FOREIGN INVESTORS COUNCIL IN LATVIA

Position Paper No 3

30 May 2014

Position Paper on the Development of the Health Care System in Latvia

1. Executive Summary

Reforms in the health sector have not transformed into meaningful improvements in health indicators within the Latvian population – in potential or current employees. Any success will depend on high levels of political will and material commitments sustained over time, albeit decisive action, which is difficult to achieve, is essential.

The quality of the workforce is a pivotal concern for investors when considering the establishment of operations in any given location (EY 2012)[i]. Workforce education, skills and experience are essential, however, these are easily outweighed by concerns about the availability of robust social protection and health services from government (ECS 2013)[ii]. Risks increase where the pool of quality labour force is limited.

In 2013, FICIL stressed the negative link between the required sustainable growth of productivity in the Latvian economy and the health of the workforce. We noted that the overall poor health of the population, and the unwieldy and unequal access to healthcare (in the context of an ageing society) is increasingly a barrier to growth and competitiveness. The incidence and dynamics of staff absenteeism with sickness and first time disability, both at a high cost to businesses and the Latvian economy, are amongst the most direct indicators. In 2012, the State Social Security Agency reported 8 million registered days of sick leave. This is profoundly discouraging to investors – potential employers who are considering development in Latvia.

More robust planning and management of public investment can generate tangible improvements in public health results via adding efficiency to current public spending, while any future investment by the Latvian taxpayers must be conditional on targeted action in at least four key areas:

1. **Walking the talk** - *Implement a clear and transparent long term strategy and action (incl. investment) plan for the development of the health system*
2. **Follow the money** - *Continue reforming and increase efficiency gains in the hospital sector*
3. **The Product** - *Define and execute realistic access to, and quality standards for health services*
4. **Focus on health rather than disease** - *Ensure effective inter-sector co-operation (incl. this as real priority for the whole government) to improve the health indicators and productivity of the existing and future workforce*

A lack of critical assessment and vision regarding the development of public healthcare services in Latvia might be a significant inhibitor to the further development of private medical services, the pharmaceutical sector as well as health/personal insurance.

Public healthcare must be funded from the state budget to effectively address the detrimental effect of marked health inequality, caused by inequity in access to health services. Total public spending on health must be augmented to reach the level (and potential) of comparable and competing economies.

2. Recommendations

1. Implement a clear and transparent long term strategy and action (incl. investment) plan for the development of the health system

A. What health services will be provided to meet the set health objectives? Where, when and by whom will they be provided?

- The co-location of state, municipal and private healthcare services, based on economic and demographic considerations and including an analysis of the required specialisation and consolidation in service provision.
- A human resources development plan: competences, placement, efficient use and mobility.
- Year by year evidence-based analysis of the public investment priority areas which are necessary
- Baseline data and indicators to support the further measurement of the plan's implementation

B. What health services will be covered by the state and where is the opportunity for private investment/competition?

- Define the basket of publicly funded healthcare services, including core baskets for specific health conditions.
  - Determine the "critical" healthcare services (conditions and diagnoses) fully funded by the state, on a needs-based model of transparent payment, per service rendered.
  - Introduce health technology assessment as an instrument to ensure evidence-based decision making and the cost-effectiveness of publicly funded healthcare services
  - Support free competition in the provision of healthcare services, thus supporting efficiency and the attainment of quality health-outcomes
- Attain a clear separation of publicly and privately funded health services (including private health insurance).

C. How to make the money work?

- Exploit the synergies between state, municipal and private funding and health service providers
- Exploit resource 'pooling' to improve access to services and to enhance the economic effectiveness of total health spending.

D. Walk the talk - Focus on health not disease!

- Focus public investment on primary and secondary care: health promotion, outpatient care, prevention of disease and complications. (Currently >50% goes to specialized and in-patient care)

- Incentivise employers to offer additional support for a healthy working environment and to stimulate a healthy lifestyle

2. Continue reforms and increase efficiency gains in the hospital sector

Public funding for health care in Latvia must increase, yet, significant gains could be attained by smarter management of current investment.

A. Centralization and good corporate governance

- Continue consolidation of state owned hospitals (e.g. NE and SW 'networks') and seek ways to include municipal hospitals. Savings should be based on the pooling of resources and sharing competencies and services, e.g:
  - Specialisation of services,
  - Opportunity to relocate capital and operating expenditure
  - "Pooling" and sharing of administrative functions (e.g. IT, HR, property and services management) or efficient procurement.

