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Directorate D: Government Finance Statistics (GFS) and quality

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**Subject: Classification of entities - guidance request  
Onaseio hospital - final view of Eurostat**

**Ref.:** ELSTAT letter Γ1-90 of 08/02/2016  
Eurostat letter Ares (2015)6023669 of 23/12/2015  
ELSTAT letter Γ1-1408 of 09/12/2015  
ELSTAT letter Γ1-352 of 13/03/2015  
ELSTAT letter Γ1-1177 of 17/09/2014  
Eurostat letter Ares (2014) 2687467 of 14/08/2014  
ELSTAT letter Γ1-985 of 08/08/2014

Dear Ms. Stavropoulou,

Thank you for your reply to the questions raised by Eurostat concerning Onaseio Hospital. After examining the arguments put forward in your letter, please find below Eurostat's view on the sector classification of Onaseio hospital in the light of ESA 2010.

#### **1. THE ACCOUNTING ISSUE FOR WHICH A CLARIFICATION IS REQUESTED**

The issue to be analysed is the sector classification of Onaseio hospital, a unit specialized in cardiovascular surgery and in diagnostic and interventional cardiology.

There have been a number of exchanges on this case, which was also discussed in the EDP dialogue visits of September 2015<sup>1</sup> and February<sup>2</sup>-March 2016<sup>3</sup>.

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<sup>1</sup> See action point 22

<sup>2</sup> See action point 20

<sup>3</sup> See action points 9 and 10

### *1.1. Documentation provided*

ELSTAT has provided clarification on a number of issues as requested by Eurostat, as well as the statute of the entity. Previously, ELSTAT had provided a note with its analysis on this case as well as the figures for the quantitative market/non-market test (the so-called 50% criterion).

In its note, ELSTAT had reached the conclusion that Onaseio hospital is a public market institutional unit and that it should be classified in the non-financial corporations sector (S.11).

### *1.2. Description of the case*

Onaseio hospital is a legal entity of private law, of public-benefit purpose. It is specialized in cardiovascular surgery and in diagnostic and interventional cardiology. The general principles of the operation of Onaseio are set by the Law 2012/1992.

The hospital was designed, built, equipped and furnished by the Alexander S. Onassis Public Benefit Foundation. In 1993, after it was finished, it was donated to the Greek State. It has operated since then under the supervision of the Greek Ministry of Health, in accordance with the terms specified in a handover agreement between the Foundation and the Greek State.

Its main domain of activity is cardiology and cardio-surgery. Due to its special legal status, no shares exist. The hospital operates as a non-profit institution. Onaseio serves households and has signed contracts with Social Security Funds (SSFs) for the provision of such services.

Onaseio is the only hospital operating as Heart transplant centre in Greece and this activity accounts for 9% total cost of medical services provided by the hospital. A second hospital, the General Hospital of Thessaloniki "Papanikolaou" also has the licence to operate as Heart transplant hospital. However, it is not operating for the time being. In addition, this second hospital is part of the National Health System and is thus classified in the government sector.

According to article 6 of the Founding Law (Law 2012/1992), the supervision and control of the hospital shall be exercised by the Minister of Health, Welfare and Social Security and includes the following:

- (i) the appointment of the management (see below);
- (ii) the approval of the final annual report;
- (iii) the conduct of financial audit.

The entity is managed by a seven-member Board of Directors, which includes only one representative appointed by the Onassis Foundation. The other six members are appointed and can be recalled by the Ministry of Health. The seven members of the Board are appointed with a relevant decision of the Minister of Health. The Minister of Health also appoints the President and the Vice-President of Onaseio.

The Board of Directors sets the general medical policy of the hospital, compiles the medical agenda, approves any research and development programs undertaken by the hospital, decides for any necessary supply, chooses and hires the General Director, decides for any necessary staff recruitment and compiles the Internal Regulation, which must be then

approved by the Minister of Health. The Greek Ministry of Health also approves the procedures for the promotion and publicity of the Centre's scientific activities in Greece and abroad.

The main revenues of Onaseio are the following:

1. Daily hospitalisation fees and proceeds from medical acts
2. Revenues from activities developed to serve the staff, in-patients and visitors (such as holding or leasing of canteens, restaurants, flower/gift shops inside the hospital, etc.)
3. Revenues from conferences, communications, congresses, etc.
4. Annual subsidy from the Greek State, laid down each year jointly by the Ministers of Finance and Health.

