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Increasing the Governance Standards of Public-Private Partnerships in Healthcare. Evidence from Italy

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Abstract Healthcare systems have changed rapidly in the past few decades due to increasing healthcare costs and decreasing governmental budgets. The structural complexity, huge numbers of actors and long-term relationships inherent to PPPs bring out several governance issues. Based on the principles of good governance for PPPs published by the United Nations Economic Commission for Europe (UNECE) in 2008, we try to answer the following research question: How can the governance standards of PPPs be increased? This paper aims to explore issues of governance, management and policy design as they apply to PPPs in healthcare services. The evidence from a single case-study (the New Mestre Hospital) is presented and discussed. The main findings are that, despite its great success, the analysed PPP does have some governance problems that need to be addressed. Concluding remarks and insights for future research directions are then presented.

Keywords Public-private partnership · Healthcare · Governance standards · Italy

Introduction and Motivation

Healthcare systems have changed rapidly in the past few decades due to increasing healthcare costs and decreasing governmental budgets (Blanken and Dewulf 2010). The two main questions that have arisen are: How can the quality of healthcare services be improved; and which governance solution is best suited to coping with the complex relationships between the different actors (e.g., governmental actors, private actors, customers/citizens' representations, etc.)? In this on-going debate, there is growing

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interest among scholars (Cappellaro et al. 2009), practitioners and organizations as to how Public-Private Partnerships (PPPs) can be used to respond to changed customer/individual requirements, and how they might represent a viable governance solution to manage and improve the overall quality of healthcare systems.

Despite the increasing attention on the strategic importance of this governance "mode", its structural complexity, huge numbers of actors and long-term relationships bring out several governance issues. The success of PPPs is indeed dependent on several factors: the presence of well-functioning institutions; transparent and efficient procedures; and accountable and competent public and private actors. Stemming from this debate, contributions that deal with the complexity of these issues and offering new theoretical and practical insights may fill the existing gap present in existing literature, which mainly consists of inconclusive viewpoints and findings as well as fragmented knowledge.

Currently there is no widely accepted and shared definition of a PPP (World Bank 2006; Torchia et al. 2015). The main literature on this topic offers several possible definitions and solutions/models. Despite the intrinsic differences among the various definitions, it seems fruitful to delineate some main features of PPPs: co-operation between the public and the private sector; durable relationships; developing mutual products/services; sharing of risks; costs and benefits; and mutual value addition (Klijn and Teisman 2003).

Although PPPs have existed in the United States for over a hundred years, the growth in their use accelerated in the 1980s and has continued into the mid-2000s (NCPPP 2003). Throughout the 1990s and in the early 2000s in particular more and more countries started to use this mode of delivery. The concept has recently attracted growing interest and there are arguably a range of different reasons for this growth. Overall, PPPs avoid the often negative effects of either exclusive public ownership and delivery of services on the one hand, and outright privatization on the other. Indeed, PPPs combine the best of both worlds: the private sector with its resources, management skills and technology; and the public sector with its regulatory actions and protection of the public interest (UNECE 2008). PPPs usually aim at maximizing the gains deriving from private production, while preserving the collective goals. However, these hybrid solutions may be rather difficult to design and implement, due to the heterogeneous - and potentially conflicting - missions, goals, organizational cultures and the legal frameworks adopted by partners (Cappellaro and Longo 2010). Furthermore, depending on the main purpose, the degree of financial risk that is assumed by the parties and the degree of involvement by the respective parties differ (Becker and Patterson 2005).

PPPs have been most commonly promoted as a means of enhancing governance effectiveness. The definition by some scholars, stemming from a New Public Management (NPM) approach (Bovaird 2004; Brinkerhoff and Brinkerhoff 2011; Osborne 2000), of PPPs as value-laden endeavours that may be promoted for the purposes of maximizing appeal to stakeholders and voters, representation, and conflict resolution is interesting.

The introduction of PPP solutions redefined the roles of the public and private sectors in delivering public services. The role of governments, for example, shifts from service delivery to service management and co-ordination (Planning Commission 2004). When developing PPP projects, governments need to take into account the interests of all the stakeholders. This requires putting into place the enabling institutions, procedures and processes associated with PPPs. Government, citizens and other stakeholders must be more and more involved (NGOs, employees/trade unions, civil society, media, etc).

In the healthcare sector, PPPs are defined as: "[…] *means to bring together a set of actors for the common goal of improving the health of a population based on the mutually agreed roles and responsibilities* […] (WHO 1999)". The spread in the use of the PPP solution for delivering healthcare services is evident in almost every country. In countries where healthcare is delivered mainly through the public system, many inputs are sourced from the private sector. In countries with predominantly privately-owned facilities, the state influences their configuration through regulations and financial incentives (McKee and Healy 2002; McKee et al. 2006). Moreover, PPP projects are currently being used in the healthcare sector not only to deliver infrastructure projects (e.g., new hospitals, staff accommodations, residences, etc.), but also to provide specific services (e.g., energy management schemes, information technology system, catering, integrated management system, etc.) (Akintoye and Chinyio 2005; Blanken and Dewulf 2010).

