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Considerations on hospital financing in the context of health care decentralization

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Abstract. *2010 represented the moment when the reform was applied in the health field by decentralizing the management ofthe health units with beds (hospitals). This analysis points out the way hospital financing was carried out after that and the main problems the health care system of Romania has to deal with. In the end there are presented a few personal considerations on the main challenges for the future.*

Keywords: decentralization; hospital financing; health insurance; local administration; cost per patient.

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2010 represented, after a much too long delay, the moment when the decentralization of the activity of health protection was performed by transferring the hospitals from the administration of the Ministry of Health to the administration of the local public authorities (county councils and local councils). In this study we analyzed how the transfer of property was carried out and how it was conceived to provide financing for the health protection units with beds in 2011. We point out, since the beginning, that the decentralization of the health units is an absolutely necessary measure and which should have been taken a long time before. The responsibility of the local public authorities for the management of the public needs is a principle which also had to be applied in the health system as it was done in the community assistance, public services, education, culture, sports, etc.

In the analysis of the decentralization process of the health units with beds we focused especially on two elements:

1) The way the decentralization of hospitals management carried out;
2) The financing system of the health protection units with beds after being transferred to the patrimony of the local authorities.

Concerning the first level of the analysis, how the decentralization was carried out, we have to point out that the hospitals classification in three categories (of national importance, which continue to be administered by the Ministry of Health; of regional and county importance – which are transferred to the Local Councils) is the right one even if there are opposite points of view concerning the regional hospitals which are going to be analyzed separately. As for the rest, although one may notice a significant interference of the politics in the act of the reorganization, we may consider the decentralization of hospitals management as a benefit for Romania.

However, there are two inexplicable elements of the hand over-take over procedure of the hospitals. The first one: why didn't the Ministry of Health restructure the hospitals compliant to the analyses performed on closing up some hospitals, on the reduction of the number of beds by merging some hospitals and they transferred to the administration of the local authorities hospitals which later on were closed down or turned into retirement homes?The second one: why was the hand over–take over procedure a forced one; some town halls and county councils were obliged to take over the hospitals although they didn't want to?

The two aspects underline the lack of responsibility of the political factor from the ministry, the fact that they did not take responsibility for the negative, unavoidable effects, too, of a process that was absolutely necessary. Moreover,

the social effects are much more increased when one lets the population believe that the local authorities are incompetent and cannot administrate a hospital although the reality is entirely different.

As for the management of the regional hospitals by the county councils the financing problem is rather complicated because the National Health Insurance House (CNAS)reimburses, compliant to the cost standards, a certain amount for each patient, as a rule 1,600 lei (irrespective of his/her residence). But to the regional hospitals, in accordance with the health procedures, there are sent the serious cases which cannot be solved by the local hospitals, and need specialists, medical equipment and health care that is much more expensive than for the common cases. This means that the regional hospitals will provide health care with an additional cost for a category of patients which cannot be supported by the county council the hospital belongs to because the patient is not a resident there, which will lead to the accumulation of debts and, most probably, to closing down these hospitals in the following years.

We think that the cost standard for the regional hospitals should be changed for emergency cases because otherwise one of the following scenarios may happen: either the hospitals accumulate debts and go bankrupt; or they refuse to receive patients from outside the county transferring them to the national hospitals which may result in delays in patients' treatment – delays that may be fatal sometimes.

For the second part of the analysis, that of hospital financing, it is necessary to look retrospectively how the expenses were supported by the CNAS. In Table 1 we presented the evolution of the patrimony elements of the institution during the period 2007-2010.

Table 1

The evolution of the balance indicators of the National Health Insurance House during 2007-2010

– thousand lei –

Indicators	2007	2008	2009	2010
Total assets	4,205,172.3	4,505,762.1	4,825,290.5	5,723,370.8
Total debts	373,885.0	504,022.0	3,160,525.4	4,534,651.2
Net assets	3,831,287.3	4,001,740.1	1,664,765.1	1,188,719.6

Source: CNAS balance for 2007-2010.

