

FINANCIAL MANAGEMENT OF THE CZECH STATE-FUNDED INSTITUTIONS

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Abstract

This paper deals with possible indicators of financial management in the area of the state-funded institutions founded by the state, more specifically the Czech ministries. Its main aim is to select possible financial indicators and verify and discuss their applicability for purposes of financial management in the terms of the state-funded institutions founded by the state. The paper loosely follows-up our previous research that mapped the situation in financial reporting of the Czech state-funded institutions and its relevance in relation to financial management requirements, especially on higher levels of management. In this paper we choose three possible financial indicators and monitor their values and development trends on examined sample of the state-funded institutions founded by the Ministry of Health of the Czech Republic. We also discuss applicability and relevance of indicators for purposes of financial management. As main data sources the Ministry of Finance of the Czech Republic databases, relating legal regulations and scientific papers are used.

Key words: state-funded institution, contributory institution, financial reporting, state administration

JEL Code: H83, H11, H50

Introduction

State-funded institutions (also called contributory organizations) are economic units operating within the non-profit sector. Non-profit sector may be defined as a part of economy of the state that does not operate primarily to create a profit and includes both public and private subjects (Pestoff, 1995). In the Czech Republic the non-profit sector includes traditionally various organizationally-legal types of subjects, among others above mentioned state-funded organizations. They may be founded either by the state, i.e. the state administration units (for example ministries), or by municipalities. Founded by the state administration units they fulfil rather elemental functions such as health care, social, or security services. If they are founded

by municipalities than provide services to specific region or municipality (very often educational, social, health, cultural).

General legal framework of the state-funded institutions founded by the state administration units (that are a subject of our examining in this paper) is created by the Act No 219/2000 Coll., on the Property of the Czech Republic and the Representation of the Czech Republic in Legal Relations, as amended. Basic rules of their financial management (or financial principles) are regulated by the Act No 218/2000 Coll., on Budgetary Rules and Amendments to Some Related Acts (Budgetary Rules), as amended. Further financial directives are introduced in the Act No 320/2001 Coll., on Financial Control in the Public Administration, as amended and relating decree No 416/2004.

It can be stated that one of the most important steps for financial management development was made around 2010 when thanks to vast accounting reforms the non-profit sector units have shifted from the cash to the accrual basis and started to prepare their financial statements on similar principles as businesses. Accounting reform was recommended also by European Commission and other international or supranational subjects. The whole process is known as a part of so called new public management (Hood, 1991) that should implement business-like elements to management of the public sector. From the beginning this process had its supporters (Box, 1999, Pina and Torres, 2002, Lüder and Jones, 2003) but also opponents (closely see Carlin, 2005).

As a consequence accounting data of various organizationally-legal types of subjects are standardized, may be mutually compared and consolidate. An important step forward means also increase of accounting data transparency. Financial reports are published electronically from 2011 for various analytical purposes which may facilitate also financial management. On the other hand some studies suggest that gathering and publishing of accounting data still remain rather an administrative procedure without any wider utilization for managerial purposes and performance increase not only in the Czech environment, but also in the world (for example Sangers, 2012). It seems that even wider autonomy in management of the public sector does not give automatically any tangible performance improvement (Verzulli, R. et al, 2018).

1 Methodology and data

This paper deals with possible indicators of financial management in the area of the state-funded institutions founded by the state, more specifically the Czech ministries. Its main aim

is to determine possible financial indicators and discuss their applicability for purposes of financial management in the terms of the state-funded institutions founded by the state.

This examining follows loosely our previous research among the state-funded institutions that was carried out in 2017 when we have identified 205 state-funded institutions founded by Czech ministries and divided them into in our opinion relatively homogenous groups according to their prevailing activities (Vodáková and Krč, 2017). For this purpose we have utilized CZ NACE (Classification of Economic Activities) that corresponds to EU NACE which would enable international comparison too.

As for general scientific methods we used description of the current state, analysis of indicators development, comparison of indicators values in time and within the research sample too, and synthesis of main findings. As for financial indicators because of limited extend of the paper we selected 3 measures usable for purposes of financial management, i.e. net income from main activities, net income from economic activities, and one of 3 key analytical indicators of financial performance (KAU) introduced by the Government of the Czech Republic in 2013 (MoF CR, 2013).

