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## **Health Care Financing in the Kupiansk Rayon Under the New Budget Code**

### **Background and introduction**

In April 2002 the Kupiansk rayon administration approached the LARGIS project asking for support in coping with problems in financing health care facilities in the rayon. Kupiansk administration has believed that these problems arise from the new Budget Code and new allocation formula, which has not taken into consideration some specific features of the rayon. In particular, it results in the dramatic shortage of resources for the central rayon hospital. The LARGIS project has decided the Kupiansk case provides an excellent opportunity to analyse practical problems of the allocation formula implementation. There were agreed to send two experts (Paweł Swianiewicz - a Polish expert in intergovernmental finance and Bohdan Tymkovich - an Ukrainian expert in health care management) who would analyse and describe the case. LARGIS experts asked the rayon to provide some basic background data prior to the visit.

This report includes summary of findings and conclusions from the visit to Kupiansk, which took place 6-8 May 2002. During the visit experts met with:

- Serhiy Radkov - head of rayon administration
- Ihor Lutsenko - main doctor of the rayon hospital
- Nina Lebedynska - deputy head of rayon administration (responsible for financial and economic issues)
- Lilia Hryhorova - head of the financial department in the rayon
- Serhiy Niedostup - main doctor of the city hospital
- Oleksandr Shapovalov - head of the financial department in the city

## **1. General description of the problem**

### **1.1. Health care facilities in the Kupiansk rayon and city**

Kupiansk is a city of oblast significance, so it has a separate budget from the rayon. The total population of the city is about 70,000, and it is the largest city in the eastern part of the Kharkiv oblast, while the population of the rayon is about 31,000.

It is very difficult to discuss health care facilities of the rayon and of the city separately (in spite they are financed from separate budgets). The most important facilities are located on the territory of the city (which is located centrally in the rayon) and - as show later - these

facilities are used by both city and rayon citizens as well as by citizens of several surrounding rayons. Local health care facilities consist of:

- central rayon hospital with 400 beds and over 230 physicians,
- subordinated 3 rural hospitals with a total number of 80 beds and over 40 physicians,
- central city hospital with 250 beds and 100 physicians,
- 28 medical stations (feldshersko-akusherski punkty, FAP) located in various villages of the rayon,
- the railway hospital (located in the Kupiansk city) with about 120 beds and 60 physicians employed.

As it is shown in the table 1, the ratio of number of beds as well as number of physicians per 10,000 population is lower than national average, and even more lower than Kharkiv oblast average (although it should be noted that “density” of hospital beds and physicians are in Ukraine higher than in Poland or most of EU countries – see table 1). Therefore the conclusion that financial problems arise from over-supply of health facilities in the rayon does not find a support in statistics. Although, one might argue that both national and oblast averages include also highly specialised facilities financed from the central and oblast tiers, but as we will show later, hospitals in Kupiansk include also several departments of specialised character and serving wider geographical area.

**Table 1.**

	Beds per 10,000 citizens	Physicians per 10,000 citizens
Kupiansk rayon+city	84	36
Kharkiv oblast average (2000)	99	52
Ukraine average (2000)	95	46
Poland	62	24
Germany	77	34
Sweden	52	26
United Kingdom	49	16
USA	41	27

*You noted: data for other countries 1994-1996*

As it is shown in the table 2, that beds in the rayon hospital are very much busy - an average bed is occupied 280 days a year; while in the city hospital the usage of beds is much lower. Unfortunately, we do not have similar data for the railway hospital. Comparative data presented in the table 2, show that intensity of hospital-bed usage in the Central Rayon Hospital is not significantly different for cities in Poland, and the demand for services of the hospital is quite high. The ratio is much lower in the Kupiansk City Hospital, and the demand for its service would require more careful investigation.

