

**For Discussion
on 16 March 2015**

LEGISLATIVE COUNCIL PANEL ON HEALTH SERVICES

**Proposed loan for the development of
the Chinese University of Hong Kong Medical Centre**

PURPOSE

This paper seeks Members' views on the proposal to create a Government loan of \$4.033 billion for the development of the Chinese University of Hong Kong Medical Centre (CUHKMC).

BACKGROUND

2. To facilitate the development of a non-profit making private teaching at a site within the campus of the Chinese University of Hong Kong (CUHK) to be named the CUHKMC, the Government proposes to create a loan of \$4.033 billion under the Loan Fund account to facilitate the financing of its development costs. Information on the proposed CUHKMC and the justifications for creating a loan are detailed at the Legislative Council (LegCo) Brief at **Enclosure** which was also issued to all Members of the LegCo on 4 March 2015.

WAY FORWARD

3. Subject to Members' views, we plan to seek approval from the LegCo Finance Committee for the proposed creation of the loan in May 2015.

**Food and Health Bureau
March 2015**

LEGISLATIVE COUNCIL BRIEF

PRIVATE HOSPITAL DEVELOPMENT BY THE CHINESE UNIVERSITY OF HONG KONG

INTRODUCTION

At the meeting of the Executive Council on 24 February 2015, the Council ADVISED and the Chief Executive ORDERED that -

- A
- (a) the Chinese University of Hong Kong (“CUHK”)’s application to modify the Conditions of Grant (“Land Lease”) at a nominal premium of \$1,000 to permit the development of a non-profit making private teaching hospital (“Hospital”) on part of the Sha Tin Town Lot No. 437 and the extension thereto (the Site as shown on the plan at Annex A), in view of CUHK’s acceptance of a set of minimum requirements (“Accepted Minimum Requirements”) and enforcement measures, should be approved;
 - (b) subject to approval of (a) above, the Director of Lands under delegated authority should approve the proposed lease modification, and any further lease modification affecting the Site subject to the policy support given by the Food and Health Bureau and imposition of appropriate terms and conditions; and
 - (c) subject to the approval of the Finance Committee of the Legislative Council, CUHK and/or its wholly owned subsidiary should be provided with a loan of \$4.033 billion to facilitate the financing of development costs of the Hospital at the Site by creating a new head for Private Hospital Development under the Loan Fund account.

JUSTIFICATIONS

2. The CE’s manifesto pledges that the Government should examine measures “to encourage non-profit making organisations to establish hospitals and operate them on a self-financing basis”.

Existing policy on private hospital development

3. The healthcare system of Hong Kong runs on an effective dual-track basis encompassing both public and private elements. The public healthcare sector serves as the cornerstone of Hong Kong's healthcare system and the safety net for all while the private healthcare sector provides personalized and more accessible services for those who are willing and can afford to use its services. At present, around 90% of inpatient services (in terms of number of bed days) are provided by public hospitals of the Hospital Authority ("HA"), while the remaining 10% are provided by private hospitals.

4. In the 2013 Policy Address, the Government reaffirmed its commitment to the twin-track system for public and private healthcare sectors. To achieve this, we will reinforce the public healthcare system by enhancing its services and effectiveness, while facilitating the development of the private healthcare sector and improving the regulatory mechanism. Facilitating private hospital development will help increase the overall capacity of the healthcare system in Hong Kong which should assist in addressing the rising demand for healthcare services arising from an ageing population and provide the public with more choices of high quality private hospital services.

5. In support of such policy, the Government, in parallel to continued investment in the public healthcare sector, is developing and consulting the public on detailed proposals for the implementation of the Voluntary Health Insurance Scheme ("VHIS"). The VHIS is a voluntary and government-regulated private health insurance scheme and is intended as a supplementary financing arrangement and one of the turning knobs for adjusting the balance of the public-private healthcare sectors. By enhancing the accessibility, quality and transparency of health insurance products, the VHIS aims to encourage those who are willing and able to make greater use of private healthcare services to use such services, thereby indirectly alleviating the pressure on the public healthcare sector and enhancing the long-term sustainability of our healthcare system. The successful implementation of the VHIS hinges on having in place the necessary supporting medical infrastructure, including a private hospital sector with sufficient capacity to serve the community demand.

