m	($0m)	(2%)	(0%)
Depreciation & amortisation	$14m	$14m	$0m	2%	2%
Total Ambula ce Services Costs	**$225m**	**$243m**	**$18m**	**8%**	**100%**
Key omponents of direct operating costs					
Vehicle Cos s	$7m	$8m	$1m	17%	7%
Bad D bts	$7m	$6m	($1m)	(10%)	(4%)
Com uter & Co munications	$8m	$10m	$2m	21%	10%
ccupancy Cost current	$3m	$3m	$0m	2%	0%
Occupa cy Costs - new leases	$0m	$5m	$5m	100%	27%
Other	$12m	$12m	$0m	1%	0%
To al ther direct operating costs	**$37m**	**$45m**	**$7m**	**19%**	**40%**

* Ne lease costs represent St John using 3rd party operating leases as an alternative to traditional funding of capex through ca h reserves.

The 2019/20 increase in direct personnel costs are based on a 3.25% MECA impact ($5 million cost) and the introduction of an unsocial hours allowance ($4 million cost). Additional resources, primarily in Auckland and Christchurch and for Air Crews, increase costs by $5 million offset by $1 million in efficiency gains.

Table 17 shows the components of the forecast increases in personnel costs over Year 3 of the contract.

Table 17: Breakdown of forecast increases in personnel costs

Personnel - direct (excl funded double-crews)	Year 3 2019/20
Opening cost	**$136m**
MECA Pay Deal or Pay Increase	$5m
Unsocial Hours allowance Introduction	$4m
Additional Resource:	
Akl/CHCH Resourcing +Relief+Other Initiatives	$2m
Air Crew (+ Relief)	$3m
Remove double crewing from above	($1m)
Efficiencies (redn in Sick, Recall, casual)	($1m)
Net cost increases in year	**$12m**
Closing cost	**$148m**

Air Crew costs shown above are off-set by equivalent revenues in the 2019/20 forecasts. The net impact is nil.

Following union negotiations, St John reached a settlement at the end of June 2019 with the collective unions. The term of the settlement is for 24 months and runs from 1st July 2018 and expires on the 30th June 2020. This settlement includes a new shift allowance for staff working rotating shifts from 1 December 2019. This will average out at around 5% per annum, which will exceed the LCI adjustments included in the contract for those staff receiving the increases.

Forecast funding to 2020/21

Crown funding (excluding double crewing funding) is expected to increase by $14 million (4% per annum) over the final two years of the contract, with other income (mainly part-charges and fundraising) also expected to increase by $10 million over that time (although $5 million of that is an increase in part-charges, which might not be approved).

Table 18: Forecast funding of Ambulance Services – before allowing for new Crown funding

		Year 3	Year 4	Increase	CAGR	2020/21 %
	2018/19	2019/20	2 2 /21	2019-2021	2019-2021	of funding
Crown funding	$170m	$18 m	$195m	$25m	7%	
Less double crewing direct funding	($15m)	($ 0m)	($26m)	($11m)	33%	
Net Crown funding	**$155m**	**$ 63m**	**$169m**	**$14m**	**4%**	**71%**
Fundraising	$30m	$32m	$33m	$2m	4%	14%
Commercial	$3m	$3m	$3m	$0m	5%	1%
Part-charges	$ m	$17m	$22m	$7m	21%	9%
Other income	$11m	$13m	$11m	$0m	1%	5%
Total incom	**$ 14m**	**$228m**	**$238m**	**$24m**	**5%**	**100%**

Year 4 fund g i l des an addit n l $5 million of part-charge income which is one of the unapproved revenue enhancement conside ations

Based on St J hn s preliminary forecasts, the Ambulance Service deficits will grow f om $11 million in 2018/19 to $15 million in 2019/20 and potentially to $27 million in 2020/21. By the end of the contract in June 2021, St John's consolidated cash and investment balance will have reduced to $10 million (before allowing for any additional Crown funding).

Table 19: Ambulance Services forecast deficits – and total St John cash and investment reserves

		Year 3	Year 4	Increase	CAGR
	2018/19	2019/20	2020/21	2019-2021	2019-2021
Total income / funding	$214m	$228m	$238m	$24m	5%
Total operating costs	$225m	$243m	$265m	$40m	9%
Ambulance Services deficit	**($11m)**	**($15m)**	**($27m)**	**($16m)**	**57%**
Year-end cash & investments (St John)	**$40m**	**$29m**	**$10m**	*(Consolidated)*	

Although the cash/investment balance is still positive in June 2021 in these indicative forecasts, St John's working capital ratio would have deteriorated from 1.2 in 2019 to 0.5 in 2021 – which means St John would not have sufficient current assets to pay its current liabilities – a strong signal of financial distress.

