THE FINANCIAL CONSEQUENCES OF HEALTH CARE REFORMS. STUDY FROM POLISH LOCAL GOVERNMENT

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INTRODUCTION

The system transformations of Poland at the turn of 80 and 90's covered many spheres of business and services. The administrative reform and the creation of local governments led to decomposition and decentralization of many public services. Unfortunately, to a lesser extent it concerned health care, which in terms of the structure of the system and its effectiveness remained largely unchanged since the beginning of the 1980's. This has resulted in widespread indebtedness of units, and in spite of further debt relief action, acquiescence to a negative financial result.

The debts of units, regardless of their size and their reason were taken over by the state. In 1994 - 1995 the budget grants were awarded twice to pay debts to the amount of 2mld polish zloty, the State Treasury took over 1.7 billion of the debt in 1997. The last debt reduction in 1998 contained the amount of more than 8 billion zloty. Therefore, in total the value of the health care entities, taken over by the State was 11.7 billion zloty in 1991-1998.

One year later, in 1999 the systematic reforms were implemented which lies in the separation of the health care financing from the state budget and adjusting the activity of this sector to the flow of funds from an insurance scheme. Supervision of the functioning of the most independent units were transferred into the competence of local governments. As a consequence, self-governmental counties and provinces (poviats and the voivodships) received a “gift” in the form of no-reformed sector with established tendency to incur debts. The Shock Treatment that was used, laid bare many pathologies, but unfortunately correction mechanisms were too weak, not only to eliminate them, but also to prevent their accumulation. At the end of 2004, the debt of all local governments Health Care Centres in Poland was 9 billion zloty, most of them, as much as 5.6 billion (62%) constituted payables. In the case of self-governmental voivodship, commitments of the health care institutions accounted for 81.3% of their accumulated debt. The Record holders were dolnośląskie (Lower Silesian), lubuskie (Lubusz) and łódzkie (Lodz) voivodship in which the amount of liabilities of hospitals accounted for respectively 128%, 118% and 101% of their annual income. A similar situation developed in the case of counties, in 44 of them the ratio of accumulated commitments to their income exceeded 60%, and in 10 counties was even higher than 100%. (Detail shown in Figure 1).

In view of the situation characterized above, it became clear that without the intervention of the state government side, hospitals and local governments will not be able to independently deal with the growing problem. There is a real threat of suspension of activities of many health institutions and deprivation of access to the benefits for particular groups of residents.
THE GOVERNMENT SUPPORT PROGRAMS

In 2005, the state governmental program that allows the securitization of hospitals’ debt was implemented. Restructuring procedure covered the vast majority, over 90% of public institutions. As a result of the program implementation of the matured liabilities decreased from 5.6 billion (2004) to the value of 2.1 billion (2010). In 2004 they constituted 62% of total liabilities and in 2010, only 21%.

The program has also contributed to the slowdown of the growth of total liabilities. While in 2005 they amounted to 10.2 billion zloty, in 2007 this decreased to 9.5 billion zloty. As it turned out it was just a temporary trend, because in 2010 they increased to 10 billion again. (These effects are characterized by Figure 2.)

A large part of the total costs of the restructuring program and public support for the Health Care Centres has fallen on the local governments shoulders. The real cost of the program was 5.1 billion zloty of which only 1.3 billion (25%) covered the state budget and 2.2 billion zloty came from the local governments budget. The remaining 1.6 billion (32%) was restructured into the health care institutions cost. On inadequate hospital reported to the program, there was a total of approximately 9.5 million of which 4.1 million zloty was covered by the local government, 3 million by the hospital itself and only 2.4 million zloty came from the state budget.

The previous restructuring program and the state aid from 2005 aimed to help in the restructuring of liabilities, without formal solutions to facilitate transformation. As it turned out the main consequence of this was only a temporary improvement in market’s liquidity, it became obvious that hospitals would require further system actions.
In early 2008 the government took steps under the stabilisation of the health care system and in 2011 it implemented new regulations conducive to the transformation of public independent health care facilities in the capital's company form. This had improved their organization, management, and funds management. Although there has been no favorable regulations, local governments themselves sought to be transformed especially in regions where hospitals had the most difficult financial situations. The most advanced in this process were the areas of dolnośląskie (Lower Silesia), kujawsko-pomorskie (Kuyavian-Pomeranian) and Lubuskie (Lubusz) voivodships.