6. At the same time, to increase the overall capacity of the healthcare system in Hong Kong, we are expanding and redeveloping a number of existing public hospitals. Construction of new ones in the Kai Tak Development Area

is also in the pipeline. It is therefore important to facilitate the development of more private healthcare facilities in tandem; otherwise the over-reliance on the public sector for inpatient service will be further aggravated.

CUHK's proposal to develop the Hospital

7. CUHK proposes to develop the Hospital, to be named the Chinese University of Hong Kong Medical Centre (“CUHKMC”), at the Site within the Lot. The Site is adjacent to the MTR University Station and is currently zoned “Government, Institution or Community” on the approved Sha Tin Outline Zoning Plan S/ST/30. CUHK proposes that the CUHKMC will be managed and run by a CUHK's wholly owned subsidiary on a self-financing and non-profit making basis.

8. The Hospital aims to provide quality private healthcare services at affordable prices and will also be run as a teaching hospital to provide training opportunities for healthcare professionals. The CUHKMC will consist of 516 beds (with an expansion potential of an additional 90 beds) covering a range of specialties, services and facilities including general medicine, general surgery, orthopaedics & traumatology, gynaecology, paediatrics, radiology, obstetrics, cardiology, a 24-hour outpatient clinic and teaching venues.

Lease modification at nominal premium

9. Under the current Land Lease, CUHK is only allowed to use the Site for the purposes of CUHK as established under The Chinese University of Hong Kong Ordinance (Cap. 1109) and part of the Lot may be used for the development and operation of a teaching hotel. As the proposed hospital has a non-teaching element, it does not completely fall under the aforementioned purposes, hence the Land Lease will have to be modified to facilitate its development.

10. For development of new private hospitals primarily on private sites, which development requires approval from Lands Department (“LandsD”) for land lease modification or approvals from any other authority, the Government may, on a case-by-case basis, invite the relevant lessees to consider accepting a set of minimum requirements and the entailing enforcement measures. The minimum requirements cover aspects of land use, scale of development, date of commencement of operation, service scope, price transparency, provision of

standard beds at packaged charges, service standards (i.e. hospital accreditation), and reporting obligations. The objective of setting the minimum requirements is to ensure that the services of newly developed private hospitals are of good quality, will cater for the needs of the general public and help enhance the standard of healthcare services. Where a lessee accepts these minimum requirements, these restrictions will be reflected in the modified land lease to permit the proposed hospital development and where applicable, the lessee will be offered a lower premium that reflects those restrictions.

11. After receiving CUHK's application for modification of the Land Lease, FHB invited CUHK to consider accepting a set of minimum requirements and enforcement measures as required under paragraph 10 above. In response, CUHK has accepted the Accepted Minimum Requirements and their enforcement measures set out at Annex B. The Accepted Minimum Requirements and their enforcement measures, together with relevant restrictions on the use of hospital surplus as set out in paragraph 12(a) below, will be reflected in the modified Land Lease and/or a service deed to be signed between the Government on the one hand and CUHK and/or its wholly owned subsidiary on the other hand ("Service Deed") as appropriate. We will work with LandsD and the Department of Justice to prepare such documents.

B

12. Having regard to CUHKMC's nature of operation and the justifications below, we **propose** approving CUHK's lease modification application at a nominal premium of \$1,000 as a further facilitation measure –

- (a) CUHK undertakes to procure its wholly owned subsidiary to operate the Hospital on a non-profit making basis and that any surplus generated from the operation of the Hospital must be used exclusively for further development of the CUHKMC, teaching and research activities of CUHK's Faculty of Medicine or other purposes as agreed by the Government.
- (b) Moreover, the Hospital will also be operated as a teaching hospital contributing to the training of healthcare professionals in Hong Kong. The CUHKMC, with strong input from the experienced professors and medical professionals in CUHK, can supplement the Prince of Wales Hospital ("PWH") and Queen Mary Hospital as an additional teaching hospital in Hong Kong by providing additional qualified clinical teachers and teaching coordinators, learning facilities and resources, including teaching venue and equipment within the Hospital complex. It will also enable medical, nursing and allied health students to have a

wider exposure to the operation of and common diseases treated in public hospitals as well as the private medical sector.

The CUHKMC will increase the overall training capacity for healthcare professionals in Hong Kong. Such an increase of training places and opportunities are welcomed for meeting the increasing number of medical graduates in the coming years. According to projections by relevant institutions, the number of local medical graduates will increase from 250 in 2011-12 to 320 in 2013-14, and further to 420¹ in 2018-19.

