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Panel on Health Services

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 15 April 2013**

Private hospital development

Purpose

This paper summarizes the concerns of the members of the Panel on Health Services ("the Panel") on private hospital development.

Background

2. At present, there are 11 private hospitals providing in total around 4 000 private hospital beds. The total number of private hospital inpatients treated in 2011 was about 401 500 (including those of Hong Kong Central Hospital which ceased operation on 2 September 2012). In the coming years, three existing private hospitals, namely Hong Kong Baptist Hospital, Tsuen Wan Adventist Hospital and Hong Kong Sanatorium & Hospital, will be undergoing various expansion or redevelopment projects. It is expected that a total of additional 910 beds could be provided upon completion of these projects.

3. According to the Administration, around 90% of the inpatient services (in terms of number of bed days) in Hong Kong are provided by public hospitals. This has resulted in an imbalance between the public and private healthcare sectors and limited the competition and collaboration between the two sectors. While public healthcare services have been and will continue to be the cornerstone of the Hong Kong healthcare system, it is also the Government

policy to facilitate the development of private hospitals to increase the overall capacity of the healthcare system to cope with the increasing service demand; address the imbalance between the public and private healthcare sectors; and enable the public to have more choices and access to affordable and high quality private hospital services.

4. The then Chief Executive announced in his 2008-2009 Policy Address that the Administration was identifying suitable sites including Wong Chuk Hang, Tai Po, Tseung Kwan O and North Lantau for the development of new private hospitals. In his 2009-2010 Policy Address, the then Chief Executive announced that he had accepted the recommendations of the Task Force on Economic Challenges to promote the development of six industries where Hong Kong enjoyed clear advantages. The six industries included, among others, the medical services industry. The development of private hospitals was one of the initiatives for promoting the development of the industry.

5. Following an Expression of Interest Exercise launched in December 2009 to solicit market interest in the four reserved sites at Wong Chuk Hang, Tai Po, Tseung Kwan O and North Lantau, the Administration formulated a set of special requirements for the new private hospitals to be developed on new Government sites in January 2011. These special requirements covered aspects of land use, date of commencement of operation, bed capacity, service scope, packaged charge and price transparency, service target, service standard, and reporting. The Government put out the two reserved sites at Wong Chuk Hang and Tai Po for open tender in April 2012. This set of special requirements was included in the tender document and a two-envelop approach, with the service provision proposal carrying a weighting of 70% and the land premium offer carrying a weighting of 30%, was adopted. The two tenders were closed on 27 July 2012.

Deliberations of the Panel

6. The Panel held two meetings in May and December 2012 to discuss the development of private hospitals, and received the views of deputations at a meeting. The issue was also discussed at the meeting of the Panel on 21 January 2013 to receive a briefing from the Secretary for Food and Health on the Chief Executive's 2013 Policy Address. The deliberations and concerns of members are summarized below.

Policy on promoting the growth of medical services industry

7. Members considered it important to ensure adequate provision of private healthcare services to address the local healthcare needs. Noting that the vision of the healthcare system of Hong Kong was to pursue a dual-track healthcare system encompassing both public and private elements, question was raised as to whether there would be a change in the policy of promoting the growth of medical services, including the grant of land for private hospital development, as adopted by the third term Government. In particular, there was a view that Hong Kong was not on the competitive edge to promote medical services industry given its relatively high operating costs, the current healthcare manpower constraint and the limited capacity of private hospitals as demonstrated by their high bed occupancy rates. At this stage, any effort to boost non-local demand for medical services would only make the private healthcare services less affordable to the middle class.

8. According to the Administration, the increasing use of obstetric services in Hong Kong by Mainland women in recent years had revealed that the manpower as well as the overall capacity of the healthcare system in Hong Kong were not ready to support the development of medical services at this stage. Hence, the newly set up Economic Development Commission would review the overall industrial development strategies and policies in order to draw up relevant proposals. In the meantime, any effort to promote private healthcare development would be aimed at meeting the local demand. In the longer term, it was essential to promote the demand for private healthcare services from clienteles outside Hong Kong to ensure the financial sustainability of these services and strengthen the role of the private sector under the twin-track system of public and private healthcare.

9. On the question of how a supply-demand equilibrium in the two systems could be attained, the Administration advised that it was difficult, if not impossible, to set out a proper distribution of services in the public and private healthcare systems. The Administration would strive to meet the demand for public healthcare services on the one hand, and on the other hand introduce a voluntary Health Protection Scheme to encourage individuals who were able and willing to choose and pay for private healthcare to subscribe to private health insurance, and enable them to use private healthcare on a sustained basis.

