

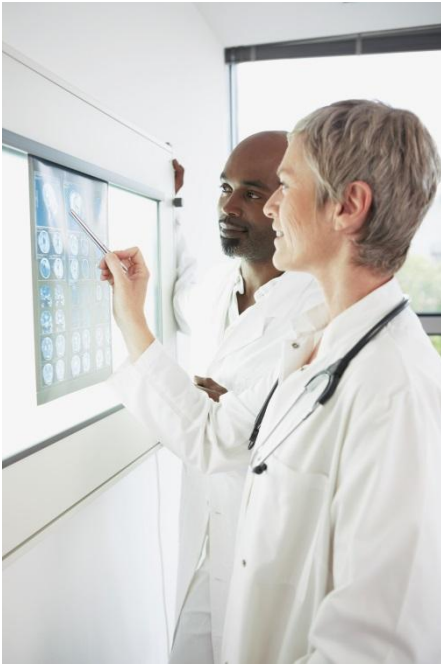
New university hospital in Bratislava

Consultation Document on public private partnership procurement

August 2014



The purpose of this consultation document



The purpose of this Consultation Document (“CD”) is to (i) present the intention of the Ministry of Health of the Slovak Republic (“MoH SK”) to establish a public procurement to design, build, finance, operate (including medical services) and maintain a new university hospital in Bratislava (“NUHB”) with links to related educational and research facilities (the “Project”) through a full service public private partnership (“PPP”).

A major objective of this material is to serve the purpose of (ii) stimulating a debate with industry professionals principally from the hospital operations and finance sectors (“Pre-qualification initial discussion with expert public”), (iii) receiving and processing their feedback. Aside from (iv) refining the MoH SK’s proposals, this will also enable (v) the interested and relevant parties who will receive this CD (“Interested parties”) to assess the extent of their capacity and willingness to participate in the public procurement process, and (vi) eventually to submit a tender.

If you wish to participate in this Pre-qualification initial discussion with the expert public, please contact the Institute for Health Politics (Inštitút zdravotnej politiky) of the MoH SK, via the e-mail address provided on the last page of this document.

This CD is not to be considered a comprehensive or final document regarding this Project. More information will be made available in the subsequent process.



Background and basic framework 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 computerisation, improved process management and patient centric organisation of care services. University Hospital Bratislava (“UHB”) does not currently fulfil the demands and requirements of the Bratislava region to the full extent.

The 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

Healthcare spending in Slovakia

- ▶ 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 sources and distribution

- ▶ 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

Reimbursement methods

- ▶ Inpatient (i.e. hospital overnight) care is reimbursed using the case-based system (a fixed fee for a completed hospitalisation)
- ▶ 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

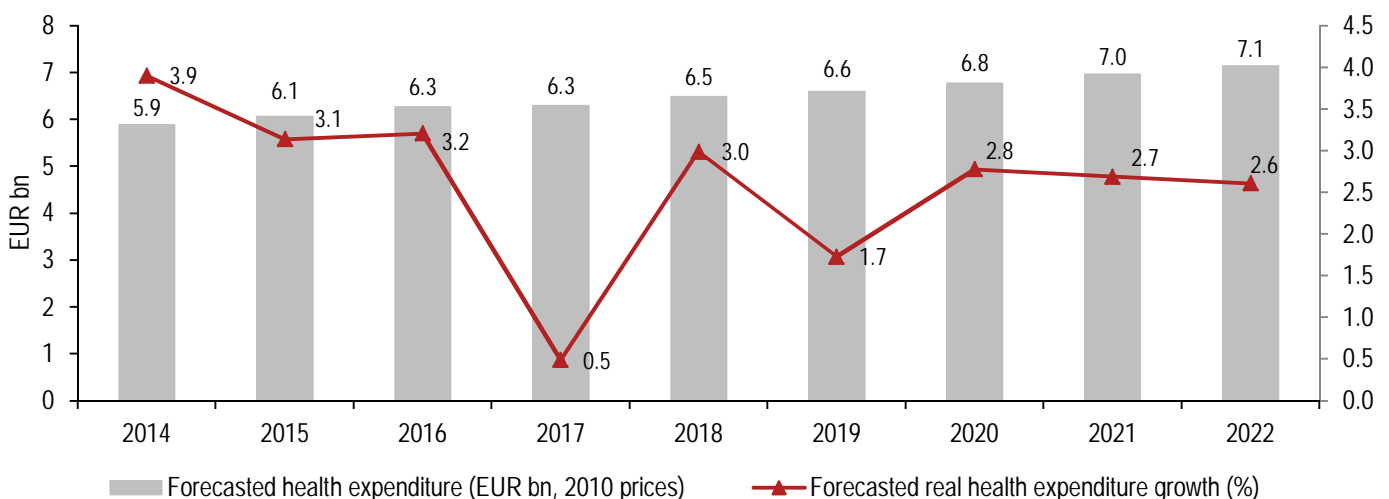
- ▶ 5.6% of the Slovak working population was employed in healthcare in 2013
- ▶ Growth in healthcare salaries substantially outpaced overall salary growth in the last decade; however, it is already stabilised and no such increase is expected in the future

