2.25 Monitoring Health and Community Services Boards

Introduction

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 community services boards.

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

Conclusion

The combined financial position of the four health and community service boards at 31 March 2004 shows total unfunded liabilities of $31.1 million, a 57% increase from the $19.8 million reported in 2000-01. These net unfunded liabilities will eventually have to be funded by Government.

The St. John's Health and Community Services Board had total unfunded liabilities of $13.1 million and accounts for 42% of the $31.1 million total reported for 2003-04. The St. John's Health and Community Services Board's unfunded liabilities have increased by 68% from $7.8 million in 2000-01 to $13.1 million in 2003-04. The unfunded liabilities of the other three boards also increased during the year.

Provincial funding has increased from $165.3 million in 2000-01 to $209.0 million in 2003-04, an increase of $43.7 million (26%). During this period, program costs increased from $160.2 million to $197.4 million, an increase of $37.2 million (23%). Therefore, annual operating deficits have decreased from $11.6 million in 2000-01 to $7.5 million in 2003-04. For 2003-04, all boards reported an annual operating deficit higher than the previous year.

At 31 March 2004, two of the health and community services boards were in contravention of the *Financial Administration Act* in that they had long-term debt totalling approximately $983,000 to entities outside of the government reporting entity without legislative authority. The $983,000

was comprised of $915,000 in long-term debt for the St. John's Regional Health and Community Services Board and $68,000 in long-term debt for the Eastern Health and Community Services Board.

Observations

Financial Position

Our review of the health and community service boards' financial position in 2004 included an assessment of the annual operating results and the financial position of the four boards for each of the four years to 31 March 2004.

Information on the financial position of the four boards is outlined in Figure 1. This figure indicates that 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 from $19.8 million as at 31 March 2001 to $31.1 million as at 31 March 2004. These liabilities will eventually have to be funded by Government.

Figure 1

Health and Community Services Boards
Summary of Financial Position
31 March
($ Millions)

	2004					2003	2002	2001
	St. John's	Eastern	Central	Western	Total	Total	Total	Total
(Bank Indebtedness) Cash	(4.1)	(3.4)	(2.0)	1.9	(7.6)	(9.0)	(9.3)	(7.5)
Accounts Payable	(4.0)	(1.4)	(1.4)	(2.2)	(9.0)	(11.1)	(10.1)	(6.8)
Current portion LTD	(0.1)	-	-	-	(0.1)	-	-	-
Less: Accounts Receivable	1.8	0.8	0.5	0.8	3.9	11.8	11.1	7.0
Net Liability	**(6.4)**	**(4.0)**	**(2.9)**	**0.5**	**(12.8)**	**(8.3)**	**(8.3)**	**(7.3)**
Long-term Debt	(1.0)	(0.1)	-	-	(1.1)	(0.7)	(0.7)	(0.7)
Severance Pay	(4.0)	(2.8)	(2.3)	(2.7)	(11.8)	(10.1)	(9.0)	(8.2)
Vacation Pay	(1.7)	(1.4)	(1.0)	(1.3)	(5.4)	(4.6)	(4.2)	(3.6)
Total Unfunded Liabilities	**(13.1)**	**(8.3)**	**(6.2)**	**(3.5)**	**(31.1)**	**(23.7)**	**(22.2)**	**(19.8)**

Source: Audited Operating Fund Financial Statements.

We also note the following regarding the financial position of the boards:

- Three of the four boards had bank overdrafts as at 31 March 2004 totalling $9.5 million to finance a part of their operations. The cash positions ranged from $1.9 million on deposit for Western Health and Community Services Board to an overdraft of $4.1 million for St. John's Regional Health and Community Services Board.

- Total net liabilities of $12.8 million as at 31 March 2004 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.

- After adding long-term debt, severance pay and vacation pay liabilities, Figure 1 shows that the total amount of funding required to meet the total unfunded liabilities of these four boards as at 31 March 2004 totalled $31.1 million. This represents an increase of $11.3 million from the $19.8 million reported as at 31 March 2001.

