

立法會

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Panel on Health Services

Meeting on 15 March 2024

Background brief on loan for CUHK Medical Centre Development Project

Purpose

This paper provides background information on the loan for the CUHK Medical Centre (“CUHKMC”) Development Project and summarizes the major concerns expressed by Members of the Legislative Council, including members of the Panel on Health Services (“the Panel”), on the subject.

Background

2. The healthcare system of Hong Kong runs on a dual-track basis encompassing both public and private hospitals. The Executive Council (“ExCo”) endorsed in January 2011 the adoption of a set of Minimum Requirements (covering aspects such as service scope, price transparency, standard beds at packaged charges, service standards and reporting on compliance etc.) when disposing new government sites for private hospital development.

3. In 2014, the Chinese University of Hong Kong (“CUHK”) proposed to develop a non-profit-making private teaching hospital on its own site. CUHK accepted the Government’s invitation to meet the Minimum Requirements and undertook to use packaged charges extensively and take up referrals of specialist outpatient and day procedure cases from the Hospital Authority on an ongoing basis. As a result, ExCo endorsed CUHK’s lease modification application at a nominal premium of \$1,000 for the development of CUHKMC in February 2015.

4. On 17 April 2015, the Finance Committee (“FC”) approved the provision of the Government loan of \$4,033 million under the Loan Fund to CUHK Medical Centre Limited, a wholly-owned subsidiary of CUHK. Subsequently, the Government and CUHK Medical Centre Limited entered into a Loan Agreement and a Service Deed on 28 October 2016.

5. The principal terms and conditions of the Government loan approved by FC in 2015 were as follows: the first five years from the first drawdown of the Government loan (i.e. from March 2017 to March 2022) would be interest-free, whereas from the sixth year onwards a floating rate would be charged equivalent to the interest rate of the Government’s fiscal reserves placed with the Exchange Fund. CUHKMC was required to make repayments in ten annual instalments in the sixth year from the first drawdown (i.e. 2023), with the last repayment instalment to be made within 15 years as from the first drawdown (i.e. 2032). Each instalment comprised the annual repayment of principal in ten equal instalments (i.e. \$403.3 million per instalment) plus interest charged on the amount of outstanding loan.

6. CUHKMC commenced operation in September 2021 in the midst of the COVID-19 epidemic, severely undermining CUHKMC’s liquidity and financial robustness in its first year of operation. The first repayment instalment to the Government loan was originally due on 19 March 2023. On 10 February 2023, the Administration consulted the Panel on its proposal to extend the repayment period by five years (to 2028) in view of CUHK’s difficulty in repaying the loan as scheduled. As individual members had different views on the extension of the repayment period, the Administration subsequently adjusted the proposal for the Government to grant CUHKMC the first two-year extension, and, subject to review of CUHKMC’s financial situation by the Panel, to seek further approval from FC for the Government to grant CUHKMC the remainder three-year extension for loan repayment. On 24 February 2023, FC approved the proposal. CUHKMC would be required to provide public medical services throughout a 15-year period in lieu of the estimated loan interest foregone due to the aforesaid extension (“services in lieu of interest”).

Views and concerns of Members

General views

7. At the meetings of the Panel and FC, Members generally supported the extension of the loan repayment period of CUHKMC so as to keep it operating. Most members acknowledged the value of existence of CUHKMC and pointed out that not only was CUHKMC a private hospital,

but it also provided financial support for the CUHK Faculty of Medicine to pursue research and education. With the continuous increase in the number of student places in medical disciplines in Hong Kong, CUHKMC would bring its educational function into play. In addition, CUHKMC collaborated with public hospitals on various fronts to help ease the pressure on the public healthcare system. Some other Members pointed out that CUHKMC's transparent package prices could effectively resolve the current problem of exorbitant fees resulting from free pricing by private doctors, providing suitable choices for the middle class.

8. Being optimistic about the future financial status of CUHKMC, some Members pointed out that the demand for hospital services would increase amid population ageing. In addition, it was expected that there would be more sources of clients after society's return to normalcy. Therefore, they considered that CUHKMC should be able to reach financial breakeven in the future.

9. Some Members, however, expressed dissatisfaction that the Administration and the relevant units had not consulted them on the revised loan arrangement as early as possible. They also queried whether the original estimate was not well thought out. The Administration explained that it was as short as only 16 months since CUHKMC had commenced services up until February 2023, and the hospital had reported to the Government in a timely manner after reviewing one year's financial data with a view to seeking ways to tide over the difficulty. The Administration further pointed out that CUHKMC's operation had been affected by other factors than the epidemic. For instance, it had been impossible to forecast the significant decrease in the demand from non-local client sources in comparison with that in 2014-2015.

Arrangements and measures of raising revenue in the event of failure to repay loan with extension of loan repayment period

10. Some Members enquired whether CUHK would pledge to compensate the Government if CUHKMC failed to repay the loan to the Government after five years (i.e. 2028). The CUHK Council clarified that if CUHKMC failed to fulfil the obligation to provide services generated from the extension throughout the 15-year period, the University would pay damages for CUHKMC to the Government, which would not cover the principal of the some \$4 billion government loan. The Administration added that the loan agreement signed between the Government and CUHKMC had nothing to do with CUHK. With all assets of CUHKMC serving as security for the loan, the Administration had the right to repossess CUHKMC if CUHKMC failed to repay the some \$4 billion government loan by the specified time.

