AN AUDIT OF MATTERS RELATING TO THE CONCESSION AWARDED TO VITALS GLOBAL HEALTHCARE BY GOVERNMENT

PART 1 | A REVIEW OF THE TENDER PROCESS

A REPORT BY THE AUDITOR GENERAL

JULY 2020
An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government

Part 1 | A review of the tender process
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<tr>
<td>AG</td>
<td>Auditor General</td>
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<tr>
<td>BVI</td>
<td>British Virgin Islands</td>
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<td>CCU</td>
<td>cardiac care unit</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
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<tr>
<td>CJEU</td>
<td>Courts of Justice of the European Union</td>
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<tr>
<td>COO</td>
<td>Chief Operations Officer</td>
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<tr>
<td>DoC</td>
<td>Department of Contracts</td>
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<td>DOI</td>
<td>Department of Information</td>
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<td>EU</td>
<td>European Union</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GGH</td>
<td>Gozo General Hospital</td>
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<td>GWU</td>
<td>General Workers Union</td>
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<td>IT</td>
<td>information technology</td>
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<td>ITU</td>
<td>intensive treatment unit</td>
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<td>KGRH</td>
<td>Karin Grech Rehabilitation Hospital</td>
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<td>MAM</td>
<td>Medical Association of Malta</td>
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<td>MDH</td>
<td>Mater Dei Hospital</td>
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<td>MEPA</td>
<td>Malta Environment and Planning Authority</td>
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<td>MFIN</td>
<td>Ministry for Finance</td>
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<td>MOT</td>
<td>Ministry for Tourism</td>
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<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>MUMN</td>
<td>Malta Union of Midwives and Nurses</td>
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<td>NAO</td>
<td>National Audit Office</td>
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<td>NHSS</td>
<td>National Health Systems Strategy for Malta</td>
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<td>OJEU</td>
<td>Official Journal of the European Union</td>
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<td>PAC</td>
<td>Public Accounts Committee</td>
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<td>PPP</td>
<td>public-private partnership</td>
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<td>PS</td>
<td>Permanent Secretary</td>
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<td>QMUL</td>
<td>Queen Mary University of London</td>
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<td>R&amp;D</td>
<td>research and development</td>
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<td>RfP</td>
<td>Request for Proposals</td>
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<td>SAMOC</td>
<td>Sir Anthony Mamo Oncology Centre</td>
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<td>SLH</td>
<td>St Luke’s Hospital</td>
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<td>UĦM</td>
<td>Union Ħaddiema Magħqudin – Voice of the Workers</td>
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<td>VGH</td>
<td>Vitals Global Healthcare Ltd</td>
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Executive Summary

1. On 21 November 2016, the UnionĦaddiema Magħqudin – Voice of the Workers and the Medical Association of Malta, submitted a letter to the Chair Public Accounts Committee (PAC) requesting an investigation of the contracts awarded by Government to Vitals Global Healthcare Ltd (VGH). The contracts referred to in this request related to the Gozo General Hospital (GGH), Saint Luke’s Hospital (SLH) and Karin Grech Rehabilitation Hospital (KGRH).

2. On 16 January 2018, the Auditor General submitted the terms of reference that were to guide the National Audit Office (NAO) in its audit of the contracts entered into by Government and the VGH in correspondence addressed to the Chair PAC. The terms comprised the following:

   a | review the method utilised for the award of the concession to VGH;

   b | determine whether the business model to be employed by the concessionaire is feasible and whether it represents value for money;

   c | analyse the evaluation of submissions leading to the award of the concession;

   d | review the contractual framework regulating the concession:
      - verify whether services provided adhered to contract requirements;
      - verify whether contractual targets relating to the redevelopment, maintenance, management and operation of the sites have been realised;
      - review provisions regulating the labour rights of public officials in relation to the concession; and
      - review what safeguards are in place to ensure that Maltese nationals receive treatment in a timely manner

   e | review the basis of valuation of the sites granted to the concessionaire, the method of disposal and whether this was in breach of state aid regulations; and

   f | review the process by which the concession was transferred from VGH Ltd and VGH Management Ltd to Steward Health Care.

3. Due to the extent of the terms of reference set, and their inherent complexity, the NAO decided to segment its report on the concession in three parts. This part focuses on the procurement process leading up to the award to the VGH, which therefore addresses terms (a) to (c). Hereunder are the salient conclusions arrived at by this Office.

4. The first term of reference entailed the review of the method utilised for the award of the concession to the VGH. Drawing the Office’s immediate concern in this regard was the
Agreement that Government reportedly entered into prior to the RfP with a subset of the investors of the VGH. The overlap between this Agreement and the concession was clear and created major doubt and concern regarding the integrity of the eventual concession. The NAO’s concerns are heightened in light of Government’s reluctance to provide this Office with a copy of the Agreement, which failure serves as further confirmation of its contentious relation to the concession eventually entered into by Government with the VGH. This casts a dark shadow on the validity of the concession awarded by Government, for in effect, all appears to have been predetermined to ensure an already agreed outcome.

5. In terms of the identification of needs, Government failed to appropriately explain the bases of the inclusion of the GGH, the SLH and the KGRH as part of one project. No specific assessment of whether the grouping of these three public hospitals presented any benefit to Government was undertaken, with their amalgamation under one project an inexplicable uncontested given. Confounding matters was that the MEH-Health was not meaningfully involved in the determination of Government’s requirements relating to this concession and in the establishment of feasibility thereof. Instead, the process that was in essence a health services concession was driven by the MEH-Energy. Of concern was that the MEH-Energy also failed to involve MFIN despite the substantial disbursement in public funds that this concession was to entail. Of even greater concern to this Office was the fact that Cabinet was not appropriately informed of the project prior to the issue of the RfP.

6. Aside from concerns relating to the integrity of the commissioned feasibility report, the NAO’s overall opinion of this report was that it constituted a preliminary and superficial analysis of the possible concession of three of Malta’s public hospitals. The feasibility report was bereft of any form of independent analysis or critical thought. Further concerns relating to the integrity of this process emerged from the review of the minutes of the Projects Malta Ltd Board of Directors, wherein reference was made to this project. Although these minutes preceded the feasibility report by several months, reference was already made to Government’s commitment to issue the concession and the form that it was to assume.

7. Despite this Office’s efforts, it remained unclear how Projects Malta Ltd were mandated to issue the RfP. Of greater concern in terms of the governance of the process was that no ministerial authorisation was sought or provided in relation to this concession, resulting in the anomalous scenario where three public hospitals were conceded for operation by third parties without anyone actually assuming responsibility for this decision. This failure in governance rests squarely on the Minister for Energy and Health and to a lesser extent on the PS MEH-Energy.

8. The NAO noted several shortcomings in the design of the RfP. Most evident in this respect were the evaluation criteria, which were deemed subjective, allowing for considerable interpretation in the allocation of marks. Another notable shortcoming was the term set for the concession. Good practice dictates that the term be determined by allowing a sufficient period for the concessionaire to recover the investment made and register a reasonable profit. In this case, no such analysis was undertaken, with the term, and its subsequent option to extend, set arbitrarily.
9. This Office is of the opinion that the ethical safeguards established in the RfP were breached by the investors of the VGH through the Agreement reached with Government prior to the issue of the RfP. This breach necessitated the disqualification of the VGH as a bidder.

10. The NAO maintains that a critical element of what defines a services concession is the transfer of risk. Significant concern is registered in this respect as, in this Office’s opinion, the balance of risk remained drastically skewed against Government, with the concessionaire guaranteed revenue by Government irrespective of market fluctuations and actual use, thereby further reducing the risk allocated to the concessionaire. This Office contends that the contract may have been more appropriately classified as a public service contract rather than a concession, which classification establishes far more onerous obligations on the part of Government to proceed with this procurement.

11. Another term of reference addressed by the NAO was to determine whether the business model to be employed by the concessionaire was feasible and whether it represented value for money. Although the bid submitted by the VGH satisfied all the requirements set by Government, this Office is of the opinion that the bid was essentially robust in form but flawed in substance.

12. The NAO established that the VGH was registered in Malta only a few months prior to the RfP. According to these records, the VGH was wholly owned by Bluestone Special Situation 4 Ltd, which formed part of Oxley Group. In terms of financial soundness, the NAO noted that the VGH submitted a description of the value of the holding companies cited in its bid, which submission was deemed as not fully addressing the requirements of the RfP.

13. Of grave concern to the NAO was documentation submitted by the VGH as proof of access to finance. A letter issued by the Bank of India sanctioning funding for the “Malta Healthcare Projects” and put forward by the VGH in respect of the bid was dated 13 March 2015, that is, well before the publication of the RfP on 27 March 2015. This Office deemed this document as definite evidence of the VGH’s prior knowledge of the planned project and proof of collusion with Government, or its representatives.

14. Other notable shortcomings identified by the NAO related to the professional and technical elements of the bid by the VGH. This Office noted that the business experience cited by the VGH was not attributable to it, but to the Oxley Group or its strategic partners, or to partners that the VGH had involved in the project. Of note was that the experience cited for Oxley Group mainly related to real estate investment trusts and funds, asset management and financing.

15. Evident was that the timeframes committed by the VGH for the redevelopment of the SLH, the GGH and the KGRH were overly ambitious and unrealistic. The NAO’s opinion is based on the consideration of the extensive works required, the fact that works were to be simultaneously undertaken on all Sites, and that the VGH lacked an established set up.
16. Similarly, overly ambitious were the projections made with respect to medical tourism, particularly when one considers that medical tourism in the ambit of public hospitals was a new concept and the infrastructure required. This concern assumes greater relevance when one considers that, according to the bid, it was the revenue forecasted from this source that was to render the project feasible.

17. While the possibility to extend the original concession period of 30 years by a further 69 years was envisaged in the RfP, this Office contends that it was imprudent for the VGH to assume that this would be a given and proceed to base its financial strategy on the full 99-year term. Moreover, credit sought for the financing of the project was conditional on the granting of a 99-year lease. This Office contends that this extension should not have been considered by any of the bidders as an obvious and certain outcome.

18. In sum, the NAO maintains that the VGH submitted a bid that emphasised all the anticipated benefits of entry into this health concession with Government, irrespective of whether they were realistic or otherwise. These commitments included: the renovation of three public hospitals by December 2017; the construction of a medical college; significant improvement in service delivery; the lowering of costs incurred by Government; the strengthening of the hospitals' management function; the development of a comprehensive staff training programme; and an investment of over €190,000,000 by the VGH into the project. The commitments of the VGH were deemed overly ambitious and unrealistic to achieve within the stipulated timeframe.

19. The final term of reference considered by the NAO entailed the analysis of the evaluation of submissions leading to the award of the concession. The bid by the VGH was assessed by the Evaluation Committee in terms of its commercial, technical and financial strength, and the degree to which it exceeded the minimum requirements specified in the RfP. In this Office’s opinion, the evaluation carried out was lacking in terms of critical analysis, with several parts of the evaluation report merely a restatement of the bid by the VGH. Furthermore, the NAO maintains that the marks assigned in relation to the technical and operational component of evaluation were not entirely merited. This Office noted that the assessment by the Evaluation Committee of this component of the bid was mainly a summary of the technical proposal put forward by the VGH.

20. Concerns emerge in the Evaluation Committee’s assessment of the financial soundness of the VGH. In fulfilment of these requirements, the VGH submitted a description of the value of the holding companies cited in its bid. While the Evaluation Committee considered this adequate in that it did not delve into the matter any further, the NAO considered the information provided in this regard as not fully addressing the requirements of the RfP. This Office’s concern intensifies in that the Evaluation Committee did not identify the gross anomalies evident in the letter of financial support sourced through the Bank of India.

21. Bidders were to provide evidence of their professional and technical qualifications and management experience in all areas relevant to the concession. The NAO identified various
22. Furthermore, in the NAO’s understanding, key financial assumptions, such as that the project was not viable without medical tourism and that the VGH’s financial strategy was based on the granting by Government of a 99-year temporary emphyteutical title over the Sites, were not adequately challenged, scrutinised or assessed by the Evaluation Committee. These aspects of the bid had a direct and fundamental bearing on the feasibility of the project, yet scant evidence was provided that these elements were comprehensively considered by the Evaluation Committee.

23. The Evaluation Committee undertook a comparison of rates that were to be charged per bed night by the VGH with the actual cost being incurred by Government across comparable services and concluded that the price offered was less than Government’s spend. While the NAO acknowledges that this analysis could provide a basis for cost comparison, this Office maintains certain reservations. Chief in this regard is that this comparison did not account for existing inefficiencies in the provision of public health services and failed to consider the efficiency gains that Government sought to obtain through this tender.

24. Although the shortcomings identified by the NAO in relation to the evaluation process remain, these must be acknowledged in terms of the broader and far more significant concerns relating to the integrity of the entire procurement process. The evidence indicating collusive action between the parties acting on behalf of Government with the investors of the VGH renders the entire process dubious, irrespective of whether the process was in adherence with procedural and regulatory requirements.

25. The NAO contends that certain evaluation criteria, in particular those related to fitness and probity of bidders, necessitated a thorough due diligence process. This Office maintains that, beyond the assertion of compliance to administrative requirements and the determination of whether the technical criteria set out in the RfP were met and to what extent, it is reasonable to expect that the process of evaluation would include an element of due diligence on any bidder, more so on that recommended as the preferred bidder. This Office maintains that the due diligence carried out by Government to verify matters relating to the VGH in its capacity and relationship to it as the preferred bidder to run three public hospitals was grossly inadequate. This was considered a shortcoming in the procurement process, as comprehensive due diligence is critical in safeguarding Government’s interests, especially when considering the materiality and extensive timespan of the project.

26. The shortcomings highlighted above serve to strengthen the argument for more robust background checks, heighten the need for rigorous due diligence screening, bring to the fore
the importance of establishing evaluation criteria that are objective and truly assess the ability of the bidder to deliver that bid, and necessitate that evaluation committees verify submissions made with a critical mind.

27. The NAO bases its analysis on documentation made available to it by Government and its various subsidiaries. In the Office’s general experience, in this as well as in other audits, it is evident that where matters, decisions, procedures and operations are appropriately documented and corresponding records provided to this Office, the nature of the shortcomings identified can be readily defined and often do not elicit the NAO’s greatest concern. It is where no documentation is provided that the Office’s most serious concern gravitates towards. This audit is no different. The major flaws and failings of this service concession can readily be traced to Government’s prior Agreement with the VGH before the issue of the RfP, for which relevant documentation was not provided to this Office. Understanding the RfP process through the perspective of this Agreement changes everything, for the outcome of the RfP was known before feasibility of the concession was determined, before the RfP was drafted and issued, and before the Evaluation Committee was constituted and commenced its consideration of the submissions.
Chapter 1

A contested concession

1.1 Requests for scrutiny

1.1.1 On 21 November 2016, the Union Ħaddiema Magħqudin – Voice of the Workers (UĦM) and the Medical Association of Malta (MAM), submitted a letter to the Chair Public Accounts Committee (PAC) requesting an investigation of the contracts awarded by Government to Vitals Global Healthcare Ltd (VGH) (Appendix A refers). The contracts referred to in this request related to the Gozo General Hospital (GGH), Saint Luke’s Hospital (SLH) and Karin Grech Rehabilitation Hospital (KGRH), hereinafter referred to as the Sites. Several concerns regarding these contracts were highlighted.

1.1.2 The context within which the request to the PAC was made was outlined in the letter. The Government was demanding that the UĦM and the MAM conclude the collective agreement regulating public sector health employees; however, the Unions considered that it was not in their members’ interest to do so because of several pending matters, uncertainty about facts, lack of answers to the information requested and an overall lack of transparency surrounding the Agreement. Hence, the Unions argued that the consequences of the Agreement for the employees and their working conditions were still unclear.

1.1.3 An element of background to the case was provided in this letter, wherein it was noted that recently, the Government had announced that it would grant a concession to the three hospitals to a private operator, and that indeed it was likely that such concession had since been granted. Excerpts from the contracts regulating the concession had been published but substantial parts of the text had been redacted. From Government statements in relation to the matter, which statements were not verified, it was known that:

a) VGH was a newly set up company, registered in Malta following the issue of the request for proposals (RfP);

b) VGH was owned by Bluestone 4, a company registered in the British Virgin Islands (BVI). While Bluestone 4’s ownership was still a secret, it was vaguely mentioned, without verification, that it was partially owned by Singapore’s Oxley Group;

c) neither VGH nor the Oxley Group were known to have experience in the health sector;
d | VGH requested and paid two American companies associated with Boston Medical and Virginia Medical for consultancy. Boston Medical and Virginia Medical have always denied being associated with VGH; and

e | a warning by the Canadian Chamber of Commerce about Mr Ram Tumuluri, a VGH director, for his involvement in a company which used to run hotels and went bankrupt could be found online.

1.1.4 Other information regarding the involved companies’ finances and the investment was also included with this letter. In particular, it appeared that VGH and Bluestone only possessed a few thousand-euro worth of assets. Furthermore, Mr Ram Tumuluri had stated in an interview with a local newspaper that Oxley was to invest one-third of the promised €200,000,000 investment, while the remaining two-thirds would be invested by other financial creditors. However, online searches, including on Oxley’s website, did not indicate that this company had ever declared that it would invest in the project. Reference in the submission made by the UĦM and the MAM was also made to declarations made by the Minister for Health, the Hon. Minister Chris Fearne, during a televised interview, wherein he stated that the investment was to be made by Oxley and the Bank of Australia. Furthermore, in a radio interview conducted some days prior, the Minister had said that one-third of the funding for the project was to be secured from Oxley, while two-thirds were to be sourced from Allianz. Once again, online research did not indicate that Allianz had ever announced that it would be investing in the project and none of its representatives has ever referred to this investment. On the other hand, a local journalist had published a side letter showing that a release from financial obligations had been requested by VGH. This fact had not been denied. The Minister had also declared that the Sites had been transferred to VGH for €3,000,000 and an annual ground rent of €500,000, that the Government was to pay for the service at a sum equal to that which it was spending to provide services from the Sites at the time, that the number of workers working at the Sites would not be reduced and that their salaries would be paid by the Government and then deducted from the payment due to VGH. It had also been stated that the operator was to generate a profit from the development of medical tourism.

1.1.5 Another section of the letter delved into issues relating to Barts Medical School. It was noted that the Government had signed a separate agreement with the School for it to operate a five-year course. The first two years would be based in Gozo and the final three years at Mater Dei Hospital (MDH). Furthermore, it appeared that the Government had undertook to employ all Barts Medical School graduates for two years, which guarantee did not exist for graduates of the University of Malta Medical School. It also appeared that the Gozo building was to be built by VGH. Following an agreement with MAM, Barts had declared that it would be paying Maltese doctors in line with the present collective agreement between MAM and the University of Malta. It was also specified that Barts Medical School had always declared that it was not associated with VGH, bar for the fact that one of its representatives would be part of the 12-member team of the hospital’s management. Also declared in the letter was that the Barts Medical School’s business model appeared to be possible because the Government was bearing the entire risk.
1.1.6 Issues relating to licensing and permit applications were addressed in another section of the letter. In this respect it was noted that one could not understand how VGH, which only employed a Chief Executive Officer (CEO) and his personal assistant and did not have a Human Resources Department and a Procurement Department, could operate three hospitals. The letter also outlined that pursuant to a judicial protest which had been submitted some weeks prior by the UĦM and MAM, it had resulted that VGH had not obtained any licences yet.

1.1.7 Union-related matters were also addressed in another section of the letter submitted to the PAC. In the public healthcare sector, four unions represented the multiple sectors of workers: UĦM, MAM, the General Workers Union (GWU) and the Malta Union for Midwives and Nurses (MUMN). The MUMN and the GWU had signed an agreement. It had been stated that assurance had been provided that their members would remain employed by the Government. However, this did not result from the contract excerpts that had been published. The UĦM and MAM were insisting that before the signing of the collective agreements, all the contracts were to be published and a due diligence exercise and an investigation were to be carried out by the Auditor General (AG) and the PAC, respectively, in order to clarify doubts.

1.1.8 In the correspondence submitted to the PAC, reference was made to the link between the contracts entered into by Government and VGH and the Panama Papers. It was argued that doubts over other events such as the Panama Papers which, not by chance, surrounded the matter, would still remain. Stated in the letter was that the contracts between the Government and VGH had been negotiated by two persons mentioned in the Panama Papers scandal who had opened secret companies and contacted at least nine banks in order to bank yearly commissions of hundreds of thousands of euro while the negotiations were ongoing.

1.1.9 Another section of the letter summarised a number of the most worrisome matters and doubts for the unions and the employees represented by them, requiring clarification prior to the signing of the collective agreement. These comprised:

- a | determining the real ownership of VGH Malta and the reason for the identities of the owners behind the project being concealed;

- b | understanding the location of earnings potentially made from the operation of the Sites as BVI companies were set up to achieve secrecy and/or avoid taxes. Furthermore, secrecy occurred because of potential illegal earnings emanating from organised crime, corruption, or interference by governments or the secret services of certain nations interested in controlling essential services;

- c | identifying the provenance of funds for this investment as operator stability was necessary to assure jobs and working conditions;

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1 The Panama Papers are a leak of 11.5 million files from the database of Mossack Fonseca, which was at the time the world’s fourth largest offshore law firm. The documents illustrate the many ways through which the persons involved exploited secretive offshore tax regimes.
d | ensuring the correctness of the information provided or the assurance that the investment was a serious one, as the prima facie business model indicated a high risk to Government having to spend more funds so that VGH could recover the investment made;

e | clarifying Government’s position on the indemnity clause which MAM members currently benefited from in view of the agreement with VGH Malta;

f | securing assurance that the relevant employees would be working in an environment conducive to providing an adequate medical service for Maltese and Gozitans, that they would have the tools, materials and equipment necessary to work and that such resources would be adequately maintained; and

g | understanding the guarantees in place for Maltese and Gozitan patients to be provided with the best timely medical care, without this care being prejudiced because of medical tourism.

1.1.10 In conclusion, the unions asked the PAC to investigate the relevant contracts in detail, considering the context outlined in their letter. It was further noted that it did not make sense for the Government to grant the management of the Sites to an anonymous company only employing two persons and without experience in the sector, and without an agreement with the unions regarding employee matters. Furthermore, the fact that an application to the Planning Authority had only been submitted to refurbish the façade of SLH and for the building of offices and lecture rooms in Gozo showed that there was no serious intention to develop and refurbish the hospitals. The UHM and MAM deemed that this concession was not in the best interest of the Maltese population and medical service provision. Instead, it served the interests of an unknown company that did not possess assets, whereby it was able to use the buildings granted to it for 30 years. Furthermore, the Unions had doubts over whether public assets and funds had been appropriately used, and whether public procurement laws had been adhered to. In addition, the Unions questioned whether the valuations of the Sites were carried out using correct procedure and by independent architects, and whether the quoted prices reflected market realities. The Unions also drew attention to whether there were state aid issues, particularly if the properties were granted at a low price to be used as a necessary banking guarantee. Moreover, in the case of Gozo, the Unions argued that the operator had been granted a monopoly that could be used to the detriment of Gozitan patients, and questioned whether this was permissible under competition laws, and whether a lawful exemption had been granted. Lastly, the Unions reiterated that before the PAC’s and the AG’s investigations were concluded, they would not be signing the collective agreement.

1.1.11 On 5 December 2016, the then Government members of the PAC, namely the Hon. Ian Borg, then Parliamentary Secretary for the EU Presidency 2017 and EU Funds, the Hon. Chris Agius, then Parliamentary Secretary for Research, Innovation, Youth and Sport, the Hon. Charles Mangion and the Hon. Joseph Farrugia, submitted correspondence to the Chair PAC (Appendix B refers). In their letter, these Members of Parliament requested that the contracts between
the Government and VGH for the redevelopment, maintenance and management of the Sites are provided to the AG to investigate whether:

a | the concession represented good value in terms of the expenditure being incurred by the Government for public healthcare;

b | the capital expenditure for the building of new facilities, new equipment, training and the level of service that VGH committed to giving and maintaining during the concession constituted improvements over the existing services, and if yes, what level of improvement;

c | the contracts, including the investment in medical tourism and the Barts Medical School development, represented economic benefit for the country and improved the sustainability of the health service;

d | the rights of the public sector workers who delivered services at GGH, KGRH and SLH were safeguarded; and

e | the contracts included sufficient procedures so that the Government controlled progress over the development of the project as well as the service level obtained.

In conclusion, the AG was asked to treat commercially sensitive matters with due confidentiality in the public interest.

1.1.12 During a PAC meeting also held on 5 December 2016, the issue of the prioritisation of this investigation in the context of a number of others that, at the time, remained pending at the National Audit Office (NAO) was discussed. It was determined by the NAO that, within the autonomy granted by virtue of the Constitution, the Office was to continue to follow its long-established policy that audits were to invariably be undertaken chronologically, depending on when mandated by the PAC. This approach ensured that the prioritisation of audits was based on principles of transparency and objectivity.

1.1.13 On 8 January 2018, the Opposition members of the PAC, that is, the Hon. Beppe Fenech Adami, the Chair PAC and Shadow Minister for Home Affairs and Security, the Hon. Kristy Debono, the then spokesperson for the services sector and the Hon. Claudio Grech, then Shadow Minister for the Economy and Competitiveness, submitted a letter to the AG regarding the irregular transfer of the management of the public hospitals (Appendix C refers). They noted that it was evident that the governance of the Maltese public health sector was undermined, with the company chosen by the Government to manage the three public hospitals for 30 years transferring the concession to third parties in less than 30 months. This required a thorough audit by the NAO, not least because of the non-transparent way this process had been managed. The Opposition was concerned that the public health care services were subject to secret negotiations and changed hands very easily. Aside from serious procedural concerns, the Opposition deemed this behaviour as undermining governance, as the public health care service was negotiated
between third parties as if it were a market commodity. No dignified state would accept such a situation. Furthermore, this situation occurred in the context of Parliament approving, in December 2017 and through the numerical strength of the Government members in Parliament, an increase in the allocation of payments to VGH under this concession of €17,840,000, that is, an increase of 108 per cent of the original allocation approved by the Government Budget for 2017. This was even more concerning when one considered that the contractual terms of the original agreement were still obscured as only redacted versions had been published. The terms of the prospective transfer were also not published, which seriously impinged on transparency and good governance. Emphasised in this correspondence was that the Maltese population was to continue paying exorbitant amounts year after year, with the amount estimated to be paid in 2018 in excess of €41,000,000. The decisions taken were affecting the most sensitive element of public services and the AG was asked to investigate the prospective transfer with urgency so that the future of this sector was not irreversibly compromised.

1.2 The setting of terms

1.2.1 On 16 January 2018, the AG submitted the terms of reference that were to guide the NAO in its audit of the contracts entered into by Government and VGH in correspondence addressed to the Chair PAC. The terms comprised the following:

a | review the method utilised for the award of the concession to VGH;

b | determine whether the business model to be employed by the concessionaire is feasible and whether it represents value for money;

c | analyse the evaluation of submissions leading to the award of the concession;

d | review the contractual framework regulating the concession:
   - verify whether services provided adhered to contract requirements;
   - verify whether contractual targets relating to the redevelopment, maintenance, management and operation of the sites have been realised;
   - review provisions regulating the labour rights of public officials in relation to the concession; and
   - review what safeguards are in place to ensure that Maltese nationals receive treatment in a timely manner;

e | review the basis of valuation of the Sites granted to the concessionaire, the method of disposal and whether this was in breach of state aid regulations; and

f | review the process by which the concession was transferred from VGH Ltd and VGH Management Ltd to Steward Health Care.
1.2.2 Due to the extent of the terms of reference set, the NAO decided to segment its report on the concession in three parts. Part 1 focuses on the procurement process leading up to the award to the VGH, Part 2 addresses the contractual framework that regulated the concession, while Part 3 delves into the transfer of this concession to Steward Health Care. Therefore, of the above-indicated terms of reference, this Office addressed terms (a) to (c) in this Part.

1.2.3 Although preliminary enquiries were made in mid-2018, audit work on the three Parts of the Report commenced in early 2019.

1.3 Methodology

1.3.1 This investigation was conducted in accordance with article 9(a) of the First Schedule of the Auditor General and National Audit Office Act (Act XVI, 1997) and in terms of practices adopted by the NAO. Other legislation reviewed included the Directive 2014/23/EU on the award of concession contracts, Directive 2014/24/EU on public procurement, the Public Procurement Regulations of 2010 applicable at the time, the Concession Contracts Regulations and case law from the European Court of Justice. The NAO also consulted the Procurement (Health Services Concession) Review Board Regulations.

1.3.2 Findings presented in this report are based on the documentation submitted to the NAO. In this regard, the Ministry for Tourism, who had direct responsibility for Projects Malta Ltd, provided this Office with information relating to various aspects of the procurement process. A key stakeholder with respect to the concession awarded to the VGH for the sites at the SLH, the KGRH and the GGH was Projects Malta Ltd, who also provided this Office with information on the RfP and the clarifications processes. Furthermore, this Office also reviewed records submitted by the Cabinet Office that provided insight into the high-level decision-making in relation to the project. In addition, the NAO sourced information from the Courts of Justice relating to submissions made by one of the investors of the VGH in two warrants of prohibitory injunction filed against Bluestone Investments Malta Ltd and VGH to prevent the sale of the VGH to Steward Health Care.

1.3.3 Queries were also directed to the Ministry for Health, which stakeholder was deemed key by the NAO given the concession’s evident impact on public service health delivery. Notwithstanding this, limited information was sourced from the Ministry for Health, with the Office informed that the Ministry was not involved in any significant manner throughout this stage of the concession. An initial meeting was also held with representatives of the Ministry for Health; however, it soon emerged that the Ministry had no involvement at this stage of the process and therefore was not pursued any further in this regard. Subsequent meetings held with the Ministry for Health related to other aspects of the concession that are to be reported in Part 2 and Part 3 of this audit.

2 Following a Cabinet reshuffle in January 2020, the Ministry for Tourism was re-designated as the Ministry for Tourism and Consumer Protection.

3 It must be noted that, at the time of the issuance of the RfP, responsibility for health fell under the portfolio of the Ministry for Energy and Health. Following a Cabinet reshuffle in April 2016, the Ministry for Energy and Health was re-designated as the Ministry for Health.
1.3.4 Multiple queries were raised by the NAO following the review of the documentation made available. Replies to the majority of queries raised were submitted by the relevant stakeholders. A notable query which remained outstanding was that relating to the Agreement entered into by Government with several of the investors of the VGH regarding the GGH well in advance of the issuance of the RfP. Despite numerous attempts by the NAO to obtain information relating to the Agreement and the Agreement itself, no documentation was provided. Queries in this respect were addressed to the then Minister for Energy and Health, the Hon. Konrad Mizzi, the previous Minister for Health, the Hon. Godfrey Farrugia, the Principal Permanent Secretary (PPS), the Permanent Secretary (PS) Ministry for Energy and Health responsible for energy (MEH-Energy), the PS Ministry for the Economy, Investment and Small Business (MEIB), as well as the current and the former Chief Executive Officer (CEO) of Malta Enterprise.

1.3.5 Aside from documentation reviewed, the NAO held interviews with persons who were directly involved in the award of the concession to the VGH. These included the then Minister for Energy and Health, the then PS MEH-Energy, and the members of the RfP Evaluation and Adjudication Committee (Evaluation Committee). All the interviews held were transcribed by the NAO and a copy submitted to the interviewees, who were requested to endorse the transcript and submit clarifications, if required. In addition, the NAO held meetings with the Department of Contracts (DoC) and the National Statistics Office for information gathering purposes regarding the classification of this procurement.

1.3.6 Public officers cited throughout the report, unless otherwise specified, are referred to by their designation at the time reported on.

1.3.7 In line with its guiding principles of independence, fairness and objectivity, the NAO sought to ensure that all information brought to its attention was duly scrutinised and the resulting findings objectively reported on. The relevant documentation and information required were, in most cases and to the best of the NAO’s knowledge, made available to this Office by the various parties. The NAO’s findings and conclusions are based solely and exclusively on the evaluation of such documentation and information supplied, and the evidence at its disposal. The NAO sought to identify any possible shortcoming or irregularity and put forward recommendations essentially meant to ensure that the best use of public resources is made.
Chapter 2

Deciphering Government’s decision to issue a service concession for the three hospitals

2.1 On electoral promises, Government policy and strategy

2.1.1 In March 2015, Government issued a RfP for the granting of a services concession for the redevelopment, maintenance, management, and operation of the SLH, GGH and KGRH. The NAO sought to understand the context and decision-making process that led to this outcome.

2.1.2 The logical starting point of this review is the electoral manifesto of the Partit Laburista for the 2013 general election. In the NAO’s understanding, electoral manifestos tend to present a mix of broad and high-level objectives, as well as specific initiatives. The Partit Laburista 2013 manifesto is no different in this respect, with general reference made to the need to drastically improve rehabilitation services and the specific identification of the GGH as a part of the public health service requiring investment. The possibility of allowing GGH to be used as a base for medical education by third parties was also highlighted. Figure 1 captures the relevant excerpts with corresponding translations presented as footnotes.

Figure 1 | Excerpts from the Partit Laburista electoral manifesto for the 2013 general election

4 Inħarsu lejn titjib drastiku fl-operat tar-rehabilitation services inkluż dawk mogħtija bħala in-patients.


6 Nibdew nimplimentaw pjan biex inwessghu u nżidu s-servizzi ta’ kura li jingħataw f’Għawdex. Konxji li dan jirrikjedi kemm aktar investment u allokażzjoni ta’ riżorsi ġodda, kif ukoll immanġġjar aħjar, ser nindirizzaw l-ewwel dak li jiġi identifikat bħala l-aktar urġenti biex gradwalment inkomplu ntejbu.

7 Nesploraw il-possibilita li l-isptar ġenerali ta’ Ghawdex jiġi wkoll użatt bħala bażi għall-istituzzjoni edukattiva fil-qasam tal-mediċina.

2.1.3 The Budget Speech 2013 was delivered by the Minister for Finance, the Hon. Edward Scicluna, on 8 April 2013, following the change in administration resulting from the 2013 general election.

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4 We will consider drastic improvements in the operation of rehabilitation services, including those provided as in-patient.

5 Aware of the rundown state of the GGH, we will embark on a project of modernisation as befitting the Gozitan population. In this context, we will ensure greater autonomy in the management of the hospital.

6 We will start to implement a plan to expand and increase services provided in Gozo. Aware that this requires more resource allocation, as well as better management, we will first address that which is identified as the most urgent to gradually improve further.

7 We are exploring the possibility of using the GGH as a base for an educational institute in the field of medicine.
No reference was made to this project in the 2013 Budget, although it must be acknowledged that this budget was presented a few weeks after the March 2013 election.

2.1.4 The following Budget, that for 2014, delivered by the Minister for Finance on 4 November 2013, made no reference to developments that could be linked to the project under review. Of interest was that the priorities captured in the Budget Speech 2014 contrasted with action subsequently taken with respect to the Sites. The following is stated in the Budget Speech 2014, “The most pressing issues are the running of Mater Dei Hospital and the stock management of medicines, including the Pharmacy of Your Choice.” With regard to the GGH, “We shall continue with the refurbishment of the Gozo General Hospital with works which include the project on corridors and their ceilings, the upgrade of wards and the outpatients division, the opening of the new kitchen and the overhaul of the electrical system.” The Budget Document 2014 elaborated on these priorities as captured in Figure 2.

Figure 2 | Excerpts from the Budget Document 2014

**Strengthening the Foundations of Healthcare** | The Government is introducing a series of health reforms that ensure better use of community care facilities to release pressure on the national public hospital including the continuation of the health reform of moving patients from social beds to residential homes utilising capacities in both the private and public sectors, reforming the medicine procurement process and centralising the storage of medicines.

**Gozo General Hospital** | Government will proceed with the reform underway at GGH by upgrading the outpatients’ wards, performing the necessary infrastructural works, the opening of a new kitchen and the maintenance of the electrical system. This year, Government will introduce chemotherapy treatment services in Gozo. Government will also be opening a Day Care ward in Gozo and will also be offering new services such as the pain clinic, the rheumatology and the urology. The Government will be reducing the current waiting list with the opening of an eight-bed orthopaedic ward.

2.1.5 In June 2014, the National Health Systems Strategy for Malta 2014-2020 (NHSS) was launched by the Parliamentary Secretariat for Health, within the Ministry for Energy and Health. At the time, the Parliamentary Secretary for Health was the Hon. Chris Fearne, while the Minister for Energy and Health was the Hon. Konrad Mizzi. This document provided a comprehensive and detailed overview of how Government intended to work towards securing safe and sustainable health systems for all. Noted in the document were the reasons that drove the Parliamentary Secretariat to issue this overarching strategy. Acknowledged in this regard was that the national health systems were operating within a continuously changing environment and several challenges persisted in terms of safeguarding and ensuring universal access, high quality of care and sustainable services.

2.1.6 The NHSS targeted these challenges through the development of four overall objectives and seven strategic directions. The objectives comprised the strategic policies identified from a detailed review of the accumulated thematic strategies and policy documents issued over the past twenty years and the work of the task force that was established in 2012 to draft this national strategy. The objectives also considered prevailing international literature, particularly,
An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government
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the World Health Organization’s ‘Health 2020: a European policy framework supporting action across government and society for health and well-being’ and the European Commission’s ‘EU Health Strategy - Together for Health: A Strategic Approach for the EU 2008-2013’. The overall objectives and the corresponding strategic directions are illustrated in Figure 3.

Figure 3 | NHSS overall objectives and strategic directions

**Overall Objective 1** | Respond to increasing demand and challenges posed by the demographic changes and epidemiological trends focusing on the whole course of life, children, the elderly and vulnerable groups.

<table>
<thead>
<tr>
<th>Strategic Direction 1A</th>
<th>Prolonging stay in the community and responding to increasing demands for higher dependency care.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Direction 1B</td>
<td>Strengthening the prevention and promotion of health focusing on behavioural changes and lifestyle choices including protection, screening and early diagnosis and control of disease progression.</td>
</tr>
</tbody>
</table>

**Overall Objective 2** | Increase equitable access, availability and timeliness of health and social services, medicines and health technologies.

| Strategic Direction 2A | Improving management and efficiency of services through research and innovation, prioritisation, monitoring, public-private partnership, and other service provision models. |

**Overall Objective 3** | Improve quality of care by ensuring consistency of care delivered by competent health workers supported by robust information systems.

<table>
<thead>
<tr>
<th>Strategic Direction 3A</th>
<th>Setting and enforcing quality standards including licensing and accreditation and development and systematic application of case management protocols.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Direction 3B</td>
<td>Facilitating continuity of care through co-ordination and integration within and between service provider teams and by improving communication and sharing of information.</td>
</tr>
</tbody>
</table>

**Overall Objective 4** | Ensure the sustainability of the Maltese Health Systems.

<table>
<thead>
<tr>
<th>Strategic Direction 4A</th>
<th>Designing, developing and evaluating sustainable policies for human resources, financing mechanisms, entitlement criteria for care and organization of care delivery.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Direction 4B</td>
<td>Improving governance and empowering future leadership for health and wellbeing to influence national decisions through whole-of-government and whole-of-society approaches.</td>
</tr>
</tbody>
</table>

2.1.7 Although the scope of the NHSS was extensive and all-encompassing, an element of convergence with Government’s eventual concession of the Sites was noted under Strategic Direction 4A. The following is stated under the sub-theme of ‘Health Authorities’, “Seeking and embarking on public-private and public-social partnership schemes and initiatives that can be demonstrated to be value-adding, and to ensure a sustainable service. These agreements necessitate an intense level of constant monitoring and evaluation of outcomes in order to continuously ascertain that services provided are efficient and that value-for-money is guaranteed.” This last sentence struck a chord, for much of the criticism later levelled at Government with respect to the concession entered into arose from shortcomings in this sense. Also of interest to the NAO were observations in the NHSS relating to governance and accountability. Noted in this regard was that governance and accountability relates to the management of relationships between various stakeholders, including governments, private firms and other entities that bear the responsibility to finance, monitor, deliver and use health services. The dimensions of accountability highlighted in this report are illustrated in Figure 4.
Figure 4 | NHSS accountability considerations

Specifically, accountability is involved with:

- an understanding (either implicit or explicit) of how services will be supplied;
- an assurance that adequate financing and resources are available to deliver services;
- an assurance of the level of quality and performance of the services actually delivered;
- the receipt of relevant information to evaluate or monitor performance; and
- the enforcement of actions such as the imposition of sanctions or the provision of rewards for performance.

2.1.8 It is in the 2015 Budget that three key components of the concession that Government was soon to set off converge. During the Budget Speech 2015, delivered by the Minister for Finance on 17 November 2014, reference was made to the setting up of Projects Malta Ltd, the first component. This government-owned company, which would go on to play a central role in the award of the concession to the VGH, was tasked with identifying potential public-private initiatives and coordinating the required work between ministries and public entities. Stated in the Budget was that over the coming months, Projects Malta Ltd was to launch various projects relating to health, general commerce, tourism and sports.

2.1.9 Government’s priorities in terms of health were also outlined in the 2015 Budget. In sum, these comprised the reduction of waiting times for operations and at the emergency department, as well as the address of the lack of bed spaces and out-of-stock medicines. Also cited were several strategies launched in the health sector, chief among which was the NHSS. However, of primary relevance to this audit was reference to the public-private partnership (PPP) for work at the SLH, which introduces the second component of interest. Noted in this regard was that Government was in the process of drafting a master plan for the SLH area. When this process was completed, Government was to issue a call for expressions of interest so that the site could be developed in a way that would benefit the general public, particularly in relation to health. Noted was that the major part of the site was in an abandoned state.

2.1.10 Also cited in the 2015 Budget was that Government was working to develop Gozo into an international centre for medical services and education of the highest quality in the Mediterranean and Southern Europe. This represents the third component of interest. According to that stated in the Budget, the Gozo Medical and Healthcare Hub would result in benefits arising from medical tourism and related spending from students, professors and foreign clients and their relatives. Gozitans would also benefit as this project would lead to the upgrading of the GGH. Noted in this respect was that negotiations with Barts School of Medicine and Dentistry, which formed part of Queen Mary University of London (QMUL), were at a very advanced state. The Hub was envisaged as a cluster that would attract foreign investment in the sectors of rehabilitation and specialised medical treatment. These points, albeit in less detail, were reflected in the Budget Document 2015.

2.1.11 An additional element of context was provided by the Minister for Energy and Health in submissions made to this Office. The Minister indicated that Malta Enterprise was working to attract Barts Medical School to Malta. According to the Minister for Energy and Health, at
the time, the Office of the Prime Minister and Barts Medical School were presented with a proposal to redevelop the GGH by an interested third party. The Minister for Energy and Health did not disclose the identity of the third party; however, based on documentation reviewed in relation to the Memorandum of Understanding (MoU) (more details relating to which are presented in Chapter 5), the NAO understood reference to this third party as reference to the investors of the VGH, or a subset thereof. The Minister for Energy and Health maintained that he was not involved at this stage; yet, he recalled a presentation of this proposal being held at the Office of the Prime Minister and indicated that the Parliamentary Secretary for Health and representatives of Malta Enterprise were also present. The Minister indicated that his reaction to that proposed was negative, commenting that the proposal to develop a very large hospital in Gozo was not in line with Government’s priorities. Notwithstanding this, the Minister for Energy and Health noted that he understood that Barts Medical School was an important consideration at the time, and the then Prime Minister had provided him with direction to explore other options to improve the health systems in Malta and Gozo.

2.2 **On project ownership and stakeholder involvement**

2.2.1 The 2015 Budget Speech, delivered in November 2014, represented what could be considered as the first public announcement of the service concession. It must be acknowledged that the conceptual boundaries of the concession at this stage were still fluid, with the SLH and the GGH components not integrated into one project and no reference to the KGRH element. With the RfP published in March 2015, the NAO sought to understand how the measure proposed in November 2014 took more concrete form, who was involved in its design and development, the roles of key stakeholders, as well as how project viability and feasibility were ascertained.

2.2.2 One of the key stakeholders identified by the NAO was the Ministry for Energy and Health (MEH). The structure of this Ministry warrants an element of explanation, for its dichotomous nature, with ‘Energy’ on one side and ‘Health’ on the other, assumed pivotal importance in the way this project developed. Although the functions of energy and health were assimilated into one ministry, this Office is of the understanding that for all intents and purposes, two ministries operated in parallel. In fact, in the list of annual reports of Government departments for 2014, alongside all the ministries of Government are the MEH (Health) and the MEH (Energy), with each submitting a report on the work of the ‘Ministry’. This situation persisted in 2015, with the annual report of Government departments including an entry for the Ministry for Energy [sic] (Energy) and one for the Ministry for Energy [sic] (Health).

2.2.3 An element of context is provided in the Annual Report of the MEH (Energy) for 2014, wherein the ensuing is stated, “Following a Cabinet reshuffle in April 2014, the Ministry formerly known as the Ministry for Energy and the Conservation of Water was given the additional responsibility for Health and Public/Private Initiatives, and renamed Ministry for Energy and Health. The administrative structure remained unchanged, though a new Permanent Secretary responsible for Energy and Water matters, and Public/Private Initiatives was appointed.” Listed as one of the key initiatives under the Office of the Permanent Secretary (PS) MEH-Energy
was the setting up of Projects Malta Ltd and that various meetings were held between these two parties throughout the second part of 2014 to discuss and agree on the public-private initiatives that were to be undertaken. The NAO understood the health concession announced later that year as one such initiative.

2.2.4 No reference to the involvement of the MEH-Health in relation to this concession was traced by the NAO in its Annual Report for 2014. Of interest to this Office were the various references to other departments and units of Government being relocated to the SLH premises. The Occupational Health Unit and the Entitlement Unit were cited in this respect, with refurbishment of parts of the SLH site undertaken to accommodate the relocated Units. The NAO understood these decisions as contrary to the direction being pursued through the concession and constituted the initial trace of evidence of the significant gaps in coordination between the MEH-Energy and the MEH-Health.

2.2.5 Reference to the 2015 Annual Reports of the MEH-Energy and MEH-Health consolidate this understanding, with the former actively leading the concession and the latter providing administrative and logistical support. Noted in the MEH-Energy Annual Report for 2015 was that, through the assistance provided by the Office of the PS MEH-Energy, Projects Malta Ltd published an RfP and finalised negotiations relating to the concession of the SLH, the KGRH and the GGH. On the other hand, the MEH-Health Annual Report for 2015 referred to the introduction of the concept of medical tourism, the agreement that had been entered into with Barts Medical School, as well as the involvement of the private sector in public hospitals. In terms of the specific involvement of the MEH-Health, this is captured in the Ministry’s efforts at relocating departments, laboratories, stores and archives away from the SLH site. The NAO understood this as indicative of the fact that the involvement of the MEH-Health was post award of the concession, after all critical decisions regarding the nature and form of the health concession had already been taken.

2.2.6 The NAO sought to verify this understanding through queries addressed to the PS MEH-Energy. In correspondence submitted to this Office, the PS MEH-Energy indicated that the MEH-Energy had direct responsibility for PPPs and its role in this project was limited to the process commencing from the issue of the competitive process until award, as well as initial oversight of construction. This role was shifted from one ministry to the next, effectively mirroring the re-assignment of portfolios to the Hon. Konrad Mizzi, who retained responsibility over public-private initiatives through Projects Malta Ltd when designated as Minister within the Office of the Prime Minister in April 2016 and later as Minister for Tourism in June 2017. The PS MEH-Energy affirmed that MEH-Health, and later the Ministry for Health under the stewardship of the Hon. Chris Fearne, had direct operational oversight of the concession, including responsibility for payments issued to the concessionaire and for the monitoring of services.

2.2.7 This Office also enquired as to whether Government established the feasibility, long-term benefits and envisaged impact resulting from the project. In response to queries addressed, the PS MEH-Energy informed the NAO that the Ministry engaged experts to outline the optimal
use of the identified Sites, which aspect is further elaborated on in the ensuing section. The PS MEH-Energy maintained that the benefits of the project were outlined in the business case drawn up by the engaged experts and briefly indicated that this was an opportunity for the Government to have at its disposal the facilities of a state of the art second general hospital, upgrade geriatric services at the KGRH, and profit from the development of a rehabilitation centre.

2.2.8 Of interest to the NAO was feedback received from the PS MEH-Health regarding the involvement of the MEH-Health, or rather, the lack thereof. All requests for information relating to whether the MEH-Health was involved in the identification of needs that subsequently led to the issuance of the concession and in the determination of feasibility, or whether the Ministry was aware of the assessments commissioned by the MEH-Energy, were redirected to Projects Malta Ltd by the MEH-Health. In this context, the PS MEH-Health confirmed that the MEH-Health was not involved in any significant capacity in the identification of needs and the determination of feasibility.

2.2.9 As part of the analysis of developments leading to Government’s decision to issue a concession for the operation of the sites at the SLH, the KGRH and the GGH, the NAO reviewed the minutes of meetings of the Board of Directors of Projects Malta Ltd, seeking to better understand the precise role played by this Company. The first reference to this project was noted in the meeting held on 27 August 2014. According to the minutes, through this project the premises would be transferred by means of a concession, with Government guaranteeing a commitment to purchase beds for rehabilitation and long-term care, among other purposes. This was intended to support the development of medical tourism. No other significant reference was made to the project in the meetings held by the Board of Directors of Projects Malta Ltd until that held on 16 April 2015, wherein it was stated that the RfP for the redevelopment of the Sites had been issued a few weeks earlier.

2.2.10 Aside from its involvement at the Board of Directors level, the NAO sought to understand the precise nature and extent of involvement of Projects Malta Ltd at the executive level. According to Projects Malta Ltd, it was not involved in the commissioning of the feasibility analysis; however, the Company confirmed that it was aware of the report commissioned by the MEH-Energy and had in fact reviewed it. Projects Malta Ltd indicated that it was not aware of any other document or analysis undertaken by Government in the determination of feasibility or identification of risk. Queried by the NAO on whether Projects Malta Ltd consulted with relevant stakeholders to ensure that the appropriate specifications for the concession were set out, Projects Malta Ltd indicated that its representatives formed part of the Steering Committee. Projects Malta Ltd elaborated in this regard by stating that the Steering Committee involved all major stakeholders. However, examination of the minutes of meetings of the Steering Committee allowed the NAO to ascertain that this Committee was constituted in April 2015, a month after the issuance of the RfP. This rendered the Steering Committee irrelevant to this part of this Office’s analysis.
2.2.11 Given the significant nature of the project and its anticipated substantial effect on public funds, the NAO enquired with the Ministry for Finance (MFIN) whether any form of feasibility analysis or business case relating to the proposed concession was brought to its attention. The PS MFIN informed this Office that no such analysis was ever presented to the Ministry and affirmed that MFIN was not consulted at any stage of the process up to the contract stage. The only information provided to MFIN was a general descriptive presentation on the broad outlines of the concession; however, the NAO established that this occurred much later in the process, well after the determination of feasibility should have happened. In this Office’s understanding, based on the information made available to the NAO by the PS MFIN, it was evident that MFIN were not aware of or provided with sufficient information in the initial stages of the process, which would have allowed the Ministry to provide essential input in terms of how the project was to impact public finances. According to the PS MFIN, the Minister for Finance was only aware of the material that was presented to Cabinet.

2.2.12 Queried by the NAO with regard to the failure to consult with MFIN, the Minister for Energy and Health maintained that this was a matter of political imperative. The Minister argued that this project had been assigned to him by the Prime Minister and that he had kept Cabinet abreast of developments.

2.2.13 The NAO sought to determine whether Cabinet was informed and involved in decisions leading to Government’s granting of the concession to develop and operate SLH, GGH and KGRH. Based on records made available by the Cabinet Office, the NAO established that Cabinet was first informed of Government’s intentions in this respect, albeit indirectly, through a memorandum submitted by the then Minister for Energy and Health, the Hon. Konrad Mizzi, on 12 March 2015. The memorandum was titled ‘Procurement (Health Service Concession) Appeals Board Regulations, 2015’. Noted in this memorandum was that Government intended to issue an RfP – in fact issued two weeks later – in connection with the granting of a health-related concession, which was to include the development and operation of healthcare facilities in Malta and Gozo.

2.2.14 According to the memorandum to Cabinet, one requirement of the concession was to be the construction and outfitting of the Barts School of Medicine and Dentistry, a facility that was to be run by the QMUL and that was to be operated from Gozo. Stated was that Government was contractually bound to provide the school facility to the QMUL by June 2016 and to provide training placements in connected facilities that were to be developed as part of the concession. Noted in the memorandum was that, in view of the tight deadlines, Government was seeking to streamline the procurement process for the award of the concession and to ensure that any challenge to the recommended award was processed expeditiously. To this end, the MEH drafted a legal notice that provided for an ad hoc procedure that respected the right of aggrieved bidders to a rapid and effective means of redress in cases where they might consider that a contract was about to be awarded unfairly. Also acknowledged in the memorandum was that this procedure also reflected the general public’s interest in reaching an early conclusion of the procurement process for health concessions.
2.2.15 The Procurement (Health Service Concession) Review Board was to be established through the proposed legal notice. The Board was empowered to hear and determine complaints by aggrieved participants in the health concessions procurement procedure. Of critical importance was that the Board was to hear cases with urgency and was to deliver its decision within three working days from the final public hearing session. The legal notice provided that aggrieved parties could appeal from a decision of the Board within ten days of the decision; however, recourse to the Court of Appeal was not to have the effect of precluding or delaying the procuring entity from implementing the Board’s final decision, as the appellant could claim damages but not a specific performance.

2.2.16 According to the minutes of the Cabinet meeting held on 17 March 2015, the memorandum proposed with urgency by the Minister for Energy and Health, titled ‘Procurement (Health Service Concession) Appeals Board Regulations, 2015, was approved.

2.2.17 The NAO established that this memorandum represented the only information, albeit tangential in relation to the actual healthcare concession, recorded by Cabinet prior to the issue of the RfP. No other details relating to this concession were brought to the attention of Cabinet until June 2015, at which point the RfP had been issued, the evaluation thereof concluded, and the VGH identified as the preferred bidder.

2.2.18 When confronted with this omission by the NAO, the Minister for Energy and Health argued that a slot for the discussion of major projects was retained as a matter of course at the beginning of all Cabinet sessions. Notwithstanding that stated, the NAO found no record of that stated by the Minister in its review of documents deemed relevant to this concession made available by the Cabinet Office, and therefore could not verify that stated.

2.3 The determination of feasibility

2.3.1 Having considered the origin of the decision to issue the concession for the development and operation of healthcare facilities, and how Projects Malta Ltd set about actioning this, the NAO’s attention was then directed at how Government determined feasibility. Particularly, this Office analysed the inputs informing and motivating the choice of the project to be carried out, the scoping of the concession deal and the adoption of the PPP business model. This included determining whether:

a | the project’s objectives were clearly stated from its inception, and project requirements articulated in terms of deliverables, rather than inputs and mechanics of delivery;

b | an introductory assessment of the project benefits, to be used as a basis for setting procurement evaluation criteria, was carried out;

c | the potential project costs and constraints were identified;
d | the effect of wider policy objectives or regulations on the project was considered;

e | alternative procurement routes and/or suitable forms of partnership were assessed;

f | an assessment of the optimal distribution of project risks was undertaken;

g | an examination, before the undertaking of the procurement process, of whether the project was affordable for Government and would offer value for money was carried out; and

h | a proper business case for the project was developed.

Feasibility report - Commissioning and background

2.3.2 Queries in this respect were raised by the NAO with the PS MEH-Energy, who was requested to submit documentation of the analysis undertaken by Government leading to the decision to issue this service concession. In reply, the PS MEH-Energy specified that Government engaged financial, commercial and medical experts to compile a strategy document outlining the options available for the ideal use of the hospitals concerned. A partner at RSM Malta, the CEO of BEAT Ltd and a consultant orthopaedic surgeon at MDH were tasked with assessing how Government could further develop, improve, maximise, integrate and finance health care services and medical educational facilities in Malta and Gozo. Queried as to the basis of their appointment, the PS MEH-Energy informed the NAO that while the consultant orthopaedic surgeon was appointed as a medical expert, the other members were appointed on the basis of their commercial expertise. The Minister for Energy and Health indicated that the medical expert had been engaged by the Minister that preceded him and that this expert was leading the health change programme across the MEH.

2.3.3 Concerns immediately emerge with respect to the setting within which this report was drawn up by this team of experts. This crucial report, which would serve as the basis justifying Government’s decision to proceed with the issuance of the concession, was undated. According to the PS MEH-Energy, this analysis was carried out early in 2015. The NAO sought to verify this through the review of correspondence exchanged between the team of experts and the MEH (Energy); however, this was not possible as the requested correspondence was not made available. The PS MEH-Energy maintained that all exchanges with the team of experts were verbal – a dubious assertion in this Office’s opinion. In response to requests for documentation indicating the commissioning of this feasibility assignment and the reporting thereof, the PS MEH-Energy ambiguously stated that this assignment emerged as a result of regular, wider health-related discussions organised by the Minister for Energy and Health on his appointment. The PS MEH-Energy maintained that it was for this reason that there was no formal commissioning.
This point leads us to another concern that precludes the Office from establishing when this analysis was undertaken. This Office requested letters of appointment or any form of correspondence submitted to the experts appointed by the MEH-Energy to draw up the feasibility analysis. The PS MEH-Energy informed the NAO that there were no specific letters of appointment issued for this particular brief since the persons in question formed part of the wider consultancy strategic team. In sum, the NAO was not provided with any documentation evidencing when the team of experts were convened or when they reported to the MEH-Energy, casting doubt on the integrity of information provided to this Office.