According to the information provided by ELSTAT in December 2015, the grant received from the state budget is intended for the following purposes:

- Hospitalization of indigent and uninsured patients;
- Cover of cardio-surgery incidents of the Public Hospital for children "Paidon-Agia Sofia";
- The operation of the unique unit of heart transplantation;
- Participation in the alternate daily call of the hospitals in Athens;
- The fulfilment of the hospital goals;
- The payment of calls for resident doctors.

In its letter of December 2015, Eurostat requested further information as regards the subsidy received from the state budget. ELSTAT has confirmed that the amounts received by Onaseio for the purposes listed above are not broken-down by scope. The only amounts specified for a detailed purpose are those intended for the payment of medical doctors in training (under specialisation). The remaining amount is provided in two lump-sums under two categories: "regular budget subsidy" and "extraordinary subsidy from the Ministry of Health". The former seems to be quite stable over the years. The latter is zero in some years, but it accounts for most of the total subsidy in certain years (for instance in 2011 and 2012).

ELSTAT has confirmed that the other hospital with licence to operate Heart transplant also receives subsidies for the Greek State. However, this hospital is part of the National Health System (S.13) and is not a legal entity subject to private law. It is not clear whether other hospitals which are legal entities subject to private law, specialized in cardiology, are also receiving similar state subsidies on a regular basis.

The subsidy seems to be defined based on budgetary considerations. Every year, an appropriation is entered into the budget of the Ministry of Health concerning subsidies granted to legal entities of private law. The yearly amount provided to Onaseio is defined taking into consideration the upper limit for subsidies authorized for entities outside general government, as set out every year by the General Accounting Office.

Following article 14 of Law 2012/1992, Onaseio is exempted from paying any government fee or tax (except VAT and contributions). Onaseio enjoys all duty-free privileges and tax exemptions and benefits which apply for the public healthcare institutions. These do not apply to private healthcare institutions.

In the case of Onaseio, hospitalisation fees are covered exclusively by the Social Security Funds<sup>4</sup>. From ELSTAT's letter, it could be concluded that this is not the case in other private hospitals.

The joint Ministerial Decision Y4a/oik.18051/2012 (Government Gazette 946/B) sets the pricing policy (hospitalisation fees and average length of stay) for all hospitals in the National Health System (E.S.Y) plus Onaseio Hospital. Onaseio therefore, uniquely among hospitals subject to private Law, is (from 2012)<sup>5</sup> the object of a pricing policy which is equal to the one applied to state hospitals.

The prices fixed in the Ministerial Decision of 2012 are not applied in other private entities. Indeed, from ELSTAT's letter, it follows that in private hospitals the pricing list is determined by each hospital (by the Board) and is submitted to the Ministry of Commerce only for informative reasons. Private hospitals are therefore free to determine their price list and their own profit margins.

Disregarding the subsidies from the state budget and considering payments from social security funds as sales<sup>6</sup>, the sales to production costs ratio provided by ELSTAT is around 65% for the period 2010-2014.

ELSTAT has provided the percentage of cardio surgeries realized in Onaseio compared to the total number of surgeries realized in all Greek hospitals in the period 2007-2011. The percentage for each year in the period ranges between 21% and 28%.

According to the information provided by ELSTAT in previous exchanges, Onaseio has not received any loan from the Greek State and there is no evidence that potential loans would be guaranteed by the Greek State. Also, according to the founding law 2012/1992, there is no reference that Onaseio should ask the permission of a supervising entity in order to engage in investment activities.

## **2. METHODOLOGICAL ANALYSIS**

### *2.1. Accounting provisions*

The general rules to be applied when analysing the sector classification of a unit are described in ESA 2010 chapter 2 (Units and groupings of units).

ESA 2010 chapter 20 (The government accounts) defines in detail the general government sector (20.05-20.67), including the provisions for the market/non-market delineation (20.19-20.28) and the market/non-market test (20.29-20.34).

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<sup>4</sup> With the exception of cases where the patient wishes to have an enhanced hospitalisation category.

<sup>5</sup> According to the information provided by ELSTAT, before year 2012 Onaseio followed the same pricing policy as private hospitals.

<sup>6</sup> Payments from social security funds have been considered by ELSTAT as sales. This will be analysed in the next section.

The MGDD chapter I.2.4.6 (2016 edition) includes specific provisions for the sector classification of public hospitals.

## 2.2. Eurostat's analysis

### a) *Institutional unit*

According to the information provided, there seem to be no elements that would impede Onaseio Hospital to be considered as an institutional unit under ESA 2010. The unit seems to exhibit decision-making autonomy in the exercise of its principal function.

