

## SPECIAL ARTICLE

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# Policy and Practice Model of Public-Private Partnership in Public Hospitals during the New Medical Reform Period

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## Summary

**Purpose:** Since the beginning of the new health care reform in 2009, the state has illustrated the top design and health care improvement strategy of “encouraging social capital to participate in the reform of public hospitals”, in accordance with the program’s general objective. All areas have been explored on this matter and the results obtained are very interesting, not to mention the acquisition of significant experience. At present, the existing business models in China are mainly the following: Rebuild-Operate-Transfer (ROT), franchise business model, Build-Own-Operate-Transfer (BOOT) model, mixed ownership model and business insur-

ance model. This paper introduces a variety of alternative models, and provides a simple analysis of the advantages and disadvantages. Moreover, for the reform of public hospitals, the government shares should go into franchise mode or mixed ownership, and all property rights should be transferred to the government to ensure the conservation and proliferation of state-owned assets.

**Key words:** exploration, practice model, public hospital, public-private partnership

## Introduction

In 2009, the Chinese government launched a new round of alterations for the medical and health care system, which were referred to as “the new medical reform”. The basic principle of this reform is to introduce a basic medical and health care system which applies to all, making efforts to solve outstanding problems in the community and to become aware of all the needed medical services. The government should provide a basic health care system, essentially belonging to the people, which would be a major transition in the field of medical health service management. During the reform, a series of measures were explored in all areas, as well as models of public and private cooperation within public hospitals. In this study, we have reviewed this cooperation, since the start of the new health care reform, and have provided references for further improvement

of its policy, by looking further into the diversity of the medical system.

## 1. Policy background of public-private partnerships

To solidify the reform of the medical and health system of the State Council of Communist Party of China (CPC) Central Committee (March 2009), several ideas were brought forward in order to encourage and guide the healthy development of private investment in May 2010. The strategy proposed was to encourage social capital to participate in public hospital reform. In November 2013, the decision of CPC Central Committee on major issues concerning an extensive reform, was reviewed. Later on, it was approved by the Third Plenary Session of the 18<sup>th</sup> CPC conference, so as

to care for the community medical service, and give priority in supporting non-profit medical institutions. It was said that public funds can be directly invested into the areas lacking resources, in order to meet the diverse needs of various services and to participate in the restructuring of public hospitals. The state further clarifies that the guideline policy for the social capital is to participate in public hospital reform, and explains the concept of the originators of this policy, which is to encourage social capital to be involved in the health care industry, eventually becoming a “new normal”.

In December 2013, the National Health and Family Planning Commission made suggestions, which would accelerate the development of social medicine, as well as host satisfaction, meeting the requirements of service areas and the configuration of large medical equipment. The purpose was to help the community offer medical service by supporting key areas through teaching and training of personnel. This would allow doctors to practice more, promote academics, develop sector and other 5 areas in order to aid non-public medical institutions in upgrading their service facilities. It shows that the National Health and Family Planning Commission encouraged social capital to further participate in the reform of public hospitals, and actively introduced relevant supporting policies.

## **2. The method of social capital participating in the remodeling of public hospitals since the new health care reform**

All places in China have encouraged social capital to participate in the reform of public hospitals, thus carrying out active exploration, and have obtained important results and experience. Especially after 2013, the public-private partnership (PPP) has been widely practised in the fields of water, infrastructure and other public services in China. At present, the PPP model has been extended to the public hospital reform, and its generalized form included the three major categories of outsourcing, franchising and privatization. The domestic specific operational model also involves BOT, Build-Transfer (BT), Private Finance Initiative (PFI), Transfer-Operate-Transfer (TOT) etc [1,2]. The models and cases of PPPs are introduced below.

### **2.1 Participation in the reforming of the existing public medical institutions**

#### **2.1.1. ROT model (Rebuild-Operate-Transfer)**

This entails taking the government regulation away from the management model, and exploring the separation, with business being the main form of management outsourcing. The management outsourcing model can be defined as one with support from the government, which improves poor management in public hospitals. The government hopes to improve business performance through the introduction of an advanced management model by retaining ownership and introducing social capital, sometimes referred to as entrust management model [5]. The basis of the model is that social capital can promote operation performance of public hospitals by improving management and also by charging a maintenance fee. To set an example, there is the case of Beijing Mentougou Hospital. Phoenix Medical and Mentougou District Government signed an agreement that Phoenix Medical would make a set investment for improvement of the hospital's medical facilities and medical service level, in exchange for management and the operation services in related hospitals, within 19 to 48 years. The management fees would be charged based on the operating results and the income received from providing medicine, medical equipment and medical supplies [3]. The model was defined by joint ownership of the original institution and the new managing authority, and business risks were shared by both parties. Their biggest goal was to preserve the public welfare of the public hospital, while reforming its management system, in view of achieving “government regulation separate from management”.

