

LAND GRANTS FOR PRIVATE HOSPITAL DEVELOPMENT

Executive Summary

1. Private hospitals are an integral part of the healthcare system in Hong Kong. It is the Government's policy to facilitate and promote private hospital development. As at September 2012, there were 11 private hospitals, five of which were operating wholly or largely on Government sites granted by private treaty (i.e. private treaty grants — PTGs) at nil or nominal premium. They were, namely Hospital B to Hospital F listed in Table 1 in PART 2 of this Audit Report. For these five hospitals, eight PTGs were involved and they together had provided some 1,950 hospital beds, which accounted for 49% of the hospital beds of all private hospitals. The Audit Commission (Audit) has recently conducted a review of the direct land grants made for private hospital development and has also examined one land sale transaction for private hospital development.

Special land grant conditions set on private hospitals

2. As early as 1957 and further elaborated in 1981, it was the Government's policy to grant Government sites by private treaty at nil or nominal premium to non-profit-making private hospitals, subject to a number of conditions. These conditions included the need to provide free or low-charge beds and the need to plough back profits/surplus derived from the hospitals to improve and expand the hospital facilities (i.e. the "Two Salient Requirements"). With the Government revenue foregone in terms of land premium, it was expected that a wider section of the public could be benefited. Audit however found that the Two Salient Requirements had not always been strictly and consistently applied on some of the direct land grants made. A PTG would normally last for 50 years or more. Audit noted that there had been a few opportunities to include the Two Salient Requirements (e.g. when the grantees applied for lease renewal, lot extension or lease modification to cope with hospital expansion or redevelopment) in the land grants, but the Administration had missed such opportunities.

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Monitoring and enforcement of land grant conditions

3. Audit found inadequacies in the Government's monitoring and enforcement of the relevant land grant conditions, particularly the Two Salient Requirements. Specifically, Audit found that the requirement for the provision of free or low-charge beds imposed on three land grants for two private hospitals was not effectively enforced. For example, the Department of Health (DH) did not until April 2012 make any enquiry with Hospital D on the provision of the 20 free beds which had been imposed as a land grant condition since 1960's. The utilisation of the free beds ranged from 17% to 24% for 2007 to 2011, when the utilisation of the other beds ranged from 98% to 113%.

4. Whereas the "profits/surplus plough-back" requirement had been included in four PTGs for four private hospitals, Audit noted that in recent years, all four private hospitals on PTG sites had achieved surplus from their hospital operations. However, the DH had not on a timely basis adjusted its mode and degree of monitoring, and had not effectively monitored the hospitals/grantees' financial affairs to ensure their compliance with the requirement. For some of these hospitals, the sites were granted to their parent organisations, which then set up separate legal entities to operate the hospitals. Based on an examination of the hospitals' recent audited accounts submitted to the DH, Audit noted that significant hospital premises licence fees and donations had been paid by a few of the hospitals to the grantees, parent and/or related organisations. However, not until March 2012 had the DH inquired into the propriety of the licence fees and donations, or requested the grantees to submit audited statements of how the licence fees and donations had been accounted for.

5. Audit also noted that some hospital-related services (very often, in the form of specialist medical centres) were provided within the hospital premises on PTG sites by related companies. Given that such related companies were profit-making and maintained separate accounts from that of the grantees/hospitals, these might constitute subletting and profit-sharing arrangements by the grantees/hospitals with third parties, both of which might not be allowed under the land grant conditions.

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6. Audit noted that the DH had made the following efforts: (a) in December 2010, the DH introduced a new measure of requiring the hospitals to submit auditors' certification on compliance with the financial-related land grant conditions; and (b) in March and August 2012, the DH had made enquiries on the various related party transactions reported in the hospitals' statements of accounts. Nonetheless, Audit considers that there is scope for improvement in better defining, and monitoring compliance of, the "profits/surplus plough-back" requirement in the land grants.

7. In June 2002, a lease modification was made to one land grant to allow Hospital C to operate on the PTG site a non-profit-making medical, health and welfare centre, which would provide, among others, a "social centre for the elderly" and a "day hospital with ... rehabilitation facilities". It transpired that the PTG site was used by Hospital C as a hospital block, providing 112 hospital beds and including 3-storey wards with first-class and second-class rooms. Audit could not find, based on Government records and site visits, that the "social centre for the elderly" or "day hospital with ... rehabilitation facilities" have been properly set up on the PTG site.

Sale of land for private hospital development

8. Land in Hong Kong is scarce and precious. Audit noted that at a hospital site of 1.922 hectares sold in 1982 by public tender for the development of a private hospital, only 54% of the site was used to operate Hospital G. The remaining 46% of the site was used to build a private residential development. The change in land use for the 46% was approved after some 20 years, and on the payment of a total land premium of \$610 million by Operator G for the lease modification and land exchange in 2004. Looking back, the provision of 1.922 hectares at planning for the development of Hospital G might have been excessive. The land was planned and sold for building hospital facilities that could support a hospital with 600 beds. However, by setting a contractual requirement of only 200 beds (one-third of the maximum), coupled with the lack of appropriate development controls in the land lease, the Government's plan to fully utilise the entire site for the original purpose of hospital development was not realised. Audit considers that the Administration needs to draw lessons from this land sale transaction.

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Way forward

9. Audit appreciates that the Government has recently developed revised policy, strategy and arrangements for future land disposals for private hospital development. In the advent of the Government's new approach to encouraging and supporting private hospital development, Audit considers that a proper system is needed to be put in place for the effective application and enforcement of the land grant conditions.

Audit recommendations

10. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Administration should take on board the audit observations and recommendations in this Report and improve the Government systems and procedures for coordinating, monitoring and regulating direct land grants made to non-profit-making private hospitals. More specifically, the Administration should:**

Special land grant conditions set on private hospitals

- (a) **take appropriate steps to ensure that future policy decisions made on land grant conditions set on private hospitals are strictly and consistently applied, with approval sought from the Executive Council as necessary if deviations are required;**

Monitoring and enforcement of land grant conditions

- (b) **put in place a proper mechanism and step up the Government's controls to monitor private hospitals' compliance with the land grant conditions, in particular the provision of "free or low-charge beds" and the "profits/surplus plough-back" requirement;**
- (c) **require Hospital C to rectify as early as possible the various irregularities found on the land grant made for operating a medical, health and welfare centre (see para. 7 above); and**

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- (d) **periodically assess the effectiveness of the stepped-up enforcement measures taken on existing private hospitals on PTG sites to ensure compliance with land grant conditions, and make any necessary adjustments as required.**
11. **Regarding the sale of land for private hospital development (see para. 8 above), Audit has also *recommended* that the Administration should draw lessons from the land sale transaction reported in PART 4 of this Audit Report and take actions to prevent recurrence.**

Response from the Administration

12. The Administration agrees with the audit recommendations.