

European Health Property Network
2013 Workshop - Reinventing the Hospital
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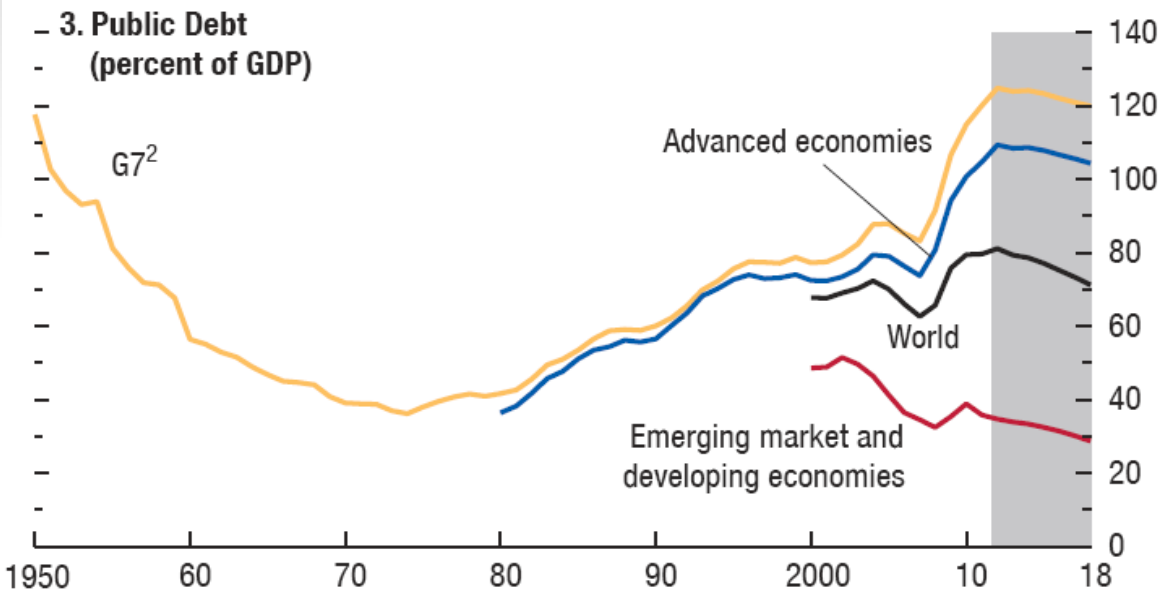
EUROPEAN CENTRE FOR HEALTH ASSETS AND ARCHITECTURE

**Stewardship & Governance in Future Healthcare Systems:
consequences for the health estate**

Steve Wright

- **The economic crisis, & capital funding**
- Recruiting the private sector?
- Stewardship & governance

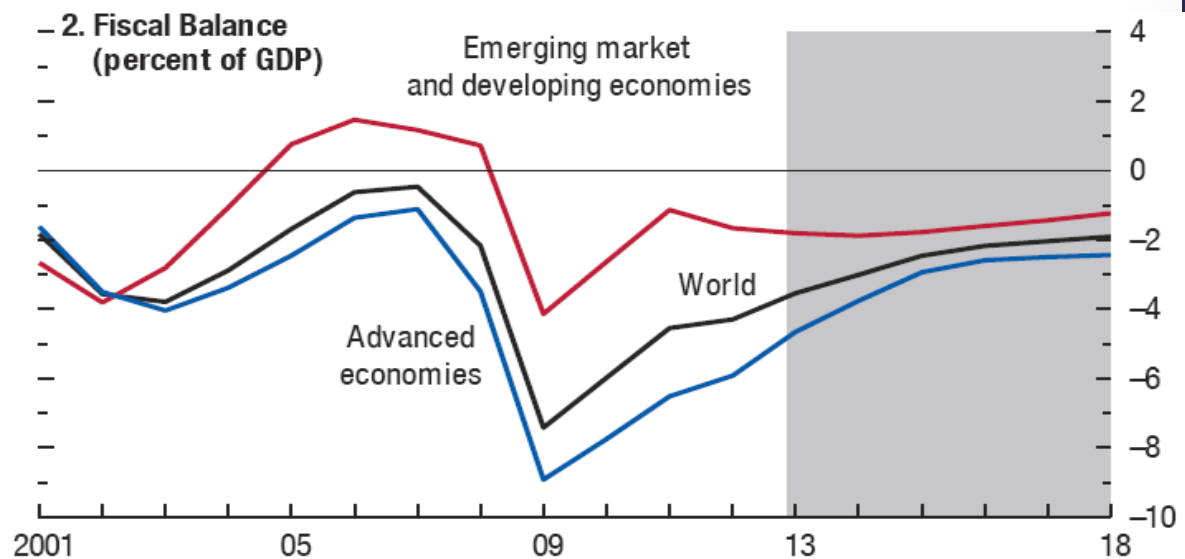
State debt has ballooned



In rescuing their economies, **state** debt has risen, in the West, to the highest ever levels for peacetime

