

LOCALITY IN PUBLIC-PRIVATE PARTNERSHIP IN SOCIAL AND HEALTH CARE SECTOR – CASE STUDY

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Abstract:

According to Finnish law, a municipality's task is to produce social and health care services for residents. The municipality or joint municipal authorities (JMA) can also acquire services from private service providers. The first aim of this study is to describe the operating environment of public-private partnership with respect to public procurement in the health and social care sector in a Finnish context. The second aim is to explore how locality features in the service purchasing and public procurements of a health and social care JMA located in a northern sparsely populated area. This is an ongoing retrospective single-case study focusing on the JMA and local enterprises in the health and social care sector in Northern Finland. The study uses databanks of service purchase contracts for data collection, to analyse aspects of locality in public-private partnerships via data concerning service purchasing. As a result of this study, the operating environment of public-private partnerships concerning public procurement in the health and social care sector in Finland is clarified. Locality in service purchasing is clarified in the context of health and social services, including core and support services. Results increase the understanding of locality in the public-private partnership.

Keywords: public-private partnership, public procurement, SME, locality, entrepreneurship, health and social care

1. INTRODUCTION

According to Finnish law, a municipality's task is to produce social and health care services for residents. The municipality or joint municipal authorities (JMA) can also acquire services from private providers. When a municipality or JMA procures services from a private service provider, it has to ensure that the services meet the standards required of corresponding municipal services.

Traditionally, the public sector is seen as responsible for the delivery of basic services in many EU countries. The methods by which this public provision of services is carried out are changing, and this trend highlights a greater need for the public sector to work with and harness the benefits of the private sector. The experience of privatization has shown that many activities can be undertaken more cost-effectively with the application of private sector management disciplines and competencies (European Commission, 2003).

A public-private partnership (PPP) is a partnership between the public sector and the private sector for the purpose of delivering a project or a service traditionally provided by the public sector. PPPs recognize that each party has certain advantages relative to the other in the performance of specific tasks (European Commission, 2003). Another way to define PPP is to see it as an agreement between the public sector and the private sector actor to provide an asset or public service which would traditionally be provided by the public sector, but which, as part of a PPP project, is provided by the private sector actor or is provided jointly (Hurst & Reeves, 2004).

Creating private markets for public sector services aims to increase service efficiency and adaptability as well as opportunities for customers to choose their service provider. It is particularly important that tax-funded public sector services are allocated equally, despite the fact that the market mechanism is used instead of the traditional hierarchy (Kähkönen, 2007).

To develop the social and health care sector and to answer future challenges, the recently published report of the Finnish Ministry of the Employment and the Economy suggests a controlled increase of the private sector's role. Although the public sector has its own stable and strong position, the private sector is encouraged to come alongside the industry, bringing more innovation, new ways of working and efficiency. In particular, the model in which the private and public work side by side so that their efficiency and operation can be transparently measured and monitored is believed to be the key to a more efficient system. The public and private sectors are encouraged to engage in closer co-operation and to make more effort to integrate the various care chains. Developing the procurement competence of public organizations (e.g., a JMA) is one key area in which to improve partnership between the private and public sectors (Ministry of Employment and the Economy, 2015).

In the last few years, international companies in particular have increased their market share in the opening markets of municipalities' services. Part of the market share growth has occurred organically and part through acquisitions. Small local businesses tend to disappear from the market when entrepreneurs abandon the businesses due to acquisitions or for other voluntary reasons, and at the same time, the creation of new start-up businesses is low. The activities of large companies have caused broad debate on the distortion of competition caused by their strengthened market positions. But on the whole, the rapid business growth of social service housing is focused on a limited number of large companies (Lith, 2012). Current literature provides limited information about how public actors consider local SMEs as partners in public-private partnerships providing legislative health and social services.

The first aim of this study is to describe the operating environment of public-private partnerships concerning public procurement in the health and social care sector in a Finnish context. The second aim is to explore how locality features in the service purchasing and public procurements of a health and social care JMA located in a northern sparsely populated area (NSPA). Aspects of locality in public-private partnerships are analysed via a single case study focused on service purchasing and public procurement. This study's research problem can be condensed into the following research questions:

1. What is the operating environment of public-private partnerships concerning public procurement in the health and social care sector in Finland?
2. How does locality feature in the service purchasing and public procurements of a health and social care JMA located in an NSPA?

