A sustainable health care model requires the participation of private initiative.

GUIDE TO THE CONCESSIONAL MODEL
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What is the Public-Private Partnership (PPP) model?

Ribera Salud is the only Spanish company devoted, exclusively, to the PPP model and to the development of public-private partnerships. With over 16 years in existence, and results to back it up, its management model has become a benchmark in the health care industry thanks to its efficiency and effectiveness, without compromising the basic principles that prevail and must remain in our National Health care System: free and universal public medical care.

In the Valencian Community, Ribera Salud manages, under a concession system, the Departments of Health of the cities of Alzira, Torrevieja, Denia and Vinalopo. In the Community of Madrid, it is also present in the company of BR Salud, manager of the service of the Central Laboratory of San Sebastián de los Reyes which renders services to six public hospitals. It has also take part in the planning, building, launching and consolidation of the Hospital of Manises (Valencia) and the Hospital of Torrejon de Ardoz (Madrid) until December of 2012.

Internationally, Ribera Salud participates in the first two hospitals under the PPP model in Latin America: Hospital del Callao and Hospital Villa Maria del Triunfo en Peru. Furthermore, it is the technology supplier of several public hospitals of Chile with the electronic clinical history Florence. In addition, the Group has, with B2B Salud, a purchasing, logistics and shared services platform.
No, they aren’t. Since 1997, Ribera Salud has developed its own management model based on a determined commitment to the quality of health care as well as the advancement of health care through innovative clinical strategies, awareness of the key role of the staff and constant investment in technology.
It is essential to explain the keys to this health care model well, its advantages and its results in order to avoid possible confusion given that the health care models of public-private collaboration strive for PUBLIC and UNIVERSAL health care, guaranteeing our health care system in a complicated economic environment.

*Ribera Salud’s management model is an alternative for the sustainability of our public health care system*, and considering that with over 16 years in existence, excellent results and high satisfaction rates, it is fruitless to reopen the debate of the so-called ‘privatization’ of public health services.
Ribera Salud’s management model is commonly known as the Alzira Model after the Valencian town of Alzira in which the first Spanish public hospital managed under the system of administrative concession was built. The Hospital Universitario de La Ribera, in Alzira, driven by the regional government of Valencia, was inaugurated in 1999.

The model is based on four fundamental principles: the financing, ownership and control are public, and only the provision of service is private. As such, the quality of health care remains guaranteed and the administration does not lose control of the service provided.

**Public Ownership.** The public nature of the health service is guaranteed at all times. The health center remains a public hospital, built on public ground and belongs to the network of public hospitals.

**Public Control.** The concessionaire company has to comply with the clauses set out in the bid specifications. The Administration has the power to control and inspect it, as well as regulatory and sanction authority.

**Public Funding.** The payment is based on a capitation payment system. The Administration pays the concessionaire company an annual fixed and pre-established amount for each of the inhabitants ascribed to it.

**Private Provision.** The provision of health care service is allotted, for a pre-established period of time, to a concessionaire company that is committed to the successful operating and management of the public service.

The choice for this model meant a turning point compared to other similar start ups launched in Europe since, for the first time, it included a financing model based on a capitation system. This is crucial because the capitation model finances the health of the population, not the service carried out. It is an essential change to carry out an efficient management focused on the citizen.
1. **It is a public hospital and free** for all its citizens. As well as the service, the facilities and equipment are public, even if the investment is private. The difference in respect to other public hospitals lies in the management model: it is an administrative concession but the hospital is managed in coordination with the public administration (namely the regional Departments of Health of Madrid and Valencia).

2. The experience has proved the feasibility of this model. These **centers are fully integrated in the public health care network of the regional Department of Health** and they have been awarded by public and private organizations, both nationally and internationally, for their excellent management results. Moreover, according to the surveys conducted, the citizens themselves back up the model.

3. **High-quality health care.** These hospitals are equipped with cutting-edge technology which has a positive impact on the satisfaction of the patient (i.e. waiting list of 0 at year end). Coordination between primary and specialized care to bring health care closer to the citizens.

