

Public Private Partnership in Hospitals

Presentation to the International Health
Seminar Brazil - Canada

October 20, 2010

Overview

- Healthcare in the Canadian context
- What do we mean by PPP / AFP / PFI
 - What are they?
 - How are they structured?
- Canadian Pilot Projects and CCPPP Guidance
- Scope/policy decisions
- Risk transfer
- Benefits to the Public Sector
- Value for Money
- Hospital Case Studies

Health Care in Canada

- 10 provinces and 3 territories regulate and fund local hospital care
 - province pays substantially all operation costs of hospitals, in part from federal transfer payments
 - province and local communities share in capital costs
- Universal public clinical insured care
- ± 30% private participation in uninsured care
- \$100 billion annual spending

Health Care in Canada (continued)

- Provinces spending \pm 50% of budgets on health
- Health care expenses are escalating faster than other expenses, and eventually will crowd out other public services
- Significant operating cost pressures
- Significant infrastructure deficit in facilities, IT and equipment
- Criticism of PPP focuses on potential private scope within non-clinical services

What is a PPP or P3 or PFI or AFP?

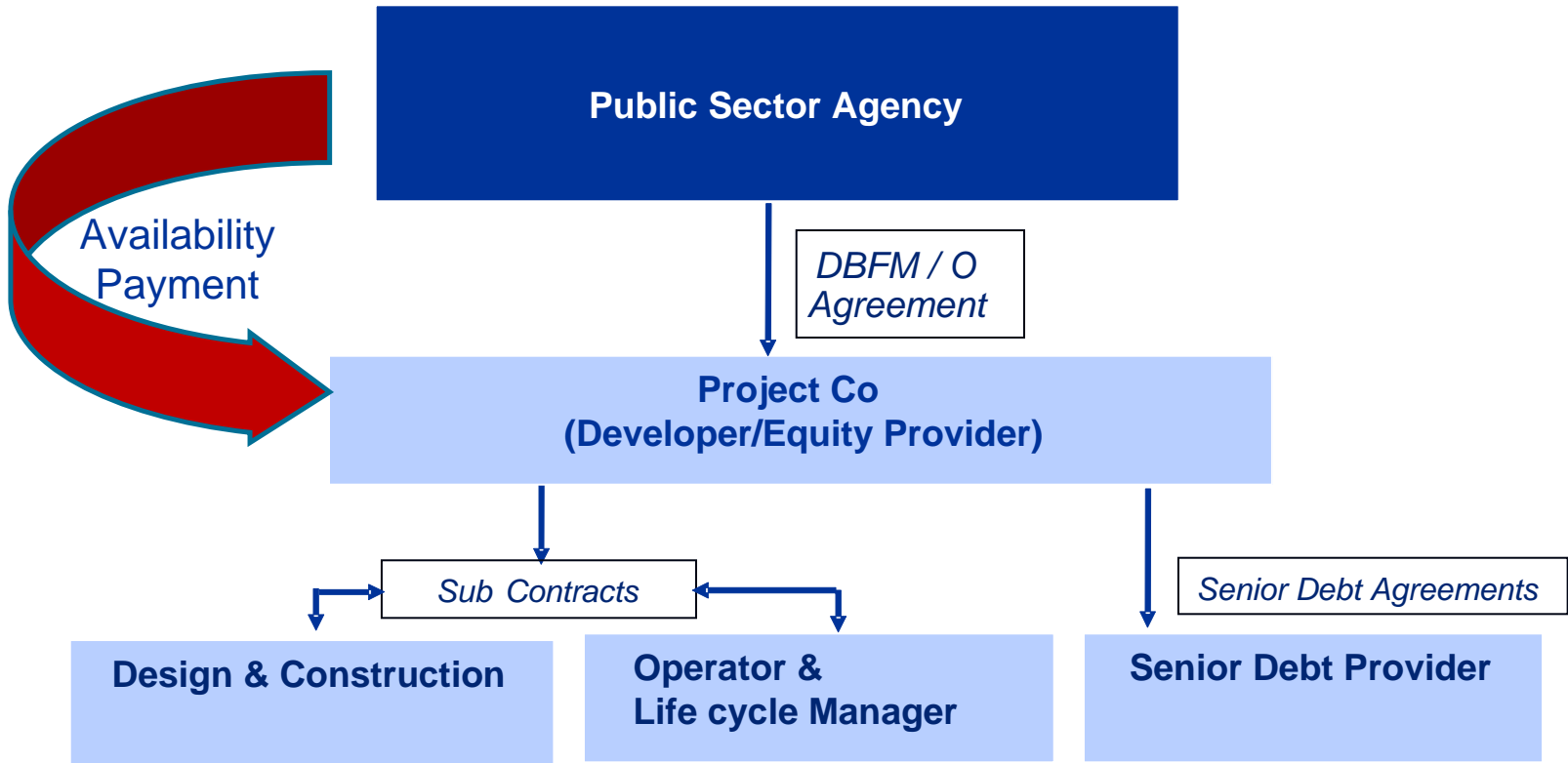
It goes by many names, but it is essentially the same thing:

- PPP's are an alternative procurement model for government infrastructure to traditional design / construction
- PPP's involve private sector accepting responsibility for Design, Construction, Financing, Maintenance and in some cases Operations
- Facilities management over a long term concession period (25 – 35 years) with pre-defined hand back conditions
- Single entity ("Project Company") contracts with government and in turn sub-contracts with consortium partners
- PPP's are performance based contracting arrangements
 - Payment from Government only begins upon completion of construction
 - On-going payments remain subject to deduction for failures in service delivery

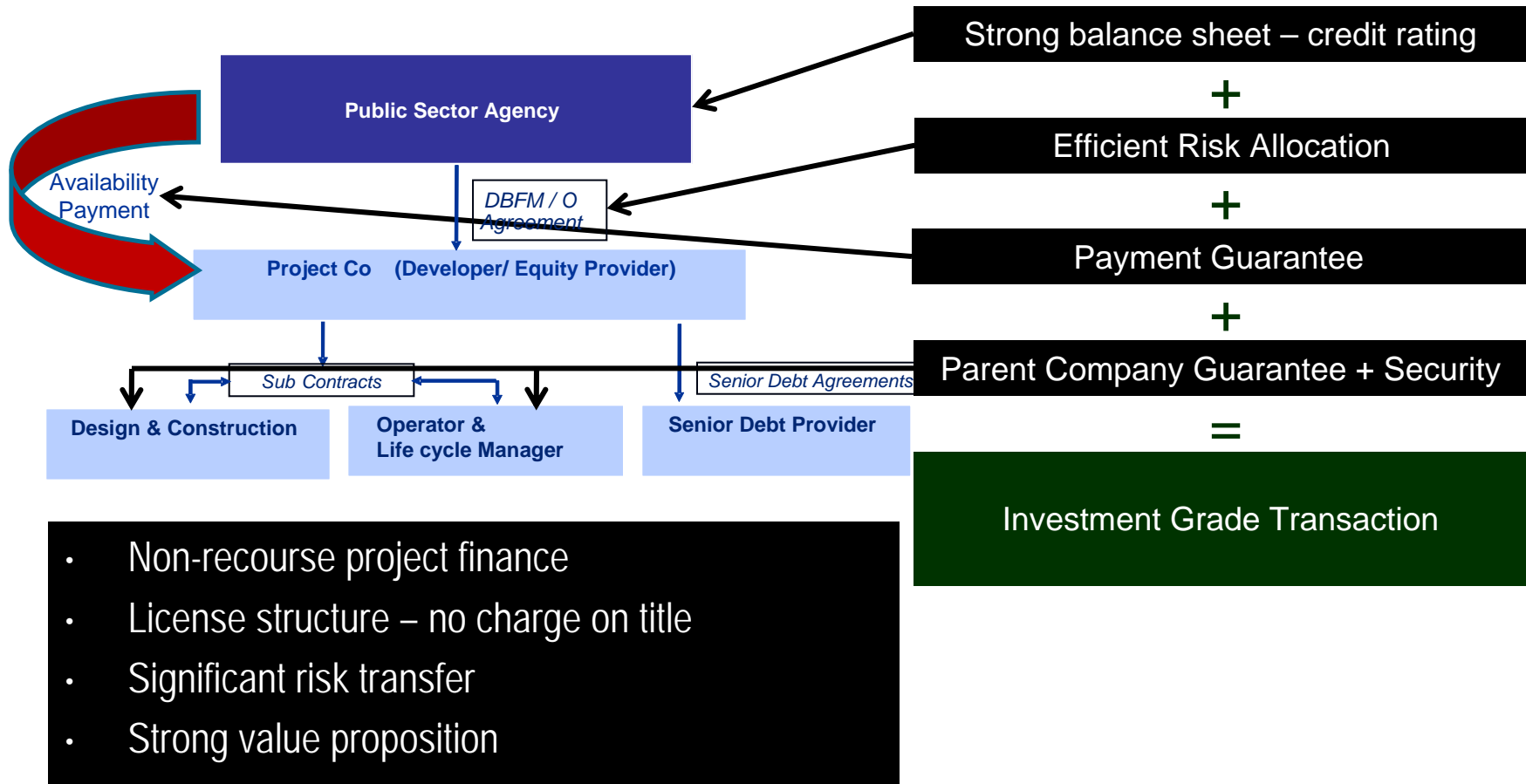
What P3 is Not

- It is **not** about the FINANCING:
 - Accounting rules tightened – regarding off-book treatment
 - Government borrows at lower cost
- It is **not** about sale & leaseback or asset sales (“privatization”)
- It is **not** about a Real Estate transaction
 - Does not require private sector ownership of the asset
- It is about **Performance Based Infrastructure & Facilities - RISK transfer:**
 - The partner is repaid through incentive-based availability of the asset either from the government or through user fees (tolls) or combination

