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# DEVELOPMENT OF NEW PPP IN THE MIDDLE EUROPE REGION

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## **Abstract**

After the failure of the pilot PPP projects was the PPP market in the Czech Republic and Slovakia paralyzed. There are several current projects but anyone can be presented as a successful, "real" PPP. Can this be changed? The Slovak government is preparing a health care PPP in Bratislava. The project seems to be well prepared and the startup of the tender is going to be ready in few weeks. Can the usage of new approaches recover the PPP market? If so, it can have also the economics aspects in accordance to the crisis. The most important on the project preparation is to set up a viable structure of the project and risk allocation. Nevertheless, the market can have a problem with this project. There is no experienced competitor in healthcare PPP on the Slovak market, but there are few private health care providers which could be able to operate this project.

## **Keywords**

PPP; Healthcare; Risk allocation.

## **Introduction**

The PPP theme is not really new topic in the area of central Europe. For example the railways in Austria–Hungary Empire were developed on the base of PPP [3]. But the new history of PPP has been written from the end of 90<sup>th</sup>. There has been large enthusiasm and a lot of specialists believe that it could be the way how to develop new projects in a private sector.

## **Development of PPP in the Czech Republic**

After the year 2000, PPP developed in many public sector branches. The PPP model is based on Great Britain, where this method has been successfully used since 1992 [2]. The method proved useful in other countries, too, e.g. in Ireland, the Netherlands, Portugal, Spain, France, USA, Canada, Japan and Australia. Various factors can reason the increasing use of PPP, e.g. due to budget restrictions, to which the countries are exposed, PPP brings necessary financing of the public sector from private sources. Another requirement is for the public sphere to gain a better profit from the know-how and the procedure applied in the private sector. PPP development is also part of a general transition of the economic role of the state from a direct operator to an organizer, regulator and control executor.

In 2006 came new public act in effect and also the concession act came in to effect. This made the PPP legally feasible. After that, in 2007, has been Pilot PPP projects selected and it has started to be developed [3]. But unfortunately only two projects came into bidding stage and only one was finalized in a successful tender. Nevertheless, PPP was interrupted after the signature of the concession agreement on behalf of state invention.

Different situation had been in wastewater treatment plant sector. There were setup functional scheme for quick development of new plants by using PPP and concession bases. Of course there was a large motivation to run up entire project, because there were limits given by European Union.

After the failure of Pilot PPPs there have been just a few project developed. One of them is parking house in Pilsen. This is the only running PPP in the Czech Republic which includes the design (partly), construction and operation. Unfortunately, there is not included the demand risk, so we cannot speak about a concession. There is also some concession in senior houses and school sector but they didn't include the design and construction.

The present development is very poor. One project is in bidding phase. It is a parking house in Havířov. But this project is absolutely above the capacity of the city and there is high probability that the new representatives of the city will interrupt the project. Now, no more projects are being developed.

## **Development of PPP in Slovakia**

Compared to surrounding countries, such as the Czech Republic or Hungary, the Slovak Republic is slightly "behind" in the field of PPP. However, Slovakia boasted the first concluded PPP project for project design, construction, financing, operation and maintenance of the R1 speedway [2]. This method began to be used in 2007 during the preparation of motorway PPP projects (even though PPP plans emerged earlier).

The institutional environment also began crystallizing no earlier, with the department of partner projects initially being established at the Slovak Ministry of Finance in 2007 and subsequently the PPP Association being established as a representative of the private sector. The aforementioned department issued several methodologies and began to provide financial and advisory support for PPP project intentions, which are financed from European resources. An important step taken recently was the preparation of a complex analysis of the PPP legislative environment, on the basis of

which Slovak legislation will be amended during the forthcoming months so that PPP projects are not forced to overcome unnecessary obstacles and their simpler regulation is simultaneously enabled. The PPP Association takes part in commenting on all PPP documents by the Ministry and actively works on promoting the PPP method.

