

2.13 Monitoring Health and Community Services Boards

Introduction

Overview

There are four health and community services boards in the Province comprised of St. John's, Eastern, Central and Western Regions. Each of these boards has local offices throughout the Province. Health and community services in Northern Newfoundland and Labrador are administered as separate components of the Grenfell Regional Health Services Board and the Health Labrador Corporation, respectively.

The health and community services boards provide traditional community health services including health promotion and protection, mental health services, continuing care, and immunization services. In addition, community service programs including Child Welfare, Community and Corrective Services, and Family Rehabilitative Services, are delivered under the health and community services boards.

As a part of our audit work, we continue to monitor the financial position and annual operating results of the four health and community services boards.

Effective 1 April 2005, the four health and community services boards combined with the eight health care institution and integrated boards to establish four regional health authorities throughout the Province.

Conclusions

Deteriorating financial position

The overall financial position of the four boards has deteriorated every year since 2000-01. All four boards had unfunded liabilities as at 31 March 2005. The combined financial position of the four health and community service boards at 31 March 2005 shows total unfunded liabilities of \$36.3 million, an 83% increase from the \$19.8 million reported in 2000-01. The unfunded liabilities will eventually have to be funded by Government.

The St. John's Regional Health and Community Services Board accounted for \$16.8 million or 46% of the total \$36.3 million in unfunded liabilities. The largest increase in unfunded liabilities during the year was at the Western Regional Health and Community Services Board, where the total unfunded liabilities increased 71% from \$3.5 million to \$6.0 million.

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Operating deficits

During the year, two of the four boards had operating deficits totalling \$5.9 million and two had surpluses totalling \$1.0 million. For 2004-05, only one board, the St. John's Regional Health and Community Services Board, reported an annual operating deficit higher than the previous year.

Since 2000-01, total annual operating deficits have generally declined because Provincial funding has increased more than expenditures. For example, Provincial funding increased \$47.1 million (28%) from \$165.3 million in 2000-01 to \$212.4 million in 2004-05. During this same period, program costs increased \$40.5 million (25%) from \$160.2 million in 2000-01 to \$200.7 million in 2004-05.

Non-compliance with *Financial Administration Act*

At 31 March 2005, one of the health and community services boards, the St. John's Regional Health and Community Services Board, was in contravention of the *Financial Administration Act* in that the board had long-term debt totalling approximately \$850,000 to entities outside of the government reporting entity without legislative authority.

Observations

1. Financial Position

Overview

Our review of the health and community service boards' financial position in 2005 included an assessment of the annual operating results and the financial position of the four boards for each of the five years to 31 March 2005. Information on the financial position of the four boards is outlined in Figure 1.

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Figure 1

**Summary of Financial Position
31 March
(\$ Millions)**

	2005					2004	2003	2002	2001
	St. John's	Eastern	Central	Western	Total	Total	Total	Total	Total
Cash (Bank Indebtedness)	(6.3)	(2.3)	(1.5)	0.2	(9.9)	(7.6)	(9.0)	(9.3)	(7.5)
Accounts Payable	(5.1)	(1.3)	(1.9)	(2.7)	(11.0)	(9.0)	(11.1)	(10.1)	(6.8)
Current portion LTD	(0.1)	-	-	-	(0.1)	(0.1)	-	-	-
Less: A/R	1.7	0.6	0.5	0.8	3.6	3.9	11.8	11.1	7.0
Net Liability	(9.8)	(3.0)	(2.9)	(1.7)	(17.4)	(12.8)	(8.3)	(8.3)	(7.3)
Long-term Debt	(0.9)	-	-	-	(0.9)	(1.1)	(0.7)	(0.7)	(0.7)
Severance Pay	(4.2)	(2.9)	(2.3)	(2.9)	(12.3)	(11.8)	(10.1)	(9.0)	(8.2)
Vacation Pay	(1.9)	(1.4)	(1.0)	(1.4)	(5.7)	(5.4)	(4.6)	(4.2)	(3.6)
Total Unfunded Liabilities	(16.8)	(7.3)	(6.2)	(6.0)	(36.3)	(31.1)	(23.7)	(22.2)	(19.8)

Source: Audited Operating Fund Financial Statements.

**Deteriorating
financial
position**

Our review identified the following regarding the financial position of the boards:

- The overall financial position of the four boards has deteriorated every year since 2000-01. The total unfunded liabilities of the four boards have increased \$16.5 million (83%) from \$19.8 million as at 31 March 2001 to \$36.3 million as at 31 March 2005.
- Three of the four boards had bank overdrafts as at 31 March 2005 totalling \$10.1 million to finance a part of their operations. The cash positions ranged from \$200,000 on deposit for Western Health and Community Services Board to an overdraft of \$6.3 million for the St. John's Regional Health and Community Services Board.
- Total net liabilities of \$17.4 million as at 31 March 2005 represent the amount by which the boards' current liabilities exceed the liquid (cash convertible) assets. The boards' had total net liabilities of only \$7.3 million as at 31 March 2001.

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The \$36.3 million in total unfunded liabilities as at 31 March 2005 will be affected by the results of current operations and the level of funding by Government. If the boards have annual operating surpluses in the future, these surpluses could be used to fund their liabilities. If, on the other hand, the boards have annual operating deficits, these deficits, along with the liabilities, will eventually have to be funded by Government.

2. Operating Results

Overview

Figure 2 outlines the annual operating results for the four health and community services boards for the five years to 31 March 2005.

