Returning to Health

Bringing Financial Sustainability to Healthcare Organizations

by Dipak Pandya, Director

The healthcare system is at a crossroads. Healthcare organizations are under constant pressure to deliver more and better services within their existing or eroding resources. At the same time, advances in medicine, an increase in immigration, and an ever-aging population, are causing more strain on the system than ever before – causing financial struggles for organizations and increased public dissatisfaction with access times and levels of care.

Considering the current demand for resources, the federal and provincial governments cannot continue to increase healthcare funding. Instead, healthcare organizations will be required to look at new ways of allocating and utilizing resources. Recent external reviews of Canadian healthcare organizations in financial distress have highlighted that more needs to be done to improve the financial efficiency of organizations.

Financial sustainability is achievable. The UK is a prime example – it realized improvements to its healthcare system by applying private sector principles in financial turnaround to improve operational and financial efficiency. This has led to organizations in the country achieving surpluses that have been reinvested in patient care and in enhancing the patient experience.

The current economic downturn provides an impetus for all Canadian healthcare providers; now is the time to find ways to improve efficiency and to embed sustainability in financial and operational practices.

What is the Current Status?

Numerous provincial and/or health region examples could be provided; however a current example is the budget shortfall review done by PricewaterhouseCoopers for Alberta Health Services. It is estimated that the combined shortfall of the twelve legacy entities, which came together to form Alberta Health Services was projected to be $1.7 billion.

The current economic climate is going to result in increased scrutiny of public sector spending, and the reality is that any significant additional funding is not likely to be available. While a number of hospitals have deficit elimination plans, many do not appear to be delivering the efficiencies expected – at the pace required to meet these expectations. Within the industry, there has been a focus on developing health improvement plans based on benchmarks from Ontario and Canada. On their own, these are unlikely to provide solutions to improving operational efficiency. Organizations must look more widely for examples of leading practices and take a wider health system approach.

In 2005, the National Health Service (NHS) in the UK reported significant deficits and inconsistencies with improvements made to patient care. Hospitals were experiencing increasingly large working capital deficits, investments in patient services were delayed, staff were demoralized, and the patient experience was not as required. Wait times and access indicators were showing deterioration, and objectives of the NHS improvement plan were not being met.

In 2008, the Annual Healthcheck of the NHS conducted by the Healthcare Commission[1] showed that both quality of care and the use of resources had improved in the last year. The Healthcare Commission is the independent watchdog for healthcare in England. They assess and report on the quality and safety of services provided by the NHS and the independent healthcare sector, and work to improve services for patients and the public.

The Annual Healthcheck consists of two parts; a score for quality of services and a score for use of financial resources. Overall, the system has improved quality of services and use of financial resources. When the Annual Healthcheck was introduced in 2005/06 only two hospitals achieved “excellent” rating. In 2007/08 42 hospitals were rated excellent for both quality of services and use of financial resources. For use of financial resources, out of a total of 391 hospitals; 94 were rated excellent; 145 rated good; and 132 were rated fair.

In 2005/06, the NHS as a whole reported an accumulated deficit balance of GBP 590 million and in the third quarter of 2007/08 the NHS was forecasting a surplus of just under GBP 1.8 billion. In the UK, rapid and transformational action came by taking advantage of approaches used in financial turnaround and combining these with performance improvement tools. This enabled the Department of Health to understand the deficits better, and to provide the support each hospital required as they developed individual turnaround plans that were achievable, engaged clinicians and managers, addressed strategy and leadership issues, and set them on a clear path to recovery. Now, as organizations move forward, they are better positioned to address the needs of their patients and plan for future changes in service requirements.

Understanding the System Challenges

The lessons learned as part of the UK experience may help healthcare organizations in Canada facing similar financial issues. However, in order to address their challenges in the short and medium term, organizations need to take a ‘systems’ view. By understanding system challenges, organizations can ensure integrated service delivery is at the core of all their change initiatives, and that all changes support long-term success. Some of the system challenges facing healthcare organizations include:

- **Strategic Direction:** *Financial pressures due to increased demand and inappropriate case mix.* As advances have been made in medicine, life expectancy has steadily increased. This has not always been matched by changes in the wider healthcare system, such as the development of community based services. Patients often resort to accessing care from hospitals due to familiarity with the process and lack of information on alternatives. An analysis of the casemix of large hospitals is likely to indicate that many services could be provided more efficiently and effectively in a different setting – for example in primary care within the community. Hospitals have responded to these challenges by increasing bed capacity but have not sought to work with the wider healthcare system to develop new care models. This has led to a continued increase in financial resources required to run hospitals.

1. http://2008ratings.healthcarecommission.org.uk/informationabouthealthcareservices/overallperformance/thebiggerpicture.cfm

- **Chronic Disease Management:** *Shifting the focus.* There has been an increase in the prevalence of chronic conditions which may be attributed to demographic changes and a shift in the standard of living. The impact of these conditions on hospitals is increasingly complex due to comorbidities. At the same time, there is limited focus on proactively managing these chronic diseases – an action which could reduce the utilization of more costly acute care services over the long-term.
- **Information Technology:** *Leadership is data rich and information poor.* The current healthcare landscape requires proactive and strategic decision making, which requires robust financial and non-financial information with insightful analysis. The health system collects a plethora of data; however, this data is not analyzed suitably to provide information. This limits the ability of leadership teams to make proactive decisions. In addition, information used to make decisions is often six to eight weeks out of date. This time delay cascades into business plans and budgets, leading to inappropriate allocations of resources.
- **People:** *Enhancing capacity and capability to continuously improve.* Most organizations in "reactionary" mode will develop programs to resolve issues as they occur. While it is important to manage these immediate concerns, any resolution should be done with a view to achieving longer term change and, more importantly, making that change stick. When management resources are utilized in "fire-fighting" mode, innovative ideas are not forthcoming.
- **Process:** *Performance measurement.* It is widely recognized that what gets measured gets done. The important caveat, however, is the need to have the right measures of performance. While key performance indicators should be enhanced over time, they should not be changed solely so progress can be demonstrated. Cost improvement indicators, such as performance against a deficit elimination plan, may be identified by organizations, but are rarely tracked and reported.
- **Short-term Fixes:** *Identifying long-term solutions.* Due to the pressures and issues discussed above, healthcare organizations are finding it increasingly difficult to balance their books. As a result, a variety of organizations are reporting financial deficits. While one-off fixes may resolve the current financial challenge, the underlying position remains. To be effective, a practical, robust and sustainable deficit elimination plan is required. The management team should be accountable for managing, tracking and reporting of milestones on a monthly basis. Effective leadership should be provided to a dedicated team focused on ensuring work streams are being implemented.

