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Consequences for Accountability and Governance

An Overview of Public Hospital Reform in China

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An Overview of Public Hospital Reform in China

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[Abstract]

Public hospital reform was started in China in 2009, it is involved multi-stakeholder interests. The paper does a policy document analysis and reviews the main steps of public hospital reform, including building up modern hospital management system, delink the incentive of drug profit and changing payment system. China is facing many challenges while conducting the reform, i.e., price adjustment on medical service items, drug zero-markup, organizing drug tendering, using “two-invoice system” in drug distribution channel, promoting the tiered medical services, contracting with family doctor as a gate-keeper. “Healthy China 2030” emphasizes on deepening health reform in China, the public hospital reform is an unfinished agenda.

[Key words]

Public hospital reform, Hospital alliance, Payment system reform, Tendering, Tiered service delivery, Healthy China.

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Background

China's new round of health care reform began in 2009. With the development of medical insurance systems, the national coverage rate has been stable over 95% and covering more than 1.3 billion population. The benefit package of protection has been greatly improved.

China's health system is hospital-centric, fragmented and volume-driven. [1] The reform of China's public hospitals is a biggest hurdle, which is being involved multiple stakeholder interests. The demand for medical services has increased by 57%. Especially the number of public hospitals and the number of beds are increased by 34.9% and 70.8, respectively. On the contrary, the capacity of primary health care services at community level has shrunk. A large number of patients flow to tertiary hospitals, more than 40% clinical visits are in hospitals. Similarly, 76.4% of the patients are admitted in urban hospitals.

In the past 8 years, the total cost of health was increased by 1.33 times with an average annual growth rate of 15.2%. In 2015, the total health expenditure reached to 4.0974 trillion Yuan (RMB), accounting for 6.05% of the total GDP. It is shown that the difficulties for searching a doctor with a higher medical expenditure.

At present, there are 27,587 hospitals in China and 47.4% as public hospitals, There are 92,000 grassroots health institutions (Community health centers, CHCs) existing, but only 12.8% CHCs run by government. [2] Therefore, China's hospitals and grass-roots health institutions are already public-private mix.

In recent years, the key task of health care reform in China is: (1) comprehensively deepen the reform of public hospitals; (2) accelerate the construction of hierarchical referral system; (3) consolidate the universal medical insurance system; and (4) improve drug supply security system; (5) establish a supervising system. To accelerate the reform of public hospitals in China, the county public hospital reform was firstly conducted in 2015. Up to now, total 1977 county hospitals have pushed forward the reform. Government designates four counties as models. In 2016, the pilot reform was expanded to 200 urban public hospitals. The purpose of the public hospital reform is to improve the integration of delivery system and quality of medical care.

The paper does a policy document analysis and reviews the roadmap of China's public hospital reform. It will give some experience and lessons on the accountability and governance of public hospital reform.

1. Improving the structure of corporate governance and the status of legal entity

In China, most of the public hospitals are run by government, but roughly only 10 percent of hospital revenue is come from government investment. Previously hospital revenue is largely depended on providing medical services through medical insurance compensation, drug margin and fee-for-service, which will distorted the behavior of hospital and tend to be profit-oriented. The director of hospital is no power to hiring and firing their staff. To implement modern hospital management system, public hospitals begin to operate the autonomy of management, including

building up a corporate governance structure, board of directors, personnel management and recruitment, comprehensive budget management system and adopting a public welfare oriented assessment system to evaluate hospital's performance. Establishing a rational remuneration system in line with the characteristics of the health industry can give long-term incentives for medical staff [3][4]

2. Abolishing drug margins in public hospitals

Before the public hospital system reform, usually 60%-80% hospital revenue is come from drug markups. To get rid of the linkage of drug markup compensated hospital income, a new compensation mechanism should be implemented. The principle is emphasized on improving labor value of medical services. Several measures have been taken, such as increasing the fees schedule of doctor consultation, surgical operation, nursing care, acupuncture and massage in the traditional Chinese medicine services. On the other hand, the charges for CT, MRI and PET examinations are reduced. The government also stipulates that the proportion of drug expenditure (excluding herbal medicine) in public hospitals should be reduced.

Chinese government has set the reform targets: (1) the share of drug income in total hospital revenue should be less than 30%; (2) the cost of medical suppliers should be no more than 20% of total medical revenue excluding drug expenditure; (3) the annual growth rate of public hospital revenue should be less than 10%; (4) the proportion of individual out-of-pocket payment should be less than 30% total health expenditure; (5) 90% patients can obtain their clinical services in local health

facilities.

For instance, Beijing Municipal implemented comprehensive reform plan on April, 2017. Public hospitals canceled all drug markups, registration and consultation fees, and establish a new item of medical service fees. The fee schedule is based on the level of hospital and the qualification of medical doctors. Almost 90% consultation fees can be reimbursed from medical insurance scheme. [5]

Elimination of 15% drug markup and implementation of zero markups is the major core of the reform. The channel of compensation should be through price adjustment of medical services and government subsidies. Beijing has raised 435 medical service fees and the price of CT, MRI and PET examination has been reduced significantly. The adjustment of medical service price will do step by step, which should ensure the accessibility and sustainability of medical insurance funds. In general, the burden on patients should not be increased.