The $31.1 million in total unfunded liabilities as at 31 March 2004 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. 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.

Operating Results

Figure 2 outlines the annual operating results for the four health and community services boards for the four years to 31 March 2004.

Figure 2

Health and Community Services Boards
Summary of Annual Operating Results
Years Ended 31 March
($ Millions)

	St. John's		Eastern		Central		Western		Total			
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2002	2001
Revenue												
Provincial	78.6	74.6	46.8	45.4	44.1	42.3	39.5	37.7	209.0	200.0	183.8	165.3
Board fund grant	0.1	-	-	-	-	-	-	-	0.1	-	0.5	0.7
Other	0.3	0.3	-	-	0.7	0.6	0.3	0.2	1.3	1.1	0.6	0.6
	79.0	**74.9**	**46.8**	**45.4**	**44.8**	**42.9**	**39.8**	**37.9**	**210.4**	**201.1**	**184.9**	**166.6**
Expenses												
Administration	6.6	6.2	4.3*	4.2	3.9	4.2	3.2	3.1	18.0	17.7	15.7	15.8
Programs	74.8	68.7	42.5*	41.0	42.0	38.5	38.1	34.7	197.4	182.9	170.7	160.2
	81.4	**74.9**	**46.8**	**45.2**	**45.9**	**42.7**	**41.3**	**37.8**	**215.4**	**200.6**	**186.4**	**176.0**
Surplus (Deficit) before non-shareable expenses	(2.4)	0.0	0.0	0.2	(1.1)	0.2	(1.5)	0.1	(5.0)	0.5	(1.5)	(9.4)
Non-shareable expenses	0.7	0.7	0.9	0.2	0.2	0.4	0.7	0.4	2.5	1.7	1.6	2.2
Deficit after non-shareable expenses	(3.1)	(0.7)	(0.9)	0.0	(1.3)	(0.2)	(2.2)	(0.3)	(7.5)	(1.2)	(3.1)	(11.6)

Source: Audited Operating Fund Financial Statements.
* Pro rated to 2003 figures

As Figure 2 shows, Provincial Funding has increased from $165.3 million in 2000-01 to $209.0 million in 2003-04, an increase of $43.7 million (26%). During this period, program costs have increased from $160.2 million in 2000-01 to $197.4 million in 2003-04, an increase of $37.2 million (23%). Therefore, annual operating deficits have decreased from $11.6 million in 2000-01 to $7.5 million in 2003-04. All boards reported annual deficits greater than reported March 2003.

Borrowing Without Authority

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 two of these entities continue to have outstanding long-term debt to entities outside of the government reporting entity without legislative authority.

This outstanding debt as at 31 March 2004 was $1.1 million, of which approximately $983,000 relates to long-term debt to entities outside of the government reporting entity. The $983,000 represents an increase of $427,000 from the $556,000 as at 31 March 2003. The $983,000 was comprised of $915,000 in long-term debt for the St. John's Regional Health and Community Services Board and $68,000 in long-term debt for the Eastern Health and Community Services Board. The *Health and Community Services Act,* under which these entities were 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.

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. *The Department provided additional funding of approximately $9 million to these boards for the fiscal year 2003/04.*

2. *The Government has announced the restructuring of the health system to create integrated health authorities. The integrated system will allow health authorities to streamline health services across the continuum.*

3. 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.

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 debt of the Eastern Health and Community Services Board relates to a capital lease for a renal dialysis machine acquired in the fiscal year 2001/02. These borrowing were granted using a similar approval process as boards operating under the Hospitals' Act albeit it is recognized the Health and Community Services Act does not specifically allow for such approvals.

2.25 Monitoring Health and Community Services Boards

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 will be integrated in the near future under a new governance structure. The Department will address this issue within the legislation governing these new health authorities.

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