Six Common Management Issues

Management issues of an organization in distress will vary; however, common characteristics do exist. All too often, these similarities can be attributed to procedural issues or to being the result of structural change. Based on global experience working in the healthcare industry, we have identified six common problem areas:

- **Budgets and Working Capital:** An organization's budgets regularly report overspends without associated increases in productivity. Over time, as deficits are recorded, the organization typically begins to experience working capital issues, which are then addressed by soft loans. This recurring process is not sustainable.

- **Financial Reporting and Accountability:** The quality of an organization's financial reports, including financial statements, is poor and not accompanied by sound analysis and narrative. Often, budgets and operational responsibilities are also not aligned effectively.
- **Decision-Making:** An executive management team and Board of Directors become complacent with surprises that have resonating impacts, such as deficits becoming apparent late in the fiscal year. Often decisions are changed or reversed as new information comes to light, well after significant costs have been incurred. In some instances decisions are not made in the hope that either the provincial or federal government will provide additional resources that will address the current issue.
- **Continuous Internal Structural Change and Stakeholder Engagement:** An organization's structure is constantly being changed to address performance issues, but there is little recognition of the significant impact these changes have on accountability and controls. Decisions are made without due consultation or regard to internal and external stakeholders. This leads to significant re-work and at times to projects failing – because these stakeholders do not feel their objectives are being served.
- **Skills and Capacity in Key Positions:** The organization has difficulty in filling positions or experiences a high rate of staff turnover. Key positions are not necessarily defined by seniority, but rather by the importance of the role. The lack of continuity of staff and organizational history leads to changes and developments not being realized.
- **Patient Experience:** Quality of service indicators for an organization are frequently unfavourable due to operational performance issues. Organizations experiencing financial distress often resort to short-term measures such as a sudden reduction in staffing leading to a direct impact on patient services.

The Next Steps Towards Efficiency

In order to have a system that provides sustainable, good quality, and integrated care, financial effectiveness needs to be a cornerstone of organizational strategy. This improved financial effectiveness should be underpinned by a culture of continuous operational improvement. However, the development of a sustainable program that delivers short-term targets while embedding a framework for delivering long-term efficiency requires focus and external support. External advisors with expertise in performance improvement and turnaround can bring their experience, ideas and knowledge to bear in the development of a sustainable efficiency plan. This was the approach used to great effect by the National Health Service in the United Kingdom.

When developing an efficiency program, the following activities are essential:

- **Financial Analysis:** A detailed independent analysis of the financial position of the organization will provide a robust understanding of the state of finances. Cash flow analysis is critical to this as working capital deficits put an organization at risk and bridge financing is increasingly difficult to obtain. Robust financial analysis will identify the budget gap that needs to be addressed through an efficiency program.
- **Review Existing Initiatives, Build on the Best:** An organization should leverage existing initiatives to build an efficiency program. A significant number of organizations have already initiated programs to reduce costs, many of these developed by multidisciplinary healthcare teams. A detailed review of these initiatives should be conducted to assess expected cost reductions, and to measure real progress achieved to date.
- **Investigate and Build:** Organizations should continue to investigate and build efficiency initiatives over the long-term, in order to encourage a sustainable healthcare system for the future. Where opportunities have been identified, further investigation should be undertaken by teams that include clinical managers from the respective service areas so as to obtain buy-in early, and therefore allow initiatives a better chance for success. These multidisciplinary teams can develop more sustainable plans when supported by individuals with operations and financial expertise.
- **Capacity to Deliver:** Organization-wide programs require dedicated resources. At present, while the skills for such support are varied, typically an organization does not have sufficient capacity within their existing workforce. This leads to tasks being appended to an individual's responsibilities, resulting in resources being overstretched and ultimately to objectives being under achieved. Our experience shows that to be successful, a program management team should be setup to deliver the efficiency program, with some dedicated support sourced externally.
- **Engage and Communicate:** The success of an efficiency program depends greatly on the support of the whole organization. It is imperative that clinical staff members are engaged from the outset and share responsibility and ownership for developing a program that can address the organization's financial challenges. It is also important to engage stakeholders from the wider healthcare system. A collaborative systems based approach will lead to innovative models of care with greater success and patient experience.
- Organizations facing financial challenges need to respond swiftly and effectively, but in a manner that is sustainable over the long-term. Their present financial burden will lead to operational issues which will in turn negatively impact the communities they serve and lead to investment in patient services being curtailed.

In our experience, resolving deficits requires an incisive analysis of root causes, and issue resolution through working with clinical staff and implementing a continuous process of improvement. Effective change programs are led by clinical staff, with strong support and organizational leadership by the management team. Looking at turnaround approaches presents an opportunity for an organization to make effective and sustainable changes that will better equip them to handle economic and fiscal challenges while continuing to improve patient care.

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