

# PAYING FOR TOMORROW'S HEALTH

## Public Private Partnerships

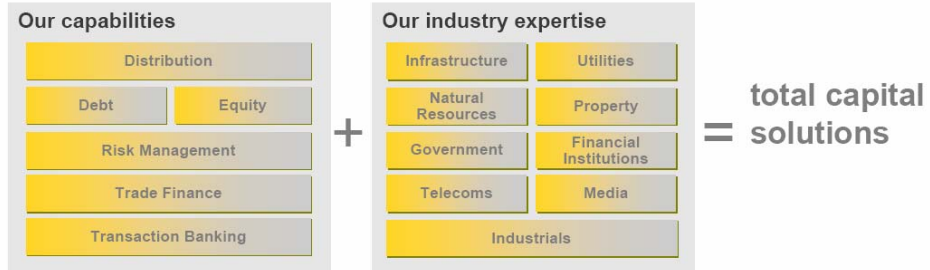
Projects that "add value" should not be constrained  
by an absence of funds



Richard Wallace  
Commonwealth Bank  
7 June 2007



## Commonwealth Bank



## CBA and ASB – Services to the DHBs



- Commonwealth Bank and ASB are the bankers to the majority of large District Health Boards



## equigroup

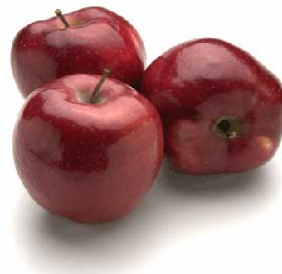
- Established 1990 as Computerfleet
- Re-launched as equigroup in 2007
- 1998 formed a long term strategic alliance with Commonwealth Bank of Australia
- Deliver innovative finance solutions for technology and healthcare equipment.
- New Zealand based sales team



## Public Private Partnerships - Definition

“any medium to long term relationship between the Public and Sectors, involving the sharing of risks and rewards of multi-sector skills, expertise, and project finance to deliver desired policy outcomes.”

*(Ben Esty, Harvard)*



## Structures


**"Economic" Infrastructure**

- ▶ Most revenues are derived from third parties
- ▶ Genuine "Market Risk" assumed by infrastructure provider
- ▶ Payment streams usually subject to long term exposure to variable patronage, traffic and/or usage
- ▶ Revenue risks are a key driver of financial outcomes
- ▶ Examples include:
  - Toll Roads
  - Airports
  - Rail track
  - Ports



**"Social" Infrastructure**

- ▶ Usually paid for out of tax revenue – subject of government resource allocation decisions
- ▶ Minimal "market risk" to provider of infrastructure – payment streams usually subject to long-term contract or budget allocation
- ▶ Cost risks are key driver of financial outcomes
- ▶ Examples include:
  - Schools
  - Hospitals
  - Courts/Jails



Source: Infrastructure Economics, Sydney



## PPP – Bundled Services

Core clinical services are provided by the Public Sector  
...but a combination of the following are provided by the Private Sector;

- The hospital facility including heating and lighting
- Information Management and Technology
- Catering, Cleaning and Security
- Car parking
- Building and Grounds Maintenance
- Commercial and Retail Opportunities



## Level of PPP Development around the World

	Central Accommodation	Airports	Defence	Housing	Health and Hospitals	IT	Ports	Prisons	Heavy Railway	Light Railway	Roads	Schools	Sports and Leisure	Water and Waste
Australia	○	●	○	○	○	○	●	○	○	○	○	○	○	○
Belgium		○		○					○	○	○	○		○
Canada	○		○		○		○		○	○	○	○	○	○
China		○					○		○	○				
France	○	○	○	○	○		○	○	○	○	○	○	○	○
Germany	○	○	○		○	○	○	○	○	○	○	○	○	○
Italy	○	○		○	○	○	○		○	○	○	○	○	○
Mexico		○			○		○		○	○	○	○		○
Singapore	○		○		○						○	○	○	○
Spain	○	○			○		○	○	○	○	○	○	○	○
UK	○	○	○	○	○	○	○	○	○	○	○	○	○	○
United States		○	○	○	○		○	○	○	○	○	○	○	○

