A NEW APPROACH

Making the right decision for a sustainable and financially secure future for hospitals

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Contents

AT A GLANCE

Hospitals are currently experiencing significant cost pressures. And the demands are increasing. Hospitals want to and have to invest in long-overdue building works, crisis-proof IT infrastructure, innovative healthcare technology, digitalization, and greater sustainability. That is why it is so important to get the financing right to enable this change. Circular economy systems open doors to solutions that protect liquidity and are sustainable.

How to manage growing pressure on costs

BALANCING FINANCIAL, ENVIRONMENTAL, AND SOCIAL ASPECTS IN HOSPITALS

Hospitals are operating under huge cost pressures. They are tasked with providing the best possible patient care while making efficient use of financial resources. This is a major challenge as budgets are limited and hospitals are chronically underfunded. For years, Germany's federal states have not covered the investment costs on the scale needed by hospitals. The gap in funding between what is needed and what the federal states actually cover runs into the billions. The estimated investment required in hospitals, for example, exceeded €6 billion in 2020. That compares with the much smaller sum of around €3 billion that the federal states provided for investment in hospitals.

At the same time, the current financial state of hospitals is worse than it has been for 20 years. And that is not going to change any time soon, with the majority of hospitals expecting their financial situation to deteriorate over the next five years. Another factor behind this trend is the low level of capacity utilization during the pandemic. Elective surgery was repeatedly postponed, and many people avoided going to the doctor and used fewer medical services for fear of infection.

Since the beginning of 2022, hospitals' finances have been forced into a downward spiral by the energy crisis and inflation. This restricts flexibility when it comes to patient care. Hospital running costs are now rising almost daily, but the funding from health insurers is set far in advance and is capped.

Hospital managers want to and have to invest in long-overdue building works, crisis-proof IT infrastructure, innovative healthcare technology, digitalization, and greater sustainability. Many investment projects have been postponed, particularly during the pandemic, which is a problem as hospitals rely on effective technology. The availability of medical equipment and patient data is crucial to successful treatment and to a hospital's ability to run efficiently.

PREVENTING CARE SHORTFALLS

The shortage of skilled workers in healthcare is worsening, with a staffing crisis predicted by the study 'Fachkräftemangel im deutschen Gesundheitswesen 2022' (Skills shortage in the German healthcare sector 2022). By 2035, almost 1.8 million vacancies could remain unfilled due to a lack of qualified workers, a shortfall of 35 percent. Hospitals urgently need to invest in professional recruitment, in personnel development, and in measures to retain employees in the organization for the long term, especially given how willing employees are to change employer. In addition, environmental sustainability plays an increasingly important role for younger applicants, in particular. Hospitals that include this topic on their agenda are highly attractive employers.

Sustainability is important for the future. The healthcare sector has struggled with staff shortages for years. And this problem is going to get worse, as the younger generation are only willing to work for organizations that take sustainability seriously. Hospitals must ensure that they are in a position to attract young, talented, and motivated employees."

Peter Krause, Head of Healthcare Sector Sales,
CHG-MERIDIAN AG

CLOSING GAPS IN FUNDING AND TAKING RESPONSIBILITY FOR SUSTAINABILITY

Making hospitals carbon-neutral is one of the biggest financial challenges in decades. In Germany, the healthcare sector is responsible for 5.2 percent of the emissions that contribute to climate change. Hospitals are increasingly under pressure to formulate a sustainability strategy and make their services carbon-neutral. This transformation process will require a lot of time, patience, and money, as there will be no quick-fix cost benefits and environmental successes. Nevertheless, the healthcare sector must not delay, as the potential damage to the economy would be immense. Hospitals must act now if they want to avoid coming under intolerable pressure in the medium to long term. Without investment, there will be neither innovations nor sustainable technologies, structures, and processes. Everybody understands that.

Hospital managers are facing huge challenges because the coffers are empty. They want to invest in the future but do not have the financial flexibility to do so. They need to budget very carefully if they want to make urgently needed investments. That is why it is so important to get the financing right to enable this change.

