



# **Social Infrastructure Public-Private Partnerships**

M&A and Transactions Advisory  
Focus On: Healthcare PPP Projects in the GCC

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# Executive Summary

Governments across the Gulf Corporation Council “GCC” have ambitious visions that seek to develop, transform, and diversify local economies, encouraging growth and promoting prosperous societies.

A critical cog in achieving this goal is the development of the healthcare sector, and enabling it to provide high-quality, comprehensive healthcare services that can protect societies against potential health risks. This continues to be an area of focus for Gulf governments.

One of the ways which may help achieve this goal would be developing healthcare infrastructure projects in partnership with the private sector through Public-Private Partnerships (PPP).

In essence, PPP is a procurement model that allows the public and private sectors to work together to deliver public projects. The public sector will be able to set its requirements for these projects, while the private sector will invest, develop, and operate them in line with government-set requirements.

The application of PPPs in the delivery of healthcare projects is not a new concept. In fact, the delivery model can be found in the UK, Canada, and Australia, to name a few.

This publication considers, at a high level, some of the risks involved in healthcare PPPs and some potential methods to mitigate them.

## What are the benefits?

The long-term contractual nature and performance-driven payment mechanisms typically found in PPPs are believed to be beneficial for both the public and the private sectors while providing high-quality services and assets to the public.

In fact, adoption of the PPP model is encouraged in many implementation programs in the Gulf for the development of public infrastructure as they look to:

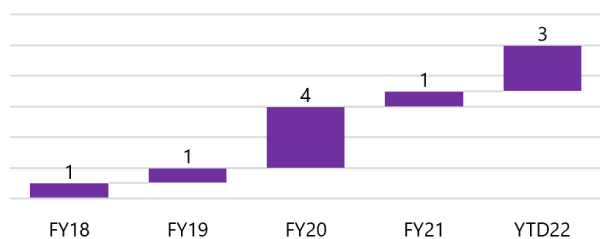
- Utilise the private sector’s innovation in developing and delivering these projects.
- Benefit from the private sector’s operational efficiency.
- Facilitate the transfer of know-how and skills to the local markets.
- Open the field for private investments in public infrastructure that would lead to job creation and other economic benefits.

With all the above as a key focus, governments across the Gulf are accelerating their infrastructure plans, and we see an increase in the number of healthcare PPP projects.

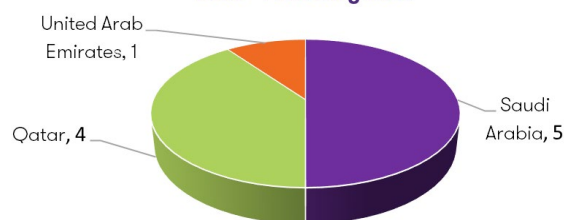
Regionally, the Department of Finance of Dubai has recently announced it will develop 29 PPP projects nearly worth c. USD7 billion, of which c. USD143 million are allocated to develop seven healthcare projects. Similarly, Saudi Arabia has up to 20,000 hospital beds and 224 health centres across the Kingdom, in line with Vision 2030. Oman also recently announced it was exploring developing the Renal Dialysis Centres in Muscat, North & South Al Batinah and Dakhiliya.

The graphs below show the number of healthcare PPP projects in the Gulf from 2018 – February 2022<sup>(1)</sup>.

Number of Healthcare PPP Projects Initiated - MENA  
2018 - February 2022



Number of Healthcare PPP Projects - MENA  
2018 - February 2022



Globally, there are many examples of private sector involvement in public healthcare projects. We consider some of those examples and look at lessons learned that would aid in developing successful healthcare PPPs.

## Healthcare PPP Projects – Lessons Learned

### Clear cost benchmarks and cost review process

Typically, PPP projects are long-term contracts inclusive of design, build, operations and maintenance. Periodic market reviews for similar projects to benchmark operating and maintenance costs are important to maintain the competitiveness of the project costs and ensure their fairness for all involved parties.

It is recommended that contractual terms related to the benchmarking and cost adjustment process should be drafted clearly; this includes criteria identifying relevant benchmarks and using exact dates and specific periodicity to avoid any issues between project stakeholders.

An example of issues arising from contractual lack of clarity is the case in the Forth Valley Royal Hospital & Serco in Scotland, where Serco raised a dispute against Forth Health Limited, the SPV created to design, build, and operate the Forth Valley Royal Hospital.

Serco claimed they were entitled to adjust monthly payments from 2007 – 2042 in line with a provision related to benchmarking costs and allowing for inflation adjustments after the 7th year from the “First Testing Date.” However, the contract did not identify the “First Testing Date.” <sup>(2)</sup>

### Communication is key

Due to their sensitive nature, healthcare projects typically draw more public interest and attention when compared to other projects. It is recommended that the procuring authority communicates the project’s goals to get the support of the community and healthcare professionals for the project to help contribute to the project’s overall success.

A study carried out by the OECD examined the Brampton Civic PPP Hospital in Ontario, Canada. It found that the media-driven perception of the hospital, following tragic incidents in 2008, was that it was performing below standard, despite statistical analysis suggesting the hospital was performing better than other provincial hospitals. The project was received negatively by healthcare professionals who saw it as the beginning of for-profit healthcare, which was a misunderstanding.

