

Financial performance of the health system

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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 finances¹ 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 report on six financial and economic measures. We modelled the measures after the research report, *Indicators of Government Financial Condition*, published by The Canadian Institute of Chartered Accountants.

Readers should be aware that the measures set out in this chapter 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. Each measure can and should be analyzed in detail, combined with other information, and monitored over time. Three of the measures relate to the regional health authorities (RHAs) because they incur most of the health costs.

Performance measures

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

¹ We derived information on measures for the health system from the Government's statistical reports, the *Public Accounts 2005-2006: Volume 2: Details of Revenue and Expenditure*, and the annual financial statements of regional health authorities and other health agencies. The fiscal year-end for Health, the RHAs, and other health agencies is March 31. Because the 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 2006 column is for the year ended December 31, 2005. We have not adjusted the information for inflation.

- ♦ change in health spending compared to change in the CPI and the Province's GDP
- ♦ RHAs' operating surplus or deficit as a percentage of total RHA spending
- ♦ RHAs' working capital ratio
- ♦ change in the RHAs' capital assets

The health costs we refer to do not include Federal Government spending for Indian and northern health services or the costs that individuals and private sector organizations pay directly for health services.

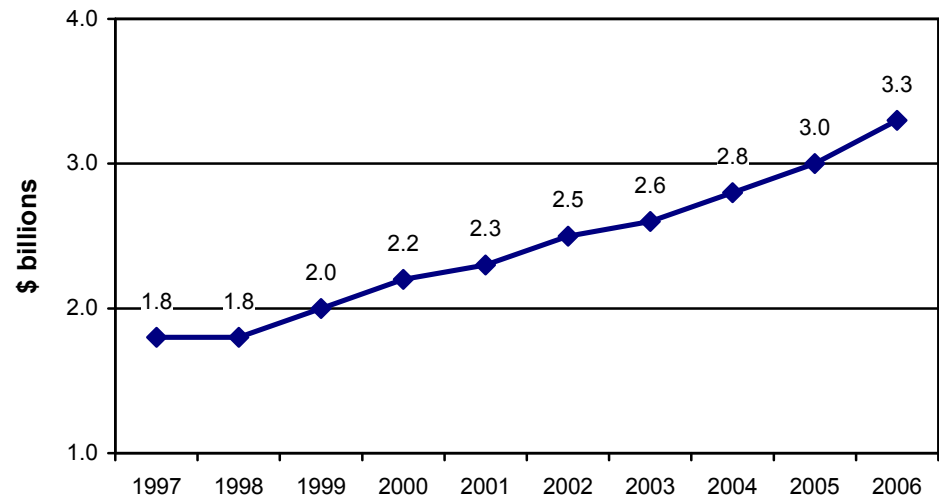
Total health spending as a percentage of the Province's Gross Domestic Product

The first performance measure of sustainability is 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, it indicates that the public is using more health care, and the Government is spending more to provide these services, relative to other goods and services in the province.

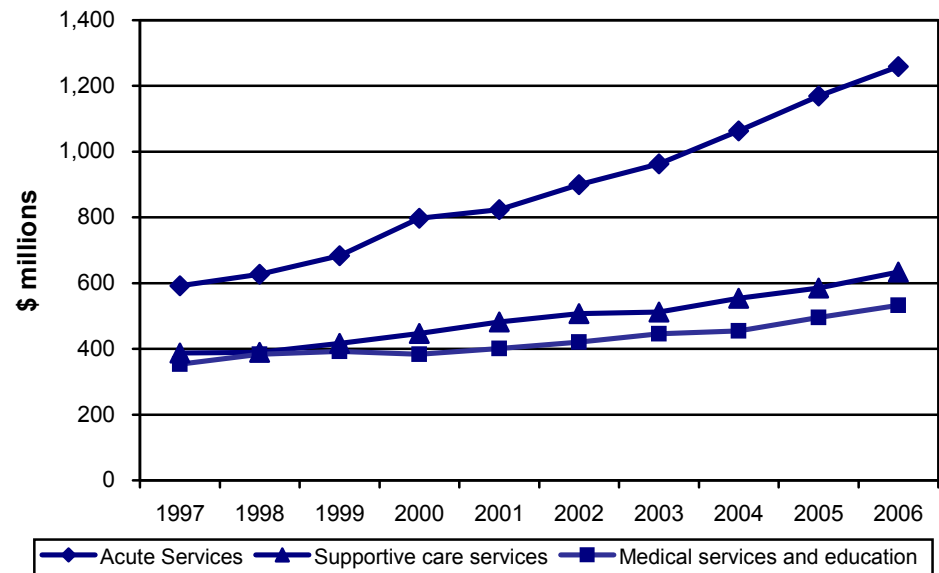
During the past ten years, the Government has increased health spending by 85% from \$1.77 billion in 1997 to \$3.28 billion in 2006 (see graph below). Over the same period, the Province's GDP increased by 46% from \$29.2 billion in 1997 to \$42.6 billion in 2006.