Reasons for choice of these 3 indicators are following: net income represents complex, relevant and easily accessible (in financial statements) indicator of economic successfulness or unsuccessfulness. Net income means the difference between accounting revenues and expenses after taxes. As main activities are considered activities for which accounting unit was founded. Economic activities include commercial, additional and so on. KAU1 is a relative measure and it is constructed as a ratio of salaries and wages to number of employees and it is calculated in mill Czech Crowns per employee per year. As wages and salaries represent one of the most important expense this indicator definitely may be weighty. Input data for computation of KAU1 values comes from financial statements (salaries and wages) and financial report (number of employees).

Because of a given extent of the paper, our research was limited to one segment of the state-funded institutions only so our examined sample includes 9 institutions founded by the Ministry of Health of the Czech Republic with the identical CZ NACE, i.e. 86100 Institutional health care. More specifically they represent all Czech faculty hospitals, i.e. Fakultní nemocnice Brno (FN Brno), Fakultní nemocnice Hradec Králové (FN HK), Fakultní nemocnice Královské Vinohrady (FN KV), Fakultní nemocnice Olomouc (FN Olomouc), Fakultní nemocnice Ostrava (FN Ostrava), Fakultní nemocnice Plzeň (FN Plzeň), Fakultní nemocnice U svaté Anny v Brně (FN SA Brno), Fakultní nemocnice v Motole (FN Motol), and Všeobecná fakultní nemocnice v Praze (VFN Praha). Such sample should enable mutual

comparability and evaluation of trends. Selected financial indicators were monitored in 5 years, i.e. from 2013 to 2017 (net incomes) and 3 years from 2015 to 2017 (KAU1).

As main data sources monographs, relating scientific papers, and legal regulations were used. Financial indicators were computed and presented with utilization of the Ministry of Finance of the Czech Republic (MoF CR) database MONITOR. We used especially financial statements, financial reports, and supplemental data.

2 Main findings and discussion

In our opinion, financial statements, financial reports, and other characteristics collected and published by the MoF CR via the server MONITOR represent relevant and suitable source of data for financial analyses, cross-departmental comparison, financial control, or planning, especially on the top management level. However, it seems that these data still are not used for purposes of financial management sufficiently as Sanger (2012), or also Šimonová and Novák (2016) suggest. In practice mainly the areas of transportation, education, social services or health care are monitored (for example Průša and Langhamrová, 2016), but often only from the point of view of accessibility, quality, or provider. In such cases financial indicators exploiting accounting data would be suitable part of evaluating process. In 2013 the Government of the Czech Republic introduced a set of 3 KAU with an intention of their utilization for analytical, planning, and financial performance measuring purposes (MoF CR, 2013). But it seems that this initiative ceased around 2015.

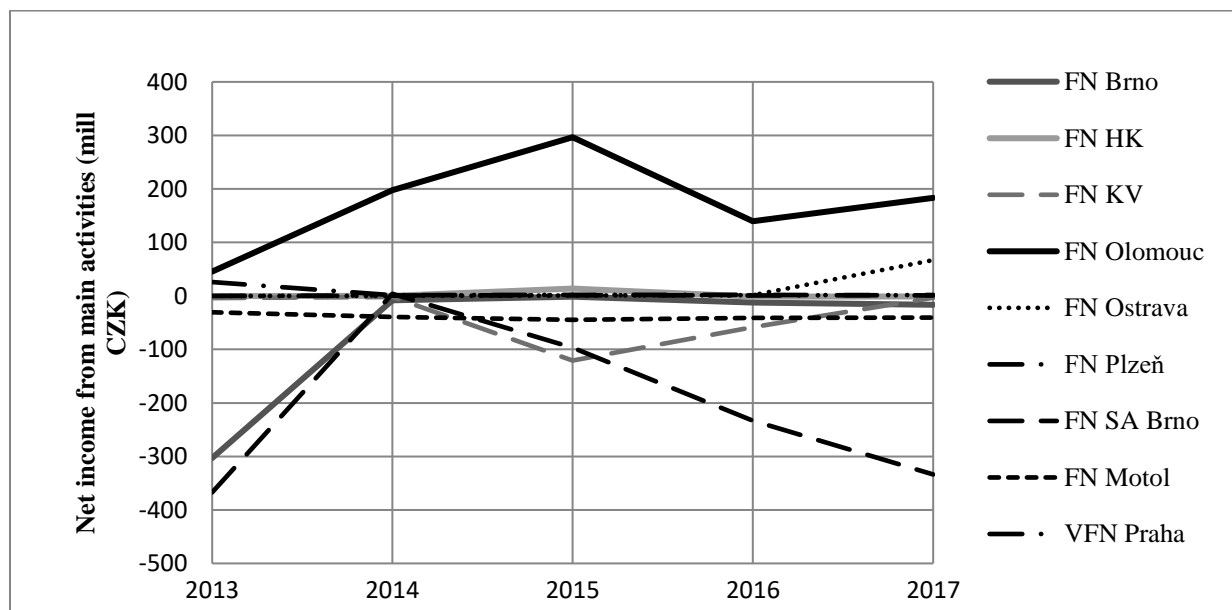
A certain questionable point may constitute also an absence of external audit because the state-funded institutions are excluded from the obligation to verify their financial statements by external control. This state is relatively common also in other countries and sometimes criticised (for example see Lüder and Jones, 2003). On the other hand the Supreme Audit Office of the Czech Republic plays this role indirectly. Further, financial statements must be authorized by the founder compulsory which we verified on the examined sample, so financial statements may be consider reliable.