Integrated Care Centres

- ▶ Programme focusing on medical care at the community level
- ▶ Expected synergies stemming from the integration with the hospital infrastructure

Forecasted health expenditure development in Slovakia

Source: Business Monitor International



Specifics of the NUHB

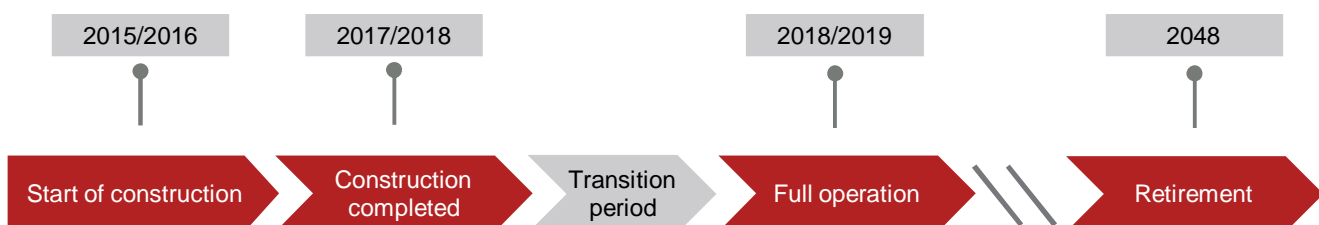
The Project is expected to have the following characteristics:

- ▶ 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.

Envisaged indicative timeline of the Project construction and operations



Anticipated features of the NUHB

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.

Anticipated financial performance

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

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.

Notes to the table:

1. The anticipated initial average length of stay is estimated to be higher than in a regular hospital because (i) university hospitals tend to exhibit a longer average length of stay due to the teaching aspect and (ii) all efficiencies might not be realised in the first years. Improvement in later years is anticipated.
2. Revenue consists mainly of payments from health insurance companies.
3. Revenue growth is anticipated to converge to the estimated inflation rate.
4. Average yearly CapEx consists of regular yearly CapEx and the life-cycle investments that are anticipated to occur during the assumed 30-year operational period.

Anticipated number of admissions	
Completed admissions	44,000
One-day admissions	28,000
Outpatient care visits	875,000
Diagnostics (lab tests, imaging, rehabilitations)	610,000
Surgeries	47,000

Anticipated number of beds	
Hospital beds	880
Day clinic	65
Total	945

Anticipated efficiency	
Anticipated initial weighted average length of stay ¹	6.5
Anticipated weighted occupancy rate (%)	90

Anticipated building size and investment	
Estimated gross floor area (sqm)	94,000
Initial CapEx (EUR mil.)	220

Anticipated financial performance	
Revenue in the 1st year of full operation (EUR mil.) ²	c. 130
Year-on-year revenue growth (%) ³	2.0 - 3.5
Average yearly CapEx (EUR mil.) ⁴	c. 14
Assumed project debt (%)	c. 60

Opportunity for bidders and strategic obligations

The MoH SK attaches high priority to organising a transparent and competitive tender (in accordance with the EU and national rules for public procurement of PPP) for a concession to develop, build, finance, operate and maintain NUHB.

