

Chapter 13

Special Report for the Crown Corporations Committee Arising from Hearings with Regional Hospital Corporations

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Background

13.1 On 14 December 1999 the First Report of the Standing Committee on Crown Corporations for the fifty-fourth Legislative Assembly was tabled in the House. Among other matters, the Committee's Report discussed the themes of governance and accountability of the regional hospital corporations. In doing so, it referred to the previous work of the Office of the Auditor General in these areas.

13.2 Following along these themes of governance and accountability the Committee recommended:

that the Chair of the Board and the CEOs of the Hospital Corporations of New Brunswick be requested to appear on an annual basis before the Standing Committee on Crown Corporations beginning with the annual report fiscal year 98-99, with hearings commencing no later than the end of January 2000.

13.3 At a Committee meeting on 22 December 1999 the Chairman of the Committee explained to the corporations:

This is about really giving the public a better understanding of how health care corporations work so that we can understand the accountability involved in it and the service that you do provide to the public and really give you an opportunity as well to have input into what you feel some of the major issues are within the whole system.

Scope

13.4 In January 2000 the regional hospital corporations began appearing at hearings of the Committee. The Committee requested that staff of the Office of the Auditor General attend those meetings to assist it in its deliberations and to provide a discussion paper of observations arising from the process.

13.5 This chapter summarizes our report to the Committee under the following general headings:

- observations on the process; and
- discussion points on key themes raised at meetings.

13.6 This chapter is somewhat different in style as compared with our standard Report chapters. There are fewer recommendations and conclusions. There are more of what might be termed observations and points for further discussion. It reflects our role as observer of the process as opposed to auditor of the issues under discussion.

Results in brief

13.7 The direction provided to the regional hospital corporations, and the preparation of the participants, contributed significantly to the success of the hearings.

13.8 Hospital corporations should include audited financial statements (including budget figures) in their annual reports.

13.9 The Minister of Health and Wellness should formally approve all regional hospital corporation budgets and should provide the hospital corporations with their revenue budgets on a more timely basis. The Minister should also clarify the role of the hospital corporations in meeting the services set out in the hospital system Master Plan in a fiscally responsible manner.

13.10 The hospital corporations and the Department need to improve and co-ordinate their strategic planning activities.

13.11 The Auditor General's role with respect to the Crown Corporations Committee should be clearly defined in legislation.

Observations on the process

Introductory session and information requests

13.12 In our opinion, one thing that contributed to the success of these initial meetings with the regional hospital corporations was the obvious preparation by the participants. The degree of preparation was not surprising. Professional people staff the corporations. And boards of able volunteers govern them. Therefore, one would expect them to have put considerable time and effort into preparing for this unique step forward in accountability.

13.13 We believe, though, that another key factor needs to be mentioned; the fact that the corporations were provided with significant direction by the Committee at the 22 December 1999 meeting. This meeting, which included representatives from all eight regional

corporations, firmly established the purpose and expectations of the Committee.

13.14 At the meeting, the Chairman provided the corporations with a package of documents consisting of the Committee's report to the House of 14 December 1999, the Province's annual report policy, chapter 12 of the 1998 Report of the Auditor General on the subject of Hospital Corporation Governance, and a one page document summarizing the type of information the Committee members were seeking from the meetings.

Importance of preparation and opening presentation

13.15 We believe this type of direction from the Committee helped the meetings to be a success. Further, we believe there are lessons implicit in this observation. That is, we believe the success of future meetings can be governed to a large extent by the direction provided to the participants.

13.16 In regards to their initial presentations, the Chairman summarized it by saying that the opening comments from the corporation should be "really a presentation based on your annual report." We believe that the Committee can have success in its meetings in the future by continuing to make the annual report the focus of the initial presentation from the corporations. By focusing on the annual report as the basis for the initial presentation, and the questions that follow, the Committee would provide an important structure to the meetings. We believe that a focus on the annual report will also provide impetus to move corporations towards fuller compliance with the Province's annual report policy. This policy ties together the important elements of strategic planning, performance measurement and financial reporting in one concise format.

13.17 If the hospital corporations began each session with a brief presentation on an annual report prepared in compliance with the policy, we believe the accountability process would be improved. Corporations would presumably begin by discussing their key strategic plans with their key objectives and goals. Key strategic objectives would then have to be linked to key performance measures presented in the report. And the discussion would need to include reference to the accompanying financial statements, providing the fiscal context for how the organizations did in achieving their plans. This form of presentation would enable the Committee members to clearly understand what the corporations were trying to accomplish and then to compare that to actual results.