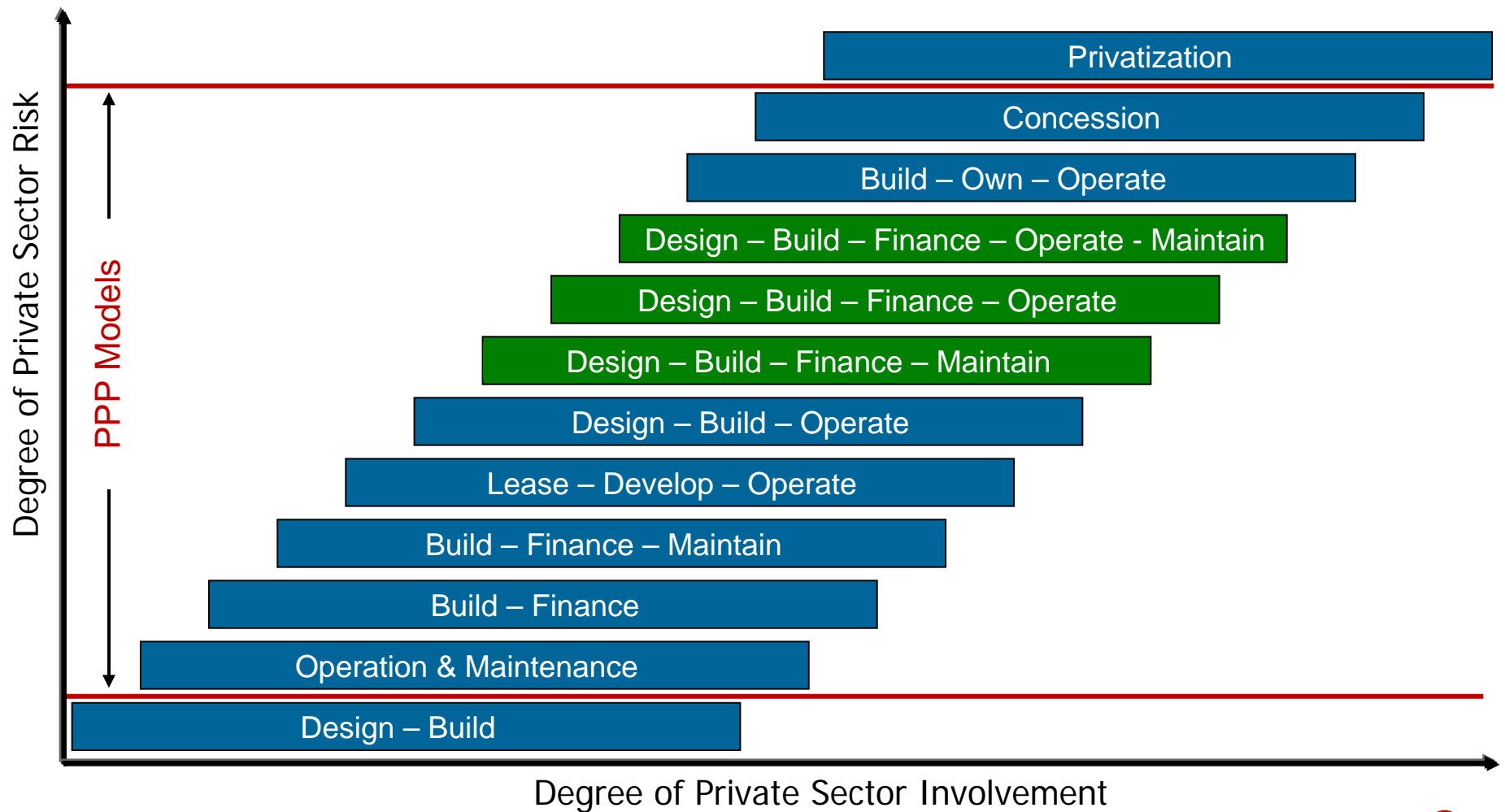
PPP Structure



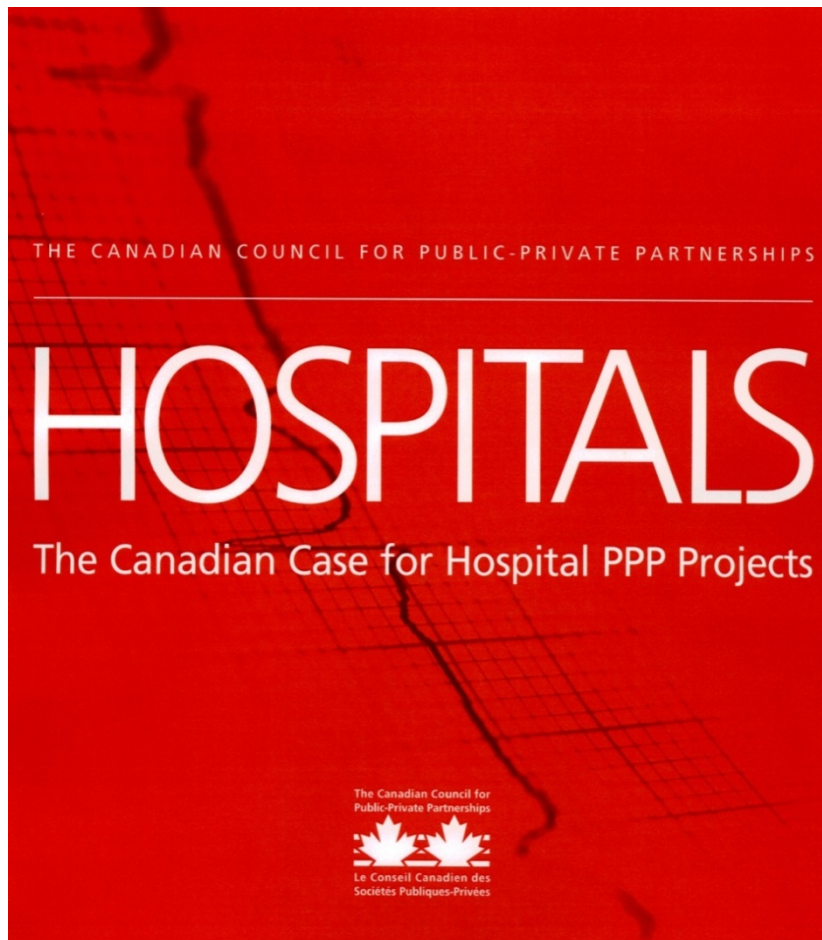
Structure Attributes



Models of PPP in Canada



Hospital PPP Case Studies



- 2003 publication of CCPPP