### b) *Control*

The fact that an entity has the status of a "legal entity of private law" does not prevent the entity from being considered public in national accounts.

Following ESA paragraphs 20.309 and 20.310, the hospital should be considered as controlled by government, since the majority of members of the Board of directors are appointed and can be recalled by the Ministry of Health, which also appoints the President and the Vice-President.

Besides, the hospital operates within the terms specified in a handover agreement between the Onassis Public Benefit Foundation and the Greek State. Finally, the sales of the hospital are mainly to a collection of public sector entities (social security funds). These can also be interpreted as control by government via contractual agreements.

### c) *Market/ non-market nature*

Given that Onaseio Hospital appears to be a public institutional unit, the next step would be to assess its market/non-market nature.

In order to assess the market nature of a unit, both set of criteria, quantitative and qualitative as established in ESA 2010 (20.19-20.34), need to be fulfilled. Public hospitals are a specific case of public producers and thus, special provisions have been included in the MGDD to analyse their sector classification (chapter I.2.4.6).

In previous exchange, Eurostat had expressed doubts on the market nature of the unit and had requested further information to ELSTAT. According to ELSTAT, the ratio of sales to production costs would be above 50% for the period 2010-2014, implying that Onaseio would comply with the quantitative criteria. However, the analysis also needs to take stock of the specific points for checking the qualitative criteria in hospitals.

Following the MGDD provisions, the presence of a situation of real competition with private hospitals and the absence of sustained financial losses of public hospitals are key points to be taken into account in the analysis (MDGG I.2.4.6. §67).

In this respect the fact that private hospitals operate cardio surgery is not enough to ensure competition. Eurostat considers that the arguments below must also be taken into account in the analysis.

- From the information provided, it appears that Onaseio is the only hospital operating as Heart transplant centre in Greece. The other entity which has a licence for undertaking this activity (although the service is not operated yet) is a state hospital. The service of

Heart transplant is provided in Onaseio and is not provided in other private hospitals in Greece. It follows that Onaseio is not supplying the same services as other private hospitals that may be specialised in cardiology.

- Onaseio runs losses on a regular basis and receives a yearly subsidy from the State Budget, in addition to benefitting from tax exemptions. This case is envisaged in §71-§72 of the MGDD chapter I.2.4.6. No similar grants are provided to private entities operating in the same sector, as no other private entity operates Heart transplantation. It is not clear whether similar grants are provided either to private entities operating heart surgery (different from transplantation). In addition, in certain years, the subsidy received can be close<sup>7</sup> to 50% of the total revenue obtained from sales.

Concerning the grant provided from the state budget, it covers a wide number of purposes, some of which seem having a very general nature (for instance, the fulfilment of the hospital goals). Specific reasons for which separate amounts can be identified are not provided or mentioned (except for the payment of medical doctors in training, which represents a small amount). Overall, it is not clear whether the hospital is de facto reimbursed, or not, on the basis of costs.

- Finally, a key point is also constituted by the fact that the pricing policy of Onaseio differs from that of other private hospitals as from year 2012. Following the joint Ministerial Decision Y4a/oik.18051/2012, Onaseio must apply the same pricing policy fixed for hospitals in the National Health System, while private hospitals are free to set their own pricing list. According to MDGG I.2.4.6. §70, this would be enough by itself to reclassify the entity in the government sector.

The above arguments (Heart transplantation not operated in private hospitals, Onaseio bearing regular losses and receiving government support regularly, and pricing policy different from that of other private hospitals) confirm that Onaseio is not competing in practice with private hospitals. Following the decision tree in page 37 of the MGDD 2016, Onaseio should be considered as a government entity.

### **3. CONCLUSION**

There seem to be no elements that would impede Onaseio Hospital to be considered as an institutional unit under ESA 2010.

The unit is publicly controlled.

Onaseio is not competing in practice with private hospitals and therefore it cannot be considered to have a market activity.

Based on the elements above, Eurostat considers that Onaseio Hospital is a public non-market producer and that it should be classified in the general government sector in the October 2016 EDP Notification.

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<sup>7</sup> It was 48% in year 2012.

#### **4. PROCEDURE**

This preliminary view of Eurostat is based on the information provided by the Greek authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information currently available and the assumptions made above, 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 and the note on ex-ante advice. Eurostat therefore publishes all official methodological advice (ex-ante and ex-post) given to Member States on its website.

Yours sincerely,

*(e-Signed)*

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Director