



Extract from the report to the  
Public Accounts Committee on  
the financial position of the  
hospitals in 2009

December  
2010

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## I. Introduction and results

1. This report is about the financial position of the hospitals in 2009. The regions are responsible for running the hospitals in Denmark.

2. Rigsrevisionen took the initiative to the examination in March 2010. The background for the examination was the budget overruns detected in the hospitals in the spring 2010. Some of the hospitals have subsequently been forced to cut costs and dismiss staff.

3. The overall financial framework set for the regions to run the healthcare sector is determined in the annual finance agreement entered between the government and the regional level. This agreement also determines the level of activity in the hospitals. Since 2002, funds for the activity-based grant have been appropriated in the Finance Act. This grant is paid to the regions for additional activity in the hospitals.

The financial framework comprises all treatments offered to the citizens in the regions, including treatment by general practitioners as well as hospital treatment. Treatment in the hospitals includes the regions' costs for treatment in the hospitals in their own region, treatment in hospitals in other regions, treatment in private hospitals based on tendering and treatment in private hospitals following from the extended free choice of hospitals. The budgetary control performed by the regions must take these factors into consideration.

The financial framework provides the basis for the regions' management and also sets the frames within which the regions are required to define the principles for management of the healthcare sector and hospitals.

4. The regions are facing a number of external challenges in the healthcare sector, which are affecting the regions' and the hospitals' management of the economy. Among the factors putting the hospitals under pressure to increase their level of activity is the extended free choice of hospitals and the fact that more patients are referred to hospital treatment. According to the Danish Health Act, the regions are under obligation to provide treatment to the individual citizen. Moreover, the government's activity-based grant for additional activity and the activity-based budgets serve as incentives for the hospitals to increase activity.

In addition to the external factors mentioned above, the hospitals are also challenged internally by a complex financial management process, which makes it imperative for the management to prioritize hospital activities and costs in order to keep within the financial framework.

5. The objective of the examination is to map the extent and causes of the budget overruns in the hospitals in 2009. The report answers the following questions:

- The extent and consequences of the budget overruns in the hospitals in 2009?
- Was the basis upon which the hospitals and departments carried out their budgetary control in 2009 adequate?
- Have the regions and hospitals on an ongoing basis in 2009 followed up on and reconciled the activities and costs of the hospitals to the budgets?

**Activity** in a hospital is the treatments, etc. that are performed by the hospital.

Additional activity is activity performed beyond what has been agreed with the regional level.

### Government grant to additional activity

Since 2002, the government has appropriated funds for the activity-based grant. Additional activities in the hospitals release payments from the grant, until the pool is depleted.

In 2009, the grant to the regions amounted to DKK 2,538 million.

The grant is distributed among the regions on the same scale that is applied to block grants. The individual regions re-distribute their share of the grant to the hospitals with additional activity until the pool is depleted.

The examination is also pointing to initiatives that can strengthen budgetary control in the hospitals.

6. The Ministry of the Interior and Health and the regions, including the current 37 hospitals in Denmark, are being examined. Moreover, Rigsrevisionen has selected three hospitals for closer inspection and from each of these hospitals sampled one department with a significant budget overrun.

7. The examination concerns the fiscal year 2009. Data for the report were collected in the period March 2010 to November 2010.

## MAIN FINDINGS AND CONCLUSIONS

The majority of the public hospitals recorded budget overruns in 2009. Most were relatively modest, but some hospitals exceeded their budgets significantly in absolute numbers. The cost overruns had severe consequences for some hospitals and departments and lead to dismissals and recruitment freeze.

Controlling the economy in the hospitals is a challenge for the regions and hospitals. The healthcare sector is managed within a fixed financial framework which determines the cost level of the hospitals, yet at the same time allows the hospitals to increase activities and thereby increase their budgets and costs.

Compared to previous years, the health sector was in 2009 particularly affected by tighter budgets, and their financial situation was aggravated further by the strike in 2008, which resulted in long waiting lists for hospital treatment. To this should be added the concern for the patients, including the cancer patient pathways, the extended free choice of hospitals and the maximum waiting times for certain life-threatening diseases, which all together prompted the hospitals to increase the level of activities.

According to Rigsrevisionen's overall assessment, controlling the budgets of the hospitals is a complex task, and the risk of cost overruns will subsist also in the future.

Rigsrevisionen's examination shows that the regions and the hospitals can improve the management of the hospitals in several areas:

- ensure that department budgets are feasible;
- improve the basis for assessment of the relationship between budgets and level of staffing in the departments;
- ensure availability of updated current data on the costs of the individual treatments to improve the basis upon which the hospitals prioritize and assess whether the activity level can be increased within the budgetary framework;
- ensure availability of real-time and reliable data on the activities in the departments, as this will enable the departments to assess the financial consequences of their activities on an ongoing basis;
- the regions and the Ministry of the Interior and Health should make a joint effort to determine how best to apply activity-based funding to get full benefit of the financial incentives while at the same time minimizing the uncertainty relating to the financial management process;
- the regions should continue to strengthen their follow-up on budgets.

This overall assessment is based on the following audit findings:

**All the regions exceeded their hospital budgets in 2009. 21 of the 37 hospitals in the regions exceeded their budgets. For some hospitals, the cost overruns had severe consequences and led to dismissals recruitment freeze.**

- In 2009, the regions put together exceeded the healthcare budget by DKK 1,817 billion, corresponding to 2.2 per cent. Thus the costs of the regions for the healthcare sector exceeded the limits indicated in the financial agreement made between the government and the regions.
- Regional costs for the hospitals exceeded the adjusted budgets in 2009. The total budget overrun in the hospitals amounted to DKK 662 million, corresponding to 1.2 per cent in 2009.
- The budget overruns in most of the hospitals were relatively modest, but some hospitals exceeded their budgets significantly in absolute numbers.
- As a consequence of the budget overruns the hospitals have, for instance been forced to adjust staffing levels. In 2010, staff has been dismissed, a recruitment freeze has been implemented, a vast number of positions have been abolished and the use of temps and overtime has been reduced.