Irrespective of the concerns expounded on by the NAO regarding the context within which the MEH-Energy-appointed experts were operating, the report that they drew up remains the only document submitted to this Office. The PS MEH-Energy confirmed that he was not aware of any other attempt at determining the feasibility of the concession aside from this report. The report, titled ‘Strategic Assessment for Developing Best in Class Health Care Services and Medical Educational Facilities in Malta and Gozo’ identified the following key objectives:

a | gaining insight into the then existing operations within GGH, SLH and KGRH;

b | gaining an understanding of the high-level health care delivery concept to be applied to each of the Sites, accounting for the requirements of Barts Medical School to work in close proximity to GGH;

c | gain insight into how this opportunity could be leveraged to advance the health care industry in Malta and Gozo into becoming a centre of excellence; and

d | attaining an understanding on alternative funding models which could be used for the funding of such endeavours.

The terms of reference of the report comprised:

a | carrying out a high-level conceptual review of the three hospitals, including evaluating the suitability of GGH vis-à-vis the requirements of Barts Medical School;

b | holding meetings and discussions with MEH staff to define the high-level future requirements and capacities of the Sites;

c | proposing a variety of alternative financing options that could be considered to realise such business models; and

d | developing and recommending a way forward for the project.

The report provided background information and context to the project. Government had been approached by the QMUL with a proposal for the setting up, development, management and
operation of a medical school in Malta. The intention of the project was to attract international students, thereby adding value to the economy, rather than compete with the University of Malta Medical School. Following discussions, it was proposed that the Barts Medical School, QMUL, was to be situated in Gozo. This decision was taken as part of a national long-term programme to regenerate the economy and upgrade the ailing healthcare system in Gozo. In this respect, reference was made to an agreement to be signed by QMUL and Malta Enterprise for the provision of medical training to an annual intake of around 60 students in Gozo. Furthermore, Government had entered into an obligation to provide teaching and clinical facilities of high international standards within which students could obtain adequate instruction while undertaking their medical practice.

2.3.8 The GGH was identified as the only public medical facility in Gozo that could potentially and to some extent meet a number of Barts Medical School’s requirements. However, it was acknowledged that the facility fell considerably short of the requirements and standards expected to complement and support the operations of such a reputable academic institution. Consequently, significant investment in the infrastructure was essential to ensure the required standards were met.

2.3.9 Stated in the feasibility report was that the upgrade and redevelopment of the GGH formed part of the Government’s vision to upscale the national health service to become among the best in Europe and was to be seen together with other initiatives being carried out. Also noted in the report was that feedback from Health Ministry senior management revealed that despite the large-scale investment at MDH, in relation to the Sir Anthony Mamo Oncology Centre (SAMOC), there was a persistent hospital bed shortage. It was understood that the complete overhaul and restructuring of KGRH into a fully-fledged national rehabilitation centre would alleviate the problem considerably. This development aimed to appreciably reduce the average length of stay of patients residing at the MDH and other hospitals in Malta and Gozo. Another measure being considered was the reinvigoration of SLH, which was in a run-down state, to augment bed capacity in accordance with the requirements of the health sector in Malta.

2.3.10 Within this context, the Government was exploring the option of developing an integrated project, which was to include the redevelopment of GGH alongside educational facilities to be used by Barts Medical School, the redevelopment of KGRH into a national rehabilitation centre and the reinstatement of SLH. While the purpose of the project was to upgrade the country’s health infrastructure, this was to be attained without a significant impact on the country’s finances.

2.3.11 Within these parameters, the feasibility report sought to explore possible options for the creation of alternative business and financial models that would meet Government’s requirements through the application of a sustainable solution.

2.3.12 The report provided background information regarding the health sector in Malta, mainly by citing salient details from a study conducted by a private audit firm in 2012. According to
this study, the health care sector was described as predominantly hospital-based and chiefly
funded through taxation, with 65 per cent of health expenditure financed through general
taxation. The total number of beds was quoted as being 1,833, with most beds, approximately
1,748, publicly owned and managed. As at 2015, the number of government-owned beds had
increased to 2,152, of which 890 were located at the MDH, 291 at the GGH, 512 at Mount
Carmel Hospital, 78 at Sir Paul Boffa Hospital, 268 at the KGRH and 113 at SAMOC (Figure 5
refers).

<table>
<thead>
<tr>
<th>Institution</th>
<th>Number of beds</th>
</tr>
</thead>
<tbody>
<tr>
<td>MDH</td>
<td>825 (+65)</td>
</tr>
<tr>
<td>GGH</td>
<td>291</td>
</tr>
<tr>
<td>Mount Carmel Hospital</td>
<td>512</td>
</tr>
<tr>
<td>Sir Paul Boffa Hospital</td>
<td>78</td>
</tr>
<tr>
<td>KGRH</td>
<td>268</td>
</tr>
<tr>
<td>SLH</td>
<td>-</td>
</tr>
<tr>
<td>SAMOC</td>
<td>113</td>
</tr>
<tr>
<td>Total</td>
<td>2,152</td>
</tr>
</tbody>
</table>

Source: MEH commissioned feasibility report

Note 1: According to the PS MEH-Energy, the additional 65 beds corresponded to a possible extension of MDH that was being considered by health officials.

2.3.13 Also cited was that primary health care was being provided by around 8 health centres and 42
clinics. The health sector in Malta employs over 11,000 people across the private and public
sectors. While the average length of stay in hospital had declined considerably, and stood at
6.9 days as at end 2010, the number of operations undertaken increased considerably, almost
doubling between 1996 and 2011. This had put significant strain on public infrastructure. In
2010, the national health expenditure in Malta was in line with the EU average and stood at
around 8.6 per cent of the gross domestic product (GDP). In absolute terms, this exceeded €530,000,000.

Feasibility report - GGH

2.3.14 Noted in the feasibility report was that the GGH was expected to play a central part in the
overall education strategy of Barts Medical School and was to function as a teaching hospital
for the institution. It was planned that the GGH would operate with a budget of approximately
€30,000,000 as at 2015. The hospital was described as having a footprint of approximately
70,000 square metres and a capacity of 294 beds, 119 of which were acute and 175 non-acute.
While the GGH's main activity was that of a general hospital, it also offered geriatric and long-
term psychiatric care through dedicated wards. While diagnostic treatment was provided to
inpatients and outpatients, its medical care facilities also included a hyperbaric unit largely
used for the treatment of diving-related conditions.

2.3.15 Further acknowledged was that the GGH had been increasing its services over recent years,
responding to increasing demands from the local population and to unmet needs on the
mainland. Admissions had increased by over 20 per cent from 2012 to 2013, from 6,634 to 8,091 patients. The average bed occupancy rates in 2012 were 77.4 per cent and 81.8 per cent in the male and female acute wards, respectively. Occupancy frequently surpassed 100 per cent, which resulted in patients being accommodated through ad-hoc corridor beds to the detriment of system users. The six bed cardiac care unit (CCU) was also occasionally used as an intensive treatment unit (ITU), resulting in an average bed occupancy rate of 85 per cent and up to eight transfers a day of very ill patients to and from the general wards based on bed space and clinical priority, as opposed to intrinsic case requirements. In the absence of specifically dedicated rehabilitation services, GGH’s capacity to meet the demand of the national health service was further stretched as the rehabilitation of patients resulted in prolonged acute bed occupancy. The only community nursing or outreach health care services was provided by the Malta Memorial District Nursing Association, limited to three full-time and one part-time carers and one part-time midwife. The Association handled 40,500 visits per year in Malta, while there was no community care in Gozo.

2.3.16 The report further noted that feedback from senior management, understood by the NAO as reference to GGH senior officials, revealed that the GGH was in a dilapidated state and fell considerably short of the requirements of the Gozitan population, as well as the standards and requirements of QMUL, as per the agreement signed. Significant investment in terms of the upgrade, development and regeneration of the GGH was required to ensure that the facilities met the expectations of QMUL and the health requirements of the local population. With regard to the latter, stated in the feasibility report was that the standard of service at the GGH was to be at least on a par with that being provided at the MDH. The report also referred to the electoral manifesto of the Partit Laburista for the 2013 general election, which indicated the Party’s commitment to modernise the GGH and to evaluate the prospect of developing a medical educational institution in Gozo.

2.3.17 In terms of planned development, noted in the report was that the determination of the capacity and types of services that would be provided by the GGH were considered outside the scope of this analysis but were defined based on inputs and feedback received from GGH’s senior management. Feedback provided revealed the need for 125 acute beds, with considerably improved service delivery comparable to standards of care as those offered at MDH, and 175 long-term and rehabilitation care beds, intended to complement and support the acute services offered by the GGH. However, noted in the feasibility report was that further work was required to delineate the specific services that were to be ultimately provided from the facility.

2.3.18 Towards this end, the experts tasked with determining feasibility recommended that a multidisciplinary taskforce, led by the MEH, be set up to more clearly outline the specific services and activities to be carried out within the GGH. Emphasised in the report was that the service quality at the GGH needed to improve considerably to meet the requirements of Barts Medical School and more importantly to provide the Gozitan population with appropriate access to a best-in-class health service. In this respect, the task force was to define and develop the
services and service level standards to be at a minimum on a par with those at the MDH. Services were to be comprehensive to minimise the inconvenience experienced by Gozitans when transferred to the MDH due to the absence of proper services at the GGH. However, noted in the feasibility report was that the taskforce was also to consider the overall feasibility and cost effectiveness of providing specific services from the GGH given the limited population base in Gozo. Moreover, the long-term and rehabilitation care beds were expected to act as a general-purpose repository for patients needing longer treatment without the intervention of any acute services. The strategy for the transfer of patients with such requirements to beds needing a lower level of support was deemed to be more cost effective than transfers to acute settings. However, patients requiring more specialised rehabilitation interventions were still to be transferred to other facilities in Malta depending on the nature of specialised care required.

2.3.19 Queries regarding whether the taskforce intended to more clearly define the specific services and activities that were to be carried out at the GGH, as proposed by the experts entrusted with the determination of feasibility, were addressed to the PS MEH-Energy. The NAO specifically sought to establish whether any action was taken in this respect, whether the taskforce was convened, and review records of progress registered and recommendations made. The PS MEH-Energy informed the NAO that the Steering Committee, set up after the issuance of the RfP and tasked with the overall strategic management of the project, was the taskforce referred to in this regard.

Feasibility report - KGRH

2.3.20 Noted in the feasibility report was that the KGRH provided person-focused specialised care and rehabilitation. An interdisciplinary team was responsible for each patient’s medical condition, rehabilitation requirements and treatment. The day hospital within KGRH strived to offer holistic care to persons aged 60 and over on an outpatient basis, following referral by their family doctor or a health centre physician. Other patients making use of the hospital could be persons needing further rehabilitation following inpatient care at the KGRH. In addition to the outpatient service, the KGRH included nine inpatient wards offering rehabilitation care to individuals with physical or cognitive impairment following disease or injury, and rehabilitation care to elderly persons with various conditions or convalescing from post-operative procedures and medical geriatric care. The KGRH was operating with an estimated budget of €15,000,000.

2.3.21 Feedback from MEH senior management cited in the feasibility report revealed an urgent need for a purpose-built physical rehabilitation facility. The KGRH was not serving its purpose and a more comprehensive national inpatient rehabilitation service was required within the hospital, particularly in the post-acute phase. It was noted that emphasis was to be directed on having an appropriate centre where the maximum physical improvement possible could be achieved within an environment and with working practices that differed from the usual hospital models. MEH senior management were of the opinion that the lack of an appropriate rehabilitation facility was causing delayed rehabilitation outcomes and creating more pressure on bed occupancy for rehabilitation and acute beds.
2.3.22 With regard to the planned development at the KGRH, the feasibility report noted that an appropriate rehabilitation facility was to:

a | relieve significant pressure from the MDH and other hospitals in Malta, which hospitals were running at full capacity;

b | offer specialisation pathways for staff working in rehabilitation, with attractive opportunities for specialisation and further development in rehabilitation for doctors and allied health care professionals;

c | attract and retain the best staff in the field, and provide further employment opportunities;

d | service Gozo as a regional centre, particularly specialised cases that could not be offered support through the long-term care section at the GGH; and

e | provide the opportunity to become a reference point in the Mediterranean, offering specialised care to nearby countries, thereby generating health tourism for the Maltese Islands.

2.3.23 To achieve the above, the KGRH was to have dedicated rehabilitation beds and access to all necessary facilities for physical rehabilitation, a discharge support function with facilities for social workers and primary care workers to enable effective patient discharge and outpatient, as well as orthotic and prosthetic facilities for continued rehabilitation management. Additionally, the national rehabilitation centre was to have facilities for home care teams to bridge hospital and community domiciliary services, as well as operational policies enabling inter- and multidisciplinary teamwork focusing on comprehensive rehabilitation in terms of service provision and delivery. Noted in the feasibility report was that the MEH necessitated that the development and refurbishment of the KGRH was to include a capacity of 300 beds addressing the above areas. It was also envisaged that the private operator could offer additional beds at the KGRH to cater for private clients’ requirements.

Feasibility report - SLH

2.3.24 The SLH, Malta’s previous main acute hospital, was, at the time of writing of the feasibility report, in a dilapidated state. The Hospital had ceased operations in 2007, once the transfer to the MDH had been effected. Most of the grounds housing the hospital were vacant, apart from a few buildings on the main campus that housed Malta Enterprise and Malta Industrial Parks, the Malta Medical Council, the Drug Control Unit, the Pharmacy of your Choice Department and the Outpatients Rehabilitation Centre.

2.3.25 In terms of the planned development, noted in the feasibility report was that the SLH was considered to have significant potential, particularly with respect to health tourism. Cited in this respect were meetings held with the MEH, wherein it was indicated that as part of the
An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government

Part 1 | A review of the tender process

Development and refurbishment process of the SLH, Government would consider sourcing 80 rehabilitation care beds and 12 dermatology beds from the private operator.

Feasibility report - Financing options

2.3.26 Noted in the feasibility report was that the right procurement and financing method was to be identified to safeguard the sustainability of the project. Acknowledged in this respect was that the investment cost to be incurred was dependent on the services and actual case mix of the facilities, with the estimated capital cost per bed ranging between €500,000 and €1,000,000. The total investment was envisaged to reach hundreds of millions of euro.

2.3.27 The procurement options available to Government were framed in terms of the model drawn up by Bult-Spiering and Dewulf (2006), who present an overview of the various schemes applicable to hospitals. Five procurement routes were presented in this regard, namely, traditional procurement, innovative procurement, a PPP in the form of a concession contract, a PPP in the form of a joint venture contract and privatisation (Figure 6 refers). Stated in the feasibility report was that, in each option, the private and public parties had different roles and levels of contribution. The differences between the various options were explained in terms of the management responsibility, the procurement process, risk allocation and funding mechanisms.

Figure 6 | Procurement options available to Government

<table>
<thead>
<tr>
<th>Procurement system</th>
<th>Management</th>
<th>Procurement process</th>
<th>Risks</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional procurement</td>
<td>Public</td>
<td>Public actor puts one or more works out to tender</td>
<td>Risks and responsibilities to public actor</td>
<td>Costs and revenues for public actor</td>
</tr>
<tr>
<td>Innovative procurement</td>
<td>Public</td>
<td>Public actor puts output-specified question for overall solution out to tender</td>
<td>Design, build and/or maintain risks for private actor</td>
<td>Costs and revenues: lump sum for public actor, variable sum for private actor</td>
</tr>
<tr>
<td>PPP: Concession contract</td>
<td>Public</td>
<td>Public actor puts a service question out to tender, rewarded with a concession</td>
<td>Design, build, finance and maintain/operate risks for private actor</td>
<td>Costs and revenues: lump sum for public actor, variable sum for private actor</td>
</tr>
<tr>
<td>PPP: Joint venture contract</td>
<td>Public-private</td>
<td>Joint procurement and shared responsibility</td>
<td>Public-private shared</td>
<td>Costs and revenue - public and private shared</td>
</tr>
<tr>
<td>Privatisation</td>
<td>Private</td>
<td>Public tasks and competences are transferred to the private sector</td>
<td>Risks and responsibilities for private actor</td>
<td>Costs and revenues for the private actor</td>
</tr>
</tbody>
</table>

Source: Bult-Spiering & Dewulf (2006), as cited in MEH commissioned feasibility report

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2.3.28 Keeping in view these procurement models, options were considered for the particular project being proposed. The privatisation option was not considered. Under traditional procurement, the Government would be entering into an engineering, procurement and construction contract with a third party to design and build the hospitals and the teaching facility for Barts Medical School. The project would be financed by the Government, who would also take on full operational responsibility at the end of the contract. In the case of the innovative procurement route, Government would still fund the project but would tie in part of the payment to a performance or optimisation mechanism. Both these options were considered challenging as they would directly impact the country’s national debt levels.

2.3.29 The feasibility report described concession contracts as popular and extensively used within the National Health Service in the United Kingdom. This option was explained as the development of a PPP with a private actor granted a concession to design, build, finance, maintain and operate the facilities in the interests of the Government. It was noted that this option regularly took the form of a private finance initiative, wherein the Government retained the medical and clinical operational responsibilities while leasing out the facility from the private operator. It was acknowledged that while this alternative could have facilitated the financing required to sustain the investment in the facilities, it would not provide the necessary upgrade in the general service level and standard of care.

2.3.30 A suggested variant to the concession model was noted as being the creation of a special purpose vehicle, with joint ownership and investment by the private and public sector. Under this model, all risks, rewards and control over the operation would be shared between the Government and the private partner in line with their relative shareholding in the special purpose vehicle. However, this model still required Government to share the investment cost, thereby impacting the national debt and the structural deficit.

2.3.31 The final option presented, noted as a popular choice in Europe, was a full-scale PPP, wherein besides financing, managing and operating the facilities, the private operator would also be responsible for the clinical, medical and nursing services offered to patients. Government would pay the private operator a service delivery fee per bed, and in turn the private operator would shoulder all the risk of operations. Furthermore, existing employees would either be transferred to the private operator or retained on Government books and seconded to the operator as necessary to run the operations.

2.3.32 Outlined in the feasibility report was that all the procurement options had advantages and disadvantages, and that the choice of financing ultimately was contingent on the Government’s risk appetite. It was argued that whereas the financing cost of traditional and innovative procurement routes could be cheaper, Government would bear the full risk of the investment and this would impact its debt, possibly amplifying the excessive deficit procedure. Moreover, while a significant investment would still be required by the Government for a joint venture, it was likely that the private operator would require control over critical commercial decisions concerning the facilities. Operational risk would be shared in proportion to the shareholding in...
the joint venture. Meanwhile, under a private finance initiative, there could be accountability and operational issues associated with the separation of responsibility between the management and maintenance of the facilities and the clinical operations of the hospital.

2.3.33 The authors of the feasibility report stated that, from a purely operational and risk perspective, it could be more appropriate for the Government to enter into a full-scale PPP wherein all accountability and responsibility for the facility’s operations were vested in the private sector. The private actor would have to assure the Government of the availability of an agreed number of beds, as well as the provision of a defined number of services at agreed, quantified and measurable service levels. This option was considered the most attractive to the Government for multiple reasons, namely:

a | the Government had limited expertise in this size and type of project;  
b | the Government had conventionally significantly exceeded original budgets in capital projection, such as in the case of MDH and the Oncology Centre;  
c | time was critical considering the agreement contemplated with QMUL;  
d | this option would imply that the private party carried the entire risk of the investment and the operation of the facilities and the medical and clinical service in return for a guaranteed fee per bed paid by the Government, subject to the private operator meeting the service levels established;  
e | this option would open the possibility of allowing the facilities to be run by internationally specialised and accredited hospital management organisations with prior experience in the hospital management field;  
f | existing staff members of the facilities would have the chance to learn from best practices in health care while also possibly creating new career opportunities;  
g | the private sector may be better placed to introduce innovative and best in class health services, including knowledge transfer; and  
h | the Government would have improved clarity as to the health care costs to be incurred since these would be stipulated in an agreement with the private operator.

Feasibility report - Health tourism

2.3.34 Cost implications and related project feasibility considerations for the recommended procurement option of a full-scale PPP were presented in the report. Stated in this regard was that if this procurement option was taken up, the private operator would be taking on a significant degree of risk in the project, which could in turn necessitate a relatively high internal
rate of return. This could either put off certain investors from submitting a proposal or result in exorbitantly expensive submissions being made to Government.

2.3.35 Noted in the feasibility report was that based on information sourced from Government’s accounting system, the average daily cost per bed at GGH and KGRH in terms of recurrent expenditure yet exclusive of depreciation charges and financing costs was estimated at €280 and €195, respectively. Acknowledged in this respect was that it could be appropriate for Government to contain its health care costs at these facilities at approximately the same level but offer significantly higher standards of care. Such standards were to at least be at par with those at the MDH and with international best practices. These aims could be partly attainable through the possible significant efficiency gains resulting from the presence of a more experienced and professional management function provided by a private operator experienced in managing multiple hospital facilities worldwide. However, it was argued that better management may not be enough to secure comparable costs, noting that the average cost per bed in the United Kingdom and Ireland was considerably higher than the current baseline cost. Additionally, it was understood that Government had a social obligation to make sure that all the employees of the facilities would retain their jobs. This would leave limited room for manoeuvre for the private operator to cut down its operational costs by reducing the staff complement, thereby severely limiting any cost-cutting potential (alongside service delivery improvements). The implications of such a restriction would be that the private operator would have a similar cost structure to that presently incurred by the Government, but with the added burden of recovering depreciation and financing costs, and the need to generate an appropriate return on investment. Within this context, the experts commissioned by the MEH to draw up the feasibility report noted that it was likely that the average cost per bed to be charged by the private operator would be significantly higher than the current expenditure levels.

2.3.36 The possibility of the private operator increasing the capacity of the facilities and offering additional beds to private clients was proposed as a way to render the investment by the private operator more attractive while decreasing the cost per bed charged to the Government. This option would allow the private operator to secure major efficiency gains from spreading existing manpower costs across a higher capacity and allow the generation of a significant revenue stream from foreign paying patients. This arrangement would present the Government with an opportunity to position Malta on the health tourism map, positively impacting national economic development and growth. It was noted that health tourism had been earmarked as a key priority in the electoral manifesto of the Partit Laburista for the 2013 election. The private operator would be permitted to charge market rates to foreign patients, with a view to partly recover costs incurred in servicing beds acquired by the Government for the national health service. However, this arrangement was conditional on the private operator’s commitment to offer national health service patients equivalent treatment and service to that provided to foreign patients. In this respect, the agreement between the Government and the private operator was to regulate this matter, and include clauses ensuring that the interest of national health service patients was protected and prioritised over other patients who could be served
by the same facilities. Noted in the feasibility report was that this arrangement provided a chance to create a PPP model in which profitability and an internal rate of return for the private operator was not reliant on fees paid by the Government. However, the system would require support by an adequate revenue stream generated from foreign patients. Aside from any contractual obligations, the arrangement incentivised the private operator to continuously maintain the facilities and retain the highest service levels possible to attract foreign patients.

Feasibility report - Recommended way forward

2.3.37 Finally, the report proposed that the Government ought to engage in a competitive procurement process designed to market test the feasibility of the recommended PPP with a third-party operator. Of interest was that, according to the feasibility report’s concluding remarks, an offer was to be considered feasible if the average cost per bed offered by the private operator was close to the current Government costings for these facilities. However, the exact way such feasibility would be determined was to be clearly defined by an evaluation committee.

2.4 Securing authorisation and determining the way forward

2.4.1 If one were to work with the understanding that the feasibility report was carried out prior to the RfP, then it is reasonable to assume that this report, once submitted to the MEH-Energy, should have triggered extensive internal review and further external consultation, presumably culminating in some form of endorsement by the Minister for Energy and Health and the mandating of Projects Malta Ltd to issue the RfP. Despite requests to this effect, the NAO was not provided with any information or documentation capturing these stages of the decision-making process.

2.4.2 The only information sourced by the NAO was the limited feedback provided by the PS MEH-Energy, who maintained that Projects Malta Ltd was mandated to commence preparatory work relating to this concession by the MEH. When further enquiries were made for substantiating documentation to this effect, the PS MEH-Energy indicated that he was not aware of any specific written instructions and that Projects Malta Ltd was probably asked to manage the competitive process on behalf of Government, given the envisaged PPP element of the project.

2.4.3 In turn, the Minister for Energy and Health indicated that in meetings with the Ministry’s consultants, understood by the NAO as reference to the experts engaged to determine feasibility, they had advocated that Government was to test the market for a PPP; however, the scope of the PPP was not to be limited to the GGH but to include the SLH and the KGRH. The Minister for Energy and Health informed this Office that he had referred this advice to the Prime Minister and to Government (presumably Cabinet) and that they had followed the advice provided by the experts engaged in this respect. In sum, the Minister clarified that this was essentially a funding decision.
Chapter 3

The request for proposals

3.1 Publication of the request for proposals

3.1.1 An RfP for the granting of a services concession for the redevelopment, maintenance, management and operation of the sites at the SLH, the KGRH and the GGH was published by Projects Malta Ltd, on behalf of the MEH, on 27 March 2015. It was advertised in:

a | the Government Gazette dated 27 March 2015;

b | a press release issued by the Department of Information (DOI) dated 27 March 2015;

c | local newspapers adverts dated 1 April 2015 and 5 April 2015; and


3.1.2 According to the Government Gazette, the DOI press release and the newspapers adverts, Projects Malta Ltd, on behalf of the Government, was requesting interested bidders to submit proposals for the award of a services concession for the management and operation of healthcare and ancillary services from the Sites through a grant, for a specific term, of the right to exploit such services. Interested parties were to obtain a copy of the RfP document against a non-refundable fee of €5,000 from Projects Malta Ltd. Sealed bids, complete with the required documentation, were to be submitted by noon 19 May 2015. Additional details provided in the Government Gazette indicated that the concession was to include the grant of the property under a temporary emphyteutical title for a definite duration, subject to the terms and conditions indicated in the RfP.

3.1.3 The Prior Information Notice indicated that the contact point was the Chair Projects Malta Ltd, while further information could be obtained from the MEH.
3.1.4 The NAO established that the RfP was drafted by Ganado Advocates, who were engaged by Projects Malta Ltd to assist in this respect. Ganado Advocates were also tasked with providing advice on public procurement law issues; assisting with the procurement process and dealing with bidders; the drafting, negotiation and finalisation of a concession agreement and other transaction-related agreements; and assisting in negotiation with the selected bidder, among other services that were to be provided. The letter of engagement between Ganado Advocates and Projects Malta Ltd was dated 9 April 2015, that is, 13 days following the issue of the RfP document, and was signed by Projects Malta Ltd almost a month later, on 6 May 2015. Furthermore, a matter which remained unclear to this Office related to who was providing information to Ganado Advocates on behalf of the Government for them to draft the RfP document. Questions in this respect were put to the Minister for Energy and Health and the PS MEH-Energy. While the Minister for Energy and Health asserted that this was a detail which he would not have been privy to, the PS MEH-Energy specified that he was not aware of who was involved. Enquiries were also made with Ganado Advocates; however, no reply was forthcoming.

3.2 The Request for Proposals: Background and objectives

3.2.1 The RfP document outlined the objectives that were to be attained through the services concession that was to be granted, an overview of the current health sector situation in Malta, a description of the concession and the competitive award process, the transaction structure, the bidding process, the evaluation and selection process, additional terms and conditions, and requirements in terms of the bidders’ proposals.

3.2.2 Prior to obtaining the RfP document, each prospective bidder was to sign a confidentiality agreement regarding the information contained in the RfP, as well as in respect of any information that was to be made available in pursuance of the RfP or the competitive award process generally. The NAO established that five potential bidders signed this agreement.

Concession scope

3.2.3 The Government intended to award a services concession whereby one concessionaire was to be granted, for a period of 30 years, real rights over the Sites. These rights were to enable the concessionaire to exploit the management and operation of healthcare services that it was to provide from the Sites. The concessionaire was obligated to operate, maintain and redevelop the Sites in line with a pre-agreed capital redevelopment and investment programme. As part of the renovation of the Sites, the number of beds available for patient use was to increase and be diversified. The Government was to acquire the services for the period of the concession to be utilised within the framework of the public healthcare system in Malta, as per the terms of the agreement on healthcare delivery that was to be entered into with the concessionaire.

3.2.4 The Government was to grant the concessionaire the right to exploit the provision of healthcare and ancillary services from the Sites, and to enable such exploitation. Moreover, Government
was to grant real rights over the Sites sufficient to enable the concessionaire to provide the services entrusted to it for the duration of the concession period, that is, thirty years from the day of execution of the concession agreement that was to be entered into between the Government and the concessionaire. These rights were to be provided in consideration for:

a | a service charge for the provision of services throughout the concession to the Government for the benefit of end users, that is, persons entitled to free public healthcare in Malta;

b | the payment of an annual ground rent in respect of the Sites for the period of the concession; and

c | the obligation to redevelop and maintain the Sites in accordance with an agreed investment programme.

3.2.5 Except as otherwise provided in the RfP, and apart from payments made under the agreement on healthcare delivery, the concessionaire was not to be paid any financial consideration by the Government for the capital investment made or the ongoing maintenance and operational costs that would be incurred to manage the healthcare and ancillary services being entrusted in terms of the concession. The concessionaire was to assume the risk of not recouping the investments made or costs incurred in the concession period. Furthermore, Government would not offer any guarantee that the concessionaire would recoup such costs and the concessionaire was to assume responsibility for the operational risk relating to the provision of the services.

Concession objectives

3.2.6 According to the RfP, Government was committed to establish Malta and Gozo as a medical hub within the Mediterranean region and to continue providing the highest level of healthcare services to end users. Government was also committed to improve the quality of services provided to patients and maintain the provision of free healthcare services. Nonetheless, Government acknowledged that the highest level of healthcare services could not be achieved and maintained in the coming years unless existing methodologies and practices, as well as a capital redevelopment programme, were undertaken in the short to medium term.

3.2.7 In light of these considerations, a private operator was to be granted a concession and entrusted to operate such services from the Sites, in return for compensation, in order to achieve these objectives. It was noted in the RfP that the Government believed that the entrustment of these services to a private operator was to lead to a more efficient management and supply of services. Moreover, the significant upgrade of the Sites in line with an agreed redevelopment programme would, among other deliverables, provide the capital expenditure required to ensure that Government’s objectives were secured for the foreseeable future. According to the RfP, it was the opinion of the Government that the concession was to result in improved value for money, due to better risk sharing obtained by allocating risks to the party best able to manage such risk. The RfP referred to the fact that the Government had assessed multiple
potential options, and having clear data relating to the current cost of the public healthcare system in Malta, was of the opinion that through this concession it would be realising better value for money for the healthcare and ancillary services it currently offered to end users without making necessary compromises on mean service levels. This was in line with the experiences of EU Member States.

3.2.8 To this end, Projects Malta Ltd, acting on behalf of Government, was to proceed with the award of a services concession whereby a private operator was to be entrusted with the management and operation of healthcare and ancillary services through the grant of the right to exploit such services for a specified term. These services were to be provided from the Sites subject to the RfP. Through the grant of this concession, Government aimed to achieve a guarantee on the highest service levels in the delivery of healthcare from the Sites, the utilisation of the Sites to their maximum potential, and the elimination of the inefficiencies and unavailability of resources that were at the time affecting the Sites.

3.2.9 The Government intended to grant the services concession to a private economy operator with a view to ensure a consistent and a high standard in the delivery of services. In the coming years, this would require investment in capital and specialised human resources and would ensure that the management and operation of the renovated and upgraded facilities was cost-effective and efficient. Through the concessionaire, the Government intended to:

a | guarantee that the main focus of this project was that of improving the health care already available in Malta;

b | ensure that the new operator would improve the service level being offered from the existing facilities subject to the RfP;

c | redesign, redevelop and extend the already existing healthcare and supporting facilities at the Sites in a way that would guarantee long-term sustainability;

d | ensure that the proposed facilities and the service level provided added value to end users;

e | ensure that the concession was financed privately to guarantee that public funds were not depended on;

f | ensure that in the interest of competitiveness and long-term sustainability, the project was developed and managed on the basis of best private sector management and efficient work practices;

g | attain the suitable strategic commitment, vision and capability of experienced private entities that would help generate an improved healthcare package for the benefit of all end users and non-resident patients;
h | provide assurance that patients and the Government are satisfied with the level and quality of the proposed services and facilities;

i | guarantee that while the healthcare system remained free to end users, particularly patients residing in Malta, service levels and healthcare quality would be consistently delivered at an excellent standard equivalent to or better than that offered at the time at MDH;

j | make sure that the proposed services and facilities were to a satisfactory local regulatory and international standard;

k | provide for the essential infrastructure for the operation of the Barts and London School of Medicine and Dentistry medical school at the GGH and provide facilities for the establishment of a nursing university-level institute at the SLH;

l | develop and create a state-of-the-art research and development (R&D) facility for the healthcare sector in order to attain the Government’s goal of increasing R&D targets by 2020; and

m | develop medical tourism in selected niches in the regions of Malta and Gozo to provide additional socio-economic improvements to the country.

3.2.10 According to the RfP, the concession agreement to be entered into would require the concessionaire to:

a | take over the current management and operation of the healthcare and ancillary services offered from the Sites immediately after the signing of the concession agreement and in terms of such agreement;

b | upgrade the Sites and their facilities in terms of an agreed redevelopment program in a seamless manner, concurrently with the operation and management of the healthcare and ancillary services;

c | provide, improve and extend the healthcare and ancillary services to end users in terms of an agreement on healthcare delivery, through which the Government was to be provided with a set quantity of services for the period of the concession to be used within the public healthcare framework in Malta. The minimum number of beds required by the Government daily from the concessionaire was expected to be: 125 acute beds at the GGH, 175 long-term and rehabilitation care beds at the GGH, 300 long-term and acute geriatric care beds at the KGRH, 80 rehabilitation care beds at the SLH, and 12 dermatology beds at SLH;

d | host, build and fit out with equipment a medical school at the GGH to be run by Barts School of Medicine and Dentistry, part of the QMUL;
e | build and equip a nursing university-level institution at the SLH, and following consultation with Government, attract a technically competent operator to run this nursing college; and

f | develop a sustainable market for the provision of medical and healthcare services on an elective or non-elective basis to patients other than those eligible for free public healthcare in Malta.

Background information

3.2.11 Potential bidders were provided with an overview of the health sector in Malta. Information provided included life expectancy statistics, the responsibilities of the MEH, the funding of the Maltese healthcare system, key healthcare providers, levels of public spending on healthcare and total bed capacity managed by the Government at the MDH, the GGH, Mount Carmel Hospital, Sir Paul Boffa Hospital, the KGRH, the SLH and SAMOC. Details were also provided regarding the centralised operation of healthcare and new legislation that provided direction for the establishment of a framework of controlled decentralisation and autonomy. In this context, the concession to a private operator was explained as a means by which Government could offer guaranteed healthcare services of an upgraded excellent standard, effectively save costs, and improve and utilise the facilities to their maximum potential.

3.2.12 Also provided was background information on the three Sites, including the main services provided by each facility.

General terms and conditions

3.2.13 The RfP did not constitute an offer in itself but an invitation to bidders to submit proposals to Projects Malta Ltd and the Government. Therefore, the RfP was not binding on Projects Malta Ltd, the Government, the Evaluation Committee and any of their respective officers, members, employees, advisers and consultants. Furthermore, subject to that stated in the RfP, these parties reserved the right to modify the RfP or the competitive award process generally and to withdraw from, discontinue, terminate or not act further on the RfP or the competitive award process. It was also noted that Projects Malta Ltd, the Government, the Evaluation Committee and any of their respective officers, members, employees, advisers and consultants were not bound to accept any proposal, and reserved the right to reject all and any proposals submitted if none adequately met the requirements of the RfP or for any other reason whatsoever, as well as to reject the most advantageous offer. Additionally, the right to issue another RfP at any time was also maintained.

3.2.14 The NAO noted that the RfP included conflicting information regarding the deadline by which modifications to the RfP and the competitive award process were allowable, with parts of the RfP indicating that changes could be effected at any time, and others stipulating a limit of 15 days before the proposal submission deadline. Additionally, Projects Malta Ltd, on behalf of the Government, reserved the right to, in case of conflict or should amendments to the structure,
additional documentation or generality of the RfP be required in accordance with applicable law, at any stage of the process effect the necessary amendments. Following queries in this regard, the PS MEH-Energy indicated that there was no set deadline for the implementation of changes to the RfP. Additional documentation was explained as any document made accessible to bidders, other than the RfP, and did not refer to the contracts.

3.2.15 In terms of the RfP, Projects Malta Ltd and the Government reserved the right to negotiate, inter alia, the terms, conditions and undertakings with the bidders in accordance with the competitive award process. In this regard, Projects Malta Ltd and the Government were not bound to disclose proceedings and/or the details of negotiations with individual bidders, including changes, amendments or modifications to the proposals as submitted to the other bidders in this process.

3.2.16 Furthermore, confirmation of the decision to award the concession was to be subject to the fulfilment by the bidder of the conditions set by Projects Malta Ltd, and the successful attainment by the bidder of clearances, authorisations, permissions, licenses, approvals or other consents that could be required from the competent authorities.

3.2.17 The RfP and the competitive award process were to be regulated by the review of the Procurement (Health Services Concession) Review Board, established by virtue of the Procurement (Health Services Concession) Review Board Regulations of 2015 (Legal Notice 112 of 2015), enacted on 27 March 2015.

The setting up of ConcessionCo

3.2.18 The concessionaire was required to set up, either directly or through a holding company, a special project company incorporated in Malta (the ConcessionCo), which was to enter into the concession agreement and be responsible for the concession for thirty years. The ConcessionCo was not precluded from comprising a multi-structural legal arrangement of companies. For the purposes of the RfP, the ConcessionCo was a collective description of the contracting entity assuming the responsibilities and obligations defined in the concession agreement and in the RfP.

3.2.19 According to the RfP, the selection of the successful bidder was necessarily to be influenced by considerations of trust relating, inter alia, to matters such as public interest, general economic interest, general aptitude towards investment in the concession and national security. By the same token, any changes in the ownership, management and constitutive documents of the ConcessionCo, and any assignment, whether in whole or in part, of any right and interest under the Concession Agreement required the prior approval of the Government.

3.2.20 The RfP indicated that Projects Malta Ltd and the Government retained the right, depending on the corporate status of the successful bidder, to require, in the course of contract negotiations, that changes in the ownership and management of the bidder be treated in the same way as changes in the ownership or management of the ConcessionCo.
Concession requirements

3.2.21 The RfP provided details relating to the facilities and services that were to be provided, as well as the upgrades and maintenance that were to be carried out by the concessionaire. It also listed milestones for the renovation and construction works that were to be undertaken.

Concession requirements - Gozo General Hospital

3.2.22 In the case of the GGH, the concessionaire was to provide the Government with at least 125 acute beds and 175 long-term geriatric beds, and ancillary services. Compensation for these services was to be agreed to in terms of the agreement on healthcare delivery. In addition, the concessionaire was to operate a newly constructed regional primary care hub in one of the buildings within the GGH. Furthermore, the concessionaire was to provide the necessary facilities and services required to operate a medical school, and give the faculty and students access to the GGH for practical training in the form of placements.

3.2.23 The concessionaire was to upgrade the GGH to a health campus in line with the following requirements:

a | construct a new state-of-the-art hospital equipped with 200 to 250 acute care beds to be connected to the current GGH building;

b | redesign and remodel the existing building to host a combination of long-term geriatric care facility and rehabilitation care facility, equipped with at least 150 and 50 beds, respectively;

c | construct and outfit a medical school of approximately 5,600 square metres that can host the education of at least 300 students, to be operated by Barts and the London School of Medicine and Dentistry, part of QMUL;

d | construct a dedicated R&D space to be built on an area of at least 2,000 square metres, in line with QMUL's requirements; and

e | develop ancillary facilities including operating theatres, laboratory facilities, day care and outpatient facilities, parking facilities and other facilities required for a stand-alone, fully functional hospital.

3.2.24 The following provisions outline the additional output requirements for the GGH stipulated in the RfP:

a | outpatient services were to be provided from the existing building at the GGH;

b | the existing building was to accommodate 15 to 20 consultation and examination rooms, able to support a stable level of activity of over 50,000 outpatients yearly, with an expected growth of five per cent annually;
c | the new hospital building was to have seven surgery rooms, including two major operating theatres, one intermediate operating theatre, one endoscopy theatre, one obstetrics and gynaecology theatre and two outpatient surgery theatres. Of the seven surgery rooms, five were to be used for carrying out acute procedures;

d | the acute facility, which was to be hosted in the new building at the GGH, was to include a number of clinical support rooms, fitted with imaging equipment such as computed tomography scanners and magnetic resonance imaging, angiography, or used for investigation services, including endoscopies, cardiac and other investigations;

e | the long-term geriatric care centre was to be mostly occupied by the elderly patients at the GGH at the time, and patients in the long-stay psychiatric ward. The long-term care area was to house 150 beds, including a mix of private rooms, semi-private rooms and four-bed wards;

f | the rehabilitation centre required a capacity of 50 beds, which were expected to be taken up by inpatients following acute interventions. The centre was to comprise at least four private rooms and 12 semi-private rooms, with the remaining bed capacity allocated in four-bed wards;

g | the medical school was to comprise two lecture halls/theatres and twelve class/seminar rooms, as well as anatomy and other laboratory facilities, meeting rooms and offices;

h | a minimum of three ground ambulances were to be managed under an ambulance shed;

i | a minimum of one air ambulance was to be operated;

j | a new helipad was to be built;

k | the pharmacy was to be upgraded;

l | the current hospital mortuary was to be expanded;

m | an anatomy centre was to be built; and

n | a new regional primary care hub, a regional health information and audit centre, a health non-governmental organisation resource and coordination centre, a childcare centre, a staff cafeteria and recreational areas, as well as on-call accommodation comprising 30 overnight rooms and a common room with kitchenette, were to be built and run in any of the GGH buildings, except for the site on which the medical school was to be built.

3.2.25 The RfP also indicated the specific departments that were to be established within the renovated GGH by the concessionaire. These included 46 different departments classified
under six broad categories: medical and allied disciplines (10), surgery and allied disciplines (7), physical medicine and rehabilitation (3), obstetrics and gynaecology (5), allied health services (7), and nursing, paramedical and technical services (14).

3.2.26 Government required the concessionaire to complete the medical college and student accommodation by July 2016, the new acute wing by January 2017 and the remaining part of the GGH, including the renovation of existing facilities, by December 2017. These timelines were noted in the RfP as crucial for the Government to meet its objectives and targets for the public healthcare system. The concessionaire was expected to commit to these timelines unconditionally.

Concession requirements - Gozo medical school

3.2.27 The RfP included a development specifications schedule for the Gozo Health Campus. A detailed breakdown of the proposed layout was provided, including the types of rooms and facilities to be offered and the designated areas for each. Details for each area, such as electrical and communication features and fixtures and fittings, were also provided. Details were also provided in respect of the anatomy centre. The requirements of the audio-visual equipment for the school were also included in the RfP.

3.2.28 In the RfP, the service specifications with respect to the school’s teaching activities were outlined. The concessionaire was to ensure that the learning, assessment and professional development needs of students were met in accordance with the school’s requirements as laid out in the RfP and in the module documentation for each clinical attachment. Furthermore, the concessionaire was to provide the facilities necessary to deliver the specified clinical learning requirements of the QMUL Bachelor of Medicine/Bachelor of Surgery. During clinical placements, the concessionaire was to ensure supervision of teaching and learning of appropriate quality and quantity in the relevant locations to support the QMUL program.

3.2.29 Bidders were notified that four categories of student experiences would be required for hospital-based teaching:

a | structured teaching (four hours per week);

b | semi-structured teaching where teaching is delivered along with clinical care (three sessions of three hours per week);

c | unstructured teaching, which refers to student attendance in a clinical environment (three sessions of three hours per week); and

d | self-directed learning, that is, student attendance in a non-clinical environment for private study (10 hours per week).
3.2.30 Student attendance was to be typically based on a 32-hour week, with proportions as per the above guidelines unless otherwise agreed to according to module. It was noted that the detailed specification of activities within each module were to be derived from the curriculum compendium of the QMUL.

Concession requirements - Karin Grech Rehabilitation Hospital

3.2.31 With respect to the KGRH, the Government required the concessionaire to renovate and expand the hospital to focus on specialised care and rehabilitation services, and to provide Government with a minimum of 300 beds and ancillary services to be used for long-term geriatric purposes in Malta. Specifically, the concessionaire was to:

a | ensure the redevelopment and upgrading of the existing premises at the KGRH to accommodate 300 long-term geriatric patients;

b | give the exterior of the premises a facelift to create a welcoming atmosphere, while maintaining the cultural status of the old charm of the Hospital;

c | renovate and design specialised common areas including innovative dining, wellness and exterior activity spaces;

d | renovate the interior to increase operational efficiency, incorporating green building and operating practices that improve outcomes and generate cost savings;

e | enhance the dining experience by better matching customer expectations of the look, menu and service, while using the latest innovations in food service to do so;

f | build and operate in a green way, by incorporating best practices in building construction, energy consumption, water conservation and waste management;

g | ensure illness prevention by incorporating best practices in food preparation and storage, housekeeping and clinical initiatives;

h | implement an integrated information system, enhancing customer experience while streamlining operational processes through technology adoption;

i | improve staff engagement by adding robust selection and training programs and aligning compensation with performance; and

j | participate in and benefit from the latest research and standards with a clinical, operational and regulatory excellence advisory council of multidisciplinary professionals guiding the way.
3.2.32 The full renovation of the existing structure and the additional developments at the KGRH were to be completed within six months from the day of the signing of the agreement between the successful bidder and the Government.

Concession requirements - St Luke’s Hospital

3.2.33 The Government required the concessionaire to upgrade and renovate the SLH to be equipped with:

- a | a rehabilitation inpatient centre, with an 80-bed capacity;
- b | a rehabilitation outpatient centre incorporating physiotherapy, aqua therapy and a prosthetic centre;
- c | a dermatology centre;
- d | a holistic healthcare centre incorporating oriental medicine;
- e | a nursing university-level institution, to be built and designed to accommodate a minimum of 100 students and to be operated by a well-known operator; and
- f | a childcare centre.

3.2.34 With respect to timeframes for the SLH, the Government required the concessionaire to complete the dermatology and holistic health care centre within six months from the signing of the concession agreement, and the rehabilitation centre within twelve months from signing the agreement. Furthermore, Government expected that a minimum of 150 beds would be allocated for medical tourism at the SLH.

Concession requirements - General

3.2.35 The RfP also stipulated operational requirements applying to all three Sites, namely:

- a | the provision of three daily meals, a snack and a beverage bar to be made available 24 hours a day;
- b | regular housekeeping, linen service and personal laundry, along with daily tidying and bed-making;
- c | medication management;
- d | assistance with the activities of daily life (bathing, dressing, grooming, personal hygiene and mobility);
e | nursing consultation and coordination of medical care;

f | scheduled activities, local transportation on wheelchair-accessible vehicles and routine maintenance of the facilities;

g | a resident call system, featuring a wireless pendant with GPS technology;

h | a coordinated case approach to healthcare, with preferred provider relationships established with physician groups, pharmacy, therapy, home health, rehabilitation, skilled nursing, hospice and hospitals;

i | medical billing and insurance coordination, where applicable, for instance in case of non-EU nationals;

j | information technology (IT) integration into services, enabling greater transparency and enhanced communication with residents and their families;

k | adequate telecommunication services for patients, staff and students;

l | LCD TVs throughout common areas, with message streaming and video streaming;

m | wireless internet access for associates, residents and visitors;

n | a mobile phone enabled nurse call and associate communication system;

o | automated blood pressure monitors and medication dispensers;

p | electronic door closures and door monitoring systems;

q | interior and exterior web-enabled cameras; and

r | fire detection and suppression systems.

3.2.36 The concessionaire was required to provide the Government with the stipulated services, and always be able to satisfy the minimum demands of Government as defined in the agreement on healthcare delivery and to do so for an agreed compensation. The remaining beds, facilities and other services not used by the Government could be offered by the concessionaire to the open market, mainly patients not entitled to public healthcare in Malta, or patients who prefer to resort directly to private operators for healthcare services.
3.2.37 The Government also required the concessionaire to ensure that:

a | the operation and management responsibility of the Sites shifted immediately to the concessionaire on the signing of the concession agreement;

b | the infrastructural and operational transformation of each Site was as seamless as possible to avoid disrupting the healthcare activity being offered at the time from the GGH and the KGRH, both Sites being fully operational;

c | the nursing university-level institution proposed at the SLH started being developed once the tenants vacated the property and ceased operations from the SLH complex;

d | the medical school in Gozo was completed on time and according to the requirements specified in the RfP, and that on completion the concessionaire concluded the relevant transactions for the grant of the title thereof to the operator of the medical school; and

e | the renovation programme of the GGH was completed as per the requirements specified in the RfP.

The competitive award process

3.2.38 The Government expected to receive competitive proposals providing significant capital investment and redevelopment that would allow the concessionaire to deliver consistent, reliable and uninterrupted healthcare and ancillary services at an excellent standard throughout the concession period. The proposal was to provide evidence, among other things, of the bidder’s technical competence, fitness and probity, operational and infrastructural experience, financial soundness, robust business planning and an economically advantageous offer for the conclusion of the concession agreement. Bidders were to ensure that, while fulfilling all the RfP requirements, all the information provided by them, including that of a supplementary nature, was complete and accurate.

3.2.39 Bidders could also attend an inspection visit at the Sites, to be held between 13 and 17 April 2015. Costs were at the bidders’ expense and were not refundable. Bidders were to be provided with several documents relating to the Sites, including, but not limited to any material agreements relating to the Sites.

3.2.40 Bidders could lodge enquiries and/or request documents in connection with the RfP. Queries and requests for documentation were to be received by Projects Malta Ltd by 22 April 2015. Bidders were informed that they were only to contact the designated officer at Projects Malta Ltd and were not to make contact with any other person at Projects Malta Ltd or any Government ministry, department, authority or public body, officer or any of their officers, employees, agents, advisers or consultants during any stage of the competitive tender process. Projects Malta Ltd reserved the right to disqualify, at its sole and absolute discretion, any bidder.
found to be in breach of this condition. Projects Malta Ltd was to respond to all reasonable queries as soon as possible by email and reserved the right to issue answers to any queries to all bidders.

3.2.41 All proposals received were to be subject to a thorough evaluation by an ad hoc Evaluation Committee, to be appointed by the Government, which was to establish which proposal, if any, was to be accepted. Bidders could be requested to submit additional information and clarifications on any relevant matter, which bidders were to provide within such reasonable time as set by the Committee. The Committee also reserved the right to disregard any submissions provided in response to its request, if such submissions directly or indirectly altered or purported to alter significantly the substance of the original proposal. Moreover, Projects Malta Ltd reserved the right to request new or additional information concerning the bidders and any individuals or other persons associated with the proposals. Bidders could be invited by the Evaluation Committee to make one or more presentations concerning their proposals throughout the evaluation process. Such presentations were to be restricted to clarifications and elaboration on information already submitted in their proposals.

3.2.42 A period of negotiations with the highest-ranking bidder was to follow the evaluation of proposals. During this time, the concession agreement and other agreements were to be finalised, in the light of any commitments offered by the bidders in their proposals.

3.2.43 The RfP included a timetable of the competitive award process, identifying dates and corresponding key events (Figure 7 refers). Notwithstanding this, these were only indicative and Projects Malta Ltd and the Government could effect changes to the RfP and to the timetable up to 15 calendar days before the bid submission deadline.

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>RfP launch date</td>
<td>27 March 2015</td>
</tr>
<tr>
<td>Sites inspection coordinated by Projects Malta Ltd</td>
<td>13-17 April 2015</td>
</tr>
<tr>
<td>Final date for bidders to submit queries</td>
<td>22 April 2015</td>
</tr>
<tr>
<td>Reply to queries</td>
<td>28 April 2015</td>
</tr>
<tr>
<td>Final date for the submission of proposals accompanied by bid bond</td>
<td>19 May 2015 (up to 12:00pm)</td>
</tr>
<tr>
<td>Notification of completion of the evaluation and identification of the highest-ranking bidder</td>
<td>Date to be confirmed</td>
</tr>
<tr>
<td>End of redress period</td>
<td>10 days from date of notification</td>
</tr>
<tr>
<td>Final date for contract negotiations and finalisation of agreements</td>
<td>Date to be confirmed</td>
</tr>
<tr>
<td>Notification of contract award</td>
<td>Date to be confirmed</td>
</tr>
<tr>
<td>Signing of agreements</td>
<td>Date to be confirmed</td>
</tr>
</tbody>
</table>
Bid-related information

3.2.44 Outlined in the RfP were the general requirements that were to be adhered to by interested parties in their submission of bids, the structure and form that each bid was to assume, as well as provisions regulating consortia and multiple bids.

Bid submission - General information

3.2.45 Proposals were to comply with the requirements set out in the RfP. Each page in the proposal was to be numerated and referenced in the contents page, amounts were to be specified in euro and the proposal and all correspondence and documents related to the RfP were to be in English. All proposals and supporting documents were to be submitted in five separate volumes, that is:

a | Executive Summary;

b | Volume A: General Bidder Information;

c | Volume B: Technical and Operational;

d | Volume C: Business Plan; and

e | Volume D: Financial.

3.2.46 One original and four copies, as well as a scanned reproduction of the original copy, were to be submitted. The original copy was to have each individual page initialled by a person holding the necessary authority to enter into contractual negotiations on behalf of the relevant bidder. Projections documents and financial information contained in the proposal were also to be submitted in a spreadsheet in electronic format. In the event of a discrepancy between the soft and printed version, the latter was to prevail. It was also noted that bidders were to ensure that the executive summary was consistent with the main proposal submitted in hard copy.

3.2.47 Each proposal was to be accompanied by a bank guarantee amounting to €500,000 in favour of the Government, valid for six months from the bid submission deadline and subject to provisions included in the RfP. The bank guarantee, hereinafter referred to as the bid bond, was to be enclosed, together with the bidder’s name, in a separate sealed envelope clearly marked ‘Bid Bond’. The bid bond was to be issued by a bank duly licensed to carry out banking activities in Malta or in an EU Member State and which, at the time of the bid bond’s issue, held an A rating by Standard and Poor’s Rating Service or was present in Malta. Moreover, the bid bond was to be issued under terms providing that it was irrevocable and unconditional and was to be payable to the Government on its first demand, without the guarantor bank being responsible to verify whether such demand was justified.
3.2.48 The bid bond was intended to secure the due and proper performance by the relative bidder of all obligations assumed in pursuance of the RfP and as security that the proposal would not be withdrawn, altered or qualified during the validity period of the bid bond. Bidders notified in writing that their proposal was rejected were to have their bid bond released and returned to the issuing bank within 20 days from the receipt of notice of rejection, notwithstanding the fact that by such time the bid bond’s initial validity period would not have expired. On the other hand, if negotiations with a bidder were likely to extend beyond the initial validity period of six months, or any successive six-month renewal validity period, the bidder was to procure the renewal of the bid bond from the issuing bank for a further six months at least seven days before expiry. Such renewal was to be sought without the prior notice or request to this effect from Projects Malta Ltd or from the Government or any other person. Failure to procure this extension was to be considered as a breach of the bidder’s obligation to renew the bid bond and a withdrawal of the proposal, entitling the Government to call on the bid bond and disqualify the defaulting bidder.

3.2.49 Proposals were to be addressed and delivered to the Chair Projects Malta Ltd by noon, 19 May 2015. The RfP stipulated that any proposals received after this deadline would not be accepted and that Projects Malta Ltd was not responsible for any loss or delay with respect to the delivery of proposals.

3.2.50 Projects Malta Ltd was to issue an acknowledgement of receipt of each proposal received by the bid submission deadline, within seven days from the deadline.

3.2.51 Bidders were informed that Projects Malta Ltd would not accept any additional material or changes from a bidder once a proposal was lodged except for any additional information and changes requested by the Evaluation Committee. However, the Committee was to ensure that any changes requested were minor, and that changes and information submitted did not modify the substance of the proposal in any significant way.

3.2.52 Proposals and information submitted were irrevocable and were to remain in force and binding on the bidder for six months from the bid submission deadline. Projects Malta Ltd could request bidders to extend the period of validity of their respective proposals for an additional period, which was not to exceed 12 months. Failure by any bidder to comply with such a request could result in its exclusion from the competitive award process.

3.2.53 Projects Malta Ltd, acting on the advice of the Evaluation Committee, reserved the right to reject any proposals if the proposal contained false or misleading information. Furthermore, if it transpired that false information had been provided by the successful bidder, Projects Malta Ltd could consider this as sufficient grounds for disqualification.
Proposal requirements

3.2.54 The RfP provided a list of specifications and requirements that Projects Malta Ltd and Government expected to be addressed and contained in the proposals to be submitted by bidders, including information requirements for the five volumes of the proposals. Failure by a bidder to provide the required information could result in the proposal being rejected.

Executive summary

3.2.55 Bidders were required to provide an Executive Summary, not exceeding 50 pages, providing a clear and concise summary of the key technical, commercial, organisational and financial features of the proposal.

Volume A: General bidder information

3.2.56 Volume A was to include information with respect to the identification and qualification, relevant experience and financial standing of the bidder, as well as a declaration of honour.

