Commonwealth Finance Ministers Meeting 2008

Delivering Healthcare Infrastructure for the Millennium Development Goals

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EXECUTIVE SUMMARY

Significant progress in meeting the majority of the Millennium Development Goals can be achieved through the provision of a good healthcare system and particularly through the establishment and operation of good secondary hospitals. The private sector has the ability to assist greatly: governments should be willing to entertain the involvement of the private sector and even where there are political impediments to private sector involvement, those impediments can most usually be overcome by the imposition of effective performance monitoring and reporting regimes and consultation processes coupled with suitable "Branding" requirements to emphasize the ongoing public sector involvement and the limitations of the private sector role.

The concept of "outsourcing" is well understood and practiced throughout the Commonwealth because it is recognized that in many areas the private sector is better equipped and able to provide value for money than the public sector. Private Finance Initiative (PFI) (also known as Private-Public Partnerships) and Public-Private Investment Partnership (PPIP) schemes can be found in various forms and have been established in several Commonwealth countries. Which format is to be followed in a particular case will depend upon the policy goals of individual governments or other sponsoring authorities. It is important that the public sector establish clear, unambiguous objectives which are to be attained, timetables for delivery which are fair to both parties and a range of appropriate monitoring and reporting regimes in order that both parties can be fully informed in an open and transparent manner.

Capital expenditure funding solutions vary; the decision as to which should be adopted will depend upon the circumstances of the individual government or other sponsoring authority and should be taken with the benefit of experienced professional advice. Achieving best value for money has to be a key objective and requires consideration not only of the capital investment per se, but also of the arrangements being made for the related ongoing obligations in relation to the infrastructure, the medical equipment and the provision of clinical services. Operational expenditure funding solutions also vary: the decision as to which should be adopted will be influenced by the status of the government or other sponsoring authority and the sufficiency of the data available to it, but the interests of the funders also have to be borne in mind.

Achieving full value from the capital investment requires the acceptance and performance of ongoing obligations in relation to the infrastructure, the expensive medical equipment which has been installed and, not least, the provision of satisfactory clinical services. One useful option can be the creation of a single contract encompassing all obligations and providing for a single point of contact and a single avenue for claims, but with the obligations being allocated appropriately.

Funding solutions should require, and certainly those dependent upon external agencies, whether they be from Aid budgets, loans from multi-lateral agencies such as the World Bank, loans from Regional Development banks or loans from the general commercial banks, will require that certain criteria are met before funds are drawn down.

Hospitals are only a part – albeit an important and expensive part – of a healthcare system. Governments considering such an investment should plan carefully and be willing to incur the cost of qualified professional advice from the outset.

Introduction

"The right to adequate medical care" formed part of the definition of freedom used by President Franklin D. Roosevelt in 1943 when he proposed a Second Bill of Rights for Americans and declared *"freedom from want"* to be one of four essential liberties necessary for human security. The right to health was later enshrined in Universal Declaration of Human Rights (Art. 25) and has since been recognized in many international and regional human rights treaties. It follows that ensuring the availability of healthcare is an obligation of all governments; that is also recognized through the Millennium Development Goals.

Addressing those Goals from a health perspective in 2007, Dr. Margaret Chan, Director-General of the World Health Organization, said,

"First, the goals place health firmly at the centre of the development agenda. Second, the goals make inter-sectoral collaboration a prerequisite for success. They attack the root causes of poverty and acknowledge that these causes interact. Third, by making better health a poverty-reduction strategy, the goals move the health sector from a mere consumer of resources to a producer of economic gains."

Such healthcare should include (i) Public Health (immunization, infection control, screening etc.); (ii) Primary Care (the service provided to individuals by Nurse Practitioners, Family Practice Nurses, General Practitioners/Family Physicians, Physiotherapists or other appropriate healthcare professionals) and (iii) progress to the care provided by Secondary Hospitals and the more "specialist" services available in Tertiary and other very specialized Hospitals. The totality of such healthcare should be organized in a system which puts the patients' interests first and provides them with a seamless journey through the necessary stages of their treatment.

The challenge of meeting ever increasing healthcare infrastructure costs within limited budgetary resources

While similar in overall objective, the specific challenges facing Finance Ministers vary from country to country. For example, in developed countries such as the United Kingdom and Canada where a complete healthcare system has been established for very many years and is taken for granted by the citizens, perhaps the most pressing problem is that of achieving a reduction in waiting times for elective surgery while at the same time seeking to redistribute the available healthcare funds in a manner which results in the more efficient use of resources. That position can be contrasted with the position of many Commonwealth developing countries such as those where the pressing and overriding challenge is to develop an integrated and efficient healthcare system which will permit universal access to all citizens from primary healthcare upwards.

