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Directorate D: Government Finance Statistics (GFS) and quality

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Subject: Sector Classification of Belgian hospitals under ESA 2010

Dear Mr Delporte,

Please find below Eurostat's formal opinion on the sector classification of Belgian hospitals. The analysis below confirms the view expressed by Eurostat during the last EDP dialogue visit to Belgium of 21-22 January 2016.

1. THE ACCOUNTING ISSUE FOR WHICH A CLARIFICATION IS REQUESTED

The issue to be analysed is the sector classification of Belgian hospitals under ESA 2010.

Background

Under ESA 95 rules, the National Accounts Institute (NAI) classified public hospitals in the sector of non-financial corporations (S.11). Following the Eurostat EDP dialogue visit of February 2014 and the October 2014 EDP Notification, the NAI was asked to assess the sector classification of public hospitals in the light of ESA 2010 rules.

On the 17 November 2015, the NAI provided a note analysing the hospital sector in Belgium according to ESA 2010 rules. The decision of the NAI was to maintain public hospitals outside the general government sector. However, in its note, the NAI also said that "*if the MGDD ESA 2010 would be strictly implemented, all Belgian hospitals should be consolidated within the government sector because the government approval needed for heavy hospital investment would imply a lack of autonomy*".

After a detailed analysis of the note provided by the NAI, the issue was discussed in the EDP dialogue visit to Belgium of 21-22 January 2016. On that occasion, Eurostat expressed its view that, in Belgium, according to ESA2010 rules, hospitals controlled by government are to be

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classified in the government sector. This view was also reflected in the Main conclusions and action points of the visit (see action point 24[1]).

In a letter dated 10 March 2016, acknowledging the receipt of the Main Conclusions and Action Points of the above EDP visit, the NAI expressed its disagreement with Eurostat's view and invited Eurostat to provide an official analysis.

Description of the hospital sector in Belgium

The law of 7 August 1987 (*Loi coordonée sur les hôpitaux, hereinafter "LCH"*) regulates the framework for hospitals in Belgium. The Belgian hospital sector is heavily regulated, as the law describes the types of hospitals that can be authorised, the conditions for the management of hospitals, the structure of the medical activity, the hospital programming, the conditions for the authorisation of hospitals and hospital services, the legal relationship between hospitals and doctors, the statute of doctors, the setting of fees, etc.

According to the note of the NAI, there are currently 180 hospitals in Belgium. These include general hospitals and psychiatric hospitals and exclude day-clinics and polyclinics (where patients do not stay overnight). Almost all Belgian hospitals have the legal form of a non-profit institution. Patients are free to choose a hospital.

Under the *LCH*, all activities of hospitals have to be approved by government. Government approval is required to open a new service or to close an existing one. Government determines the number of hospitals and the number of wards and beds that a hospital should have. Government has to approve the instalment or exploitation of heavy medical equipment and the number of PET and MRI scanners is restricted per region and per centre and also decided by government.

In the *LCH* law, hospitals are classified as "public" or "private", depending on ownership. The *LCH* is equally applicable to both types of hospitals. "Public" hospitals are owned by local government units or by *intercommunales*. "Private" hospitals are owned by charitable organisations, sickness funds or universities. However, this distinction does not necessarily follow ESA and MGDD guidelines.

The pricing for medical provisions, as well as the financing of hospitals, is regulated. The vast majority of hospitals are publicly funded. The *LCH* distinguishes five sources of financing, three of which are intended to cover operating costs of hospitals and two are related to hospitals' investment costs.

Investment costs incurred by hospitals (building or works for renovation, acquisition of equipment, etc.) are mainly covered by the State and the remaining part is paid by the hospitals' own resources and through bank loans (normally guaranteed by government). The "building calendar" is set by government, which grants authorisation for infrastructure and investment projects, even if not directly financed by government. Investment in certain medical equipment (such as scanners, radiology, etc.) is also strictly regulated and subsidised by government.