Despite the benefits related to PPP solutions, some governance issues arise. Concerning healthcare systems, the greatest governance problems of PPPs have been identified as: the failure to clearly specify partners' roles and responsibilities; inadequate performance monitoring; insufficient oversight of corporate partners' selection and management of conflicts of interest; and a lack of transparency in decision-making processes (Buse and Harmer 2007).

In 2008, the United Nations Economic Commission for Europe published the Guidebook on Promoting Good Governance in PPPs. The principles included will be discussed in details in the rest of the paper.

Following these principles of good governance for PPPs, the article answers the following research question: How can the governance standards of Public-Private Partnerships in healthcare be increased? This paper aims to explore PPPs in healthcare services related to issues of governance, management and policy design. To get a detailed picture on how to apply principles of good governance when implementing PPPs, the evidence from a single case-study (the New Mestre Hospital) is presented and discussed. This case represents the first application of the PPP model in the Italian healthcare system. The main findings show that, despite its great success, the analysed PPP does have some governance problems that still need to be addressed (e.g., governance structures and degrees of progress towards governance goals vary widely and appear to be systematically related to the organization, composition, location, and activity of each partner).

This study offers several contributions to the on-going debate on PPPs as governance "modes" that may improve the quality and effectiveness of healthcare services. By directly addressing and discussing, from an interesting angle of analysis (the Italian healthcare system), the application of good governance principles when implementing a PPP, this article fills the specific knowledge gap and lack of findings on the use of PPPs in the healthcare sector. Secondly, with a specific focus on the Italian context the article explores the main drivers that have resulted in Italy today having the second largest PPP market in healthcare in Europe, preceded only by the UK National Healthcare System. Finally, the main findings from our unique case study offer interesting insights for practitioners by clearly highlighting which are the main antecedents of successful implementation of a PPP in healthcare.

The remainder of this paper is organized as follows: section two provides a detailed overview of the use of PPPs in the healthcare sector. Specific features of the Italian healthcare sector are presented in section three. Section 4 offers a critical reflection on how to implement good governance principles when using PPPs in the healthcare sector. The methodology of this study is shown is section 5. The main evidence of our single case-study and final reflections on future research directions are then provided.

The Current Debate: PPPs in the Healthcare Sector

Historically the use of PPPs in the healthcare sector can be traced back to the early 1990s, when the UK government recognized the opportunity that existed for using the private sector as a source of financing for major health care projects (Allard and Trabant 2007). In just a few decades, the use of PPPs in the healthcare sector has grown tremendously in the UK and across Europe. Their popularity in healthcare derives from a basic principle: both the public and private sectors have specific qualities and skills, and by combining those qualities and skills, the end result is better (Vaillancourt Rosenau 2000). PPPs are regarded as effective and cost efficient, and have become a key mechanism for implementing public and social policy (Osborne 2000). In addition, the role of the public health system is evolving, moving away from the direct provision of services to the formation of partnerships with the private sector, in order to improve community health (Bazzoli et al. 1997; Sofaer 1992).

The involvement of the private sector in healthcare is, in part, linked to the wider belief that public sector bureaucracies are inefficient and unresponsive, and that market mechanisms will promote efficiency and ensure cost effective and good quality services (WHO 2001). There is also a growing belief that the public and private sectors in healthcare can potentially gain from one another (Bloom et al. 2000). Moreover, there is a widespread view that the public sector must reorient its dual role of financing and provision of services because of its increasing inability to operate on both fronts (Mitchell 2000). By using partnerships, the public and private sectors can play innovative roles in financing and providing healthcare services. There are a range of advantages to the implementation of PPPs in healthcare. For the public sector, these can include better value for money, higher service levels and lower risks. PPPs also enable projects to be implemented using private sources of capital while remaining classified as off-balance sheet borrowing (Raquel and Andrade 2010).

Governments around the world have broadened the use of PPPs in the health care sector in particular to restructure hospitals, to develop healthcare centres and to implement patient electronic health record databases (Nikolic and Maikisch 2006). PPPs enable private and public actors to achieve know-how exchange, synergies, and shared responsibilities (especially financial) and risks in the fulfilment of public tasks (Lienhard 2006). Despite the numerous benefits for the health sector, recent literature has however raised some problematic issues related to the use of PPPs in healthcare.