This is a single-case study. To address the first research question, a literature review was undertaken concerning local small business in public procurement in the health and social care sector in Finland. To address the second research question, a single case study was undertaken. According to Yin (1989, p. 23), 'a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not evident and in which multiple sources of evidence are used'. This case study is based on a databank of service procurement contracts of the joint municipal authority of Kallio. The data collection was conducted from 95 service purchase contracts signed with Kallio since its establishment in 2008. These consist of all contracts in terms of public procurement during 2008–2014. Data was also collected from public archives and explorative interviews of representatives of the Kallio management group.

2. RESULTS

2.1. Local small business in public procurement

The public procurement process is regulated by law and is different from private sector practices. The public buying process must comply with the principles of transparency, equity and non-discrimination. Procurement regulations are part of the European Union's internal market policies aimed to enhance the functionality of the internal market. They are about the realization of the free movement of goods and services and the right of establishment. According to the Directive on Public Contracts, state and municipal authorities and other contracting authorities shall put their contracts out to competitive tendering. In Finland, public procurement is regulated in the Act on Public Contracts, which is based on the EU directive.

The purpose of public procurement regulations is to open up the public procurement market for all economic operators, irrespective of their size. However, special attention needs to be paid to the question of access by small- and medium-sized enterprises (SMEs) to those markets; SMEs are generally considered to be the backbone of the EU economy, and in order to make the most of their potential for job creation, growth and innovation, SMEs' access to public procurement markets should be facilitated (European Commission, 2008).

There has been a growing interest in active government policies to enhance economic growth and employment via entrepreneurship and SME policy. However, these programmes of direct or indirect assistance to SMEs are mainly supply-driven. SME policy is incomplete without a consideration of demand-driven elements, in particular, initiatives that aim to foster entrepreneurship through government procurement (Preuss, 2011). Public procurement is a tool by which governments can provide support to small business (Loader, 2013) and is the way by which governments can assist SMEs while simultaneously reducing the need for direct financial support and improving the delivery of government services (Pickernell, Kay, Packham, & Miller, 2011). According to Blackburn and Smallbone (2011), it is surprising that no more attention has been paid in the academic literature to public procurements, taking into account the large amount spent by them, in comparison with attention to subjects such as access to finance and business advice services.

Lith (2013) states that attention should be paid so that via their own social and health services procurement actions, public sector organizations can affect the development of private service providers without the need for direct financial subsidies, tax incentives or administratively launched projects. In order to keep the health sector developing, private markets should remain competitive, and the business conditions of SMEs should remain favourable. This can be done either by dividing the purchases or by organizing competitive bidding otherwise such that local companies can get involved to public purchases. Thus the market will not focus only upon on a few large national operators (Ministry of Employment and the Economy, 2015).

The relationship between SMEs and public procurement is mutually beneficial and encourages greater involvement (Fee, Erridge, & Hennigan, 2002). From the perspective of SMEs, public procurement presents a market opportunity that provides chances to engage with reliable, large-scale buyers and potentially in long-term contracts that interest the SMEs in trying to expand their customer base and achieve growth (Reijonen, Tammi, & Saastamoinen, 2014). For the public sector, small firms offer the best potential job growth and innovation (Fee et al., 2002).

Although public sector contracts represent an important potential market opportunity for SMEs, in practice, they often face considerable barriers in accessing these contracts. This is due to the procurement practices of public bodies and the weaknesses and capacity constraints among potential SME suppliers (Blackburn & Smallbone, 2011). Walker and Preuss (2008) identified two types of barriers for small suppliers. There are general small business problems, such as the lack of a track record. On the other hand, challenges lurk in the procurement process, not least in the recommendation that the public sector should aggregate its spending to achieve greater economies of scale. An increased involvement of SMEs in public purchasing will result in higher competition for public contracts, leading to better value for money for contracting authorities. In addition to this, more competitive and transparent public procurement practices will allow SMEs to unlock their growth and innovation potential with a positive impact on the European economy (European Commission, 2008).

As a rule, local aspects are forbidden, based on the non-discrimination rules of procurement legislation. However, social and health care legislation provides many securing clauses concerning the quality of service for customers and their relatives, such as taking account of the customers' individual needs. Procurement legislation allows the use of distance and location requirements in calls for tender, when procurement's functional objective is associated with obligations based on the law. In these cases, the location of services has value to the customer, and the distance within which the services are rendered can be taken into account.