Conditionality for securing public funding could serve as an incentive to join the 'networks'

- Further separation and strengthening of executive (non-clinical) competencies in hospital management. Strengthening of Health management competencies and relevant education.
- Support the establishment of professional supervisory boards in hospitals. The supervisory function should ensure: strategic directions for the development of the institution in line with the goals defined in national health policy documents, identification of risks, monitoring of the implementation, effective supervision and regular evaluation of the management boards' performance.

B. Maximise the return on investment (technology and people)

- Approximate outpatient and in-patient services to develop a 'patient centred' care model.
- Limit the technological "arms-race". Require a case-by-case review and justification of public investment in high-cost and high-tech tertiary care capabilities.

3. Implement realistic access to, and quality standards for health services

A. Which health services, and when are they accessible?

- Revise the 'basket' of State guaranteed health care which is provided and reduce 'cost hurdles' in access to essential services

B. Is there a minimum defined quality for health services?

- Introduce a comprehensive health care quality and patient safety assurance system (irrespective of the provider type and location)
- Ensure and incentivise a system of monitoring the implementation and consistency of the above (key performance indicators), in this way strengthening the 'export ' capacity of health service providers as well

4. Ensure effective inter-sector co-operation (incl. this as a real priority for the whole government) to improve the health indicators and productivity of the existing and future workforce

A. 'Walk the Talk' to establish the improvement of the health of the population (workforce) as a

real priority for the government

B. *Approximate the Ministries of Welfare and Health to increase social and financial effectiveness and efficiency in the planning and implementation of sector policies and their sustainability*

3. Rationale for Recommendations

What worries investors? Work absenteeism has a direct impact on national economies, given the medical and social security costs and the loss of output resulting from a reduced labour force (ECS 2010, 2013).

The low financing of the Latvian health system exposes a significant proportion of the Latvian population (employees) to significant personal financial risks, contributing to social instability, while employers are required to cover both the tax-based and "co-payment" contributions towards their employees' health.

The Latvian health system has not established clear performance monitoring (principles or a system); therefore fact-based assessments of the technical efficiency of the system are impossible. In terms of allocative efficiency – the total resources available for the health system (very low), distribution of resources by provider type or service (priority to specialized and inpatient care) and allocation to public health (very low).

Public funding is currently not used as an instrument to incentivise the achievement of specific public health objectives (e.g. defined in the National Development Plan, 2012), or to encourage the efficiency and effectiveness of public investment. The risks from underfunding of general taxation financed systems are well known and evident in Latvia.

- The life expectancy of the male population in Latvia is on average 8 years shorter than in the EU 27: 67.9 years in contrast to 75.3 years (OECD 2012)[iii];
- First time disability has been a growing trend during the past 6-7 years in particular, though it showed a slight, if nominal, fall in 2011 and 2012.[iv]
- In addition to this, one-in-seven companies (ECS 2013)[v] reported high levels of sick leave by workers.
- While one of the main objectives of the health system is to protect the population from health related risks and reduce personal financial stress (WHO, 2001), the Latvian health system is characterized by a low level of total health expenditure (6.2% of GDP in 2011 vs 9.6% EU avg.) and one of the lowest public contributions to healthcare as a proportion of GDP (3.13% in 2013). (WHO, 2013; MoH of Latvia 2013) with a very low amount from the State budget (LV 8.8% vs 12% in EE and LT and 15% in EU).[vi]
- The World Bank indicates an unsustainable proportion of out of pocket payments by patients. Most of this is spent on medicines (70% of total cost) and outpatient services (Total health spending is 6.2% of GDP. The state pays 3.1% of GDP, or roughly 50% (WHO est.). The limited availability of reimbursed medicines, including those for the management of chronic conditions, increases the risk of exacerbation, hospitalization and work absenteeism.

To complement the recommendations above, FICIL further highlights several considerations of particular concern to the investor community, being both "users of services" and "players" in the Latvian market for health services.

1. The lack of a clear and transparent long term strategy and action plan for the development of

the health system

FICIL members are both '*users* of services' in the Latvian health system and '*players'* in the market offering their products and services. Both experiences stimulate a call for greater clarity and transparency in the future development of the system.

