

18 January 2006

Provision of loans by regional governments to hospitals
Comments on the
Eurostat letter No. 30352 of 21 December 2005

The following comments refer to the letter of Laurs Norlund (Eurostat, Director of Directorate C National and European Accounts) No. 30352 of 21 December 2005 to Reinhold Schwarzl (Statistics Austria, Director of Directorate Macroeconomic Statistics).

Wording of the Eurostat letter:

1. Whether the situation described by Mr. Voggenhuber in his Parliamentary question can be confirmed;

Comment:

Wording of the Parliamentary question:

"Aus der Internetseite von Statistik Austria geht hervor, dass Eurostat...geprüft hat....weilers hervor, dass Eurostat...inhaltlich vollkommen bestätigt. Aus der Internetseite geht jedoch nicht hervor, was genau der Gegenstand der Prüfung durch Eurostat bei den öffentlichen Spitälern war."

Comment: It is not correct that on the STAT-website the topic of the EDP mission as regards public hospitals was not described in detail (see attachment 1). In fact it has been made clear that the examination dealt with the sector classification of public hospitals and that no change in this sector classification applied by Statistics Austria has been requested in the final letter of Eurostat (No. 30051 of 23 February 2005).

Wording of the Parliamentary question:

"Ab der Finanzierungsausgleichsperiode....auf eine Darlehensgewährung umgestellt..."

Comment: Description can be confirmed.

Wording of the Parliamentary question:

"Nunmehr müssen als Folge dieser geänderten Finanzierungsmodalitäten durch die Landeshaushalte die erforderlichen Mittel bereitgestellt werden, um die bis Ende 2004 aushaftenden Landesdarlehen einschließlich der aushaftenden kapitalisierten Zinsen zu tilgen."

Comment: Statistics Austria is not in a position to judge what state governments „have to do“ or „why“. The actual flows of money and their current treatment in the Austrian National Accounts will be described later in this statement. The other parts of the Parliamentary question address – in our understanding – Eurostat directly.

Wording of the Eurostat letter:

2. Whether the same situation is present also in other Länder;

Comment: So far loans by regional governments to hospitals have been identified in 4 Austrian "Länder" (Burgenland, Kärnten, Steiermark and Vorarlberg). Other 4 Länder (Niederösterreich, Oberösterreich, Salzburg and Wien) have provided funds to hospitals organised as quasi-corporations. These funds have been classified as additions to equity (ESA95 F.5, para. 4.61). For further details see attachment 2.

Wording of the Eurostat letter:

3. Whether some Länder have devised alternative ways of financing hospitals, possibly through subsidies, debt cancellations, or other ways of financing them not strictly linked to the services provided by hospitals;

Comment: For numerical details and their current treatment in the Austrian National Accounts see attachment 2. The data are partly based on preliminary results from the ongoing work of implementing the OECD System of Health Accounts in Austria; work which has started in April 2005.

Wording of the Eurostat letter:

4. Whether there is evidence that some hospitals will never be able to repay their debts without resources granted by government, and whether in this case the ESA 95 chapters 4.165f and 5.16 have been applied by Statistics Austria;

Comment: So far we only have evidence for **two Länder** ("Steiermark" and "Kärnten") that all loans given to hospitals will be repaid with resources from the state government.

a) Steiermark: We have been informed on 15 April 2005 about a state parliamentary decision in Steiermark of 18 November 2003 about a self commitment to transfer money ("gesonderte Gesellschafterzuschüsse") from 2005 onwards (for 15 years) to the hospital company for amortization and interest payments of the loans given (see attachment 3). According to a further state government decision (of 19 December 2005, see attachment 4) this "gesonderter Gesellschafterzuschuss" should be paid as a one-off amount of 872 mio of € so that the hospital company can repay all the outstanding loans.

b) Kärnten: Via specific investigations in the Internet we found – on 18 January 2006 – a law of the state parliament in Kärnten of 22 February 2001 requesting that the state government has to pay all refunds for interest and redemption of the loans to the hospitals (see attachment 5; especially amendment to § 41). In the closed accounts of Kärnten we have identified for the year 2004 a first tranche of redemption of the loans with the amount of 25 mio of €.

We have observed a similar situation in Burgenland – but with far less amounts and without any specific state parliament decision we are aware of. Loans given in 2001 and 2003 (33 mio of € total) have been repaid in 2004; the hospital corporation received – for this purpose – funds from the state government (which have already been classified as subsidies).