3. Strengthening payment system reform

Previously the payment system in China mainly is based on fee-for-service. The payment system reform will be using combination of different prepaid schemes, such as global budget, payment by case or per diem, DRGs, capitation, etc. [6] Chinese government has advocated DRGs for many years, first pilot study was launched at six tertiary hospitals in Beijing on August, 2011. It involved 108 groups and 38,439 patients, it accounted for 36% cases and 46% inpatient costs. The results showed that DRG payment system has reduced 19% medical costs. In 2017, National Health and Family Planning Commission announced a Chinese version of DRG

system (CDRG). It contains a standardized fees schedule system including information of cost weight, coding, payment and management. A “national medical service price and cost detection and research network” has been established, the disease category expanded to 320 disease groups. The pilot study was conducted in three cities, Sanming Fujian, Shenzhen Guangdong and Karamay, Xinjiang. By the end of 2018, the pilot study will be expanded to 50 cities and 100 cities in 2020.

4. Establishing multiple hospital alliance and tiered health care delivery system

Organizing multiple hospital alliance is one of the strategies in public hospital reform. It will lead the patient flow to the bottom of health system. In fact, multiple hospital system is a vertical coalition of medical resources, voluntary alliance under the government support. It will enhance the service ability at the grassroots level by means of technical assistance and personnel training. The patients will have their first contact at the grassroots level and through the two-way referral system. The overall ability of performance can be improved through the tiered integration system. [7]

The target in 2017 is to build up basic institutional framework. There are four main types in China: (1) urban vertical structure system. The tertiary hospitals play a leading role in the alliance, followed by several comprehensive secondary hospitals and special hospitals (infectious disease hospital, rehabilitation centers, nursing homes, mental health centers, etc.) , the urban community hospitals or CHCs will be in the bottom of system; (2) a multiple hospital alliance at county level; (3) a horizontal alliance of different specialties and their affiliated hospitals, such as Pediatrics, OBGY, Oncology, CVD; (4) telemedicine collaboration IT network. Each

pilot province should have at least one or one more vertical integrative hospital alliance. By the year of 2020, a comprehensive multiple hospitals alliance system will be formed.

Contracting with family doctors and establishing multiple hospital alliance are two key measures to make the tiered health care delivery system. Family physicians provide long-term, continuous basic care, public health and health management to their residents. At present, more than half of the cities and counties in China have started to conduct the first-contact program in community health centers. Eighty percent of the population can reach medical institutions within 15 minutes. The contract signed between family doctor (GP) and patient is voluntary basis. Nowadays, the contracting with multiple hospital alliance becomes an important indicator. That means each contractor (patient) can sign a combined contract with one tertiary, one secondary and one community health center (so-called 1+1+1). A contractor has more choice to select providers. The family doctor regularly conducts health assessment and disease management for residents, who has the priority to use two-way referral system and one-month prescription. Family doctors play role as gatekeepers for residents' health, health resource utilization and cost containment.

5. Realigning drug procurement in public hospitals

Although zero-markup on drug sale has been conducted in public hospital reform, the drug costs remain a big portion in hospital bills in China. In addition, the irrational use of drug is also a problem in clinical practice. To reduce the negative impact on drug price, a series of measurements have been taken in China, such as

tendering and bulk procurement, group purchasing organization, conducting two-invoice system in drug distribution process, zero-markup on drug sale, revising positive drug reimbursement list, price negotiation for patent and expensive innovative drugs and adopting reference price benchmark system in medical insurance, etc.[8][9] Those actions will be finally influenced on hospital' s revenue and the prescribing behavior of physicians.

Now the fact is that all drugs purchased by public hospitals should go through centralized purchasing agencies at provincial level. All drug prices have to be market competition and make the process itransparency. The GPO can negotiate drug price with pharmaceutical companies under the price-volume agreement. Recently, many medical supplies and high-value medical consumables, diagnostic kits, medical equipment is going to purchase through tendering system or price negotiation.

"Two-invoice system" means the pharmaceutical manufacturers sell drugs to the distributors (wholesales) and the distributors sell drugs to public hospitals can only issue an invoice, respectively. It promotes the healthy development of the pharmaceutical industry, and eliminates the potential commercial briberies in hospitals.[10][11] The purpose is to reduce the number of intermediary organization in the distribution process and indirectly reduce the price about 15%-20%.

Conclusion

The reform of China's public hospitals is constantly exploring the management system and operating mechanism. When conducting reform, China is facing many challenges. In 2016, the Chinese government issued the outline of "healthy China

2030". It concluded that health is a necessary prerequisite for the overall development of the people as well as the foundation for the sustainable development of the society.

[12] However, the public hospital reform is still a long way to go as an unfinished agenda.

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