4. **Greater accessibility and comfort.** An accommodating schedule (i.e. uninterrupted service in the morning, afternoon and evening, even on Saturdays), single rooms with a guest bed equipped with all the conveniences, etc.

5. **Technology.** Modern facilities equipped with state-of-the-art technology to perform at the hospitals help give a quick and efficient response to the citizens’ needs. Computerized medical history and digital radiology, along with the latest medical technology for the treatment and diagnosis of illnesses.

The health care concession model has shown that this new formula of public-private partnership is feasible both from the health care and economic point of view. Its success lies in the introduction of private management tools but always maintaining the same criteria and values that the public system is based on. In other words, it combines the strength of the public system, offering the best free and universal health care, with the flexibility of the private initiative visible in the introduction of human resources strategies, more flexible clinic management, innovation in technology and Information Systems and so on.
The Administration doesn’t lose control over the management. What’s more, the spending is significantly lower which enables the government to allocate funds to other areas. Financially speaking, this represents a saving of around 25% compared to publicly managed hospitals (according to data from the regional Department of Health).

This system benefits the citizen because it demands a better public service and this gives a better answer to their requirements. It offers greater accessibility, lower response time and a more personalized treatment.

For the professionals, this means work stability, innovative remuneration system linked to activity and quality indicators. Furthermore, promotion and the opportunity to develop their career with the latest management tools, autonomy and participation in the health care management processes, as well as a firm commitment to teaching and research.

They key is to accept that the privately managed public hospitals must work under the same criteria as the rest of the public hospitals, since the financing, control and ownership are public, and only the service is private.

This requires the existence of a private initiative that is fully aware that the guidelines are set by the public administration, therefore, the model needs loyal collaboration, long-term vision, willingness to stability, and a firm commitment with the professionals, as well as a high-quality health care policy explicitly committed to the citizens.
At a glance

Benefits of the management model

For patients:
- Quality received. Humanization of the assistance
- Personalized treatment. Higher level of privacy and comfort
- Greater accessibility. Quicker response time
- Technology at the service of the citizen

For professionals:
- Work stability
- Variable remuneration linked to health care results
- The opportunity of development and professional advancement
- Teaching and Research. University hospitals

For the Administration:
- Lower burden on the budget
- 25% lower costs compared to the public management average
- Investments made by the concessionaire
- Control and planning of the Administration
- Agile and flexible know-how
What the PPP Model is...

- It's a public-private partnership model based on an administrative concession system for the management of the public health care service.

- It’s a model that includes the construction and equipment of the facilities and the clinical management. (White coat)

- It’s an efficient and flexible model implemented so far in five hospitals of the Valencian Community, four in the Community of Madrid and in the Central Laboratory of the Community of Madrid as well. In addition, there are four ongoing tenders in Portugal and the first two South American PPP Hospitals, currently under construction in Peru.

- It’s a model that in the Valencian Community includes Primary Care and in which workers and union staff get along.

- It’s a reliable option to guarantee the sustainability of the National Health Care System.

- It’s a high quality health care model which has the highest satisfactions ratings among its patients as its goal is to achieve the best possible health status for its citizens.

- It’s a firm commitment in terms of technological investment and innovation to improve health care management, together with an excellent management of human resources.
• It’s not privatization. Financing, control and ownership remain public.

• It’s not a PFI which consists in the building of health care infrastructure in exchange for the management of supplementary non-assistance services, without clinical management.

• It’s not about a model that cancels the public character of health care. The care kids free for the citizens affiliated with the center.

• It’s main objective is not to profit at the expense of lowering the standards of medical treatment for the citizen. The capitation payment is set by the Administration, which monitored and makes sure the quality standards are just as good as at other centers within the network. Furthermore, the profit margin for the company is limited by contract.

• It doesn’t imply a deterioration of the public health care services. The service portfolio is established by the Administration and is equivalent to that of other centers.

