PPPs in the healthcare sector:
EU good practice and the Italian case

Rome, 25 January 2019

About today

- Workshop = interactive
- Three objectives:
  - General awareness-raising on PPPs
  - Highlight the main issues with the Italian PPP framework and PPP projects
  - Help the Ministry of Health to define a methodology for the assessment of PPP proposals
- This workshop is part of a wider initiative of the European Investment Advisory Hub for the Ministry of Health and the MEF

Workshop agenda

- A word on EPEC and on the European health PPP market
- Understanding PPPs and what they mean for the public sector
  - Why use PPPs
  - Preparing a PPP project
  - Challenges to PPPs
- The importance of the institutional PPP framework
- The Italian case

EPEC

About EPEC

- Established in 2008
- Mission: “to help the public sector deliver better PPPs in Europe”
- A unique cooperative initiative of the EIB, EU Member and Candidate States and the European Commission
- Membership: now over 40 members (e.g. PPP Units, Ministries of Finance)
- Team of 14 PPP professionals
- Part of EIB’s Advisory Services
- EPEC is PPP-neutral

PPP advisory services to the public sector

Share good PPP practice through network activities:

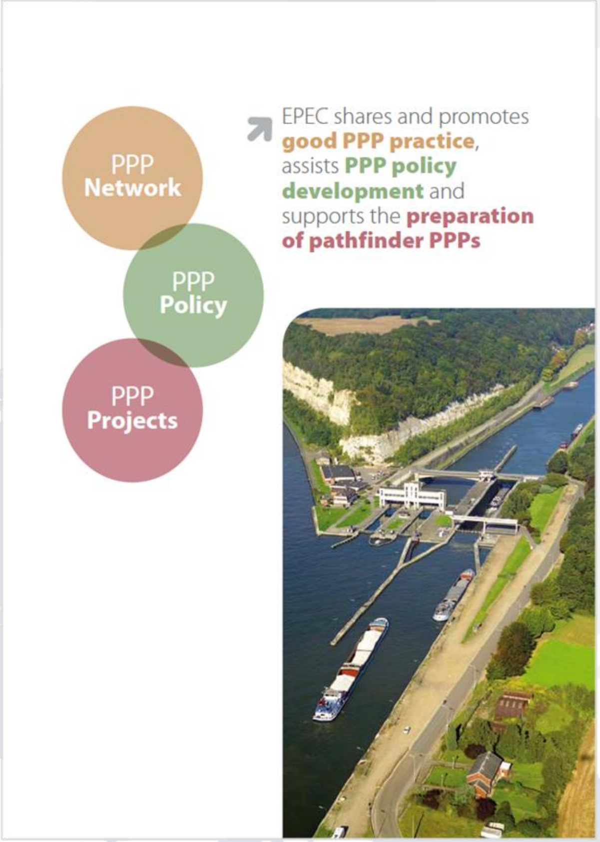
- Providing market intelligence
- Addressing practical issues in implementing PPPs
- Developing PPP guidance and tools

Assist PPP policy development:

- PPP legal and regulatory frameworks
- PPP institutional arrangements
- Processes for preparation, approval and management of PPPs

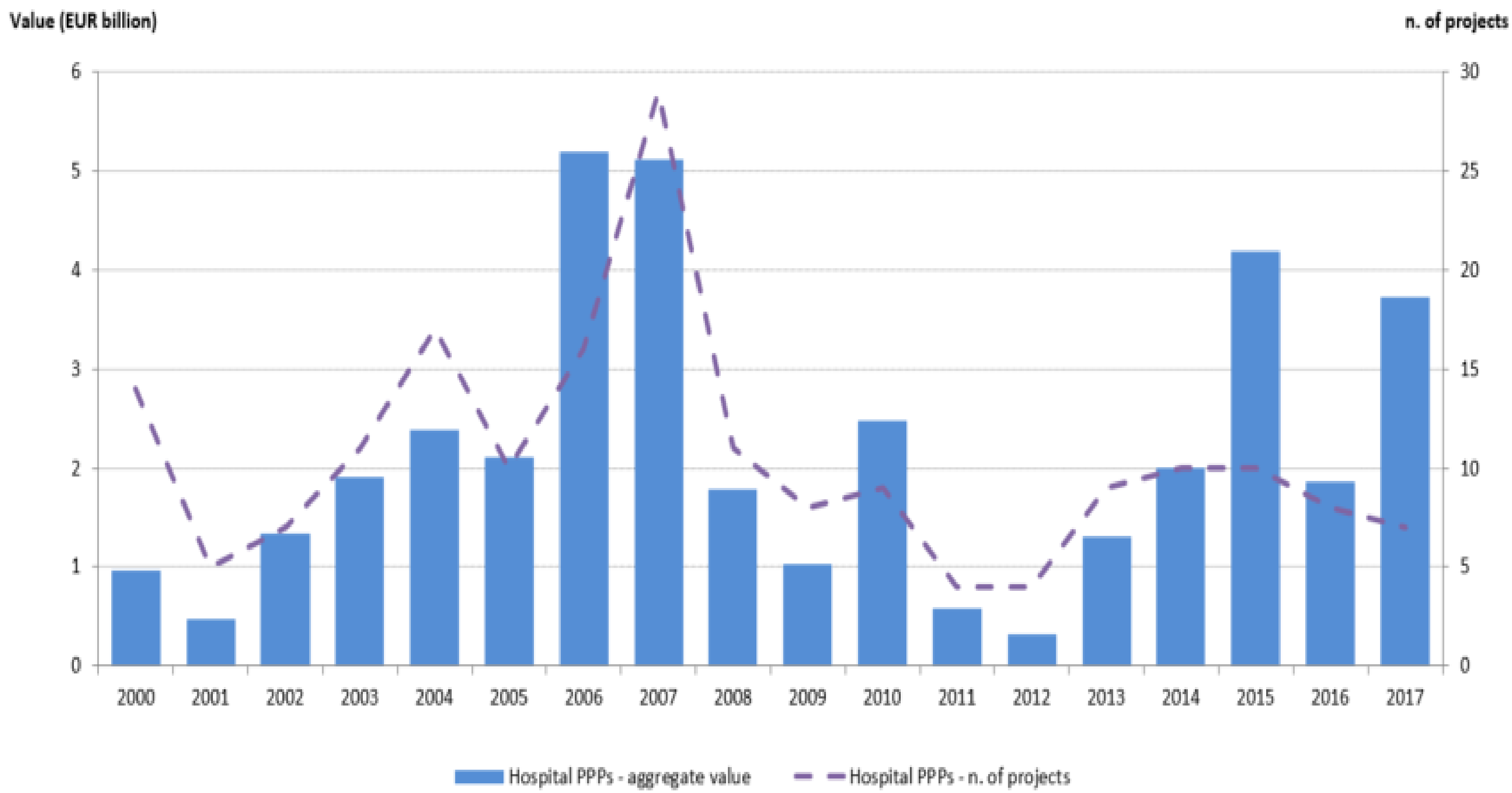
Support PPP project preparation, offering high level strategic advice, tailored to each project, e.g.:

- Making the PPP decision
- PPP project analysis preparation
- Use of transactions advisers



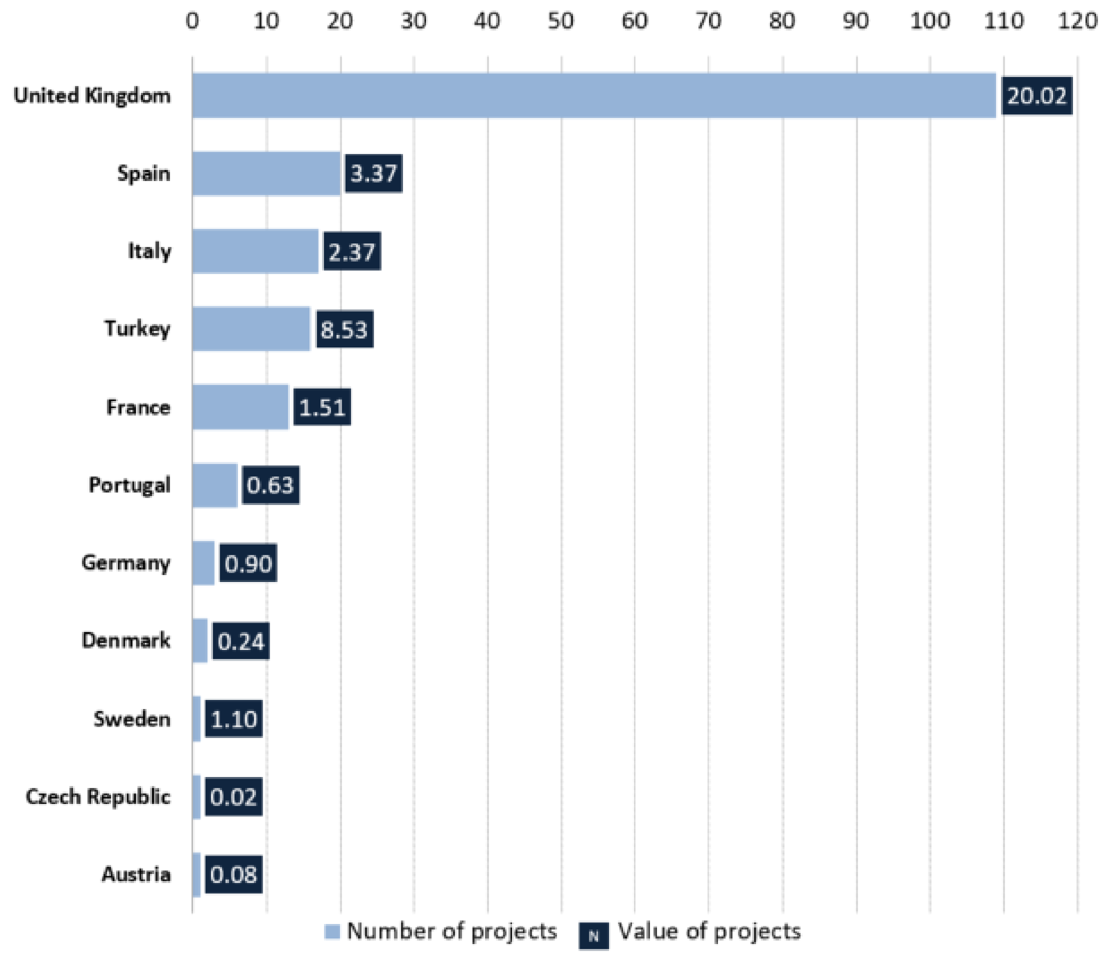
The European healthcare PPP market

European Healthcare PPP market (2000-2017)*



* EU28 + Turkey + Western Balkans

European Healthcare PPPs by Country (2000-2017)*



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What are PPPs and how do they work?