<sup>(1)</sup>Source: <https://www.ijglobal.com/>

<sup>(2)</sup>[https://www.scotcourts.gov.uk/docs/default-source/cos-general-docs/pdf-docs-for-opinions/2020csoh48.pdf?sfvrsn=f9f2a2d2\\_0](https://www.scotcourts.gov.uk/docs/default-source/cos-general-docs/pdf-docs-for-opinions/2020csoh48.pdf?sfvrsn=f9f2a2d2_0)

The negative perception of the project led the government to commission a project review by the Ontario Auditor General and the appointment of a project supervisor overtaking full administrative powers of the hospital's board and executives.

OECD recommendations were based on their review of quantitative and qualitative factors, surveying healthcare professionals spread across Ontario.

The report findings can be summarised as follows<sup>(3)</sup>:

1. There was no clear understanding in the community about the project's structure. The general population seemed to be under the impression that healthcare assets were sold to the private sector to make a profit. As such, raising awareness amongst the public was believed to be a vital aspect of ensuring the project's success.
2. There was no formal communication plan from the authorities to the public to explain the project, which had resulted in the project being put under government supervision, taking away the powers of the board and executives of the project's government-appointed supervisor.
3. Healthcare professionals favoured transferring the Design-Build-Finance-Maintain risks to the private sector, but not healthcare services.
4. The project did not offer any flexibility to factor in future population growth, changes in capital cost requirements, inability to transfer some risks, or building modifications to incorporate new technologies.

## Flexible designs and healthcare technology

The changing nature of care provision and the rapid and radical change in the role of hospitals is also a factor that must be considered when designing hospitals. In our view, it is imperative that designs considered must be fit for the purpose of the services being delivered, underpinned by a clinical strategy. It acts as a catalyst for the delivery of redesigned clinical models that should be modern, evidence-based (following the science) and fit for the future.

This need has been recently heightened as the Covid-19 pandemic demonstrated how hospitals needed to urgently adapt to accommodate the surging numbers of critically ill patients and provide a suitable environment to limit the transmission of diseases.

We strongly believe that flexibility and adaptability should be key when designing future hospitals to ensure a better response when the next pandemic or pandemic-like event is to take place.

## Knowledge sharing (Clinical Models)

Lack of knowledge sharing on the best design options has led to multiple projects trying to reinvent the wheel, leading to suboptimal designs.

In the past, an initiative to spread expertise and facilitate horizontal dialogue between schemes and advisors, constructors, and other experts was established in the U.K. However, it was not proven to be as effective as it would have been if knowledge sharing was more transparent.

<sup>(3)</sup>Source: Barrows, David, et al. (2012), "Public-private partnerships in Canadian health care: A case study of the Brampton Civic Hospital", OECD Journal on Budgeting, Vol. 12/1. <http://dx.doi.org/10.1787/budget-12-5k9czxkbc9w>

## Conclusion

It is evident that healthcare is undergoing major changes that require careful planning and consideration. Amplified by the pandemic, the need to further develop and transform healthcare systems is now highly recognised, whether it is the inclusion of new technologies or the ability to adapt and reinvent spaces when faced with capacity challenges.

PPP guidelines and manuals in the GCC promote the hiring of experienced technical, financial and legal advisors in addition to subject matter experts to support project studies and manage the procurement processes which, in turn, promotes the application of the latest global best practices for each of their projects, in addition to the adoption of best practices by those entities.

As an example, the National Centre for Privatisation in Saudi Arabia maintains clear and direct public communications in relation to their projects. From a quick glance at the public announcement for Al-Ansar hospital the reader learns that the project will:

- Increase clinical capacity
- Contribute to sustainable and free healthcare services provided to all beneficiaries including citizens and visitors by the Ministry of Health
- Improve infrastructure and raise safety standards, etc.

We have concluded some key takeaways to be considered in the context of healthcare PPP projects planning based on case studies from around the world and from our experience of dealing with healthcare PPPs, which we believe are universally applicable to projects in the GCC and elsewhere.

Case Study	Mitigation
Unclear cost benchmark and cost adjustment process may cause conflict between contractual parties and a lengthy process for dispute resolution between the public and private partnership.	<p>Clear cost benchmarks in PPP contracts should include a clear and well-defined methodology for cost adjustments.</p> <p>Contracts should include comprehensive governance and dispute resolution framework.</p>
Healthcare facilities cannot adapt and cater for new healthcare requirements swiftly, and the set-up of new technologies is challenging as it is not considered in the project design.	A flexible design incorporating future clinical needs and future technologies.
The project fails to meet its KPIs and generate value for money.	Avoid overly optimistic operational assumptions; operating assumptions should be evidence-based; assumptions that forecast changes without considering the wider macro healthcare system should not be adopted.
Unclear messaging on the project and misinformation may lead to public dissatisfaction.	Engage the public as a partner in the process. Healthcare professionals and members of the public should be made aware of the purpose of the project.

# About us

Infrastructure advisory work requires a multi-disciplinary approach. At Grant Thornton, we believe that an integrated team in infrastructure projects should combine an ability to think strategically with a deep practical understanding of the relationship between the public and private sectors, enabling us to provide insightful advice to both sectors.

Our global footprint enables us to leverage our relationships within the region as well as internationally with the ability to advise on all aspects of a transaction from start to finish, including financial modelling and bidder support, deal negotiations, valuations, due diligence, debt advisory, SPA advisory, fundraising (equity/debt) and infrastructure advisory.

Our culture of providing tailored advice proactively to our clients throughout a transaction enables us to develop an in-depth understanding of our clients' objectives, which is at the core of our pragmatic solution offering.

Grant Thornton's infrastructure advisory team provides more than just financial advice. Our experience with specific industry issues needed to create successful projects helps us to identify and understand the complex matrix of issues that can help or hinder the delivery of a project.



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