3.2.57 With respect to identification and qualification of bidders, bidders were to provide full details of the bidding entity that was putting forward its proposal for the concession. In the case of consortia, information was to be provided for each member of the consortium. Required information included:

a | full name of the entity and, if appropriate, the registered number;

b | details of incorporation, including a copy of the constitutional documents;

c | registered office address and contact details;

d | details of shareholdings and shareholders’ agreements;

e | list of current directors and authorised signatories;

f | certified copy of the required corporate authorisations approving the contents of the proposal;

g | the name and respective position of individuals authorised to represent the bidder(s) and documents supporting such authority; in the case of a consortium, details of a lead investor designate who will represent and negotiate on behalf of the consortium;

h | evidence of the professional and technical qualifications possessed by the bidder and its key staff and management experience in all areas relevant to the concession, intended to be deployed in the delivery of the concessionaire’s obligations under the concession agreement; and
i | names of any external advisers that were engaged or were planned to be engaged to assist
in the proposal, the competitive award process and the eventual negotiations.

3.2.58 In the case of submissions by consortia, the following details were also to be provided:

a | a copy of the consortium agreement;

b | information regarding the shareholding held by each member of the consortium;

c | the specific roles of each member of the consortium;

d | unless provided in the consortium agreement, a valid power of attorney for the lead investor
designate from all other consortium members to act on their behalf in representation of
the consortium;

e | the name and the respective position of the lead investor designate who was to represent
and negotiate on behalf of the consortium; and

f | any other relevant arrangements between the consortium members.

3.2.59 In terms of the relevant experience, bidders were required to provide a profile demonstrating
their range of business activities and experience in the healthcare industry, as well as in
infrastructural projects of a similar size and strategic fit.

3.2.60 Financial information was to include proof of financial soundness over the previous three years,
by means of, for instance, audited financial statements, as well as proof of access to finance for
the duration of the concession, by means of a letter of intent, or similar, from a reputable credit
or financing institution. In the case of a consortium, the proof of financial soundness was to be
provided for partners in the consortium having more than 20 per cent of equity.

3.2.61 Furthermore, bidders were required to provide a signed statement, titled Declaration of Honour,
concerning their fitness and suitability to take on the concession. Through the Declaration of
Honour, bidders were to declare and warrant that they were not experiencing any situation
that would put into question their suitability to be chosen as the concessionaire. These
situations included insolvency, bankruptcy, being wound up, having their affairs administered
by courts, having their business activities suspended, having been convicted of an offence
concerning professional conduct, having been the subject of a judgment for fraud, corruption,
money laundering, involvement in a criminal organisation or any other illegal activity. Other
situations listed referred to the failure to pay social security contributions or taxes and having
been declared in serious breach of contract for failure to comply with procurement, award or
other contractual obligations. In the case of consortia, each member of the consortium was
to sign the Declaration. Projects Malta Ltd reserved the right at all stages to request further
information, including official documentation, as evidence of the elements of the Declaration
of Honour.
Volume B: Technical and operational

3.2.62 Volume B was to include the bidders’ technical and supporting operational proposals in relation to the requirements of the operation and management of the health and ancillary services as required by the RfP. The information provided in this section was to cover details regarding the technical and operational services, as well as information regarding performance.

3.2.63 With respect to the technical and operational services, bidders were required to provide the following information:

a | an outline service method statement for the management and continued provision of services throughout the concession, and a detailed description confirming the methods used to ensure at least the delivery of the services required by the Government constantly and consistently throughout the concession;

b | a detailed proposal for infrastructural and medical equipment investment and maintenance in the form of a detailed and structured plan with clear deliverables, including key milestones, for any infrastructural and civil works and a programme indicating anticipated capital investment in medical and other equipment throughout the concession and the management thereof. The Government estimated that the successful bidder was to provide a redevelopment programme valued at a minimum of €150,000,000;

c | conceptual design in relation to the proposed redevelopment programme for the Sites, including the policies for the retention and conservation of the historical and architectural features at the SLH;

d | proposals on the local community, applicable development planning legislation and the environment, including the treatment of hazardous and non-hazardous waste management and disposal thereof;

e | the management arrangements that were to be implemented during each phase of the concession, including proposals with respect to existing employees, stating the timeline for changes and describing how changes were to be planned and executed;

f | additional skills and resources intended to be brought in, and the timeline for such additions, as well as the rationale for the proposed additional skills and resources requirements in light of the existing skills and performance obligations;

g | detailed proposals for implementing and monitoring a full quality assurance system in respect of all stages of the concession;

h | a statement, including a draft health and safety policy, outlining the approach to be adopted for the management of health and safety issues in respect of all relevant facets of the concession;
i | evidence of the bidder’s experience in the management and operation of healthcare and ancillary services;

j | a statement on the method undertaken to assess the staffing arrangements required for prompt, effective and efficient provision of services pursuant to the concession. The statement was to include reference to the ability to source and manage healthcare professionals and supporting staff who were competent and proficient to meet the placement requirements of the medical school at the GGH and eventually the nursing university-level institution at the SLH, operational team organisation, proposed talent retention policies, employee integration proposals, functional management arrangements and contingency arrangements; and

k | a statement detailing the proposals for the preparation and provision to the Government of reports monitoring the progress and financial status of the concession.

3.2.64 In relation to performance, bidders were required to provide:

a | an unequivocal undertaking that the redevelopment programme deadlines outlined in the RfP for each of the Sites could be met. Bidders were notified that if this undertaking was not satisfied, then the Government would ask for the inclusion of liquidated damages in the concession agreement;

b | an unequivocal undertaking that the GGH could be redeveloped in a way that satisfied all requirements and specifications of the Barts and London School of Medicine and Dentistry as specified in the RfP. Bidders were notified that the Government would ask for the inclusion of liquidated damages in the Concession Agreement in case this undertaking was not satisfied;

c | an outline of the targets with respect to improvements in efficiency, throughput, capacity, staff and patient service level quality; and

d | strategic measures they intended to adopt to achieve these objectives.

Volume C: Business plan

3.2.65 Bidders were expected to articulate their proposed business strategy for the operations of ConcessionCo in the provision of healthcare and ancillary services pursuant to the agreement on healthcare delivery and to the open market, particularly their strategy to attract medical tourism. To this end, bidders were required to furnish an outline business strategy covering a minimum period of 30 years. The business plan was to include, among others:

a | proposed changes and additions to the nature of existing operations;
b | the bidder’s proposed business strategy to attract medical tourism;

c | income generation and costs strategies;

d | the planned investment in the existing infrastructure, equipment and staff;

e | quality and operational feasibility and financial sustainability studies;

f | a description of the proposed management and staff resources of ConcessionCo, including the proposed human resource policies, staff complement and projected payroll costs;

g | the provision in the proposals of proof of the quality and standard levels of the medical facilities, proposed staffing plan and the extent to which they could be considered capable of supporting the proposed concession;

h | proposed operating plans, including details of proposed high-level business processes, installation of operational logistics and IT systems;

i | an electronic financial model sustaining the project with detailed assumptions in relation to the concession and the operation of the Sites;

j | a fixed price per additional bed that Government could require over and above the minimum requirements specified in the agreement on healthcare delivery. This price was to include the total cost to Government to service the end user from admission through to discharge with all related costs required during the stay. A separate price was to be specified for acute care within the GGH, geriatric care within the GGH, geriatric care within the KGRH, rehabilitation care within the SLH and dermatology within the SLH; and

k | any commitments and undertakings the bidder was prepared to make in relation to the future of ConcessionCo.

3.2.66 Bidders were required to submit detailed analyses of the expected compensation to be paid for the provision of services to Government, as well as a breakdown of their cost structures relating to such services in their business plans.

Volume D: Financial

3.2.67 Bidders were to outline their financial offer and to demonstrate their ability to finance the project, to meet the investment obligations of the concession, and to sustain and grow ConcessionCo’s operations once the concession agreement came into effect. Furthermore, Projects Malta Ltd was to seek to obtain a reasonable level of assurance that the plans underpinning the bidders’ proposals were feasible.
3.2.68 In addition to their financial offer, bidders were also required to submit high-level financial projections, details of the revenue and cash flow of the operation, and the funding structure of the whole operation during the concession period.

3.2.69 With respect to the high-level financial projections, bidders were requested to:

a | specify and present the projected investment in terms of the capital redevelopment programme;

b | submit detailed financial projections on an annual basis, including an income statement and statement of affairs and cash flow for the first five years, and high-level projections, including an income statement and statement of affairs and cash flow, for the remaining 25 years; and

c | present the assumptions and provide an explanation of key value drivers underlying each of the financial statements, including:

- macro-economic assumptions, including interest and inflation rates,

- development programme assumptions,

- demand assumptions, including the marketing strategy,

- operating and capital cost assumptions,

- staff level assumptions and associated costs,

- taxation assumptions, including income tax, payroll taxes and VAT,

- accounting policies, including depreciation by tangible asset type and amortisation of any intangibles,

- assumptions with respect to performance obligations and associated financial implications, and

- working capital and long-term financing requirements.

3.2.70 In terms of the revenue and cash flow of the operation, bidders were required to submit the income streams by type of revenue, including but not limited to:

a | revenue and payments from Government, pursuant to the agreement on healthcare delivery;
b | compensation payments by the Government for refundable improvements made;

c | medical tourism; and

d | other income.

**Consortia and multiple bids**

3.2.71 Bidders could form consortia to submit proposals provided that each consortium member participated, either directly or indirectly, in only one bidding consortium. Consortia submitting a proposal were required to nominate a lead investor designate who was expected to have a substantial shareholding participation in the consortium and have control over key management, operational and strategic decisions. The lead investor designate was to represent the consortium in communications with Projects Malta Ltd and with the Evaluation Committee throughout the competitive award process. Unless provided for in the consortium agreement, the lead investor designate was to be in possession of a valid power of attorney from all the other members of the consortium, to act on their behalf in representation of the consortium. An original power of attorney, as well as an original consortium agreement or other form of shareholders’ agreement, were to be submitted together with the bid documentation. In the case of consortia, information requested concerning the bidders was to be provided in respect of each party forming part of the consortium.

3.2.72 Multiple bids from the same bidder were not allowed, and bidders were informed that such bids would be rejected. Similarly, bidders could not provide alternative responses to the requirements of the RfP. Two or more proposals would also be considered multiple bids if there was a close relationship between the persons or entities owning or controlling them. Natural and/or legal persons forming part of a bidding consortium were not to participate in the same competitive award process in another competing proposal, whether on their own or as part of another consortium, or through a subsidiary, parent, group or other affiliated or related company, partnership or other entity. Such parallel participation would automatically result in the disqualification of both proposals.

**Evaluation and selection process**

3.2.73 Projects Malta Ltd indicated its commitment to provide a fair, transparent and objective selection process through the appointment of an ad hoc Evaluation Committee. The selection of the concessionaire was to be carried out in accordance with the criteria listed in the RfP. The Committee was to assess each proposal individually and comparatively with the other proposals, taking into account, among others, the evaluation criteria established. Furthermore, the Committee could use objective quantitative and other techniques that would assist it in its determinations. The selection criteria allowed for different responses from bidders, reflecting their individual strengths, reputation, vision, as well as their experience and capabilities in
related sectors. Bidders were reminded that material departures from the RfP requirements could lead to the disqualification of their proposal.

3.2.74 Subject to conformity to the RfP requirements, each compliant proposal was to be appraised by the Evaluation Committee on four sets of criteria, with points awarded in accordance with the specified weighting. The maximum points that could be allocated were 100. The four sets of criteria and the corresponding weights listed in the RfP were:

a | general bidder information
- the fitness and probity of the bidder or each participant member of the bidder consortium,
- the general financial standing and soundness of the bidder,
- the professional and technical qualifications, as well as the management experience, possessed by the bidder and its key staff in all areas relevant to the concession,
- the bidder’s relevant industry experience in delivering projects of a comparable size, and
- the strategic fit of the bidder;

b | technical and operational information
- the level and phasing of investment for the upgrading and expansion of the plant and equipment within the Sites and the cyclical investment in capital during the concession,
- the ability to provide at least the services requirement by the Government constantly and to the agreed level of service as per the agreement on healthcare delivery,
- proven experience to operate and manage healthcare and ancillary services from facilities of comparable size to the Sites,
- proposed human resources management and talent retention policies, including policies for the integration of new employees with existing staff,
- ability to source and manage healthcare professionals and supporting staff who could meet the requirements of the medical school at the GGH and the eventual nursing university-level institution at the SLH,
- design concept with respect to the Sites and retention of historical and architectural features at the SLH
- impact of proposals on the local community and the environment,
- effective asset management, with details presented regarding the maintenance, replacement and disposal of key assets from time to time by the bidder,
- proposals regarding compliance with relevant regulations and best practices with respect to hazardous and non-hazardous waste management and disposal, health and safety, decommissioning and disposal of asbestos, asbestos-containing materials and gases, and
- the overall credibility and scope of the technical and operational proposal;

c | business plan
- credibility, scope, effectiveness and robustness, as well as the quality and presentation,
of the proposed business plan particularly the investment proposal,
- the proposal of a well-considered strategy to attract medical tourism,
- evidence of quality, operational feasibility and financial sustainability in the proposal, as well as the extent to which these were conducive to the achievement of the concession’s objectives,
- marketing, pricing and costing strategies and justification of forecast revenue and costs through well-considered income generation and cost strategies,
- an electronic financial model for the project, with detailed assumptions in relation to the concession and the operation of the Sites,
- evidence of a well-considered and appropriate organisational structure, and
- proof of the quality and standard levels of the medical facilities, the proposed staffing plan, and the extent to which these can be considered capable of supporting the concession;

d | financial impacts
- the concession lifetime cost for Government of the agreement on healthcare delivery services, discounted to present value, based on the monthly payments due. Bidders were to indicate separate monthly payments due for the different services provided from the Sites. In the proposed fixed price, bidders were to include the cost of the pharmaceuticals and medical accessories in relation to the services that were then being provided by Government from the Sites. The NAO noted that the services available at the time were limited to 291 beds at the GGH and 268 beds at the KGRH. Following queries raised by this Office, the PS MEH-Energy explained that the agreed compensation was to include all pharmaceuticals payable by the Government at the time of the issue of the RfP. For additional services required which were not then being offered at the Sites, the concessionaire was to be compensated for incremental costs of such pharmaceuticals and medical accessories to be provided in accordance with a formulary (or equivalent) established by the Government. Following the NAO’s queries regarding the exact meaning of the term ‘additional services’, the PS MEH-Energy stated that the bidder was to be compensated for additional items added to the formulary or to the national health service provision, and full details of all funding structures showing the proposed sources of funding throughout the lifetime of the project, including those relating to working capital, setting out how each source of funding was to be serviced.

3.2.75 Each of the above sets of criteria were to be weighted as indicated in Figure 8.

Figure 8 | RfP evaluation: Sets of criteria and weighting

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>General bidder information</td>
<td>5</td>
</tr>
<tr>
<td>Technical and operational</td>
<td>25</td>
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<tr>
<td>Business plan</td>
<td>35</td>
</tr>
<tr>
<td>Financial impacts</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>
3.2.76 The score for the fourth set of criteria, that relating to financial impacts, was to be calculated in accordance with the following weighted formula:

\[
\text{score} = (\text{Mark}_\text{funding}/100 \times 0.20) + (\text{Min(Price)}/\text{Price} \times 0.8) \times 100
\]

Where:

a | `\text{Mark}_\text{funding}` represents the mark allocated for the funding structures for the lifetime of the project provided by the bidder;

b | `\text{Price}` represents the concession lifetime cost for Government quoted by the bidder; and

c | `\text{Min(Price)}` represents the lowest price among compliant proposals.

3.2.77 The maximum score for the funding criterion was 100, with the score obtained by the bidder converted to a proportion and then allocated a weighting of 0.20. The bidder quoting the cheapest price was to be allocated 100 points, and other bids were to be awarded a proportional score, by dividing the cheapest price quoted in any of the bids by the price quoted in the bid being evaluated. The score for the price was then to be allocated a weighting of 0.80. These two scores for financial impacts, that is the score in respect of funding structures and that related to price, were then to be added and multiplied by 100 to produce a percentage score. This score was then to be weighted by 0.35, representing the weighting of the financial impact, when calculating the total score for the bid.

3.2.78 Proposals were to demonstrate that the bidder could provide an efficient, reliable and high-quality service commensurate with the Government’s requirements. To this end, proposals required a minimum score of 65 points. Failure to achieve this score was to result in the rejection of the proposal.

Ethical considerations

3.2.79 Any attempt by a bidder, or any person or entity who Projects Malta Ltd considered as acting as a proxy for the bidder, to obtain confidential information, to enter into unlawful agreements with competitors or to influence the Evaluation and Adjudication Committee, or Projects Malta Ltd or the Government during the process of evaluation was to lead to the rejection of the proposal in question. Bidders and their respective officers, directors, employees, agents and advisers were not to engage in any collusive tendering or anti-competitive or other similar conduct with any other bidder or any other person in relation to the preparation or submission of a proposal. Bidders deemed in breach of this stipulation were to be disqualified. Any attempt by bidders or their advisors to influence the concession award process could result in the bidder being disqualified. Specifically, bidders were not to, either directly or indirectly, at any time:

a | devise or amend the content of any response in accordance with any agreement or
arrangement with any other person, other than in good faith with a potential partner, supplier, consortium member or provider of finance; or

b | enter into any agreement or arrangement with any other person on the form or content of any other response, or offer to pay any sum of money or valuable consideration to any person to effect changes to the form or content of any other response; or

c | enter into any agreement or arrangement with any other person that had the effect of prohibiting or excluding that person from submitting a response; or

d | canvass the Government or any employees or agents of the Government concerning the award; or

e | attempt to obtain information from any of the employees or agents of the Government or their advisors concerning another bidder.

3.2.80 When putting forward a proposal, the bidder was to declare that it was not affected by any potential conflicts of interest and that, to its reasonably ascertained knowledge, had no link with other tenderers or parties involved in the competitive tender award process. In the event that such a situation arose during the competitive award process, including the adjudication stage or during subsequent negotiations, the bidder was obligated to inform Projects Malta Ltd immediately. Projects Malta Ltd reserved the right to determine how to proceed on the matter at its own and absolute discretion.

3.2.81 Furthermore, bidders were responsible for ensuring that no conflict of interest between the bidder and its advisors, and the Government and its advisors, existed. Any bidder who failed to comply with this requirement could be disqualified from the procurement at the Government’s discretion.

3.2.82 The bidder also had to refrain from making public statements of any kind about the competitive award process without the approval of Projects Malta Ltd. Bidders were also prohibited from committing, or purporting to commit, or act in such a manner as to commit or purport to commit Projects Malta Ltd, the Government or the Evaluation Committee.

Contractual agreements

3.2.83 The competitive award process for the grant of the concession was to lead to the identification and selection of a suitable bidder, or consortium, to be granted the right to exploit the management and operation of healthcare and ancillary services from the Sites. These rights were to be granted by means of the concession agreement. An agreement on healthcare delivery for the provision of healthcare and ancillary services to the Government was also to be entered into with the selected bidder. The RfP provided an overview of the main contractual clauses that were to be transacted with the chosen bidder. Notwithstanding this, the NAO
ascertained that copies of the transaction agreements were not annexed to the RfP nor were any such documents provided to potential bidders prior to the bid submission deadline.

Grant of real rights and pre-concession transactions

3.2.84 According to the RfP, to enable the performance of the obligations to be assumed in terms of the concession agreement, the Government was to grant the concessionaire real rights over the immovable properties and facilities of the Sites, for a period of 30 years. Additionally, Government was to ensure that the concessionaire was vested with the proper title to all relevant immovable properties and facilities prior to the grant of the concession.

3.2.85 The Sites over which the concessionaire was to be vested with a temporary emphyteutical title consisted of immovable property, land, buildings and improvements. Also included without limitation were all related fixed equipment and accessories as well as the infrastructure, above and below ground, linking the various Sites, such as tunnels, pipelines and other underground spaces, together with all relevant subsoil rights. Government was entrusting the Sites to the concessionaire against a ground rent payment of €11.65 per annum per square metre of the built-up area after the completion of the redevelopment programme.

3.2.86 Stipulated in the RfP was that the concessionaire was to undertake to, among others:

- a | safely keep and carefully use the Sites and not sell, alienate, encumber or otherwise dispose of the Sites without the prior written consent of the Government;
- b | observe, abide by and conform to all applicable laws and regulations, including any future amendments thereto, and any permit, licensing and regulatory conditions regulating or in any manner affecting the operation, use or occupancy of the Sites;
- c | accept the Sites in their present condition and repair and maintain the Sites, including any damages to the Sites caused by operation or use, throughout the concession period at its own expense; and
- d | use the Sites exclusively for the provision of healthcare and ancillary services as defined in the concession agreement.

3.2.87 The RfP stipulated the operational requirements and redevelopment programme for the Sites (cited in paragraphs 3.2.21 to 3.2.37) necessary to enable the concessionaire to provide the healthcare and ancillary services from the Sites. In addition, the Government required the Concessionaire to ensure that the operation and management responsibility of the Sites was to shift immediately onto the concessionaire on the signing of the concession agreement. The transformation process of the Sites, in infrastructural and operational terms, was to be carried out in as seamless a manner as possible, so as not to disrupt the healthcare activity being provided. Specific mention in this respect was made to the GGH and the KGRH since these
were fully operational. Furthermore, the nursing university-level institution proposed at the SLH was to start being developed following the vacation of the tenants then occupying parts of the site and the cessation of their operations from the site. Additionally, the completion of the structure which was to host the medical school in Gozo was to be achieved on time and following this, the concessionaire was to conclude the relevant transaction for the grant of the title thereof to the operator of the medical school.

3.2.88 The RfP indicated that on the lapse of the concession period, the Government could consider granting to the concessionaire in the concession agreement an option to acquire the temporary emphyteutical title over certain specific areas of the Sites for a further period of not more than 69 years. This grant would be made solely as a property equipped for the provision of healthcare services against a pre-established ground rent. Bidders were invited to address this matter in their proposals to allow for the successful initiation and conclusion of negotiations regarding this provision.

Concession agreement: Performance bond

3.2.89 Noted in the RfP was that the concession agreement was to set out various obligations to be fulfilled by ConcessionCo with regard to ongoing maintenance, insurance and various other obligations, together with suitable remedies in the case of non-compliance. Certain infringements were to lead to the termination of the concession agreement, while others were remediable and would only lead to termination in the event of failure to remedy within a reasonable time following formal notice to this effect. ConcessionCo was expected to deliver to the Government, concurrently with the execution of the concession agreement, an unconditional and irrevocable on demand prime bank guarantee, referred to as a performance security, in favour of the Government. The performance security was intended to secure the due and punctual performance of ConcessionCo’s obligations under the concession agreement. Furthermore, the performance security was to secure all and any damages suffered by Government and arising out of the Concessionaire’s direct or indirect default in the due and punctual performance of its obligations under the concession agreement, as well as any judgment or arbitration award delivered against the concessionaire and in favour of the Government in proceedings regarding the concession.

3.2.90 The performance security was set at €9,000,000 and was to be issued according to the format of the pro-forma bank guarantee included in the RfP. Moreover, it was to be irrevocable and unconditional and was to become payable to the Government on its first demand. Furthermore, it was not the issuing bank’s responsibility to verify whether such demand was justified. The performance security was to be valid, or renewed from time to time by the issuing bank to remain valid, for the period commencing from the date of execution of the concession agreement and ending one year after the expiry of the term of the agreement. The performance security was to be issued by a bank duly licensed to carry out banking activities in Malta or in an EU Member State. The issuing bank was to hold an ‘A’ rating by the Standard and Poor’s Rating Service, or equivalent, or was to be present in Malta at the time of the
issuance of the security. The Government had the authority to direct ConcessionCo to procure and deliver a new performance security under the same terms and conditions of the then applicable performance security from another bank acceptable to the Government if, in its reasonable opinion, the original performance security was no longer acceptable. In the event of such direction, ConcessionCo was to comply within one month from such direction.

3.2.91 The RfP stipulated that the issuance of another performance security in favour of the Government, on similar or other terms as appropriate, to secure the due and punctual performance of all the obligations of ConcessionCo under the agreement on healthcare delivery could be requested.

Redevelopment, alterations and improvements

3.2.92 The concession agreement was to contain an obligation on the concessionaire to consistently and regularly make all the improvements and additions necessary throughout the concession period, including investment in medical equipment and maintenance of the Sites, in order to maintain the highest level of services as stipulated therein. To ensure that this obligation was maintained and respected throughout the concession period, during the last six years of the concession the concessionaire was to agree, and obtain the Government’s consent prior, to:

a | the redevelopment and equipment of the Sites;

b | make improvements and/or changes of a capital nature to all or part of the Sites in respect of which real rights were vested in ConcessionCo for the purposes of the concession throughout the concession period; and

c | make further investment in the healthcare facilities at the Sites, including the purchase or upgrade of equipment.

3.2.93 At the end of the concession period, the Government was to grant ConcessionCo compensation for any improvements to the Sites or to the facilities and equipment made by it, which have been approved by the Government as refundable improvements and where these enhancements had a useful life extending beyond the term of the concession.

3.2.94 The concession agreement was to distinguish between refundable and non-refundable improvements and was to provide a mechanism for establishing the quantum of any compensation payable at the end of the concession period to ConcessionCo for refundable improvements made on the Sites or to the facilities and equipment therein. In this respect, bidders were invited to put forward suggestions as to how the compensation for refundable improvements was to be regulated and put into effect. The Government expected the mechanism to include an element of consultation and oversight when ConcessionCo embarked on material improvements having a useful life extending well beyond the lapse of the concession period. Nonetheless, such improvements were going to be encouraged, and the consultation
An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government

Part 1 | A review of the tender process

was intended primarily to ensure an easier transition at the end of the concession period. The agreed mechanism was to also take into consideration all relevant factors, including the degree of maintenance applied by ConcessionCo. As long as pre-defined quality standards were adhered to, the Government would favourably consider formulae based on a theoretical net book value determined using the following parameters:

a | the remaining useful life, at the end of the concession period, of the improvements made;

b | the total useful life of the improvement, considering the date it was commissioned into use and the result of the previous parameter;

c | the original cost of the improvement; and

d | accumulated depreciation calculated on a straight-line basis by reference to the above parameters and assuming a nil residual value at the end of the useful life of the improvement.

Maintenance, upgrade, indemnification and insurance

3.2.95 ConcessionCo was to be obliged towards the Government to regularly maintain and upgrade the Sites during the concession period. ConcessionCo was required to indemnify the Government against and hold the Government free and harmless from any claim or claims arising out of or occasioned by personal injury, death or damage to the Sites, or any claim or claims which could arise out of or in consequence of the performance of the concession.

3.2.96 ConcessionCo had to keep insured, until the expiry of the concession and/or the cessation of its real rights over the Sites, whichever was the latest, against those items as agreed with the Government and relating to the operation and provision of services as well as to the Sites.

Agreement on healthcare delivery

3.2.97 The agreement on healthcare delivery, which was to be entered into simultaneously with the concession agreement, was intended to regulate the provision of healthcare and ancillary services at the Sites by the concessionaire to the Government. The agreement was to include the minimum number of beds required by the Government and the compensation payable for the said services.

3.2.98 The compensation payable by the Government to the concessionaire for the rendering of the healthcare and ancillary services was a fixed amount payable monthly in arrears with a 30-day credit period, which could be adjusted upwards in line with the cost of living, for the whole duration of the concession. The fixed amount was to cover all the services provided at the time and any planned services at all the Sites. The Government indicated its expectation to pay for the services to be provided under the agreement on healthcare delivery at an objectively lower rate than that set by a private operator.
3.2.99 Projects Malta Ltd required bidders to submit in their business plan their estimates for the amount of compensation, and to provide a breakdown of the constitutive components of the costs to be incurred, as well as investments to be made for the discharge of the specific service to be purchased by the Government.

Other contractual considerations

3.2.100 Noted in the RfP were other concession-related conditions that delved into matters of licensing, the consideration of material items of equipment at the Sites, provisions regulating electronic health and medical records, as well as staff management.

Licensing

3.2.101 The RfP indicated that the selected bidder was required to secure the grant, by the competent authorities, of the necessary licence or licences for the operation of the concession, prior to entering into the concession. The Government and Projects Malta Ltd did not guarantee, represent or warrant that permits or licences would be issued, and neither did they make any representation, warranty or guarantee as to the terms and conditions of such permits or licences.

Material items of equipment at the Sites

3.2.102 Bidders were informed that they would not be provided with an inventory of material items of equipment located within the Sites at the time. All such material items of equipment were to be transferred to the concessionaire as part of the concession. The Sites and material items of equipment were to be transferred tale quale.

3.2.103 The RfP stipulated that the concessionaire was not to hold the Government responsible for any and all matters arising out of the operation of such items of equipment. Additionally, the concessionaire was expected to step in the Government’s rights and obligations in relation to such items including, but not limited to, maintenance, liability of use, insurance, and obligations towards third parties on the signing of the Concession Agreement.

3.2.104 A technical audit of the physical state of these assets was not going to be performed. In this respect, there was the possibility that latent defects that were not apparent or known could become known or apparent during the concession period.

Electronic health and medical records

3.2.105 The concessionaire was required to implement a robust health and patient record management system, namely electronic medical records and electronic health records providing industry-leading interoperability to allow health information to follow patients across organisational
boundaries, enable continuity of care, and help improve clinical outcomes. Any electronic information management and business process management system being proposed by the concessionaire had to offer continuous and uninterrupted availability of information and process flow across the various healthcare functions with the concessionaire’s operations. The system also had to be capable to interface with any existing or future Government health care and other information systems, as well as have the capability to be modular, expandable and adaptable in a timely manner so that it would continue to satisfy changes in demand needs, technology advancements and process redefinitions, in line with any foreseen or unforeseen circumstantial changes. Bidders were to also provide details regarding the fulfilment and implementation of the needs outlined in the RfP. Bidders were also notified that the data relating to patients receiving services provided by the concessionaire to the Government was to remain the property of the Government.

Staff

3.2.106 The RfP presented details relating to existing staff and workforce currently assigned at the GGH, the SLH, the KGRH and the Dermatology Unit at Sir Paul Boffa Hospital. Details included the staff complement for each site, with the complement at the GGH being that of 781, that of the KGRH being 701 and that of the Dermatology Unit at Sir Paul Boffa Hospital being 58. The staff complement was further classified according to job position. Noted in the RfP was the fact that the list of employees was correct at the time of publication of the RfP, but could have changed by the date of the signing of the concession agreement. The Government intended to deploy all the employees rendering service at the GGH, the SLH, the KGRH and the Dermatology Unit within Sir Paul Boffa Hospital to ConcessionCo. From the date of deployment, ConcessionCo was to take responsibility for managing the staff and was to be responsible for the day-to-day management of human resources; however, the staff were to remain public service employees. Government was to continue exercising collective bargaining in consultation with ConcessionCo. Furthermore, the Government was to charge ConcessionCo a fee incorporating the salaries, allowances and all other benefits incurred by it in relation to the staff deployed to ConcessionCo. In view of the limited information in the RfP, the NAO sought to obtain a better understanding of what role ConcessionCo was to have in the collective bargaining of employment conditions that regulate public healthcare workers. When queried on this, the PS MOT stated that the format of consultation was not regulated in the RfP and remained totally within the discretion of Government.

3.2.107 It was also permissible for ConcessionCo to engage its own human resources in addition to the staff deployed to it by the Government. ConcessionCo was to ensure that such engagements respected all applicable employment laws.

3.3 Site inspection visits

3.3.1 During the site inspection visits, potential bidders were provided with various documents, including collective agreements, memoranda of understanding and other documents pertaining
to staff working conditions, existing service agreements, as well as a breakdown of existing salary costs.

### 3.3.2 The documents pertaining to staff conditions included:

a | collective agreements and memoranda of understanding for:
   - allied health professionals,
   - nurses and midwives, and
   - social workers;

b | agreements:
   - specific to Zammit Clapp Hospital employees, and
   - in respect of pharmacists;

c | an interim agreement to the medical class sectoral agreement;

d | a memorandum of understanding with respect to pharmacy technicians;

e | a notice with respect to the grades of paramedic aides; and

f | documents on:
   - the allowances of the nursing class, paramedic class, ECG technicians, pharmacy technicians, pharmacists, and health inspectors, and
   - the restructuring of the social worker class in the public service.

### 3.3.3 The service agreements provided to prospective bidders included contracts for the:

a | provision of human resources (care workers and clerks);

b | construction and finishing works;

c | provision of various services (including catering, cleaning, laundry, pest control, maintenance, transportation, terminal disinfection, and pastoral care);

d | installation of various fixtures and fittings (including sanitary ware, aluminium apertures, a nurse call system, an air-conditioning system, doors, a fire detection system, false ceiling, lifts, medical gases piped system, and vinyl sheet panelling);

e | provision and maintenance of various furnishings, accessories and consumables (including bedhead trunking, bins, tables, oxygen concentrators and packing);

f | leasing of medical equipment; and

g | accommodation rental.
3.3.4 The annual staff costs were presented separately for each Site, broken down by position and number of employees within each position. The staff complement for the Dermatology Unit was cited as 58 and salaries and allowances amounted to approximately €1,700,000 annually. The total number of employees quoted for the GGH was 781, equivalent to approximately €22,500,000 in annual staff costs. In the case of the KGRH, the staff complement and the staff costs quoted were 701 and approximately €15,500,000 annually, respectively.

3.3.5 The NAO sought to establish when the site visits to the GGH, the KGRH and the SLH were held, and who attended these visits. This Office also sought to obtain any documented records retained in this respect. According to Projects Malta Ltd, sites visits were made between the 14 and 17 April 2015 (Figure 9 refers).

3.3.6 Projects Malta Ltd indicated that, while other prospective bidders had collected an RfP, no site visits by these third parties were made as the RfP document was collected after the period allocated for site visits had lapsed. No other documentation was retained in respect of these visits.

3.4 Clarifications to the Request for Proposals submitted on the initiative of Projects Malta Ltd

3.4.1 The PS MEH-Energy indicated to the NAO that four clarifications and one corrigendum were circulated during the RfP process on the initiative of Projects Malta Ltd, rather than as a response to requests for clarifications by potential bidders. Although the text of clarifications issued was provided to this Office, actual correspondence evidencing the submission of information to prospective bidders was not made available, limiting the NAO from ascertaining whether these clarifications were actually issued and whether all bidders were notified of changes.

3.4.2 The first clarification was issued on 2 April 2015 and related to the site dimensions of the SLH. The clarification stated that wherever reference was made to the SLH in the RfP, this was to be understood as including the car parks within the site. A site plan was attached to the clarification and was to replace that annexed to the RfP. The area of the Site increased from the 61,526 square metres indicated in the site drawing included in the RfP to 62,450 square metres shown in the site drawing included in the clarification document.

3.4.3 The second clarification, relating to the Malta Environment and Planning Authority (MEPA) permits, was also issued on 2 April 2015. Potential bidders were notified that with respect to permits required to be issued by MEPA, Projects Malta Ltd, acting on behalf of the Government,
would be initiating the process for attaining the requisite permits. Projects Malta Ltd would continue to facilitate the process, so far as reasonably possible, until the point of execution of the concession agreement, at which point the responsibility for the development application process was to be transferred to the concessionaire. The concessionaire was to bear all costs incurred after the date of execution of the concession agreement.

### 3.4.4 The corrigendum was issued on 6 April 2015 and addressed an error in the RfP in the specification of the applicable ground rent of the Sites. The RfP had erroneously indicated that the applicable ground rent of the Sites was €11.65 per annum per square metre of the non-built-up area following the completion of the redevelopment programme. The corrigendum revised this payment to being applicable to the built-up area of the Sites following the completion of the redevelopment programme.

### 3.4.5 The third clarification, dated 17 April 2015, explained that the term ‘pre-established ground rent’ included in the RfP related to the ground rent applicable for the extended period of a maximum of 69 years following the lapse of the concession period and set it at €11.65 per annum per square metre of built-up area after the completion of the redevelopment programme.

### 3.4.6 Regarding the ground rent payable on the built-up areas, cited at €11.65 per square metre, the NAO was informed by Projects Malta Ltd that this was the rate established by Malta Industrial Parks for grants of a similar nature. This Office sought to understand the reasoning behind Government’s commitment to extend the ground rate per square metre long-term, over a period well beyond the 30-year concession. When requested for any documentation that supported this decision, Projects Malta Ltd indicated that the title to the land was granted by the Malta Industrial Parks Ltd since the land in question was administered by this entity.

### 3.4.7 The fourth clarification, circulated on 4 May 2015, related to the temporary emphyteutical title over immovable property in relation to the concession. It was noted that the non-built-up areas of the Sites, including public spaces, access roads and entrances to the Sites, were to remain accessible to the Government and to the public. A newly revised plan, superseding the site plan included with the first clarification, was attached. Potential bidders were notified that in the case of any discrepancy between the boundaries in the site plan and the structures and the boundaries as built, the boundaries of the Sites as built would take precedence. Additionally, it was noted that all the Sites’ servitudes and services were to remain in place.

### 3.5 Bidders requests for documents, information or clarifications

### 3.5.1 Noted in the RfP was that prospective bidders could submit enquiries and requests for documentation and clarifications. According to the RfP, such requests were to be submitted to the Projects Implementation Coordinator Projects Malta Ltd, or a designated proxy, by 22 April 2015. Projects Malta Ltd committed itself to respond to all reasonable queries by 28 April 2015. In total, 71 requests were forwarded, which were subsequently addressed by Projects Malta Ltd. These varied in nature and included requests for additional information.
or documentation, proposals for changes to the RfP deadline and operational matters, and requests for confirmation or clarification with respect to the RfP, the project and the contract specifications.

3.5.2 Projects Malta Ltd did not consider some requests for additional information or requests for clarifications, indicating that:

a | such information had already been made available and guided the prospective bidders to the source; or

b | the information which had been provided was sufficient and no reference was made to any document; or

c | the information requested was not pertinent to the project and was a matter of Government policy - this was in reply to a question regarding whether the term ‘end users’ referred exclusively to Maltese nationals and/or Maltese residents.

3.5.3 The NAO requested a copy of the source documents exchanged between bidders and Projects Malta Ltd during the process of clarification. Notwithstanding this, this Office was only provided with excerpts of queries made and the replies circulated by Projects Malta Ltd. This curtailed the NAO from having visibility over the entire process of clarification, in that, this Office was unable to determine the bidder who submitted the request, when was this made, when was the reply by Projects Malta Ltd submitted and to whom was this circulated. When requested the source documentation, Projects Malta Ltd indicated that all documentation available had been submitted.

3.5.4 Notwithstanding the above-cited limitations, the ensuing paragraphs, organised thematically, present a summary of the requests submitted by prospective bidders and the responses provided by Projects Malta Ltd based on information made available.

**Bid considerations**

3.5.5 One bidder requested an extension to the RfP deadline from 19 May 2015 to 17 July 2015. This request was rejected by Projects Malta Ltd.

3.5.6 Projects Malta Ltd confirmed that a power of attorney could be issued in favour of third parties for overseas investors who could not always be present in Malta, to enable negotiations and agreements to take place.

3.5.7 When asked by a bidder to confirm that ideas shared and submitted by bidders would not be shared with third parties or acted on without the bidders’ prior consent, Projects Malta Ltd stated that the RfP was clear in that it could be required to disclose information and documents relative to the RfP process to the authorities; however, confirmed the Government’s commitment to confidentiality.
3.5.8 Various requests for information relating to the assets held within the Sites, which were to be transferred to the successful bidder on the award of the contract, leased equipment and the service level agreements, were made by the prospective bidders to Projects Malta Ltd.

3.5.9 Information was requested with respect to the medical equipment, operating and medical tools, mechanical plants, as well as vehicles, including ambulance vans and transport vans. The specific information requested included brand names, model, year of manufacture/purchase and a description of the condition of these items. In reply to these requests, Projects Malta Ltd provided lists of these assets. In some cases, the information provided exceeded that requested, with maintenance agreements and tender and contract specifications outlined, but in the case of some of the medical equipment the information provided was missing the year of manufacture and the current condition of the asset, while in the case of the medical tools the information provided was missing the year of purchase.

3.5.10 Another bidder requested confirmation that all existing equipment and furniture within the Sites were to be transferred to the concessionaire on the signing of the agreements free-of-charge, making the concessionaire the full and rightful owner of these assets for the duration of the contract. In reply, Projects Malta Ltd referred the bidder to the section of the RfP which stated that an inventory of material items of equipment located within the Sites was not going to be made available to the bidders and that such equipment was to be transferred on a tale quale basis to the concessionaire as part of the concession together with the Sites.

3.5.11 Information regarding the GGH’s leased equipment, specifically the brand name, model, year of manufacture, lease conditions, lease term and lease fees due was also requested. Projects Malta Ltd provided a list of leased equipment and another list specifically for leased printers. The year of manufacture, lease conditions, lease term and lease fees due were not consistently provided in respect of the items in question.

3.5.12 Three separate queries were raised requesting additional information about existing service level agreements at the GGH, specifically their expiry dates and corresponding fees, and requests for copies of the agreements. Lists of items covered by service agreements, the term of the agreement and any fees payable were provided. Copies of agreements were provided for some printers, renal equipment, ambulances and medical equipment, but not for all items listed.

Current services

3.5.13 Requests were also put forward for additional information regarding the services being offered at the time from the Sites. Information was requested about the types of services provided and which were eligible under the national health service, as well as the extent of these services both in terms of the volume of patients and the services provided during a specific period and waiting
lists thereto. Information was also requested regarding the cost of treatment, pharmaceuticals, consumables and medical accessories. Other requests for additional information were queries about specific features of services offered, such as the duration of treatment, or requests for a description of particular services. Requests for additional information on services offered from the Sites as submitted by the prospective bidders, the reply by Projects Malta Ltd and, where applicable, this Office’s comments regarding the replies are presented in Figure 10.

### Figure 10 | List of requests for additional information on services provided and replies thereto

<table>
<thead>
<tr>
<th>Request</th>
<th>Response provided by</th>
<th>NAO comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>A list of the outpatient services offered at the GGH and the corresponding number of patients treated during the previous three-year period</td>
<td>Counts of number of outpatients’ sessions for 2012-2014, by year and clinic type</td>
<td></td>
</tr>
<tr>
<td>The percentage distribution of outpatients at the GGH, classified by nationality (Maltese, EU and non-EU)</td>
<td>Average percentages for the period 2012-2014 provided for indicative purposes</td>
<td></td>
</tr>
<tr>
<td>A list of dental services offered for free on the national health service at the GGH</td>
<td>List of free dental services</td>
<td></td>
</tr>
<tr>
<td>An itemised list of surgical procedures performed at the GGH in the previous three-year period</td>
<td>Counts of number of procedures for 2012-2014, by year and type of procedure</td>
<td></td>
</tr>
<tr>
<td>A list of endoscopies performed at the GGH in the previous three-year period</td>
<td>Counts of number of endoscopies for 2012-2015, by year and type</td>
<td></td>
</tr>
<tr>
<td>An itemised list of laboratory tests performed over the previous three years</td>
<td>Counts of number of tests for 2012-2014, by year and type and a list of all tests performed at the GGH Medical Laboratory Services</td>
<td></td>
</tr>
<tr>
<td>Free medication entitlements for Maltese and EU nationals</td>
<td>Application form for the supply of free drugs in terms of Schedule V (Part II) of the Social Security Act, outlining the documentation required for determining eligibility and the eligible list of conditions</td>
<td>Free medication available was not indicated. However, the application refers to the legislation which specifies the diseases and conditions for which free medical aid could be provided</td>
</tr>
<tr>
<td>Inpatient and outpatient oncology treatments performed at the GGH in the previous two years</td>
<td>Schedule of chemotherapy treatments per patient, specifying treatment and dates, for January 2014 - April 2015 and total count for chemo-related/supportive treatment for January 2014 - April 2015</td>
<td>Information was provided for a shorter period than that requested</td>
</tr>
<tr>
<td>Number of bed nights following a vaginal and caesarean delivery at the GGH</td>
<td>Bed nights post vaginal and caesarean delivery</td>
<td></td>
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</tr>
<tr>
<td>A description of the ancillary services referred to with respect to the KGRH</td>
<td>“Any other service that is complementary to healthcare services currently being delivered from the Site, or which may be delivered during the concession period”</td>
<td></td>
</tr>
<tr>
<td>A clear explanation of the terms acute, long-term, rehabilitation and geriatric patients, and the forms of compensation allocated by Government to such cases. A breakdown of the types of services being offered in all Sites, and the cost allocation per patient for pharmaceuticals and medical accessories</td>
<td>“The terms … constitute defined medical terms and do not require clarification. … The relevant RfP clauses – dealing with the form of compensation provided through the Agreement on Healthcare Delivery are clear and do not require clarification”</td>
<td></td>
</tr>
<tr>
<td>Current number of patients in all sites, the costs per patient according to their individual category of treatment, lists and costs of medications and medical consumables provided.</td>
<td>Costs were not going to be disclosed and, as implied in the RfP, it was the successful bidder’s responsibility to accommodate the Government’s requirements in terms of minimum daily beds</td>
<td></td>
</tr>
<tr>
<td>Waiting list numbers for outpatients, in-patients and operations</td>
<td>Waiting list projections for orthopaedics and colon screening at the GGH</td>
<td></td>
</tr>
<tr>
<td>Confirmation as to whether the procurement of pharmaceuticals fell under the remit of the Central Procurement and Supplies Unit</td>
<td>Affirmative response</td>
<td></td>
</tr>
</tbody>
</table>
Planned services

3.5.14 Requests were also put forward for additional information regarding the services to be offered by the concessionaire during the concession period. Queries regarding the planned services included enquiries about the volume of patients to be attended to, the types of services to be provided from the Sites, and the handling of pending set appointments. Specifically, bidders requested:

a | the estimated yearly volume of patients, and duration of term, pre-operative assessments, post-operative physiotherapy and rehabilitation services for total hip and total knee replacements on Maltese patients in Gozo and plans to treat post-operative complications of surgery;

b | future plans for colonic screening at the GGH; and

c | the services to be offered and number of patients to be treated from within the Regional Primary Care Hub at the GGH.

3.5.15 In response to these requests for additional information, Projects Malta Ltd forwarded:

a | estimates of yearly volume of replacements, as well as the duration of the related treatment; however, the projections provided were not precise as only one figure, for yearly volume, was quoted;

b | information regarding current and planned (short-term) target groups, total number of persons screened, workload of employees undertaking the colonoscopies and related nursing and administrative work, and the outcome of the colonic screening programme;

c | lists of current primary healthcare services offered from the Victoria Health Centre and the 12 peripheral village clinics in Gozo and, counts of total patients attended to in 2014 by type of service offered, and planned future services with respect to the primary care within the GGH; and

d | the services to be offered from the primary care hub at the GGH.

3.5.16 On being asked to define the term ‘set quantity of services’ (reference is made to paragraph 3.2.10c of this Report) and to specify what services would be required, Projects Malta Ltd referred the bidders to a specification in the RfP in respect of the relevant services to be offered to the Government by the concessionaire. It was further noted that bidders were expected to propose arrangements for providing the services to the Government.

3.5.17 Plans for existing, planned and scheduled appointments of patients on the takeover of the concession were also requested. Projects Malta Ltd indicated to bidders that they were expected to plan how to manage these appointments with minimal disruption to the then
current service delivery. A bidder requested confirmation that the Government would provide full collaboration and assistance to allow the contractor to implement and effect the required works while adopting a patient allocation programme, whereby, if necessary, patients would be allocated to an alternative site or ward to effect changes in a seamless manner during the redevelopment and refurbishment phase of the project. In reply, Projects Malta Ltd stated that logistical issues were to be managed by the bidder and implemented in such a way as to minimise any disruptions.

3.5.18 Detailed information was requested regarding the research and development facility within the GGH, including the scope and nature of this facility. Information was also requested as to whether the Government would be attracting tenants to this facility and the method by which it would do so, details of the reimbursement system to the investors for the use of the facility, and the extent of infrastructure and any equipment to be provided by the investors. In reply, Projects Malta Ltd stated that the upgrading, refurbishment and expansion of the GGH could drive and sustain certain research and development operations such as clinical trials and analytical testing. The investor was expected to spearhead the attraction of such operations to the GGH by offering facilities and services for a charge to be determined by the concessionaire, thereby providing a source of income to the concessionaire from the operators. The NAO noted that this reply did not sufficiently address all aspects of the query submitted by the prospective bidder.

3.5.19 Prospective bidders submitted further enquiries regarding the regional primary care hub at the GGH, including who was to operate and equip the hub. Projects Malta Ltd indicated that the concessionaire was to be responsible for running and equipping the hub, including having adequate staff to man the service; covering all operational costs, including salaries; delivering the services according to agreed standards; and catering for the expected demand without causing delay in service delivery or waiting lists beyond accepted and agreed parameters. The concessionaire was also responsible for the maintenance of the building and equipment and all other items necessary for the smooth running of the services and for maintaining a clinic licence.

3.5.20 Prospective bidders further queried whether medical tourism could be offered from any of the Sites. Projects Malta Ltd replied in the affirmative, as long as the minimum requirements set out in the RfP were met.

3.5.21 A bidder enquired about the air ambulance service, specifically who was to provide and operate the air ambulance, and whether it was to be used solely for emergencies or also on an elective basis in accordance with the needs of the hospital. Additionally, the potential bidder sought confirmation as to whether the existing helipad could be used and was fit for purpose. Projects Malta Ltd only provided information regarding the helipad, indicating that the concessionaire was expected to construct a new helipad at the GGH, from which at least one air ambulance would be operated. The NAO noted that queries regarding the provision, operation and the utilisation of the air ambulance service were left unaddressed.
3.5.22 With respect to the childcare centre at the GGH, queries were raised regarding who was to run and equip it, the number of children it was to cater for and who was to make use of the service. Projects Malta Ltd stated that the prospective bidder was to submit proposals to satisfy the requirements of a childcare centre within the GGH. The concessionaire was to operate the centre primarily for the benefit of the hospital’s employees. According to this Office, this reply did not address all aspects of the query submitted to Projects Malta Ltd.

3.5.23 Another bidder requested confirmation of their understanding that the service levels to be provided under the public health scheme and those to the private sector differed, and that the level of service to be provided under the public health scheme was to be along the lines agreed to and compensated for by the Government. In reply, Projects Malta Ltd referred the bidder to a clause in the RfP that stipulated that bidders were to submit in their business plan their estimates for the amount of compensation and to provide a breakdown of the constitutive components of the costs to be incurred, as well as investments to be made for the discharge of the specific service to be purchased by the Government. This Office considered the reply by Projects Malta Ltd somewhat unclear and insufficient.

Compensation

3.5.24 Some requests from prospective bidders related to the compensation that was to be paid to the concessionaire for the provision of the healthcare services. Other queries made related to the medical school and the nursing institution that were to be set up.

3.5.25 An explanation of the term ‘minimum service charge’ and the mechanism for compensation for additional services above those being provided at the time were requested. Projects Malta Ltd did not provide any additional information beyond referring the prospective bidders to the relevant clauses in the RfP queries.

3.5.26 A bidder requested confirmation from Projects Malta Ltd that the concessionaire was to be compensated for the specified minimum number of beds irrespective of their occupancy, and that on the award of the concession the Government was to enter into a contractual agreement to this effect. In response, Projects Malta Ltd stated that the Government was committed to taking up a number of beds on a daily basis as defined in the RfP document (as detailed in paragraph 3.2.10c of this Report). This represented a confirmation that the Government was providing the concessionaire a guaranteed income for the duration of the concession period.

3.5.27 A query was also raised regarding the method of billing of the outpatient services at the KGRH. Projects Malta Ltd stated that this was to be proposed by the bidders and indicated in the financial model that was to be submitted with the offer. Additional information regarding the remuneration to be paid in respect of services related to the primary care hub and the childcare centre services at the GGH was also sought. However, the NAO noted that Projects Malta Ltd did not provide any direct reply to these queries.
3.5.28 A query was also put forward regarding the methodology of reimbursement to the concessionaire with respect to the nursing institution. In this respect, Projects Malta Ltd did not provide specific details but noted that the prospective bidder was expected to propose an investment that met nursing university-level standards.

3.5.29 A further query was made regarding the mechanisms for the refund of costs involved in the setting up of the medical school, its running, and the maintenance and service agreement fees for equipment, among other costs. In its reply, Projects Malta Ltd indicated that the RfP did not include a refund for costs incurred by the concessionaire in the setting up of the school, and that the business plan to be proposed by bidders was to cater for such a refund. However, operating costs were not to be borne by the concessionaire. Projects Malta Ltd was also asked to confirm the method and amount of reimbursement and payment by Barts to the concessionaire for the use of the medical school and for ancillary and support services. In this instance, Projects Malta Ltd indicated that the concessionaire would be entitled to receive income in relation to hosting and support of the medical school every six months in advance, commencing on the operational start-up date of the facility. This income was to be reckoned following the lapse of three months from the practical completion of the facility. The amounts payable were as follows: nil for the years 2014/2015 and 2015/2016, €190,200 for the year 2016/2017, €309,400 for the years 2017/2018 and 2018/2019 and €943,400 for 2019/2020 up to 2030/2031. If the number of new students per academic year, as determined on 1 December of each academic year, based on a three-year rolling average, exceeded 60, the income was to be increased by 10 per cent of the additional student tuition fees for each additional student. Since the tuition fees were to be at least €30,000 per student, then the concessionaire was to receive at least €3,000 per additional student above the 60 count. The concessionaire was also entitled to claim a service charge to cover all costs associated with the maintenance and administration of the common parts. This charge was to be calculated in accordance with the following formula:

\[
\text{service charge per square metre per annum} = \frac{\text{total annual cost of maintenance of the common parts}}{\text{total lettable area of the common parts}} \times \text{total lettable area occupied by Barts}
\]

Education institutions

3.5.30 Besides queries related to the methods of compensation for the medical school and the nursing institution, bidders also put forward queries relating to the operation and contractual conditions of these educational establishments. Confirmation was sought regarding whether the specified layouts, footprint and list of equipment for the medical school, as provided in the RfP, were exhaustive and final. Projects Malta Ltd provided confirmation to this effect by indicating that the details stipulated in the RfP reflected the requirements of Barts and the London School of Medicine and Dentistry (part of the QMUL) as contracted with the Government.

3.5.31 Confirmation was sought as to whether the access of the nursing and medical students would be restricted to patients falling under the Government schemes and not therefore include
private patients in the private clinics and wards. Projects Malta Ltd indicated that the SLH and the GGH were teaching hospitals, and, consequently, nursing and medical students were to have access, for training purposes, to public and private patients.

3.5.32 Queries were raised as to the Government’s requirements in relation to the nursing institution at the SLH, with bidders requesting a full and exhaustive list of the needs, layout, footprint and equipment required, as well as details regarding the entities running the institution, and the fees and costs to be refunded to the concessionaire. Details were also requested regarding Government’s role in attracting a technical operator for this institution. Bidders were informed by Projects Malta Ltd that Government intended to establish the institution early on in the concession period and that it was to cooperate with the concessionaire in identifying and attracting a suitable operator to run the institution. Furthermore, it was noted that bidders were expected to propose an investment which met nursing university-level standards.

3.5.33 In response to a confirmation request, Projects Malta Ltd affirmed that the concessionaire was to be solely responsible for the provision of the medical school premises, infrastructure, equipment and IT, as per the specifications outlined in the RfP, and was to be reimbursed against a pre-set fee. However, the Concessionaire was not responsible for any requirements related to student assessments or clinical expertise, which remits were the sole responsibility of either the Government or the medical school operators. A potential bidder requested a guarantee that a contract was to be entered into with Barts and a confirmation that Barts would occupy the site for a minimum of 30 years. Projects Malta Ltd stated that Government was to commit to a 75-year term with Barts, with the possibility of an extension term.

Sites and development works

3.5.34 In relation to the following queries by prospective bidders, Projects Malta Ltd indicated that the provisions of the RfP were sufficiently clear and did not necessitate any clarification:

a | a confirmation that the extension period of 69 years for the temporary emphyteusis would be granted for the whole site; and

b | a confirmation that the option for an extension was to be granted on a right of first refusal basis to the concessionaire and a further enquiry as to what forms of compensation and reimbursement would be provided to the concessionaire should this not be the case.

3.5.35 Similarly, Projects Malta Ltd did not confirm that the concessionaire would be entitled to make full use of the available Sites according to its exigencies, needs and requirements, other than to state that the concessionaire was entitled to use the Sites in line with the RfP and in observance of the law. Requested to confirm whether the concessionaire could modify, build and redesign the existing sites as per its requirements, Projects Malta Ltd indicated that bidders were to conform to all planning and regulatory obligations. Furthermore, Projects Malta Ltd indicated that the concessionaire was to make use of the Sites in line with the RfP and in observance of the law and any modifications were to be in line with all the necessary permitting requirements.
Some queries put forward related to the exact site measurements and features. With respect to the Gozo site, Projects Malta Ltd confirmed that an adjacent building, belonging to the Ministry for Gozo, was included in the footprint of the site. Bidders were also informed that finishes, including partitioning and fixed lighting installations were to be handed over together with the property; however, furnishings were not to be included in the transfer. Following requests for detailed plans of the buildings, utilities and exact perimeters of the areas involved, Projects Malta Ltd made available new documents. As to whether the SLH site in Malta included the Detox Unit and former Blood Bank areas, Projects Malta Ltd replied that the perimeter of the site was clearly indicated in the plan provided. A bidder noted that the GGH was undergoing various structural changes, including the construction of a new unit and building, and requested detailed plans of the new areas, information relating to utilities thereat, as well as the completion dates. In response, Projects Malta Ltd indicated that the ongoing works were to be completed by September 2015 and that bidders were to propose use of the facilities as they deemed fit.