2.1 Analysis of net incomes

Net income of the state-funded institutions must be according to obligatory legal regulations separated for main and economic activities. As main activities are regarded activities corresponding to relating CZ NACE. Income from main activities generates while rendering healthcare services to public, research, consulting. Economic activities include business,

complementary or side activities that enable to utilize sources more effectively and to contribute to improvement of the total net income. If loss is occurred in economic activities, it should be a signal either to change price calculations or to reduce economic activity, notably in the longer-term time horizon. As economic activities, in the case of selected units, rental, transportation, alimentation, laundry or maintenance for foreign clients are regarded.

Fig. 1: Net income from main activities development (mill CZK)

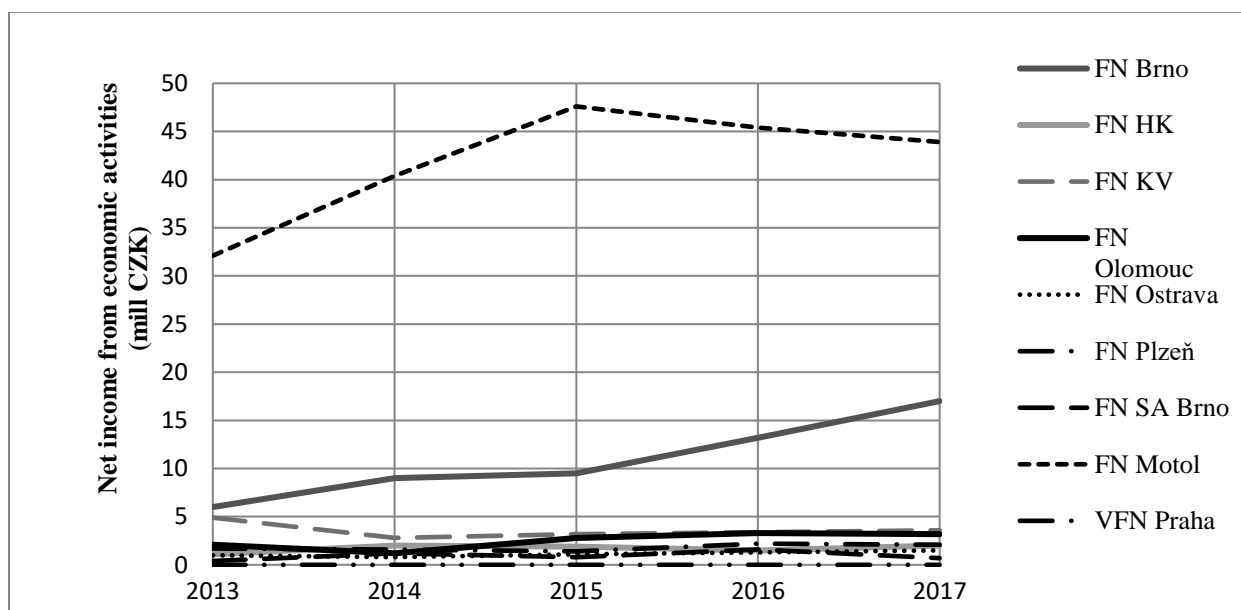


Source: MoF CR (2018), online: <http://monitor.statnipokladna.cz/2018/>

Figure 1 depicts development of net income from main activities in last 5 years. It implies a considerable fluctuation from – 367.2 mill CZK in the case of FN SA Brno in 2013, - 333.8 mill CZK in 2017 and – 233.0 mill CZK in 2016 to 296.6 mill CZK in the case of FN Olomouc in 2015 and 197.4 mill CZK in 2014. Such considerable fluctuation should be a subject of further examination. Some faculty hospitals report plus values of net income (profit) in all examined time periods, i.e. FN Olomouc, FN Plzeň, VFN Praha. The highest values of net income proves FN Olomouc that created accumulated profit higher than 860 mill CZK for examined 5 year time period. On the other hand FN Brno, FN KV, and FN Motol report only minus values, i.e. losses in all examined years. The