- (c) To meet the total project cost of the CUHKMC estimated at \$6.333 billion (in 2014 prices), CUHK will need to inject \$2.3 billion in the form of equity and to apply for a Government loan of \$4.033 billion. It is clear that without the offer of a nominal premium, it would be financially very difficult, if not impossible, for CUHK and/or its wholly owned subsidiary to operate a non-profit making hospital on a self-financing basis, which is in line with one of the pledges in CE's manifesto.

Financial assistance for development of the Hospital

13. Private hospital development is a very long term investment involving a huge capital outlay upfront, given the high cost of medical equipment and the heavy capital investment required for construction of hospital buildings. According to CUHK's development plan, the total project cost for the CUHKMC is estimated to be \$6.333 billion² (in 2014 prices). CUHK will inject \$2.3 billion in the form of equity (funded by \$0.5 billion from its reserve, \$1.3 billion from a donation by Hong Kong Jockey Club Charities Trust and \$0.5 billion by other donors). CUHK has applied for a Government loan of \$4.033 billion to fund the remainder. The CUHKMC is required to commence operation no later than 60 months from the date of approval of modification of the Land Lease by the Government. There will be a continuous and significant outflow of cash in the initial years following the commencement of construction works of the CUHKMC until the Hospital is set up under the relevant legislation and starts generating a stable income stream.

¹ Based on approved intake numbers by the University Grants Committee.

² The \$6.333 billion includes the development cost of \$39.2 million for an off-site medical clinic which will also be operated by CUHK's wholly owned subsidiary.

14. Indeed, the huge initial capital investment required and the constraint that the land grant conditions for land granted to bona fide NGOs often do not permit the grantees to mortgage the land for the purpose of seeking loans from commercial banks are major hurdles preventing bona fide NGOs from providing affordable private healthcare services through development of private hospitals. With a view to facilitating financing of the necessary capital cost for private hospital development and considering that CUHK's proposed development of the Hospital is in line with our health policy, we **propose** providing financial support to CUHK and/or its wholly owned subsidiary in the form of a Government loan of \$4.033 billion for developing the CUHKMC. We recommend creating a Head named "Private Hospital Development" with a subhead of a standalone loan named "Loan for the CUHK Medical Centre Development Project" under the Loan Fund account.

15. The proposed loan would be interest-free for the first five years from the first drawdown of the loan. From the sixth year from the first drawdown of the loan onwards, interest will be charged on the outstanding amount at a floating rate equivalent to the rate of investment return of placing the Government's fiscal reserves with the Exchange Fund (the Government's cost of capital) for the previous financial year.

16. The five-year interest-free period is necessary to assist CUHKMC with its cashflow during the construction and initial stage of the operation of the Hospital and is justified with the additional commitments undertaken by CUHK as explained below. In addition to the acceptance of the Accepted Minimum Requirements, CUHK has also committed to help alleviate the current pressure on the public healthcare sector by taking up referrals of specialist outpatient ("SOP") and day procedure cases from HA. The CUHKMC has agreed to receive up to 17,600 new SOP cases and 6,600 new day surgery cases each year on an ongoing and long term basis from the fifth year of operation of the Hospital onwards³. This partnership arrangement with HA will have the benefit of shortening waiting time for public services on the one hand, and on the other hand help ensure a comprehensive and diverse casemix for the CUHKMC and in turn the quality of training offered by the Hospital. Moreover, the CUHKMC will use packaged prices extensively for its services to enhance price transparency. It will provide 50% of its inpatient bed-days for

³ For reference, according to the Controlling Officer's Report, the number of HA's SOP new attendances (clinical) for 2014-15 is estimated to be 691,000. The number of day surgery cases handled by HA per year is not available.

services provided through standard beds at packaged charges (which exceeds the Accepted Minimum Requirement of 30%) upon commencement of the operation of the Hospital, and the percentage will rise progressively up to 70%. The extensive use of packaged charges should provide patients with a reasonable level of confidence on the total costs of hospital services they can expect, the lack of which has been one of the major disincentives for the public to use private hospitals services. The extra commitments undertaken by the CUHKMC are summarized at **Annex C**, and they will also be reflected in the modified Land Lease and/or Service Deed.

