

Lessons learned from Public-Private Partnerships and collaboration in the health sector

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EIB - European Union's financing institution



Created by the Treaty of Rome in 1958, to provide long-term finance for projects promoting European integration;

- Subscribed capital: EUR 164bn
- Shareholders: 25 Member States of the European Union
- Lending in 2006: EUR 53bn, EUR 46bn within the EU
- Sectors: Transport infrastructure => energy => environment
=> human capital & R&D

In general what kind of healthcare projects and programmes can EIB finance?



- Hospitals (general, teaching, tertiary)
- Wider programmes of hospital and health infrastructure
- Laboratories
- Primary and community health facilities
- Public and occupational health programmes
- EUR 2.4 bn in 2006,

Very wide range of eligible projects, if they represent a cost-effective health gain

Who can borrow from EIB for health investments?



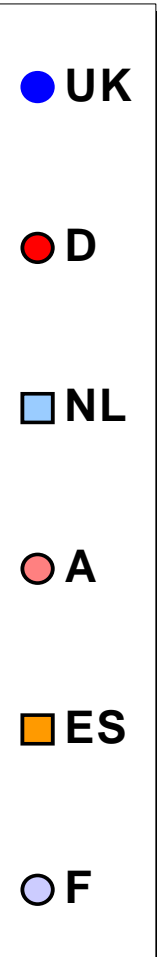
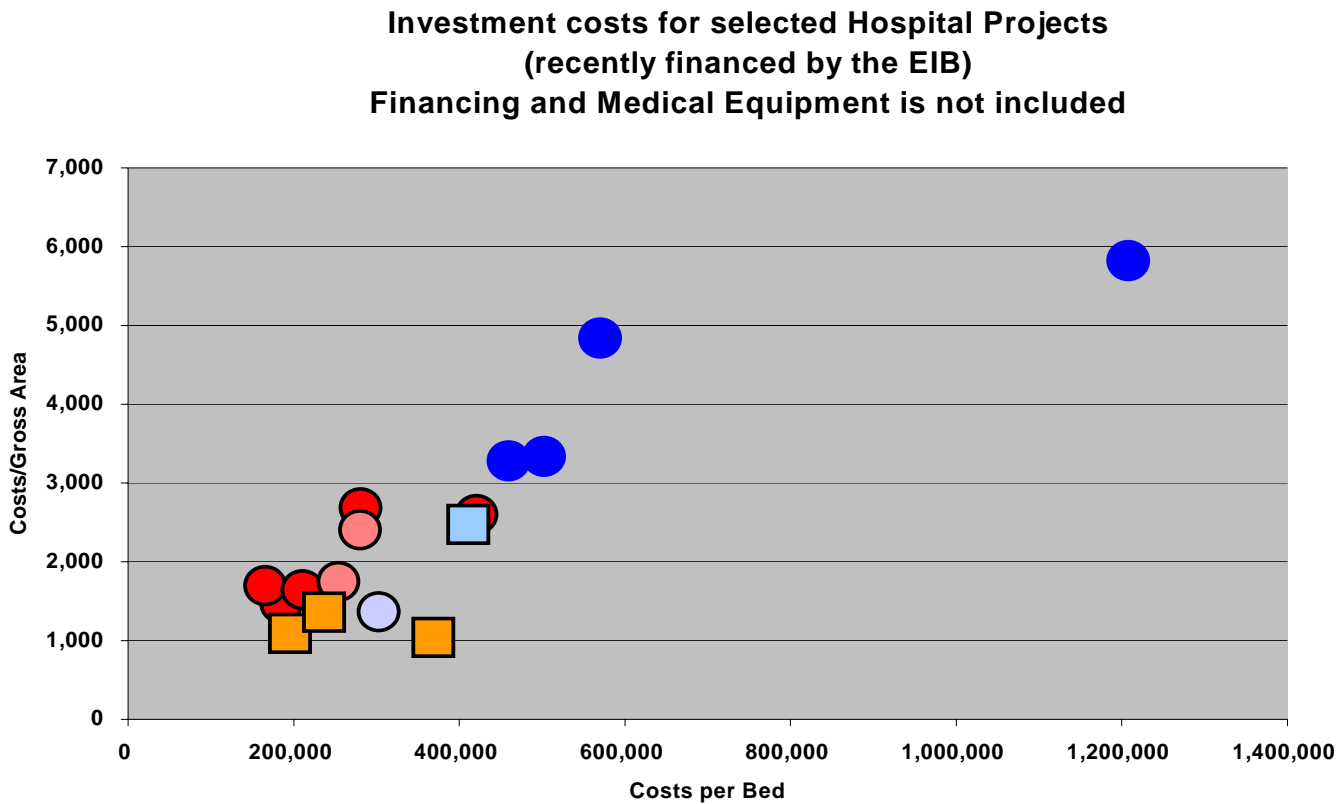
- Public sector – state, regional, municipal
- Public agencies with power to borrow
- Private sector – banks, corporates
- Non-profits with credit rating?
- PPP