• It doesn’t reward the physicians to offer cheaper treatments, nor does it prioritize some treatments over others dependent on its cost or the patient’s geographical origin. The formula of displaced people is favorable for the Administration since it receives 100% of the cost of treatment from the care of a citizen from a franchised Department who receives treatment elsewhere, and it only pays 80% of the treatment that the citizen gets in a franchised Department coming from another Department.

• It doesn’t result in an increase in public health care spending. The private management makes it possible for the Administration to offer the same service 25% cheaper.
Spain has a great public health care system that is going to be facing large challenges in the next few years. This makes the presence of the private initiative necessary as it can introduce tools for innovation in management to contribute to the long-term sustainability of the public health care system.

This is shown by a number of studies from different consultancy firms and independent accredited organizations which have faced the sustainability issue of the national health care system and each and one of them a public-private partnership is set out as one of the alternatives to promote and the experience of the Alzira Model is quoted.

The concession system is a landmark in health care management and has shown that it meets the citizens’ needs, the professionals’ expectations and the requirements of the Administration. That is why, it has developed successfully in our country and has sparked interest of organizations as well as international institutions.

Future hospitals will look a lot more like the ones in Alzira or Vinalopo than the traditional public hospitals for one simple reason: because the citizens want it that way. The citizen can’t tell the difference between the different kinds of treatments he receives. The population trusts professionals and most of them don’t even know the management model in place, which shows that our advanced and democratic society increasingly expects more from public services and pays attention to how things are done regardless of who does them.

Spain, looking more and more at models in place in other developed European countries, is closing the gap between the public and the private in Health Care as a solution to guarantee the sustainability of a universal system. Ribera Salud’s management model is the strongest and oldest successful alternative in this context.

The public-private partnership is an area that will keep growing and its limit will always be determined by the respect to the core principles of our public health care system: universality, free-of-charge, etc. The model is going to continue spreading inside and outside our country, and we believe that there will be lines of collaboration not only for the management of new hospitals, but also for existing hospitals, as well as in other lines such as laboratory, technology, logistics, in-house medical care, medical care for chronic patients, genetics, telemedicine, etc.
- **Alzira.** First Spanish public hospital privately managed by a government concession, which gave the model its name. Since 2007, it’s called University Hospital of La Ribera.

- **Apalancar** (Leverage). The use of debt (third-party financing such as bank loans, bonds, etc) to finance projects along with the equity capital that needs to be put in. On one hand, the advantage is that the company has more financial muscle to make a greater total investment and, on the other hand, it reduces the cost of the project since the interest to be paid is lower than the profitability demanded to the equity capital (for the same project). This is explained because the implicit risk of the debt is lower, due to the existence of greater collateral -more safety of repayment- than for the equity capital.

A leverage 75/25 means that 75% of the investment will be made using debt and 25% using equity Capital.

- **BAFO.** It stands for Best and Final Offer. It is the final moment of the tender where the bidders make their most competitive offer in terms of price and quality.

- **BEI.** It stands for European Investment Bank. Through its loans and credits, the EIB helps to achieve the objectives of the European Union.

- **Club Deal.** It is a type of financing in which a group of banks pool their resources together to finance a specific project not insured by a single financial entity.

- **Public-Private Partnership (CPP/APP/PPP).** It is the formula that the Administrations have found to develop infrastructure and public services along with the business world sharing the risk and without budgetary restraints that may pose a break in the development of social equipment.

- **Comisionado (Commission).** Body that permanently controls the concession which functions are established in the tender agreement: Hold the leadership of the statutory staff, manage the Service of Patient Care, deal with inter and extra hospital proposals, request surveys and oversee the activity and quality policy, pending alternatives to schedules. It has the power to control and look over, as well as training and sanction power.
- **Concession.** It is a type of contract in which the payment is made by the users of the infrastructures, which is different from the PPP in which the payment is made by the Administration. The tolls on the highways would be an example of concession and the shadow-tolls or availability payments would be examples of PPP. In Spain, the terms of Public Private Partnership and Concession apply in the same way, both for those contracts where the user pays and for those where the payment is made by the Administration. The specific PPP contract also exists in our country and it is a specific contract, additional to the concession agreement, which has a series of specifications, for example, it is mandatory to bid through a process called “Competitive Dialogue”.

