FINANCIAL MANAGEMENT IN HEALTH CARE

By

Dr.D.Shankar Reddy, MD, MIPHA, MIAPSM, MPH (BB)

Assistant Professor

In Department of Community Medicine

Sri Venkateswara Medical College,

Tirupati, AP

Health Care Finance

- **Definition:** "Function of a health system concerned with the **accumulation, mobilization** and **allocation** of money to cover the health needs of the people, individually and collectively, in the health system." **(WHO)**

Purpose :

- Make funding available
- Set the right financial incentives for providers
- To ensure that all individuals have access to effective public health and personal health care.

Cont…

- Health financing linked to the <u>provision of services</u> and the system's capability <u>to achieve its stated goals</u>.

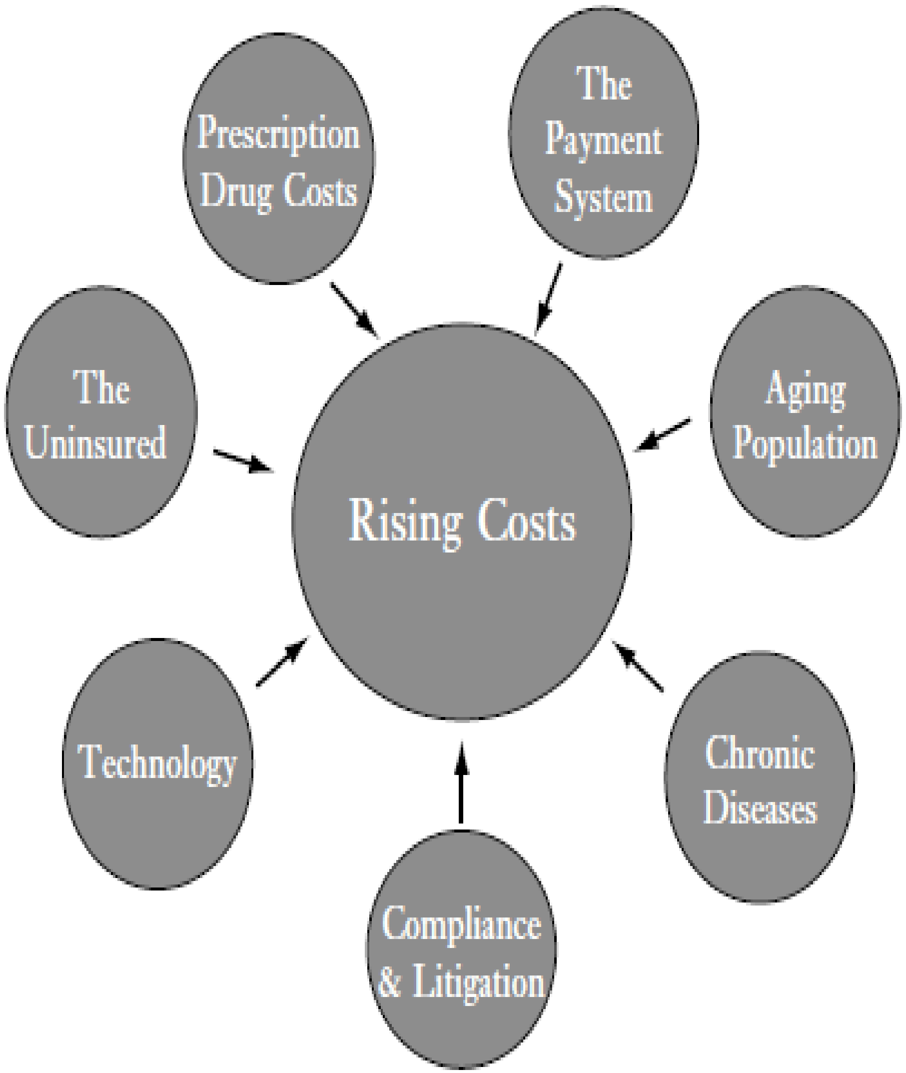
- <u>**Health financing** is raising of resources</u> to support to pay for goods and health services.
- **NEED?**

