

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH  
Initiatives of the Infrastructure Programme for Ukraine  
Project “Strengthening of Ukrainian Communities Hosting Internally Displaced Persons”

# **INTER-MUNICIPAL COOPERATION (IMC) IN THE MANAGEMENT OF HOSPITALS**

## **DESCRIPTIONS OF ADEQUATE FORMS OF INTER-MUNICIPAL COOPERATION AND EXEMPLARY SCENARIOS OF INTER-MUNICIPAL COOPERATION IN POLOHY HOSPITAL DISTRICT**

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## Abbreviations

ACH	Acute Care Hospitals
GIZ GmbH	German Corporation for International Cooperation
HD	Hospital District
IMC	Inter-municipal cooperation
IMC Law	Law of Ukraine “On cooperation of territorial communities”
LSGs	Local self-governments
NHSU	National Health Service of Ukraine
PCI	Primary Care Institution

## EXECUTIVE SUMMARY

From May 2018 till April 2019, GIZ supported the Polohy Hospital District Council in the formulation of the multi-annual Hospital District Development Plan and the development plans for the individual hospitals in the Polohy Hospital District (Polohy HD). A crucial aspect of the development of hospitals in Polohy HD - as in every hospital district - is the idea of interlinking the various hospitals by offering complementary functions and joint services. So far, the adjustment of the management of the 'hospital landscape' as a consequent and necessary second step is not discussed in a structured manner. Municipalities as (future) owners of the hospitals are often overburdened in proper management and financing of their institutions.

The study aims to discuss various ideas of merged management of medical and non-medical hospital functions based on inter-municipal cooperation (IMC) and to assess their potential and particularities for Polohy HD, considering provisions in the formulated HD development plan and related hospital plans. By taking Polohy HD as a practical example, the assessment of applicability of different forms of IMC does not remain as academic exercise but links it with a particular territorial and institutional context.

### **MAIN CHALLENGES IN HEALTH CARE IN UKRAINE AND IN POLOHY HOSPITAL DISTRICT**

Presently, the health care sector in Ukraine undergoes a reform process which shows considerable changes of the framework for the provision of medical services. The reform aims to address the main problems of the existing health care system in Ukraine, namely low budgetary efficiency and, as a consequence, poor quality and efficiency of healthcare delivery. Most expenditures now are used to cover current costs rather than to the development of the healthcare system as training of medical staff, purchasing equipment, conducting research, etc. Doctors often do not have the motivation to work at low salaries, which leads to the problem of staff shortages particularly in rural, remote regions.

The reform includes a new financing mechanism. The main element of the new mechanism is the principle of "money following the patient": the patient chooses independently where he or she wishes to receive medical care, and the state through the National Health Service of Ukraine pays the medical institution to provide such a service. For specialized and highly specialized medical institutions (secondary and tertiary level), the transition to a new funding scheme began in form of pilot projects in 2019. A full and inclusive transition will only take place from 2020. In the new environment, after the introduction of the new mechanism, the competition for patients may become even more extensively. It perfectly reflects the importance of structured development of the hospital district and clear structure of effective management of hospitals, which will make it possible to provide high quality medical services.

Polohy HD is one of five hospital districts established in the territory of Zaporizhzhia region. It includes the Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka, and Tokmak hospitals. Main challenges that were identified during the formulation of the Polohy HD development plan are predominantly related to bad roads and low efficiency of financial resources utilization. Most of these challenges could be resolved by establishment of appropriate structures for the management of the hospitals. A great potential is seen in the management based on inter-municipal cooperation within Polohy HD in the one form or another.

## SELECTED FORMS OF INTER-MUNICIPAL COOPERATION - GENERAL STRUCTURES AND LEGAL REQUIREMENTS

Inter-municipal cooperation (IMC) is an important and a powerful tool in the decentralization process. It enables municipalities to better fulfil their responsibilities and to provide qualitative services to the residents. In Ukraine, IMC is regulated by the Law of Ukraine “On cooperation of territorial communities” which was adopted in 2014. In Article 4 (1), five forms of IMC are prescribed, out of which the “delegation of one or several tasks to one of the subjects of cooperation by other subjects with the transfer of the required resources” is most popular form of IMC and is widely used meanwhile, also in the health care sector.

More complex IMC forms are still rarely applied in Ukraine. Reasons are often lack of mutual trust, lack of experience and inability of communities to plan strategically, misunderstanding of importance of cooperation by the municipal councils, unwillingness to risk since long-term cooperation could be jeopardized in the event of changes in elected leadership<sup>1</sup>.

The study focuses on the reflection of those more complex IMC forms as stated in Article 4 (1):

- Joint maintenance and financing of enterprises, institutions and municipal entities,
- Establishment of joint municipal ventures, institution or organizations, and
- Establishment of joint governing bodies.

**Joint maintenance and financing of enterprises, institutions and municipal entities** provides for flexible application of inter-municipal cooperation in the health care sector. Its aim is to share the maintenance and/or financing responsibility in order to ensure that enterprises, institutions, organizations or any other entities belonging to one of the IMC partners provides its service fully or to the agreed extent and functions to all of the IMC partners respectively to the residents of all of the IMC partners. The obvious difference to the IMC form of delegating a task is the fact that by sharing the responsibilities also the rights are shared. This means that all IMC partners are involved in decision-making and supervision. What exactly decision-making and supervision include and which decision-making power remains with the owner of the enterprise, institution, organization or any other entity is subject to the IMC agreement. It is not intended to change the ownership or to transfer assets or staff. This IMC form is quite attractive for joining municipal efforts in the provision of health care services.

The IMC form of establishing a **joint municipal venture, institution or organization** (hereinafter: joint venture) seems to be the most complex one. However, if established properly it can be the most robust, effective and efficient one! By forming a joint municipal venture, the management and political-administrative supervision of the provision of medical services is changed fundamentally. All hospitals of all involved partners of the IMC become part of the new joint venture, not only by transferring the physical assets (buildings, equipment, technical infrastructure, etc.) to the balance of the new venture but also by transferring the staff from the pay-roll and authority of the individual municipalities to the pay-roll and authority of the new joint venture. The individual medical institutions are seen as integrative parts of the entire ‘hospital landscape’ in the area of the IMC. The establishment of a joint municipal venture follows the legislation regarding the establishment of public enterprises as the Law of Ukraine “On State Registration of Legal Entities, Individual Entrepreneurs and Public Organizations”. A formal registration of such joint municipal venture is required as this form of cooperation implies the creation of a new legal entity. Cost effectiveness can be realized first of all by merging management and administrative functions at the central office of the new joint venture, by using economy of scale

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<sup>1</sup> Association for Community Self-Organization (2019): Survey of inter-municipal cooperation in education and health care

also in provision of specialized medical services and by better comprehensive strategic development of the medical institutions and their staff.

According to Art. 14 (3) IMC-Law, a **joint governing body** may be established in the legal forms either (1) as a separate executive body of the local council of one of the subjects of cooperation (with or without status of legal entity of a public law) requiring registration or (2) as a structural subdivision of the executive body of the local council of one of the subjects of cooperation not requiring registration. The most striking advantage of establishing a joint governing body compared to delegation of tasks is the fact that the respective tasks is given to the local council which shows the best conditions/potential to fulfil it and to provide the best quality service, but all IMC partners can supervise and monitor the realization of the tasks and decide on the strategic development of the service provision. It can be said that this IMC form is the most flexible one of all IMC forms, at least related to the three selected IMC forms assessed in this study! The type and extent of the contributions by the IMC partners depend on the character of the joint function and tasks; in many cases it will be mainly payment of the required staff and office consumable, in other cases also joint capital investment might be needed. A particular challenge of this IMC form is the risk of structural collision of competencies of the IMC partners and of competencies of the council of the 'hosting partner'; a thorough, unambiguous and non-interpretatable IMC agreement is inevitable.

The **roadmap to getting IMC started** is defined in Articles 5-9 of the IMC-Law. The procedure covers 10 steps in total, starting from the initiation of IMC till the registration of the IMC at the competent national body.

For the establishment and operation of any of the assessed IMC forms, some general challenges can be seen to which answers and solutions need to be find in the context of the particular IMC:

- How to shape the IMC agreement?
- How to ensure fair and effective supervision, monitoring and decision-making by the partners?
- On which base to calculate the individual contributions per IMC partner?

Beside normative and formalized conditions it has to be emphasized that IMC are based always on mutual trust to a large extent.

## **EXEMPLARY SCENARIOS FOR THE MANAGEMENT OF FUNCTIONS BASED ON INTER-MUNICIPAL COOPERATION IN POLOHY HOSPITAL DISTRICT**

### **Challenges of IMC in practice**

When thinking about IMC, it has always to start with a clear purpose. **What is the particular reason to consider IMC?** IMC must not end in itself but must be applied as a tool to achieve a required or wished purpose better and/or more efficient than without IMC.

The successful application of IMC is strongly connected with non-legal and non-technical matters. **Political will, accountability to the residents and mutual trust among the IMC partners present key success factors!** IMC requires a new perspective by the local politicians and the respective local decision makers. As IMC always shows intended or unintended side effects, the side effects need to be understood and communicated.

Nevertheless, technical knowledge for the planning and implementation of IMC is also required. Those refers to:

- Processes inside the individual municipality
- Processes among the potential partners

- Legal framework conditions (opportunities, restrictions, support programmes)
- Planning the service provision or task fulfilment
- Implementation mechanisms

In principle, each IMC form can be applied for each purpose. However, the nature of the different IMC forms makes them more adequate for one purpose or another. The selection of the right IMC form for a particular purpose, the pro's and con's need to be assessed and balanced. Only then the most adequate IMC form can be identified for a particular purpose.

Two hypothetical examples were taken to show the consideration of financial issues as well as of pro's and con's of each selected IMC form. Only then the most adequate IMC form can be identified for a particular purpose. The taken examples were selected based on the context and in consideration of the particular conditions of Polohy HD. Also, the findings and objectives of the draft Polohy HD development plan and of the individual hospital plans were taken into account.

### **Centralization of procurement**

Centralization of procurement for all hospitals of Polohy HD forms a less complex approach which is easy to realize and generate financial benefits. Qualified procurement is not yet done by the individual hospitals. For a qualified procurement considering correct tender processes, applying existing legislation in favour of the hospitals, negotiations with suppliers, using large orders to reduce the costs per unit, etc. the employment of qualified experts is inevitable in the long run; particularly in processes of autonomization when hospitals are becoming responsible for cost-coverage of their operation. Centralized qualified procurement requires hiring separate staff to perform procurement function in Polohy HD. These are two lawyers, specialists in procurement and tendering.

The annual cost for maintaining the experts could be estimated up to 400 000 UAH; other operating expenses will include office consumables up to 60 000 UAH per year. Overall operating expenses for the centralized procurement office are estimated up to 460 000 UAH a year. The economy of scale (i.e. purchasing the same equipment and inventories for all hospitals) will lead to efficient service and cost reduction which can equal up to 10-20 % (Lithuania leading practices of procurement centralization). Although the establishment of a centralized procurement office implies additional costs in the beginning, the joint procurement based on IMC is a future-oriented structural arrangement in order to save funds in the long run. The quality and effectiveness of procurement will increase which will lead to long-term savings due to optimized service and maintenance costs.

Using nine assessment criteria describing several legal, management and "soft" facts, the optimum IMC form out of the three selected IMC forms presented in this study can be defined. In the light of the situation in Polohy HD, the IMC form of **joint governing in form of a structural subdivision of an executive body of the local council of one of the IMC partners** for the centralization and joint implementation of procurement for the six hospitals in Polohy HD turns out to be most appropriate! For the determination of the location of the centralized procurement office the amount of procurement needs by local hospitals and the attractiveness of residence for the two experts to be employed needs to be considered. Also, the vicinity to Zaporizhzhia City as the location of many suppliers and the regional authorities is an important locational factor.

### **Centralization of laboratory services**

The improvement of quality of the laboratory services will positively affect the level of diagnosis and treatment in the hospitals of Polohy HD. The analysis revealed that it is economically advantageous to establish a centralized laboratory. With the creation of a single laboratory centre, which will be co-financed by hospitals, quality services can be provided on the base of economy of scale and create

sources for upgrading technical equipment and improving the quality of analyses. This option considers a merged central laboratory to be placed at one location of the Polohy HD, leaving only the collection points in the individual hospitals and ensuring the daily transportation of the collected material to the central laboratory.

Beside the increase of quality, the establishment of centralized laboratory services for all six hospitals in Polohy HD creates considerable financial benefits for the IMC partners. Although investments need to be done in blood analyzers and IT-equipment in the beginning, the running costs of the provision of laboratory services can be reduced significantly. According to the estimated necessary amounts and costs after centralization, the estimated total savings in running costs could be summed up to amount of more than 4 000 000 UAH per year compared to present situation. Even if investments are needed to equip the centralized laboratory and the hospitals in order to provide basic laboratory services in quality, there will be a saving even in the first year.

Using the same assessment criteria as for the example on centralization of procurement, the IMC form of **the joint maintaining and financing of a centralized laboratory** in the ownership of one IMC partner seems favourable. The determination of the location should be based on realistic amount of laboratory services by each hospital in future. In order to minimize transportation costs - particularly because of bad road conditions, the centralized laboratory should be located in the vicinity of the hospital with the biggest number of expected future demand of test and services.

# 1. INTRODUCTION

## 1.1 Background of the study

From May 2018 till April 2019, GIZ supported the Polohy Hospital District Council in the formulation of the multi-annual Hospital District Development Plan and the development plans for the individual hospitals in the Polohy Hospital District (Polohy HD). A crucial aspect of the development of hospitals in Polohy HD - as in every hospital district - is the idea of interlinking the various hospitals by offering complementary functions and joint services.

The establishment of HDs was a first step to see the hospitals within that territory not only as a group of individual hospitals acting independently from each other but as a 'hospital landscape' in which the individual hospitals are recognized as parts of a system. This is reflected in the HD development plan; the development plans for the individual hospitals are based on this umbrella plan.

However, this integrated planning presents - as mentioned above - only a first step towards optimising the hospital infrastructure and mainly focusing on joint planning and agreement on future acute care hospitals (ACH) and full-service hospitals. So far, the adjustment of the management of the 'hospital landscape' as a consequent and necessary second step is not discussed in a structured manner.

Any joint assessment of future hospital development within an HD is only meaningful if also future management structures are assessed and the value added for the sustainability of qualitative and efficient medical services is verified. But till today, an integrative reflection of this crucial aspect is lacking.

Following a more conventional approach, improvement of the provision of medical services (in hospitals) is overwhelmingly still focused on adjustment of medical and non-medical functions, improvement of technology, number and qualification of staff, or sharing of functions. All of those elements are important. However, without consideration of effective management structures within an HD, the initiation and realization of useful and required changes as well as keeping sustainable effectiveness and efficiency of medical services provided by the 'hospital landscape' are rather difficult.

Following the finalization of the Polohy HD development plan and hospitals development plans for the six hospitals in Polohy HD, it became obvious that the absent assessment of future management structures presents a missing link in the process to create a robust base for further development of effective and efficient hospital services. The existing organizational structures of hospitals show considerable obstacles for effective management and development. Municipalities as (future) owners of the hospitals are often overburdened in proper management and financing of their institutions.

## 1.2 Aim and approach of the study

The study aims to discuss various ideas of merged management of medical and non-medical hospital functions and to assess their potential and particularities for Polohy HD, considering provisions in the formulated HD development plan and related hospital plans.

An interesting and potential instrument for the adjustment and improvement of management structures within an HD is inter-municipal cooperation (IMC). It is not only a very practical approach but also a strong instrument to cope with decentralization and related additional financial and managerial burdens. Decentralization in health care system is in process and brings new responsibilities to local self-governments, namely by transferring hospitals to the balance of municipalities. Often, this is perceived as a threat. But by application of adequate instruments as IMC, decentralization can offer a big chance for municipalities to actively increase effectiveness and efficiency of healthcare in their territory!

A survey of inter-municipal cooperation in the spheres of education and primary health care reveals that, although the number of IMC agreements has increased many times in 2018 in general the mechanism of IMC is still rather poorly used in Ukraine in health care.<sup>2</sup>

The study emphasises the following guiding questions:

- Which form of inter-municipal cooperation are appropriate to increase quality, reduce operational costs, and optimize revenues?
- What could be the organizational set-up for different IMC forms?
- What are personnel conclusions for the hospitals for different IMC forms?
- What might be legal particularities beside the legally prescribed agreements for the different IMC forms?
- What could be financial conditions to establish different IMC forms?
- Which are impacts of IMC on municipalities as hospital owners?

By taking Polohy HD as a practical example, the assessment of applicability of different forms of IMC does not remain as academic exercise but links it with a particular territorial and institutional context. The assessment of potential and particularities of selected IMC forms is strictly connected to the results of the planning process in Polohy HD.

So far, the majority of hospitals in Polohy HD belongs to Rayon State Administration. Only two out of six hospitals belong to local self-governments (LSGs): Only the City of Tokmak is the owner of the hospital. As Rayon State Administrations are not eligible for IMC, this study is based on the assumption that all hospitals are already owned by LSGs (i.e. the municipalities Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka, and Tokmak), which is possible in the course of decentralization.