Some studies have identified specific lacunae in the implementation of PPPs in healthcare such as a lack of specific performance indicators and quality parameters, and delays in the release of reimbursements and grants because of government procedures (Venkat and Björkman 2007). A critical and emerging issue is the role and responsibilities of the involved actors.

The multiplicity of actors, overlapping roles and the fragmentation of authority/power has consequences for the comprehensiveness and effectiveness of PPPs in healthcare (Baru and Nundy 2008). Several critical issues therefore arise as regards governance and accountability.

Healthcare in Italy

England's National Health Service is the largest single market for healthcare PPPs (Department of Health 2010). The Italian healthcare system, *Servizio Sanitario Nazionale* (SSN), has developed into the second-largest PPP market in Europe (Osservatorio Finlombarda 2011). The focus of this chapter is on the Italian SSN.

The discussion starts by highlighting that PPP projects in Italy have different goals and many alternative models exist, from the construction of entirely new hospitals, through refurbishment projects, to the delivery of small non-clinical assets, such as car parks and training centres (Osservatorio Finlombarda 2011).

The Italian SSN was founded in 1978. It is tax-based and provides care to the country's entire population. The SSN is decentralized, with regional governments responsible for the funding and delivery of health care services. The regional governments generate resources through local taxation, set healthcare budgets and direct resources to local health units (Vecchi et al. 2010).

The spread of PPPs in the Italian healthcare sector was for several reasons: First, the obsolescence of building owned by the national healthcare system. Most Italian hospitals were built many decades ago, with 38.0 % of hospitals built before 1940, 32.0 % between 1941 and 1970, 21.0 % between 1971 and 1990, and only 9.0 % in recent years. Secondly, changes in the provision of hospital services meant that many buildings needed to be restored (Barretta and Ruggiero 2008). Thirdly, increasing public expenditure on health services had resulted in serious financing problems (Borgonovi 2000).

Following UK practice, in Italy PPPs are typically arranged via Private Finance Initiatives (PFIs). For example, in hospitals provisions, the private sector designs, builds, finances and/or maintains (Hellowell and Pollock 2009). Under the design, build, finance and operate model (DBFO), a special purpose vehicle (SPV) incorporates a group of private investors who commit a limited amount of equity capital and subordinated loans to the project (equity), and raise the bulk of the private capital to be drawn down from banks or the capital markets (Vecchi et al. 2010). The private partner is reimbursed by the public organization based on the services delivered in the hospital. Usually these types of partnerships are signed for long periods (longer than 25 years). Public parties must retain a majority shareholding (51.0 %), and specific mechanisms should be introduced to limit the transfer of private shares to a third party.

How can Governance in PPPs Be Improved?

A growing stream of research has underlined the importance of PPPs as a new public-governance paradigm for improving the efficiency and effectiveness of public service delivery (Teisman and Klijn 2002). With specific reference to the health sector, the use of PPPs to deliver healthcare services is part of the New Public Management (NPM) agenda, which has sought to create markets, improve public sector efficiency (Hood 1991) and follow the global public policy trends of "more governance and less government" (Cleveland 1972).

Private sector involvement in public service delivery has a long history throughout the world. The most discussed topic in this research stream is related to the introduction of PPP solutions as mechanisms that redefine the roles and responsibilities of both the public and private sectors. PPPs are complex in nature, requiring different types of skills and new enabling institutions, leading to a change in the status of the role of the public sector (UNECE 2008). The success of a PPP is dependent on several factors, such as well-functioning institutions, transparent and efficient procedures, and accountable and competent public and private sectors; in a nutshell, "good governance". Indeed, PPPs encompass different governance issues. Governance is not easy to define as a concept, but it is generally accepted that it refers to the processes in government actions and how things are done, rather than what is done (Raquel and Andrade 2010; UNECE 2008). Good governance is realized when the public sector is able to manage risks or allocate risks to the partner that is theoretically able to manage them better. The public sector also needs to take into account other equally important factors in the governance of PPPs: communication, accountability, participation, consultation, triple bottom-line reporting, and openness and transparency (Grimsey and Lewis 2004).

The lack of a suitable governance framework for PPPs is noted by Hodge (2004), who studies the risks associated with PPPs by looking at formal contract conditions. Moreover, effective governance can be constrained by unilateralism and the resort to traditional roles, especially by government (Johnston and Gudergan 2007). Governments can be seen as "deal makers" (Linder 2000) or can adopt a hierarchical or dominant agency role (Teisman and Klijn 2002). On the other hand, the private partner may not necessarily have the public interest as a primary goal (Friend 2006). Friend (2006) points out that the partnership can be interpreted as a purely commercial venture with an economic interest or it can be seen as public policy in action. This means that partnerships can play out at any point along the spectrum from integrity-trust towards unethical, scheming-political behaviour (Johnston and Gudergan 2007). Good governance is open to much interpretation, but overall six principles have become widely accepted (UNECE 2008):

(a) Participation: the degree of involvement of all stakeholders;
(b) Decency: the degree to which the formation and stewardship of the rules is undertaken without harming or causing grievance to people;
(c) Transparency: the degree of clarity and openness with which decisions are made;
(d) Accountability: the extent to which political actors are responsible to society for what they say and do;
(e) Fairness: the degree to which rules apply equally to everyone in society;

(f) Efficiency: the extent to which limited human and financial resources are applied without waste, delay or corruption or without prejudicing future generations.

