

PPP Projects in the Healthcare Sector

By the end of 2016, all hospitals in Poland must be brought into line with EU technical and sanitary standards. Added to the necessity of optimizing hospital infrastructure (e.g. many hospitals in Poland currently are housed in several separate buildings), the value of the necessary investment in the sector over the next few years could be at least PLN 6 billion (approx. EUR 1.5 billion).

In the next few years, attempts to optimize the operating costs of hospitals and the necessity of modernising them will be an incentivizing factor for hospitals' owners to implement investments using the public-private partnership (PPP) formula.

PPP Projects

So far, four PPP agreements have been concluded in the healthcare sector.

They concerned a poviats hospital in Żywiec, a hospital in Jaworzno (two agreements) and a welfare and healthcare centre in Kobylnica. Apart from the project concerning the poviats hospital in Żywiec (with a value of over EUR 50 million), the value of the other three PPP projects in this sector was minor and did not exceed EUR 1 million.

Currently, Mazowiecki Bródno Hospital in Warsaw is conducting proceedings to select a private partner for a PPP project concerning the construction and maintenance of a hospital radiotherapy centre.

It is estimated that over the next 2-3 years, more than a dozen PPP projects will be implemented in the healthcare sector in Poland.

The future will tell whether these projects will relate only to the construction or modernisation of the hospital infrastructure and technical maintenance of hospitals or they will also involve the provision of healthcare services by the private partners.

Hospital in Żywiec

The project in Żywiec concerns the design, construction and supply of equipment to a new poviats hospital.

The hospital is to have a usable area of approx. 18,000 m² and 390 beds. The

Hospitals in Poland

- In Poland, there are currently approx. 800 general hospitals with approx. 180,000 beds, the majority of which are public hospitals (approx. 550).
- The State Treasury, local governmental authorities (voivodeships, poviats and municipalities) and medical academies are the founders of public hospitals.
- The vast majority of public hospitals operate as independent healthcare facilities. Under the new Act on Healthcare Services, some hospitals (approx. 35%) could soon be transformed into capital companies.

value of the investment outlay during construction is to be approx. PLN 138 million (approx 35 million EUR). The value of hospital equipment is to be approx. PLN 70 million (approx. EUR 17 million).

The PPP agreement was signed on 15 September 2011 by Żywiec Poviats and InterHealth Canada Limited for 30 years.

The private partner is to be responsible not only for the financing of the construction, day-to-day maintenance and management of the hospital, but also for the provision of healthcare services after they are taken over from the existing hospital.

Because of the private partner's obligations to provide healthcare services, the project in Żywiec has been perceived as non- standard one.

Żywiec Powiat is not obliged to compensate the private partner for the availability of the hospital. During the operational phase, the hospital would receive remuneration not from the Żywiec Powiat but in consideration for provision of healthcare services based on a contract concluded with the National Health Fund (the NFZ). However, in Poland, contracts with the NFZ for the financing of healthcare services may be concluded for no longer than 3 years. Payment by the NFZ is by reference to the volume of service provided (e.g. patients treated, procedures carried out etc.). There is no minimum guaranteed payment or capacity/availability payment under the contracts with NFZ. There are no binding forecasts that would determine the minimum scope of healthcare services that should be contracted by the NFZ from a given hospital in a certain period of time based on demographic data or historical demand. When a contract with the NFZ expires, there is no guarantee that another will be concluded.

Therefore, the decisions of the NFZ relating to the conclusion of subsequent contracts with the new hospital in Żywiec and the scope of these contracts will be completely discretionary. In addition, the NFZ is not politically proximate to the Żywiec project (under the existing system, the NFZ is not responsible for investments in the healthcare sector). This situation introduces additional political, organisational and financial risks to the project.

Wishing to offset those risks to a certain degree, the Żywiec Powiat undertook not to carry out and not to allow any another

entity to provide medical services in its area, such as those performed in the new hospital and declared to the private partner that it would ensure that contracts with the NFZ (providing the agreed level of funding from the NFZ), which the hospital will take over, will remain in force until 1 April 2016.

Although the Żywiec project commercially closed in 2011, it has still not reached the financial close. This could result from the specific allocation of risks in the project, or could be a consequence of lenders' aversion to financing hospital PPP projects not based on an availability payment scheme.

Bródno Hospital in Warsaw

The PPP project for the construction and maintenance of a radiotherapy centre for Mazowiecki Bródno Hospital in Warsaw began in 2012 and is currently at the stage of the assessment of bids.

The scope of performance required from the private partner does not include healthcare services.

The value of the investment outlays and equipment for the radiotherapy centre is approx. PLN 50 million (approx. EUR 12.5 million). Eight entities applied to take part in the proceedings for the selection of a private partner: Allenort, VMD, Vamed, Dopico (related to Medicover), Projektentwicklungsges. m.b.H., InterHealth Canada, and a consortium of Warbud with RTCP and Euromedic Onkoterapia Inwestycje with Euromedic Onkonterapia.

Two final bids were submitted in the proceedings, but the public sponsor has not yet announced the preferred bidder.