13.18 We recommended that the Committee instruct all hospital corporations to begin their 2000-2001 appearances before the Committee with a presentation centered on the annual report for the year in question.

13.19 We feel that such an approach would assist the Committee not only for the hearings involving hospital corporations, but also for the appearances by all agencies, corporations and commissions. By focusing attention on the key accountability document for the Legislative Assembly and the general public, this approach could lead to overall improvements in the quality of annual reports. **Therefore, we encouraged the Committee to consider extending our recommendation to apply to all agencies, corporations and commissions that appear before the Committee.**

Some additional work required on annual reports

13.20 At this time the annual reports of the hospital corporations are not the complete accountability documents called for in the policy. Although the hospital corporation reports often refer to strategic plans, they do not give a “clear account of goals, objectives, and performance indicators” as called for in the policy. The reports tend to be activity oriented, without giving a clear account of how the corporations performed in achieving the strategic objectives outlined in their plans.

13.21 This activity type reporting is also insufficient to “show the extent to which a program continues to be relevant” and “how well a program was accepted by its client groups.” One might argue that relevance and client acceptance do not need to be directly reported by the hospital corporations. The fact that people continue to show up at the doors of the institutions in increasing numbers, could be seen as a direct attestation to both program relevance and client acceptance. But, in our opinion, it is not merely enough to say that increasing demand for services is a clear measure of relevance and acceptance. Rather, these are two key areas that should be addressed systematically in the annual reports. One positive note in this respect is that the corporations already seem to have been gathering some data on patient satisfaction. This could be very useful in addressing the client acceptance requirements.

13.22 During the Committee meetings, we heard on several occasions the Department of Health and Community Services (now known as the Department of Health and Wellness)¹ is developing a “report card” of performance indicators for hospitals. This report card could go a long way in addressing the information requirements of the annual report policy. It will be interesting to watch how this project develops and how the indicators from that project can be integrated with the annual reports of the regional hospital corporations.

Need for full set of financial statements with budget figures

13.23 Most of the annual reports did not contain full financial statements. (We did note, however, that separate financial statements were provided to the Committee members.) In some instances the summary information that was present in the annual reports did not agree to the information in the audited financial statements. This

1. For convenience, we will use the name “Department” throughout the rest of the chapter rather than either the full former or present departmental title.

inconsistency sometimes prompted questions from the Committee members.

13.24 It is important to ensure that financial information in the annual report agrees with that in the published financial statements. This type of agreement is easiest to ensure by including audited financial statements in the annual reports.

13.25 Some of the hospital corporations remarked they were not clear on the direction provided in the policy with respect to actual and budget financial information. The policy states the report should have “actual and budget financial information in summary form and a narrative explaining major variances.” The policy also notes “other aspects of financial performance are to be included in all annual reports.”

13.26 As the corporations noted, however, the appendix attached to the policy only shows the format for how government departments should be reporting this information. We recognize this is the case and note that it is one area where perhaps the policy could be improved.

13.27 In our opinion, when speaking of Crown corporations, the phrase “actual and budget information in summary form” would require an audited set of financial statements with budget figures. We examined a selection of recent annual reports for other Crown corporations and noted that all had audited financial statements. A number of them also have budget data.

13.28 Further, in our opinion, “explaining major variances” would require a Crown corporation to explain major line-by-line variances as they were apparent in the financial statements. Since the policy does not explicitly state this, the sections of the policy referring to financial information should be clarified. That would ensure consistency of financial information and variance analysis between the reports of the various corporations.

13.29 **We recommended that the Committee include in its report to the House a recommendation that all hospital corporations include audited financial statements (including budget figures) in their 2000-2001 annual reports. Further, these reports should contain explanations for major variances between actual and budget, and current year actual and prior year actual.**

***Use of annual report as
publicity document***

13.30 Many of the annual reports are produced with a publicity element in mind. The boards appear to be interested in using these documents for publicizing such things as fund raising campaigns and various activities involving the community. As well, staff at the hospital corporations appeared to feel that the photos and other publicity elements of the report made it a useful recruiting tool.

13.31 Our emphasis in this section has been on the importance of the annual report as an accountability document. And we trust that the work of the Committee will lead to improvements in the reporting process. It should be noted, however, that the annual report policy does allow for an annual report to include certain publicity features. If, after having developed reports in compliance with the annual report policy, the corporations wish to produce reports to fulfil both accountability and publicity aims, they can do so. They must simply request permission from the Clerk of the Executive Council to use photos in their reports. Another option would be for the corporations to produce an annual report for the Legislative Assembly that meets the requirements of the policy, and a separate report or brochure to achieve various public relations and recruiting objectives.