The study is structured as follows:

- Chapter 2 analyses the current developments in hospital management both in Ukraine and in Polohy HD
- Chapter 3 introduces the selected IMC forms, their general features and the roadmap to establish IMC;
- Chapter 4 assesses which of the selected IMC form is optimum for particular functions to be jointly managed and operated in Polohy HD;
- In the annexes fictitious examples for each of the selected IMC forms, described in chapter 3, are added as practical guidelines for practitioners.

Beside presenting hypothetical examples for Polohy HD, this study serves also as a general methodological guidance for the identification of the most appropriate IMC form for a particular purpose in a particular geographical and institutional context.

The study was prepared by the project “Strengthening of Ukrainian Communities Hosting Internally Displaced Persons” implemented by GIZ and part of the Initiatives of the Infrastructure Programme for Ukraine (IIPU) in cooperation with the programme “U-LEAD with Europe: Ukraine Local Empowerment Accountability and Development Programme”. The consulting company CIVITTA (Ukraine) was assigned to provide technical contributions to this study.

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<sup>2</sup> Association for Community Self-Organization (2019): Survey of inter-municipal cooperation in education and health care

## 2. MAIN CHALLENGES IN HEALTH CARE IN UKRAINE AND IN POLOHY HD

### 2.1 Health care reform in Ukraine

The section describes the current state of the Ukrainian healthcare management system with the focus on existing practices in secondary healthcare services; outlines the key prerequisites to medical reform being currently conducted, its schedules, goals and state of implementation in the country in general. The section also focuses on the challenges emerging in the flow of conduction of the reform.

- Prerequisites to medical reform

The reform aims to address the main problems of the existing health care system in Ukraine, namely low budgetary efficiency and, as a consequence, poor quality and efficiency of healthcare delivery. Existing inefficiencies lead to the fact that most expenditures now go to cover current costs rather than to the development of the healthcare system as training of medical staff, purchasing equipment, conducting research, etc.

Moreover, the reform is also caused by three other factors that are typical not only of Ukraine but of the world as a whole. These include aging of population, growing population demands, and globalization.

In Europe, for example, one of the biggest drivers of health care reform is the aging of population, which is driving demand for health services. The same situation exists in Ukraine, which reinforces the importance of the reform in the health care sphere. Without appropriate changes in the health care system and in keeping with the trend of an aging population, it is possible that the state will not be able to cover the potential demand for medical services.

In addition, health care requests by the public are changing. Patients become more demanding and independent and do not want to spend a lot of time in the hospital. Health care is increasingly patient-centred. Modern healthcare systems, both in the European Union (EU) and in the US, are characterized by an approach that focuses entirely on the needs of the patient. At the same time, the Ukrainian health care system does not have a single level of service that a patient can rely on when contacting public medical institutions. Therefore, the reform currently under way aims to make provision of medical services in Ukraine more patient-centred.

Among other reasons that prompt countries, including Ukraine, to reform healthcare are globalization. Technologies are accelerating globalization around the world, which translates into higher patient demands for new medicines and treatments, as well as "brain drain" for migrating medical professionals to other countries. Ukrainian doctors do not have the motivation to work at low salaries, which leads to the problem of staff shortages in different regions of the country. The new reformed health care financing system aims to address the problem of decent pay for physicians.

- New financing mechanism

The health care system, currently implemented in Ukraine, is an attempt to provide a quality and affordable basic set of health care services for all citizens without any exceptions and restrictions, while at the same time trying to move away from a strict top-down attitude that currently rules in Ukraine. The main element of the new system is the principle of "money following the patient": the patients choose independently where they wish to receive medical care, and the state through the National Health Service of Ukraine pays the medical institution to provide such a service.

The reasoning of transition to this approach is conditioned by objective circumstances in Ukraine: the transition to insurance medicine is currently difficult because of the low solvency of the population, and the maintenance of the existing system is characterized by inefficient use of resources, which consequently adversely affects the quality of service delivery. Because of this, the new model effectively assumes that the state becomes the insurer of all citizens who, in turn, make insurance payments in the form of taxes.

- Stages of the reform

The transition is being divided into phases in order to reduce the risk of not adopting a new healthcare system. For primary care institutions (PCI), the reform has already been implemented since January 2018. Those institutions that were autonomous (i.e. reorganized from a budget institution to a municipal non-profit enterprise), registered in the electronic system, signed declarations with patients, and entered into an agreement with the NHSU, have already switched to financing under the new scheme since July 2018. Such institutions now receive money from the NHSU according to the number of patients with whom the declarations are signed. For them, wage tariff plans are also abolished: institutions have the opportunity to determine the amount of payments themselves and to motivate doctors with dignity.

For specialized and highly specialized medical institutions (secondary and tertiary level), the transition to a new funding scheme began in form of pilot projects in 2019. A full and inclusive transition will only take place from 2020. To this end, the Verkhovna Rada should also approve the list of guaranteed medical services, the cost of which the state will pay for medical institutions. They will now receive funding for the number of services provided to patients, not the number of beds available. This is an element of the market system that will allow hospitals to find their strengths, develop them, and thus compete for patients. medical services will be financed through NHSU; capital and utility costs will have to be paid by the owners (in future mainly municipalities).

- Expected results

The reform aims at improvement of the efficiency and quality of health care delivery. The first objective is to be achieved through a new financing mechanism, through which the final financing factor is the result, not the process. The second objective is to be achieved by creating incentives for development among health care facilities by an element of competition and freeing up funds for such development by a new funding mechanism.

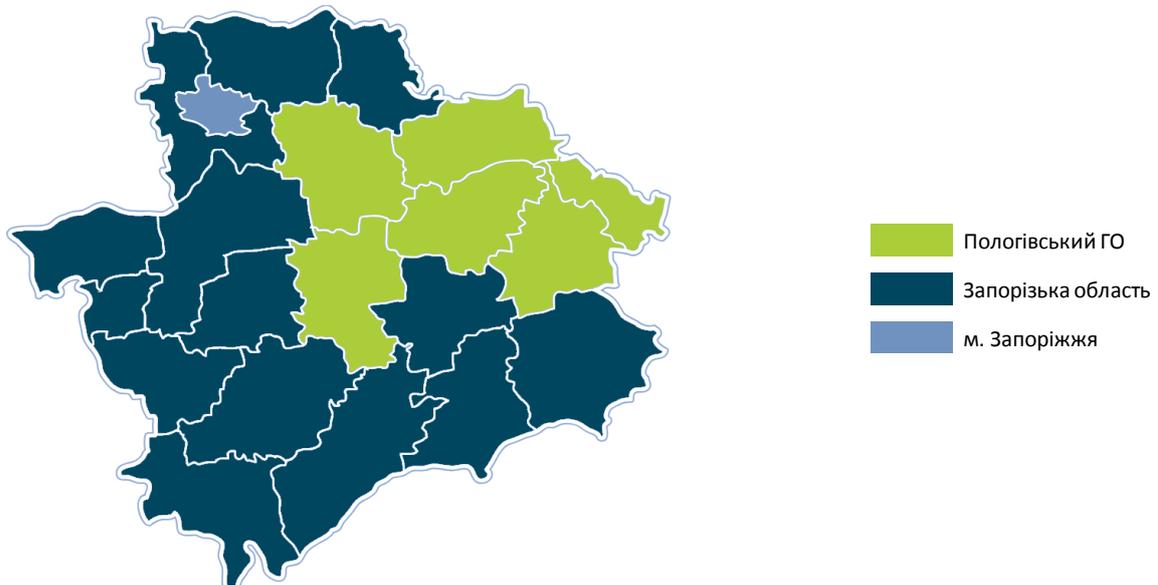
## **2.2 Current development challenges of Polohy Hospital District**

Polohy HD is one of five hospital districts established in the territory of Zaporizhzhia region in 2017. It includes the Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka, and Tokmak hospitals<sup>3</sup>:

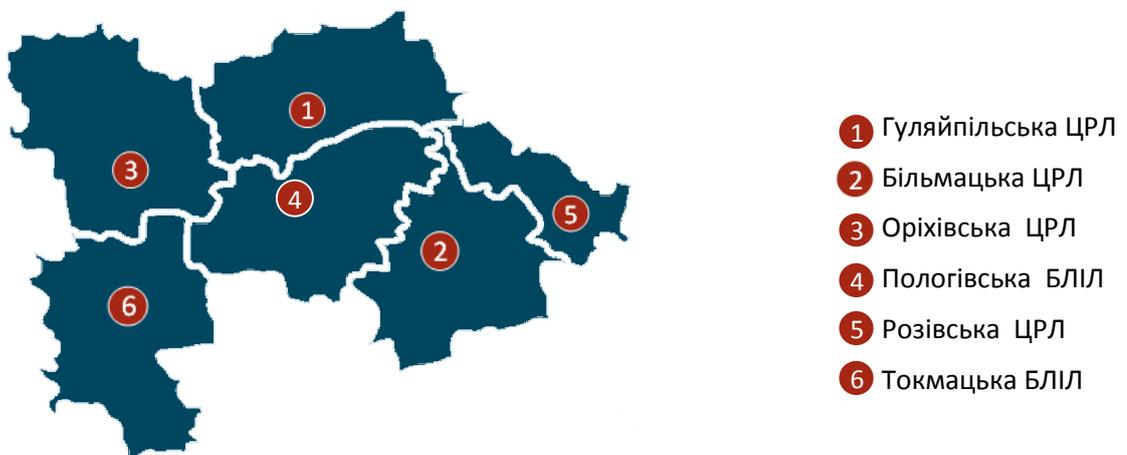
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<sup>3</sup> Presently, the re-structuring of hospital districts is in process; according to drafted resolutions of the Cabinet of Ministers the entire Oblast should form one hospital district.

**Graphic 1: Location of Polohy Hospital District within Zaporizhzhia Oblast**



**Graphic 2: Hospitals included in Polohy Hospital Districts**



The main peculiarity of Polohy HD is the proximity of Orikhiv Rayon to the city of Zaporizhzhia, which causes high level of competition between medical institutions of the regional centre and parts of the Polohy HSD. In the new environment, after the introduction of medical reform, such competition for patients may become even more extensively. It perfectly reflects the importance of structured development of the hospital district and clear structure of effective management of hospitals, which will make it possible to provide high quality medical services.

Main challenges that were identified during the formulation of the Polohy HD development plan are predominantly related to bad roads and low efficiency of financial resources utilization:

- Poor Connectivity

Bad roads cause the inability of hospital staff to quickly react to arising medical needs in Polohy HD and constitute an obstacle for effective centralization of medical and administrative services, as physical communication between hospitals may be difficult, particularly at bad weather.

- Poor nutrition for patients

Patients of hospitals in Polohy HD mostly do not receive proper nutrition during treatment, neither in amounts of calories nor in number of meals (usually - 2 times per day). It is caused by lack of financing of kitchen facilities.

- Inability to provide the whole cycle of services

Due to the lack of staff and the necessary equipment, the process of providing medical services in Polohy HD is not fast and continuous. There are also problems in the administrative functions of the hospital: no clear division of functions between the administrative staff, which leads to duplication (or non-performance of work) and as a result to the inefficient functioning of the hospital.

- Obsolete equipment

In many cases, medical equipment in hospitals is obsolete, and in some cases, there is even a shortage of it. It also indirectly affects individual patients who choose the best health facilities in the regional centre. Upgrading the equipment is necessary to improve the quality of service provided to patients. Also, due to the lack of semi-automatic and automatic analysers in laboratories, a lot of laboratory work is done manually, which leads to increase of the likelihood of error.

- Lack of transportation means

Lack of transportation means worsens connectivity even further by reducing the hospitals` ability to provide quick medical response.

However, most of these challenges could be resolved by establishment of appropriate structures for the management of the hospitals. A great potential is seen in the management based on inter-municipal cooperation within Polohy HD in the one form or another.

### 3. SELECTED FORMS OF INTER-MUNICIPAL COOPERATION - GENERAL STRUCTURES AND LEGAL REQUIREMENTS

Inter-municipal cooperation (IMC) is an important and a powerful tool in the decentralization process. It enables municipalities to better fulfil their responsibilities and to provide qualitative services to the residents. By applying IMC in health care, two crucial elements are tackled:

- 1) The administrative-territorial decentralization is strengthened.
- 2) The quality and efficiency of medical services are improved.

In Ukraine, IMC is regulated by the Law of Ukraine “On cooperation of territorial communities” which was adopted in 2014. In Article 4 (1), the possible forms of IMC are prescribed:

- 1) Delegating of one or several tasks to one of the subjects of cooperation by other subjects with the transfer of the required resources;
- 2) Implementation of joint projects – coordination of activities of subjects of cooperation and accumulating resources for determined period of time to implement appropriate measures;
- 3) Joint maintenance and financing of enterprises, institutions and municipal entities – infrastructural objects, by the subjects of cooperation;
- 4) Establishment of joint municipal ventures, institution or organizations – joint infrastructural objects, by the subjects of cooperation;
- 5) Establishment of joint governing bodies by the subjects of cooperation for the joint exercise of powers established by law.

Out of those five forms, the “delegation of one or several tasks to one of the subjects of cooperation by other subjects with the transfer of the required resources” is the most popular form of IMC and is widely used meanwhile. This holds true also for the health care sector. As confirmed by a survey, IMC in health care is most often done in the form of delegation of medical tasks<sup>4</sup>.

Municipalities without hospitals establish this IMC form to enable their residents to get easy and equal use of medical services as residents of municipalities with a hospital. The implementation of joint financing is mainly relevant for the financing of a hospital or dental clinic but also for example for the procurement of equipment or sanitary cars<sup>5</sup>. IMC based on joint projects seems to be of little interest for the health care sector because it is limited to a defined period of time and to the implementation of individual measures.

The last two IMC forms stated in Article 4 (1) of the IMC Law are still rarely applied in Ukraine, not only in the health care. Reasons are often lack of mutual trust lack of experiences and inability of communities to plan strategically, misunderstanding of importance of cooperation by the municipal councils, unwillingness to risk since long-term cooperation could be jeopardized in the event of changes in elected leadership<sup>6</sup>.

However, they provide opportunities for a real partnership in the management of medical institutions and services and the base for joint development of medical services in an area. Especially for the

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<sup>4</sup> Association for Community Self-Organization (2019): Survey of inter-municipal cooperation in education and health care

<sup>5</sup> Association for Community Self-Organization (2019): Survey of inter-municipal cooperation in education and health care

<sup>6</sup> Association for Community Self-Organization (2019): Survey of inter-municipal cooperation in education and health care

management of hospitals or particular functions among municipalities which all have hospitals but of varying scale and quality, the IMC forms

- Joint maintenance and financing of enterprises, institutions and municipal entities,
- Establishment of joint municipal ventures, institution or organizations, and
- Establishment of joint governing bodies

are much more attractive than just delegation of tasks from one municipality to another. Contrary to the delegation of tasks, it is possible to establish IMC with the aim to create room for further improve medical services and to strengthen the long-term efficiency of service provision.

Therefore, the study focuses on the reflection of the last three IMC forms as stated in Article 4 (1) of the IMC Law (IMC form 3, 4, and 5).

In the following chapters (3.1, 3.2, 3.3), each of the three IMC forms is described in its principle conditions and appearances.

### **3.1 Joint maintenance and financing of enterprises, institutions and municipal entities**

Joint maintenance and financing of enterprises, institutions and municipal entities provides for flexible application of inter-municipal cooperation in the health care sector. Any enterprise, institution, organization or other entity owned by one of the partners can be subject of this IMC. Also, a group of those institutions owned by different IMC partners can be subject of this IMC form.

The enterprise, institution, organization or any other entity still belongs to the partner to whom it belonged before. This IMC form is not intending to change the ownership of enterprises, institutions, organizations or any other entities. Its aim is to share the maintenance and/or financing responsibility in order to ensure that enterprises, institutions, organizations or any other entities provides its service fully or to the agreed extent and functions to all of the IMC partners respectively to the residents of all of the IMC partners.

The obvious difference to the IMC form of delegating a task is the fact that by sharing the responsibilities also the rights are shared. This means that all IMC partners are involved in decision-making and supervision. What exactly decision-making and supervision include and which decision-making power remains with the owner of the enterprise, institution, organization or any other entity is subject to the IMC agreement.

This IMC form is quite attractive for joining municipal efforts in the provision of health care services:

- As prescribed in the IMC-Law, the formal establishment is quite easy.
- No transfer of assets is required.
- It is not bound to a single municipal enterprise, institution and entity but can cover various institutions fulfilling different services in health care.
- The range of health care services to the residents can be widened by grouping different providers.
- The quality of health care services can be improved because the IMC allows to maintain and finance different medical institutions in a systemic approach focusing on the strengths and best solutions for each part of the system without shrinking the supply of medical services to the residents.

