2.26 Monitoring Hospital Boards

Introduction

From 1 November 1994 to 1 January 1996 the Government of Newfoundland and Labrador established eight regional health care institutions 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 eight hospital 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 hospital boards.

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

Conclusions

The combined financial position of the eight hospital boards at 31 March 2004 shows total unfunded liabilities of $442.7 million, a 21% increase from the $366.1 million reported in 2000-01. These net unfunded liabilities will eventually have to be funded by Government.

Seven out of the eight hospital boards reported increases in the total unfunded liabilities for 2003-04. In particular, the total unfunded liabilities for the Health Care Corporation of St. John's was $239.7 million and accounts for 54% of the $442.7 million total reported by all eight boards for 2003-04. The total unfunded liabilities of the Health Care Corporation of St. John's have increased by 13% from $211.6 million in 2000-01 to $239.7 million in 2003-04.

Provincial funding has increased from $692.7 million in 2000-01 to $885.8 million in 2003-04, an increase of $193.1 million (28%). During this period, program costs increased from $579.5 million to $714.3 million, an increase of $134.8 million (23%). Therefore, annual operating deficits have decreased from $60.1 million in 2000-01 to $24.5 million in 2003-04. All boards reported an annual operating deficit during the year. Only two boards had deficits which were less than those reported in 2002-03 (Central East and Central West).

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Observations

Financial Position

Our review of the hospital boards' financial position in 2004 included an assessment of the annual operating results and the financial position of the eight boards for each of the four years to 31 March 2004. Information on the financial position of the eight hospital boards is outlined in Figure 1. Figure 1 indicates that the financial position of the eight hospital boards continued to deteriorate. The total unfunded liabilities of the eight boards have increased from $366.1 million in 2000-01 to $442.7 million in 2003-04. These total unfunded liabilities will eventually have to be funded by Government.

Figure 1

Hospital Boards
Summary of Financial Position
31 March
($ Millions)

	St. John's	Avalon	Peninsulas	Central East	Central West	Western	Grenfell	Labrador	Total 2004	Total 2003	Total 2002	Total 2001
Cash (Bank Indebtedness)	(4.1)	(12.4)	(12.8)	(8.2)	0.8	(15.2)	(1.7)	(8.1)	(61.7)	(53.8)	(57.1)	(44.9)
Accounts Payable	(41.4)	(2.9)	(4.1)	(7.1)	(5.4)	(18.4)	(3.4)	(5.3)	(88.0)	(84.9)	(75.9)	(68.6)
Current LTD	(2.0)	(0.5)	(0.2)	(0.2)	(0.8)	(0.8)	-	-	(4.5)	(4.4)	(3.7)	(3.2)
Less: A/R	18.7	3.0	3.6	3.8	3.7	11.1	2.0	2.1	48.0	47.5	60.0	51.3
Net Liability	**(28.8)**	**(12.8)**	**(13.5)**	**(11.7)**	**(1.7)**	**(23.3)**	**(3.1)**	**(11.3)**	**(106.2)**	**(95.6)**	**(76.7)**	**(65.4)**
Long-term Debt	(139.7)	(6.7)	(5.2)	(3.6)	(18.7)	(7.8)	-	(1.3)	(183.0)	(185.7)	(185.7)	(181.6)
Severance Pay	(56.3)	(7.5)	(6.5)	(8.7)	(10.5)	(18.7)	(4.7)	(3.4)	(116.3)	(109.2)	(96.9)	(89.8)
Vacation Pay	(14.9)	(3.0)	(2.8)	(3.4)	(4.3)	(4.4)	(2.3)	(2.1)	(37.2)	(33.9)	(32.1)	(29.3)
Total unfunded liabilities	**(239.7)**	**(30.0)**	**(28.0)**	**(27.4)**	**(35.2)**	**(54.2)**	**(10.1)**	**(18.1)**	**(442.7)**	**(424.4)**	**(391.4)**	**(366.1)**

Source: Audited Operating Fund Financial Statements

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

- As at 31 March 2004, the cash positions of the boards varied, with seven of the eight boards reporting bank overdrafts totalling $62.5 million. The cash positions ranged from $800,000 on hand for Central West Health Corporation to an overdraft of $15.2 million for the Western Health Care Corporation.

