

## COMMERCIAL–IN-CONFIDENCE

### Aide-Memoire: Update on the Proposed New Medical School for Regional Economic Development Ministers' Meeting

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<b>To:</b>	Hon Paul Goldsmith, Minister for Tertiary Education, Skills and Employment
<b>From:</b>	Tim Fowler, Chief Executive, Tertiary Education Commission
<b>Date:</b>	3 May 2017
<b>Reference:</b>	AM/17/00323

#### Purpose

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1. Minister Bridges has asked you to provide an update on the proposal for a new medical school in the Waikato ('the proposal') at the Regional Economic Development Ministers' meeting on 11 May 2017.
2. You are unable to attend in person so you may decide to phone to provide the Ministers with an update yourself, or to delegate this role to the Tertiary Education Commission's (TEC's) Chief Executive, Tim Fowler. Your/Tim's talking points are included in Appendix 1. A summary of the proposal can be found in Appendix 2.
3. This aide-memoire provides:
  - the TEC's view of the proposal;
  - an update on the status of the proposal; and
  - a summary of the concept case received by the Universities of Otago and Auckland to expand their rural health provision.
4. We have provided you with several briefings referring to this proposal (B/17/00220, AM/17/00200, AM/17/00011 refer) as well as to Minister Joyce (B/16/01142 refers) and Rt. Hon. John Key (B/16/01202 refers).

#### The proposal provides a different and innovative approach...

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5. The proposal submitted by the University of Waikato and the Waikato District Health Board ('the Waikato parties') has merit as it provides a different and innovative approach to medical education, focussing on rural health, in particular, general practitioner training.
6. However, there are several key areas that need to be worked through further with the Waikato parties and some contextual issues that need to be given further consideration:

- **There are different views as to the problem that the proposal is addressing** – there are differing views regarding the supply and demand for rural general practitioners (GPs). One view is that there are plenty of medical graduates to meet demand but there is a maldistribution i.e. less wanting to work in rural and provincial areas over the long-term, despite additional support being put in to supporting doctors in rural GP practice. Gaps are filled by international medical graduates. The Waikato proposal indicates that around 60% of GPs outside metropolitan areas are either locums, or recruited from overseas and about 25% of rural GP positions are unfilled. There are some concerns as to whether our reliance on internationally trained doctors is appropriate or sustainable.
- **Are there other solutions to address this issue?** Increasing the number of medical graduates alone will not solve the workforce issues. Medical graduates are increasingly choosing to pursue specialty rather than general practice, and there are difficulties in attracting graduates to rural and provincial areas. A new medical school focussing on graduates for rural health is only one of the options in the suite of possible measures to address these workforce issues. The suite of measures includes, for example:
  - i. providing greater support to rural staff (e.g. locum relief for vacations and continuing medical education – which is being done by the Ministry of Health in conjunction with the rural GPs organisation);
  - ii. ensuring that doctors in training have rural placements and experience (e.g. the Otago/Auckland proposal); and
  - iii. voluntary bonding schemes (currently being reviewed by Health Workforce NZ).
- **There is a significant capital and operational cost** – Over a 10-year period, capital expenditure is estimated to be between \$58m and \$70m, and operating expenditure between \$142m and \$174m. Waikato has indicated that it may be able to finance up to \$20m itself through its fund-raising (including the \$5m offer of support by philanthropist Sir Owen Glenn which was in the media earlier this year). Waikato has a relatively small balance sheet and so it would be seeking at least \$40m of capital from the Crown to finance new facilities. Usually, Tertiary Education Institutions (TEIs) are expected to fund capital projects from their own balance sheets, but there have been previous exceptions i.e. capital funding was provided to Canterbury TEIs to help them recover from the 2010/11 earthquakes. According to the proposal overall operating expenses will amount to at least \$142m in the first 10 years. Once the school is fully operational and the maximum number of students recruited (60 in each cohort) the annual Student Achievement Component (SAC) funding required will be \$10m (\$2.52m per student cohort at the current rate of \$42k per EFT per annum). This amount is just SAC funding for the medical students and does not include funding for PhD students and clinical placements, for example, therefore, government will have to carefully consider its overall spending priorities. The Waikato parties will clarify all funding sources (e.g. student tuition fees) in the next few weeks.
- **Clinical placements could be put under pressure** – the Universities of Auckland and Otago have reported that an increase in the number of students will put pressure on the already short supply of student clinical placements and for the trainee intern (final year of qualification). It is unclear the extent to which this will be a real issue as there are potentially unused rural clinical placements within district health boards (DHBs) around the country. The Waikato parties have also indicated they will broaden the scope of placements for their students to ease this pressure. However, there will still likely be pressure on essential training placements such as in the emergency department.
- **Stakeholder support is variable** – there are mixed messages of support from key stakeholders such as DHBs. It is possible that stakeholders wanting to preserve their relationships with the existing medical schools may not offer support to the Waikato proposal until they are sure it will go ahead, as they may be concerned about getting offside with existing partners. However, Waikato reports having done significant work on stakeholder engagement since the original proposal was submitted in October 2016.