2.2. Locality in public procurements of health and social care JMA located in NSPA – Kallio Case

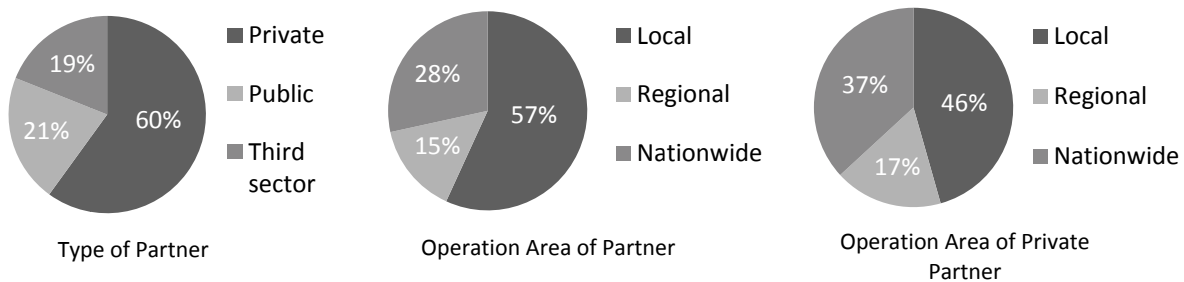
The joint municipal authority of Kallio, which was established by the municipalities of Alavieska and Sievi and the cities of Nivala and Ylivieska, started operating in 2008. Kallio arranges the social and health services in the area of these municipalities and cities. The operation area is located in the southern part of Northern Ostrobothnia in Finland. The region is defined as a northern sparsely populated area (NSPA). The population of Kallio's operation area is approximately 33 500 inhabitants.

Kallio's role as a local economic actor is broader and more comprehensive than this study embodies, because the focus of this study is to describe a public-private partnership and locality only through service purchasing. However, Kallio arranges services as purchasing services, but also by producing the services themselves, and via a service voucher system. In particular, a voucher system is an important aspect of the locality. The JMA can provide services via a service voucher, in which the JMA agrees to pay for the services provided by private actors. In the economic sense, a voucher system means 5 000 000€ turnover annually. In addition, the data do not contain any contracts concerning special health care services, which actually comprise about 25 % of the total expenditure of Kallio. On the whole, the budget of Kallio for 2015 is approximately 147 000 000€, which also includes the area of early childhood education.

The joint municipal authority of Kallio's public-private partnership relations occurs in the service procurements. The databank of Kallio's service procurement contracts includes 95 service purchase contracts, all the contracts in terms of public procurement during 2008–2014. Kallio's service provider partnership consists of 66 % core service partnerships and 34 % of support service partnerships. From the core services, 46 % are associated with health care services and 54 % with social services.

In this study, a local service provider is defined as an actor whose registered office is located in the region of Oulu South. The region of Oulu South is not a governmental unit or area. It was formed to increase inter-municipal co-operation and to gain critical mass for national and international competition. Thus, the region of Oulu South is a larger area than the operation area of Kallio. A regional level is defined as the area that extends approximately 100 km from the operation area of Kallio. The actors whose registered offices are located further away are considered nationwide service providers. Figure 1 presents the distribution of Kallio's partnerships based on the type of service provider.

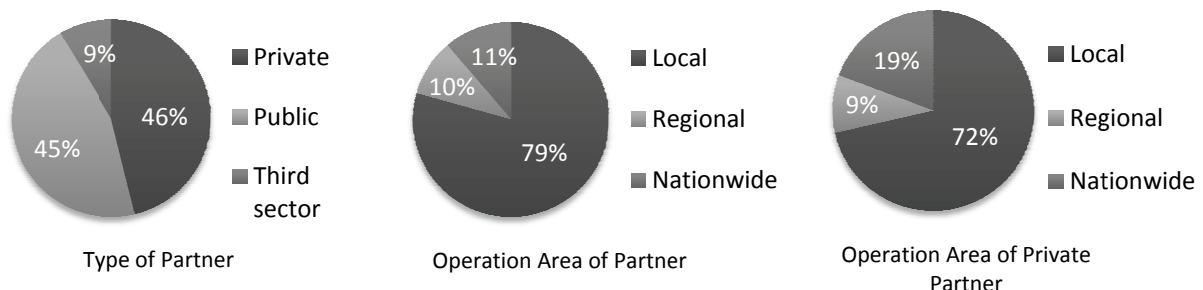
Figure 1: Description of databank of service purchase contracts/partnerships 2008–2014 by number.