- The boards are reporting a combined net liability of $106.2 million as at 31 March 2004, which represents the amount by which suppliers' credit and current portion of long-term debt exceed the liquid (cash convertible) assets.

- 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 the eight hospital boards as at 31 March 2004 totalled $442.7 million. This represents an increase of 21% over the $366.1 million reported in 2000-01.

- Of the $183.0 million in long-term debt, $139.7 million, or 76%, relates to the Health Care Corporation of St. John's.

The $442.7 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. 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.

Operating Results

Figure 2 outlines the annual operating results for the eight hospital boards for the four years to 31 March 2004.

Figure 2

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

	St. John's	Avalon	Peninsulas	Central East	Central West	Western	Grenfell	Labrador	Total 2004	Total 2003	Total 2002	Total 2001
Revenue												
Provincial Plan	383.3	57.6	65.2	67.1	79.8	140.0	41.6	51.2	885.8	859.3	786.5	692.7
Other	56.4	4.6	4.9	5.6	8.6	15.6	3.6	4.7	104.0	94.8	86.7	83.9
	439.7	**62.2**	**70.1**	**72.7**	**88.4**	**155.6**	**45.2**	**55.9**	**989.8**	**954.1**	**873.2**	**776.6**
Expenses												
Administration	100.0	20.8	21.0	23.5	26.1	46.6	11.9	12.2	262.1	253.6	238.6	222.1
Programs	325.3	42.4	49.3	48.7	62.1	108.3	34.1	44.1	714.3	676.9	618.9	579.5
Interest on LTD	9.6	-	0.4	0.2	1.0	0.5	-	0.1	11.8	11.7	9.8	8.0
Other	3.3	-	0.4	-	0.1	1.7	-	0.8	6.3	6.0	5.8	7.2
	438.2	**63.2**	**71.1**	**72.4**	**89.3**	**157.1**	**46.0**	**57.2**	**994.5**	**948.2**	**873.1**	**816.8**
Deficit before non-shareable expenses	1.5	(1.0)	(1.0)	0.3	(0.9)	(1.5)	(0.8)	(1.3)	(4.7)	5.9	0.1	(40.2)
Non-shareable expenses	11.3	1.2	1.4	1.6	1.9	1.1	0.5	0.8	19.8	24.7	17.0	19.9
Deficit after non-shareable expenses	**(9.8)**	**(2.2)**	**(2.4)**	**(1.3)**	**(2.8)**	**(2.6)**	**(1.3)**	**(2.1)**	**(24.5)**	**(18.8)**	**(16.9)**	**(60.1)**

Source: Audited Operating Fund Financial Statements

As Figure 2 shows, Provincial funding has increased from $692.7 million in 2000-01 to $885.8 million in 2003-04, an increase of $193.1 million (28%). During this period, program costs have increased from $579.5 million in 2000-01 to $714.3 million in 2003-04, an increase of $134.8 million (23%). Therefore, annual operating deficits have decreased from $60.1 million in 2000-01 to $24.5 million in 2003-04. Although all boards reported an annual operating deficit during the year, only two boards had deficits which were less than those reported in 2002-03 (Central East and Central West).

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. *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.*

2. *The Department provided additional funding of approximately $26.5 million to these boards for the fiscal year 2003/04 (per Figure 2 of the Report). While a significant portion of this was for negotiated salary increases, funding was also provided for inflation, program growth and supply cost increases.*

3. *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.*

4. *The Department continues to work with health boards in the province to review the efficiency of operations. As an example, the Department funded the recent Best Practises Reviews of the Western Health Care Corporation and Grenfell Regional Health Services.*

5. *One reason for the increase in unfunded liabilities of boards is increased long-tem 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 Corporations long term fiscal plans before the project was approved.*