Further details regarding the vacation of the Sites by third parties were sought, but Projects Malta Ltd simply referred the bidder to the relevant clause within the RfP with respect to the site in Malta and indicated that no relocation was envisaged in Gozo, with operations at the GGH expected to be maintained with minimal disruption. Similarly, Projects Malta Ltd did not provide bidders with information regarding the historical and architectural features of the Sites that were to be retained, but indicated that bidders were expected to conduct their own research into the matter and conform to all planning and regulatory obligations.

One query related to the location of the regional primary care hub in Gozo, with the bidder enquiring whether this was to be allocated in the newly built structure adjacent to the hospital grounds. Projects Malta Ltd indicated that the regional primary care hub was to form part of the GGH complex.

Projects Malta Ltd did not provide any additional information with respect to staff considerations, despite queries raised. Additional information was sought with respect to the extent of managerial discretion and control the concessionaire would have over the staff deployed by the Government, as well as the responsibility and agreement on remuneration, collective agreements and trade-unionistic related matters. In this regard, Projects Malta Ltd noted that the RfP was clear in this respect (refer to paragraph 3.2.106 of this Report) and that further details and agreements had been made available to prospective bidders.

Confirmation requests were submitted in relation to whether the Government would assist in the issuance of the relative permits and visas required to facilitate medical tourism and permits for the employment of extra staff required by the Concessionaire, be they EU or non-EU nationals. Projects Malta Limited indicated that the competent authorities would process all such applications within the parameters defined in the relevant legislation.
Chapter 4

Evaluation of submissions

4.1 Receipt of bids

4.1.1 By the closing date of the RfP, that is 19 May 2015, three bids had been submitted. The bidders were VGH, Image Hospitals and BSP Investments Ltd.

4.1.2 The bids were opened by two notaries and the Projects Implementation Coordinator Projects Malta Ltd and recorded on a Bid Submission List. These were opened in the presence of the Chair Evaluation Committee, the two members of the Evaluation Committee, the secretary of the Evaluation Committee and a witness who was the personal assistant to one of the notaries. Also present were members of the public, news reporters and other interested parties. A copy of the Bid Submission List was duly affixed on a noticeboard at Projects Malta Ltd that was accessible to the public.

4.1.3 The score sheet, outlining the criteria and scores against which all bids received were to be evaluated, was sealed in an envelope which was signed by the two notaries. The Chair, members and the secretary of the Evaluation Committee each signed a declaration of impartiality and confidentiality and a non-disclosure agreement in the presence of one of the notaries. These, together with the score sheet, were held by the notary.

4.1.4 The two notaries and the witness opened the bids, which they then inspected to ensure compliance with the administrative requirements of the RfP. An in-depth analysis of the submissions was later to be carried out by the Evaluation Committee. From the preliminary inspection of the bids, it was noted that the bids by Image Hospitals and BSP Investments Ltd did not contain a bid bond. On the other hand, the VGH had provided the obligatory bid bond.

4.1.5 The bid opening process was documented by the two notaries and a report was submitted to the Evaluation Committee. This was subsequently annexed to the report on the adjudication of the bids prepared by the Evaluation Committee.

4.2 The bid by Vitals Global Healthcare Ltd

4.2.1 In line with the requirements of the RfP for the redevelopment, maintenance and operation of the sites at the SLH, the KGRH and the GGH, the bid by the VGH was submitted in four separate volumes, that is: Volume A, wherein the details of the VGH as the bidder submitting the proposal
were provided; Volume B, where the technical and operational considerations were presented; Volume C, which contained the business plan; and Volume D, where the financial offer was outlined. An Executive Summary, which provided an overview of the entire business proposal, was also submitted.

Volume A: General bidder information

Bidder profile

4.2.2 The initial section of the bid, that is, Volume A of the submission, provided the company details of the VGH, illustrated the professional and technical qualifications of the company and its key staff in the areas related to the concession, and gave information on its financial standing. With regard to the bidder profile, it was indicated that the VGH was a limited liability company incorporated and registered in Malta on 13 May 2015, with registration number C 70546. The company was a wholly owned subsidiary of Bluestone Investments Malta Ltd, a limited liability company also incorporated in Malta and which, in turn, was wholly owned by Bluestone Special Situation 4 Ltd. Bluestone Special Situation 4 Ltd formed part of Oxley Group. According to the bidder information provided, the VGH had 1,200 ordinary shares of €1 each.

4.2.3 The VGH intended to incorporate and fully own two subsidiaries, namely, VGH Assets Ltd and VGH Management Ltd. The former was to hold the emphyteutical title to the properties, carry out the necessary redevelopments, and manage the Sites. The latter company was to operate the hospitals. According to the bid, the VGH had entered into an agreement with the Medical Associates of Northern Virginia Incorporated to form a joint venture for the operation of the Sites. The proposed corporate structure is illustrated in Figure 11.

Figure 11 | Vitals Global Healthcare Ltd Corporate Structure
4.2.4 Details of the VGH’s current directors and authorised signatories were also specified in the bidder information submitted. In this regard, Mr Ram Tumuluri and Mr Mark Edward Pawley were indicated as holding these positions. With regard to the contact details of the VGH, the NAO noted that no corporate contact particulars were provided; instead, the personal telephone number and e-mail address of Mr Tumuluri were provided.

4.2.5 A resolution by the VGH board of directors approving, ratifying and confirming the contents of the proposal was also submitted. Moreover, the resolution authorised Mr Tumuluri, as director, to represent the Company in all matters concerning the proposal and to sign the proposal on behalf of the VGH. A declaration indicating that the VGH was not affected by any potential conflicts of interest and that the Company had no link with other tenderers or parties involved in the competitive award process was also made.

Bidder’s professional and technical qualifications

4.2.6 In this section of the bid, the professional and technical qualifications possessed by the VGH and its key staff in the areas pertinent to the concession were outlined. In this regard, it was reiterated that the VGH formed part of the Oxley Group. Founded in 2007, Oxley Global Ltd was an investment holding company with ownership of a diversified business group focused principally on the Asia-Pacific region, with operations that spanned real estate funds and asset management, merchant banking and financing, and operating platforms particularly in healthcare and aged care. Of particular relevance to the requirements of the RfP, it was indicated that Oxley’s principals and partners had an extensive background in healthcare and aged care, had invested in the sector globally in a number of ways, had been responsible for innovative transactions, and were creating platforms in partnership with governments and the private sector in healthcare in a number of areas. Further details on some of these undertakings were provided.

4.2.7 In addition to the involvement in the various healthcare projects, information on the operational and management experience of the key staff forming part of the VGH’s bidding group, and that of its strategic partners for this project, was submitted. According to that stated, this experience was to ensure that the operation of the Sites was the best-in-class. Among others, particular reference was made to the Medical Associates of Northern Virginia Incorporated, which was indicated as the medical support team for the VGH. According to the bid, the two parties had agreed to collaborate on the hospital projects in Malta and Gozo, whereby the former, with its network of physicians and knowledge in medical and clinical areas, was to provide the management, support and guidance for the project. In exchange for these services, the Medical Associates of Northern Virginia Incorporated was to have equity participation in the project. The VGH also indicated that the rehabilitation centres will be managed in partnership with the Walter Reed Medical Centre of Prosthetics, which was a world-renowned rehabilitation services facility.
4.2.8 According to the bid, the management of the hospitals was to be governed by a medical board, which was expected to consist of 12 members. Nine of these members were to be provided through the agreement between the VGH and the Medical Associates of Virginia Incorporated. Regarding the staffing structure, the human resources strategy projected that, while for approximately the first one and a half years only the existing human resource complement would largely be retained, additional staff would be gradually recruited until January 2017. With regard to the CEO, the Chief Financial Officer (CFO) and the Change Manager, these were to be engaged from the beginning of the contract. While it was indicated that the VGH was at the time evaluating potential candidates for the position of CFO, the CEO and the Change Manager had already been identified. Moreover, in addition to the medical professionals who were to form part of the medical board, and who were also to act as visiting physicians, the VGH indicated that it would recruit a number of other specialists who would act as visiting physicians.

Summary of VGH’s key credentials for the project

4.2.9 The VGH presented a summary of its key credentials (Figure 12 refers) as to why it was best placed to be awarded the concession, namely:

a | extensive experience in delivering and managing healthcare projects;

b | strong management and financial expertise;

c | the ability to tap medical tourism from Europe, North America and Africa; and

d | a modern and innovative team and technology to make the Sites leaders in innovation.

Figure 12 | Vitals Global Healthcare key credentials
4.2.10 In support of the above, the VGH further submitted the following justifications:

a | Strong management and financial expertise:
   - Bluestone Funds was a private equity fund group based out of Singapore;
   - Bluestone Funds and its associate companies had been involved in developing and managing various real estate developments, including healthcare projects; and
   - with a strong leadership team with over 100 years of combined experience in the healthcare industry, the investor group was well-positioned to deliver the project in a timely and efficient manner.

b | Extensive experience in delivering and managing healthcare projects:
   - the medical board would comprise medical professionals who were serving on the boards of esteemed organisations;
   - a consortium of medical professionals from renowned hospitals in the US and the UK would be engaged as visiting and consulting doctors; and
   - the potential candidates for the positions of CEO, CFO and Change Manager possessed a wealth of experience from the US, Canada and the UK (NHS).

c | Ability to tap medical tourism from Europe, North America and Africa:
   - VGH believed the market size for medical tourism ranged between €38.5 to €55 billion, based on approximately 11,000,000 cross-border patients worldwide spending an average of €3,500 to €5,000 per visit, including all medically related costs, cross-border and local transport, inpatient stay and accommodation;
   - a dedicated focus on working with health tourism organisations in the US, Canada, Europe and Africa to attract medical tourism;
   - an ultimate goal to make Malta and Gozo as ‘The Destination Health’ within the next ten years; and
   - specialties to attract medical tourism, specifically orthopaedics, cardiovascular, geriatric care and prosthetic procedures.

d | A modern and innovative team and technology to make the VGH hospitals leaders in innovation:
   - the design, concept and operations were to include innovative, efficient, and environmentally sustainable technology and materials;
   - the delivery of the project in a timely and efficient manner through the investor group’s own patented modular precast technology;
   - the investor group had the ability to provide pure drinking water and air conditioning with their own atmosphere water technology; and
   - in partnership with Siemens and GE Healthcare, the VGH would provide the latest and state-of-the-art medical technology.
The design and construction team

4.2.11 With respect to the design and construction team, the VGH indicated that it would bring to Malta an unmatched design and construction team which would merge the best of international and local design and construction professionals. The VGH asserted that its team would work to deliver quality, time-sensitive, compelling and patient-centred design solutions while meeting the schedule and technical requirements of Projects Malta Ltd and the stakeholders. In order to successfully deliver these complex projects, the VGH planned to deploy a design and construction team of international professionals with vast experience in countless healthcare and academic medical centre projects, augmented by local design and construction professionals.

4.2.12 According to the VGH, the design and construction team engaged had constructed award-winning healthcare and academic medical centre projects over many decades worth billions of dollars. From a design perspective, Heery Design, a division of Balfour Beatty, had completed the preliminary conceptual design studies for the SLH and the GGH sites and would continue as design architects for the projects. With regard to construction, the VGH construction team was to be led by Shapoorji Pallonji, who were one of the largest construction and construction management companies in the world. VGH indicated that Shapoorji Pallonji would work closely with local trade and subcontractors to identify, procure and engage as much local construction participation as possible, in order to provide the most economic benefit to Malta. With regard to mechanical, electrical and plumbing design professionals, the VGH maintained that it had retained a specialised company, Specialized Engineering Solutions, located in the United States but with world-wide reach, that would be assessing both Sites for engineering requirements and would develop design solutions which would minimize energy use while maximising operational reliability. Further information on the firms forming part of the VGH’s design and construction team was provided, including details of several projects undertaken by the firms in question.

The equipment suppliers

4.2.13 The VGH indicated that it had also selected two suppliers, Siemens Healthcare and GE Healthcare, to provide the medical equipment for the hospitals. According to the VGH, these suppliers were listed as two of the top five medical device manufacturers in the world. The VGH’s collaboration with Siemens Healthcare and GE Healthcare would therefore enable it to make use of the latest, state-of-the art medical equipment for the Project.

4.2.14 Siemens Healthcare was a medical device company that provided a wide range of devices and healthcare IT solutions to hospitals, clinics, and residential patients worldwide. With regard to its product portfolio, Siemens Healthcare supplied laboratory diagnostic equipment, hearing instruments, healthcare IT solutions, medical imaging systems, therapy systems, refurbished systems, and other originally manufactured equipment. The Company’s service offerings included laboratory diagnostics services, imaging and therapy services, healthcare consulting, managed equipment services, and IT services. The Company also provided medical devices
for a wide range of therapeutic areas such as cardiology, neurology, oncology, orthopaedics, women’s health, allergy, anaemia, autoimmune disorders, metabolic disorders, infectious diseases, growth disorders, hepatitis, thyroid disorders, and blood glucose monitoring. Today, Siemens Healthcare was one of the world’s largest suppliers of technology to the healthcare industry and leaders in medical imaging, laboratory diagnostics and healthcare IT.

4.2.15 According to the VGH, its other supplier of medical equipment, GE Healthcare, a subsidiary of GE Electrical Co., manufactured and marketed diagnostic imaging systems, healthcare IT solutions, and patient monitoring and cardiac devices. The company also provided transformational medical technologies and services. The company’s major product offerings included X-ray, ultrasound, MR, C-arms, patient monitoring, fluoroscopy, CT, respiratory care devices, radiography equipment, and clinical workflow and patient care solutions. It also offered an array of services, such as training and education, business consultancy, financial and leasing services, clinical services, and maintenance and repair. GE Healthcare have provided medical equipment to hospitals in the UK, Germany, Spain, Turkey, Australia, Sri Lanka, Vietnam, China, the Dominican Republic, Venezuela, Honduras and Colombia.

4.2.16 A supplier for the electronic health records/electronic medical records system, Utile Technologies, had also been selected to supply the Electronic Health Records/Electronic Medical Records Systems. According to the VGH, this US-based firm had a track record in the implementation of similar health and patient record management systems which would ensure continuous and uninterrupted availability of information and process flows, and interface with any current or future government health care and other information systems. Utile Technologies also partnered with government agencies and businesses of all sizes and verticals to architect, develop, implement, measure, optimise and maintain solutions that drive their success metrics.

The external advisors

4.2.17 The VGH indicated that it was being assisted by other firms in an advisory capacity in connection with the Project. These included PwC Malta as the Company’s financial advisors and Deguara Farrugia Advocates as its legal advisors.

4.2.18 With regard to its financial advisors, the VGH indicated that PwC was the leading and largest professional services organisation in Malta, providing industry-focused assurance, tax and advisory services to enhance value to clients. The Malta firm formed part of the PwC company’s international network with more than 180,000 employees in 158 countries worldwide. Within the broad range of services which the PwC provided, the principal areas were assurance, tax services, company administration services, transaction services, crisis management, business and performance improvement, change and programme effectiveness, internal audit services and human resource services. In Malta, the PwC was responsible for serving a large and diverse client portfolio comprising some of Malta’s top organisations. Its client list included a number of public companies and institutions, private companies both large and small, foreign and local, and Government-related companies.
4.2.19 According to the bid, the PwC was one of the largest healthcare professional services firms and one of only four global consulting networks with leadership positions in each of the key sectors of pharmaceutical, life sciences and government healthcare consulting. With engagements in every sector of the healthcare industry, the firm had earned the trust and confidence of governments and healthcare organisations worldwide and had helped governments with major health reforms and public health policy initiatives. The PwC had helped clients in the healthcare industry manage today’s key issues, such as revolution in care as enabled by technology, regulatory reform, impact of new science, innovation and wellness strategies, and new capital project and infrastructure as well as public-private partnerships.

4.2.20 The legal advisory firm engaged by the VGH was Deguara Farrugia Advocates, a Malta-based law firm set up in 2003. In recent years, the firm had established itself as a prominent commercial law firm covering various practice areas, including funds and investment services, banking law, corporate and commercial law, capital markets, gaming and betting law, litigation and arbitration, public procurement and privatisation, trusts and fiduciary services, real estate, yachting and aviation, shipping and admiralty law and tax. Deguara Farrugia Advocates acted for and advised international organisations, private and listed companies, funds and investment service providers, credit and financial institutions and high-net-worth individuals from around the globe. Throughout the years, the firm has assisted clients on a multitude of deals and local and cross-border transactions, including the provision of legal assistance and advice on the setting up of businesses and joint ventures, licensing and regulatory matters, mergers and acquisitions, initial public offerings, the setting up of international corporate structures and group reorganisations in the course of privatisation and tender processes, and had acted as the legal advisor for the Privatisation Unit of Government in connection with public concessions and tenders.

Financial information

4.2.21 In its submission of its financial data, the VGH reiterated that it formed part of the Oxley Group. Oxley Global Ltd was a private investment and fund management group, which had been in existence since 2007 with ownership of a diversified business portfolio. Oxley’s flagship investment, Cambridge Industrial Trust, was listed in the Singapore Exchange, was managed jointly with the National Australia Bank and Mitsui since 2008, and had a market capitalisation of $900,000,000, and assets under management of $1.4 billion. Oxley Asset Management Ltd, a wholly owned subsidiary of Oxley Global Ltd, acted as the asset manager for two other classes of funds, Bluestone Opportunity Funds and the Bluestone Special Situation Funds, which had completed 15 deals with an aggregate value in excess of $500,000,000. Oxley Global Ltd and its associates ran entities that were regulated in Singapore, Australia and the Cayman Islands. Oxley Global Ltd and its entities were also subject to regulation by the Monetary Authority of Singapore. Cited in the bid was that, as a private investment firm, the Oxley Group was not subject to the requirement to publish audited financial statements on either a quarterly or annual basis.
4.2.22 The total projected capital expenditure for the project, including interest on the capital, was €179,000,000, of which €170,000,000 was the capital spend with interest in the initial years of €9,000,000. Of this expenditure, 70 per cent was to be funded through a bank loan (approximately €125,000,000), 23 per cent through an equity injection of €41,000,000, six per cent through a separate financing agreement intended to finance the acquisition of the helicopter (€10,000,000) and the remaining one per cent from operations.

4.2.23 According to the bid, Oxley Capital Group was committed to invest an initial $30,000,000 equity in Bluestone Special Situation 4 Ltd, which would then invest in Bluestone Malta Ltd. A letter from the Bank of India confirming the availability of funding was attached in support of this. In addition, a syndicate of doctors, represented by one of the members on the VGH’s medical board, was committed to invest up to €40,000,000 equity. Evidence of this funding ability was also attached.

4.2.24 The VGH’s funding model for this project envisaged €125,000,000 of debt financing. In this regard, the following financing options were said to be considered:

a | bank and construction finance from a couple of the Company’s core relationship banks:
   - UBS had indicated their strong interest in providing €125,000,000 of financing and a copy of the relevant draft term sheet was attached as evidence,
   - the RHB Bank in Singapore was also interested in providing financing, and a copy of their email and presentation was attached as supporting documentation; and

b | a commitment from DWPF in London, on behalf of one of their major clients, Allianz UK, to issue a 40-year €160,000,000 PPP bond; a copy of their letter, and Allianz’s letter of intent, were also attached.

The Declaration of Honour Statement

4.2.25 The requisite Declaration of Honour Statement was submitted by the VGH in line with that specified in the RfP. To this end, the VGH declared and warranted on their honour as bidders for the concession that they were not in any of the following situations:

a | insolvent, bankrupt or being wound up, are having their affairs administered by the courts or other tribunal, have entered into an arrangement with creditors, have suspended their business activities, were the subject of proceedings concerning those matters, or were in any analogous situation arising from a similar procedure under any applicable law or in any jurisdiction or country;

b | have been convicted of an offence concerning their professional conduct by a judgement which had the force of a res judicata under any applicable law or in any jurisdiction or country;
c | had been guilty of grave professional misconduct under any applicable law or in any jurisdiction or country;

d | had not fulfilled its obligations relating to the payment of social security contributions or the payment of taxes or other fiscal dues under any applicable law or in any jurisdiction or country;

e | had been the subject of a judgement which had the force of a res judicata for fraud, corruption, money laundering, involvement in a criminal organisation or any other illegal activity under any applicable law or in any jurisdiction or country; and

f | following another procurement or award procedure whether in Malta or elsewhere, had been declared to be in serious breach of contract for failure to comply with procurement, award or other contractual obligations under any applicable law or in any jurisdiction or country.

4.2.26 The Declaration of Honour Statement was dated 19 May 2015 and was signed by Mr Tumuluri on behalf of the VGH.

Volume B: Technical and operational considerations

4.2.27 The documentation in this volume of the bid addressed the technical and operational requirements set out in the RfP, inter alia, relating to:

a | the method statement for the management and continued provision throughout the concession of services and a detailed description confirming the methods used to ensure, at least, the delivery of the services required by Government constantly and consistently throughout the concession;

b | a detailed proposal for infrastructural and medical equipment investment and maintenance in the form of a detailed and structured plan with clear deliverables for the infrastructural and civil works and the anticipated capital investment throughout the concession and the management thereof;

c | proposals on the local community, applicable development planning legislation and the environment;

d | proof of the bidder’s experience in the management and operation of healthcare and ancillary services;

e | proposals with respect to the existing employees and any additional skills and resources to be recruited, as well as a statement on the method undertaken to assess the staffing arrangements required to ensure the prompt, effective and efficient provision of the
services to be provided pursuant to the concession, including the requirements of the medical school at the GGH and the nursing university-level institution at the SLH; and

f | an undertaking that the bidder was able to meet the deadlines for the completion of the redevelopment programme for each of the Sites.

The strategic context

4.2.28 The first part of the VGH’s submission on the technical and operational aspects of the bid provided the strategic context within which the project was to be implemented. Initially, a description of Malta’s existing socio-economic context, which provided a baseline against which the potential impacts of the project could be assessed, was presented.

4.2.29 Baseline reports on population, economic growth and other socio-economic conditions were given. With regard to the population profile, information on total population, the old-age dependency ratio, births and deaths, and life expectancy was given. Economic indicators relating to the GDP, the gross value added of various sectors in the economy, and foreign direct investment were outlined. Aspects of key social indicators were also presented, including data on average disposal income, the at-risk-of poverty and social exclusion, the human development index, and employment. The health status of the Maltese population was also reported on, with information on common diseases and main causes of death, lifestyle and future challenges. An overview of the healthcare system was provided, which delved on issues such as expenditure on healthcare, the funding of healthcare services, and healthcare providers and services. Several secondary healthcare key performance indicators were also surveyed, including ratio of beds to 100,000 population, hospital bed ownership and function, number of operating theatres and operations carried out, admissions and discharges, average length of stay and waiting lists. Finally, the human resources in the health sector and the medical technology available were reported on.

Vitals Global Healthcare’s vision for the proposed operations

4.2.30 This section of the bid commenced with the vision statement of the VGH which, it was stated, encapsulated the purposes for which the Company was set up, that is:

“As members of a progressive and reputable healthcare system, we deliver comprehensive, high quality services to the local and extended community.”

4.2.31 VGH maintained that considerable effort was expended in order to develop optimal solutions for the deployment of the appropriate and necessary capital and resources at the Sites. The Company’s plans for the project focused on the following principles, among others:

a | providing more beds, programmes and services, thereby contributing to the mitigation of national bed capacity issues and waiting time for procedures;
b | maintaining an uninterrupted access and service at the GGH and the KGRH that were then operating;

c | developing appropriate project phasing options in order to meet schedule and occupancy goals;

d | investing appropriate resources to develop healthcare facilities that were durable, flexible, sustainable, efficient and would serve as a long-term resource for the Government, Maltese citizens, international visitors and medical tourists;

e | providing high-quality patient care and improved accessibility to specialised care for locals;

f | helping to attract medical tourism and in turn generate additional economic activity in Malta and Gozo;

g | creating a centre of excellence for education, research and training in the healthcare sector through Barts and the envisaged nursing school; and

h | providing modern equipment and information communication systems, which would enhance patient experience by supporting a culture of safety and improving patient outcomes.

4.2.32 It was envisaged that the project would generate additional value to the Maltese community through improvements in the healthcare facilities and access to better care for patients. The additional capacity that the hospitals were to provide would bring about incremental services, a reduction in waiting time and improved access to high quality care. With regard to the VGH’s strategic direction, the strategies to be implemented intended to achieve specific outcomes, including:

a | person- and family-centred care through enhanced clinical services and robust primary care;

b | social responsibility and leadership through adopting best practice in quality, designing future models in care and ensuring health equity;

c | well-qualified health care professionals, researchers, educators, staff and leaders who would shape the future through new interdisciplinary and inter-professional models and education for a skilled health-care workforce;

d | high impact research across the full continuum to improve health;

e | excellence in people by attracting, retaining and mentoring a diverse faculty, staff, students, trainees and leaders, and creating an optimal lifelong learning environment that nurtures and supports ongoing career growth and development;
f | a culture that fosters a collaborative, diverse and effective organisation at all levels;

g | sustainable resources through the optimal use of resources and the diversification of revenue, among others; and

h | the strategic use of technology.

_Envisaged facilities and service offering - Gozo General Hospital_

4.2.33 In the bid, the VGH outlined in considerable detail its vision for the GGH. As an overarching objective, the VGH maintained that, while the opportunity to transform healthcare for an entire island was a rare occurrence, its leadership, financial, design, management and clinical teams had endeavoured to develop a new paradigm for the delivery of care in Gozo. While cognisant of the financial and schedule goals, the VGH acknowledged the need to consider the delivery of care, patient and family centeredness, staff and clinical efficiency, aesthetics, durability and evidence-based design. According to the VGH, it had considered each of these elements and would continue to do so as the project evolved and was ultimately realised.

4.2.34 Stated in the bid was that, with the development of the Gozo medical complex, delivery of care on the island would be refined, enhanced and additional clinical capacities would be created. The key goals identified by the VGH reflected the following guiding principles:

a | develop a state-of-the-art medical facility and international standard for medical services to the residents of Malta and Gozo;

b | serve as a health tourism destination for patients from Europe, Africa and other international destinations;

c | provide additional inpatient, rehabilitation and long-term care capacity with appropriate separation of acute care and long-term care services;

d | create a learning platform for medical education, through relationships with Barts London School of Medicine and Dentistry; and

e | enhance communications and develop best practices for healthcare delivery through relationships with a world-wide team of clinicians, administrators and medical advisory boards.

4.2.35 The primary goal in redeveloping the Gozo campus was to modernise the existing hospital, provide additional inpatient capacity, expand healthcare opportunity on the island, increase employment through the enlargement of the campus, and develop an educational hub given the recent agreement between the Government and Barts London School of Medicine and Dentistry. Phased openings were planned, with the medical college, dormitories and the
anatomy centre to open in September 2016, followed by the occupancy of the clinical care tower, a satellite central utility plant, and subsequent renovations to the existing hospital which would include expanded rehabilitation and long-term care beds.

4.2.36 With regard to the capacity of the GGH, the VGH envisaged that this would be increased from a 110 acute-bed and 170 long-term care hospital to a 225 acute-bed and 220 long-term care hospital. In addition, the model of care would also change with 125 acute beds and 175 long-term beds to be provided to Government and 100 acute beds allocated to medical tourism (Figure 13 refers). Bed occupancy was projected to be at a minimum of 80 per cent.

Figure 13 | GGH envisaged facilities and service offering

<table>
<thead>
<tr>
<th>Gozo General Hospital</th>
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<tbody>
<tr>
<td>Existing</td>
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<tr>
<td>110 acute</td>
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<tr>
<td>170 long-term care</td>
</tr>
<tr>
<td>After development</td>
</tr>
<tr>
<td>225 acute</td>
</tr>
<tr>
<td>175 long-term care</td>
</tr>
<tr>
<td>Public (free service)</td>
</tr>
<tr>
<td>125 acute &amp; 175 long-term beds</td>
</tr>
<tr>
<td>Private (medical tourism)</td>
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<tr>
<td>100 acute beds</td>
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4.2.37 The service offering at the GGH was to be as follows:

a | practices, operations and protocols that were in line with European and UK standards;

b | local medical practitioners supplemented by visiting speciality doctors from the US and the UK;

c | consolidation of acute beds within a single location to provide a dedicated setup and focus for the patients’ needs;

d | dedicated and standalone setup for long-term acute geriatric care which would be in a separate building, away from the acute hospital building;

e | a state-of-the-art emergency department;

f | seven operating theatres that would be used for delivering acute procedures in addition to the central operating theatres for elective procedures and emergency work. The annual throughput was anticipated to be of around 10,000 procedures;

g | small scale and specific wards by department providing more privacy, dignity and single sex accommodation;

h | 15-20 outpatient consultation and examination rooms that would be housed in the existing GGH building, which would be refurbished. The activity was expected to remain fairly
constant and capable of supporting the 53,000 outpatients per annum serviced at the GGH in 2013 and growing in line with past trends of around five per cent annually; and

- speciality care attracting medical tourism.

4.2.38 With regard to the acute services, the VGH indicated that the 225 acute beds would be housed in a single acute facility of approximately 25,000 square metres and would be principally split into the following wards:

- acute general with 120 beds;
- orthopaedic, 30 beds;
- acute psychiatry, 20 beds;
- obstetrics and gynaecology, 10 beds;
- paediatric, 12 beds;
- renal, 5 beds;
- ICU/CCU, 12 beds; and
- cardiology, 16 beds.

4.2.39 Detailed submissions were then made with respect to every area of medicine that was provided at the GGH and the outcomes that the proposed project was to achieve when executed. Details of the existing services and the anticipated outcomes are provided in Figure 14.

Figure 14 | Current set-up and envisaged services - GGH

<table>
<thead>
<tr>
<th>Current set-up</th>
<th>Envisaged services</th>
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<tbody>
<tr>
<td><strong>Acute services</strong></td>
<td></td>
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<tr>
<td>110 beds</td>
<td>225 beds, of which 125 would be allocated to Government and the remaining 100 would be allocated to medical tourism</td>
</tr>
<tr>
<td><strong>Orthopaedic</strong></td>
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</table>
| the current facilities at the GGH are inadequate to provide a full scope of orthopaedic services. Total number of surgeries average to around 260 per year. There is a combined waiting list of over 1,000 patients for orthopaedic surgeries in Malta and Gozo | - brand new dedicated orthopaedic surgery suite  
- 30-bed orthopaedic ward  
- day surgery with five day-beds for minor orthopaedic surgeries  
- two dedicated outpatient wards for orthopaedic-related visits |
### Cardiology

- 15 bed dedicated cardiology wing
- Cardiac Catheterisation Laboratory for diagnostic procedures, interventional procedures, placement of pacemakers and implantable cardioverter defibrillators
- Cardiovascular ICU for patients recovering from open-heart, vascular and thoracic surgeries
- Post Coronary Intervention Unit
- Cardiac Step-Down Unit
- Cardiac Telemetry Unit that provides continuous monitoring of heart patients who are having or are at risk of complications, or those recovering from a cardiac event or procedure with radio-frequency telemetry monitor in each bed that sends signals to central nursing station
- Post-surgical Cardiac Rehabilitation Programs for faster, fuller recoveries and improved quality of life under the direction of specially trained staff
- Advanced Arrhythmia Centre
- Endovascular Surgery Centre

### Trauma and emergency

- a new ICU/CCU unit in the new acute hospital wing with a dedicated entrance and a helipad for attending emergency airlifts etc; the ICU/CCU will have 12 beds and the unit will be connected to surgery suites, laboratory and imaging departments

Although recent improvements to the Cardiology department made a difference in wait times and treatment quality, the GGH lacks a genuine Cardiology department with full surgical and vascular services; currently any patients with complications for requiring major surgeries are transported to the MDH which is also running at a full capacity.

The six-bedded CCU (Cardiac Care Unit) at the GGH currently has to double as ITU/HDU (Intensive Care Unit/High Dependency Unit) resulting in average bed occupancy of 85 per cent and daily patient turnover of up to eight patients a day with shifting of very ill patients to and from the general wards based on clinical priority rather than on intrinsic case requirements. The current capacity of the Renal Unit is too small to cope with local population needs and previous services to external visitors on dialysis have had to be curtailed.
**Gastroenterology centre and surgery**

<table>
<thead>
<tr>
<th>Description</th>
<th>Action</th>
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<tbody>
<tr>
<td>There is no special care unit as such at the moment but on average there are over 700 minor surgeries a year that are performed at the GGH. As per the records, there are over 5,000 visits from outpatients who visit the GGH in relation to gastroenterology problems. Any complicated cases are referred to the MDH, where over 9,000 surgeries are performed on an annual basis.</td>
<td>New and upgraded facilities and medical equipment to address various gastroenterology-related ailments. Referrals to MDH to be eliminated and to handle as many cases as possible at the GGH. The Gastroenterology Department will provide comprehensive care for patients with upper and lower gastro-intestinal, hepatobiliary and pancreatic disorders through consultant gastroenterologists and associate specialists, as well as specialist nurses. To perform approximately 1,000 procedures per year and will provide the following specialist services: in-patient care (primarily), daily acute gastro-intestinal referrals, parenteral nutrition, upper gastrointestinal cancer fast track management, out-patient assessment, inflammatory bowel disease, viral hepatitis treatment, hepatology clinic, and the bowel cancer screening programme.</td>
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</table>

**Surgery department**

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<tr>
<th>Description</th>
<th>Action</th>
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<tbody>
<tr>
<td>The GGH only has two surgery suites of which only one is equipped to do most of the minor surgeries. The GGH performed over 2,000 surgeries per year due to lack of surgery suites and proper medical equipment.</td>
<td>Develop a well-designed surgery suite with state-of-the-art equipment to be able to perform minor to major surgeries. Integrate innovative technologies in the surgery rooms that will allow the Barts students to observe from their classrooms. Perform an average of 1,000 orthopaedic surgeries per year and around 500 minor cardiology surgeries per year. Surgical suite facilities: two major operating theatre, one intermediate operating theatre; one endoscopy theatre, one obstetrics/gynaec theatre and two outpatient surgery theatres.</td>
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</table>

**Internal medicine**

<table>
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<th>Description</th>
<th>Action</th>
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<tr>
<td>The Chemotherapy and Pain Management Departments at the GGH were recently upgraded through EU funds. It is estimated that over 75 patients are receiving regular treatments at the GGH. This is an area where GGH holds better equipment and support staff.</td>
<td>The Centre for Cancer Care will deliver the latest medical oncology and haematology care, including chemotherapy, biological and other targeted therapies, haematology services, access to national clinical trials, and support services for patients and families. The following services for medical oncology and haematology therapy will be offered: outpatient chemotherapy clinic, infusion centre, bone marrow biopsies, hormone therapy and genetic testing.</td>
</tr>
<tr>
<td><strong>Respiratory medicine</strong></td>
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<tr>
<td>the GGH has very limited access to proper equipment and medical professionals in the area of respiratory medicine. Currently, the services are spread over across the GGH and there is no flow of delivery. These need to be in a dedicated area to facilitate patient service</td>
<td>the Department of Respiratory Medicine will offer the highest quality of care for patients with respiratory disease and will contribute towards the improvement of respiratory healthcare through the service it will provide, as well as through education and training. Diagnoses to include chronic obstructive pulmonary disease, asthma, pneumonia, lung cancer, tuberculosis, bronchiectasis, sarcoidosis and lung fibrosis. The department will offer a wide range of in and outpatient services. The respiratory ward will be situated in the new wing of the hospital and will be equipped with the latest medical equipment</td>
</tr>
<tr>
<td><strong>Obstetrics and gynaecology</strong></td>
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</table>
| the GGH lacks specialised obstetric delivery suites and an obstetric emergency theatre. There is only one delivery room which is not up to required standards and does not accommodate simultaneous births, with other rooms having to double as a delivery suite. There is inappropriate mixing of gynaecology and obstetrics patients because of the lack of proper facilities. Obstetric surgery is carried out in the main operating theatre, with emergencies having to compete for theatre space and time with non-obstetric care | - dedicate a 10-bed ward for obstetrics and gynaecology  
- build a specialised obstetric surgery theatre and three obstetric delivery rooms with new and improved medical equipment and well-trained staff  
- provide services ranging from wellness checks to diagnostic services to advanced treatment options |
| **Paediatric**                                                                                                                                             |                                                                                               |
| there are currently 10 beds for paediatrics and the facilities need to be upgraded and new technology is required to meet the current demands. Gozo was once a destination for maternity and paediatric care but in recent years, due to lack of facilities and modern equipment, that trend has decreased | a new paediatric ward will have a dedicated 12-bed unit with a playroom, offering an ideal family-centred care environment for children, their families and doctors |
| **Acute psychiatric ward**                                                                                                                                |                                                                                               |
| the current acute psychiatric ward has around 12 beds and around 40 long-term psychiatric beds at its long-term care unit. There is a critical need to increase bed capacity to meet the increasing demand | the 20-bed psychiatric acute treatment program will provide a secure environment for the rapid assessment, intensive observation and treatment of patients with acute psychiatric needs. This care will be provided in an environment that respects patients and supports their strengths and goals. Discharge planning will include referrals to the outpatient programs available at the GGH |
### Hyperbaric department

The current hyperbaric chamber provides for a single patient at any one time with no back-up. It is used to treat tissue viability cases as well as decompression sickness associated with diving incidents. Gozo is highly popular with divers attracting 35,000 divers per year and statistics show that 34 per cent of all diving incidents on the Maltese Islands occur in Gozo or Comino. A larger chamber would enable the concurrent treatment of more than one diver at a time and would eliminate the need to transfer such patients to Malta by helicopter, improving their chances of survival significantly. To increase the capacity of the hyperbaric department to meet the current and future demands by installing multi-place chambers.

### Outpatient department

There is a very limited number of outpatient wards at the GGH. The demand is high, with an average of over 55,000 visits serviced per annum. The need for community outreach is critical and the primary care facility is not available. Hospital capacity is further stretched because of a complete lack of a rehabilitation facility together with the lack of community outreach facilities. Any rehabilitation of patients translates into prolonged acute bed occupancy. Core support services, such as laboratory and pharmacy, are outdated in structure and practice and require modernisation and upgrading. Primary healthcare in Gozo is rudimentary at best and needs complete re-engineering into a modern regional primary care hub. To develop a dedicated entrance to all the outpatients' wards, with over 20 outpatient wards with various disciplines. The plans are to develop a primary care centre, child-care centre, and outpatient rehabilitation centre as part of the Outpatient Department. The outpatient wards will have easy access to imaging, lab services and pharmacy to facilitate various requirements. The outpatient facilities will include: 20-30 outpatient clinics, two outpatient surgery theatres, a primary care centre, a child-care centre, a health NGO resources and coordination centre, a regional health information and audit centre, and an outpatient pharmacy.

### Imaging department

The imaging department at the GGH needs a considerable upgrade as the current equipment, other than a new CT scan, are dated or not available.

### Medical laboratory/pathology department

Current laboratory services at the GGH are inadequate, resulting in the need to send the samples or refer patients to the MDH, which is not only inconvenient to the patients but also inefficient.

### Ambulatory services

The GGH has two ground ambulances that are fairly old and will need replacement in the near future. These include ambulances that are not equipped with radio communication. To upgrade or purchase three ground ambulances for the GGH.

The VGH will invest around €10,000,000 on acquiring and operating the air ambulance helicopter.

To deliver Malta’s first dedicated air ambulance to provide emergency critical rescue and care services; the VGH will invest around €10,000,000 on acquiring and operating the air ambulance helicopter.
### Acute geriatric care and rehabilitation care wards

<table>
<thead>
<tr>
<th>the GGH has 120 geriatric beds with over 95 per cent occupancy with an average length of stay of 28.3 days.</th>
<th>the new GGH will include an acute geriatric care and rehabilitation centre with a total capacity of 175 beds. The long-term care centre will have an area of around 18,000 square metres and will include three wards: the geriatric ward, long stay psychiatry ward and the rehabilitation ward and wellness centre</th>
</tr>
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<tbody>
<tr>
<td>The main deficiency is the separation between acute geriatric beds and the rehabilitation beds, resulting in patients who need to be rehabilitated and could potentially be moved to regular geriatric locations where the bed cost is lower. Currently there are no such facilities for rehabilitation care</td>
<td></td>
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</table>

### Other departments

| other services at the GGH will be offered and upgraded, including sports medicine, ENT, dentistry, pain management, cosmetic and plastic surgery, dermatology, infectious diseases, blood bank, nuclear medicine, pathology, pharmacy, prosthetic centre, nutrition and diet, speech therapy and hearing therapy |

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4.2.40 The GGH was also to support the Barts Medical College that was to be set up by the QMUL. According to the bid, Barts Medical College had entered into an agreement with the Government to commence operations in September 2016. The GGH was to be a teaching hospital in that it was to complement the investment in the College by providing students access to its doctors and facilitating the research, development and training programmes undertaken by the College.

4.2.41 The VGH maintained that the Barts Medical College would bring world-class teaching, training and education to Malta. It would also provide an avenue for R&D. The College was anticipated to focus its research on orthopaedics, cardiology, trauma and other areas of relevance to Malta, including local vaccinations and diseases. Barts Medical College was anticipated to attract around 60 students per annum in the first five years to follow undergraduate courses. In addition, students reading for their degree at the QMUL could visit the College for short periods to carry out research and for training purposes.

4.2.42 Barts Medical College would have a total area of 5,500 square metres and was to include facilities such as lecture halls, theatres, class/seminar rooms, anatomy and other laboratory facilities, as well as meeting rooms and offices. The College was also to have a 2,000 square metre R&D campus. According to the VGH, the College would provide limited onsite accommodation for its first-year students to ensure the safety of younger students. Other students and staff were expected to reside in residential and collective accommodation establishments in Gozo.

4.2.43 The service and operational relationship between Barts Medical College and the GGH was also outlined in the bid. In this regard, as part of the joint efforts and the opportunity of sharing the same medical campus, the GGH operations would need to be tailored in accordance with the goals and curriculum of the College. Particular areas that needed to be co-ordinated and strategised by the GGH and the College included:
a | the design and construction planning of the College;

b | the facilities and delivery of the physical building related to the College;

c | the timing and delivery of the College building as well as the medical facilities within the GGH campus;

d | the recruitment of physicians and specialists who would be working in the GGH who had past experience in teaching and providing lectures;

e | building potential working relationships with renowned universities to provide cross training and learning opportunities; and

f | creating an R&D department in partnership with Barts Medical College to share knowledge and promote working relationships and joint efforts.

4.2.44 With regard to the development of an R&D centre, the VGH maintained that it was committed to build a state-of-the-art R&D facility at the GGH and to work closely with Barts Medical College to identify the scope and areas of R&D. The VGH’s strategy for the R&D centre was to:

a | support the Government’s objectives to improve the nation’s health and increase the nation’s wealth;

b | place people at the centre of a research system that focuses on quality, transparency and value for money; and

c | respond to changes in society and the environment.

Envisaged facilities and service offering - St Luke’s Hospital

4.2.45 According to the bid by the VGH, the SLH was to be restored as an efficient, functional and modern venue for the delivery of health, rehabilitation and long-term care. Plans for this Hospital included the refurbishment of the exterior, the development of site amenities and green spaces, and the repurposing of existing buildings to support the teaching and dermatology programmes. The capital investment required was estimated to be approximately €54,000,000.

4.2.46 The redevelopment of the SLH was to achieve the following objectives:

a | develop appropriate medical tourism and acute care beds;

b | refresh and restore the historic exteriors present in the current structure;

c | create a nursing university downstream as scheduled in the RfP;
d | develop a holistic health centre in an outbuilding as defined in the RfP;

e | serve as a health tourism destination for patients from Europe, Africa, and other destinations;

f | provide additional inpatient and long-term care capacity; and

g | enhance communications and develop best-practices for healthcare delivery through relationships with a world-wide team of clinicians, administrators and medical advisory boards.

4.2.47 Primarily, the SLH was to be a 300-bed acute and rehabilitation hospital. It would accommodate a 180-bed rehabilitation centre, 24 beds for trauma patients, and 96 beds for acute care. Part of the SLH would be refurbished for non-residents, which would support approximately 25,000 outpatients per annum. A wellness centre at the SLH would have a hydrotherapy pool, areas for physical therapy and a gymnasium that would provide on-site physiotherapy facilities. The building occupied by the Malta Enterprise was projected to house the nursing university, which was to accommodate a minimum of 100 students.

4.2.48 The rehabilitation centre at the SLH would provide post-operation rehabilitation for procedures that typically required two weeks up to a month of recovery time. Of the 180-bed capacity, 80 would be for the use of Government while 100 would be allocated for medical tourism. The inpatient services that would be offered included:

a | internal medicine;

b | physical and rehabilitation medicine;

c | neurology;

d | physical therapy;

e | occupational therapy;

f | speech therapy;

g | 24-hour nursing;

h | respiratory therapy;

i | radiology;

j | laboratory services; and

k | pastoral care.
4.2.49 With regard to acute care, the VGH committed to offer 96 acute beds for medical tourism. Three specialities were to be offered at the SLH, that is, orthopaedics, cardiology and vascular surgeries, and a trauma care unit. A 24-bed dedicated trauma ward was also planned. While this would mainly cater for medical tourism, it would also assist Government in its efforts to offer humanitarian support.

*Envisaged facilities and service offering - Karin Grech Rehabilitation Hospital*

4.2.50 According to the bid, the project envisaged the renovation and upgrading of the existing premises of the KGRH to accommodate 320 long-term geriatric patients. The acute geriatric care unit interdisciplinary team model of care, that had been shown to improve outcomes in hospitalised older adults, would be employed at the KGRH. According to the VGH, this model of care was an evidence-based system designed to prevent patients from experiencing functional decline during hospitalisation. The aim was to minimise stress from hospitalisation and help patients return, as quickly as possible, to the level of independence and activity that they enjoyed before their illness. Studies showed that patients in acute geriatric care units were less likely to experience functional decline and complications during hospitalisation and were less likely to be discharged to a nursing home. A highly trained interdisciplinary team and coordinated care would offer a comprehensive suite of geriatric services.

*The total proposed investment and the broader socio-economic impacts*

4.2.51 In its bid, the VGH committed to:

a | construct an additional 225-bed acute facility at the GGH, with 125 beds to be provided to Government;

b | renovate and upgrade the existing GGH to convert it into a 175-bed long-term and rehabilitation centre;

c | construct a medical college to accommodate the Barts Medical College at the GGH;

d | renovate the SLH into a 300-bed hospital, with 80 rehabilitation care beds provided to Government;

e | refurbish KGRH into a 320-bed long-term and geriatric care hospital to be provided to Government;

f | refit an existing building at the SLH site as a nursing university-level institution; and

g | provide for 12 dermatology beds and clinics at the SLH.
4.2.52 To achieve these outcomes, the VGH projected a total capital expenditure of €170,300,000, of which €116,600,000 would be allocated to the GGH, €48,900,000 to the SLH and €4,800,000 to the KGRH.

4.2.53 The €170,300,000 capital outlay was apportioned on:

a | design and planning fees: €6,500,000;

b | preliminary and building works: €17,600,000;

c | mechanical and engineering services: €37,100,000;

d | finishes and external works: €31,800,000;

e | furniture and fittings: €4,300,000;

f | project management: €5,300,000;

g | medical equipment: €15,800,000;

h | helicopter: €10,400,000;

i | IT equipment: €3,200,000; and

j | other costs, including contingency: €38,300,000.

4.2.54 A summary of the timing of the capital cost outlays in relation to the project was also provided in the bid. In this regard, it was estimated that 72.5 per cent of the total capital spend would be paid out in the first 18 months, 25.4 per cent in 2017, and 2.1 per cent representing capital retentions (Figure 15 refers).
### Figure 15 | Timing of capital cost outlays

<table>
<thead>
<tr>
<th>Costs</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amounts in €000s</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Initial works:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- design and MEPA fees</td>
<td>2,928</td>
<td>2,913</td>
<td>658</td>
<td>-</td>
<td>6,500</td>
</tr>
<tr>
<td>- preliminary works</td>
<td>1,395</td>
<td>889</td>
<td>643</td>
<td>62</td>
<td>2,990</td>
</tr>
<tr>
<td></td>
<td>4,323</td>
<td>3,803</td>
<td>1,302</td>
<td>62</td>
<td>9,490</td>
</tr>
<tr>
<td><strong>Building works:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,350</td>
<td>9,445</td>
<td>3,561</td>
<td>281</td>
<td>14,637</td>
</tr>
<tr>
<td>Engineering services</td>
<td>14,130</td>
<td>17,424</td>
<td>5,132</td>
<td>375</td>
<td>37,061</td>
</tr>
<tr>
<td>Finishing and furnishing:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- finishes</td>
<td>4,050</td>
<td>17,864</td>
<td>4,217</td>
<td>254</td>
<td>21,385</td>
</tr>
<tr>
<td>- external works</td>
<td>158</td>
<td>2,519</td>
<td>2,525</td>
<td>250</td>
<td>5,451</td>
</tr>
<tr>
<td>- furniture and fittings</td>
<td>675</td>
<td>1,461</td>
<td>1,943</td>
<td>199</td>
<td>4,277</td>
</tr>
<tr>
<td>- equipment</td>
<td>2,903</td>
<td>10,241</td>
<td>5,381</td>
<td>475</td>
<td>19,001</td>
</tr>
<tr>
<td></td>
<td>7,785</td>
<td>32,086</td>
<td>14,067</td>
<td>1,178</td>
<td>55,115</td>
</tr>
<tr>
<td><strong>Other costs:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- project management</td>
<td>1,344</td>
<td>3,088</td>
<td>900</td>
<td>-</td>
<td>5,332</td>
</tr>
<tr>
<td>- publicity</td>
<td>51</td>
<td>215</td>
<td>281</td>
<td>29</td>
<td>576</td>
</tr>
<tr>
<td>- contingency</td>
<td>2,898</td>
<td>6,606</td>
<td>3,461</td>
<td>296</td>
<td>13,261</td>
</tr>
<tr>
<td>- VAT</td>
<td>5,739</td>
<td>13,080</td>
<td>5,167</td>
<td>400</td>
<td>24,385</td>
</tr>
<tr>
<td></td>
<td>10,032</td>
<td>22,989</td>
<td>9,808</td>
<td>725</td>
<td>43,553</td>
</tr>
<tr>
<td>Helicopter</td>
<td>-</td>
<td>-</td>
<td>9,364</td>
<td>-</td>
<td>10,404</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>37,620</td>
<td>85,746</td>
<td>43,233</td>
<td>3,661</td>
<td>170,260</td>
</tr>
<tr>
<td>Percentage cash flows</td>
<td>22.1%</td>
<td>50.4%</td>
<td>25.4%</td>
<td>2.1%</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.2.55 In addition to the initial capital expenditure of €170,300,000, the VGH planned for replacement capital costs of 0.25 per cent of the total capital expenditure for the first two years of operation, of 15 per cent of capital expenditure for the following three years, and of 2.5 per cent of capital expenditure thereafter. Furthermore, a 2 per cent inflation per annum was assumed on replacement capital expenditure. The total replacement capital expenditure budget for the 30-year concession was of €153,000,000.

4.2.56 Various socio-economic impacts were expected to result from the project. The construction of the new hospital in Gozo and the refurbishment of the SLH and the KGRH were expected to have a project commitment in excess of €190,000,000 and were to generate 700 incremental jobs in addition to the current staff complement of 1,540. From a public finance perspective, the project was expected to generate significant contributions to various tax bases, including VAT and income tax.

4.2.57 This investment was expected to help boost the construction sector in Malta, and particularly in Gozo. Direct expenditure incurred during the construction phase of the project would spur activity in those related sectors that provided goods and services during this phase. The increased economic activity for the construction sector as a whole was therefore likely to generate increased profits and give rise to induced expenditure and corresponding consumption within the local economy, creating a multiplier effect estimated to be in excess of €100,000,000.
4.2.58 The new and refurbished hospitals were expected to be completed by December 2017. The running of these facilities would require substantial recurrent expenditure to support the ongoing operations. The increase in the number of beds was expected to generate incremental operational expenditure that would have direct positive implications on the national economy. Moreover, the new hospital facilities were expected to encourage medical tourism in Malta and help establish this niche market. Boosting this niche market could help contribute towards Malta’s economic development and lead to a corresponding increase in GDP and consequently improve the general standard of living. In addition, encouraging activity within this sector could enable Malta to become less dependent on the traditional drivers of economic growth and diversify into emerging sectors with a higher value added, such as that put forward by medical tourism. This was also likely to improve Malta’s balance of payments position, as an inbound trend in medical tourism would increase the level of Maltese service exports. The development of a medical college and supporting teaching hospital was expected to bring about an array of incremental positive impacts, particularly with respect to innovation, education and training, as well as R&D. Local economy would also be impacted by the incremental spend generated by international students opting to study in Malta and lecturers of the Medical College.

The project implementation plan

4.2.59 The bid by the VGH provided specific timeframes for the completion of the project. With regard to the GGH, the VGH stated that it would adopt a phased approach, with the completion of the medical college by July 2016, the new acute wing by January 2017, and the remaining part at the GGH, including the renovations of existing facilities, by December 2017. In relation to the SLH and the KGRH, the VGH indicated that the RfP provided set timeframes in terms of the number of months from the day of the final signing of the concession agreement, with the SLH to be completed within 12 months and the KGRH within five months.

4.2.60 According to the VGH, with respect to Gozo, the most pressing schedule implications were related to completion and occupancy of Barts Medical College, as well as required planning or other permit activities. Towards that end, the VGH stated that they would commence design on notification as the successful concessionaire and would move forward with campus assessments and design efforts for each site. Phasing for the Gozo site had already been conceptualised and consisted of enabling projects to relocate the current occupants of the administrative and long-term care wards, together with the construction of a temporary ambulance shed and materials management stores. This would allow site clearing for the Barts Medical College and the Anatomy Centre projects to proceed. The VGH were also considering on-site fabrication of exterior wall and floor precast elements, which would expedite construction time for the exterior skins at Barts and the clinical tower. The deliverables and planning and construction phasing sequence is presented in Figure 16.
Figure 16 | Planned milestones: Gozo General Hospital

<table>
<thead>
<tr>
<th>Date</th>
<th>Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2015</td>
<td>notification of the successful concessionaire</td>
</tr>
<tr>
<td>June 2015</td>
<td>mobilisation of site assessment team for infrastructure review</td>
</tr>
<tr>
<td>July 2015</td>
<td>completion of schematic design programme</td>
</tr>
<tr>
<td>July 2015</td>
<td>signing of the concession agreement</td>
</tr>
<tr>
<td>July - October 2015</td>
<td>coordination of required permits</td>
</tr>
<tr>
<td>June - September 2015</td>
<td>development of phased construction document packages:</td>
</tr>
<tr>
<td></td>
<td>- Barts Medical College</td>
</tr>
<tr>
<td></td>
<td>- sitework, civil, foundation and infrastructure</td>
</tr>
<tr>
<td></td>
<td>- exterior enclosure package</td>
</tr>
<tr>
<td></td>
<td>- clinical fit-out</td>
</tr>
<tr>
<td></td>
<td>- backfill renovations</td>
</tr>
<tr>
<td></td>
<td>- enabling projects required relocation of patients/administration</td>
</tr>
<tr>
<td>October 2015</td>
<td>construction start - Barts Medical College</td>
</tr>
<tr>
<td>August 2016</td>
<td>commissioning and acceptance - Barts Medical College</td>
</tr>
<tr>
<td>January 2017</td>
<td>completion and acceptance - clinical tower, patient relocation</td>
</tr>
<tr>
<td>December 2017</td>
<td>completion, phased renovation to rehabilitation and long-term beds</td>
</tr>
</tbody>
</table>

4.2.61 With regard to the SLH, the VGH stated that this had largely been vacant and, as such, the infrastructure in place was either missing or beyond its useful life expectancy. With the need for early occupancy of the holistic health centre and the dermatology projects, the VGH indicated the need for the infrastructure to be in place. Another early phase at the SLH would be the exterior restoration and sitework in addition to the restoration of the building infrastructure. The construction work on the KGRH was also planned early in the project. An indicative timeframe for the works on the SLH and the KGRH is presented in Figure 17.

Figure 17 | Planned milestones: St Luke’s Hospital and Karin Grech Rehabilitation Hospital

<table>
<thead>
<tr>
<th>Date</th>
<th>Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summer/Autumn 2015</td>
<td>anticipated construction start</td>
</tr>
<tr>
<td></td>
<td>- exterior refurbishment</td>
</tr>
<tr>
<td></td>
<td>- KGRH</td>
</tr>
<tr>
<td></td>
<td>- site work</td>
</tr>
<tr>
<td></td>
<td>- infrastructure upgrades</td>
</tr>
<tr>
<td>end July 2015</td>
<td>taking over existing 270 beds at the KGRH</td>
</tr>
<tr>
<td>end November 2015</td>
<td>upgrade of wards and 50-bed extension completed at the KGRH</td>
</tr>
<tr>
<td>December 2015</td>
<td>initial 50 beds at the SLH inaugurated</td>
</tr>
<tr>
<td>April 2016</td>
<td>additional 100 beds at the SLH inaugurated</td>
</tr>
<tr>
<td>September 2016</td>
<td>remaining 150 beds at the SLH inaugurated</td>
</tr>
</tbody>
</table>
The human resource strategy

4.2.62 A human resource strategy was devised that was to guide the VGH in the planning, management and development of human resources for its hospitals in Malta and Gozo. The major areas relating to the planning, management and training of human resources that needed to be addressed were:

a | an assessment of the existing staff at the GGH and the KGRH that would be taken over by the VGH that was to include a review of the skill sets and capabilities of current employees and their integration within the project;

b | the overall number and combination of skills required to provide the increased capacity, augmented and improved services;

c | the sourcing of the additional required staff;

d | the distribution of required staff across the VGH hospitals to ensure optimal efficiencies;

e | the quality and performance of staff;

f | the retention of staff; and

g | the training and development of staff.

