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Establishment of inter-territorial communal hospital economic unions as a possible tool for reforming of secondary healthcare, facility management on the hospital level and general hospital network planning

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Why is effective reform of the secondary (hospital) healthcare so important?

- **The highest expectations of population in health area are related just with this part of healthcare sector (the patients call to this level of care in the most complicated cases) – therefore, we need follow improving of quality of hospital services in the first place**
- **Just this part of healthcare sector consumes the most of available resources – therefore, we should increase economic efficiency and rationality of financial, staff and physical resources here in the first place. It will positively affect on healthcare system in whole**



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General strategies to development of hospitals in European Region

1. Hospital departments as healthcare providers on behalf of payer-party (purchaser) via contracts for service procurements
2. Expansion of hospital autonomy and self-administration (change in their legal status, right for autonomous decision-making, functioning on the basis of regulated market tools)
3. Hospital quality improvement measures:
 - implementation of incentives for optimization of clinical practice and clinical audit
 - new management concepts for healthcare services, which consider allocation of responsibility for quality between management and medical staff
 - hospital payment mechanisms revision
 - changes of organizational environment

*(The European Health Report 2002,
WHO Regional Office for Europe)*



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Basic principles of healthcare services provision in general hospitals

European approach

A. Healthcare facility level (micro-level):

- Hospital autonomy
- Contractual strategic procurements of healthcare services with public funds
- Result-oriented, development of incentives for improvement of quality and efficiency of resource utilization, hospital payment mechanisms
- Clear and strict referral system between primary and secondary (hospital) healthcare, hospitalization requirements (health indication-based only)
- Efficient and intensive outpatient technologies are used more often; there is a constant trend towards decrease of ALOS in case of hospitalization

B. Regional level (macro-level):

- Development of inter-territorial hospital districts, wherein a full-fledged general hospital is established for covering no less than 100 000 population and providing access to high quality hospital healthcare in an 1-hour time (maximum distance 50-70 km) – other hospitals within the district provide specialized and non-specialized long-term medical-social aid for chronic patients (hospices, nursing centers, etc.)

Ukrainian practice

A. Healthcare facility level (micro-level):

- Hospitals are budget units which have no any autonomy and flexibility
- Lack of contractual relations between state as purchaser and hospitals
- Hospital financing is based on a item-budget principle, which does not support to forming incentives as well as quality and efficiency improvement
- Lack of a strict referral system between PHC and SHC, following bed-day schedule including ungrounded hospitalization cases and using hospitals as free-of-charge social care facilities

B. Regional level (macro-level):

- Strict connections of hospital network to administrative and territorial structure of the country without any regard to population number covered
- Current lack of functional allocation of services between intensive care and chronic/elderly hospitals, with the latter ones to provide medical-social services

The results of the current Ukrainian practice

Ineffective planning

Low healthcare quality

Ineffective utilization of scarce public resources



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Three key decisions to start the reform at Ukrainian hospitals

1. **Expansion of hospital autonomy (micro-level)**
2. **Implementation of public contracts for healthcare service procurements at hospitals**
3. **Implementation of new approaches in hospital network planning (macro-level)**

NB: other changes are linked to these key decisions!!!



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What can be done on micro-level (particular facility level)?

There are no legal barriers for changes on the hospital management level.

By implementing relevant local authorities' decisions, it is possible to:

- 1) increase autonomy level for state and communal hospitals sufficiently by their re-organization into public/communal non-profit enterprises (i.e. without even changing their form of ownership) – Art. 3 Foundations of the Healthcare Legislation of Ukraine; Art. 81, 83, 84, 85, 86, 87, 167, 168, 169, 170, 171, 172, 173 Civil Code of Ukraine; Art. 46, 52, 54, 62 – 72, 76, 77, 78 Economic Code of Ukraine; relevant articles of the Law on Local self-government (Art. 26, 43) and Law on Local state administrations (Art. 18, 19)**
- 2) Implement contractual public procurements of healthcare services, as well as new result-oriented payment tools for hospital activities (at least the global budget) – current legislation on public procurement**



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What could be appropriately done on the macro-level (level of planning and optimization of a hospital network)?

