

## ITEM FOR FINANCE COMMITTEE

### HEAD 177 - SUBVENTIONS : NON-DEPARTMENTAL PUBLIC BODIES Subhead 514 Hospital Authority

Members are invited to approve supplementary provision of \$25.5 million under Subhead 514 Hospital Authority.

#### PROBLEM

We need to meet the shortfall in the Hospital Authority (HA)'s income in 1999-2000 mainly as a result of the continued freeze on most government fees and charges since March 1999.

#### PROPOSAL

2. The Secretary for Health and Welfare proposes supplementary provision of \$25.5 million in 1999-2000 to HA to meet its income shortfall.

#### JUSTIFICATION

3. Under the current funding arrangement with HA, the Government provides an annual recurrent grant to HA under Head 177 Subventions : Non-Departmental Public Bodies Subhead 514 Hospital Authority which represents the Authority's *net* operational cost, that is, total operational cost less projected income. Such income is accounted for on an *actual* basis, that is, any excess over the projected amount will reduce the subvention required whereas any shortfall will be met by Government through supplementary provision.

4. The bulk of HA's income comes from patient fees and charges. Other income consists mainly of interest income from bank deposits. Fees and charges for health care services provided by HA are subject to regular revisions. Hitherto, these fees and charges are revised in line with the rate of cost increases in order to maintain the service at around the same level of subsidy. The last regular revision of medical fees and charges took place in 1996. In February 1998, the Government announced a freeze on most government fees and charges for one year to provide relief to the community. In March 1999, the Government decided to continue with the freeze.

5. To cover an estimated shortfall of income collected by HA in 1998-99 arising mainly from the moratorium on fee increases, Members approved supplementary provision of \$59 million for HA *vide* FCR(98-99)80 at the Finance Committee meeting held on 12 March 1999. The actual income collected by HA in 1998-99 subsequently turned out to be higher than that estimated at the time. A comparison of the two is shown as follows –

<b>Income</b>	<b>Revised estimate 1998-99 (\$ million) (a)</b>	<b>Actual income 1998-99 (\$ million) (b)</b>	<b>Variance (\$ million) (b – a)</b>
Medical fees and charges	665	686.8	+21.8
Other income (such as interest income and rental income)	216	220.6	+4.6
<b>Total</b>	<b>881</b>	<b>907.4</b>	<b>+26.4</b>

In accordance with the funding arrangement described in paragraph 3 above and elaborated in paragraphs 11 to 12 below, HA will have to return to Government the excess supplementary provision of \$26.4 million.

6. In the 1999-2000 Estimates, we have provided a net recurrent subvention of \$27,321.7 million to HA, based on the assessed total operational cost of \$28,272.0 million and a projected income of \$950.4 million for the year. The estimated income of HA in the 1999-2000 Estimates assumed that there would be a regular revision to patient fees and charges in 1999 upon the lifting of the moratorium. In the event, this has not taken place given the extension of the freeze on most government fees and charges. The measure benefits users of HA's services across the board.

7. Up to the end of January 2000, HA collected a total income of \$737.5 million. For the year 1999-2000 as a whole, HA estimates that total income would amount to \$886.4 million. This represents a shortfall of \$64 million which we would have to meet through additional subvention in accordance with the established arrangement. A comparison of the original estimate with the latest estimate of HA's income is as follows -

<b>Income</b>	<b>Original estimate 1999-2000 (\$ million) (a)</b>	<b>Latest estimate 1999-2000 (\$ million) (b)</b>	<b>Variance (\$ million) (b - a)</b>
Medical fees and charges	761.2	695.3	-65.9
Other income (such as interest income and rental income)	189.2	191.1	+1.9
<b>Total</b>	<b>950.4</b>	<b>886.4</b>	<b>-64.0</b>

4. 8. The shortfall in income from medical fees and charges in 1999-2000 is mainly attributed to the continued moratorium on fees, accounting for an estimated reduction in income of \$65.9 million. This is partly offset by a higher than anticipated income from other sources, notably from interest on its reserve.