The types of Kallio's partnerships are described in figure 1. This shows that the predominant type of partner is the private service provider (60 %). Nonetheless, the public (21 %) and the third sectors (19 %) are also both represented as important groups of partnerships. The distribution of the operation area of private service providers is more balanced between areas than the distribution between all partners.

The total of service purchases is approximately 19 000 000€. According to distribution of contracts by value, 55 % of services are core services, and 45 % support services. From the core services, 83 % relates to social care and 17 % to health care services. In this study, social care services also include purchased early childhood education services. In social care services, the most significant subparagraphs are the housing services for elderly people, disability services and child welfare services. Figure 2 shows Kallio's service purchases described by realized value in 2014.

Figure 2: Description of databank of service purchase contracts by volume (realized value in 2014).



Based on the results by volume, the public sector's role in the provision of purchased services is quite large (45 %), which at the same can be noted in the share of local providers, because most of the public partners are from the operation area of Kallio. Most services provided by the public sector are associated with food supply and cleaning services. However, it is notable, when examining only the operation area of private partners, that locality is highly realized in the public purchases of Kallio (72 %). Nationwide, however, partners have a reasonably large share of services (19 %), examined according to the volume of contracts.

When interpreting these results, it must be taken into account that the public operator may also provide services in the form of businesses (i.e. via public companies). These actors are classified in this study as public sector providers. The amounts of third sector partnerships by number (19 %) with respect to the value of the contracts, (9 %), is high. The most significant reason is that service contracts with the third sector (including associations, etc.) are associated with services of rehabilitation. Third-sector actors mainly provide places and environments for rehabilitation, and the direct cash flows of such a kind of provided services are low.

3. DISCUSSION

The aim of this study was to describe the operating environment of public-private partnerships with respect to public procurement in the health and social care sector in a Finnish context. The second

aim was to explore how locality features in the service purchasing and public procurements of a health and social care or a joint municipal authority located in a northern sparsely populated area.

The first research question, '*What is the operating environment of public-private partnerships concerning public procurement in the health and social care sector in Finland?*' was answered in chapter 2.1. The literature review dealt with the framework of public procurement regulation and the challenges of SMEs to become involved in public purchases. Public procurement can also be seen as a vehicle by which the public sector can provide support to small businesses. Because small businesses tend to be local, the locality aspect can be seen in the same context as challenges of SMEs in public procurement. Thus, when SMEs are taken into account in public procurement, in the process, locality in public procurement appears.

The second research question, '*How does locality feature in the service purchasing and public procurements of a health and social care JMA located in an NSPA?*' was answered in chapter 2.2. The description of service purchase contracts provides an overview of the backgrounds of the service providing partners of Kallio. Results show that according to the numbers, private service purchase partners are the dominant group. However, at the same time, the public sector and third sector both have an important role in service provision. The results are consistent with Verhoest and Mattei (2010), who see that in welfare services, the division of production tasks in Europe has shifted from the public sector monopoly production to a mixed economy of well-being, which arises in particular with a horizontal division featuring co-operation between the public, private and third sectors (Verhoest & Mattei, 2010).

The results also show service purchase contracts by volume. According to the results, cash flows from Kallio's service purchasing remain mainly in the local area. Based on the results when examining only the operation area of private partners, locality is highly realized in the public procurements of Kallio, particularly when locality is viewed by volume. This is consistent with Cabras (2011), where suppliers operating in construction or social care services tend to be local, and other suppliers operating in highly specialized or niche markets may have easier access to the market independent of location.

On the basis of the available data, the participation of local actors is realized well in Kallio's service purchases. SMEs in public procurement contracts are particularly important for the development of peripheral regions of member states and the European Union (Fee et al., 2002). The demographic decline and the concentration of the remaining population in the main settlements bring challenges to vital business and effective competition in the NSPA. SMEs ensure the vitality of the region, especially in sparsely populated areas.

In terms of locality, the challenge may be that local companies cannot provide all the necessary services. Cabras (2011) claims that local authorities in rural or peripheral areas may face significant challenges in finding what they need within spatial proximity. This fact may force many local authorities to award contracts to non-local businesses.

On the other hand, from the small business perspective, excessive focus on a single partnership can cause a significant hazard. According to Lith (2012), private providers of social services are highly dependent on local public purchase of services or commitments. Almost three quarters of private social service providers sold at least half of their services to the municipal communities in 2010 (Lith, 2012).

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