> Given the challenges of mitigating climate change and protecting the environment, manufacturers and users need to pay greater attention to the longevity of healthcare technology and its ecological footprint. The first step is product manufacturing, which generates the most greenhouse gases and involves the consumption of raw materials. But the use of healthcare technology products and their remarketing are also important aspects."
>
> Peter Krause, Head of Healthcare Sector Sales,
> CHG-MERIDIAN AG

Sustainability despite empty coffers

Be bold and act now

But where to begin? There are many factors that influence a hospital's ecological footprint, such as energy and water consumption, IT infrastructure and healthcare technology, transportation, protective equipment, chemicals, and catering. A roadmap for making a hospital as climate-friendly as possible must include a whole host of sustainability measures. The healthcare sector is embarking on a long journey where every measure counts and contributes to improving the ecological footprint. Hospital managers should remain realistic and weigh up each activity to assess whether it can be delivered in a way that is environmentally, financially, and socially viable. It is essential to develop and implement suitable solutions as soon as possible.

There is huge potential for a hospital to work efficiently, and thus also in a climate-friendly, sustainable, and profitable manner, particularly when it comes to using IT infrastructure, digital technologies, and healthcare technology. New technologies are paving the way for hospitals to enter a digital and more sustainable future. They also bring benefits for the entire treatment process, for example in the shape of greater efficiency, speed, quality, safety, and greater convenience for the patient.

Healthcare technology and IT systems are responsible for a significant amount of a hospital's resource consumption. Outdated systems require more energy and thus generate more carbon emissions, while rising maintenance costs place an additional burden on hospital budgets. Operating theaters contain many large items of medical equipment, so they are responsible for a considerable volume of substances that are damaging to the environment. Using this equipment in a way that conserves resources, and replacing old equipment that consumes a lot of energy with less energy-hungry devices, allows hospitals to operate more sustainably. After all, the energy management systems developed by large manufacturers can provide energy savings of up to 30 percent.

> As hospital managers, we need to be more involved and more proactive when it comes to making the climate-friendly hospital a reality. The task now is to identify the methods and technologies that will enable us to improve the carbon footprint and reduce costs at the same time. New technologies play a key role in this. By introducing a power management system in our healthcare facilities, for example, we have reduced our energy consumption by 10 to 20 percent from day one. This has allowed us to permanently reduce our carbon footprint and our costs."
>
> Dr. Sven Reisner, CEO of Caritas Gesundheit Berlin gGmbH

Hospitals that switch to innovative and sustainable healthcare technology can provide their patients with the best possible care while reducing their carbon emissions. This is one way for hospitals to operate in a more resource-efficient and sustainable manner, and brings them closer to the goal of reducing their climate impact. The situation may be challenging, but it is important to face it and take the first steps toward greater sustainability.