- Theoretical analysis and empirical case studies.
- Review of ten hospital PPP projects in U.K., Australia, Canada, U.S. and U.A.E.
- helped to stimulate Canadian PPP pilot projects

Canada Update (2010)

- 18 hospitals operational
- 26 hospitals under construction
- 10 hospitals in procurement
- 10 hospitals planned

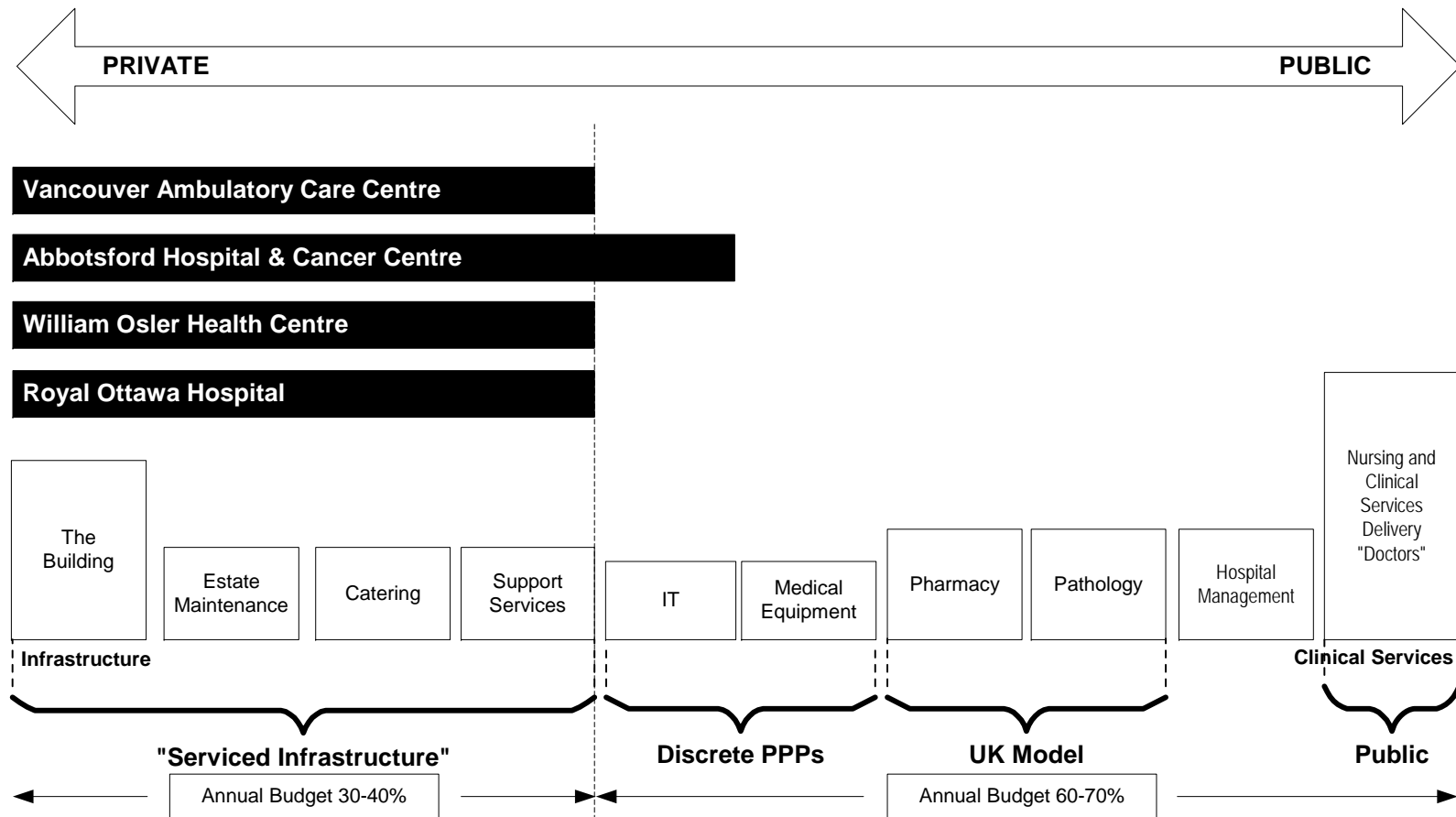
CCPPP Guidance - Action Steps to Advance PPP Projects