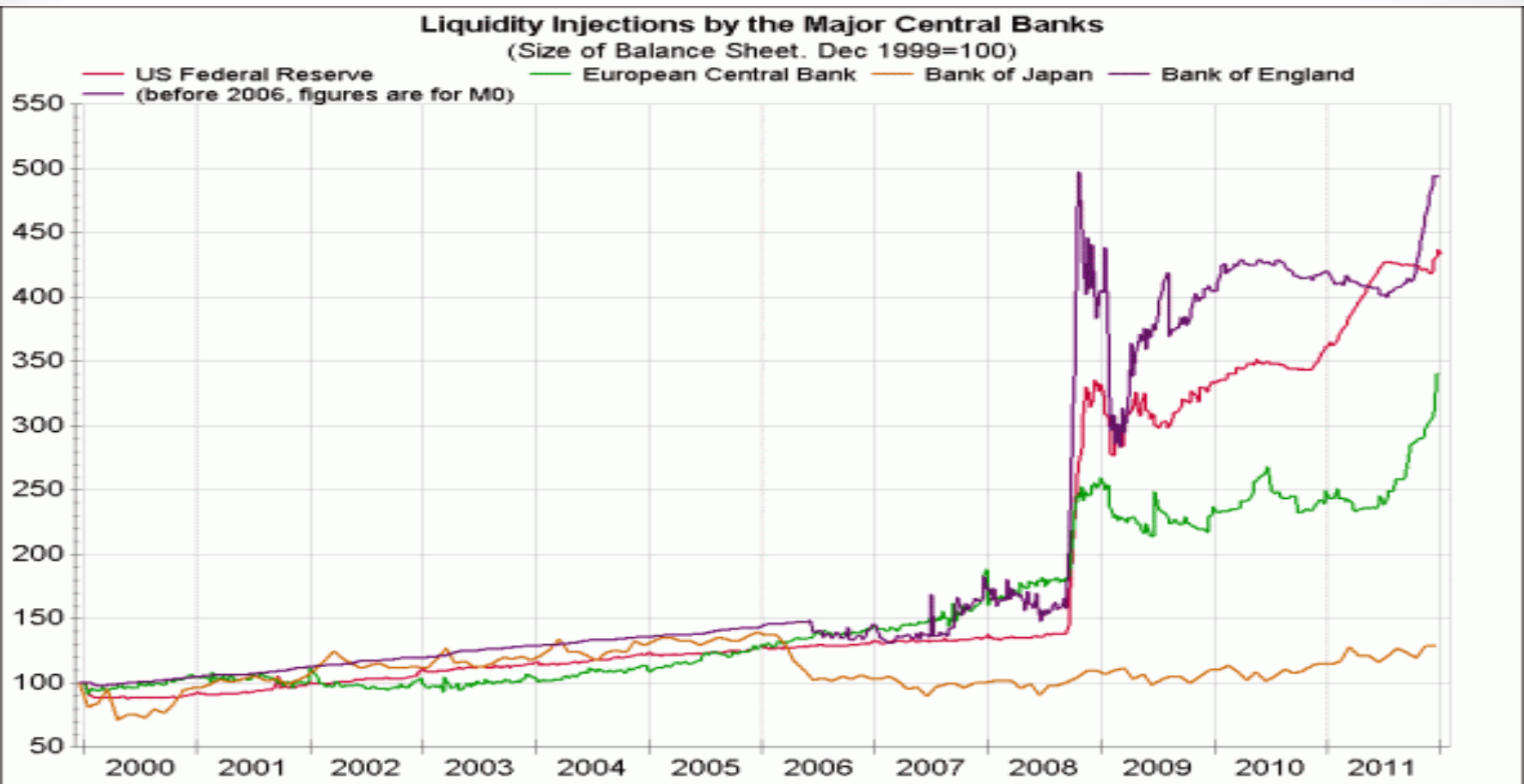
Source: IMF World Economic Outlook, April 2013