[1] *Action Point 24: After a detailed analysis of the hospital sector in Belgium, Eurostat considers that the entities de facto controlled by government according to ESA 2010, are to be classified in the government sector. The Belgian statistical authorities are therefore invited to reclassify in the government sector all hospitals and health institutions that are controlled by government according to ESA 2010 rules. Until the moment of reclassification, the remaining debt of hospitals not already considered as government debt, will be recorded as government debt.*

As regards operating costs, the financing set-up is split as follows:

- consultations and technical procedures are remunerated through a variable reimbursement system of fee-for-service (FFS);

- pharmaceutical products are partly reimbursed on a product-by-product basis and partly by a lump-sum amount;

- day care and conventions (for instance for rehabilitation care) are paid for by lump-sums;

- hospital financing (intended to fund the non-medical activities of hospitals such as accommodation, maintenance, meals, laundry, emergency services, nursing activities, radiation, hospital pharmacy etc.) is paid from a closed-end envelope of the national budget[2], which makes up the main source of financing of the hospitals. About 80 percent is being paid as a fixed amount each year, while 20 percent is variable.

The envelope for hospitals in the national budget is mainly based on the national average of the length of stay (LOS) per pathology group. Once the envelope at national level is set by a decision of government, a provisional budget is set for each individual hospital by applying the national average LOS per pathology group to the case-mix[3] of each individual hospital.

Article 125 of the *LCH* introduces an additional financing mechanism of which only hospitals owned by public authorities can benefit. More specifically, according to the law, the deficits of these hospitals have to be covered by the controlling entities (municipalities, CPAS[4], *intercommunales*, etc.). The rationale for this additional mechanism is that these hospitals have to provide additional services as compared to the privately owned hospitals (such as the obligation to offer medical assistance to all patients, even in non-urgent cases) and they have the obligation to offer a full range of hospital services at multiple sites. Because of these obligations, publicly owned hospitals are considered in theory to be more likely to run deficits than privately owned hospitals.

Concerning the accounts of hospitals, both types of hospitals (publicly and privately owned), if considered on aggregate, are slightly profitable (but only after the deficit of public hospitals is covered by the controlling public entities) and do not run losses systematically. All hospitals (publicly and privately owned) are required to deposit their accounting data to the Federal Public Service of Health.

2. METHODOLOGICAL ANALYSIS

General rules applicable

Institutional sectors are defined in ESA 2010 chapter 2. The government sector and the market/non-market delineation are described in more detail in ESA 2010 chapter 20.

In addition, the MGDD implementation of ESA2010 included detailed provisions for the sector classification of public hospitals in national accounts (see section I.2.4.6). In particular, it clarified the qualitative criteria introduced by ESA2010 for the specific case of hospitals.

[2] *Budget des moyens financiers (BMF)*

[3] Number and type of hospitalizations

[4] Centres publics d'action sociale

Analysis

Institutional unit

The main decisions to be taken for hospitals are those concerning what services to provide, the number of beds offered and investments to be undertaken.

Belgian hospitals cannot decide on the number of beds or on the medical services provided, as this is determined by government. Moreover, infrastructure investment and the need for specific medical equipment are also determined by government. Even when a hospital (and not government) would finance its investment, they are by Law prohibited to do so unless it is approved by the Ministry of Health.

The hospital sector in Belgium is so heavily regulated that hospitals are not deemed to have autonomy of decision as concerns their main functions. Following ESA 2010 2.13, hospitals should be treated in national account as part of the unit which controls them.

Control

The *LCH* is so specific that it effectively determines the general policy of hospitals. This applies to both publicly and privately owned hospitals, as the *LCH* is equally applicable to both.

Following ESA 2010 20.309 (and also 2.35-2.39), all hospitals in Belgium should be considered as public hospitals.

The fact that hospitals are considered to have no autonomy of decision and that they are controlled by government would trigger a classification in the general government sector.

Notwithstanding the above, the analysis of their market/non-market nature is provided below.

Market/non-market delineation

As stated above, the vast majority of hospitals are publicly funded. The support provided by government takes different forms: financing of most investments and acquisition of equipment, guarantees, financing of part of the operating costs through the budget and the regular covering of losses in the case of publicly owned hospitals, which is established in the law.

According to the NAI, hospitals are financed on the basis of the activities undertaken and not on the basis of costs. The NAI considers that most of the financing received by hospitals for their operating expenditure qualifies as sales for the market test (this includes the part from the national budget). Following the analysis of the NAI, the ratio of sales to production cost would be around 96% for all the years.