C

17. The interest forgone by the Government in the five-year interest-free period is estimated to be \$533 million (at 2014 prices). This amount will be fully offset by the cost savings of HA by referring SOP and day procedure cases to the CUHKMC, which is projected to be about \$1,058 million in total (at 2014 prices)⁴. Taking into account the above estimated saving as well as the increased capacity for treating public patients, overall speaking, the net benefit of the proposed loan to the public would outweigh the interest foregone by the Government arising from the granting of the loan. A summary of the terms of the loan is at **Annex D**.

D

ALTERNATIVES CONSIDERED

18. We have considered requiring CUHK to confine the development of the Hospital to the measures for private hospital development as stated in paragraph 10 above only, i.e. to consider granting concessionary premium subject to CUHK's acceptance of a set of minimum requirements, without the additional financial assistance in the form of a Government loan or a nominal premium. However, the difficulty for a non-profit making organization such as CUHK in meeting the capital costs for developing a private hospital on its own will mean that it has to collaborate with a third party to act as its financier for the project. The profit-sharing arrangement with the financier will defeat the

⁴ Since CUHKMC's commitment to take up referrals from HA is on an on-going and long term basis, the cost savings to the Government is computed using the perpetuity formula. A perpetuity is an annuity in which the periodic payments begin on a fixed date and continue indefinitely. The value of the perpetuity is finite because receipts that are anticipated far in the future have extremely low present value (present value of the future cash flows). The saving of \$1,058 million is a conservative estimate as HA's unit cost of a day procedure is not readily available. We have used HA's unit cost per patient day (general) in 2014-15, which is \$4,590, as a proxy to estimate HA's cost savings for referring day procedure cases to the CUHKMC. The figure of \$4,590 is significantly lower than the mean price of day procedures of private hospitals, e.g. the mean price of colonoscopy which is one of the most common types of day procedure in private hospitals in Hong Kong is \$11,042.

purpose of operating a non-profit making hospital and is not conducive to lowering private hospital charges and providing affordable private hospital services to the community.

IMPLICATIONS OF THE PROPOSALS

E 19. The proposal has financial, civil service, economic and sustainability implications as set out at **Annex E**. The proposal is in conformity with the Basic Law, including provisions concerning human rights. It has no productivity, environmental or family implications.

PUBLIC CONSULTATION

20. In processing the application for the proposed lease modification, LandsD would, according to existing procedures, conduct a local consultation through the District Office as necessary. CUHK will also brief the Sha Tin District Council (“STDC”) on its proposed development in tandem with a view to gaining local support for the development. We will consult the Legislative Council Panel on Health Services on 16 March 2015. Subject to endorsement of the Panel, we will seek the approval of the Finance Committee of the Legislative Council for both the grantee and the terms and conditions of the proposed government loan.

