

# PPP as drivers of investment



**Government spending on healthcare around the world is growing at a pace that will be unsustainable unless new funding sources and more efficient delivery methods are found. As this reality dawns, governments are looking to Public-Private Partnerships (PPPs) to solve the problems in care delivery that are driving spending.**

Healthcare related PPPs have evolved significantly over the last 20 years. They started as a way for governments to build new hospitals, or revamp crumbling hospital infrastructure in countries like the UK and Canada. More recently their scope has expanded from a primarily infrastructure oriented model to a clinical services delivery model; some projects include both. Examples of such projects can be seen in Spain, Brazil, the Caribbean and the UK.

As governments grapple with budget constraints, ageing populations, chronic disease, and technological development, the need for alternative methods of financing and care delivery intensifies. Ultimately the scope

## Infrastructure PPPs are measured by Value for Money Calculation

Estimated cost of the public sector delivering the project (\$100 million)  
(minus) Expected cost of private sector delivering the project (\$95 million)  
Difference in cost (\$5 million)

Value for money = 5%

## PPPs that include clinical services are measured by:

- Operational benchmarks
- Clinical benchmarks
- Workforce productivity
- Patient outcomes
- Wait times
- Patient satisfaction

and structure of health PPPs reflect specific needs and context. While some countries seek to add new beds, others require skills that are in short supply in the local/regional economy. For instance, PPPs have been used in the Turks and Caicos Islands and Lesotho as a way of securing access to not just infrastructure but also skills and technology.

## Payment mechanism

As in other infrastructure PPPs, the payment mechanisms in health PPPs are based on the contractual allocation of risk and the scope of services. However, the development of new models has necessitated the development of new models of payment which incentivise risk sharing.

Traditional payment mechanisms are availability-based, setting out the level of performance that is required by the private provider, how this will be measured, pricing arrangements and any volume or value guarantees.

With healthcare related PPPs now increasingly focused on better procurement and value for money, measurements of success are evolving away from simple availability toward better health outcomes. For instance, the Alzira project in Spain covers infrastructure and clinical services for hospital and primary care clinics; the government pays the hospital operator through a capitation payment. Under this system, payments are based

on the number of people to be served by the provider. The payer pays a monthly per-capita payment to the provider institution to deliver a package of services to consumers who subscribe to that plan or are resident in that region. The provider receives no extra payments regardless of whether a patient is hospitalized once in a year or five times. The payment mechanism hence creates a positive incentive to keep patients healthy and out of the hospital and shifts some of the demand risk to the private sector.

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More integrated projects may combine these approaches, creating mixed payment streams.

As previously mentioned, the Turks and Caicos Islands project includes two payment streams – one for the facilities (two small hospitals) and funded by the government, and the second for the provision of clinical services on a capitated basis and funded through a new mandatory health insurance scheme. Both types of payments are subject to periodic review/adjustment and deductions for poor performance against a range of performance indicators.

## Conclusion

There is no 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. Hospitals – and healthcare more broadly – are unrecognizable today compared to 30 years ago, and healthcare related PPPs must continue to adapt to keep up with the accelerating pace of change.

It is clear that PPPs are one of the tools that can be used by governments to deliver the improvements in healthcare systems that are needed. It is also clear that unless PPP programs are carefully structured and lessons learned from international experiences, projects can continue to struggle and potential improvements to healthcare not be delivered.



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