Graph 1 The Government's Total Health Spending



The following graph shows the three highest cost health programs. These programs are acute services (i.e., hospitals), supportive care services (i.e., nursing homes), and medical services (i.e., payments to doctors). Acute services costs have increased by over 113% from 1997 to 2006. The cost of the other two programs increased by more than 50% over the same period.

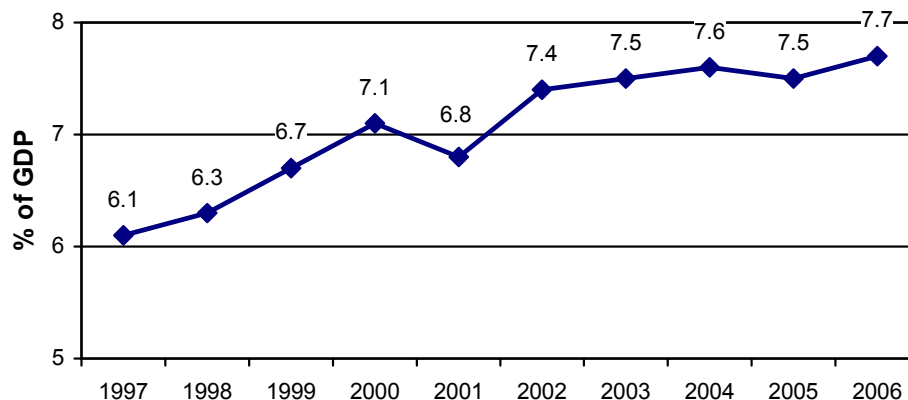
Graph 2 Highest Cost Health Program Spending



The following graph shows the trend in the total health spending as a percentage of the provincial GDP from 1997 to 2006. By comparing the

total health spending to the Province's GDP, the reader can assess the financial demands placed on the economy by health spending.

Graph 3 Total Health Spending as a Percentage of GDP



This comparison shows that since 1997 health spending increased from 6.1% of GDP to 7.7% of GDP in 2006. If this 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.

Saskatchewan is not unique. Health care spending as a percentage of GDP is growing in most other provinces² and many other countries³. As well, while the Saskatchewan Government has significantly increased health spending since 1997, it has also improved its overall fiscal position⁴ and has increased spending on other government programs.

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

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

This measure shows the impact that health spending has on spending required to deliver other government programs. The ability to spend a

² The Canadian Institute for Health Information; *Health Indicators*, 2006, June, 2006, and *Health Indicators*, 2002, May, 2002.

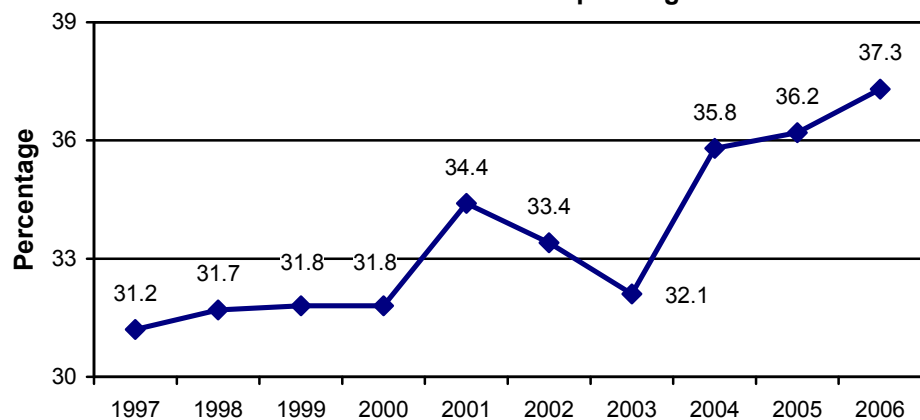
³ Organization for Economic Co-operation and Development; *Health Data 2005*, October 2005.