**Table 1: Example of joint financing of a hospital:**

<b>ТЕХНІЧНЕ ЗАВДАННЯ ДО ДОГОВОРУ ПРО СПІВРОБІТНИЦТВО ТЕРИТОРІАЛЬНИХ ГРОМАД У ФОРМІ СПІЛЬНОГО ФІНАНСУВАННЯ (УТРИМАННЯ) КЗ «ЦАРИЧАНСЬКА ЦРЛ» ДОР</b>					
№ з/п	Напрями спрямування коштів	Обсяг коштів у розрізі об'єднаних територіальних громад – Сторін договору, грн			
		Царичанська селищна об'єднана територіальна громада	Китайгородська сільська об'єднана територіальна громада	Могилівська сільська об'єднана територіальна громада	Ляшківська сільська об'єднана територіальна громада
1	Заробітна плата працівників лікарні	2585470,78	505025,00	548218,00	323054,74
2	Нарахування на оплату плати праці	575789,04	110610,19	120023,60	70106,00
3	Предмети, матеріали, обладнання та інвентар	24461,00	12307,00	13383,00	7644,00
4	Медикаменти та перев'язувальні матеріали	54664,22	73357,81	84384,00	49946,00
5	Продукти харчування	50022,00	37069,66	31623,40	22842,00
6	Оплата послуг (крім комунальних)	23686,96	6606,34	12226,00	5997,26
7	Видатки на відрядження	35824,00	8052,00	8755,00	5182,00
8	Оплата тепlopостачання	967968,14	0,00	0,00	0,00
9	Оплата водopостачання та водовідведення	48911,81	0,00	0,00	0,00
10	Оплата електроенергії	80910,05	0,00	0,00	0,00
11	Видатки на окремі заходи (оплата курсів)	4757,00	1069,00	1163,00	688,00
12	Виплата пільгових пенсій медпрацівникам	36365,00	8177,00	8887,00	5259,00
13	Інші поточні видатки	560,00	126,00	137,00	81,00
	<b>ВСЬОГО</b>	<b>4489390,00</b>	<b>762400,00</b>	<b>828800,0</b>	<b>490800,00</b>

Although comparably easy in the establishment because no new registered body is needed, the formation of effective, efficient and fair-minded cooperation structures present some challenges (see also Art. 12 of IMC-law, stated in text box below):

- On which base to calculate the individual contributions per IMC partner?

If only one medical institution is jointly financed, the calculation base could be the number of residents and thus the number of potential patients and the share can be calculated. It could also be calculated on the base of costs per service per patient and the contribution based on annual balances.

A particular challenge is the calculation if various institutions, e.g. hospitals, are subject of joint maintenance and financing. How to consider the existing assets as indirect contribution and how to calculate the value of those assets for the IMC and the future provision of medical services? For this, a clear assignment of future functions to each institution is needed as well as calculation of costs per defined services (→ DRG) and a financial assessment of the present value of assets per hospital.

Beside the financial contributions of each IMC partner to the running costs of the included institutions, also the contribution of future investments in equipment and physical infrastructure needs to be reflected in the IMC agreement. The purchased equipment and built or reconstructed physical infrastructure will be transferred to the balance of the respective institution, i.e. it will be in the ownership of the institution respectively of the owner of the institution. Thus, the necessity exists to arrange in the IMC agreement already how to manage compensations in case one of the partners leaves the IMC.

- IMC secretariat

Due to the fact that no joint body is formed which could take the secretariat tasks of the IMC, the adequate unit needs to be identified which can implement tasks to manage the IMC. Tasks of this IMC secretariat are first of all preparation of budgets, organization of coordination meetings of the IMC partners, reporting, and organisation of information exchange between the IMC partners.

In principle, this can be any unit of one of the included medical institutions; it also can be any unit or department of the municipal administration of one of the involved IMC partner municipalities.

Details of the responsibilities and funding need to be prescribed in detail and unambiguously in the IMC agreement.

- How to ensure fair and effective supervision, monitoring and decision-making by the partners?

*The following description is rather similar for all relevant IMC forms but adjusted to particularities of this IMC form if required!*

In the IMC-Law, it is explicitly asked for determinations in the IMC agreement regarding methods to allocate benefits and risks between the partners as well as form and procedure for reporting on the operation results and use of resources (Art. 12). The IMC-law does not provide methodological hints for appropriate arrangements of those conditions. Moreover, the general lack of methodologies for the establishment of complex IMC forms is one of the most crucial impediments for their application.

The IMC partners need to clarify which procedure and which voting system have to be followed by the supervision, monitoring and decision-making. The partners are widely free to define the voting system which should be fair and effective at the same time. Fair means on the one side that also less powerful partners (small municipalities bringing in no or only basic medical institutions) get the chance to influence decisions according to their interest; it means on the other side that those partners which contribute most and which are owners of the only or larger institutions are not overrun by other smaller partners regarding the development and management of their institutions.

'One partner one vote'-system offers an effective mode of decision-making in principle but is appropriate only if the decision competencies of the partners (annual budgets, investments, supervision of the management, etc.) are clearly regulated in IMC statutes. Categorized numbers of votes per partner according to the share of contributions seems to be fair but includes the risk that the bigger partners dominate the smaller ones.

Reporting presents another crucial aspect of fair and effective governing structures for joint maintenance and financing of institutions. Without effective and reliable information exchange and reporting, the partners have no base for qualified monitoring and decision-making regarding the improvement of service provision and further development of the institution(s). In case that only one institution is jointly maintained or financed, the management of this institution should be responsible for detailed and timely reporting to all partners. In case of various institutions being subjects of this IMC form the reporting has to be clearly coordinated. It needs to be determined and fixed in written which institution/body is responsible for the formulation and dissemination of information and reports. Also, clear rules need to be defined which information and when the management of each included institution has to submit to the institution/body responsible for reporting.

However, the voting system and the procedures for reporting, decision-making and monitoring is finally designed, effective joint maintenance and financing of enterprises, institutions and municipal entities base always on mutual trust to a large extent.

**Table 2: Basic elements of an agreement for the establishment of joint maintenance and financing of municipal enterprises, institutions and entities (Art.12 of IMC-Law):**

<b>Article 12. Joint maintenance and financing of municipal enterprises, institutions and entities</b>	
1.	For more efficient use of resources of the territorial communities based on sharing existing infrastructure located in and owned by one of the subjects of cooperation , cooperation may take the form of joint maintenance and financing of municipal enterprises, institutions and entities.
2.	The cooperation agreement shall contain the following points related to the joint financing of municipal enterprises, institutions and entities:
1)	list of municipal enterprises, institutions and entities that are supposed to be jointly maintained and financed (by all subjects of cooperation);
2)	amount of financial resources allocated to the subjects of cooperation for joint maintenance of municipal enterprises, institutions and entities, as well as procedures for financial expenditure from the local budgets of the subjects of cooperation;
3)	the conditions for providing services (production) by municipal enterprises, institutions and organizations and entities that are jointly held and funded by the subjects of cooperation, services (products), etc. for all of the territorial communities - subjects of cooperation;
4)	methods to allocate benefits between the subjects of cooperation and avoid potential risks from the work of municipal enterprises, institutions and entities, that are jointly held and funded by the subjects of cooperation;
5)	form and procedure for reporting on the operation results of municipal enterprises, institutions and entities and use of resources, including financial resources;
6)	procedure for termination of the agreement and settlement of disputes.

**Table 3: Overview financial aspects**

<b>Financial aspects</b>	<b>Explanations</b>
Calculation base for contributions	<ul style="list-style-type: none"> <li>• Structure of financial allocations for running costs among the IMC partners</li> <li>• Structure of financial allocations for capital investments among the IMC partners</li> <li>• Structure of distribution of surplus and deficits among the IMC partners</li> </ul>
Cost reduction/ increase of revenues	<ul style="list-style-type: none"> <li>• General cost reduction by focusing medical services on the strengths of the individual hospitals and increasing quality and efficiency of service provision</li> <li>• Increase of revenues by provision of more qualitative services due to optimization of functional structure of in-</li> </ul>

Financial aspects	Explanations
	<p>involved hospitals and increase of reputation of the medical institution(s), cost reduction by optimization of personnel structure</p> <ul style="list-style-type: none"> <li>• Reduction of running costs by optimized use of equipment and number and sizes of facilities</li> <li>• Cost reduction by linking hospitals offering basic medical functions with full scale hospital in a 'hospital system'</li> <li>• Cost reduction and quality increase by using economy of scale in the provision of specified medical services</li> <li>• Cost reduction by using economy of scale in procurement (order volume and standardization of equipment and consumables)</li> <li>• Increase of revenues by using facility no longer needed for the provision of medical services as for example: <ul style="list-style-type: none"> <li>- offering additional social functions in hospital facilities with abandoned or decreased medical functions and focussing on basic medical services</li> <li>- renting out facilities to other users</li> </ul> </li> </ul>
Additional costs	<ul style="list-style-type: none"> <li>• Additional costs for continuous qualification of staff</li> <li>• Additional costs for higher salaries of medical experts to increase quality of services and attractiveness of working places in the involved medical institution(s)</li> <li>• Additional costs for management of IMC as <ul style="list-style-type: none"> <li>- financing implementation of tasks of IMC secretariat</li> <li>- external audits</li> <li>- possible meetings of IMC partners</li> </ul> </li> </ul>

Annex 1 provides a fictitious example of this IMC form of joint maintenance and financing, based on context of Polohy HD.

### 3.2 Joint municipal ventures, institution or organizations

The IMC form of establishing a joint municipal venture, institution or organization (hereinafter: joint venture) seems to be the most complex one. However, if established properly it can be the most robust, effective and efficient one!

By forming a joint municipal venture, the management and political-administrative supervision of the provision of medical services is changed fundamentally. This bears opportunities and risks. For the provision of qualitative medical services, the opportunities predominate - in assumption of proper contractual formation and adequate internal regulations.

The establishment of the joint municipal venture does not mean that hospitals are abandoned and only one central hospital remains. Joint municipal venture means that management, administrative and operative functions are merged into one venture with various medical institutions. All medical institutions of all involved partners of the IMC become part of the new joint venture, not only by transferring the physical assets (buildings, equipment, technical infrastructure, etc.) to the balance of the new venture but also by transferring the staff from the pay-roll and authority of the individual municipalities to the pay-roll and authority of the new joint venture.

The new joint venture will develop its different institutions according to a comprehensive hospital development plan (could be the hospital district development plan). The individual medical institutions are seen as integrative parts of the entire 'hospital landscape' in the area of the IMC.

Cost effectiveness can be realized first of all by merging management and administrative functions at the central office of the new joint venture. Instead of numerous accounting offices, various procurement and HR experts only one of each accounting office is needed.

The establishment of a joint municipal venture follows the legislation regarding the establishment of public enterprises as the Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Organizations". A formal registration of such joint municipal venture is required as this form of cooperation implies the creation of a new legal entity.

According to Art. 64 (3) of the Commercial Code of Ukraine, the joint municipal enterprise independently determines its organizational structure, establishes the number and positions of employees. The personnel structure and staffing level of the joint venture are determined by the management of the joint venture at its own discretion based on the financial plan, which is approved by the representatives of the IMC partners as the owners of the joint venture, in accordance with the procedure established by the law and statute of the joint venture, taking into account the necessity to create the appropriate conditions for ensuring availability and quality of medical services.

This IMC form shows structural features which make it different from all other IMC forms:

- The transfer of all assets from balance of municipalities to the balance of the new joint venture requires a clear and comprehensive contractual formation.
- Reduction of management costs by centralizing administrative functions as accounting, procurement, quality control/monitoring, facility management, personnel management.
- Cost reduction by improved economy of scale of various functions.
- Cost reduction can be used to increase salaries to employ qualified staff and specialists.
- Effective and superordinate management of all medical institutions in the IMC area following comprehensive approach of medical services provision to all residents.
- The quality of health care services can be improved because this IMC form allows to focus on strengths and best solutions for each medical institution as a part of the system without shrinking the supply of medical services to the residents.
- As a municipal enterprise, the joint venture can easily and effectively develop a comprehensive investment plan for all its locations (medical institutions) rather independent from particular local political influences.

Beside all positive consequences, the establishment and the operation of a joint venture show some challenges:

- How to shape the IMC agreement?

The preparation and contractual formation of this IMC form is the most decisive step. Any formal changes at a later stage can create enormous difficulties. This is not only due to the fact that the joint venture is a registered public company but also because management, operation and supervision of the venture needs clear rules and procedures.

The agreement of this IMC form is the most complex of all IMC options. The areas to be defined in this agreement cover a wide range including the transfer of assets and staff, the relation between the general management of the entire joint venture as a new public company and the management of the individual institutions as part of the joint venture (branches so to say), the distribution of financial contributions, the decision-making competencies of the owners, the procedures of decision-making, the conditions under which a partner can leave the IMC, etc.

It is advisable to spend sufficient time for the preparation phase and to involve legal, financial, organizational experts!

- How to organize the joint municipal venture?

The organizational structure of IMC in the form of joint municipal venture should be jointly decided by the IMC partners and indicated in the statute of the joint venture.

The sphere of activities of the structural subdivisions of the joint venture shall be defined by its head or management board according to the provisions of the statute of the venture. Functional responsibilities and job descriptions of employees are also defined by the head and/or deputies linked to their particular responsibilities and approved by the head.

As this form of cooperation implies the establishment of a new legal entity of a joint ownership, the partners should jointly decide on the organizational and management structures and specify it in the statute of such legal entity.

The management of the joint venture should be carried out in accordance with its statute based on the consensus of the rights of all IMC-partners as owners regarding the economic use of their property and the quality of the medical services. The operational management is carried out by the head of the joint venture, who is appointed by the IMC partners.

As a public enterprise in the healthcare sector, the law of Ukraine “Fundamentals of the Legislation of Ukraine in Health Care” and legal provisions for the involvement of the public and public associations need to be followed. How this involvement can be realized in an effective manner in the light of several municipalities as owners of the joint venture needs to be defined in the IMC agreement or internal regulation of the joint venture.

- Which are the competencies of the central office and of the individual medical institutions?

Though the overall management of the medical institutions is centralized at the central office of the joint venture, the competencies of the central office and of individual institutions needs to be regulated in a clear manner.

In view of optimum effectiveness of the provision of medical services the management of the individual institutions should be decentralized to a certain extent: Decentralization as far as necessary and as far as possible! Details of the competencies have to be fixed in internal regulations of the joint venture as exemplarily:

- To which extent and in which fields, mode of operation can be determined by the management of the individual institutions according to local requirements?
- To which extent, the management of the individual institutions should be responsible for human resource management?
- To which extent, the management of the individual institutions should be responsible for repair and maintenance of facilities?
- Etc.

Internal rules are necessary to regulate the interlinkages and communication processes between the central office and the individual medical institutions.

A great advantage of a joint municipal venture is the centralisation of administrative and management functions as accounting, procurement, quality control, monitoring, facility management, personnel management, etc. To optimize the value added, the information flow between the central office and the individual institutions as part of the whole has to be very clear and obligatory.

- How to ensure fair and effective supervision, monitoring and decision-making by the partners?

*The following description is rather similar for all relevant IMC forms but adjusted to particularities of this IMC form if required!*

In the IMC-Law, it is explicitly asked for determinations in the IMC agreement regarding methods to allocate benefits and risks between the partners as well as form and procedure for reporting on the operation results and use of resources (Art. 13); as for the other IMC forms as well. The IMC-Law does not provide methodological hints for appropriate arrangements of those conditions. Moreover, the general lack of methodologies for the establishment of complex IMC forms is one of the most crucial impediments for their application.

The IMC partners need to clarify which procedure and which voting system have to be followed by the supervision, monitoring and decision-making. The partners are widely free to define the voting system which should be fair and effective at the same time. Fair means on the one side that also less powerful partners (small municipalities bringing in no or only basic medical institutions) get the chance to influence decisions according to their interest; it means on the other side that those partners which contributed most to the assets of the joint venture and will contribute most to future investments and possible deficits are not overrun by other smaller partners regarding the development and management of the joint venture.

'One partner one vote'-system offers an effective mode of decision-making in principle but is appropriate only if the decision competencies of the partners (annual budgets, investments, supervision of the management, etc.) are clearly regulated in IMC statutes. Categorized numbers of votes per partner according to the share of contributions seems to be fair but includes the risk that the bigger partners dominate the smaller ones.

Reporting presents another crucial aspect of fair and effective governing structures for joint venture. Without effective and reliable information exchange and reporting the partners have no base for qualified monitoring and decision-making regarding the improvement of service provision and further development of the joint institution. The management of the joint venture should be responsible for detailed and timely reporting to all partners.

However, the voting system and the procedures for reporting, decision-making and monitoring is finally designed, effective establishment and operation of a joint municipal venture base always on mutual trust to a large extent.

- What is the future role of supervision by the municipal councils?

Within or without IMC framework, any formation of a municipal venture on the base of the Law of Ukraine “On State Registration of Legal Entities, Individual Entrepreneurs and Public Organizations” results in a loss of direct control and supervision by the respective municipal council.

According to the law, the supervision of the municipal venture is implemented by representatives of the owners, i.e. the municipality or the municipalities in case of IMC, and other societal groups. In municipal health care institutions providing medical care of secondary and tertiary levels steering structures are established with the obligatory involvement of representatives of the public (with their consent), upon the decision of the owner of the healthcare institution (or by the decision of the body authorized by such owner). In addition to representatives of the owners of the health care institution (or the body authorized by the owner) and relevant executive authorities and/or local self-government bodies, steering structure also comprises of (with their consent) deputies of local councils, representatives of the community and public associations, whose activities are aimed at protecting healthcare rights, organizations that carry out professional self-government in the field of health care.

The representatives of the municipalities are delegated. Usually they are political and/or administrative responsible persons as the mayor, deputy mayor, head of relevant departments, etc. Even if members of the municipal council are delegated, the council as a political body has no direct control and supervision rights anymore.

The municipal council can adopt recommendations and business orientations for the municipal venture. But the discussion and decision in the venture’s board is the result of board-internal discussions of various members who not all have to follow the recommendations of the municipal council.