highest accumulated losses for last 5 years recorded by FN SA Brno, i.e. – 1 027 mill CZK. Short-term negative fluctuation of net income from main activities could be an accidental occurrence; however repeated high losses should be a subject of deep analyses and remedial measures. Low fluctuation of net income and balanced values close to 0 shows FN Ostrava, FN Plzeň, and VFN Praha.

Net income from economic activities was recorded by 8 units only; VFN Praha proves zero values (Figure 2). As positive fact may be mentioned that all 8 units record plus values of net income from economic activities in all controlled years. Figures of net income fluctuate from 0.4 mill CZK (FN SA Brno in 2013) to 17 mill CZK (FN Brno in 2017) which is considerably less than in case of net income from main activities. The exception in values size were recorded by FN Motol with plus values (profits) from 32.1 mill CZK in 2013 to 47.6 in 2015; this unit creates considerably higher profits than others in all controlled time periods.

Fig. 2: Net income from economic activities development (mill CZK)



Source: MoF CR (2018), online: <http://monitor.statnipokladna.cz/2018/>

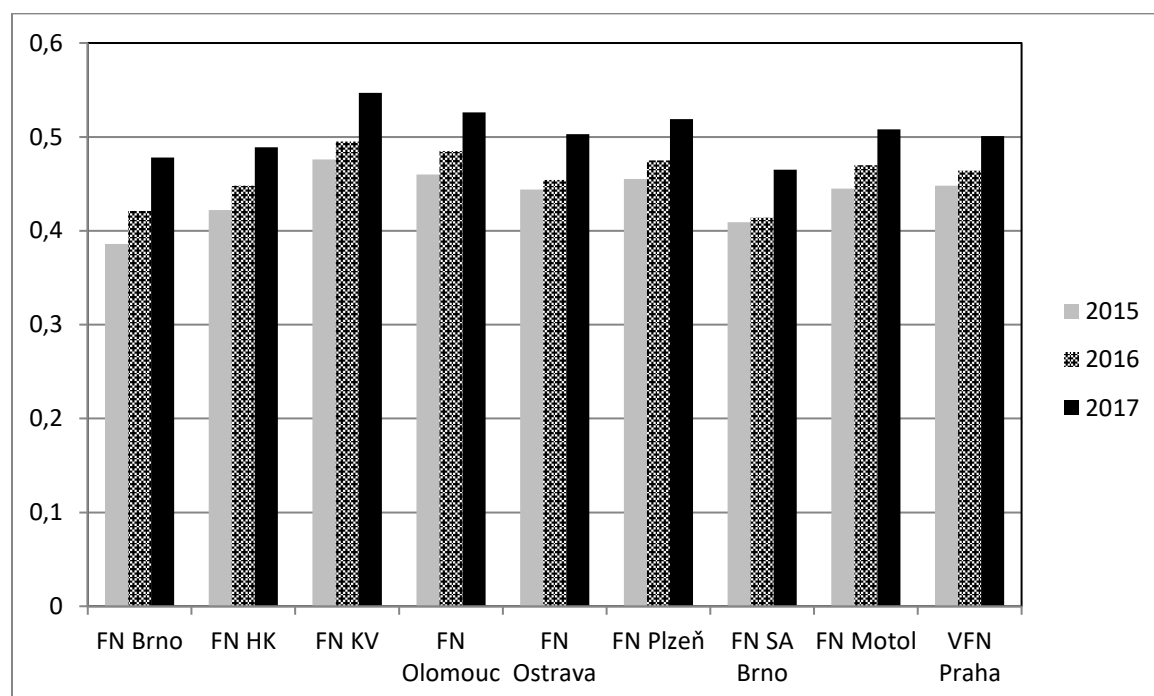
Net income as an absolute complex measure may serve very well as an indicator of management. Input data come from the statement of financial performance included into financial statements and authorized by the founder. For more relevant evaluation of course it should be needed to monitor it in a longer time period to exclude any accidental values. Deeper analysis of main expenses and revenues groups then could explain values and development trends of net income. As net income still is an absolute indicator it would be desirable to supplement it by any relative measures for comparison use.

