

Public-private partnerships Pros and Cons

Q1. What it meant by a mixed economy?

Q2. Provide examples of objectives that private companies may have:

Q3. What are the goals of the public sector?

Q4. What are PPPs?

Q5. What are the advantages of PPPs?

Q6. What are the disadvantages of PPs?

Q7. What is the PFI?

Public-private partnerships

Pros and cons

Nigel Watson examines the advantages and disadvantages of private-company involvement in the public sector

The UK is an example of a mixed economy. Mixed economies are composed of a privately owned private sector, and a state-owned public sector.

Examples of private sector organisations include British Airways and Virgin Atlantic. Private companies have a variety of objectives, including survival, growth and innovation. Most private sector organisations are not charities, therefore profit is an important goal. If a private company supplies an over-priced or poor-quality product, consumers can cut off its revenue stream by refusing to purchase the product again. This is dependent on companies operating in a competitive market, where consumers have a choice.

The public sector is owned and controlled by the government. A good example of a public sector organisation is the police. The goal of the public sector is not to make profit, instead the objective is to use taxpayers' money wisely in order to provide high-quality public services. In many cases public services have no revenue because the service is supplied free of charge. For example, NHS hospitals incur costs but fail to generate any revenue from the people who consume the services they supply.

In recent times, the boundary between the public and the private sectors has become increasingly blurred due to the growth of public-private partnerships (PPPs).

What are PPPs?

PPPs arise when the government contracts out the supply of a public service to a private sector organisation.

Take prisons as an example of a public service. Each year society punishes people who have broken the law by locking some of them up. In the past, all prisons



BT was privatised in 1984. Public-private partnerships allow private companies to have involvement in the public sector without requiring that state assets be sold off

were run by the government. The prison service was part of the public sector. Prison managers and officers were employed by the government and the prison service was financed out of general taxation. This situation has changed.

Prisons are still a public service. However, today some UK prisons are run for profit by privately owned companies. Taxes collected from UK households and firms are used by the government to make payments to companies like SERCO, Sodexo Justice Services and G4S in return for prison services supplied under PPP contracts.

Privatisation vs PPPs

Privatisation is the process by which public sector assets are transferred to the private sector. During the 1980s the public sector shrank as state-owned businesses such as British Gas and British Telecom were sold off to private buyers. Public corporations became public limited companies.

Unlike privatisation, PPPs do not always result in the transfer of public assets to the private sector. Theoretically, PPPs do not have to involve the sale, or transfer, of a public sector asset to the private sector. For example, in the past, local education authorities employed their own teams of cooks to work in state schools. In some parts of the country this situation has changed. Cooks employed by companies such as Gardner Merchant, Chartwell and Rentokil use state-owned assets (school kitchens) to provide lunches at state schools.

Advantages of PPPs

Supporters of PPPs argue that it is beneficial for public services like healthcare, education, policing and prisons to be provided by private companies. They argue that the private sector is able to deliver better-quality public services than the public sector, and that it will deliver these services at a lower cost to the taxpayer.

The logic that underpins these claims is that, unlike the public sector, firms in the private sector have to make a profit to survive. Shareholders that own companies like SERCO will take a keen interest in the managers that they appoint. This is because shareholders' money is at stake. Managers who run SERCO prisons inefficiently will be replaced in an attempt to drive down costs, which will in turn boost profits and dividends.

The same commercial pressure does not exist in the public sector. Unlike a private shareholder, the politicians responsible for the public sector are spending taxpayers' money, not their own money. Advocates of PPPs also believe that private companies will produce a better-quality product or service and be more innovative than public sector organisations.

Virgin Care

Since the last general election in May 2010, the coalition government has announced a series of PPP contracts concerning the supply of state healthcare.

