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Role of public private partnership in health care

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Abstract
Public Private Partnership means an arrangement between a government/statutory entity/government owned entity on one side and a private sector entity on the other, for the provision of public assets and/or public services, through investments being made and/or management being undertaken by the private sector entity, for a specified period of time, where there is well defined allocation of risk between the private sector and the public entity and the private entity receives performance linked payments that conform (or are benchmarked) to specified and pre-determined performance standards, measurable by the public entity or its representative.

Keywords: private sector, public assets, payments.

Introduction
Public–private partnership (PPP) describes a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies. These schemes are sometimes referred to as PPP, P3 or P^3. PPP involves a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project. In some types of PPP, the cost of using the service is borne exclusively by the users of the service and not by the taxpayer. In other types (notably the private finance initiative), capital investment is made by the private sector on the weakness of a contract with government to provide agreed services and the cost of providing the service is borne wholly or in part by the government. Government contributions to a PPP may also be in kind (notably the transfer of existing assets). In projects that are aimed at creating public goods like in the infrastructure sector, the government may provide a capital subsidy in the form of a one-time grant, so as to make it more attractive to the private investors.

In some other cases, the government may support the project by providing revenue subsidies, including tax breaks or by removing guaranteed annual revenues for a fixed time period. A typical PPP example would be a hospital building financed and constructed by a private developer and then leased to the hospital authority. The private developer then acts as landlord, providing housekeeping and other non-medical services while the hospital itself provides medical services.

Health public-private partnerships
A health services PPP can be described as a long-term contract (typically 15–30 years) between a public-sector authority and one or more private sector companies operating as a legal entity. The government provides the strength of its purchasing power, outlines goals for an optimal health system, and empowers private enterprise to innovate, build, maintain and/or manage delivery of agreed-upon services over the term of the contract. The private sector receives payment for its services and assumes substantial financial, technical and operational risk while benefitting from the upside potential of shared cost savings.

The private entity is made up of any combination of participants who have a vested interested in working together to provide core competencies in operations, technology, funding and technical expertise. The opportunity for multi-sector market participants includes hospital providers and physician groups, technology companies, pharmaceutical and medical device companies, private health insurers, facilities managers and construction firms. Funding sources could include banks, private equity firms, philanthropists and pension fund managers.

For more than two decades public-private partnerships have been used to finance health infrastructure. Now governments are increasingly looking to the PPP-model to solve larger problems in healthcare delivery. There is not a country in the world where healthcare is financed entirely by the government. While the provision of health is widely recognized as the responsibility of government, private capital and expertise are increasingly viewed as welcome sources to induce efficiency and innovation. As PPPs move from financing infrastructure to managing care delivery, there is an opportunity to reduce overall cost of healthcare.

Examples

International product development partnerships and public–private partnerships include:

- The PATH Malaria Vaccine Initiative (MVI) is a global program of the international nonprofit organization Program for Appropriate Technology in Health (PATH). MVI was established in 1999 to accelerate the development of malaria vaccines and ensure their availability and accessibility in the developing world.
- The Roll Back Malaria (RBM) Partnership was founded in 1998. RBM is the global framework for coordinated action against malaria. It forges consensus among key actors in malaria control, harmonizes action and mobilizes resources to fight malaria in endemic countries.

Specific cases

In India, public-private partnerships have been extremely successful in developing infrastructure, particularly road assets under the National Highways Authority of India and Midday Meal Scheme with Akshaya Patra Foundation

In Canada, public–private partnerships have become significant in both social and infrastructure development. PPP Canada Inc. was created as a Crown corporation with an independent Board of Directors reporting through the Minister of Finance to Parliament. Its mandate is to improve the delivery of public infrastructure by achieving better value, timeliness and accountability to taxpayers, through P3s. The Corporation became operational in February 2009 with the appointments of a chair of the board of directors and a chief executive officer.

PPPs exist in a variety of forms in British Columbia through the focused efforts of Partnerships BC, a company registered under the Business Corporations Act that is wholly owned by the Province of British Columbia and reports to its shareholder the Minister of Finance. Projects include the Canada Line rapid transit line, the Abbotsford Hospital and Cancer Centre and the Sea-to-Sky Highway project. In Quebec, a number of notable PPPs include the McGill University Health Centre, the new western extension of Auto route 30and University de Montréal’s Hospital Research Center.