The motorway PPP projects were divided into three so-called PPP packages. The 2nd package has currently progressed the furthest, with a concession agreement with a private partner being concluded at the beginning of 2009 while so-called financial closure of the project took place at the end of August. The next in line should be the 1st package, in which a concession agreement was also concluded, while financial closure is expected by February 15, 2009, with the extensive participation of EIB. One bid was submitted in the 3rd package, which has been evaluated. There many other examples of running project in Slovakia like city roads in Vojšice (amount 270 000 EUR, construction finished in 2009), city roads in Brezno (amount 1,4 mil. EUR, construction finished in 2009)[5], etc.

Utilization of PPP in the field of health care is being considered more and more in the Slovak Republic recently. The first project sponsored by the Ministry of Health should have been the health care facility at the Institute of Nuclear and Molecular Medicine in Košice and the Faculty Hospital Rázsochy in Bratislava. Other project in this field include the project for modernization of the Central Military Hospital SNP in Ružomberk, where planned to be developed soon. Municipalities are also considering involvement of a strategic partner in reconstruction and operation of hospitals. But the main event in PPP live is the starting PPP of New university hospital in Bratislava. That is one of the biggest projects in the area of central Europe (except roads). If the project is successfully established it could have positive influence on the PPP business in Slovakia and Czech Republic. Hereinafter is mentioned a case study of the project how it should most probably be established in next few weeks.

## **Case study of the project New University Hospital in Bratislava**

### **Background and basic of the Project**

The development of hospital care services has seen a great leap in recent years. This has been caused mainly by the progressive introduction of comprehensive computerization, improved process management and patient centric organization of care services. University Hospital Bratislava ("UHB") does not currently fulfil the demands and requirements of the Bratislava region to the full extent.

The Ministry of Health (MoH) SK intends to change this situation. Based on the thorough feasibility study of the current state of the UHB and all potential replacement options, MoH SK concluded that Bratislava needs a new hospital that will replace some facilities of the current UHB. PPP was selected as potentially the most viable model to undertake such a significant change. The new hospital - the NUHB - is expected to become a new generation hospital in the city, reflecting the aforementioned up-to-date technologies and the latest healthcare trends.

The NUHB is expected to achieve the following strategic objectives of the MoH SK:

- western European standard of quality of healthcare provision
- higher efficiency of used resources
- respecting the principles of flexibility

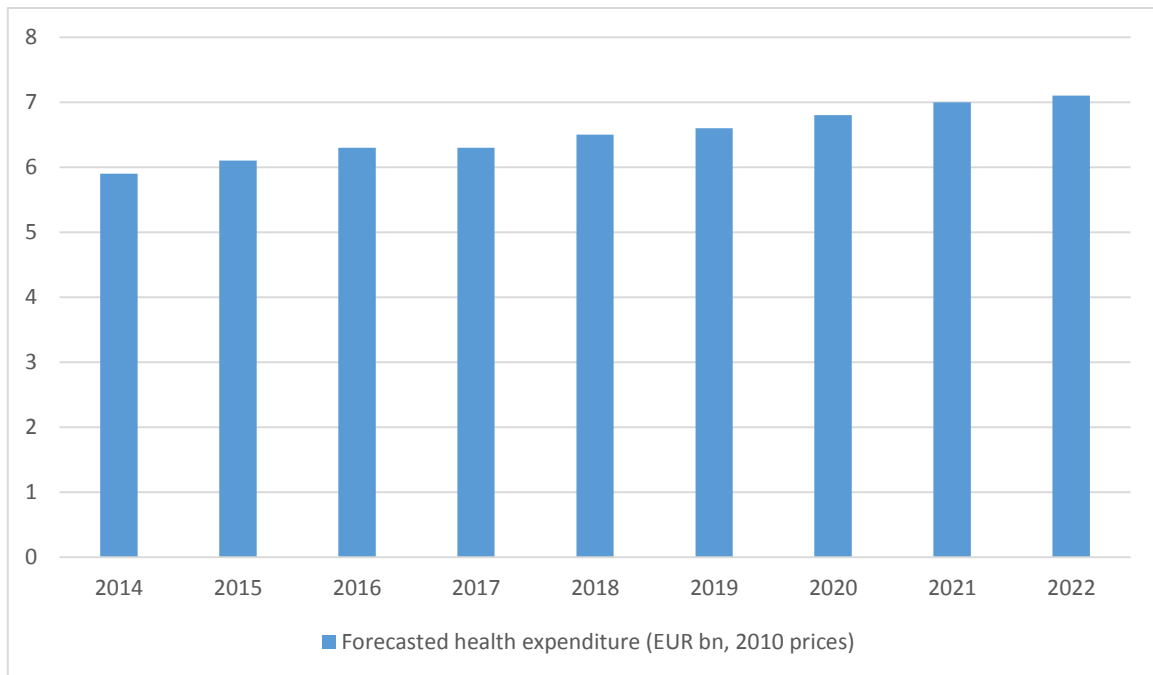
so that the integrated facilities and services will be able to respond to changes in demographic development and epidemiology with increased economies of scale.

