

News Conference: Cost Containment Initiatives

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Please check against delivery.

Good morning,

Thank you all for coming. Joining me today is Deb Rhodes, Vice-President of Corporate Services and CFO.

I have some comments to make and then I will take questions.

As you are aware, the Premier announced in December the Government of Alberta was implementing cost-containment measures in an effort to control public spending in light of the dramatic drop in oil prices. And that is having an unprecedented impact on the provincial budget.

Following that announcement, on December 22, 2014, Alberta Health Services received direction from the Minister of Health to put into effect a number of cost containment measures. These measures are to follow three key areas, and are meant to reduce spending in the areas of:

Payroll/staffing costs;

Procurement of goods and services: and,

Grants/discretionary spending.

In that regard, AHS has advised its senior leaders that:

For Payroll/staffing costs

Each portfolio will have a hiring restraint initiative that takes into consideration a number of criteria before filling a vacancy. Those criteria include whether the position is involved in direct patient care; is a front-line position that supports the delivery of care; whether the duties can be consolidated with other positions; and/or is a regular, temporary or casual job or a full-time/part-time job.

Procurement of Goods and Services

Of course, purchases must continue for products that are essential for direct patient care but we've asked our managers to take due diligence for all other purchases – particularly as year-end approaches.

The use of consultants or external professional services must be avoided and the use of internal resources must be considered in an effort to get that work done.

Should it be necessary to hire a consultant, it must be signed off by the appropriate Vice-President.

I do want to point out that AHS had previously taken some action on the hiring of external consultants and professional services and through that work we have been able to reduce the cost by 30 per cent or approximately \$15.2 million between 2012/13 to 2013/14. I want to thank our leadership in CPSM and all our managers for their attention to cutting costs in this area.

Grants/Discretionary Spending

Within AHS, the amount of “discretionary” spending we have is quite small compared to our overall budget. However, there are a couple of areas on which we will take action in an attempt to reduce spending.

That includes travel and education.

All areas of the organization are expected to achieve a reduction in their travel expenditures.

Travel is limited to circumstances where connecting electronically is not appropriate. For instance, to provide specific clinical training or where travel is required to perform the job – for example in home care.

On Feb. 9, AHS will launch its Travel Management Program across the organization that will enhance cost effectiveness, accountability and compliance with our travel policy. One of the major incentives behind the Program is the ability for enhanced tracking and reporting of costs and trends. It is also meeting a recommendation of the Auditor General.

Training that requires travel outside of Alberta is restricted to training that is associated with specialized clinical procedures.

Should there be training opportunities available in a local area, the number of AHS employees who attend should be minimized.

As you can appreciate, our fiscal year ends March 31, 2015, and for an organization the size of AHS it is quite difficult to realize significant savings in such a short period of time in these administrative areas.

In fact, our spending in these areas represents a very low percentage of our overall budget. Yet, I believe it is important for AHS to demonstrate that it also recognizes that it has to contain its costs where it has the least impact on the provision of direct care to Albertans.

There are also other actions being taken.

Contract Negotiations

Through the Alberta Union of Provincial Employees (AUPE) you have heard that we recently amended our monetary offer in our current contract negotiations. We had previously tabled a monetary offer of one per cent a year for each of the three years of the collective agreement. However, in light of the current financial situation, the difficult decision had to be made to amend that offer and instead table an offer of zero per cent increase for each year of the three years. I appreciate that the AUPE members were not happy; but we had little choice considering the uncertainty around what financial resources we will have available as a result of what is happening with oil prices. It was the most prudent action to take.

We have advised and will advise other negotiating tables of similar zero mandates.

Management Salary Freeze

AHS will freeze salaries for its management and out of scope employees in the 2015/16 fiscal year. If we ask unionized employees to accept a 0 per cent pay increase, then I think it is fair and reasonable that our management and out of scope employees also not receive an increase.

Pay increases for our unionized employees are part of collective agreements; for those with agreements in place, we cannot effect any change. They include registered nurses with the United Nurses of Alberta and various allied health professionals represented by the Health Sciences Association of Alberta.

Severance

Another area that – to be frank with you – has been most disconcerting to me is the amount of money we pay in severance. You don't need me to tell you that because it has been the topic of many news stories in recent years and it has cast a dark shadow over AHS.

It really struck home to me recently when we were preparing information to release under the Freedom of Information and Protection of Privacy (FOIP) legislation that showed between 2011-2014 we paid out \$28 million in severance - \$3.5 million of that in the current fiscal year. That was severance paid to 606 employees. This included 12 executive members while the rest ranged from administrative assistants, to cooks, housekeeping workers, nurses, LPNs, managers and directors – it was right across the organization. And while there was only a dozen executive members, that group accounted for about \$4.4 million of the cost.

There are certain circumstances where severance may be required – contractual or legal obligations, declaration that a position is redundant, or even current legislation in the province that may require a payment in some circumstances if you terminate someone.

However, it became apparent to me that at AHS there wasn't a strong approach to managing performance and we opted to terminate employees and offer severance. I have advised my executive that is no longer acceptable.

I have directed that rigorous performance management is to be undertaken to avoid the need for the payment of severance. That is appropriate for our employees who deserve to know whether they are doing a good job, but also for the protection of the organization from a financial perspective. The payment of severance should be the last option to be considered when terminating an employee.