- **Will the proposal be effective in getting more people into rural practice?** There are published reviews of evidence that students who have rural clinical placements as part of their training are more likely to pursue rural practice (Farmer et. al., 2015<sup>1</sup>) and that those who come from a rural background are more likely to remain in rural practice (Verma et al., 2016<sup>2</sup>). Whilst the proposal aligns with the evidence in terms of student selection, there are no guarantees it will entirely solve the workforce issues.
- **Benefits for the Waikato economy** – while this has not been calculated as yet, there are likely to be benefits for the local economy both associated with the initial set up and construction, as well as the expansion of the University.

## **More detailed information to supplement the proposal is on its way...**

7. You have sought further information from the Waikato parties through the joint letter from yourself and Minister Coleman dated 11 April 2017 (Appendix 3). In summary, more information that addresses six key issues has been requested:
  - details on the quantum and source of funding sought;
  - the long-term affordability of the programme;
  - a stronger management case that clearly outlines a high-level project plan;
  - engagement with key stakeholders including government and regulatory organisations;
  - student clinical placements and the impact on existing medical schools; and
  - retention in the workforce.
8. The TEC has since met with representatives from Waikato and the DHB to discuss the information requested and agree on the next steps, timeline and their future engagement with government agencies.

## **The Waikato parties will present their proposal and new information to officials in mid-May...**

9. Waikato and the DHB have agreed to present their proposal, plus the additional information requested to government officials in mid-May. This will also afford the opportunity for officials to ask further questions of clarification. This meeting will include representatives from the TEC, DPMC, Treasury, Ministry of Education, Ministry for Business, Innovation and Employment (MBIE), and Ministry of Health (including Health Workforce NZ).
10. The TEC will provide you with a progress briefing following the workshop.

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<sup>1</sup> A scoping review of the association between rural medical education and rural practice location. Jane Farmer, Amanda Kenny, Carol McKinstry and Richard D Huysmans. *Human Resources for Health* (2015) 13:27. DOI 10.1186/s12960-015-0017-3.

<sup>2</sup> A systematic review of strategies to recruit and retain primary care doctors. Puja Verma, John A. Ford, Arabella Stuart, Amanda Howe, Sam Everington and Nicholas Steel Verma et al. *BMC Health Services Research* (2016) 16:126. DOI 10.1186/s12913-016-1370-1.

## **An in-principle decision of support could be made by Ministers in July ...**

11. We understand that the Department of the Prime Minister and Cabinet (DPMC) has also been in touch with the Vice-Chancellor of Waikato to request further information as outlined in your and Minister Coleman's joint letter. It is intended that this information is presented to Ministers for their consideration in view of an in-principle decision of support, or otherwise, in July 2017.
12. The TEC expects that Ministers will receive the information requested from Waikato and the DHB by late May/early June 2017. Once the additional information is received, the TEC, in conjunction with other officials, will provide you with an assessment of the information for your consideration in view of an in-principle decision of support, or otherwise, in July 2017.