PPPs: a simple definition

Public and private sectors working together to deliver public infrastructure projects and services

Key concepts

- A long-term contract between a public contracting authority and a private sector partner aimed at the delivery of services rather than assets
- The transfer of certain project risks to the private partner, notably with regard to the whole life asset management and service provision and/or financing the project
- The public sector looks for advantages from the private sector participation to achieve better Value for Money (VfM) outcomes

Some PPP project features are unique

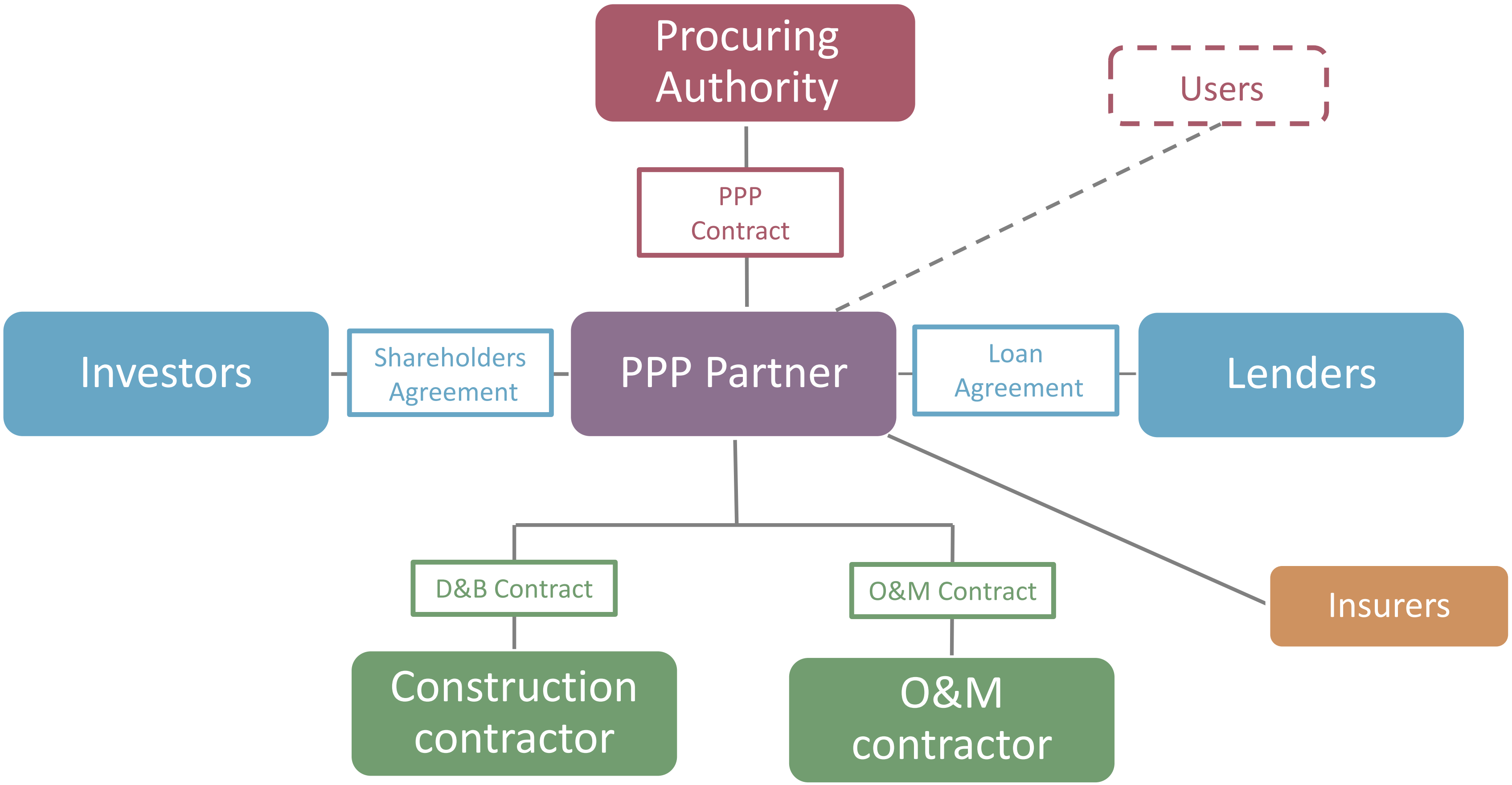
- Paying for a service - not the asset
- Specification of project outputs rather than project inputs
- Focus on the whole life cycle cost of the project
- Risks that are normally managed by the public sector are transferred to the private sector
- Payments made to the private partner
  - reflect the quantity/quality of the services delivered
  - are at risk if performance is poor
  - only start when delivery of services starts
- Possible application of private financing (often “project finance”) to underpin the risks transferred to the private partner

