

# Privatisation in the Healthcare Industry

Ian Wootton

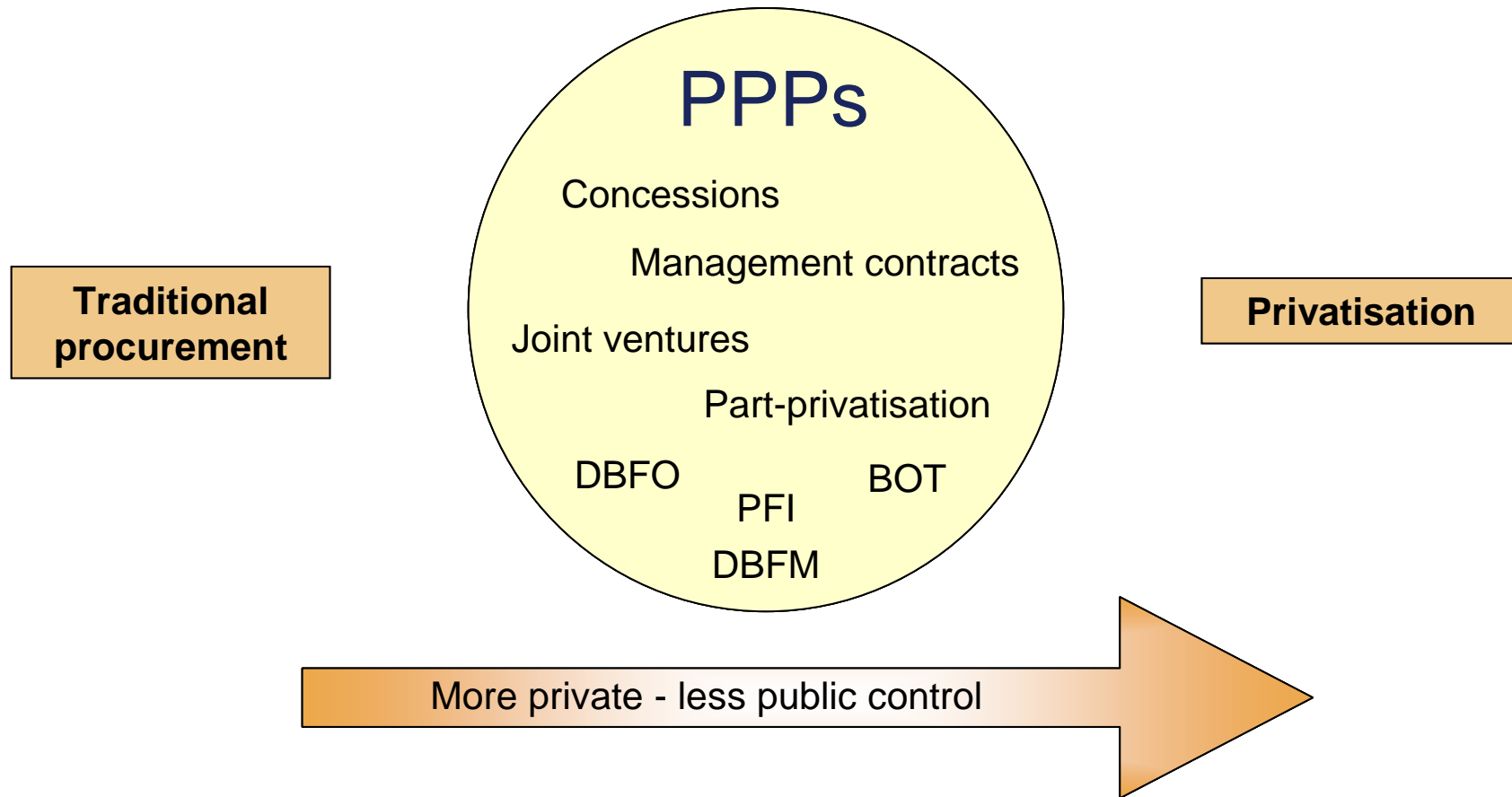


# Contents

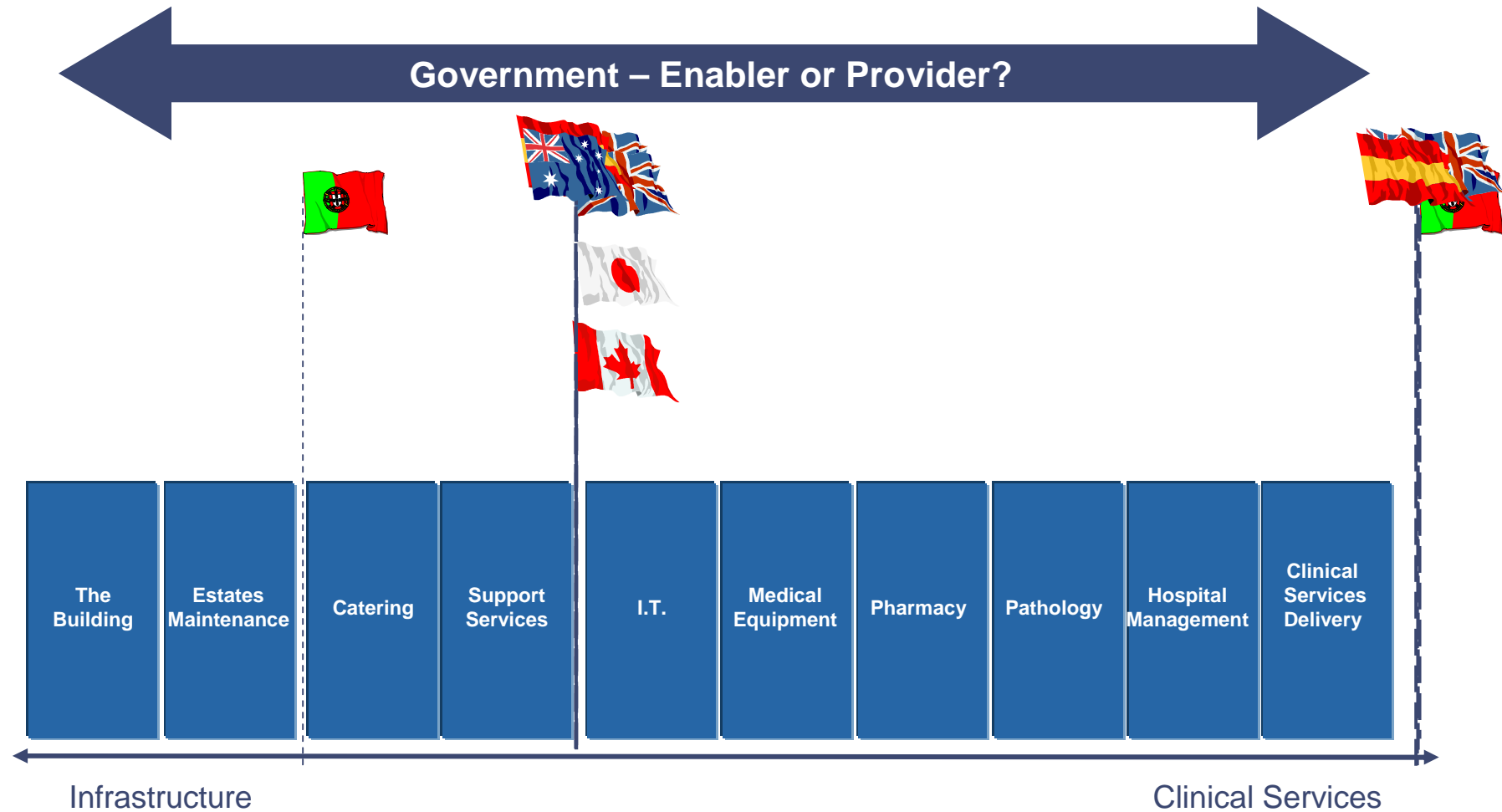
- Introduction
- Global healthcare PPP activity
- European healthcare privatisation activity
- Hospital privatisation issues
- The next market – the UK?