**Table 2.**

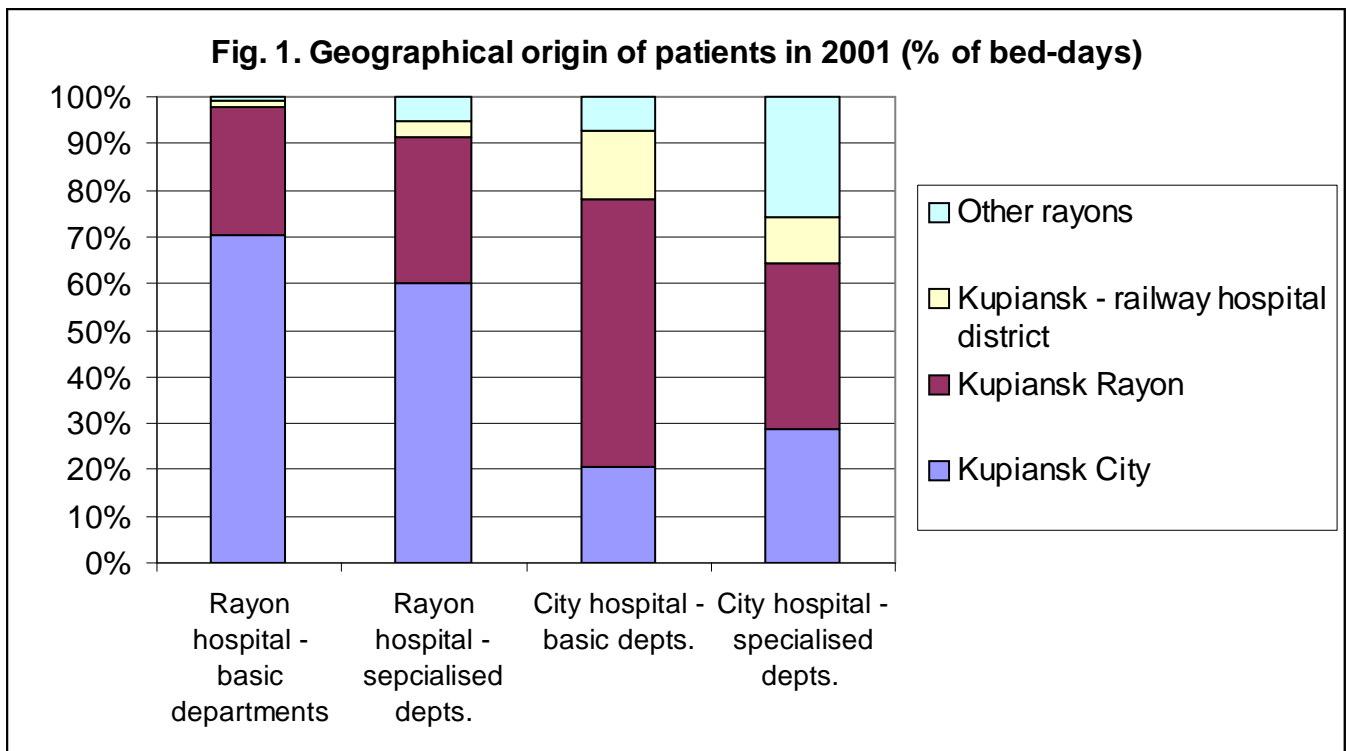
	Ratio of patients' bed-days to number of beds
Kupiansk rayon hospital	280
Kupiansk city hospital	124
Comparative date for some oblasts average in Ukraine (2001):	
Kharkiv oblast	335
Lviv oblast	332
Donetsk oblast	341
Odesa oblast	310

Comparative date for some cities in Poland:	
Krakow	250
Poznan	234
Katowice	298
Bialystok	320

In both city and rayon hospitals, only part of departments can be classified as basic health services, which according to the Budget Code should be financed from the city or rayon budget. 7 departments in the rayon hospital and 3 departments in the city hospital could be classified as specialised, which according to the Budget Code should be financed by the oblast budget. In the rayon hospital only 40% of beds are located in basic departments, while remaining 60% in the specialised departments. Because Kupiansk is a major urban centre of the eastern part of the Kharkiv oblast, it seems reasonable to keep these specialised facilities and not to require patients to travel to the oblast capital (over 120 kilometres) in order to get specialised service. Equally high rate of usage (number of bed-days to beds) of basic and specialised departments in the rayon hospital, suggest there is a real demand for these services (although one should remember the usage ratio in the city hospital is much lower).