Following UNECE's's's (2008) guidebook, good governance objectives in PPPs refer to the following: i) a transparent process through which governments select their private partners; ii) guarantees that value for money is being obtained; iii) improvement of public services and training of PPP professionals; iv) fair incentives to all parties and fair returns for risk takers, combined with commercial success; v) wise negotiation of disputes, ensuring the continuation of projects, profitability, the quality of services and minimum waste of resources; and vi) enhanced safety of the services provided under PPPs. If all these principles are met, the PPPs will be commercially successful. If governments promote well-governed projects, all stakeholders will take note of the positive aspects of PPPs and policymakers will have support for the promotion of PPP projects. The six principles of good governance for PPPs (UNECE 2008) are discussed in more depth in the remainder of this section.

Transparency

The following two questions are often asked in relation to PPPs: What are the appropriate criteria for the selection of partners? Is the process through which governments select private partners transparent enough?

Following UNECE (2008) recommendations, transparency in PPPs refers to a fair and transparent selection process by which governments develop partnerships. It means ensuring that information about the PPP procurement and contractual administration regimes and individual PPP opportunities are made available to all interested parties (and in particular to potential suppliers and service providers). Transparency encourages open and competitive procurement regimes, thereby helping the government agency and the private sector entity to achieve economic benefits. The public sector should ensure that the partner selection process is a fair and transparent. If this is not the case, not only may the right partner not be chosen to undertake the tasks, the entire process may also get bogged down in avoidable disputes, litigations, etc., which will impede the progress of the projects. Proper partner selection is hugely important for the public sector, as PPPs are usually long-term contracts. At the start of the selection process, the public partner must be able to give potential bidders information on the proposed project, project parameters, including the public sector contribution to the project, timeline, and the current condition of the existing facility or proposed facility location. Giving potential bidders as much information as possible will ultimately benefit the public sector, as they will receive more detailed proposals for consideration. The following represents the key information the public sector should request from a potential private partner in order to perform an in-depth review of the partner in question (CDIAC 2008): description of the proposed partner; qualifications and experience; financial capability; references; risk transference; litigation and controversy. This information will assist the public partner in finding a partner who is experienced and will bring the "best value" to the project in the long term.

Value for Money

Value for money (VFM) is a concept associated with the economy, effectiveness and efficiency of a service, product or process. A public authority cannot fund a PPP project if this requirement has not been met. VFM means the "optimum combination of whole life cost and quality (or fitness for purpose) to meet the user's requirement" (Grimsey and Lewis 2004). There are six determinants of VFM:

- risk transfer;
- long-term nature of contracts;
- competition;
- performance measurement and the use of an output specification;
- performance measurement and incentives;
- private party's management skills.

Often when a government approves a project in which it is seeking to involve the private sector through a PPP, private sector bids are assessed against public sector benchmarks to determine VFM. Governments justify entering into PPPs on the grounds of securing VFM, and if this objective is not achieved, the arrangements will have no leg to stand on. It is therefore essential that each partnership be planned and designed with VFM assurances in mind, and that governments be guided by the principle from the beginning (Sethumadhavan 2010).

VFM is a concept designed to reorient the language of debate away from traditional concerns such as choosing the "cheapest" winning construction bid that meets the public interest, towards discussion of whole-life project costs, risk transfers and risk-adjusted discount rates (Hodge et al. 2010). PPP projects are required to represent VFM when measured against equivalent projects delivered through traditional public funding. Grimsey and Lewis (2004) define the public-sector comparator as a "hypothetical constructed benchmark to assess the VFM of conventionally financed procurement in comparison with a privately financed scheme for delivering a publicly funded service". The second step is comparing this benchmark cost with the cost of providing the specified service under a PPP scheme. A novel feature of the VFM technique is that as well as the expected financial costs, the costs of some of the risk associated with the project are also included. Since some of the risks are to be transferred to the private sector, the PPP option should provide greater value for money than a publicly financed alternative where the public sector bears all the risks (Edwards and Shaoul 2002).

