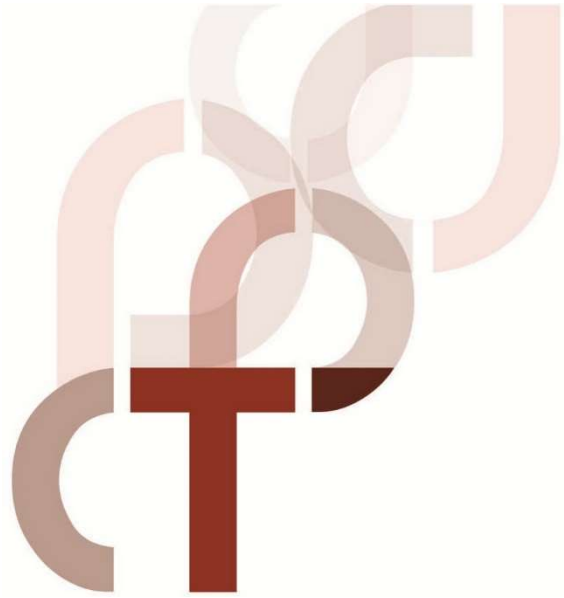
Executive Summary



Healthcare Services Contracts with SOE in the National Health System

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EXECUTIVE SUMMARY

The National Health Service (NHS) management, despite using some of the tools considered state-of-the-art in the sector, is hampered by the increasing complexity of the planning system.

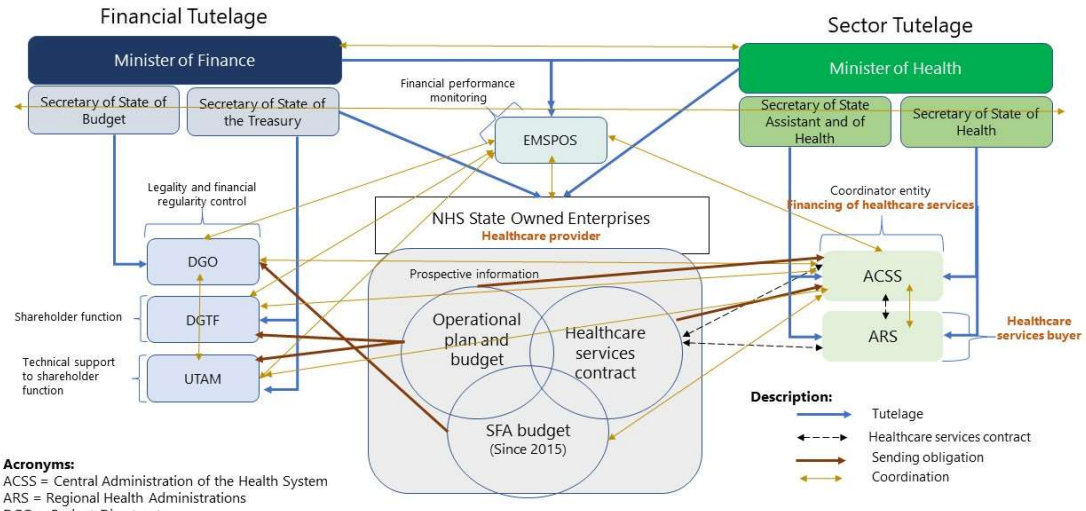
More than half of the amount of the expected transfer provided by the State Budget (SB) to the NHS is intended for the Healthcare services contracts process with state owned enterprises integrated into the NHS, harming the financial planning system. Contracts do not, however, make a correct correspondence between contracted services and financial needs, considering, for example, prospective losses as a source of financing.

Thus, the cyclical need for discretionary financial injections by the Ministry of Finance (MF) is structural, promoting hospital management discredit and unaccountability.

The National Health Service (SNS) comprises, in its set of entities, public enterprises that provide the generality of hospital health care and a significant part of primary health care, which assume the legal form of state-owned enterprises (SOE).

The provision of health care is contractualized between the State and those providers through healthcare services contracts, which are part of a governance system with three prospective management instruments, implying the intervention of multiple actors of political and administrative nature. This institutional scheme presupposes a strong political and technical articulation, as well as the interests alignment of all parties involved, although the individual objectives of the parties are potentially conflicting. This potential conflict is reflected, for example, in the respect for the budgetary allocation and in the answer, at the same time, to the provision of services foreseen in healthcare services contract.

The governance of prospective management instruments can be summarized through the following figure, which is explained in the main document body:



The multiple hierarchical and coordination relationships identified, negatively affect the timing of the contractualisation process, create overlapping responsibilities and enhance the creation of conflicting tensions between the different entities objectives. These tensions often lead to institutional blockades and inefficient management options.