As it was mentioned above, both city and rayon hospitals serve not only population of their respective local government, but also of surrounding territorial units. The summary information on geographical origin of patients is presented in the figure 1. At least three features are worth to stress:

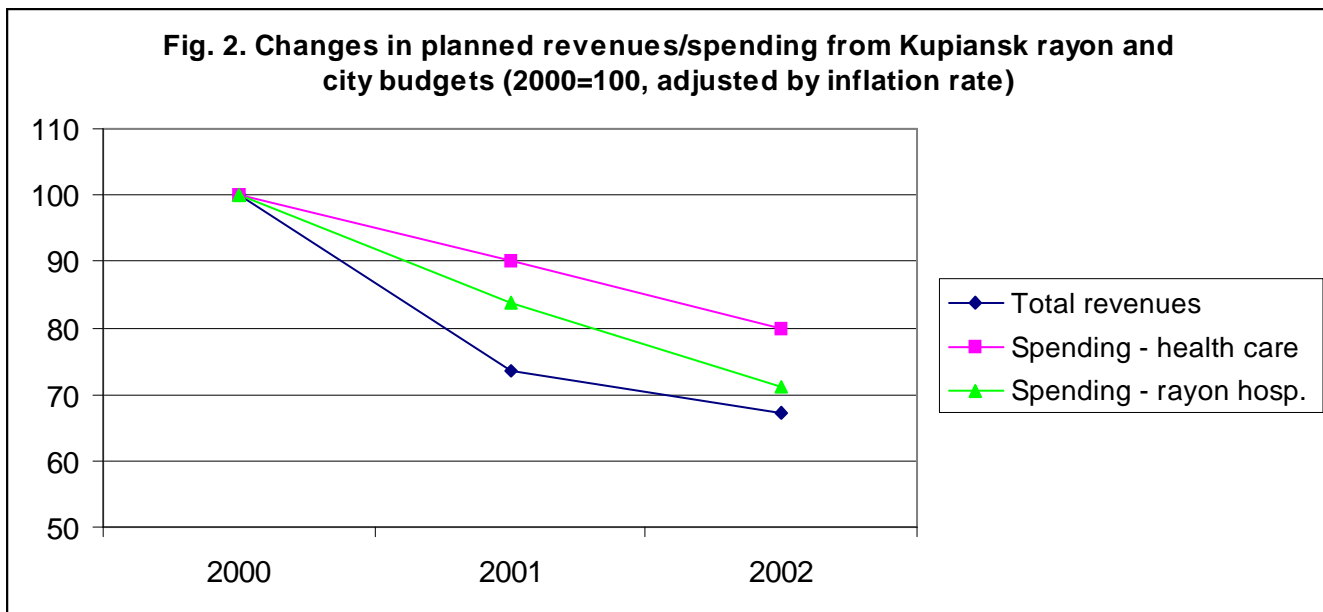
- citizens of the Kupiansk dominate in the structure of patients in the rayon hospital while citizens of the rayon are the largest group among patients in the city hospital. One may argue that passing the city hospital to the rayon and vice versa - transferring the rayon hospital to the city would make a situation slightly more logical. The possible counter-argument might be that rayon hospital is much bigger, and that in absolute numbers more Kupiansk rayon citizens use rayon than city hospital, but the same could be said about Kupiansk city dwellers – in absolute numbers many more uses rayon than city hospitals. The present ownership situation does not look logical
- citizens of the railway hospital district are an important group of the city hospital patients, although they are excluded from calculation of spending needs in the city or rayon of Kupiansk
- patients from other rayons are invisibly small group in the “basic health care departments” of the rayon hospital, but they constitute a quite visible group in specialised care departments (especially in the city hospital, to a lesser extent also in the rayon hospital).



## 1.2. Changes in the financial situation

The financial situation of both city and rayon has been gradually deteriorating over last few years. As it is shown on figure 2, in 2001 planned budget revenues (in real terms, i.e. after adjusting by inflation rate) were just 74% of those planned in 2000, and plan for 2002 is even lower – about 67% of real 2000 level. The shape of changes has been quite similar in city and in the rayon. In order to have a common comparative base, the figure 2 compares planned budget figures, however it should be noted that both in 2000 and 2001 real execution was substantially higher than planned. Discovering reasons of such discrepancy as well as answering whether in 2002 we may expect a similar difference between planned and executed budget would require a separate study out of scope of the present report. Nevertheless, comparison of budget execution in 2000 and 2001 also shows decrease of the budget, and it does not change the general picture of the worsening in the financial position. The decrease in revenues planned for 2002 is especially striking, since in the scale of the whole Ukraine rayon and city budgets show a modest increase.

