



2008/09 financial review of the Capital and Coast District Health Board

Report of the Health Committee

Contents

Recommendation	2
Introduction	2
Financial performance	2
New regional hospital	2
Kenepuru land sale	3
Regional collaboration	3
Governance team	3
Primary care	3
Aged care and home assistance	4
Pacific population	4
Heavy drinking	4
Appendix	6

Capital and Coast District Health Board

Recommendation

The Health Committee has conducted the financial review of the 2008/09 performance and current operations of the Capital and Coast District Health Board and recommends that the House take note of its report.

Introduction

The Capital and Coast District Health Board is the sixth-largest of the 21 DHBs in terms of population. It serves about 285,380 people living in Wellington city and its suburbs, the Porirua Basin, and the Kapiti Coast. Two thirds of the population lives in Wellington city, 18 percent in Porirua, and 14 percent on the Kapiti Coast.

The board has 12 members, including the chair, Sir John Anderson. A Crown monitor was appointed in the 2007/08 year.

Financial performance

The Office of the Auditor-General assessed the Capital and Coast DHB's management control environment and its financial systems and controls as needing improvement. The DHB has obtained a letter of comfort from the Ministers of Health and Finance, which indicates that the Government is committed to working with it in the medium term, and undertakes that the Crown will provide deficit support if necessary.

In 2008/09 its total income was \$770.9 million and its expenditure was \$837 million, leaving a deficit of \$66.0 million.¹ The new Wellington Regional Hospital, which cost \$377 million, was completed early in 2009. We congratulate the DHB on the efficiency with which it managed a complex building project and transition.

New regional hospital

The board considers that the cost of the new hospital has exacerbated its increasing deficit. It told us that the deficit is composed of operating costs of \$40.5 million, and \$25.6 million in costs relating to the new regional hospital. The hospital costs include interest charges, capital charges, and depreciation.

The DHB used all of its population-based funding to deliver health services, and borrowed money to fund the building of the hospital. It told us that it is not feasible to use population-based funding for both purposes. The DHB foresees managing the hospital's costs for some time, and pointed out that under the current funding regime lasting deficits are inevitable after a DHB has undertaken major capital developments. While acknowledging that funding formulas cannot account for every situation, we consider that lasting deficits ought not to be inevitable after major capital works and a break-even

¹ Capital and Coast District Health Board, *Annual Report 2008/2009*, p. 101.

position in the future should be the DHB's goal. The DHB's experience with funding the hospital has led it to conclude that the current population-based funding formula is not optimal. It sees a role for the National Health Board in predicting when and where new health facilities will be required, and providing the funding. The DHB proposes that capital expenditure should then appear on the Government's balance sheet, rather than those of individual DHBs.

Productivity gains

We noted that the DHB has not achieved the productivity gains it predicted upon moving into the new hospital. We are concerned that the DHB's salary costs rose by 12 percent, and the number of staff earning more than \$100,000 rose by 25 percent. It told us that these increases resulted from the Senior Medical and Dental Officers' multi-employer collective agreement.

Recovery plan

The DHB is confident that its recovery plan will enable it to reduce its operating deficit by \$30 million over three years, and to break even by 2013/14. The recovery plan involves increasing productivity to bring in external revenue, by performing more operations for patients from other DHBs and providing more services under ACC. The DHB acknowledges that the recovery plan may eventually involve some changes to services, but said it will consult its communities and providers before implementing them.

Kenepuru land sale

We were pleased to hear that the DHB has made progress on selling land it owns at Kenepuru. Negotiations with iwi have largely been completed, and the DHB expects the land sale to take place on 30 June 2010.

Regional collaboration

The DHB is focussing on collaboration with nearby health providers. It sees the potential for gain from forming relationships with the Hutt and Wairarapa DHBs to provide seamless services. It aims to ensure quality of care, increase productivity, and reduce waste. It is working with the Hutt DHB to consider collaborating in other areas, including mental health services, and the planning and funding function.

Governance team

We noted that the DHB has been working on engaging its clinicians in issues of governance because it believes that this is crucial for a sustainable service. The DHB also aims to ensure that day-to-day clinical decisions are supported by management. It has set up a clinical governance framework.

Primary care

We understand that the DHB is interested in merging some of its Primary Health Organisations (PHOs) in order to reduce overhead costs, but only if service delivery can be maintained. It believes that any such mergers should result from an open engagement between the PHOs, rather than under an edict from the DHB. In the event of a merger,

the DHB foresees using contracts and monitoring to ensure that service delivery continues at the same level.

We were interested to hear that the DHB also sees opportunities to merge some of the non-governmental organisations that it contracts to provide targeted primary care in the mental health sector. The DHB is discussing the idea of a merger with the providers, with a particular focus on service delivery. It considers that some of its hospital services might be better provided in primary care, and pointed out that patients' access and the quality of clinical care must be maintained during any transition. The costs of the services as well as the revenue from them must be moved. We will continue to monitor this area with interest.

Aged care and home assistance

We asked how the DHB is implementing the Government's elder care policy of helping older people to stay in their own homes, and moving resources for them to front-line services. The DHB is moving more of its services to Kenepuru Hospital in Porirua, which has previously been under-used. A large section of the DHB's population can access Kenepuru Hospital more easily than the regional hospital.

The DHB reported that a programme called Integrated Home and Community Care, which aims to keep aged people in the community using various care packages, has lowered the number of older people being admitted to residential care. The DHB acknowledged that the ageing population poses a challenge of balancing the resources for older people in the community with the needs of those people who require residential care.

Some of us were concerned by reports that most assessments of aged people are being carried out by telephone. The DHB assured us that it uses a tool (interRAI) for its assessment processes, which includes rules about when telephone assessments are appropriate. It told us that telephone assessments can be particularly useful for reassessments.

Pacific population

We congratulate the DHB on the high levels of immunisation it has achieved for its Pacific population. It has also undertaken a project to determine where Pacific people are accessing health services, and how well the service providers are meeting their needs. It discovered that most of the Pacific people in its region access primary services through mainstream organisations rather than those aimed specifically at the Pacific population.

Heavy drinking

Professor Doug Sellman, a psychiatrist who has worked extensively in the area of alcohol and drugs, suggested in an article in the *Dominion Post* last year that there are at least 700,000 heavy drinkers in New Zealand.² We were interested to hear about the DHB's approach to heavy drinking in its region. The DHB noted that the heavy drinkers interact more with the police and emergency department staff than with general practice and primary care workers. Its emergency department works closely with the DHB's Community Drug and

² Sellman, Doug, "Stemming the tide of alcohol", the *Dominion Post*, 15 October 2009, p. 5.

Alcohol Service to refer heavy drinkers. We will continue to monitor developments in this area.

Appendix

Approach to this financial review

We met on 24 March and 28 April 2010 to consider the financial review of the Capital and Coast District Health Board. We heard evidence from the Capital and Coast District Health Board and received advice from the Office of the Auditor-General.

Committee members

Dr Paul Hutchison (Chairperson)

Dr Jackie Blue

Hon Ruth Dyson

Kevin Hague

Hon Luamanuvao Winnie Laban

Iain Lees-Galloway

Eric Roy

Nicky Wagner

Michael Woodhouse

Evidence and advice received

Capital and Coast District Health Board, *Annual Report 2009*.

Capital and Coast District Health Board, Responses to questions, dated 24 February 2010.

Capital and Coast District Health Board, *Statement of Intent 2009/10–2011/12*.

Office of the Auditor-General, Briefing on Capital and Coast District Health Board, dated 24 March 2010.

Organisation briefing paper, prepared by committee staff, dated 24 March 2010.