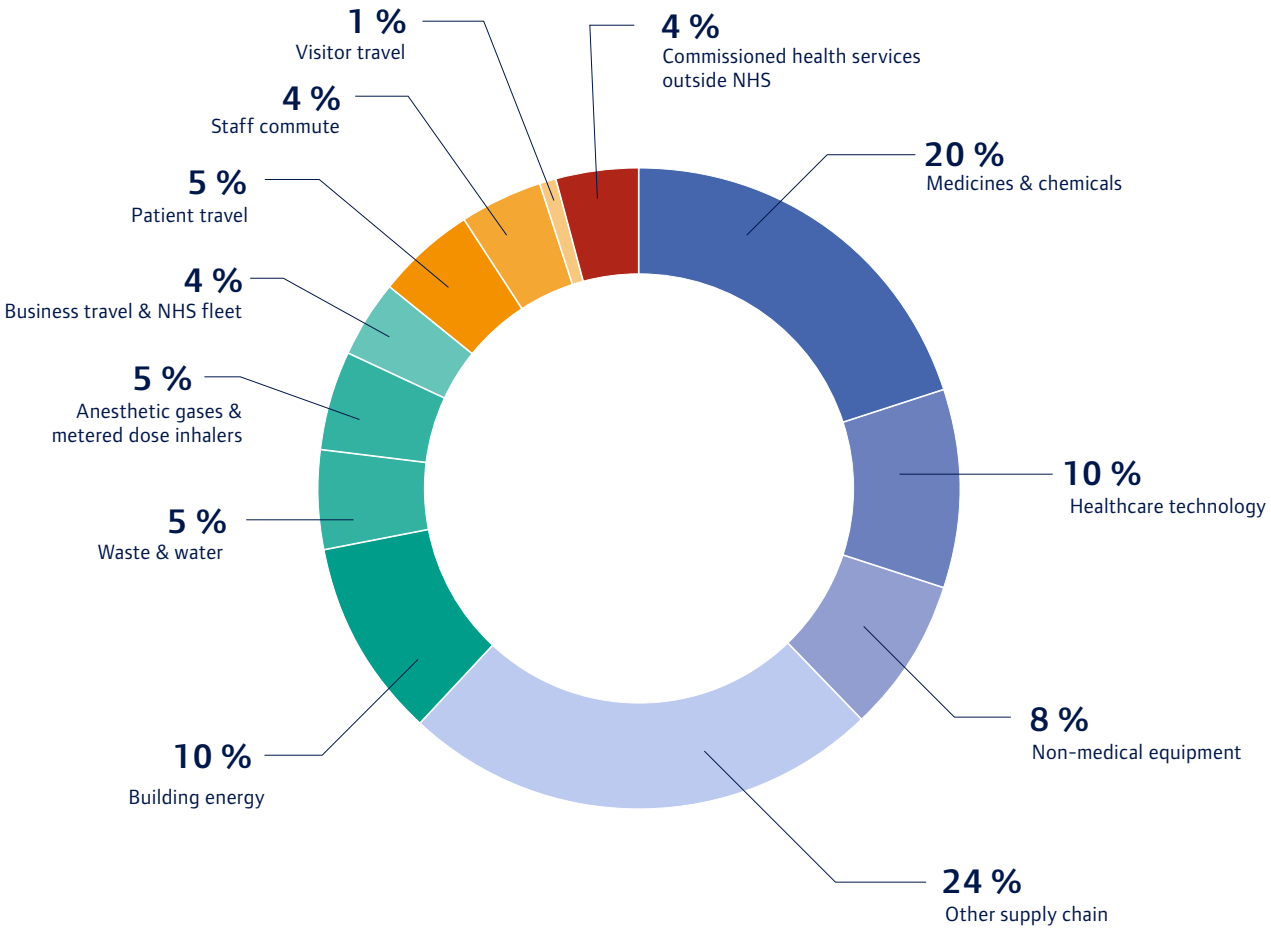
Many hospitals want to, but there is still the question of funding. Can they afford to purchase expensive medical equipment? Or should they avoid major investments and save money given their limited financial resources and staff shortages? It is well worth looking further afield and considering alternatives, even when budgets are tight.

A LOOK ABROAD

Factors that influence carbon emissions in the UK's National Health Service

- MEDICINES, MEDICAL EQUIPMENT AND OTHER SUPPLY CHAIN
- NHS CARBON FOOTPRINT
- PERSONAL TRAVEL
- COMMISSIONED HEALTH SERVICES OUTSIDE NHS

Source: UK Government National Health Service (October 2020)



To save or to invest?

How circular economy models can provide the necessary financial flexibility

HOW TO INVEST IN HEALTHCARE TECHNOLOGY

There are certainly solutions that, for a few years and without the need for high initial expenditure, could solve the current problems that many hospitals face when procuring the latest healthcare technology. These solutions can ensure that a hospital performs effectively on a day-to-day basis and they can support the transition to more climate-friendly operation while providing a low total cost of ownership.

However, hospitals are often reluctant to proceed due to a lack of experience with alternative financing models. Unnecessarily so, as some financing models are highly flexible and allow solutions to be tailored to each hospital's specific circumstances. Hospital managers should look closely at their situation in order to make the right decision.

TO BUY OR TO LEASE? YOUR OPTIONS IN DETAIL

+ BUYING

The most common way of procuring medical equipment in hospitals is to buy it, with loans often taken out to fund the purchase. The hospital borrows the money for the purchase and repays the loan, plus the contractually agreed interest, over a defined period.

+ LEASING

The term 'leasing' originates in the USA and describes a specific form of right to use. Leasing allows hospitals to invest in equipment without acquiring ownership of it. The leasing company takes care of all aspects of the financing. The hospital pays a monthly lease installment over an agreed and predictable period. The installment usually covers the warranty, maintenance, other services and, where applicable, insurance. At the end of the lease term, the equipment is returned to the leasing company for resale to a third party.