Background



- Healthcare expenditure pressures
- **Labour** costs are the major spending item
- Therefore, **investment** gets restricted instead
- Result - ageing and increasingly inappropriate bed stock
- Do we invest wisely today?

Variation in hospital capex (EIB's experience)



Definition of PPP



“A risk-sharing relationship between the public and private sectors based upon a shared aspiration to bring about a desired public policy outcome”

Need replicability, scalability and durability: only achieved via a **business model** = a **contract**

But “contracts” can vary greatly.

Trends in PPP?



Mostly flourishing as a *prospect*, but slow real *progress*!

- UK – continuing but problematic
- Italy – few real deals, and slower than expected
- Portugal – slower than expected
- France – just starting, orthodox PPP model?
- Spain – just starting, orthodox PPP & public-public too
- Central/Eastern Europe – aspirations but...

EIB issues with PPP



- Mechanics
 - Risk allocation
 - PSC, VfM
- Contracts
 - Litigation (Anglo-Saxon Law) vs arbitration (Civil Law)
 - **PPP are long-life assets \Rightarrow highly contractual \Rightarrow “incomplete contracts”**
- Preconditions
 - Legal title over property?
 - Liquid contracting market
 - **Procurement “tail” wagging hospital model-of-care “dog”**

Advantages of PPP...



- Provides a solution for capital shortages
- Introduce private sector disciplines
- Building/maintaining to a higher quality and longer life
- Non-core (i.e. not medical) services handled by those most capable
- Risk in hands of party best capable of assuming it

Disadvantages of PPP...



- Cost of capital higher than government
- Potential oligopoly of contractors
- Tends to emphasise the big bricks-and-mortar
- *Commitment* transaction costs
- *Operational* transaction costs (reduced through-life flexibility)
- **Lack of integration between clinical model and infrastructure**

Contract “completeness”



Whether the provider to “public sector” is a public agency or private company, **contract “completeness” should be desirable**:

- Certainty for both contracting parties
- Appropriate risk transfer
- Appropriate management expertise

Contract “completeness”



But transaction costs always prevent “completion”. So incompleteness in contracting is inevitable

Most conventional PPPs are internally more contract-dependent than conventional procurement – so the contracts needs to be detailed & clear... yet somehow still **flexible**

Contract “incompleteness”



When there is contract incompleteness, incentives are:

- **Significant** to aim at cost reduction over time, but
- Relatively **weak** to aim for quality improvements over time

But quality change is what will be fundamentally required of hospitals in the future...

So, we need either more complete contracts, or ones with better “partnership” mechanisms

Conclusions

- Healthcare service needs & models of care are the dominant issues
- The estate determines some of the service solution
- Financing is a factor (but should not be a critical one)
- Best practice in capital planning isn't universal!
- A variety of PPP models can work
- PPP is by definition contractual – but we need to build incentives for future flexibility