○ In Development      ○ Projects in Procurement/Tendering      ○ Several Procured Projects, Some Projects Closed  
 ○ Substantial Number of Closed Projects      ○ Substantial Number of Closed Projects, Majority in Operation

Source: Infrastructure Economics, Sydney



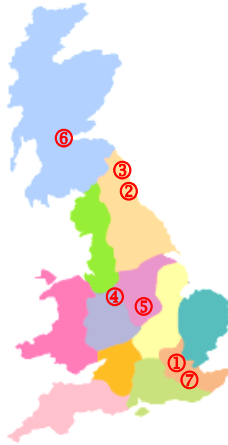
## PPPs – The Theory

Although the Private Sector has a higher cost of funds than the Public Sector

- Capital expenditure forms only around one quarter of the total lifetime cost of privately financed projects
- Value extracted from the use of funds is normally more important than the price paid for these funds
- The Private Sector can compensate for the higher cost of borrowing through
  - Innovative design, construction, maintenance and operation through the life of the contract
  - Transfer of risk to those best able to manage the risk



## PPPs in the UK – The CBA Hospital Portfolio (Laing JV)



	Project	Total Value	Ownership	Duration	Status
①	Barts and The London Hospitals PFI Project	£1000m	12.5%	42 years	Construction
②	Newcastle Hospital	£300m	40%	38 years	Construction
③	Newham Hospital	£32m	Sold (50%)	25 years	Construction
④	North Staffs NHS Hospital	£300m	37.5%	30 years	Preferred Bidder
⑤	Leicester Hospital	£800m	20%	30 years	Preferred Bidder
⑥	Forth Valley Hospital	£250m	50%	30 years	Preferred Bidder
⑦	Tunbridge Wells Hospital	£300m	37.5%		Short-listed



## Health PPPs in Australia

- Casey Hospital project - the first hospital to be procured in Victoria under Partnerships Victoria, was opened on time and on budget in late 2004
- \$130 million Long Bay Correctional Hospital project (NSW)
- \$132 million Newcastle Mater Hospital redevelopment (NSW)
- \$850 million Royal Children's Hospital redevelopment (Victoria)
- \$364 million Royal Women's Hospital redevelopment (Victoria)

**AMP capital**  
 Principal Healthcare  
 \$170m  
 February 2007  
 Sole Senior Debt Underwriter

**BABCOCK & BROWN**  
 Long Bay Forensic & Prison Hospitals  
 \$162m  
 August 2006  
 Joint Lead Underwriter



## Examples of PPPs in New Zealand

- Auckland's Vector Arena – a Build Own, Operate and Transfer (BOOT) entered into by Auckland City Council over an indoor Arena
- Wellington's Clear Water Project – a Design, Build, Maintain and Operate (DBMO) for treatment and disposal of sewerage
- Canterbury's regional landfill project
- A proposed Toll Road for Rodney District Council for the Whangaparoa Peninsular



## Healthcare

- “.....the health sector could be included as part of any further best practice assessments. Current DHB practice may be transferable to other capital intensive departments or sectors.”

*The Treasury's Capital Asset Management Review, September 2006*

- Healthcare in New Zealand uses the Private Sector under a traditional procurement model



## Principles for Project Decision Making

- Projects that “add value” should not be constrained by an absence of funds
- Capital markets are highly specialised.
- Companies take risks in order to encourage innovation and generate information.
- Contestability – create competitive processes to manage both internal and external costs.



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equigroup

ASB

## Outsource the Risk of Owning Medical and Technology Equipment

- Manage major equipment obsolescence risk
  - High Technology equipment
- Spread rental expense over equipment life
  - Match with private income generated capacity
- Lower effective interest rate
- Asset Management and accountability
  - Asset Management / Tracking delivers equipment tracking and cost allocation

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ASB

## Market Trends Driving Medical Equipment

Local and international trends driving Medical Equipment finance decisions include:

- Shortening life cycles of equipment (Ultrasound, CT and MRI) and emerging technologies (PET, Digitisation, PACS)
- Ability for an orderly equipment replacement strategy, underwritten by existing lease budgets
- Generation of private patient/practice income, or reduced costs implementing can give a “cash/revenue neutral” outcome
- Specialised healthcare equipment lessors deliver valued solutions to hospitals