The basic framework of the proposed Project should:

- cover inpatient, outpatient and diagnostic medical healthcare services
- include education and possibly R&D functions
- demonstrate greater efficiency and quality of healthcare
- function without reliance on government support.

## Market Overview

- Spending of health care in SK.
  - Total healthcare expenditure in Slovakia was 7.3% of GDP in 2012, which is in line with other countries in the region (e.g. Czech Republic, Hungary)
  - Approximately 25% (EUR 1.3 bn) of the total healthcare expenditure of EUR 5.2 bn was privately funded
- Income
  - More than 95% of hospitals' revenue comes from Health Insurance Companies ("HICs"), 5% comprise direct payments from patients
  - Public funding of healthcare is financed via mandatory contributions from workforce and payments from the state for the economically inactive population (e.g. children, students, retired)
  - The Ministry of Health owns the largest HIC, VŠZP, with approximately 65% market share, privately owned Dôvera and Union represent 27.5% and 7.1% of the market respectively...and so on
- Reimbursement methods
  - Inpatient (i.e. hospital overnight) care is reimbursed using the case-based system (a fixed fee for completed hospitalization)
  - A point system is used for reimbursement of outpatient ambulatory care and diagnostic examinations with set volume quotas
  - Capitation payments comprise the main source of revenue for general practitioners and dentists
  - Reimbursement of over quota examinations is subject to negotiations with HICs
- Healthcare infrastructure
  - Infrastructure in Slovak health facilities is outmoded
  - A new, modern hospital concept shall operate with a higher efficiency, a lower number of hospital beds and an increased quality of services
- Healthcare workforce
  - 5.6% of the Slovak working population was employed in healthcare in 2013
  - Growth in healthcare salaries substantially outpaced overall salary growth in the last decade; however, it is already stabilized and no such increase is expected in the future
- Integrated Care Centers
  - Programme focusing on medical care at the community level
  - Expected synergies stemming from the integration with the hospital infrastructure



**Figure 1: Forecasted health expenditure development in Slovakia (Source: Business Monitor International)**

## Specifics of NUHB

The Project is expected to have the following characteristics [2]:

- The NUHB shall provide a range of tertiary healthcare services to the Bratislava region, including a trauma and a specialist care centre at the Slovak national level. The NUHB shall serve as a centre of excellence for the region.
- The NUHB shall offer a comprehensive range of secondary specialist care for both inpatients and outpatients.
- The NUHB shall serve a catchment area of approximately 3/4 that of the current UHB.
- The NUHB shall offer premises of sufficient size and quality for clinical teaching of students, postgraduate students and medical specialists.
- A basic scale of potential commercial activities is assumed, based on benchmarks from hospitals in developed European countries.
- The new hospital shall be constructed in the Karlova Ves cadastral area in the northwest part of Bratislava with a total area of approximately 9 hectares.
- The MoH SK is committed to having the NUHB operational as quickly as possible.

Other operating assumptions of the NUHB include the following:

- The NUHB physical and technical infrastructure is to comply with EU-benchmark standards for quality, safety, and functional and technical efficiency, and offer sufficient flexibility to cope with qualitative and quantitative changes in demand and operational principles.
- The NUHB shall be compliant with the recast (2010) EU Energy Performance of Buildings Directive.
- The NUHB should offer a sustainable, fit-for-purpose model for healthcare provision, predicated on the current state-of-the-art principles of integrated services, devolution of care, smart

specialisation, patient empowerment and the effective use of health, information and communication technologies.