- From the economic point of view, it would be best to implement the hospital districts strategy in its radical way, which would be accompanied with shutting ineffective hospitals down. **However, this would be impossible without breaking Article 49 of the Constitution of Ukraine and making unpopular decisions...**
- This strategy could be implemented in the most effective and radical way by parallel implementation of the administrative and territorial reform... **However, this reform is being stalled at the moment, so it is unknown when it could be started...**
- **HC system cannot wait anymore!!!**



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Ukraine: basic deterrent factors and barriers on the way to making decisions on changes of hospital economic and legal status and radical implementation of the “hospital districts” model

- Obviously, current legislation is not pushing local authorities to making relevant decisions (as a result, we observe so called “waiting policy”)
- Leaders and decision-makers on the national and local level are not well informed of European experience and possible positive results of its application
- There exist insufficient understanding of the fact of ineffectiveness for keeping outsized general hospital network and negative influence of such policy on quality of services provided at hospitals as among local leaders, as population
- Fear of making decisions aimed at shortening number of hospitals, which look unpopular for majority of local administrations and population
- Fear of being accused of breaking the Constitution of Ukraine, which forbids reducing network of state and communal health facilities
- Management and medical hospital staff may turn into opponents of the reform and provoke opposition among local population without clear comprehension of the hospital districts strategy and fear of losing their positions or job



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Is there any way out and what can be done on macro-level in the current political conditions?

Implementation of the strategy of step-by-step establishing of hospital districts by so called “soft” scenario:

- **Current Economic Code (EC) of Ukraine considers a possibility of establishing economic unions of enterprises, including public and communal ones**
- **This option may be absolutely legally applied for establishing inter-territorial economic hospital associations with communal non-commercial enterprise status, while relevant local councils being founders of such associations**
- **Inter-territorial communal non-profit hospital corporation would be the most effective form for establishing such economic union of communal hospitals which have a status of communal enterprises**



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What are advantages of such decisions? (1)

I. Hospital autonomization due to changes of their economic and legal status and reorganization into communal non-profit enterprises



flexibility in making decisions on allocation of obtained public financial resources, definition of own organizational structure (departments, bed fund, staff), innovative approaches to organization of staff salaries...



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What are advantages of such decisions? (2)

II. Transfer to work in public contractual conditions for procurement of healthcare services



New result- and incentive-oriented payment methods of hospital activities



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What are advantages of such decisions? (3)