## **The existing medical schools have submitted a 'counterbid'....**

13. Earlier this year, Auckland and Otago submitted a joint concept document (the Auckland/Otago concept) outlining their proposal to create a new national School of Rural Health (SRH).
14. We have provided you with advice regarding the Auckland/Otago concept (B/17/00220 refers) in view of your meeting with the Deans of the Medical Schools scheduled for 4 May 2017. Once you have met with the Deans, we suggest that they, like Waikato, are given the opportunity to submit further information to supplement their business case, for Ministers to consider alongside the new information submitted by the Waikato parties.
15. In summary, this is a concept to expand on the existing provision, to include 20 new rural delivery sites. These sites would be co-developed and co-governed by iwi and local communities, and be clinician-led. This would build on their related existing Rural Immersion Programme and Northland Pūkawakawa initiatives.
16. There are key differences between this concept case and the Waikato proposal which are viewed as strengths:
  - It requires significantly less or no government investment at all. Indicative financials for the SRH provided by the University of Otago estimates approximately \$32m of capital expenditure over eight years with \$5m of initial operating expenditure rising to \$25m once it is fully established. Both Universities are in a good financial position and can probably support this entirely from their own balance sheets;
  - It gives consideration for including other rural healthcare professions which are key to supporting rural general practitioners (e.g. nurses); and
  - They appear to have key stakeholders on board and involved in the concept case development (e.g. NZ Rural General Practitioner Network and the Royal NZ College of General Practitioners).
17. However, we still have some concerns about the Auckland/Otago concept:
  - It is very light in detail s9(2)(g)(i) [REDACTED];
  - The rural health workforce concerns are longstanding, and one could argue that existing medical schools should have been working harder to meet these needs, given the Tertiary Education Strategy priority 4 "delivering skills for industry";
  - The concept case does not offer a truncated graduate entry pathway like the Waikato proposal. The graduate entry pathways for the SRH will follow the Universities' usual 5-year timeframe. This is an important consideration given that for each student a single

year of training costs the government \$42k in SAC funding, approximately \$8k in student allowance (depending on the student's eligibility status) and approximately \$10k in loans (based on the average Bachelor student borrowing in 2015). A single year of medical undergraduate study will cost the student \$15k in tuition fees (based on 2017 rates at Auckland and Otago). This brings the total real cost of an additional year of study to approximately \$75k which does not take into account the opportunity cost of not working full-time, incurred by the student; and,

- The concept case does not appear to take into account some of the key factors to the success of recruiting and retaining rural practitioners, such as selecting students who are of rural origin who are therefore more likely to return to and remain practising in their rural communities.
18. Otago and Auckland both have healthy balance sheets, and would not need Crown capital to implement this proposal. However, they may need some operational funding from the Ministry of Health (Health Workforce NZ) and/or the TEC (depending on the nature of the training/placements provided – which is not very clear at this point).
  19. This proposal could go ahead alongside the Waikato proposal – both would contribute to strengthening the supply of health professionals in rural areas.
  20. The Universities of Auckland and Otago oppose the Waikato proposal. One of their major concerns seems to be the pressure that additional students will place on the supply of clinical placements. You will likely hear more about the Universities' concerns when you meet with the Deans of the Auckland and Otago Medical Schools in early May (B/17/00220 refers). The Ministry of Health (MOH) have also written a briefing to the Minister of Health with TEC official's input. The MOH briefing recommends to Minister Coleman that he shares the briefing with you. Furthermore, the briefing recommends that both you and Minister Coleman jointly invite the Universities of Auckland and Otago to provide further information on their concept case, following a similar approach that was taken with the Waikato proposal.
  21. We suggest that, following this meeting, you and Minister Coleman formally seek further information from Otago and Auckland in a similar manner to the approach followed for the Waikato proposal. Of course, it is less well developed, and therefore a response would take longer.



**Tim Fowler**

Chief Executive  
Tertiary Education Commission

3 May 2017

**Hon Paul Goldsmith**

Minister for Tertiary Education, Skills and  
Employment

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## **Appendix 1 – Your or Tim Fowler’s talking points**

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### **What is the proposal offering and what will it cost?**

- The Waikato proposal is a four-year, graduate-entry medical school programme with students able to enter from any prior degree programme providing they meet academic and dispositional criteria.
- The rationale for a new medical school is to address the shortage of rural practitioners (rural GPs and associated specialities) in the medical workforce by recruiting students more likely to want to work in rural areas, and ensuring they have significant experience in rural placements in their training.
- The focus will be on accepting students who come from rural NZ and who are keen to pursue rural practice. It is envisaged that many of these students will be Māori, reflecting the demographics of the Waikato region.
- The new school would be based in Hamilton, with clinical education and training centres located throughout the central North Island. This will enable students to undertake a high proportion of clinical placements in community settings outside the main centres.
- The Waikato proposal envisages enrolling up to 60 students a year from 2020.
- Waikato and the DHB are hoping to secure capital funding from the Crown to finance the school with operating revenue coming from TEC funding. Over a 10-year period, capital expenditure is estimated at a minimum of \$58m and operating expenditure a minimum of \$142m.

