

PPP's in Europe Overview

The PPP Knowledge Lab defines a PPP as "a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance".

Public-Private Partnership ("PPP") has been in use since the 1990s across the EU with many countries using concession-based transport and utilities projects particularly in France, Italy and Spain, with revenues derived from payments by end-users, e.g. road tolls. The UK's Private Finance Initiative ("PFI") expanded this concept to a broader range of public infrastructure and combined it with the introduction of services being paid for by the public sector rather than the end-users.

Between 2000 and 2015 over 1,184 public private partnership (PPP) contracts were signed in the EU with a cumulative value of circa 270 billion euros. The overwhelming majority of PPP projects were signed in the UK which accounts for more than 45% of the PPP value in the EU at circa 120 billion euros.

In the EU, PPP's fall under public procurement which is heavily regulated through the use of Directives, which implement and expand upon the principles and freedoms established by the EU treaties. These Directives aim to make the procedures for awarding public procurement contracts transparent and open to all suppliers across the EU, which can thus offer their services and products to public authorities throughout the EU single market.

In March 2014 two new procurement directives of relevance to PPPs were adopted by the EU specifically, public procurement and concessions. The new Public Procurement Directive (2014/24/EU) is effectively a reform of a previously agreed Directive (2004/18/EC) while the Concessions Directive (2014/23/EU) is new, reflecting the EU's wish to regulate PPP concessions more closely.

The new Public Procurement Directive (Directive 2014/24/EU) replaced the old Public Procurement Directive (Directive 2004/18/EC) in March 2014. Member States had until 18 April 2016 to transpose the new Public Procurement Directive into domestic law. It regulates a wide range of procurement issues applicable to all public procurements over specific thresholds.

Under the Public Procurement Directive (Directive 2004/18/EC), there were four defined tender procedures, "Open, Restricted, Negotiated and Competitive Dialogue". PPP's were procured under the Negotiated Procedure or the Competitive Dialogue Procedures depending on the complexity and/or uniqueness of the services to be procured.

The new Public Procurement Directive (Directive 2014/24/EU) now introduces the competitive procedure with negotiation, which replaces the negotiated procedure and adds the Innovation Partnership.

Whereas previously, public sector authorities typically procured PPP's via the old Public Procurement Directive (Directive 2004/18/EC) using the available tender procedures what is important to note is that now the EU has introduced a dedicated PPP Concessions Directive (2014/23/EU).

Importantly, public sector authorities are not required to follow a specific tendering procedure as contained in the Public Procurement Directive (Directive 2014/24/EU) and now public sector authorities can define the procedures that apply, considering the principles of transparency and equal treatment. Whilst public sector authorities will be free to run negotiations with candidates and tenderers, they must adhere to the established subject matter of the concession, the award criteria and minimum requirements.

In terms of PPP deal volume and best practice, the UK is by far the leader in developing healthcare PPP projects followed by Spain, Italy, Portugal, France and Germany. The UK was the first to transpose PPP Concessions Directive (2014/23/EU) through the Concession Contracts Regulations 2016.

Successful PPP Procurement

It is well documented through various studies and critical analysis that the success of any PPP is bound by the level of planning and preparation that is invested before any tender process is attempted combined with stakeholder buy in.

Most EU member states who use PPP as a method of strengthening their healthcare systems have as a minimum the following in place;

- PPP Legal Framework (although for most member states depending on the law of the country, a specific PPP legislation for their respective health sectors does not need to be in place although some member states such as Portugal for example have introduced specific legislation to govern the procurement of PPP contracts, including the definition of project selection criteria, the quantification and application of a public-sector comparator (PSC) and to establish dedicated PPP units).
- PPP Unit such as HM Treasury UK Infrastructure and Projects Authority or UTAP in Portugal which would include a dedicated team with oversight on areas such as PPP Policy, Assurance, Delivery (including identification and preparation, project procurement and implementation and monitoring) and Financing (such as equity or guarantees such as the UK Guarantees Scheme for Infrastructure Projects).
- Defined PPP Project Cycle of which there is a wealth of best practice guidance readily available in the market (such as the UK for example which offers a complete suite of information from the Treasury's Green Book to what was the Office of Government Commerce's Gateway Reviews and 5 Case Model (preparation of the Business Case) and EPEC (European PPP Expertise Centre) PPP Guide.

