

ANNEX I
An analysis on Public-Private Partnership
Contract
“Hospital infrastructure in the
municipalities of
X and Y”

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ISTAT - National Accounting - Public Finance Service

Object of the contract

The building and management of services relating to hospital infrastructure in the municipalities of X and Y.

Contract partners

✓ **public:**

**public sector healthcare unit
(ESA classification S.13 - general government)**

✓ **private:**

**non-financial project company
(ESA classification S.11 - non-financial corporations)**

Characteristics of the contract

Regulation governing the award procedure	Issue date of the notice/ announcement	Award date	Date of execution of the contract	Duration of the contract	Duration of the construction phase	Start date	End date	Duration of the management phase
Public Contracts Code Art. 153 et seq. (private initiative procedure)	August 2003	April 2004	September 2004	27 years and 5 months	3 years and 5 months	September 2004	February 2008	24 years

Total value of the works

Original value: approximately 100 million euros (57% for work at the hospital in X and 46% for work at the hospital in Y).

Amendments to the concession contract:

1) May 2005, interpretative amendment to the agreement executed in September 2004

2) December 2007, amendment concerning earthquake proofing (pursuant to Ministerial Decree 14/9/05), including:

- additions and/or partial substitutions to the stipulated works
- duration of the concession unchanged
- charges due to the additional works: 25 million euros to be borne solely by the public partner.

Total value of the works updated with the 2nd amendment: approximately 150 million euros.

Criteria for recording the works in national accounts:

Analysis of RISKS and Government guarantees

- ✓ Construction risk
- ✓ Availability risk
- ✓ Demand risk

- ✓ Government guarantees

Construction risks (start up stage) (1).

The RISKS that can be allocated to PRIVATE PARTNERS and PUBLIC PARTNERS have been identified by analysing the START-UP STAGE of the contract, in accordance with the rules of ESA 2010 and MGDD 2014.

✓ PUBLIC PARTNER

1. Refusal of authorisations for which the Grantor is responsible
2. Planning discrepancies due to regulations subsequent to the execution of the contract

✓ PRIVATE PARTNER

1. Delay in approval procedures for which the Grantor is responsible
2. Delay in approval procedures for which the Operator is responsible
3. Refusal of authorisations for which the Operator is responsible
4. Planning discrepancies
5. Variations requested by the Grantor
6. Variations proposed by the Operator

Construction risks (construction stage) (2).

The RISKS that can be allocated to PRIVATE PARTNERS and PUBLIC PARTNERS have been identified by analysing the CONSTRUCTION STAGE of the contract, in accordance with the rules of ESA 2010 and MGDD 2014.

✓ PUBLIC PARTNER

1. Failure to comply with the time schedule for which the Grantor is responsible

✓ PRIVATE PARTNER

1. Failure to comply with the time schedule for which the Operator is responsible
2. Work stoppages for which the Operator is responsible
3. Variations during construction requested by the Grantor
4. Increases in the cost of raw materials
5. Changes in taxation
6. Variations due to new regulations

Construction risk (3).

Evaluation of the participation of the Public Partner in financing the works

The following are taken into account in accordance with ESA 2010 and MGDD 2014:

- 1) the **value of the government contribution**: just over 50 million euros
- 2) the **amount of the public sector contribution** as a proportion of the total value of the works: 38.1%

The procedures for the disbursement of public financing in the contract in question:

- ✓ CONTRIBUTION/PRICE is paid on acceptance of the work*
- ✓ NO AVAILABILITY FEE is envisaged
- ✓ SERVICE CHARGES are commensurate with quality and quantity
- ✓ NO REPURCHASE PRICE is envisaged
- ✓ TRANSFER OF PROPERTY RIGHTS: the BUILDING LEASE is granted and the AVAILABILITY OF STRUCTURES IS TRANSFERRED TO THE OPERATOR.

*The contribution/price is disbursed on acceptance (including partial acceptance) of the work and is subject to the availability of funds on the part of the Grantor.

Construction risks

On the basis of the elements described, the private sector incurs most liability and the construction risk has thus been allocated to the private partner.

Availability risk (1)

The relevant service specifications have been used to analyse the complex system of penalties applicable to the fees for the hospital facility maintenance and healthcare activity support SERVICES that the Operator is required to provide.

SERVICES AND ANNUAL CHARGES

✓ Energy	8 million euros
✓ Electro-medical equipment	6 million euros
✓ Preparation and distribution of meals	4 million euros
✓ Cleaning and sanitation	3 million euros
✓ Laundry	2 million euros
✓ Maintenance of buildings, metalwork and joinery	0.5 million euros
✓ Maintenance of furniture	0.2 million euros
✓ Collection and disposal of waste	0.5 million euros
✓ Management of passenger lifts and goods lifts	0.2 million euros
✓ Outdoor surveillance	0.08 million euros
✓ Maintenance of IT systems	0.2 million euros
✓ Sterilisation	0.7 million euros

Availability risk (2)

The contract does not provide for the Grantor to pay a specific “availability fee” to the Operator.

“The parties agree that the application of the fee [for the services rendered] shall start from February 2008. Hospital facilities that have been completed and handed over to the Grantor before the said date shall be made available free of charge (...)” (Amendment 2, art. 3).

Availability risk

On the basis of the absence of an availability fee and the complex system of penalties applicable to the fees for the hospital facility maintenance and healthcare activity support services that the Operator is required to provide, the availability risk has been allocated to the private partner.

Demand risk (1)

In accordance with the criteria of ESA 2010 and MGDD 2014, the following demand risks have been identified in the contract since:

- 1) the granting authority does not undertake to supplement any loss of revenue for the Operator because the actual demand for services was lower than expected. Rather, the contract provides for the annual fee to be commensurate with the demand for services that has actually been met
- 2) in consideration of the obligations undertaken, the Grantor assigns to the Operator the right to commercial exploitation of the facilities constructed.

Demand risk (2)

On the basis of the contract the revenue of the Operator is derived from:

- 1) **Service charges**, updated in accordance with variations in the ISTAT price index for the first two years of management and, from the third year until the end of the concession, commensurate with the annual turnover of the Grantor (increased in value on the basis of current regional tariffs for hospitalisation and specialist outpatient services, using data from the report on the management of health and social care services attached to the final budget for the same financial year)
- 2) **Commercial services** (cafes, automatic drinks vending machines, car parks, newsagents, florists, convenience stores and banks at the two sites in x and y - an annual charge)
- 3) **Visitor accommodation services** for which the Operator undertakes to pay the Grantor a fixed annual charge as well as a percentage of the profits each year.

Demand risk

On the basis of the provisions of the articles of the Code stating that the granting authority does not undertake to supplement any loss of revenue for the Operator due to an actual demand for services that is lower than was expected and the fact that the revenue of the Operator is derived from service charges, commercial services and visitor accommodation services, the demand risk has been allocated to the private partner.

Government guarantees

As stated in the contract:

“(…)

The Grantor hereby accepts the transfer of the credit rights belonging to the Operator to the financial institutions it has specified, and that it serves as a guarantee for part of these credits...”

This statement relates to and is confirmed by the content of MGDD 2014 section VI.4.3.6 *Government guarantees* (60-66-68).

Conclusions

On the basis of the risk distribution,
in accordance with the criteria specified in
ESA 2010 (20,276-290) and MGDD VI 4, the PPP contract for
Hospital infrastructure in the municipalities of X and Y

has been CLASSIFIED BY ISTAT as
Off balance sheet