
MINISTRY OF HEALTH AND LONG-TERM CARE

4.09—Institutional Health Program— Transfer Payments to Public Hospitals (Follow-up to VFM Section 3.09, 1999 Annual Report)

BACKGROUND

The Ministry's Institutional Health Program provides funding to public hospitals for the costs of operating their facilities. Each hospital's board of directors is responsible for the delivery of services by the hospital. The Ministry and hospital boards are both responsible for ensuring compliance with legislation and regulations. The *Public Hospitals Act* provides the Minister with the authority to impose terms and conditions for financial assistance provided to hospitals.

In the 1998/99 fiscal year, the Ministry provided \$7.1 billion to operate public hospitals and \$248 million for one-time costs incurred by hospitals in implementing the directives of the Health Services Restructuring Commission (HSRC).

In addition, the Ministry's Health Capital Program provides financial assistance to hospitals for the cost of approved capital construction. In the 1998/99 fiscal year, the Ministry provided approximately \$52 million to hospitals for capital construction and \$49 million for HSRC-directed capital projects. The key findings from our 1999 audit were that the Ministry did not have in place:

- an accountability framework clearly delineating the roles and responsibilities of both the Ministry and the hospitals;
- a mechanism to periodically monitor and assess the impact of hospital restructuring;
- systems to fund hospitals based on the demand for services;
- consistent criteria for providing financial assistance to hospitals experiencing financial difficulties; and
- indicators to measure and report on the performance of the public hospital system in delivering quality services.

Examples of audit findings that can be linked to the foregoing problems included:

- Based on hospital estimates, the capital costs for hospital restructuring would increase to approximately \$3.9 billion from the \$2.1 billion originally estimated by the HSRC.
- One hospital reported that, due to a shortage of operating funds, it was not fully utilizing new facilities that cost approximately \$110 million to construct. Four of its eight operating rooms were idle while local residents continued to travel to other centres for specialized care.

We made a number of recommendations for improvement and received commitments from the Ministry that corrective action would be taken.

CURRENT STATUS OF RECOMMENDATIONS

Based on information that we received from the Ministry of Health and Long-Term Care, the Ministry has taken some action on all the recommendations we made in our 1999 report. The current status of each of our recommendations is outlined below.

HOSPITAL FUNDING

Allocation of Operating Grants

Recommendation

To better reflect the changing nature of hospital services and to ensure equitable funding to public hospitals, the Ministry should:

- *improve the hospital funding mechanism, taking the demand for services into account; and*
- *expand the funding mechanism to encompass other significant hospital activities such as outpatient clinics and emergency care.*

Current Status

The Ministry has indicated that, in December 2000, the Cabinet approved in principle an Integrated Population-Based Allocation (IPBA) funding model. According to the Ministry, the IPBA model takes into account the predicted volume of services and the rate or cost to provide the services. The model also takes into account factors that affect hospital efficiency, reflecting a more progressive method of hospital funding.

According to the Ministry, at present IPBA deals with expenses and activities related to acute, in-patient, day surgery, and chronic care. This represents approximately 66% of hospital direct costs. Hospital activities in emergency service will follow next. Currently, the Ministry's intention is to use IPBA for incremental funding and to achieve equity over a number of years. It will take approximately 5 to 10 years before the funding model is fully operational and used for the full hospital allocation. The Ministry advised us that over this period and beyond it, the data feeding into the model and the model's mechanisms for making appropriate adjustments to the data will be continuously refined. Hospitals are expected to use this time to improve their performance and work to align their calculations of expected service volume and expenses as closely as possible with actual figures. In keeping with this, the Ministry used IPBA in July 2001 to distribute approximately \$100 million in new funding to Ontario hospitals.

Transition Funding

Recommendation

To ensure future transition funding is provided in a more equitable manner, the Ministry should review and revise where necessary the criteria for providing assistance to hospitals experiencing financial difficulties.

Current Status

The Ministry indicated that since the 1999/2000 fiscal year, it has provided over \$850 million to modernize, expand, and stabilize the hospital sector. Using IPBA for transitional funding would address, to a great extent, any concern about inequity in application. IPBA takes into consideration hospital cost and volume efficiencies. In the short term, the new funding model will only be applied to new hospital funding. According to Ministry, one of the benefits of this approach is that inefficient hospitals in a deficit position would focus on improving their efficiency. The incentives inherent in the IPBA of rewarding efficient hospitals would put hospitals on an even playing field. When fully implemented, IPBA will eliminate the need for transitional funding.

Growth Funding

Recommendation

The Ministry should refine its funding formula to ensure that financial assistance to hospitals experiencing patient growth is allocated appropriately.