APPENDIX 6: OVERVIEW OF RECENT PAY SETTLEMENTS

- Care and support workers: In April 2017, the Government announced an historic $2 billion pay equity settlement for care and support workers in New Zealand's aged and disability residential care and home and community support services. Since July 2017, 55,000 care and support workers have received pay rises of between 15 and 50%.[102]
- Mental health and addiction support workers: The June 2018 extension of the Care and Support Workers Pay Equity Settlement to New Zealand's estimated 5,000 mental health and addiction support workers. The $173.5 million settlement extension will be implemented over a five-year term. Nearly half will get an increase of more than $3 per hour and a further 20 percent will get an increase of more than $5 per hour.
- Nurses: In August 2018, District Health Boards (DHBs) and nurses reached agreement on the MECA (Multi-Employer Collective Agreement), with three pay increases of 3 percent.[103]
- Midwives: In April 2019, hospital midwives rea hed a settlement with DHBs to receive a 17.5 percent pay rise by August 2020.[104]

102 https://www.health.govt.nz/new-zealand-health-system/pay-equity-settlements/care-and-support-workers-pay-equity-settlementF4F

103 https://www.stuff.co.nz/national/health/106064445/nurses-to-decide-whether-theyll-strike-again-over-ongoing-dispute-wi h-dhbs

104 https://www.newshub.co.nz/home/new-zealand/2019/04/dhbs-and-midwives-reach-settlement.html

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APPENDIX 8: OVERVIEW OF CLINICAL INITIATIVES

Cost driver / impact	Cost in NZD (or, if unavailable, approximate impact on cost)	Savings (to June 2021) in NZD	Long-term savings
Fit for Future	$1.8 million over the four years	$3.89 million (over 4 years) Net cost savings ~$2.1 million	Expected ongoing cost savings of app. $1m through reduced FTE and improved processes
ePRF	$10.8m over 3 years to 2016 Since implementation St John has spent around $100-$200k per year to improve the system or replace tablets	$0.3m per annum from savings of 5-7 FTE in Finance and Admin functions – therefore $1.2m across the period of the contract and $0.6m in the last 2 years of contract	Reduction in 7 FTE in Finance and Admin Functions
Patient Pathways	$0.3m for first two years of contract $0.2m for the remainder of the contract	No information provided.	Savings to the wider health system through falls prevention, earlier treatment, access to stroke clot retrieval, and less inter-hospital transfers.
ICT and digital transformation (including security and modernisation)	On average around $2.2m per annum over the last 2 years of the contract	n/a	n/a
New intranet platform for staff and volunteers	$0.8m (Note: time period not supplied)	n/a	n/a

Cost driver / impact	Cost in NZD (or, if unavailable, approximate impact on cost)	Savings (to June 2021) in NZD	Long-term savings
Next Generation Critical Communications (NGCC)	For the current financial year there is a b dget of 0 8m	None	Future savings across the wider sector through economies of scale
Information management and busin ss intelligence	$0.2m (Note: time eriod not supplied)	n/a	n/a
Digital i itiatives that fall u der years 3-5 of the ICT ision	Projected spend of around $2.5m per year over the next three years	Around $0.8m per annum from reduced spend with IaaS provider	
Admission avoidance:	Reduced part charges as a result of decreasing ambulance attendances (Potential reduction in income of up to $1.4m)	St John estimates an average of $50m of avoided cost per annum	Savings to the wider health system
Healthcare professional CSO triage	- $0.15m per annum - Slightly reduced part charges as a result of decreasing ambulance attendances	$0.4m per annum	According to St John, rostering of additional ambulances has been phased due to more rational prioritising of HCP calls

Cost driver / impact	Cost in NZD (or, if unavailable, approximate impact on cost)	Savings (to June 2021) in NZD	Long-term savings
111 Clinical Hub	$2.3m per annum funded through MoH/ACC Road Ambulance	Saving of 6.8 x 24/7 road ambulance – app. $7m per annum	Savings to wider health system
Patient Care Plans (PCPs)	App. $0.15m per annum - Reduced part charges as a result of decreasing ambulance attendances	c $1.5m per annum based on around 630 jobs per quarter	Savings to wider health system due to less ambulance transports to ED
Hub and spoke model	n/a – more efficient use of existing resources	n/a – cost avoidance	Cost avoidance from reducing the requirement to introduce additional resource for increasing demand

Details provided by St John, and not verified by MartinJenkins.