ESA 95 chapters 4.165f and 5.16 refer to debt cancellation¹. So far an agreement of a debt cancellation in this respect has not been observed or imputed in the Austrian National Accounts.

¹ 4.165. Other capital transfers include the following transactions:

f) the counterpart transaction of cancellation of debts by agreement between institutional units belonging to different sectors or sub-sectors (for example, the cancellation by the government of a debt owed to it by a foreign country; payments in fulfilment of guarantees which free defaulting debtors from their obligations). Such

Wording of the Eurostat letter:

5. Whether Statistics Austria has been investigating the case and whether it has already reached some definitive conclusions;

Comment: Since the 1996/97 shift of public hospitals from non-market to market producers Statistics Austria regularly investigates the monetary flows from government units to hospitals in general. The 2001 amendments in hospital financing by introducing loans (and their treatment as ESA95-loans referring to ESA95 para. 5.70c) have been reported to Eurostat together with the August 2002-EDP notification (STAT Ref. 57/0-V/02 of 12 September 2002) and lately on 21 December 2004 – as a follow up to the Eurostat EDP mission to Austria in September 2004.

On 19 April 2005 there was a Parliamentary question in Austria about the recording of the loans in questions (the first two questions being identical with the first two questions of the European Parliamentary question), especially with reference to the Styrian case. For preparing the answer to this Parliamentary question Statistics Austria reaffirmed its decision to record ESA95 loans, with the same arguments which have been put forward to Eurostat in this case (quoting the ESA 95 definition of loans being an European Law).

For preparing this answer we have again thoroughly discussed this issue. In our understanding ESA95 being a European Regulation means also that probabilities and expectations have lower priority and hard facts/written evidence – although not always in line with economic considerations – can not be neglected. In this framework we propose the following general treatment of amounts described as loans in the government budgets:

- a) Expenditure and revenue in government budgets have to be classified by economic criteria according to national regulations. In general this national economic classification can be used to transform the amounts into the ESA95 transactions. This is also the case for “loans”.
- b) When there are doubts whether these loans fulfil the ESA95 criteria (bearing interest, to be redeemed) special investigations are needed. When the government unit concerned confirms – in written form – that the ESA95 criteria are met these amounts continue to be classified as loans according to ESA95.
- c) When there are, however, legally binding documents that the government unit itself is obliged to fund the interest and amortization payments of the debtor the original “in the budget so-called loans” are reclassified as current or capital transfer in the sense of ESA95 (i.e. as non-financial transactions). The time of recording is the time when these legally binding documents enter into force.

So far we have evidence for two Länder (“Steiermark” and “Kärnten”) that all loans given to hospitals will be repaid with resources from the state government. Implementing the general principles described above would mean (already for the March06-EDP-notification):

a) Steiermark:

aa) 2001 and 2002 ESA95-loans (code F.4),

ab) 2003 and 2004 ESA95-subsidies (code D.3),

ac) split of the 2005-payment (gesonderter Gesellschafterzuschuss) into one part to fund the hospitals for redeeming the 2001/2002 loans (ESA95 capital transfer D.9) and one part (referring to 2003/2004) not dealt with in the National Accounts at all (or dealt with with no effect on net lending/net borrowing).

b) Kärnten: Treatment of all original “in the budget so-called loans” as subsidies.

cancellations by mutual agreement are treated as a capital transfer from the creditor to the debtor equal to the value of the outstanding debt at the time of cancellation. Likewise the counterpart transaction of debt assumption is another capital transfer.

Wording of the Eurostat letter:

6. Whether in your view public hospitals should continue to be classified in the non financial corporation sector.

Comment: Yes. The outcome of the Eurostat EDP-mission in September 2004 was that “state government hospitals can still continue at present to be classified outside general government.” We closely monitor the pricing system as requested and have no knowledge about “future legislative change to the system in this respect”. Therefore in our view public hospitals should continue to be classified in the non-financial corporation sector.

Wording of the Eurostat letter:

..replies to these questions including as much detailed information as possible...

List of material attached:

1. Wording on the Statistics Austria-website describing the topics and results of the Eurostat EDP mission to Austria of mid September 2004
2. State government hospital financing-time series 2001ff
3. Styrian state parliament decision of 18 November 2003
4. Styrian state government decision of 19 December 2005
5. Carinthian state parliament law of 22 February 2001