The scale of transformations which were made illustrates the fact that by the end of 2011 (And so before the Act on of medical activity making it easier to transformation) there were 22 county hospitals, only 9 (41%) still remained in the formula of the Health Care Centre. Another 9 units have been commercialized (municipal capital companies) and 4 (18%) were transferred to private operators. A similar case shaped in in the Kuyavian-Pomeranian voivodeship, where 19 county hospitals 8 (42%) remained in a Health Care Centre form, companies with a public capital majority are then 7 (37%) hospitals and 4 (21%) units have been privatized. The most important participation of the privatized hospitals had Lublin voivodship, where actually 50% of county hospitals functioned as a Health Care Centre but 30% are the hospitals which were forwarded to private entities.

The principal novelty in the Act adopted in 2011 on medical activity was the introduction of the direct responsibility of local government for the financial performance of individuals. And no matter whether it was the effect of financial impunity, bad administrators or system failures resulting from errors and inertia of the legislature. By encouraging transformation the government offered financial assistance in the form of redemptions of public law liabilities andloans for local governments to cover part of civil-law liabilities.

Despite these actions, in the past 3 years financial results of self-governmental hospitals is getting worse while in 2009 the loss was equal to 206.6 million zloty, in 2010 it was already 750mln, in 2011 - 1.1 billion in 2012 up to 1.2 billion zloty. At the same time, the amount of total liabilities were around 10 billion zloty consistently oscillated (9.9 mld in the end of 2013). This means that the conversion of these units into the company would make it a necessity to take most of these liabilities by the government. This assumption is purely hypothetical, it is difficult to conclude that all governments will make any transformations at all. The state budget has earmarked 1.4 billion zloty for the program assuming that changes of the legal formula will be done in about 30% of the units. Nevertheless, such a comprehensive approach shows the scale of the problem which we have to deal with. Even when the transformation (and related assumption of liabilities) will have a smaller range , after all a problem with the other obligations will not disappear - they will continue to hamper functioning of the entire health care system and be a potential threat for the local governments finance.
Research gathered from the Polish Counties Association showed that in the period of 1999-2011 capital expenditure of the government amounted to 14.9 billion zloty on the health care protection. The Voivodship spend the most, almost reaching 7 billion in expenditure. Then counties with more than 4 billion and city districts - 3 billion zloty. This is almost two times more than the expenditure incurred by the state budget for the main health system, highly specialized clinics, national centers and departmental hospitals. To a large extent there were expenditures on investments aimed at adapting individuals to these standards. Based on the analysis of adjustment programs it is estimated that full compliance with these requirements will need another 7 billion zloty by the end of 2016. Otherwise, the units which do not meet the standards will be removed from the register of healthcare providers. Assuming that even half of this amount may come from European funds (in the period of 2007-2013 almost 4 billion zloty has been invested in this way) local governments would have to spend around 3,5 billion zloty from their own revenues.

**CONCLUSION**

The analysis of these issues leads to the clear conclusion that the concept of a dual state - the state in which the government and the local government are complementary to each other and optimize the way of the public service. In the activities of the health care field the primacy and dominance of the Centre businesses are clear, without considering the effects they may cause in the local governments. The method outlined in the health reforms implementation outlined in this paper, and the formal regulations which were analyzed were aimed mainly on decentralizing problems and responsibilities to the local government levels.

This process was carried out without any government equipment, without effective instruments for the implementation of imposed tasks. It should simply state that the preparation and implementation proceeded separately from the real assessment of the potentials and possibilities of the local government sector. A significant expression of this is the fact that the analysis and evaluations on the impact of legislation and programs implemented include only the level of government spending, not including the financial involvement of the local governments. Consequently, the assessment of the effects of ongoing initiatives are incomplete.

The conclusion comprised in the range of these observations however is the violation of the adequacy of resources, principle for tasks that is transmitted in Art.167 Constitution of the Republic of Poland. The Local governments are a part of the state public finance system, which as a whole should be a concern of the legislature. Unfortunately, on the basis of the analysis carried out here a clear disparity in treatment between the two sectors can be seen. This is evidenced by Table 3, which is a summary of the state budget and local government expenditures in the context of legislative solutions which is discussed here. It shows that the estimated expenditure, generally for the implementation of these programs is equal to almost 16 billion zloty and 68% of this were funds of regional governments and only 32% of the state budget expenditures.