**Table 4: Basic elements of an agreement for the establishment of joint municipal enterprises, institutions and organizations (Art. 13 of IMC-Law):**

**Article 13. The establishment of joint municipal enterprises, institutions and organizations**

1. To implement joint infrastructure projects and perform tasks which are of common interest, subjects of cooperation can establish joint municipal enterprises, institutions and organizations in accordance with an agreement between them.

It is prohibited to establish joint municipal enterprises, institutions and organizations on the basis of property which in accordance to the current legislation (decision of the respective local self-government body) is not subject to privatization.

2. The agreement on cooperation through joint municipal enterprises, institutions and organizations shall contain the following points:

- 1) scope of activity of joint municipal enterprises, institutions and organizations;
- 2) name and location of the joint municipal enterprises, institutions and organization;
- 3) organizational and legal form of a joint municipal enterprise, institution and organization activities;
- 4) structure of the managing bodies of the joint municipal enterprises, institutions, organizations and the procedure of their appointment and organization of activities;
- 5) amount of funds/assets invested by the local self-government bodies of the subjects of cooperation for joint formation and subsequent operation of the joint municipal enterprises, institutions and organizations as well as the time frames for transferring these funds;
- 6) steps to establish joint municipal enterprises, institutions or organizations establishing and responsibilities of subjects of cooperation for the results of their activities;
- 7) procedures for covering possible losses, shortages of funds and profit-sharing of joint municipal enterprises, institutions and organizations by the local self-government bodies of the subjects of cooperation;
- 8) procedure for the termination of the joint municipal enterprises, institutions and organizations and distribution of their property between the subjects of cooperation;
- 9) procedure for termination of the agreement and settlement of disputes in the course of the agreement's implementation;
- 10) conditions for withdrawal of one of the subjects of cooperation from cooperation.

3. Charter of a joint municipal enterprise, institution and organization should comply with the provisions set out in the cooperation agreement.

4. Establishment and registration of a joint municipal enterprise, institution and organization is carried out in accordance with the current legislation.

**Table 5: Overview financial aspects**

Financial aspects	Explanations
Calculation base of contributions	<ul style="list-style-type: none"> <li>• Structure of direct and indirect financial allocations among the IMC partners for the establishment and operation of the venture as               <ul style="list-style-type: none"> <li>- value of assets transferred from municipal balances to the balance of the new joint municipal venture</li> <li>- contributions to operational costs of the new joint municipal venture</li> <li>- contributions to capital investments of the new joint municipal venture</li> </ul> </li> <li>• Structure of distribution of surplus and deficits among the IMC partners</li> </ul>
Cost reduction/ increase of revenues	<ul style="list-style-type: none"> <li>• General cost reduction by focusing medical services on the strengths of the individual hospitals and increasing quality and efficiency of service provision</li> <li>• Increase of revenues by provision of more qualitative services due to optimization of functional structure of involved hospitals and increase of reputation of the medical institution(s)</li> <li>• General cost reduction by centralizing management functions as HR management, quality management, monitoring and evaluation, facility management, etc.</li> <li>• Cost reduction by centralizing administrative functions as accounting and procurement</li> <li>• Cost reduction by optimization of personnel structure</li> <li>• Reduction of running costs by optimized use of equipment and number and sizes of facilities</li> <li>• Cost reduction by linking hospitals offering basic medical functions with full scale hospitals in a hospital system</li> <li>• Cost reduction and quality increase by using economy of scale in the provision of specified medical services by increased work volume and working experiences</li> <li>• Cost reduction by using economy of scale in procurement (order volume and standardization of equipment and consumables)</li> <li>• Cost reduction by more effective and unified development and investment planning</li> <li>• Increase of revenues by using facility no longer needed for the provision of medical services as for example:</li> </ul>

Financial aspects	Explanations
	<ul style="list-style-type: none"> <li>- offering additional social functions in hospital facilities with abandoned or decreased medical functions and focussing on basic medical services</li> <li>- renting out facilities to other users</li> </ul>
Additional costs	<ul style="list-style-type: none"> <li>• Additional costs for qualified managers</li> <li>• Additional costs for continuous qualification of staff</li> <li>• Additional costs for higher salaries of medical experts to increase quality of services and attractiveness of working places in the involved medical institution(s)</li> <li>• Additional costs for management of IMC as               <ul style="list-style-type: none"> <li>- regular meetings of IMC partners</li> <li>- financing of activities by the management of the joint municipal venture related to IMC requirements</li> <li>- external audits</li> </ul> </li> </ul>

Annex 2 provides a fictitious example of this IMC form of joint municipal venture, based on context of Polohy HD.

### 3.3 Joint governing body

According to Art. 14 (3) IMC-Law, a joint governing body may be established in the following legal forms:

- As a separate executive body of the local council of one of the subjects of cooperation (with or without status of legal entity of a public law); in this case a registration is required.
- As a structural subdivision of the executive body of the local council of one of the subjects of cooperation; in this case, a registration is not required.

This IMC form offers a wide range of application options also for increase of quality and efficiency of medical services, it is - beside the establishment of a joint venture - least attractive for municipalities in Ukraine till now, not only related to IMC in health care but in general<sup>7</sup>.

What are the reasons for that? Supposedly, there are mainly two causes for this phenomenon:

- 1) Subjectively, the difference of the IMC form joint governing body to the other IMC form of “Delegation of tasks” does not seem to be large; in fact, both IMC forms seem to be quite similar. This obvious similarity does not motivate many local decision makers to consider the establishment of a joint governing body instead of choosing simply the delegation of tasks.
- 2) Objectively, the IMC form of establishment of a joint governing body shows some structural challenges. The joint responsibility of the IMC partners for the governing body collides structurally with the fact that the joint governing body is an executive body of one of the partners

<sup>7</sup> Association for Community Self-Organization (2019): Survey of inter-municipal cooperation in education and health care

councils and thus also in the structural hierarchy of this local council. This asks for clear and comprehensive clarification of roles, responsibilities and decision-making options.

The most striking advantage of establishing a joint governing body compared to delegation of tasks is the fact that the respective tasks is given to the local council which shows the best conditions/potential to fulfil it and to provide the best quality service, but all IMC partners can supervise and monitor the realization of the tasks and decide on the strategic development of the service provision.

The attractiveness of this IMC form is based in the fact that it can be applied for a wide range of purposes and aims. It can be said that this IMC form is the most flexible one of all IMC forms, at least related to the three selected IMC forms assessed in this study! This wide range can cover in the health care sector exemplarily and not conclusively:

- ✚ a joint department of health responsible for all involved municipalities
- ✚ joint accounting for all health institutions of the involved municipalities
- ✚ joint procurement for all health institutions of the involved municipalities
- ✚ joint laboratory services
- ✚ joint facility management
- ✚ joint monitoring and quality control
- ✚ management of all medical institutions of the involved municipalities
- ✚ planning body for the strategic development of the health sector and hospitals in the IMC area
- ✚ several of the above stated functions together in one governing body

The structural features show some differences to other IMC forms:

- A transfer of assets from the municipality to the balance of the new governing body respectively the hosting partner is in most cases not necessary because this IMC form focuses overwhelmingly on non-operative functions.
- Cost reduction for staff due to concentration of services or functions in one body.
- Cost reduction by improved economy of scale in case of specific functions as procurement of laboratory services.
- Cost reduction can be used to increase salaries to increase attractiveness of the working place and to employ specialists.
- Concentration of the most qualified staff members regarding the function and tasks in one organizational unit.
- The type and extent of the contributions by the IMC partners depend on the character of the joint function and tasks; in many cases it will be mainly payment of the required staff and office consumable, in other cases also joint capital investment might be needed.
- Active involvement of all IMC partners in supervision and monitoring as well as strategic development of the joint function or tasks.

Beside all positive consequences, the establishment and well-functioning of a joint governing body show some challenges:

- How to shape the IMC agreement?

Although this IMC form does not ask definitely for formal registration of the joint body, the formulation of the IMC agreement requires thorough consideration by all partners. The structural mixture of IMC and integration of the joint body in the executive structure of one municipal council contains a number of critical elements:

- Accountability of the management towards two different “owners”, the IMC partners and the respective municipal council.
- Determination of the budgeting process considering the duty of the IMC partners to contribute this executive unit of one municipality and the right to approve the budget and supervise its application.
- Defining of the strategic development of the joint body and formulation and updating of strategic and specific objectives and action plan.
- Appointment of the head of the body.
- Formulation and approval of required investments in physical infrastructure and equipment which will be inventoried on the balance of the ‘hosting’ IMC partner.
- Organization of dropping out of partners of the joint body and the inclusion of new partners.

The IMC agreement must contain unambiguous, non-interpretable and fair stipulations as the base for the establishment and effective operation of the joint governing body.

For the formulation of the IMC agreement, the responsible administrative and technical leaders of the ‘hosting’ partner must be included in the discussion and decision-making process!

- How to avoid structural collision of competencies of the IMC partners as “owners” of the joint body and of the council of the ‘hosting partner’?

In principle, this IMC form is similar to the IMC form of joint maintenance and financing in so far as there is a joint budget and joint political responsibility for the implementation of particular services or functions. To a certain extent, this IMC form is also similar to the establishment of a joint venture because the IMC partners concentrate the governing and/or the management of certain functions and services in one joint body. Unlike the joint municipal venture, the IMC form joint governing body does not provide for joint ownership. The joint governing body in whatever organizational structure is only owned by the local community on whose territory it is located.

On the one side this makes the establishment of IMC easier because no transfer of assets is needed. On the other side, the arrangement of using assets of one municipality for the fulfilment of functions and the provision of services for other municipalities which contribute financially but not own those assets and which supervise and approve the usage of assets which they don’t own can cause rather fast diverging opinions. As a consequence, the realization of this IMC form can lead to structural collision between the requirements of the IMC requirements and those of the ‘hosting’ municipal council.

The ‘hosting partner’ represents both sides as IMC partner and as owner of the joint body as unit of its executive system. This partner municipality takes a particular role in the IMC and in this potential structural collision!

Detailed arrangements to avoid such structural collision depend on the particular context of each IMC of course (type of functions/services to be joint, number of IMC partners, etc.). A blueprint can’t be provided.

A prerequisite for adequate response to this challenge is the understanding of the risks and their probability of appearance by both sides. Only then, necessary arrangements can be fixed in the IMC agreement, in internal regulations of the joint body, or in local statutes of the 'hosting partner'. Neither IMC Law nor any sector law provides solutions and cannot provide solutions. It is an exclusive task and within the genuine legal space of local self-governments, i.e. of the municipalities involved in the IMC, to define the required arrangements. Aim for clarification are the above-mentioned elements but also possible additional topics according to the particular context.

- How to ensure fair and effective supervision, monitoring and decision-making by the partners?

*The following description is rather similar for all relevant IMC forms but adjusted to particularities of this IMC form if required!*

In the IMC-Law, it is explicitly asked for determinations in the IMC agreement regarding methods to allocate benefits and risks between the partners as well as form and procedure for reporting on the operation results and use of resources (Art. 14); as for the other IMC forms as well. The IMC-Law does not provide methodological hints for appropriate arrangements of those conditions. Moreover, the general lack of methodologies for the establishment of complex IMC forms is one of the most crucial impediments for their application.

The IMC partners need to clarify which procedure and which voting system have to be followed by the supervision, monitoring and decision-making. The partners are widely free to define the voting system which should be fair and effective at the same time. Fair means on the one side that also those partners with less use of the functions and/or services of the joint governing body get the chance to influence decisions according to their interest; it means on the other side that those partners with more use of the functions and/or services of the joint governing body are not overrun by other smaller partners regarding development and management decisions, supervision and monitoring.

In this IMC form, decision-making and monitoring procedures are more complicated due to the parallel IMC and executive structure of the council of the 'hosting partner'.

Reporting presents another crucial aspect of fair and effective governing structures. Without proper reporting the partners have no base for qualified monitoring and decision-making regarding the operation of the joint governing body. The head of the joint governing body should be responsible for detailed and timely reporting to all partners and to the relevant administrative superiors in the executive structure of the council of the 'hosting partner'.

However the voting system and the procedures for reporting, decision-making and monitoring is finally designed and the coordination between IMC partners and executive structure of the council of the 'hosting partner' are finally defined, effective establishment and operation of a joint governing body base always on mutual trust to a large extent.

**Table 6: Basic elements of an agreement for the establishment of the establishment of joint governing bodies (Art. 14 of IMC-Law):**

<p><b>Article 14. Establishment of joint governing bodies.</b></p>	
<p>1. To jointly execute legal powers belonging to the local self-government bodies of subjects of cooperation and to save the respective costs (streamlining or reduction of costs), the parties can proceed with cooperation by establishing a joint governing body.</p>	
<p>2. The cooperation agreement shall contain the following points related to the establishment of the joint governing body:</p>	
<p>1) purpose of creating joint governing bodies;</p>	
<p>2) powers to be executed by the joint governing body and the list of its functions;</p>	
<p>3) name and location of the joint governing body;</p>	
<p>4) procedure to form the joint governing body and its property;</p>	
<p>5) appointment/election and dismissal of the chairman of the joint governing body;</p>	
<p>6) responsibility of the chairman of the joint governing body;</p>	
<p>7) financing of the joint governing body by the subjects of cooperation;</p>	
<p>8) procedure and frequency of reporting of the joint governing body to the subjects of cooperation and respective local self-government bodies;</p>	
<p>9) procedure for termination of the functioning of the joint governing body and the appropriate division of property, the consequences of such termination;</p>	
<p>10) procedure for termination of the agreement and the possibility for one of the subjects of cooperation to terminate participation in cooperation and consequences of such termination.</p>	
<p>3. The joint governing body may be established as a separate executive body of the village, town, city council of one of the subjects of cooperation or as a part of the executive body of the village, town, city council of one of the subjects of cooperation (as a structural unit - department, division, administration, project offices, agencies, etc.).</p>	

**Table 7. Overview financial aspects**

Financial aspects	Explanations
Calculation base of contributions	<ul style="list-style-type: none"> <li>• Structure of financial allocations for running costs among the IMC partners</li> <li>• Structure of financial allocations for capital investments among the IMC partners (depending on the joint functions and services)</li> <li>• Structure of distribution of surplus and deficits among the IMC partners among the IMC partners</li> </ul>

Financial aspects	Explanations
Cost reduction/increase of revenues	<ul style="list-style-type: none"> <li>• Cost reduction by optimization of personnel structure</li> <li>• Reduction of running costs by optimized use of equipment</li> <li>• Cost reduction and quality increase by using economy of scale in the provision of the joint functions and services</li> <li>• Cost reduction by using economy of scale in procurement (order volume and standardization of equipment and consumables)</li> <li>• Increase of revenues by provision of more qualitative and more efficient functions and services (depending on the joint functions and services)</li> </ul>
Additional costs	<ul style="list-style-type: none"> <li>• Increased costs for qualified managers and technical staff</li> <li>• Increased costs for continuous qualification of staff</li> <li>• Additional costs for management of IMC as <ul style="list-style-type: none"> <li>- financing of activities by the management of the joint governing body related to IMC requirements</li> <li>- external audits</li> <li>- possible meetings of IMC partners</li> </ul> </li> </ul>

Annex 3 provides a fictitious example of this IMC form of joint governing body, based on context of Polohy HD.

### 3.4 Roadmap to getting IMC started

The procedure to establish an IMC is defined in Articles 5-9 of the IMC-Law (see also Graphic 3):

- Initiation by one municipality

Local community representatives submit (in accordance with the current legislation) a written proposal to the local council for consideration and appropriate action on establishment of IMC. The local mayor or a deputy, but also members of the local community by way of local initiative can be initiator of the establishment of IMC.

A proposal to initiate IMC is prepared in an arbitrary manner; however, it should always include the following information:

- Goal of the cooperation;
- Feasibility of the cooperation;
- Information on the cooperation sphere, its form and anticipated financial results;
- Other conditions considered necessary for the organization of the cooperation.

- Consent by the council of initiating municipality

After a preliminary assessment of the proposed IMC initiative by the relevant executive bodies of the respective municipality in regard to the adherence of the received proposal to the interests and needs of the respective community, the council of the initiating municipality adopts the decision to grant consent for the organization of the IMC. This decision is the formal basis for the village, town, city mayor to initiate negotiations between the possible partners of the IMC on the organization and establishment of a joint commission for conceptual preparing the IMC and for drafting the IMC agreement.

- Approaching interested municipalities with the initiative (negotiation)

After receiving the consent by the council of initiating municipality, the mayor of the initiating municipality sends a proposal to start negotiations on the organization of cooperation to the local mayors representing the respective interested local communities and provides for the formation of a Commission comprising representatives of the respective local communities.

- Assessment of the proposal by municipal council and executive bodies of approached municipalities

After receiving the proposal, the respective council of each approached municipality needs to decide to assess the proposal. Following this consent by the councils of the approached municipalities, the respective mayors arrange the examination and assessment of this proposal by the executive bodies of the approached municipality in regard to the adherence of the received proposal to the interests and needs of the respective community.

Consent by the council and examination and assessment of the proposal by the executive bodies must be done within 60 days upon receipt of the negotiation proposal for the IMC.

- Public discussion of this proposal in approached municipalities

Additional to the examination and assessment by executive bodies, the mayor of the approached municipality has to organize a public discussion on this proposal.

The public discussion also has to be arranged within 60 days upon receipt of the negotiation proposal for the IMC.

- Consent by the councils of approached municipalities

The results of the examination and assessment by executive bodies and of the public discussion as well will be submitted to the respective council of each approached municipality to decide whether to agree or to deny the proposed inter-municipal cooperation.