These contracts involve the government paying private companies to supply healthcare free of charge to NHS patients. In March 2012, Richard Branson established Virgin Care. Later that month, Virgin Care signed a £500 million contract with the NHS in Surrey to run eight community hospitals. The same company also beat off a bid from SERCO to run NHS services in Devon. Under the agreement, Virgin will supply palliative care for the dying, mental health treatment, therapy and respite care for disabled children, and child protection in Devon. Virgin Care is not a charity, it is a commercial organisation that will no doubt aim to make a profit from supplying healthcare. According to Virgin Care's

Some UK prisons are run by privately owned companies



Box 1 Virgin Care core values

Virgin Care states that its core values are:

- **Caring:** being present, demonstrating a concern for others, listening to and understanding one another, anticipating needs and wanting to do our very best for others.
- **Fun:** making people smile, showing enthusiasm and energy, being optimistic and trying to make things memorable for others.
- **Innovative:** leading the pack, challenging the way things are done in order to do things better, showing curiosity and spotting opportunities for change.
- **Outcome-driven:** focusing on what is most important, setting stretching targets and finding ways around obstacles. It's about keeping sight of the end goal and delivering results.
- **Outstanding:** wanting to be the best, constantly striving to improve on the past performance, when you are truly outstanding you see success as the norm and second best won't do.

website, the people of Surrey and Devon will benefit from the PPPs because Virgin's management will deliver 'better care and will save the NHS money'.

Virgin Care's website displays the company's core values (Box 1), which it says will allow it to achieve these aims. If the nurses and doctors employed by Virgin Care buy into these core values, the standard of healthcare provided should be very good.

Setting goals and ambitious targets is all well and good. In practice, will Virgin be able to deliver on its promises? How will Virgin Care create the culture that it seeks? Careful recruitment and training will be important, and establishing a corporate culture takes time.

Disadvantages of PPPs

The decision to allow Virgin Care to supply NHS services in Devon and Surrey has not been met with universal approval. Virgin Care is an unusual business in that it will only have one customer: Devon NHS.

In a conventional market, where ordinary members of the public are the consumers, people spend their own money. If we are unhappy about the quality of a good or service we have a choice, we can choose to stop spending our money on it. However, where a good or service is only provided by one company, customers are unable to take their money elsewhere: the company has a monopoly. Consumers tend not to benefit from monopolies because they can lead to a lack of choice, a poor-quality product and high prices for the consumer. If a company does not deliver good-value goods and services as part of a PPP, will the government be able

to impose sufficient sanctions on it to benefit the consumer?

Some firms achieve monopoly power by out-competing their rivals, forcing them to exit the market. However, PPPs achieve market dominance through political decisions. Critics of PPPs claim that they are an example of crony capitalism, where businesses try to influence the decisions made by politicians via lobbying or the use of political donations.

The Private Finance Initiative (PFI)

The Private Finance Initiative is another example of a PPP. Under a PFI contract, the government approaches a private company and asks the company to build a public sector asset, such as a new hospital, school or road. The company borrows the money needed to create the new asset. In return, the company charges the state an annual fee in exchange for the government using the asset. In the case of a new road or bridge, the government will typically allow the company that constructed it the right to charge motorists a toll.

The main advantage of the PFI from the government's point of view is that it enables politicians to build new schools, roads and hospitals without breaking the government's fiscal rules. Building new schools and hospitals is very expensive. If this expenditure was financed conventionally by government borrowing, the national debt would rise. The PFI enabled investments to go ahead without them being added to the government's balance sheet.

Image 10



PFI contracts have been criticised on the grounds that they have delivered poor value for money for the taxpayer. In August 2011, a report published by the Treasury Select Committee stated that paying off a £1 billion PFI liability would cost the taxpayer equivalent to a conventional government debt of £1.7 billion.

Conclusions

In some ways, private sector involvement in the delivery of public services is not new. Surgeons usually work both for the NHS and in private practice. The coalition argues that its healthcare reforms do not constitute a privatisation of the NHS because members of the public who use healthcare services supplied through PPPs will not face user charges. Healthcare in the UK will remain free at the point of delivery. However, the fact that PPPs often operate in uncompetitive marketplaces raises concerns about consumer choice and what will happen if they fail to deliver.

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