2.2 Analysis of KAU1 development

As relative measure KAU1 described in chapter 1 was selected. While salaries and wages represent one of the most important expenses of any economic unit, information capability of

this ratio may be relatively high, especially together with any complex indicator such as formerly described net income of other relative indicators of profitability or expenses. In our opinion the ratio may serve for analytical purposes well. It is simple, transparent and comparable among various subjects not only with similar NACE. Even it is possible to compare with businesses or use it for macroeconomic analysis. Input data are accessible for external and internal users, KAU1 may be further modified or divided according to needs of analysts. For example it may be divided into external and internal expensiveness. In our opinion, KAU1 could be also further worked out to lower level of management, i.e. divisions, departments, and so on.

Fig. 3: KAU 1: Ratio of salaries and wages expenses per employee



Source: MoF CR (2018), online: <http://monitor.statnipokladna.cz/2018/>

Figure 3 depicts values of KAU1 in selected state-funded institutions and confirms growing trends of wages per employee in last 3 years. Especially in 2017 this trend is noticeable. Absolutely highest values of KAU1 were recorded in 2017 by FN KV (0.547 mill CZK per employee), FN Olomouc (0.526 mill CZK per employee), and FN Plzeň (0.519 mill CZK per employee). The lowest values in 2017 were recorded by FN SA Brno (0.465) and FN Brno (0.478). The difference between highest and lowest values of the indicator represents 0.082 mill CZK per employee in 2017. Absolutely lowest value of KAU1 in monitored years was recorded in 2015 by FN Brno (0.386 mill CZK per employee). It is

evident that the lowest values of KAU1 in the case of FN SA Brno and FN Brno follow adverse development of net income from main activities in given years and so salaries and wages probably were not the main factor of such significant losses. In that case it would be desirable to supplement financial indicators by other ratio of expensiveness. Further possible application of KAU1 could be in benchmarking or other managerial tool. Average (or median) values of KAU1 could serve as a benchmark and increase of its real values could be linked to any key performance measure.

Conclusion

Our findings confirm that dividing the state-funded institutions into homogenous groups according to prevailing activities could be a convenient assumption for purposes of financial management. It may enable cross-sectorial or even international comparison, thanks to standardized accounting outputs that are published on the accrual basis regularly from 2011. Though financial statements are not a subject of external audit, which may be debatable, they must be authorized by the founder and they are controlled by the Supreme Audit Court.

In the paper we concentrated on limited sample of the Czech faculty hospitals and used 2 complex and 1 relative financial indicators and traced their development between 2013 and 2017. In the case of the first complex indicator, i.e. net income from main activities figures showed a considerable oscillation within plus and minus values and important differences among hospitals. Often these differences were not recorded only in short time period. So repeatedly recorded high losses should be a subject of further analyses. In the case of the second indicator, i.e. net income from economic activities 8 hospitals recorded profits in all monitored years which may be assessed positively. 1 hospital showed no economic activity which seems slightly unusual and should be verified. Values of net income from economic activities oscillated mainly from 0 to 5 mill CZK yearly, only in the case of 1 hospital they were noticeably higher. The third indicator, i.e. KAU1, represent a ratio of salaries and wages per employee per year and its values oscillated between 0.386 and 0.547 mill CZK in monitored years. KAU1 development confirms a growing trend in the case of all evaluated hospitals though in hospitals that present the highest losses from main activities values of KAU1 are rather lower than in the rest of examined sample.

In our opinion selected financial indicators have enabled to analyse financial position and profitability or expensiveness of examined sample suitably and their applicability for purposes of financial management was proved. Of course for deeper analysis it would be

desirable to enlarge a scale of used indicators, search for causes of unfavourable development and utilize selected indicators in the terms of additional tools like benchmarking and other. In our further research we would like to enlarge examined sample and number of indicators, especially by other relative indicators of expensiveness.

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