The limited funding of healthcare for the people of Latvia necessitates clear priority setting and a focus on the efficiency of actions, essential for the maximising of benefits for system '*users*'. A long term strategy and action plan for the system are essential to stay focused on key objectives, to set and deliver on expectations, plan the resources and use them efficiently, as well as to indicate the realm and rules for fair competition. As '*players'* and service providers, investors appreciate a predictable, sustainable and transparent environment for developing services competing with or complementing those of the State. Only a long-term vision can satisfactorily address strategic challenges:

The coordination of state, municipal and private services to reach the goals of public health effectively and adequate resources would allow for effectiveness and efficiency gains. Currently, the investments and development initiatives of state, municipalities and private health sector actors do not follow a common agenda, thereby often leading to the duplication of services and a waste of resources.

Defining services that fall outside of the remit of competition, which are a state monopoly. The current funding of health services follows inherited practices rather than being aimed at the achievement of particular goals. The MoH needs to identify strategic services and prioritise public funding (the basket of services) accordingly. By defining critical services (provided by the state at all times of need), the MoH will define the area for free competition between different types of providers (incl. private) and mark the border for entirely private services. As an illustration: the current approach of voluntary health insurance is a distortion as it is predominantly used for speeding up access to state funded services. Private services providers could serve as healthy competition where the "money follows" the patient, regardless of the place where the service is rendered.

Effective allocation of human resources. The Latvian MoH has pointed out that by 2018, one third of HCPs and nurses will have reached retirement age, thus emphasizing the importance of timely action in the training and location of new specialists. The lack of a coordinated approach in human resource development (defining the need) may further aggravate geographical or specialisation related shortages of HCPs.

Funding according to priorities to reach objectives. For more than a decade the MoH has *pro forma* prioritized primary care and declared an intention to redistribute funding accordingly. Nevertheless, primary care expenditures have made up only 10 % of the total healthcare budget vs more than 60% allocated to secondary and tertiary care (Mitenbergs, 2012). Despite the high burden of preventable lifestyle related diseases and sound objectives in the Public Health Strategy, the funding for prevention and public health is among the lowest in the EU.

A relatively weak GP institution is one of the key inhibiting factors for the widening of outpatient care services, as well as for the execution of effective prevention and the promotion of health.

2. Efficiency gains in the hospital sector and reform

Hospitals currently account for more than 50 % of total government health care expenditure

(Mitenbergs, 2012). Therefore, there are significant efficiency gains to be found here. . FICIL recommends action in two essential areas.

Centralisation to drive efficiency and the quality of governance. The centralisation of management functions at hospitals owned by central and local governments offers an opportunity for gains in efficiency in the public healthcare system (PHS).

The need to strengthen the non–clinical (management) competencies of current hospital executives has been broadly acknowledged. FICIL encourages the centralization of hospital management to address the deficit of management skill in the system. We recommend the establishment of professional supervisory boards in the two biggest hospitals in order to better represent the interests of the shareholder (state), to drive strategic vision, ensure risk management, and constantly evaluate the performance of the management board.[vii]

Pending the political will to change the legal status of hospitals to drive horizontal integration, financial and budget incentives for greater cooperation and coordination between the institutions (e.g. regionally) must be considered. In particular with respect to the specialisation of services but, in the same way with HR management, capital investment and the purchase of non-clinical and administrative services. Only consolidation can serve as a facilitator to share competency, specialize services, minimize duplication and waste, and exploit economies of scale.

In addition to this, the gains from greater centralisation of the system could involve:

- A whole-system view of development and a more conscious and accountable link to goals defined in high level strategies (e.g. NDP) as well as plans for regional development, including the planning of physical infrastructure.
- Effective planning and the use of medical equipment (hi-tech investment).
- The opportunity for centralised marketing for exports of Latvia's health services and the organisation of service provision.
- Supporting the meaningful implementation of a life-cycle approach to public health and health care (centralisation opens opportunities to better link executive pay with public health results rather than the number of services rendered, turnaround or profit)
- Effective and efficient management of health data (system management and information retrieval). Including gathering quality information on the cost of services.
- The scope of the system currently limits the development of high-level services, limiting or distorting the ability to pool a critical mass of competencies.

Maximize the return on investment. The shrinking population in Latvia, forces the reconsideration of existing facilities and technologies in hospital and to maximize their exploitation via integration with outpatient services. This may lead to not only higher efficiency, but is, likewise, a step towards more integrated and patient centred health services.

Unlike pharmaceutical products, where clear requirements should be fulfilled before listing for reimbursement, other investments in health services are less transparent. Clear priority setting or cost-effectiveness/efficiency criteria do not drive resource allocation in the hospital sector. Professional lobby groups, rather than transparent investment strategy drive most of the high-tech equipment purchases. Such opportunistic spending leads not just to irrational use of available funds, but rather, increases running expenses in future and present high opportunity costs hospitals and whole system.