Public Service Improvements

One of the most important objectives of PPPs is the improvement of essential public services (UNECE 2008) through the incorporation of the private sector's knowledge, expertise and capital. To justify the complexity and expense of the PPP process, advocates must show that the private sector has the financial or technical capacity needed to address the health system gap and that the PPP model will be able to improve efficiency, sustainability, or equity in the health system. Achieving best value for public service and product is the ultimate objective of PPPs despite the different stakeholder performance objectives (Zhang 2006). Every PPP arrangement should generate a visible improvement in public services. Thus, the quality of the design, construction, operation and maintenance of the facility should receive the highest consideration at all stages (Sethumadhavan 2010). In order to improve public services, PPPs need to put people first (UNECE 2008). To reach this objective, governments need to put in place mechanisms to assure the public that they are the main beneficiaries of the projects. They can decide, for example, that there are certain core services which should not be delivered at any price by the private sector (medical services are considered to be core services and it is the function of government to provide them, while the supporting infrastructure and ancillary services can be delivered by the private sector).

Fairness

Fairness refers to fair incentives to all parties and fair returns for risk takers, combined with commercial success (UNECE 2008). The key to the success of PPP projects is a balanced and fair sharing of risks and benefits between the partners (CAG 2009). All parties in the partnership should share the risks and the benefit of the projects on the basis of a formula agreed by the various parties, before the agreement is signed.

Private actors show interest in PPP projects primarily because of the profit motive and this should be appreciated by their public sector partners. On the other hand, the main benefit for the public sector arises from the transfer of risks to the private sector. In the absence of adequate concessions and incentives, the private sector will have no motivation to participate in PPP projects. Moreover, since the PPP format involves a mutual sharing of risks by both sides, the PPP scheme must provide for fair incentives to all parties who join the partnership. In commercial terms, this calls for fair financial and economic returns on investments for private sector partners in proportion to the risks assumed by them, and the approach of the public sector partner must be appropriately accommodative (Sethumadhavan 2010).

Conflict Resolution

Another principle of good governance according to UNECE (2008) is the resolution of conflicts. PPP teams in the public sector should be trained to carry out business-like negotiations at the contracting stage with the private sector partners and to arrive at judicious decisions. Similarly, the management structure should provide for an efficient and effective dispute resolution mechanism both during the construction and operations and maintenance stages, so that delays and indecision do not slow the progress of projects (Sethumadhavan 2010). However, in a PPP the risk of potential conflict is very high, due to the great differences between the two partners. Luo (2008) argues that the greater the differences in organizational nature between two partners, the more possibilities exist for opportunistic behaviour in the partnership. Given that a PPP is an alliance between two very different kinds of organizations, it is particularly important for each partner in the PPP to be on guard for any opportunistic behaviour perpetrated by the other (Zhang 2005). For this reason, a formal contract through a series of written agreements can clearly mitigate the risk of conflict between partners as it decreases the probability of opportunistic behaviour by the partners.

Enhanced Safety of the Services Provided under PPPs

According to the UNECE (2008) principles of good governance, private entities within PPPs should not attempt to increase profits by failing to pay additional costs that ensure safety, and must comply with the safety standards set out in the contract. Failure by the private entity to comply with health and safety requirements should lead to a variety of penalties, including abatement of its fee, penalty charges and potentially ruinous litigation of termination of the PPP contract. Often there is the concern that turning a public asset over to the private sector corrodes the ethos of public service. PPPs should preserve the public interest. The private sector is not driven by public interest but by maximization of profit. This means that, even if the private sector is in partnership with the public sector to provide a public service, there are some core services (i.e., medical services) which should not be delivered by the private sector. In order to ensure public interest, one strategy could be to identify precisely where the private sector can contribute to safety and security. These areas may include the use of new technologies that directly and indirectly enhance safety.

Methodology

When a study seeks to gain insights in order to achieve a better understanding of specific factors and describe a phenomenon, the qualitative approach is deemed appropriate (Yin 2003). In this paper an exploratory and inductive investigation has been used by employing the case study methodology (single case study). According to Yin (2003), a case study investigation is defined as "an investigation strategy directed to understand the present dynamics in singular contexts".

This approach involves comparing theoretical data and data from a specific case in an attempt to establish a close fit between the two. The case study method used in this article accords with prominent authors in the field, specifically Eisenhardt's (1989) and Yin's (2003) approaches. The unit of analysis is one specific PPP in healthcare. A case study is therefore the preferred strategy when "how" or "why" questions are being asked, when investigators have little or no control over events, and when the focus is on a contemporary set of events within some real-life context.

The article relies on archival data sources. The first step was to gather extensive documentary information from both internal and external sources. *Internal sources* include the statutes of companies, annual reports, financial and economic prospectuses including budgets and balance sheets, and board minutes. *External sources* include regional council resolutions, service agreements with local health authorities, and public tenders for the selection of the private party.

