Modern hospital

Experience With PPP Projects in Health Care
Bratislava, 11/24/2010

*connectedthinking
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PwC as chief adviser on health care projects in the Czech Republic and Slovakia

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- Hospital Analysis Frýdek - Místek
- Analysis of supply chain SZM a MTZ for Fakultní nemocnici Ostrava
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- Analysis Railway Health Care, odšťepného závodu Českých drah, and his rent
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- Identification and assessment of PPP projects in the health sector in Slovakia, a feasibility study
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The context of the current state of the markets PPP

- The significant decrease in the volume of projects concluded in 2009
- Cancellation or postponement of projects at a later time
- 2010 indicates a recovery ...
- ... Impact of government restrictions?

- A significant rise in the price of money
- At present there is a correction due to improvements in the financial markets, accompanied by low basic rates
The context of the current state of the markets PPP

The development of PPP projects in the following years will depend on the attitude and abilities of the public sector to implement these projects.

The need to address infrastructure deficits in many areas

Infrastructure investment as the promotion of economic growth and job creation

Public funding restrictions>> any additional resources are welcome

Value for the money

Affordability of Project

Commitments from the PPP (as well as other infrastructure projects) burden on public budgets

General government deficit
During the last 12 months 40 projects were recorded in the various stages of completion.
Where Are Used PPP the Health Care?

- **Great Britain**
  - More than 100 projects since 1997

- **France**
  - Long term leases PPP in health care since 2004

- **Spain**
  - PPP in health care since 2000

- **Portugal**
  - PPP in health care since 2003

- **Italy**
  - PPP in health care since 2005

- **Czech Republic**
  - Leases and PPP pilot projects in health care

- **Slovakia**
  - Project Initiation
Why is PPP used in health care?

- **The need for investment**

  To improve underinvestment of health care facilities infrastructure, the need for expansion and upgrading of health care facilities to improve the health care and the growing demands of an aging population.

- **Efficiency and risk transfer**

  - In general, with the involvement of the private sector there is perceived and demonstrated better efficiency in the timetable of construction and compliance with the planned budget and impact on the value for money.

- **Inovation, know – how**

  - The benefits of involving the private partner and use of his experience.
To what extent to involve the private sector?

This division determines:
- Project Risk Profile
- Financing structure
- Investor profile

Private sector

Public sector

Infrastructure

Health Care

Buildings
Maintenance
Food Service
Support
I.T.
Supplies
Pharmacy
Labs

Health Care

PricewaterhouseCoopers
The Concept of PPP Projects in Various Countries

Most of the projects closed in the last 12 months was carried out without the PPP model of health care.
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St. Bartholomew’s and Royal Hospital in London

**Investor:** NHS Trust  
**Private partner:** Skanska, Innifree, John Laing  
**Country:** Velká Británie  
**Project Info:** DBFOM, 38 years, availability payment  
One of the largest healthcare projects in the UK, the replacement of two substandard, old-fashioned hospitals with new facilities. The project includes the demolition of certain nonconforming buildings (brownfield sites), extensive renovation and construction of an entirely new buildings

**Financing:** 1 302 mil. EUR

**Description:** Due to scope of the project and the fact that long term construction work is anticipated (approx. 10 years), inflation risk should be treated  
Transfer of risks associated with reconstruction  
The need for treatment of archaeological risk (risk-sharing )

**Status:** Financial closure achieved in April 2006. The total completion is scheduled for 2015.
Hospital Mestre, Venice

**Investor:** Venetian Local Health Authority  
**Private partner:** Astaldi, E. Mantovani, Gemmo Cofathec Progretti, Mattioli  
**Country:** Italy  
**Project Description:** DBFO, 28.5 years

Responsibility for financing, construction and maintenance of a brand new hospital of 680 beds, 16 operating rooms, auditorium and parking was transferred to the private partner. Furthermore, the private partner is responsible for facility management, support services, including IT and laboratory services (but not health care).

**Funding:** 258 million (debt and equity ratio of 80:20 - without the contribution of 100 million sponsor)

**Description:** The payment mechanism is based on availability, in return for laboratory services public sector pays by the number of performances  
EIB involvement (commitment to refinance the project after completion of construction)  
Inspired by the British model - a successful adaptation of British Standards for PPP projects for the Italian law - the interest of investors and banks

**Status:** Financial closure in April 2005. The construction period is planned at 4.5 years.
PTC Kiel (Center for Radiotherapy)

**Investor:** University Hospital Schleswig-Holstein

**Private partner:** Siemens Project Ventures
- Bilfinger Berger Project Investments
- HSG Technischer Service

**Country:** Germany

**Project Description:** DBFO, 25 years, payment for availability
Center with three rooms for PTC to treat about 3,000 patients per year. Due to the uniqueness of the global centers expected area of coverage - northern Germany and the entire Southern Scandinavian region.