It's not obvious how to reduce government debt levels back to "safe" levels



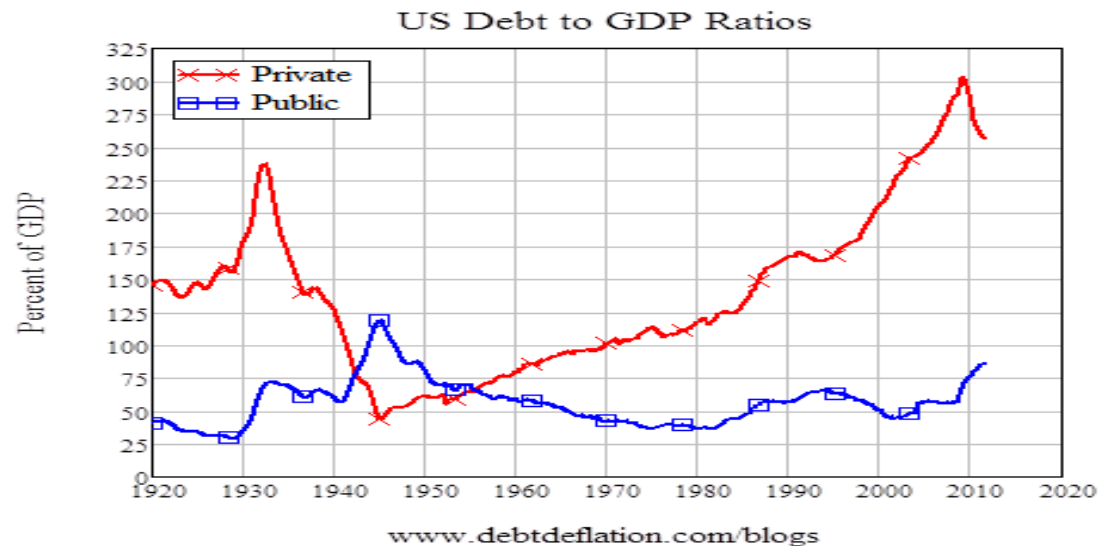
This is **not** a "normal" recession – need at least 5-10 years of consistent fiscal surplus to work it off (or governments rob savers)

Central banks have done a huge amount



“Quantitative Easing” may have been pushing on a string...
The next option is “Overt Money Finance”, aka helicopter money
Nobody knows how to unwind this vast creation of liquidity

Then there's **private** (as distinct from state) debt

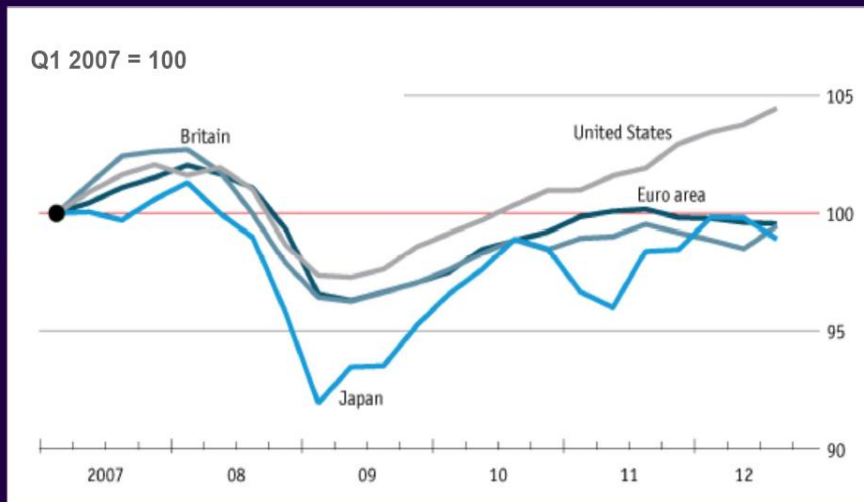


- The 1990s/2000s boom saw rising **private** debt feeding consumption - not into useful & productive investment
- The size of the crash in 2009-? resulted from the reversal of this flow of private debt (a so-called “Minsky moment”)
- Public sector compensated by raising spending to support demand
- However, we don't know:
 - **When** the private sector will stop deleveraging – probably years from now in Europe
 - **If** the public sector can continue to increase its debt
 - Will the surplus countries (e.g. Germany) be prepared to pay?