Use of Cell Phones/Mobile Devices

We have also just recently approved an updated policy with regard to cell phone and mobile device use. There was a lack of clarity on who should get different types of mobile devices and how we control extraordinary costs associated with cell phones and mobile devices such as roaming charges.

There had been work ongoing to review our costs and what we need to put in place to control those costs as well as the number of devices issued.

Again, we recently had to pull information together on some of those costs and the number I saw was staggering.

Over an 18-month period – for cell phone bills that were over \$500 there were hundreds of devices involved and the cost was \$825,000 –some of it roaming charges. That is why I asked that we implement a new policy to ensure our expectations are clear for our employees who require mobile devices to carry out their job and that we ensure there is awareness of this among those who have cell phones and other mobile devices.

We cannot tolerate AHS paying for monthly roaming charges in the thousands of dollars as we have just determined to be the case. There could be several explanations as to why this happened: assumption that roaming charges are covered in our service packages or the need for some of our employees to download sizable documents to work remotely as required. I think it was more ignorance on the roaming charges than blatant abuse.

With the updated policy it is our intent to minimize the impact of mobile device charges. For instance, under the new policy, should an employee travel outside of the country, by default international roaming will be disabled. To enable the phone for travel outside of the country, executive level approval will be required based on the fact the employee will be required to work and have access to documents, including those that are patient-related – while travelling outside the country.

In addition, the approval process for who gets a device and what kind of device requires executive approval. Later this year we will issue a Request for Proposals (RFP) for cell phone/mobile device service with a goal to ensuring we have a very competitive service package.

Sick Leave

The issue of sick leave is one that many health organizations across the country are grappling with. We tell our employees, if they are sick they should stay home – particularly those working directly with patients and continuing care residents. Additionally, sick leave is a benefit provided to all employees.

At AHS, we experience about 10 sick days per year of FTE which puts us on par with national averages. The cost to AHS is \$190 million a year. We often have to replace those who are sick to provide direct care. As a result, the cost saved by reducing sick time by one day is approximately \$3.6 million.

We are currently rolling out an attendance awareness program that will help us more closely monitor the use of sick leave by our employees and work on achieving savings in this area.

That will see managers reviewing individual employee absenteeism to determine whether it increases or whether there are patterns to ensure that employees are appropriately using the sick leave benefit. This is not to penalize employees who are legitimately sick and we may need to put supports in place for some employees to more effectively manage their health. But if there are employees who abuse, then we need to put an end to that.

Executive Compensation and Restructure

About a year ago in February 2014, Alberta Health Services introduced revised compensation for executive and management and restructured its senior leadership group. As part of that, compensation for senior leaders is just base pay – there are no incentives or pay at risk that had existed previously; the levels of compensation are based on the median of national health care and Alberta public sector markets; and the number of salary levels is reduced from six to four. That eliminated some quite high salary levels at the end of the range.

Consistent with the new structure my salary is \$540,000 which is less than my predecessors and my contract does not include any form of incentive pay. As well, the job rate for the highest executive level below the CEO was reduced by approximately \$100,000.

There had been 80 employees who were considered Vice-Presidents – now that title is reserved for the most senior positions that report directly to the CEO and that number is now 11. In addition, 13 positions were removed from the senior leader classification and three positions were eliminated.

We will continue the effort to streamline and make efficient our senior leadership structure.

Clearly, we still have a lot more work to do. At AHS we have recognized for quite some time that our financial sustainability needs to be a key priority – we have to work at being more efficient and effective in the delivery of services to Albertans. And that is ever more evident at a time when our funder – the Government of Alberta – is experiencing dwindling resources.

Some of the other initiatives that we are working on include:

Benchmarking – We have hired a consultant, Health Care Management (HCM) at a cost of \$90,000 to assist us in benchmarking 15 of our largest hospitals, including comparisons with similar hospitals outside of Alberta. Through the initiative we will compare our productivity and costs to determine whether we are operating efficiently and where we can make improvements. That project will continue over the next few months and later this year we will release the results of that project.

We will also undertake work to benchmark our corporate services which I will oversee.

I will also lead a review of our management structure from front-line manager on up to determine if we have the right structure, the right number and the right distribution of direct reports. Shortly, I will bring together a small committee that I will chair – consisting of 1-2 internal individuals and 1-2 external individuals to work with me on this. I want to have this work completed prior to the start of the next fiscal year.

While I cannot tell you today what our budget will look like for 2015/16, I do know we cannot expect to receive the same level of funding that we have historically been receiving from the provincial government.

As the one organization that receives the largest piece of the province's spending pie, it stands to reason there will be a reduction. In fact, it is fair and reasonable that AHS does its part to assist the Province during this current financial challenge.

And we need to ensure that we have a sustainable system into the future by taking action today.

We are going to have to make some difficult decisions in the coming months.

But I want to assure Albertans that every option will be explored to minimize the impact on the delivery of health care services in this province. And I want to assure all our AHS employees that we will do our best to minimize front-line impacts.

Once we know what our budget allocation is for 2015/16 and we have determined the actions we will take to live within the budget, I will share that with our employees and the public as soon as I can.

I do want to acknowledge the work all AHS managers, physicians and front-line staff who are taking action to cut costs. Even the smallest of changes can have a big impact and I want them to continue to be prudent, creative and innovative in helping us achieve our financial objectives.

Thank you for your time and attention today. I'd now invite any questions.