OAG support role for Committee

13.32 For a number of years our Office has been attempting to broaden our support for the Legislative Assembly. As part of this process, we have continued to look for opportunities to provide support to Legislative committees. Therefore, we welcomed the Committee's invitation to assist its members during its review of the regional hospital corporations.

13.33 We noted, however, that our Act refers specifically to our role in relation to the Public Accounts Committee. It is silent with respect to the Crown Corporations Committee.

13.34 **We recommended the Committee propose an amendment to the Auditor General Act to more clearly define the Auditor General's relationship with the Crown Corporations Committee.**

Discussion points on key themes raised at meetings

13.35 A number of themes received ongoing discussion at the Committee meetings. From our vantage point as auditors and accountants, with our Act's emphasis on accountability and reporting matters of significance, we decided to bring to the Committee's attention our comments on the following:

- New Brunswick Hospital System Master Plan;
- strategic planning; and
- miscellaneous governance and board matters.

New Brunswick Hospital System Master Plan

Legislative mandate and direction

13.36 Section 13 of the *Hospital Act* reads as follows:

In controlling and managing the business and affairs of a hospital corporation, a board of trustees shall ensure that the hospital services delivered by the hospital corporation are delivered within the parameters established and the direction issued by the Minister.

13.37 One prominent way in which the Minister establishes parameters and issues direction is through the New Brunswick Hospital System Master Plan. The most recent version of the New Brunswick Hospital

System Master Plan tabled at the Committee meetings was dated October, 1997. It states:

The intention of this Plan is not to limit the development of the hospital system, but rather to ensure that in the future it evolves in an organized, complementary, and equitable fashion, while also helping to ensure the optimum use of all available resources. Improved coordination and balance are key objectives of the Plan.

13.38 It goes on to say:

The Plan also serves as a basic reference point in determining funding priorities for the hospital system at both the Departmental and Regional Hospital Corporation levels.

13.39 It appears that the Department intends the Master Plan to be the policy guide for regional hospital corporations in the Province. Indeed, the regional hospital corporations indicated that new services added in recent years have been as documented in the Master Plan. Hospital corporations have also indicated that, under the current funding arrangements, they feel they must incur deficits in order to meet the requirements of the Master Plan.

13.40 However, we note that the Master Plan also states:

While the Plan established objectives for service development in relation to each regional hospital corporation, it does not set priorities or a specific time for achieving them. These will continue to be dependent on the availability of resources, including the necessary medical specialists, as well as the funds for other professionals, support staff, supplies, equipment, new construction, and renovations.

13.41 This seems to indicate that services are only to be provided where resources allow it. Thus, there appears to be a contradiction between the wording in the Master Plan and the interpretation being made by regional hospital corporations.

Budgeting based on Master Plan

13.42 As noted, the Master Plan is the basic reference point in determining funding for the regional hospital corporations. Budgeting should be linked back to the Master Plan given its place as a reference point.

13.43 In general, regional hospital corporation boards indicated that their budgeting process is concluded in the February to March period each year. They also indicated that this is somewhat of an expenditure budgeting exercise, since the Department usually has not indicated the level of funding (revenue) that they can expect for the coming year by

that time. Regional hospital corporations said funding information is often not provided by the Department until May or June (i.e. after the beginning of the fiscal year). Therefore, regional hospital corporations have no way of matching planned expenditures with funding during their own budgeting process.

13.44 Several boards indicated that they knew from the time funding information was received from the Department that they would incur deficits based on planned expenditures, and chose not to adjust their spending plans. Boards argued that they were only delivering services mandated under the Master Plan. Regional hospital corporation operating budgets are provided to the Department, so the Department is aware when deficits are being planned. However, regional hospital corporation representatives stated that no-one from the Department has ever come back and said “do not spend at that level.” In the view of some, this appears to constitute tacit departmental approval for regional hospital corporations to budget for deficits.

13.45 Legislation seems to indicate, however, that the Minister has a more direct role in approving the budget. Tacit approval is not sufficient. Section 25(2)(b) of the *Hospital Act* stipulates “a hospital corporation shall . . . operate within the budget approved by the Minister under the *Hospital Services Act*.”

13.46 Regulation 84-167 under the *Hospital Services Act* provides further guidance on the issue of budget authority:

19(1) To qualify for payments under the hospital services plan, an approved hospital corporation shall submit annually to the Minister on a prescribed form not later than the date prescribed by the Minister, a proposed annual budget for the hospital corporation for the ensuing fiscal year.

19(2) The budget of an approved hospital corporation shall indicate, as nearly as may be calculated, the estimated cost of providing services.

