



Unit 1: What can health economics teach us ?



8. How to evaluate investment projects from a socioeconomic standpoint

- Hello, my name is Sylviane Gastaldo. I am an economist in the public service. I keep in touch with research economists through teaching in universities. I am also involved in environmental economics. I am Director of the public investment evaluation program at the Commissariat-General for Investment (CGI). Role of the Commissariat-General for Investment. The CGI is placed under the authority of France's Prime Minister. It is tasked with coordinating independent second expert assessments for socioeconomic evaluations of major investment projects in terms of spending. Evaluating investment projects from a socioeconomic standpoint has been mandated by law since the end of 2012. In the first four years since the start of the program, we have carried out 50 independent second expert assessments for projects valued at around 45 billion euros. Real estate investment projects make up most of the projects but are not always the most costly. For instance, transport infrastructure projects may total several billion euros whereas median hospital investments average only about 175 million euros. Performing socioeconomic evaluation for a second expert assessment when performing socioeconomic assessments for hospitals, at least three special criteria are involved. So, our second expert assessments involve three distinct areas of expertise when evaluating a project. The first area of expertise focuses on the supply of health care services. In a real estate investment project, we consider the local supply of health care services, together with the demographics of the local population. Our objective is to forecast demand for health services for the proposed new building or new hospital, in a realistic and thoughtful manner. Based on these forecasts, we will obtain a realistic number of beds, both overnight and day-only beds, for the hospital. The second area of expertise we use when evaluating a project is that of a technical engineer, who will assess the real estate plan and check that it follows the guidelines issued by ANAP, the Support Agency for the Performance of Health and Medico-Social Facilities, in terms of adequate square footage for rooms based on their intended use. Through these two areas of expertise, we want to assess whether the hospital is appropriately sized, not only in terms of number of beds but also in square footage and as a result, in terms of building costs. Last, but not least, once we have checked that the project makes sense, we take forecasting a step further, and look into the hospital's finances. So the third area of expertise we use in evaluating projections is financial expertise. The objective is to find out whether profit generated by the investment will offset the cost of the project. Which financial outcomes are typically sought by a hospital? The project sponsor often will want to emphasize the incremental revenue to be gained by making the facility more attractive to patients. But we must be realistic. The hospital may be more attractive, but it competes with other facilities. And patients are free to choose where they get their care from. What we also focus on is the extent to which the new spatial organization allows for a reorganization of health care activities. For instance, there are many benefits in optimizing the size of care units, or centralizing all operating rooms into a single technical support center. So any carefully planned hospital real estate project should involve a significant reorganization of the facility and its activity centers, so as to improve efficiency. We also check that the physical layout of ambulatory care services is efficient. What are the margins for improvement? What are the margins for improvement? What I have discussed just now applies to a project subjected to a second expert assessment that focuses on supply of health services and facility size, and technical and financial considerations.





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- ➔ But for an economist, this cost-benefit analysis is not comprehensive enough. Margins for improvement basically have two components. First, a socioeconomic assessment evaluates the relevance of the project and its impact on all stakeholders. So far, we have discussed the impact on the hospital's finances and organization. But the economist who evaluates an investment project, looks at the impact of the project not only on the hospital's finances but also on the finances of the health insurance system, on patient well-being, and even the impact on medical and non-medical staff. This is a broader perspective that goes beyond the financial impact and instead, focuses on the overall impact of the project. Secondly, and this is very important, when evaluating impact in the economics field, you only look at what is directly attributable to the project. It is kind of tricky, but you have to show what would happen if the project was not completed. The only thing that is considered when evaluating the project is the variance in outcomes with or without the new project. Therefore it is critical, to estimate the impact of remaining in the current facility, with all its shortcomings and possible poor space optimization. To some extent, what we do in economics is compare the cost of building a new facility with the costs of upgrading the current facility. So we do not look at the overall cost, but only at the variance. We use the same method for assessing benefits for patients, medical staff, and the local population. We look at the variance in outcomes with and without the project. So these two dimensions must be investigated very thoroughly, in order to produce a comprehensive cost-benefit analysis for each hospital investment project. Thank you.