The change of total expenditures on health care, as well as the change of expenditures planned for the central rayon hospital in Kupiansk show similar trend, although figure 2 suggest that local authorities has been trying to protect spending for the health care more than other sectors. The formula calculation of expenditure needs in health care suggests even sharper decrease of available resources. The based on formula calculation of needs equals about 3.9 million hryvnia (total for the city and rayon), while health care expenditures planned in the budgets equal almost 6.5 million hryvnia.



It is believed that this very low formula estimation of needs results from following factors:

- in spite of assumption that oblast level should keep about 35% of resources for the health care (while 65% should be transferred down to the rayon and city tiers), the Kharkiv oblast kept over 50% of allocated resources;
- the formula assumes financing by rayon and city level only basic health care, while two hospitals in Kupiansk include also specialised departments, which are assumed to be financed from the oblast budget (the new formula for Budget Transfers 2003 is supposed to take into account this issue). Local authorities in Kupiansk report that oblast authorities refuse to co-finance specialised departments in Kupiansk, suggesting instead their closure. As it was explained in the 1.1. section of this report such a solution is hard to be accepted by local authorities and local population;
- the formula takes into account number of local population (excluding citizens in the district of the railway hospital). In reality, as it was shown in the section 1.1., considerable proportion of patients (especially in specialised departments and especially in the city hospital) comes either from the railway hospital district, or from another rayons of the eastern part of the oblast. It should be noted that authorities of the rayon of Kupiansk negotiated a modest contribution of other rayons to the financing of the central rayon hospital (the new formula for Budget 2003 will include a special coefficient for such kind of re-transferring – pereadresovka). But this contribution reaches only less than 1.5% of the hospital budget, while real share of “foreign” patients is about 6%. Moreover, up to now this contribution is purely theoretical, in practice other rayons have no transferred a single kopyka to the rayon budget. (Unfortunately, we do not have an information if similar contributions have been negotiated for the city hospital, in which sharing patients from other rayons are few times bigger).

As a result of these factors, local authorities as well as managers of the hospital claim that the financial situation of the health care, and especially of the largest hospital – central rayon hospital – is extremely dramatic. Some extra support is needed if the hospital is going to survive till January 2003.

## **2. Possible recommendations**

### **2.1. Immediate (for the City)**

- It is our understanding that no decision has been made yet on the utilisation of the reserve fund which is in the discretion of oblast authorities under the new Budget Code. It seems that there are strong arguments to support the central rayon hospital in Kupiansk from this fund, before more permanent solutions are found;
- The issue of financing (or at least of co-financing) by the oblast budget of specialised health care delivered by city and rayon hospitals could be re-negotiated again;
- It should be investigated why oblast budget level kept over 50%, not 35% of the health care resources like in Ukraine average, and perhaps Ministry of Finance and/or Ministry of Health could try to persuade Kharkiv oblast to change this allocation. As a consequence more resources would be released to cities and rayons in the oblast, including Kupiansk. It might improve situation in Kupiansk both directly (formula normative for health care for city and rayons would increase) and indirectly (by improving financial position of neighbouring rayons it might improve chances to re-negotiate more substantial contribution to financing patients travelling to Kupiansk hospitals from other rayons).
- It is recommended that Bohdan Tymkovich and possibly one of foreign LARGIS experts would meet with oblast administration in Kharkiv and discuss these issues, getting also the oblast point of view.