20 *The Minister shall:*

(a) approve a budget for each approved hospital corporation;

13.47 Based on this review of the legislation and regulations, the Minister has a direct and formal responsibility to approve regional hospital corporation budgets. One question that may be outstanding on this “approval” process is what exactly should be approved? For instance, would the approval include just the portions of the budget funded by the Department? Would it only include standard hospital services? Does the phrase “approve a budget” indicate the Minister should approve one budget applying to all activities of the corporation?

13.48 There are a couple of additional issues that could be raised around the budgeting process. Firstly, is the intention of the Department that the main goal of regional hospital corporations be to achieve the terms of the Master Plan regardless of the financial consequences? The section noted above from the Master Plan would indicate that this is not the case.

13.49 Secondly, to contribute to a more effective budgeting process, it is our opinion that the Department should be providing funding information to regional hospital corporations on a much more timely basis. We also feel that the Department should be working in cooperation with regional hospital corporations to ensure that an appropriate balance of services and funding is achieved (i.e. one that provides an appropriate level of service as set in policy while balancing funding with expenditures).

13.50 We recommended that the Committee include in its report to the House the following recommendations:

- that the Minister formally approve all regional hospital corporation budgets in a manner consistent with the Act and regulations;
- that the Minister provide the regional hospital corporations with their revenue budgets on a more timely basis; and
- that the Minister clarify the balancing of fiscal responsibility with the responsibility for the provision of services in the Master Plan.

Strategic planning

13.51 Each regional hospital corporation prepares its own strategic plan, based on the New Brunswick Hospital System Master Plan. Regional hospital corporations and their boards initiate this process. At least one corporation remarked that its strategic planning process was initiated in response to a recommendation from the accreditation process. The Department does not require that regional hospital corporations do strategic planning. But strategic planning is a key criterion of success for a well functioning board.

13.52 We noted certain weaknesses in strategic plans presented. Mission statements do not always answer the questions “what?”, “why?”, and “for whom?”. As well, strategic objectives (sometimes called strategic goals or strategic orientations) are often vague and not measurable. Measurable strategic objectives are needed to identify the organization’s targets or ends, to set up a means to monitor progress towards those ends, and to establish an effective performance reporting regime. We also noted that most corporations do not have a strategic objective establishing the requirement to make service provision decisions in a fiscally responsible manner.

13.53 Currently, not all regional hospital corporations are filing their strategic plans with the Department. And in fact there is no requirement for them to do this. Also, for those corporations that have provided the Department with their strategic plan, not all have received feedback. As

a minimum, the Department should be coordinating strategic planning and approving all plans to ensure that they are congruent with departmental plans, particularly those documented in the Master Plan. Our 1998 Report included the following recommendation:

We recommend that the Minister/Department review and formally approve the strategic plans of the regional hospital corporations before they are adopted.

13.54 One area in which the Department has provided planning feedback to at least some regional hospital corporations is in the area of wellness. Several of the regional hospital corporations indicated that they feel this is a valuable area of service that hospital corporations should be more involved in. They felt that such preventative activities would save money in the long run and therefore saw wellness as being within their mandate. In fact, some regional hospital corporations do provide limited wellness programs, but do not receive funding from the Department for these activities. The Department feels that wellness issues are in the domain of the Department, not the hospital corporations. Some regional hospital corporations have been told not to include references to wellness in their strategic plans.

13.55 The discussion surrounding the provision of wellness services raises an interesting issue. Regional hospital corporations are involved with only a subset of the total of healthcare services provided in a region. Some of the regional hospital corporations introduced the alternative of expanding regional hospital corporations into regional health authorities that would cover all facets of health care. They felt that this would allow potential duplication of services to be avoided, thereby reducing expenditures. They also indicated that they have been successful in integrating the extramural service into their operations and that they now have practical experience that could be applied in further integration. It might be worthwhile to investigate this option. The question to be answered is, "would service delivery be more efficient and effective in a system with full integration of all health services?" This is a major strategic question facing the Department and the corporations.

13.56 There may be some question as to whether regional hospital corporations should be developing their own strategic plans. By its nature, strategic planning is akin to policy development. Policy development is the responsibility of the Department, not the regional hospital corporations.

13.57 Based on comments made by representatives of the regional hospital corporations, the corporations do seem to be facing many common issues. The Department and the corporations, perhaps through the New Brunswick Healthcare Association, could work together to develop a comprehensive strategic plan which links appropriately to the Master Plan. We feel that this option should be given consideration.

13.58 There is a need as well to link the strategic plans to performance reporting. We have discussed this matter earlier in the chapter in proposing that the annual report be used as the focal document for the Committee review process.