**Funding:** 257 million (debt and equity ratio of 92:8)

**Description:** The largest healthcare PPP projects in Germany, followed by proton therapy, a pilot project in Essen (the closure 06/2006, 136 million)
Siemens is responsible for the installation and supply of equipment for PTC
Bilfinger Berger ensure that within 24 months of construction four-story building (ground + two floors)
HSG Technischer Service will be responsible for maintenance of infrastructure, FM and ensure power supplies. power, heat and water for the building (excluding medical equipment)

**Status:** Tender for private partner was initiated in May 2006, financial agreement was made in March 2008 facility is scheduled to be open in 2011
University Hospital, Karolinska Solna

Zadavatel: Ministry of Health, Sweden

Private partner: Skanska/Innisfree

Country: Sweden, Stockholm

Project Description: DBFO, 30 years, payment for availability
The project includes construction and maintenance of the new university hospital with 800 beds designed with "green buildings"; integration of architectural monuments in the area. The private partner will be responsible for providing health care, education or research.

Funding: € 1 billion (debt and equity ratio of 88:12)

Description: The first hospital PPP project in Sweden
The interest of investors (launched in October 2008), in March 2010 appointed the winning candidate
Financial closure was accompanied by problems:
client pressure to reduce the share of financing through a commercial loan to equity, political pressure on the closure of the project - an autumn general election
problems almost led to the suspension of the project and the redefinition of the D & B

Status: Financial closure completed on 1 July 2010. Construction will begin early 2011, completing December 2015th
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Principles for the project realization - What can go wrong?

- Provide a broad and sustained political support for the project - agreement between the parties, the effect of options (time pressure), the impact of personnel changes

- Objectively justify the need for the project and the need to communicate it clearly

- Thoroughly define and justify the requirements and specifications of the project planning phase, carefully consider the elements of flexibility over the life of the contract

- In case of change of legal status in the hospital during the project (p.o. → a.s.) expected demand for guarantees from the public hospital sector

- Hire an experienced consultant - consultants involved throughout the preparation of the project
Principles for the project realization - What can go wrong?

- Allocate sponsor project team - project manager
- Not limited project preparation and partner selection, unrealistic time constraints
- Reconstruction - the problematic transfer of latent defection risk
- Consider affordability for the project sponsor and the resulting long-term commitment to the issue, compensation and its impact
- Do not experiment - especially for pilot projects, choose the best type of project, or do not include or carefully consider the inclusion of health care within the scope of the project, carefully consider whether the pilot project should be combined with the EU funds
Support for the feasibility study of PPP project

- Slovak Ministry of Finance (MoF) provides consulting and financial support for central administration bodies and local authorities.

- In support of the Ministry of Finance procure by tender for a PPP project, client advisor who will assist entities in preparation of feasibility studies for PPP projects cover the costs of the consultant funds.

- A condition for support is the processing of the project plan and presenting it for evaluation by MoF.

- The earliest date of submission: January-February 2011 and June-August 2011.

- [www.mfsr.sk](http://www.mfsr.sk)
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What are other possibilities for cooperation with the private partner?

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<thead>
<tr>
<th>Sales</th>
<th>Manager contract</th>
<th>Lease</th>
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<tbody>
<tr>
<td>+ high one time income</td>
<td>+ able to stay in control</td>
<td>+ long-term lease from lessee</td>
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<td>+ transfer of all risks</td>
<td>+ use of know-how</td>
<td>+ terminating subsidies</td>
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<tr>
<td>- loss of opportunities to influence health care</td>
<td>+ effective management</td>
<td>+ transfer of economic risk</td>
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<tr>
<td>- possible limitations on less profitable areas of health care</td>
<td>+ ability to drop the contract</td>
<td>+ possibility of withdrawal</td>
</tr>
<tr>
<td>- need to put the clause in the contract to maintaining the availability</td>
<td>- does not deal with thin capitalization and the necessary investments</td>
<td>- Reduction of impact on health care (the necessity to define the contract)</td>
</tr>
<tr>
<td>- more demanding preparation of the transaction</td>
<td>- the need for setting performance criteria</td>
<td>- possible limitations on less profitable areas of health care</td>
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<td>- demanding preparation of the transaction</td>
<td>- more demanding preparation of the transaction</td>
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- Case studies Czech Republic: Hospital Olomouc, Železniční zdravotnictví o.z., Hospital Valašské Meziříčí a.s., Hospital Český Těšín a.s.
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Thank You for Your Attention!