### **2.2. Medium and Long-term implications**

- **for the City and Rayon:**
- The division of two hospitals between city and rayons is highly problematic. One of options worth to consider is joint running of both hospitals by the rayon and city. The Law on Local Self-Government provides such an opportunity to transfer real estate into joint ownership of territorial communities and realise point 6 of article 5 of the Chapter VI (Final Estimations) of the new Budget Code. Then, it would be needed making easier operational process in this hospital to provide second stage of these administrative transforming and personal reforms (what is the most painfully). It might be dividing of this city-rayon hospital on three legal entities: urgent health care medical station(s); the secondary health care city-rayon hospital financed partially by patients through voluntary medical insurance fund and / or charity foundation; and the specialised health care hospital financed from the oblast budget.
- Also, in the proper way, under the new Budget Code and Law on Local Self-Government it might be effective re-organising of real estate joint ownership (FAPs) of villages' communities, which population could be served by partial hospitals inside of the rayon.
- Data on number of patients in relation to number of beds in the city hospital should be critically reviewed for the longer period. Data from 2001 strongly suggest that some reduction in the scale of the hospital operation would be logical consequence of relatively low demand for some of offered services. In this case, regional or local Ukrainian auditor or consulting company specialised on such services could provide more detailed researches and work out appropriate recommendations for health care restructuring in Kupiansk (if any interest, it may be suggested several ones by MoH).
- **for the Oblast:**

- Establishing an inter-rayon specialised hospital(s) and financing it from the oblast budget will provide for cities of oblast significance the shortage of budget deficit problems, for instance, on 35 % for Kupiansk city budget and 6 % for Kupiansk rayon budget. For oblast it would reduce conflict with cities of oblast significance over their resistance to hospital's department closure.
- **for the whole country:**
- The further works on the formula have to reconsider that:
  - (i) catchment area of many hospitals very significantly from geographical boundaries. It is especially the case of cities of oblast significance and neighbouring rayons.
  - (ii) it is often hard to separate existing specialised services from basic services offered by local hospitals. The common solutions for co-financing specialised services by the oblast budget should be developed. (Actually, the working group on new formulae elaboration for Budget 2003 has already proposed to include into the oblast formula a coefficient, which supposes to re-allocate part of specialised service resources from oblasts to cities like Kupiansk. As well, MoH has met some contradictions under the new Budget Code implementation on that matter. Recently, they have worked out and forwarded to Cabinet of Ministers a range of amendments to the new Budget Code, which should reconsider some of statements there. Thus, a specialised health care would be financed from the public budget and oblast level's budget only).
  - It is very difficult to indicate simple solutions for these dilemmas. In their previous reports, LARGIS experts suggested that financing the whole health care from one budget level (probably oblast) would solve many problems, but we understand it is politically unacceptable in Ukraine. Another way, which might be more acceptable for rayons' level to solve these dilemmas, is to organise inter-rayons' (zone) health care administrative departments. Under the new Budget Code, these departments would operate zone budgets more carefully and sensitively involving into this process the local authorities and citizens.
  - In the long-run the organisational and financial separation of railway hospitals is hard to justify, and they should be incorporated in the regular health care system of the Ukraine. In particular case of Kupiansk it would solve many problems resulting from the fact, that population living in the railway hospital district is taken-out from the population considered by the formula allocation, but large proportion of these citizens uses services in city and rayon hospitals. That is why, on such case, experts of above-mentioned working group has proposed to put into a new formulae the more sensible coefficient for Budget 2003 health funds allocation. Moreover, under the new Budget Code all governmental department's hospitals (such as Ministry of Transportation, Ministry of Internal Affairs, etc.) must be transferred into the communal property.
  - A big deficiency of the local financial system in Ukraine is related to the way revenues from personal income tax as well as enterprise taxes are allocated to individual local governments. In general, these taxes contribute to revenues of that local government on which territory the company (paying the taxes or being employer of citizen who is a subject of personal income tax) is registered. The detail explanation of all problems and possible solutions related to such arrangements would require a separate report, but the present arrangement is unfair and produces problems especially for small towns or rural authorities. In particular, the Kupiansk rayon is hit by such an arrangement, and part of financial problems might disappear if the way tax revenues are allocated between local governments is changed. In most of countries in which personal income tax provides revenues to local budgets, the base is a place of

residence, not place of employment of the tax-payer (citizen). For example, such a solution is adopted in Sweden, Norway, Denmark or Poland. In case of taxes paid by enterprises, the solution adopted in Poland is that revenues are divided among local authorities on which the enterprise operates, proportionally to the number of employees working in enterprise's branches located on a given territory. The issue discussed in this item, does not seem directly related to health care financing, but has an indirect impact and arises during discussions of general financial situation in the Kupiansk rayon.