

## Financial performance of the health system

# 11B

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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 report on six financial and economic measures<sup>1</sup> over a ten year period. 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 the health status of the Province's residents or on 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

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<sup>1</sup> We derived information on measures for the health system from the Government's statistical reports, the *Public Accounts 2006-2007: 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 2007 column is for the year ended December 31, 2006. GDP statistics are as published by Saskatchewan Bureau of Statistics ([www.stats.gov.sk.ca](http://www.stats.gov.sk.ca)). CPI statistics are as published by Statistics Canada ([www.statcan.ca](http://www.statcan.ca)). We have not adjusted the information for inflation.

- ◆ 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
- ◆ 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.

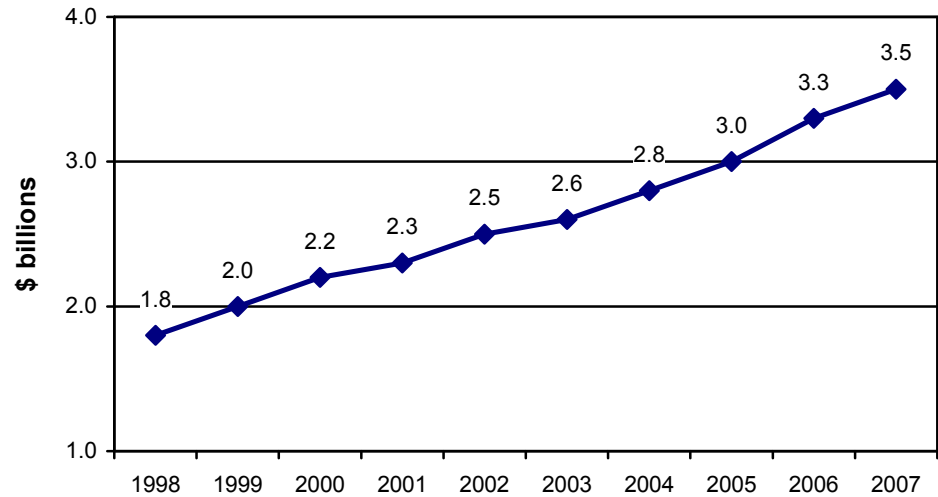
### **Total health spending as a percentage of the Province's Gross Domestic Product**

The first performance measure is 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.

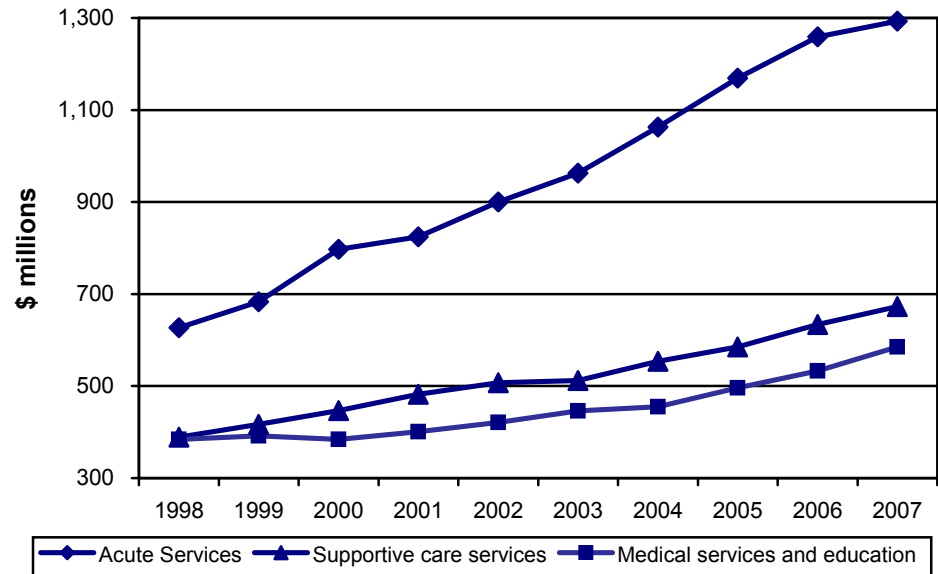
During the past ten years, the Government has increased health spending by 88% from \$1.84 billion in 1998 to \$3.46 billion in 2007 (see graph 1). Over the same period, the Province's GDP increased by 56% from \$29.4 billion in 1998 to \$45.8 billion in 2007.

