

## Financial performance measures

# 5B

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## Introduction

The Legislative Assembly and the public often ask about the state of the Health System's finances. They want to know whether the Health System's financial condition is growing stronger or weaker, and why. Also, many want to know where they can obtain the information required to help them make their own assessments.

A sound understanding of the Health System's finances is important to an informed debate about the issues facing the Health System. Those issues pertain to the affordability of programs and services, and the maintenance of Saskatchewan's health care infrastructure of buildings and equipment.

We derived information on measures from the Government's statistical reports, the *Public Accounts 2001-2002: Volume 2: Details of Revenue and Expenditure*, and the annual financial statements of district health boards (DHBs) and other health Crown agencies. The Department's, DHBs', and Crown agencies' fiscal year end is March 31. As gross domestic product (GDP), and the Consumer Price Index (CPI) are not available for a fiscal year, we use GDP and CPI statistics for a calendar year in our analysis. For example, the GDP statistic in the 2002 column is for the year ended December 31, 2001. We have not adjusted the information for inflation.

We focus on six financial and economic measures for the years ended March 31, 1995 to March 31, 2002. We have modelled the measures after the Research Report, *Indicators of Government Financial Condition*, published by The Canadian Institute of Chartered Accountants. Each measure can and should be analyzed in detail, combined with other information, and monitored over time. Three of the measures relate to health districts because they incur most of the health costs.

The measures we report on include:

- ◆ total health spending as a percentage of the Province's GDP;
- ◆ total health spending as a percentage of the Government's total spending;

- ◆ change in health spending compared to change in the CPI and the Province's GDP;
- ◆ districts' operating surplus or deficit as a percentage of total district spending;
- ◆ districts' working capital ratio; and
- ◆ change in the district's capital assets.

The health costs we use in these measures do not include Federal Government spending for Indian and northern health services or the costs that individuals and private sector organizations pay for private health services.

Readers should be aware that the measures will not provide them with information on trends in the health status of the province's residents or in the effectiveness of health services. The measures pertain only to the financial sustainability of the Health System.

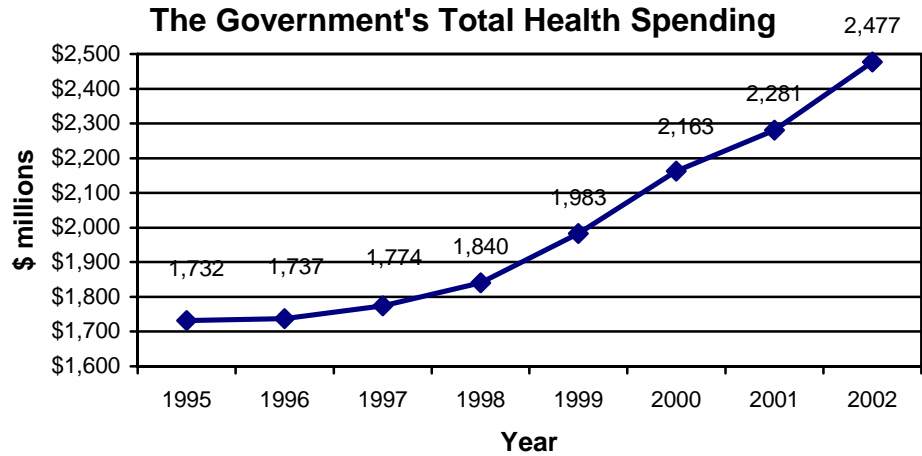
### **Total health spending as a percentage of the Province's Gross Domestic Product**

The first performance measure of sustainability analyzes the total health spending as a percentage of the Province's GDP.

The Province's GDP is a measure of the value of goods and services produced in Saskatchewan in one year. The GDP reflects the size of the provincial economy. If health spending grows faster than the GDP, the economy may not be able to support that level of health care spending in the long run, unless the Government reduces spending on other programs or increases taxes.

