PPPs in Healthcare - China Perspectives and Cases

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In recent years, China has stepped up promotion of Public Private Partnerships (PPPs) as a way to help improve healthcare provision. In the 4th quarter of 2013, the State Council set out plans encouraging PPPs across a wide range of formats, with the goal of attracting social capital, and creating an environment that would enable productive partnerships. Subsequently, the Third Plenary Session of the 18th Central Committee of the Communist Party of China (CPC) sought to utilise PPPs to boost social capital in the investment and operation of urban infrastructure. Then, in August 2014, the Budget Law of the People’s Republic of China paved the way for long-term PPP projects. In mid-September of that year, the State Council unveiled a campaign to promote the PPP model as a means to help local governments standardise debt and financing mechanisms, together with an announcement of financial support for PPP projects. In the following month, the Ministry of Finance, published the Cleaning and Screening Method for Incorporating Local Debt into Budget Management, giving guidance on screening projects for suitable applications that utilize the PPP model. Emphasis on the role of PPPs also received strong endorsement from the top, when Premier Li Keqiang, spoke on the merits of the model at the Executive Meeting of the State Council.

In the capital, the Beijing Municipal Commission of Health and Family Planning offered suggestions on the delivery of health services to the People’s Government of Beijing Municipality on October 13, 2014.

The Beijing Commission of Health and Family Planning favoured introducing social capital into the government-dominated healthcare sector, viewing the move as a positive step forward for Beijing, in line with the State Council’s decision to promote health service delivery across the country. Specifically, the Commission stated that;

“Guided by the municipal principles for health facility planning, charities, foundations, other civil society organizations and individuals are encouraged to establish not-for-profit health facilities. Corporations, investors and commercial insurers are encouraged to establish for-profit health facilities in diversified forms of investment such as construction, restructuring, trust management and hospital chains.”

As a consequence of sustained endeavors, PPPs in China have gradually become a normal and increasingly popular feature of the domestic healthcare industry.
Case 1: Beijing New Century International Children’s Hospital

Beijing Children’s Hospital and Beijing New Century International Children’s Hospital optimise the use of hospital resources through PPP

Beijing New Century International Children’s Hospital (NCICH) was developed as China’s first specialised children’s hospital to operate in accordance with international standards. Manned by highly qualified medical experts and nursing teams, the hospital provides modern, comprehensive and high-quality healthcare services to newborns, infants, school children and teenagers up to 18 years old. NCICH is affiliated with Beijing Children’s Hospital (BCH), one of China’s first public children’s hospitals, and among the largest children’s hospitals in Asia. At its peak, BCH was coping with around 8,000 outpatient visits daily. As a result of the huge demand for high-quality health care, the two hospitals forged a partnership in 2006, designed to cater to patient requirements with differentiated service provision.

The PPP model yielded a range of benefits, creating complementary advantages enabling efficient use of resources by both hospitals to better serve patients with more targeted care.

Informed by an appraisal that only 5% of the patients with very complex diseases would use large diagnostic devices, such as magnetic resonance (MR) and computed tomography (CT), NCICH opted to cut costs associated with large medical devices and low utilization rates. The resources were instead allocated to services that data analysis emulating corporate models demonstrated would deliver improved care to patients. Benefiting from the partnership with BCH, an efficient approach to resource sharing saw NCICH pay to use BCH’s large medical devices, saving costs for purchasing and maintaining duplicate devices. Additionally, NCICH staff worked closely with specialists sent by BCH, facilitating an interchange of experiences and hospital management procedures run in accordance with NCICH’s international standards.

Insufficient access to healthcare resources has been a perennial obstacle for private hospitals in China, resulting in restricted opportunities for development. In this instance, the PPP model demonstrated how such obstacles could be overcome with mutually beneficial results. NCICH’s purchasing practice ensured greater efficiency in the use of BCH’s resources, while leading to reduced costs for NCICH. Further, when operating independently BCH, like other public hospitals in China, lacked diverse platforms for promotion and training opportunities. However, affiliation with NCICH, the only Asian member of the American Children’s Hospital Association (CHA), opened new channels for BCH staff to encounter international best practice in hospital management and even be eligible for advanced training opportunities abroad.
**Case 2: Phoenix Healthcare Group (PHG)**

The successful listing of PHG demonstrated the capital market’s recognition for the commercial feasibility of PPP.