# Introduction

# Different models

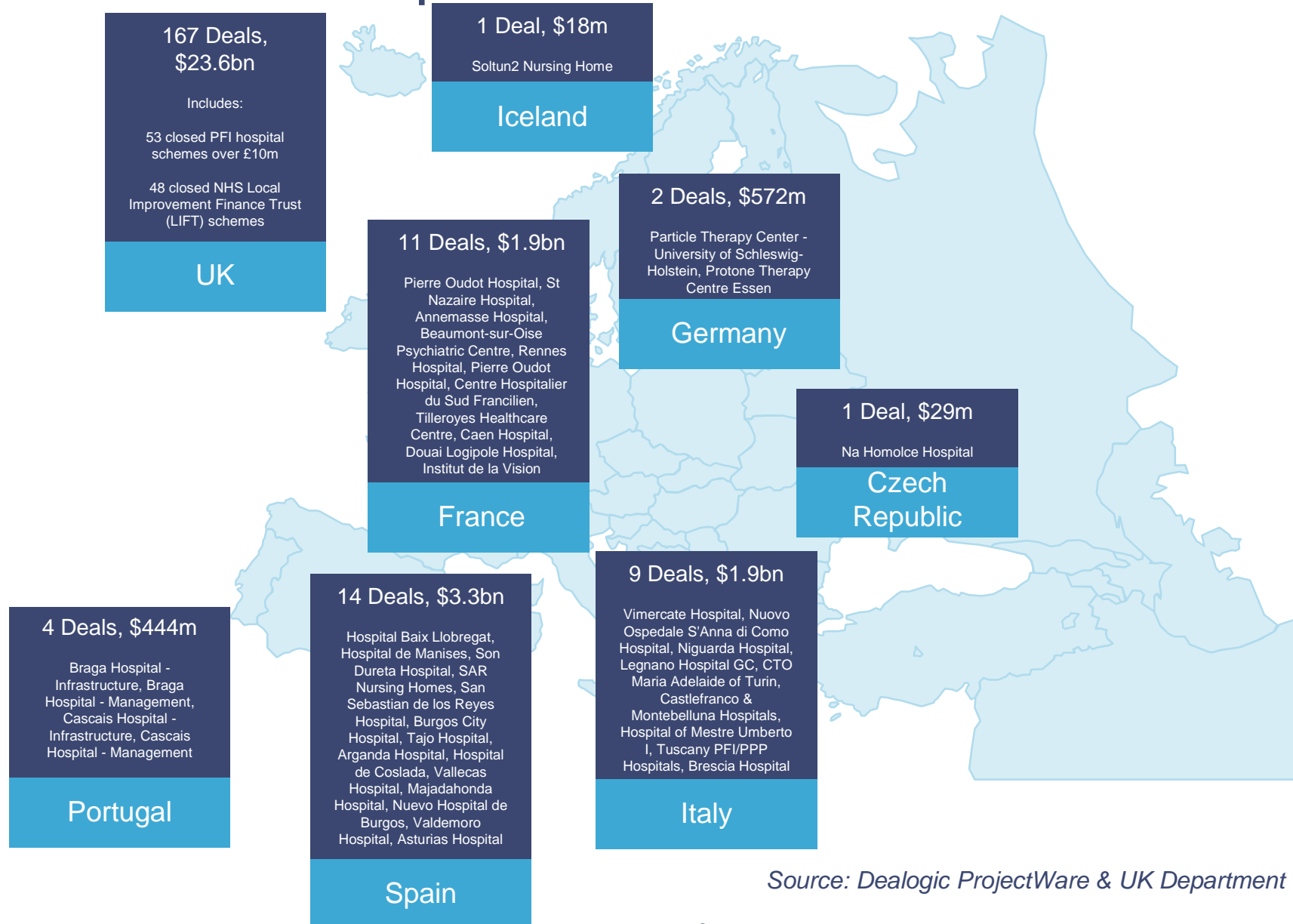


# Comparative healthcare PPP models



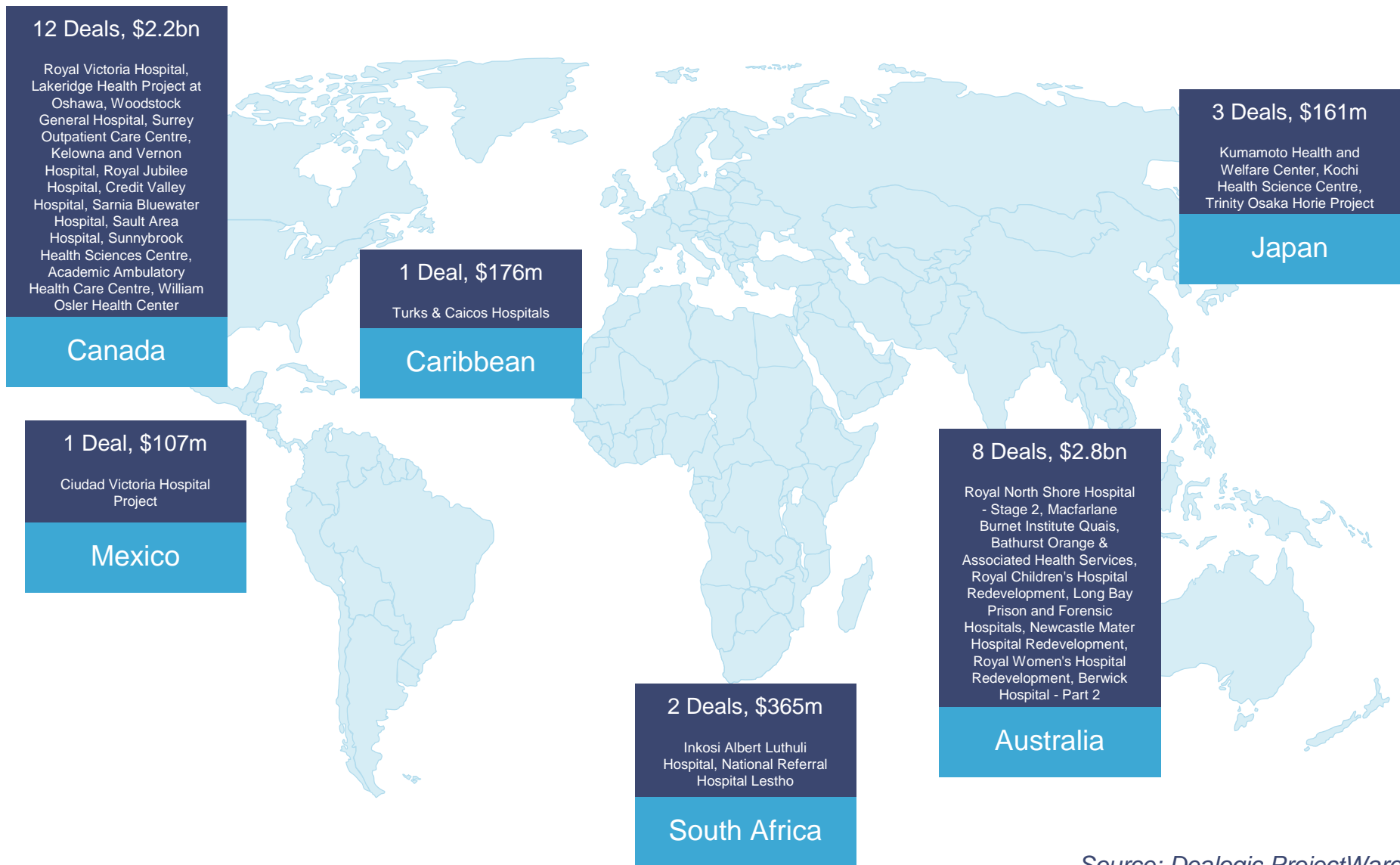
# Global PPP healthcare activity

# European Healthcare PPPs since 1997



Source: Dealogic ProjectWare & UK Department of Health

# Rest of World Healthcare PPPs since 1997



Source: Dealogic ProjectWare

# European privatisation healthcare activity

# European Healthcare Privatisations since 1999



Source: Dealogic M&A Analytics & Thomson SDC

# Hospital privatisation issues

# The drivers

- The cost pressure on market participants in the hospital sector is intensifying.
  - Inefficient hospitals and facilities under a structural handicap will increasingly be unable to cope with that pressure.
  - But the populations demands on the state are increasing.
  - This means that the state must be very careful in allocating its limited financial resources as these are urgently needed for a variety of other public tasks besides healthcare, such as education and unemployment relief.
  - Against this background, the number of public hospital owners who wish to sell their hospitals will continue to rise. For example in Germany the number of public hospital owners is predicted to fall by 25% over the next 15 years, from the current total of 2,258 to 1,700, with most of them being owned either by private companies or by non-profit organisations (Source: British Medical Journal, 2004).