#### **2.1.2 BOOT (Build Own Operate Transfer)**

BOOT is the project in which the company has the ownership and responsibility of constructing project facilities, which, after a certain period of time, could be handed over to the government. The main exemplary case is The First People's Hospital of Kunming. The First People's Hospital of Kunming and Xing Yao Group jointly funded and incorporated the First People's Hospital of Kunming Xing Yao Sports City Medical Co. Ltd., to build community hospitals. The ownership of all assets remained unchanged in the first 10 years, Xing Yao Group accounting for 51% of the shares and in the next 10 years the same amount

of shares were accounted by the First People's Hospital of Kunming. Public hospitals use the existing technology, while the social capital introduces the new hospital with advanced technology, professional teams and an alternate management system, which will enlarge the brand technology effect, improving the medical service capability of the whole society. The advantage of this project was the building of hospitals by private groups, purchasing equipment and providing technology along with medical personnel, to public hospitals. Moreover, it provides medical services to all residents of the community, and forms a natural, smooth transfer mechanism. It provides basic medical services to the community hospitals and also plays a role of "gatekeeper"

## **2.2. Establishing a new hospital by PPP model**

### **2.2.1. Franchise model**

Franchising is a business model in which the owner, in the form of contract, allows the operator to use one's name, trademark, proprietary technology, product and operation management experience etc. in order to engage in business activities [4]. Famous public hospitals, which adapted this business type, gave the cooperating hospital the authority to use their name, trademark and provided medical technology, personnel training, management team support, and got a certain fee in exchange. In this model, the social capital attains the ownership of the hospital in case of failure of the whole or part of the managing authority, and assumes all the investment and business risks. According to reports, Beijing Anzhen Hospital will cooperate with the social capital to establish Anzhen International Hospital, using the franchise mode in the Dongba area of Beijing [7]. The social capital will invest 3 billion yuan and Anzhen Hospital will authorize a new hospital to use the brand, technical strength and service standards of "Anzhen". Anzhen Hospital does not invest cash, but through the franchise it can charge fee and allow the international hospital's management to retain absolute power over major decisions. From the perspective of social capital, the use of a well-known hospital brand can quickly build social influence, which is conducive to the early business development.

### **2.2.2 Mixed ownership model**

The mixed ownership model refers to the

combination of the capital of the various partners in the same hospital, i.e. mix of public capital (state-owned and collective) and social capital. The government still retains a certain share of the hospital, and it may be the capital of different holders that establish the new hospital. The ownership and the business management of this model belongs to the capital contributors, as well as the corresponding investment and business risks etc. [5]. There is some preliminary investigation and a trial period for this model, which replaced the mode of "government led, market operation, mixed ownership and professional management", suggesting that social capital, as the investment side, should participate in the construction operations. But to answer how the medical assets were injected into the new medical institutions, even after the stock cooperative system, which deals with the problem of income distribution, there is a lack of relevant laws and regulations.

### **2.3. Business insurance model (Zhanjiang model)**

In 2009, Zhanjiang City began the integrated construction of urban and rural residents' health care and created a new mode of cooperation between the social and commercial medical insurance, which is called "Zhanjiang model". The government introduced the Zhanjiang Central Branch of Picc Health Insurance Co (hereinafter referred to as Picc) as a professional insurance agency. Picc diverted its products such as actuarial, risk management, claims service and other professional advantages, to provide a complete set of conceptual design for the management of the medical insurance service. In this mode, the governmental subsidies and fee of the insured persons constitute the Medicare fund. Part of the medical insurance fund withdrawn by the government is for the purchase of a large Medicaid for Picc, so as to guarantee that insured residents in similar situations will pay a standard price and also expand the protection effect. At the same time, with the entrust of the social security department of Zhanjiang City, Picc joined the health insurance service management process, placed a professional team stationed in the hospital to track and supervise the medical treatment and confirmed the medical records, in order to control unnecessary costs and establish a hospital medical service evaluation system [6].

## **3. Conclusions**

Medical service in China is in its initial stage.

PPP has become the main governmental procurement method in the hospital field since the end of April 2009. In the UK there are 76 PPP hospitals in implementation, with a total investment of approximately 6 billion pounds [7]. PPP on medical services in China is still in a primary stage, as there is still a number of major issues to resolve concerning the reform of hospitals.

The Article 4 of “Opinion on further encouragement and guidance for the social capital to hold medical institutions”, promulgated by 5 ministries and commissions under the State Council, clearly stated to give priority to social capital for adjustment, in addition to medical and health resources, encouraging it to be involved in public hospitals, and for a strategic approach of the reform. However, the guidance of the relevant supporting documents is not sufficient for the restructuring of hospitals in regional planning, resource allocation, personnel system, tax policy and high level personnel mobility. Due to the lack of policy guidance in the introduction of social capital, there are many problems that cannot be resolved by the hospital itself, which requires the government to a multitude of various interests, making the introduction of social capital difficult. For the medical service mode, there is no direct policy framework in China.

In the reform, the scientific research, personnel and job title of public hospitals are the biggest government challenges, so by displaying a manner when treating these restructuring hospitals, and also by receiving fair treatment, it holds the

key to continue the promotion of the reform. In addition, government regulations are also a great concern. A hospital without supervision will cause serious consequences, especially to the medical quality and safety, which is the basic requirement for the continuation of the reform. At the same time, some of the problems in the PPP, which were resolved by the government and the private sector, e.g. maximization of value, utilization of economic means for encouraging private sector’s investment, contracting formulation and confidentiality mechanism, become public responsibility along with other issues [8].

The Article 7 of “Opinion on further encouragement and guidance for the social capital to hold medical institutions” mentions that “profit-making medical institutions will have to pay enterprise income tax, in accordance with the state regulations, and the medical services shall be performed with independent pricing, exempt from business tax”. This article of “independent pricing” is in line with the law of the market. If the government is involved in the reconstruction of public hospitals and uses the stock system reform to change the original public hospitals from nonprofit to profit, there will be a potential problem. Therefore, at present, for the improvement of public hospitals the government shares should adopt a franchise or mixed ownership mode, with property rights belonging to the government, to ensure the conservation and proliferation of state-owned assets.

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