Types of Healthcare PPP's in Europe Overview

In developing the scope of a PPP project, public sector authorities are not restricted on the size, nature or complexity of the scope of services (or indeed the contracting model) in which they would seek to procure from the private sector. However, in the past 15 years, many public sector authorities have developed various models under the PPP framework which effectively range from **Accommodation Only Models** (*wherein the private sector designs, builds, finances and operates the hospital in terms of maintenance for periods of 25 years or more and the public sector effectively leases the hospital during this period and the private sector receives payment throughout the operating period based on availability i.e. if the hospital space is available the SPV receives payment in the form of a unitary payment and at the end of the term transfers the hospital back to the public sector authority*) to the **Full Service Provision Model** (*wherein the private sector in addition to the accommodation only model provides all of the medical services and receives payment via a per capita system*).

The models are effectively determined by the nature of risks transferred or retained by the public sector, extent of the service provision, the nature of the payment mechanism, balance sheet treatment, the length of the PPP contract (in most case these are long term contracts) and ultimately issues related to bankability and securitization.

The table on the following page sets out common examples of the PPP models used throughout the EU over the past 20 years.

Type	Major Features
Accommodation Model	Hospital infrastructure and hard facility management only (many PFI's in the UK)
Accommodation Model with Public Equity	As with the above but now under the UK PF2 model, the public sector is an equity participant at SPV level (30%)
Twin-SPV model	Joint venture with separate infrastructure (PFI) and clinical service companies (e.g. Portuguese "Wave 1" Hospitals).
Accommodation and Full Service Provision	Specialist hospital infrastructure with FM and Medical services (e.g. Coxa, Ribera Salud/Alzira Spain and UK ISTC).
Full Service Provision (secondary healthcare model)	General (district hospital) infrastructure with FM and medical services (most of the sites in the German hospital chains).
Full Service Franchise Provision (tertiary health care model with teaching and R&D)	University (teaching/research, "tertiary") hospital infrastructure with FM and medical services (e.g. Berlin Buch/Helios or Giessen & Marburg/Rhön).
Full Service Provision (all levels of care, primary, secondary and tertiary)	Integrated hospital and community/primary care (e.g. the Ribera Salud/Alzira companies in Spain).

In terms of value for money, studies have shown that the most effective model in terms of healthcare gain is the Accommodation & Full Service Model such as the Alzira PPP Model in Spain albeit less common than the Accommodation Model which is primarily used in the UK.

Case Study Overview - The Alzira Model, Spain

Throughout Spain 24 PPP initiatives have been developed which includes 14 Accommodation Only PPP's and 9 Full Service Provision PPP's. Alzira is a region in Valencia which launched a Full Service Provision PPP (also referred to as a Public Private Investment Partnership) in 1997 which includes a fully integrated care service delivery including Primary & Secondary Care for the region of Azira covering a population of circa 300,000 with its hub being the University Hospital of La Ribera.

The Ribera Salud consortium a private company formed solely for the purpose of delivering public hospital and primary services submitted the only bid. The consortium raised the commercial capital, commissioned the hospital building and its technologies, delivered a full range of hospital services and proposed to cover debt repayment from service income which it generated via a capitation funding model. Alzira provides a full primary and secondary care service on the basis of a negotiated (annualised) capitation payment per head of population

Alzira has adopted a vertical integration model and it is able to flex and adapt service models to changing clinical and care needs and can also flex and adapt asset utilisation and future investment balance and as such, in comparison to the public sector elsewhere in Spain, the Azira model is proven to be 25% less expensive than public sector delivery. Furthermore, the hospital has gained a place amongst the top twenty Spanish hospitals in a number of categories and has gained university hospital status. University Hospital of La Ribera has been chosen along with other 3 European healthcare institutions, as basis for the report titled "Healthcare of the Future" which has been approved by the European Commissioner for Health and Consumer Policy.

By giving responsibility for a population's full-service hospital provision to the private sector, after a difficult start but nearly 20 years since the contract was first implemented, this approach enabled the Government of Valencia to provide free and universal integrated healthcare to a designated region and within budget. Over 20 per cent of the Valencia region (around 850,000 people) is now covered by similar contracts which explicitly set out the costs the government will pay for the hospital's services for the area it covers.