- The NUHB shall operate at a level of functional and organisational efficiency equal or superior to the current average for European University Hospitals.
- Operations at the current UHB shall continue in parallel with the construction of the NUHB and shall be terminated during the transition period to the extent needed as the NUHB is brought into operation.
- The Project shall be environmentally sustainable, built under life-cycle analysis principles, including a low carbon footprint.

## Technical aspects

On the basis of current production figures and the estimated demographic development of the Bratislava region, a strategic demand prognosis was prepared by technical advisers in the feasibility assessment stage of the Project. This prognosis has taken account, among other aspects, of an expected shift from inpatient clinical care to day-care. On the basis of this prognosis, the MoH SK envisages the NUHB to reach the operational results as presented in the table on the right side in its first year of full operation. These figures are Indicative only, and should not be interpreted as a guarantee of production volumes to be contracted.

To do an initial assessment of the feasibility of the Project, the "abstract model" of the functional capacity, floor area and investment, that could be appropriate to these demand levels, was prepared. The modelling was done using ambitious European standard assumptions for occupancy rates and production efficiency gains and a lean but qualitatively sufficient approach to spatial dimensioning of facilities. These calculations should not be construed as forming part of the tender specifications. The modelling did not include space for research and development activities. In addition, it is essential that the integration of NUHB with other levels of care acts to reduce excessive hospitalisation (admission or stay) over time, and the Interested parties will need to consider the potential workload and thus the capacity required in the light of this. In any event, NUHB will be procured within a framework focused largely on the output (not input) specification for the facility. The interested parties will need to show how their proposals minimise long-term healthcare system cost, while improving the quality of care.

## Financial aspects

In the feasibility assessment stage, the financial model for the estimated performance of the NUHB during the assumed 30-year operational phase was prepared [2].

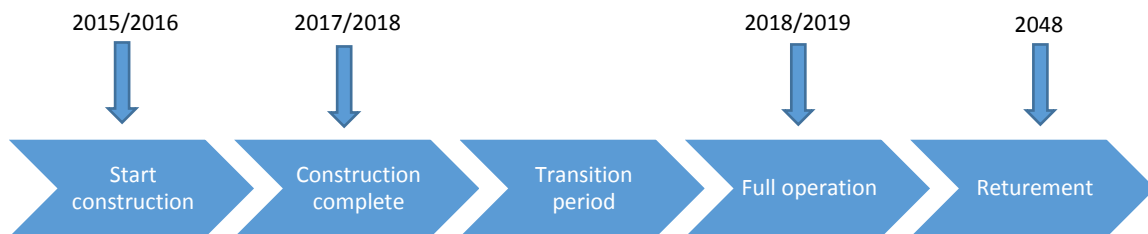
The table on the right summarises the estimated approximate key financial indicators for the NUHB.

These figures are to be interpreted as indicative only. Each individual entity is encouraged to do its own financial assessment of the Project.

**Tale 1: Basic figures**

Completed admissions	44 000
One-day admissions	28 000
Outpatient care visits	875 000
Diagnostics	610 000
Surgeries	47 000
Hospital beds	880

Day clinic	65
Average length of stay	6,5
Occupancy rate (%)	90
Gross floor area (sqm)	94 000
CapEx (EUR mil.)	220
Revenue in 1 <sup>st</sup> year	130
Year-on-year revenue growth (%)	2,0-3,5



**Figure 2: indicative timeline**

## Conclusion

On behalf of the analysis of Czech and Slovak PPP market is evident that Slovak PPP is in much better position. The main question is: Why? Both countries were in the same position in the beginning and started the development in similar goals. The new big health care project in Bratislava seems to be well prepared and if it will be established, the Slovak PPP market will be well experienced like the west Europe countries.

Also the Czech companies are interested in PPP. Most of the Czech companies (construction, legal and advisory) are active in present PPPs in Slovakia and the will attend also the tender for New University Hospital in Bratislava. So there are experienced suppliers which can help the public sector with the implementation. In the study of Ministry of Industry on business [1] was published that the PPP should have a positive primary and also secondary influence to the Czech economic. In this case is absolutely incomprehensible why the Czech public sector is not able use this system of purchasing public projects.

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