### **Ministers Coleman and Goldsmith have requested further information which is due in May...**

- The Waikato business case has merit as it provides a different and innovative approach to medical education, focussing on general practitioner training and rural health.
- The TEC has met with Waikato and the DHB to request further information that addresses six key issues should be provided:
  - i. Greater details on the quantum of funding sought and the nature of that funding including all potential funding sources of financing (such as leveraging the balance sheets of the University and Waikato DHB, borrowings and public-private partnerships etc.);
  - ii. the long term affordability for both the University and the DHB of the proposal (including a 10-year financial model upon which affordability and sustainability of the model will be assessed);
  - iii. a stronger management case that clearly outlines a high-level project plan describing the critical pathway from reception to implementation, and the risks associated with the project;
  - iv. engagement with key stakeholders such as the Royal College of General Practitioners as well as government (e.g., Health Workforce New Zealand) and regulatory organisations (e.g. the Medical Council);
  - v. details on the strategy to manage the increase in student numbers on clinical placements and the subsequent impact on existing medical schools; and
  - vi. retention in the workforce – provide more detail on their strategy to ensure those who enter the rural workforce remain there.

- We expect to have this information at the end of May and will analyse it in conjunction with other officials.

**An in-principle decision of support, or otherwise, could be made by Ministers in July ...**

- It is intended that this information is presented to Ministers for their consideration in view of an in-principle decision of support, or otherwise in July.
- TEC is coordinating the analysis and provision of advice along with officials from MoH, Health Workforce NZ, MBIE and Treasury. DPMC is also involved.
- We also anticipate requesting further information from the Universities of Auckland and Otago to supplement the concept case they submitted to government as a counterbid to the Waikato proposal. Whilst this concept case is not as developed as the Waikato business case (and won't be able to be in a short timeframe) by the time Minister make any decisions, it will at least allow for some comparisons between the proposals.



## **Appendix 2 – Summary of the Waikato proposal**

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### **The Waikato proposal is a four-year, graduate-entry medical school programme**

- In 2016, the University of Waikato (Waikato) and the Waikato District Health Board (DHB) submitted a joint business case to Hon. Steven Joyce, then Minister for Tertiary Education Skills and Employment, proposing to establish a new medical school ('the School').
- The proposed programme is a four-year graduate entry programme with students able to enter from any prior degree programme providing they meet academic and dispositional criteria.
- The focus of the School will be on accepting students keen to pursue rural practice, and likely to continue to practice within the region (or within other rural areas in New Zealand). Many of these students will likely be Māori, reflecting the demographics of the Waikato region.
- The new school would be based in Hamilton, with clinical education and training centres located throughout the central North Island, largely in community care settings. This will enable students to undertake a high proportion of clinical placements in community settings in rural and provincial areas.
- The Waikato proposal specifies enrolling up to 60 students a year from 2020. Waikato and the DHB are hoping to secure capital funding from the Crown to finance the school's establishment. Operating funding would come from SAC, student fees, and from funding for clinical placements as with the normal funding for medical education. Over a 10-year period, capital expenditure is estimated to be between \$58m and \$70m, and operating expenditure between \$142m and \$174m. The SAC component each year will be \$2.52m per annum for up to 60 students at the current rate of \$42k per EFT. Therefore once the school is fully operational and the maximum number of students recruited (60 in each cohort) the annual Student Achievement Component (SAC) funding required will be \$10m.