In case of agreement to the IMC, the council also delegates one or several representatives to the commission.

- Setting up a joint commission for defining details of the IMC

The commission for preparing the draft agreement on the proposed IMC is approved by the joint decision of the mayors representing municipalities which are potential partners of the IMC. The

joint commission includes the equal number of the representatives of all IMC partners regardless their size and possible future contribution.

The commission works in meetings summoned by the commission's chairman; chairing the meetings of the commission is in turn for representatives of all IMC partners. Decisions adopted by the commission in its meetings are put down in a protocol which is signed by the meeting's chairman and secretary. The commission is supported in organizational issues by the executive bodies of the involved IMC partners. It will be terminated as soon as the IMC agreement comes into force or the council of each potential IMC partner municipality decides to terminate the organization of cooperation.

The commission prepares the draft agreement on the proposed IMC within 60 days from the date of its establishment.

- Implementation of public hearings on draft of IMC agreement in involved municipalities

After working out the draft agreement by the joint commission, the mayors of the involved IMC partner municipalities have to arrange a public discussion of the draft IMC agreement within 15 days from the date the Commission finalized the relevant draft IMC agreement.

Based on the results of the public hearings the mayors propose the respective councils to adopt this agreement.

- Adoption and signing of the IMC agreement by each partner municipality

The mayors must ensure that the necessary package of documents (draft IMC agreements with necessary annexes, protocols of public discussions, etc.) are submitted to the relevant councils in a timely manner for them to approve the draft cooperation agreement.

The draft IMC agreement shall be adopted by the council of each partner municipality within 30 days after the public hearings.

After the adoption by the respective council, the mayor of each IMC partner municipality signs the IMC agreement and makes it final.

- Registration at the competent national body

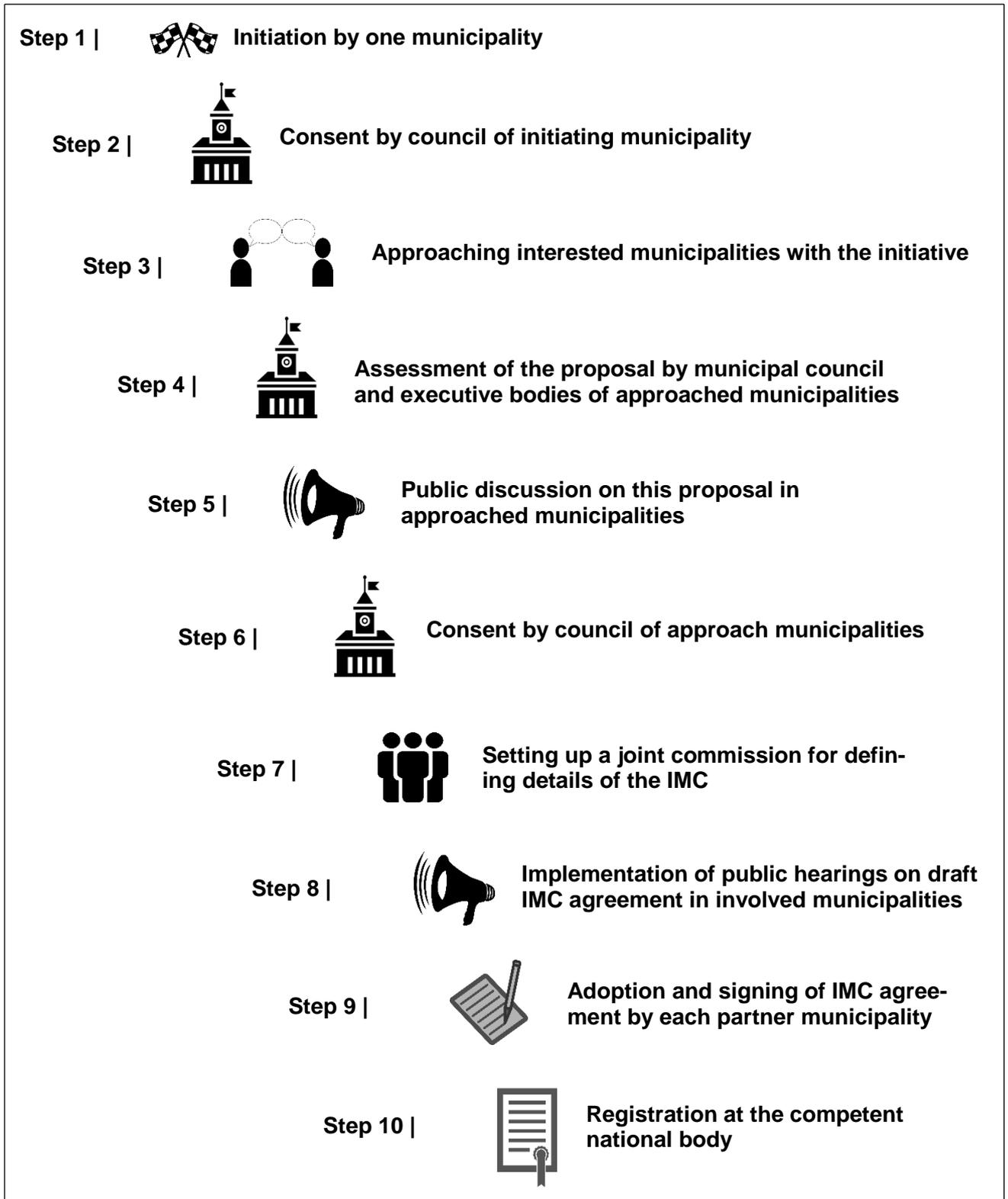
The IMC agreement needs to indicate the council of one of the IMC partner municipalities which is in charge for submitting reports on the execution of the agreement to the central body of executive power responsible for defining state policy for the development of local self-government. The approximate form of the IMC agreement is set by the central body of executive power responsible for defining state policy for the development of local self-government.

The procedure of formation and administration of the register on cooperation of territorial communities is determined by the central body of executive power responsible for defining state policy for the development of local self-government.

The number of original copies of the agreement must be one more than the number of subjects of cooperation. Each IMC partner gets one original copy of the agreement; one original copy of the agreement is passed to the central body of executive power responsible for defining state policy for the development of local self-government for inclusion in the register on cooperation of territorial communities.

The cooperation agreement enters into force 10 days after its adoption in accordance with the legislation on public budgets unless the subjects of cooperation have agreed other terms and put them down in the IMC agreement.

**Graphic 3: Process to establish IMC - based on Articles 5-9 of IMC-Law**



## 4. EXEMPLARY SCENARIOS FOR THE APPLICATION OF INTER-MUNICIPAL COOPERATION IN POLOHY HOSPITAL DISTRICT

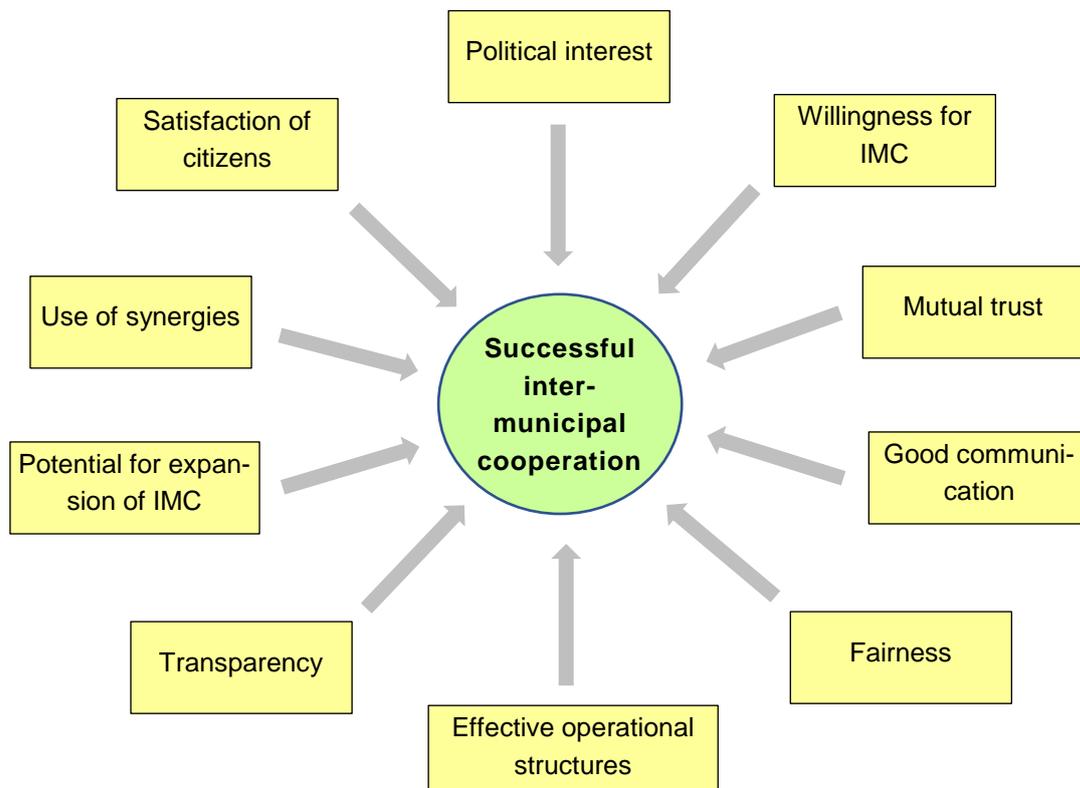
### 4.1 Challenges of IMC in practice

So clear IMC is on paper so challenging is IMC in practice!

When thinking about IMC, it has always to start with a clear purpose. **What is the particular reason to consider IMC?** IMC must not end in itself but must be applied as a tool to achieve a required or wished purpose better and/or more efficient than without IMC. Achievable quality and/or costs of service provision and fulfilment of competencies without and with IMC should be known and should be compared.

The successful application of IMC is strongly connected with non-legal and non-technical matters (see Graphic 4). **Political will, accountability to the residents and mutual trust among the IMC partners present key success factors!** IMC requires a new perspective by the local politicians and the respective local decision makers. As IMC always shows intended or unintended side effects, the side effects need to be understood and communicated. Depending on the form and range of IMC, side effects could be dissatisfaction in the population because of changes in employment, loss of direct control because of transfer of municipal assets or transfer of responsibility, etc.

**Graphic 4: Success factor of inter-municipal cooperation**



Nevertheless, technical knowledge for the planning and implementation of IMC is also required. Those refers to:

- Processes inside the individual municipality
- Processes among the potential partners
- Legal framework conditions (opportunities, restrictions, support programmes)
- Planning the service provision or task fulfilment
- Implementation mechanisms

The following presentation of practical use of IMC must be understood as hypothetical examples only!

The selected two scenarios serve the purpose to show exemplary particularities and typical challenges which need to be considered in the selection and arrangement of the respective IMC forms. In principle, each IMC form can be applied for each purpose. However, the nature of the different IMC forms makes them more adequate for one purpose or another. As usually for the application of methodological tools for planning and implementation of projects, activities, etc. also for the selection of the right IMC form for a particular purpose, the pro's and con's need to be assessed and balanced. Only then the most adequate IMC form can be identified for a particular purpose.

The taken examples were selected based on the context and in consideration of the particular conditions of Polohy HD. Also, the findings and objectives of the draft Polohy HD development plan and of the individual hospital plans were taken into account.

Financial specifications in the following text are based on figures indicated in the draft Polohy HD development plan and draft hospital plans.

The data regarding the number of residents for rayons and rayon centres are based on different years; the figures are only used to exemplarily calculate hypothetical costs shares and financial contributions:

**Table 8: Number of residents in the rayons and rayon centres of Polohy Hospital District**

IMC partner	Year	Number of residents	
		Rayon	Rayon centre (municipality)
Bilmak	2015	27 578	7 200
Hulyiapole	2016	34 529	14 000
Orikhiv	2014	54 183	15 000
Polohy	2019	48 018	19 500
Rozivka	2016	11 944	3 140
Tokmak	2016	59 847	32 000
<b>Total</b>		<b>236 099</b>	<b>90 840</b>

Due to simplification of the presentation of examples, the rayons Bilmak, Hulyiapole, Orikhiv, Polohy and Rozivka as owners of the hospitals are considered as potential IMC partners and labelled as "municipalities" in the following chapters, although rayons as state authorities are not eligible for IMC in Ukraine.

Also, the following presentation of exemplary scenarios acknowledges that the bad road conditions and poor connectivity of the municipalities, villages and settlements form an outstanding impediment for any improvement of cooperation in medical services and beyond.

## 4.2 Centralization of procurement

### 4.2.1 Rationale

Centralization of procurement for all hospitals of Polohy HD forms a less complex approach which is easy to realize and generate financial benefits. So far, procurement is done by each hospital individually. Usually one of the accountants is assigned to take care of procurement for which a part of her/his working time is foreseen.

However, for a qualified procurement considering correct tender processes, applying existing legislation in favour of the hospitals, negotiations with suppliers, using large orders to reduce the costs per unit, etc. the employment of qualified experts is inevitable in the long run; particularly in processes of autonomization when hospitals become responsible for cost-coverage of their operation themselves. These experts exclusively work in this field and keep and increase the quality and effectiveness of their work due to permanent practice.

The employment of a qualified expert for procurement is not affordable for each hospital neither does the amount of procurement justify it. Considering the needs of all six hospitals in Polohy HD, it is getting obvious that joining this function allows the employment of qualified experts and it allows to increase the market power due to economy of scale and standardization of common equipment and consumables.

### 4.2.2 Financial conditions

According to the financial assessment done in the scope of the formulation of the Polohy HD development plan, the positions for procurement were counted. Currently, the following positions for procurement officials exist in the six hospitals of Polohy HD and the following costs appear per hospital:

**Table 9: Changes of yearly costs compared to current costs per IMC partner**

Hospital	Number of procurement staff <sup>8</sup>	Monthly total salary for procurement staff (in UAH) <sup>9</sup>	Annual total salary for procurement staff (in UAH)
Bilmak	0.0	0	0
Hulyaipole	1.0	5 000	60 000
Orikhiv	0.0	0	0
Polohy	1.0	5 000	60 000
Rozivka	0.5	2 500	30 000
Tokmak	1.5	7 500	90 000
<b>Total</b>	<b>4.0</b>	<b>20 000</b>	<b>240 000</b>

<sup>8</sup> Data according to financial assessments by Civitta Analysis.

<sup>9</sup> No concrete data on salaries for the procurement staff is available; for this example, a monthly salary of 5 000 UAH per procurement staff is taken to simplify the exemplary financial calculation.

Centralized procurement requires employment of qualified experts in this field. These are two lawyers, specialists in procurement and tendering.

The annual cost for maintaining the experts could be estimated up to 400 000 UAH - assuming monthly cost-to-company wages of 15 000 UAH and 20 000 UAH accordingly. Other operating expenses will include office consumables up to 60 000 UAH per year. **Overall operating expenses for the centralized procurement office are estimated up to 460 000 UAH a year.** This means that the operation of a centralized procurement office costs almost 300 000 UAH more than the present expenditure on respectively assigned staff members - without considering the costs of the presently used premises of these staff members.

Additionally, the IMC partners have to purchase computers and furniture for the centralized procurement office as a one-time investment.

For the definition of the individual share of each IMC partner to the annual costs, three options seem realistic:

1. The annual costs of ca. 460 000 UAH are divided equally by the IMC partners, meaning that each IMC partner contributes ca. 80 000 UAH per year to the joint procurement; considering the current expenses on assigned staff members, the annual costs per hospital need to be compared to the current expenses for procurement staff per year and per hospital:

**Table 10: Changes of yearly costs compared to current costs per IMC partner**

IMC partner	Share of total costs (in UAH)	Current staff salaries per year (in UAH)	Additional costs/reduced costs per year (in UAH)
Bilmak	80 000	--	80 000
Hulyiapole	80 000	60 000	20 000
Orikhiv	80 000	--	80 000
Polohy	80 000	60 000	20 000
Rozivka	80 000	30 000	50 000
Tokmak	80 000	90 000	- 10 000
<b>Total</b>	<b>480 000</b>	<b>240 000</b>	<b>n.a.</b>

2. The annual costs of ca. 460 000 UAH are divided among the IMC partners according to the actual need of the respective hospital. Basis for the calculation of each share can be:
  - The future functions of each hospital, i.e. the share of full scale and acute care hospitals is higher than the share of small hospitals with limited functions.
  - The actual need based on concrete procurement value per year; for this option the actual share can only be calculated in the second year of joint procurement or based on present value, but which does not reflect future functions.
3. The annual costs of ca. 460 000 UAH are divided by the number of potential users of medical services in the area of each of the IMC partners (see Table 11).

**Table 11: Sharing of costs per IMC partner based on number of residents**

IMC partner	No. Residents Rayon			No. Residents Rayon centre		
	Share (%)	Costs per year (in UAH)	Additional costs compared to current status per year (in UAH)	Share (%)	Costs per year (in UAH)	Additional costs compared to current status per year (in UAH)
Bilmak	11,7	53 820	53 820	7,9	36 340	36 340
Hulyiapole	14,6	67 160	7 160	15,4	70 840	10 840
Orikhiv	22,9	105 340	105 340	16,5	75 900	75 900
Polohy	20,3	93 380	33 380	21,5	98 900	38 900
Rozivka	5,1	23 460	- 6 540	3,5	16 100	- 13 900
Tokmak	25,4	116 840	26 840	35,2	161 920	71 920
<b>Total</b>	<b>100,00</b>	<b>460 000</b>	<b>n.a.</b>	<b>100,00</b>	<b>460 000</b>	<b>n.a.</b>

The balancing of the costs for the procured equipment and consumables is of course up to each IMC partner/hospital receiving the needed equipment and goods.

