

2.14 Monitoring Health Care Institutions and Integrated Boards

Introduction

Overview

From 1 November 1994 to 1 January 1996 the Government of Newfoundland and Labrador established eight regional health care institutions and integrated boards (the boards) to administer health care facilities in Newfoundland and Labrador. These boards took over the facilities previously administered by many small local boards.

The financial position of the boards has been deteriorating over the past several years. In an effort to control operating deficits, boards have implemented changes to reduce costs and Government has provided additional funding. As a part of our audit work, we continue to monitor the financial position and annual operating results of the eight boards.

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

Conclusions

Deteriorating financial position

The overall financial position of the eight boards has deteriorated every year since 2000-01. All eight boards had unfunded liabilities as at 31 March 2005. The combined financial position of the eight boards at 31 March 2005 shows total unfunded liabilities of \$453.6 million, a 24% increase from the \$366.1 million reported in 2000-01. The unfunded liabilities will eventually have to be funded by Government.

The Health Care Corporation of St. John's accounted for \$242.4 million or 53% of the total \$453.6 million in unfunded liabilities. Six of the eight boards reported increases in the total unfunded liabilities for 2004-05.

Operating deficits

During the year, six of the eight boards had operating deficits totalling \$17.4 million and two had surpluses totalling \$1.2 million. For 2004-05, two boards, the Central West Health Corporation and Western Health Care Corporation, reported an annual operating deficit higher than the previous year.

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Since 2000-01, total annual operating deficits have generally declined because revenues have increased more than expenditures. Most notably, Provincial funding increased \$201.0 million (29%) from \$692.7 million in 2000-01 to \$893.7 million in 2004-05. During this same period, total expenditures increased \$187.7 million (23%) from \$816.8 million in 2000-01 to \$1,004.5 million in 2004-05.

Observations

1. Financial Position

Overview

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

Figure 1

Summary of Financial Position 31 March (\$ Millions)

	St. Johns	Avalon	Peninsulas	Central East	Central West	Western	Grenfell	Labrador	Total 2005	Total 2004	Total 2003	Total 2002	Total 2001
Cash (Bank Indebtedness)	(7.6)	(10.9)	(12.0)	(6.7)	1.9	(18.9)	(2.5)	(9.7)	(66.4)	(61.7)	(53.8)	(57.1)	(44.9)
Accounts Payable	(45.7)	(3.3)	(3.8)	(8.7)	(6.8)	(18.1)	(1.7)	(5.7)	(93.8)	(88.0)	(84.9)	(75.9)	(68.6)
Current LTD	(2.1)	(0.4)	(0.2)	(0.4)	(0.8)	(0.6)	-	-	(4.5)	(4.5)	(4.4)	(3.7)	(3.2)
Less: A/R	22.9	1.5	2.8	3.8	2.8	7.5	1.5	3.5	46.3	48.0	47.5	60.0	51.3
Net Liability	(32.5)	(13.1)	(13.2)	(12.0)	(2.9)	(30.1)	(2.7)	(11.9)	(118.4)	(106.2)	(95.6)	(76.7)	(65.4)
Long-term Debt	(136.8)	(6.3)	(5.1)	(3.7)	(18.3)	(7.1)	-	(1.3)	(178.6)	(183.0)	(185.7)	(185.7)	(181.6)
Severance Pay	(57.8)	(7.7)	(6.9)	(8.5)	(10.6)	(19.3)	(4.5)	(3.4)	(118.7)	(116.7)	(109.2)	(96.9)	(89.8)
Vacation Pay	(15.3)	(2.8)	(3.1)	(3.7)	(4.3)	(4.2)	(2.2)	(2.3)	(37.9)	(37.2)	(33.9)	(32.1)	(29.3)
Total Unfunded Liabilities	(242.4)	(29.9)	(28.3)	(27.9)	(36.1)	(60.7)	(9.4)	(18.9)	(453.6)	(443.1)	(424.4)	(391.4)	(366.1)

Source: Audited Operating Fund Financial Statements

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Deteriorating financial position

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

- The overall financial position of the eight boards has deteriorated every year since 2000-01. The total unfunded liabilities of the eight boards have increased \$87.5 million (24%) from \$366.1 million as at 31 March 2001 to \$453.6 million as at 31 March 2005.
- As at 31 March 2005, the cash positions of the boards varied, with seven of the eight boards reporting bank overdrafts totaling \$68.3 million. The cash positions ranged from \$1.9 million on hand for the Central West Health Corporation to an overdraft of \$18.9 million for the Western Health Care Corporation.
- Of the \$178.6 million in long-term debt, \$136.8 million, or 77%, related to the Health Care Corporation of St. John's.
- The boards are reporting a combined net liability of \$118.4 million as at 31 March 2005, which represents the amount by which suppliers' credit and current portion of long-term debt exceed the liquid (cash convertible) assets.