**The three hospitals and the three departments under audit did not have a sound basis for their budgetary control in 2009. The final target for the hospitals' and the departments' production value was not set till the spring of 2009, and hospital budgets were adjusted several times in the course of the year, which made it difficult for the hospitals to control the budgets. Moreover, not all departments had feasible budgets at the beginning of the year, among other things because the budgets did not reflect the costs relating to the current staffing levels. To this should be added the uncertainty in some departments with respect to the payment for additional activity.**

#### *Hospital budgets*

- The budgets for 2009 were prepared by the regions on the basis of knowledge of the development in the healthcare sector.
- A base budget and a preliminary target for the value of the hospital's production (baseline) were provided to each hospital by the respective region at the beginning of 2009. The final production value target for 2009 was announced in the spring of 2009. Till then, the individual hospitals and departments organised their activities on the basis of a preliminary baseline and the targets set by the regions for ambulatory visits, surgical procedures and discharges.
- The late announcement of the final baseline may add uncertainty to the management of costs and activities, because some of the hospitals had only the third and fourth quarter to reconcile activities and costs. Even minor changes in the overall baseline of a hospital may be of consequence to the individual departments. As from 2011, the final baseline will be announced early in the year.

#### **Production value**

Every year the regions define a target for the production of each individual hospital.

The target is set as a production value reflecting the value of the production of the hospital. This production value is also referred to as the baseline.

To arrive at the baseline, the services provided by the hospital are multiplied by the value of the services in Danish kroner.

- The activity level in two of the hospitals that were examined, was increased to cover the budget overruns that were projected by the hospitals very early in 2009. However, the deficits were not covered, because the costs of increasing the activity level were too high.
- It is essential for the hospitals as such and for the individual departments in particular to have access to updated base budgets and updated production values. The hospitals' base budgets, baseline and activity targets were changed continuously in 2008, 2009 and 2010 which meant that the hospitals had to deal with a considerable number of changes.
- Several of the regions were in 2009 reluctant to divide budgets between the hospitals in connection with transfer of hospital services. The budget and the staff levels were therefore in some cases not agreed before the designated hospital had taken over the service in question. Doubt about budgets across hospitals leads to uncertainty with respect to budgetary control in the respective departments.

#### *Budgets of hospital departments*

- The three departments under audit? all emphasize that their budgets for 2009 were not feasible; either they did not take into consideration increased activity levels or they failed to consider known organizational changes implemented in the departments.
- Throughout 2009, the departments had to deal with a considerable number of changes made to the base budgets and baseline.
- In two of the hospitals, the budget and staffing levels of the individual departments were inadequately reconciled. None of the three hospitals had enough focus on the composition of salary costs for fixed staff, temps and overtime.
- Activities in the hospitals are managed by the regions through charge control. The hospitals determine the extent to which regional charge control is applied in the individual departments. The three departments under audit are all receiving payments for additional activities, but in different manners. In one of the hospitals, the departments knew the amount that would be released by the additional activity. In the two other hospitals, the departments did not know in advance the amounts that would be released by the additional activity and not-agreed additional activity, respectively, which made the departments' budgetary control subject to some uncertainty.

**The regions monitored the activities and costs of the hospitals in 2009, and the regional councils were fully informed of the financial position of the hospitals. The experience gained in 2009 demonstrated that the regions should continue their efforts to strengthen monitoring of the hospitals' financial position. Also the initiatives undertaken to observe the budgets must be followed closely. As from 2010, the hospitals are also required to report monthly to the regions on their financial position. The initiatives launched by the regions and the hospitals in 2009 did not suffice to prevent budgetary problems.**

### *Regional follow-up*

- In connection with the financial reporting to the regional councils, the regions monitored the activities and development in costs in the hospitals on an ongoing basis. It appeared clearly from the finance reports that the hospitals had difficulties keeping within their budgets. Thus the regional councils were informed of the development in the hospitals' financial situation in 2009.
- Two of the hospitals under audit also exceeded their budgets in 2008 and were therefore already at the beginning of 2009 forced to cut costs to keep within the budgets.
- Late in 2009, some of the regions instructed the hospitals to submit monthly finance reports. This measure was introduced somewhat late taking into consideration that the regions were informed very early in the year that the hospitals would not be able to keep their budgets. Other regions have as from 2010 instructed the hospitals to submit monthly finance reports.
- When the regions realized the scope of the budgetary problems in the hospitals in 2009, the hospitals were instructed to develop action plans and take concrete initiatives to address the budgetary problems. The actions proposed were, however, inadequate to ensure cost containment.

### *Follow-up by the hospitals and departments*

- The three hospitals under audit monitored their activities and costs continuously in 2009, and meetings were set up between the various management levels in the hospitals.
- In 2009, the three departments had access to data on salary costs and other costs necessary to monitor the financial development. Real-time and reliable data on the activities in the departments had made it easier for the departments to follow up on the budgets.
- The three departments also recorded budget overruns in 2008 and were therefore already at the beginning of 2009 forced to cut costs in order to keep with their budgets.
- All three departments had developed plans to contain costs in 2009. The three departments succeeded in curbing escalation of total salary costs in the third quarter of 2009. However, total salary costs escalated again in two of the departments in the course of the fourth quarter. Overall, the initiatives launched were inadequate to prevent the departments from exceeding their budgets.