PUBLICITY

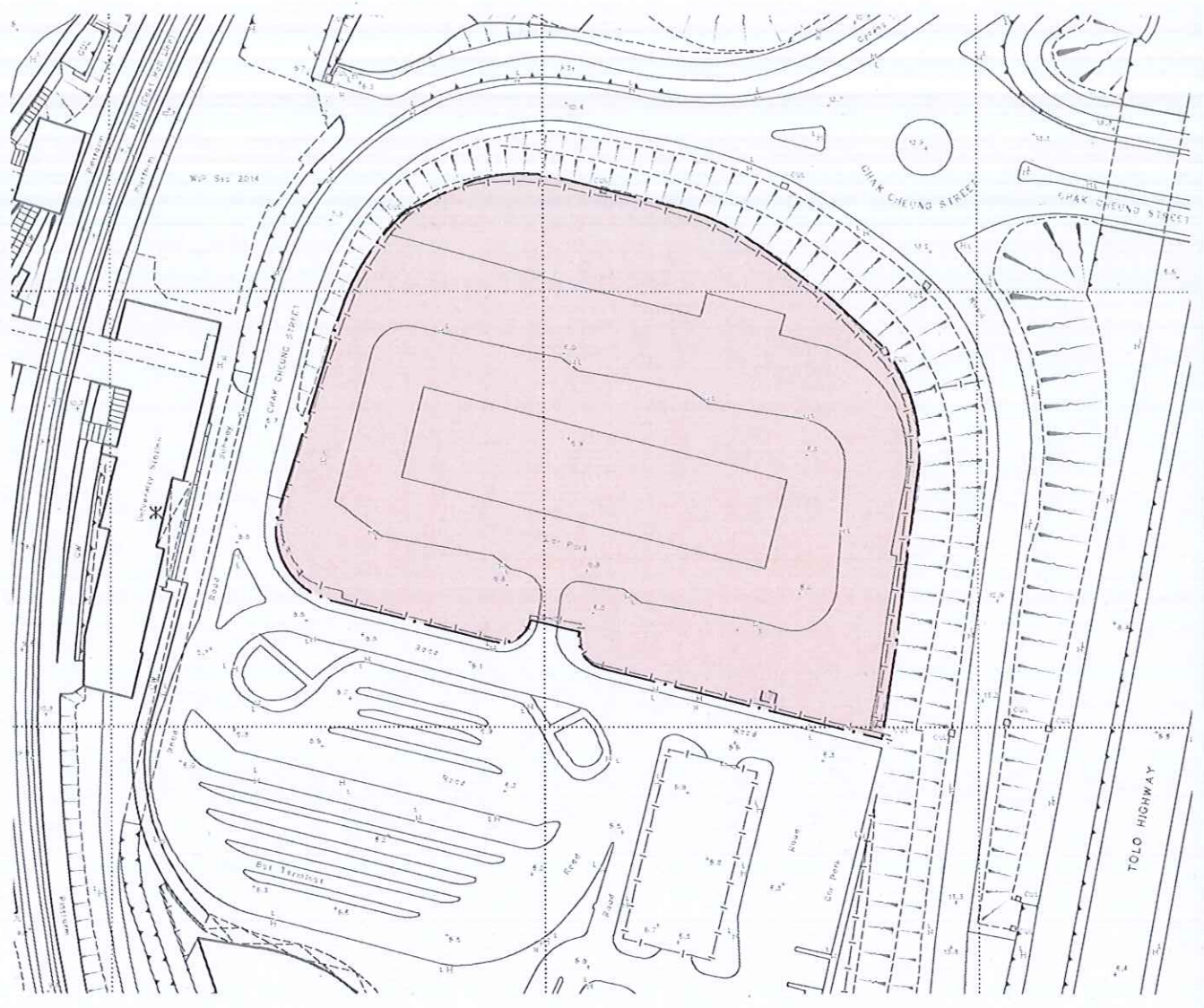
21. We will prepare a line-to-take for response to media enquiries.

ENQUIRIES

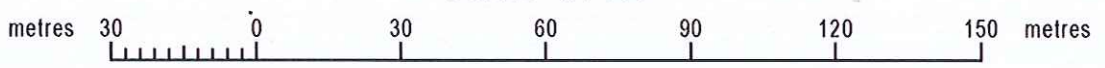
22. Any enquiries on this brief may be addressed to Ms Angela Lee, Principal Assistant Secretary for Food and Health (Health)2, on 3509 8916.