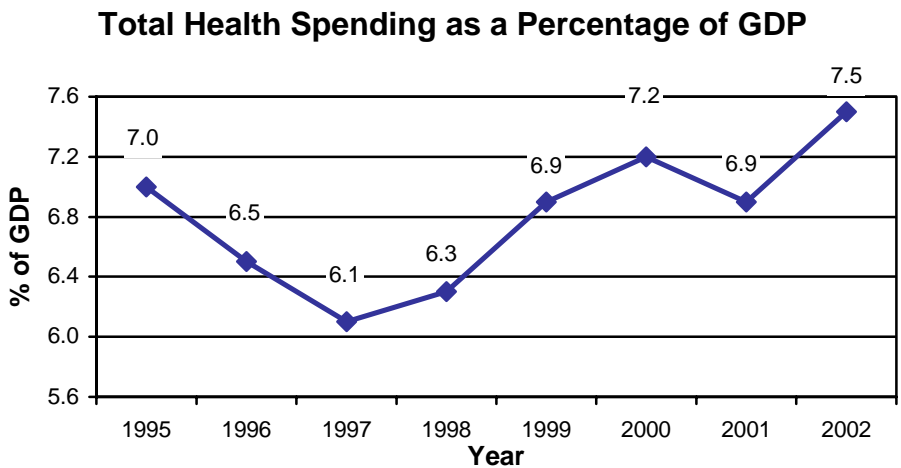
During the past eight years, the Government has increased health spending by forty-three percent from \$1.732 billion in 1995 to \$2.477 billion in 2002 (see graph below). Over the same period, the Province's GDP increased by thirty-three percent from \$24.9 billion in 1995 to \$33.2 billion in 2002.

Graph 1



The following graph shows the trend in the total health spending as a percentage of the provincial GDP from 1995 to 2002. By comparing the total health spending to the Province's GDP, we can assess the financial demands placed on the economy by health spending.

Graph 2



This comparison shows that since 1997 health spending increased from 6.1% of GDP to 7.5% of GDP in 2002. If this current trend continues, the economy may not be able to support the increasing levels of health care spending, unless the Government reduces spending on other programs or increases taxes.

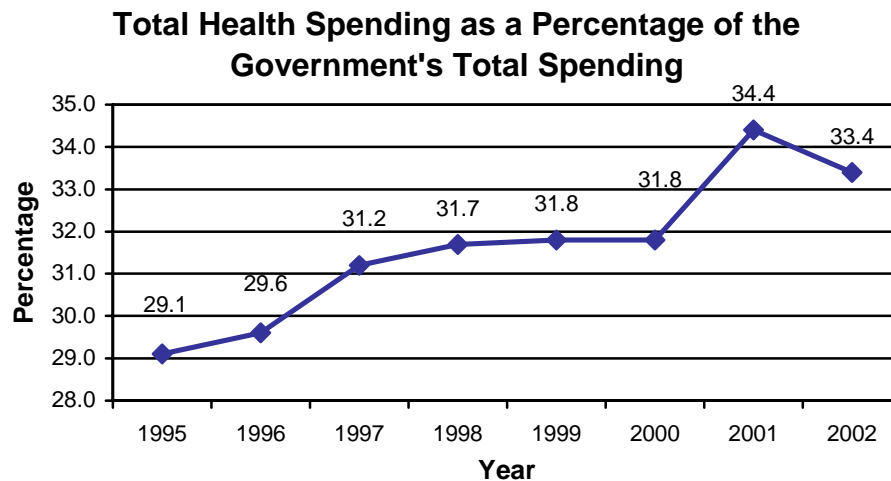
## Total health spending as a percentage of the Government's total spending

The second performance measure of sustainability analyzes the total health spending as a percentage of the Government's total spending.

This measure shows the impact that health spending has on the spending to deliver other government programs. The ability to spend a greater percentage on health each year may not be sustainable because of the need to provide other necessary government services.

The following graph shows the trend in the health spending as a percentage of the Government's total spending from 1995 to 2002. By comparing health spending to the Government's total spending, we can assess the financial demands health spending places on the Government total spending.

Graph 3



This comparison shows that from 1995 to 2002, health spending has increased from 29.1 to 33.4% of the Government's total spending. The upward trend in this graph suggests a decrease in sustainability because increasing demands for health care spending is reducing the Government's ability to maintain required spending on other vital programs.

