



Extract from the report to the
Public Accounts Committee on
hospital construction projects II

October
2013

revision
revision
revision

I. Introduction and conclusion

1. This report concerns the Danish Ministry of Health and the Danish regions¹⁾ focus on securing the efficiency of the regions' new hospitals funded by *Kvalitetsfonden*. The projects included in this study must achieve efficiency savings of approximately DKK 1.5 billion annually. Rigsrevisionen took initiative to launch the study in October 2012.

2. The investment in new hospitals is intended to provide the foundation for the creation of a new hospital structure which merges hospital functions into fewer units, resulting in full utilization of medical specialities and resources, and increased quality of care.

3. Five years ago, the government and the regions entered an agreement concerning the economy of the regions in 2008, which determined that the regions – in connection with the hospital construction projects - should drive efficiency in the future new hospitals. The Ministry of Health and the regions have thus now had the opportunity, over a longer period of time, to specify in more detail how the efficiency gains should be achieved. It is essential that the regions have a clear picture of where, how and the extent to which efficiency measures should be implemented. If the regions lack this insight, there is high risk that cost savings take the place of efficiency gains, which might jeopardise the quality of treatments provided and the functionality of the buildings.

4. Managing and planning hospital activities is a challenging and complex task for the regions, which requires them to consider the future need for treatments and commit to technologies that are inherently unknown – at least to some extent. The uncertainty related to planning the new hospital construction projects, makes it essential that the regions early on in the construction phases monitor the progress of the planned efficiencies at regular intervals. The decisions made by the regions in the initial phases of the construction projects – in particular concerning dimensions and design – are of significance to the overall economy of the projects and thus also to the future economy and potential operational efficiency of the hospitals. It is therefore critical that the regions' initial decisions are made on an informed basis and facilitating the regions' management of the risks related to achieving the targets set for efficiencies.

5. So far, *Kvalitetsfonden* has committed to funding 14 of 16 projects. *Kvalitetsfonden*'s final funding commitment imposes a further obligation on the projects to deliver efficiency gains also during the project's first year of operation. These efficiency gains come on top of the current general productivity requirements agreed between the government and the Danish Regions.

The final commitment of funding includes approval of the project plan on certain conditions, which include efficiency requirements and commitment by the regions to stay within the budget and make adequate provisions for IT and apparatus.

The Kvalitetsfonden was established in connection with the Quality Reform that was implemented in 2007. Out of the fund's total means, DKK 25.5 billion has been earmarked for government co-financing of the investment in a new hospital structure.

According to the general productivity requirement, the hospitals must deliver improvements in productivity and, for instance, increase the number of treatments provided to patients without triggering additional funding. The general productivity requirement – which has been 2 per cent annually for several years – is included in the annual agreements between the government and the Danish Regions on the regions' economy.

¹⁾ Denmark is divided into five regions, Capital Region of Denmark; Region Zealand, Region of Southern Denmark; Central Denmark Region and North Denmark Region.

6. The overall objective of the study is to assess whether the Ministry of Health and the regions – in the early phases of the construction projects – are sufficiently focused on ensuring that the new hospitals deliver the planned operational efficiencies. The report answers the following questions:

- Has the Ministry of Health clearly defined how the regions should measure the efficiency gains and how the Ministry and regions should follow-up on the performance?
- Have the regions focused sufficiently on the efficiency targets in the early phases of the construction projects?

MAIN CONCLUSION

The Ministry of Health and the regions have not in the early phases of the hospital construction projects focused sufficiently on ensuring that the new hospitals will achieve the agreed operational efficiency gains.

In total, the projects included in the study must deliver annual operational efficiency gains of approximately DKK 1.5 billion. Driving efficiencies is a condition for obtaining *Kvalitetsfonden's* final commitment. Specific efficiency targets have been set for each individual hospital construction project funded by *Kvalitetsfonden*, and the Ministry of Health and the regions are thus well equipped to manage efficiencies. Having appropriate focus on driving efficiencies is essential in the early phases of the construction projects, as decisions made in this phase will have a bearing on the operational efficiency of the new hospitals and thereby also on the extent to which the conditions for *Kvalitetsfonden's* final commitment will be met.

The Ministry of Health and Prevention should have specified how the Ministry intended to follow-up on progress and how the efficiency gains should be measured, earlier than in May 2013. The Ministry thus failed to define, in due time, the criteria that govern how and when the Ministry should follow up on progress, and how the efficiency gains should be measured. The importance of the efficiency gains would have been accentuated, and the regions would have had a clear picture of the documentation requirements, if the Ministry had determined the follow-up procedure and specified how efficiency gains should be measured, early in the process.

The lack of transparency surrounding the regions' concrete plans to deliver the efficiency gains is not satisfactory. Driving efficiencies is a dynamic process that depends on timely decisions being made in every phase of the construction work. It is therefore essential that central decisions made in relation to the projects can be documented. The building projects are in different phases of completion, but Rigsrevisionen has established that, for several well-advanced projects, the regions have been unable to document the basis upon which central decisions have been made. Moreover, the regions have only now started planning the timing of analyses and calculations to substantiate the projected efficiency gains. Generally, the regions lack information – like, for instance, information on number of staff – that is necessary to ensure that decisions made on dimensions and design support the operational efficiency of the finished buildings. In the opinion of Rigsrevisionen there is therefore considerable risk that the regions – in the early phases of the projects – have made decisions that will make it more difficult to deliver the projected gains in efficiency.

The regions have stated that the efficiency gains will be delivered either way, as the regions – if deemed necessary will reduce the budgets of the individual projects by an amount corresponding to the required efficiency gains. However, Rigsrevisionen considers it crucial that the regions intensify their efforts to drive real efficiency and actively manage efficiency opportunities within the projects. Implementing the efficiencies as general cost savings would be a reflection of inadequate financial management, which could have random and unintended consequences. Such an approach could jeopardize not only the quality of treatments and/or the functionality of the buildings, but would also be inconsistent with the conditions of the funding commitments.