The joint venture; Zhongankang Healthcare Industry Investment (Beijing) Co., Ltd. came about following PHG entering into a cooperation framework agreement with the State Administration of Work Safety (SAWS) and CITIC Trust. During the initial period of the partnership, Zhongankang was given the mandate to help restructure the assets of two SAWS-affiliated hospitals; the China Meitan General Hospital (CMGH) and the Shilong Hospital, both in line with the Restructuring-Operation-Transfer (ROT) model. Before this, PHG had successfully listed in Hong Kong in November 2013 and later, in the second half of 2014, announced several cooperation projects. In addition to its partnership with SAWS, PHG also sought a variety of cooperation projects with partners including the Beijing Mentougou District Maternal and Child Healthcare Hospital, the General Hospital of Beijing Jingmei Group and the municipal government of Baoding, Hebei Province.

To implement cooperation projects, PHG followed an approach of setting up new businesses that include both joint-ventures and sole proprietorships. The partnerships with SAWS and CITIC Trust had been planned with registered capital of RMB 1 billion. From the outset, PHG held 35% of Zhongankang’s shares while SAWS and CITIC Trust held 40% and 25% respectively. The agreement also ensured that SAWS would inject 90% of CMGH’s asset value into Zhongankang, while PHG and CITIC Trust had agreed to make the capital injection by cash.
The General Hospital of Beijing Jingmei Group represents another joint venture that PHG established, together with Beijing Jingmei Group Co., Ltd. In this instance, PHG agreed to hold 70% of the shares with the remaining 30% belonging to Beijing Jingmei Group Co., Ltd.

Further, in line with the terms arranged with the municipal government of Baoding, Hebei Province, PHG also agreed to set up a wholly-owned subsidiary, PHG (Baoding) Investment Management Co., Ltd. in the city, with registered capital of US$100 million. By 2021, the group’s investment in the subsidiary is expected to surpass US$300 million.

The longer-term goal for Zhongankang remains focused on building a network of treatment, healthcare and emergency medical services. In the short-term though, Zhongankang’s main responsibilities have been to restructure the two SAWS-affiliated hospitals, in line with the ROT model. The Jingmei Company will play a major role in the overall restructuring of the General Hospital of Beijing Jingmei Group.

PHG Baoding has been tasked with primarily working with the local government’s public health facilities and medical education institutes based on the PPP model to map out priority projects in healthcare. Also, according to the agreement, the scope of cooperation can be extended to other health facilities.

The opportunity to participate in Mentougou District’s public hospital reform helped PHG list in Hong Kong

By mid-2014, in addition to Jian Gong Hospital, PHG owned 10 general hospitals, 1 traditional Chinese medicine (TCM) hospital and 28 community clinics, each utilising the Investment-Operation-Transfer (IOT) model. In September 2014, PHG agreed to provide trusteeship service to the Mentougou District’s Maternal and Child Healthcare Hospital by signing an IOT agreement with the local government.
Case 3: Kunming Children’s Hospital

Kunming Children’s Hospital modernized itself by the PPP model

Kunming Children’s Hospital had formerly been the Kunming General Hospital, also known as Huidian Hospital. The institution was originally founded in 1920 by the Holy Catholic Church in China. In 1950, it was taken over by the Kunming Municipal Government, and by 1958 had been restructured to form the Kunming Children’s Hospital. In its early days, the institution had been the only general hospital for children in Yunnan Province. Demand proved high, and the hospital’s 336 beds and 522 employees struggled to cope with the city’s requirements for child healthcare. Consequently, a new establishment was sought in 2005. Three years later, the municipal government incorporated the construction of a new children’s hospital in southern Kunming, which served as one of the key projects in its 11th Five-Year Plan. To ensure success, the government sought partners to help support the project. In April 2012, after several rounds of negotiation, the Kunming Health Bureau and the China Resources Healthcare Group (CR Healthcare) signed a joint-stock cooperation agreement to set up a joint venture; CR Kunming Children’s Hospital Co., Ltd.

Less than half a year earlier, in October 2011, CR Healthcare had been established as a wholly-owned subsidiary of China Resources, with a specialised focus in hospital investment and management, medical devices and financial leasing. Its parent company, China Resources, being a state-owned enterprise with diversified operations. Initially registered and operated in Hong Kong, China Resources was placed under direct supervision of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council in 2003. Investment revenues and the recovery of costs by operations provided the main impetus for CR Healthcare’s participation in the restructuring of the children’s hospital.

