Zywiec Hospital, Poland

Alexandra Dockreay

25/09/2015

Increased revenue certainty from recent regulatory changes has been pivotal for Interhealth Canada achieving debt signing for Poland's Z210 million ($56 million) pilot hospital PPP.

Entry to Eastern Europe

A core strategy of Interhealth Canada is to export its healthcare development, investment, management and clinical services integrated abilities which it developed in Canada abroad. An assessment of different markets by the company in 2009 identified Poland as having a complementary system. From this point Interhealth Canada made the country an investment priority.

The company quickly applied to prequalify for the Zywiec Hospital project, a pilot scheme for Polish healthcare PPPs run by the Zywiec Municipality.

Rival bidders in the procurement included Hochtief, Strabag, Bouygues and locally Vamed Standortentwicklung and Vinci subsidiary Warbud.

In 2011 Interhealth Canada signed a 30-year concession with the Municipality of Zywiec to replace the ageing hospital, in the small town in southern Poland. The concession covers the design, construction, financing, maintenance, supply of equipment and operations, including clinical services, of the new hospital.

National Health Fund

Under Polish law, municipalities are responsible for the provision of public healthcare facilities. However budgets are constrained by Poland's constitutional public borrowing limit of 60% making availability payment PPPs a major challenge.

The National Health Fund (NFZ) receives contributions from all citizens in exchange for covering their healthcare. The NFZ reimburses the healthcare providers in monthly payments for the services they provide.

The Municipality of Zywiec as operator of the existing hospital will transfer the contract that it holds with the NFZ to Interhealth Canada's special purpose vehicle, once it starts operating the new general acute hospital.

Interhealth Canada is accepting construction risk and demand risk. To assist, the municipality has guaranteed in the concession agreement not to build a competing hospital in the district.

Revenue uncertainty

From a credit perspective, difficulty lies in the contract with NFZ being the main source of revenues. It is only for up to three years, though in practice always renewed. Raising long-term debt with a three-year revenue structure was a major stumbling block for creditors.

Nasser Massoud, executive board director of Interhealth Canada, said: “It took four years between concession signing and financial close, which is an extraordinary amount of time… Two key factors pushed us forward in the end: in the summer of 2014 the regulations changed meaning that the length of the NFZ contract could increase from three years to 10 years, and we agreed with lenders a phased approach.”

Massoud explained that the lenders have provided an option to significantly increase the debt quantum at a later stage during operations. To begin with, the capacity will deliver existing NFZ revenues. By drawing additional debt the sponsor could raise capacity as it builds up revenues. The number of beds could rise from 275 initially, to 380.

The implementation of the Health Care Services Act Amendment is still a year or so off, and has been delayed a couple of times, Massoud explained. However the expectation is for the existing hospital to obtain a 10-year hospital treatment contract with the NFZ whilst the new hospital is in construction. Outpatient care will have a five-year contract under the amendment.

The contract should transfer at commissioning, scheduled for late 2017 or early 2018, with closer to eight or nine years remaining.

Financing

On 7 September 2015 the sponsors signed on Z92 million in debt with a tenor of 10 years. It features a bullet payment at year 10 for 50%, however the amortisation is on a 20-year timeline.

The European Bank for Reconstruction and Development has provided a loan of Z43 million, whilst local banks FM Bank PBP and Alior Bank together provided a Z49 million loan. FM Bank PBP provided a Z4 million VAT facility. Debt service reserve and working capital facilities add another Z11 million, roughly.

The sponsor is investing about Z100 million in equity.

The existing hospital is earning just under Z50 million in revenues annually from the NFZ, but that is just the base case for Interhealth. In addition to this revenue, there is significant upside potential for the new hospital from private patients and commercial non-clinical facilities.

Revenues from clinical services will go into the ICZ Healthcare special purpose vehicle (SPV), whilst the non-clinical revenues will go to ICZ Properties.

CEE regional opportunities

Massoud commented: “There is latent need for infrastructure and service delivery through healthcare PPPs in Poland. I heard as many as 600 hospitals require redevelopment to meet EU quality standards.”

Poland has yet to progress more PPPs though and regional budgets are very limited. This July the Minsk Mazowiecki Municipality scrapped plans for a healthcare centre. Warbud has however been raising finance against an availability structure for Nowy Sacz Courthouse.

Massoud said: “This is our first project in the Eastern European region. We have prequalified for the Bratislava University Hospital. We are also targeting opportunities in Belarus, Croatia, Bulgaria and the Czech Republic for PPPs, as there is a need to replace dated buildings and old equipment whilst introducing efficient management practices into operations.”

Advisers

The legal advisers for Interhealth Canada were Squire Patton Boggs and Wolf Theiss, whilst CMS Cameron McKenna advised the lenders. FM Bank PBP acted as agent.