- **Concessionaire.** Holder of a business contract by the Administration.

- **Preservation.** Part of the CPP contract where the concessionaire is obliged to keep the infrastructures in good condition.

- **Consolidate.** Inclusion of the debt and/or deficit associated to the infrastructure in the Administration’s Balance Statement. Otherwise, not to consolidate implies that the debt remains in the concessionaire company, not appearing in the Administration accounting. The classification in one or the other way depends on whether most of the economic risk has been transferred to the private shareholder or not.

- **Senior Debt.** Debt of the project financed through Project Finance. It takes priority over other unsecured debt owed by the issuer.

- **Eurostat.** It’s a directorate-General of the European Commission whose main function is to provide statistical information to the EU institutions similar to what the INE does in Spain.

- **Use.** Phase of the PPP contract consisting in operating and maintaining the infrastructure once it has been built.

- **Expropriation.** Process in which a public agency has the right to take private property for a purpose deemed to be in the public interest.

- **Outsourcing.** Strategy aimed at obtaining competitive advantages contracting out of a business process to another party. In the Administration sphere, it is the process the Administration uses to entrust a company to the development of certain services.

- **PPP Forum.** Multi-sectorial association of experts in public-private partnerships in operation since 2007 which has over 40 associated entities that represent all the areas that take part in the concession of infrastructures and public services in Spain.

- **ICO.** It is the Official Credit Institution of Spain. It is a public entity, affiliated with the Treasury deemed as a financial agency whose objective is to foster economic growth. The ICO’s financing promote sectors such as Transportation, helps projects of technological innovation, renewable energies and fosters the presence of Spanish companies overseas. The ICO promotes Spanish investment projects so that Spanish companies can be more competitive and contribute to the country’s economic development.
- **IFRS.** The International Financial Reporting Interpretations committee is in charge of reviewing accounting situations that might be handled differently or inadequately. It brings transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions. IFRS 12, for instance, doesn't allow companies to defer financial expenses and must record them in the year they are generated. IFRS 12 breaks down the assets of the PPP models in financial and intangible, being the former much “easier to consolidate”

- **Abril Report.** The so-called “Abril Report” from 1991 includes the conclusions drawn from the think tank of a group of experts that, under the presidency of the former minister Fernando Abril Martorell, debated about the new challenges that the National Health Care System was facing. They brought up alternatives that could help its survival and viability. The aforementioned report introduced concepts such as separating financing, purchase and provision of health care services as well as the need to introduce changes that would allow a relaxation of administrative laws for a better management of human and material resources.

- **The 15/97 new ways of management Act.** This law was passed by a wide majority of the Spanish Chamber of Representatives (against IU and BNG) and it opens the door for legal institutions other than the Administration to provide health care services. The Valencian Regional Government relies on this new law to start the Hospital de La Ribera in the town of Alzira (Valencia).

- **Licitacion.** Tendering process where a group of companies bid for a public contract.

- **Maintenance.** Group of operations and care necessary to ensure the infrastructures can continue working properly once built. They are included in the concession contract.

- **Availability payments.** Kind of remuneration by which the Administration pays a royalty to the concessionaire so that the infrastructure is available for its use, regardless of the number of people using it. It’s the opposite to pay-per-use.

- **Pari passu.** Latin term that literally means “at an equal pace” and each creditor is paid pro rata in accordance with the amount of its claim.

- **Types of payment:**

  - **Payment per activity:** remuneration made for each treatment performed in accordance to certain rates.

  - **Capitation payment:** Remuneration made by the citizen affiliated to a hospital or department of health and whose objective is to foster the wellbeing of the population.

