BRIEFING NOTE #6

FUNDING HOSPITAL SERVICES

OCTOBER 1, 2013

Purpose: Funding of Hospital Services was a major focus of a Technical Report for the EEHR. This note summarizes some of the key findings.

BACKGROUND

The Ministry of Health appointed a Technical Commission composed of representatives of the HII, and the MOH with the assistance of a Consultant from the Enabling Equity in Health Reform Project (EEHR) sponsored by USAID. The committee and consultant worked collaboratively to assess and propose funding methodologies for hospitals.

The Consultant found several matters of concern regarding hospital services in Albania and its funding. These include:

- Albania hospitals are underfunded and much of their funding is wasted rather than being used for patient care.
- Many appointments to senior positions in hospitals are made based on political connections rather than based on merit, skills or commitment. As a result, hospitals are poorly operated and patient care suffers.
- Funding based on historical basis over many years has resulted in significant inequities among regions. Some regions and hospitals have twice (or half) the bed numbers or budget relative to population as other regions. This means patient care is even worse in some areas than in others.
- Because funding from the MOH comes with direction as to how the funds should be used, ie the number of staff, where the staff should be assigned etc. This leaves little or no opportunity for local management to meet the needs of the patients. In some departments there are no patients but staff sit idle, in other areas, there are many patients but insufficient staff to care for them.
- Widespread corruption leads to funds that have been allocated to health care being redirected to other purposes.
- The use of informal payments demanded or accepted by health care providers results in care not being affordable for many patients.

For all these reasons, the people of Albania have little confidence in the hospital system. As a result, hospital beds are underused even though they are in short supply.

ANALYSIS

Hospital budgets may be line by line (which is the current method) characterized by determination from the central funding agency as to how and where the funds shall be used in the hospital. This results in poor management of funds at the hospital level. The alternative is a global budget process where hospital management is allowed some flexibility in the allocation of the budget within the hospital. This method tends to enable innovation, efficiency and effectiveness provided there is good hospital governance, strong management and accountability based on performance measures.

Four methods of allocating funding to hospitals were identified and considered for use in Albania.

- Historical, line by line budgeting. This system results in central control, little local flexibility to

manage properly and inequities of funding among regions over time.

- Fee for service payments may be used to reimburse hospitals or providers for services they deliver. This method tends to cause an increase in services delivered because hospitals can increase their revenue with more services. This system requires much better information than is currently available in Albania and it is subject to corruption.
- Case payment systems including DRGs (diagnostic related groupings) also cause increases in expenditures and requires even more detailed information than is currently available.
- Population based funding may be introduced very quickly with currently available information and it would assist to reduce inequities of funding among regions.

ANALYSIS

Population based funding is recommended because it is possible and easy to implement in a short time with existing information. The report makes recommendations for increased information that would assist to make the system even more accurate. In future, Albania could pursue other funding methodologies if they wish but it will require significant time and expense to prepare to do that.

In addition, the Consultant recommends allowing the hospitals to move to a global budget system meaning that hospital management would have more flexibility in applying their funding within the hospital in order to better meet patient needs. Global budgets are advisable only after:

- Hospitals have boards of directors which will oversee management and advocate for the community or region served. Boards should be independent of government.
- Hospital boards should hire management based on education, experience, skills and commitment and they should keep management accountable for good performance.
- Hospital management needs to have continuity. They cannot be replaced every few months.
- Performance indicators are established to assist in improving the operations of hospitals.

RECOMMENDATIONS

- Albania (HII or MOH) should move to calculate funding for hospitals using a population based methodology.
- Hospitals (or regions) should have Boards of Directors of about 10-12 members who are responsible to oversee hospital management, to represent the community served and to minimize political interference with the hospitals.
- Hospital managers and other staff in the health system should be hired based only on their merit: skills, education, experience - no political appointments.
- Hospitals should be given global budgets when they are ready to do so, ie when they have a board of directors, have skilled management appointed based on merit and when they are accountable for their performance.
- The HII (or other funding agency) should be directed to collect data and information from hospitals which can be used to monitor hospitals performance to ensure value for money.