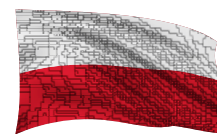


Restructuring of public hospitals – A new law to rescue the sector from debt



At the end of 2021, Poland had 574 public hospitals for c. 38 million inhabitants. The sector has been experiencing financial difficulties for years: its total debt is €3.6 billion of which €0.35 billion are liabilities due and payable.

Currently, hospitals cannot benefit from bankruptcy proceedings, while restructuring proceedings are not tailored to their needs. Creditors are therefore assured of getting their money back, which means that the mechanism for debt growth has no natural limits. In fact, since 2010, the overall debt has increased by 60%!

Another problem is the lack of coordinated management of hospitals. Most of them are owned by local governments at as many as three levels (cities, districts or provinces), while others belong to universities, ministries, etc. Public units often compete in the same area for patients, which is not beneficial for the public financing of health services. Very limited resources end up not being completely used and end up wasted. Competition for medical staff also significantly increases salary costs. The health system is

therefore overloaded and has been further affected by the COVID-19 pandemic.

In this situation, the government has proposed a reform that will, on the one hand, implement financial restructuring procedures and, on the other, provide opportunities for re-profiling, consolidating, streamlining and unifying management procedures. Four categories of entities (A-D) have been introduced. In two of these categories, corrective and developmental actions will be mandated. A newly-established *Agencja Rozwoju Szpitali* (ARS) (Agency for Hospital Development) will be able to appoint a new hospital director, put into place professional crisis management and carry out necessary actions.

These actions will include, in particular, the withdrawal of medical services that are unnecessary in a particular area. Currently, in many smaller centres, there are multi-specialist hospitals, which do not serve sufficient numbers of patients to be cost-effective or operate at the highest levels of safety. As such, consolidation is therefore necessary, whilst however

maintaining access to services for local communities. Other actions will include improving internal management procedures, including human resources and multi-entity purchasing systems, as well as the rescission of unprofitable contracts.

As part of the reforms, a hospital will also be able to propose an arrangement with its creditors to restructure its debt. During the deliberations of the Ministry of Health's working group in which the author participated, this was seen as a particularly difficult proposal. This is because hospitals will continue to be unable to go bankrupt, so creditors will not have the natural benchmark of potential satisfaction levels in bankruptcy. It was therefore agreed that, in the event of lack of consent to an arrangement by some creditor groups, the objecting creditors would receive a one-off payment of an amount corresponding to satisfaction under hypothetical bankruptcy proceedings, i.e. under the bankruptcy preference rules. This repayment is guaranteed by the ARS, but will be certainly lower than repayments under an arrangement.

The ARS will also set up a system to supervise recovery and development processes, under which hospitals will receive financial, targeted and expert support. Raising management qualifications of the managerial staff is stated as being of key importance for the reform – as, too often, the personnel still draw mainly on medical experience.

In brief, the Hospital Modernisation and Efficiency Improvement Law is expected to be adopted in Q3/Q4 of 2022. It is currently open for public consultation. ■



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