4.2.63 The VGH maintained that this strategy had been developed on the best available information on the staffing situation and the policy context and, undoubtedly, revisions to the plan would be required.

4.2.64 As initially the concessionaire was to take over the present staff of the GGH and the KGRH, it was planned that the existing structures would be retained, with the exception of the recruitment of a Group CEO, the CFO and the Change Manager at the corporate level who were to oversee the VGH’s operations from the first day of the contract. According to the human resource strategy submitted with the bid, the other additional resources would be recruited gradually so that by the time that the GGH and the SLH were redeveloped, and the new operations and services fully implemented on both Sites by January 2017, the proposed organisation structures and staff levels as proposed would have been fully implemented.

4.2.65 An overview of the organisation structure that was envisaged for the VGH and the projected staff levels which would be required following the redevelopment of the GGH, the SLH and the KGRH was also submitted. In this regard, staff levels were split between management and administrative staff, and direct and common staff who were to operate the three hospitals.
4.2.66 The VGH management and administration structure was to comprise:

a | a Medical Board that would exercise all the powers of the VGH on its behalf in relation to medical operations. The Board was to be responsible for formulating strategy, ensuring accountability by holding the organisation to account for the delivery of the strategy and ensuring that systems of control were robust and reliable, and shaping a positive culture for the board of directors of the organisation. The Board was to be composed of 12 members, of which nine were to be from the Medical Associates of Northern Virginia Incorporated, and a member each representing the Ministry for Health and Barts. The Group CEO was also to sit on the Board;

b | a key management and administration team which was to report to the Medical Board who would, in turn, report to the VGH Corporate Board. The management team would be led by the Group CEO, who was to be responsible for the entire operations of the organisation. The CEO would provide strategic direction and leadership and retained final decision-making capacity on all policy matters at all levels. Through the approval of the Board of Directors, the Group CEO would set policy frameworks and high-level targets, monitor the attainment of such targets and ensure that they work effectively within the overall strategy. The management team would consist of a number of heads of departments consisting of the Medical Chief Officer, the Head Nurse, the CFO, the HR Director, the Director Hospital Operations and Patient Support, the Quality and Risk Director, the Director for IT and the Marketing Director. Two Chief Operations Officers (COOs), who would be responsible for the on-site management of the GGH and the SLH/KGRH, respectively, were also to be on the management team. It was envisaged that the total administrative staff complement would be of 259 full time equivalent employees who would be split between the departments such that 45 per cent (118) would be allocated to the GGH, 37 per cent (96) to the SLH and 17 per cent (45) to the KGRH;

c | nine full time equivalent employees who were to form the administrative support team, which would comprise an attorney, two administrative officers, three administrative assistants and three nurses. The support team were to assist in the operation of the Sites;

d | the office of the Chief Medical Officer, which would be composed of 19 full time equivalent employees. Two teams would form part of this office, namely the professional, education and training team and the admitting/information team;

e | the IT Department, which would consist of 21 full-time equivalents, including computer maintenance technologists and a statistician;

f | the Hospital Operation and Patient Support Department, which was to be the largest administrative department, would employ 181 full-time equivalents. This department would have a purely administrative function, including the procurement section, the materials management department, and the engineering and facilities management department;
g | the Marketing Department would be made up of four full-time equivalents, and would comprise a marketing director, a medical tourism manager and two medical tourism heads of markets; and

h | a staff complement of 18 personnel who would be required to run the Finance Department. The department would be made up of the budgeting unit, the accounting unit, the billing and claims unit and the cash operations unit.

4.2.67 At the time of the submission of the bid by the VGH, the GGH operated as a 119-bed acute hospital and 175-bed geriatric and long-stay psychiatry hospital that employed a total of 781 employees. The grades of these employees comprised medical (42 employees), pharmacy (8), dental (2), nurses (366), allied health grades (55), ECH technicians (4), management and administration (9) and support grades (295). This staff complement was anticipated to remain unchanged until the end of 2015 while the current services of the hospital were being maintained and the clinical tower was being built. However, following the completion of the key works, the hospital’s capacity would increase to cater for an additional 109 beds, resulting in the requirement for a larger staff complement. The new services would also require new staff specialisations and skills. As from 2017, it was envisaged that a total of 791 direct employees and 189 common employees would be required. These, in addition to the 118 administrative staff allocated to the GGH, would result in an increase in the staff complement at the GGH from 781 to 1,098.

4.2.68 A COO was to be responsible for the overall running of the GGH. Each department was to be headed by a head doctor who was to be a medical specialist in the field. The specialist was to be backed by a team of doctors, nurses, assistants and administrative staff. The 791 direct and the 189 common staff employees were to be deployed to specific departments and sections.

4.2.69 Staffing requirements in respect of the SLH and the KGRH were also outlined in the bid by the VGH. With regard to the SLH, this hospital was not at the time functional as its operations had been transferred to the MDH. The KGRH was then operating as a special care and rehabilitation centre, comprising 258 beds and 701 employees. Another 58 members of staff were at the time assigned to the Dermatology Department operating from Sir Paul Boffa Hospital, but which was to be relocated to the SLH through this project.

4.2.70 Following the completion of the redevelopment programme, the SLH and the KGRH would cater for 532 beds, resulting in a significant increase from the 268 beds then available at the KGRH. This was to lead to a significant increase in staff required. It was anticipated that a total of 1,003 direct and common staff would be employed, in addition to the 141 management and administrative staff.

4.2.71 As in the case of the GGH, a COO was to be simultaneously responsible for the running of the SLH and the KGRH. Each department would be headed by a head doctor who was to be a medical specialist in the field. The specialist would be backed by a team of doctors, nurses, assistants and administrative staff. The 883 direct and the 120 common staff employees were to be deployed to specific departments and sections in the two hospitals.
4.2.72 The annual total staff costs for the initial four years of operations, that is between 2015 and 2018, was projected at €529,000, €19,000,000, €66,000,000 and €67,000,000, respectively. Thereafter, as from 2018, payroll costs would increase by two per cent to reflect annual inflation. Another staff related cost was profit sharing, which was assumed to commence in 2017 at €772,000 per annum, increasing to €1,000,000 per annum in 2026. The total staff costs for the 30-year concession period were projected at €2,529,000,000, of which €2,191,000,000 related to payments for the medical staff and €338,000,000 to the total payments for the administrative staff.

4.2.73 Other issues that were considered in the VGH human resource strategy included an employee integration policy, a staff sourcing and recruitment strategy that also addressed training aspects, and the support to the medical college and the nursing school.

Quality assurance

4.2.74 In this section of the bid, the VGH outlined what actions and measures it would employ to ensure that the project met the needs and expectations of patients and their families. To this end, the VGH sought to define the quality levels that were to be achieved by setting out standards and developing appropriate performance indicators. The VGH planned to measure the performance of its individual staff, teams and at an organisational level to compare its performance against its targets to drive improvements in the levels of quality and safety of the services that were to be provided.

4.2.75 With respect to functionality, design, construction quality and durability, the VGH indicated its intention of creating and building spaces which succeeded artistically, socially, environmentally and economically. For this purpose, a design, engineering and construction team of international leaders and local experts was brought together to not only deliver the project on time, on budget and on schedule but also to ensure the delivery of efficient and effective patient care. Moreover, the VGH stated that it was committed for the duration of the project and beyond, and would work seamlessly with the development and clinical teams in order to meet the aggressive schedule, financial, design and service goals of Government.

4.2.76 The VGH also set out its operational quality assurance strategy in terms of health and patient care. To this end, the VGH indicated that it would adopt the ISO 9001 standards, which provided for a disciplined and systematic approach to health care.

Health and safety

4.2.77 In its bid, the VGH outlined the health and safety management strategy that it would adopt during the design and construction phase, as well as the operational phase, of the project. During construction, the VGH project management team was to ensure that all activities carried out were managed in such a manner so as to avoid, reduce, or control all foreseeable risks to a tolerable level as reasonably practicable as possible. To achieve this, various measures were to be taken, including:
training and instruction to and supervision of the workforce;

b | the provision of safe plant and equipment, and safety equipment and gears;

c | safe handling, storage and transportation of materials; and

d | the monitoring of the site by competent health and safety supervisors.

4.2.78 With regard to health and safety considerations during the operational phase, the VGH maintained that it was committed to developing a positive health and safety culture, where the inherent risks in healthcare provision were controlled and reduced through the involvement and commitment of all staff. It would be the policy of the Hospitals to do all that was reasonably practicable to prevent personal injury, damage to property, harm to the environment or any other form of harm or loss to staff, patients or others in conducting its business. In particular, the VGH undertook to:

a | comply with relevant health, safety, welfare and fire regulations;

b | provide and maintain a safe and healthy working environment;

c | do all that was reasonably practicable to eliminate all major hazards from the workplace;

d | avoid any unnecessary risk to staff and others and control those risks that are necessary;

e | provide information, instruction and training to staff and others to enable them to perform their work safely and efficiently;

f | provide the necessary safety equipment and supervision to ensure safe systems of work were employed at all times; and

g | consult staff, or their representatives, on matters relating to health and safety.

4.2.79 The policies for the treatment of hazardous waste during the construction and operational phases of the project were also outlined. With regard to the former, the ultimate goal was the reduction and elimination of hazardous waste generation, which included the storage of hazardous materials and its ultimate disposal through legal and accepted means. With regard to the latter, policies for the handling of the diverse operational wastes were defined. These included biohazardous waste, sharps, human anatomical waste and surgical specimens, as well as pharmaceutical and mixed waste.
Operational feasibility and sustainability

4.2.80 According to the bid by the VGH, ensuring the operational sustainability of the healthcare system was one of the key challenges Government faced. The VGH’s operational plans for the GGH, the SLH and the KGRH, as well as the experience of its bidding group and key staff in the operations and management of healthcare and ancillary facilities, would ensure the operational sustainability of the Hospitals. In this regard, the experience in the management and operation of healthcare facilities of Oxley Group, of which VGH formed part, and that of key staff forming part of the bidding group, was reiterated.

4.2.81 Further indicated by VGH was that the project was to result in the following benefits related to the operational sustainability of the healthcare sector in Malta (Figure 18 refers):

<table>
<thead>
<tr>
<th>Baseline</th>
<th>Post project implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>high bed occupancy rate compared to EU average</td>
<td>shortening of length of stays through a more efficient and effective distribution of patients and capacity</td>
</tr>
<tr>
<td>while average length of stay in hospitals was lower than in the EU, this had lost ground over the past years</td>
<td>improved staff to patient ratios</td>
</tr>
<tr>
<td>burden on current infrastructure: approximately 520 patients waiting on stretchers and 163 in corridors in particular months</td>
<td>reduction in waiting time and waiting list for procedures, particularly in orthopaedic and cardiac, and for diagnostics</td>
</tr>
<tr>
<td>dated design: GGH built in 1960s and SLH/KGRH in 1930s</td>
<td>efficiencies as a result of optimal hospital design and use of latest technology</td>
</tr>
<tr>
<td>scope for improvement in the governance structure</td>
<td>strong board and corporate governance structure</td>
</tr>
<tr>
<td>room for strengthening management and administrative support</td>
<td>model of care based on European and UK accredited healthcare standards and working practices</td>
</tr>
<tr>
<td>lack of clinical and operational policies and procedures and quality assurance</td>
<td>use of integrated IT systems</td>
</tr>
<tr>
<td>weak measurement and monitoring systems, including financial and internal control systems</td>
<td>implementation of hospital information systems comprising patient administration records, laboratory management, digital imaging, accounting and resource management systems</td>
</tr>
</tbody>
</table>

Volume C: Business plan

4.2.82 The business plan for the proposed project was presented in Volume C of the bid. The plan provided details on the strategic context, the VGH vision for the proposed operations, the envisaged facilities and service offering, the proposed investment, the project implementation plan, the human resource strategy, quality assurance, income generation and cost strategies, the medical tourism strategy, health and safety considerations, operational feasibility and sustainability, and financial feasibility. It must be noted that most of these themes had already been discussed in Volumes A and B of the bid and were presented under the pertinent headings of this report. In the case of income generation and cost strategies, the medical tourism
strategy and financial viability, new submissions were made by the VGH. These are presented hereunder.

*Income generation and cost strategies*

4.2.83 According to the income strategy outlined in the bid by the VGH, income during the concession period would arise from three main sources, that is:

a | income from Government in respect of the PPP beds being made available to Government. Government-referred patients would be considered as falling under the same regime of free medical healthcare available to local residents and EU citizens;

b | income from Barts in terms of annual income for the rental of the medical college facilities at the GGH, maintenance of the building and for time spent by medical staff providing practical experience opportunities to Barts’ students; and

c | income from medical tourism for treatment in orthopaedics, cardio and vascular, prosthetic and trauma. By 2021, the number of bed nights was envisaged to reach approximately 85,000.

4.2.84 With regard to cost strategies, the following were considered:

a | for the construction phase, it was envisaged that a design and build contract would be awarded through direct negotiations with foreign and locally based contractors. Because of the tight timescales, a lengthy tendering process was not envisaged;

b | during the construction of the new GGH extension, the VGH planned to directly commission a foreign contractor to bring in an onsite plant for cement casting. This process was expected to considerably speed up the construction of the site;

c | medical equipment such as beds would be acquired; however, more sophisticated medical equipment would be leased;

d | catering, laundry and security would be provided through the VGH’s own employees. In these cases, no outsourcing arrangements were envisaged;

e | IT systems would be cloud hosted and no investment in central servers and software licenses were envisaged;

f | the helicopter would be acquired rather than leased and the pilots were to be VGH full-time employees;

g | the €9,000,000 performance bond would be financed through bank financing during the...
construction period. During the operational phase, the VGH proposed that Government adopt a 50-day credit policy (in lieu of 30 days) thereby retaining the performance bond value at any point in time;

h | medical staff would be remunerated above the market average benchmarks to attract and retain talent, and at the same time to adopt a full-time employment approach;

i | additional staff would be recruited locally; however, where gaps existed, the VGH would bring in medical staff from other countries such as the UK, Spain or Italy;

j | visiting medical specialists would not be employed but would have a contract that would be renewed periodically; and

k | pharmaceuticals and medical supplies would be purchased through a centralised purchasing framework to cover the GGH, the SLH and KGRH. In this regard, the VGH was to explore the possibility of entering into purchasing agreements with appropriate organisations, locally and overseas, with a view to maximising its purchasing power.

The medical tourism strategy

4.2.85 In the initial part of its medical tourism strategy, the VGH provided its perspectives on the global healthcare scenario. In this regard, details of the market size in terms of healthcare tourism numbers and worth were provided. Trends in the healthcare industry worldwide were also outlined, with an underlying tendency of unsustainable growth of healthcare costs cited as the number one trend. The impact of digital technology in the provision of care was also expected to scale up, as would demand in view of prevailing demographic trends, primarily driven by the aging baby boomers and the younger generations. According to the VGH, competition in the international market for the provision of healthcare services was also becoming increasingly intense, and a number of strategic and operational factors were required in order to successfully develop such an industry. The impact of international accreditation in providing objective measures for the external evaluation of quality and quality management was also outlined. Finally, the top medical tourism destinations were listed; these included Thailand, Mexico, the US, Singapore, India and Brazil.

4.2.86 According to the VGH, research had shown that many large projects have been undertaken worldwide to build large medical facilities based on the idea that simply by building supply, demand would follow. Nonetheless, in many cases, the anticipated demand had not materialised. The cases where such investments proved successful were mostly cases of hospitals built to expand capacity where there was an already existing demand. According to the research cited, value from medical tourism could come to hospitals that already existed to cater to local populations, instead of building entire facilities that would be dependent on medical tourists exclusively. The research suggested that destinations could be more successful by supporting existing centres of excellence that cater to local and regional populations, and simply expanding
their international patient base to capture a share of the medical tourism market. The addition of new facilities in order to build healthcare clusters that would serve local, regional, national, and international markets was a much less risky strategy than the development of medical tourism hospitals from scratch. According to the bid, these observations underpinned the VGH’s approach for medical tourism.

4.2.87 The VGH indicated that creating an effective medical tourism strategy involved:

a | understanding the market;

b | quantifying the market;

c | identifying the need;

d | meeting that need;

e | understanding the perceptions of the consumers; and

f | identifying the competitive advantage.

4.2.88 The strategic objectives that the VGH set in terms of medical tourism were to establish Malta and Gozo as the ‘Destination Health’ within the next 10 years, and to fill around 85,000 bed days from medical tourism by 2027. Moreover, the medical tourism was to focus on orthopaedics, cardiovascular, prosthetic procedures and trauma (Figure 19 refers).

Figure 19 | Bed days demand, 2015-2021

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SLH</td>
<td>trauma patients</td>
<td>446</td>
<td>5,256</td>
<td>5,694</td>
<td>6,132</td>
<td>6,132</td>
<td>6,132</td>
</tr>
<tr>
<td>SLH</td>
<td>acute patients</td>
<td>242</td>
<td>21,024</td>
<td>22,776</td>
<td>24,528</td>
<td>24,528</td>
<td>24,528</td>
</tr>
<tr>
<td>GGH</td>
<td>medical tourism</td>
<td>-</td>
<td>-</td>
<td>16,425</td>
<td>20,075</td>
<td>23,725</td>
<td>27,375</td>
</tr>
<tr>
<td>Total demand</td>
<td>930</td>
<td>48,180</td>
<td>68,620</td>
<td>76,285</td>
<td>79,935</td>
<td>83,585</td>
<td>85,410</td>
</tr>
</tbody>
</table>

4.2.89 In terms of pricing, the VGH envisaged orthopaedic, cardio and vascular surgeries to have an average seven-days length of stay, of which three days were for acute care and four days in rehabilitation. Using 2015 as the basis year, an acute/rehab bed for medical tourism would be priced at €700 per day. The surgical interventions were estimated at €7,500. On this basis, a standard orthopaedic/cardio and vascular intervention would be priced at around €12,400. Trauma patients would be charged €1,400 per day, which would comprise €700 for a bed and €700 to cover treatment.

4.2.90 With regard to its short-term marketing strategy, the VGH indicated that it planned to start attracting medical tourists as from 2016. To this end, the VGH intended to launch its marketing campaign as early as possible after contract award through the participation in a number
of international conferences in 2015. Meetings with industry experts, as well as meetings with various medical and medical tourism councils to help promote Malta and Gozo as ‘The Destination Health’ were also planned.

4.2.91 In terms of its long-term marketing strategy, the VGH was to allocate an initial annual budget of approximately €558,000, which was expected to stabilise at €2,200,000 per annum by 2018. Beyond this, the marketing budget would be adjusted for annual inflation. In implementing its medical tourism strategy, the VGH planned to adopt several promotion channels, including referrals from channel partners, medical events and conferences, agreements with health insurance companies and through social media.

4.2.92 According to the VGH, one of the important components to the success of any medical tourism business was identifying the channel partners that could be used to create a sustainable stream of referrals. The channel partners could be academic medical centres, medical tourism agencies, high-profile doctors, as well as companies, institutions and universities. According to the bid, the VGH had established several such partnerships, and was in talks with a number of the top medical tourism agencies around the world. The VGH was also in the process of becoming a member of various trade and tourism councils that would help the program gain credibility and at the same time promote Malta as a centre for medical tourism.

4.2.93 The VGH indicated that once its best practices were in place, it would adopt a two-pronged approach with a view to generating business through medical tourism conferences and workshops. To this end, the VGH would identify key medical events and conferences in strategic locations such as the US, Canada, UK and India with a view to promote the VGH and actively seek referrals from leading medical professionals. The VGH would also organise an annual medical conference wherein key international medical speakers, relevant insurance companies and specialised tourism agencies would be invited. Through this event, the VGH aimed to enhance the skills and knowledge of its healthcare providers and industry participants.

4.2.94 With regard to agreements with travel health insurance companies, the VGH stated that trends in medical tourism indicated that prospective patients tended to prefer companies that sold specifically tailored insurance products that aid medical travel. To this end, the VGH was actively seeking to build relationships with such insurance companies so that these become an integral part of its marketing strategy.

4.2.95 According to the bid by the VGH, social media was gaining importance in healthcare and it was imperative that medical tourism providers leveraged social media as a form of patient feedback. The VGH’s medical tourism marketing plan was based and utilised focused social media avenues, backed by a more traditional marketing campaign. An effective online promotional strategy was deemed vital for the VGH’s medical tourism strategy. Online marketing strategies, from the simple online distribution of promotional items to nationwide media campaigns were deemed effective tools that would help the VGH achieve the desired goals.
Finally, the benefits of developing a medical tourism industry to local economies were outlined. According to the bid by the VGH, developing the market for medical tourism generally provided many benefits to residents, businesses and governments of the particular destination. These included the reduction of seasonality and cyclicality, diversification of the tourism consumer base, the potential to attract other high-revenue support industries, and the reversal of 'brain drain'.

Financial feasibility

As indicated by the VGH under the section relating to financial feasibility, the assumptions of the financial model for the project were presented in Volume D and will, therefore, be reported on by the NAO therein. Nonetheless, this Office noted that, according to that stated by the VGH in this section of its bid, its financial strategy was based on the granting by Government of a 99-year temporary emphyteutical title over the Sites. Moreover, credit sought for the financing of the project was conditional on the granting of a 99-year lease in order to mitigate potential risks arising from unforeseen circumstances that could have an impact on the underlying financial model. It is to be noted that the initial lease of the Sites was to be for a 30-year term as, according to the RfP, “the period of duration of the Concession [was] equal to thirty years from the date of the execution of the Concession Agreement”. Nonetheless, this Office acknowledges that this term could be extended as, as indicated in the RfP, “Government may consider granting to the Concessionaire in the Concession Agreement an option to acquire the temporary emphyteutical title over certain specific areas of the Sites for a further period of not more than 69 years following the lapse of the concession period ...”. Notwithstanding this provision, the NAO maintains that this extension should not have been considered by any of the bidders as an obvious and certain outcome.

Volume D: Financials

This volume of the submission by the VGH provided the Company’s financial projections for the Sites in terms of the RfP. In this regard, details of the basis of preparation, an outline of the product offering, capital expenditure, the development programme plan, operating cost assumptions, the project medical staff complement, revenue streams and demand assumptions, taxation and other general assumptions, capital requirements and the financial offer were provided.

Basis of preparation

The financial projections for the redevelopment, maintenance, management and operation of the GGH, the SLH and the KGRH for the thirty years ending 30 June 2045 were set out in a projected cash flow statement, a projected profit and loss account, and a projected balance sheet. These served as the basis for the submissions made in Volume D of the bid by the VGH.
**Product offering**

4.2.100 The envisaged outcomes following the development of the Sites were reiterated in this section of the bid. In short, when completed, the project was to realise these targets:

- **a** | the new hospital in Gozo would continue to service the existing population then serviced by the GGH; however, it was also expected to attract a number of non-Maltese residents travelling to Malta for medical treatment and/or for surgical procedures (health tourism);

- **b** | the SLH would service local needs that required rehabilitation services and patients seeking dermatological and/or holistic services; complementing these services, there were to be 220 beds for medical tourism; and

- **c** | the KGRH would continue to provide care to persons who were 50 years of age and over.

4.2.101 The hospital in Gozo would provide inpatient care, outpatient services, day care procedures and other major or minor surgical procedures. The medical complex would operate as a stand-alone facility and would have no dependencies on the MDH. It was to have its own laboratory and imaging facilities. The hospital would have 225 acute beds housed in a single site acute facility. The existing services covered by the GGH would be augmented by new services. Outpatient services would be housed in the existing GGH that would also be refurbished. The building was planned to house between 15 and 20 consultation and examination rooms. The activity was expected to remain fairly constant and capable of supporting the outpatients serviced over the past years, which had increased at approximately five per cent per annum. The total number of outpatients in 2013 amounted to 53,000. The new hospital would have a total of seven surgery rooms, five of which would be used to deliver acute procedures. The existing theatres would be used for outpatient surgeries. The long-term acute care centre would house a total of 175 beds that were planned to be assigned to inpatients who would have undergone acute interventions. Housed within these facilities would be the old age patients then occupying the GGH and patients in the long-stay psychiatric ward.

4.2.102 With regard to the medical college in Gozo, the QMUL had entered into an agreement with Government to start offering a five-year programme in medicine, leading to a degree of Bachelor of Medicine and Bachelor of Surgery from September 2015. The college and accommodation for its students would be completed by July 2015 in line with the RfP. The campus was to include lecture theatres, classrooms, anatomy and other laboratory facilities, as well as meeting rooms. The total gross built area for the college was projected at 5,600 square metres, which would allow for a gross departmental area of 4,002 square metres. The college would also offer limited onsite accommodation for approximately 50 students. The GGH was to be a teaching hospital and would complement the investment in the medical college by providing students access to its doctors. The college would also provide an avenue for R&D.
4.2.103 The SLH was to accommodate an 80-bed rehabilitation centre and a 12-bed dermatological unit, including an outpatient service for dermatology and holistic services. Part of the SLH would be refurbished for non-residents and was intended to provide 24 beds for trauma care, 95 beds for acute care and 100 beds for rehabilitation. The 80-bed rehabilitation facility was planned to be assigned to inpatients who would have undergone acute interventions. The building would include a rehabilitation outpatient centre incorporating physiotherapy, water therapy and a prosthetic centre. The building within the SLH occupied by the Malta Enterprise was to house the nursing school that was expected to accommodate a minimum of 100 students. Based on the project phasing plan, the building would be converted into a nursing school in the second half of 2015. There was also to be a childcare centre.

4.2.104 The project envisaged the renovation and upgrading of the existing premises at the KGRH to accommodate 320 beds for long-term acute geriatric patients, that is, an increase of an additional 50 beds from the current supply of 270 beds. The KGRH was to include nine inpatient wards each dedicated to specific ailments, comprising patients with physical and cognitive deficits recovering from disease and injury, patients with chronic medical conditions and post-operative procedures and patients with other conditions.

**Capital expenditure**

4.2.105 The project’s total capital expenditure was expected to amount to €170,000,000, of which €116,000,000 would be allocated to the GGH, €49,000,000 to the SLH and €5,000,000 to the KGRH. In addition, the VGH estimated that it would lease medical equipment to an approximate value of €20,000,000. On this basis, the total project commitment was estimated at €190,000,000.

4.2.106 The €116,000,000 allocated to the GGH would broadly include the costs associated with the following:

a | construction of a new acute facility with 225 beds, including an R&D facility;

b | redevelopment of the existing GGH and its current bed capacity into a 175-bed long-term acute geriatric facility and a rehabilitation centre;

c | construction of a medical school to be operated by Barts Medical College;

d | redevelopment of ancillary facilities, including operating theatres, laboratory facilities, day care, pharmacy, outpatient, a childcare centre and a staff recreational area; and

e | the construction of a helipad and the acquisition of a helicopter.

4.2.107 The project envisaged an investment of €49,000,000 for the renovation and upgrading of the existing premises within the SLH. On completion, the upgraded facility would accommodate a
total of 312 beds and an additional 50 beds intended to supplement the existing supply of 270 beds at the KGRH. The project also envisaged an investment of €5,000,000 for the renovation and upgrading of the KGRH, which would accommodate 270 beds for long-term acute geriatric patients.

4.2.108 The new hospital in Gozo would be built on the current site occupied by the GGH and the surrounding area in Xewkija. The anticipated total footprint was of approximately 70,000 square metres, of which 48,600 square metres were to be built up. The following allocation of areas was proposed:

a | 20,000 square metres for the construction of the 225-bed acute hospital, including the R&D facility;

b | 18,000 square metres would accommodate the long-term acute geriatric care centre and the administrative building;

c | 5,600 square metres were to be allocated to the medical college;

d | a total of 5,000 square metres would be used for accommodation facilities for first year students (50 rooms) and for overnight staff (30 rooms); and

e | 12,500 square metres would be allocated to surface parking.

4.2.109 With regard to the SLH and the KGRH, the total anticipated footprint was approximately 58,500 square metres, of which:

a | 10,000 square metres would service local needs, more specifically the rehabilitation services, dermatological and/or the holistic services;

b | 2,500 square metres would be allocated to the nursing school;

c | 30,000 square metres would be dedicated to service medical tourism patients within the SLH; and

d | 16,000 square metres would be allotted for long-term acute geriatric care at the KGRH.

4.2.110 The project’s total capital expenditure was estimated at €170,100,000, comprising:

a | initial works (including design, planning and permitting fees) of €9,500,000;

b | building works of €14,500,000;

c | engineering services (including mechanical and electrical works) of €37,100,000;
d | finishing and furnishing works (including external works and landscaping, furniture and fittings and equipment) of €55,100,000;

e | the helicopter at a cost of €10,400,000; and

f | other costs (including project management fees, advertising, contingencies and VAT) of €43,500,000.

4.2.111 An analysis of the projected capital expenditure for each Site was also submitted in the bid (Figure 20 refers).

**Figure 20 | Capital expenditure analysis by Site**

<table>
<thead>
<tr>
<th>Capital expenditure (€000)</th>
<th>GGH (nominal)</th>
<th>SLH - residents (nominal)</th>
<th>SLH - medical tourism (nominal)</th>
<th>KGRH (nominal)</th>
<th>Total (nominal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial works</td>
<td>7,671</td>
<td>439</td>
<td>1,185</td>
<td>196</td>
<td>9,490</td>
</tr>
<tr>
<td>Building works</td>
<td>12,550</td>
<td>587</td>
<td>1,500</td>
<td>-</td>
<td>14,637</td>
</tr>
<tr>
<td>Engineering services</td>
<td>20,851</td>
<td>4,010</td>
<td>11,400</td>
<td>800</td>
<td>37,061</td>
</tr>
<tr>
<td>Finishing and furnishings</td>
<td>35,813</td>
<td>3,732</td>
<td>13,071</td>
<td>2,500</td>
<td>55,115</td>
</tr>
<tr>
<td>Helicopter</td>
<td>10,404</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,404</td>
</tr>
<tr>
<td>Other costs</td>
<td>29,360</td>
<td>3,153</td>
<td>9,771</td>
<td>1,269</td>
<td>43,553</td>
</tr>
<tr>
<td>Total capital expenditure</td>
<td>116,649</td>
<td>11,920</td>
<td>36,926</td>
<td>4,764</td>
<td>170,260</td>
</tr>
</tbody>
</table>

4.2.112 Replacement capital costs were assumed at 0.25 per cent of total capital expenditure for the first two years of operation, at 1.5 per cent of capex for the following three years and at 2.5 per cent of capex thereafter. Furthermore, a two per cent inflation per annum was assumed on replacement capital expenditure. On this basis, it was estimated that the replacement capital expenditure of the project would increase from approximately €140,000 in 2016 to an average of approximately €1,700,000 during the period 2017 to 2019. This expenditure was projected to increase further to approximately €4,500,000 between 2020 and 2025. Over a 30-year period, the total replacement capital expenditure was expected to amount to €153,000,000.

4.2.113 A summary of the timing of the capital cost outlays was also provided. This had already been presented in Volume B of the bid under ‘The proposed investment and the broader socio-economic impacts’ and reported on thereat. In short, it was estimated that 72 per cent of the total capital spend would be paid out in the first 18 months of the project, 25 per cent in 2017, and 2 per cent, representing capital retentions, in 2018.

4.2.114 Depreciation was to be allocated on a systematic basis over the useful life of the asset. The main categories of assets envisaged for the project included buildings and related infrastructure, furniture and fittings, plant, machinery and equipment, and IT equipment. The depreciation of an asset was to start when the asset became available for use. The rates of depreciation to be applied were as follows (Figure 21 refers):
An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government

Part 1 | A review of the tender process

Figure 21 | Rates of depreciation

<table>
<thead>
<tr>
<th>Asset category</th>
<th>% Depreciation per annum</th>
<th>Estimated asset lifetime in years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and related infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- building works</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>- mechanical and electrical works</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>- finishes</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Plant, machinery and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- medical equipment</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>- generators and other equipment</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>- helicopter</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>IT equipment</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Development programme plan

4.2.115 An overview of the phasing plan for the GGH and the medical college, the SLH and the KGRH was provided by the VGH. According to the bid, the time frames for the completion of works at the GGH were as follows:

a | the medical college and accommodation to be completed by July 2015;

b | the acute wing within the GGH to be completed by January 2017; and

c | the remaining parts at the GGH, including the renovations of the existing facilities, to be completed by December 2017.

4.2.116 The rehabilitation centre within the SLH was to be finalised by July 2016, that is, 12 months from the signing of the concession agreement, the dermatology and holistic centre at the SLH would be completed by December 2016, that is five months from the signing of the concession agreement, and the KGRH would be completed by December 2016, that is six months from the signing of the concession agreement.

Operating cost assumptions

4.2.117 Operating cost assumptions for the various costs that were to be incurred in the project were provided by the VGH in its bid. These included costs for pharmaceuticals and medical supplies, medical equipment leasing and maintenance costs, administrative costs, other direct operating costs and ground rent.

4.2.118 Pharmaceutical costs were estimated at €16,500,000 in 2017, increasing to €19,700,000 in 2022. Different pharmaceutical costs per bed per night were estimated for the GGH, the SLH and the KGRH, reflecting the nature and intensity of the services planned to be provided in each hospital. These costs were based on the rates applicable in 2015, which were assumed to stabilise in 2019 and increase thereafter by two per cent inflation per annum (Figure 22 refers).
4.2.119 Medical supplies were expected to total €4,400,000 in 2017 and were estimated as follows:

a | four per cent of the annual GGH guaranteed income from Government, estimated at €2,000,000 in 2017; and

b | four per cent of the total income generated from SLH and KGRH, estimated at €2,400,000.9

4.2.120 The medical equipment leasing costs for all the hospitals was estimated at €2,000,000 and was based on indicative estimates provided by the key suppliers for this equipment, that is, Siemens Healthcare and GE Healthcare. The underlying value of the medical equipment that would be leased for all the hospitals was €20,000,000. Therefore, the leasing cost represented approximately 10 per cent of the value. An additional estimate of approximately €700,000 was expected to be incurred annually on the ongoing maintenance of the leased equipment. The general maintenance costs were estimated at €1,500,000 in 2017 and were expected to increase to €1,790,000 in 2022 (Figure 23 refers).

4.2.121 Administrative costs were expected to total €17,000,000 in 2017. These included hospital administration staff costs, insurance, security, communications and related expenses, public relations and marketing costs, administration supplies, the IT service contract, and transport and helicopter costs. These were expected to increase to €19,505,000 by 2022 and amount to over €670,000,000 over the 30-year period of the concession (Figure 24 refers).

9 The NAO assumed that the €100,000 discrepancy, deemed immaterial in this context, was attributable to rounding error.
4.2.122 With regard to the above projected administration costs, the following assumptions were made:

a | insurance costs were estimated at one per cent of the projected capital expenditure; once stabilised in 2019, an annual increase of two per cent was assumed;

b | helicopter costs at almost €1,000,000 in 2018 included the salary of four pilots, estimated at €255,000, fuel costs of €271,000 and annual maintenance costs at €424,000; these were based on the projected usage;

c | security costs were assumed at an annual cost of €15,000 per security guard for base year 2015 and adjusted for inflation; it was assumed that 39 security guards would be required to operate the GGH, the SLH and the KGRH;

d | the budget allocated for marketing and public relations excluded the marketing team that was to be employed as part of the human resource complement; however, it included all subcontracted work envisaged through the service concession which was estimated at five per cent of the revenue projected from the medical tourism component;

e | included in the administrative costs were the administrative staff costs, projected at almost €10,000,000 in 2017; the total administrative staff cost for the 30-year concession period was estimated at €375,000,000;

f | a total of 259 administrative staff were expected to be employed, of which 84 employees would be assigned to the GGH and 89 would administer the SLH and the KGRH on a time allocation basis depending on the needs of the different operations; the other 86 employees, that is the common administrative staff, would be assigned with administrative responsibilities of the overall project. Administrative staff costs were projected to amount to €10,000,000 in 2018 when the project was expected to be fully operational. The only increase in staff costs after 2018 related to the annual two per cent inflation factor.

4.2.123 Other direct operating costs were expected to total approximately €7,000,000 in 2017, which included in-patient catering, staff catering costs and utilities. The inpatient catering was estimated at €6 per meal and staff meals were estimated at €4 per meal. With a total of 1,032 beds and 1,674 direct staff members, catering costs of €1,900,000 and €2,400,000 for patients and staff, respectively, were estimated for 2017. Utilities, including electricity, water and fuel, were estimated at approximately €3,000,000 in 2017, increasing by two per cent inflation per annum thereafter.

4.2.124 With respect to ground rent, this was estimated at €11.65 per square metre per annum on the footprint area after the completion of the development programme. The total footprint area for GGH was estimated at 19,000 square metres, allocated as follows: 3,500 square metres for the medical college, 7,000 square metres for the new acute wing and 8,500 square metres for
the remaining parts. The footprint area for the SLH was estimated at 21,000 square metres, of which 4,000 square metres were for the rehabilitation centre, 1,000 square metres for the dermatology and holistic centre, and 16,000 square metres for the non-residents. The footprint area for the KGRH was estimated at 10,000 square metres. On this basis, the estimated annual ground rent cost amounted to €583,000.

Projected medical staff complement

4.2.125 The medical staff complement was to be made up of 1,983 staff members resulting in total payroll costs of approximately €55,800,000 in 2017. Of this, €47,400,000 related to direct staff, whereas €8,300,000 related to common staff salaries. Payments to visiting physicians were estimated to amount to €1,600,000 in 2017 (Figure 25 refers).

Figure 25 | Payroll costs, 2015-2020 & 2015-2044

<table>
<thead>
<tr>
<th>Payroll costs</th>
<th>No. of staff 2015</th>
<th>2015 (€000)</th>
<th>2016 (€000)</th>
<th>2017 (€000)</th>
<th>2018 (€000)</th>
<th>2019 (€000)</th>
<th>2020 (€000)</th>
<th>2015-2044 (€000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct staff</td>
<td>1,674</td>
<td>300</td>
<td>12,571</td>
<td>47,436</td>
<td>48,385</td>
<td>49,352</td>
<td>50,340</td>
<td>1,811,388</td>
</tr>
<tr>
<td>Common staff</td>
<td>309</td>
<td>46</td>
<td>2,178</td>
<td>8,323</td>
<td>8,489</td>
<td>8,659</td>
<td>8,832</td>
<td>317,771</td>
</tr>
<tr>
<td>Medical staff comp.</td>
<td>1,983</td>
<td>346</td>
<td>14,749</td>
<td>55,759</td>
<td>56,874</td>
<td>58,011</td>
<td>59,171</td>
<td>2,129,159</td>
</tr>
<tr>
<td>Visiting physicians</td>
<td>-</td>
<td>-</td>
<td>796</td>
<td>1,623</td>
<td>1,655</td>
<td>1,689</td>
<td>1,722</td>
<td>62,343</td>
</tr>
<tr>
<td>Total</td>
<td>1,983</td>
<td>346</td>
<td>15,544</td>
<td>57,382</td>
<td>58,529</td>
<td>59,700</td>
<td>60,894</td>
<td>2,191,503</td>
</tr>
</tbody>
</table>

4.2.126 Staff costs relating to the 1,674 direct staff complement were estimated at approximately €47,000,000 in 2017, increasing to €50,000,000 in 2020, reflecting an annual increment of two per cent in line with projected inflation. Over the 30-year period, direct staff costs were expected to amount to €1,811,000. In 2017, the total common services payroll costs relating to the 309 common staff complement were estimated to total €8,300,000, increasing by two per cent inflation per annum. Over a period of 30 years, common services staff costs were expected to amount to €317,000,000.

4.2.127 Of the 1,674 direct staff members, 791 were to be employed at the GGH, 110 and 329 at the SLH for residents and medical tourism, respectively, and 444 at the KGRH. Of the 309 common staff members, 189 would be assigned to the GGH while the remaining 120 employees would service the combined needs of the SLH and the KGRH. Direct salaries and common service salaries were based on rates applicable in 2015, thereafter inflated by two per cent per annum. The payroll figures included costs relating to the 10 per cent employer’s share of social security contributions, regulatory bonuses, and the cost of living adjustment.

4.2.128 Related to all the human resource complement, the VGH planned to introduce a profit-sharing scheme where all staff would benefit from a distribution of five per cent of the profit after tax generated at a consolidated level. Profit sharing was assumed to commence in 2019 at €93,000, increasing to €350,000 in 2026.
4.2.129 The annual total staff costs for the initial four years of operations, that is, between 2015 and 2018, were projected at €529,000, €19,000,000, €66,000,000 and €67,000,000, respectively. Thereafter, starting from 2018, staff costs were expected to increase by the two per cent annual inflation. The total staff costs for the 30-year concession period was projected to reach €2,566,000,000. Of these, €2,191,000,000 related to payments to medical staff and €375,000,000 to the total payments for the administrative staff.

Revenue streams and demand assumptions

4.2.130 According to the bid by the VGH, two broad sources of revenue streams were envisaged, that is, income generated from Government through the PPP arrangement and income from medical tourism. Income would be generated from two locations, namely, the GGH and the SLH and the KGRH conjointly. Figure 26 provides a summary of the projected revenues from operations at these Sites for the years 2015 to 2020.

Figure 26 | Revenue streams, 2015-2020

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
</tr>
<tr>
<td>Government for the GGH as is</td>
<td>12,083</td>
<td>29,532</td>
<td>2,465</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>PPP - acute care beds</td>
<td>-</td>
<td>-</td>
<td>26,062</td>
<td>29,002</td>
<td>29,582</td>
<td>30,257</td>
</tr>
<tr>
<td>surgical procedures</td>
<td>-</td>
<td>-</td>
<td>4,596</td>
<td>6,148</td>
<td>7,428</td>
<td>8,757</td>
</tr>
<tr>
<td>PPP - rehabilitation centre</td>
<td>-</td>
<td>-</td>
<td>10,946</td>
<td>12,181</td>
<td>12,425</td>
<td>12,708</td>
</tr>
<tr>
<td>medical college</td>
<td>-</td>
<td>315</td>
<td>1,266</td>
<td>1,292</td>
<td>1,317</td>
<td>1,344</td>
</tr>
<tr>
<td>medical tourism</td>
<td>-</td>
<td>-</td>
<td>10,946</td>
<td>14,662</td>
<td>17,716</td>
<td>20,945</td>
</tr>
<tr>
<td>helicopter airlift</td>
<td>-</td>
<td>-</td>
<td>999</td>
<td>1,081</td>
<td>1,103</td>
<td>1,125</td>
</tr>
<tr>
<td>Total income - GGH</td>
<td>12,083</td>
<td>29,847</td>
<td>57,281</td>
<td>64,366</td>
<td>69,572</td>
<td>75,135</td>
</tr>
<tr>
<td>% of total income</td>
<td>58</td>
<td>42</td>
<td>49</td>
<td>51</td>
<td>52</td>
<td>53</td>
</tr>
<tr>
<td>SLH (including KGRH)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>rehabilitation beds</td>
<td>-</td>
<td>3,745</td>
<td>9,099</td>
<td>9,281</td>
<td>9,466</td>
<td>9,682</td>
</tr>
<tr>
<td>dermatology and holistic centre</td>
<td>-</td>
<td>1,966</td>
<td>2,404</td>
<td>2,452</td>
<td>2,501</td>
<td>2,555</td>
</tr>
<tr>
<td>KGRH - geriatric</td>
<td>8,813</td>
<td>21,082</td>
<td>21,409</td>
<td>21,837</td>
<td>22,274</td>
<td>22,782</td>
</tr>
<tr>
<td>non-residents - trauma</td>
<td>-</td>
<td>3,652</td>
<td>4,202</td>
<td>4,579</td>
<td>4,694</td>
<td>4,801</td>
</tr>
<tr>
<td>non-residents - acute</td>
<td>-</td>
<td>6,515</td>
<td>12,858</td>
<td>14,161</td>
<td>14,535</td>
<td>14,866</td>
</tr>
<tr>
<td>non-residents - rehabilitation for acute</td>
<td>-</td>
<td>4,812</td>
<td>9,794</td>
<td>10,763</td>
<td>11,044</td>
<td>11,296</td>
</tr>
<tr>
<td>Total income - SLH</td>
<td>8,813</td>
<td>41,773</td>
<td>59,765</td>
<td>63,072</td>
<td>64,513</td>
<td>65,981</td>
</tr>
<tr>
<td>% of total income</td>
<td>42</td>
<td>58</td>
<td>51</td>
<td>49</td>
<td>48</td>
<td>47</td>
</tr>
<tr>
<td>Total income</td>
<td>20,896</td>
<td>71,620</td>
<td>117,046</td>
<td>127,438</td>
<td>134,085</td>
<td>141,116</td>
</tr>
</tbody>
</table>

4.2.131 The VGH determined the income that was to be received from Government through the minimum rates that were to be charged per bed. Based on the projected operating costs, the VGH proposed the following costs per bed:

a) a minimum charge per acute bed per night of €600 (rate applicable as at January 2015), which would increase by two per cent inflation by January 2017;
b | a minimum charge for long-term acute geriatric care at the GGH per bed per night of €180 (rate applicable as at January 2017);

c | a minimum charge for rehabilitation at the newly refurbished SLH for residents, per bed per night of €300 (basis year 2015);

d | a minimum charge for long-term acute geriatric care at the KGRH per bed per night of €180 (basis year 2015), which rate would not increase with inflation until January 2017; and

e | a minimum charge for the dermatology inpatient care at the SLH per bed per night of €300 (basis year 2015).

4.2.132 These fees were set on the basis of the availability of 772 beds for 365 days a year during the concession period. In addition, outpatient costs for dermatology and holistic services were projected on the basis of €40 per outpatient for a minimum of 25,000 visits per annum (the basis year for the estimate was 2015). On this basis, the annual cost to Government in 2017 would amount to €70,000,000, of which €37,000,000 were the annual costs for the GGH and €33,000,000 were the equivalent for the operations at the SLH and the KGRH. In subsequent years, the minimum charge would increase in line with the assumed inflation of two per cent per annum. Figure 27 provides a summary of the projected income streams from Government based on the minimum charge per bed per night and outpatient services for the dermatology and the holistic centre. Total income from Government for the GGH was projected at €41,000,000 in 2018 compared to €37,000,000 in 2017. This projected increase reflected the working capital allowance, that is, an 11-month payment in 2017 as opposed to a full-year payment in 2018.

Figure 27 | Income from Government based on minimum charges, 2015-2020

<table>
<thead>
<tr>
<th>Income from:</th>
<th>2015 (€000)</th>
<th>2016 (€000)</th>
<th>2017 (€000)</th>
<th>2018 (€000)</th>
<th>2019 (€000)</th>
<th>2020 (€000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GGH</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guaranteed income based on minimum charge:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from PPP - acute care beds</td>
<td>-</td>
<td>-</td>
<td>26,062</td>
<td>29,002</td>
<td>29,582</td>
<td>30,257</td>
</tr>
<tr>
<td>Income from rehabilitation centre</td>
<td>-</td>
<td>-</td>
<td>10,946</td>
<td>12,181</td>
<td>12,425</td>
<td>12,708</td>
</tr>
<tr>
<td><strong>GGH - Total income from Government</strong></td>
<td>-</td>
<td>-</td>
<td>37,008</td>
<td>41,183</td>
<td>42,007</td>
<td>42,964</td>
</tr>
<tr>
<td><strong>SLH and KGRH</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guaranteed income based on minimum charge, including outpatient charge:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SLH rehabilitation</td>
<td>-</td>
<td>3,745</td>
<td>9,099</td>
<td>9,281</td>
<td>9,466</td>
<td>9,682</td>
</tr>
<tr>
<td>Income from outpatient dermatology and holistic centre</td>
<td>-</td>
<td>850</td>
<td>1,039</td>
<td>1,059</td>
<td>1,081</td>
<td>1,102</td>
</tr>
<tr>
<td>Income from inpatient dermatology</td>
<td>-</td>
<td>1,116</td>
<td>1,365</td>
<td>1,392</td>
<td>1,420</td>
<td>1,452</td>
</tr>
<tr>
<td>KGRH geriatric</td>
<td>8,813</td>
<td>21,082</td>
<td>21,409</td>
<td>21,837</td>
<td>22,274</td>
<td>22,782</td>
</tr>
<tr>
<td><strong>SLH and KGRH - Total income from Government</strong></td>
<td>8,813</td>
<td>26,793</td>
<td>32,911</td>
<td>33,569</td>
<td>34,241</td>
<td>35,018</td>
</tr>
<tr>
<td><strong>Total income from Government</strong></td>
<td>8,813</td>
<td>26,793</td>
<td>69,919</td>
<td>74,752</td>
<td>76,247</td>
<td>77,983</td>
</tr>
<tr>
<td>Income from Government based on minimum charge as a percentage of total income</td>
<td>42</td>
<td>37</td>
<td>60</td>
<td>63</td>
<td>57</td>
<td>55</td>
</tr>
</tbody>
</table>
4.2.133 The medical services included in the minimum charge were:

a | medical services including primary diagnostics and follow-up care;

b | basic pharmaceuticals and medical supplies consumption;

c | inpatient care including physicians, nursing and meals;

d | emergency care including ER and ground ambulatory services;

e | rehabilitation including physiotherapy and hydrotherapy services where applicable;

f | inpatient access to consultations with the speciality visiting doctors from the US and UK, when necessary; and

g | up to 2,000 surgeries as performed in the then GGH set up.

In addition to the above, negotiations would be undertaken with Government for the pricing of additional services, specialty care and surgeries that were not included in the offer by the VGH.

4.2.134 Other revenue was to be sourced from Government for the operation of the GGH. These were income from operating the GGH as is between July 2015 and December 2016, income from the rental of the medical college and income for the helicopter air lift service that was to be provided to Government (Figure 28 refers).

**Figure 28 | Other income from Government - GGH, 2015-2020**

<table>
<thead>
<tr>
<th></th>
<th>2015 (€000)</th>
<th>2016 (€000)</th>
<th>2017 (€000)</th>
<th>2018 (€000)</th>
<th>2019 (€000)</th>
<th>2020 (€000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>other income from Government for the GGH as is</td>
<td>12,083</td>
<td>29,532</td>
<td>2,465</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>other income from the helicopter</td>
<td>-</td>
<td>-</td>
<td>999</td>
<td>1,081</td>
<td>1,103</td>
<td>1,125</td>
</tr>
<tr>
<td>other income from the medical college</td>
<td>-</td>
<td>315</td>
<td>1,266</td>
<td>1,292</td>
<td>1,317</td>
<td>1,344</td>
</tr>
<tr>
<td>GGH - other income from Government</td>
<td>12,083</td>
<td>29,847</td>
<td>4,731</td>
<td>2,373</td>
<td>2,420</td>
<td>2,469</td>
</tr>
</tbody>
</table>

4.2.135 With regard to income from Government for operating the GGH as is, the VGH indicated that it would take over the Hospital in July 2015 with its current operations. Based on the Financial Estimates and other information provided in the RfP, the annual spend for the GGH was estimated at €29,000,000 for basis year 2015, made up of €23,000,000 in salaries, €3,000,000 in operating maintenance costs and €3,000,000 in pharmaceuticals costs. In 2015, given the commencement in July, the projected income from Government for operating the GGH was estimated at €12,400,000. This amount was estimated to increase to €26,900,000 in 2016, following a two per cent inflationary adjustment.

4.2.136 Other income from Government was to be earned from the treatment that was to be provided to outpatients at the dermatology unit and the holistic centre at the SLH. According to the
bid, it was assumed that approximately 25,000 outpatients would be treated at a charge to Government of €40 per outpatient. The rate did not vary by the type of consultation and the projections were based on a flat rate of €40 per visit, increasing by an annual rate of two per cent for inflation.

4.2.137 The VGH also projected the revenue that it would earn from Government from the rental of the medical college. Nonetheless, a considerable capital outlay for the building of the college would be incurred by the VGH. The projected revenue and capital costs for the medical college for 2015 to 2020 are presented in Figure 29.

Figure 29 | Rental income from the medical college and capital costs outlay, 2015-2020

<table>
<thead>
<tr>
<th>Year</th>
<th>Rental income from medical college</th>
<th>Additional income: maintenance/teaching fees</th>
<th>Total income from rental of medical college</th>
<th>Capital costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>317</td>
<td>103</td>
<td>420</td>
<td>(88)</td>
</tr>
<tr>
<td>2016</td>
<td>958</td>
<td>310</td>
<td>1,268</td>
<td>(386)</td>
</tr>
<tr>
<td>2017</td>
<td>978</td>
<td>316</td>
<td>1,294</td>
<td>(257)</td>
</tr>
<tr>
<td>2018</td>
<td>997</td>
<td>323</td>
<td>1,320</td>
<td>(54)</td>
</tr>
<tr>
<td>2019</td>
<td>1,017</td>
<td>329</td>
<td>1,346</td>
<td>(79)</td>
</tr>
<tr>
<td>2020</td>
<td>1,017</td>
<td></td>
<td></td>
<td>(155)</td>
</tr>
</tbody>
</table>

4.2.138 The total estimated spend for the medical college was €12,100,000, which included VAT at 18 per cent. The capital cost included the structure, mechanical and electrical works, and finishes; however, it excluded the equipment and internal fitouts. As from September 2016, it was assumed that the medical college building would be rented to Government at €225 per square metre, of which €170 per square metre represented the rental rate for the building and €55 per square metre was the compensation for ongoing maintenance works, which included the upkeep of the property and the time allocation of the professionals at the GGH to the students of the medical college. The estimated total annual rental charge to Government was €1,300,000.

4.2.139 Income for the VGH would also be derived from the airlift service provided to Government. In this regard, the demand by Government was assumed to total 120 airlifts every year. The highest demand for airlifts was expected between June and September, in line with the increased number of tourists in Gozo and Malta during the period. The average rate per airlift was assumed to be €8,500. No VAT would be charged on airlift fees.
4.2.140 Government would also be liable to pay compensation to the VGH for refundable improvements made at the Sites on the expiration of the 30-year concession. At this juncture, the net book value of the assets, based on the depreciation rates indicated earlier on in this report and including the additions reflecting the allocation of the replacement capital expenditure, was €71,000,000 (Figure 30 refers). Notwithstanding this provision, the aim of the VGH was to operate, maintain and redevelop the Sites to allow operations over a 99-year period; hence, the projected compensation payable by Government was excluded from the financial model in year 30 of the concession.

Figure 30 | Net book value of assets as at 2045

<table>
<thead>
<tr>
<th>Asset category</th>
<th>2045 (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and related infrastructure</td>
<td>62,057</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>1,463</td>
</tr>
<tr>
<td>IT equipment</td>
<td>900</td>
</tr>
<tr>
<td>Generators and other equipment</td>
<td>668</td>
</tr>
<tr>
<td>Medical equipment</td>
<td>3,858</td>
</tr>
<tr>
<td>Helicopter</td>
<td>2,270</td>
</tr>
<tr>
<td><strong>Total estimated compensation in year 30 of the concession</strong></td>
<td><strong>71,217</strong></td>
</tr>
</tbody>
</table>

4.2.141 The VGH also envisaged to earn income from medical tourism through the 100-bed allocation at the GGH and the 220 beds at the SLH (Figure 31 refers).

Figure 31 | Medical tourism revenue streams, 2015-2020

<table>
<thead>
<tr>
<th></th>
<th>2015 (£000)</th>
<th>2016 (£000)</th>
<th>2017 (£000)</th>
<th>2018 (£000)</th>
<th>2019 (£000)</th>
<th>2020 (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GGH</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from surgical procedures</td>
<td>-</td>
<td>-</td>
<td>4,596</td>
<td>6,148</td>
<td>7,428</td>
<td>8,757</td>
</tr>
<tr>
<td>Medical tourism</td>
<td>-</td>
<td>-</td>
<td>10,946</td>
<td>14,662</td>
<td>17,716</td>
<td>20,945</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>15,542</td>
<td>20,810</td>
<td>25,145</td>
<td>29,702</td>
</tr>
<tr>
<td><strong>SLH</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from non-residents: trauma</td>
<td>3,652</td>
<td>4,202</td>
<td>4,579</td>
<td>4,694</td>
<td>4,801</td>
<td></td>
</tr>
<tr>
<td>Income from non-residents: acute</td>
<td>6,515</td>
<td>12,858</td>
<td>14,161</td>
<td>14,535</td>
<td>14,866</td>
<td></td>
</tr>
<tr>
<td>Income from non-residents: rehab for acute</td>
<td>4,812</td>
<td>9,794</td>
<td>10,763</td>
<td>11,044</td>
<td>11,296</td>
<td></td>
</tr>
<tr>
<td></td>
<td>14,980</td>
<td>26,854</td>
<td>29,503</td>
<td>30,272</td>
<td>30,963</td>
<td></td>
</tr>
<tr>
<td><strong>Total income from medical tourism</strong></td>
<td>14,980</td>
<td>42,396</td>
<td>50,313</td>
<td>55,417</td>
<td>60,665</td>
<td></td>
</tr>
<tr>
<td>Medical tourism income as a % of total income</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>19</td>
<td>19</td>
<td></td>
</tr>
</tbody>
</table>

4.2.142 According to the bid, the GGH would provide high quality care and would have a team of visiting speciality doctors, which was expected to attract patients from abroad. The association with Barts was also expected to contribute to establishing and promoting Malta as a reputable destination for medical tourism. Despite offering quality services, the Project would also compete on the basis of affordability by offering competitive prices, particularly when compared to the US and the UK. As outlined in the VGH medical tourism strategy, the target markets for medical tourists in Malta were the UK, North Africa, the Middle East, Russia and North America.
4.2.143 At the GGH, income from surgical procedures and medical tourism was projected to represent approximately 20 per cent of the total annual revenue. Figure 32 provides a summary of the projected capacity in available bed days, the occupied bed days and the charges per bed per night for the medical tourism beds in the GGH from 2017 to 2021.