- Scarcity of Resources – Need for judicious use
- Sustainability of resources
- Resource efficiency

❑ The challenges:

- Nearly 73% of the country’s population lives in rural areas and 26.1% is below poverty line.
- India lacks strong healthcare infrastructure,
- Several inherent weaknesses in its healthcare system
- Dominant private sector in India, with 70% catered by it.
- Epidemiological transition
- Demographic transition
- Economic slow down

Exhibit 1–4 Selected Factors Contributing to the Rising Costs of Health Care



- According to definition health financing is

- ❑ Accumulation/collection
- ❑ Mobilization
- ❑ Allocation of money

2017 Budget

- "Action plan has been prepared to eliminate Kala azar, Filariasis by 2017, leprosy by 2018, measles by 2020 and elimination of tuberculosis by 2025."
- Also, he talked of an action plan to reduce IMR (infant mortality rate) from 39 per 100 live births in 2014 to 28 per 1000 live births in 2019. MMR (maternal mortality rate) from 167 per one lakh live births from 2011-13 to 100 per one lakh live births by 2018-20."

2017 Budget

- The additional 5,000 post graduate seats per annum and steps to all DNB courses to be allowed in big district hospitals.
- Also, to encourage reputed private hospitals to start DNB courses, is found to be positive but not hugely impactful with the numbers for a country of a billion plus people.

Health Financing Mechanism

- Health care financing is about 3 questions:

1. How is the money raised?
2. How are funds pooled? And
3. How are services paid for?

- **ANSWERS ARE** :

1. Revenue Collection
2. Risk pooling
3. Purchasing of health services

1. How is the money raised ???

- **Revenue collection :**
- 4 main ways of raising money for health care:

1. Taxation-most equitable system of financing
2. Health insurance contributions
   - Social health insurance
   - Private health insurance
   - Community based health insurance
3. User pays (out of pocket, no reimbursement)
4. Donor funding/Grants

2. How are funds pooled ???

- **Mobilization** :
- Accumulation & management of Revenue with respect to
  - Health Risk
  - Subsidy
  - Cross Subsidy

- Pooling to redistribute health risk

3. How are services paid for ???

- **Purchasing of health services :**
- It is done by public or private agencies that spend money either to provide services directly or to purchase services for their beneficiaries.
- **Purchaser :**
  - Ministry of health (MOH)
  - Social security agencies
  - District health board
  - Insurance organization
  - Individual or household
- **Purchasing**

Passive

strategic

MONITORING EXPENDITURE

- A visual presentation (tabular display or graph) showing the sanctioned grants and monthly expenditure and progressive total is useful in monitoring expenditure.

COST ACCOUNTING & COST ANALYSIS

- It enables a comparison to be made between the cost of similar and comparable services provided at different health centres and hospitals thus helping to pinpoint those which are not being rendered efficiently.

Allocation of money

- **BUDGET** : **E**stimating the requirement of money to perform the activities during any particular period.
- **Line item budgets :** budget allocation for functional category,
- **Global budgets :** allocation to health facilities & typically depend on the type of health facility, historical facility budget, no. of beds or utilization rates for past years.
- **Capitation :** is a payment method that allocates predetermined amount of funds per year for each person enrolled with given provider or resident in a catchment area.

Public Financing of Health: Goals…

- National Health Policy (2002)
  - Increase Health Expenditure by Govt. as % of GDP from the existing 0.9% to 2.0% by 2010.
  - Increase share of Central grants to constitute at least 25% of total health spending by 2010.
  - Increase State Sector Health spending from 5.5% to 7% of the budget by 2005 (and further increase to 8% by 2010).
- National Rural Health Mission (2005)
  - "…Government to raise public spending on Health from 0.9% of GDP to 2-3% of GDP."
  - "The States are expected to raise their contribution to Public Health Budget by minimum 10% p.a. …"