Based on the note of the NAI, Eurostat would preliminarily agree with the treatment as sales of the consultations and technical procedures, which are remunerated through the variable reimbursement system of fee-for-service and accounting for 37% of hospitals turnover. This is also the case for the part of pharmaceutical products reimbursed on a product-by-product basis. On the other hand, Eurostat agrees with the exclusion from the 50% test of the payments received from government to cover losses, which has only a marginal effect on the result of the market test.

However, Eurostat has doubts on the treatment as sales of the part of the hospitals turnover constituted by the envelope of the national budget, which accounts for 43% of hospitals

turnover. This amount is based at inception on the total pot in the national budget. In addition, the amount eventually received per hospitalization by each individual hospital is not known ex-ante but ex-post, based amongst other on budgetary considerations. Finally the amount in the national budget is divided into a fixed part (amounting to around 80%) for which no invoices are submitted, and a variable part (around 20% of the budget), for which, hospitals have to submit invoices. According to the calculations of the NAI, if the envelope of the national budget is excluded from the sales, the sales-to-production cost would be reduced to 60% for the period 203-2013.

The same doubt on the treatment as sales applies to the part of pharmaceutical products reimbursed on the basis of a lump-sum.

It is the view of Eurostat that a more detailed calculation of the market test would be required, eliminating the items above and, possibly, other items which are present included as sales in the current calculation (for instance, the realised holding gains). The nature of the amounts reported under the line "*autres produits d'exploitation*" should also be clarified in order to confirm whether the treatment as sales is correct.

Therefore, the market nature of hospitals, although not being decisive in the case of Belgium for the classification of hospitals in general government, cannot be confirmed in any case until an updated calculation and a thorough analysis of the different components classified as sales is performed, according to the indications above.

Besides, Eurostat considers that the existence of real competition between public and private hospitals does not exist in practice (even if patients can freely choose), as there are no private hospitals in Belgium in the sense of ESA2010.

3. CONCLUSION

Based on the analysis above, performed in the light of ESA 2010 rules, Eurostat considers that:

- Belgian hospitals do not have autonomy of decision as concerns their main functions, as the approval of government is needed for all main relevant decisions, such as heavy investment, the number of beds in each hospital and the type of medical services provided.

- All hospitals in Belgium should be considered as public hospitals in the light of ESA 2010. This is in line with the view of the NAI.

These two elements are enough to trigger the classification of Belgian hospitals in the general government sector, which is the controlling entity.

Notwithstanding the above, it is still not clear whether the sales-to-production cost ratio would in any case be above 50%, as Eurostat has some doubts on the treatment as sales of certain items.

In addition, the MGDD specific provisions for public hospitals would reinforce the reclassification of all hospitals in the government sector. Steps 1 (autonomy of decision) and 2 (existence of competition with private hospitals in practice) in the decision tree at the end of section I.2.4.6, are not fulfilled.

Finally, it is the obligation of Eurostat to ensure comparability of methodological cases across countries. In other Member States, the facts that investments have to be authorized by government and that the related cost is mainly covered by government have been the decisive criteria for a classification of public hospitals in the government sector.

Following the elements above, Eurostat asks the Belgian statistical authorities to reclassify all Belgian hospitals in the general government sector.

Eurostat acknowledges the workload related given the number of entities, the complexity of the flows, the possible consolidation issues and the timing constraints. Eurostat is therefore ready to be flexible concerning the timing for implementing the reclassification. For the April 2016 EDP Notification, the NAI is asked to consider as government debt any additional hospitals debt which is not already included as part of government debt. The result of the profit and loss account for hospitals is considered to be negligible and no relevant impact on government deficit is expected from the reclassification. However, if relevant amounts would be identified, the NAI would be expected to make the necessary corrections also in the deficit figure.

4. PROCEDURE

This view of Eurostat is based on the information provided by the Belgian authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009, as amended, and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC.

Eurostat is therefore publishing all official methodological advice (ex-ante and ex-post) given to Member States on its website. In case you have objections concerning the publication of this specific case, we would appreciate if you could let us know before 15 April 2016.

Yours sincerely,

(eSigned)

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Director