The economy of scale (i.e. purchasing the same equipment and inventories for all hospitals) will lead to efficient service and cost reduction. According to experiences in Lithuania **centralization and professionalization of procurement can reduce the total procurement costs up to 10-20 %<sup>10</sup>.**

Although the establishment of a centralized procurement office implies additional costs in the beginning, the joint procurement based on IMC is a future-oriented structural arrangement in order to save funds in the long run. The quality and effectiveness of procurement will increase which will lead to long-term savings due to optimized service and maintenance costs.

#### **4.2.3 Comparison of the selected IMC forms on their appropriateness for the establishment of joint procurement for hospitals in Polohy HD**

In principle, all three relevant IMC forms considered in this study can be applied for the operation of a joint procurement office. However, based on crucial criteria for the purpose and subject of the presented joint centralized procurement it is possible to come to recommendation for the optimum IMC form for this purpose though the estimated annual operational costs remain the same.

The criteria describe legal as well as procedural aspects. Especially, those criteria are important for the determination of the most appropriate IMC form which refer to the implementation and not only to establishment efforts. Legal aspects are clearly defined; financial aspects can be calculated. But features like supervision, internal processes, changes in future, etc. can hamper or strengthen a smooth implementation of the IMC. In the long run, this influences positive or negative attitude against the IMC and mutual trust among the IMC partners.

The assessment criteria are:

- Necessary registration necessary:

The registration of a new legal entity consumes time and costs; it is advisable to minimize those efforts if not necessary or favourable for the purpose and implementation of the intended IMC.

<sup>10</sup> Information provided by Lithuanian experts.

- Transfer of assets: The transfer of assets (buildings, equipment, physical infrastructure, etc.) by the IMC partners to the balance of a (new) joint body.
- Transfer of staff: The transfer of medical and/or non-medical staff from employment by the IMC partners to the employment by a (new) joint body.
- Extra IMC administration/coordination: The administration/coordination of the IMC needs to be done; if those tasks cannot be assigned to the management of joint venture or management of joint governing body a particular IMC secretariat needs to be established.
- Easy establishment of procedures: The ability of and required efforts by the IMC partners and the IMC management to define, to introduce and to change internal procedures in order to enhance and optimize the IMC implementation.
- Costs for fixed supervision arrangement: The IMC partners are responsible for supervision and decision-making; fixed supervision arrangement (as board, regular meetings, etc.) could make supervision and decision-making more reliable but also costly. It depends on the purpose and subject of IMC if those costs are justified and desirable in case they are not required by law as for public enterprises.
- Simplicity of decision-making processes: Decision-making processes should be defined in the IMC agreement; nevertheless, if interests of IMC partners differ considerably those processes can get complicated.
- Supporting step-by-step trust-building: Many IMC's create considerable value added only in the long run; in the beginning initial investments and possible tensions among the IMC partners could easily lead to a bumpy start of the IMC. The selected IMC form for the particular intended IMC should be appropriate for a smooth start of unexperienced IMC partners and ongoing building of mutual trust.
- Flexibility for structural/functional adjustments: Health care reform and changes on regional and local levels can also ask for adjustment of the IMC as the possibility to change the subject of IMC or to expand successful IMC to other subjects of joint activities. The selected IMC form should allow those adjustments without major efforts in case of less complex IMC.

**Table 12: Comparison of relevance of assessment criteria per IMC form for centralization of procurement in Polohy HD**

Positive
  Negative
  Depends on IMC agreement

Criteria	Joint financing	Joint municipal venture	Joint governing body	
			separate body	structural subdivision
Necessary registration	No	Yes	Yes	No
Transfer of assets	No	Yes	Yes	No
Transfer of staff	No	Yes	Yes	No
Extra IMC administration/coordination	Yes	No	No	No
Easy establishment of procedures	Yes	Yes		
Costs for fixed supervision arrangement	No	Yes	No	No
Easiness of decision-making processes	Yes	Yes	Yes	Yes
Supporting step-by-step trust-building	Yes			Yes
Flexibility for structural/functional adjustments	Yes	No	No	Yes

Table 12 shows the comparison of the three IMC forms presented in this study regarding their relation to the stated criteria. The assessment of each IMC form against the criteria refers explicitly to the needs of the described IMC for joint procurement for the six hospitals in Polohy HD. **It is not a general assessment of the IMC forms; for other IMC purposes the assessment could and will show other results for the individual IMC forms!**

Following the comparison presented in Table 19, the IMC form of establishment of a **joint governing body in form of a structural subdivision of an executive body of the local council** of one of the IMC partners are most appropriate for the centralization and joint implementation of procurement for the six hospitals in Polohy HD!

The location of the joint procurement office can be any of the six IMC partners in principle. Factors as the amount of procurement needs by local hospitals, the vicinity to Zaporizhzhia City as the location of many suppliers and the regional authorities, but also soft facts as the attractiveness of residence for the two experts to be employed need to be considered for the decision of location.

### 4.3 Centralization of laboratory services

#### 4.3.1 Rationale

The improvement of quality of the laboratory services will positively affect the level of diagnosis and treatment in the hospitals of Polohy HD. Qualitative tests allow faster and more accurate identification of problems and the appointment of necessary treatment to patients.

In the scope of the formulation of the Polohy HD development plan, four options for the further development of laboratory services were identified and assessed:

1. "Leave as it is" - leave laboratories unchanged.
2. "Optimization" - minor changes in laboratory operations, provides a reduction in the number of personnel by purchasing analyzers.
3. "Centralization" - requires the establishment of a central laboratory, which will be jointly funded by the hospitals and leave some personnel (without a doctor) at each hospital to provide urgent services.
4. "Outsourcing" - provides outsourcing (transfer) of laboratory services to private laboratories.

The analysis revealed that it is economically advantageous to establish a centralized laboratory (option 3). With the creation of a single laboratory centre, which will be co-financed by hospitals, quality services can be provided on the base of economy of scale and create sources for upgrading technical equipment and improving the quality of analyses.

This option considers a merged central laboratory to be placed at one location of the Polohy HD, leaving only the collection points in the individual hospitals and ensuring the daily transportation of the collected material to the central laboratory. As the experience of European countries shows, all urgent tests that need to be done on the ground can be done by laboratory technicians having analysers on their disposal.

As a general prerequisite, this option requires the sufficient quality of road surface on the territory of Polohy HD!

#### 4.3.2 Financial conditions

Beside the increase of quality, the establishment of centralized laboratory services for all six hospitals in Polohy HD creates considerable financial benefits for the IMC partners. Although investments need to be done in analysers and IT-equipment in the beginning, the running costs of the provision of laboratory services can be reduced significantly.

Based on financial assessment done by CIVITTA (UA) in the scope of consultancy to the formulation of the draft Polohy HD development plan, significant changes in running costs can be seen:

According to the estimated necessary amounts and costs after centralization, the estimated total savings in running costs could be summed up to amount of **more than 4 000 000 UAH per year** compared to present situation (see Table 13).

Even if investments are needed to equip the centralized laboratory and the hospitals in order to provide basic laboratory services in quality (see Table 21), there will be a saving even in the first year. The savings per IMC partner depend on the concrete present structures of each hospital and the individual possible reduction of laboratory staff and the share on the investment.

**Table 13: Changes in running costs of centralized laboratory compared to present situation**

Cost items	Change in amount	New amount	Amount of costs in UAH (estimations)	Amount of savings in UAH (estimations)
Personnel	- 68.55 positions <sup>1</sup>	22 positions	1 500 000	4 600 000
Utilities	- 5 premises	1 premise	200 000	1 000 000
Reagents	--	--	800 000	--
Logistics	--	--	1 000 000	- 500 000
<b>Total</b>			<b>3 500 000</b>	<b>4 200 000</b>

<sup>1</sup> Replace 12.25 positions of doctors (in average 2 per hospital) and 78.3 positions of lab technicians (in average 13 per hospital) with 2 positions of doctors and 20 lab technicians in central laboratory

Source: Civitta Analysis

The required investment costs of 2 700 000 UAH are divided by the number of potential users of medical services in each of the IMC partners (see Table 14).

**Table 14: Changes in running costs of centralized laboratory compared to present situation**

Cost items	Change in amount	New amount	Amount of costs in UAH (estimations)	Amount of additional investment in UAH (estimations)
Analysers	+ 12 units <sup>1</sup>	16 units	1 500 000	1 125 000
Laboratory Information System	+ 9 computers <sup>2</sup>	9 computers	1 200 000	1 200 000
<b>Total</b>			<b>2 700 000</b>	<b>2 325 000</b>

<sup>1</sup> Purchase of set of analysers for centralized laboratory (3 automatic blood analysers, 2 semi-automatic blood analysers, 3 urine analysers and 4 biochemical analysers)

<sup>2</sup> Purchase of 9 computers for establishment of LIS (1 computer per each hospital and 2 computers in centralized laboratory – for data input and for head of centralized laboratory)

Source: Civitta Analysis

**Table 15: Sharing of investment costs per IMC partner based on number of residents**

IMC partner	No. Residents Rayon		No. Residents Rayon centre	
	Share (%)	Costs per year (in UAH)	Share (%)	Costs per year (in UAH)
Bilmak	11,7	315 900	7,9	213 300
Hulyiapole	14,6	394 200	15,4	415 800
Orikhiv	22,9	618 300	16,5	445 500
Polohy	20,3	548 100	21,5	580 500
Rozivka	5,1	137 700	3,5	94 500
Tokmak	25,4	685 800	35,2	950 400
<b>Total</b>	<b>100,00</b>	<b>2 700 000</b>	<b>100,00</b>	<b>2 700 000</b>

#### 4.3.3 Comparison of the relevant IMC forms on their appropriateness for the establishment of centralized laboratory services for hospitals in Polohy HD

As in case of centralization of procurement, also for the centralization of laboratory services all three IMC forms considered in this study can be applied for the operation of a joint central laboratory. Based on assessment criteria as described in chapter 4.2.3, it is possible to identify appropriate IMC forms and to recommend the optimum IMC form for the purpose of centralization of laboratory services in Polohy HD, though the estimated annual operational costs remain the same.

Table 23 shows the comparison of the three relevant IMC forms regarding their relation to assessment criteria. The assessment of each IMC form against the criteria refers explicitly to the needs of the described IMC for centralization of laboratory services for the six hospitals in Polohy HD.

**Table 16: Comparison of relevance of selected criteria per IMC form for centralization of laboratory services in Polohy HD**

Positive
  Negative
  Depends on IMC agreement

Criteria	Joint financing	Joint municipal venture	Joint governing body	
			separate body	structural subdivision
Necessary registration	No	Yes	Yes	No
Transfer of assets				
Transfer of staff				
Extra IMC administration/coordination	No	No	No	No
Easy establishment of procedures	Yes	Yes		
Costs for fixed supervision arrangement	No	Yes	No	No
Easiness of decision-making processes	Yes	Yes	Yes	Yes
Supporting step-by-step trust-building	Yes			Yes
Flexibility for structural/functional adjustments	Yes	No	No	Yes

According to table 21, the IMC form of the **joint financing of a centralized laboratory in the ownership of one IMC partner** turn out to be most appropriate. But also the IMC form of establishment of a joint governing body in form of a structural subdivision of an executive body of the local council of one of the IMC partners shows high relevance for the centralization of laboratory services.

However, if a transfer of equipment and of technical staff to the joint body as well as joint investment in equipment is needed and part of the IMC agreement, the formal registration of the joint body could be seen as more reliable by the IMC partners. In case of the described IMC, a transfer of equipment to the joint financed and/or governed body is not necessarily required because the present equipment of the individual hospitals is often insufficient and new equipment needs to be procured. Staff members are also needed for ongoing basic laboratory services which remain in each hospital.

The determination of the location of the centralized laboratory should be based on realistic amount of laboratory services by each hospital in future. In order to minimize transportation costs - particularly because of bad road conditions, the centralized laboratory should be located in the vicinity of the hospital with the biggest number of expected future demand of test and services.

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ANNEX 1 FICTITIOUS EXAMPLE FOR **JOINT MAINTENANCE AND FINANCING OF ENTERPRISES, INSTITUTIONS AND MUNICIPLA ENTITIES** TO LINK HOSPITALS OF DIFFERENT CAPACITIES IN POLOHY HD

**Coverage area of the IMC on joint maintenance and financing to link hospitals of different capacities**



Joint maintenance and financing of medical institutions is useful either if only one medical institution (e.g. hospital) exists which should serve the residents of neighbouring municipalities as well. Or if the medical institutions (e.g. different hospitals) offer different scale and quality of services to the residents and thus complement each other.

According to the draft Polohy HD development plan, the hospitals in Tokmak and Polohy will be further develop as full scale and acute care hospitals (ACH), the hospital in Orikhiv will close the birth department but remain most of its present functions, whereas the hospitals in Hulyaipole, Rozivka and Bilmak will be reduced in their provision of medical functions and remain offering basic medical services and stabilizing patients in emergency cases before being transferred to ACHs as Polohy or Tokmak.

Referring to the character of this IMC form and the spatial conditions, this IMC form is less favourable to establish an IMC among all hospitals of Polohy HD or between Polohy, Tokmak and Orikhiv for example. But it makes sense to assess a possible joint maintenance and financing of hospitals of different quality and range as the hospitals of Hulyaipole, Bilmak, Rozivka and Polohy. Joint maintenance and financing of hospitals of different size and functions to ensure same range and quality of services also to residents living in areas without full-scale hospitals.

**Main features**

Hulyaipole, Bilmak and Rozivka cannot afford to maintain full scale hospitals in the future offering qualitative medical services to their residents. According to the drafted development plans, the hospitals will focus on

- Hulyaipole Hospital
  - Transition of surgery and resuscitation to a day hospital status.
  - Closing of the infectious ward and referral of patients to a strengthened specialized hospitals.
  - On the area that will get vacant, construction of a gerontology department for 30-40 beds.
  - Organization of a social bus for the population.

- Bilmak Hospital
  - Combining therapeutic and neurological wards into a single department 40-50 beds.
  - Transition of surgery and resuscitation to a day hospital status.
  - Closing of the infectious ward and referral of patient flows to the strengthened specialized hospitals.
  - On the area that will get vacant, construction of a gerontology department (or long-term treatment department) for 30-40 beds.
  - Organization of social bus for the population.
- Rozivka Hospital
  - Re-profiling the surgical department into day surgery and referring patients to Polohy or Mariupol hospital.
  - Maintaining the Surgery and Trauma Unit and re-profiling five beds to provide palliative care while reducing five beds in total (from 20 to 15).
  - Continuation of the operation of the pediatric ward with the re-profile of 5 out of 25 beds on gerontological beds. In the long-term construction of a gerontology department for 20-30 beds.
  - Establishment of a three-bed intensive care unit for stabilization of urgent conditions
  - Organization of a service for transportation of patients to Mariupol, both emergency and scheduled until the road to Bilmak is reconstructed.
- Polohy Hospital
  - Coverage of full range of medical functions.
  - Further development as acute care hospital.
  - Specialized medical services in a 24/7 mode and to high quality.
  - Central hospital for this IMC providing general and specialized services.

The IMC agreement between Hulyaipole, Bilmak, Rozivka and Polohy aims at the provision of all medical services to their residents by using the different profiles of the hospitals. The main features of this IMC are:

- The individual hospitals remain in the ownership of individual partners, so no transfer of assets is needed.
- The staff remains in the exclusive employment by the individual IMC partners.
- For all included medical institutions together, a single budget is planned with specifications for each hospital owned by the individual IMC partners.
- The costs of the individual budget items are distributed to the individual IMC partners according to the agreed share of contributions (see description below).
- The budget covers all costs for all included hospitals.
- The IMC partners Hulyaipole, Bilmak, Rozivka and Polohy define jointly the functions, personnel structure, capital investments, etc. of all individual hospitals as being parts of an integrated provision of medical services in the entire area of the IMC.
- The IMC supports the concentration of services in one hospital; this allows to increase the volume of work in specialized services which will provide higher quality by regular practice for doctors and other medical staff and increase the efficiency of service provision.
- This IMC-form allows for centralization of administrative and medical functions in one involved medical institution.
- For this IMC it is advisable to centralize the accounting and budgeting function, the procurement function and the quality control and monitoring function in the central hospital of this IMC, which is Polohy hospital.

→ It is also advisable to centralize laboratory services in Polohy hospital due to the fact that numerous and diverse tests need to be done in Polohy hospital because of the number of different and specialized medical services.

### Particular challenges

- On which base to calculate the individual contributions per partner?

As stated above, no transfer of assets is foreseen. This means the contribution of the individual partners refers to the operational costs of all included hospitals in their future functions within the IMC hospital system and to required investments.