Figure 32 | Income from medical tourism: GGH, 2017-2021

<table>
<thead>
<tr>
<th>Key parameters</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of beds</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Number of nights (in days)</td>
<td>365</td>
<td>365</td>
<td>365</td>
<td>366</td>
<td>365</td>
</tr>
<tr>
<td>Occupancy factor</td>
<td>45%</td>
<td>55%</td>
<td>65%</td>
<td>75%</td>
<td>80%</td>
</tr>
<tr>
<td>Number of nights available</td>
<td>36,500</td>
<td>36,500</td>
<td>36,500</td>
<td>36,600</td>
<td>36,500</td>
</tr>
<tr>
<td>Number of nights occupied</td>
<td>16,425</td>
<td>20,075</td>
<td>23,725</td>
<td>27,450</td>
<td>29,200</td>
</tr>
<tr>
<td>Charge per patient per night (including inflation)</td>
<td>728</td>
<td>743</td>
<td>758</td>
<td>773</td>
<td>788</td>
</tr>
<tr>
<td>Total income (£000s)</td>
<td>11,962</td>
<td>14,913</td>
<td>17,976</td>
<td>21,215</td>
<td>23,019</td>
</tr>
</tbody>
</table>

4.2.144 The VGH envisaged that revenue would also be earned through the surgical procedures that would be provided to medical tourism patients. These were expected to commence as from 2017 and would total 3,000 procedures annually. Of these, 1,000 would be orthopaedic operations and 2,000 would involve other procedures. Fees of €7,500 and €1,500 were to be charged for orthopaedic operations and other surgeries, respectively. The projected income from these procedures for the years 2017 to 2022 is presented in Figure 33.

Figure 33 | Income from surgical procedures, 2017-2022

<table>
<thead>
<tr>
<th>Income from surgical procedures (including inflation)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from orthopaedic surgeries</td>
<td>3,283</td>
<td>4,391</td>
<td>5,306</td>
<td>6,255</td>
<td>6,846</td>
<td>7,018</td>
</tr>
<tr>
<td>Income from other surgeries</td>
<td>1,313</td>
<td>1,757</td>
<td>2,122</td>
<td>2,502</td>
<td>2,738</td>
<td>2,807</td>
</tr>
<tr>
<td>Total income from surgeries</td>
<td>4,596</td>
<td>6,148</td>
<td>7,428</td>
<td>8,757</td>
<td>9,584</td>
<td>9,826</td>
</tr>
</tbody>
</table>

4.2.145 Income from medical tourism at the SLH was also factored in the bid. The VGH assumed that the occupancy rates for non-residential patients within the SLH would increase from 60 per cent in 2015 and 2016 to 65 per cent in 2017 and to 70 per cent in 2018. The rate per bed per night that was to be charged varied depending on the type of bed offered: €700 per bed per night for trauma beds; €550 per bed per night for the acute beds and €400 per bed per night for rehabilitation. The projected revenue from the provision of medical tourism beds at the SLH for 2015 to 2020 is presented at Figure 34.

Figure 34 | Income from medical tourism: SLH, 2015-2020

<table>
<thead>
<tr>
<th>Income from trauma beds</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
</tr>
<tr>
<td>Income from trauma beds</td>
<td>304</td>
<td>3,659</td>
<td>4,253</td>
<td>4,609</td>
<td>4,702</td>
<td>4,809</td>
</tr>
<tr>
<td>Income from acute beds</td>
<td>136</td>
<td>7,387</td>
<td>12,949</td>
<td>14,272</td>
<td>14,559</td>
<td>14,891</td>
</tr>
<tr>
<td>Income from rehabilitation beds</td>
<td>99</td>
<td>5,472</td>
<td>9,873</td>
<td>10,846</td>
<td>11,062</td>
<td>11,315</td>
</tr>
<tr>
<td>Total income from SLH medical tourism</td>
<td>539</td>
<td>16,518</td>
<td>27,076</td>
<td>29,728</td>
<td>30,323</td>
<td>31,014</td>
</tr>
</tbody>
</table>
**Taxation and other general assumptions**

4.2.146 Several key assumptions were made by the VGH in relation to taxation. With regard to VAT, it was assumed that:

a) no VAT would be charged on the price of care, medical and surgical services;

b) any VAT incurred on the construction and operating costs related to these services were non-recoverable;

c) the 18 per cent VAT charged on the construction costs, which were directly related to the onsite accommodation, would be fully recoverable by the concessionaire; and

d) rental income was considered to be exempt without credit and therefore no VAT would be charged to Government on the renting of the medical college premises; similar to the provision of medical services, any VAT incurred on construction and operating costs relating to the college were non-recoverable.

4.2.147 With regard to onsite accommodation for medical students and on-site staff, VAT was recoverable by the concessionaire on the capital expenditure of such accommodation. It was estimated that in 2015, the concessionaire would be eligible for €16,000 in recoverable VAT, €602,000 in 2016 and €118,000 in 2017. VAT was assumed to be refunded every September.

4.2.148 As regards corporate tax, the following assumptions were made:

a) corporate tax was assumed to be charged at the standard corporate tax rate of 35 per cent for the entire term covered by the projections;

b) capital allowances for tax purposes were assumed as follows: mechanical and electrical works in relation to the building at 7 per cent (15 years), finishes relating to the building works at 10 per cent (10 years), medical equipment and the helicopter at 17 per cent (6 years), furniture and fittings at 10 per cent (10 years), and IT equipment at 25 per cent (4 years);

c) no capital allowances were assumed with respect to industrial buildings;

d) all current tax arising in a particular year was assumed to be paid one year in arrear; and

e) deferred tax was recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

4.2.149 The current tax charge with respect to the rental income generated from the premises of the medical college, to be charged at 35 per cent, was estimated separately in view of the specific
allowable deductions. These deductions included the proportion of loan interest in respect of
the capital expenditure incurred for the college and the 20 per cent maintenance allowance
calculated on total rent receivable. Current tax was estimated to increase from €118,000 in
2015 to €218,000 in 2021. Over the entire concessionary period, that is 2015 to 2045, current
tax on the net rental income was estimated at €9,206,000.

4.2.150 Tax at 35 per cent on chargeable income generated from the overall project, excluding the
profits earned from the rental of the medical college, was also calculated. Over the 30-year
concession, this was estimated to amount to €170,067,000.

4.2.151 With regard to inflation, this was assumed at two per cent per annum and was applied uniformly
to both revenues and costs. Debit interest on any bank balances was assumed at the rate of six
per cent per annum. Moreover, the projections excluded foreign exchange gains and losses.

Capital requirements

4.2.152 A summary of the project cash flows for its initial years of operations, that is 2015 to 2022, was
also prepared (Figure 35 refers). The total average revenue for the initial 10 years was projected
at €120,000,000, compared to expenditure of €102,000,000, leaving an average annual surplus
cash of €18,000,000. According to the VGH, surplus cash would largely be applied for the
replacement capital expenditure reserve which, however, would still leave the project with an
annual cash surplus for the pay-out of dividends.

<table>
<thead>
<tr>
<th>Figure 35</th>
<th>Project cash flows, 2015-2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Total income (£000)</td>
</tr>
<tr>
<td>2015</td>
<td>20,896</td>
</tr>
<tr>
<td>2016</td>
<td>71,620</td>
</tr>
<tr>
<td>2017</td>
<td>117,046</td>
</tr>
<tr>
<td>2018</td>
<td>118,438</td>
</tr>
<tr>
<td>2019</td>
<td>134,085</td>
</tr>
<tr>
<td>2020</td>
<td>141,116</td>
</tr>
<tr>
<td>2021</td>
<td>145,786</td>
</tr>
<tr>
<td>2022</td>
<td>148,874</td>
</tr>
</tbody>
</table>

4.2.153 The total capital expenditure, including interest on capital, was projected at €179,000,000,
comprising €170,000,000 in capital spend plus interest in the initial years of €9,000,000.
This capital spend was to be funded through various sources, namely, 70 per cent through a
bank loan (€125,000,000), 23 per cent through an equity injection (€41,000,000), six per cent
through a separate financing agreement intended to finance the acquisition of the helicopter
(€10,000,000), and the remaining one per cent from operations.
4.2.154 A €9,000,000 performance security would, in the initial three years of the concession, be provided by the VGH through a pledged bank facility, which would be subject to an interest charge at the rate of 0.5 per cent per annum. As from 2018, that is after commencement of the Sites’ operations, this performance security would be replaced with an equivalent amount due from Government.

4.2.155 With regard to the €125,000,000 bank loan, the VGH indicated the following parameters:

a | the initial term of the loan would be of seven years;

b | the drawdown date would be July 2015 while the repayment date would be July 2022;

c | interest was payable at six per cent per annum, commencing as from January 2017;

d | based on the current phasing plan, drawdowns were planned as follows: €30,000,000 in 2015, €69,000,000 in 2016 and €26,000,000 in 2017; and

e | the loan was assumed to be refinanced on the same basis every five years and would be repaid in full by June 2045.

The VGH indicated that, in support of this financing proposition, it had secured the interest of a number of investment companies willing to finance the venture.

4.2.156 With regard to the equity financing, the VGH indicated that the €41,000,000 equity would be injected in the project as follows: €12,300,000 in 2015, €15,100,000 in 2016, €6,800,000 in 2017 and €7,200,000 in 2018. Supporting the equity proposal was an initial €30,000,000 equity commitment from Bluestone Special Situation 4 Ltd and up to €40,000,000 equity from a syndicate of doctors. The VGH indicated that dividends would be paid when sufficient cash flow and profits were available and projected that the first dividend pay-out would be made in 2019. Dividends were projected to average €8,000,000 during the whole concession period, representing approximately 90 per cent of the available cash.

4.2.157 The helicopter was assumed to be acquired through a finance lease, which would be repayable over a 10-year period at an interest cost of three per cent per annum.

4.2.158 With regard to the project’s financial sustainability, the VGH indicated that funding for capital expenditure would largely take the form of debt and equity, and that cash flows from operations would contribute €2,000,000 to the financing of the capital costs. Following the capital development period, the cash generated from operations would suffice to cover all interest and capital financing commitment costs. The annual net cash balance after tax and financing costs was projected to be positive throughout the concession period, even after the planned dividend payments (Figure 36 refers).
Figure 36 | Financial sustainability: Summary of sources and application of funds, 2015-2022

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
</tr>
<tr>
<td>Total funding for capex</td>
<td>42,457</td>
<td>85,746</td>
<td>43,532</td>
<td>7,230</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>37,620</td>
<td>85,746</td>
<td>43,233</td>
<td>3,661</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cumulative buffer</td>
<td>4,837</td>
<td>-</td>
<td>299</td>
<td>3,570</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total net funds from operations</td>
<td>(1,894)</td>
<td>(955)</td>
<td>7,947</td>
<td>4,650</td>
<td>16,107</td>
<td>19,873</td>
<td>22,028</td>
<td>21,313</td>
</tr>
<tr>
<td>Total funding costs</td>
<td>(23)</td>
<td>(45)</td>
<td>(8,746)</td>
<td>(8,720)</td>
<td>(8,720)</td>
<td>(8,720)</td>
<td>(8,720)</td>
<td>(8,720)</td>
</tr>
<tr>
<td>Net balance following funding costs</td>
<td>(1,917)</td>
<td>(1,000)</td>
<td>(799)</td>
<td>(4,070)</td>
<td>7,387</td>
<td>11,154</td>
<td>13,308</td>
<td>12,593</td>
</tr>
<tr>
<td>Annual net cash balance after funding costs and loan repayments before dividends</td>
<td>2,920</td>
<td>1,920</td>
<td>1,420</td>
<td>920</td>
<td>8,307</td>
<td>19,461</td>
<td>32,769</td>
<td>45,363</td>
</tr>
<tr>
<td>Cumulative buffer</td>
<td>4,837</td>
<td>-</td>
<td>299</td>
<td>3,570</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Opening cash balance</td>
<td>-</td>
<td>2,290</td>
<td>1,920</td>
<td>1,420</td>
<td>920</td>
<td>8,307</td>
<td>19,461</td>
<td>32,769</td>
</tr>
<tr>
<td>Dividends</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,678)</td>
<td>(4,134)</td>
<td>(5,215)</td>
<td>(5,313)</td>
</tr>
<tr>
<td>Annual net cash balance after funding costs and loan repayments after dividends</td>
<td>2,920</td>
<td>1,920</td>
<td>1,420</td>
<td>920</td>
<td>6,603</td>
<td>13,650</td>
<td>21,743</td>
<td>29,024</td>
</tr>
</tbody>
</table>

The project was considered to be financially sustainable in that the net operating inflows and the projected cash transfers consistently exceed the planned disbursements. Figure 37 provides a summary of the financial sustainability following the first eight years of operations.

Figure 37 | Financial sustainability: Summary of sources and application of funds, 2023-2030

<table>
<thead>
<tr>
<th>Year</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
<td>(€000)</td>
</tr>
<tr>
<td>Total net funds from operations</td>
<td>19,273</td>
<td>18,025</td>
<td>17,943</td>
<td>18,365</td>
<td>18,442</td>
<td>18,738</td>
<td>18,604</td>
<td>19,087</td>
</tr>
<tr>
<td>Total funding costs</td>
<td>(8,720)</td>
<td>(8,720)</td>
<td>(8,720)</td>
<td>(8,720)</td>
<td>(8,720)</td>
<td>(7,500)</td>
<td>(7,500)</td>
<td>(7,500)</td>
</tr>
<tr>
<td>Net balance following funding costs</td>
<td>10,553</td>
<td>9,306</td>
<td>9,224</td>
<td>9,645</td>
<td>10,942</td>
<td>11,238</td>
<td>11,104</td>
<td>11,587</td>
</tr>
<tr>
<td>Opening cash balance</td>
<td>45,363</td>
<td>55,916</td>
<td>65,221</td>
<td>74,445</td>
<td>84,091</td>
<td>95,033</td>
<td>106,271</td>
<td>117,373</td>
</tr>
<tr>
<td>Annual net cash balance after funding costs and loan repayments before dividends</td>
<td>55,916</td>
<td>65,221</td>
<td>74,445</td>
<td>84,091</td>
<td>95,033</td>
<td>106,271</td>
<td>117,373</td>
<td>128,926</td>
</tr>
<tr>
<td>Dividends</td>
<td>(5,414)</td>
<td>(5,710)</td>
<td>(5,648)</td>
<td>(6,259)</td>
<td>(8,036)</td>
<td>(8,352)</td>
<td>(8,277)</td>
<td>(8,434)</td>
</tr>
<tr>
<td>Annual net cash balance after funding costs and loan repayments after dividends</td>
<td>34,163</td>
<td>37,758</td>
<td>41,334</td>
<td>44,720</td>
<td>47,626</td>
<td>50,513</td>
<td>53,339</td>
<td>56,492</td>
</tr>
</tbody>
</table>
4.2.160 Notwithstanding the above, a sensitivity analysis was performed assuming no income from medical tourism such that the only source of income for the project was derived from Government while all costs were retained. On this basis, the resultant annual net cash flows pre-tax and funding were negative throughout the service concession period. This implied that the project would not be financially sustainable should medical tourism be taken out of the equation (Figure 38 refers).

**Figure 38 | Sensitivity analysis, 2015-2022**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total income (Government)</th>
<th>Total direct operating costs</th>
<th>Total general overheads</th>
<th>Profit sharing - staff</th>
<th>Ground rent</th>
<th>Replacement capex</th>
<th>VAT inflow</th>
<th>Net cash inflow pre-tax and funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>20,896</td>
<td>(21,042)</td>
<td>(1,641)</td>
<td>-</td>
<td>(16)</td>
<td>(104)</td>
<td>12</td>
<td>(1,894)</td>
</tr>
<tr>
<td>2016</td>
<td>56,640</td>
<td>(58,322)</td>
<td>(11,737)</td>
<td>-</td>
<td>(350)</td>
<td>(137)</td>
<td>455</td>
<td>(13,452)</td>
</tr>
<tr>
<td>2017</td>
<td>74,650</td>
<td>(74,662)</td>
<td>(32,836)</td>
<td>-</td>
<td>(583)</td>
<td>(1,140)</td>
<td>239</td>
<td>(34,332)</td>
</tr>
<tr>
<td>2018</td>
<td>77,125</td>
<td>(76,705)</td>
<td>(35,179)</td>
<td>-</td>
<td>(583)</td>
<td>(1,163)</td>
<td>29</td>
<td>(36,475)</td>
</tr>
<tr>
<td>2019</td>
<td>78,668</td>
<td>(78,278)</td>
<td>(36,064)</td>
<td>-</td>
<td>(583)</td>
<td>(2,764)</td>
<td>29</td>
<td>(39,115)</td>
</tr>
<tr>
<td>2020</td>
<td>80,451</td>
<td>(79,867)</td>
<td>(36,949)</td>
<td>-</td>
<td>(583)</td>
<td>(3,412)</td>
<td>-</td>
<td>(40,589)</td>
</tr>
<tr>
<td>2021</td>
<td>81,846</td>
<td>(81,443)</td>
<td>(37,753)</td>
<td>-</td>
<td>(583)</td>
<td>(3,480)</td>
<td>-</td>
<td>(41,702)</td>
</tr>
<tr>
<td>2022</td>
<td>83,483</td>
<td>(83,069)</td>
<td>(38,507)</td>
<td>-</td>
<td>(583)</td>
<td>(4,889)</td>
<td>-</td>
<td>(43,861)</td>
</tr>
</tbody>
</table>

Note: The NAO noted that the profit sharing to staff element was retained for the years 2019 to 2022. Should this disbursement be removed in view of the anticipated negative bottom line, the projected loss for these years would decrease accordingly.

4.2.161 The VGH set out its projected gearing levels through the term of the loan (2015-2022). The analysis indicated that the gearing level would be highest in 2017 at 79 per cent. Gearing was projected to decrease gradually as from 2018, when the revenues from the project would start increasing.

4.2.162 The asset coverage ratio over the term of the loan was calculated on the basis of the cost of assets less the applicable depreciation as at the end of each financial year. The analysis indicated an asset coverage ratio of 1.2 on the finalisation of the building. This increased to 1.4 in 2022 following the reduction in debt balances.

**Financial offer**

4.2.163 The VGH indicated that the proposed payment for the concession was arrived at after due consideration of the parameters set out in the RfP. The parameters included the requirement to quote a fixed price that was to include the cost of pharmaceuticals and medical accessories that were then being provided by Government, the sites that were to be developed and the areas to be renovated, the human resource complement required to operate the required bed complement, and the scope for the introduction of medical tourism. According to the VGH, these considerations had a considerable bearing on the development of its business plan and the financial model for the concession.
4.2.164 Based on these parameters, the VGH proposed the following minimum charges per bed per night for the different services:

a | a minimum charge per acute bed in the GGH per night of €500 (rate applicable as from January 2015), which would increase by two per cent inflation in January 2017;

b | a minimum charge for long-term acute geriatric care in the GGH per bed per night of €180 (rate applicable as from January 2017);

c | a minimum charge for dermatology inpatient care at the SLH per bed per night of €300 (basis year 2015);

d | a minimum charge for rehabilitation at the newly refurbished SLH per bed per night of €300 (basis year 2015);

e | a minimum charge for long-term acute geriatric care at the KGRH per bed per night of €180 (basis year 2015), the rate of which was not to increase with inflation until January 2017;

f | the rate for the outpatients of the dermatology and holistic centre was €40 per outpatient (basis year 2015);

g | the rental rate for the medical college was €225 per square metre (basis year 2016);

h | the rate per helicopter airlift was €8,500 (basis year 2015); and

i | unless otherwise specified, an inflation rate of two per cent was to apply from the basis year indicated.

4.2.165 On the basis of the above, the consolidated offer by the VGH for the service concession for the redevelopment, maintenance, management, and operation of the sites at the GGH, the SLH and the KGRH was being made against the following annual payments by Government for the initial ten years of operation (Figure 39 refers).
Figure 39 | Projected annual payments by Government, 2015-2024\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>2015 (£000)</th>
<th>2016 (£000)</th>
<th>2017 (£000)</th>
<th>2018 (£000)</th>
<th>2019 (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GGH: acute</td>
<td>-</td>
<td>-</td>
<td>26,062</td>
<td>29,002</td>
<td>29,582</td>
</tr>
<tr>
<td>GGH: long term and acute geriatric</td>
<td>-</td>
<td>-</td>
<td>10,946</td>
<td>12,181</td>
<td>12,425</td>
</tr>
<tr>
<td>GGH: medical college</td>
<td>-</td>
<td>315</td>
<td>1,266</td>
<td>1,292</td>
<td>1,317</td>
</tr>
<tr>
<td>GGH: payment for GGH as is</td>
<td>12,083</td>
<td>29,532</td>
<td>2,465</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>GGH: helicopter airlift annual charge</td>
<td>-</td>
<td>-</td>
<td>999</td>
<td>1,081</td>
<td>1,103</td>
</tr>
<tr>
<td>SLH: dermatology</td>
<td>-</td>
<td>1,116</td>
<td>1,365</td>
<td>1,392</td>
<td>1,420</td>
</tr>
<tr>
<td>SLH: dermatology outpatients</td>
<td>-</td>
<td>850</td>
<td>1,039</td>
<td>1,059</td>
<td>1,081</td>
</tr>
<tr>
<td>KGRH: long term geriatric care</td>
<td>8,813</td>
<td>21,082</td>
<td>21,409</td>
<td>21,837</td>
<td>22,274</td>
</tr>
<tr>
<td>Projected annual payments by Government</td>
<td>20,896</td>
<td>56,640</td>
<td>74,650</td>
<td>77,125</td>
<td>78,668</td>
</tr>
<tr>
<td>(cont.)</td>
<td>2020(^2)</td>
<td>2021</td>
<td>2022</td>
<td>2023</td>
<td>2024</td>
</tr>
<tr>
<td></td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
<td>(£000)</td>
</tr>
<tr>
<td>GGH: acute</td>
<td>30,257</td>
<td>30,777</td>
<td>31,393</td>
<td>32,021</td>
<td>32,751</td>
</tr>
<tr>
<td>GGH: long term and acute geriatric</td>
<td>12,708</td>
<td>12,926</td>
<td>13,185</td>
<td>13,449</td>
<td>13,755</td>
</tr>
<tr>
<td>GGH: medical college</td>
<td>1,344</td>
<td>1,371</td>
<td>1,398</td>
<td>1,426</td>
<td>1,455</td>
</tr>
<tr>
<td>GGH: payment for GGH as is</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>GGH: helicopter airlift annual charge</td>
<td>1,125</td>
<td>1,147</td>
<td>1,170</td>
<td>1,194</td>
<td>1,218</td>
</tr>
<tr>
<td>SLH: rehabilitation</td>
<td>9,682</td>
<td>9,849</td>
<td>10,046</td>
<td>10,247</td>
<td>10,480</td>
</tr>
<tr>
<td>SLH: dermatology</td>
<td>1,542</td>
<td>1,477</td>
<td>1,507</td>
<td>1,537</td>
<td>1,572</td>
</tr>
<tr>
<td>SLH: dermatology outpatients</td>
<td>1,102</td>
<td>1,124</td>
<td>1,147</td>
<td>1,170</td>
<td>1,193</td>
</tr>
<tr>
<td>KGRH: long term geriatric care</td>
<td>22,782</td>
<td>23,174</td>
<td>23,637</td>
<td>24,110</td>
<td>24,659</td>
</tr>
<tr>
<td>Projected annual payments by Government</td>
<td>80,451</td>
<td>81,846</td>
<td>83,483</td>
<td>85,152</td>
<td>87,083</td>
</tr>
</tbody>
</table>

Notes:
1. Amounts include impact of 30 days credit.
2. As from 2020, the annual charges to Government would increase with inflation of 2 per cent per annum.

4.2.166 The total payments that were to be made by Government to the VGH over the 30-year concession amounted to €3,000,000,000. However, in present value terms, and based on a discount factor of six per cent, the offer by the VGH for the 30-year concession amounted to €1,263,000,000\(^{10}\), and was made up of:

a | €632,400,000 for the GGH excluding the helicopter services and the medical college;
b | €20,200,000 for the rental of the medical college;
c | €16,600,000 for the rental of the helicopter services;
d | €186,400,000 for the services provided at the SLH; and
e | €365,600,000 for the services provided at the KGRH.

\(^{10}\) The difference between this amount and that obtained through the summation of (a) to (e) is due to rounding differences.
4.2.167 In the event that Government requested additional beds over and above the minimum requirements set out in the RfP, the applicable fixed prices per additional bed per night were as follows:

a | a charge per acute bed per night of €650 at the GGH;
b | a charge for long-term acute geriatric care in the GGH per bed per night of €180;
c | a charge for rehabilitation at the newly refurbished SLH per bed per night of €300;
d | a charge for long-term acute geriatric care at the KGRH per bed per night of €180; and
e | a charge for dermatology care at the SLH per bed per night of €300.

4.2.168 In the minimum charge per bed per night, the following inclusions were made:

a | medical services including primary diagnostics and follow-up care;
b | basic pharmaceuticals and medical supplies consumption;
c | in-patient care including physicians, nursing and meals;
d | emergency care including ER and ground ambulatory services;
e | rehabilitation area including physiotherapy and hydrotherapy services where applicable; and
f | in-patient access to consultations with the speciality visiting doctors from the US and the UK, when necessary.

4.2.169 Pricing for additional services, specialty care and surgeries that were not included in the offer and were to be negotiated between the VGH and Government.

Executive summary

4.2.170 In line with the requirements of the RfP, the VGH submitted an executive summary that provided a concise overview of the proposed project. With regard to deliverables, the VGH committed to:

a | take over the current operations at the GGH and the KGRH at the outset;
b | construct an additional 225-bed acute facility at the GGH, with 125 beds to be provided to Government;
c | renovate and upgrade the existing GGH to convert it into a 175-bed long-term and rehabilitation centre;
d | construct a medical college to accommodate the Barts Medical College at the GGH;
e | renovate the SLH into a 300-bed hospital, with 80 rehabilitation care beds to be provided to Government;

f | construct 12 dermatology beds and clinics at the SLH;

g | refit an existing building at the SLH to support a nursing institution;

h | promote medical tourism in the areas of cardiology, orthopaedic and trauma with a capacity of 320 beds; and

i | operate and manage the GGH, the SLH and the KGRH for the duration of the concession period.

The above were to be realised by December 2017.

4.2.171 According to the VGH, in terms of services and capacity, the project was to provide:

   a | standalone acute geriatrics facilities;

   b | a state-of-the-art rehabilitation centre;

   c | improvement in the ratio of acute beds per 100,000 population; and

   d | increased capacity for cardiac conditions and orthopaedic procedures.

4.2.172 In terms of the financial sustainability of the healthcare sector, the project would:

   a | require no capital outlay by Government;

   b | result in efficiency gains in recurrent expenditure as a result of a more effective service delivery; and

   c | generate efficiencies in pharmaceutical procurement that will translate in a lower charge per bed to Government.

4.2.173 With regard to the operational sustainability of healthcare services, the project envisaged:

   a | a shortening in the length of patient stays through a more efficient and effective distribution of patients and capacity;

   b | improved staff to patient ratios;

   c | a reduction in waiting time and waiting lists for procedures;
d | a strong board and corporate governance structure; and

e | the use of integrated IT systems.

4.2.174 According to the VGH, the project would also create a strong healthcare workforce. The project would require a staff complement of approximately 2,200 employees, with over €5,000,000 per annum budgeted for staff training. Moreover, the combination of a medical college and a teaching hospital was expected to improve staff retention and attraction rates.

4.2.175 In terms of the broader socio-economic impacts, the VGH would commit in excess of €190,000,000 for the project, which would generate significant contributions to various tax bases. The project would also create 700 incremental jobs in addition to the current staff complement of 1,540 for the Sites. In addition, project-induced employment was expected to be in excess of 1,000, and a construction multiplier effect estimated at over €100,000,000.

4.2.176 In 2017, the projected first full year of operation, the annual charge to Government was estimated at €74,600,000. The cost to Government for the 30-year concession would amount to approximately €3,000,000,000; however, in present value terms, the cost was €1,263,000,000.

4.3 Evaluation of submissions

4.3.1 The Evaluation Committee was composed of a Chair and two members, who were assisted by a secretary to the Committee. The letters of appointment were issued by the PS MEH-Energy on 14 May 2015 (to the Chair, one of the members and the secretary) and 18 May 2015 (to the other member). The Chair Evaluation Committee was the then CEO of the Foundation for Medical Services while one of the members was a freelance financial consultant and certified auditor. The other member was a Partner with Nexia BT. The secretary to the Evaluation Committee, a lawyer by profession, was a Partner in the legal firm Mifsud Bonnici Advocates.

4.3.2 The NAO sought to establish the basis on which each member of the Evaluation Committee was selected and submitted a query to this effect to the PS MEH-Energy. In reply, the PS MEH-Energy indicated that each member was selected on the basis of his expertise in a relevant field. The curricula vitae of the members, submitted in support of the reply by the PS MEH-Energy, indicated the following areas of expertise:

a | engineering and project management;

b | accountancy, auditing and management consultancy; and

c | finance and auditing.

4.3.3 The Chair, members and the secretary of the Evaluation Committee signed declarations of impartiality and confidentiality on 19 May 2015. In these declarations, they asserted their independence from the operators who had submitted an offer, including persons or members
of consortia or the subcontractors proposed by the bidders. The members agreed to inform the Chair of the Committee if they discovered the existence of a conflict of interest during the evaluation process and to cease from their role in the Committee if such conflict was confirmed by the Chair. Additionally, the members declared that they would execute their responsibilities impartially and objectively, and agreed not to disclose any of the confidential information made available to them throughout this process.

4.3.4 The Evaluation Committee drew up its report on 19 June 2015. The evaluation report included details of the procedure adopted for the opening of the bids, a reference to the corrigendum and clarifications issued by Projects Malta Ltd during the bid submission period, a description of the evaluation methodology, a timeline of the evaluation process, an overview of the eligibility and technical compliance of bids, the qualitative evaluation, the scores allocated for each criterion and finally the recommendation in terms of the preferred bidder.

Bids received

4.3.5 In the evaluation report, it was noted that three bids had been submitted in relation to the concession, which were numbered by the Evaluation Committee as follows:

a | Bid 1: the bid submitted by Vitals Global Healthcare Ltd;

b | Bid 2: the bid submitted by Image Hospitals; and

c | Bid 3: the bid submitted by BSP Investments Ltd.

4.3.6 A copy of the submission delivery acknowledgement that was issued for each bid, as well as the collective submission delivery form, were included as appendices to the evaluation report. Also included as an appendix was the report compiled by the two notaries on the opening of bids process.

Evaluation methodology

4.3.7 According to the RfP, all proposals were to be subject to a rigorous evaluation by an ad hoc Evaluation Committee, which was to be appointed by Government. Ultimately, the Committee was to identify the winning bidder. Proposals compliant with the requirements of the RfP were to be evaluated and scored according to four sets of criteria, with corresponding weightings, as follows:

a | general bidder information – 5 per cent;

b | technical and operational information – 25 per cent;

c | business plan – 35 per cent; and

d | financial impacts – 35 per cent.
4.3.8 In the case of the first three sets of criteria, various sub-criteria were to be considered and scored on the basis of an individual as well as a comparative, qualitative assessment. With regard to general bidder information, the sub-criteria related to the strategic fit of the bidder, the bidder’s overall corporate structure and its experience in sizeable projects. In consideration of the technical and operational information submitted, the Evaluation Committee was to consider the bidder’s ability to provide Government with the minimum beds required, its operational experience, its staffing and management structure and experience, provisions relating to staff satisfaction and retention, as well as the measures intended to satisfy the needs of the teaching hospital. In terms of the bidder’s business plan, the sub-criteria included the design concept and readiness to project, the bidder’s medical tourism plans and the medical facilities, IT and services plans. The other sub-criterion under the business plan was the financial sustainability of the project. In the case of financial impacts, evidence of the bidder’s financial capability was to be considered. Moreover, with regard to the financial proposal, a mathematical equation that was to be populated with bidder input data was specified.

The evaluation process

4.3.9 In fulfilment of its mandate to select the highest-ranking bidder, the Evaluation Committee held nine meetings. According to the evaluation report, the following main proceedings and decisions were taken during these meetings (Figure 40 refers).

<table>
<thead>
<tr>
<th>Meeting date</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>19 May 2015</td>
<td>The meeting followed the opening of the bids received by Projects Malta Ltd by the closing date. The Chair informed the Evaluation Committee of the scope of the proposed contract and summarised the essential features of the procurement and evaluation procedures as stipulated in the RfP.</td>
</tr>
<tr>
<td>20 May 2015</td>
<td>The Evaluation Committee proceeded with the evaluation of the bids. The Committee noted that only one of the three bids submitted was administratively compliant, namely that submitted by VGH Ltd.</td>
</tr>
<tr>
<td>26 May 2015</td>
<td>A Healthcare Technical Consultant was appointed by Projects Malta Ltd to assist the Evaluation Committee in the technical evaluation of the bids. The Committee agreed that two of its members would evaluate the financial element of the bid submitted by the compliant bidder and report back to the Committee.</td>
</tr>
<tr>
<td>5 June 2015</td>
<td>The Committee resumed the financial evaluation of the compliant bid.</td>
</tr>
<tr>
<td>8 June 2015</td>
<td>The Committee resumed the financial evaluation of the compliant bid.</td>
</tr>
<tr>
<td>10 June 2015</td>
<td>The Healthcare Technical Consultant presented his conclusions on the technical evaluation of the bid by VGH Ltd. The Healthcare Technical Consultant left the meeting, and the two Evaluation Committee members responsible for evaluating the financial element of the administratively compliant bid presented their appraisal. The financial evaluation was agreed to by the Committee.</td>
</tr>
<tr>
<td>15 June 2015</td>
<td>The Evaluation Committee agreed on the points to be awarded to the compliant bidder in terms of the score sheet. The Committee proceeded to draft the evaluation report.</td>
</tr>
<tr>
<td>17 June 2015</td>
<td>The Evaluation Committee resumed drafting the evaluation report.</td>
</tr>
<tr>
<td>19 June 2015</td>
<td>The Healthcare Technical Consultant attended this meeting. The Evaluation Committee unanimously adopted the evaluation report drawn up.</td>
</tr>
</tbody>
</table>
4.3.10 In terms of the RfP, the Evaluation Committee could reserve the right to request further information from bidders following the bid submission and to invite bidders throughout the evaluation process to make one or more presentations. The PS MEH-Energy indicated that no such requests were put forward by the Committee.

Eligibility compliance

4.3.11 The bids were checked against the eligibility criteria specified in the RfP. In this regard, only one of the three bids submitted, that pertaining to VGH Ltd, was deemed administratively compliant.

4.3.12 The Evaluation Committee noted various administrative shortcomings in the bid submitted by Image Hospitals. These were:

a | no bid bond was provided;
b | not each page of the proposal was clearly numbered and referenced in the contents page;
c | the copies of the bid were not marked as such;
d | the copies of the bid were not signed in the same way as the original bid document;
e | a computer readable format of the bid was not provided;
f | the sealed package was not marked in accordance with the requirements of the RfP; and
g | a business plan was not provided.

4.3.13 Similarly, the Evaluation Committee noted the following administrative shortcomings in the bid submitted by BSP Investments Ltd:

a | no bid bond was provided;
b | the bid did not include a contents page and was not referenced;
c | the financial proposal was not provided;
d | copies of the bid were not provided;
e | a computer readable format of the bid, including the projection documents, was not provided;
f | not all pages of the original bid document were initialled by a person holding the necessary authority to enter into contract negotiations on behalf of the bidder;
g | a business plan was not provided; and

h | the bid was presented with the following disclaimer: “We understand that this offer does not address the requirements of the RfP but wish to bring to your attention a tried and tested model which is different from what is currently being proposed”.

Technical compliance

4.3.14 The only administratively compliant bid was then checked against the technical requirements specified in the RfP. In this regard, the Evaluation Committee engaged a Healthcare Technical Consultant to assist it in its technical evaluation of the bid submitted by VGH Ltd.

Vitals Global Healthcare

4.3.15 The Evaluation Committee considered the bid by VGH Ltd as sufficiently detailed, presenting a true and comprehensive picture of the existing healthcare in Malta and Gozo at the time, and providing solutions to address the inefficiencies of the service. According to the Committee, the proposal aimed to make the new facilities in Gozo an independent healthcare service provider with a modern set-up, with all support services run independently of the MDH.

4.3.16 In its report, the Evaluation Committee provided an overview of the planned range of services and the quality levels that were to be provided by VGH Ltd. In the case of the GGH, reference was made to the introduction of a trauma centre and a trained trauma team, an ambulatory service, an intensive care unit, a critical care unit, an air ambulance, and a large hyperbaric chamber that allowed for the simultaneous treatment of multiple patients. Most of the clinical services offered at the MDH were included in the bid under the services for the GGH. The number of medical tourism beds, with an emphasis on cardiology and vascular surgery, orthopaedics, trauma, orthotics and prosthetics, rendered the services that were to be provided viable. The Committee noted that, in terms of the proposal by VGH Ltd, Gozo was to have the facilities of an acute hospital supported by investigative services, including computerised tomography scan, magnetic resonance imaging scan, ultrasound scan, angiography, breast imaging, biopsy, positron emission tomography scan, and bone densitometry scan. VGH Ltd proposed to liaise with Barts Medical School to develop the R&D, clinical research and clinical trials functions at the GGH. The bidder also proposed to maintain high quality standards, consistent with facilities in other European countries, and presented plans to work with specialists from several specialist fields, including physicians, surgeons, physical therapists, nurses and operating room personnel from around the world. VGH Ltd intended to introduce a hospital management system that included electronic medical records and human resources modules.

4.3.17 According to the report by the Evaluation Committee, the intended focus of the SLH was on rehabilitation, consisting of a trauma unit and three surgery theatres. The SLH was also to cater for medical tourism, specifically in orthopaedics, cardiology and vascular surgery, and trauma specialisations. Moreover, the SLH was to offer orthotic and prosthetic services, and
12 dermatology beds and clinics. A nursing university campus, located at the SLH, was to be developed as per the requirements specified in the RfP.

4.3.18 With regard to the KGRH, VGH Ltd proposed to upgrade the Hospital and enhance geriatric rehabilitation techniques using the acute geriatric care model.

4.3.19 The Evaluation Committee positively appraised the plans by VGH Ltd with regard to the procurement of medical equipment. The Committee was of the opinion that the medical equipment proposed, which was to be leased instead of purchased outright, was adequate and advanced. VGH Ltd was considered by the Committee to have the necessary capabilities to execute the project, was well prepared to commence the immediate execution of the project, had the required skills set and had established key relationships with third parties who could assist it in the execution of the project. Reference was made to the formal agreement entered into with the Medical Associates of Northern Virginia Incorporated, which had the necessary network of physicians and wealth of knowledge in medical and clinical areas to provide VGH Ltd with management, support and guidance for the project. In addition, the partnership with Walter Reed’s Medical Centre Orthotics and Prosthetics, with its rehabilitation service facility, was recognised as instrumental in ensuring that the three local medical facilities enjoyed the best-in-class expertise and global reputation.

4.3.20 Details of the design, construction and project management teams were also presented in the evaluation report. The Evaluation Committee observed that the construction team was to be led by Shapoorji Pallonji, reportedly one of the largest construction and construction management companies in the world. Shapoorji Pallonji’s portfolio included the construction of 13,000 healthcare beds worldwide, with 27 major healthcare projects completed. The architectural and engineering team was to be comprised of local and international firms. Heery Design, a division of Balfour Beatty, had completed preliminary conceptual design studies for the GGH and the SLH and its involvement, in tandem with local design architects, was to continue for the schedule of accommodation requirements for all Sites. VGH Ltd was to partner with Specialised Engineering Solutions, which was to assess the GGH and the SLH in terms of engineering requirements and develop design solutions that minimised energy use while maximising operational reliability. Siemens Healthcare and GE Healthcare were to provide medical equipment, while Utile Technologies was to provide the electronic health records system for the Hospitals.

4.3.21 As a concluding remark on its technical considerations, the Evaluation Committee stated that it deemed the bid submitted by VGH Ltd as technically compliant, and that this appraisal was based on the expertise and advice of the Healthcare Technical Consultant.

Image Hospitals

4.3.22 With regard to the bid by Image Hospitals, the Evaluation Committee stated that it was unable to establish the technical soundness or otherwise of this bid as the submission lacked sufficient
detail. In this respect, the Committee concluded that, based on the expertise and advice of the Healthcare Technical Consultant, the bid submitted by Image Hospitals was not technically compliant.

**BSP Investments Limited**

4.3.23 The Evaluation Committee stated that the bid submission by BSP Investments Ltd did not address the technical requirements specified in the RfP. Reference was made to the covering letter dated 19 May 2015 submitted with the bid which indicated that the offer did not address the requirements of the RfP; instead, an alternative tried and tested model was proposed. The Committee noted that it did not have the remit to examine alternative models to the one specified in the RfP and, in light of its remit, the requirements specified in the RfP and the declaration made by BSP Investments Ltd, considered this bid as technically not compliant.

**Qualitative evaluation**

4.3.24 In view of the fact that the Evaluation Committee concluded that only the bid by VGH Ltd was fully compliant, only this bid was considered in the qualitative evaluation undertaken by the Committee. According to the evaluation report, the qualitative review was carried out in conformity with the requirements and weights specified in the score sheet. In this regard, the Committee noted that the shareholders of the VGH aimed to inject an additional €41,000,000 to its present share capital, representing 22 per cent of the total project cost, estimated at €179,200,000 of which €9,000,000 were in respect of the bid bond. The sources of funding were identified as €125,000,000 through bank loans, equity injections of €41,500,000, a separate agreement for €10,000,000 for the financing of the helicopter and €2,700,000 sourced from operations.

**Summary of the commercial, technical and financial evaluation**

4.3.25 The Evaluation Committee assessed the commercial, technical and financial strength of the bid submitted by VGH Ltd. At this stage, the Committee considered the degree to which the Bidder exceeded the minimum requirements and points were allocated out of a maximum of 100. Details of the marks allocated for each criterion, presented in sub-sets relating to general bidder information, technical and operational, business plan and financial considerations are shown in Figure 41, Figure 42, Figure 43 and Figure 44, respectively. Also included are the comments by the Committee substantiating the ratings given.

4.3.26 The Evaluation Committee awarded VGH Ltd five marks out of the maximum five points for general bidder information (Figure 41 refers).
### Figure 41 | Vitals Global Healthcare Ltd bid: General bidder information score

<table>
<thead>
<tr>
<th>RfP evaluation criterion</th>
<th>Points awarded</th>
<th>Comments by the Evaluation Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>The strategic fit of the bidder</td>
<td>2</td>
<td>Bidder had a sound international exposure with investments in various ventures that showed adaptability.</td>
</tr>
<tr>
<td>Overall corporate structure</td>
<td>1</td>
<td>Corporate structure was well-suited to an operation of this nature.</td>
</tr>
<tr>
<td>Experience in sizeable projects</td>
<td>2</td>
<td>Parent company showed experience in various sizeable projects. Parent company had previously invested in various portfolio projects.</td>
</tr>
</tbody>
</table>

**Total points**: 5

#### 4.3.27 VGH Ltd was awarded 21 points, out of a total of 25 points, by the Evaluation Committee in terms of the technical and operational criteria (Figure 42 refers).

### Figure 42 | Vitals Global Healthcare Ltd bid: Technical and operational score

<table>
<thead>
<tr>
<th>RfP evaluation criterion</th>
<th>Points awarded</th>
<th>Comments by the Evaluation Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to provide minimum beds required</td>
<td>4</td>
<td>The Bidder had shown plans to provide minimum bed requirements as per the RfP specifications. The Bidder had shown plans to accommodate tourism beds to increase medical tourism at the GGH and the SLH.</td>
</tr>
<tr>
<td>Operational experience</td>
<td>4</td>
<td>The Bidder had shown operational experience in businesses it had invested in. This could be identified by the number of years the Bidder had been involved in any business it had invested in. The Bidder had also teamed up with various specialists in the field.</td>
</tr>
<tr>
<td>Staffing, management experience and structure</td>
<td>4</td>
<td>The Bidder had roped in key partners and employees who had a wealth of experience, not just in healthcare, but in related business such as aged care, real estate and real estate investment trusts. The Bidder had identified a well experienced medical board with experienced medical professionals. The CEO and the project director had ample experience in delivering and operating projects.</td>
</tr>
</tbody>
</table>
Plans to promote staff satisfaction and retention 5 In its HR plans, the Bidder had shown that it planned to promote staff training, satisfaction and retention. The Bidder had identified staff satisfaction and retention as one of the main key performance indicators of the business plan. The Bidder had clearly indicated that it would retain all existing staff.

Staffing to satisfy teaching hospital needs 4 The Bidder had identified clear steps to address staffing needs to satisfy the requirements of a teaching hospital.

The Bidder had indicated a cooperative approach with Barts Medical College with respect to R&D. The Bidder was to run its own clinical trials and clinical research.

Total points 21

4.3.28 With respect to the business plan, the Evaluation Committee awarded VGH Ltd 32 points out of a maximum score of 35 (Figure 43 refers).

Figure 43 | Vitals Global Healthcare Ltd bid: Business plan score

<table>
<thead>
<tr>
<th>RfP evaluation criterion</th>
<th>Points awarded</th>
<th>Comments by the Evaluation Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial sustainability of the project 7</td>
<td>The bidder’s financial plan showed profitability and sustainability throughout the 30-year concession period. Based on the financial model, net income was foreseen to be generated as from 2019, that is four and a half years after the commencement of operations. Dividends, equivalent to the minimum of 90 per cent of profit after tax or total cash available for distribution, were forecasted to be declared and paid. The profitability ratios for the 30-year period showed positive results. These results indicated that the project, as presented, could be profitable and sustainable. The average profitability ratio results for the 30-year period were:</td>
<td></td>
</tr>
</tbody>
</table>
An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government

Part 1 | A review of the tender process

### Profitability indicators

<table>
<thead>
<tr>
<th></th>
<th>Resulting ratio (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net contribution/total income(^1)</td>
<td>42.12%</td>
</tr>
<tr>
<td>Net income after tax/total income</td>
<td>4.27%</td>
</tr>
<tr>
<td>Net income after tax/total assets</td>
<td>7.51%</td>
</tr>
<tr>
<td>Net income after tax/total shareholders contributions</td>
<td>18.69%</td>
</tr>
</tbody>
</table>

**Note**
1. The NAO noted a discrepancy in the net contribution/total income ratio as indicated in the Evaluation Committee report. The ratio established by the NAO was of 43.48%.

Based on the financial model, the total and average income statement results for the 30-year period are indicated below. These results were considered by the Evaluation Committee as a measure of project sustainability.

### Income Statement

<table>
<thead>
<tr>
<th>Results</th>
<th>Total (€000)</th>
<th>Average (€000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>5,191,144</td>
<td>167,456</td>
</tr>
<tr>
<td>Net contribution</td>
<td>2,256,947</td>
<td>72,805</td>
</tr>
<tr>
<td>Earnings before interest, tax, depreciation and amortisation</td>
<td>886,040</td>
<td>29,205</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>427,961</td>
<td>13,744</td>
</tr>
<tr>
<td>Profit after tax before appropriation of dividends</td>
<td>241,081</td>
<td>7,716</td>
</tr>
<tr>
<td>Profit after tax after appropriation of dividends</td>
<td>23,940</td>
<td>711</td>
</tr>
</tbody>
</table>

The Bidder did not clearly show the impact of the project’s operations without the government bed revenues; however, the Bidder had stated that the project was not viable without medical tourism.

The sensitivity analysis indicated in the business plan outlined a sensitivity when income from medical tourism was removed such that the only source of income from the project was derived from Government while all the costs for the project were retained. On this basis, the resultant annual cash flows, pre-tax and funding were negative throughout the 30-year concession period. This implied the non-sustainability of the project should operating activities in relation to medical tourism be disregarded.
Based on the financial report, the medical tourism income as a percentage of total income started at 13 per cent and increased over time to 43 per cent over the concession period.

Medical tourism plans 5 The Bidder had identified a clear medical tourism plan and had indicated that there was a significant marketing budget to attract medical tourism to Malta and Gozo.

The Bidder had outlined a certain percentage of beds for medical tourism, backed by a clear five-year plan in terms of medical tourism beds and the countries from where medical tourism would originate.

Design concept and readiness to project 10 The Bidder had delivered a detailed design concept from a reputable architectural firm and shown clear plans for the GGH and the SLH.

The Bidder had identified key trades, including the main contractor and the engineering firm. In its submission, the Bidder had also clearly indicated that the project would be delivered in time in line with the RfP.

Medical facilities and services plan including IT plans 10 The Bidder had clearly identified all the facilities and medical departments at the GGH and the SLH.

The Bidder had identified clear quality assurance plans, service concepts and a clear vision on delivery; the Bidder had also identified state-of-the-art medical equipment that was to be included in its business plan.

Total points 32

4.3.29 With respect to the financial offer, the Evaluation Committee awarded VGH Ltd 30 points out of a maximum score of 35, contributing to an overall score of 88 out of 100 for the project (Figure 44 refers).

**Figure 44 | Vitals Global Healthcare Ltd bid: Financial score**

<table>
<thead>
<tr>
<th>RfP evaluation criterion</th>
<th>Points awarded</th>
<th>Comments by the Evaluation Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demonstration of bidder financial capability</td>
<td>10</td>
<td>The total projected capital expenditure, including interest on the capital, amounted to €179,000,000, of which €9,000,000 were for the performance bond. This amount was to be funded partly through a bank loan of €125,000,000 (70 per cent of the total spend), an equity injection of €41,000,000 (22 per cent of the total spend) and a separate financing agreement for the acquisition of the helicopter at €10,000,000 (six per cent of the total spend). The remaining one per cent of the total spend was to be financed from operations.</td>
</tr>
</tbody>
</table>
The Bidder showed that it had lined up the debt financing required for the project. The parameters underlying the bank loan were specified. Based on the specified phasing plan, a drawdown of €30,000,000 in 2015, €69,000,000 in 2016 and €26,000,000 in 2017 were planned. The UBS had indicated its strong interest in providing €125,000,00 of financing. The RHB in Singapore had also showed interest in providing this financing. The DWPF London, on behalf of one of their major clients (Allianz UK), showed commitment to the provision of a 30-year €160,000,000 PPP bond. Proof of funds, relating to Bank of India and Merrill Lynch, of €30,000,000 and €56,600,000 respectively, were verified as not more than six months old.

The Evaluation Committee considered all criteria set in this evaluation as met.

<table>
<thead>
<tr>
<th>Financial proposal</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>The pricing offered by VGH Ltd was less than Government’s expenditure for equivalent services.</td>
<td></td>
</tr>
</tbody>
</table>

The annual increase in government beds did not exceed three per cent per annum.

The Bidder clearly identified the pricing for the government beds and specified what services were to be included in the price quoted, as indicated in the table below.

<table>
<thead>
<tr>
<th>Service</th>
<th>Hospital</th>
<th>Minimum charge per bed night</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acute beds</td>
<td>GGH</td>
<td>€600 – rate applicable January 2015, increasing by two per cent inflation in January 2017</td>
</tr>
<tr>
<td>Long-term acute beds</td>
<td>GGH</td>
<td>€180 – rate applicable January 2017</td>
</tr>
<tr>
<td>Dermatology inpatient care</td>
<td>SLH</td>
<td>€300 – basis year 2015</td>
</tr>
<tr>
<td>Rehabilitation</td>
<td>SLH</td>
<td>€300 – basis year 2015</td>
</tr>
<tr>
<td>Long-term acute geriatric care</td>
<td>KGRH</td>
<td>€180 – basis year 2015; increasing by two per cent inflation in January 2017</td>
</tr>
</tbody>
</table>
Pricing for other services was also noted. Reference was made to the two per cent per annum inflation, applicable as from the year indicated in the above table, unless otherwise specified. Outpatient services of the dermatology and holistic centre was to be charged at €40 per visit, the fee per helicopter airlift was €8,500 for the 2015 basis year, while the rental rate for the medical college was of €225 per square metre for basis year 2016. The rate of €225 per square metre was made up of two components: €170 per square metre represented the rental rate for the building and €55 per square metre represented the compensation for the maintenance works and the time allocation of the professionals at the GGH to the students of the medical college.

Further analysis of the financial offer was made by the Evaluation Committee, with a summary of the average bed rates for 2017, 2018 and 2019 as per table below.

<table>
<thead>
<tr>
<th>Summary of average bed rates</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bed rates based on the projected costs to be paid by Government (per Bidder computation) for the 692 beds requested according to the RfP</td>
<td>€292</td>
<td>€308</td>
<td>€314</td>
</tr>
<tr>
<td>Bed rates based on the projected costs to be paid by Government (per Bidder computation) for the 712 beds committed by the Bidder</td>
<td>€288</td>
<td>€304</td>
<td>€310</td>
</tr>
<tr>
<td>Bed rates based on the projected costs to be paid by the Government (based on the 2015 forecasted recurrent expenditure budgets) for the currently available 570 beds</td>
<td>€402</td>
<td>€412</td>
<td>€422</td>
</tr>
</tbody>
</table>

The present value of the costs based on the other auxiliary revenues that were projected to be earned by the operations of VGH amounted to €78,934,065. Revenues from the Gozo Medical School, amounting to €20,213,420, payments for Gozo General Hospital as is, amounting to €42,137,237, and helicopter services, to the sum of €16,538,407, were removed from the present value computation for the services in relation to the number of beds to be acquired.
The forecasted cost was based on the expected recurrent expenditure for the year 2015, applying an inflation rate of 2.5 per cent. The bed rates were computed only for those years which were forecasted to operate on a full year basis, that is, from 2017 to 2044.

It was projected that the present value of the cost to Government in relation to the medical school was €20,200,000 over the concession period. Of this cost, €16,000,000 were to be recouped from the operators of Barts Medical School; nonetheless, Government needed to obtain an additional €4,200,000 in order to finance the operating activities of the medical college during the concession period. The computation for the rent revenue was derived from a clarification to the RfP issued by Projects Malta Ltd. However, this clarification did not refer to a specific rate for the service charge on all costs associated with the maintenance and administration of the common parts. Hence, this amount was estimated to be equivalent to the computation by VGH Ltd for the projected compensation for maintenance and other costs. In addition, the clarification only provided the rent rates payable by Barts Medical School up to the year 2031. For the purpose of carrying out a comparable analysis, the Evaluation Committee estimated that the same applicable rent rate was to be charged and received by Government up to the end of the concessionary period, that is, 2045.

| Total points | 30 |

**Recommendation**

4.3.30 In conclusion, the Evaluation Committee recommended the granting of the preferred bidder status to VGH Ltd on the basis that the information presented its offer satisfied the administrative, technical and financial requirements of the RfP.

4.4 **High level project management**

4.4.1 Running in parallel with the process of evaluation were other measures related to this concession, which were overseen by the Steering Committee. The first meeting of the Steering Committee was held on 10 April 2015, thereby excluding its involvement in the decision-making process that led to Government’s concession of the Sites, as well as the formulation and design of the RfP. In terms of context, the first Steering Committee meeting was held two weeks after the issuance of the RfP, yet prior to the bid submission deadline set therein.
4.4.2 The Steering Committee, as its name imparts, was intended to provide strategic direction to the project, through the high-level coordination of its various work streams. Minutes relating to meetings held between 10 April 2015 and 14 October 2015 were made available to the NAO. This Office’s review of these minutes indicated the involvement, to varying degrees, of the Minister for Energy and Health and officials from within his Secretariat, the PS MEH-Energy and an official within his Office, the PS MEH-Health, various officials of Projects Malta Ltd, including their Executive Chair and COO, as well as other outsourced third parties. These third parties included the Director of Innovative Architectural Structures, a Partner at RSM, the Managing Partner and Partner at Mifsud Bonnici Advocates, as well as the CEO and the COO of BEAT Ltd Malta.

4.4.3 The first item discussed by the Steering Committee during its initial meeting related to its setup. The Committee debated whether it was to be composed of a smaller inner core team, essentially the strategic decision makers, or all of its operational members. After considering this matter, the Committee resolved that all members were to be involved and it was up to the particular entity represented to decide on who was to attend, based on the decisions to be taken and the information required by the Committee. A high-level project plan, deemed unrealistic and ambitious by the NAO, was appended to the minutes and agreed to by the Committee, indicating among other activities and milestones that the service concession agreement was to be signed by end June 2015. Various work streams were identified, namely, legal/financial, lands, stakeholder and communications management, technical, permitting and RfP related. The latter was to comprise several sub-committees, that is, the Evaluation Committee, the Procurement (Health Service Concessions) Review Board, negotiation management and implementation monitoring. Although the members of most work streams and sub-committees were identified, the composition and terms of each were still fluid and in fact finalised over subsequent Steering Committee meetings.

