

# Memorandum

To: All Staff  
From: Craig Climo  
Date: 22 May 2012

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**SUBJECT: Financial outlook for 2012-13 and beyond**

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This memo is an update of my 23 February memo to you (*attached*).

Our final draft annual plan for the 12 months from 1 July 2012 has gone to the Ministry of Health and we are recommending to the Board tomorrow (23 May) that members approve it.

We needed about \$30 million in savings to be where we want to be next financial year. To date we have identified about \$18 million of savings.

Our planned surplus for 2012-13 was \$13 million, which includes \$13 million of revenue banking<sup>1</sup> so was really a break-even position.

Because we could not achieve the full \$30 million savings, our current surplus is \$1 million for 2012-13, which means an underlying deficit of \$12 million for the DHB (and over \$40 million for the provider arm, Health Waikato).

This puts additional pressure on cash and on the following financial year, 2013-14, when we estimate that a further \$23 million in savings will be required. To date we have identified a further \$4 million in savings for that year.

The Government announces its budget on Thursday (24 May). We don't expect any adverse financial impact from what we already know, but we should expect that budgets for the foreseeable future will see lower funding increases than DHBs have had in the past, although they will still be generous compared to the rest of the public sector and other health jurisdictions.

What is clear is that savings will be required year on year and that the DHB needs to be continually identifying and achieving savings to get through the next few years. On top of funding usual services, we have a major capital programme, and other significant changes that will avoid cost in the medium to long term, such as moving services to the community and rationalising administrative services across DHBs.

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<sup>1</sup> Revenue banking is money we sacrificed in prior years and asked the Ministry of Health to hold it on our behalf. We have agreed to draw down \$13 million in 2012-2013. This leaves \$9.6 million in 2013-14 and \$2.5 million in 2014-15.

## **What do savings mean for us?**

In our context, every dollar we receive is ultimately spent and a saving is simply choosing not to spend, or waste, money in one area so we can spend it in another.

Our plan assumes that we will achieve 100% of the \$18 million savings we identified. History suggests that this is very optimistic and reinforces the need to keep identifying other savings.

The \$18 million consists of about \$10 million in personnel costs and \$8 million of other costs.

There is a process to be gone through with affected staff and I am therefore not in a position to give line by line detail of the proposals, but can say that the impact is across the whole DHB, and includes closer management of additional payments to salary, natural attrition of jobs and relatively few redundancies from currently filled positions.

In all it is the equivalent of about 89 FTE positions.

Delivery of clinical front line services do not appear to be unduly affected.

## **What can staff do to assist with savings?**

This falls into three categories:

1. Contributing where possible to the whole of system process reforms that we have underway, such as centralised rostering and streamlined discharge planning;
2. Looking at what your ward or department can do. A recent significant example is from the cardiologists who by rationalising their consumable use will save about \$750,000 per year;
3. Personal actions, such as turning off lights and computers at the end of the day. This is what Jan Adams has called the \$5 per person per day initiative and equates to \$30 million a year.

The Catalyst team is available to assist with analysing opportunities.  
[catalyst@waikatodhb.health.nz](mailto:catalyst@waikatodhb.health.nz)

## **Presentation to staff**

Jan Adams and I will make two presentations to staff – basically going over what is in this letter and answering questions from the floor. These presentations will be given on Monday 28 May at midday in the BEC auditorium and Tuesday 29 May at 2.30pm in the Elizabeth Rothwell Building auditorium (level 9).



Craig Climo  
**Chief Executive**

# Memorandum

To: All Staff  
From: Craig Climo  
Date: 23 February 2012

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SUBJECT: Financial Outlook

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I want to give you early information on the financial outlook for Waikato DHB. We have some real challenges ahead and I want you to be aware of them. Some of you may say that you've heard it before but I believe that we face our toughest year financially.

We have a \$20m gap in the financial result that we need<sup>1</sup> for next financial year, starting 1 July 2012. Simply put, there is a \$20m gap between our rate of expenditure and the funding we will have.

We will have to save \$20m or we will run out of cash which we simply cannot allow.

We will look at all areas of expenditure as we have been doing. To the extent we cannot find the savings elsewhere we will have to reduce staff numbers.

\$20m equates to more than 300 jobs<sup>2</sup> and that magnitude means that we will have to look across all jobs.

We will use a mix of natural attrition and targeting jobs will be used as it is likely to be the most effective and least disruptive approach.

In doing so, patient outcomes, including patient safety, is the priority. We must also meet Ministerial expectations and targets must be met. We will look at volumes where they are not clinically useful.

I am concerned at the affect on morale and focus. While I want staff to contribute ideas and actions to the savings, I don't want to lose what we have been working on for many years, providing great services and improving on them.

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<sup>1</sup> Previous plans commit us to a surplus of \$13.9m in 2012/13. However, that surplus is only due to revenue banking funds being returned to the DHB in 2012/13, and the underlying is zero ie breakeven.

<sup>2</sup> We have about 6,100 staff.

We need to identify and take short term savings, but we also need to work on medium and long term actions. It remains my strong view that there are many millions of dollars in savings in improving our processes but that these changes tend to take some time to effect. Unlike short term cost cutting, process change would have a good feel to it.

The Catalyst team will be important in assisting to identify waste and variation, and help implement improvements.

The legacy must be that we have a fitter organisation, which is more effective in quality improvement, innovation and particularly implementation of ideas. We will also be seeking your thoughts on this.

The outlook beyond next financial year is that we will have to make further savings of about \$5m in 2013/14 and another \$5m in 2014/15.

The sooner we act, the more considered and better managed the process can be.

Our financial planning has not ended but it unlikely that the \$20m gap will materially reduce. The gap is due to a number of things:

- 1) We won't meet this year's financial plan – this years significant savings target won't be achieved which includes the incremental interest, depreciation and capital charge costs of campus redevelopment; and we have to spend about \$2m clearing surgical patients who have been waiting over six months.
- 2) The funding increase for cost increases is 1.5%. Overall pay increases have been about that level but automatic pay increases adds significant cost. We estimate the difference in 2012/13 will be about \$7m.
- 3) Operating costs for Meade Clinical Centre look to be several million dollars higher than current costs and we must reduce or eliminate the cost increase.
- 4) The impact of Kiwisaver, including the withdrawal of the Government subsidy to crown entities. This is over \$3m.

I expect other DHBs will have financial challenges as well, but something that does make Waikato DHB different is the impact of the building programme.

While I worry about the impact on our people I am not concerned with the principle of finding savings. In our context savings means we must stop spending money in one area so that it can be spent in a more needed area. The reality has, for quite sometime, been that the health sector needs to do things differently to be sustainable both clinically and financially. Unfortunately good economic times tend to produce more, rather than produce change.

We should also be mindful that the health sector in New Zealand is still relatively well off. Only Health and Education have been receiving funding increases in the public sector. A look at other developed countries shows real cuts. For example the National Health Service in the UK has already started funding cuts of 5% every year until 2015, totalling over £20 billion (NZ\$38 billion).

Management is working through the issues including the approach to be taken and will be in touch soon. Your unions will also be involved.

Regards

A handwritten signature in black ink, appearing to read "Climo". The signature is fluid and cursive, with a large initial "C" and a trailing flourish.

Craig Climo  
**Chief Executive**