Unusual pathfinder project

- Under the Żywiec project, the private partner is obliged not only to carry out the construction and day-to-day maintenance of the hospital infrastructure and to provide the hospital with medical equipment, it will also be required to provide a wide range of healthcare services.
- In general, healthcare PPP projects world-wide relate to the construction and maintenance of the hard infrastructure and equipment and they do not involve the provision of medical services by private partners. If there is a requirement to provide healthcare services in PPP projects, this usually only concerns services with a strong technical element (e.g. radiological services). An example is Nya Karolinska Solna (NKS) hospital project in Stockholm, worth more than EUR 3 billion, and the Barts and Royal London Hospital project in London, which is worth EUR 1.3 billion. Clifford Chance advised on both these projects.
- The typical healthcare PPP project is based on an availability fee scheme. No such fee is provided for in the Żywiec project. This seems it was one of the main reasons why eventually only one of 9 participants in the competitive dialogue submitted a proposal.

Planned PPP projects

The table below contains basic information on those hospital PPP

projects in Poland that are to be announced or will enter the competitive dialogue or negotiation stage in 2013.

Project	Description	Estimated value	Stage
Lower Silesian Oncology Center in Wrocław	Construction of an Oncology Hospital in Wrocław and a Radiotherapy Centre branch located in Jelenia Góra	PLN 551 million (approx. EUR 138 million)	Pre-announcement
"Szpitale Wielkopolski" sp. z o.o. in Poznań	Construction of a new Mother and Child Hospital in Poznań, and equipping it with the necessary medical equipment for approximately 450 beds (30 000 hospitalizations per year)	PLN 221 million (approx. EUR 55 million)	Technical stage - pre-announcement
Bielany Hospital in Warsaw	Construction and maintenance of a new operating unit (12 operating theatres and 16 intensive care rooms) and a centre with 200 beds	PLN 220 million (approx. EUR 55 million)	The hospital is to begin preparing the project by selecting an advisory firm (but no proceedings have been announced yet).
Wielkopolskie Oncological Centre in Poznań	Construction of a proton radiotherapy centre	PLN 200 million (approx. EUR 45 million)	Pre-announcement
Samodzielny Publiczny Szpital Wojewódzki im. Papieża Jana Pawła II in Zamość	The creation of the Centre for the Diagnosis and Treatment of Lifestyle Diseases	PLN 125 million (approx. PLN 31 million)	Pre-announcement
Centrum Zdrowia Mazowska Zachodniego sp z o.o. Żyrardów	Reconstruction and modernization of the hospital in Żyrardów	PLN 90 million (approx. EUR 22.5 million)	Pre-announcement
Szpital św. Wincentego a Paulo sp z o.o. in Gdynia	Expansion of the hospital to accommodate about 400 beds (15 000 hospitalizations per year)	PLN 80 million (approx. EUR 20 million)	Pre-announcement
"Centrum Medyczne w Łańcucie" sp. z o.o. in Łańcut	Reconstruction of a St. Michael, the Archangel Hospital in Łańcut	PLN 60 million (approx. EUR 15 million)	On 18 February 2013, "Centrum Medyczne w Łańcucie" sp. z o.o. in Łańcut announced proceedings for the selection of a private partner
Radiotherapy Centre in Gorzów Wielkopolski	Construction and maintenance of a radiotherapy centre	PLN 50 million (approx. EUR 12.5 million)	Pre-announcement
District Hospital in Mińsk Mazowiecki	Extension, modernisation and restructuring of a poviast hospital and an out-patient clinic	PLN 50 million (approx. EUR 12.5 million)	On 7 January 2013, Mińsk Poviast announced proceedings for the selection of a legal adviser, tax adviser, economic and financial adviser and technical adviser to prepare the project for implementation.
SPZOZ in Pulawy	Construction of a surgical and diagnostics treatment pavilion with helicopter pad for helicopters of the Polish Medical Air Rescue on Pavilion A	PLN 45 million (approx. EUR 11 million)	Pre-announcement
Powiatowy Szpital w Rawiczu sp. z o.o.	Repair, modernisation and maintenance of the existing range of services and the development of new medical services through the implementation of a strategic plan entitled "Campus in Rawicz".	PLN 33 million (approx. EUR 8 million)	Pre-announcement

Project	Description	Estimated value	Stage
Warsaw Medical University	University Dental Centre	PLN 33 million (approx. EUR 8 million)	Pre-announcement
ZOZ MSWiA and Warmińsko-Mazurskie Oncological Centre in Olsztyn	Construction of two buildings in which radiotherapy is to be provided	PLN 30 million (approx. EUR 7,5 million)	The hospital is to begin preparing the project by selecting an advisory firm (but no proceedings have been announced yet).
SPZZOZ PSS in Stalowa Wola	Adaptation of the facilities of the District Specialist Hospital in Stalowa Wola to the existing regulations in order to improve access to medical services for the residents of Stalowa Wola District	PLN 27 million (approx. EUR 7 million)	Pre-announcement
Mazowiecki Szpital Wojewódzki w Siedlcach sp. z o.o.	Modernisation of the hospital, including the creation of a CT laboratory	No data available	Pre-announcement
University Teaching Hospital in Olsztyn	Providing the hospital with medical equipment	No data available	Pre-announcement

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