Current Status

According to the Ministry, the IPBA model can and will be used to fund the impact of growth, even in the short term. A long-standing issue has been that communities of similar size and demographic characteristics may differ widely in their utilization of hospital services. The volume component of the IPBA is meant to address this issue by encouraging hospitals in regions with high rates of service utilization to work together to better manage utilization rates. The volume component looks at the population of each region and, using past utilization patterns (adjusted for age, gender, and other factors), estimates the impact of population growth in a given year. The formula also takes into account the volume of services provided to the residents of a region and identifies areas where underservicing appears to be a problem.

Emergency Ward Funding

Recommendation

To ensure the efficient and effective use of temporary emergency ward funding, the Ministry should evaluate the effectiveness of all emergency ward funding and initiatives on reducing overcrowding in hospital emergency rooms.

Current Status

The Ministry indicated that in 1999 it responded to the Final Report of the Ontario Hospital Association Region 3 Emergency Services Working Group and released new standards on the use of “redirect consideration and critical care bypass.” In addition, requirements to use a common triage tool, the Canadian Triage and Assessment Scale, and to triage all patients in emergency departments within 15 minutes of arrival were introduced. A ministry survey in 1999 showed 90% overall compliance with the standard. The remaining 10% of departments were working towards compliance.

Reviews of hospitals’ use of redirect consideration/critical care bypass, particularly in Toronto/GTA, occurred in conjunction with the introduction of the 10-Point Plan for Toronto/GTA. Ongoing monitoring has continued since that time for selected areas. The Ministry indicated that

it intends to replace redirect consideration/critical care bypass as a communication tool in September 2001. Emergency services networks have been established in each region of the province to monitor activities and issues and to provide local solutions as they arise.

In 2001, hospital emergency departments will, for the first time, be a focus of the Hospital Report Card, with a separate report being released in late fall/early winter.

Capital Project Funding

Recommendation

The Ministry should put in place a more rigorous negotiation process to relate operating funds to new, approved facilities.

Current Status

The Ministry indicated that it has developed and communicated to hospitals a new Post Construction Operating Plan process. The process is to document the understanding between the Ministry and a hospital of the hospital's plans for operations upon the completion of a capital project and implementation of service changes. The process is to establish accountability for service volumes, costs, revenues, and anticipated levels and timing of funding adjustments. The funding adjustments process is intended to include discussion between the Ministry and the hospital as adjustments are being made. Through this process, construction projects are expected to move forward with mutual understanding between the Ministry and hospitals.

We were advised by the Ministry that since June 2000, it has continued the development and implementation of the Post Construction Operating Plan process, which involves the following major components:

- negotiation of anticipated service changes on completion of the capital project;
- collection and verification of data using a standardized reporting framework; and
- application of standardized funding methodologies.

ACCOUNTABILITY FRAMEWORK

Recommendation

The Ministry should ensure that an accountability framework that clarifies its expectations of hospitals and their accountability to the Ministry is implemented as soon as possible.

Current Status

The Ministry advised us that, in partnership with the Ontario Hospital Association, it has developed the first-ever accountability framework between the Ministry and hospitals. The framework clarifies the accountability relationship between hospitals and the Ministry and defines roles and responsibilities. It is expected that, over the next 12 to 18 months, the framework will be refined with a focus on defining and agreeing on performance expectations and results.

The *Public Sector Accountability Act* (Bill 46) was introduced in the Legislature on May 9, 2001. It sets out balanced budget requirements for the broader public sector, including hospitals; some long-term care facilities; boards of health; and many ministry agencies, commissions, and boards.

Performance Measurement and Reporting

Recommendation

To better measure and, where necessary, act on the performance of public hospitals, the Ministry should:

- *identify a comprehensive set of performance indicators and ensure these indicators are incorporated into hospital operating plans; and*
- *periodically report on the performance of the public hospital sector in delivering quality services to the public.*

Current Status

According to the Ministry, the next phase in the development of the accountability framework will include dialogue with hospitals regarding the development of outcome indicators to be included in hospital operating plans.

The Ministry is working in partnership with the Ontario Hospital Association to develop and implement the Ontario Hospitals Acute Care Report Card, which contains indicators to measure hospital performance in clinical utilization and outcomes; financial performance and conditions; patient satisfaction; and systems integration and change. Pilot testing of the initial Report Card was completed in 1999, and the results of the 2000 Report Card are expected during 2001.

MINISTRY MONITORING

Operating Plans

Recommendation

To enhance the hospital operating plan process as an accountability and monitoring tool, the Ministry should:

- *ensure that operating plans are submitted, reviewed, and approved on a timely basis; and*
- *develop documentation standards for the review and analysis of quarterly reports.*

Current Status

The Ministry has been progressively moving towards advancing the timing of operating-plan submissions to enable the Ministry to review and approve plans on a more timely basis. On February 12, 2001, the Ministry released the Operating Plan Requirements Document for the 2001/02 fiscal year. The Ministry provided feedback to all hospitals on July 13, 2001. According to the Ministry, this was an improvement from the previous year's dates.