IS LEASING WORTH IT?

Today, leasing is a common financing method in business and increasingly popular among small and medium-sized enterprises (SMEs). The value of leased assets in Germany is currently more than €220 billion. According to the Federal Association of German Leasing Companies (BDL), over half of all investment in equipment that is not financed using the company's own capital (i.e. it is externally financed) is based on leasing. Across the economy, leasing accounts for almost a quarter of all investment in equipment. Leasing is also increasingly popular in hospitals and the healthcare sector. Why is this?

LONGEVITY AND REUSE

Leasing IT infrastructure and healthcare technology allows hospitals to use this equipment in a climate-friendly and cost-efficient way. Depending on the leasing company, the equipment is sold on at the end of the lease. Giving used equipment a second lifecycle at the end of its initial period of use is the principle that underpins the circular economy. These cycles of sharing, repairing, reusing, and recycling focus on maximizing the use of products. This is good for the environment and – thanks to the proceeds from resale – good for hospital budgets.

> Sustainability is playing an increasingly prominent role in healthcare, and the circular economy can be a useful tool in bringing about a change of approach. The goal is to use equipment for longer, more effectively and, most of all, more sustainably. Used equipment – whether medical technology or IT – plays a key role in this context."
>
> Matthias Steybe, Group Sustainability Officer
> CHG-MERIDIAN AG

ADVANTAGES OF THE CIRCULAR ECONOMY

+ Responsible use of resources
+ Extended useful life
+ Value retention
+ Cost-effective thanks to proceeds from resale
+ Boost to digitalization and innovation

Leasing	Buying
No capital commitment / no advance payments	Capital commitment
Low, fixed installments	Outflow of liquidity at the time of purchase
Usage	Ownership
Circular economic model	Non-circular economic model
Flexibility: Always the latest technologies thanks to shorter lifecycles	Long lifecycles with the risk of outdated technology
Independence from banks and manufacturers	Dependence on banks and manufacturers
Sustainable	Conventional

Careful calculations – are you aware of all the costs?

All information must be to hand when making a funding decision, but all too often key costs are overlooked.

A SIMPLIFIED COST-BENEFIT CALCULATION PROVIDES THE DETAIL

The total costs include more than the purchase price and the maintenance and service costs. Potential savings from the use of new technologies must also be taken into account. As a rule, new technology uses less energy, is cheaper to maintain, and makes processes more efficient.

Take the following example. When purchasing a new MRI scanner, either as a replacement for aging equipment or as an addition to expand the range of services, hospital managers must consider whether it is better to lease or buy the new equipment. A comparison of the total cost of ownership can be very helpful when it comes to choosing the most suitable financing model.

KEY PROCUREMENT INFORMATION:
MRI SCANNER

PURCHASE PRICE:	**€850,000**
RF CABIN:	**€130,000**
SERVICE:	**€90,000** p.a. including 24-month warranty

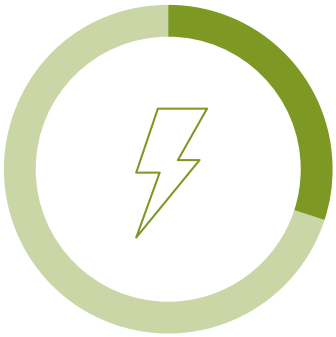
COMPARISON OF BUYING VS. LEASING OVER A PERIOD OF 60 MONTHS (€)

	Buying	**Leasing**
Purchasing costs	850,000	0.00
Service costs	283,725*	0.00
Cabin	130,000	0.00
Total costs/monthly installment	1,263,725	19,599.90
Total costs in real terms	**1,337,225****	**1,175,940**

*The German consumer price index is factored into the increase in annual service costs, currently at 5 percent.
**An annual loss in purchasing power of 3 percent has been factored into the total costs in real terms.

The following factors need to be taken into account in the comparison: It is not just the service and maintenance costs that increase with use, the energy costs are also higher for older equipment than for new devices. That is why it makes sense to consider alternatives well before the standard tax depreciation periods expire, and to adjust the profitability calculations accordingly. The latest MRI scanners turn power-consuming components off when they are not scanning, for example the cold head when in standby mode. This can result in energy savings of 30 percent, which helps to reduce the ecological footprint. Lower energy consumption means lower carbon emissions.

