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Financing the Public Health System – Defining Reference Point for Optimizing Managerial Decisions

by Stoina Cristian Nicolae¹

Abstract: Financing the public health system represents a central reference point of the decisional algorithm necessary for ensuring an advanced management, in the sense that the purpose of this tactic is to analyse the current financial management, to formulate some observations and to present some authorised recommendations from the experts in the health domain, who could introduce a redesign of the managerial decisions in sanitary units organization, characterised by an institutional culture which is refractory to the changes imposed by hospital services rationalization.

The methodological approach of this paper, far from being exhaustive, is based on the analysis of the

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medical system, with emphasis on financing the medical care services. The evaluation is done by using some technical research instruments, as well as by processing some data with public character available on the official sites of Romanian public institutions, data that provide reliable information, valid for the analysed reference system.

Keywords: health assurance budget, health economics

JEL Classification: H75, I38

1. General Considerations Regarding the Public Health System

The public health system represents a priority centred on the national realities and traditions, comprising a spectrum of activities which imposes a strategic approach at national level.

Nationally and as an integrated tactic at European level, the health system represents a long term investment, with connected effects between the policies of this domain and other social policies, contributing to ensure a human capital, capable of managing any situation occurred in the environment in which it functions.

The investment in health is not measured in terms of immediate profitability, but it represents the “society's welfare” support, a system capable of creating externalities in the other domains of economic and social activities. From this point of view, the medical system transposes in a relation of equivalence the two concepts: health – fundamental constitutional right and the quality of life.

Summarily, health represents an indisputable and immeasurable resource of human personality, placed among the most important national values, and the policy in the health domain represents a section of general management science, a domain of national interest, which currently is in a comprehensive reforming process.

Having a defining role in ensuring the quality of life, the public health system occupies a place of priority in the agenda of government decision makers, which are more than ever preoccupied with a decisional algorithm that would solve the issue of health services at national level, focused first of all on ensuring the financial resources and their efficient use, in the sense that we have appreciated that the evaluation of health services is opportune. This evaluation aims to identify the vulnerabilities, slips and weak points of the system, without being dissociated by the financing mechanism.

The national health system is confronted with major difficulties localized in the area of financing and structural reconfiguration. Precisely for this reason, in adopting an optimal decision in the health domain, regardless of the approach type chosen by the decision

maker, the financial component holds a major role in any of the two deliberative ways of approach: rational or intuitive, reference levels different one from another, but complementary one towards the other.

In these circumstances, we appreciate that the generic presentation of the “public financing” notion is firstly imposed, a term often used for “public funds” or “amounts allocated from the state budget” for the public health system.

Financing is a concept, which analysed in direct relation with the purpose for which public resources are constituted and used, imposes a responsible approach, a comprehensive knowledge of the methods for leading the activities specific to the domain, in order to be able to offer the premises for the accomplishment of an advanced public management.

Such an approach requires on one side the presentation of the organisational architecture of the analysed domain, and on the other side, the configuration of informational, organisational, methodological and decisional coordinates of the financial activities or with financial implications, performed by medical units, from the constitution

moment and up to the use of funds by final beneficiaries, including of the funds from external financial assistance.

The general framework, principles and procedures regarding the formation, administration, recruitment and use of public funds, as well as the responsibilities of the public health sector authorities in resources management are analysed from the financial management perspective, precisely to identify the directions of action which are meant to guarantee normalcy and performance in the act of hospital units' management.

In this tactic, an appeal is made to some texts of normative acts, regulations and/or practices of the public finances domain, precisely to increase the applicative role and the pragmatic character which is so necessary.

Generically, focusing the attention on the management systems which are currently applied, in relation with the necessity of reforming the public administration, imposes the detailed research and detailed analysis of own financial management of each level of the organisational structure (section, or human resources department, control and internal audit, public procurement management etc.), in order to identify the

potential vulnerabilities and ways of improving the management system in its whole.

The relations of interdependency with the other sectorial economies at national level, with the constitutional right, with the administrative body, with the communication system, public information and promotion of Romanian interests concerning the sanitary system, as well as the relations with social character, offers an important role to the health domain that imposes the insurance of a performant financial management, integrated in all hierarchical levels.