Figure 2

Summary of Annual Operating Results Years Ended 31 March (\$ Millions)

	St. Johns		Eastern		Central		Western		Total				
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2003	2002	2001
Revenue													
Provincial	80.1	78.6	47.3	46.6	44.7	44.1	40.3	39.2	212.4	208.5	200.0	183.8	165.3
Board fund grant	0.2	0.1	0.1	-	0.3	-	0.1	-	0.7	0.1	-	0.5	0.7
Other	0.5	0.3	0.3	0.2	0.7	0.7	0.6	0.6	2.1	1.8	1.1	0.6	0.6
Total Revenue	80.8	79.0	47.7	46.8	45.7	44.8	41.0	39.8	215.2	210.4	201.1	184.9	166.6
Expenditures													
Administration	6.4	6.6	4.3*	4.3*	4.1	3.9	3.6	3.2	18.4	18.0	17.7	15.7	15.8
Programs	78.0	74.8	42.4*	42.5*	41.5	42.0	38.8	38.1	200.7	197.4	182.9	170.7	160.2
Total Expenditures	84.4	81.4	46.7	46.8	45.6	45.9	42.4	41.3	219.1	215.4	200.6	186.4	176.0
Surplus (Deficit) before non- shareable expenses	(3.6)	(2.4)	1.0	0.0	0.1	(1.1)	(1.4)	(1.5)	(3.9)	(5.0)	0.5	(1.5)	(9.4)
Non-shareable expenses	0.5	0.7	0.1	0.9	-	0.2	0.4	0.7	1.0	2.5	1.7	1.6	2.2
Surplus(Deficit) after non- shareable expenses	(4.1)	(3.1)	0.9	(0.9)	0.1	(1.3)	(1.8)	(2.2)	(4.9)	(7.5)	(1.2)	(3.1)	(11.6)

Source: Audited Operating Fund Financial Statements.

* Pro rated to 2004 figures

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Operating deficits

As the figure shows, Provincial funding has increased from \$165.3 million in 2000-01 to \$212.4 million in 2004-05, an increase of \$47.1 million (28%). During this period, program costs have increased from \$160.2 million in 2000-01 to \$200.7 million in 2004-05, an increase of \$40.5 million (25%).

As a result, annual operating deficits have generally declined. For example, the annual operating deficits have decreased from \$11.6 million in 2000-01 to \$4.9 million in 2004-05. During the year, two of the four boards had operating deficits totalling \$5.9 million and two had surpluses totalling \$1.0 million. One board, the St. John's Regional Health and Community Services Board, reported an annual deficit greater than reported in March 2004.

3. Borrowing without Authority

Non-compliance with *Financial Administration Act*

The most recent financial statements of the four health and community services boards which were created under the *Health and Community Services Act* indicated that one of these entities continued to have outstanding long-term debt to entities outside of the government reporting entity without legislative authority.

This outstanding debt as at 31 March 2005 was \$1.0 million, of which approximately \$850,000 related to long-term debt to entities outside of the government reporting entity. The \$850,000 represents a decrease of \$133,000 from the \$983,000 as at 31 March 2004. The \$850,000 was comprised of \$850,000 in long-term debt for the St. John's Regional Health and Community Services Board.

The *Health and Community Services Act*, under which this entity was created, does not provide specific authority to borrow funds. The *Financial Administration Act* prohibits the raising of money by way of loan without legislative authority. As a result, these entities contravened the *Financial Administration Act* by borrowing money without legislative authority.

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Department's Response

Financial Position and Operating Results

The Department shares the concerns of the Auditor General regarding the financial position of the community health boards in this province. This issue is not unique to Newfoundland and Labrador. Many other provinces and territories have been struggling with steady increases in operating costs, while the Federal government has provided insufficient increases in funding for health services in recent years. The 2004 Health Reform fund, however has committed approximately \$293 million for Newfoundland and Labrador over a six year period. While we welcome this additional federal funding, the province still faces significant financial challenges.

In order to alleviate the Department's concerns regarding fiscal stability of the community health boards, initiatives have been undertaken such as the following:

- 1. Government continues to implement its key strategies aimed at protecting the sustainability of a publicly-funded system.*
- 2. The Department allocated base funding of approximately \$2.7 million to these boards for the fiscal year 2004/05 primarily for salary increases.*
- 3. Budget 2005 announced funding for RIHAs of \$20 million, on a one-time basis, to offset the annual deficit and a further \$11 million was added to base budgets for inflation/utilization increases.*
- 4. The Department has been working with the boards to strengthen their accountability regarding financial results. Specific items include:*
 - a. All health authorities in the province now report financial operating results to the Department on a monthly basis. Boards are required to include information on actual to budget analysis, current year vs. prior year analysis, projected deficit to year-end, as well as narrative explanations for fluctuations and variances in these results.*

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- b. *The Department continues to work with the regional boards to further improve the availability of relevant and comparable information needed to plan, monitor and evaluate the community health sector. A new Chart of Accounts has been developed that is compliant with the national reporting standards for the community and social services sector. This will allow for more comparative analysis of this sector at a national level. The Department is also working with the regional boards to develop statistical information requirements to complement the financial information and provide information for more thorough operational analysis.*

Borrowing Without Authority

In 1996, the St. John's Regional Health and Community Services Board borrowed funds to renovate a facility located in Pleasantville. Approval from the Minister of Health and Community Services at that time was requested by the board and granted. During 2003/04, the Board obtained approval from the Minister for further borrowing to renovate the building.

The Hospitals Act, which governs the hospital and long-term care boards in the province, specifically provides the Minister with the authority to approve borrowing from third parties. In certain circumstances, boards are authorized to raise funds through debt to finance projects that have a long-term future benefits. The Health and Community Services Act, which governs the smaller community boards, however is silent on this issue. These boards have now been integrated under a new governance structure. The Department will address this issue within the legislation governing these new health authorities.

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