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Ms Mary So
Clerk to Panel
Panel on Health Services
Legislative Council
8 Jackson Road
Central

Dear Ms So,

Allocation of resources among hospital clusters by the Hospital Authority

I refer to item 6 of LC Paper No. CB(2)1006/08-09(02). At the Panel meeting held on 9 February 2009, the Administration was requested to provide -

(a) the amount of funding allocated/to be allocated to each of the seven hospital clusters this year/next year as well as the ratio of such funding per 1 000 population of individual hospital cluster after the Financial Secretary had presented the 2009-2010 Budget to the Legislative Council on 25 February 2009;

(b) reasons/justifications as to why some hospital clusters were under-provided vis-à-vis other hospital clusters with similar number of population and whether any actions would be taken to address such discrepancies, and if so, what they were; and

(c) pros and cons of facility-based, population-based and "Pay for Performance" funding arrangements to hospital clusters.

Response to item (a)

The funding allocation of the seven hospital clusters under the Hospital Authority (HA) in 2008-09 and 2009-10 are set out in **Annex**.

Response to item (b)

The services of HA are provided through hospital clusters. Each cluster is comprised of a well-balanced mix of acute and convalescent/rehabilitation hospitals with clearly delineated roles. The cluster arrangement seeks to minimize service duplication and facilitate collaboration and support amongst hospitals.

When allocating its resources to the hospital clusters, HA takes into consideration not only the population of the region, but also HA's priority service areas, service needs of the community, provision of primary and specialist services, new service programmes and initiatives, and resources required in updating facilities, purchasing drugs and staff training. In general, each cluster will be allocated annual provision on the basis of baseline resources in previous year and additional funding growth to cater for new and improved services, covering 24 hour accident and emergency service, in-patient, out-patient and community services.

On the other hand, certain services with limited demand and require advanced and complex supporting equipment and health care professionals to deliver, such as complex heart surgery and organ transplant, are centralized by HA at a few tertiary services centres and are provided to the public on a cross-cluster basis. Such arrangements could achieve cost-effectiveness and help pool together the experience of health care professionals and ensure the quality of services. Clusters with designated centres for the provision of such tertiary services would have their allocation adjusted to reflect their specific resource requirements.

After a review on its existing internal resource allocation system, HA has introduced a new "Pay for Performance" system starting from 2009-10, with a view to improving the fairness and transparency of its internal resource allocation. (Please also see the last two paragraphs of this letter). HA has also been closely monitoring the service demand and utilization of healthcare services in various districts. In order to meet the increasing service demand in the Kowloon East and New Territories West clusters, a total of about $71 million and $99 million additional funding has been earmarked in 2009-10 to implement a number of initiatives for enhancement of services of the two clusters respectively, which include the opening of additional beds in Tseung Kwan O Hospital, Pok Oi Hospital and Tuen Mun Hospital.

Response to item (c)

On the funding arrangements for hospital clusters, the facility-based funding system is a relatively simple approach under which the resources are allocated to clusters purely based on their existing and new facilities (such as the number of beds and equipment). However, under such funding system, the amount of allocation is not directly related to the actual level and quality of services required and delivered. Hence it is difficult to measure the efficiency of utilization of resources by hospitals.

In addition, clusters may tend to maintain the existing level of facility (e.g. hospital beds), while lacking the incentive to develop the more cost-effective ambulatory and community care.

With regard to the population-based funding system, it allocates resources to hospital clusters based on the size of population served by each cluster. It takes into account the effect of the growing and ageing population and the demographic changes on the utilization of hospital services. It also encourages the mobilization of resources from in-patient care to community based health care delivery, as with the international trend. However, when allocating resources to clusters, the population-based funding system may overlook the variation of service and facilities provided among different hospital clusters.

As for the "Pay for Performance" funding system, resources will be allocated on the basis of the workload of hospital clusters. Under the system, a casemix approach will be adopted under which patients with similar healthcare needs will be classified into different Diagnosis Related Groups (DRGs) according to clinical diagnosis. By understanding the resource implication for each of the DRG, resources could then be fairly allocated to the hospitals on the basis of their number of patients and complexity of the cases. The "Pay for Performance" system could then enhance both the fairness and transparency of resource allocation. It also improves clusters' efficiency through benchmarking among clusters.

International experience shows that the casemix approach is an evolving system. HA will establish a review mechanism to refine its casemix system through consultation with stakeholders and clinical experts, so as to ensure the casemix system could provide a fair and objective means to measure the output and workload of hospitals. HA will also closely monitor the performance of clusters under the new "Pay for Performance" system, so as to identify aspects for further improvement of the new system.

Yours sincerely,

(Kirk YIP)
for Secretary for Food and Health

cc Hospital Authority

Annex

Funding allocation for hospital clusters under the Hospital Authority (HA) in 2008-09 and 2009-10

Hospital Cluster	2008-09		2009-10	
	Allocation (Revised Estimate) ($Million)	Allocation per 1 000 population of cluster[Note] ($Million)	Allocation (Estimate) ($Million)	Allocation per 1 000 population of cluster[Note] ($Million)
Hong Kong East	3,360	4.1	3,440	4.2
Hong Kong West	3,590	6.7	3,640	6.8
Kowloon Central	4,180	8.7	4,290	8.9
Kowloon East	3,030	3.2	3,100	3.3
Kowloon West	7,040	3.8	7,160	3.9
New Territories East	5,000	4.0	5,090	4.0
New Territories West	3,890	3.8	3,990	3.9
Overall	**30,090**	**4.3**	**30,710**	**4.4**

Note: Based on 2007 mid-year resident population.