## Change in health spending compared to change in the Consumer Price Index (CPI) and the Province's GDP

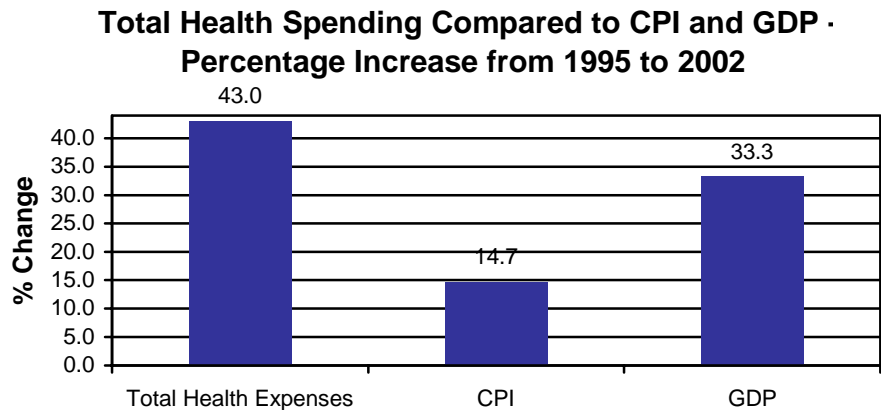
A third performance measure of sustainability analyzes the change in health spending compared to the change in the Consumer Price Index (CPI) and the GDP.

Comparing the change in health spending to the change in the CPI indicates whether health spending has kept pace with inflation. If health spending increases are significantly lower than increases in the CPI, current health programs may be at risk because health spending is not keeping up with increases in the cost of living. If health spending increases are higher than the CPI, this could indicate an unsustainable trend because health spending is exceeding inflation.

Comparing the change in health spending to the change in GDP shows the rate that health spending changed to the rate that the provincial economy changed. If health spending increases are higher than the growth of the provincial economy, this could indicate an unsustainable trend.

The following graph shows health spending is growing faster than the provincial economy and faster than inflation. Because Saskatchewan's economy is vulnerable to changes in commodity prices, interest rates, and the weather, the increases in health spending in recent years may be unsustainable. A downturn in Saskatchewan's economy could require the Government to make difficult decisions on health spending.

**Graph 4**



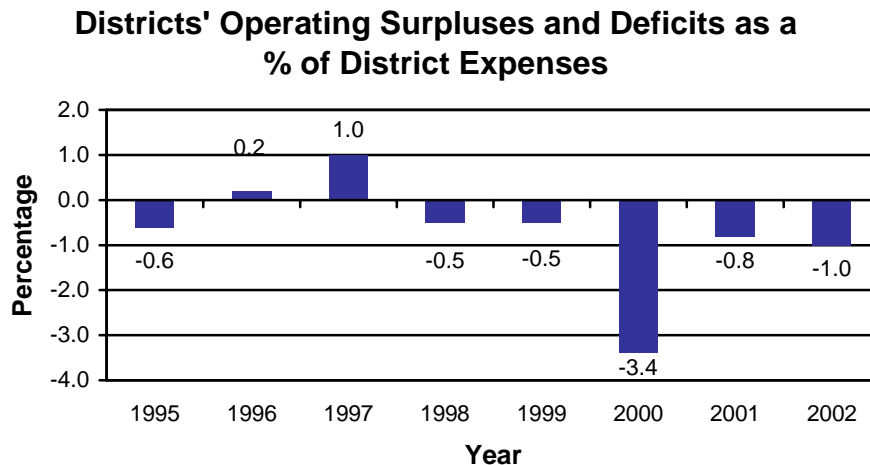
## Districts' operating surpluses and deficits as a percentage of total district spending

A fourth performance measure of sustainability analyzes the districts' annual operating surplus or deficit as a percentage of total district spending.

The annual operating surplus (or deficit) shows the extent to which the districts have more (or less) operating revenue than operating expenses in a fiscal year. Districts that are able to run an operating surplus are better able to sustain their capacity to maintain their programs over the long term.

The following graph shows that since 1995, the districts fluctuated between having small annual surpluses and deficits with the exception of a large relatively large deficit in 2000. If this trend continues, districts should be able to sustain their capacity to maintain their programs over the long term.

Graph 5



## Districts' working capital ratio

The fifth performance measure of sustainability analyzes the districts' working capital ratio.