Food and Health Bureau
4 March 2015

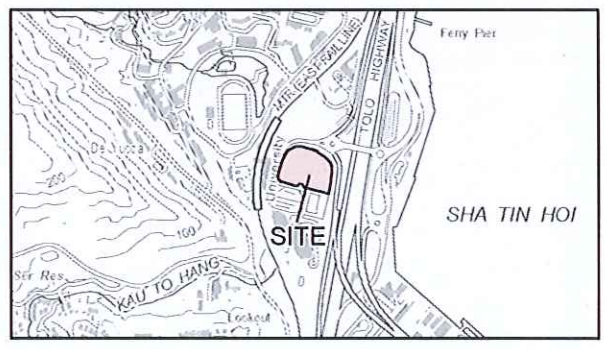
SITE PLAN



SCALE 1:1 500



LOCATION



SCALE 1:20 000

FOR IDENTIFICATION PURPOSES ONLY



District Lands Office, Sha Tin
Lands Department

Plan Prepared by District Survey Office, Sha Tin

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File No. ----

Survey Sheet No. 7-NE-22C/D

O.Z.P. No. ----

Reference Plan No. ----

PLAN No. STM9638

**PRIVATE HOSPITAL DEVELOPMENT BY
THE CHINESE UNIVERSITY OF HONG KONG**

**ACCEPTED MINIMUM REQUIREMENTS AND ENFORCEMENT
MEASURES ACCEPTED BY CUHK**

(I) Land related requirements

(a) Land use

- (i) The Site shall primarily be used for hospital service. There shall be no change of land use during the term of the Land Lease.
- (ii) Not more than 30% of the total Gross Floor Area (“GFA”) of the Hospital shall be allocated for non-clinical facilities (such as office, canteen, retail shops, storerooms, food and beverage outlets, healthcare training facilities, kitchen for providing meals to patients, supplies rooms, staff quarters and accommodation facilities). Within this maximum limit, not more than 5% of the total GFA of the Hospital may be used for accommodation facilities for patients and their carers. These non-clinical facilities shall be GFA accountable unless exempted under the Buildings Ordinance.
- (iii) At least 70% of the GFA of the Hospital must be allocated for clinical and clinical supporting facilities, such as in-patient wards, diagnostic facilities, therapeutic facilities, outpatient and day care facilities, laboratory, blood bank, mortuary and pharmacy.

(b) Scale of development

The Hospital at the Site shall provide not less than 516 beds. The beds shall be provided according to the following schedule –

- (i) upon the commencement of the Hospital: to provide at least 90 hospital beds;
- (ii) within 24 calendar months from the date on which the Hospital commences operation: to provide at least a total of 150 hospital beds;
- (iii) within 48 calendar months from the date on which the Hospital commences operation: to provide at least a total of 300 hospital beds; and

- (iv) within 72 months from the date on which the Hospital commences operation: to provide in full the planned total of 516 hospital beds.

(c) Date of commencement of operation

The Hospital must commence operation within 60 months from the date of lease modification. The Hospital will be regarded to have commenced operation if it commences to provide services for all the essential specialties of medicine, surgery, orthopaedics and traumatology and gynaecology.

(II) Services related requirements

(d) Service scope

- (i) The Hospital must, upon commencement of operation of the Hospital, provide services in specialties of –

- I. general medicine, with or without medical sub-specialties;
- II. general surgery, with or without surgical sub-specialties;
- III. orthopaedics & traumatology; and
- IV. gynaecology.

- (ii) The maximum percentage of number of obstetric beds must not exceed at all times 20% of the total number of hospital beds being provided at the Hospital.

(e) Price transparency

- (i) The Hospital shall publish a comprehensive services price list, which provides charging information on –

- I. room or bed charges;
- II. diagnostic procedures;
- III. therapeutic services/procedures;
- IV. nursing care
- V. medication, consumables and equipment; and
- VI. other miscellaneous items as advised by the Government from time to time,
("Services Price List"),

and shall provide to patients, at regular intervals, lists of chargeable items and their respective costs.

- (ii) The Services Price List shall be made available to the public, including through publication on the Hospital website and by

making printed material readily available and displaying the Services Price List at major facilities within the Hospital, including information desks, admission offices, shroffs and pharmacies.

(f) Service Targets

More than 50% of the in-patient bed days taken up in the Hospital each service year must be for services provided to patients who are Eligible Persons, where “Eligible Persons” means –

- I. holders of Hong Kong Identity Card issued under the Registration of Persons Ordinance (Cap 177); or
- II. children under 11 years of age with Hong Kong resident status.

(g) Standard beds at packaged charges

- (i) At least 30% of the in-patient bed days taken up in the Hospital each year must be for services provided through standard beds¹ at packaged charges (i.e. the provision of essential services and specialty services to patients in standard beds at an all-inclusive price) for Eligible Persons, which should cover doctors’ fees, maintenance fees, diagnostic procedures, surgical operations, laboratory tests, X-ray tests, drugs and other miscellaneous items.²
- (ii) Inpatient bed days arising from obstetric service (including obstetric service provided at packaged charges) will not be counted towards the 30% inpatient bed days taken up for services provided through standard beds at packaged charges.

¹ If the Hospital provides different categories or classes of beds with different level of fees charged for the patient’s occupancy, standard beds refer to those in-patient beds in the category or class for which the lowest level of occupancy fees are charged.

