

New perspectives for Dutch Healthcare

Summary of the public management letter for
the long-term care sector

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Nederlandse
Beroepsorganisatie
van Accountants

NBA

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NBA

The Royal NIVRA and NOvAA are set to merge, resulting in the establishment of a new organization, the NBA (*Nederlandse Beroepsorganisatie van Accountants* - The Netherlands Institute of Chartered Accountants). The NBA's membership comprises a broad, varied occupational group of over 20,000 professionals working in public accountancy practice, at government agencies, as internal auditors or in organizational management. Integrity, objectivity, professional competence and due care, confidentiality and professional behaviour are the fundamental principles for every accountant. The NBA assists accountants fulfil their crucial role in society, both today and in the future.

[The Netherlands Institute of Chartered Accountants](#)

01 | New perspectives for Dutch Healthcare

Accountants Day 2010 the NBA published its second public management letter, with this edition focused on long-term healthcare. The management letter was created as part of the Sharing Knowledge project, which utilises the collective knowledge of accountants to identify risks in various sectors of society at an early stage.

The second 2010 edition focuses on long-term healthcare, a variety of services that includes medical and non-medical care for the elderly and people who have a chronic illness or disability, including home care and long-term mental healthcare. This sector is characterised by a large number of parties and institutions, complex and rapidly changing legislation and the relatively recent introduction of deregulation. The sector is currently struggling to find a balance between market forces and regulation. Government control of the sector is primarily oriented towards financial goals, with a focus on macro budget management. The quality of actual care is of limited importance in this regard.

The NBA has formulated eight recommendations on the basis of five signals from the field. Its core message can be summed up as follows: the focus of the long-term care has changed, and healthcare institutions will have to adjust their course accordingly. Sectoral organizations can play a supporting role in this regard. The NBA has requested that the government provides clarity on the financing of real estate and ensures that the quality of actual care is factored into funding decisions. Accountants also have a role to play in this regard, prompting the NBA to make an appeal to its members as part of its final recommendation.

This brochure is a summary of the public management letter, the unabridged version of which can be downloaded from www.nivra.nl.

02 | Five signals

Choosing the long-term care sector

Healthcare is one of the most important social sectors in the Netherlands. Government and society harbour high expectations of the sector, and debates on the subject tend to be emotionally charged. The healthcare sector also has a major economic impact, and operates in a complex playing field with many stakeholders. The continual rises in expenses and the resulting efforts to control them have been high on the political agenda for years. Although the government has adopted a more hands-off approach since the introduction of deregulation, the sector is still characterised by a large number of rules and regulations. This tension between market forces and regulation has resulted in sector-specific risks, thus drawing the attention of the NBA Identification Board.

Due to the high quality of care in the Netherlands, the elderly make up an increasingly large proportion of our population. Care of the elderly - along with care of the disabled, home care and mental health care - forms the basis of the long-term care sector, also known as the AWBZ (Exceptional Medical Expenses Act) sector. This management letter refers to the institutions providing this form of care as 'AWBZ institutions'. The long-term care sector is currently undergoing major changes, while facing an uncertain future.

Public accountants in the long-term care sector are primarily

responsible for auditing institutions' annual accounts and certifying annual production volume statements on care provided over the course of the year. In this capacity, accountants gain a clear insight into the governance of organizations and the scale on which they provide actual care. With multiple clients in their portfolio, accountants are uniquely positioned to aggregate this information (in an anonymous form) at a higher level and share the results.