11. Some Members asked whether CUHK would consider injecting further funds into CUHKMC to resolve its financial problems. CUHK explained that it had already capitalized CUHKMC at \$2,638 million comprising donations from various parties and a capital contribution of \$500 million from reserves in the CUHK Endowment Fund. As the CUHK Endowment Fund was required to generate income for current and future educational activities of CUHK, further funding for CUHKMC might deprive CUHK of its ability to generate income. Nevertheless, CUHK and CUHKMC would continue to solicit donations to inject funds into CUHKMC.

12. Some Members enquired about the measures to be taken by CUHKMC to increase its income and whether the five-year extension for loan repayment would be unnecessary if there was a favourable improvement in the financial position of CUHKMC in the future. CUHK explained that apart from publicity, CUHKMC would step up cooperation with the insurance industry to establish innovative products to encourage usage of more day-patients. In addition, it would strengthen cooperation with private doctors to promote their awareness and adoption of fixed price charging. If CUHKMC was capable of repaying the loan earlier, it would further discuss the matter in detail with the Government and various parties.

Proposal to provide public medical services in lieu of the estimated loan interest originally payable due to the extension

13. Some Members enquired about the services to be provided to ease the pressure on public hospitals if CUHKMC provided services in lieu of interest. Some other Members considered that the 23 hospital beds to be provided by CUHKMC for public medical services were too few in number. They expressed the hope that CUHKMC could take up items with longer waiting time, such as cataract surgery.

14. The Administration explained that it had calculated the estimated interest originally payable by CUHKMC due to the extension for repayment based on the unit cost per patient day for general inpatient service in public hospitals. The amount was roughly equivalent to 120 749 inpatient bed days (approximately 23 inpatient beds on a continuous basis throughout the 15-year period). Such amount of interest could be substituted by various types of services, including specialist outpatient services and imaging services, etc. CUHKMC added that it would discuss with the Administration ways to help address the major stress points in the public healthcare system.

15. Some Members enquired why the Administration proposed CUHKMC's provision of services in lieu of interest, as opposed to charging interest directly. Some other members enquired which government department would be responsible for monitoring CUHKMC's fulfilment of the aforesaid service obligation and how the public would be given an account of the relevant information.

16. The Administration advised that provision of services in lieu of interest could not only shorten the waiting time for public hospital patients, but also enhance the service volume of CUHKMC and thus optimize the use of resources. If the revised loan arrangement was endorsed, the Health Bureau would review annually CUHKMC's fulfilment of the aforesaid service obligation and consider whether to make public the outcomes.

Term of extension for repayment

17. Some Members expressed the view if it was possible to shorten the term of the five-year extension for repayment, so that members could have sufficient time to consider whether to support the revised loan arrangement. Some other Members enquired how the five-year extension had been calculated, and how confident the Administration was in CUHKMC's ability to repay the loan after five years.

18. The Administration said that it was not easy to establish a private hospital with the elements of reform and innovation, and it was very difficult to get a clear view of its actual governance and financial status within a short period of time. According to the latest financial projection report of CUHKMC prepared by an independent financial consultant submitted by CUHKMC to the Government, CUHKMC was capable of repaying its loans and breaking even in five years' time (i.e. 2028).

19. CUHKMC said that it generally took four to five years for a hospital to reach breakeven, and with a 15% financial growth in the fourth quarter of 2022, CUHKMC was confident of its ability to repay the loan after five years. Treasurer of CUHK pointed out that according to the projections by the independent financial adviser, CUHKMC basically had sufficient funds for repayment up to 2027, and would start to have a surplus after repayment in 2028. Such projections had been made on the basis of the hospital's operation and a projected inflation rate.

Governance of the Medical Centre

20. Some Members expressed concern about how the governance of CUHKMC could be improved. The Administration advised that in order to monitor the cash flow position of CUHKMC to ensure that it had sufficient

cash to meet the proposed repayment period, the Government would consider nominating director(s) to the Board of Directors of CUHKMC and requesting CUHKMC to report on its annual business plan and financial status, including its latest cash flow position.

Relevant papers

21. The hyperlinks to the relevant papers are in **Appendix**.

Recent development

22. The Administration will report to the Panel on 15 March 2024 the financial situation of CUHKMC to seek further approval from FC for the Government to grant CUHKMC the remainder three-year extension for loan repayment.

Council Business Division 4
Legislative Council Secretariat
8 March 2024

Loan for the CUHK Medical Centre Development Project

List of relevant papers

Committee	Date of meeting	Paper
Panel on Health Services	10 February 2023	Agenda Item V: Revision to loan arrangement for CUHK Medical Centre Minutes Follow-up paper
Finance Committee	17 April 2015	Agenda Item IV: LOAN FUND NEW HEAD - “PRIVATE HOSPITAL DEVELOPMENT” New Subhead “Loan for the CUHK Medical Centre Development Project” Minutes
	24 February 2023	Agenda Item III: LOAN FUND HEAD 280 - PRIVATE HOSPITAL DEVELOPMENT Subhead 101 Loan for the CUHK Medical Centre Development Project Minutes