Two main “standard” PPP models in use

- User-pay structure
  - Users pay the private partner for services e.g. toll roads, ports
  - Private sector bears risk of demand for service
  - May involve some public subvention or support
  - Penalties for poor performance

- Government-pay structure
  - Government makes regular payments to the Partner once the asset is built
  - Payments are based on availability or demand
  - Financial deductions and penalties for poor performance and/or non-availability of the asset

Typical PPP structure



PPPs are not:

- free - someone has to pay for the service in the end
- just a financing tool - financing is only part of the story
- about hiding long-term liabilities - balance sheet treatment may be a driver but it should not be only or main one
- simple - PPPs are complex to put in place and manage and require significant preparation / resources / skills
- ‘deals’ - they are about long-term delivery of a public service
- a panacea, they can and do go wrong

Why use PPPs to deliver infrastructure and what are the challenges?

Some opportunities and motivations for using PPPs

Public sector can focus on **services**

Innovation in design, construction and service delivery

Greater certainty of **on-time delivery** once contracts are signed

Mobilizing private sector **capital**

Integration of design, construction and services

Better **long-term maintenance** of assets

Widening the market to **global private sector providers**

Better **quality and consistency of service** delivery

Better long-term **management of risks**

Access to **third party scrutiny**

Greater visibility and **certainty of whole-life costs**

Matching long-term benefits to long-term funding

Reform of public sector practices

Common challenges

- Organisational and structural issues
  - Legal and institutional framework
  - Governance and decision-making arrangements
- Managing public stakeholders
  - Increased scrutiny on projects delivered as PPP
  - Importance of Value for Money analysis
- Capacity and capability
  - Public sector, especially the procuring authority
  - Private sector capacity and capabilities - the market and pipeline
- “Funding” and “financing”
  - Budgetary and fiscal risks: affordability
  - Attracting finance to the PPP project: bankability
- Managing operational contracts
  - Adequate resources and governance arrangements
  - Perceived and actual inflexibility of the PPP contract

When NOT to do a PPP

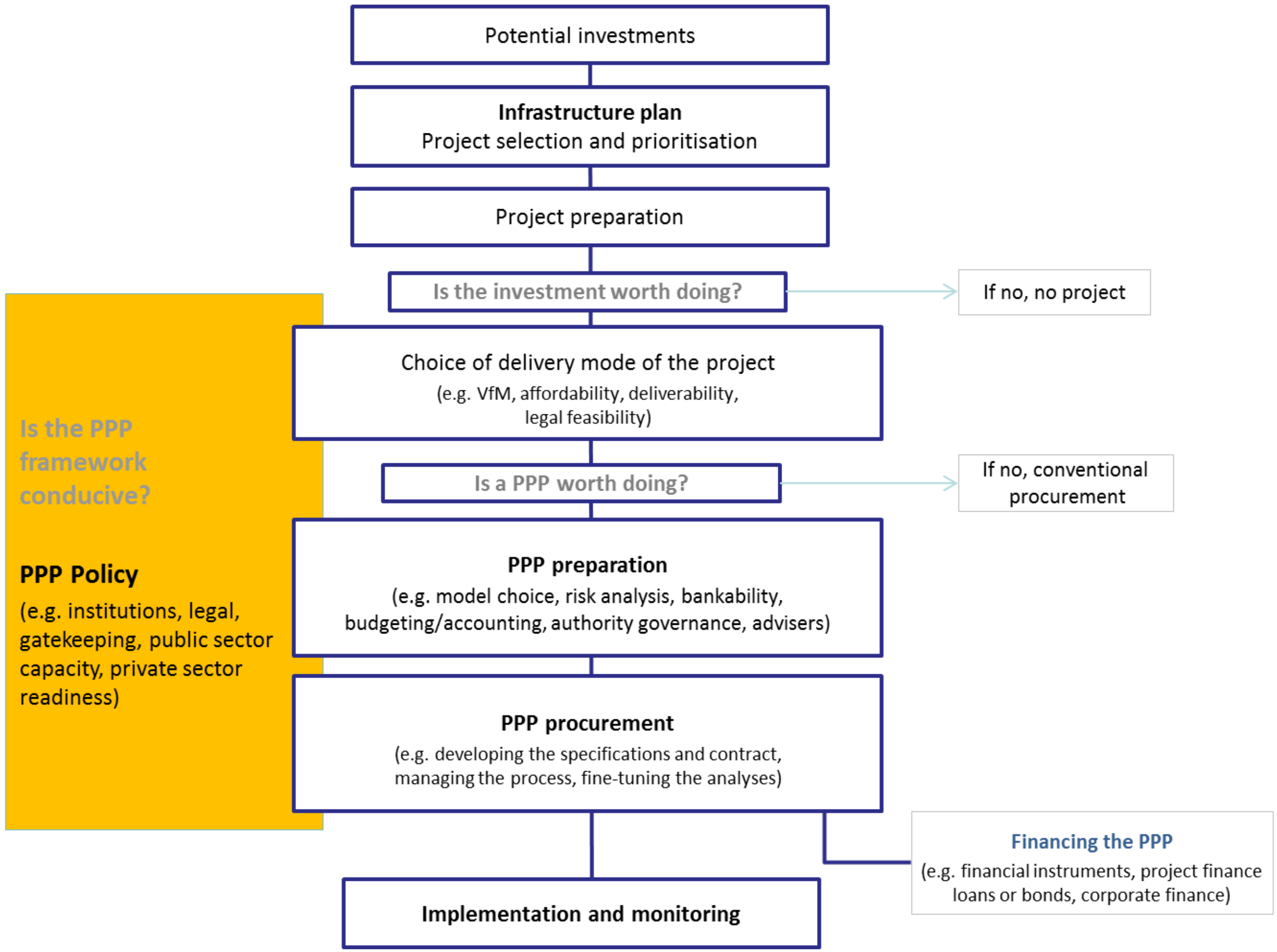
- A poor project
- A poorly developed PPP
- Too much and/or inappropriate risk allocation to the private sector leading to poor (or no) VfM
- Excessive focus on Eurostat/accounting treatment considerations