**Graph 1 The Government's Total Health Spending**



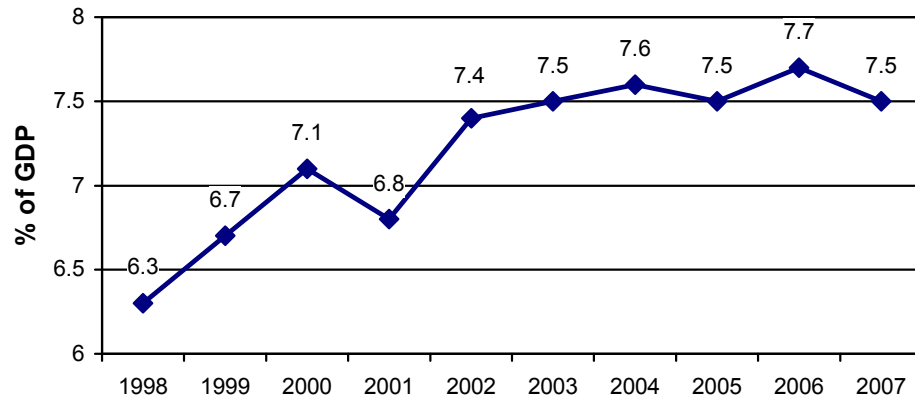
Graph 2 shows the three highest cost health programs. These programs are acute services (e.g., hospitals), supportive care services (e.g., nursing homes), and medical services (e.g., payments to doctors). Acute services costs have increased by over 106% from 1998 to 2007. The cost of supportive care increased by 73% and medical services by 52%.

**Graph 2 Highest Cost Health Program Spending**



Graph 3 shows the trend in the total health spending as a percentage of the provincial GDP from 1998 to 2007. 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 while a significant increase occurred in the period 1998 to 2001, since 2002 health spending as a percentage of GDP has been relatively stable. If this trend continues, the economy may be able to support the increasing levels of health care spending.

Saskatchewan is not unique. Health care spending as a percentage of GDP is growing in most other provinces<sup>2</sup> and many other countries.<sup>3</sup> As well, while the Saskatchewan Government has significantly increased health spending since 1998, it has also improved its overall fiscal position and has increased spending on other government programs.<sup>4</sup>

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

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

This measure shows the impact that health spending has on the government's ability 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.

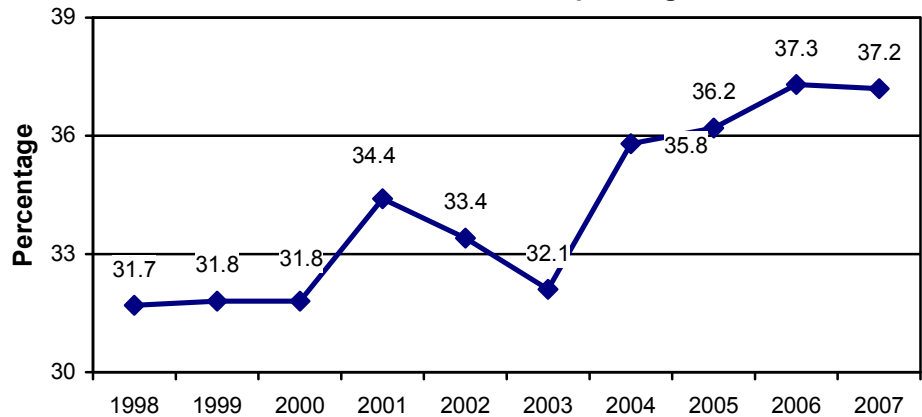
<sup>2</sup> The Canadian Institute for Health Information; *Health Indicators, 2006*, June, 2006, and *Health Indicators, 2002*, May, 2002.

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

<sup>4</sup> Provincial Auditor of Saskatchewan; 2007 Report – Volume 2.

Graph 4 shows the trend in increased health spending as a percentage of the Government's total spending from 1998 to 2007. 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 1998 to 2007, health spending has increased from 31.7% to 37.2% of the Government's total spending. If this upward trend continues, the increasing demands for health care spending could limit 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 is the change in health spending compared to the change in the Consumer Price Index (CPI) and the GDP.

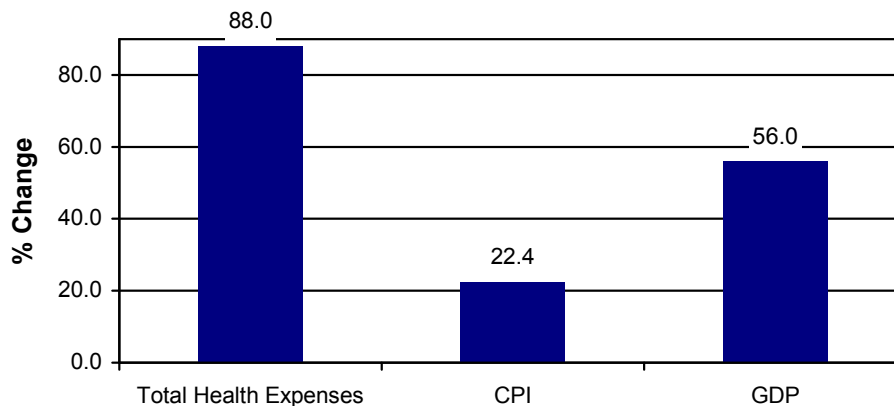
Comparing the change in health spending to the change in the CPI indicates whether health spending has kept pace with inflation. If health spending increases are higher than the CPI, this could indicate an unsustainable trend because health spending is exceeding inflation.

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 over time are higher than

the growth of the provincial economy, this could indicate an unsustainable trend.