1. Develop pilot projects to test, refine and adapt the PPP model for broader implementation.
2. Develop an appropriate financing model, including any legislative reform required.
3. Identify champions – political, bureaucratic and within the hospital sector.
4. Develop private and public sector expertise in the complex and burgeoning field of PPPs (an “intelligent client”).

CCPPP Guidance - Action Steps to Advance PPP Projects (continued)

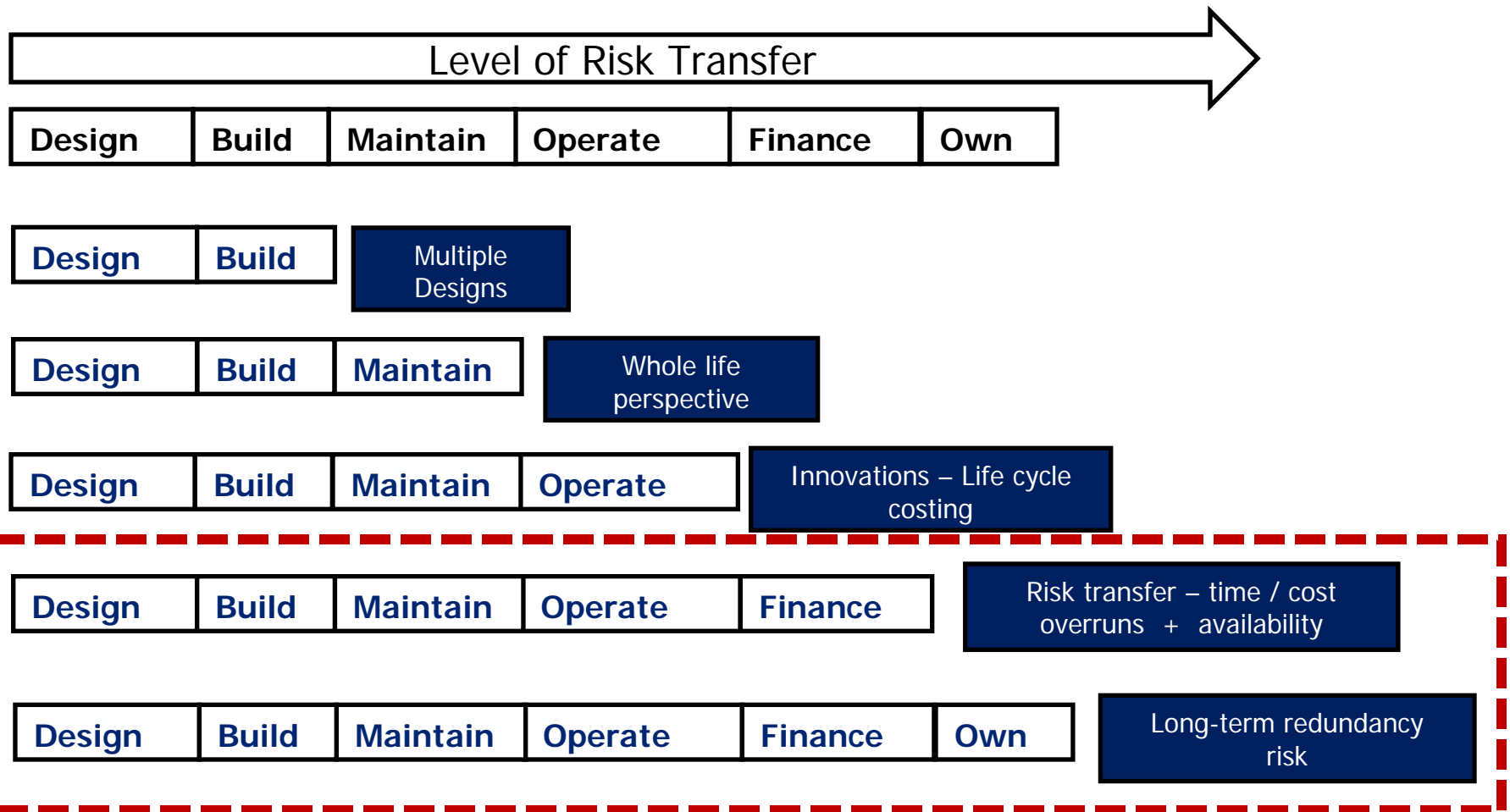
5. In order to prove value for money, develop a methodology for how to value and allocate risk.
6. Engage prospective bidders by facilitating the PPP process, e.g. top-level government approval before engaging bidders.

