

Public-Private Partnerships for Health Care

What Providers Need to Know about International Expansion and Finance Outside of the U.S.



Mimi Hu Brouillette
Squire Patton Boggs
mimi.brouillette@squirepb.com



Stephen Nash
Squire Patton Boggs
stephen.nash@squirepb.com

With apologies to John Lennon, imagine recasting a national health care system, leapfrogging generations of organizational learning to capture the best of today's medical science and management expertise. Imagine being unencumbered by massive legacy investments of financial and human capital that otherwise only permit measured steps and incremental improvements. Imagine all the people, living life with quality health care...

Well, you can say I'm a dreamer – but I'm not the only one. Much of the world is presently in the process of doing just that.

What the World Needs Now

One prerequisite for sustainable and inclusive growth worldwide is a modern and efficient infrastructure. According to a recent report from the World Economic Forum, the required investment for reaching the optimal level is enormous, estimated at 5% of global gross domestic product, or \$4 trillion per year until 2030. This is an amount that the public sector would find impossible to raise on its own, and it has been estimated that at least \$1 trillion annually must come from the private sector.

What does this have to do with health care? To be sure, in the US, infrastructure has historically connoted such things as roads, bridges, dams, railways and airports. However, in countries with a national health care system, such a government owned and operated system, together with the country's system of higher education, comprises the nation's social infrastructure.

According to recent estimates, the OECD and BRIC nations alone will have spent \$3.6 trillion on hard infrastructure (PP+E) over the decade ending with 2010. However, health spending beyond hard infrastructure, i.e., on operations – which represents about 95% of health care spending – will total more than \$68.1 trillion. This huge spend is a target for government efficiency and is creating a market for private organizational investment and

management.

Thus, in countries with a national health care system, it should not surprise that the private sector sees social infrastructure as a strong alternative investment class – and the public-private partnership for health care is, by far, the prevailing model for such investment.

Public-Private Partnerships for Health Care

What is a public-private partnership for health care (or PPP4H)? A PPP4H serves to position a private entity, or consortium of private partners, in a long-term relationship with a national, regional or local government to co-finance, design, build, and operate health care facilities, and to deliver both clinical and non-clinical services at those facilities over a decade or more.

Outside the US, the PPP4H model has evolved significantly over the last 20 years. The model started as a way for governments to build new or revamp crumbling hospital infrastructure (PP+E) in countries like the UK and Canada. More recently, their scope has expanded from a primarily hard infrastructure oriented model to a clinical services delivery model. Today, a PPP4H provides a way to harness the skills, knowledge and capacities of the private sector to achieve public policy goals. Examples of such projects can now be found in Spain, Brazil, the Caribbean, the UK, and Eastern Europe

As in other infrastructure PPPs, the payment mechanisms in PPP4Hs are based on the contractual allocation of risk and the scope of services. However, the development of the PPP4H to delegate responsibility for the delivery of health care (i.e., operations) has in turn necessitated the development of new models for payment that incentivize risk sharing.

A Success Story

The Alzira project, in Valencia, Spain, covers infrastructure and clinical services for hospital and primary care clinics. The municipal government pays the health system operator from tax revenues, using a capitated mechanism based on the number of municipal residents. The covered population is served by the private partner – in this case a foreign integrated health care system interested in expanding its international presence and generating international revenue (Provider). While the agreements are complex, in simplest terms the monthly per-capita payment is intended to cover the comprehensive health of the municipal population (an early population health model). The Provider receives no extra payments, regardless of whether a patient is hospitalized 1 or 5 times in a year. The payment mechanism hence creates a positive incentive to keep patients healthy and out of the hospital and shifts most of the demand risk from the government to the private sector. Initial estimates pegged the capitated payment at about 75% of the government's

historical spend, yet it was sufficient to attract a private Provider experienced in population health management.

The Provider's delivery of clinical services is measured by key performance indicators such as:

- Operational benchmarks
- Clinical benchmarks
- Workforce productivity
- Patient outcomes
- Wait times
- Patient satisfaction

The Alzira Model has been in place for about a decade now. As one might expect, there has been some renegotiation of the original terms, as each side has learned from the experience. Nonetheless, both the municipal government and the Provider have found the arrangement to be clinically and financially beneficial.

The Alzira Model has attracted attention. Governments in the MENA Region and elsewhere are studying this and similar models with a view towards emulating their successful characteristics. This approach has also been the subject of study at The Global Health Group, at the University of California, San Francisco – which has dubbed it a “Public-Private Investment Partnership” (PPIP) – and which is serving as a clearinghouse for information on PPIPs worldwide. US hospitals and health care systems interested in the revenue opportunities inherent in international expansion should keep such a partnership in mind. Details are available upon request.