APPENDIX 9: FINAL COMMENTS FROM THE PROVIDER

Under the terms of reference for this Report, any disagreement that St John has with the Review findings must be noted in the Report. St John's comments are provided below.

In St John's view, there are a number of critical areas where the review provides an unbalanced approach in its selection of the facts and the reviewers have taken a negative approach to St John. Furthermore, the review fails to consider its findings within the wider context of the changing nature of the health sector; increased expectations placed on the Ambulance Service; economic drivers; the industrial climate and St John's NGO status with circa 70% funding.

In summary we believe we have materially delivered on our requirements under the first 2 years of the contract in an effective and efficient manner particularly given the context of the challenging external fa tors and industrial action we faced.

We believe under any measure we are an efficient and effective provider of services to New Zealand and the funders and have continued to deliver efficiency and significant value over and above contractual expectations.

We believe we have attempted to work effectively with NASO to ensure the funders have remained aware of the unforeseen external factors driving pressure into our future performance, but agree that in order to continue to be effective even greater strategic engagement will be required to approach the challenges and choices of the coming years in a collaborative and productive manner.

The Horn Report

St John believes a major aspect of the Horn report that is referenced in this review - but fails to be ac ounted for in sufficient context thereafter – the Horn report established a c -dependence of the funders to meet the reasonable cost growth that are beyond the reasonable basis of the provider to mitigate over and abo e contr ct al efficiencies, to ensure continuity of service.

Specifically, the Horn report envisioned an *"arms-length funding arrangement inside a strategic relationship that is based on a combination of full provider disclosure and funding conditions"*.

A m ch as St John accepts its obligations based on the outcomes of the Horn report within the current four year contract to meet its moral hazard obligations to avoid returning to the funders for *"any provider decisions or omissions that threaten the viability of the ambulance service",* we feel the review inadequately reflects the evidence of the Horn report that requires a moral hazard obligation of the funders to ensure that the funding for cost and activity growth is adequately met through the funding arrangements.

Critically the point is that we have not come back to funders for either of the reasons Dr Horn identified the provider needed to avoid. We have been managing financial risks very carefully, and no poor decisions have been identified by the review (or elsewhere).

70% Funding Ratio

St John believes that throughout the review, MartinJenkins approaches its expectations on the provider as if the contract reflected a fully funded contract for service provision.

We would contend that the review should have more appropriately reflected the co-dependence based on a significant level of risk absorbed by the provider, over and above the efficiency required on it, and specifically that the commitment of the provider to absorb the additional 30% further limits the capacity of the provider to absorb the impact of additional external factors.

For context, over the first two years of the current contract, St John has had to absorb $17.6m of cost and activity drivers while the funders have funded $16.8m. As identified by the review, St John has delivered over $6.0m of this through a 26% increase in fundraising income alone, reflecting the absolute commitment of the organisation to mitigate as much, if not more, than can be reasonably expected of it before reverting to the funder to consider further funding, rather than impacting on service delivery.

Efficiency of St John

The review positions St John's organisational cost-effectiveness in the context that *"recent reports on St John's operations did not uncover any significant cost inefficiencies",* when in fact the specific headline conclusion of the most recent report was "*St John appears to be very efficient*."

The review further states in several places that "St John appears to be cost-efficient – and this partly reflects the benefit of St John's ommunity model to leverage its volunteers." St John's view, as identified in the benchmarking report is that this singular focus fails to adequately reflect that there are other factors at play here, including lower wages of ambulance staff in New Zealand, and a lower skill-mix on ambulances – we do not have a paramedic on every ambulance, unlike our UK or Australian counterparts.

Although funding has increased by 3.4% pa, in reality due to the funding ratio this represents 2.45% of the 4.4% actual growth in cost funded by MOH/ACC, meaning in addition to the efficiency, St John has also had to find a further 1.95% pa through fundraising and other income sources, or by absorbing it in deficits.

In real terms this means that over the last seven years, excluding double crewing, St John as delivered 71% of the activity and cost increase, with the funders having funded 29%.

Service improvements

The review lso states several times that St John has chosen to implement initiatives focused on ***improving*** the service rather than just ***maintaining*** the service. We believe this is hugely contradictory given that a number of these impro ements have been, and continue to be, specifically requested each year in the NASO annual Letter of Expectations.

