



**FOLKETINGET
STATSREVISORERNE**



**FOLKETINGET
RIGSREVISIONEN**

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**Extract from Rigsrevisionen's report
submitted to the Public Accounts Committee**

The regions' basis for financial management of the hospitals

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the regions' financial management of the Danish hospitals. Having knowledge of the correlation between hospital resources and activities, i.e. overall knowledge of the price of activities, is important for the regions, because it provides the transparency needed for their prioritization.

2. Rigsrevisionen initiated the study in January 2019. The background for the study is the significant health care spending on hospital services; in 2019, net operating expenses for hospital care were budgeted at approx. DKK 80 billion. Additionally, annual assessments of the efficiency in the hospitals show significant differences in the level of efficiency across the individual hospitals in the period from 2014 to 2017. The demographic development towards an increasing number of elderly people requiring treatment and the development of new treatments in combination with strict budgetary requirements, increase the pressure on the activities provided by the hospitals and call for strong centralised regional management to ensure optimal utilisation of the available resources for the benefit of the patients.

3. According to the Danish Health Act, it is the regions' responsibility to ensure efficient utilisation of resources. Thus, the regions are not only required to provide more activity; resources and activities in the hospitals should also be managed efficiently in relation to the treatment of patients and the financial framework, across the hospitals in the individual region. Decisions concerning reprioritization among the hospitals in the individual regions prompted by, for instance, differences in efficiency between the hospitals can only be made at the regional level. It is therefore essential that the regions' management of the hospitals are based on knowledge of the correlation between resources and activities, including the price of the various activities provided by the hospitals. This knowledge can be generated at various levels of detail and using various methodologies. The choice of methodology and level of detail depend on the data basis and the requirements of the individual region. The regions have access to various data through existing national data sources and through their own sources. Knowledge supports the regions in their efforts to identify opportunities to release resources for better and/or more treatment for the benefit of the patients.

Resources

In this report, resources are defined as a set of different economic indicators like, for instance, estimated or actual expenditure included in hospital budgets and financial statements, or detailed statements of expenditure. Thus, resources can be defined at various levels of detail.

Activities

In this report, activities are defined as a set of different activity indicators. These can be in the form of specific services (e.g. scanning) out-patient consultations, treatment programmes or DRG-groups (Diagnosis Related Groups). So, an activity can be defined at various levels of detail, and one single activity can be composed of several minor activities.

Activity-based management

Activity-based management gives the hospitals an incentive to increase activity.

Framework-based management

Framework-based management requires the hospitals to handle the increased demand for hospital services within the allocated budget.

The gradual shift made by the regions from activity-based management of the hospitals towards predominantly framework-based management does not change the fundamental fact that it is the regions' responsibility to ensure the transparency of the basis upon which the regional hospitals are managed financially.

4. The purpose of the study is to assess whether the regions' financial management of the hospitals is adequately based on knowledge of the correlation between resources and activities. The report answers the following questions:

- Are the regions adequately exploiting the potential of the national data on the correlation between resources and activities in their management of the hospitals?
- Are the regions adequately using their own data on the correlation between resources and activities in their management of the hospitals?



Main conclusion

It is not considered satisfactory by Rigsrevisionen that the regions' financial management of the hospitals is not adequately based on knowledge of the correlation between resources and activities. The consequence is that the basis upon which the regions make their assessments concerning release of resources for better and/or more treatment for the benefit of the patients lacks transparency.

The regions are not adequately exploiting the potential of the national data on the correlation between resources and activities in the hospitals in their management of the hospitals

The study found limitations in the existing national data sources relating to the fact that the data were originally developed to support other objectives than regional management of the hospitals. In spite of these limitations, it is Rigsrevisionen's assessment that the regions can potentially use the national data sources to gain overall insight into possible differences in costs and/or efficiency between the hospitals in the individual regions that call for further scrutiny.

The study shows that the regions only to a limited extent can account for the differences in hospital costs based on *Omkostningsdatabasen* (a central database of hospital costs), and that all costs have not been allocated correctly. The regions have not adequately ensured that the data in the cost database are sufficiently comparable and correct to be used by the regions in their management across the hospitals in their respective regions.

The regions recognize the need to improve the correlation between resources and activities and have worked with the Ministry of Health on improving *Omkostningsdatabasen* since 2016. However, the work has been delayed and still the database does not fully meet the expectations and requirements of the regions.

The regions are not adequately using their own data on the correlation between resources and activities in their management of the hospitals

The study shows that the regions follow up on the hospitals' performance against the objectives and requirements set by the regions. However, the regions have not adequately used their own data to establish a knowledge base on the correlation between resources and activities. Nor does the management information available to the regions reflect this correlation. Moreover, the regions have generally not carried out systematic analyses that could assist them in identifying areas where resources are not used efficiently in all hospitals. This means that the regions lack a systematic overview of whether there is potential and need to improve the use of resources across the hospitals in the individual region through reprioritization or cost savings.

National data sources

Two national data sources provide data on the correlation between activities and resources:

The annual efficiency statements

The Ministry of Health prepares annual reports of the efficiency in Danish hospitals that provide an overview of the development in and level of efficiency in the public hospitals. Efficiency is reported at country, regional and hospital level.

Omkostningsdatabasen

Omkostningsdatabasen (a central database of hospital costs) provides the basis for the calculation of the DRG tariffs. The database provides data on expenses and activities in the public hospitals.