An additional degree of responsibility of the management act of public health services derives from the state's role, which has the assumed responsibility to manage economic relations, to ensure for the citizens both accessibility and quality of the health services, funded primarily from the general consolidated budget or through the mechanism of received income redistribution.

In the given context, we appreciate that the analysis of the public health system financing management of the decisional system specific to each structure from the organisational architecture of hospital

units (section, department, compartment) may lead to the restructuring or the redesign of the scheduled objectives, offering the premises for passing to a new dimension – that of medical act quality.

The organisational structure of medical units, the types of relations established between functional compartments, allocated financial resources and not the last, the managerial behaviour. It shapes the profile of a sanitary unit, part of the public health general system, influencing directly the level of performance and the degree of compliance with the legal frame that governs its activity.

If we refer to the method of financing, we can appreciate that hospital units are in relations of interdependency towards the governmental sector, which manages the public financial resources through the Ministry of Public Finances.

2. Theoretical foundations of the financing mechanism

Paul Leroy – Beaulieu (1906) understood by finances: “The science of public incomes and the use of these incomes” noticing that: “Public incomes are the actual substance of finances, rules for money management, loaning procedures, amortization etc”. In the same paper, Paul Leroy – Beaulieu presented an indisputable truth, emphasizing that “The one that writes about the finances’ science can deplore sincerely the states that are spending too much, but its real task consists in showing how a state can acquire its resources by sparing as much as possible the interests of the those in the private sector and obeying the justice. This is why we defined the science of finance with these words: the science of public incomes and the use of these incomes”.

The complexity and the scientific character of finances has led to the improvement of planning and financial forecasting methods, so that the financial space has become a complex of operations and processes targeting the training and redistribution of financial

resources allocated from the general consolidated budget for ensuring quality services.

A fundamental category of public finances science is represented by the general consolidated budget, through which annual incomes and expenses are provided for the public sector, reflecting from the economic perspective the macroeconomic correlations, the level and the evolution of the gross domestic product – numerical expression of the quantitative side of the economic phenomena and processes, in an horizon well defined in space and time.

The researchers from the public finances domain have noticed that in the last decades, the concerns of the financiers have been centred on identifying some efficient methods of public funds allocation, so that the improvement of budgetary performance can be guaranteed.

György (2010) noticed that “Currently, there are some tendencies that follow the increase of activities efficiency through a better adaptation of the budgets to the new economical requirements. The solutions offered by theoreticians and practitioners, which have not been applied so far can be grouped and analysed as

challenges for the future budgets”. The author presented in the same context the main challenges which he identified and grouped, as follows:

- Redistribution towards the budgets based on programs;
- Developing the indicators of budgetary performance;
- Consolidating the budgetary transparency.

In Romania, within the budgetary process, adopting some program budgets was opted for, most of them taking the form of multi-annual budgets, in order to solve from a decisional and executive point of view problems that aim the management of economic values, monitoring objectives achievement and quantifying the indicators of results.

An example in this sense is offered by the Romanian medical system that runs national health programs, multi-annual budgeted, oriented towards promoting the health of population, preventing sicknesses and ensuring the quality conditions necessary for life prolongation, as a result of the implementation of the policy’s objectives and the

strategy elaborated by the central authority in the field – the Ministry of Health.

The national health programs are financed from the state budget, the budget of social national health unique insurance fund, from reimbursable and non-reimbursable external funds, from own revenues, donations and sponsorships, as well as from other resources and are organised and monitored by the Ministry of Health.

It must be specified that the financiers' concerns have focused also on the creation of the general frame for emphasizing the public expenses that derive from the operationalization or implementation of programs, a first step being constituted by the elaboration of the accounts plan specific to the public accounting, that should allow emphasizing the costs of the programs developed on the sub-divisions of the budgetary classification.

The expenses afferent to budgetary programs implementation are expenses distributed within the annual limits of approved budgetary credits, aiming that the actions generated by the programs' management to be distributed differently, in the sense that, both the

financing and the emphasizing of operations, should be done in detail on types of expenses.

Synthesising, we appreciate that the elaboration and operationalization of budgeted programs from public funds emerge from the necessity of increasing the efficiency in managing the resources allocated for the objectives included in the development strategy elaborated and adopted by the executive.