As one may notice, the volume of the debts accumulated during the analyzed period increased every year, and its amount exceeded 4.5 billion lei, which represents approximately 80% of the institution assets. The fact that CNAS was on the brink of insolvency in 2010 justifies the haste with which the

decentralization was carried out and, something very important, the hospitals were handed over with debts and though they are admitted by the central authorities.

Concerning the budget indicators one may notice that the CNAS revenues registered fluctuations during the period 2007 – 2010. The registered amounts are presented in Table 2.

Table 2

The evolution of the revenues of the National Health Insurance House during the period 2007-2010

– thousand lei –

Indicators	2007	2008	2009	2010
Revenues initially forecast	11,925,772.0	16,923,536.0	16,022,646.0	15,865,336.0
Achieved revenues	13,080,571.1	15,780,537.4	14,623,750.9	17,258,727.0

Source: CNAS balance for 2007-2010.

The basis of the National Health Insurance House revenues, as it results from Table 2 has serious deficiencies because the initial provisions are much below the accomplishments of2007, and in following years they are over dimensioned. One can clearly notice that the effects of the economic crisis were underestimated in 2009 which contributed to the fact that the amount of the accumulated debts increased exponentially, and the institution decapitalization became alarming. In 2010 the situation was contradictory because the foundation of the revenues was done according to the level of constraint of the whole economy (up to 2%) but the receipts were 18% higher than the year before.

Leaving aside the revenue contraction in 2009 one may conclude that health financing in Romania has registered a significant increase in the last four years, from 13 billion lei to 17.2 billion lei, that is over 30%,and that there are premises that this increase of the resources allotted to the health sector may also transpose into an increase of the quality of the health care provided by the public health system. In order to reach this objective it is necessary to have a more efficient management of public funds and they hope to achieve it by transferring the hospitals to the local administration, because even though CNAS spent more every year (except for 2009)they did not succeed in offering the population an improvement of the health care. The evolution of the spending during 2007-2010 is presented in Table 3.

Table 3

The evolution of the spending at the National Health Insurance House during the period 2007-2010

– thousand lei –

Indicators	2007	2008	2009	2010
Spending initially forecast	11,812,119.0	16,775,238.0	15,299,568.0	15,725,390.0
Achieved spending	12,859,102.8	16,636,256.2	15,274,757.8	17,507,384.0

Source: CNAS balance for 2007-2010.

The spending justification is much more realistic compared to the revenues, which is certified by a rather small difference between the initially forecast amounts and the amounts achieved. However, one may also notice in this institution, as well as in many others, the practical application of the damaging principle according to which "if there is money in the budget then it has to be spent by all means". This explains why in 2008 it was spent approximately 29.4% more than the year before although the economic crisis was unavoidable, and its signs became obvious for everyone ever since the middle of the year.

Although it was a year of crisis, 2009 may be characterized as the year when the reform started because the general reduction of spending only would not have resulted in an improvement of the health care. Moreover, people became aware of the fact that increasing public spending for health (as it happened in 2008) does not increase quality if the money is not correctly managed.Considering this and the fact that the accumulated debts due to the registered deficit (Figure 1) reached a record level, the decentralization of hospital management had become a priority.

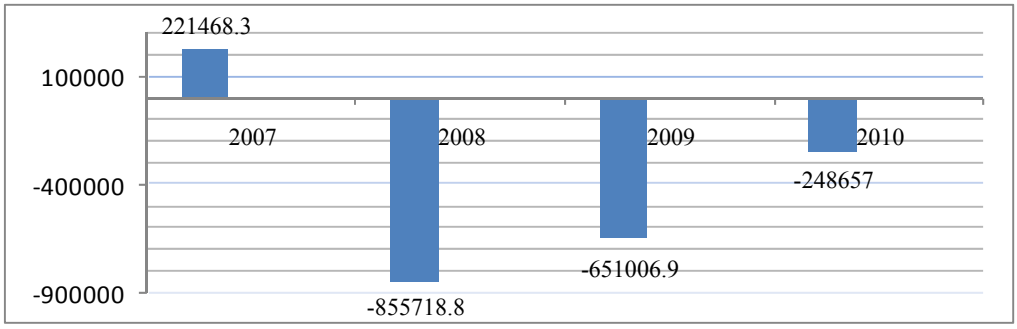

Figure 1. *Budget surplus/deficit (expressed in thousandlei) of the National Health Insurance House during 2007-2010*