Typical challenges for healthcare PPPs

- Inflexibility (e.g. changes in healthcare needs, changes in medical services, evolution of technology)
- Creditworthiness and legal status of the contracting authority
- Scope of facilities management services
- Medical equipment (installation and renewal) and ICT
- Interface risks (e.g. facilities management and medical services)
- Utilities risk
- Clinical services
- Transfer of staff to the private partner
- Value of existing site (when applicable)

The PPP project cycle and what it implies for the public sector

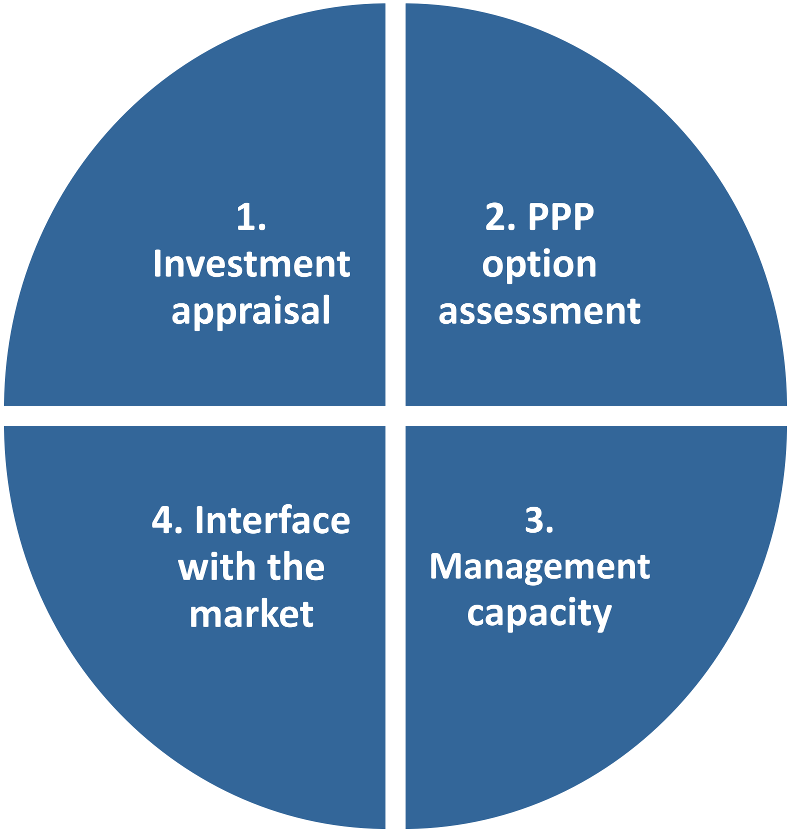
The PPP project cycle



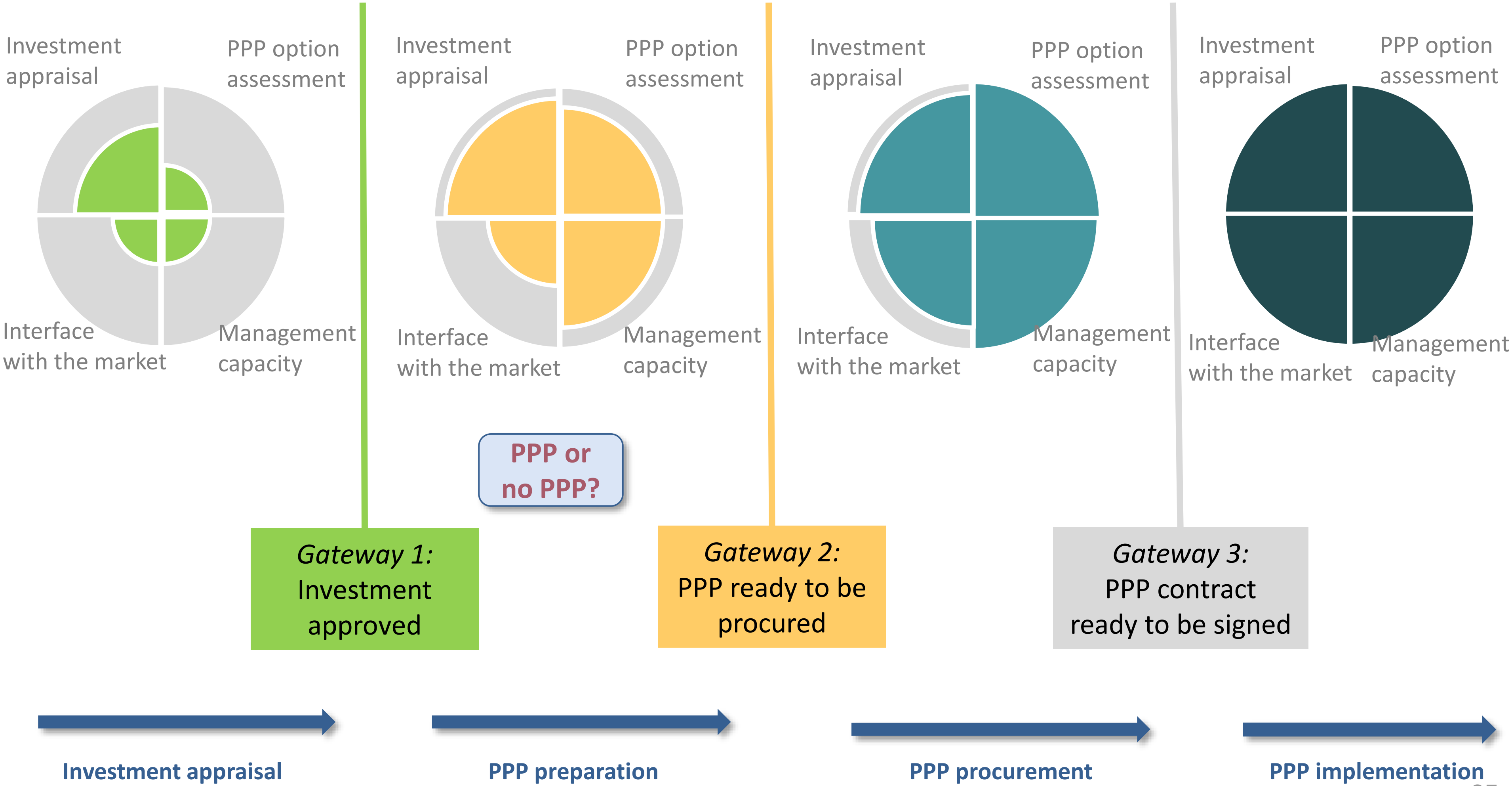
Five key questions that authorities need to answers:

1. Do I know what I want?
2. Have I:
   - chosen the right project solution to address what I want?
   - chosen the right way to deliver the project?
3. Can I afford to pay for the service?
4. Can the market deliver what I want?
5. Can I manage the process?

The PPP preparation



The typical PPP project cycle



1. Investment appraisal

Define requirements and select project

- Define the strategic plan
- Define the need for the project
- Review the range of possible options to meet the need
- Undertake a "cost-benefit analysis"
- Define/select the preferred project option

Review key risks and mitigants

- Identify strategic risks of the project
- Assess support from all stakeholders
- Assess the ability of the Authority to manage the project delivery process
- Plan the ex-post evaluation

- This is about the underlying investment rather than using PPP
- This leads to the decision that the investment is worth making
- The next question is: is PPP the best delivery mode for the project?

2. PPP option assessment

- This is about appraising the PPP option as a way to procure the project
- An interactive (not sequential) process with many interdependencies