In this context, elaborating programs in the phase of elaboration of the budget becomes the instrument of adopting decisions aiming to set the priorities within the strategy of the analysed domain, and in the budgetary execution phase, to reflect the efficiency with which the public funds were used for achieving the target that made the object of the programs.

In the sense of the above mentioned, Văcărel (2007) was noticing: "In the current era, the authorisation for making a specific expense without previously knowing what economic efficiency or social effectiveness or of other nature shall produce each leu spent is not unconceivable. The fact that the financial resources – as well as the currency or the material ones – are limited, and their destinations are competitive, claims their use

with maximum efficiency... Today the financial policy cannot be satisfied anymore with the promotion of an economy regime in terms of expenses, but it must follow the systematic increase of expenses' efficiency (effectiveness)".

3. Financing schemes for the public health system adopted by some countries from the European space

Following the same logic, we appreciate that in the public health system, the need for a continuous and predictable increase of the financial resources led to the identification of several methods. Murgea (2008) grouped it into:

- Financing from the state budget;
- Financing through direct payments;
- Financing through social health insurances;
- Financing through private health insurances;
- Communitarian financing.

Financing the health system has constituted an area predisposed to vulnerability, most of the times insufficiently well managed. This is the reason why it is appreciated the fact that the side-slips which appeared have the origin in an allocation of financial resources either injudicious, or discretionary.

France, Germany, Switzerland, Great Britain or the United States of America have always constituted reference points for organizing the medical field, given that the health systems from these countries can offer the perspective of some representative methods in this sense.

In the given context, prior to the presentation of an abstract of the financing mechanisms of the health care services adopted by certain countries that are appreciated as referential systems, we present certain aspects specific to each financing method.

Financing from the state budget represents the modality by which the funds coming from contributions and taxes with special destination for health, taxes on different income sources or other budgetary incomes are collected from the state budget and, subsequently, they are redistributed towards the public health sector.

Financing through direct payments aims the direct relation between the beneficiaries of the health services as patients and providers of these services, relations that are initiated and are consolidated on the free market.

Differently from the direct payment method of public health services, the most used method is the health insurance or the method of the third-party payer.

Generically, the insurance represents the method for covering the predictable or unpredictable risks, generated by the deterioration of the health state of the insurant, following some natural phenomena (aging) or independent from his will (accidents). The financial resources necessary for covering these risks are collected from the insurants who decide to contribute with an amount of money in order to have the guarantee for total covering of the expenses in case of sickness.

There is also another financing method, by which a person or a group of persons opt voluntarily for the private insurance, done by voluntary financial contribution of the insurant to a company or an insurance society.

Another financing method adopted and encouraged by the governments of some countries is represented by the communitarian assistance, which takes the form of a contribution from the part of the community members in order to obtain a package of medical services.

A defining role in adopting some optimal decisions for financing the public health system is represented by the selection criteria of the financing method that must consider the real possibilities of attracting the necessary financial resources, the capacity of identification of new incomes, the effectiveness of services offered to the patients, as well as the quality of the medical act.

The mechanisms through which the financial resources are attracted and allocated in the public health systems of certain countries can constitute a referential model for the Romanian sanitary system. This is why we appreciated that through succinct exposure of the main methods of financing adopted from Germany and Switzerland, action and inaction directions can be identified, where necessary, meant to contribute to the

decisions optimisation within this activity segment, to the extent that they are retained and implemented.

There is a legislative arsenal in Germany that regulates the operating method in the health system and defines the categories of insurants, bearing the form of a "code of social insurances". The institutional architecture of the German health insurances system is a reply of the politic system of the reference country, characterised by "federalisation and corporatism", in the sense that it is based on the professional associations of physicians and dentists, on one hand, and on the other, on the health insurance house associations that are part of the operational corporations in the system, as buyers of health services.

In the given context, from the big significant number of health insurance funds that are numbered to a few hundreds, three important pylons of this system of German health insurance are shaped, as follows:

- Federal association of the health insurance houses;
- Professional physicians' association – federal room of physicians;

- Professional dentists' association – federal room of dentists.