Furthermore, the review references ePRF, 111 Clinical Hub, and double crewing of ambulances as the key initiatives of improvement, though all three have only been implemented based on full engagement and associated funding and support from the funders.

In addition, we contend it is unrealistic to ask St John to both find the 30% gap in funding ratio, as well as a 1.5% efficiency savings per year, without innovating in some way. As the report implies, these initiatives will help improve patient outcomes - surely not something to object to - and they are ultimately aimed at helping us to deliver our services at less cost while meeting our contractual obligations.

Delivering financial performance over the first two years of the contract

A repeated statement or implication throughout the review is that "*St John has not adequately focused on controlling the organisation's costs to the extent needed for it to live within its means*" with the clear inference that a lack of cost control is the root cause of the current need for short term sustainable funding.

Specifically, the report focuses on the deficits being generated having not been offset by further cost reductions, and implications that costs are driven based on initiatives for improvement. The report specifically references that *"Ambulance Services deficits were $4 million in 2017/18, $11 million in 2018/19"*.

St John believes that this fails to provide appropriate context for the drivers of the deficit position, particularly the one-off nature of revenue/cost impacts on the higher 2018-19 deficit associated with industrial action. We would also contend the other major factor in 2018-19 is largely linked back to the contractual funding mechanism, which though theoretically should provide adequate funding based on market indices, requires stability in indices to not disadvantage either party. Whereas the shift in the employment environment has resulted in unintended consequences over the last two years.

St John has absorbed $5.9 million in additional costs above funding due to the two-year delay in the contract indices mechanism, notwithstanding other industrial action impacts in 2018-19. Given the review was not able to identify any significant inefficiencies it is unreasonable to assume St John could absorb these without impact to services. Rather, St John has absorbed them itself in the first two years of the contract through reserves, largely wi hout reference to the funder, though it has continued to make disclosure to the funder about these financial implications, as required under the contract to ensure we are maintaining a strategic no-surprises relationship.

St John would also reflect that while in economic terms, cost reductions would mitigate deficits, this view reflects an oversimplification, especially given the reviewers have not been able to identify any significant inefficiencies.

St John has been disclosing to the funders the financial implications of factors as required under the contract, and note that the funders have not, as provided for within the contract, provided further feedb ck nor adjustment to expectations. On the contrary, as stated earlier, the Letter of Expectation increases the expectation on St John each year.

Strategic decision-making context at the heart of the final two years of the contract

The review indicates that the projected deficit for 2019-20 is $15 million, however with the benefit of the short-term sustainability funding identified by the Deputy Prime Minister and Minister of Health for 2019-20, the indicative ambulance service deficit is Nil. Within this performance is an additional $5 1 million in annual cost efficiency savings over and above contractual efficiencies that the Board has required of management in budget setting.

As indicated in our correspondence during February 2019, this short-term sustainability funding, combined with the additional cost efficiency programme, will enable continuity of services, subject to avoidance of additional Letter of Expectation targets.

The review findings also state that *"given its contracted income, the Board and management do not currently have a workable plan for how to remain financially sustainable over the remainder of the contract".* St John believes the review should have made it clear that, based on the above, St John has delivered a workplan, including short-term sustainability funding and additional

cost efficiencies, that does enable it to remain financially sustainable in 2019- 20.

We would also dispute the implication that lack of a specific implementation workplan for 2020-21 means St John has not adequately considered cost mitigation for the 2020-21 year and has no workplan. In reference, St John provided the reviewer indicative cost mitigations in excess of $30 million associated with the major risks associated with the final year of the contract.

Given the extent of external factors and efficiency delivered to date in excess of contractual expectations, and as the review was not able to identify any significant inefficiencies, it is unreasonable to assume St John could absorb the increased significant risks emerging for 2020-21. Cutting costs substantially further than we have already identified, or are in the process of arranging, will mean tangible reductions in services and falling further away from targets.

Given the likely implications on decisions between funding, contract expectations, patient outcomes and potential industrial action, we believe it is more appropriate to undertake the development of an effective workplan (and of the Letter of Expectations) in consultation with the funders rather than independently. We believe not only is t is consistent with the actions recommended by the r view but a so consistent with St John having been actively involved with NASO in a potential budget bid proposal for submission in December 2019 to address the specific longer-term sustainability issues as referenced by the Deputy Prime Minister in May 2019.