

This paper is written in response to the Healthcare Reform Consultation Document (“the Document”) issued by the Food and Health Bureau of Hong Kong Special Administrative Region Government (“the Administration”) in March 2008 in relation to the proposed healthcare reform (“the Reform”) in Hong Kong.

### **The Summary**

The Document signaled an important milestone in Hong Kong and kicked an in-depth discussion regarding the Reform being proposed by the Administration. The five intended areas of reform set out in the Document cover the proposed changes in the healthcare system as well as the financing model. Nevertheless, quite obvious enough by perusing the length of the contents contained in the Document in relation to each area of the proposed reform, the Administration have put heavy weights on explaining the proposed elements of reform in financial sense. Consequently, the discussions on the Document seem to have been skewed unilaterally and unfortunately towards any proposed reform in the financial model only.

Financial resources are of course vital to support the proposed four elements of reform in the healthcare system set out in the Document. However, the Administration primarily assess the affordability of the taxpayers inaccurately and it does not appear that the Administration have offered plausible reasons to justify why the proposed courses of reform are aimed to be financed from a new type of contribution by a very narrow selective

group of individuals as well. It is further suggested that the Administration should thoroughly consider utilizing other ways of financing model before shifting the burden solely on the shoulders of a narrow group of individuals.

Also, the Document has provided the community with details showing the current inefficiency of the public hospitals but little has been raised to demonstrate the Administration effort in upholding the pace and work of any cost and operation rationalization program. It would be quite unacceptable that the contributors of the additional fund (under whatsoever financing model to be implemented during the Reform) are going to inject resources in support of an inefficient public operation.

Last but not least, it is difficult to understand why the Administration insist that all the courses of reform, both for the healthcare system as well as the ancillary financing model, are tied up together as a bundle with no flexibility of considering separately. The proposed courses of reform on the healthcare system are by all means beneficial to the general citizens. It would be very disappointing if no reform on the healthcare system is to be effected in the imminent future solely because the community cannot form any consensus on the choice of the financing model.

With second round of consultation due to be taken place, it would make more sense for the Administration to thoroughly reconsider all the prevailing shortcomings and certain fundamental principles in the current proposal of the Reform rather than merely over-

emphasizing the importance of making rush choice on any financing model, which could take place at a later stage.

### **The Reform**

It is apparent that the demographic structure in Hong Kong has changed dramatically over the last couple of decades. It is absolutely understandable that concerns over the quality and adequacy of the healthcare system have gradually increased. It is good to see the Administration taking decent initiatives to propose and hopefully carry out any necessary reforms.

The Reform set out in the Document primarily contains five principal elements, four being the healthcare system itself, and the last one being the financial reform in supporting the increased costs in the healthcare system after the implementation of the proposed courses of reform. Few would argue the necessity or effect of the four proposed courses of reform on the healthcare system itself, as their worth to the general public is invaluable. Coincidentally, the Administration has not explored in lengths on these elements in the Document, and seems to assume these are something required to be put in action in any event. It has also been noted that these four elements are virtually of no controversy among the community. Hot discussions rest merely upon the last element, the financial reform, which is also an area carrying a substantial weight in the Document.

### **Doctrine of Financial Resources Limitation**

The Administration primarily highlight some important figures to persuade the general public to accept that financial resources are limited within the budget, and endeavours in extending the scope of funding are to be launched. A very detailed explanation of each proposed financial model is hence given for consideration in the Document. However, it does not appear that the situation is as simple as that.

One should always bear in mind that public finance is a complicated and multi-disciplined subject. It is sometimes not easy to quantify the circumstance in place by merely referring to one set of particular figures. A broader picture of the community could only be reflected by considering wider spectrum of information and details.

For example, in Appendix D of the Document, the Administration tend to illustrate that Hong Kong is apparently the jurisdiction charging the lowest tax rate and at the same time utilizing general taxation to support the healthcare system in the world. Hence, the resources available to the Administration are quite limited. However, this approach grossly neglects the most common expenses pattern of a normal citizen, in particular one coming from the middle class. With the costs of housing being extremely high either by way of leasing or making mortgage repayment, the disposable income of the general Hong Kong taxpayers after tax, MPF and costs of housing is not as high as the Document apparently illustrates. Fair to say, the payment of high rental or mortgage repayment shall be treated as

a kind of quasi-tax paid by the taxpayers, who contribute to the Administration via the property developers, who pay high for leasehold land during the auction. If the Administration view this public finance matter from the taxpayer point of view instead of merely emphasizing the tax rate figure, it is not difficult to find out that the taxpayers have already been responsible for a very heavy burden instead of what the Administration projects to be a very low tax jurisdiction.

Furthermore, the characteristic of the source of public revenue available to the Administration is unique. A very high proportion of the government revenue is generated from sale of leasehold land as well as stamp duty. It appears to be of very little reference value and even a completely wrong approach by merely comparing the income tax rates among different jurisdictions as shown on Appendix D of the Document for the purpose of drawing any sensible conclusion. In fact, the Administration shall make a much thorough review and appropriate adjustment on the comparison so presented before concluding that adequate resources are not available from the public revenue.

### **Efficiency of the Public Healthcare System**

It is understood that the Hospital Authority have taken endeavours to improve the efficiency of the public healthcare system. However, the result does not appear to be very appealing so far.

Table B.1 in the Document shows the cost per day of in-patient in ward level to be HK\$3,290. This figure is absolutely much higher than the cost of the ward in a private sector hospital. In the same table, it is also shown that the cost per visit of general out-patient is HK\$260. This figure is also much higher than the cost of the general medical practitioner in private sector. Although it is understandable that public hospitals shall take ultimate responsibility for emergency matter and accidents, it remains difficult to accept that the cost is unreasonably high as compared to private sector. If any financial reform were successfully taken place, concerns would be raised on whether the efficiency of the public hospitals would be further improved as such inefficiency would in turn be supported by the new financiers.