- Most topics will also need to be fine-tuned or reassessed during the procurement and at contract signature
- A Value for Money (VfM) analysis to confirm that PPP is the best delivery option
- Requires legal, financial, technical advice to support the various evaluation on the PPP option

What the PPP option assessment covers

Technical & Legal

- Define the project scope – services to be procured
- Define the output specifications / KPIs
- Assess the legal framework – is the authority able to enter into a long term contract?

Value for Money

- Compare costs of long-term delivery options (including risks)
- Assess qualitative factors
- Understand key commercial terms

Risk analysis

- Identification
- Evaluation
- Allocation
- Mitigation/management

Affordability

- Identify and estimate all costs (incl. life cycle and financing costs)
- Advisers' input
- Market sounding input
- Identify all likely funding sources
- Identify contingent payment commitments

Budgeting, accounting and statisitcal treatment

- Impact on budget and accounts of the contracting authority
- If relevant, expected Eurostat treatment

Bankability

- Private sector capacity/ interest
- Contractor capability
- Financing sources, appetite, terms
- Strength of competition
- Involvement of advisers

Affordability

- Seek to answer the funding question: can the project be paid for by users or government over the long term?
- Not to be confused with “financing”, with Value for Money and with accounting/statistical treatment
- Analysis seeks to identify all project costs and the funding sources to meet them, with a view to estimate future payment commitments
- Estimates need to be realistic (role for advisers and market sounding)
- Long-term payment commitments vs shorter-term budget horizons
- Guarantees and other contingent liabilities
- Affordability is a big project credibility and deliverability issue (reduces risk of delay/cancellation and default)

