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Public-Private Partnerships in Healthcare

Public private partnership (PPP) refers to an arrangement between the government and the private sector, with the principal objective of providing public infrastructure, community facilities and other related services. Such long-term partnerships are characterised by a sharing of investments, risks, rewards and responsibilities for the mutual benefit of both parties involved.

A survey in 2001 showed benefits of PPPs to include high quality facilities and infrastructure, with construction completed as planned, on time and within budget; staff and user satisfaction; responsiveness of the private sector; efficient development of output specifications, economies of scale, innovative technologies, more flexible procurement and compensation arrangements and reduced overheads.

Different types of public-private partnerships include:

1. The introduction of private-sector ownership to state-owned businesses, using the full range of possible structures and with the sale of either a majority or minority stake;

2. Private finance initiatives and other arrangements, where the public sector contracts to purchase quality services on a long-term basis so as to take advantage of private sector management skills incentivised by having private finance at risk, and

3. Selling government services to wider markets and other partnership arrangements where private sector expertise and finance are used to exploit the commercial potential of government assets, for example, through the various types of PPPs.

Adopting PPP

Whilst the public sector is seen as representing a pool of potentials and resources central to the delivery of key public services, the private sector is regarded for its ability to harness its expertise in realising substantial incremental values of those resources. The public sector's potential will not be fully released without the private sector, whose participation can expand opportunities through the following disciplines and skills: Commercial incentives; a focus on customer requirements; new and innovative approaches and better business and management expertise.

PPPs are about more than just privatisation. The prime drivers behind improved efficiency in a privatisation project are freedom to invest, management skills and the profit motive. Using PPPs to bring these forces to bear can offer a sustainable long-term approach to improving social infrastructure, enhancing the value of public sector assets and making better use of taxpayers' money, fashioned in a politically acceptable way. There are three main factors that draw a line between our current partnership practices (privatisation) and those of PPP:

Adoption of the Public Sector Comparators (PSC) to determine whether PPPs offer good value for money to the public sector;

The definition - by the public sector – of services to be provided by the private sector and freedom for the private sector to undertake these services, and

Optimal allocation of risks between the public and private sector

Development of PPPs

Despite their proven benefits, the development of PPPs worldwide has been patchy, not least because of poor understanding of how best to engage private sector skills in traditional public sector activities, and political antipathy. However, the UK, some parts of Europe and Japan have embraced the concept and recent trends suggest that these partnerships have borne fruitful results.

In these models, the private sector was responsible for designing, building, operating and maintaining the hospital, while the public took charge of the core medical services such as provision of patient care, recruitment of doctors and nurses, and so on. Apart from considering the stability of the business plan of the private partners and certainty of funding in selecting the private sector partner, the following key factors underlie the success of the partnership:

Risk allocation: Risk was allocated to th parties best able to manage it, that is, the government had experience and expertise in providing clinical services and ensuring that the welfare of patients, doctors and nurses was well taken care of, while non-critical services were handled by the private sector. This clear separation of risks enabled the hospital to respond quickly and effectively to patient requirements;

Scale of project: Despite the benefits of PPPs, the process involved could be complex and require the input of advisors. As such, the large investment was necessary to absorb additional costs such as legal and financial advisory fees;

Evaluation Process:

This is largely driven by the concept of “value for money,” which takes into account “whole life cost optimisation.” In the long run, the private sector alternative provides better value for money compared with the public sector, as it takes into consideration capital costs as well as maintenance costs. The difference between the public sector comparator measure (that is, what the government would have to pay if it undertook the project itself) and the private sector bid was estimated at 56 million dollars, or a 14.4% reduction in costs

The enhancement of partnerships between the public and private sectors is one of the elements that needs to be addressed in ensuring sustainable economic growth. There are five key principles:

- Drawing on Past Experience

Privatisation has served to define the relationship between the public and private sectors, where it has created thousands of employment opportunities and generated multiplier effects to spur the overall economy. Nonetheless, it is still viewed with suspicion and scepticism. The government needs to identify the reasons for these shortcomings and address the key deficiencies in these programmes.

- Becoming a better partner

The lessons learnt need to be applied for the government to become a better partner, so as to secure better public services and value for money for the taxpayer. This can be achieved by the government taking a more long-term view as shareholder, by growing the value of the businesses and drawing on practices in the private sector and in other countries.

- Safeguarding public interest

The success of PPPs lies in whether the added value generated benefits users of public services, and the wider community. The government must protect public interest by enforcing a structured tender process to assess the benefits of the private sector’s proposed services vis-à-vis the total costs to be borne; delivering better value for money and better management of capital spent; putting effective regulation in place to ensure all public services are accountable to customers and communities that rely on them; and maintaining continuous government involvement in those elements of PPP where a strong public interest remains.

- Recognising the contribution of staff

As dedicated and committed staffs are central to the long-term success of partnerships, it is vital that their contribution is recognised and entitlements protected.

- Developing innovative partnerships

PPPs are about changing the way in which the government does business and interacts with the private sector, to introduce the private sectors’ expansive skills, experience and finance into the wide range of public sector activities for new and innovative solutions.

Conclusions

Having outlined the approaches, we feel that it is opportune to re-examine the way these partnerships have been undertaken, with the principal objective of delivering partnerships that are appropriate, imaginative, holistic and beneficial. A deep appreciation of the mechanisms within PPPs could serve as a starting point for this exercise.

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