For the IMC described by this example, the calculation of the contribution has to be done by

- a) Compiling all annual operational costs
  - wages of hospital staff,
  - items, materials, equipment and inventory
  - medicines and dressings
  - food
  - payment for services (except utilities)
  - travel expenses
  - payment for heat supply
  - payment for water supply and sewerage
  - payment for electricity
  - expenditure on individual activities (course fees)
  - payment of preferential pensions to health care workers
  - any other current expenses
- b) Additional annual costs for management of IMC
  - financing of IMC secretariat (salaries, office costs, etc.)
  - external audits
  - possible meetings of IMC partners
- c) Planning of multi-annual investments and development requirements
  - rehabilitation and conversion of buildings
  - replacement of outdated equipment
  - procurement of additional equipment
  - continuous qualification of staff
  - any other development expenses

By this, the IMC partners get a base to understand their financial contribution per year to cover the current costs of the provision of medical services and to understand which costs will arise in the next years to cover investments and further development of the medical institutions and their performance.

As base for calculation, the number of registered residents is taken because those are potential patients. As stated above, the hospitals are still owned by the rayons and the amalgamation process in most rayons is not finalized yet. Therefore, for this hypothetical example two options are considered as the number of residents of (a) the entire existing rayons and (b) the rayon centres which are the municipalities in which the hospitals are located.

**Table 1: Share of financial contributions for individual IMC partners based on number of residents**

IMC partner	Rayon		Rayon centre (municipality)	
	No. Residents	Share (%)	No. Residents	Share (%)
Bilmak	27 578	22,6	7 200	16,4
Hulyiapole	34 529	28,3	14 000	31,9
Polohy	48 018	39,3	19 500	44,5
Rozivka	11 944	9,8	3 140	7,2
<b>Total</b>	<b>122 069</b>	<b>100,0</b>	<b>43 840</b>	<b>100,0</b>

Table 8 reveals that for this example of IMC for hospitals, it is decisive to define the base of the calculation because the shares differ case by case, e.g. already if only different areas are considered:

- The argument for the consideration of the rayon is that so far, all residents of the rayon are potential patients of the hospital in this rayon and thus this number is decisive for the calculation of the share to the financial contribution of the IMC.
- The argument for the consideration of the municipality in which the hospital is located and which will be the future owner of the hospital is that the owning municipality must finance the hospital via its local budget. How the owning municipality generates arrangements with the surrounding municipalities of the same rayon to share the costs again among them is subject of additional IMC between the municipalities of a single rayon, e.g. via IMC form of delegation of services.

In the example on hand, a particular difficulty for the calculation is the fact that patients from Rozivka will also be transferred to Mariupol due to the bad road conditions between Rozivka and Bilmak/Polohy; this holds for both emergency and scheduled visits. Because Mariupol is quite near to Rozivka, this direction of patients will continue even if the road to Bilmak/Polohy will be reconstructed. The question for the IMC is: How to consider the share of Rozivka if patients use also Mariupol hospital?

- A fair calculation of the share of Rozivka considering the usage of Mariupol hospital is only possible if it is known how many residents travel to Mariupol for specialized services and emergency care and how many travel to Polohy. As long as no statistics exists, the definition of Rozivka's share can only be preliminary. After one year of counting a final decision can be made. However, improvement of quality in Polohy hospital could cause a redirection of patients' routes so that the share of Rozivka needs to be reconsidered regularly.
- Another question refers to the use centralized functions as accounting, procurement, laboratory services, etc. (if so agreed in the IMC). If those services are completely used by Rozivka - and no other option makes sense, the share to finance those functions is up to the number of residents, whereas the share for medical services remain variable.
- If Rozivka is not entirely partner of this IMC, it can also be considered to focus the IMC for joint maintenance and financing to link the hospitals of Hulyaipole, Bilmak and Polohy only and to add another IMC between Polohy as the central hospital with Rozivka by delegation of tasks for centralized functions and specialized medical services based on actual demand.

All revenues generated by the medical services and use of facilities of the involved medical institutions are revenues of the IMC, not of the individual institutions or municipalities. Even if the revenues are paid to individual institutions or municipalities they have to be calculated as revenues of the IMC and thus as part of the joint budgeting.

This counts also for revenues which occur in the scope of re-targeting the use of facilities for other services, e.g. as gerontology units and elderly homes.

- IMC secretariat

As there is no joint body established, the tasks to coordinate and organize the IMC need to be assigned to an existing unit of the IMC partners. The size of Polohy hospital and its role as the central hospital within the IMC predestine Polohy hospital to become the IMC secretariat!

All expenditures necessary to fulfil the tasks of the secretariat according to the IMC agreement are paid additional to the operational costs of Polohy hospital and are included in the joint budget.

It is not necessary to employ somebody exclusively for the management and coordination of the IMC. Instead, existing management and administrative staff can be assigned to implement those tasks and getting remunerated accordingly.

- How to ensure fair and effective supervision, monitoring and decision-making by the partners?

The identification of procedures and rules for a fair and effective supervision, monitoring and decision-making is always difficult because a lot of implications need to be considered.

In case of this IMC, the formula “1 partner = 1 vote” does not work well. The interests, the socio-economic impacts and the usage of the joint system are too different.

Instead, two other options seem to be appropriate:

1. The votes are allocated according to the importance of the individual hospitals in the system of linking hospitals of different capacities. This means that Polohy could receive 3 votes and Hulyaipole, Bilmak and Rozivka one vote each. By this, neither Polohy has a majority and can push issue against the interests of the smaller partners nor can the smaller partners push their particular interest against the interest of the central hospital.
2. The other option is the voting according to the defined shares of each partner in the IMC (see Table 8). This reflects the differing potential usage of the medical institutions. In case of this IMC, Polohy owning the central hospital will not have the majority but might face decision based on the majority of votes of the smaller partners. This possible dilemma can be avoided that for decisions with crucial financial consequences as budget, investment plan, or major reconstruction of facilities a two-third majority or even unanimity is required. The introduction of a unanimity rule requires the will to compromise and mutual trust.

For this IMC, the allocation of votes in a split form (3 votes for Polohy and 1 vote each for Hulyaipole, Bilmak and Rozivka) seems to be the optimum option.

But whatever allocation of votes are taken eventually, the IMC agreement must provide unambiguous, non-interpretible rules for the IMC secretariat as part of Polohy hospital not to act in favour of Polohy as the biggest partner and the owner of this hospital, for example by not informing all partners at the same time or by not providing all information and data to all partners!

## **Financial considerations**

An estimation of concrete financial costs and benefits for this IMC form depends on the concrete arrangement of the cooperation, on the actual condition and value of the assets (buildings, equipment, etc.) and on the staff profile.

In general, as stated above already, the joint financing of hospitals offers the opportunity to concentrate specialized functions in Polohy hospital and to develop functions in the three smaller hospitals Hulyaipole, Bil-mak and Rozivka according to their potential and the immediate needs of their local area. Also administrative as accounting and budgeting function, the procurement function and the quality control and monitoring function as well as medical functions as laboratory services can be centralized in the frame of this IMC form. Those approaches generate considerable financial benefits.

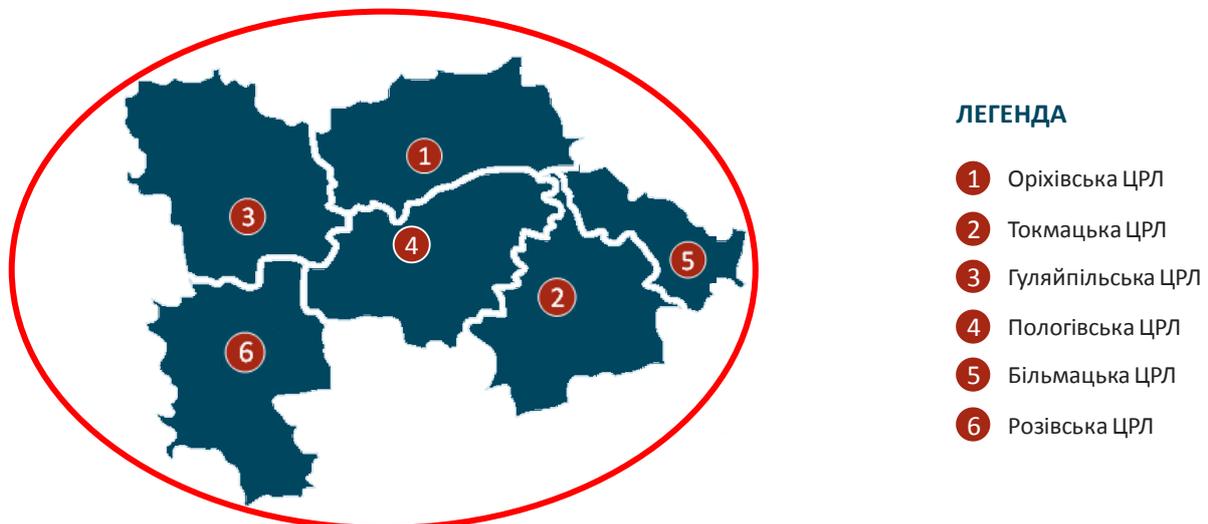
Annual costs are caused by funding the tasks of the IMC secretariat. Although the tasks can be incorporated in the management and administration of Polohy hospital, particular working time needs to be dedicated for those tasks but no additional equipment or premises. The annual costs can be calculated as appr. 25 % of the working time of one administrator which might amount up to 30 000 UAH per year.

## ANNEX 2 FICTITIOUS EXAMPLE FOR **JOINT MUNICIPAL VENTURE** FOR THE MANAGEMENT AND OPERATION OF ALL HOSPITALS IN POLOHY HD

The IMC form of establishing a joint municipal venture is an appropriate albeit very ambitious option if the entire hospital landscape of Polohy HD should not only be jointly financed but in fact jointly managed. It is the consequent further development of the Polohy HD as to bridge the gap between joint strategic planning and practical joint management and operation of hospitals in the hospital district.

For the exemplary scenario of this IMC form in Polohy HD, all six hospitals in Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak are considered to be united in one new municipal venture, i.e. a new municipal enterprise for the provision of level-2 medical services (see Graphic 4).

### **Coverage area of the IMC for joint municipal venture for the management and operation of all hospitals in Polohy HD**



### **Main features**

The core of this IMC is that all level-2 medical services and related functions are offered and managed in Polohy HD by one municipal enterprise which is owned by all six municipalities owning the hospitals after transfer from state to local self-governments.

All hospitals are then operated and further developed as part of one enterprise under one management. It is not foreseen that municipalities can directly intervene in “their” hospitals. Employment of staff, investments, budgeting, facility management, etc. is done by the new joint enterprise. Precondition of the implementation of IMC in this form is the transfer of all physical assets, equipment, staff as well as deposits and debts from the balance of respective municipality to the balance of the new joint municipal enterprise.

In the drafted development plans for Polohy HD and the individual hospitals, the further develop of the hospitals in the view of a system or as parts of a hospital landscape is defined. The realization of the envisaged changes and the updating of the development plans are also in the responsibility the joint venture, in cooperation with and under supervision by the council of Polohy HD.

The IMC agreement between Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak aims on increasing quality, effectiveness and efficiency of the provision of all medical services to their residents in all parts of its territory. The main features of this IMC are:

- The IMC partner register a municipal enterprise owned by all six IMC partners.
- All physical assets as buildings, infrastructure, equipment, etc. of the six hospitals are transferred to the balance of the new joint municipal enterprise as the new owner.
- All employees who will work further for the hospitals in medical, administrative or any other non-medical function, are transferred from the pay-roll of the municipalities to the pay-roll of the new joint municipal enterprise.
- The new joint municipal enterprise provides an organigram and personnel plan for all six hospitals.
- The new joint municipal enterprise could have its central office in Polohy as the most central location in the HD; not necessarily within the premises of the Polohy hospital.
- The individual hospitals provide medical services according to their agreed functions within the framework of:
  - the joint budget
  - the joint personnel development and qualification plan
  - the joint accounting
  - the joint procurement
  - the joint facility management
  - the joint laboratory services
  - the joint quality control, planning and monitoring.
- The director and senior managers of the joint municipal enterprise are selected and appointed by the representatives of Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak as owners.
- The chief doctors of the individual hospitals are appointed by the representatives of Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak as owners following proposals by the director of the joint municipal enterprise.
- Budgeting, accounting, HR management, facility management and procurement are units at the central office of the joint municipal enterprise.
- The centralized laboratory will be located at Tokmak hospital but as a unit of the joint municipal enterprise in direct authority of the general management of the joint municipal enterprise.
- The centralization of financial, administrative and laboratory services allows to employ less, but highly qualified staff members.
- This targets the improvement of quality of medical and non-medical services, even in the individual hospitals because standards can be better controlled, better equipment can be purchased and staff better qualified.
- The joint municipal enterprise operates as an independent economic subject, i.e. it is self-responsible for reciprocal financing of all its operations.
- The annual budget plans, investment plans, personnel development plans, etc. are developed by the management of the joint municipal enterprise and approved by the board of representatives of Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak as owners.

- The coverage of possible financial losses is distributed among the IMC partners as owners according to the defined shares (see description below).
- The director of the joint municipal enterprise is responsible for documentation and reporting and due information of all IMC partners equally.

### Particular challenges

- How to organize the joint municipal venture?

All hospitals with all their assets and staff will be transferred to the new joint municipal enterprise.

Functions as budgeting, accounting, HR management, facility management and procurement are joint units at the central office of the joint municipal enterprise located in Polohy. The centralized laboratory could be located at Tokmak hospital but as a unit of the joint municipal enterprise and in direct authority of the general management of the joint municipal enterprise. The individual hospitals form units under the umbrella of the joint management and operate in the framework of general internal regulations of the joint venture. The slogan for the degree of independent operation of the individual hospital units is as much autonomy as possible, as much control as necessary.

Each individual hospital unit should be qualified to respond to local requirements according to the defined functions of each hospital:

- Bilmak Hospital

Combining therapeutic and neurological wards into 40-50 beds.

Transition of surgery and resuscitation to a day hospital status.

Closing of the infectious ward and referral of patient flows to the strengthened specialized hospitals.

On the area that will get vacant, construction of a gerontology department (or long-term treatment department) for 30-40 beds.

Organization of social bus for the population.

- Hulyaipole Hospital

Transition of surgery and resuscitation to a day hospital status.

Closing of the infectious ward and referral of patients to a strengthened specialized hospital.

On the area that will get vacant, construction of a gerontology department for 30-40 beds.

Organization of social bus for the population.

- Orikhiv Hospital

Transfer of part of gynaecological beds to the maternity ward and transfer of one doctor.

Reduction of staff of pediatric ward, surgical ward and therapeutic department

Refusal of specialized departments of obstetrics and infectious diseases and directing patients to the restored and fixed specialized departments in the cities of Zaporizhzhia, Polohy and Tokmak.

- Polohy Hospital

Coverage of full range of medical functions.

Further development as multidisciplinary hospital of Intensive Care.

Specialized medical services in a 24/7 mode and to high quality.

Central hospital for this IMC providing general and specialized services.

- Rozivka Hospital

Re-profiling the surgical department into day surgery and referring patients to the hospital to Polohy or Mariupol hospitals.

Maintaining the Surgery and Trauma Unit and re-profiling five beds to provide palliative care while reducing five beds in total (from 20 to 15).

Continuation of the operation of the pediatric ward with the re-profile of 5 out of 25 beds on gerontological beds. In the long-term construction of a gerontology department for 20-30 beds.

Establishment of a three-bed intensive care unit for stabilization of urgent conditions

Organization of a service for transportation of patients to Mariupol, both emergency and scheduled until the road to Bilmak is built.

- Tokmak Hospital

Coverage of full range of medical functions, including hemodialysis services, blood transfusions, computed tomography, and other unique areas that exist only in Tokmak hospital

Further development as multidisciplinary hospital of Intensive Care.

Specialized medical services in a 24/7 mode and to high quality.

Central hospital for this IMC providing general and specialized services.

As a consequence of the establishment of the joint venture and the centralization of administrative and management functions, the chief doctors of each of the six individual hospitals have no managerial functions. The administrators of each hospital are directly subordinated to the respective centralized administrative unit. The individual hospital units will not have accountants, procurement officers, personnel managers, etc. Those functions are located at the central office.

Kitchen services will be organized for each hospital unit separately according to particular local conditions. The future medical functions of each hospital unit need to be considered, as Bilmak, Hulyaipole and Rozivka hospitals will reduce their medical function and develop other functions as gerontology departments whereas Orikhiv, Polohy and Tokmak remain as hospitals with specialized medical functions. The kitchen services need to be adjusted to those particular needs. The administrative units of the central office support the individual hospitals in this respect.

For repair and service work, housekeepers/technicians will be located in each of the six hospital units. Large and cost intensive repair work will be done after checking and approval by the central office.

This organizational structure requires unambiguous and general accepted internal rules and procedures. Basic arrangements need to be defined in the IMC agreement already; more detailing arrangement need to be defined in internal regulations by the management and approved by the board.

- How to ensure fair and effective supervision, monitoring and decision-making by the partners?

The board (or owners' assembly) is the body in which the performance of the joint municipal enterprise is monitored and supervised and decisions on future development are made. For Polohy HD two major challenges in regard to these functions exist due to the unequal contribution of assets into the joint municipal enterprise and future importance of the individual hospitals for medical services. Fair and transparent arrangements need to be defined in respect of:

1. How to compose the board.
2. How to arrange the voting.

In general, all IMC partners send representatives to the board of the joint municipal enterprise. They are selected and appointed by the respective municipal councils.

It is a legitimate question whether those IMC partners transferring more assets to the balance of the new joint venture should send more representatives? Or whether they send the same number of persons but receiving double or triple number of votes?