The PPP model helped Kunming Children’s Hospital avert operational risks, overcome inefficiencies of the old system, and make rapid progress in both meeting special healthcare needs and reorganizing compensation.
The new hospital was designed to pay specific attention to meeting child patient needs with modernized approaches that make use of automation and digitalization, while retaining emphasis on people-focused care. Improvements through automation included new systems for ventilation, water supply and drainage, as well as elevators, and intelligent lighting. Advances from digitalization spanned an integrated hospital information system (HIS) and picture archiving and communication system (PACS), as well as a new laboratory information system (LIS) and a one-stop card payment system. While with regard to people-focused care, building design, structures and services were developed and optimized for children, with efforts made to nurture a relaxing, playful environment that child patients would feel more at ease within. At an operational level, in addition to offering VIP service, the hospital also set out to reduce costs in the procurement of medical devices and pharmaceuticals by creating synergies among industry players, while the prospect of setting up separate financial and distribution centers to replace existing suppliers was boldly introduced.
Case 4: Three hospitals in Shanwei worked with CITIC Medical & Health Group using social capital to help bridge the funding gap for development

Located in eastern Guangdong province, Shanwei is a coastal city, and home to one of the first ports in China to have been open for foreign trade. Yet, despite its mercantile past, the city’s public hospitals have suffered from a perennial shortage of funds. Estimates showed that in 2013 there were only 2.37 hospital beds per 1,000 people in Shanwei, well below the average of 3.55 for Guangdong province as a whole. The same data showed that staff levels formed another important issue. The 349 experienced doctors, representing 7.3% of the registered medical practitioners, was low enough to be worst level for all of the 21 prefecture-level cities of the province at the time. Highlighting the extent of the challenges, the city’s best hospital, Shanwei People’s Hospital had only 500 beds, 38 clinical departments along with tens of millions of net assets, matching a scale almost that of the city’s county-level public hospitals. It became clear that, faced with rising public need for healthcare services, Shanwei People’s Hospital was in urgent need of additional funds to add to the city government’s health expenditure. Social capital was therefore sought to bridge the sizable funding gap.

The city government set out plans to relocate hospital resources and work with CITIC Medical & Health Group in a move to restructure medical resources and capital. The steps included asset restructuring, business integration and personnel integration, while maintaining the not-for-profit nature of the hospitals.
According to the agreement, CITIC Medical & Health Group (hereinafter “the Group”) would restructure the city’s 3 public hospitals, with a particular focus on Shanwei People’s Hospital, which had by that point been functioning as a secondary general hospital. From the outset, the expectation had been that by 2016, the Group were to have transformed the hospital into a tertiary general hospital, benefiting from capacity of clinical departments and strongly reinforced in therapeutic areas including cardiovascular diseases, neurology, orthopedics, surgery and nephrology. Additionally, support was arranged to help reconstruct the Maternal and Child Healthcare Center into an A-level secondary health facility, with a focus on gynecology, obstetrics and neonatology. The third hospital identified for development was to be specialised in psychiatric treatment, though at the time of the agreement, remained in a development phase poised for construction.

The Group undertook rigorous analysis of the potential risks associated with making follow-up investments in the three hospitals, and subsequently concluded that the risks were controllable by leveraging its financial strength and alleviating funding pressure at industry and capital levels on the predicted return on investment. Modern enterprise management systems were adapted to use with the public hospitals. The Group also set out to also gradually introduce integrated human resources elements for the management of the three hospitals, leading to well-structured and professionally oriented operation teams.

An active participant in China’s economic and health reforms, PwC has accumulated rich experience in hospital restructuring and is well positioned to provide counsel to hospitals seeking to embrace transformation. When reviewing PPP model design, we recommend that the core needs of major stakeholders are carefully considered. Equally, it is prudent to appreciate the crucial role played by the architecture of hospital management firms, as the actual hospital operators.
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Life Science Manufacturing and Supply Chain Strategic Consulting
Life Science Sales and Marketing Strategic Consulting
Vanguard leader, ALM
Consulting to Public and Private Healthcare: Cybersecurity
Vanguard leader, Kennedy
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Consulting to Healthcare Payers and Providers: Alternative Care Models (ACM)
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Life Sciences Supply Chain Technology Enabled and Digital Initiatives
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