Districts calculate the working capital ratio by dividing current assets by current liabilities. This ratio represents the districts' ability to pay

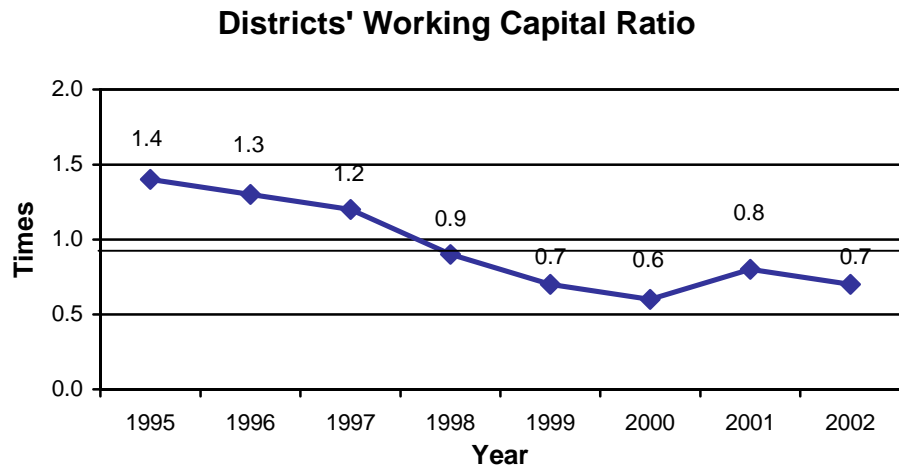


employees and suppliers on time. Declines in current assets compared to current liabilities may impair a district's ability to maintain programs and services.

We have adjusted the districts' current assets for restricted funds (e.g., community trust funds) because they are not readily available for the districts' use.

The following graph shows a downward trend in the districts' working capital ratio from 1995 to 2002. The ratio reflects the number of times that current assets exceed current liabilities. At March 31, 1995, the districts had an average working capital ratio of 1.4 (i.e., districts had 1.4 times more current assets than current liabilities). The average working capital ratio fell to 0.7 in 2002. This means that current liabilities exceed current assets, which could impair the districts' ability to pay salaries and other costs on time. If this downward trend continues, more districts may experience problems in meeting their current financial obligations to suppliers or employees. They also may be unable to maintain existing programs and services.

**Graph 6**



### **Change in the districts' capital assets**

The final performance measure of sustainability analyzes changes in capital assets owned by districts.

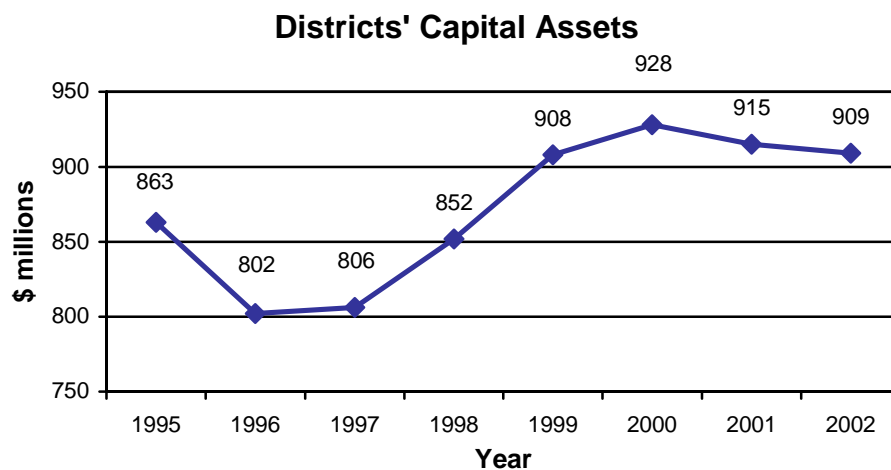
Districts own most of the capital assets in the health system. Capital assets are resources such as property, buildings, and equipment that are

used to deliver health services. Districts must properly maintain or replace their capital assets, or risk losing the assets' productive capacity. For example, if districts delay making necessary building repairs, renovations, or replacements, the ultimate costs may be unsustainable. Districts, like other organizations, must maintain and replace their capital assets. Otherwise, they face potential future costs to repair, renovate, or replace these assets, which may impair their ability to deliver needed services.

Governments and health experts are encouraging a shift of health services from institutions (e.g., hospitals, nursing homes) to services in the home and community. This shift is resulting in less need for new capital assets or even replacing some existing assets.

The following graph shows a trend in changes in capital assets owned by districts. From 1995 to 2002, capital assets have increased from \$863 million to \$909 million. This upward trend indicates continued sustainability of the districts' services.

**Graph 7**



## Summary

We hope that the above analysis will promote discussion and debate on the state of our Health System's finances. We also hope that this analysis will encourage the Department to increase its reporting on the financial targets and measures it uses to assess its financial performance. Such reporting would help to explain the impact of health spending on the health of Saskatchewan people.