9. The \$64 million income shortfall of HA in 1999-2000 will be partly offset by -

- (a) the excess of supplementary provision of \$26.4 million to HA in 1998-99 as reported in paragraph 5 above; and
- (b) an over-provision to HA of \$12.1 million in 1999-2000 as commissioning of a number of new facilities has been deferred. Some of these facilities have been commissioned in the year but at a date later than originally envisaged based on which additional funding was provided. As a result, part of the earmarked amount, though included in the approved estimate for subvention to HA, is no longer required for this purpose.

Accordingly, we are seeking a supplementary provision of \$25.5 million to HA.

## **FINANCIAL IMPLICATIONS**

10. Subject to Members' approval of the proposal, we shall offset the supplementary provision of \$25.5 million required by deleting an equivalent amount under Head 106 Miscellaneous Services Subhead 251 Additional commitments.

## **BACKGROUND INFORMATION**

### **Funding arrangement between the Government and HA**

11. Recurrent subvention to HA takes the form of a one-line vote. This means that unlike a vote-funded Government department or other conventional subvented organisations, HA enjoys complete freedom in virement of funds within the approved provision for various purposes. It may determine its staff mix, ranks and grades, and number of posts at its own discretion without being subject to any establishment control. There is also no clawback of unspent funds by Government which HA may retain in its reserve subject to a ceiling.

12. On the other hand, like most other Government departments and subvented organisations, HA is given funding protection and certainty in the following aspects. If HA's income falls short of the original forecast, the shortfall will be fully met by Government. As a corollary, income from patient fees and charges in excess of the original estimate will be clawed back by Government. Provision is made annually for price adjustments for other charges based on service-wide inflation or deflation indicators while additional expenditure for salary adjustments in line with the civil service pay award and other salary-linked benefits will be provided by Government through supplementary provision. In anticipation of the commissioning of new facilities which are scheduled to come on stream in an Estimates year, additional provision is included in the annual recurrent grant to HA and earmarked for the specific purpose. The amount will only be released for use by HA upon commissioning of the facilities.

### **Fee waiver cases for public hospital patients**

13. HA operates a fee waiver system to ensure that no one would be denied of adequate medical treatment through lack of means. All medical fees of recipients of Comprehensive Social Security Assistance (CSSA) will be waived upon presentation of a certificate affirming their status. Non-CSSA patients who lack the financial means are means-tested by medical social workers in the hospitals according to a set of established criteria. Their medical fees may be partially or wholly waived.

14. The shortfall in income from patient fees and charges in 1999-2000 is mainly attributed to the moratorium. The extent of fees waived in the year is more or less the same as that in 1998-99. Of the total in-patient fees payable (i.e. actual fees collected plus fees waived and fees written off) in April to November 1999, 38.5% were waived as compared to 40.3% of such cases in 1998-99. As regards out-patient fees payable in the same period in 1999-2000, 21.4% were waived as compared to 20.6% in 1998-99. A comparison of medical fees collected, waived and written off is at the Enclosure.

Encl.

15. The last revision of hospital and clinic fees and charges took effect from 15 November 1996 to reflect the rate of cost increase from 1994-95 to 1995-96. The present charges for public ward in-patient services and specialist out-patient services are \$68 per bed day and \$44 per attendance respectively for entitled persons. These represent a Government subsidy of 97% and 92% respectively at 1998-99 price level.

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Health and Welfare Bureau  
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## Breakdown of Medical Fees Collected, Waived and Written Off

	1998-99			1999-2000 (April to November)		
	In-patient	Out-patient	In-patient and out-patient	In-patient	Out-patient	In-patient and out-patient
Fees collected (\$ million)	330.1	265.6	595.7	221.2	180.6	401.8
(% of fees collected to total)	(57.4%)	(79.3%)	(65.4%)	(58.0%)	(78.6%)	(65.7%)
Fees waived (\$ million)	232.0	68.9	300.9	146.8	49.2	196.0
(% of fees waived to total)	(40.3%)	(20.6%)	(33.1%)	(38.5%)	(21.4%)	(32.1%)
Fees written off (\$ million)	13.3	0.4	13.7	13.3	0.0	13.3
(% of fees written off to total)	(2.3%)	(0.1%)	(1.5%)	(3.5%)	(0.0%)	(2.2%)
<b>Total (\$ million)</b>	<b>575.4</b>	<b>334.9</b>	<b>910.3</b>	<b>381.3</b>	<b>229.8</b>	<b>611.1</b>