² The minimum requirement of 30% of inpatient bed days taken up for services provided at packaged charges would be calculated on an annual basis. We would allow an annual surplus or shortfall for carrying forward to the following year. While we encourage overachievement (i.e. providing for more than 30% of inpatient bed days taken up at packaged charges), under-performance (i.e. providing less than 30% of inpatient bed days taken up at packaged charges) should be deterred. In case of under-performance, the percentage of shortfall in one year should be recovered in the following year through a double-provision. For example, if there is a shortfall of 3% in a given year, the Hospital will need to provide an extra 6% on top of the minimum requirement of 30% in the following year. All shortfall accumulated during a particular year must be made up for through the double-provision within the next 12 calendar months.

- (iii) The packaged charges of standard beds must be based on an internationally-adopted patient classification system, for example the Diagnosis Related Groups (DRGs) system³.

(h) Service standards

The Hospital must obtain, within 48 months from the date of commencement of Hospital operation, hospital accreditation by a qualified accreditation agent recognized by the International Society for Quality in Healthcare (e.g. Australian Council on Healthcare Standards, the accreditation organization adopted by HA and some private hospitals) or such other organisation as approved by the Government; and to maintain the hospital accreditation so obtained on an ongoing basis.

(i) Reporting on compliance with the requirements

The Hospital must provide regular reports to the Director of Health (“DoH”) on its compliance with the requirements set out in paragraphs (a) to (h) above and Annex C, and other information as required by the Code of Practice for Private Hospitals, Nursing Homes and Maternity Homes issued by the Department of Health, and any other information as required by the DoH from time to time.

(III) Enforcement measures

The legal documentation between the Government on the one hand and CUHK and/or its wholly owned subsidiary on the other hand (including the modified Land Lease and/or Service Deed) will set out the consequences of non-compliance with the requirements. In case of failure to comply with the requirements, the Government will have the rights to, including but not limited to, require CUHK and/or its wholly owned subsidiary to take remedial action, disclose the non-compliance to the public, and re-enter the Site⁴.

³ The Diagnosis Related Groups (“DRGs”) is an internationally-adopted patient classification system under which patients are classified into different DRGs according to their principal diagnosis or principal procedures (e.g. heart failure, gall-bladder operation, etc). Patients who belong to the same DRG would undergo similar treatment or procedures. A specific service package could then be developed for each DRG.

⁴ Linkage provisions will be included in the modified Land Lease and the Service Deed. If CUHK fails to comply with the modified Land Lease, the Government may re-enter and take possession of the Site. If CUHK and/or its wholly owned subsidiary fails to comply with the Service Deed, the Government may terminate the Service Deed. This would trigger co-termination of the modified Land Lease and the Government may re-enter and take possession of the Site.

**PRIVATE HOSPITAL DEVELOPMENT BY
THE CHINESE UNIVERSITY OF HONG KONG**

EXTRA COMMITMENTS UNDERTAKEN BY CUHK

**(I) Provision of inpatient services at packaged charges beyond the
Minimum Requirements**

CUHK undertakes that the CUHKMC shall use packaged prices extensively for its services.

2. CUHK undertakes that the CUHKMC shall offer inpatient services at packaged charges at a level of commitment exceeding the minimum requirement of 30% of inpatient bed-days and shall increase the percentage in a progressive manner. The CUHKMC shall provide 50% of its inpatient bed-days for services provided through standard beds at packaged charges for Eligible Persons upon commencement of operation of the Hospital, and the level of commitment will rise progressively, reaching 60% by the sixth year of operation of the Hospital and 70% by the tenth year of operation of the Hospital.

**(II) Offer SOP and day procedures services to public patients referred by
HA**

3. CUHK also undertakes that the CUHKMC shall provide SOP consultation services and day surgery to patients referred by HA in the following four specialties: gynaecology, orthopaedics, gastroenterology cum colorectal surgery and urology. Patients referred to the CUHKMC for treatment shall continue to be charged at HA's standard fees and charges. CUHK also undertakes that the CUHKMC shall attend to a minimum of 3,520 new SOP cases and 1,320 new day surgery cases in the first year of operation of the Hospital, and the number of cases will increase progressively. From the fifth year of operation of the Hospital onwards, the CUHKMC will receive 17,600 new SOP cases and 6,600 new day surgery cases each year.

