Book Review

Data-Rich and Information-Poor (But Improving)
A Look at the Financial Management of Acute Care in Canada

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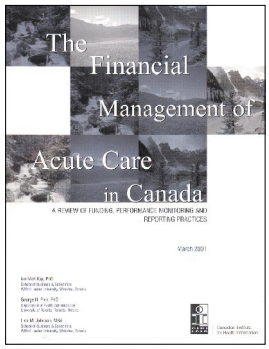
It is estimated that public and private spending on healthcare in Canada topped $95 billion in 2000 and will easily exceed $100 billion in 2001. To put that in perspective, the 2000 amount represents approximately 10% of the entire Canadian expenditure-based gross domestic product. It would seem logical to assume that with so many dollars at stake, the healthcare sector would be a model of sophisticated financial management. Recent evidence indicates this is not the case. In essence, lack of good financial information has been a barrier in optimizing resources and improving transparency and accountability. The Report of the Saskatchewan Commission on Medicare released in April of this year stated that "the health care system is data-rich and information poor. There is little that tells managers, the public or providers about the quality of their labours in relation to agreed-upon goals and standards."

The Financial Management of Acute Care in Canada is a new study sponsored by the Canadian Institute for Health Information and co-written by Ian McKillop, PhD, George H. Pink, PhD, and Lina M. Johnson, MBA. Dr. McKillop is an assistant professor of accounting and information systems at Wilfrid Laurier University; Dr. Pink is an associate professor in the Department of Health Administration at the University of Toronto; and Ms. Johnson is an accomplished researcher. The Executive Summary to the study states that it "provides a comprehensive inventory of practices related to the management of financial resources dedicated primarily to hospital-delivered acute care in Canada for the fiscal year April, 2000 through March 31, 2001." The authors gathered the information presented in the study from provincial and territorial health ministries and departments between August and November 2000.



. The Financial Management of Acute Care in Canada
by Ian McKillop, George H. Pink, Lina M. Johnson

The study is essentially a cataloguing and sourcebook of practices and as such serves a valuable purpose. To retain its value, the authors will have to update it regularly; for change is the norm in the evolving practices of the healthcare sector. The study should be on the bookshelf of health sector financial folks who will want to compare and contrast financial management practices across the nation. In chapters 2 through 5, the study presents data on funding, performance monitoring and financial reporting approaches in broad fashions. Chapter 7, which accounts for two-thirds of the total contents, presents summaries of background data collected from each of the participating provinces and territories. This chapter in particular is a solid reference source. The presentation throughout is logical and easy to follow. The writing is in the style of an

introductory university course text and does not require specialized knowledge to digest.

The study provides a good overview of the financial management of acute care in Canada, but does not go into depth on any of its topics. The study focuses on how funding is allocated to healthcare organizations by provincial and territorial governments and describes the processes used to monitor the spending of these funds. In essence, the study discusses how the pie representing acute healthcare funding is cut up and monitored. The report does not describe how the size of the pie is determined by governments. This would also be a worthy study.

The authors developed a taxonomy to classify the methods used to fund acute care in Canada. The study finds that many jurisdictions are considering (or are using) funding approaches that have a population-based dimension. A valuable addition to the study would have been if the authors had reported on the relative proportion of acute care funding that was determined using different methods. For example, in Alberta as much as one-third of the annual operating funding now falls outside the population-based funding calculation. Another valuable addition to the study would be to explore the impact of various funding methods as the authors recommend in Chapter 5, where they note "more evaluation of the outcomes of different health service organization funding approaches [is needed]."

While the study examines financial reporting practices in acute care in Canada, it remains unclear how traditional financial statement presentations have adapted to serve the special needs of healthcare. Historic financial statements and prospective information are the foundations of private business sector and investment markets. A format needs to be developed that can serve the same purpose in the publicly funded health sector. The dearth of information describing the reporting practices of provinces and territories suggests that jurisdictions in Canada have a long way to go in developing this capacity.

Because the study focuses on existing financial management practices, it does not highlight the controversies that are plaguing our system. A student of financial management can, nonetheless, find hints of the deficiencies in the system. In the chapter on performance monitoring, we are told (page 68) that "Ontario is considering measures such as (monitoring) approved expenditures and actual expenditures on a year-to-date basis." Variance analysis such as this is an elementary procedure and a very blunt tool to use in monitoring such a complex system as healthcare. On the same topic, one of the tables (4.4) presents "Financial Performance Indicators Used or Under Development." Included in the list are ratios such as "quick ratio" and "debt to equity." In reality such traditional indicators may not be particularly useful in the health care sector. The authors themselves confirm this on page 91: "Many traditional financial indicators are not relevant to Canadian health service organizations." The fact that other, more relevant indicators are not mentioned leaves the reader to wonder if they are not even under development. In a discussion of budgeting we are told (page 62) that "Alberta, British Columbia and Saskatchewan's approach to operating budget submission is unique … In these provinces, health service organizations develop budgets demonstrating how funding that has already been announced will be spent." A system in which budgets are prepared from pre-announced funding provides little incentive for efficiency or innovation.

In the concluding chapter the authors do in fact provide recommendations that address some of the deficiencies in the system. For example, they encourage adoption of "valid and relevant (financial) indicators" as well as "greater implementation and use of case cost data." These recommendations and the related arguments might have had greater impact if they had been presented earlier and more forcefully and had been linked by the authors to deficiencies presented along with the data. As the Saskatchewan Commission on Medicare noted: "The foundation is cracked, with many gaps, and until it is repaired and strengthened the whole structure of health care will wobble." Studies such as this one can take a leading role in encouraging and fostering meaningful change in the system. HQ

Richard Holmes is a chartered accountant and a financial analyst with Alberta Health and Wellness.

Limited copies of *The Financial Management of Acute Care in Canada* are available free of charge (except for shipping/handling) from the CIHI Order Desk (www.cihi.ca). The report is also available for downloading at: ww.cihi.ca/Roadmap/MIS_Guidelines/pdf/finmanAC.pdf.