In many of the Commonwealth countries, as elsewhere in the world, the most severe problems detracting from or indeed preventing the achievement of significant gains in healthcare are those stemming from weak, poor quality and ineffective healthcare delivery systems. Over recent years, very substantial sums of money have been made available, but too often bottlenecks in the delivery systems have prevented those funds achieving the improvements intended.

The most frequently mentioned problems are those relating to a perceived lack of suitably qualified professionals, inadequate finance, inefficient supply chains and a generally poor quality of service. Equally serious problems are those relating to infrastructure which is decaying or, in some cases, non-existent and a lack of reliable water, sanitation and power supplies. Even where doctors, nurses and allied healthcare professionals are available, the service which they can provide is adversely affected if it has to be delivered from inadequate facilities or where there is a lack of suitable medical equipment and pharmaceutical supplies. Often underlying those problems is the shortage of trained and experienced managers – in some cases compounded by a failure on the part of government to recognize the increasing importance and value of such skilled managers to the delivery and operation of a modern healthcare system.

At a time when all costs are increasing, governments and the healthcare sector generally, recognize that the cost of healthcare increases at a higher rate than that in many other sectors of the economy. It follows that the challenge facing Finance Ministers – and especially those in the less developed countries – are very considerable and that overcoming the problems alluded to above cannot be the function of Finance Ministers alone; it requires the involvement of other Departments – e.g. those of Health, Education, Labour and Immigration.

How can the private sector assist governments in the more efficient use of available healthcare funds?

A key component of any efficient healthcare system is a good Secondary (General) Hospital which, if suitably and properly established and operated, will have the ability to enable a government to make significant progress towards meeting the Millennium Development Goals. One of the main challenges is how to achieve effective secondary hospital provision in the most cost effective manner.

While recognizing the benefits which new hospitals will bring, both immediately and in the longer term aim to meet Millennium Development Goals, sponsoring governments have to acknowledge that the cost of designing, constructing and properly equipping a hospital is high – and that cost is increasing year by year, not only as a result of increases in labour and materials, but also as a result of the increasing sophistication of the available treatments and the medical equipment necessary. The establishment of even a modest sized (100/150 bed) General Hospital – and the majority of hospitals fall into that category – involves a major investment by the Public Sector. For all countries and most especially for the less developed countries, securing value for money is critical. While that objective will be supported by all governments, experience shows that many countries – and again especially many of those less developed countries – may lack the expertise necessary to ensure that value for money is achieved, particularly through the due diligence and other preparatory work which should be carried out before the investment is made.

The concept of "outsourcing" is well understood and practiced throughout the Commonwealth because it is recognized that in many areas the private sector is better equipped and able to provide value for money than the public sector. In the United Kingdom since 1979, that concept has been applied to the provision of infrastructure through Private Finance Initiative ("PFI") schemes – in many other countries referred to as Public-Private Partnerships – which bring together private sector finance, the management expertise and the disciplines of market forces to

produce new and well equipped hospitals and other healthcare facilities and to ensure the ongoing maintenance and renewal of such facilities and equipment. More recently, both in the United Kingdom and elsewhere, the concept has been extended to bring world-class expertise in clinical and non-clinical service delivery, quality and management into healthcare systems through what some have called “Public-Private Investment Partnerships” (“PPIPs”).

Both PFI and PPIP schemes can be found in various forms and have been established in several countries. Which format is to be followed in a particular case, will depend upon the policy goals of individual governments or other sponsoring authorities. If the goal is to add capacity or improve a particular service in an otherwise well functioning system, a defined contracting out of such requirement or service whether through the use of a PFI solution or otherwise, may be the preferred option; alternatively, if the goal is to achieve a fundamental improvement in quality, access and efficiency of service delivery and to mobilize long term private investment, a bolder approach such as that of a PPIP solution, is required.

In either case, it is important that the public sector establish clear, unambiguous objectives which are to be attained, timetables for delivery which are fair to both parties and a range of appropriate monitoring and reporting regimes in order that both parties can be fully informed in an open and transparent manner. Also, in relation to long term associations, it would be reasonable to expect the inclusion of benchmarking and/or market testing provisions. All these constraints will be generally accepted by the private sector which is accustomed to them in wholly private sector work. In either case, one would expect the public sector to impose strict “Branding” requirements to emphasize the ongoing public sector involvement and the limitations of the private sector role. Experience shows that these factors play an important role in overcoming such political impediments to the involvement of the private sector as may exist in government, its electorate or in the healthcare profession.