Five signals

The Sharing Knowledge project focuses on identifying management risks in the areas of finance and administration. Based on the material gathered from the various management letters and several expert meetings, the NBA Identification Board has formulated five signals, which have been outlined in brief below:

1. A FOCUS ON THE QUALITY OF GOVERNANCE AND RISK MANAGEMENT

AWBZ institutions operate in a complex environment. This demands a great deal of both directors and supervisors¹, who are forced to identify risks, make timely choices and set priorities. Although the level of quality and alertness is

¹ In this management letter, the term 'supervisors' refers to bodies within the AWBZ institution's organization that are charged with supervising the Board. This could be a supervisory board or council. The term does not refer to the public regulatory bodies like NZa and IGZ.

improving, many institutions are lagging behind in adapting to the changing circumstances. Effective governance does not stop at ensuring compliance with the Healthcare Governance Code. Amongst other duties, senior management must focus on integrated risk management and must facilitate a more intensive dialogue between auditors and supervisors.

2. PERFORMANCE-BASED FUNDING REQUIRES A CHANGE IN MINDSET

The introduction of performance-based funding brings new and different management requirements. Revenues may fluctuate, and the business model will become income based rather than expenditure based. This will affect the role of care managers, who must now take on additional financial responsibilities. It will also require flexibility in terms of the organization's cost structure and other management information. Financial policy is becoming an increasingly important factor in the multi-year budget. Remarkably, the budgeting system is still primarily financially orientated with few quality-based indicators, even though the focus should be on ensuring the availability of high-quality care.

3. A NEW APPROACH TO ACCOMMODATION

The risk of ensuring suitable and financially viable accommodation is changing from the government to individual AWBZ institutions. Accommodation is now to be funded through production-based revenues, rather than on the basis of a fixed amount per location. Uncertainty regarding the transitional arrangements also represents a time bomb in terms of real estate valuation and net assets in the balance sheet. In the event of a 'big bang' transition, the sector will suffer asset losses to

the amount of several hundred million euros². The inclusion of long-term lease contracts in the balance sheet may also result in equity problems. As a result, bankers have become reluctant to provide funding. New construction projects are stagnating, with patients forced to spend more time living in obsolete locations. Smaller AWBZ institutions are finding it especially difficult to adjust their accommodation policy to the new situation.

4. FUND MANAGEMENT REQUIRES PROFESSIONALISM

Performance-based funding also requires a new approach to fund management. With greater responsibility for investments and costs, organizations will have to take a more professional attitude to credit arrangements and financing structures. Learning to think in terms of cash flows will require a new mentality at many AWBZ institutions, which are not accustomed to anticipate new developments and lack a fully-fledged function for fund and credit management.

5. A FOCUS ON COMPUTERISATION AND QUALITY INDICATORS

Although computerisation and information security are critical to the care industry, high costs and continual legislative changes are causing a great deal of problems in practice. Quality indicators are becoming an increasingly important factor in the choices of consumers and other parties in the sector. However, many AWBZ institutions have not yet adapted their information systems accordingly, and are failing to apply these indicators as internal management instruments. Most institutions are also failing - either fully or partially - to assess the reliability of quality data.

² According to the NZa report 'Survey on book value of Care and Municipal Health Services' (April 2010), losses will total at least 220 million euros, but this estimate does not take into account the volume risk involved in implementing the new funding regime. According to real estate experts, the total amount could actually reach half a billion euros.

03 | Eight recommendations

The Identification Board has analysed the five signals in a broader perspective. Based on this analysis, the Board has formulated eight recommendations: five for the AWBZ institutions, two for the Ministry of Health, Welfare and Sport (VWS) the Dutch Healthcare Authority (NZa) and the Health Care Inspectorate (IGZ), and one for all accountants employed in the long-term care sector. The recommendations for the AWBZ institutions have been listed in the same order as the five signals of the previous chapter.