III. Establishment of hospital corporations



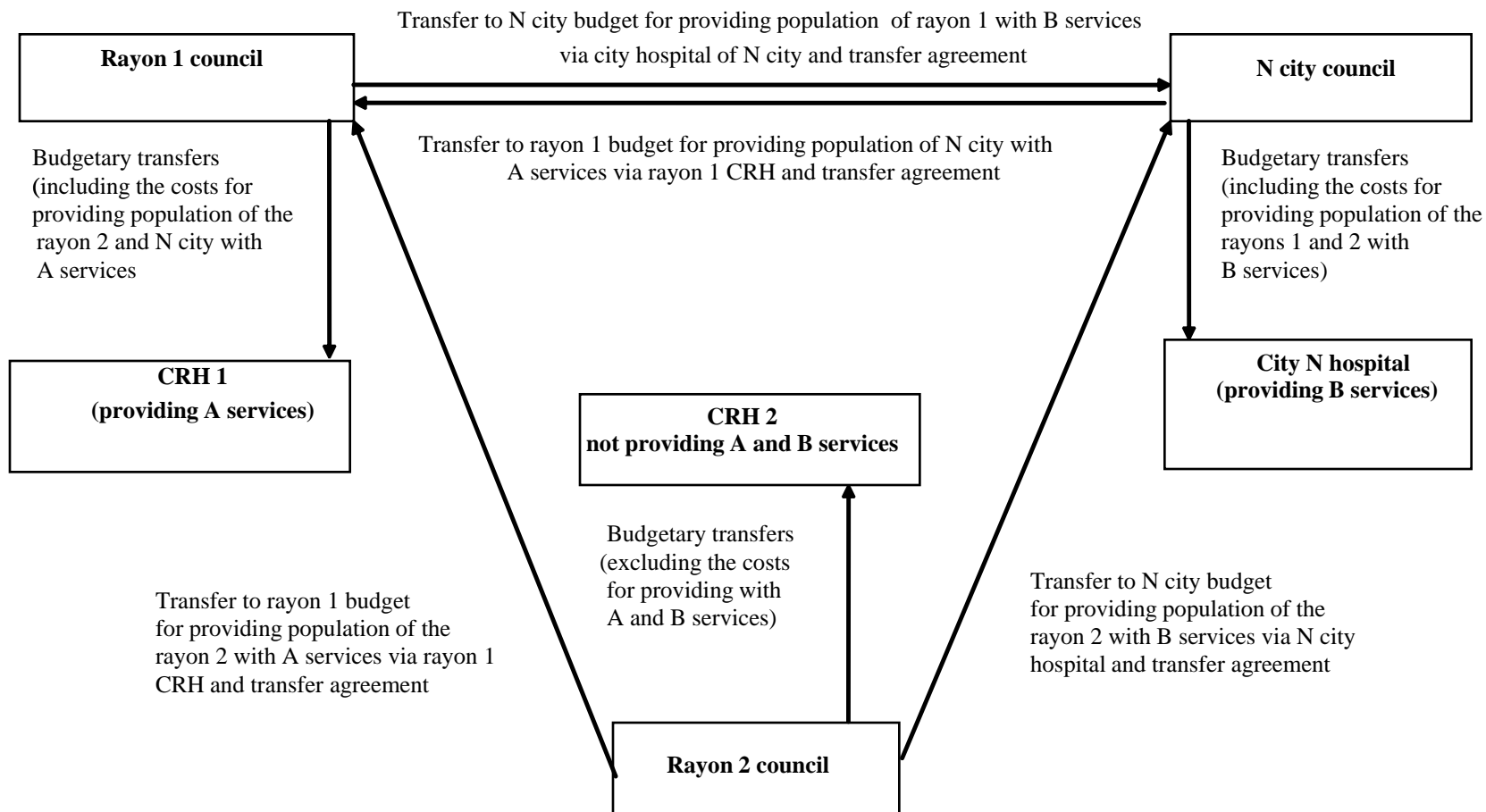
- **Clear re-allocation of functions between members of a hospital corporation for providing the whole population of the covered area with services and support to functional restructuring of bed funds, continuity between healthcare and social aid, their following step-by-step integration**
- **Organization of effective administration of property, human and financial and physical resources available for corporate members, in order to increase quality of medical services and optimize expenses**
- **Service quality improvement by concentrating specific services, merging resources and improving efficiency of their utilization, providing saving effect out of scale**
- **Flexible and simplified financial procedure (refuse from the most unhandy bureaucratized system for coordinating transfers and agreements on options of their transfers between different budgets with the Ministry of Finance of Ukraine)**
- **Removal of necessity to make unpopular decisions dealing with hospital network optimization (hospitals – corporate members – are not shut down or reduced, each facility keeps status of an independent legal body, but there appear some stimuli for optimization of expenses dealing with ineffective basic funds holding, provision with ineffective services, etc.)**