3. Realistic access and quality standards for health services

The responsiveness of the health system relies on ensuring prompt attention to health needs, usually determined by physical, social or financial access to services. Surveys on patient experience help to determine the *status quo* on waiting time for access, physician–patient interaction or general evaluation of the quality of health care provision. A Eurobarometer survey in 2010 showed that two out of three patients in Latvia think that the quality of healthcare in other EU member states is better than that in Latvia (EC, 2010). Health Consumer Powerhouse (2012) ranks Latvia 31 out of 34 countries, while still further considering objective criteria.

Basket of Services. The lack of a clear scope, the level of access and the quality of publicly funded health services (included in the state funded services basket) are amongst the key reasons for dissatisfaction. Those are, in the same way, directly linked to the speed of recovery and a return to work, which is in the best interests of the national economy. FICIL calls for a revision of the state guaranteed basket and to set a realistic scope, time and cost for the access to health services. In addition, this will clearly identify the business opportunities for health insurers and other private service providers.

Quality of Services. It is expected that conventional treatment, diagnostic and preventative health services will fulfil the same quality criteria regardless of the place/institution of rendering. This requires the introduction of an understandable and transparent quality assurance system and standards for all health service providers.

In Latvia, the service purchaser (the National Health Service), both set the price and contracts services. Often such regulated prices do not cover the actual costs of the service, thus hampering competition between providers striving for better quality, as the priority is to minimize losses. It undermines the achievement of key goals (the quality) of the health system. A separation of service contracting and the payer function from the health care tariff and standard setting is highly recommended.

4. Ensure effective inter-sector co-operation (incl. this as a priority of the whole government) to improve health indicators and the productivity of existing and future workforce

The need for close co-operation and coordination between the Ministry of Health and the Ministry of Welfare is essential. Effective social policy is aimed at addressing social determinants of health, thus helping to ensure long term health gains, tackle inequities of access and inequalities in health attainment. The outputs of the health system (e.g. amount of sick leave and first time disability rates) serve as inputs to the welfare system.

Concrete examples illustrate the benefits of closer coordination leading to more efficient policy results, e.g. the requirement by the MoH to use the cheapest of the medicines on offer, where this is compensated by the state. The benefit, however, is ambiguous. Forgoing the indirect expenses (e.g. social assistance from the MoW and local governments), the total cost/advantage is unknown.

The FICIL members welcome government incentives for employers (e.g. tax exemptions) for their contribution to the development of healthy work environment or promotion of healthy lifestyle. FICIL clearly recognizes the future demographic challenges for Latvia - according to estimates Latvia will have one of the highest proportions of elderly population as well as a very high social dependency rate. The sustainability of the social security system and the success of pension reform (potential to increase the retirement age) will very much depend on the health of the aging workforce.

The achievement of the objectives listed in the Public Health Strategy 2011-2017, will depend on the strong prioritization of prevention and primary care. According to Willis (2013) such a move will require more than just funding, - it will need new ways of co-operation, concentration of resources around prioritized disease groups, a true commitment to a preventative strategy and finally strong leadership to build interdisciplinary relationships based on a common vision, values and culture.

[i] "Growth, actually". European Attractiveness Survey 2012. EY, 2012. Available from: http://www.ey.com/Publication/vwLUAssets/Attractiveness_2012_europe/$FILE/Attractiveness_2012_europe.pdf

[ii] European Company Survey, 2010 and 2013. Available from: http://www.eurofound.europa.eu/surveys/ecs/2013/index.htm Aggregated country data of 2013 not yet available.

[iii] Health at a Glance: Europe 2012. OECD, 2012. Available from: http://www.oecd-ilibrary.org/sites/9789264183896-en/01/01/index.html?itemId=/content/chapter/9789264183896-4-en

[iv] While decrease registered in 2011 and 2012, important to note – during the economic crisis social benefits for disability presented an alternative to salary.

[v] Eurofund, 2013. Available from: http://www.eurofound.europa.eu/surveys/ecs/2013/index.htm?utm_source=website_item4&utm_medium=website&utm_campaign=3ecsfirstfindings20131126

[vi] World Health Organisation: http://data.euro.who.int/hfadb/

[vii] See also: FICIL Position on Competitiveness of State Owned Enterprises, 2012. Available from: http://www.ficil.lv/faili/WEB/PDF%20ENG%20bez%20draft/12%2006%2001%20Competitiveness%20of%20SOEs.pdf