10. Some members were concerned that the Administration would reduce its spending on the public healthcare system with a view to promoting the development of private hospitals. They also expressed concern that the expansion of private healthcare services might aggravate the manpower shortage problem in public hospitals.

11. The Administration assured members that public healthcare services had been and would continue to be the cornerstone of the healthcare system, acting as the healthcare safety net for all. The Administration would not reduce its commitment to public healthcare services. As regards the manpower issue, the Administration advised that the Steering Committee on Strategic Review on Healthcare Manpower Planning and Professional Development would conduct a strategic review on healthcare manpower planning and professional development. The strategic review, aimed to be completed in mid-2013, would assess manpower needs in the various healthcare professions, taking into account the increase in demand for both public and private healthcare services.

Special requirements for new private hospitals developed at the reserved sites

12. In discussing the set of special requirements for the private hospital development at the two reserved sites at Wong Chuk Hang and Tai Po, there was a view that the minimum percentage of inpatient bed days for use by local residents per year should be increased from the proposed 50% to 70% in order to ensure that the services of the new private hospitals would be offered primarily to local residents. To provide flexibility, the lease conditions could include a provision giving the Government the right to change the requirement as and when necessary. Some members were of the view that requiring the new hospitals to cap only the number of obstetric beds at no more than 20% of the total number of beds in the hospital could not prevent these hospitals from slanting towards other particular types of healthcare services in the future. They proposed that the provision of any particular type of healthcare services exceeding the level of 15% of the total number of beds in the hospital should require approval of the Department of Health. There was also a suggestion that additional scores should be given to tenderers of the two disposed sites for the provision of Chinese medicine services in their service provision proposals, so as to promote the development of Chinese medicine in Hong Kong.

13. Concern was also raised over the Administration's statutory power to regulate the new private hospitals and monitor their performance, particularly

setting the service charges at an affordable level and in a transparent manner. Members were advised that to address the problem of cost uncertainty and enhance price transparency, the new private hospitals were required to provide at least 30% of the inpatient bed days taken up in the hospitals each year for services provided through standard beds at packaged charge based on the "diagnosis-related groups" system, and to make available comprehensive charging information of its services for easy reference of the public and patients. It was expected that the policy to facilitate private hospital development would also help enhance healthy competition in the provision of private healthcare services in terms of both quality and pricing in the long run.

14. Noting that the tenancy of the two sites would have a term of 50 years, members were concerned about the monitoring of the performance of the private hospitals to be developed at these two sites. According to the Administration, to facilitate monitoring of the operations of the new private hospitals, the successful tenderer would be required to enter into, in addition to the land lease, a service deed with the Government. The service deed would incorporate the successful tenderer's proposals for the operation of the private hospital. A number of measures would be made available to the Government if the successful tenderer breached any of its obligations, such as the right to require the successful tenderer to implement a cure plan and pay liquidated damages, the right to exercise step-in rights to temporarily take partial or total control of the hospital and the right to terminate the service deed. The Government might also resort to the performance guarantee and bank bond provided by the successful tenderer. In the Administration's view, the above measures should be sufficient for the purpose of ensuring compliance with the Government requirements.

Recent development

15. On 13 March 2013, the Government announced that the tender for the site at Wong Chuk Hang for private hospital development had been awarded to GHK Hospital Limited. According to the terms of the Agreement and Conditions of Sale as well as the Service Deed signed by the Government and GHK Hospital Limited, the hospital would commence operation by January 2017, providing a total of 500 hospital beds. As for the Tai Po site for private hospital development, the Government received one tender submission, which, however, failed to fully meet the mandatory requirements set out in the tender

documents. The tender for this site had hence been cancelled pursuant to the Government's Stores and Procurement Regulations. According to the Administration, it would examine the experience gained from the tender exercise, review the market response and assess the needs of the community in formulating the way forward for the future development of private hospitals and the disposal arrangement for the reserved sites at Tai Po, Tseung Kwan O and North Lantau.

Relevant papers

16. A list of the relevant papers on the Legislative Council website is in the **Appendix**.

Council Business Division 2
Legislative Council Secretariat
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Relevant papers on private hospital development

Committee	Date of meeting	Paper
Panel on Health Services	7.5.2012 (Item I)	Agenda Minutes CB(2)330/12-13(01)
Panel on Health Services	18.12.2012 (Item I)	Agenda CB(2)888/12-13(01)
Panel on Health Services	21.1.2013 (Item IV)	Agenda Minutes

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