It hasn't worked so far, has it?

Taxpayers woke up to discover that bankers were exceptionally highly paid and out-of-control civil servants... The intermediaries that had bet their prosperity on ever-rising asset prices were in trouble. So, too, were economies that had made exactly the same bet. So, too, were economies that had bet on selling to these debt-fuelled economies. Should we have been surprised by this aftermath? (Martin Wolf, Financial Times Economics Editor, 18/9/2013)

Developed economies' GDP growth



Source: McCulley and Pozsar

67

Recessions:
'V'-shaped, 'U', 'W'... or,
like this one, 'L'-shaped?

Really: the West's public sectors are **bust**. They won't be able to fund (health) in the way that they used to, for years to come.

Signposts

- The economic crisis, & capital funding
- **Recruiting the private sector?**
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If the public sector can't fund: by default, we will see more Public-Private Partnerships

There are various European hospital PPP models, in ascending order of private sector commitment & range of services delivered:

1. “Public-Public Partnership” (Spain)
2. Accommodation PPP (the dominant model: e.g. UK's **PFI**, & F, E, P, I)
3. Hospital infrastructure-clinical joint ventures (P)
4. Licensed hospital privatisation (F, FL)
5. Population full-service PPP (E)

PFI is by a long way the dominant model to build hospitals
But it's not much good, so more extensive models will prevail

PPP – who pays?

The public sector *ultimately* pays for almost all PPPs!

The initial capital investment in typical “project-financed” capital-intensive (hospital) PPPs is funded by:

- Banks (universal or investment; historically about 95% of the total)
- International/National Financial Institutions
- Long-Term Financial Institutions (pension funds, insurance companies, sovereign wealth funds, endowments)
- (EU Structural Funds?)

There are issues for the future with all these finance providers

Who will provide the finance for PPPs (1)?

Commercial banks, having blown up Western economies in the last 5-6 years, are fading from the markets for long-term investments in infrastructure :

- Need to “deleverage” (=reduce) their balance sheets
- Accompanied by new & increased regulatory capital requirements
- Increased supervision of the assets they can hold

And, frankly, do we want them anyway, with their proven conflicts of interest - their cultural preference for easy money inter-sectoral trading?

Who will provide the finance for PPPs (2)?

International & National Financial Institutions (EIB, IFC, CEB, KfW, CDP...):

- They are – in this context – small & risk-averse
- But they can act as catalysts in projects, & perhaps will be more important in the future with EU/EIB “Project Bonds”

Which leaves the *Long-Term Financial Institutions* of the private sector (pension funds etc):

- They are risk-averse, & face increasing regulatory restrictions
- But happily they do need long-term income-earning assets (such as PPPs) to match against their long-term pay-out liabilities
- & they're pretty big (European assets of life insurers €5.4 trillion, pension funds €3.3 tn)!

The biggest issue: project structuring expertise

PPPs are usually “project-financed” (earnings of the project pay back debt incurred to develop it)

Who can have the expertise to structure & manage projects?

- Banks – but if they are retreating from long-term investment markets & were so exploitative before, do we really want them as advisers (& this time without even any cash commitment)?
- Credit Rating Agencies – but they didn’t cover themselves in glory in structured finance in recent years (conflict of interest)...
- Consultancies – but still more hired guns without a commitment to the project?
- Long-Term Institutions – **they should develop it**, though very few have the size or the desire to structure projects
- IFIs – yes, for the projects where they bundle capital too

“Anything-but-the-banks” encounters a problem if we can’t develop quality sources of project expertise

But PPP still seems likely to be a major route forward

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Context: the private sector is **already** non-negligible

The private sector (not mostly PPPs) in fact has a big role in healthcare in our societies - primary care, dentistry, private hospitals, diagnostics & imaging, care homes...

| Country | Private sector % | Country | Private sector % |
|---------|------------------|----------|------------------|
| Germany | 24 | Hungary | 35 |
| Denmark | 15 | Poland | 29 |
| Spain | 26 | Sweden | 19 |
| France | 23 | Slovakia | 36 |
| Finland | 25 | UK | 17 |
| Greece | 39 | USA | 54 |

Source: World Bank from WHO NHA, for 2008-12, "Health expenditure private (% of total) on provision of health services". Does not count e.g. pharma (15-30%) inherently as private. Out-of-Pocket is typically 30-90% of these "private" totals.