Value for Money

- VfM captures the relationship between cost and value
- Cost over the life time of the project to deliver the associated value, including the costs of managing the associated risks
- Value: quality and quantity of service or performance level over the same period
- Fundamental VfM drivers: competition, sound preparation and contract management
- Quantitative assessment and qualitative assessment
- Timing of VfM assessment

Eurostat rules on PPPs

- EU limits for government deficit and debt: Maastricht criteria
- Key questions: who should “record” PPP/concession projects and how?
- Issue becomes more critical in an era of fiscal constraints

3. Management capacity

Governance and approval process

- Set out a Steering Committee to oversee preparation and delivery of project
- Determine all authorizations and permits require before contract can be signed

Project management

- Project team building, including advisors
- Project plan and timetable
- Contract management team

- PPP procurement and management demands significant time and resources
- It requires project management skills, a project team, competent advisors and sound governance arrangements
- Procuring authority also needs to arrange for a contract management team

4. Interface with the market

Bidding process

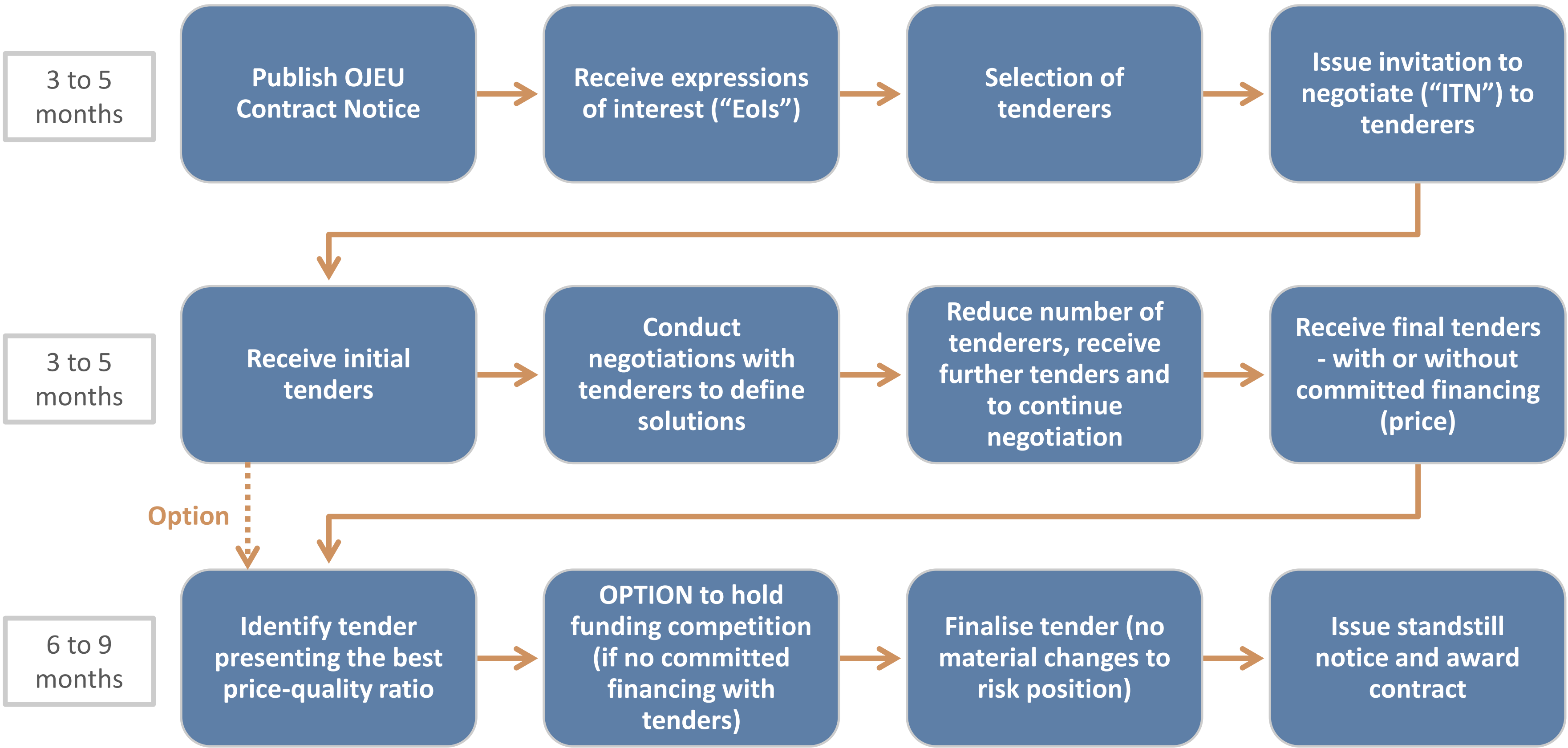
- Advertisement, prequalification and shortlisting
- Invitation to tender /dialogue
- Evaluation of tenders and preferred bidder

The PPP contract & financial close

- Finalise the PPP contract
- Conclude financing agreements
- Financial close

- PPP is ultimately the procurement of a contract to be negotiated between public and private sector
- Importance of skills, experience and expertise (from both sides)
- Importance of competition to drive VfM (e.g. through innovation, pricing)
- The structure and management of the procurement are key to maintaining healthy competition

Typical “competitive process with negotiation”



What is likely to be important for government?