Budget Process

- Plan vs Non-Plan budget.
- Need based vs Resource based budget
- Capital vs Revenue budget
- Top-down vs bottom up approach

COST BENEFITANALYSIS

- In the process of allocation of resources for health sector in developmental planning, the benefits, which are expected to result, should be estimated.
- Benefits arising out of health programmes are the desired effects of the programme like the reduction in mortality, morbidity, and control or eradication of a disease

COST EFFECTIVENESS ANALYSIS

- An attempt is made to compare the effectiveness, however measured, and the necessary cost associated with it of two or more alternative future resource commitments.
- This type of analysis helps to identify the most efficient means of satisfying a certain requirement.

- (a) A system that gives more units of effectiveness for a given rupee is more efficient.
- (b) A system that enables the attainment of effectiveness at a minimum cost in terms of rupees is more effective.

Performance Budgeting

- A system of formulation of expenditure in public administration with reference to **functions**, **programmes**, activities and tasks.
- **Functions** represent broad groupings of operations, which are directed towards achievement of a major purpose.
- **Programmes** refer to broad categories within a function which identify the products of major organizations.

PLANNING PROGRAMMING BUDGETING SYSTEM (PPBS)

- PPBS is an organizational and procedural modification in financial management.
- It enables the need for clearly defined objectives, selection from alternative programmes based on cost-benefit implications, allocating resources to achieve the objectives and clearly working out the future cost implications of immediate financial commitments.
- In this method, budgeting is a link between planning and programming covering it into annual budget format.

Zero base Budgeting

- It requires fresh justification for the funds required to run a programme and carry on activities.
- Starting from Zero Base of no funds for the programme, the sanctioning of every rupee needs justification even for ongoing programmes.

Just-in-time

- Just-in-time (JIT) inventory methods deliver supplies “automatically” to the organization as needed, and they avoid many of the traditional costs of ordering, storing, and keeping track of inventories that flow through health care organizations.

INPUT - OUTPUT ANALYSIS

- Health consumes resources (inputs) in the form of staff, equipment, etc. and produces outputs like treatments given, deliveries conducted, immunizations performed, etc.
- An input output table can be constructed to show how much of each input is needed to produce a unit amount of each output.

OUTCOME BUDGET

- The budget, which is presented and eventually approved by the Parliament, proposes financial outlays for different activities to be carried out in the subsequent financial year.
- In due course, the amounts actually spent out of the sanctioned ones are accounted for and audited.

SWOT ANALYSIS

- Strength of an organization lies in the powerful attributes, which it may possess.
- Weaknesses are actual or potential liabilities and weak points.
- Opportunities are circumstances or situations, which may be conducive to its flourishing and growing further.
- Threats are those aspects, which may hinder its growth and development

LOGICAL FRAMEWORK

- The Logical Framework, simply called LogFrame, is a method found useful for bringing about clarity in the process of planning and evaluation.
- It has the advantage that it compresses the entire programme being proposed in a summary format.

- The Log Frame consists of a matrix with 16 cells.
- The vertical column states Goal, Purpose, Outputs and Activity clusters.
- The other cells mention the Objectively Verifiable Indicators, Means of verification and assumptions of these.
- The Goal is the ultimate reason for the programme that will benefit health of the target population.

