

MEMORANDUM TO THE BOARD
12 AUGUST 2009

AGENDA ITEM 11

LIVING WITHIN OUR MEANS

The attached letter from the Health Minister is for information.

Management is factoring the outlook into planning and a Savings plan has been implemented as reported in this agenda.

Recommendation

THAT

The letter be received.

CRAIG CLIMO
CHIEF EXECUTIVE



Office of Hon Tony Ryall

Minister of Health
Minister of State Services

29 July 2009

Mr Graeme Milne
Chair Walkato District Health Board
PO Box 934
HAMILTON 3240

Dear Mr Milne

Graeme

Living Within Our Means

This letter is to update you on some of the work we are doing in Wellington to meet the significant financial challenges facing the public health service over the next few years. In particular this letter is an early alert of a lower future funding track in the health sector.

A Decade Of Deficits

You'll be well aware of the financial challenges facing the New Zealand economy. We are moving from years of plenty to a period of uncertainty and restraint.

Over the past several years with booming international economies, the New Zealand government had ever-growing large surpluses. They were able to add \$3 billion of new spending each year. In the last couple of years Health got around \$750 million of the annual increase.

With the worsening economic crisis, the new government inherited a forecast decade of deficits, not surpluses. The Government's deficit this next year alone is expected to be \$9 billion.

We are borrowing an extra \$30 billion over the next four years to preserve welfare entitlements, support health services, invest in productive infrastructure and prepare the economy for recovery.

But as was indicated in the Budget, there will need to be ongoing restraint in government spending increases.

Limited New Spending

Despite the world economic crisis, the new government increased spending by \$1.5 billion this year, and Health continued getting \$750 million.

The challenge for the 2010/11 financial year is that the total allocated for ALL new spending across the entire government will fall to \$1.1 billion.

While the new government inherited slowing funding growth in Health, it is likely this growth will slow further next year.

Using the latest Treasury forecasts, we are advised that the FFT adjustment for 2010/11 could be around 2%, compared to 3.1% this year. It could go lower.

As you know, FFT is an adjustment for overall wage and price pressures including those facing DHBs. It is important that DHBs ensure that they start to reflect lower inflationary pressure into lower operating costs.

Like the rest of the economy, it is essential DHBs work to deliver more from what they have, and that this important task is permanent. We will, therefore, reinstate the efficiency adjustor next year, as pioneered by the previous government. We know that DHBs are looking at how they can get more out of their organisations and have a number of projects underway, and we will continue to support you in this.

Ministry Value For Money Reviews

Although the vast majority of Health funding is devolved to DHBs, the Ministry of Health is aware that it too is now in a period of permanent restraint. The Ministry identified significant savings in the past six months, including within its own administration.

The Director General is beginning a second line-by-line review of Ministry expenditure. Mr McKernan also intends to undertake in-depth Value for Money reviews across a number of areas of spending managed by the Ministry.

Further recommendations are expected from the Ministerial Review Group.

The purpose of these activities is to release money that can be better directed to improving frontline services for patients and consumers.

We expect DHBs will also be reviewing their expenditure for the same purpose, in order to support areas of public priority set out in the Health Targets and Letter of Expectations.

I am committed to doing all I can to support the public health service through these difficult and uncertain financial times. Thank you for the work your DHB is doing. I look forward to meeting you again soon. Please share this letter with your Board.

Yours sincerely



Hon Tony Ryall

Minister of Health