The differences between approaches can be illustrated by two examples:

1. In the United Kingdom, the Department of Health determined that waiting lists for elective treatments – ophthalmology, orthopedics and some general surgery – should be reduced through an increase in capacity to be provided by the private sector under the Independent Sector Treatment Centre scheme. A further objective was to bring into the system innovative international expertise and management techniques. Private sector providers were required to design, finance, build, equip, recruit staff for, commission and operate Treatment Centres for a term of five years at the end of which the Department will either pay a “residual value” to the provider and take over the Treatment Centre or renew the contract for a further term. The Treatment Centres are restricted to providing services to NHS patients and very detailed performance monitoring and reporting regimes have to be complied with. CBC Member InterHealth Canada is a participant in that scheme: its Treatment Centre at Runcorn, Cheshire, was opened on time and within budget, has and is continuing to achieve a high rating on all the Key Performance Indicators, including exceeding its contractual requirements for patient throughput.

2. In the Caribbean, the government of the Turks & Caicos Islands had a much more fundamental requirement – the establishment and ongoing operation and management of two new full service hospitals to be part of a general upgrading of the healthcare system in the Islands and including the provision of some primary care, accommodation for public health employees and an Information Management and Technology (IM&T) system which would interface with the government's own system and also facilitate the use of telemedicine. InterHealth Canada is carrying out the design, finance, building, equipment, staff recruitment and operation of the hospitals for a term of twenty five years at the end of which the financing arranged by the company will have been repaid and the hospitals will pass to the government free of encumbrances. The contract contains detailed provisions regarding the maintenance of the infrastructure, an equipment lifecycle programme, and a performance monitoring and reporting regime covering both clinical and non-clinical services based on that used in the United Kingdom. The otherwise implicit nature of the "partnership" between the government and the company is emphasized by provisions for ongoing consultative processes during the life of the contract.

Investing in new healthcare facilities

Capital Expenditure Funding:

Capital funding solutions are varied, but save for those which depend upon outright grants or the use of taxpayers' funds by a sponsoring government, they fall into two categories, viz; (i) those where the sponsoring government is the borrower; and (ii) those where a private sector third party is the borrower. In either case, for the project to be bankable, it has to be shown to fall within the limits of affordability – that the sponsoring government can afford either to service the loan direct or that it can afford to make payments to the private sector provider/borrower in an amount sufficient to enable that private sector provider/borrower to service the loan.

Should a sponsoring government opt for a solution which utilizes the strength and reputation of a private sector provider as borrower, one of the key decisions which will have to be made by the government is as to the term of the concession which it is willing to enter into. Either, as in the case of the ISTC schemes in the United Kingdom, the government must recognize that on the expiration of the term it will have to pay a capital sum large enough to repay the then balance of the loan outstanding or, as in the case of the Turks & Caicos Islands example, the concession must be of a term long enough to enable the private sector provider/borrower to amortise the loan over that term; clearly the private sector will not countenance an arrangement under which its right to receive payments ceases, the private sector is left carrying the balance of the loan and the facility which that loan has funded passes unencumbered to the sponsoring government.

To assist in a proper determination of these issues, it is essential that the sponsoring government have professional financial advice from one of the major accountancy firms or other with experience in these areas.

Achieving full value from the capital investment requires the acceptance and performance of ongoing obligations in relation to the infrastructure, the expensive medical equipment which has

been installed and, not least, the provision of satisfactory clinical services. From the perspective of the sponsoring government, best results are likely to be achieved if at least the first two of those categories of obligations and, in the absence of sufficient well trained and managed local staff, also the third category of obligations, are performed by one provider under a single contract. By so doing, the sponsoring government avoids the problems of demarcation and all claims of whatever nature can be directed towards the one entity.

However, while that solution would meet the laudable and totally understandable objective of the sponsoring government, it presents a major problem for funding banks which are inherently averse to accepting clinical risk. Indeed, risk attributable to medical equipment and/or an IM&T system which is used in connection with the provision of clinical services, is not a category of risk which banks will accept lightly. Finding a workable solution which bridges the gap between those two positions has exercised the minds of many professionals for some time. InterHealth Canada were able to do so in the structure developed in conjunction with advisors for the project with the Turks & Caicos Islands Government. That solution involved the creation of a single contract encompassing all obligations and providing for a single point of contact and a single avenue for claims, but with the obligations being allocated between two special purpose vehicles within and which are both parties to that single contract.

Funding solutions are varied; all should require and certainly those dependent upon external agencies, whether they be from Aid budgets, loans from multi-lateral agencies such as the World Bank, loans from Regional Development banks or loans from the general commercial banks, will require that certain criteria are met before funds are drawn down. Those criteria include:

- The production of a complete assessment of the health needs of the community to enable an informed decision to be taken regarding the range of services and the likely volumes of treatment to be provided;
- A structural design which enables the delivery of the selected services in accordance with modern clinical practice;
- A structural specification which uses "best practice" materials and which fully accommodates any relevant geological and/or climatic conditions;
- A structural design and specification which allow for treatment to be provided by the clinicians in accordance with the principles of best practice;
- The design and specification of an IM&T system which will allow the development and the maintenance of reliable statistical information as the basis for the sponsoring government's national healthcare provision, provide the full range of patient and treatment records, enable the sponsoring government to verify performance and allow access to the long term future developments in telemedicine;
- The provision of necessary medical equipment to support the treatments to be provided; and finally and most importantly
- Construction on time and to budget.