These structures constituted at national level can conclude contracts with other institutions from the system, but the major role in financing the health services belongs to the health insurance houses. As a matter of fact, according to some official data available at the level of 2004, financing the health system shall be done through social insurances for a percentage of 89% of the German population. Private financing schemes of the sanitary system were covering a segment of 9% of the population, and the financing of the difference of 2% from the German population is assured by the governmental resources.

Olsavszky and Busse (2004) were emphasizing the necessity for identifying new financing sources, mentioning in this sense: "Regardless of the new conditions and subsequent developments, the necessity for a sustainable development of the resources must be based also on other means than the ones used until now. All those involved in Germany's health sector commonly agreed that the policies applied for stopping costs' increase did not have the intended effect, did not

manage to stop the increase of the contributions level and they did not modify the ascendant tendency of expenses. Moreover, the entire German society understood the new context of financing the health system related to the demographical evolution and the technological development, fact that questions the sustainability. For this reason, new schemes and financing measures are necessary". In the conditions of these realities it was specified that the federal government has appointed a commission – The Rurup Commission (after the name of the economics professor Bert Rurup) with responsibilities in identifying some financing alternatives, from the necessity of identifying new possibilities and income generating sources.

In Switzerland, since 1996, a federal law was promoted regarding the health insurances. As in the case of Germany, the structure of the Swiss health system follows the configuration of the institutional levels of the state: confederation, cantons and communes, and the decentralization of competences at the level of each structure, conveys a heterogeneous character, manifested through autonomy in adopting the decisions and the distribution of financial resources. The federal

law regarding health insurances has only the character of a legislative act of general regulation, as it ensures the execution of a communication frame between the confederation and the 26 cantonal health subsystems, at the level of each canton a sanitary law being promulgated. From these considerations, the Swiss health system was characterised by a large variety of organisation forms, differentiated between them by the structure of expenses and the medical services which they offers.

The financing mechanism of health services from Switzerland does not resemble the one from Italy, England, France or Germany, affirmation based on the following assertion: while the first two have promoted the state solution of the national sanitary system, and the next two are based on the social health insurances, Switzerland presents a certain particularity, in the sense that it adopted „the competitive insurance model” based on the principle of the competition between the houses of health – a solution belonging to the health care system.

Also, the experts who focused their attention on the financing methods for the health systems

internationally have shown that the adopted financing model represents the criterion that distinguishes between the German and the Swiss systems. In this sense, it is found that in Switzerland there are multiple financing institutions that ensure the funds necessary for the medical care, even though the health insurants bear directly one third of the costs. This plan has as an inconvenient the fact that it generates a pronounced inequality for financing the medical services.

Considering all the above, we render the opinions of some researchers of the field, such as Crivelli and Filippini (2004) who noticed that: "In Switzerland there is a multitude of financing institutions. Apart from the health insurants (who pay directly a third of the total sanitary costs) other social insurances also intervene (LAI_{nf}, AI, AM), all governing three levels (Confederation, cantons and franchise), complementary private insurances and the citizens (by participating at costs and franchise). There is no doubt that this is a financing model with a complexity that cannot be compared internationally, a model which suffers from a serious problem, called for fun the cost shifting syndrome".

In the given context, in Switzerland, the funds necessary for covering the health expenses are allocated by the three governmental echelons: confederation, cantons and homes, as well as by the private insurance companies, to which the substantial contribution of the insurants is added.