(Note a true free market in health is simply inconceivable, for all sorts of conceptual, ethical & practical reasons)

Have countries put in place consistent safeguards on behaviour of the private sector - which could also be used for PPP governance?

Thinking about stewardship & governance

HEALTH SYSTEMS FRAMEWORK

FUNCTIONS THE SYSTEM PERFORMS

OUTCOMES OF THE SYSTEM



Duran A, Kutzin J, Martin-Moreno JM and Travis P, (2011) Understanding health systems: scope, functions and objectives, en McKee M and Figueras J (eds.) Health Systems: Health, Wealth, Society and Well-being. Maidenhead, Berkshire: Open University Press and McGraw-Hill, pp. 19-36



Técnicas de Salud

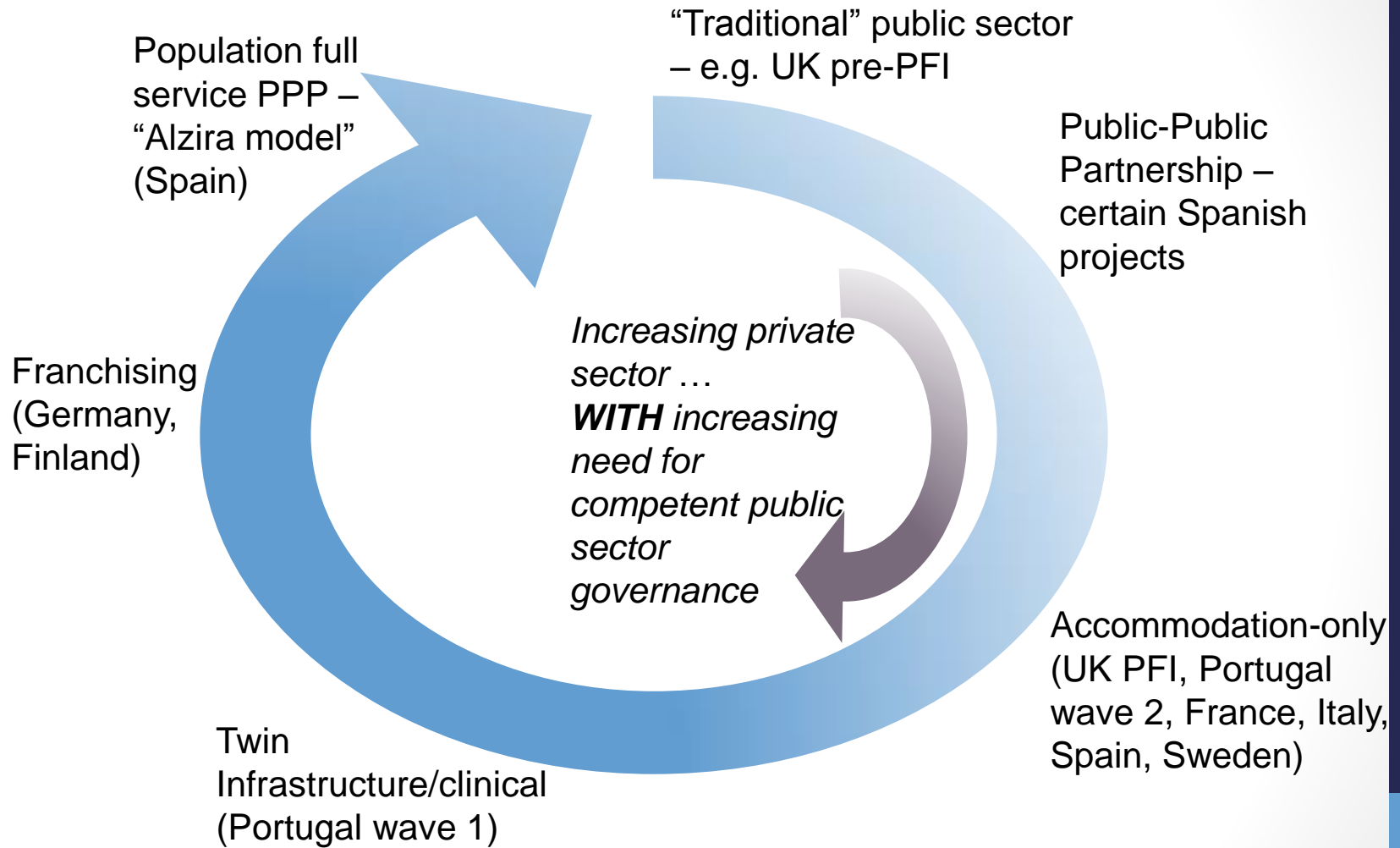
The more “financing” & “service delivery” are cascaded to the private sector (including PPPs), the more “stewardship” is important