Operational Expenditure Funding

An entirely separate exercise is the funding of the ongoing operation of the hospital including the tasks identified earlier in this Paper as being necessary if the sponsoring government is to derive full value from the capital investment and the provision of the clinical services.

As in the case of capital required, there are a number of solutions to the challenge of funding such ongoing operations – e.g. the use of general taxation revenues, the use of a specific and ring fenced health levy or the establishment of a full National Health Insurance scheme. The decision as to which is the most appropriate in any particular case may well turn on the status of the sponsoring government and the sufficiency of the data which is available to it, but again the interest of the funding banks or other lending institutions has to be borne in mind. Meeting that interest may require that two income streams be established – as was the case in the Turks & Caicos Islands contract referred to above; one being of an amount sufficient to service the loan and cover the maintenance of the infrastructure, medical equipment and IM&T (and including the lifecycle obligations in relation to such medical equipment and IM&T) while the other relates only to the provision of the clinical services. Payment methods have to be determined, but can be established either on a per procedure tariff basis or on a capitation basis. Where sufficient reliable data is not available to support the calculation of a realistic per procedure tariff basis, it may be necessary to adopt a cost plus formula for an interim period and then, when sufficient data has been developed, to move to a per procedure tariff basis or to a capitation basis.

As stated above, and however it be funded, the building and equipping of a new hospital constitutes a major capital investment for any government and is not one to be undertaken lightly. Despite the attraction which the opening of a new hospital provides for a photo opportunity, a responsible government will recognize that such capital expenditure is a "one off" expense which will be disbursed over a build period of perhaps two years or so and represents only a small part of the investment required. The real challenge starts at that point and continues through the design life of the building.

To achieve value for the money expended, the hospital has to be maintained in a condition which will allow the practice of modern medicine; that objective requires that (i) the medical equipment be maintained in accordance with a properly prepared Preventative Maintenance Programme in order to minimise down time and, at the appropriate time, be replaced according to a properly prepared lifecycle plan; and (ii) the planned clinical services be provided by a qualified staff in a manner and to a standard which meets the healthcare needs of the population. Over the life of the hospital, that operating expenditure will materially exceed the capital expenditure and achieving value for money is equally important,

Meeting that objective requires that the hospital be operated and managed according to best practice by professional hospital administrators. Whether they be from the public sector or the private sector, those administrators should be required to operate and manage the hospital in such a manner as to meet clearly defined targets and in accordance with internationally accepted standards: Key Performance Indicators need to be determined to enable the sponsoring government to measure performance across the full range of functions – maintenance of the infrastructure, maintenance of the medical equipment, the delivery of necessary support services

and, most importantly, the clinical outcomes. It is suggested that those governments which do not have a pool of suitably qualified hospital administrators available to draw upon from within its population, should countenance the engagement of a private sector company on terms which will result in the transfer of knowledge to local people. It can be expected that over a period of time, such an arrangement may result in there being members of the local population capable of performing at least some if not all of those administrative functions.

Employment and training

A significant part of the capital cost can be offset by the opportunities which a modern, well equipped and well run hospital provides for local employment – not merely of nurses and doctors, but also of administrative staff and, importantly, those engaged in the provision of the Facilities Management services necessary to maintain the infrastructure (Hard FM) and the equipment in good and serviceable condition and to support the operation of the hospital (Soft FM). Those opportunities for local employment can be enhanced by the introduction of a properly structured training scheme for the provision of training and continuous professional development. Indeed, it can be expected that such a hospital will attract back to the country many healthcare professionals currently working overseas because it will be capable of providing them with the ability to maintain their professional competence and the "job satisfaction" which comes from being able to provide a needed service to their local communities.

Conclusion

Improving the provision of healthcare for its citizens is an obligation of all governments; the investment in a new, well equipped, maintained, managed and operated General Hospital enables a sponsoring government to make progress across a wide range of the Millennium Development Goals and to bring both social and economic benefits to its citizens. Nevertheless, the investment required is considerable and should be undertaken only after necessary criteria have been met.

Achieving value for money, involves consideration both of the capital expenditure and, since the amount of money involved over the design life of the hospital will significantly exceed the capital cost, of the arrangements being made for the ongoing operation and management of the hospital. In both respects, experienced professional advice should be considered as a necessary expense which will save time and money in the long term.

Funding solutions for both Capex and Opex exist, but vary and need to be carefully analysed to ensure that the in each case the solution adopted meets the legitimate requirements of the sponsoring government, the funders, any private sector operator and is within the sponsoring government's affordability limits.