

PUNJAB INSTITUTE OF MEDICAL SCIENCES, JALLANDHAR: RATIONALE FOR PRIVATE SECTOR PARTICIPATION

BACKGROUND

The Punjab Institute of Medical Sciences (PIMS) is envisaged as a state of the art 100-seat medical college and 500-bed hospital spread over 56 acres of land in Jalandhar. The key objectives of the institute include increasing the pool of trained manpower (doctors, nurses and paramedical staff) through providing increased facilities for medical education and ensuring availability of quality care at affordable prices for the Punjab population. The institute was to be completed at a cost of Rs. 175 cr by the government. In the first phase of development the hospital and medical college building – an area of about 89,000 sq.m. was constructed at a cost of approximately Rs. 80 cr. The second phase of development envisages the construction of a Sarai, an auditorium and residential facilities (46,000 sq.m.) at a cost of approx. 55 cr. as well as installation of medical equipment in the hospital at a cost of Rs. 42 cr.

ISSUES IN DEVELOPING AND MANAGING THE INSTITUTE IN THE GOVERNMENT SECTOR / WITH GOVERNMENT SUPPORT

While the government has played a key role in the establishment and management of medical institutes and hospitals such as the All India Institute of Medical Sciences (AIIMS), and PGI Chandigarh, key issues in replicating the above models in Punjab in today's environment are:

- **High recurring cost for the government: In addition to the 175 cr. likely to be spent by the Punjab Government in setting up the institute, the government will incur a recurring cost of approximately 45 cr. per annum if it were to operate on the AIIMS model.** (Free patient care (only pharmacy and consumables are charged) for 90% patients, less than market prices for private i.e. 10% patients (prices 25 – 30% of market prices). As an illustration, AIIMS, Delhi received Rs. 340 cr. while PGI Chandigarh received Rs. 124 from the Central government in the year 2004 –05. The Punjab government spent nearly Rs.45 cr. on the Government Medical College at Chandigarh in the last financial year.
- **Ability to attract and retain talent at government remuneration is low:** Lack of medical expertise is a key problem faced by healthcare providers across the country. Given the enormous difference in remuneration between government and private sector institutes, government institutes such as AIIMS, PGI etc. have witnessed an exodus of talent to the private sector. Every year these hospitals lose a large number of well-established consultants to the private sector. Thus it will be difficult for the proposed institute (PIMS) to attract expertise. **Given that quality of faculty and consultants is a**

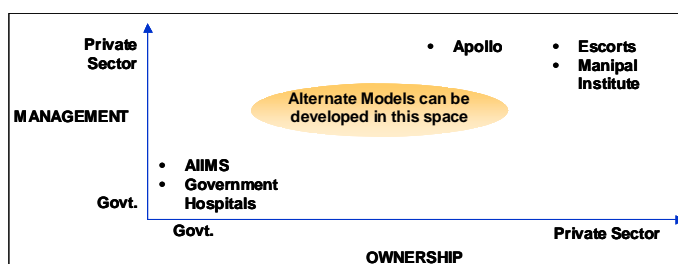
key driver of the institute performance, inability to attract talent could result in the institute becoming another government institute rather than a center of excellence.

- **Expansion and Upgradation of the institute could suffer:** Medicine has become technology intensive and obsolescence rate of medical equipments increased significantly. **Most large institutes spend between 5 to 10 cr. every year on upgradation of medical equipment.** The cost of the same will have to be borne by the government and in the absence of funds available from the government the same is likely to suffer.
- **Free services offered by the government do not reach the intended target segment:** A McKinsey – CII study on healthcare in India shows that the poorest 40% receive only 20% of the government spend on secondary and tertiary healthcare. In such a scenario the benefits of the government spend are availed of by the population that can afford paying for the same.

Given the above issues related to government involvement, it is proposed that the private sector be involved in the development and management of PIMS.