The MoH SK places great importance in the forthcoming public procurement on the partnership aspects of the PPP, rather than the strictly contractual relationship between the public and private sectors. Interested parties are invited to suggest how they shall ensure a non-adversarial and cooperative relationship with the MoH SK and other public bodies, in the long-term interests of the project and the functioning of healthcare in the Bratislava region.

The MoH SK intends to choose a full service PPP, including operation of medical and commercial activities, rather than a more limited infrastructure model, because it believes that its strategic objectives – efficiency, quality and through-life flexibility – will be better achieved via this route. The aspiration is that the private sector will foster a diversity of project approaches and solutions.

Participants in the Pre-qualification initial discussion with expert public are welcomed to offer suggestions to maximise the integration between the hospital care and the planned Integrated Care Centres (“ICCs”) project and to maximise the system cost saving thereof. In particular, hospital admission avoidance and reduced average length of stay will be regarded as the key success factors in the NUHB by the MoH SK, achieved by focusing care to the maximum achievable in the ICCs and their surrounding services. It is thus not envisaged that the NUHB can or will be treated as a stand-alone business or clinical facility.

The future private partner (“Private partner”) is expected to be responsible to the MoH SK for the following services:

- ▶ Design of the NUHB incorporating functional and technical requirements presented by the MoH SK,
- ▶ Build of the new hospital buildings and equipment,
- ▶ Securing the financing for the Project,
- ▶ Operating the NUHB, including medical equipment maintenance and renewal, and all clinical services,
- ▶ Maintenance of hospital facilities, providing hard (life-cycle) and soft facility management services.

The Private partner is expected to maintain contract for a period of approximately 30 years from commencement of the operational phase.

The terms and conditions that apply to the planning and construction of the buildings, as well as the maintenance and financing, are to be governed by the concession / project agreement procurement contract to be agreed and signed by the MoH SK and the Private partner.

The MoH SK wishes to encourage innovation and life cycle considerations and expects the Interested parties to present proposals regarding alternative and improved solutions, allowing the Project programme to be further developed in accordance with the envisaged Project considerations.

The MoH SK shall provide assistance with arranging the long-term contract and contractual terms with the HICs, ensuring stable and continuous revenues for the Private partner.

The MoH SK, recognising that the Private partner will carry the demand risk, shall commit to avoiding new hospital investments under the MoH SK control in the Bratislava catchment area.

Discussion with expert public and procurement process

Phase	Proposed topics for discussion
PPP structure	<ul style="list-style-type: none"> ▶ Division of responsibilities between the Private partner and the MoH SK ▶ Perceived risks to the Private partner and their mitigation
Design & Build	<ul style="list-style-type: none"> ▶ Hospital features , technical parameters and required functionality ▶ Integration of care with primary and community settings, avoiding hospitalisation
Finance	<ul style="list-style-type: none"> ▶ Financing structure ▶ Payment mechanism
Operate & Maintain	<ul style="list-style-type: none"> ▶ Integration of NUHB into existing hospital network in Bratislava ▶ Service and patient transfer ▶ Maintenance of high standards of care ▶ Sustainability of service provision, including environmental aspects ▶ Exit of the Private partner

Pre-qualification initial discussion with expert public

Before the official public procurement process, by means of this CD, the MoH SK would like to invite expert public to a constructive and wide-ranging discussion about the Project. The MoH SK's objectives for this discussion are:

- ▶ to involve all stakeholders in the design phase of the Project and get their feedback on all relevant aspects, subsequently implementing this feedback into the PPP structure,
- ▶ to increase the acceptance of the Project by the professional workforce and the general public,
- ▶ to set-up a feasible structure of the considered PPP as well as a transparent public procurement process.

Public procurement process

The public procurement process is considered to be executed in the form of a competitive dialogue with the qualified Interested parties.