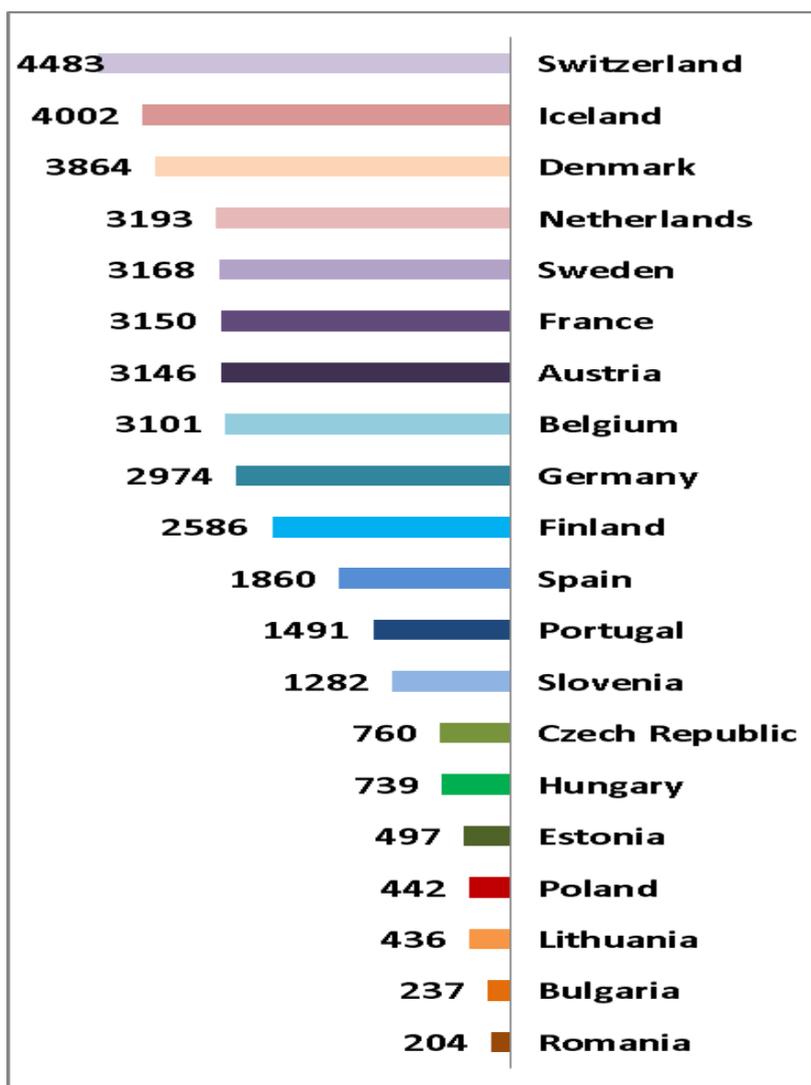
In Romania, the health system is one of the big resource consumers for which the financial sustainability must be improved by efficiency and effectiveness of health services. Financing the Romanian medical system was situated constantly under the European average, registering in the last years a slight tendency of increase.

The amounts allocated to the Romanian sanitary system, expressed in absolute figures, have marked an increase from 90 Euros/inhabitant (2001) to 200 Euros/inhabitant (2008), and as a percentage, in certain periods of time, these allocations have varied between 3% to 4% percentages from the GDP, but still, Romania remains in the perimeter of European Union's countries characterised by an insufficient allocation of the financial resources in the health field.

The diagram below (graph no. 1) is relevant in this sense and it reflects the resources allocated to the health sector in 2006, expressed in euros/inhabitant in some countries from the European space, according to the Eurostat data available.

According to the official data presented by the Romanian Ministry of Health, the sector of medical care services of Romania consume constantly around 50% from the National Unique Social Health Insurance Fund, for example, at the level of 2009, the resources allocated to the hospital system were representing 51.2% of this fund. These resources have been supplemented with funds allocated by the Romanian Ministry of Health for investments in infrastructure, facilities with medical equipment, national health programs, with funds allocated by the local public authorities (Romanian Ministry of Health, 2010). A supplementary source, quite generous for financing the health expenses was introduced in 2006, coming from the vice tax instituted on alcohol and tobacco products. It is significant the fact that a category of services of medical care is done by the programs financed through external credits. Financing the national health programs is done from the

Graph no. 1: Resources Allocated for Health in some European Countries (euro/inhabitant in 2006)



Source: Eurostat

state budget, from the incomes of the Romanian Ministry of Health, the budget of the National Unique Social Health Insurance Fund, from transfers from the state budget and own incomes, through the Ministry of Health, towards the National Unique Social Health Insurance Fund, as well as from other sources, including from donations and sponsorships.

According to the Activity Report done by the Romanian Ministry of Health for 2010, the budget allocated for performing the national health programs registered a slight increase, in the sense that the amount distributed was of 1,653,353 thousands lei, as compared to 1,500,754 thousands lei, amount allocated at the level of 2009 (Romanian Ministry of Health, 2010).