Proposed Scope of PPP Hospital Services

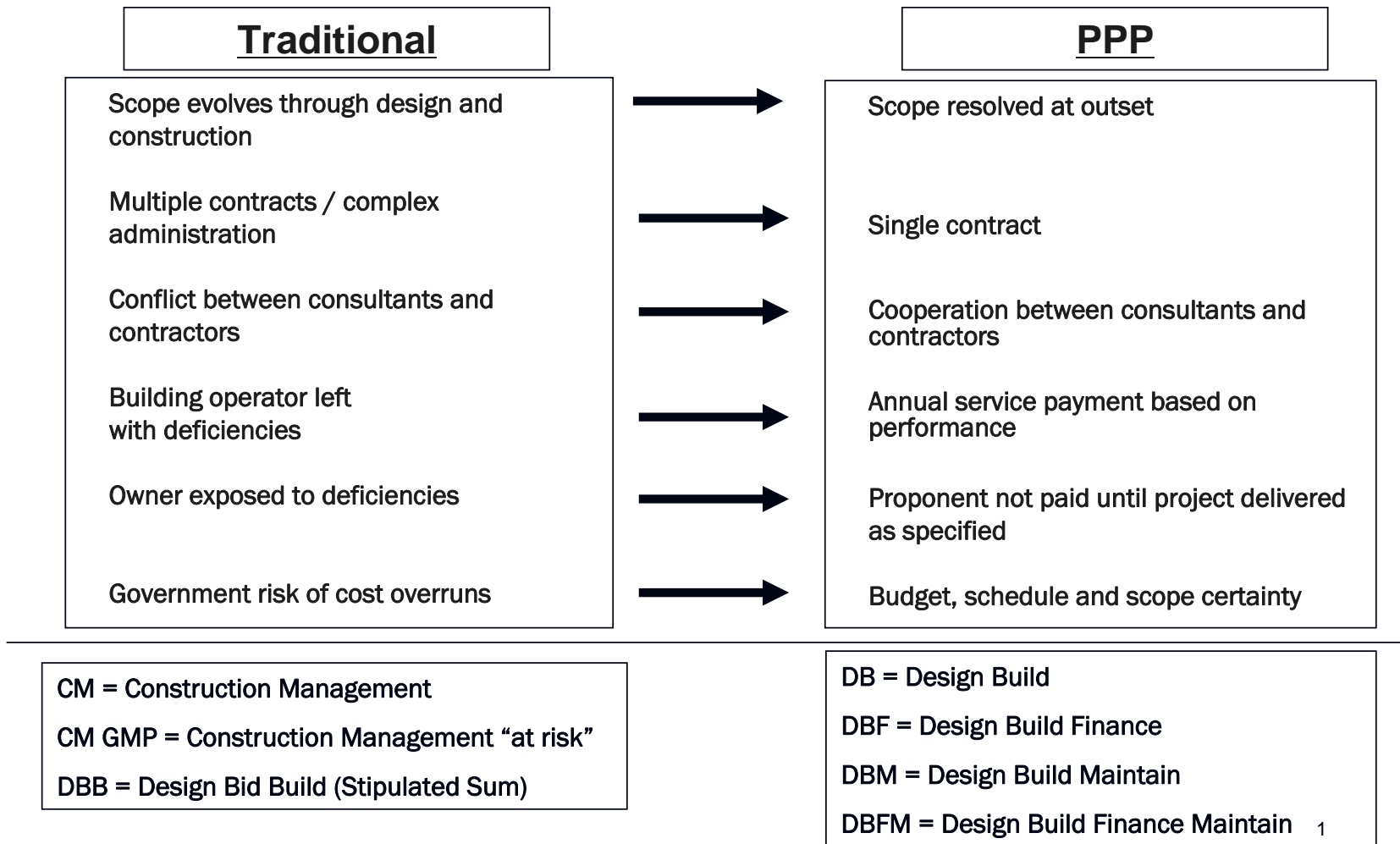


Canadian studies suggest serviced infrastructure expense as a % of annual budgets would account for 16% (CIHI), 31% (OHA) and 38% (Abbotsford)

Risk Transfer - PPP Comparative Advantages



Benefits to the Public Sector - How Are P3s Different From Typical Build Projects?



Value for Money

- LSE study showed 17% average VFM for PPP projects across multiple sectors
- Hospitals tend to show VFM of 8 - 18%
- Examples:

<u>Project</u>	<u>Contract Value</u>	<u>VFM</u>	<u>VFM (%)</u>
Niagara Health System	\$759 million	\$96 million	12.6%
Women's College Hospital	\$460 million	\$86 million	18.7%
Centre for Addiction & Mental Health	\$293 million	\$51 million	17.4%
Abbotsford Regional Hospital	\$355 million	\$39 million	11%

Hospital Case Studies

Case Study - Abbotsford Hospital



- Procurement started in September 2002
- Construction started December 2004
- 300 Bed Acute Care and Cancer Centre
- Total Capital Cost - \$450 m

Case Study - Abbotsford Hospital



- Full scale P3 healthcare “DBFO”
- Innovation, efficient delivery and value for money

Key success of project to date:

- No \$ of change orders to public sector to date – first for Canadian healthcare capital projects
- On time – May 7, 2008



Case Study - Abbotsford Hospital



ABBOTSFORD REGIONAL HOSPITAL AND CANCER CENTRE
A PROJECT BY



IN PARTNERSHIP WITH



- No preconceived design
 - Performance-based specifications
- Partnership attitude