Since 2015, the NHS SOEs were integrated into the general government sector, becoming reclassified public entities, being required to submit a budget such as Autonomous Services and Funds. This change means that they have to comply with a set of procedures and rules, oriented to the administrative services management control, which are often conflicting with the logic underlying the contractualisation process.

According to international best practices, the contractualisation process quality, with a clear definition of actors roles and responsibilities – financier, buyer and provider – combined with payment terms that induce the proper incentives to achieve the recommended objectives, is central to the proper functioning of any health system (OECD, 2016).

The contractualisation model with the SNS SOEs has evolved to incorporate internationally recommended practices. However, the contractualisation process currently at place in Portugal presents weaknesses at its governance level, being demonstrative of this the non-conclusion of the process for the year 2019 at the time of this report, which should, in theory, have been completed before the end of 2018. Similarly, financing complies with less correct rules, with the celebration of economically unbalanced contracts (predicting operational losses from the start), leading to capital injections by the State, enhancing negative risks to quality and access to health care.

About 90% of NHS funding comes from the State Budget (SB), representing, on average, for the period 2013-2019, 4.5% of GDP. More than half of the resources allocated to the NHS are used for the conclusion of healthcare services contracts with health sector SOEs. In absolute terms, its annual value amounted, on average, between 2013-2019 to 4,411 M€, in an average total amount of transfers expected in the SB during that period to the NHS of 8,100 M€.

Healthcare services contracts have an effect on the scope and level of care delivery and from them result changes in the SOEs economic and financial situation. As for the former, from the healthcare services contracts analysis for the period 2013-2018, overall, the bet on outpatient health care as an alternative to hospitalization is the result. For the latter, overall, healthcare services contracts are not economically balanced, predicting a spending growth greater than revenues growth, with economic and financial indicators that have deteriorated over the years, representing debt increases if the State does not make regular and significant statutory capital increases as a way to cover accumulated losses that are, somewhat paradoxically, foreseen from the start.

For the period 2013-2018, the expected losses, aggregated and accumulated, amounted to 1,402 M€ (average of 234 M€ per year). The prospective asset has an average value of 5,022 M€ and the prospective liabilities (including advances from customers, taxpayers and users) the average value of 4,627 M€. Expenditure has been growing at a faster pace than revenues, leading to a deterioration in the prospective economic performance, which worsens

significantly in 2018, with a projected loss of 683 M€, which means an increase of 183.5% compared to the expected loss for 2017 (241 M€). Of the 40 SOE, 39 (i.e. 98%) expect operating losses and 20 (50% of the total) expect negative net worth situations.

Table 1 - Prospective financial condition (millions of euros and %)

	2013	2014		2015		2016		2017		2018	
	Value	Value	Var.	Value	Var.	Value	Var.	Value	Var.	Value	Var.
Total assets	5 847	5 091	-13%	4 859	-5%	5 361	10%	4 581	-15%	4 396	-4%
Total liabilities	5 715	4 481	-22%	3 964	-12%	4 738	20%	4 365	-8%	4 496	3%
Net worth	132	610	362%	894	47%	623	-30%	216	-65%	-100	-146%
Total revenues	4 746	4 876	2,8%	4 847	-0,6%	5 164	6,5%	5 229	1,3%	5 126	-2,0%
Total expenses	5 109	4 942	-3,3%	4 973	0,6%	5 328	7,1%	5 470	2,7%	5 809	6,2%
operational expenses	5 039	4 897	-2,8%	4 943	0,9%	5 260	6,4%	5 413	2,9%	5 807	7,3%
Employee expenses	2 561	2 525	-1,4%	2 538	0,5%	2 681	5,6%	2 781	3,7%	2 972	6,9%
External services provided	807	800	-0,9%	805	0,6%	850	5,6%	862	1,4%	947	9,9%
Net income	-363	-65	82,0%	-126	-92,0%	-164	30,9%	-241	-46,6%	-683	-183,5%
Operational result	-389	-92	76,4%	-163	-77,8%	-171	-4,5%	-265	-55,0%	-687	-159,6%
EBITDA	-205	78	138,0%	3	-96,6%	-13	-599,7%	-110	-738,5%	-561	-410,8%

Source: ACSS. | Notes: Aggregated data; year over year variance

These results, although based on prospective data, suggest the need to revise the contracting process in order to ensure the economic balance of healthcare services contracts, since without this balance, everything else constant, the entities financial sustainability and the normality of health care provision is at stake.