### **The rationale for the School is to address the shortage of rural practitioners in the medical workforce**

- Waikato and the DHB indicate there is currently a shortage of rural GPs and associated specialities. Therefore, student recruitment at the Waikato school would focus on selecting students who from the outset are more likely to choose rural practice.
- The Waikato proposal indicates that New Zealand imports around 1,100 doctors per year to meet its medical workforce needs. These doctors comprise around 60% of the psychiatry, palliative medicine, obstetrics, rehabilitation, and elderly care workforce.
- The proposal also notes that only 15% of current medical school graduates elect to enter general practice with the result that around 60% of GPs outside metropolitan areas are either locums, or recruited from overseas. Despite this, around 25% of rural GP positions are unfilled and with 40% of existing GPs set to retire by 2025, there are risks that rural areas will be further under-served.



## **Appendix 3 – Letter sent to University of Waikato and Waikato DHB**

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## Office of Hon Dr Jonathan Coleman

Minister of Health  
Minister for Sport and Recreation

Member of Parliament for Northcote

11 April 2017

Professor Neil Quigley  
Vice Chancellor  
University of Waikato  
Private Bag 3105  
Hamilton 3240

Dr Nigel Murray  
CE Waikato District Health Board  
Private bag 3200  
Hamilton 3240

Dear Prof Quigley and Dr Murray,

### **Proposed third medical school in the Waikato region**

Thank you for providing us with your business case for a proposed new medical school at the University of Waikato. Ministers have been considering the proposal and are now seeking further information and action on the following points which are not sufficiently addressed in your business case.

1. Provide much greater detail on the quantum of funding being sought, and the nature of that funding. This should include identifying all potential sources of financing, such as leveraging the balance sheets of the University and Waikato DHB, borrowings, public-private partnerships, etc.
2. Address long-term affordability for both the University and the DHB of the proposal. This analysis should look at recent financial performance, current assets (eg cash, buildings), and a 10 year financial model. This should be used to assess the affordability and sustainability of the proposed model.
3. Include a stronger management case which outlines a high-level project plan describing the critical pathway from conception to implementation, and the risks associated with the project.
4. Engagement with the relevant government, regulatory, and health organisations to establish a common understanding of any health workforce problem in New Zealand. At a minimum, Ministers expect you to engage with the Ministry of Health, Health Workforce New Zealand, the Royal College of General Practitioners, the Medical Council, and neighbouring District Health Boards). The results of this engagement may require some modification of your long listed options and subsequent analysis.

5. Provide information about the specific strategies to be employed with regard to the management of increased numbers of medical placements envisaged and any prospective impact on the existing medical schools. You should additionally provide further information about the proposed inter-professional rural and community-based learning centres, including their cost and feasibility.
6. Provide evidence of how the proposed medical school will produce graduates who are willing to serve communities outside the main centres, specifically in relation to achieving the key aims of 50 – 60 per cent of specialised general practice graduates practicing outside the main centres, and “a high proportion” of the remaining 40% choosing specialties relevant to provincial and rural workforce needs.

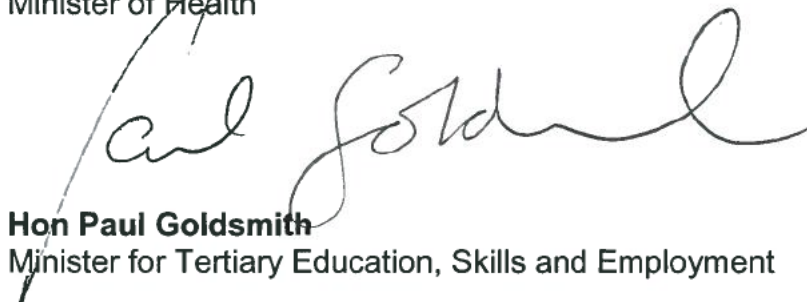
The TEC and Ministry of Health will jointly support Ministers in further considering the proposal, with the TEC acting as your first point of contact. We have asked TEC to contact you to make a time to meet in order to progress the requests set out above. Officials will be able to help facilitate engagement with the other government agencies, including the Treasury, with an interest in the proposal.

We look forward to hearing from you again in due course.

Yours sincerely,



**Hon Dr Jonathan Coleman**  
Minister of Health



**Hon Paul Goldsmith**  
Minister for Tertiary Education, Skills and Employment

Cc: Rt Hon Jim Bolger, Chancellor, the University of Waikato  
Mr Robert Simcock, Chair, Waikato District Health Board