**Tab. 1: Effects of financial of legal regulations in the field of health care in the years 2004-2012**

<table>
<thead>
<tr>
<th>Position</th>
<th>Task</th>
<th>State budget (bln zł)</th>
<th>Local government (bln zł)</th>
<th>Total (bln zł)</th>
<th>Local Government %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The restructuring and public support for SP Health Care Centre program (2005).</td>
<td>1.3</td>
<td>2.2</td>
<td>3.5</td>
<td>63%</td>
</tr>
<tr>
<td>2.</td>
<td>Plan B</td>
<td>0.7</td>
<td>0.7</td>
<td>1.4</td>
<td>50%</td>
</tr>
<tr>
<td>3.</td>
<td>The medical activity Act.</td>
<td>1.4</td>
<td>4.4</td>
<td>5.8</td>
<td>76%</td>
</tr>
<tr>
<td>4.</td>
<td>Adaptation to building and sanitary standards</td>
<td>1.6</td>
<td>3.5</td>
<td>5.1</td>
<td>68%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>5.0</td>
<td>10.8</td>
<td>15.8</td>
<td>68%</td>
</tr>
</tbody>
</table>

*Source: Scientific description of Authors, 2014*

This proportion seems to be opposite to the responsibility schedule for dysfunction in the system. There is no doubt that part of the debt is an element of bad management and poor supervision of the functioning of hospitals from the local government. However, as shown in the second and third section of this paper, the key cause of system deficiencies were poorly formed legal, institutional and financial relationships. They make the main system controller that is the state feel responsible. Meanwhile, a government is the weaker part, who is forced to handle the consequences of these dysfunctions.
The estimated size of regional governments expenditures in the implementation of tasks in the health care field is almost at 11 billion zloty (arising from the legal regulations of health care undertaken in the years 2004-2012). Only 5 billion zloty has been earmarked for the same purpose from the state budget.

This amount suffered especially by the counties and the voivodeships as the vast majority of local hospitals belong to them. The size of these funds is undeniably useful - representing 27% of the the two tiers of local government income for 2012, and 95% of their debt (total counties liabilities in the first half of 2012 equal to 5.8 billion zloty and 5.6 billion zloty for provinces).

It can be concluded that the costs of action arising from the regulations for the healthcare protection have a decisive effect on the financial situation of the local government two levels (the counties and the voivodeships), to a far lesser extent it concerns to municipalities and cities with county rights. The most destructive effects are recorded in the counties that are less equip with their own income that could amortize such additional financial burden. Also we are dealing with real limitations in the performance of many other public services. One of the areas that is exposed to the greatest degradation include county roads.

The lack of consistent expression in the treatment of the local government sector with the government are not only distributed disproportionately financial consequences but also the lack of synchronization between the different regulations. This leads to a situation in which they are mutually exclusive. An example of such action is to convict local government cost transformation and at the same time impose them very strict financial discipline. The effect of the new Act on medical activity (2011) and the Act on Public Finance (2009) are even contrary. On the one hand, by forcing local government to take over of the liabilities or leveling negative financial result of hospitals on the other limiting the possibility of incurring debt instruments introduces an atmosphere of chaos and degradation of the image of the state as a regulator of the system.

A large number of local governments, which as a result of exceeding the allowable debt ratios will not be able to adopt budgets, testifies to the fact that this dysfunction is systemic and not the unitary. In separate analyzes RIO (Financial Supervisory Authority), Ministry of Regional Development and local government associations shows that in 2014 hundreds of rural communities and about 200 towns will not be able to take the resolutions of the budget. The worst situation is in the counties in which two thirds of their total number will collide with the problem.

In view of such circumstances, it is expected that local governments will use all opportunities to avoid the financial consequences of transformation (not excluding the so-called legal loopholes). So rather than try to solve the problem they will be looking for a way to its postponement. It moves the solution of pressing problems in the functioning of the health system away at the local and regional level and, paradoxically increases the whole cost of the operation.

Thus, instead of moving in the optimal state direction we have to deal with the effect of the state authority lowering, for this optimal state construction is necessary.

**BIBLIOGRAPHY**


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Abstract
This article aims is the analyze of selected dysfunctional phenomena between the two levels of the Polish administration in the area of health care. The study used a method of analysis of source materials, especially information and departmental reports on the programs implementation and the data of the Ministry of Finance. In many cases, this proved insufficient, so referred to the data from the surveys carried out by the local government associations as well as basic research. The results of this work show a significant dysfunctions occurring between two parts of the dual state, which reduce the authority of the central administration to local government. This research paper represents a valuable contribution to serious reflection on changing public policy. This dysfunction not only made impossible the constitution of the optimal state, but also contribute to a significant imbalance between institutional order and the sphere of economy and society.

Key words:
local government, health care reform, health care centres liabilities, local government debt

JEL Classification:
H72, H 73, H 75