- Value for Money
- Tendering process which focuses on competition and innovation
- The allocation and management of risks
- Affordability issues
- Eurostat issues
- Budgeting and fiscal risk management
- The PPP contract
- The financing arrangements and financial close

The importance of the institutional PPP framework

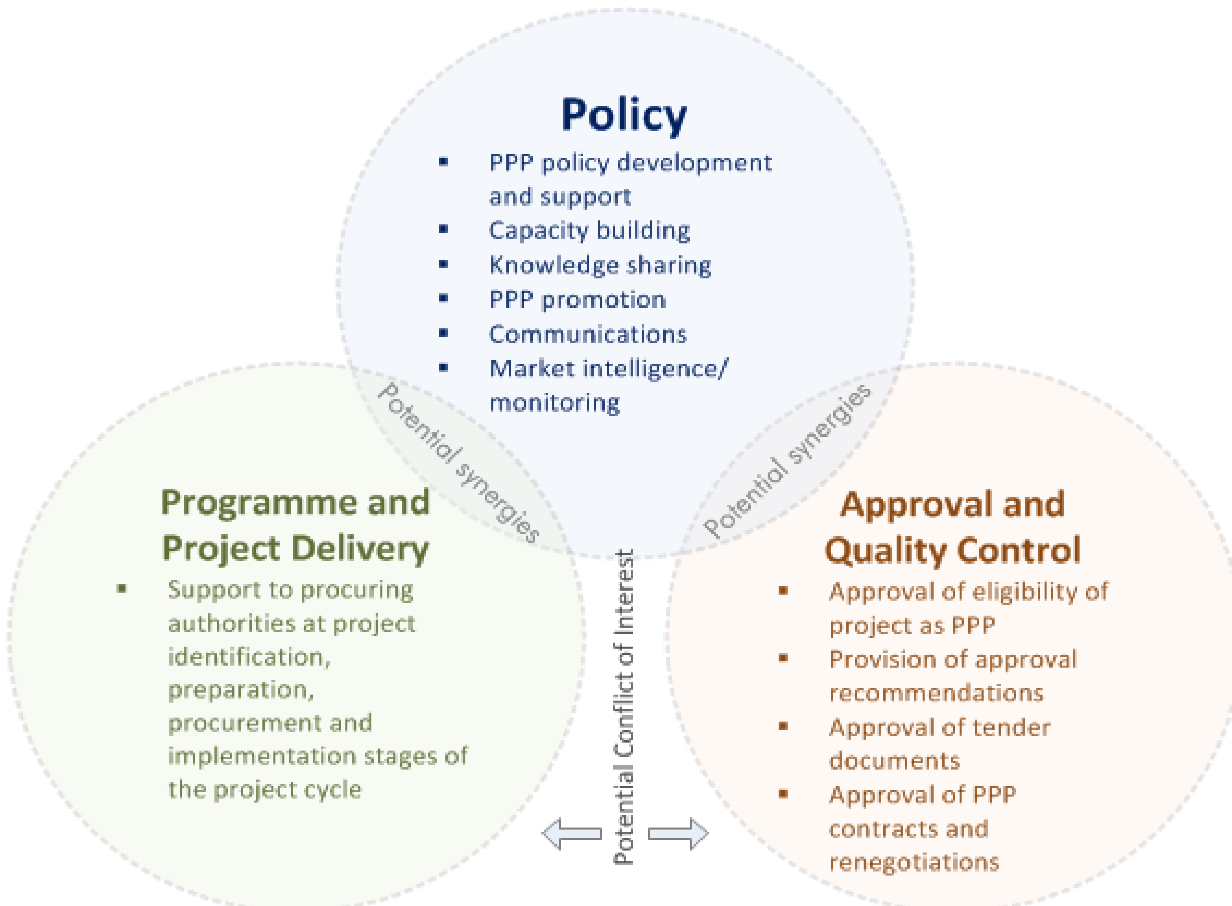
A PPP framework

- Political commitment and policy formulation: ensure buy-in from market and procuring authorities and acceptance by wider stakeholders

- Law and regulation: clear and stable basis for procuring and delivering PPPs

- Institutional arrangements: decision-making, quality control and monitoring of PPPs

Main government functions within a PPP framework



The Italian case

High level observations/questions

- Very high mortality rate (from tender launch to financial close)
- Quality of the PPPs that have reached financial close: are they "Value for Money" for the public sector?

The Italian case in questions

- Political champion and strong policy statement ?
- Sound infrastructure plans?
- Dedicated unit for PPP policy matters?
- Central government approval/quality control?
- Dedicated unit to support procuring authorities?
- Supportive legal framework?
- Helpful guidance on key issues (e.g. VfM, affordability)?

The Italian case in questions

- Standardisation of contracts and key documents?
- Competitive procurement processes that favours innovation?
- Understanding of the Eurostat issue?
- Private sector readiness and buy-in?
- Financiers involvement and buy-in?
- Contract management and ex-post evaluation?

Discussion

Guy Chetrit

European PPP Expertise Centre

epec@eib.org

www.eib.org/epec

Twitter: @EpecNews

Telephone: +352 4379 22022

Fax: +352 4379 65499