  - **Toll:** Payment or fee exacted by the state for passage along a road.

  - **Types of toll:**

    - “Soft” toll: The user and the Administration share the cost of the construction of maintenance.

    - “Explicit” toll: The user pays proportionally to its use.

    - “Shadow” toll: The Administration pays proportionally to the number of people who use the infrastructure. It’s not linked to the availability.
- **Private Finance Initiative (PFI).** It is a way of creating public-private partnerships by funding public infrastructure projects with private capital in exchange for the management of supplementary non assistance services, without clinical management (excludes white coat).

- **Pliego.** Part of the tender contract where Tender the specifications are stated.

- **Privatization.** Process of transferring ownership of a public service from the public to the private sector. It’s different from the PPPs contracts since in these the ownership of the infrastructures remains always public.

- **Project Finance.** Type of financing o bank debt in which the collateral is the own project and there isn’t any other collateral.

- **Economic & Financial Rebalance.** It consists in modifying the contractual conditions of a PPP project to allow readjustments in the financial situation back to the original state. The concessionaire has a the right to rebalance in four situations:
  
  - Lus variance: When the change in the project is due to the Administration actions. This occurs, for instance, when without prior notice the Administration decides to build a toll-free highway parallel to where the concessionaire was going to build a toll road.
  
  - Factum principles: This happens when the Administration does something in a way that makes impossible to fulfill the contract in its original form. For example, this may occur when there is a law change that carries with it a change in the economic conditions of the execution of the contract.
  
  - Unforeseen events: It refers to the risks that the concessionaire could have anticipated at the time of bidding.
  
  - Force majeur: When due to an extraordinary event or circumstance beyond the control of the parties the contract can’t be completed.

- **Bailout.** Administrative mechanism by which a concession contract can be terminated prematurely because of public interest or because of the modifications of the conditions. (For instance, the inclusion of new services not anticipated initially.) In 2003 the Valencian government decided to start a comprehensive model of primary and specialized care in the area of La Ribera and later on in the entire community.

In La Ribera the concession model had been in place since 1999 but only for the hospital management, therefore, the initial contract was terminated to include the management of primary care. In order to “bailout” the concession by mutual agreement, a payment had to be made to the concessionaire due to the unamortized investment on that date plus the lost profits as the 10-year plan submitted to the Administration by the company couldn’t be fulfilled.

This operation didn’t entail any loss of public funds for the regional government since the specifications of the new tender stated that it was mandatory for the new concessionaire to take on that cost. Hence, it is not that the Generalitat Valenciana lost money in the operation, they actually received 4 million euros because the royalty that received in the new tender was over the compensation for the bailout.
- **Ribera Salud.** Pioneer company in the health care concession model in Spain with experience in the Alzira model for over 16 years.

- **Construction risks.** Transfer of possible budgetary increases during the construction period.

- **Risk of demand.** It's taken in toll projects where the concessionaire's income depends on the number of users.

- **Risk of availability or operation and maintenance.** The concessionaire is obliged to maintain the infrastructure in good condition regardless of the external causes affecting the asset.

- **Risk of financing.** The concessionaire is responsible for reaching the closure of the financing and it is not protected from the ups and downs of the final interest on the debt.

- **Solvency risk.** Credit rating from the entity which has to meet its long-term financial obligations.

- **SEC95.** In English, ESA 95 is the European system of national accounts that regulates public accounting.

- **Bond insurance.** Also known as financial guarantee insurance is a type of contract whereby the guarantor must pay the owner of the security a certain amount if a second party fails to meet some legal or contractual obligation.

- **Public ownership.** The Administration is the one who owns the infrastructure or public service. Unlike the privatization, all the assets in the PPP models are publicly owned.

- **UTE or Temporary Consortium.** A group of companies pool their resources together to start a specific project. It is typical to find this figure in PPP contracts.

- **Value for money.** It is a key principle used in the PPP models where a fair amount is paid for a good infrastructure in order to obtain a good return.