From the user point of view, it would not be difficult to identify the shortcomings of the public healthcare system currently in place. The logistics within the public hospitals and the management structure of the Hospital Authority are areas required further review and consideration. For example, in the clinic of the private general medical practitioner, all the matters can be smoothly and efficiently handled by the doctor and possibly two nurses. In the public hospitals, more resources would be applied, like staff for registration, file forwarding, temperature measuring, general nursing check, medical diagnosis, pharmacy and accounting. It is true that segregation of duties is important but definitely not in an inefficient manner.

In respect of the management structure of the Hospital Authority, experienced medical practitioners are commonly delegated roles of general management within a very tall hierarchy. Not only is this a loss to the general patients given the invaluable experiences so possessed by the concerned medical practitioners, but also offers very limited assurance that the medical practitioners perform work effectively and efficiently in management sense.

Indeed the Document has not particularly addressed to any of these areas, and anxiety would not be removed even a successful implementation of the Reform can be assured. With the budget spent on the healthcare system being increased year by year, the Administration should adopt a much active role in improving its efficiency. Otherwise, the wastage would inevitably escalate.

#### **Choice of Taxpayers who would be held for the Financial Reform**

Heavy weight has been put by the Administration upon the financial reform, which offers different choices of financing models for consideration. Unfortunately, neither in-depth analysis nor plausible explanation is available in the Document explaining why these “options” are only alternatives available to the community.

First of all, it should be pointed out that the Document offers no explanation why the financial reform shall be held responsible for by a very narrow scope of individuals. As mentioned previously, the disposable income of most taxpayers in Hong Kong is not as

handsome as the Administration project apparently due to the quasi-tax on the cost of housing. It would be grossly unfair that the individual taxpayers, apparently in particular the middle class, would be again selected for contributing most in this proposed financial reform.

Secondly, the Document has not offered any proposal to cover the individuals, like the housewife, the retired and people not commonly subject to income tax, for example taxi drivers and hawkers. It seems that workforce with regular monthly income have been severely penalized in the proposed financing model.

Thirdly, inadequate discussion, except for the mere proposal of increasing income tax rate, has been raised on whether the corporations in Hong Kong shall also be responsible for sharing the increased costs arising from the Reform, although corporations can also benefit from the workforce of increased social stability and indeed have already benefited from the contribution of the retired workforce in the previous days. On a balance of responsibility point of view, it is believed that corporations in Hong Kong shall also be held responsible for the increased costs to some extent by way of increased taxation or monthly contribution or any other suitable model.



### **Piecemeal approach in implementing the Reform**

The Administration highly emphasize the Reform being proposed in the Document shall be viewed as one set of comprehensive change in the whole healthcare system, and any splitting up of the courses of the Reform is not serving the whole purpose. This proposition however does not appear to be drawn from the overall interests of the general public.

With an obvious gap to be filled up in the area of choice of financial reform, it does not appear that a consensus could be easily agreeable to the community in the imminent future. Should the Administration insist on having every element of the Reform settled and ready at the same time, the general public may be not able to enjoy certain meaningful reform in the healthcare system in the near future. The occurrence of such unnecessary delay is definitely not in the interests of general public. It would not be sensible to sacrifice the community interests solely for the sake of administrative convenience or any other unknown or implausible reason.

In fact, the Administration intended injection fund of HK\$50 billion should be quite enough to kick off some if not all of the courses of reform set out in the Document, other than the one in relation to financial reform. With some reform actions being forthwith commenced, the community can be further assured of the sincerity and determination of the Administration on the Reform. The piecemeal approach also enhances the possibility of the community agreeing to a particular model of financing as everyone could experience and

understand how the Reform can benefit the community. The Administration should thoroughly re-consider the idea of binding everything together, which does not appear to be a wise and effective option.

### **Conclusion**

The Document has aroused a lot of meaningful discussions among the community. The four proposed courses of reform on the healthcare system itself are decent and sensible change and would definitely bring in benefits to the community. Nonetheless, such significant reform shall not be overshadowed by the possible protracted discussion on the financial reform model, and any delay of implementation possibly due to the community failing to form a consensus on the financing model should be mostly regretted.

Regarding the choice of the financing model, the Document seems to have unwisely focused the discussion on extremely micro details but failed to widely and adequately consider some imperative factors, the details of which are summarized below.

1. The Administration may have over-estimated the capabilities of the taxpayers in meeting extra contribution for the healthcare system, as the Document has made no reference or consideration in relation to their disposable income but merely emphasizing the low income tax rate.

2. The successful implementation of any financing model may significantly reduce the initiatives in improving the efficiency within the public healthcare system, in light of the current cost level of public hospital being significantly higher than the current cost level in private hospital. Asking the community to make further contribution in financing an inefficient public operation is absurd.
  
3. The Document has unilaterally shifted the burden of contribution to a very narrow group of individual taxpayers, but failed to explore any possibility of having the corporations to share some of foreseeable increased costs notwithstanding that the corporations have been beneficial from the current and retired workforce in Hong Kong.
  
4. The Administration treat the Reform as an indivisible unit, the consequence of which would definitely sacrifice the benefits of the community, apparently due to the inevitable delay in implementation caused by foreseeable protracted discussion on the financing model. For the sake of the interests of the community, the Administration should seriously explore the piecemeal approach in implementing the Reform.

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