The funds thus distributed had as a destination assuring the continuity of prophylactic national health programs, developed by the Ministry of Health, as well as of the ones of treatment managed by the National House of Health Insurance, a structure being under the coordination of the ministry. Also, through these programs budgeted from public funds, ensuring the access to free treatment for people suffering of chronic illnesses was aimed, but without placing on a second

plan the prophylactic programs, with curative purpose, for children and young people.

The program "Reform of the health system – phase two" benefited from external financing ensured by credits allocated by the International Bank for Reconstruction and Development (65.1 million Euros), respectively by the European Bank of Investment (66.4 million Euros), to which resources coming from the contribution of the Romanian Government were added (36.4 million Euros).

We still emphasize that at national level, the financing preponderant source is constituted by the funds allocated by the National House of Health Insurance, the contribution of the local authorities in financing the expenses for health remaining almost inexistent, given that, according to the official data, it represents only 1.2% from the total amount.

In another plan, if we are to analyse the criteria for allocating funds intended for health, it does not lack importance if we emphasize the fact that Romanian hospitals are financed after the system of the Diagnosis Groups (DRG), even though, declaratively, "money follows the patient" is invoked as a financing criterion or

a principle. According to this distribution system of resources, of type DRG, patients are distributed in groups of homogenous diagnosis under the aspect of clinical affection and the treatment cost, and the hospital is deduced a tariff that represents a medium cost, pre-calculated and weighted, for the respective diagnosis group.

The paternity of this system is attributed to the Yale University from USA. It reappeared from the necessity of creating a unitary frame for monitoring the use of services from the hospital. The scientific preoccupations of some researchers from Romania who studied the field of health finished by elaborating some presentation reports for the diagnosis of the Romanian sanitary field, treating with maximum strictness the problem of financing. In the area of these papers with scientific value, the Report of the Presidential Commission for Analysing and Elaborating the Policies in the Field of Public Health in Romania – A sanitary system based on the needs of the citizen is included, characterised by maximum objectivity and realism.

The report expresses in a transparent manner the actual state of the Romanian medical system, by

appreciating that the framing in the sanitary sector in the field of unproductive sectors has led, over the time, to an insufficient budgetary allocation for this field of activity.

In the document it is mentioned that currently, "the criteria that are based on the allocation of resources, especially on the ones connected to investment are unclear at the level of responsible authorities. There are no published elements and allocation criteria for transparent resources and based on evidence. Subjective allocation and lacking of mechanisms for measuring the investment performance leads to the situation in which limited available resources are used inefficiently with direct impact on the health state of the population" (Presidential Commission, 2008).

The conclusions formulated by the Presidential Commission have emphasized the necessity for increasing the actual financing level, expressed as an allocation percentage from the GDP, as well as the defining of some clear criteria that should ensure a judicious and transparent allocation of funds intended for health.

Also, it was emphasized that it must be acted in the direction of eradicating the imbalances and the

identification of some financing resources of the health system, premises of a normal functionality of medical care services.

In the sense of all the above mentioned, the Romania Ministry of Health set as primary objectives or action guidelines, organisational and decisional decentralisation of the health system, that should allow an efficient allocation for the financial resources on geographical areas, the access increase of health services and approaching from the health and demographical indicators of the countries belonging to the communitarian space and eradication of any form of inequity in assuring the services of medical care.

In the same register, operational activities stated in the Strategy of hospitals rationalisation are included, aiming the identification of new financing resources, such as introducing the modicum copayment directly to the medical services provider, associated with compensatory mechanisms for disfavoured groups and also, revision of hospitals financing through the DRG system, a potential modality of improving the hospital management.

4. Conclusions

Public resources intended for the health system must be directed towards high quality medical services, a request that can be accomplishable only in the conditions of instituting some mechanisms of making responsible the decision-making factors that manage the allocated funds. In the same context, we appreciate that a practical modality of reducing the imbalances from the public health system is constituted by financing through the multi-annual budgets mechanism, within the conditions of ensuring the decision transparency and the increase of responsibility in the system.

Another way of improving the public health services consists in identifying some new financing resources, and the association with the development of an insurance system of medical services quality, constitutes the premise of efficiency of the Romanian public health system.

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