⁴ Provincial Auditor of Saskatchewan; 2006 Report – Volume 2, page 3, August 2006.

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 health spending as a percentage of the Government's total spending from 1997 to 2006. By comparing health spending to the Government's total spending, we can assess the financial demands health spending places on the Government's total spending.

Graph 4 **Total Health Spending as a Percentage of the Government's Total Spending**



This comparison shows that from 1997 to 2006, health spending has increased from 31.2% to 37.3% of the Government's total spending. The upward trend in this graph suggests a decrease in sustainability because increasing demands for health care spending could reduce the Government's ability to maintain required spending on other vital programs.

Change in health spending compared to change in the CPI and the Province's GDP

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

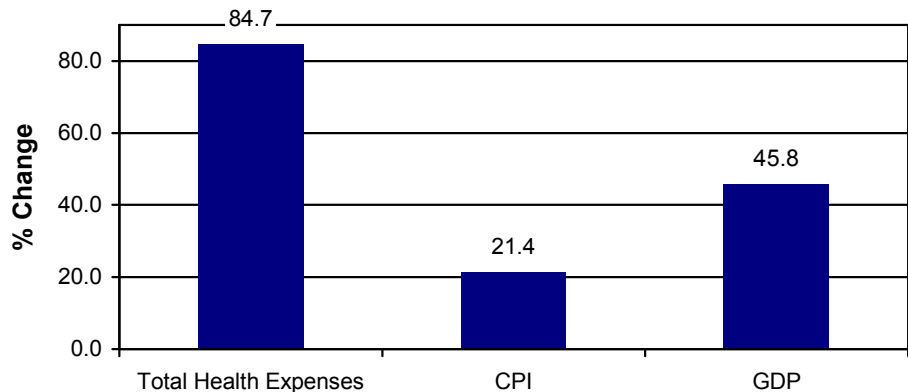
Comparing the change in health spending to the change in the CPI indicates whether health spending has kept pace with inflation. If health

spending increases are 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 in the long term. A downturn in Saskatchewan's economy could require the Government to make difficult decisions on health spending.

Graph 5 Change in Health Spending Compared to CPI and GDP - Percentage Increase from 1997 to 2006



RHAs' annual operating surpluses and deficits as a percentage of total RHA spending

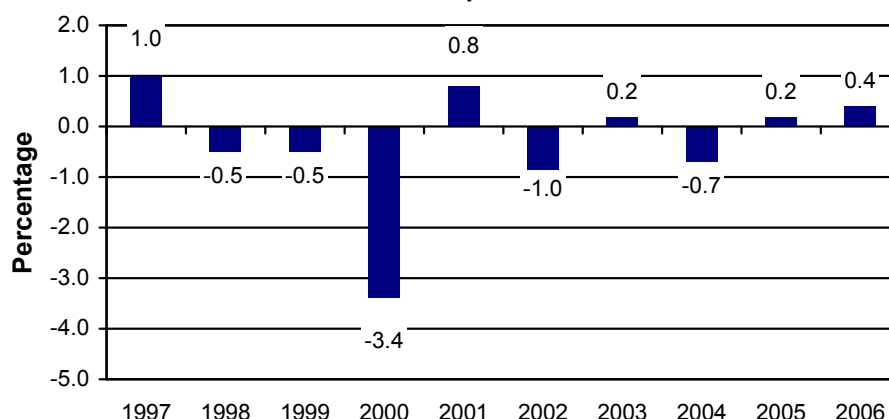
A fourth performance measure of sustainability is the RHAs' annual operating surplus or deficit as a percentage of total RHA spending.

The annual operating surplus (or deficit) shows the extent to which the RHAs have more (or less) operating revenue than operating expenses in a fiscal year. RHAs 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 1997, the RHAs fluctuated between having small annual surpluses and deficits with the exception of a relatively large deficit in 2000. If this trend continues, the RHAs should be able to sustain their capacity to maintain their programs over the long term.