In the management of the national unique fund for health insurance registered the highest budget deficit of the past ten years.Although 2007 started with a budget surplus, although the revenues collected in 2008 increased by more than 20%, still the executed spending was even higher and lead to over 5% deficit.

The deficit accumulation from every year leads to creating financial blockages for the suppliers of the health system which triggers the snowball effect in the private sector (manypharmacies went bankrupt during this period)which finally affects the same public budgets by the lack of contributors or by the decrease of the paid contributions.That is why an increased exigency is necessary for the management of the public funds so that not to affect the other fields of activity and a more rigorous analysis of the financed spending. For the period 2007-2010,the structure of the spending performed by the CNAS is presented in the Figure 2.

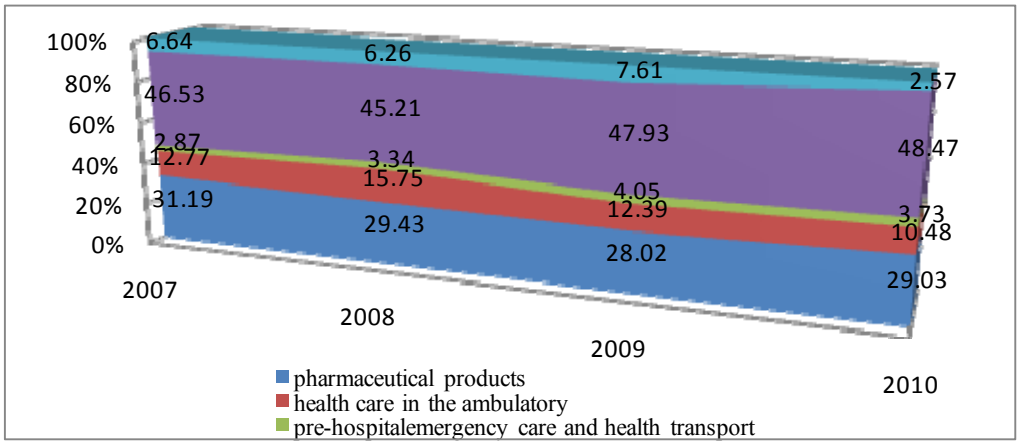

Figure 2. *Structure of the spending reimbursed by the National Health Insurance House during 2007-2010 (in percentages)*

The weight of spending for the reimbursement of the health care provided by the hospitals is the highest and tends to consume half of the entire national unique fund for health insurance.Medicine and health materials consumption follows in the top with a constant weight of approximately 30%. We can see that the two activities consume about 80% of the CNAS budget every year. From this perspective we think that the decentralization of the hospitals was the only solution to reintroduce the notion of efficiency in fund management.

From the analysis of spending we notice another element which should interest the managers of the Romanian health system and that is to cut spending (both as weight and net amounts) for health care in the ambulatory. One may see that in our country there is no preventive medicine but only curative medicine which has a double negative impact. First, because a sick population has diminished work productivity, and secondly the costs for disease treatment are much higher than for their prevention.

All elements presented above converge to the idea that the decentralization of the health system was something necessary but concerning the procedure there were many weak points. But what is going to happen after that? What indicators should improve? Why would the local authorities be a better manager than the central authorities? Why couldn't they reduce corruption in the Ministry of Health and in the CNAS?