Recommendations for AWBZ institutions

1. EMBED THE HEALTHCARE GOVERNANCE CODE WITHIN THE INSTITUTION AND FOCUS ON INTEGRATED RISK MANAGEMENT

The Code is an effective means of improving management board quality while ensuring a central focus on risk management:

- ✓ New board members and supervisors should have financial and business skills as well as knowledge of the sector. Ensure an appropriate balance between the various competencies;
- ✓ Effective governance does not stop at ensuring compliance with a code. Structure the organization around the Governance Code and monitor compliance with its provisions
- ✓ Focus on integrated risk management. The board and supervisors should engage in a fundamental debate on the institution's risk appetite. Identify the top five risk

- factors, define their financial consequences by means of scenario analyses, commission reporting on their further development and make adjustments where necessary;
- ✓ Ensure regular communication with the institution's accountant, creating the opportunity for separate consultations between the accountant and supervisors.

2. FACILITATE THE CHANGE TOWARDS AN INCOME-BASED BUSINESS MODEL WITHOUT LOSING SIGHT OF CARE QUALITY

Performance-based funding will require a new approach to registration, information and governance:

- ✓ Adjust the organization's internal control system and information supply chain to the new business model. Ensure a proper balance between financial indicators and other key performance factors, monitor implementation costs and provide additional training where necessary;
- ✓ Strengthen the care managers' financial role within the organization. Offer them insight into the actual cost of care and provide them with sufficient responsibility for the results. Make sure they have all the tools they need and are given access to critical management information;
- ✓ Ensure that the multi-year budget focuses on financial policy for the years to come. Assess the flexibility of the existing cost structure and provide sufficient insight into the cost of care products;
- ✓ Commission a monthly report on capacity utilisation, care production, invoicing progress and the various incoming and outgoing flows of funds.

3. UPDATE ACCOMMODATION POLICIES, KEEPING AN EYE TO THE

In view of the new funding structure for accommodation and the current reluctance of financiers, AWBZ institutions will have to develop new accommodation policies:

- √ In the short term, take stock of the potential real estate impairments and determine their effect on the organization's net assets and future funding applications;
- √ Assess existing real estate leases, focusing on the completeness of agreements and substantiation of rates, and determine how including these items in the balance sheet would affect the organization's net assets;
- √ Do not enter into definitive agreements on new construction or renovation projects until all potential scenarios have been calculated and financing has been arranged. Provide sufficient expertise and professional support;
- √ Conduct periodic strategic accommodation surveys in the surrounding region. Focus on future demographic trends, developments in the demand for long-term care, existing capacity, rate developments and the potential for alternative utilisation of buildings.

4. ENSURE PROFESSIONAL FINANCIAL MANAGEMENT AND EXPERTISE WITHIN THE ORGANIZATION ITSELF

With greater responsibility for investments, costs and financing, AWBZ institutions will have to adopt a new organizational mindset:

- √ Ensure that board members and supervisors have sufficient knowledge of financing and financial instruments;
- √ Ensure that financial management and the creation of a financial buffer are integral parts of the multi-year budget. Monitor the budget on a monthly basis and produce periodic updates in order to identify (new) risks in a timely fashion;
- √ Conduct periodic benchmarks to assess the up-to-dateness and adequacy of existing credit facilities and financing structures;
- √ Establish a treasury function within the organization and record the rules in a treasury statute. If budgets are limited, consider engaging the part-time services of an external treasury expert.

5. DEVOTE ATTENTION TO COMPUTERISATION AND ENSURE THAT INFORMATION SYSTEMS ARE DESIGNED TO INCORPORATE EXTERNAL QUALITY INDICATORS

Computerisation, data security and quality data are all critical success factors in improving care:

- √ Draw up a policy plan for the computerisation process, linked to a plan for data security and recovery. Focus on aspects such as access control, rights management and national security standards (e.g. ISO 7510);
- √ Ensure harmonisation between internal computerisation projects and nationwide efforts to ensure effective communication between the various supply chain partners;
- √ Work with stakeholders to elaborate the nationwide quality indicators and translate them into effective instruments for internal quality control;
- √ Make sure the organization has put sufficient safeguards in place to ensure the reliability of quality data, and ensure harmonisation with the stakeholders.