In June 2001, a Hospital Advisory Group was created to strengthen the Ministry's relationship with hospitals. The group is composed of representatives from hospital boards and administrations across the province and will report directly to the Minister. According to the Ministry, this group will examine hospital sector issues and will work with the Ministry towards stabilizing the health care system within available resources. The Advisory Group has four sub-groups, one of which will closely examine performance in the hospital sector. Its mandate

includes assessing the operating plan process and related service agreements, hospital report cards, performance targets, and best practices.

Ministry Benchmarking Process

Recommendation

To ensure the benchmarking process is an effective management tool, the Ministry should:

- *review the usefulness of current benchmarks; and*
- *develop processes to share information on best practices.*

Current Status

The Ministry indicated that the following initiatives were underway:

- A Report Card Advisory Committee, made up of representatives from both the Ontario Hospital Association and the Ministry, developed a report card that has data for comparison study, benchmarking, and sharing information practices. The Ontario Hospital Association issued a report card based on the data elements selected by the committee, which used 1997/98 data. The report card was sent to hospitals. A more detailed report card will be issued in the fall of 2001 using updated information.
- The redevelopment and refinement of the Planning Decision Support Tool (PDST) is an ongoing process to improve hospital access to information associated with specific hospitals and potential clinical efficiencies. The PDST 2000 will be made available via a Web site to all hospitals and District Health Councils and to ministry staff. This Web-based application will speed up the dissemination of the tool and the associated benchmarks. It will be followed shortly with PDST 2001.
- The Ministry has provided draft comparative indicators for each hospital by nursing and diagnostic functional centres using 1998/99 data. This allowed hospitals to compare their resource usage with that of other hospitals. The hospitals were requested to comment on the reports, and their comments will be incorporated into future versions of the comparative reports. These reports are being piloted as potential standard reports to hospitals.

Complaint Process

Recommendation

The Ministry should develop protocols that ensure that patient complaints to the Ministry are consistently investigated and resolved on a timely basis.

Current Status

Substantive action has been taken on this recommendation. According to the Ministry, protocols have been developed, and complaints are forwarded to the appropriate ministry regional offices, where they are dealt with in accordance with the quality service standards implemented by the Ontario Public Service as part of its 1998 Quality Service Strategy.

Hospital Accreditation

Recommendation

The Ministry should determine whether hospitals are meeting Canadian Council on Health Services Accreditation standards.

Current Status

Substantive action has been taken on this recommendation. Currently, hospitals are required to specify in their operating-plan submissions the date of their last accreditation award, noting the number of years of accreditation received. Hospitals are also required to submit a copy of the executive summary of the award if there has been a visit from the Canadian Council on Health Facilities Accreditation following the hospital's last operating plan submission.

HOSPITAL RESTRUCTURING

Implementation of Capital Projects

Recommendation

To ensure the timely completion of capital projects to support the hospital restructuring process, the Ministry should work with the hospitals on streamlining the planning and approval process.

Current Status

The Ministry has worked with hospitals to develop Headstart projects to address urgent needs and priority areas for implementation such as Emergency Department and Intensive Care Units. This has given hospitals more time to develop plans for major redevelopment projects.

To allow for the major benefits of restructuring to be achieved earlier, the Ministry indicated that hospitals are encouraged to expedite planning for major project components directed by the Health Services Restructuring Commission.

In fall 2000, the Ministry initiated a Capital Planning and Financing review project to develop recommendations for improving accountability, decision-making, policy development, and project-management functions within the Ministry. A project implementation plan is being developed for these recommendations.

Reimbursement of Restructuring Expenses

Recommendation

The Ministry should ensure that hospital restructuring expenses are reimbursed in a consistent and equitable manner.

Current Status

The Ministry indicated that it is continuing to improve the process for approving hospital claims for restructuring expenses. To enhance hospital accountability for the accuracy and reliability of information, the Ministry is requesting documentation to support restructuring expense claims. However, issues of confidentiality around severance payments still remain, thereby limiting the scope and breadth of review. While ministry staff continue to test the reasonableness of amounts

claimed, the Ministry advised us that current funding does not allow for ministry staff to conduct a thorough and complete review in each hospital.

Implementation of Hospital Restructuring

Recommendation

To ensure that the benefits from restructuring are realized, the Ministry should:

- *develop a standard process to determine the proper amount of funding required to support program transfers and amalgamations;*
- *develop a mechanism to periodically monitor and assess the impact of restructuring; and*
- *take any necessary corrective action.*

Current Status

We were advised by the Ministry that it has finalized the methodology for calculating the funding value of program transfers and has revised its approach to encourage upfront agreement between hospitals involved in program transfers. The Ministry indicated that the methodology is used as a check on mutually developed transfers and as a tool for arbitrating disputes; it is also used to recalculate and supplement previous transfers. Service monitoring continues as part of the established process for reviewing hospitals' annual operating plans.