The answers to some of these questions and tomany others don't have any objective argumentation, but it is sure that the elaboration of cost standards and their application will have results (due to spending reduction) after the decentralization only. 2011 represented the enforcement of these instruments. But in this case as in most policies applied in the health sector, the decisions were taken in the last moment, without a rigorous foundation and following the saying "don't do today what you may leave for tomorrow". So by a ministry order (Order of the Finance Minister no. 7/2011), in compliance with the cost standards, the budget credits were limited to the level of the administrative territorial units. It is a laudable measure meant to help the local authorities but it has to be justified. More precisely, this order should show the local and county councils the maximum spending to be performed so that the local budgets may be correctly elaborated. Except that, in Iasi for example, although the number of the medical and auxiliary personnel is much below the maximum admitted level, by applying the cost standards they obtained an amount which covers the salaries of the existing personnel (although insufficient especially due to doctors' migration) for 10 months only. Moreover, this order was changed in March and it increased the limit so that at the beginning of the 4th term there were ensured budget credits (but not the related funds) for 11 months only in 2011 for the whole Iasi County.

The doctors and nurses solved the problem because they left the national health protection system and thus the budget credits became enough.

In these conditions the doctors' migration will continue because the uncertainty of their job is significant and the hospital managers don't have any arguments in the discussions with the system unions.

The amount of the health services reimbursements by the CNAS was also limited to 1600lei for each case solved. However, there still are two unsolved issues concerning this matter, even if they apply a complexity ratio to the mentioned amount.

The first one refers to the fact that this amount is insufficient for some categories of hospitals. For example, for the pneumophtisiology specialty the food allowance is not enough to provide for the caloric level stipulated by the law and it is a treatment of long duration.

The second one refers to the limitation of the number of patients a hospital has to provide care for per year. For example, at "CuzaVoda" Maternity Hospital of Iasi, the number of assisted births approved by the contract between the health unit and the County Health Insurance House of Iasi for 2011 is 500, although in 2010 there were 1,000, and in the hospital records there were registered over 700 births and pregnancies in various development stages. The question one should ask is: after reaching the 500 birth limit stipulated in the contract will the pregnant women be denied the right to give birth in this public hospital?

The situation of the town halls is also very sensitive because they administer hospitals with debts to the suppliers of community services (water, salubrity, heating) and which should have the supply of these services interrupted although the debts were accumulated during the central administration of the health units.The delay of the money transfer also made impossible for these hospitals, which provided food to the patients by a catering system, to offer the daily food to the patients.

That is why the payment of the overdue debts of the hospitals has to be a priority so that the decentralization may bring the desired results because the local authorities don't have any specialists in hospital management who may find *miraculous, overnight* solutions,so that the activity may be carried out fluently and with increased quality. Thus, the hospitals will have the same destiny as the SMURD stations from many localities in Romania: to be closeddown.

There is another very important aspect in this process of decentralization which is not well clarified: the necessary financing sources for equipping and modernizingthe hospitals with medical equipment and instruments. We consider that the role of the Ministry of Health is very important at present to provide counselingto the local public authorities to elaborate new projects in order to obtain European funds because there is little time left to access the structural funds. Otherwise, the hospitals equipment will get older, not to take

into account the moral depreciation, which will lead to a decrease in the quality of health care.

In the end we can draw some conclusions:

- the hospital decentralization should lead to a change in the population's view concerning health care and should move the center of gravity from therapy to prevention;
- some hospitals were closed down in a brutal manner and without offering, at least temporarily, an alternative to the inhabitants of those localities;
- the cost standards represent a big step ahead to make more efficient the use of the public money, but the exceptional situations should not be eliminated, even if it is known that most of the times the enforcement of the law is an exception in Romania. One should not endanger the life of certain categories of patients just because their treatment is more expensive.
- the situation of the regional hospitals should be considered carefully because the refusal to receive patients from other counties may have very serious consequences;
- I think that the position of the CNAS is not appropriate to the present time, and the way they impose contracts signing is abusive and very little adapted to the needs of the localities;
- I am very skeptical about the possibility to modernize hospitals in the next period because the financial autonomy of the local public authorities is very limited. Hospital financing in towns and cities will be in many cases similar to financing the SMURD emergency service from the communes and the result will be the same: closing down the units.

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