Recommendations for the Ministry of VWS, NZa and IGZ

6. PROVIDE CLARITY ON ACCOMMODATION FUNDING AS SOON AS POSSIBLE

At the time of writing, there is uncertainty about new Ministry of VWS regulations on the funding rates for accommodation. It is unclear whether - and in which form - the new regime will take effect, and the sector has not been informed about any transitional arrangements. Introduction of the new policy has repeatedly been delayed. The ticking time bomb represented by hundreds of millions of euros in real estate impairments must be defused sooner rather than later. The current uncertainty is causing reluctance amongst financiers and bankers, resulting in the stagnation of new construction projects. This has an undesirable effect on the quality of the accommodation and care provided to clients and patients.

7. INCORPORATE QUALITY INDICATORS INTO THE PERFORMANCE-BASED FUNDING SYSTEM AND MONITOR UNIFORMITY

In essence, the performance-based funding system is still largely financially oriented, its main focus being on production volumes. There are insufficient direct incentives to promote the quality of actual care, the role of the professionals and other socially desirable objectives (accessibility, affordability and availability of high-quality care). There must be a proper balance between financial and quality-based incentives. Clear policies must be developed in this regard, with a focus on the uniformity of standards and definitions. Indicators must be mainly client and outcome-based. In order to safeguard the reliability of quality indicators, the sector's information and monitoring supply chain must be optimised on the basis of clear agreements between all stakeholders. The Ministry of VWS role cannot be limited to a merely facilitative capacity. Due to the diversity of the various quality initiatives, efforts are wasted facing a greater administrative burden. The government would do well to formulate clear policies, monitor the uniformity of standards and incorporate sufficient guarantees for the reliability of data. The NZa can contribute to this process by overseeing the long-term care market, while IGZ is ideally positioned to monitor the quality of actual care provided by AWBZ institutions.

Recommendations for accountants working in the sector

8. PLAY AN ACTIVE, ADVISORY ROLE IN THE TRANSITION TO AN INCOME-ORIENTED ORGANIZATION

Identify any shortcomings and points for improvement and communicate them to the institution's management and supervisors. Use the present management letter as guidance. This advisory role can take on various forms, such as:

- √ Conducting an open dialogue with management and supervisors on the quality of institutional governance. The auditor must hold up a mirror and request separate consultations with the supervisors.
- √ Encouraging the institution's adjustment to new developments. Examples include implementation of the Healthcare Governance Code, integrated risk management, internal control and information supply, the updating of accommodation policies, the professionalization of financial management, computerisation and the introduction of external quality indicators;
- √ Reviewing internal financial plans and budgets. Examples include reviewing multi-year budgets and scenario analyses, and assessing the flexibility of cost structures or cost calculations, the feasibility of business plans and applications for construction, renovation or refinancing. Accountants may also assess the effects of real estate impairments and the capitalisation of long-term leases;
- √ Providing advice on necessary administrative adjustments. This includes the creation of basic administrative systems, automated data systems and data security, management reporting and quality registration systems. Accountants can also play a role in assessing the effectiveness of systems and the safeguards applied to ensure their reliability.

04 | Comments and epilogue

Comments from stakeholders

The NBA asked six stakeholders from the long-term care sector to provide their comments. These comments have been included in the public management letter in unabridged form.

Actiz (the Dutch association for commercial healthcare providers), **GGZ-Nederland** (the Dutch association for mental healthcare) and **Vereniging Gehandicaptenzorg Nederland** (the Dutch association for healthcare for the disabled) regard the management letter as a useful signal to the professional field and policy makers. In their view, the management letter clearly describes some of the problems facing the sector in the coming period and offers useful recommendations that should be taken to heart by AWBZ institutions, the NZa and the Ministry of VWS. However, **Branchebelang Thuiszorg Nederland** (the Dutch association of home care providers) feels the letter has a negative tone and does not see how the majority of its recommendations applies to its members. This can be attributed to the fact that home care organizations are relatively ahead of the field and have several years of experience operating in a deregulated market. They are also unaffected by the issue of accommodation. The association would thus have liked to see a more nuanced letter.