The procurement process shall follow European and Slovak laws and regulations, as well as best practice of public procurement in European Union.

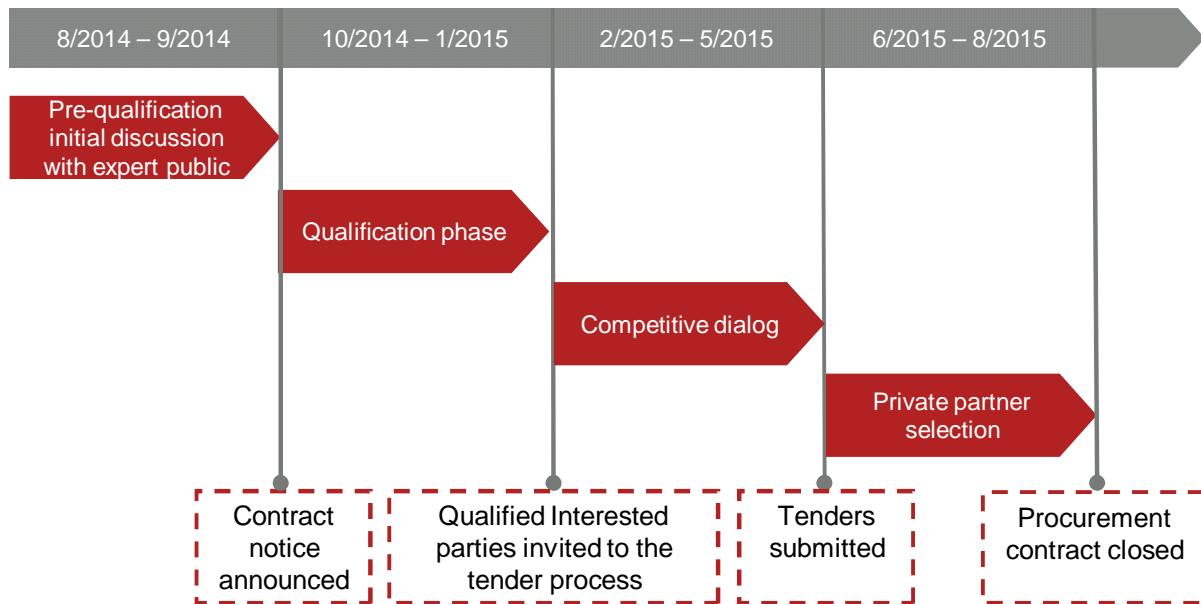
The procurement process, after the Pre-qualification initial discussion with expert public initiated with this CD, shall consist principally of three stages:

- ▶ Stage 1: Qualification of Interested parties;
- ▶ Stage 2: Qualification evaluation, competitive dialogue and submission of tenders (bids).
- ▶ Stage 3: Appointment of the winning bidder and signing the documentation (the concession/project agreement and related documents).

The total time period for the procurement is estimated to be approximately 10 months and should be completed in August 2015.

Indicative timeline

Indicative timeline of the Project



Next steps

Next steps for the Pre-qualification initial discussion with expert public phase (8/2014 – 9/2014):

- ▶ Interested parties in the Pre-qualification initial discussion with expert public phase are invited to hold initial discussions with MoH SK representatives by sending their Expression of Interest (“Eoi”) to the e-mail new.hospital@health.gov.sk by 20 August 2014.
- ▶ Proposed topics for the discussion including a questionnaire will be provided upon the Eoi receipt.
- ▶ Interested parties who demonstrate genuine interest by filing the completed questionnaire will be invited for individual discussions.
- ▶ Individual discussions are planned to be held between 1 – 12 September 2014.



Disclaimer and contacts

Contacts

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Information regarding future stages of the process and the public procurement in general shall only be considered indicative. The Ministry of Health of the Slovak Republic reserves the right to make amendments or additional clarifications in the later stages of the public procurement process.

All Interested parties who contact the representative responsible for the Project are obliged to bear all costs arising in connection with their actions in respect of this document.

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