The Case of "New Mestre Hospital"

The New Mestre Hospital (also *Ospedale dell'Angelo*) is one of the main PPP project in Italy (Carbonara and Pellegrino 2014). It is the result of a PPP between the local health authority (*USSL 12 Veneziana*) and *Veneta Sanitaria Finanza di Progetto S.p.A.* (VSFP).

Financial close was reached for the New Mestre Hospital, awarded to *ULSS 12 Veneziana*, on 30th September 2002, on 19th April 2005. The project concessionaire and operator (a group led by *Astaldi S.p.A.*) signed a twenty-year finance agreement with a group of banks led by the Dutch bank ABN Amro. In June 2007 the construction phase was completed. Today Mestre Hospital is considered the most technologically advanced hospital in Italy and one of the most cutting-edge in Europe.

One of the main reasons why USSL 12 has chosen to use the PPP model for restructuring Mestre Hospital is the scarcity of public resources (the €72 mln provided by the local region was insufficient for this huge project). In the second half of 2000, USSL 12 decided to use the PPP model for the construction of a new hospital that met current regulatory standards. The use of this model is of great interest not only because of the scarcity of public resources, but also because it links private interest with the rapid execution of works and lower operating costs.

Before starting the PPP procedure, USSL 12 verified the feasibility of the project in view of the limited public resources available and the high construction standards that needed to be achieved. For this reason, a draft financial plan was prepared. After this phase, the PPP procedure was drawn up and incorporated different phases, such as announcement in national and regional newspapers, proposal submission, promoter selection, tender launch, restricted procedure, financial close, etc.

VSFP S.p.A. is the project concessionaire and operator. It brings together the skills and expertise of several companies: *Astaldi* (leading company), *Mantovani*, *Gemmo*, *Cofathec Progetti*, *Aps Sinergia*, *Mattioli* and *Studio Altieri*. Each of these companies has their own competences and responsibilities. Astaldi, Mantovani and Mattioli are responsible for the construction and delivery of appliances and furniture. Altieri is responsible for the design. Gemma and APS Cofathec deal in electromechanical plant and related management services.

The total value of the project is 220 mln euros, with VSFP's share approximately 140 mln euros. This sum will be repaid to the private company in part by allowing it to manage some hospital services for a period of 24 years.

The concession to VSFP includes the provision of non-medical services to USSL 12 and some services for external visitors. The services provided to USSL 12, are: laboratories and radio-diagnostic service management; waste disposal; laundry; catering for patients, cleaning services of building and clinical equipment; estate and medical equipment maintenance; mechanical transport; green areas maintenance; housing services. The services provided to external visitors are restaurant, retail, and parking services.

Main Findings and Discussion

In this session the main findings are presented and discussed along the six Good Governance Principles (UNECE 2008).

Transparency One of the most important phases in the PPP process is generally the selection of right private-sector partners (Zhang 2005). In June 2001, two proposals were submitted for the Mestre Hospital project. The two proposals were analyzed to verify whether and to what extent the promoters met specific requirements. The promoters' selection process was transparent as it involved different local and regional authorities and the dedicated Italian PPP unit (*Unità Tecnica per la Finanza di Progetto*). These public authorities were involved in the selection process, as they were asked to give professional opinions on the offers received by the promoters. In particular, the dedicated Italian PPP unit supervised the whole selection process. After several consultations, one of the two proposals was not considered to be in the public interest while the other was considered as being in the public interest.

Value for Money The principal reason for using PPPs is that, where suitable, they can deliver better value for money than other possible alternatives. USSL 12 conducted a VFM analysis on the promoters' proposal, taking into consideration its overall cost and comparing it with the cost of construction and management for the same number of years had the project been carried out internally. The VFM analysis showed that building the hospital using a PPP contract was the more favourable option (Gatti and Germani 2003). Moreover, the principle of VFM has been a guided principle from the beginning (Sethumadhavan 2010).

Improvement of Public Services Incorporating the private sector's knowledge, expertise and capital, one of the main objectives of PPPs is to improve essential public services (UNECE 2008). Mestre Hospital has had a long and chequered history since it was built in 1908. As far back as 1925 the local authority acknowledged its inadequacy as far as the provision of health services was concerned. However, despite huge discussion and the presentation of various projects, only in 2000 did the region request that USSL 12 oversee the construction of a new hospital in Mestre. The need for the regional and local authority to improve the quality of health services at the hospital was therefore long established. Due to the scarcity of public resources, the PPP model was chosen for the construction of the new hospital. Today Mestre Hospital is the most technologically advanced hospital in Italy and one of the most avant-garde in Europe. The public healthcare system in Mestre, which is one of the largest cities in the Venice municipality, has a number of problems. The nearby presence of Marghera, one of the largest industrial areas in Italy, and the presence of the bypass road carrying traffic from the eastern and western sides of the area have exacerbated the area's health needs. In 2000, the region recognized that the lack of health facilities was an urgent problem, and thus gave the go-ahead for the construction of a highly innovative hospital. The construction aspects and the technologically-advanced medical equipment and systems were planned to meet the specific needs of patients and also to improve the quality of the health services provided.