Graph 5 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 not be sustainable 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 1998 to 2007**



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

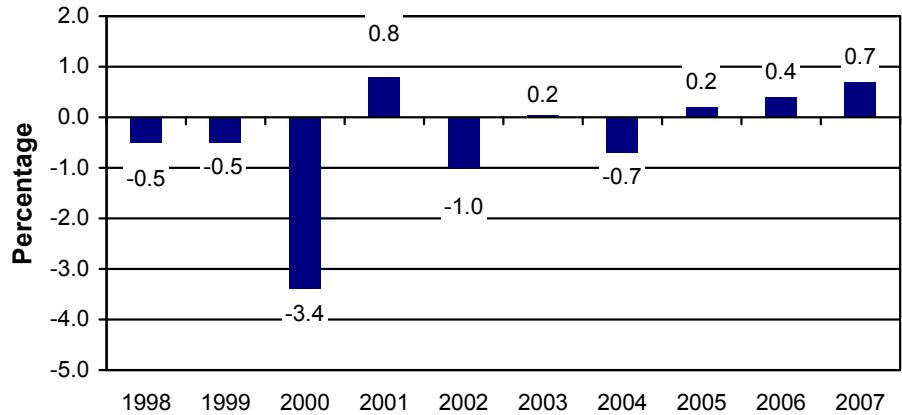
A fourth performance measure is the RHAs’ annual operating surplus or deficit as a percentage of total RHA spending.

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.

Graph 6 shows that since 1998, 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**



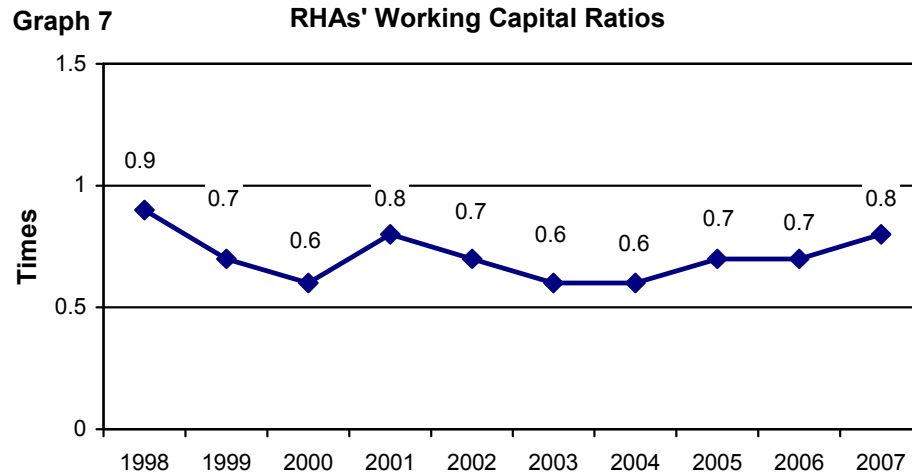
## RHAs' working capital ratio

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

RHAs calculate the working capital ratio by dividing current assets by current liabilities.<sup>5</sup> 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.

Graph 7 shows a fairly stable trend in the RHAs' working capital ratio from 1998 to 2007. 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.

<sup>5</sup> Current assets are amounts that are realizable within one year; current liabilities are amounts that are payable within one year.



### Change in the RHAs' capital assets

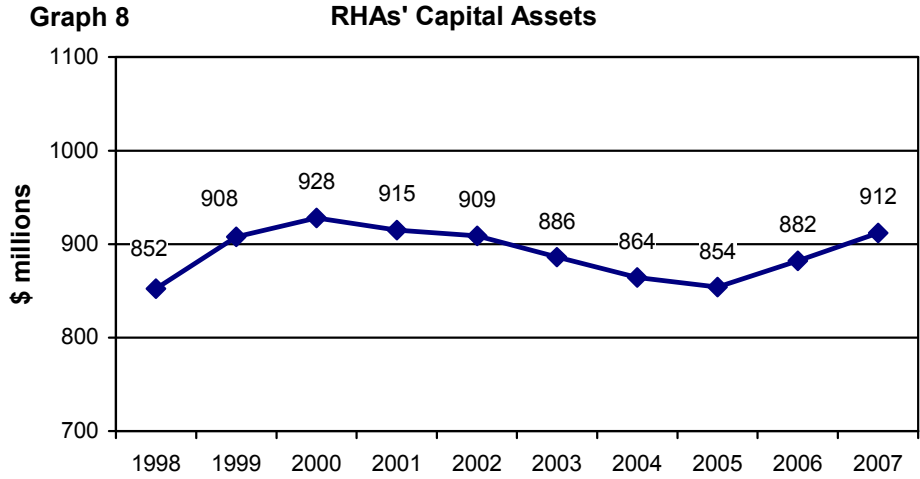
The final performance measure is changes in capital assets owned by RHAs.

RHAs use \$912 million of capital assets<sup>6</sup> 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 potential future costs to repair, renovate, or replace these assets 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.

Graph 8 shows a trend in total capital assets owned by RHAs. From 1998 to 2007, capital assets have remained fairly constant from \$852 million to \$912 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.

<sup>6</sup> \$912 million is the value of amortized capital assets owned by the RHAs at March 31, 2007.



## 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.

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