- Strong political commitment
- Health Co P3 knowledge & strong project management
- Learned from others

Case Study - Vancouver Convention Centre

- Large scale project undertaken by public sector with external project managers and construction management contract
- Started as PPP, but changed approach to traditional Construction Management
- Recently announced:
 - Increase in price to over \$880m – up from original \$565m
 - Will not meet scheduled completion date by at least 6 months
- Reason for cost overrun and delay was attributed to extremely strong construction market.



Comparison – ARHCC / VCC



Abbotsford Hospital & Cancer Centre

(relatively more complex)

Architect: MCM

Constructor: PCL

Construction Start: 2004

Procurement: DBFM – P3

Result: On-time & On / Under Budget

Vancouver Convention Centre

Architect: MCM

Constructor: PCL

Construction Start: 2004

Procurement: Construction Management

Result: 6 months late/Over budget (155%)

Niagara Health System



Size: 1,000,000 ft²

Services Available:

- 375 Bed Acute Care hospital and ambulatory care facility
- Regional Longer-Term Mental Health Centre, Cardiac Catheterization Centre and Renal Dialysis services
- Regional cancer centre

Project Value: \$722 m

Client:	Niagara Health System
Consortium:	Plenary Health: Plenary Group, PCL, Johnson Controls
Est. Completion:	Fall 2013
Structure:	Design, Build, Finance, Maintain
Status:	Under construction

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