13.59 Performance reporting involves developing performance indicators and targets, and measuring and reporting the results. Typically, performance indicators should allow for the measurement of success in achieving strategic objectives. Each performance indicator should tie directly to a specific strategic objective. Regional hospital corporations, in general, have not yet succeeded in developing corporate performance indicators. This may, in part, be due to the current lack of truly measurable strategic objectives for regional hospital corporations. This would make it more difficult to establish meaningful performance indicators.

13.60 Several regions did mention an initiative of the Department to develop a provincial report card system of performance indicators. If this is to be “the” performance reporting system for regional hospital corporations, it calls into question the need for individual strategic plans for hospital corporations.

13.61 Alternatively, if individual strategic plans are still felt to be appropriate, each regional hospital corporation should take the provincial “report card” and add additional indicators to ensure complete performance measurement information relating to the strategic objectives in its own strategic plan is captured. This exercise may require reworking their own strategic objectives to make them more measurable.

13.62 **We recommended that the Committee include some discussion of the need to improve strategic planning in its report to the House. In particular, as noted in our 1998 Report, there is a need for the Department to approve all strategic plans, performance indicators and targets to ensure they are congruent with departmental plans.**

Miscellaneous governance and board matters

Code of ethics

13.63 Only one of the meetings dealt at any length with the concept of the board’s code of ethics. One corporation noted in its annual report that the board had adopted a code of ethics based on the values in the strategic plan. Another corporation also discussed its work on a corporation-wide code of ethics. We believe this is a move forward.

13.64 A code of ethics can form an important addition to the board’s high-level policy framework that gives guidance to management and staff of the institution. Policy and goal setting are used by effective boards in clearly establishing the anticipated results, or ends, for the organization being governed. This focus on ends, versus means, is a key to governing an organization to effective results. But, as stated by John Carver in his well-known work *Boards that Make a Difference*,

The Board is accountable for how its staff achieves these results The board has a moral obligation to ensure the prudence and ethics of operations A board that wishes to ensure the organization's actions are prudent and ethical must delineate ahead of time exactly what is imprudent and unethical. Any staff action that does not violate the board's standards, then, is automatically approvable. . . The total message the board sends to staff, then, is comprised of what outputs are to be achieved (Ends) and what may not be done in the process of achievement (Executive Limitations).

13.65 We noted as well that the New Brunswick Healthcare Association's publication *The Informed Trustee* also speaks to this issue. This important orientation document states:

It is important for the board to develop a code of ethics. . . The board's code of ethics needs to address conflict of interest. The board's code of ethics also needs to address certain behaviours. Board and staff members are expected to maintain high standards of honesty, integrity, impartiality and ethical conduct.

13.66 Without being too voluminous, the code can address those key areas where the board feels it is essential to set limits. Some examples may be in vendor relations, treatment of patients and their families, protection of assets, addition of new services, and financial conditions to avoid.

13.67 Providing such an ethical framework is a key function of an effective board. It is one prime example of how a board oversees through policy as opposed to a detailed transaction-based operational outlook. Therefore we proposed that the Committee recommend all boards take steps to put a code of ethics into practice. Presumably a code of ethics would fit well within the mandate of each institution's strategic planning process.

13.68 We recommended that the Committee include in its report to the House a recommendation that those regional hospital corporation boards that have not yet done so develop a code of ethics.

Corporation names

13.69 The *Hospital Act* has a standard naming convention for all of the regional hospital corporations. In various sections of the legislation there is a standard introductory phrase: "There is established a body corporate to be known as Region --- Hospital Corporation." Since there are two distinct bodies corporate in Region 1, the Act has added the further distinctions of South-east and Beauséjour in the naming process.

13.70 It was noted that three of the regional hospital corporations (i.e. Regions 2, 5 and 6) have adopted names other than those specified in the *Hospital Act*. This became a subject of discussion at one of the

Committee hearings. The CEO of the hospital corporation noted that the Region 2 Hospital Corporation renamed itself the Atlantic Health Sciences Corporation as a by-product of its strategic planning process. While this may be appropriate, it would be advisable for the boards of these corporations to seek legislative approval for the name change. After all, the corporations were created and named in legislation passed by the House. Therefore, any change or amendment to the name should be approved by the Legislative Assembly.

13.71 We recommended that the Committee include in its report to the House a recommendation that the three corporations, which have adopted names in addition to those in the *Hospital Act*, seek legislative amendments to validate those changes. Further, other corporations should be instructed to approach the Legislative Assembly for amendments to the Act before adopting any changes in corporate name.