

For discussion
on 13.11.2000

**LegCo Panel on Health Services Meeting
to be held on 13 November 2000**

Funding Arrangements for the Hospital Authority

Purpose

This paper sets out our proposal to replace the existing funding formulae for the Hospital Authority (HA) by a new mechanism based on population changes.

The existing funding formulae

2. At present, the provision of recurrent funding to HA is facility-based. HA's recurrent budget for a year is constructed from two elements, namely, the gross subvention for the preceding year (i.e. the baseline funding), and new funding based on new hospital beds, new facilities and new programmes. In most years, provisions for new hospital beds and facilities account for the lion share of HA's budget increase. Under such a funding mechanism, hospitals tend to maintain the existing level of bed provision in order not to compromise the planning for future new hospital beds. There is no incentive for hospitals to re-deploy resources for community care service, in response to changing environments and patient needs.

3. The existing funding arrangement, therefore, has not been conducive to the development of the more cost-effective ambulatory and community care, in line with international trend. We need to have a funding arrangement which can encourage the mobilisation of resources from institutions to community settings to support the provision of community-focused health care delivery, thus reducing reliance on institutional care in the long run.

The proposed funding arrangement

Population-based funding mechanism

4. The provision of public funding should be based on population needs, instead of facility-based. We propose that HA's future recurrent budget should be constructed taking into account the following factors -

- (a) population increase and demographic changes;
- (b) the effect of aging on use of public hospital services; and
- (c) age-specific average cost for treating each patient.

Under this proposed population-based funding model, HA's recurrent budget in a year will be determined by applying to the baseline funding a growth rate which takes into account the factors in (a)-(c) above. Following this mechanism, the growth rate for the next three years is estimated to be in the region of 2.3%. Under this proposed funding arrangement, HA can also continue to bid additional resources for new initiatives and technology advancement under the annual Resource Allocation Exercise.

Benefits of population-based funding mechanism

5. International trend has been to focus on the development of the more cost-effective ambulatory and community care programmes and to replace, as far as possible, in-patient treatment by out-patient services. With a funding mechanism not based on beds and facilities, hospitals will be less reliant on inpatient hospital beds in providing services to the public and can devote more resources to ambulatory and community services. Given our aging population, such a development is particularly timely as more and more people will be suffering from chronic illnesses, which, where properly managed, do not require frequent or long hospitalisations. The delivery of ambulatory and community care in the home and community setting will help maximize patients' quality of life.

6. The new funding approach can facilitate HA to better plan its service provision on a long-term basis as HA will then have a general idea of the amount of funding it will likely receive in the coming years. In contrast, under the existing funding arrangement, HA's recurrent budget in a year is subject to Government's approval of its proposal to provide new beds and facilities. With funding certainty, HA hospitals can re-organise their priorities in the delivery of health care services, focussing on the development of the more cost-effective ambulatory and community care. This certainty will also help HA to achieve more efficiency gains through better planning and service re-engineering. Use of existing physical facilities can be optimised and expansion plans rationalised.

7. The change of the funding mechanism does not mean that HA will cease to build new facilities. New hospitals will continue to be built, in line with population needs, through funding from the Capital Works Reserve Fund. Planning and development of new hospital projects, such as the re-development of the Pok Oi Hospital, the construction of a Trauma and Emergency Centre in the Prince of Wales Hospital, the establishment of a radiotherapy centre at the Princess Margaret Hospital and others, are progressing well.

Way Forward

8. We are consulting the HA Board on the proposed funding arrangement. We aim to reach an agreement with HA on the new funding arrangement this year so that the recurrent budget for HA from 2001-02 onwards can be prepared using the population-based funding mechanism. We shall continue to monitor closely the quality of services delivered by HA, having particular regard to the enhancement of ambulatory and community care in the delivery of public hospital services, and the benefits that these services can achieve for the patients.

Advice Sought

9. Members are invited to comment on the proposed funding mechanism.

Health and Welfare Bureau
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