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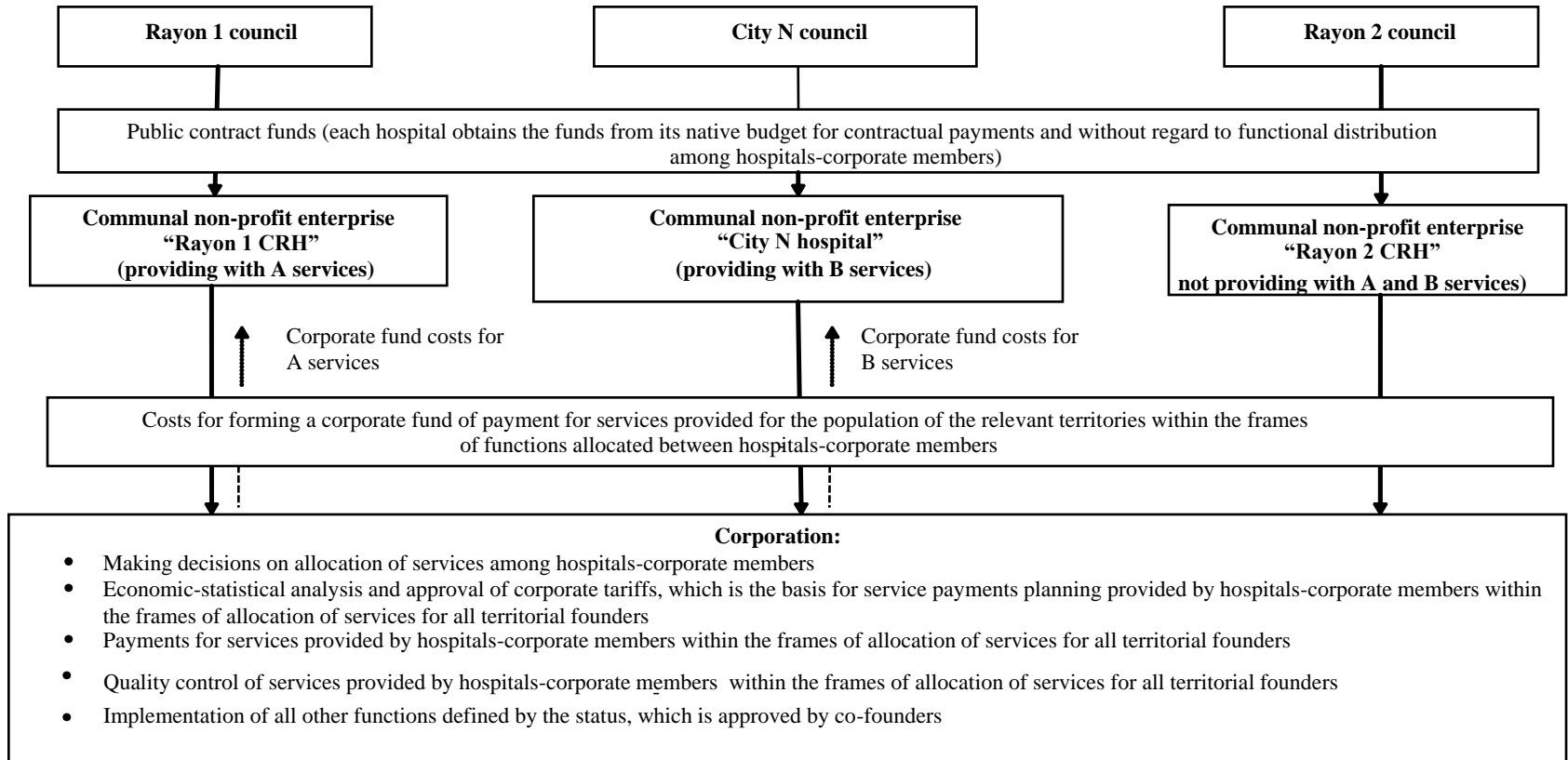
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Financial scheme for allocated services via inter-budget transfers without a corporate status (Art. 93, p.2 p.1 Art. 101 and Art. 104 of the Budget Code of Ukraine): possible option for territorial conglomerate of 2 rural rayons and oblast level city, each having their own hospitals



Financial scheme for allocated services with establishment of an inter-territorial communal non-profit hospital corporation (possible option for a territorial conglomerate of 2 rural rayons and oblast level city with their own hospitals)

Local authorities-co-founders of an inter-territorial communal non-profit hospital corporation:



Basic changes of the financial scheme for allocated functions with establishment of an inter-territorial communal non-profit hospital corporation

Financial process for allocated functions may be changed in the following way:

- funds allocated for financing re-allocated functions will be passed to the local budget, from which any hospital is financed and without regards to re-allocation of functions
- each hospital-corporate member will obtain funds in accordance to a public contract for provision of services in full measure; it also includes necessity to finance those services, for which other members are responsible after having been delegated with responsibilities within a corporate body
- each hospital-corporate member will be obliged to forward funds provided for financing re-allocated functions to the corporate account
- corporation takes responsibility for organizing financial activities of re-allocated functions, providing those hospitals responsible for those functions with relevant funds

NB: need in signing agreements on support to inter-budget transfers between local councils and coordinating those agreements with the Ministry of Finance vanishes – corporation is not a subject of inter-budget relations!!!



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Major positive moments linked to establishment of an inter-territorial communal non-profit hospital corporation

- **Financing allocated functions via established corporation simplifies financial process**
- **In case of perspective transfer financial resources planning and payments for hospital activities on the basis of calculations for real value of a service unit provided, a corporation is able to correct payments, while basing on real volume of services provided, hence rendering “shadow” subsidy assistance or overpayment for re-allocated services impossible**



Hence, financial process becomes a lesser burden for local administrations and clearer activity for hospitals!!!



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Summary: steps towards the goal and role of local authorities

- 1. Support to relevant knowledge and comprehension of the problem as well as political will for changes at local executive and representative authorities responsible for decision-making process**
- 2. Making decisions on re-organization of subordinate rayon and city hospitals from budget facilities into communal non-profit healthcare enterprises by relevant rayon and city councils**
- 3. Transfer to public procurements of healthcare services from hospitals on the basis of contracts and implementation of new result-oriented payment methods for hospital activities**
- 4. Making consolidated decisions on establishment of communal economic unions of such enterprises in a corporate form and approval of a corporate statute by relevant rayon and city councils**



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