It is also legitimate to ask whether beside representatives of the IMC partners as the owners of the joint venture also external experts should be members of the board to reflect more technical and less local political inputs in decisions made. Because the establishment of the joint venture and thus the board is part of IMC and therefore in genuine municipal responsibility, the selection of external board members should also be in the exclusive responsibility of the IMC partners. A considerable risk exists that the selection is highly politicized, and the finally selected members are recognized as “buddies” of particular IMC partners.

In order to minimize the complexity of the establishment and operation of the joint municipal enterprise for the management of hospitals in Polohy HD and to ease discussions in the board, the board of the new entity could be composed as follows:

- Bilmak            1 member, one vote
- Hulyaipole       1 member, one vote
- Orikhiv           2 members, one vote each
- Polohy            2 members, one vote each
- Rozivka          1 member, one vote
- Tokmak           2 members, one vote each

Each member receives one vote. It is not favourable if each IMC partner send only one member but who receives two votes for Orikhiv, Polohy and Tokmak. The splitting of the two votes for the mentioned three ‘bigger’ contributors on two persons allows a fair voting:

- By the fact that the two votes for the ‘bigger’ IMC partners are not concentrated in one person, the chance is higher that the ‘bigger’ partners cannot follow their particular interests only because more members need to be convinced.
- To overrule the ‘smaller’ IMC partners, the ‘bigger’ ones needs to get the votes of at least 5 board members send by their municipal councils.
- The ‘smaller’ IMC partners need only two of the six board members from ‘bigger’ partners to get a majority.
- The ‘bigger’ IMC partners which transferred considerably more assets and staff to the balances of the joint venture cannot be overruled by the ‘smaller’ ones.

On the whole, the composition of the board and the allocation of votes should allow options for each IMC partner to place its concern and get a chance of consideration.

- On which base to calculate the individual contributions per partner?

The contributions for Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak as partners in the establishment and operation of the new entity are the input of assets and qualified staff to the joint venture. This share depends on the actual value of those inputs which needs to be assessed by independent experts to clearly determine the contribution of each IMC partner.

For the running costs, the joint municipal enterprise should be self-responsible using revenues from National Health Service Ukraine (NHSU), subventions from state budgets and renting out not needed facilities for other purposes. However, it is unavoidable that deficits are possible.

The share of coverage of possible losses should be defined according the number of residents being medically served by the new entity (see Table 1).

The same counts for larger investments which cannot be covered by the current budget but need additional contributions by the partners (see also Table below). In which form the individual partners get the funds for their contribution is up to them. Especially Bilmak, Hulyaipole and Rozivka might depend on external support most probably even their share is relatively small.

Nevertheless, the joint municipal enterprise needs to take care of the required investment finances by itself before the IMC partners as owners provide extra funds.

**Table 1: Share of financial contributions for individual IMC partners based on number of residents**

IMC partner	Rayon		Rayon centre (municipality)	
	No. Residents	Share (%)	No. Residents	Share (%)
Bilmak	27 578	11,7	7 200	7,9
Hulyiapole	34 529	14,6	14 000	15,4
Orikhiv	54 183	22,9	15 000	16,5
Polohy	48 018	20,3	19 500	21,5
Rozivka	11 944	5,1	3 140	3,5
Tokmak	59 847	25,4	32 000	35,2
<b>Total</b>	<b>236 099</b>	<b>100,00</b>	<b>90 840</b>	<b>100,00</b>

### Financial considerations

The joint municipal venture will be created by joining all the assets and resources which are currently on the balance sheets of the respective hospitals. The share of each subject of cooperation in maintaining PMSP could be based on number of residents living in given municipality. The same population-linked approach could be used for allocation of surplus and deficits as well.

**Table 2: Differences between current administrative staff positions and positions required in centralized administration by establishment of joint municipal enterprise**

Position	Current amount of positions	In average per hospital	Amount of positions in centralized administration
Head accountant	6	1	1
Deputy head accountant	10	2	1
Accountant	22	4	8
Head of HR department	5	1	1
Computer typist	5.5	1	0
Head economist	6	1	3
Software engineer (senior)	6.5	1	1
Staffing inspector	3.5	0.5	2

Position	Current amount of positions	In average per hospital	Amount of positions in centralized administration
Lawyer-consultant	3	0.5	1
Civil defence specialist	2.25	0.5	1
Senior staffing inspector	5	1	1
Labour security engineer	5.5	1	1
Metrology engineer	3	0.5	1
Public procurement specialist	3	0.5	1
Medical statistician	3.5	0.5	4
<b>Total</b>	<b>89.75</b>	<b>--</b>	<b>27</b>

Source: Civitta Analysis

If the joint entity is created for the whole hospital district uniting hospitals of Tokmak, Polohy, Bilmak, Hulyai-pole, Orikhiv, and Rozivka, it will provide for optimization of laboratory and administrative costs, as well as non-medical stuff. Thus, the structure of hospitals' expenditures on these types of activities will change in accordance with requirements of centralization of the mentioned services and their technical modernization but concentration of medical services as well according to the draft Polohy HD development plan.

Taking into account an increase of salaries for administrative staff by 50 % in order to keep and to attract qualified personnel, the total amount of salaries will amount to up to 4 200 000 UAH per year for administrative staff.

Additional annual costs for the centralized administration up to 900 000 UAH include:

- Utilities as appr. 200 000 UAH
- Software licenses as appr. 300 000 UAH and
- Continuous qualification of staff as appr. 2 500 UAH per person equals 67 500 UAH in total
- Transport of appr. 300 000 UAH.

The share for each IMC partner can be calculated according to number of residents (see Table 3). Even including the rise of salaries and additional costs for centralisation, savings **of more than 5 000 000 UAH per year could be achieved for the IMC partners** compared to the present situation.

**Table 3: Sharing of annual operational costs of the establishment and operation of the joint municipal enterprise "Polohy HD Joint Medical Services Professional (PMSP)"**

IMC partner	No. Residents Rayon		No. Residents Rayon centre	
	Share (%)	Costs per year (in UAH)	Share (%)	Costs per year (in UAH)
Bilmak	11,7	596 700	7,9	402 900
Hulyiapole	14,6	744 600	15,4	785 400
Orikhiv	22,9	1 167 900	16,5	841 500
Polohy	20,3	1 035 300	21,5	1 096 500
Rozivka	5,1	260 100	3,5	178 500
Tokmak	25,4	1 295 400	35,2	1 795 200
<b>Total</b>	<b>100,00</b>	<b>5 100 000</b>	<b>100,00</b>	<b>5 100 000</b>

If the establishment of the new entity is also linked with centralization of laboratory services and further optimization of medical and non-medical services within the individual hospitals the annual financial benefit for the IMC partners is considerably higher as calculated for the Polohy HD development plan:

**Table 4: Financial benefits per IMC partner following optimization of hospital structures in Polohy HD**

	Tokmak	Polohy	Hulyai-pole	Rozivka	Bilmak	Orikhiv	Total
Financial results mill. UAH	17.3	34.5	9.8	4.2	5.1	19.5	<b>90.4</b>
5-years NPV <sup>1</sup> mill. UAH	16.7	35.3	10.4	2.8	6.4	20.6	<b>60.1</b>

<sup>1</sup> NPV = Net Present Value, a method for evaluating and comparing capital projects or financial products with cash flows spread over time

Source: Civitta Analysis

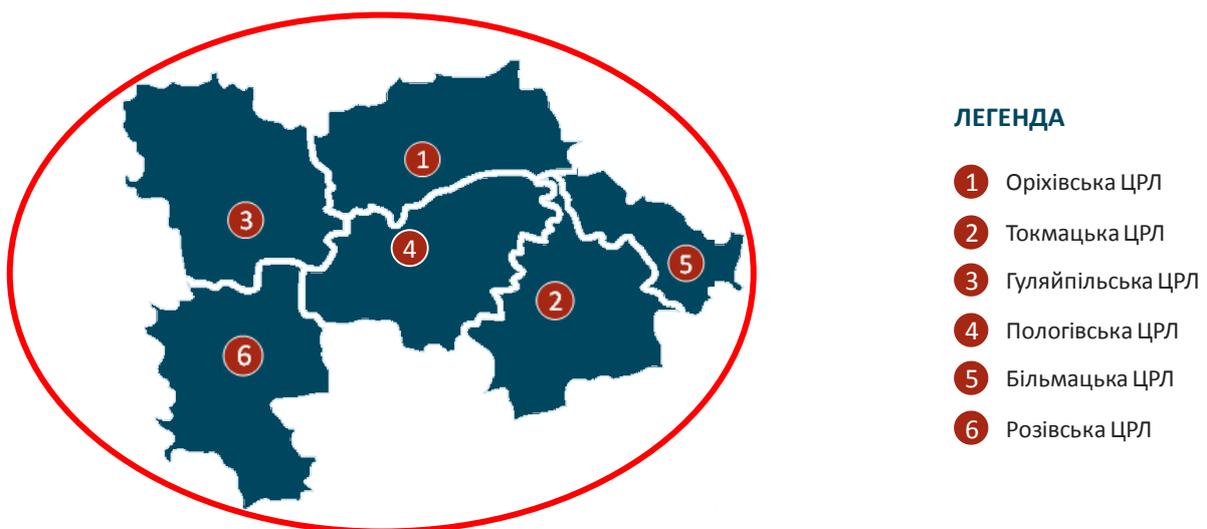
## ANNEX 2 FICTITIOUS EXAMPLE FOR **JOINT GOVERNING BODY** FOR CENTRALIZATION OF QUALITY CONTROL, MONITORING AND DEVELOPMENT PLANNING FOR ALL HOSPITALS IN POLOHY HD

For Polohy HD, a good example for the appropriateness of this IMC form presents the centralization of quality control, monitoring and development planning for all six hospitals in Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak in Polohy HD.

So far, those tasks are not implemented in a structured manner although requested by the Law of Ukraine "Fundamentals of the Legislation of Ukraine on Health Care" as well as the Order of the Ministry of Health from 20.02.2017 No. 165. In 2018/2019, the Council of Polohy HD, supported by GIZ, formulated the draft Polohy HD development plan as well as development plans for the individual hospitals. A required responsibility of the Hospital District Council is also the regular updating of the multi-annual development plan and the assessment of development of hospitals' services.

Thus, this IMC complements the responsibilities of the Council of Polohy HD in a structured and operational direction, extending its operational area also to individual hospitals.

### **Coverage area of the IMC for joint governing body for centralization of quality control, monitoring and development planning for all hospitals in Polohy HD**



### **Main features**

The core of this IMC is the establishment of a small unit which is responsible of all tasks related to quality control, monitoring and development planning of medical services and hospitals. So far, each hospital is responsible for the fulfilment of those tasks on the level of the hospital and the Council of Polohy HD on the level of the entire hospital district.

No transfer of assets is needed. Because those tasks were not implemented in any hospital so far in a structured mode and no staff members are responsible and qualified, no transfer of staff is needed either.

The joint unit could be established as a unit within the Department of Health of each of the IMC partners if existing as 'a structural subdivision of the executive body of the local council of one of the subjects of cooperation' according to Art. 14 (3) of the IMC-Law. However, it is not advisable to select Bilmak, Hulyaipole or

Rozivka as location simply because those tasks asked for qualified staff members who might hesitate to move to remote small municipalities.

Principally, the joint unit can also be attached to any hospital. But it seems rather inappropriate to integrate those tasks in the structure of one of the hospitals simply because of the required neutrality and independence of this unit.

It is proposed to integrate this joint unit as a structural sub-division into the Department of Health of Orikhiv City. Orikhiv is close to Zaporizhzhia City which allows to use relevant bodies of the regional state administration, technical expertise, etc. as resource institutions with very limited effort only.

The IMC agreement between in Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak aims on the establishment of improved quality control, qualified monitoring and development planning of level-2 medical services and institutions for all parts of the territory of Polohy HD. The main features of this IMC are:

- Establishment of a unit as a structural subdivision of the Department of Health of Orikhiv City.
- This approach does not require a registration of the joint body.
- No assets need to be transferred.
- No staff members need to be transferred because so far nobody worked in these fields.
- The unit will be staffed with 5 employees:
  - Head of unit/medical expert in strategic planning
  - 1 Expert for monitoring systems
  - 2 Experts for quality control of medical services and medical institutions
  - 1 Assistant
- The unit will be equipped with necessary IT and office furniture.
- Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak as IMC partners share the costs for the establishment of the unit, i.e. procurement of equipment and renovation of the premises (if necessary) according to the defined shares (see description below)
- Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak as IMC partners share the annual operational costs of the joint unit according to the defined shares (see description below).
- The annual budget will be developed by the head of the joint unit and approved by the Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak as IMC partners.
- The head of the joint unit is selected and appointed by the representatives of Bilmak, Hulyaipole, Orikhiv, Polohy, Rozivka and Tokmak as owners.
- The head of the joint unit provide proposals for the appointment of experts and assistant which need to be approved by the IMC partners.
- The head of the joint unit formulates an annual plan of operation for the joint unit which needs to be approved by the IMC partners.
- Due to the integration of the joint unit as a structural subdivision of the Department of Health of Orikhiv City, it is not necessary to arrange for regular meetings of the IMC partners; monitoring, supervision and decision-making can also be done by circulation of information, reports, and other relevant documents.
- The head of the joint unit is responsible for documentation and reporting and due information of all IMC partners equally.

## Particular challenges

- How to avoid structural collision of the competencies of the IMC partners as “owners” of the joint unit and of the Department of Health/council of the ‘hosting partner’?

In the example on hand, the clarification of competencies between the IMC partners as financiers of the joint unit and the Department of Health as the hosting administrative structure of the joint unit is quite easy:

- The IMC partners receive the competencies to decide on the budget, annual plan of operation, personnel structure of the joint unit.
- The Department of Health respectively the council of Orikhiv City receives the competencies to apply internal regulations regarding the general mode of operation of the units within the department. However, those internal regulations must not hinder or change purpose and operation of the joint unit.

In case of any dispute, the mayors of the IMC partners will discuss questionable issues and decide on solutions and agreements.

- How to ensure fair and effective supervision, monitoring and decision-making by the partners?

Although size and range of services differ between the individual six hospitals the tasks of the joint unit create benefits for all IMC partners to the same extent and of the same importance, namely the increase of quality and the joint development of the hospitals as a system and as parts of the hospital landscape of Polohy HD. Therefore, it is recommended that each IMC partner receive one vote.

- On which base to calculate the individual contributions per partner?

Although it is proposed to have one vote for each IMC partner in decision-making, the contribution of costs should be based on the number of residents, i.e. costs per capita (see Table 11 in chapter 4.2).

The more residents live on the territory of an IMC partner the more potential beneficiaries of increased quality and efficiency and effective development of medical services live on that territory.

## Financial considerations

The new joint unit for centralization of quality control, monitoring and development planning requires hiring new staff:

**Table 1: Salaries of office staff**

Position	No.	Assumed monthly salary (in UAH)	Assumed annual salary (in UAH)
Head of unit/medical expert in strategic planning	1	20 000	240 000
Expert for monitoring systems	1	15 000	180 000
Experts for quality control of medical services	2	30 000	360 000
Assistant	1	8 000	96 000
<b>Total</b>	<b>5</b>	<b>73 000</b>	<b>876 000</b>

Additionally, office consumables for up to 80 000 UAH per year need to be calculated. In total, for the joint unit for centralization of quality control, monitoring and development planning the **operational costs amounts up to 960 000 UAH per year**. The share for each IMC partner can be calculated according number of residents (see Table 16).

**Table 2: Sharing of annual operational costs of centralized quality control, monitoring and development planning per IMC partner based on number of residents**

IMC partner	No. Residents Rayon		No. Residents Rayon centre	
	Share (%)	Costs per year (in UAH)	Share (%)	Costs per year (in UAH)
Bilmak	11,7	112 320	7,9	75 840
Hulyiapole	14,6	140 160	15,4	147 840
Orikhiv	22,9	219 840	16,5	158 400
Polohy	20,3	194 880	21,5	206 400
Rozivka	5,1	48 960	3,5	33 600
Tokmak	25,4	243 840	35,2	337 920
<b>Total</b>	<b>100,00</b>	<b>960 000</b>	<b>100,00</b>	<b>960 000</b>

For the establishment of the office rooms for centralized quality control, monitoring and development planning investments in computers and licences as well as furniture must be calculated. For five computers, respective licences and furniture for five working places **investment costs up to 400 000 UAH** can be estimated which again are shared according the number of residents (see Table 17).

**Table 3: Sharing of investment costs for the establishment of centralized quality control, monitoring and development planning per IMC partner based on number of residents**

IMC partner	No. Residents Rayon		No. Residents Rayon centre	
	Share (%)	Costs per year (in UAH)	Share (%)	Costs per year (in UAH)
Bilmak	11,7	46 800	7,9	31 600
Hulyiapole	14,6	58 400	15,4	61 600
Orikhiv	22,9	91 600	16,5	66 000
Polohy	20,3	81 200	21,5	8 6000
Rozivka	5,1	20 400	3,5	14 000
Tokmak	25,4	101 600	35,2	140 800
<b>Total</b>	<b>100,00</b>	<b>400 000</b>	<b>100,00</b>	<b>400 000</b>

Although the establishment of a joint unit for centralized quality control, monitoring and development planning means additional costs for the IMC partners in the beginning, the improvement of quality of medical services and the better planning of functions, human resources, use of facilities, interlinkages of hospitals, etc. is a future-oriented structural arrangement in order to save funds in the long run. The work of the office will lead to long-term savings due to high standard of medical services and optimized operation of the hospitals in Polohy HD.