Fairness Private actors show interest in PPP projects primarily because of the profit motive. In the absence of adequate concessions and incentives, the private sector has no motivation to participate in PPP projects. In the case of Mestre Hospital, the total investment of 140 mln euros by VSFP will be repaid in part to the company through the management of a number of hospital services for a period of 24 years, including: laboratories and radio-diagnostic service management; waste disposal; laundry; catering for patients; building and clinical equipment cleaning services; estate and medical equipment maintenance; mechanical transport; green areas maintenance; restaurant; commercial areas; and parking areas. The incentives for private partners have to be comparable with the amount of risk. Participation in a PPP by the private sector involves a commitment of time and resources which may be not adequately defined at the start. Moreover, participation in a PPP comes with no guarantee of success and therefore entails a reputation risk for the companies that are identified with the activities. Moreover, the private sector is profit oriented, and is able to take a risk only if the expected benefits associated with a project are in proportion to the risk.

Conflict Resolution Another of the principles of good governance according to UNECE (2008) is the resolution of conflicts. It refers to the resolution of conflicts between public and private actors and the management structure during each stage of the project. In a PPP, roles and responsibilities must be clearly defined and transparent. Everyone should know what their role is, and what they will and will not do in order to avoid potential conflict situations. In the case of Mestre Hospital there was a clear division of tasks and responsibilities between the various actors. From the public documents available it is evident that, right from the start, the aim was to have a clear structure and clear separation of responsibilities, including among the private actors. Astaldi, Mantovani and Mattioli were responsible for the construction and delivery of appliances and furniture. Altieri was responsible for the design, and Gemma and APS Cofathec supplied the electromechanical plant and related management services.

Moreover, VSFP adopted a well-structured internal management and control system in order to avoid possible misconduct against the public administration.

Enhanced Safety of the Services Provided under PPPs One main criticism of PPPs in relation to public services is that turning a public asset over to the private sector corrodes the *ethos* of public services. VSFP has adopted a code of ethics (publicly available) that lays down the general ethical framework for the entire VSFP structure. This code of ethics outlines the principles of fairness and honesty of conduct, and regulates through behavioural rules the activity of the entire company. One of the principles in the code of ethics relates to the integrity of the individual. It states that VSFP is committed to protecting the physical and moral integrity of persons, ensuring safety and security. Moreover, the private sector (VSFP) is involved only in the provision of non-medical services (laundry, restaurant, parking services, etc.) and not with medical services that are considered core services and which are delivered by the public administration.

Finally, the importance of service safety is underlined by the fact that during the negotiation process, the public sector asked VSFP to adapt some aspects of the preliminary project in order to comply with the safety rules in force (seismic and fire safety).

Conclusion and Future Research Directions

PPPs have gained wide interest around the world and a growing stream of literature is trying to define this form of partnership and to identify its main characteristics. However, a single and shared definition is not available.

Some scholars see PPPs as new governance tools that will replace traditional methods of contracting for public services through competitive tendering. However, structural complexity, the large number of actors involved, and the long-term relationship between public and private actors bring out several problematic issues in the governance of PPPs that are even more critical when it comes to healthcare services.

As PPPs need to bring benefits to the communities they serve, they need to take place, first, in a well-developed and regulated economic system and, second, in a context of "good governance" in which the challenges entailed are managed sensitively so that both stakeholders' needs and underlying service objectives are met. OECD (2008) has emphasized the critical importance of key aspects of "good governance" for effective PPP development.

The aim of this article is to answer the following research question: How can governance standards in Italian healthcare PPPs be increased? In order to answer this question, the most important literature on PPP in healthcare has been reviewed, focusing especially on governance issues.

Several scholars have suggested that to have successful PPPs it is necessary to develop a framework for "good governance" (Grimsey and Lewis 2004; Raquel and Andrade 2010; UNECE 2008). The most important ingredients of a good governance framework are: communication, accountability, participation, consultation, triple bottom-line reporting, and openness and transparency (Grimsey and Lewis 2004).

In 2008, UNECE issued a guidebook containing six principles of good governance for PPPs. Starting from these principles of good governance, the paper presented a detailed case study analysis of the first health-sector PPP in Italy for the New Mestre Hospital. The case study analysis as ben divided into two main parts. First of all a general overview of the project has been provided, and secondly the application of good governance principles within the Mestre Hospital PPP has been discussed.