Epilogue

The long-term care sector is currently suffering from great uncertainty when it comes to the issue of regulations and market forces. Now, more than ever, there is a need for high standards of governance - based, first and foremost, on the quality of actual care. Systemic changes in the sector carry new risks that must be identified and controlled appropriately.

Managers and supervisors must take into account the new funding structure and ensure that new accommodation policies, adequate financial management and effective information systems are in place. Responding adequately to new trends will require decisiveness. As best practices in the sector show, change offers real benefits too - not just to institutions, but also to their clients or patients. Good governance means lower management costs, greater trust from the public regulators and thus more funds and a greater focus on actual care. It is a learning process, but the rapid changes affecting the sector necessitate decisive action. The gover-

The **NZa** applauds the NBA's initiative, as it contributes to awareness and anticipation of the changes facing the sector. These changes will demand a great deal of care managers, senior management and internal supervisors. As the NZa feels various measures have already been put in place with regard to the funding of real estate, it takes the view that their impairment in annual accounts would be premature. It does not rule out that accountants could play a role in assessing quality indicators, but stresses that such contributions must offer added value, with a proper balance between costs and benefits.

The **IGZ** particularly subscribes to the recommendation that the transition to a new income-based business model must not result in the loss of sight of quality. It agrees that quality indicators should be incorporated into performance-based funding and stresses the need to monitor uniformity. The IGZ therefore agrees that auditors should play a role in assessing the reliability of quality indicators, and would have liked to receive more information about the various options in this regard.

ment has allocated 1 billion euros for care of the elderly: although this certainly offers new opportunities, it may not dull the sense of the urgency for change.

Accountants working in the sector must duly inform and advise their clients to the extent possible within the framework of their engagement. The Ministry of VWS and NZa must formulate a solid policy vision, consistent rules and a clear perspective for the future. The quality of actual care should be at the forefront of all efforts in this regard: long-term care clients have the right to high-quality care. This will require a focus on quality measurement and accountability, linked to funding. Without additional costs, and with a proper focus: on the client.

The NBA greatly appreciates the stakeholders' willingness to share their knowledge and experience by taking part in the project and by responding to the signals and recommendations in this public management letter.

Publication details

SHARING KNOWLEDGE IN THE DUTCH HEALTHCARE SECTOR

The project Sharing Knowledge in the Dutch healthcare sector is the second project to be conducted as part of the NBA's Sharing Knowledge policy programme. The project focuses on long-term healthcare, a variety of services that includes medical and non-medical care for the elderly and people who have a chronic illness or disability, including home care and long-term mental healthcare. Coziek, the platform of external and internal accountants of long-term care institutions compiled the material from individual management letters. The Identification Board played a coordinative role, and the NBA's Sharing Knowledge project team was responsible for the implementation. The Board of Management of the NBA greatly appreciates their contributions.

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PUBLIC MANAGEMENT LETTER

The public management letter is one of the types of publication issued as part of the Sharing Knowledge project. In it, the NBA presents the various signals and recommendations to the relevant sector's key stakeholders. The management letter is available to the public and is intended for a broad audience, including accountants and supervisory boards involved in the sector, civil society and the realm of politics. Its contents are formulated by means of a careful process. Information gathered from individual management letters (drawn up annually by auditors for their clients) is aggregated in expert meetings. The resulting signals are presented over the course of a private stakeholders meeting, after which the key stakeholders are invited to respond in writing to the draft version. The definitive version is then published, featuring the various recommendations and comments. For further information on the Sharing Knowledge project, please visit the NBA website.

FURTHER DETAILS

For further details on the contents of this management letter, please contact M.J.P. Admiraal on +31(0)20-3010319 or at m.admiraal@nba.nl.

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