4.4.4 Other points raised during the first Steering Committee meeting related to coordination with the Government Property Department, the engagement of notaries, the formulation of a stakeholder communication plan, a review of tenders that conflicted with the scope of the RfP, the drafting of the healthcare delivery agreement, as well as matters relating to MEPA permitting and policies. Regarding the latter, reference was made to the discussions that were to be held with the Minister for Energy and Health and MEPA regarding possible changes in policies and legislation to prevent stalling the permitting process for this project.

4.4.5 Several of the points raised during the first meeting were discussed in the second meeting of the Steering Committee held on 23 April 2015. These included further consideration of the work streams, the Committee’s possible role in securing financing for the project through meetings with banks and the address of RfP-related requests for clarification. Of note were developments regarding MEPA permitting. Noted in the minutes was that discussions with the Minister for Energy and Health were held regarding the proposed amendments to law that would result in the substantial reduction in time required to obtain the relevant permit. Also of note was reference to the Committee’s coordination with the GPD regarding third parties.
occupying parts of the Sites. It is in this context that the input of the PS MEH-Health was sought, to advise the Steering Committee whether any plans for the relocation of the Government entities occupying the Sites have been made.

4.4.6 Of significant interest is the following excerpt relating to the drafting of the healthcare delivery agreement, “In order to enable the definition of the agreements, in regard what will Government be buying in terms of services, the Technical Work Stream needs to start being operational. This team will need to define and advise the healthcare services needed now, and through the term of the Concession.” It is with concern that the NAO notes that what Government sought to purchase in terms of services was being defined after the RfP had already been issued, when the inverse should have been the case, with Government defining its requirements in the establishment of the viability and feasibility of the project.

4.4.7 The third meeting of the Steering Committee was held on 14 May 2015. Updates regarding the permitting process, the expropriation of parts of the Sites belonging to third parties and the relocation of other Government entities housed within the SLH were provided. A project initiation document was presented by BEAT Ltd, which document comprised details regarding the project structure and work content, the work streams and work packages, project governance and risk framework. Seven work streams were defined, namely, service level definition, site preparation, competitive procurement process, contract development, human resources, communication and project management. Finally, the Steering Committee agreed on the logistics, details and procedure that was to be adopted for the receipt and opening of bids scheduled for the following week.

4.4.8 On 10 June 2015, the fourth meeting of the Steering Committee was held, at which stage three bids had been received in response to the RfP and evaluation thereof was underway by the Evaluation Committee. Various issues emerged regarding site preparation during this meeting, including difficulties relating to the relocation of the National Blood Bank Unit and several other third-party sites. The CEO BEAT Ltd presented a minute regarding the appointment of the Contracts Management and Negotiation Committee, which minute was approved by the Steering Committee. The terms of reference set for the Contracts Management and Negotiation Committee included the compilation of a draft set of transaction agreements, the development of service level agreements and the holding of negotiations on behalf of the MEH. The members appointed to this Committee were the CEO BEAT Ltd, a Partner from RSM, the CEO of Malta Enterprise and the Managing Partner at Mifsud Bonnici Advocates.

4.4.9 By the time the fifth meeting of the Steering Committee was held, that is, 10 July 2015, the Evaluation Committee had submitted its report identifying the VGH as the preferred bidder. The most salient item discussed during this meeting comprised the main elements considered for negotiation with the preferred bidder, which discussion stemmed from a paper presented by the CEO BEAT Ltd. The head of terms, an excerpt of which is reproduced in Figure 45, were approved by the Steering Committee.
ownership structure
- parent company structured into two subsidiary entities: one for Property Management and the other for provision of Medical Services, operating through an internal lease agreement. Therefore, the Health Services Delivery Fee shall be paid in part to each of the two subsidiaries.

concession agreement
- various agreements shall be established for defining the service levels and the health services agreements
- research needs to be conducted to establish the way forward with donated equipment

OPCO and PROPCO
- PROPCO: subsidiary looking after the property aspects (property management company)
- OPCO: subsidiary looking after the operations (medical services) aspects
- Concessionaire will operate an internal lease agreement between the OPCO and the PROPCO

financing
- project must be self-sustained
- Government will need to retain access to any financing agreements/loans taken by Concessionaire in regard the project

joint monitoring board
- establishment of a joint monitoring board
- mechanism to ensure progress is in line with the plan submitted by Concessionaire
- when deviation is identified, the joint monitoring board shall need to resort to independent expertise

ground rent
- ground rent (€11.65/m²) payable on built-up areas
- ground rent becomes payable from target date when it is meant to be utilised and not the actual date of utilisation (safeguards against delays)

health services delivery agreement
- implementation of the operational transition to occur over a period of time, and not overnight

quality standards
- service levels that are included in the price charged to the Govt of Malta to be defined
- create methodology statements to define how the processes are managed to ensure the quality standards are achieved
- operator to be responsive to honouring KPIs
- Weightmans contracted by PML to set the standards for KPIs and SLAs

medical tourism
- defined recognition that Concessionaire can use the hospital for medical tourism purposes

termination
- clear termination clauses to be defined:
  - reasons of default
  - by force majeure

4.4.10 Aside from issues relating to MEPA permitting and site preparation works, the main focus of the sixth meeting held by the Steering Committee on 29 July 2015 was on the concession agreement. At the time, the concession agreement was being revised with the VGH, resulting in the emergence of several points of discussion. Key points included the identification of
expertise requirements in relation to the technical schedules, hand-back considerations, and
the need to define various provisions relating to the healthcare services delivery agreement,
such as health care services, supplementary services, clinical pathways and key performance
indicators.

4.4.11 Another meeting of the Steering Committee was held on 31 August 2015, wherein updates
relating to the ongoing actions, primarily concerning the National Blood Bank Unit, Site
preparation and the concession agreement, were provided. Of note was an action item
attributed to the CEO BEAT Ltd and the RSM Partner, who were to share the governance
structure being proposed and the respective terms of reference with the PS MEH-Health for
review. This represented one of the rare occurrences where input from the PS MEH-Health was
actively sought.

4.4.12 The Steering Committee met again on 14 October 2015. The Committee reviewed ongoing
actions, mainly relating to the National Blood Bank Unit, which was to continue operating from
the SLH for a further five years, and other site preparation considerations, including matters
concerning the medical school, the expropriation of parts of the Site and the relocation of
entities occupying areas within the Site. More important were updates relating to the
negotiation process provided by the CEO BEAT Ltd. In this respect, the Steering Committee was
informed that four main contracts were being negotiated. These comprised the concession
agreement, which was to span 30 years; the health services delivery agreement, that was to
address the levels of health services that were to be provided by the VGH; the labour supply
agreement, which addressed workforce and employee-related issues; and the emphyteutical
deed, focusing on matters concerning the transfer of land.

4.4.13 Another negotiation-related update provided to the Steering Committee entailed the proposed
establishment of several supporting committees to define, monitor and control the operational
and development aspects of the project. Specifically cited in this regard was the:

| a | mobilisation plan; |
| b | handover plan, that was to define how the operation would be transferred from Government
to the VGH over a defined timeframe of three months; |
| c | appointment of a Project Monitoring Board, that was to be established by the VGH, with at
least one member thereof appointed by Government. The role of the Project Monitoring
Board was to monitor the functionality of the hospitals and the activities within VGH-
controlled operations to ensure harmonised operating and quality standards; |
| d | setting up of the Health Construction Management Committee, which was to ensure that
the development was in line with the proposal submitted by the VGH; |
| e | constitution of the Change Management Committee, which was tasked with dealing with
employees and representative Unions; |
f | need to develop a Joint Plan between Government and the VGH to ensure that the project did not stall; and

g | set up a Medical Council to review the situation with foreign doctors and assess how this group of medical professionals could operate uninterruptedly in Malta.

4.4.14 The meeting of 14 October 2015 was the last meeting for which records were provided to the NAO. It remained unclear to the NAO whether the Steering Committee continued to operate beyond this date.

4.5 Award of concession

4.5.1 As indicated in the preceding sections of this chapter, on 19 June 2015, the Evaluation Committee concluded its assessment of the bids submitted in reply to the RfP issued by Projects Malta Ltd for the redevelopment, maintenance, management, and operation of the SLH, KGRH and GGH. The Committee recommended that the VGH be granted preferred bidder status.

4.5.2 Acting on behalf of Government, on 27 June 2015, Projects Malta Ltd informed the VGH that its submission was designated as the highest-ranking bid. The VGH was further informed that, subject to the provisions of the Procurement (Health Service Concessions) Review Board Regulations (Legal Notice 112 of 2015), insofar as these regulated the standstill period of 10 calendar days to be observed relative to the filing of a complaint by an aggrieved party, Government intended to initiate discussions for the finalisation of the agreements as contemplated in the RfP. A public notice that the VGH was designated the highest-ranking bidder was also issued by Projects Malta Ltd on 27 June 2015.

4.5.3 On the same day of the notification to the VGH, Projects Malta Ltd informed the other two bidders, Image Hospitals and BSP Investments Ltd, that their proposals were disqualified. In the case of Image Hospitals, several reasons were given for the disqualification, essentially a restatement of points noted by the Evaluation Committee (paragraph 4.3.12 refers).

4.5.4 Several reasons for disqualification were also cited by Projects Malta Ltd in its notification to BSP Investments Ltd. These too reflected observations made by the Evaluation Committee in this regard (paragraph 4.3.13 refers).

4.5.5 Both disqualified bidders were informed of their right to file a complaint in relation to the decision by Projects Malta Ltd to eliminate their bid. Complaints were to be made in accordance with the provisions of the Procurement (Health Service Concessions) Review Board Regulations, which provisions also established the timeframes and procedures to be followed for the lodgement of complaints. Projects Malta Ltd also indicated that it would observe the standstill period of 10 calendar days established in the Regulations before proceeding with the next step contemplated in the RfP.

11 It is noted that the Procurement (Health Service Concessions) Review Board Regulations were enacted on 27 March 2015, the date of the issuance of the RfP.
4.5.6 According to the PS MEH-Energy, neither Image Hospitals nor BSP Investments Ltd contested the disqualification. In line with the provisions of the RfP, this gave way for Projects Malta Ltd to initiate discussions with the preferred bidder for the finalisation of the agreements that were to be entered into between Government and the VGH for the service concession in relation to the Sites.

4.5.7 An ad hoc negotiation committee, entrusted with the negotiations that were to be held with the VGH, was established under the oversight of the Steering Committee. The setting up of this committee and the negotiations carried out were reported on in the preceding section of this Report.

4.5.8 During the course of negotiations, on 9 September 2015, Projects Malta Ltd gave notice to the VGH of Government’s intention to award it the services concession for the redevelopment, maintenance, management and operation of the sites at the SLH, KGRH and GGH. This was subject to the provisions of the Procurement (Health Service Concessions) Review Board Regulations, insofar that these regulated the standstill period of 10 calendar days that was to be observed relative to the filing of a complaint by an aggrieved party.

4.5.9 In fulfilment of the requirements emanating from the above-cited Regulations, on 9 September 2015, Projects Malta Ltd also informed Image Hospitals and BSP Investments Ltd of Government’s intention to award the services concession to the VGH. Notwithstanding this, the two bidders had the right to file a complaint in relation to the award in accordance with the provisions of these Regulations. In this context, Projects Malta Ltd again indicated that it would observe the standstill period of 10 days before proceeding with the finalisation of the contract with the VGH.

4.5.10 On 9 September 2015, a public notice was issued by Projects Malta Ltd wherein it gave notice of Government’s intention to award the healthcare services concession to the VGH. A contract award notice was also published in the Official Journal of the European Union (OJEU) on 10 September 2015 under ‘health and social work services’. The contracting authority was indicated as Projects Malta Ltd, acting on behalf of the MEH. According to this notice, a private operator was awarded a services concession by Government whereby it was entrusted with the management and operation of healthcare and ancillary services through the grant, for a specified term, of the right to exploit these services. These services were to be provided from the SLH, the KGRH and the GGH. The OJEU notice indicated that the contract was awarded through an open procurement procedure to the VGH, that had submitted the most economically advantageous tender. Further indicated in the OJEU was that the contract was not likely to be sub-contracted and that it was not being financed through EU funds.

4.5.11 Projects Malta Ltd also published a notice of award in the Government Gazette on 11 September 2015, whereby it was indicated that Government was giving notice of its intention to award the services concession for the redevelopment, maintenance, management and operation of the Sites to the VGH. This was being done subject to the provisions of the Procurement (Health Service Concessions) Review Board Regulations.
Service Concessions) Review Board Regulations, insofar as these regulated the standstill period that was to be observed relative to the filing of a complaint by an aggrieved party.

4.5.12 From the documentation made available to the NAO, it was not possible to ascertain when the negotiations with the VGH were concluded. While Projects Malta Ltd published Government’s intention to award the healthcare services concession to the VGH on 9 September 2015, in a meeting of the Steering Committee held on 14 October 2015 the CEO BEAT Ltd indicated that the four main contracts governing the concession were being negotiated. Clarifications in this regard were sought from the PS MEH-Energy and minutes of the meetings of the Negotiation Committee were requested by the NAO. Copies of the draft transaction agreements pre-dating negotiations were also requested. In his reply, the PS MEH-Energy indicated that Government and the preferred bidder had discussed and agreed the principles that were to be developed during negotiations, and that the Steering Committee was apprised of these principles. Negotiations were held concurrently with extensive live drafting sessions during which bespoke agreements were jointly developed. No minutes were taken of the meetings held.

4.5.13 The above paragraphs describe the actions taken by Projects Malta Ltd that relate to the identification of the preferred bidder in terms of the RfP and the subsequent award of the healthcare services concession to the VGH. Nonetheless, in all the correspondence exchanged or notices published, it was invariably indicated that Projects Malta Ltd was acting on behalf of either Government or the MEH. To this end, the NAO sought to ascertain Government’s involvement in this process, in particular any discussions held by Cabinet and any action taken by the MEH with respect to the concession. It is to be noted that Government’s involvement in the decision to issue the RfP was discussed in Chapter 2 of this report. This Office’s observations in this section are therefore limited to Government’s involvement after the call for tenders had been made on 27 March 2015.

4.5.14 Aside from the memorandum presented regarding the proposed Procurement (Health Service Concessions) Review Board Regulations that were to be enacted, the NAO established that the next involvement of Cabinet was on 21 June 2015, when the Minister for Energy and Health submitted a memorandum related to the concession, titled ‘Healthcare Services Concession’, for the consideration of Cabinet. According to the latter memorandum, Government was committed to establish Malta and Gozo as a medical hub within the Mediterranean region and to continue providing the highest level of healthcare services to resident end-users. It was Government’s commitment to improve the quality of the services provided without in any manner compromising on its guiding principle of maintaining the provision of free healthcare services to entitled residents. Moreover, Government had, through Malta Enterprise, entered in contractual undertakings with Barts and the London School of Medicine and Dentistry on the establishment of a medical campus in Gozo.

4.5.15 In the memorandum, the Minister for Energy and Health indicated that the enhancement of healthcare services was pivotal to achieve Government’s long-term vision of high quality, continuous and coordinated care, and to make Malta and Gozo a destination of choice for the
provision of healthcare and ancillary services to non-resident patients. With these objectives in mind, Government believed that the entrusting of the services to be provided from the GGH, the SLH and the KGRH to a private operator would lead to a more efficient management and supply of the services, as well as the delivery of an agreed redevelopment programme that would significantly upgrade the Sites and would, among other deliverables, provide the capital expenditure required to ensure that the Government’s objectives were secured for the foreseeable future. According to the memorandum, Government believed that such a concession would result in improved value for money due to better risk sharing resulting from the allocation of risks to the party best able to manage them. One requirement of the concession would be the construction and fit-out of the medical school that was to operate from Gozo. Government was contractually bound to provide the campus by June 2016 and to provide training placements in connected facilities that were to be developed as part of the concession.

4.5.16 It was further stated that, in line with this vision, on 27 March 2015, Government issued an RfP for a services concession for the redevelopment, maintenance, management and operation of the sites at the SLH, the KGRH and the GGH. The final date for the submission of proposals was 19 May 2015. By the closing date, three bids were submitted. The bidders were the VGH, Image Hospitals and BSP Investments Ltd. The bids were evaluated by an ad hoc Evaluation Committee.

4.5.17 According to the Minister for Energy and Health, Government had invited bidders to submit detailed proposals in accordance with the requirements of the RfP. These were to include evidence of the bidders’ technical competence, fitness and probity, operational and infrastructural experience, financial soundness, a robust business plan and an economically advantageous offer. Bids made in conformity with these requirements were intended to enable Government to select the highest-quality proposal, which was determined to be the most economically advantageous offer. On the basis of the bidders’ proposals and in terms of the RfP, the highest-ranked bidder was expected to be invited by Projects Malta Ltd, on behalf of Government, to enter into negotiations that were to lead to the conclusion of the concession agreements.

4.5.18 According to the memorandum to Cabinet, the Evaluation Committee presented its report to the MEH on 19 June 2015. While two of the three submissions received were not administratively compliant, that by the VGH was considered by the Committee to have met the eligibility criteria. Checked against the technical requirements of the RfP, the Committee concluded that the proposal by the VGH satisfied these requirements. The evaluation of the VGH bid was carried out on the basis of four sets of criteria, namely, general bidder information (accounting for a maximum 5 per cent of points), technical and operational considerations (25 per cent), the business plan (35 per cent) and the financial impacts (35 per cent). The Committee allocated the bid by the VGH 5, 21, 32, and 30 points under the stated evaluation categories, respectively, with a total score of 88 out of a maximum 100 points. Finally, the Committee recommended the granting of the preferred bidder status to the VGH on the basis that the information presented in its offer satisfied the administrative, technical and financial requirements of the RfP.
4.5.19 In the memorandum it was indicated that the VGH was a wholly-owned subsidiary of Bluestone Investments Malta Ltd which, in turn, was owned by Bluestone Special Situation 4 Ltd, a private equity fund based in Singapore and managed by Oxley Group. Oxley Global Ltd was an investment holding company with ownership of a diversified business group focused principally on the Asia Pacific region, with operations that spanned various industries, particularly in health care and aged care. The VGH had shown plans to satisfy the Government’s bed requirement as requested in the RfP and had shown plans to accommodate health tourism beds to increase medical tourism at the GGH and the SLH. The VGH had teamed up with various specialists in the medical field and had identified a medical board with experienced medical professionals. It had also roped in key partners and employees with a wealth of experience. In its bid, the VGH had indicated that it planned to promote staff training, satisfaction and retention, and had stated that it would retain all current staff deployed at the Sites. According to the memorandum, the proposal showed that medical tourism was essential to ensure the project’s sustainability. The total projected capital expenditure, including interest on capital, was €179,000,000. This was to be funded through a bank loan, an equity injection and a separate financing agreement to finance the acquisition of the helicopter (€10,000,000). The remaining funding required was to be sourced from operations. The VGH had shown that it had lined up the debt financing needed for the project. In so far as the services provided to the Government were concerned, it was concluded that the proposed pricing per day for equivalent services provided value for money.

4.5.20 With regard to the way forward, the memorandum to Cabinet indicated that, as the Evaluation Committee had identified the VGH as the preferred bidder, the MEH intended to, subject to Cabinet approval, enter into negotiations that were to lead to the conclusion of a number of agreements. These included a concession agreement, a healthcare services delivery agreement, an emphyteutical grant over the Sites, a labour supply agreement and any other agreement deemed necessary.

4.5.21 In view of the above, the Minister for Energy and Health requested the Ministers to approve the award of the preferred bidder status to the VGH for the services concession under consideration. Furthermore, Ministers were requested to approve the commencement of negotiations with the preferred bidder and, eventually, the conclusion of the relative agreements in line with Government’s requirements and objectives of the RfP.

4.5.22 According to an excerpt of the minutes of the Cabinet meeting held on 23 June 2015, the Minister for Energy and Health had presented to Cabinet a memorandum titled ‘Healthcare Services Concession’. For the discussion on this memorandum, the Chair, members and secretary of the Evaluation Committee were present and gave a presentation on the bid by the VGH. Following lengthy discussions by Cabinet, the memorandum was approved.

4.5.23 The next documentation made available to the NAO of the involvement of Cabinet in the healthcare services concession was an excerpt of the minutes of the Cabinet meeting held on 13 October 2015. Indicated in this documentation was that the Minister for Energy and Health had provided an update on the PPP for the SLH and the GGH. According to the Minister, the
concession agreement, the healthcare services agreement, that for the labour supply and the emphyteutical deed were finalised. Another agreement dealing with the financial aspects of the concession was yet to be concluded. In the interim, the Health Division and the Ministry for Family and Social Solidarity were holding discussions for the relocation of the Detox Centre located within the SLH premises.

4.5.24 On 27 October 2015, Cabinet again discussed the PPP for the healthcare services. The Minister for Energy and Health stated that the main contracts that were to regulate the PPP were now negotiated. These included the concession agreement, which set out the terms for the granting of the rights for the use of the Sites. This agreement was to ensure that the facilities were developed in accordance with the approved designs and used exclusively for healthcare-related activities. An agreement was also negotiated for the delivery of health services which established, inter alia, the fees to be charged to Government for the use of beds and the health care services provided. A labour supply agreement governed the terms and conditions under which existing Government employees were to be seconded to the operator during the concession contract. Another contract that was negotiated with the VGH was the emphyteutical deed through which the title to the immovable property was to be passed to the concessionaire for a definite period. Direct and collateral contracts, governing the obligations of the parties in cases of default, had also been negotiated. It was agreed that the Minister, understood by the NAO as reference to the Minister for Energy and Health, should sign these contracts with the VGH.
Chapter 5

Analysis and conclusions

5.1 Timeline of key events

<table>
<thead>
<tr>
<th>Date</th>
<th>Development</th>
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<tr>
<td>March 2013</td>
<td>The Partit Laburista’s 2013 General Election manifesto made broad reference to the need to drastically improve the GGH and allow it to be used as a base for medical education by third parties.</td>
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<td>April 2014</td>
<td>Following a Cabinet reshuffle, the Ministry formerly known as the Ministry for Energy and the Conservation of Water was given the additional responsibility for health and public/private initiatives and renamed the Ministry for Energy and Health. The Hon. Konrad Mizzi was appointed Minister for Energy and Health.</td>
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<td>June 2014</td>
<td>Launch of the NHSS by the Parliamentary Secretariat for Health within the MEH. This strategic document had elements of convergence with Government’s eventual healthcare concession.</td>
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<td>27 August 2014</td>
<td>Noted in the Board of Directors Projects Malta Ltd meeting minutes was that, through this healthcare project, the SLH, the GGH and the KGRH sites would be transferred by means of a concession, with Government guaranteeing a commitment to purchase beds for rehabilitation and long-term care, among other purposes. This was intended to support the development of medical tourism.</td>
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<tr>
<td>17 November 2014</td>
<td>During the Budget Speech 2015, reference was made to the setting up of Projects Malta Ltd, the planned PPP for the SLH, and the investment envisaged with respect to the GGH.</td>
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<td>25 February 2015</td>
<td>Agreement between Queen Mary University of London – Malta Ltd, Queen Mary University of London, Malta Enterprise Corporation, the MEIB, the MEH and the Ministry for Education and Employment for the establishment and operation of the Barts and the London School of Medicine and Dentistry in Malta.</td>
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<tr>
<td>unknown (early 2015)</td>
<td>Government engaged financial, commercial and medical experts to compile a strategy document outlining the options available for the ideal use of the hospitals concerned. Although the report was undated and the NAO could not establish its date of compilation from other sources, the PS MEH-Energy indicated its submission in early 2015. In sum, the report proposed that the Government ought to engage in a competitive procurement process designed to market test the feasibility of the recommended PPP with a third-party operator.</td>
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<td>12 March 2015</td>
<td>A memorandum was submitted to Cabinet by the Minister for Energy and Health. The memorandum, titled ‘Procurement (Health Service Concession) Appeals Board Regulations, 2015’, sought to expedite the procurement process for health concessions.</td>
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<td>17 March 2015</td>
<td>Cabinet approved the memorandum proposed with urgency by the Minister for Energy and Health.</td>
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<td>Event Description</td>
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<tr>
<td>27 March 2015</td>
<td>Government published an RFP for the granting of a services concession for the redevelopment, maintenance, management, and operation of the SLH, the GGH and the KGRH.</td>
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<td>27 March 2015</td>
<td>The Procurement (Health Services Concession) Review Board, established by virtue of the Procurement (Health Services Concession) Review Board Regulations, 2015 (Legal Notice 112 of 2015) was enacted.</td>
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<td>10 April 2015</td>
<td>First meeting of the Steering Committee that was to provide strategic direction to the project. Among other items discussed were the various work streams. These were identified as legal/financial, lands, stakeholder and communications management, technical, permitting and RfP-related. The latter comprised the set-up of various sub-committees, including the Evaluation Committee.</td>
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<td>14 - 17 April 2015</td>
<td>Site inspection visits carried out.</td>
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<td>23 April 2015</td>
<td>Second meeting of the Steering Committee during which several of the points raised during the first meeting were discussed.</td>
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<td>14 May 2015</td>
<td>Third meeting of the Steering Committee. Updates regarding the permitting process, the expropriation of parts of the Sites belonging to third parties and the relocation of other Government entities housed within the SLH were provided. A project initiation document, which comprised details of the project structure and work content, the work streams and work packages, project governance and risk framework, was presented by BEAT Ltd.</td>
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<td>14/18 May 2015</td>
<td>Projects Malta Ltd appointed the Chair and members of the Evaluation Committee.</td>
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<td>19 May 2015</td>
<td>Closing date for the submission of bids, by which date bids by the VGH, Image Hospitals and BSP Investments Ltd were received</td>
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<td>10 June 2015</td>
<td>Fourth meeting of the Steering Committee during which a minute presented by the CEO BEAT Ltd regarding the appointment of the Contracts Management and Negotiation Committee was approved.</td>
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<td>19 June 2015</td>
<td>The Evaluation Committee concluded its report and recommended that the VGH is granted preferred bidder status.</td>
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<td>21 June 2015</td>
<td>The Minister for Energy and Health submitted a memorandum to Cabinet titled ‘Healthcare Services Concession’, wherein Ministers were requested to approve the award of preferred bidder status to the VGH and the commencement of negotiations with the Company.</td>
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<tr>
<td>23 June 2015</td>
<td>Cabinet approved the memorandum put forward by the Minister for Energy and Health.</td>
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<td>27 June 2015</td>
<td>Projects Malta Ltd informed the VGH that it was designated the highest-ranking bidder.</td>
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<td>27 June 2015</td>
<td>Projects Malta Ltd informed Image Hospitals and BSP Investments Ltd that their bids were disqualified.</td>
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<td>10 July 2015</td>
<td>Fifth meeting of the Steering Committee. The main elements for negotiation with the VGH, as indicated in a paper presented by the CEO BEAT Ltd, were discussed.</td>
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<td>29 July 2015</td>
<td>Sixth meeting of the Steering Committee. The focus of this meeting was the concession agreement which, at the time, was being revised with the VGH, resulting in the emergence of several points of discussion.</td>
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31 August 2015  Seventh meeting of the Steering Committee. Updates relating to ongoing actions, primarily concerning the relocation of the National Blood Bank Unit, site preparation and the concession agreement, were provided. Of note was an action item attributed to the CEO BEAT Ltd and the RSM Partner who were to share the governance structure being proposed and the respective terms of reference with the PS MEH-Health for review.

9 September 2015  Following negotiations, Projects Malta Ltd notified the VGH of Government’s intention to award it the services concession for the redevelopment, maintenance, management and operation of the sites at the SLH, the KGRH and the GGH.

9 September 2015  Projects Malta Ltd informed Image Hospitals and BSP Investments Ltd that Government intended to award the service concession to the VGH.

13 October 2015  The Minister for Energy and Health provided Cabinet with an update on the PPP for the Sites. According to the Minister, the concession agreement, the healthcare services agreement, that for labour supply and the emphyteutical deed were finalised. Another agreement dealing with the financial aspects of the concession was yet to be concluded.

14 October 2015  Eighth meeting of the Steering Committee. Discussions focused on ongoing actions mainly relating to site preparation considerations and updates relating to the negotiation process. This was the last meeting for which records were provided to the NAO. It remained unclear to this Office whether the Steering Committee continued to operate beyond this date.

27 October 2015  Cabinet again discussed the PPP. The Minister for Energy and Health indicated that the main contracts that were to regulate the PPP were now negotiated. These included the concession agreement, the emphyteutical deed, as well as direct and collateral contracts governing the obligations of the parties in cases of default. It was agreed that the Minister should sign these contracts with the VGH.

5.2  Analysis of salient concerns

On the collusion between parties representing Government and the VGH

5.2.1  Of interest to the NAO were court documents submitted by one of the investors of the VGH on 19 December 2017 and 29 January 2018 when filing two warrants of prohibitory injunction against Bluestone Investments Malta Ltd and VGH Ltd to prevent the sale of VGH Ltd to Steward Health Care. The filing of the prohibitory injunctions was related to a claim made by the investor, Dr Ashok Rattehalli, that he was entitled to five per cent of the shares of VGH Ltd on the day of its entry into the concession agreement with the Government, and that such share allotment had not been made. The investor’s entitlement to the shares emanated from an agreement dated 12 May 2015 between him and Bluestone Investments Malta Ltd.

5.2.2  Noted in submissions made to the Court on the filing of the second prohibitory injunction was that Dr Rattehalli had removed the first prohibitory injunction filed in December 2017 after being approached by various representatives of Bluestone Investments Malta Ltd and VGH Ltd promising him that his rights would be honoured. However, until January 2018, when
Dr Rattehalli filed the second prohibitory injunction, Bluestone Investments Malta Ltd and VGH Ltd had not provided any substantive guarantee in this regard. An agreement was eventually reached on 8 February 2018, when Dr Rattehalli was granted an offer of allotment of shares in the capital of VGH amounting to five per cent. Later that month, on 15 February 2018, the prohibitory injunction was withdrawn, allowing the VGH to proceed with the sale of 95 per cent of its shares to Steward Health Care.

5.2.3 Of particular interest to the NAO was one of the documents presented by Dr Rattehalli in this judicial litigation, that is, a MoU dated 23 November 2014 entered into by Dr Ambrish Gupta, AGMC Incorporated (represented by Dr Rattehalli), Portpool Investments Ltd (represented by Mr Ram Tumuluri) and Bluestone Special Situation 4 Ltd (the sole shareholder of Bluestone Investments Malta Ltd and represented by Mr Mark Pawley). The relevance of this document is paramount, for it predates the RfP, which was issued in March 2015, and its signing coincides with the announcement of the planned redevelopment of the SLH and the GGH in the 2015 Budget. It was noted in the MoU that AGMC Incorporated, Portpool Investments Ltd and Bluestone special situation #4 Ltd had entered into an Agreement with the Government to build, develop and manage a world class healthcare facility in Gozo. The purpose of the MoU was to form a partnership between these investors who were to own 70 per cent of the project, described as:

- the takeover of the existing 210-bed general hospital in Gozo and the operation of the hospital as per the terms agreed with the Government;
- the building of an additional 200-bed hospital at the GGH, so that it would be a 410-bed teaching hospital by the end of 2016;
- the building of a 200-bed assisted living facility in the same premises;
- the building of a medical college as per the standards of Barts and the London School of Medicine and Dentistry; and
- the potential acquisition of St Philip’s Hospital and/or the SLH.

5.2.4 The NAO noted the significant overlap between that cited in this project as agreed between Government and the eventual investors of the VGH, with the concession later awarded by Government to the VGH.

5.2.5 It was agreed in the MoU that Dr Ambrish Gupta was to invest $300,000 into the venture in consideration for the equity participation in the project. Half of this amount was to be paid on the execution of the MoU, while the rest would be advanced right after visiting the project in Malta. This visit was anticipated to occur in December 2014. Meanwhile, AGMC Incorporated, Portpool Investments Ltd and Bluestone Special Situation 4 Ltd were to advance $300,000 in January 2015 to cover pre-project costs of $500,000. On 7 January 2015, an amendment to
the MoU was signed, replacing the above-mentioned financial provisions. It was noted that Dr Ambrish Gupta had agreed to advance a loan of $425,000 to Bluestone Special Situation 4 Ltd in consideration for the equity participation in the project. On 24 November 2014, $150,000 had been paid while the remaining $275,000 were to be provided as per a loan agreement also signed on 7 January 2015. Dr Ambrish Gupta was to hold 25 per cent of the shares of Bluestone Investments Malta Ltd.

5.2.6 Requests in relation to the Agreement signed between the investors and Government, particularly geared at identifying the signatories to the agreement on the part of Government and for it to be made available to this Office, were made to various Ministers and senior government officials to no avail. Queries in this respect were addressed to the former Minister for Health, the then Minister for Energy and Health, the PPS, the PS MEH-Energy, the PS MEIB, as well as the current and the former CEOs of Malta Enterprise.

5.2.7 The former Minister for Health outlined that he was unaware of and not involved in discussions with the eventual investors of the VGH in relation to this Agreement. Meanwhile, in submissions made to this Office, the then Minister for Energy and Health specified that he had not been a party to the Agreement, that he did not possess a copy of it and that he was not aware of who its signatories were. He had been informed by Malta Enterprise that the Agreement related to a different proposal than the one which was eventually entered into, relating solely to the GGH, and that Malta Enterprise had rescinded any obligations emanating from it. The Minister for Energy and Health emphasised that his involvement in the project had commenced at a later stage. No information on the Agreement was forthcoming from the PS MEH-Energy, who specified that he had never come across this document and directed this Office to Malta Enterprise. The PS MEIB maintained that no documents relating to the VGH could be found at the Ministry; however, referred to the possible role of Malta Enterprise in this regard.

5.2.8 In view of the substantial information obtained by the NAO indicating the involvement of Malta Enterprise, queries were submitted to this entity. The CEO Malta Enterprise outlined that the entity was not aware of this Agreement and was therefore not a party to it, and neither possessed an original or copy, nor had access to it. In light of the conflicting accounts obtained by this Office, the NAO sought information regarding this Agreement from the former CEO Malta Enterprise. The former CEO did not provide any information and referred the Office to the incumbent CEO Malta Enterprise.

5.2.9 Bearing in mind that stated by the Minister for Energy and Health, who highlighted the role of the OPM in relation to the Agreement, the NAO submitted queries to the PPS. Similar to other enquiries made, the PPS informed this Office that no record of this Agreement could be traced at the OPM.

5.2.10 Despite the numerous requests made, very limited information and certainly no copy of the Agreement was provided to the NAO. As already stated, the link between this Agreement and the concession is evident and creates the utmost concern regarding the integrity of the eventual concession. Moreover, Government’s reluctance to provide the NAO with a copy
of the Agreement aggravates the Office’s concerns and serves as further confirmation of its contentious relation to the concession eventually entered into by Government with the VGH. This casts the greatest shadow of doubt over the validity of the concession awarded by Government, for in reality, all appears to have been pre-agreed and the procurement process undertaken was solely intended as a superficial exercise leading to an already determined outcome.

On the identification of needs

5.2.11 The first public reference to the concession of public hospitals, albeit in a much less developed form, can be traced to the 2013 General Election manifesto of the Partit Laburista. In this manifesto, the Partit Laburista, then in opposition, made reference to the GGH and possibly to the SLH and the KGRH in reference to rehabilitation. One must bear in mind that an electoral manifesto is a published declaration of the intentions of a political party that aims to be in government. It is a promise to the voting public that, if elected to govern, the party would undertake the indicated projects and initiatives during its tenure in government. This is how many major undertakings originate. Nevertheless, at this stage, ideas are generally an outline, also partly because a party in opposition may have limited access to information. While governments are held to their electoral pledges, reason would dictate that before embarking on any major undertaking, governments carry out the necessary studies required to assess the practicality of a proposed project. This project, that would eventually entail the concession by Government of three public hospitals to a third party, was no different.

5.2.12 While the GGH appeared to be the initial focus of Government’s plans for major improvement of public health services, other components of the project, as represented in the RfP, were gradually assimilated. To varying extents, their respective priority can be traced in various policies and strategies devised by Government. Notwithstanding this, while the GGH, the SLH and the KGRH are undoubtedly important cogs in Malta’s public healthcare system, why these components (the GGH, the SLH and the KGRH) were all included as part of one project remained unclear to the NAO. The advantages or disadvantages of such a set-up were never specifically analysed, with their fusion into one project a baffling uncontested given. The Government failed to assess or consider whether the grouping of these three public hospitals presented any form of benefit to it.

5.2.13 Of grave concern to the NAO was that the MEH-Health was not involved in any meaningful way in the formulation of Government’s requirements relating to the concession of three public hospitals and in the determination of feasibility of this course of action. Instead, the process that was in essence a health services concession was captured by the MEH-Energy and driven forward with limited consultation with the MEH-Health, or other important stakeholders for that matter. The argument commonly cited in this regard was that the MEH-Energy was responsible for PPPs and this was a PPP. While it is true that this concession was a PPP, its classification as such should have triggered support by the MEH-Energy through Projects Malta Ltd and not a complete taking over of the process, which is what in fact happened. The introduction of a PPP
for the running of the GGH, the SLH and the KGRH not only represented a first in terms of the provision of healthcare services but was to have a direct impact on thousands of Government-employed healthcare practitioners and service users, rendering the failure of MEH-Energy to involve MEH-Health all the more incomprehensible.

5.2.14 Aside from these concerns and supporting this Office’s understanding that the MEH-Health was not aware of key early decisions relating to this concession, was the conflicting action taken regarding the utilisation of the SLH site. In 2014, as the MEH-Health was concluding its relocation of public entities to the SLH following the completion of refurbishment works of part of the site, the MEH-Energy was planning its concession. In fact, a few months later in 2015, these same entities were requested to vacate the premises.

5.2.15 A similar omission was that relating to MFIN. The NAO is of the understanding that MFIN were not aware of, consulted, or provided with sufficient information early on in the process, which would have allowed the Ministry to provide essential input in terms of the project’s impact on public finances. The failure of the MEH-Energy to duly inform and involve MFIN in this regard reflects poorly on the level of coordination and management across key Ministries and within Government in this case.

5.2.16 Of utmost concern to this Office is the fact that Cabinet was not appropriately informed about the project, with Cabinet’s endorsement prior to the issuance of the RfP only sought to amend legislation in order to hasten possible appeals – a peripheral matter within the context of the concession. The next time Cabinet’s attention was drawn to this concession was only after the RfP had been issued, the evaluation process concluded and the VGH identified as the preferred bidder. While referral to Cabinet does not diminish individual ministerial responsibility, the collective approval of Cabinet in major undertakings by Government is undoubtedly warranted.

5.2.17 While the NAO has not delved into the agreement with the QMUL, this Office deems that any contractual obligations entered into by Government, in this case with the QMUL, should not have dictated and required Government to expedite or precipitate the issue of an RfP that was much wider in scope, that bound Government for many years, involved significant public disbursement and bore direct effect on the wider public.

The determination of feasibility

5.2.18 Although the NAO acknowledges that the feasibility report drawn up with respect to the concession could have been construed as a positive initiative, this Office’s concerns regarding the integrity of the process overshadow the benefit it may have provided. Aside from this, concerns regarding the feasibility report drawn up by the team of experts engaged by the MEH-Energy immediately emerge. In sum, the NAO was not provided with any documentation evidencing when the team of experts were convened or when they reported to the MEH-Energy, casting doubt on the integrity of information provided to this Office. No specific letters of engagement, no correspondence exchanged in the compilation of the report and
no correspondence exchanged in the submission of the report was provided to this Office. Moreover, contracts that regulated the broader engagement of a few of the experts were dated post issue of the RfP. In addition, the report drawn up by the experts was undated. Although the PS MEH-Energy indicated that this was drawn up in early 2015, this Office maintains an element of reservation in this regard, particularly when one considers all the other shortcomings listed in this paragraph.

5.2.19 Turning our attention to the feasibility report itself, the NAO assessed whether the analysis commissioned by the MEH-Energy aptly captured the project’s objectives in terms of deliverables rather than inputs and mechanics of delivery; whether the anticipated benefits were identified for use as evaluation criteria; whether costs and constraints were noted; whether the wider policy objectives and alternative procurement routes were considered; as well as whether the optimal distribution of risk and affordability constraints were noted. Unfortunately, the feasibility report scored poorly in many of these aspects.

5.2.20 While the objectives of the concession were clearly specified, the feasibility report remained largely a restatement of feedback obtained from MEH-Energy officials, an understanding corroborated by the fact that the MEH-Health officials indicated that they were not aware or consulted in the process leading to the determination of feasibility. With this understanding in mind, the NAO deemed the policy input sources as incomplete, failing to truly tap the unique expertise that could have been provided by the MEH-Health.

5.2.21 The NAO’s overall opinion of the feasibility report was that it constituted a preliminary and superficial analysis of the possible concession of three of Malta’s public hospitals. No independent analysis or critical thought was evident in the report, with that stated often a repetition of the intent for better utilisation of the Sites expressed by the MEH.

5.2.22 Of concern to the NAO was that responsibility for the true determination of feasibility was shifted by this team of experts to a taskforce that they considered necessary to determine the overall feasibility and cost effectiveness of providing specific services from the GGH.

5.2.23 Proposed in the report was that the Government ought to engage in a competitive procurement process designed to market test the feasibility of the recommended PPP with a third-party operator; however, the exact way such feasibility would be determined was to be clearly defined by an evaluation committee. The NAO maintains that one possible option open to Government in this regard could have been the issue of a call for expressions of interest prior to the issue of the RfP.

5.2.24 Another concern that emerges relates to the consideration of alternative procurement routes, or rather, the failure thereof. This Office is of the understanding that the citation of one academic article certainly does not constitute the appropriate consideration of alternative procurement routes. In addition, the balanced analysis of risk posed by the project is inexistent, since it is only the benefits to Government that are highlighted with prominence. In reality, the risks associated with a project of this sort are many, likely, and unfortunately all too real.
5.2.25 The Office is of the opinion that the assessment of the financing models failed to delve into any meaningful analysis or to provide any value added to the consideration of the possible concession. Of particular note were comments made regarding anticipated costs to Government. Stated in the feasibility report was that it was likely that the average cost per bed to be charged would be significantly higher than current expenditure levels incurred by Government. This was to be mitigated through medical tourism, although again, the critical analysis of how this was to be realised was lacking. The only positive indication on government finances was that the cost of investment would not be financed through public funds. It is unclear what consideration was given by Government to this when one considers the trade-offs that would need to be made. Of interest was that, according to the feasibility report’s concluding remarks, an offer was to be considered feasible if the average cost per bed offered by the private operator was close to the current Government costings for these facilities. However, the exact way such feasibility would be determined was to be clearly defined by an evaluation committee. In the NAO’s understanding, this represented another instance of the determination of feasibility being shifted onto others, involved later in the process, by which stage the opportunity to establish feasibility might have been missed.

5.2.26 Further doubts regarding the integrity of the process leading to feasibility of the concession emerge when one considers that stated in the Projects Malta Ltd Board of Directors meeting of 27 August 2014. Cited in the minutes of this meeting was that, “through this project the premises would be transferred by means of a concession, with Government guaranteeing a commitment to purchase beds for rehabilitation and long-term care, among other purposes. This was intended to support the development of medical tourism.” These minutes, which predate the feasibility study by several months (for the PS MEH-Energy indicated that the feasibility study was carried out in early 2015), support the notion that Government’s decision to issue the concession and the form it was to assume was an already decided matter way before any effort at determining feasibility had been carried out or alternative financing options considered.

On securing authorisation and determining the way forward

5.2.27 The NAO maintains that the feasibility report should have triggered an in-depth analysis of the options available and contributed to the identification of the best course of action that was to be pursued by Government in addressing the issues highlighted therein. In effect, the feasibility report should have been the trigger for extensive internal review and further external consultation. Despite requests to this effect, the NAO was not provided with any information or documentation capturing these critical stages of the decision-making process, casting further doubt on the superficial and incomplete process of the determination of feasibility.

5.2.28 Also unclear was how Projects Malta Ltd were mandated with the issuance of the RfP relating to the concession of the SLH, the GGH and the KGRH. Despite requests to this effect, the NAO was not provided with any documentation. This too was a shortcoming in governance.
5.2.29 Of greater concern to this Office was the fact that no form of ministerial authorisation appears to have been sought or provided in relation to the concession. This results in the absurd situation where three public hospitals were to be conceded for operation by third parties without anyone actually assuming responsibility for such a decision. In this Office’s opinion, this failure in governance rests squarely on the Minister for Energy and Health and to a lesser extent on the PS MEH-Energy, and further attests to the pre-determined nature of this concession.

5.2.30 It must be noted that the matter was not brought to the Cabinet’s attention at this stage of the procurement process.

The Request for Proposals

5.2.31 The NAO considered the RfP document for the granting of the services concession for the redevelopment, maintenance, management and operation of the sites at the SLH, the KGRH and the GGH as mostly clear and well-structured, and one which provided the necessary guidance to prospective tenderers to submit a high-quality bid. The RfP included sufficient details relating to the facilities and services that were to be provided, as well as the upgrades and maintenance that were to be carried out by the concessionaire. It also listed milestones for the renovation and construction works that were to be undertaken. However, immediately evident to the NAO was that while the RfP document outlined the main contractual clauses that were to be transacted with the chosen bidder, no draft contractual agreements were provided to the bidders at any stage of the RfP process. While this Office acknowledges that certain elements of the RfP were positive, this consideration must continuously be seen within the context of broader concerns relating to the integrity of the procurement process.

5.2.32 The NAO ascertained that, at the time of publication, the RfP was issued in line with the applicable Public Procurements Regulations of 2010. However, it is worth noting that various elements impinge on the classification of the project as a services concession, with this Office maintaining an element of reservation as to whether the project was a services concession. A more elaborate discussion on this matter ensues in the following section.

5.2.33 Also noted by the NAO was that the RfP and the competitive award process were to be regulated by the review of the Procurement (Health Services Concession) Review Board, established by virtue of the Procurement (Health Services Concession) Review Board Regulations, 2015 (Legal Notice 112 of 2015). Legislation authorising the setting up of this Board was enacted on 27 March 2015, the day of publication of the RfP.

5.2.34 Of interest to this Office was that the RfP stipulated that the Government had assessed multiple potential procurement options and believed that, through the concession of the Sites, it would be realising better value for money for the healthcare and ancillary services it currently offered to end users without compromising mean service levels. Notwithstanding that stated in the RfP, the NAO was not provided with any documentation evidencing such an assessment. The only documentation provided to this Office in this regard was the feasibility study. Given the
limitations of this study highlighted in the preceding paragraphs, the NAO questions whether
the project outlined in the RfP was structured in such a way as to meet the Government’s real
needs and whether the concession requirements and the subsequent evaluation criteria were
based on a comprehensive analysis.

5.2.35 Evident to the NAO was the fact that, aside from the feasibility document, the Government
did not engage in further consultation on the matter prior to the issue of the RfP. The NAO has
serious concerns on the lack of input by the MEH-Health in the drafting of the RfP, when its
involvement should have been intrinsic to the process due to its extensive practical knowledge
in the sector. Additionally, the market was not sounded at this stage, neither to stimulate interest
in the proposed project nor to assess the private sector’s capabilities. In this Office’s opinion,
engaging in an expression of interest process would have had the dual benefit of potentially
increasing competition and also bettering the structure of the RfP and the concession itself as
it would have allowed for the Government to source useful feedback on any concerns, issues
and gaps identified.

5.2.36 In terms of expertise at the RfP stage, Projects Malta Ltd engaged Ganado Advocates to,
among others, provide legal advisory services in the drafting of the RfP document. The letter
of engagement between Ganado Advocates and Projects Malta Ltd was dated 9 April 2015,
that is, 13 days following the issue of the RfP document, and was signed by Projects Malta Ltd
almost a month later on 6 May 2015. A matter which remained unclear to this Office regarding
this engagement relates to who was providing information to Ganado Advocates on behalf
of the Government for them to draft the RfP document. Questions in this respect were put
forward to the Minister for Energy and Health, the PS MEH-Energy and Ganado Advocates.
While the Minister for Energy and Health asserted that this was detail that he would not have
been privy to, the PS MEH-Energy specified that he was not aware of who provided information
to Ganado Advocates. No reply was forthcoming from Ganado Advocates.

5.2.37 According to the RfP, the services concession was to be granted for a period of 30 years. The
NAO notes that good practice dictates that the concession period should be based on how long
it would take the concessionaire to recover the investment made and register a reasonable
profit. However, this Office was not provided with any evidence that the MEH undertook any
such calculation in its preparation of the RfP document and it remains unclear to the NAO how
the 30-year period was determined.

5.2.38 Further aggravating this concern is the fact that the RfP indicated that on the lapse of the
concession period, the Government could consider granting to the concessionaire an option to
acquire the temporary emphyteutical title over certain specific areas of the Sites for a further
period of not more than 69 years. The NAO maintains reservations as to why the Government
committed to grant the Sites for an extended period, particularly one of substantial duration.

5.2.39 In the clarifications provided to bidders by Projects Malta Ltd, it was noted that the applicable
ground rent payment for the Sites was €11.65 per annum per square metre of the built-up
area after the completion of the redevelopment programme. The aforementioned ground rent
payment was also applicable for the potential extension period of up to 69 years. The NAO questions why the Government bound itself to charge the same rate should the temporary emphyteutical title over certain specific areas of the Sites be extended, especially in view of the considerable duration of the term.

5.2.40 In terms of evaluation, the NAO noted that the criteria to be utilised, as well as their respective weighting, were specified in the RfP. The NAO considers this measure as a positive contribution to the procurement process, affording potential bidders an insight into the attributes that would be considered, the weighting that these carried into the evaluation and guiding the Evaluation Committee in its appraisal of bids submitted. Furthermore, the evaluation framework outlined in the RfP document accounted for the requirements of the Government and the benefits it sought from the concession. Again, these positive comments must be seen within the broader context of concerns expressed by this Office.

5.2.41 The NAO noted shortcomings in the design of the RfP evaluation criteria. Foremost in this respect was that the evaluation criteria’s finer division into sub-criteria and the mechanics of allocating marks thereto was lacking, allowing for considerable subjectivity in marking. In submissions made to this Office, the members of the Evaluation Committee confirmed that they also deemed the evaluation criteria as somewhat loose. The NAO maintains that as the evaluation of bids becomes less objective, in that it is no longer determined solely by price but accounts for factors such as technical capabilities, the relative risk and best value, more elaborate evaluation criteria are required.

5.2.42 The RfP stipulated that the concession agreement to be entered into would require the concessionaire to host, build and equip a medical school at the GGH to be run by Barts School of Medicine and Dentistry, and build and equip a nursing university-level institution at the SLH. In submissions made to this Office, the Minister for Energy and Health outlined that the Government had envisaged the GGH as a teaching hospital, resulting in the incorporation of the medical and nursing schools into the project. Additionally, the requirement for a medical school had been one of the prime instigators for the entire project. Also noted in the RfP was that following consultation with the Government, the concessionaire was to attract a technically competent operator to run the nursing college. This Office questions the rationale behind assigning such responsibility to the concessionaire.

5.2.43 Another notable aspect of the RfP was that it allowed Projects Malta Ltd, the Government and the Evaluation Committee the right to reject any offer for any reason. Furthermore, the RfP was not binding on any of these parties. While the inclusion of these provisions in the RfP was a positive step, the aforementioned parties never considered rejecting VGH’s offer despite the severely limited interest generated by the RfP document.

5.2.44 The NAO further noted that certain provisions in the RfP document were intended to protect the Government in the eventuality that the concessionaire failed to deliver that agreed to. These included the requirement for bidders to provide unequivocal undertakings that the redevelopment programme deadlines outlined in the RfP could be met and that the GGH could
be redeveloped in a way that satisfied all requirements and specifications of the Barts and London School of Medicine and Dentistry, and the requirement for ConcessionCo to deliver a performance security in favour of the Government. Whether the enforcement of any of these provisions was necessary and whether they were in fact enforced are aspects of analysis that will be more comprehensively addressed in Part 2 of the NAO Report on this concession.

5.2.45  Another matter of note is the reference made to ethical considerations in the RfP document. The RfP document stipulated that bidders and their respective officers, directors, employees, agents and advisors were not to engage in any collusive tendering or anti-competitive or other similar conduct with any other bidder or person in relation to the preparation or submission of a proposal. It was further noted in the RfP document that bidders deemed in breach of this stipulation were to be disqualified. Additionally, bidders were not to canvass the Government or any employees or agents of the Government concerning the award. The preceding paragraphs of this section of the Report delve into the details surrounding an Agreement entered into between the Government and the eventual investors of the VGH prior to the issue of the RfP, to build, develop and manage a world class healthcare facility in Gozo. Although the NAO was not provided with this Agreement, the convergence between the Agreement and the RfP is all too evident. It is only through the full review of this Agreement that the NAO can strengthen its understanding and establish certainty; however, based on the information at hand and the severe reluctance by Government to disclose any information relating thereto, this Office cannot but conclude that the type of breach here is not one merely of canvassing but of collusion, necessitating the disqualification of the bid.

5.2.46  Further noted in the RfP was that the Government intended to deploy all the employees rendering service at the GGH, the SLH, the KGRH and the Dermatology Unit within Sir Paul Boffa Hospital to ConcessionCo. From the date of deployment, ConcessionCo was to take responsibility for managing the staff and was to be responsible for the day-to-day management of human resources; however, the staff were to remain public service employees. The Government was to continue exercising collective bargaining in consultation with ConcessionCo. In this respect, the NAO questions why the Government did not consult the unions representing the healthcare workers who were going to be affected prior to making definite decisions.

5.2.47  According to the RfP, the concession agreement would require the concessionaire to take over the current management and operation of the healthcare and ancillary services offered from the Sites immediately following its signing. The NAO noted that the setting up of a Health Construction Management Committee, tasked to ensure that the development being undertaken at the Sites was in line with the proposal submitted by the VGH, was discussed during meetings of the Steering Committee. However, the Health Construction Management Committee commenced meeting following the signing of the healthcare services contracts. While the execution of the contracts does not fall within the scope of this Report, this Office is of the opinion that an appropriate oversight function should have been set up prior to the signing of the contracts, especially since the VGH was to start works immediately following their signing.
Classification of the project as a concession

5.2.48 Government’s greater involvement of the private sector in the provision of infrastructure and services not solely through traditional public procurement methods but also through PPP models is a phenomenon that has been gaining momentum. PPPs are described by the European Commission as “forms of cooperation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure or the provision of a service.”

5.2.49 In PPPs, the private partner’s involvement is long-term, as opposed to the short-term setting of traditional public contracts. It is the private party who finances the project and therefore there is a reduced risk on the public sector. Financing is only one element of PPPs. The core element is that the government does not purchase an asset, but instead procures a service under specified conditions, and it is this that determines whether the project would be feasible or not. Concession contracts are the most commonly used forms of PPPs. Unlike the traditional public contracts, where the economic operator is awarded a fixed payment for completing the required work or service, in concessions, the concessionaire is granted the right to exploit that service. Under such a scenario, payment for completing the works or services would be recouped by the concessionaire directly from the user throughout the duration of the concession period.

5.2.50 Concessions were not properly regulated under European law until 2014, which lacuna led to legal uncertainty. Directive 2014/23/EU on the award of concession contracts ‘Concessions Directive’ was adopted following a long legislative process.

5.2.51 The RfP for the redevelopment, maintenance, management, and operation of the sites at the SLH, the KGRH and the GGH and the signing of the agreements relating to this services concession took place in 2015. It is to be noted that although Directive 2014/23/EU on the award of concession contracts adopted at EU level was in force at the time, it had not yet been transposed into Maltese law. The Public Procurement Regulations are the main legislative documents governing public procurement in Malta. The Concession Contracts Regulations, which specifically regulate concessions, came into force in Malta on 28 October 2016, thereby replacing the Public Procurement Regulations, 2010 in the regulation of concessions. At the time the concession was granted, the applicable regulations were the Public Procurement Regulations, 2010.

5.2.52 The NAO sought to establish whether the agreement entered into by Government with the VGH was in fact a ‘services concession’. For this purpose, this Office reviewed the legislative framework that regulated concessions. Since the Services Concession Agreement was entered into on 30 November 2015 (this Agreement is addressed in Part 2 of our Report), this Office looked at the definition provided by the Public Procurement Regulations, 2010 (now repealed) that regulated concessions at the time the RfP was issued and the Agreement entered into. A services concession was defined in the Public Procurement Regulations as “a public services
contract except for the fact that the consideration for the services to be provided consists either solely of the right to exploit the service or in this right together with payment”.

5.2.53 Similarly, Directive 2014/23/EU on the award of concession contracts, defined ‘services concessions’ as “a contract for pecuniary interest concluded in writing by means of which one or more contracting authorities or contracting entities entrust the provision and the management of services other than the execution of works ... to one or more economic operators, the consideration of which consists either solely in the right to exploit the services that are the subject of the contract or in that right together with payment.”

5.2.54 From the definition provided, it would transpire that the RfP correctly classified the agreement that was to be entered into as a services concession agreement. The applicability of the Public Procurement Regulations, 2010 was not disputed by the DoC, who confirmed that services concessions were, at the time of the issue of the RfP, regulated by the Public Procurement Regulations. The DoC further confirmed that although the Public Procurement Regulations defined services concessions, there were no specific provisions regulating it. Although services concessions are similar in nature to works concessions, they have for several years been excluded from any form of secondary legislation. Even at the EU level, the ‘Service Directive’ made no mention of services concessions, ultimately leaving the interpretation of these forms of contracts to the Courts of Justice of the European Union (CJEU) to determine. It was only in the Public Sector Directive that a definition was provided for the first time by the legislator. The Directive also recognised services concessions through Article 17, which explicitly excluded services concessions from the scope of the Directive.