Case Study Overview – The New PF2 Model, UK

The UK has delivered over 700 hundred PPP's since 1992 both Accommodation Only (i.e. Private Finance Initiative) and Full Service Provision (i.e. ISTC's) with varying degrees of success. In a bid to reform to PFI, the UK Government introduced the new PF2 Model which essentially maintains the principals of the Accommodation Only Model but introduces the concept of the Government becoming a minority shareholder (up to 30%) in the Project SPV (and now contained in tender documentation are the Standard PF2 Equity Documents such as the Shareholders Agreement).

The first hospital procured under the PF2 is the 669 bed Midlands Metropolitan Acute Hospital (which includes 13 Operating Theatres which is due to open in 2018. Three bidders responded to the tender but only one bidder, a UK company called Carillon was left as a single bidder for this circa £450m contract after two other companies withdrew their bids.

Here the medical services remain with the public sector whereas Carillon will design, build, finance and provide hard facilities management and ensure Lifecycle replacement (otherwise called Support Services) for the duration of the contract which is 30 years (excluding the construction period) and at the end of the contract the hospital will be transferred back to the public sector. The Special Purpose Vehicle (SPV) includes the Government as a shareholder via its Infrastructure and Projects Authority (IPA). The public sector will pay Carillon a Unitary Payment annually for the duration of the 30-year contract (which covers debt, the cost of the support services and profit).

Case Study Overview – Cascais Hospital, Portugal

PPP in the Portuguese healthcare service is the second largest market after UK, and through their first wave of PPP's implemented the integrated hospital twin-SPV-model. Cascais Hospital was the first public-private partnership (PPP) hospital development as part of the first wave of five hospitals. The hospital includes 250 beds which serves the 200,000 residents of Cascais and its surrounding municipalities and deemed a replacement hospital.

Two SPV's are formed which joint and severable in terms of liability, the first is the Infrastructure SPV which has a thirty-year contract and is responsible for the design, construction and maintenance of the hospital building and fixed equipment. The second is the Clinical SPV has a ten-year contract and is responsible for clinical services, ancillary services and medical equipment acquisition and replacement.

The payment structure for the infrastructure SPV follows the UK availability payment structure (unitary charge) and the clinical SPV based on payment for procedures (case mix).

The Georgia Healthcare PPP Approach

To consider a successful healthcare PPP program in Georgia, the basic institutional infrastructure would need to be laid down in the first instance such as;

- **PPP Legal Framework**

Ministry of Economy is working with EBRD and international legal advisors, Hogan Lovells, to develop an overarching PPP law and policy for the government of Georgia

- **Healthcare PPP Unit**

MoLSHA would build a dedicated team (8-10 staff) with PPP expertise and knowhow and in terms of governance and accountability the PPP Unit would be funded by and report directly to the Minister for Health.

The immediate task for the PPP Unit would be to develop the following;

- o **National Healthcare PPP Policy**
- o **Healthcare Strategic Service Model**
- o **Develop a Healthcare Infrastructure Plan**
- o **Develop a Healthcare Infrastructure Investment Strategy**

The role and day to day tasks including the authority levels and accountability of the Healthcare PPP Unit (if not already set down in the PPP Legal Framework) would be set out in the Policy Paper, however, the role and responsibility of the PPP unit would be to lead and manage the PPP Project Cycle from inception to operations cover the following;

- o **Project identification and Preparation Phase** (including preparation of the strategic, outline and final business case)
- o **Procurement Phase** (including management of the tender process including evaluation of the bid submissions, negotiations and preparation of the contracts and contract award in accordance with the PPP Legal Framework)
- o **Implementation and Monitoring Phase** (including oversight of operational monitoring)

To build capacity in the shortest possible timeframe, given PPP expertise and knowhow may not be widely available in Georgia, the Healthcare PPP Unit can be staffed with consultants in the initial phase with a primary task to build local capacity through mentorship and training.

The benefit of course is the ability to start fast, appoint the team on structured TOR's to undertake the initial tasks which could take the MoLSHA to the **Project identification and Preparation Phase** within 6 to 8 months from inaugurating the PPP Unit.