**PRIVATE HOSPITAL DEVELOPMENT BY
THE CHINESE UNIVERSITY OF HONG KONG**

**PRINCIPAL TERMS AND CONDITIONS OF
GOVERNMENT LOAN FOR THE
CUHK MEDICAL CENTRE DEVELOPMENT PROJECT**

- Amount: \$4.033 billion
- Lender: The Government (new Head of “Private Hospital Development” under the Loan Fund Account)
- Purpose: To finance the development costs of the CUHKMC
- Drawdown: Drawdown schedule is as follows¹ –

<u>Financial Year</u>	<u>Drawdown amount</u>
2016/17	\$1.815 billion
2017/18	\$1.492 billion
2018/19	\$0.726 billion
Total	\$4.033 billion

- Loan Term: 15 years
- Interest:
- First 5 years from first drawdown (i.e. 2016): Interest-free
 - From 6th year onwards (i.e. 2021): a floating rate equivalent to the rate of investment return of placing the Government’s fiscal reserves with the Exchange Fund (i.e. the Government’s cost of capital) for the previous financial year
- Repayment:
- Repayment in 10 annual instalments (i.e. annual repayment of principal in 10 equal instalments plus interest charged on the amount of outstanding loan)
 - First repayment instalment to be made in the sixth year from the first drawdown i.e. 2021, subsequent repayment instalments to be made annually with the

¹ The drawdown schedule is set on the basis that the modification of the Land Lease will be approved in 2015-16.

final repayment instalment to be made in 2031

Safeguards: Right of re-entry over the Site and a floating charge over the equipment owned by CUHK's wholly owned subsidiary²

² As mentioned in footnote 4 to Annex B, if CUHK fails to comply with the modified Land Lease, the Government may re-enter and take possession of the Site. If CUHK and/or its wholly owned subsidiary fails to comply with the Service Deed, the Government may terminate the Service Deed. This would trigger co-termination of the modified Land Lease and the Government may re-enter and take possession of the Site. The Site includes the buildings and structures erected thereon and all the fixtures permanently affixed to the land. We also intend to take a floating charge over the equipment owned by CUHK's wholly owned subsidiary managing and operating the hospital as security for the loan.

PRIVATE HOSPITAL DEVELOPMENT BY THE CHINESE UNIVERSITY OF HONG KONG

FINANCIAL, CIVIL SERVICE, ECONOMIC AND SUSTAINABILITY IMPLICATIONS

Financial Implications

The interest forgone by the Government in the five-year interest-free period is estimated to be \$533 million (at 2014 prices). The cost savings to the HA arising from referring specialist outpatient and day procedure cases to CUHKMC are estimated to be about \$1,058 million in total¹ or about \$51 million in a full year from the fifth year of hospital operation onwards (both figures at 2014 prices).

Civil Service Implications

2. It is expected that additional workload will be generated as a result of the implementation of the proposal. For instance, the implementation will bring along additional workload for monitoring the drawdown and repayment of loan, as well as regulatory work in respect of the new hospital. Additional workload arising from the proposal will be absorbed by the existing resources of the relevant bureaux/departments.

Economic Implications

3. The proposal will facilitate the development of a non-profit making private hospital by CUHK, which will increase the overall capacity

¹ Since CUHKMC's commitment to take up referrals from HA is on an on-going and long term basis, the cost savings to the Government is computed using the perpetuity formula. A perpetuity is an annuity in which the periodic payments begin on a fixed date and continue indefinitely. The value of the perpetuity is finite because receipts that are anticipated far in the future have extremely low present value (present value of the future cash flows). The saving of \$1,058 million is a conservative estimate as HA's unit cost of day procedure is not readily available. We have used HA's unit cost per patient day (general) in 2014-15, which is \$4,590, as a proxy to estimate HA's cost savings for referring day procedure cases to CUHKMC. The figure of \$4,590 is significantly lower than the mean price of day procedures of private hospital, e.g. the mean price of colonoscopy which is one of the most common types of day procedure in private hospitals in Hong Kong is \$11,042.

of the healthcare system in Hong Kong. This would help cater for the rising demand for healthcare services arising from an ageing population and provide the public with more choices of high quality private hospital services. The proposal would also be conducive to the growth of medical professions and related businesses and create more job opportunities in the medical sector.

Sustainability Implications

4. Facilitating the development of the CUHKMC will bring about social benefits of increasing the capacity of the private healthcare sector to meet the needs for healthcare services of the community. By providing an additional venue for the training of healthcare professionals with its teaching and training function, the CUHKMC can also help enhance the quality of our healthcare workers in the long run.