The Mestre Hospital has a long story since it was build in 1908 and already in 1925 the local authority recognized the inadequacy of the hospital to deliver adequate health services. However despite a huge discussion and presentation of various projects, only in 2000, the Veneto Region relies on USSL 12 for the construction of the new hospital in Mestre. Due to the scarcity of public resources the PPP structure was used for the construction of the new hospital.

Analysis of the application of the good governance system to the Mestre Hospital PPP reveals that it constitutes one of the best examples at national level of public works being realized through a PPP. Following the signing of the financial contracts, the Mestre Hospital Project won two separate awards: Respected industry journal Project Financing International magazine judged it the best public-private partnership project of the year, handing it its “PPP Deal of the Year” award and describing it as the first significant PPP contract to be concluded in Italy in 2005, with a technical/legal code of conduct that could be adopted for other projects. Euromoney Magazin named it “Project Finance Deal of the Year” in the European healthcare sector, confirming the project’s soundness as well as the quality of the work of the parties involved.

The results of the case study show that during the whole PPP process the parties involved in the project adhered to the principles of transparency, accountability and participation, fairness and orientation towards the public interest.

A brief summary of the key findings follows:

– The selection process for the promoter was adhered to by the local authorities and the dedicated PPP unit. This underlines the willingness of the public sector to have a transparent and participatory selection process.
– The preliminary projects submitted by the promoters formed the basis for the Value for Money analysis. Taking into account the costs and benefits of the project, the public partner recognised the commercial superiority of the PPP solution.
– The fundamental aim of the project was to have a new hospital able to deliver better and improved health care services. The design aspects and state-of-the-art medical equipment and systems were all planned with the specific needs of the patient and the improvement of health service quality in mind.
– The negotiations between the private and the public actors were in line with the principle of fairness, as the expected benefits of the PPP were considered to be in proportion with the associated risks.
– The separation of roles, responsibilities and areas of contributions of the parties is evident. USSL 12 is the provider of the medical services, while VSFP is in charge of the design, building, financing and operation (DBFO) of Mestre Hospital. Moreover, the different companies in the VSFP have clear and fixed tasks and responsibilities in the project. This system of separation and identification of roles and responsibilities prevents potential conflict situations.
– The project is built in a way that ensures the safety of the services. This principle is strengthened by the exclusive provision of medical services by the public sector. The private partner provides non-medical and accessory services.

Despite the evident success of the presented case, some important issues need to be discussed further. First, the health landscape is facing a period of enormous change, with new technologies, new service insights and understanding, new models of care, and changes in demographic and epidemiological trends, rendering the future outlook increasingly uncertain. Investment decisions in such huge projects have to incorporate the risk of uncertainty, but this risk dimension is not included in the economical appraisal of the PPP solution. The PPP for the Mestre Hospital incorporates a time period of 24 years for the private sector to be repaid by the public sector. It is important to reconcile the fixed term nature of PPP contracts with the shortening horizons of certainty. Secondly, VFM is a critical factor that should be evaluated in detail before making any PPP-related decision. VFM analysis should take into account not only the economic convenience of the PPP project, but also its beneficial effect on health services. The project should also exhibit some form of public accountability. Finally, given their considerable size and duration, most PPPs, like the Mestre Hospital PPP, will affect the lives and interests of not only the users of the health services provided, but also of a great many other members of the general public. Thus PPPs may impinge upon community values and draw attention to how and the extent to which all stakeholders are able to participate equitably in public decision-making and in the holding of public service providers to account.

This study contributes to the current debate on PPPs in healthcare system as it provides a deep description of a real case. Indeed, this articles focus on the real application of good corporate governance principles in a PPP. Giving details on the case study, the article shows the complexity of PPPs implementation and the importance of taking into account multiple factors when implementing PPPs. Moreover, it shows that principle of good corporate governance cannot be easily transferred into practice as many actors are involved and many stakeholders need to be taken into consideration in every stage of the PPP's implementation. Finally this article might give guidance in the implementation of other PPPs in the health care sector.

However, this study has some limitations and additional studies are needed to understand the actual effectiveness and sustainability of PPP projects in the health care sector in Italy. This study is limited as it focuses on a single case. A comparison of different experiences would shed more light on the PPP phenomenon. Moreover, it would be of great interest to understand the reasons why several PPP projects in the Italian health sector have been abandoned at an early stage, as reported by the *Osservatorio Finlombarda* (2011). Is it because of the national regulatory framework? Because of weaknesses in the evaluation of projects' feasibility? Or because of conflicting situations in public and private relationships?

These and other issues are still open and further efforts are needed in order to clarify decision-making styles, processes, risks and responsibilities when thinking at PPPs as a possible way to provide with increased quality healthcare services to citizens.

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