

Hi Everyone

Our Board has instructed me to write to you and share the following because they and all of your Executive Leadership Team are aware of the extreme pressure that you are working under with huge growth in demand and an inability to provide all of the services that our population need.

- Unfortunately, Northland DHB is not receiving all of the funding that should be allocated to our population.
- This year we are receiving \$8.4million less than our share of Population based Funding
- We are the only DHB in New Zealand in this situation and this is because we have had our funding capped.
- Because of this cap, over the past three years, Northland DHB has had to forego \$29.4 million of Health funding.
- For the last financial year we will post a deficit of \$2.5million. This year, the projected deficit is about three times this figure.
- Our Board cannot approve our Annual Plan and budget because of our funding shortfall, and are in discussion with the Ministry of Health.
- Irrespective of our funding negotiations, we need your assistance to continue to maintain your own health and wellbeing, provide safe high quality care, improve the way we work, and be as frugal as possible with our scarce resources. One thing is certain in Health, there will never be enough money to do all that we want and need to do.

The quality of care that many of you provide is remarkable, and as Janice Wilson, the CEO of the Health Quality and Safety Commission said last week when she visited, from a patient safety and quality point of view, this is a very different organisation to a few years ago. I do recognise the toll this can take, and this year, our biggest priority is all of your wellbeing.

Resources can have an impact on wellbeing, and I try not to write or talk too much about money as we are all very aware of the constraints on the health system and I know you are all doing your best to extract maximum value out of everything we spend. However, this issue has a huge impact on the organisation you know, (and hopefully) care deeply about. Recently, a poorly researched and methodologically flawed study that failed to take into account the characteristics of our population claimed that Northland DHB was overfunded. In fact the exact opposite is true and the evidence of this is very clear in every funding spreadsheet we receive from the Ministry of Health. Each year we receive

significantly less money than we are entitled to receive for our population under this formula. It is acknowledged that we are the only DHB in this position, and we are subsidising a number of the DHBs that are receiving more than their Population Based funding share because their populations are either declining or not growing. I will try and explain this to you in a bit more detail:

Firstly, we have one of the best funding systems in the world. Population based funding means that we are supposed to be funded for the number of people in our region as well as the nature of our population. It has science behind it based on the cost of consuming health services, and is a very fair system as long as the principles and rules that govern it are adhered to. The biggest driver of funding is the number of people in our DHB, and as we all know, our population is growing rapidly. In addition, because we are either first or second in New Zealand for Rurality, Percentage aged over 65 years, Percentage Maori, and level of Poverty and Unmet Need, this drives significant health demand which all of you are experiencing every day in your work. It also results in an increase in cost to service our population and hence should result in a larger share of Population based funding.

Northland's biggest funding issue is that when Northland DHB ran a census campaign in 2013, we encouraged thousands of people to register that weren't previously counted. We knew the old census figures that determined our funding were wrong because our GP enrollments were at least 2% higher! In fact our previous projected population and our actual population from the latest census were over 5000 apart. This, combined with our significant population growth over recent years has meant that we should be receiving about 6.6% more funding to catch up to allow us to simply provide and fund the services that other DHBs and regions are providing and funding. Because the Population based funding system has a cap of between 4-5% each year on the funding increase we can receive (which is significantly less than the 6-7% we should receive), over the past 2 years we have been capped by \$8.5million 2 years ago and \$12.5million last year. Obviously this is money we will never receive and over the two years adds up to a significant loss to Northland. We are an outlier, and no other DHB is in this extreme position, and it seems particularly wrong that of all DHBs, ours with its very high need, is in this position. This year, 2017/18 - our cap is valued at \$8.4m - we are now the only DHB that is capped - and this means over the last 3 years, \$29.4 million in health funding has been lost to Northland. Your board has twice written to the Minister of Health, and is advocating strongly for our funding cap to be removed.

Because the Population based funding formula is calculated on the amount of health services consumed, there has been a significant shortfall between what we receive and what is being spent. For the first time in my memory, Northland DHB posted a \$2.5million deficit for the year ending 30 June 2017. This year, the pressure is even greater with unprecedented growth in Acute Demand (7-8%!) and significant health inequities with the life expectancy gap between Maori and Non Maori remaining at about 9 years. Unless we can get the cap lifted, we will have to plan for a significant deficit. This puts pressure on our cashflow etc especially when we also need to continue to improve our old cramped facilities, Information systems and clinical equipment. Currently, the Board believe that without the extra funding, they cannot sign off this deficit and we have not submitted our budget or Annual Plan to the Ministry of Health.

Another consequence of the funding cap is that most of our funding is consumed on providing universal services and not enough can be targeted to our highest need patients and communities. One thing we are all clear about is that we cannot deny Northlanders safe, high quality health services, and there are a number of initiatives that we simply cannot stop doing, or that are essential for patient safety and staff wellbeing. However, to do many of them, we will need your help to ensure we do not waste a single dollar, and wherever possible we make savings in other areas. We had planned to engage you all in a number of initiatives this year in a very different way, and with our funding dilemma, this is even more important. We need all of you to help identify our problems and solve them together and we intend to support you and provide training to do this. This may involve us redesigning some of our work and challenging the way we have always done things. In most cases, small changes and continuous improvement will be the way to go. Our various leadership teams will be working with you on this, rather than simply telling you what we want to do. It is essential that we can show that we are not simply putting our hands out, but have been, and are doing everything possible to improve access and provide excellent, high value healthcare.

Kind Regards
Nick Chamberlain