PERT

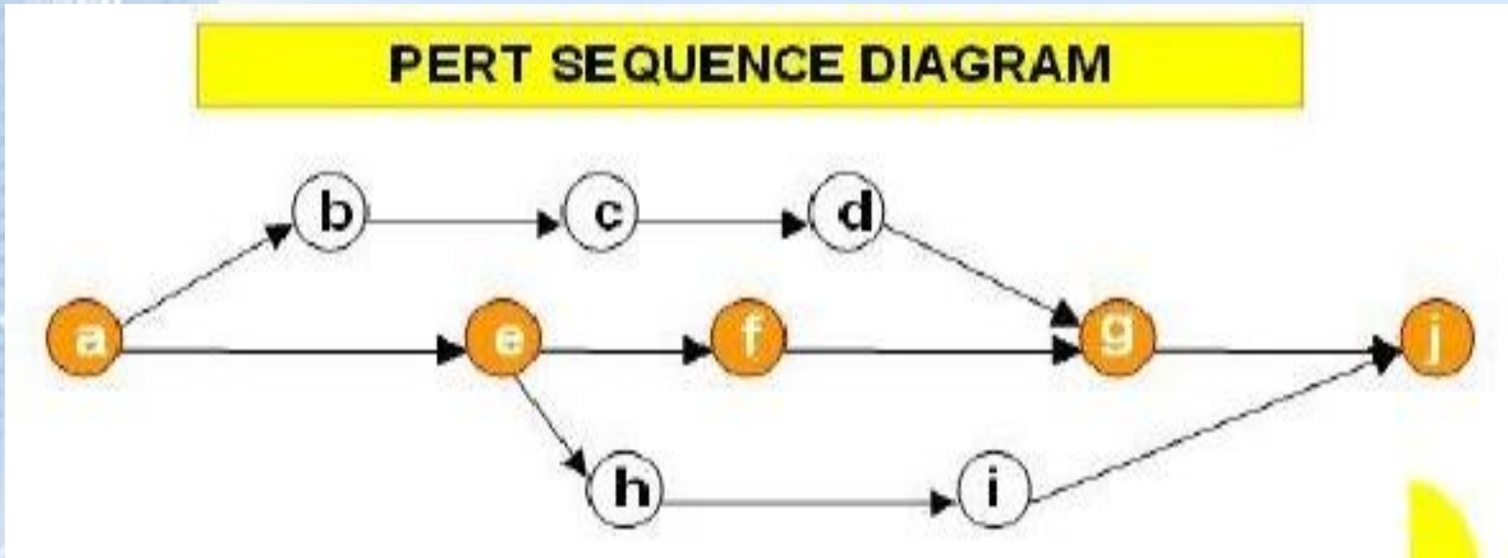
- PERT (Program Evaluation and Review Technique) can be applied to any field requiring planned, controlled and integrated work efforts to accomplish defined objectives.
- Developed by U.S. Navy for Polaris missile project
- Developed to handle uncertain activity times

CPM

- CPM (Critical Path Method) is the method of project planning consisting of a number of well defined and clearly recognizable activities.
- Developed by Du Pont & Remington Rand –
- Developed for industrial projects for which activity times are known

PERT and CPM have been used to plan, schedule, and control a wide variety of projects:

- R&D of new products and processes
- Construction of buildings and highways
- Maintenance of large and complex equipment
- Design and installation of management systems
- Organizing transportation projects
- Deployment and/or relocation of forces