Graph 6 RHAs' Operating Surpluses and Deficits as a % of RHAs' Expenses

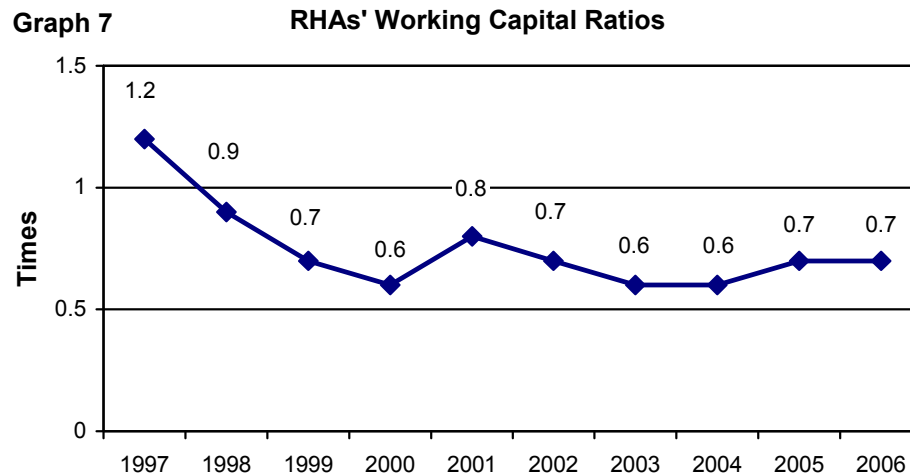


RHAs' working capital ratio

The fifth performance measure of sustainability is the RHAs' working capital ratio.

RHAs calculate the working capital ratio by dividing current assets by current liabilities. This ratio represents the RHAs' ability to pay employees and suppliers on time. Declines in current assets compared to current liabilities may impair an RHA's ability to maintain programs and services.

The following graph shows a fairly stable trend in the RHAs' working capital ratio from 1997 to 2006. The ratio reflects the number of times that current assets exceed current liabilities. Since March 31, 1999, the RHAs average working capital ratio has been around 0.7. This means that current liabilities exceed current assets, which could impair the RHAs' ability to pay salaries and other costs on time.



Change in the RHAs' capital assets

The final performance measure of sustainability is changes in capital assets owned by RHAs.

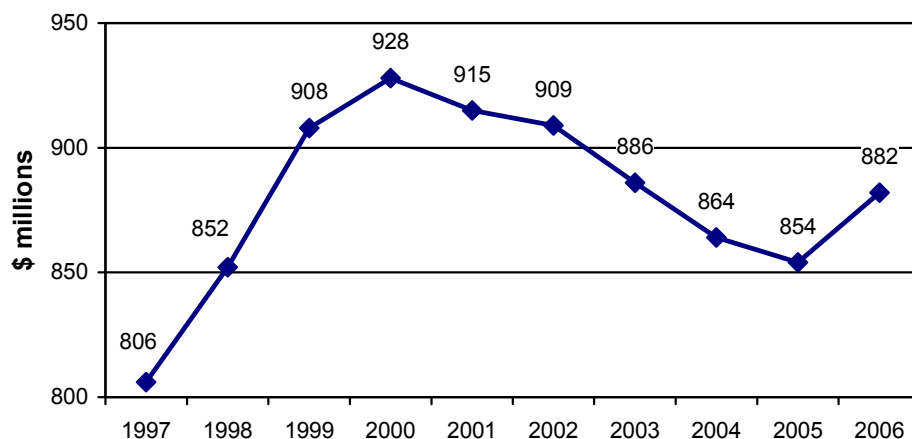
RHAs use \$882 million of capital assets to deliver health services. Capital assets include property, buildings, and equipment. RHAs must properly maintain or replace their capital assets, or risk losing the assets' productive capacity. For example, if RHAs delay making necessary building renovations or replacements, the ultimate costs may be unsustainable. In addition, they face potential future costs to repair, renovate, or replace these assets. These costs may impair their ability to deliver needed services.

Governments and health experts encourage 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 and to replace some existing assets.

The following graph shows a trend in total capital assets owned by RHAs. From 1997 to 2006, capital assets have remained fairly constant from \$806 million to \$882 million. This trend may indicate continued sustainability of the RHAs' services assuming they hold the right capital assets. As described in Part A of this chapter, Health does not have a capital asset plan to ensure that the RHAs have the right capital assets to deliver health services effectively.

Graph 8

RHAs' Capital Assets



Summary

We encourage legislators and the public to use the above analysis to promote discussion and debate on the state of our health system's finances. We encourage Health to publish similar information on the financial targets and measures it uses to assess its financial performance. Such reporting would provide useful information on Health's financial performance.