# The options

- Governments exploring hospital privatisation have several options, depending upon the nature of the region's present system and the external market area. They might:
  - sell the hospital asset to a private company;
  - lease it to a private management firm;
  - enter into a joint operating agreement (whereby the government relinquishes direct management of the hospital but maintains a presence via board members);
  - begin a joint venture, where both private and public sector partners maintain ownership of the hospital;
  - start a public private partnership (where government sells the hospital, but purchases back bed space); or
  - engage in comprehensive outsourcing of hospital duties.

# The pros and cons

- Privatisation of public hospitals can sometimes be daunting:
  - it involves crossing a minefield of regulations;
  - selecting the best structural arrangement to meet local goals;
  - negotiating the best deal possible; and
  - handling union and sometimes public opposition.
- But done correctly, privatisation has proven it is worth the effort.
  - it can eliminate waste;
  - save resources;
  - reduce debt; and
  - create a better healthcare system for those who need it most.

# Issues for political decision-makers

- When considering the conditions for the privatisation of a publicly owned and operated hospital, the following topics are usually given top priority by political decision-makers:
  - ensuring the provision of high-quality patient care;
  - securing continuance of operation through investing; and
  - existing employment contracts, in-house wage agreements, profit-sharing use of purchase price / legal transfer of title.

# Issues facing healthcare companies

- There are several issues facing healthcare companies:
  - Companies view their relationships with government/ public healthcare sector as crucial to future company growth. Some companies are building up their experience of working with the public sectors.
  - There are several examples in Europe of governments contracting private companies to manage a public sector hospital. In some countries this also involves the private company in building the hospital. Examples of hospitals where private healthcare companies have been contracted to run hospitals in the public sector are:
    - St.Goran's Hospital, Stockholm, Sweden – Capio
    - Ribera Hospital, Valencia, Spain – ADESLAS
    - Manises Hospital, Valencia – Sanitas (BUPA)
    - Omegna Hospital, Piedmont, Italy – Generale de Sante
    - Hospital Amadora, Sintra, Portugal - Jose de Mello Saude
  - Expansion into Central and Eastern Europe by healthcare companies has been slow, although two companies, Medcover and Euromedic International, have continued to expand since 2004. Euromedic International is now expanding into Western Europe.

# The next market – the UK?

# NHS transactions: why are they topical?

- Move to Foundation Trust status creates opportunities to expand business.
- Financially challenged Trusts looking for strategic solutions to secure their future (or SHAs looking for them).
- Trusts struggling to achieve FT status.
- 152 PCTs considering their role as providers of care and considering divestment of their care services.
- Expanding the provider base in primary care.

# NHS transactions to date


- Lots of mergers but statutory rather than commercial, e.g. consolidation of mental health, acute, community and ambulance trusts, merger of PCTs and SHAs.
- Very few acquisitions: Heart of England/Good Hope, South Staffordshire Healthcare acquisition of Shropshire PCT MH and LD services, North Tees and Hartlepool FT acquisition of two local PCT Provider arms.
- Limited joint venture activity, e.g. Guy's and St Thomas' Pathology Joint Venture.
- Currently no franchises – considered for Hinchingsbrooke Hospital NHS Trust.
- Aborted merger between Frimley and Ashford.
- Aborted disposal of Nuffield Orthopaedic Centre NHS Trust.

# NHS transactions current

- Great Yarmouth and Waveney PCT divestment of Provider services.
- West Sussex PCT divestment of Provider services.
- Royal West Sussex and Worthing and Southlands Hospitals merger.
- Three way merger in South East London.
- Bedford and Luton Partnerships Trust disposal to a Foundation Trust.

# The Regulatory environment

- Department of Health
  - Transaction Manual and Transactions Board
  - Developing the NHS Performance Regime and Unsustainable Trust Regime
- Monitor
- Co-operation and Competition Panel (and potentially OFT, Competition Commission)
- Independent Reconfiguration Panel
- Oversight and scrutiny committees



This presentation has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2007 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.