PERT SEQUENCE DIAGRAM
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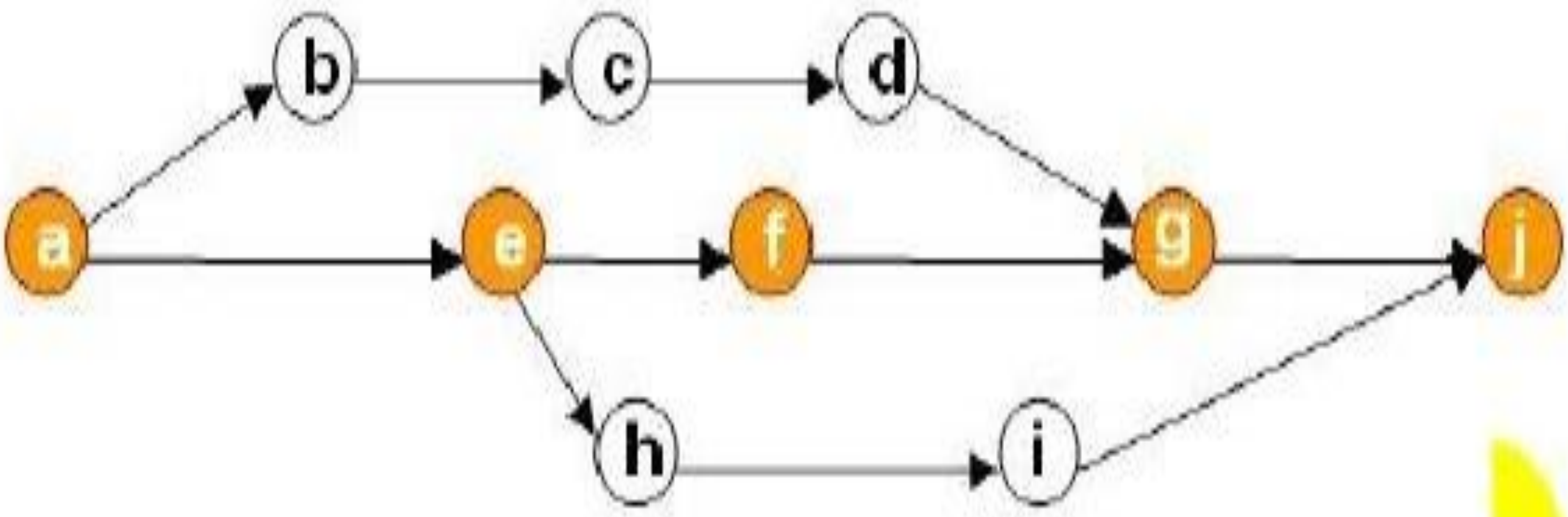

How to Estimate the time required to complete each activity.

- Optimistic time (O) – the shortest time an activity may take if everything goes well
- Pessimistic time(P) - amount of time an activity will take if everything if every thing goes wrong
- Most probable time(M) – most realistic estimate of how much an activity will take.
- Expected time Te is calculated as
- Te = O + 4M+P / 6

Indicators for assessment of healthcare financing

1. Total expenditure on health as % of GDP
2. Per capita total health exp. at average exchange rate
3. Govt exp. on health as % of total Govt exp.
4. Public spending on health as % of total health exp.
5. Out of pocket spending as % of private expenditure on health
6. Donor spending on health as % of total health spending

Cont…

7. % of govt health budget spent on outpatient/inpatient care
8. % of govt health budget spent on-
    1. Salaries of worker
    2. Medicine and supplies
    3. Other recurrent cost
9. Health Insurance:
    8. % of population covered by various insurance scheme
    9. Social security exp on health as % of general govt exp on health

Health expenditure by functions

Sr no.	**Health Care Functions**	**% Distribution**
1	Tertiary care	22.45
2	Secondary care	15.32
3	**Primary care (41.26)**	
	a) SC/PHC/Dispensaries	16.58
	b) Public Health programme	**11.27**
	c) Family welfare	13.04
	d) Rehabilitative care	0.38
4	Direction and Administration	10.07
	Health statistics and research	2.25
6	Medical stores	1.76
7	**Medical reimbursement/compensation**	4.13
	Functions not specified	2.76
	Total	100

	Health expenditure by functions	
Sr no.	**Health Care Functions**	**% Distribution**
1	Curative Care	42.67
2	Rehabilitative & Long term Nursing Care	0.28
3	Ancillary Services related to Medical Care	2.33
4	Medical Goods Dispensed to Outpatients	0.92
5	**Prevention and Public Health (20.79) Services**	
	1. RCH & Family welfare	12.07
	2. Control of communicable diseases	6.82
	3. Control of NCDs	0.91
	4. Other public health activities	0.98
6	Health Administration & Insurance	9.69
7	**Health & related functions (17.3)**	
	1. Medical Education and Training of Health Personnel	9.56
	2. Research and Development	2.03
	3. Capital Formation	5.33
	4. Nutrition Programme	0.08
	5. Food Adulteration & Control	0.30
8	Functions from other Sources	4.99
9	Functions not Specified	1.1
	Total	100

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Thank you