The importance of public-private partnerships

Over the past two decades more than 1400 PPP deals were signed in the European Union, representing an estimated capital value of approximately €260 billion. Since the onset of the financial crisis in 2008, estimates suggest that the number of PPP deals closed has fallen more than 40 percent. These difficulties have placed significant strains on governments that have come to rely on PPPs as an important means for the delivery of long-term infrastructure assets and related services. Moreover, this has occurred precisely at a time when investments in public-sector infrastructure are seen as an important means of maintaining economic activity during the crisis, as was highlighted in a European Commission communication on PPPs. In the 21st century, public-private partnerships provide a unique perspective on the collaborative and network aspects of public management. The advancement of PPPs, as a concept and a practice, is a consequence of the new public management of the late 20th century, globalization pressures, and the advent of a more strategic rather than bureaucratic state. Today, partnering is the new governance and it continues to evolve particularly to address new trust environments due to social/economic changes.

Origins

Governments sought to encourage private investment in infrastructure, initially on the basis of accounting fallacies arising from the fact that public accounts did not distinguish between recurrent and capital expenditures. Initially, most public–private partnerships were negotiated individually, as one-off deals, and much of this activity began in the early 1990s.PPPs are organized along a continuum between public and private nodes and needs as they integrate normative, albeit separate and distinct, functions of society—the market and the commons. The question that arises is, how we measure PPPs in a manner that allows for these fluxuations, does not diminish either sector, and in fact reinforces the intended partnership.

Multisectoral, or collaborative, partnering is experienced on a continuum of private to public in varying degrees of implementation according to the need, time restraints, and the issue at hand. Even though these partnerships are now common, it is normal for both private and public sectors to be critical of the other’s approach and methods. It is at the merger of these sectors that we see how a unified partnership has immediate impact in the development of communities and the provision of public services.

In India

The Government of India defines a P3 as "a partnership between a public sector entity (sponsoring authority) and a private sector entity (a legal entity in which 51% or more of equity is with the private partner/s) for the creation and/or management of infrastructure for public purpose for a specified period of time (concession period) on commercial terms and in which the private partner has been procured through a transparent and open procurement system."

Financing

A key motivation for governments considering public private partnerships is the possibility of bringing in new sources of financing for funding public infrastructure and service needs. It is important to understand the main mechanisms for infrastructure projects, the principal investors in developing countries, sources of finance (limited recourse, debt, equity, etc.), the typical project finance structure, and key issues arising from developing project financed transactions. Some governments utilize a public sector comparator for calculating the financial benefit of a public private partnership.

A number of key risks need to be taken into consideration as well. These risks will need to be allocated and managed to ensure the successful financing of the project. The party that is best placed to manage these risks in a cost effective way may not necessarily always be the private sector. However, there are a number of mechanisms products available in the market for project sponsors, lenders and governments to mitigate some of the project risks, such as: Hedging and futures contracts; insurance; and risk mitigation products provided by international finance institutions.

The Facts on Public Private Partnerships for Health Care

Public private partnerships (PPPs or P3s) are increasingly presented as a solution to funding issues in health care. PPPs are relatively new to the health care sector in Canada. However, they are not that new to other segments of the Canadian public sector and there is considerable experience with health care PPPs in the U.K. We can learn a lot from these experiences.

- Governments exaggerated the savings on both capital and operating costs.
- The cost of private sector borrowing was well in excess of the government's costs.
- Governments accepted almost all of the risks leaving the private sector with little or none. This is in spite of private sector claims that one of the benefits to government is the shift of risk to the private sector.
- PPPs offer no evidence of improved service levels.
- Private sector involvement leads to information being classified as sensitive to business interests resulting in a loss of accountability to taxpayers.
- There is a high probability that the service or building will have foreign ownership. Even if the ownership is domestic in the first instance it can easily be shifted off shore as corporate interests are sold or merged.
- If user fees are to be charged there likely will be no limit in the amount of the fees or the profits made by the private sector player. Toll roads are a primary example of this but there is no reason to assume that the same principle won't apply in health care.
- A major motivation for government is to shift the debt of these projects off their books through lease back arrangements. It doesn't work. The liability still belongs to the government.

Conclusion

The larger scope of Health PPPs to manage and finance care delivery and infrastructure means a much larger potential market for private organizations. While the current initiatives on having a strong public community private partnership would continue, with the growing capacity and maturity of the stakeholders concerned under a PPP arrangement, Government would in due course selectively consider newer models of partnerships which would be simpler, flexible and engage increased participation amongst the contracting parties.

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