-30 %



ENERGY MANAGEMENT SYSTEMS MAKE ENERGY (COST) SAVINGS OF UP TO 30 PERCENT POSSIBLE

NEW TECHNOLOGIES ENABLE MORE EFFICIENT PROCESSES

The calculation above also does not take into account other potential savings resulting from shorter examination times when using the latest MRI systems. Efficient processes and workflows are increasingly important in healthcare provision. Where the costs of treatment are set against a fixed payment based on a flat per-case fee, efficient and successful treatment is also a financial success for the hospital.

That is why, in addition to the purchasing and maintenance costs, a detailed cost-benefit analysis should also take into account any potential process cost savings and market opportunities that the new technology brings.

Instead of only assessing individual items of equipment and systems in the cost-benefit analysis, it is advisable to take the entire equipment fleet into account. This makes it easier to identify any unused potential and hidden savings. An experienced specialist such as CHG-MERIDIAN can assist with the holistic analysis of your technology management.

Ongoing monitoring in day-to-day clinical practice can uncover other useful ideas for optimizing process chains, which in turn can further improve profitability and the quality of treatment.

SUMMARY

Alternative financing models based on the circular economy, such as leasing, allow hospitals to invest in the latest healthcare technology and IT infrastructure while managing to balance increasingly tight investment budgets against rising expectations in terms of quality and care. Looking at the total costs in detail is an effective way for hospital managers to decide on the appropriate financing model and to meet the environmental, financial, and social challenges they are facing today.

YOUR CHECKLIST

Which financing model is the best fit for me?

My capital should not be tied up.

Yes ☐ No ☐

I only want to use the equipment, not own it.

Yes ☐ No ☐

I want the option to return the equipment after a defined period.

Yes ☐ No ☐

Our equipment and technology should always be state-of-the-art to ensure optimum patient care.

Yes ☐ No ☐

I want to be as independent from banks as possible.

Yes ☐ No ☐

Sustainability is important to me when it comes to financing and running my organization.

Yes ☐ No ☐

I want to free up my time and resources by taking advantage of additional services.

Yes ☐ No ☐

**MAKING THE RIGHT DECISION –
YOUR RESULT:**

If you answered yes to most of the questions, then leasing could be an interesting financing model for you.

CHG-MERIDIAN

Your partner for sustainable and cost-effective financing and management of healthcare technology and IT infrastructure in hospitals. At no extra cost.

OUR COMMITMENT TO SUSTAINABILITY

SUSTAINABILITY REPORT

Creating more transparency with our first sustainability report prepared in accordance with GRI standards

In its first sustainability report, CHG-MERIDIAN sets out the goals and action plan for its inhouse sustainability management. The report was prepared in accordance with the GRI standards – the most widely accepted reporting framework at international level – and brings together all of the key data and information relating to sustainability at CHG-MERIDIAN.
https://www.chg-meridian.com/sustainability.html

CLIMATE-NEUTRAL

Becoming carbon-neutral in terms of our corporate emissions

Since 2021, CHG-MERIDIAN has made its direct and parts of its indirect emissions climate-neutral (scope 1 & 2 emissions and all upstream scope 3 emissions). To achieve this, we avoid, reduce, or offset all carbon emissions generated in the course of our business activities.
https://www.chg-meridian.com/media-center/insights-overview/Interview-GSO.html

UN GLOBAL COMPACT

Joining the UN Global Compact

By signing the UN Global Compact, CHG-MERIDIAN has underlined its long-term responsibility with regard to sustainability and is championing an inclusive and sustainable way of doing business.
https://www.chg-meridian.com/media-center/press/2021/Global-Compact.html

SUSTAINABLE FINANCE

Obtaining an ESG-linked loan

We launched our sustainable funding strategy by taking out a second sustainability-linked loan of over €100 million that is linked to ESG criteria. To this end, we use a rating that is awarded by EcoVadis on an ongoing basis in four areas: environment, labor and human rights, ethics, and sustainable procurement.
https://www.chg-meridian.com/media-center/press/2022/ESG-linked-financing-transactions.html

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FAQs about leasing are available at https://bdl.leasingverband.de/service/faq

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