PPP models & extending health service integration

| | PFI | Infra/clinical JV | Franchised hospital | Franchised full-service |
|-----------------------------|-----|----------------------|------------------------|----------------------------|
| Healthcare + social care | | | | [X] |
| Primary + secondary | | | | X |
| Commissioning + provision | | | | X |
| Clinical + financial models | | X | X | X |
| Clinical + support services | | X | X | X |
| Support services + assets | X | X | X | X |

The more extensive PPP models necessarily embed the private sector more deeply in Europe's social fabric

Those different hospital PPP models in Europe



The post-war Western European consensus on how to manage public affairs has gone – not to speak of Central Europe!

| Weberian bureaucratic state | A postmodern state |
|---|---|
| Government | Governance |
| Hierarchy (Weberian) | Heterarchy (networks etc.) |
| Power (1): zero-sum game | Power (1): positive-sum game |
| Power (2): concentrated | Power (2): diffuse |
| Elitist | Pluralist |
| Unitary, centralized, monolithic state | Decentralized, fragmented, hollowed-out state |
| Strong, central executive | Segmented executive |
| Clear lines of accountability | Blurred lines of accountability |
| State central control | State central steering |
| Single homogeneous public service ethos | Heterogeneous service cultures |

The modern state has to deal with a more multi-dimensional governance environment, including in the health sector – & PPPs are merely another manifestation of that

Conclusions

An economically-troubled future, as far as the eye can see...

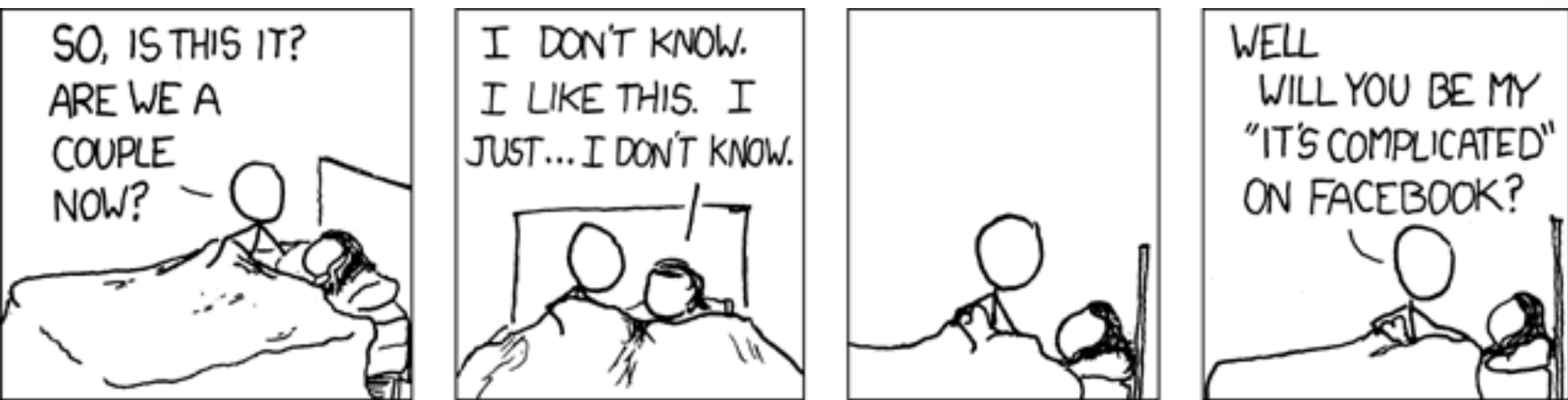
...with private actors more engaged in the health sector...

...where it is very uncertain how these new private infrastructures or organisations will be planned and funded...

...and the public sector now really **will** have to get serious about governance & stewardship of the new players (&, for that matter, of its own system)

Put another way, it's complicated

Public & private sectors getting together in health...



Source: xkcd