5.2.55 An essential element of a concession is that the private sector finances the project, taking responsibility for its operation and maintenance. The consideration for such works or services would partly or fully consist in the concessionaire exploiting that service and hence payment is usually recouped directly from the user of the work or service. Therefore, in concessions, certain risks such as the operating risk are transferred from the public sector to the private undertaking. Concessions could be essential for new services and infrastructure to be provided when governments are struggling to keep providing their current public services. This is particularly due to the transfer of risk.

5.2.56 It is difficult to understand why services concessions, often used for complex and high value projects, were entirely excluded from regulation, especially when works concessions had specific provisions regulating them. Due to this lack of clarity, it is essential to look into the interpretation of the CJEU as to how these forms of contracts were at the time susceptible to EU legislation. The landmark decision of Telaustria was the first of its kind by the then European Court of Justice, to tackle the vacuum that existed in regulating services concessions. The landmark ruling of Telaustria, a preliminary ruling concerning a concession in the field of telecommunications, made it clear that public service concession contracts do not fall within the scope of the Directives. However the European Court of Justice affirmed that “notwithstanding the fact that ... such contracts are excluded from the scope of Directive 93/38,
the contracting entities concluding them [service concession contracts] are, nonetheless, bound to comply with the fundamental rules of the Treaty.” Telaustria also made reference to the Unitron Scandinavia judgment, extending the obligation of transparency referred to in this latter judgment, to services concessions. The Court emphasised what the obligation of transparency implied, stating “That obligation of transparency which is imposed on the contracting authority consists in ensuring, for the benefit of any potential tenderer, a degree of advertising sufficient to enable the services market to be opened up to competition and the impartiality of procurement procedures to be reviewed.”

5.2.57 The NAO observed that the call for the issue of the RfP was publicised through a Prior Information Notice on 26 March 2015, and in the Government Gazette and in a press release issued by the DOI, both dated 27 March 2015. Moreover, it was also advertised in local newspapers, dated 1 April 2015 and 5 April 2015, as well as in the OJEU.

5.2.58 The Telaustria judgment proved to be influential in opening the gates for further Court interpretation, not only with reference to transparency, but also in relation to other principles and obligations applicable to services concessions. One such issue of notable relevance is the element of risk which is of essential importance to define due to the fine line distinguishing concession contracts from public contracts and other types of contractual arrangements such as licences and authorisation schemes. In this regard, confusion frequently exists between concessions and public contracts, often resulting in the erroneous classification of procurement undertaken.

5.2.59 This distinction has been subject to scrutiny by the CJEU on several occasions. Advocate General La Pergola, in his opinion to “Arnhem and Rheden v BFI Holding BV”, identified all the characteristics of a concession contract, differentiating it from a public contract:

“in the case of a concession the beneficiary of the service is a third party unconnected with the contractual relationship, usually the community, which receives the service and pays an appropriate sum for the service rendered. Under Community law, the service that is the subject of a service concession must also be in the general interest, so that a public authority is institutionally responsible for providing it. ... Another characteristic feature of concessions is the remuneration of the concessionaire, which derives wholly or in part from the provision of the service to the beneficiary. This is connected with another important feature of service concessions in the Community context, namely that the concessionaire automatically assumes the economic risk associated with the provision and management of the services that are the subject of the concession.”

5.2.60 Unlike a public contract, where the beneficiary of the works or services is deemed to be the contracting authority, in the case of a concession the beneficiary of those works or services is a third party unconnected with the contractual relationship that exists between the concession granting authority and the concessionaire. Such a scenario envisages the general community as directly receiving the service and then pays the fee for the rendering of that service.
5.2.61 This was confirmed in a number of judgments, including Stadler, where it was noted that “While the method of remuneration is, therefore, one of the determining factors for the classification of a service concession, it also follows from the case-law that the service concession implies that the service supplier takes the risk of operating the services in question and that the absence of a transfer to the service provider of the risk connected with operating the service shows that the transaction concerned is a public service contract and not a service concession (Eurawasser, paragraphs 59 and 68, and the case-law cited).” Another judgment that explored this matter was Oymanns, which judgment indicated that this element alone was not sufficient to prove the presence of a concession contract. Further stated in this regard was that where the number of customers are known in advance, thereby removing the economic risk, then it can’t be argued that there is a concession contract as “the trader in the present case does not bear the principal burden of the risk connected with the carrying on of the activities in question, which is the factor which distinguishes the situation of a concessionaire in the context of a service concession.”

5.2.62 These cases are of relevance to our audit for two main reasons. First is the fact that, in our case, it is the Government that is effecting payment to the VGH and not the users. This raises doubt whether the agreements are to be considered as a ‘services concession’. Second, and of greater importance, is the point discussed in the previous paragraph, that is, whether the burden of risk was transferred to the concessionaire when the Government was guaranteeing a minimum amount of beds and thereby providing the concessionaire with a guaranteed monthly payment.

5.2.63 Another criterion, which according to AG La Pergola was to be present for a concession contract, was that the works or services must be in the general interest, so that government was responsible to provide it. Therefore, the concessionaire was replacing the contracting authority granting the concession in respect of its obligations to ensure that the service was provided for the community. However, this criterion has not always been considered as a condition of validity for the presence of a concession contract. The NAO noted that this was not a point of contention since it was clear that a service for the provision of medical services served the general interest.

5.2.64 The most basic and essential element of a concession is the “right of exploitation” and “risk”, which aspects result in the classification of an agreement as a concession, as opposed to the traditional public contract. It is only the extinguishment of such an element that ousts the possibility that the contract is one of concession. AG Pergola noted that exploitation entailed that the provider “assumed the economic risk arising from the provision and management of the services.” The European Court of Justice also declared that where there was no transfer of risks connected to the provision of the service, the procedure became a public service contract and not a concession. This was evident in the judgment of Contse.

5.2.65 The European Commission also recognised the importance of risk to concession contracts. In its Communication, it stated that it was the existence of exploitation risk that constituted the determining factor of concessions. Elaborating in this respect, the Commission noted that “As is
the case for works concessions, the way in which the operator is remunerated is a factor which helps to determine who bears the exploitation risk.” In a concession, the concessionaire bore the risk of not receiving payment that was certain for the services performed.

5.2.66 Although it would transpire that the transfer of risk is an indispensable condition for the classification of a contract as a concession, the NAO noted inconsistencies in several Court interpretations. Inconsistencies were present in terms of the types of risk that should be transferred, and also on the degree of risk that is transferred for a contract to be considered a concession. The element of risk and the uncertainties surrounding it was one of the reasons that drove forward legislative reform intended to provide legal certainty.

5.2.67 Of particular importance are two judgments delivered in 2011, Stadler and Norma, which set off by declaring that the “operating risk” present in a concession contract is to be understood “as the risk of exposure to the vagaries of the market”. The Court delved into a number of risks providing a non-exhaustive list of the present risks. Hence, the Court declared that the risk of exposure to the vagaries of the market “may consist in the risk of competition from other operators, the risk that supply of the services will not match demand, the risk that those liable will be unable to pay for the services provided, the risk that the costs of operating the services will not fully be met by revenue or for example also the risk of liability for harm or damage resulting from an inadequacy of the service.”

5.2.68 Although risk transfer was considered an essential element for a contract to be classified as a concession, it was only exposure of the concessionaire to the vagaries of the market that could be deemed detrimental. Therefore, the risk of security of payment could be considered as one of the most detrimental risks. Yet, due to the difficulties existing in concession contracts, the analysis of such risk remains subject to a case-by-case analysis, particularly where the degree of risk comes into play. The definition of concessions prior to the Concessions Directive and the CJEU interpretations indicated that it was not necessary for the entire existing risk to be transferred for the contract to be classified as a concession. Therefore, the right to exploit the work or service may be accompanied with payment from the contracting authority; however, over the years, the CJEU’s interpretations seemed to be in contradiction as to what degree of risk transfer is acceptable and what ratio of the costs could be guaranteed.

5.2.69 In Hans & Christophorus Oymanns GbR, Orthopädie Schuhtechnik v AOK Rheinland/Hamburg, a case concerning a contract between a statutory sickness insurance fund and an undertaking manufacturing orthopaedic footwear, the CJEU remarked that the presence of a fixed payment by the authority was leading to the risk connected to the recovery of payment and insolvency being spared. This led to a situation where the authority was not exposed to a significant risk. The Court declared that the risk assumed should not be a limited risk. The fact that the number of customers could be estimated was deemed to be clear evidence that the trader “does not bear the principal burden of the risk connected with the carrying on of the activities in question, which is the factor which distinguishes the situation of a concessionaire in the context of a service concession.” It was therefore concluded that the elements for a concession contract were not present, and the contract was deemed to be a “framework agreement”.
5.2.70 In Stadler, the CJEU applied the same line of reasoning as that of Eurawasser, reiterating the need for the transfer of a significant share of the risk for a contract to classify as a concession. The CJEU asserted that a “very limited” operating risk would not suffice. In this judgment it was also implicitly confirmed that economic risk should imply a possibility of financial loss for the concessionaire.

5.2.71 Given the difficulty in determining the substantial nature of the risk transferred, the criterion that would identify the concession contract would be the lack of a guarantee of “breaking even”. To determine this circumstance, a thorough economic analysis of each contract is required to verify that neither the profit margin nor the recoupment of all the costs and investments, which according to the economic and financial plan must be borne by the concessionaire, were guaranteed.

5.2.72 In sum, having considered the above-cited elements, the NAO concludes that:

a | at the time of issue of the RfP, services concessions were regulated by the Public Procurement Regulations, 2010;

b | at face value, it would seem that the contract was correctly defined in the RfP as a services concession – this conclusion is arrived at after having seen the definition provided in the Public Procurement Regulations and in Directive 2014/23/EU;

c | notwithstanding this, a fundamental aspect of what defines a services concession is the transfer of risk. Significant concern is registered by the Office in this regard, as the balance of risk remained heavily stacked against Government, with the concessionaire guaranteed revenue by Government irrespective of market fluctuations and actual use, and allocated human resources remained Government employees, thereby further reducing the risk allocated to the concessionaire; and

d | Following an analysis of the services concession agreement, this Office believes that the contract may have been more appropriately classified as a public service contract rather than a concession, which classification would have established far more onerous requirements on Government in its process of procurement.

Site inspections and clarifications

5.2.73 During the RfP process, site inspection visits to the GGH, the KGRH and the SLH were carried out. However, the NAO had limited visibility over this aspect of the process as source documentation relating to the site visits was not provided. This further precluded the verification of this stage of the process.
5.2.74 The NAO acknowledges that the inclusion of the process of clarifications at the RfP stage was a positive initiative, contributing to the strengthening of clarity and understanding in the bidding process. However, with regard to the clarifications and the corrigendum issued on Projects Malta Ltd’s initiative, although the text of the clarifications issued was provided, this Office was not furnished with source documentation evidencing the submission of information to prospective bidders. This limited the NAO from verifying that all prospective bidders were informed of these developments.

5.2.75 Another matter for which source documentation was not made available to this Office was with respect to requests for clarifications submitted by bidders. Instead, Projects Malta Ltd made available excerpts of queries made and replies circulated. This prohibited the NAO from establishing a comprehensive understanding of the clarifications process, including who made the requests, when the requests were made, when replies by Projects Malta Ltd were submitted and whether such replies were circulated among all bidders. The lack of source documentation further hindered the Office from ascertaining the integrity of the clarifications process.

5.2.76 Aside from this shortcoming of note, the Office’s attention was also drawn to certain limitations in the way Projects Malta Ltd addressed particular queries. In fact, the clarifications provided did not always comprehensively address the queries submitted, with insufficient and/or incomplete information being provided at times. This resulted in some clarification requests remaining unaddressed or only partially replied to. Furthermore, this Office noted that certain clarifications submitted by Projects Malta Ltd were unclear.

The bid by the VGH

5.2.77 The bids received by the closing date were opened at Projects Malta Ltd in the presence of the members of the Evaluation Committee, the public and interested parties. The bid opening process was documented by two notaries and the report was subsequently annexed to that by the Evaluation Committee on the adjudication of the bids. The NAO noted that the bid opening process was well organised and appropriately documented, and no issues were noted by this Office in this respect.

5.2.78 At face value, the bid by the VGH appeared to be an attractive offer. The VGH satisfied all that was required when submitting a comprehensive bid and proposing to Government that which was sought. It is easy to understand how the Evaluation Committee tasked with adjudicating this bid may have been left with no option but to favourably rate a bid robust in form but flawed in substance. Nonetheless, the Evaluation Committee cannot be totally exculpated in this regard. The NAO maintains that there were serious shortcomings in the bid by the VGH that the Evaluation Committee failed to address.

5.2.79 In the company details submitted as part of the bid, it was indicated that the VGH was a limited liability company incorporated and registered in Malta in May 2015. According to the memorandum and articles of association, the authorised and paid share capital was €1,200,
made up of 1,200 ordinary shares of €1 each. While this met the minimum share capital required to start a company in Malta, paid-up capital can provide an indication of the financial strength of a company, other than being an initial source of funds. Notwithstanding this, no consideration to this factor was given in the evaluation process.

5.2.80 In line with the requirements of the RfP, bidders were to provide proof of their financial soundness over the past three years. In this regard, the submission of audited financial statements was required. The NAO acknowledges that the VGH was newly registered with the MFSA, rendering the submission of any financial statements irrelevant.

5.2.81 Nonetheless, in the bid it was indicated that the VGH was a wholly-owned subsidiary of Bluestone Investments Malta Ltd. The NAO established that this limited liability company was registered in Malta only in December 2014, again rendering the submission of any financial statements unreasonable. However, this company was, in turn, wholly owned by Bluestone Special Situation 4 Ltd which formed part of Oxley Group. The NAO noted that, in fulfilment of the requirements relating to financial soundness, the VGH submitted a description of the value of the holding companies cited in its bid. This Office deems that the information provided by the VGH in this regard did not fully address the requirements of the RfP.

5.2.82 Bidders were also required to provide proof of access to finance, for the duration of the concession, by means of a letter of intent or similar from a reputable credit or financing institution. While indicative term sheets and commitment forms from several sources were submitted by the VGH in this regard, the NAO’s attention was drawn to the confirmation of funding availability provided by the Bank of India. The addressee in this letter was Sekhem Natural Resources Development Private Ltd, a company involved in the extraction of crude petroleum and natural gas, and unrelated to the VGH bar for reference made to Bluestone Special Situation 4 Ltd. The letter indicated that the Bank of India had “sanctioned a $30m facility to your company to enable you to proceed with your planned investment in Bluestone Special Situation 4 Ltd, which in turn intends to take a significant stake in the proposed 2 Malta Healthcare Projects”. While this Office did not delve into the validity or otherwise of this confirmation, it was noted that the correspondence was dated 13 March 2015, therefore predating the RfP which was issued on 27 March 2015. The NAO considers this as definite evidence of prior knowledge of the planned project and proof of collusion between Government, or its representatives, and the VGH.

5.2.83 In fulfilment of the requirements of the RfP, bidders were to provide evidence of their professional and technical qualifications and management experience in all areas relevant to the concession. The NAO noted that in the bid by the VGH, the business experience cited under bidder profile was not attributable to the VGH but rather to Oxley Group or its strategic partners, or to partners that the VGH had enrolled in the project. Moreover, the NAO noted that the experience cited for Oxley Group was mainly related to real estate investment trusts and funds, asset management and financing. Notwithstanding that some of the projects undertaken by Oxley Group or its principals and partners could be classified as healthcare projects, these were
not directly in hospital management and were therefore deemed peripheral experience by the NAO. Furthermore, this Office maintains that the partnerships with the Medical Associates of Northern Virginia Incorporated and the Walter Reed Medical Centre of Prosthetics, while positive additions, did not waive the requirement that bidders were to possess relevant operational and management experience in healthcare. In this respect, the evidence provided by the VGH was considered insufficient by the NAO. This Office maintains that the only relevant operational and management experience cited was limited to two of the VGH’s key staff, that of the CEO and the project director. This Office contends that these limitations were not given due consideration by the Evaluation Committee.

5.2.84 Regarding the contact details of the VGH, the NAO noted that no corporate contact particulars were provided in the bid; instead, the personal telephone number and e-mail address of one of its directors were provided. The NAO maintains that this was indicative that the VGH lacked an adequate corporate setup, given that these are, at the very least, basic requirements.

5.2.85 A declaration indicating that the VGH was not affected by any potential conflicts of interest and that the Company had no link with other tenderers or parties involved in the competitive award process was also made. While the NAO acknowledges that this declaration was in line with that specified in the RfP, later developments indicate that more stringent requirements in this regard are warranted, especially in tenders that require substantial public finances, involve essential infrastructure or services, and that bind Government for extended periods.

5.2.86 The timeframes for completion of the planned infrastructure as committed in the bid by the VGH were deemed overly ambitious and unrealistic by the NAO. According to the bid, the development of the Gozo medical complex was to be achieved by December 2017. With regard to the SLH, notwithstanding that this was in a rundown state and needed a total overhaul, works were to be completed by September 2016. As regards the KGRH, the committed increase in the number of beds was considerable; nonetheless, works were to be completed by end November 2015. When one considers the extensive works required, the fact that works were to be simultaneously undertaken on all Sites, and that the VGH lacked an established set up, this Office deemed the indicated timeframes as highly doubtful. In fact, none of the milestones set by the VGH were achieved on time or close to the indicated date, with most milestones yet to be achieved to date, already delayed by several years. This aspect of analysis will be delved into in Part 2 of this Office’s review of the VGH concession.

5.2.87 In the NAO’s opinion, similarly overly ambitious were the projections made with respect to medical tourism. In reference to its short-term marketing strategy, the VGH indicated that it planned to start attracting medical tourists as from 2016, and to fill around 85,000 bed days from medical tourism by 2027. This was deemed optimistic by the NAO when one considers that medical tourism in the ambit of public hospitals was a new concept and the infrastructure required. Moreover, according to the bid, it was the revenue forecasted from this source that was to render the project feasible. This Office maintains that the gross failure that the envisaged medical tourism resulted in casts significant doubt on the feasibility of the project, more so if it was revenue realised from medical tourism that was to render the project viable.
5.2.88 The inclusion of medical tourism also contributed to the classification of the tender as a services concession. Without the medical tourism component, the project’s classification as a concession also merits attention, for the dynamic of the commercial relationship between Government and the VGH is fundamentally altered. According to the income strategy outlined in the bid by the VGH, income during the concession period would arise from three main sources, that is, income from Government in respect of the PPP beds, income from the medical college and income from medical tourism. While an element of uncertainty exists with regard to the latter source, the first two income flows are more or less guaranteed, effectively limiting the risk to the VGH. The NAO maintains that risk allocation is a fundamental element in concessions, which renders the terming of this tender as a concession debatable.

5.2.89 Part of the development in Gozo related to the setting up of a medical college, dormitories and an anatomy centre. These requirements emanated from an agreement between the Government and Barts London School of Medicine and Dentistry that had been entered into in February 2015. According to this agreement, these facilities were to be completed by September 2016. The NAO maintains that these contractual obligations consequently put an onus on Government to conclude the services concession for the redevelopment, maintenance, management and operation of the GGH, the SLH and the KGRH, irrespective of whether it was in Government’s best interest to do so.

5.2.90 The NAO’s attention was drawn to the assumption by the VGH that it would be occupying the Sites for a period of 99 years. While the possibility to extend the original concession period of 30 years by a further 69 years was envisaged in the RfP, the NAO maintains that it was imprudent for the VGH to assume that the term would be extended and proceed to base its financial strategy on the full 99-year term. Moreover, credit sought for the financing of the project was conditional on the granting of a 99-year lease. This Office contends that this extension should not have been considered by any of the bidders as an obvious and certain outcome.

5.2.91 The project’s total capital expenditure was expected to amount to €170,000,000, of which €116,000,000 was to be allocated to the GGH, €49,000,000 to the SLH and €5,000,000 to the KGRH. In addition, the VGH estimated that it would lease medical equipment to an approximate value of €20,000,000. On this basis, the total project commitment was estimated at €190,000,000. The NAO acknowledges that this cost, as well as the replacement capital expenditure of the project, was not to be directly borne by Government.

5.2.92 The NAO maintains that the bid by the VGH depicted a scenario of service that emphasised all the anticipated benefits, be they realistic or unrealistic, of entry into this health concession with Government. These commitments included: the renovation of three public hospitals by December 2017; the construction of a medical college; significant improvement in service delivery; the lowering of costs incurred by Government; the strengthening of the hospitals’ management function; the development of a comprehensive staff training programme; and an investment of over €190,000,000 by the VGH into the project. The benefit of hindsight
has demonstrated that little to none of these commitments have been seen through, which reinforces the argument for stronger and more thorough procurement mechanisms; however, the implementation of the project, or lack thereof, is addressed in Part 2 of the Report.

The evaluation of submissions

5.2.93 An Evaluation Committee was appropriately engaged, with the relevant letters of appointment made available to the NAO. This Office noted that minutes of meetings held were appropriately retained, which allowed an understanding of the decision-making process that the Evaluation Committee pursued in its adjudication of the bids received.

5.2.94 The Evaluation Committee was composed of three members having expertise in engineering and project management, accountancy, auditing and management consultancy. Nonetheless, none of the members’ skills set included healthcare. The NAO noted that this lacuna was subsequently mitigated through the appointment of a Healthcare Technical Consultant, who assisted the Evaluation Committee in the technical assessment of the bids, primarily that by the VGH. Despite queries raised, the NAO was not provided with any information as to the basis on which the members of the Evaluation Committee and the Healthcare Technical Consultant were appointed.

5.2.95 Of significance to the NAO is the number and quality of the bids received. This Office deems this of concern as the failure to attract interested parties and generate any semblance of competitive tension detracts from the expected gains that Government should have sought to create through this concession. When one considers the materiality of the services at stake, Government’s failure to sound the market and publicise its intentions assume greater significance.

5.2.96 Setting aside the bid received by the VGH, the NAO is of the opinion that the quality of the other bids received was extremely poor. The decision of the Evaluation Committee to deem the bids by Image Hospitals and BSP Investments Ltd as ineligible on grounds of administrative non-compliance and other serious shortcomings was considered as correct by the NAO. In both cases, the reasons cited by the Evaluation Committee were factually correct and a valid basis for their elimination.

5.2.97 Regarding the bid by the VGH, the Evaluation Committee considered this as administratively compliant in that a bid bond had been provided and the requisite submissions were generally made in line with the RfP. The NAO deemed the decision by the Evaluation Committee appropriate, in that the eligibility criteria set in the RfP were met. Nonetheless, the fact that only one bid was compliant is of grave concern to the NAO. Apart from being indicative of Government’s failure to establish competitive tension, this rendered any comparative analysis of bids impossible.
5.2.98 The bid by the VGH was subsequently assessed by the Evaluation Committee in terms of its commercial, technical and financial strength, and the degree to which it exceeded the minimum requirements specified. Nonetheless, the NAO maintains that the evaluation carried out was lacking in terms of critical analysis. This is substantiated by the fact that the Evaluation Committee report included little by way of analysis and that many parts of the evaluation report were merely a restatement of the bid by the VGH.

5.2.99 The NAO noted that, in fulfilment of the requirements relating to financial soundness, the VGH submitted a description of the value of the holding companies cited in its bid. This Office deems that the information provided in this regard did not fully address the requirements of the RfP. Nonetheless, the Evaluation Committee considered this adequate, in that it did not delve into the matter any further. Commenting on the matter in a meeting with the NAO, the Evaluation Committee maintained that proof of financial soundness was provided through Oxley Group, an investment holding company that had over S$1.5 billion in assets under management. The Evaluation Committee also referred to the fact that the VGH had engaged one of the leading accountancy firms to assist it in the preparation of its bid and that a Gantt chart of the proposed investment that appropriately reflected the business plan was provided. Moreover, the Evaluation Committee indicated that the VGH had secured sufficient funding to finance the project. Nonetheless, it is with concern that the NAO noted that the Evaluation Committee did not identify the gross anomalies evident in the letter of financial support sourced through the Bank of India.

5.2.100 In terms of the RfP, bidders were to provide evidence of their professional and technical qualifications and management experience in all areas relevant to the concession. The NAO identified various concerns regarding these requirements, which shortcomings are captured in detail in paragraph 5.2.83. This Office contends that these limitations were not given due consideration during the evaluation process. Notwithstanding this, the Evaluation Committee maintained that the qualifications and experience cited were deemed acceptable, irrespective of whether these were attributable to the VGH, Oxley Group or any of the partners identified in the bid. According to the Evaluation Committee, the VGH sought to involve experts and contractors in the medical field in its bid, something which the RfP did not preclude.

5.2.101 The NAO also questions why key financial assumptions, such as that the project was not viable without medical tourism and that the VGH’s financial strategy was based on the granting by Government of a 99-year temporary emphyteutical title over the Sites, were not adequately challenged, scrutinised or assessed by the Evaluation Committee. Both these elements had a direct and fundamental bearing on the feasibility of the project, yet scant evidence was provided that these aspects were comprehensively considered by the Evaluation Committee. This Office maintains that these are at least two instances where the decision of the Evaluation Committee was based on the superficial assessment of the information submitted by the bidder.

5.2.102 The NAO maintains that the evaluation criteria that were to guide the Evaluation Committee in its assessment of the bids allowed for considerable subjectivity. While the criteria had
been specified at the outset, this Office contends that they did not provide a sufficiently robust mechanism to determine which proposal best met Government’s stated needs. While the Evaluation Committee acknowledged the concerns raised by this Office in this regard, it contended that it was constrained to adhere to the evaluation criteria as established in the RfP. Moreover, the Evaluation Committee maintained that even though the evaluation criteria allowed for an element of subjectivity, it was highly unlikely that the outcome of the bid evaluation process would be different even if this was undertaken by a different committee.

5.2.103 The marks assigned in relation to the technical and operational component of evaluation were, in this Office’s opinion, not entirely merited. The NAO noted that the assessment by the Evaluation Committee of this component of the bid was mainly a summary of the technical proposal put forward by the VGH. Furthermore, not all the sub-criteria listed under technical and operational criteria were addressed in the evaluation report. These included:

a | level and phasing of investment for the upgrading and expansion of the plant and equipment within the Sites and the cyclical investment in capital during the concession;

b | the impact of proposals on the local community and the environment;

c | asset management;

d | proposals regarding compliance with relevant regulations and best practices with respect to hazardous and non-hazardous waste management and disposal, health and safety, decommissioning and disposal of asbestos, asbestos-containing materials and gases; and

e | the overall credibility and scope of the technical and operational proposal.

5.2.104 The Evaluation Committee undertook a comparison of rates that were to be charged per bed night by the VGH with the actual cost being incurred by Government across comparable services and concluded that the price offered was less than Government’s spend. While the NAO acknowledges that this analysis could provide a basis for cost comparison, this Office maintains certain reservations. Chief in this regard is that this comparison did not account for existing inefficiencies in the provision of public health services and failed to consider the efficiency gains that Government sought to obtain through this tender.

5.2.105 The NAO contends that certain evaluation criteria, in particular those related to fitness and probity of bidders, necessitated a thorough due diligence process. This Office maintains that, beyond the assertion of compliance to administrative requirements and the determination of whether the technical criteria set out in the RfP were met and to what extent, it is reasonable to expect that the process of evaluation would include an element of due diligence on any bidder, more so on that recommended as the preferred bidder. This Office maintains that the due diligence carried out by the Evaluation Committee to independently validate the claims and assumptions made by the VGH was poor. This was considered a shortcoming in the evaluation process, as comprehensive due diligence is critical in safeguarding Government’s
interests, especially when considering the materiality and extensive timespan of the project. Notwithstanding this, the Evaluation Committee maintained that an element of due diligence, particularly that relating to financial and technical elements, was undertaken. Cited in this regard were the confirmations provided in terms of the committed financing and the curricula vitae of key medical officials who were to sit on the Medical Board. Nonetheless, the Evaluation Committee conceded that due diligence on aspects such as bidder profile and organisational structure, political exposure and personal wealth was not undertaken. However, according to the Evaluation Committee, this was not within its remit and such due diligence should have been undertaken during the process of negotiation.

5.2.106 In a meeting with the NAO, the members of the Evaluation Committee maintained that they had recommended the granting of the preferred bidder status to the VGH on the basis that the information presented in the bid satisfied the administrative, technical and financial requirements of the RfP. Nonetheless, they insisted that they were not involved in the subsequent negotiations undertaken with the VGH nor can they affirm whether the contracts entered into reflected that proposed in the bid. The Evaluation Committee also emphasised that rigorous due diligence should have been undertaken further down the award process. Moreover, the Evaluation Committee maintained that Projects Malta Ltd was informed of all developments in terms of the evaluation process and that the recommendation arrived at was ultimately ratified by Cabinet.

5.2.107 In view of that stated by the Evaluation Committee and in light of the obvious importance to Government of knowing who it was to entrust three of its public hospitals to, the NAO made further enquiries regarding due diligence undertaken with the PS MEH-Energy. The NAO enquired whether this process led to Government identifying the ownership structure of the VGH and whether all aspects relating to its integrity and professional competence were ascertained. Documentation that would attest to such due diligence was requested. According to the PS MEH-Energy, the due diligence carried out was made up of different components that mainly focused on the financial capability and sustainability based on the proposal submitted, as well as the services being offered by the VGH. The ownership structure of this bidder was also identified. While the NAO acknowledges that stated by the PS MEH-Energy, it is noted that the reply lacked sufficient detail and inferred that the due diligence was mainly limited to that stated in the bid by the VGH. No supporting documentation was submitted. The measures cited by the PS MEH-Energy were deemed insufficient by the NAO and not to the required standard in view of the engagement that Government was to entrust.

5.2.108 Similar requests regarding any possible due diligence carried out were also addressed to Malta Enterprise, particularly in view of the entity’s early involvement in the meetings held with the eventual investors of the VGH. Despite requests to this effect, no reply was forthcoming from Malta Enterprise.

5.2.109 The shortcomings highlighted above serve to strengthen the argument for more robust background checks, heighten the need for rigorous due diligence screening, bring to the fore
the importance of establishing evaluation criteria that are objective and truly assess the ability of the bidder to deliver that bid, and necessitate that evaluation committees verify submissions made with a critical mind.

Award of concession

5.2.110 Prior to the notification to bidders of the outcome of the evaluation process, the Minister for Energy and Health presented a memorandum to Cabinet outlining the salient points of the bid by the VGH and the outcome of the evaluation process. According to the memorandum, Government believed that the entrusting of the services to be provided from the GGH, the SLH and the KGRH to a private operator would lead to a more efficient management and supply of the services. This would also provide the capital expenditure required to ensure that Government’s objectives were secured for the foreseeable future. The Minister for Energy and Health requested the Ministers to approve the award of the preferred bidder status to the VGH and the commencement of negotiations for the conclusion of the relative agreements. The NAO noted that Cabinet’s approval was granted, thereby securing the collective responsibility of Cabinet.

5.2.111 The NAO noted that Projects Malta Ltd appropriately notified the VGH of its selection as the preferred bidder. Likewise, the disqualified bidders were duly informed of the outcome of their submission by Projects Malta Ltd. The reasons for their respective disqualification were also listed in the notification. None of the eliminated bidders contested the disqualification.

5.3 Conclusions

5.3.1 Having considered the salient aspects of this concession, the NAO’s attention is directed towards the address of the terms of reference set by the PAC in its request to this Office.

5.3.2 The first term of reference entailed the review of the method utilised for the award of the concession to the VGH. Drawing the Office’s immediate concern in this regard was the Agreement that Government reportedly entered into prior to the RfP with a subset of the investors of the VGH. The overlap between this Agreement and the concession was clear and created major doubt and concern regarding the integrity of the eventual concession. The NAO’s concerns are heightened in light of Government’s reluctance to provide this Office with a copy of the Agreement, which failure serves as further confirmation of its contentious relation to the concession eventually entered into by Government with the VGH. This casts a dark shadow on the validity of the concession awarded by Government, for in effect, all appears to have been predetermined to ensure an already agreed outcome.

5.3.3 In terms of the identification of needs, Government failed to appropriately explain the bases of the inclusion of the GGH, the SLH and the KGRH as part of one project. No specific assessment of whether the grouping of these three public hospitals presented any benefit to Government was undertaken, with their amalgamation under one project an inexplicable uncontested...
given. Confounding matters was that the MEH-Health was not meaningfully involved in the
determination of Government’s requirements relating to this concession and in the
establishment of feasibility thereof. Instead, the process that was essentially a health services
concession was driven by the MEH-Energy. Of concern was that the MEH-Energy also failed to
involve MFIN despite the substantial disbursement in public funds that this concession was to
talent. Of even greater concern to this Office was the fact that Cabinet was not appropriately
informed about the project prior to the issue of the RfP.

5.3.4 Aside from concerns relating to the integrity of the commissioned feasibility report, the NAO’s
overall opinion of this report was that it constituted a preliminary and superficial analysis of
the possible concession of three of Malta’s public hospitals. The feasibility report was bereft of
any form of independent analysis or critical thought. Further concerns relating to the integrity
of this process emerged from the review of the minutes of the Projects Malta Ltd Board of
Directors, wherein reference was made to this project. Although these minutes preceded the
feasibility report by several months, reference was already made to Government’s commitment
to issue the concession and the form that it was to assume.

5.3.5 Despite this Office’s efforts, it remained unclear how Projects Malta Ltd were mandated
to issue the RfP. Of greater concern in terms of the governance of the process was that no
ministerial authorisation was sought or provided in relation to this concession, resulting in the
anomalous scenario where three public hospitals were conceded for operation by third parties
without anyone actually assuming responsibility for this decision. This failure in governance
rests squarely on the Minister for Energy and Health and to a lesser extent the PS MEH-Energy.

5.3.6 The NAO noted several shortcomings in the design of the RfP. Most evident in this respect were
the evaluation criteria, which were deemed subjective, allowing for considerable interpretation
in the allocation of marks. Another shortcoming of note was the term set for the concession.
The term should have been determined by allowing a sufficient period for the concessionaire
to recover the investment made and register a reasonable profit. In this case, no such analysis
was undertaken, with the term, and its subsequent option to extend, set arbitrarily.

5.3.7 This Office is of the opinion that the ethical safeguards established in the RfP were breached by
the investors of the VGH through the Agreement reached with Government prior to the issue
of the RfP. This breach necessitated the disqualification of the VGH as a bidder.

5.3.8 The NAO maintains that a critical element of what defines a services concession is the transfer
of risk. Significant concern is registered in this respect as, in this Office’s opinion, the balance
of risk remained drastically skewed against Government, with the concessionaire guaranteed
revenue by Government irrespective of market fluctuations and actual use, thereby further
reducing the risk allocated to the concessionaire. This Office contends that the contract may
have been more appropriately classified as a public service contract rather than a concession,
which classification would have established far more onerous obligations on the part of
Government to proceed with this procurement.
5.3.9 Another term of reference addressed by the NAO was to determine whether the business model to be employed by the concessionaire was feasible and whether it represented value for money. Although the bid submitted by the VGH satisfied all the requirements set by Government, this Office is of the opinion that the bid was essentially robust in form but flawed in substance.

5.3.10 The NAO established that the VGH was registered in Malta only a few months prior to the RfP. According to these records, the VGH was wholly owned by Bluestone Special Situation 4 Ltd, which formed part of Oxley Group. In terms of financial soundness, the NAO noted that the VGH submitted a description of the value of the holding companies cited in its bid, which submission was deemed as not fully addressing the requirements of the RfP.

5.3.11 Of grave concern to the NAO was documentation submitted by the VGH as proof of access to finance. A letter issued by the Bank of India sanctioning funding for the “Malta Healthcare Projects” and put forward by the VGH in respect of the bid was dated 13 March 2015, that is, well before the publication of the RfP on 27 March 2015. This Office deemed this document as definite evidence of the VGH’s prior knowledge of the planned project and proof of collusion with Government, or its representatives.

5.3.12 Other notable shortcomings identified by the NAO related to the professional and technical elements of the bid by the VGH. This Office noted that the business experience cited by the VGH was not attributable to it, but to Oxley Group or its strategic partners, or to partners that the VGH had involved in the project. Moreover, the experience cited for Oxley Group mainly related to real estate investment trusts and funds, asset management and financing.

5.3.13 Evident was that the timeframes committed by the VGH for the redevelopment of the SLH, the GGH and the KGRH were overly ambitious and unrealistic. The NAO’s opinion is based on the consideration of the extensive works required, the fact that works were to be simultaneously undertaken on all Sites, and that the VGH lacked an established set up.

5.3.14 Similarly, overly ambitious were the projections made with respect to medical tourism, particularly when one considers that medical tourism in the ambit of public hospitals was a new concept and the infrastructure which was required. This concern assumes greater relevance when one considers that, according to the bid, it was the revenue forecasted from this source that was to render the project feasible.

5.3.15 While the possibility to extend the original concession period of 30 years by a further 69 years was envisaged in the RfP, this Office contends that it was imprudent for the VGH to assume that the term would be extended and proceed to base its financial strategy on the full 99-year term. Moreover, credit sought for the financing of the project was conditional on the granting of a 99-year lease. This Office contends that this extension should not have been considered by any of the bidders as an obvious and certain outcome.
5.3.16 In sum, the NAO maintains that the VGH submitted a bid that emphasised all the anticipated benefits of entry into this health concession with Government, irrespective of whether they were realistic or otherwise. These commitments included: the renovation of three public hospitals by December 2017; the construction of a medical college; significant improvement in service delivery; the lowering of costs incurred by Government; the strengthening of the hospitals’ management function; the development of a comprehensive staff training programme; and an investment of over €190,000,000 by the VGH into the project. The commitments of the VGH were deemed overly ambitious and unrealistic to achieve within the stipulated timeframe.

5.3.17 The final term of reference considered by the NAO entailed the analysis of the evaluation of submissions leading to the award of the concession. The bid by the VGH was assessed by the Evaluation Committee in terms of its commercial, technical and financial strength, and the degree to which it exceeded the minimum requirements specified in the RfP. In this Office’s opinion, the evaluation carried out was lacking in terms of critical analysis, with several parts of the evaluation report merely a restatement of the bid submitted by the VGH. Furthermore, the NAO maintains that the marks assigned in relation to the technical and operational component of evaluation were not entirely merited. This Office noted that the assessment by the Evaluation Committee of this component of the bid was mainly a summary of the technical proposal put forward by the VGH.

5.3.18 Concerns emerge in the Evaluation Committee’s assessment of the financial soundness of the VGH. In fulfilment of these requirements, the VGH submitted a description of the value of the holding companies cited in its bid. While the Evaluation Committee considered this adequate in that it did not delve into the matter any further, the NAO considered the information provided in this regard as not fully addressing the requirements of the RfP. This Office’s concern intensifies in that the Evaluation Committee did not identify the gross anomalies evident in the letter of financial support sourced through the Bank of India.

5.3.19 Bidders were to provide evidence of their professional and technical qualifications and management experience in all areas relevant to the concession. The NAO identified various concerns regarding these requirements and maintains that these shortcomings were not given due consideration during the evaluation process. Notwithstanding this, the Evaluation Committee contended that the qualifications and experience cited were deemed acceptable, irrespective of whether these were attributable to the VGH, Oxley Group or any of the partners identified in the bid.

5.3.20 Furthermore, in the NAO’s understanding, key financial assumptions, such as that the project was not viable without medical tourism and that the VGH’s financial strategy was based on the granting by Government of a 99-year temporary emphyteutical title over the Sites, were not adequately challenged, scrutinised or assessed by the Evaluation Committee. These aspects of the bid had a direct and fundamental bearing on the feasibility of the project, yet scant evidence was provided that these elements were comprehensively considered by the Evaluation Committee.
5.3.21 The Evaluation Committee undertook a comparison of rates that were to be charged per bed night by the VGH with the actual cost being incurred by Government across comparable services and concluded that the price offered was less than Government’s spend. While the NAO acknowledges that this analysis could provide a basis for cost comparison, this Office maintains certain reservations. Chief in this regard is that this comparison did not account for existing inefficiencies in the provision of public health services and failed to consider the efficiency gains that Government sought to obtain through this tender.

5.3.22 Although the shortcomings identified by the NAO in relation to the evaluation process remain, these must be acknowledged in terms of the broader and far more significant concerns relating to the integrity of the entire procurement process. The evidence indicating collusive action between the parties acting on behalf of Government with the VGH renders the entire process dubious, irrespective of whether the process was in adherence with procedural and regulatory requirements.

5.3.23 The NAO contends that certain evaluation criteria, in particular those related to fitness and probity of bidders, necessitated a thorough due diligence process. This Office maintains that, beyond the assertion of compliance to administrative requirements and the determination of whether the technical criteria set out in the RfP were met and to what extent, it is reasonable to expect that the process of evaluation would include an element of due diligence on any bidder, more so on that recommended as the preferred bidder. This Office maintains that the due diligence carried out by Government to verify matters relating to the VGH in its capacity and relationship to it as the preferred bidder to run three public hospitals was grossly inadequate. This was considered a shortcoming in the procurement process, as comprehensive due diligence is critical in safeguarding Government’s interests, especially when considering the materiality and extensive timespan of the project.

5.3.24 The shortcomings highlighted above serve to strengthen the argument for more robust background checks, heighten the need for rigorous due diligence screening, bring to the fore the importance of establishing evaluation criteria that are objective and truly assess the ability of the bidder to deliver that bid, and necessitate that evaluation committees verify submissions made with a critical mind.

Overall conclusion

5.3.25 The NAO bases its analysis on documentation made available to it by Government and its various subsidiaries. In the Office’s general experience, in this as well as in other audits, it is evident that where matters, decisions, procedures and operations are appropriately documented and corresponding records provided to this Office, the nature of the shortcomings identified can be readily defined and often do not elicit the NAO’s greatest concern. It is where no documentation is provided that the Office’s most serious concern gravitates towards. This audit is no different. The major flaws and failings of this service concession can readily be traced to Government’s prior Agreement with the VGH before the issue of the RfP, for which relevant documentation
was not provided to this Office. Understanding the RfP process through the perspective of this Agreement changes everything, for the outcome of the RfP was known before feasibility of the concession was determined, before the RfP was drafted and issued, and before the Evaluation Committee was constituted and commenced its consideration of submissions.

5.3.26 This concludes Part 1 of the NAO’s review of Government’s concession of the SLH, the GGH and the KGRH to the VGH, which audit focused on the procurement process leading to the award of the concession. This Office’s analysis of the contractual framework that Government subsequently entered into and the eventual transfer of the concession to Steward Health Care will be addressed in Part 2 and Part 3, respectively.
Appendices

Appendix A | Correspondence submitted by the Union Haddiema Magħqudin and the Medical Association of Malta to the Public Accounts Committee

Onor. Sur Tonio Fenech
Chairman
Kumitat Parlamentari ghall-Kontijiet Pubblici
Il-Parlament,
Valletta - Malta

Onor. Fenech,

F’sem il-Union Haddiema Magħqudin - Voice of the Workers (UHM) u l-Medical Association of Malta (MAM), qed innessaq l-ojiera talba sabiex il-Kumitat Parlamentari ghall-Kontijiet Pubblici, li tleghu inti Chairperson, jinvestiga l-kuṇtratt ħekk maghrufa tat-tlett spartijiet mal-Vitals Global Healthcare Malta (VGH).


Il-Unions esponenti jihossu illi mhux sewwa u ma jkunx fl-interess tal-membri tagħhom illi jagħlu l-fitħim meta mhux car x’injum la-konsuqewza legali, prattiki, fattwali, industrijali u reali fuq il-haddiema, konsuqewza tal-fitħim iffirmat bejn il-Gvern u l-Vitals Global Healthcare Malta.

Fattit Risultanti sal-Ilum

Recentsament, il-Ġvern habbar li kien se jgħaddi tlet spartijiet l'idejn operatur privat, anzi ak.tarx illi lllum gja għaddha l-istess spartijiet.

Sal-jurnata tal-llum jew ipppubblikti sliet mill-ku trattati fiuwaqt illi partijiet shah jew il-konsensurat.

Kien hemm xi stqarrijiet (mhux verifikati u aċċertati) min-naha tal-Ġvern, li minnhom jirrizulta illi:

- il-kumpanija Vitals Global Healthcare Malta hi kumpanija ġidda li twaqqiet recentsament u glet rregistrata hawn Malta wara li saret is-sejħa għall-offerti;

- Din il-kumpanija hi proprjeta ta' kumpanija Bluestone 4, rregistrata fil-British Virgin Islands (BVI). Jisserma vagament, mingħajr verifika, li din hi parzialment proprjeta ta' l-Oxley Group ta' Singapore, iżda ħadd ma jaf verament din ta' min hi;

- L-ebda wahda minn dawn il-kumpaniji mhigħruifica illi għandha esperjenza fis-settur tas-saħħa, iżda nafu li Vitals Global Healthcare talbiet u ħallset għall-konsulenza ma' żewġ kumpaniji Amerikani assoċjati ma' Boston Medical u Virginia Medical, li minn naha taghhom, dawn dejjem stqarrew li m'għandhomx X'jaqsmu mal-kumpanija Vitals;

- Is-Sur Ram Tumuluri hu dikkjarat bħafa direttr tal-kumpanija Vitals. Minn tħirtija fuq domini pubbliċi fil-Internet jidher li hemm twisija dwaru mill-Canadian Chamber of Commerce peress li kien involuż]. Kumpanija li kienet tmexxi l'*kandi u li falliet;

Jidher li l-kumpanija Vitals Global Healthcare u Bluestone għandhom assi konsistenti biss fi ftit eluf ta' ewro;

Is-Sur Ram Tumuluri stqarri f'intervista fil-jurnal The Malta Independent li Oxley kienet se toħroġ teżż mill-investiment mwiġhed ta' €200 miljun, waqt li ż-żewġ terzi l-ohra kienu ser jinstebu minn kredituri finanzjarji ohrajn;
An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government

Part 1 | A review of the tender process
Il-Gvern ilfirmma ftehim separat u indipendiendi ma’ Bart’s Medical School bl-intenzjoni li din thaddem korsi ta’ hames snin, bl-ewwel sentejn isir f’bini f’Ghawdex u mbagħad jissokta fl-Ispstar Mater Dei għal tlett snin.


Wara ftehim mal-Medical Association of Malta għi dikjarat minn Bart’s li huma kienu se jħallsu lit-tobba Maltin skont il-ftehim kollettiv preżenti ma’ l-Universitàta’.

Bart’s dejjem iddikjarara li ma għandhom xejn x’jaqrumu ma’ Vitals, il-rejxef li kien se jkollhom membru wieħed minn mna fit-texxija tal-Ispstar.

Il-business model ta’ Bart’s jidher possibbli peress li l-Gvern ha r-riskju kollu fuq. Malta għandha reputazzjoni ta’ bna, u d-domanda internazzjonali għal dan it-tagħlim hi qawwija.

Il-licenzjari u l-applikazzjoni għall-permessi


Wieħed, għalhekk, ma jiskantax li l-kumpanija wkoll insiet tapplika għal-licenzji neċessarji biex wieħed tmexxi dawn l-Isptradiet u di fattli, in segwitu għal Protest Giudizzjali li tessaq xi gimgħat ilu miz-żewġ Unjons esponenti, kien irriżultu illi l-licenzji kien għad ma għandhomx.

An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government

Part 1 | A review of the tender process
1. **Vitals Global Healthcare Malta**, verament ta’ min hi? Finalment, ii-Unions u l-membri taghhom, ma min ser ikunu qed l-abบb투 wchhom?

2. Min jiftah AV Company jagħmilha biex jahhi x l-haga, jew biex jevadi t-taxxi, jew biex jahhi minn fejn ġeżjin il-flus - allura fejn sejjer il-qlígh li jista’ jsir mill-operat tat-tlett spartijiet l-Malta? Kif jista’ jkun illi mistoqgjiet bhal dawn ma jinkwetawx illi-haddiema u r-rappreżentanti taghhom?

3. Il-habi jsir, jew għax ikun hemm possibbiltta’ ta’ qlígh illegali, fi-qghar każ minn kriminalita’ organizzata, jew inkella politiki korrotti, jew indhiž ta’ gvernijiet jew servizzi sigrieti ta’ certu pajjusi b’interess li jikkontrollaw servizz essenzjali. Il-Unions esponenti ħossu illi dawn id-dubbji kollha għandhom jigu eliminati.


5. X’inhri r-raġuni għallex qed tinhba l-identità tal-proprjetojji wara dan il-progett?


7. X’inhri l-pozizzjoni tal-Gvern fir-rigward tal-indemnity clause illi l-membri tal-MAM ġawdu minnhha il-lum fi-isfond tal-ħtehim mal-Vitals Global Healthcare Malta?

8. Il-haddiema u l-Unions esponenti jixtiequ illi jkun dejjem asiskurat illi huma jofru l-aqwa servizz tas-saḥha għall-popolu Malti. B’dawn id-dubbji kollha, kif jistgħu jaerħu rashom il-Unions esponenti illi l-membri taghhom ser ikunu qed jahdimu f’ambjent tajjeb biex joffri servizz mediku tajjeb, adegwaw u ta’ livell għall-popolu Malti u Ghawża?

9. Kif ser ikun asiskurat illi l-haddiema membri tal-Unions esponenti ser ikollhom l-ghoddha, l-materjal u l-equipment kollu necessarju sabiex jadmu, u illi tali makkjarju ikun mantrut b’mod adegwaw?
10. X’ garanzji hemm li l-pazjenti Maltin u Ghawdexin ser jinghataw l-ahjar kura medika u bla dewmien u li dan ma jgix preghidikat minhabba priorita ghall-pazjenti barranin (medical tourists)?


Koniżjoni

Għalldaqstant il-UHM Voice of the Workers u l-MAM qed jietlobu lil-Kumitat Parlamentari għall-Kontijiet Pubbliċi sabiex jinsijga dawn il-kuntratt bi-aktar mod dettaljat fil-kuntest tal-premessi ħawn fuq magħmula u l-prekkupazzjonijiet ħawn fuq espressi, mhux lanqas, illi:

Ma jagħmilx sens li l-Gvern qed jgħaddi t-tmexija ta’ tlet spartijiet ewlenin f’idejn kumpanija anonomi li timpjega biss żewġ persuni, mingħajr ftehim mal-Unions dwar il-haddiema li l-kumpanija m’għandha edba esperjenza fis-settur;

li minkija dan, s’issa saret applikazzjoni mal-Awtorità tal-Ippjanjar biss biex tiġi rranġa l-faċċata ta’ l-Ispitar San Luċa u bini ta’ uffiċċi u lecture rooms f’Għawdex. Dan kollu juri li m’hemm l-edba intenzjoni serja sabiex isirru spartijiet għodda.


Il-Unions esponenti għandhom ukoll dubbji serji dwar fl-żużu tal-fondi pubbliċi u l-assi pubbliċi, partikolarament, jekk ġewx segwiti l-lijjet ta’ public procurement, jekk il-evalwazzjonijiet tal-blinjjet tat-tlet uti ta’ spartijiet sarux bi proċedura korretta mid-Dipartiment tal-Artijiet, u jekk din il-evalwazzjoni saritx minn periti indipendenti, u jekk il-prezzijiet ikkowotati knux jiżreflettu r-realajiet tas-suq.
Jekk jirrizulta illi l-proprjetajiet ghaddew bi prezz baxx, kif aktarx hu l-kaz, u jekk dan sar bi-iskop illi l-proprjetajiet jintuzaw ghal garanzija bankarja necessarja, allura jekk hux kaz dan ta' state aid bi ksur tar-regolamenti u l-ligijiet Ewropej?

F’Ghawdex, b’mod partikulari, dan l-operatur nghata monopolju li jista’ jirriżulta li fil-futur dan jista’ jintuża kontra il-pazjenti Għawdxin, jekk dan hux permess taht il-ligijiet tal-kompetizzjoni, u jekk inghatax eżenzjoni minn dan, u jew dan sarx kif ttriżjedil il-liġi.


Il-Unjons esponenti qed iweghdaw l-koooperazzjoni shiha taghhom, anke jekk necessarju, billi jikbud quddiem il-Kumitat.

Nirringrazzijak u Nselli Ghalik,

Avv. Jdej Spiteri Bailey
Appendix B | Correspondence submitted by the Government members on the Public Accounts Committee to the Chair Public Accounts Committee

5 ta’ Diċembru 2016

Liċ-Ċeremon
PAC

Lill-membri tal-PAC

Sinjuri,

Bil-preżenti qed nitolbu li l-kuntratti bejn il-gvern u Vitals Global Healthcare (VGH) ghall-iżvilupp mill-ġdid, manutenzjoni, u tmexxija tas-siti fl-Ispitar San Luqa, Sptar ta’ Rijabilitazzjoni Karin Grech, u Sptar Ġenerali ta’ Għawdex, jintbagħtu lill-Awditur Ġenerali biex jininvestiga:

2. Jekk in-nefqa kapitali fil-bini ta’ faċilitaġiġi ġodda, apparat ġdid, it-taħriġ, u l-kwalità tas-servizzi li VGH intrabtu li jagħtu u jmantnu tul il-konċessjoni jikkostitwux titjib fuq is-servizz eżistenti u, jekk lva, x’lilvell ta’ titjib.
5. Jekk il-kuntratti jikludix proceduri suffiċjenti biex il-gvern jikkontrolla l-progress fuq l-iżvilupp tal-proġett, kif ukoll il-livell ta’ servizz ottjenut.


Hon. Ian Borg

Hon. Chris Agius

Hon. Charles Mangion

Hon. Joseph Farrugia
Appendix C | Correspondence submitted by the Opposition members on the Public Accounts Committee to the Auditor General

National Audit Office - Malta

8 ta' Jannar 2018

Is-Sur Charles Deguara
Awditur Generali
Ufficjju Nazjonali tal-Verifika
Floriana

Sur Deguara,

TRASFERIMENT IRREGOLARI TAT-TMEXXJA TA' SPTARIJET PUBBLICI

Nirreferi għat-talba li saret ill-Ufficjju tiegħek dwar investigazzjoni marbuta mal-kuntratt ta' privatizzazzjoni ta' l-tillet sptarijiet pubbliċi mal-Vitals Global Healthcare Malta.


Għall-Oppozizzjoni huwa inkwetanti hafna li s-servizzi tas-saħħa pubblika ta' dan il-pajjiż spiċċaw suggett ta' negozjar mobli li j nods l-idejn qiss xi munita f'xi suq. Minbarra thansib serju procedurali, l-Oppozizzjoni taqs dan l-għagir bħala imminar tal-governanza ta' pjażlija fejn is-servizzi pubbliku tas-saħħa tagħna jiġi negozjat bejn terzi persuni qiss xi komodità fuq xi suq. L-ebda stat li għandu anke il-icken dinjità ma' jista' qatt jaċċetta sitwazzjonijiet bħal dawn.


Dan kollu huwa inkwetanti hafna aktar meta wieħed igis li mhux biss it-termini kuntrattwali tal-fieth originali jibqgħu mistura (minħabba li ll-Gvern għazli li jppubblika dokumenti bit-termini relevanti kollha ingassati bi-loved) żida issa anke t-termini ta' dan il-traferiment prospettiv lanqas biss huma ppubblikti l-affront totali għat-trasparenza u l-governanza tażjba. L-uniku ċertezza li tiżżiti hija dik li l-poplu ser jiġża' ħallas ammonti eżorbitanti sena wara l-ohra, b'din is-sena l-ammont stmat jaqbez li €41,000,000.

Kif m'għandli l-ebda dubbju li tapprezzza d-deċiżjonijiet li qed jittieħdu qed jaffetwaw l-aktar aspett sensittiv tas-servizzi pubbliċi f'pjażlija, cieò' dawk tas-saħħa u għaldaqstant nappellebak blex tinvestiża dan it-traferiment prospettiv b'urgenza sabiex ma jiġi kompromess il-ġejjienli ta' dan il-qasam b'mod irreversibbli.

Insellu ghaliik,

Onor. Beppe Fenech Adami
Onor. Kristy Debono
Onor. Claudio Grech

Membri tal-Opportizzjoni fuq il-Kumitat għall-Kontijiet Pubbliċi

CC: Speaker tal-Kamra tad-Deputati, Kumitat tal-Kontijiet Pubbliċi
2019-2020 (to date) Reports issued by NAO

NAO Work and Activities Report

April 2019  Annual Report and Financial Statements 2018 - Works and Activities

NAO Audit Reports

October 2019  Information Technology Audit: The Effective use of Tablets in State, Church and Independent Primary Schools

October 2019  Follow-up Reports by the National Audit Office 2019

November 2019  Report by the Auditor General on the Workings of Local Government 2018

November 2019  Performance Audit: An analysis of issues concerning the Cooperative Movement in Malta

December 2019  Report by the Auditor General on the Public Accounts 2018

December 2019  An investigation of contracts awarded by the Ministry for Home Affairs and National Security to Infinite Fusion Technologies Ltd

January 2020  Performance Audit: Community Care for Older Persons

February 2020  Performance Audit: Assessing the Public Transport Contract and Transport Malta’s visibility on the service

March 2020  Information Technology Audit: ICT across Local Councils

March 2020  The disposal of the site formerly occupied by the Institute of Tourism Studies

April 2020  A review of the ethical framework guiding public employees

April 2020  Addendum Investigation: The Mater Dei Hospital Project

May 2020  Performance Audit: Tackling Child Abuse

May 2020  Annual Report and Financial Statements 2019

June 2020  Follow-up Reports 2020 Volume I