The \$453.6 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 the liabilities. On the other hand, if the boards have annual operating deficits, then the 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 eight boards for the five years to 31 March 2005.

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Figure 2

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

	St. Johns	Avalon	Peninsulas	Central East	Central West	Western	Grenfell	Labrador	Total 2005	Total 2004	Total 2003	Total 2002	Total 2001
Revenue													
Provincial Plan	385.5	56.9	65.6	67.3	81.1	140.3	43.1	53.9	893.7	885.8	859.3	786.5	692.7
Other	58.0	4.4	4.9	6.4	8.0	16.3	4.4	5.5	107.9	104.0	94.8	86.7	83.9
Total Revenue	443.5	61.3	70.5	73.7	89.1	156.6	47.5	59.4	1001.6	989.8	954.1	873.2	776.6
Expenses													
Administration	100.5	19.5	20.4	24.5	27.8	48.0	14.1	13.3	268.1	264.9	253.6	238.6	222.1
Programs	326.6	41.7	49.6	48.6	63.3	109.9	32.7	45.9	718.3	711.5	676.9	618.9	579.5
Interest on LTD	9.5	-	0.3	0.2	1.0	0.5	-	0.1	11.6	11.8	11.7	9.8	8.0
Other	3.5	-	0.3	-	0.1	1.7	-	0.9	6.5	6.3	6.0	5.8	7.2
Total Expenses	440.1	61.2	70.6	73.3	92.2	160.1	46.8	60.2	1004.5	994.5	948.2	873.1	816.8
Surplus (Deficit) before non-shareable expenses	3.4	0.1	(0.1)	0.4	(3.1)	(3.5)	0.7	(0.8)	(2.9)	(4.7)	5.9	0.1	(40.2)
Non-shareable expenses	9.4	0.4	1.3	0.2	1.4	0.5	(0.3)	0.4	13.3	19.8	24.7	17.0	19.9
Surplus (Deficit) after non-shareable expenses	(6.0)	(0.3)	(1.4)	0.2	(4.5)	(4.0)	1.0	(1.2)	(16.2)	(24.5)	(18.8)	(16.9)	(60.1)

Source: Audited Operating Fund Financial Statements

Operating deficits

As the figure shows, Provincial funding has increased from \$692.7 million in 2000-01 to \$893.7 million in 2004-05, an increase of \$201.0 million (29%). During this period, total costs have increased from \$816.8 million in 2000-01 to \$1,004.5 million in 2004-05, an increase of \$187.7 million (23%).

As a result, annual operating deficits have generally declined. For example, the annual operating deficits have decreased from \$60.1 million in 2000-01 to \$16.2 million in 2004-05. During the year, six of the eight boards had operating deficits totalling \$17.4 million and two had surpluses totalling \$1.2 million. Two boards had deficits which were higher than those reported in 2003-04 (Central West Health Corporation and Western Health Care Corporation).

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Department's Response

The Department shares the concerns of the Auditor General regarding the financial position of these health boards. 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 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 provided additional funding of approximately \$12 million to these boards for the fiscal year 2004/05 for negotiated salary increases. Boards were also permitted to retain approximately \$11 million in strike savings to offset projected deficits.*
- 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. 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. Many of the boards also report statistical information on a monthly basis to complement the financial information and allow for more thorough analysis of the boards' operations.*

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5. *In order to assist Boards in developing plans to address their financial situations, Government has supported several operational reviews including the HAY Review of Western Health Care Corporation and Grenfell Regional Health Services, which have been completed and the Regional Authorities are in the process of working through implementation of the report recommendations. The Central Authority has also announced an internal best practices review which is currently in process.*

6. *One reason for the increase in unfunded liabilities of boards is increased long-term debt. In certain circumstances, boards are authorized to raise funds through third party debt to finance projects that have a long-term future benefits. As an example, the Health Care Corporation was authorized by the Department to secure loans to build the new Janeway Hospital. The related interest cost and repayment terms were incorporated into the Corporation's long term fiscal plans before the project was approved.*