OWNERSHIP AND OPERATING MODELS AVAILABLE FOR THE INSTITUTE:

As outlined in the adjacent figure, various options for operations and management of the institute can be carved out. These include



1. **Government owns and manages the hospital:**
2. **The private sector and the government form a joint venture – the institute is managed by the private sector as a self sustaining entity**
3. **The institute is owned by the government with the entire capital expenditure being done by the government; the institute is managed by the private sector as a self sustaining institute as per predefined criteria:**
4. **The institute is established as a private sector entity:**

The above operating models are detailed in the following section

- **Government owns and manages the hospital:** The key advantage of this model is that the government is able to provide free and subsidized care to the population of the state as well as provide medical education at subsidized rates to students from the state. The key issues as illustrated in the above section are
 - The government will have a recurring expense of Rs. 45 cr. p.a.

- Up-gradation of the institute will require additional expense that varies from Rs. 2 – 10 cr. per annum
 - The institute will find it difficult to attract expertise given the difference in remuneration across the private and the public sector.
- **The private sector and the government form a joint venture – the institute is managed by the private sector as a self sustaining entity:** The key advantages of the above model are the following:

- The funding requirement from the government is substantially reduced. The investment for phase II of the project is made by the private sector. There is no requirement for government funds for annual operating expenses and equipment upgradation expenses.
- Free medical education is provided to 30% students and free medical care to 30% of the patients.
- High quality education and care can be provided given willingness of expertise to join the institute

The key issues with the model include the following:

- The private sector is likely to have a profit motive. Therefore there is a need for well-defined unambiguous operating criteria as well as strict monitoring mechanisms

- **The institute is owned by the government with the entire capital expenditure being undertaken by the government; the institute is managed by the private sector as a self sustaining institute as per predefined criteria:** The key advantages of the above model are the following:

- The recurring funding requirement from the government is reduced. There is no requirement for government funds for annual operating expenses.
- Free medical education is provided to 30% students and free medical care to 30% of the patients.
- High quality education and care can be provided given willingness of expertise to join the institute

The key issues with the model include the following:

- The government will have to spend another 100 cr. for Phase II of the project
- Given that the institute will remain under government ownership, the institute is unlikely to have complete autonomy.
- To make this a successful model, there is a need for well-defined unambiguous operating criteria as well as strict monitoring mechanisms
- The private sector may have to be compensated for efforts for the years when the institute is not self sustaining

➤ **The institute is established as a private sector entity**

This model envisages the sale of the institution and the adjoining land to the private sector. The institute is thus owned and managed by the private sector. The advantage of the above model is that the government can realize market rates for the existing development. However key issues include

- The objectives of the institute are compromised since the private sector is likely to run the institute with the objective of profit generation only.

A preliminary financial analysis of the above models presents the following results:

| Option | One time Investment by the government | Recurring Annual Income / (Expenditure) | Net Present Value (NPV) of social benefit over 30 years |
|---|---------------------------------------|---|---|
| AIIMS Model | (175 cr.) | (45 cr.) | V. High |
| Joint Venture between government and private sector | (80 cr.) | 1 – 2 cr. | 143 cr. |
| Private sector operates and manages the institute | (175 cr.) | 5 – 6 cr. | 143 cr. |
| Private sector ownership and management | > 200 cr. | | Nil |

Note: Numbers in brackets denote money spent by the government, while others denote income for the government

RECOMMENDATION

Given the above analysis, operating models 2 and 3 are recommended for the institute. These operating models are likely to be successful if the following are ensured

- Appropriate configuration of the project
 - ➔ Specialty mix, doctor engagement model, pricing etc.
- Unambiguous definition of operating parameters
 - ➔ Definition of “free” care
 - ➔ % of free patients and free medical students
 - ➔ Qualifying criteria for free patients
 - ➔ Pricing mechanism
 - ➔ Minimum personnel / faculty / consultant staffing
 - ➔ Mechanism for sharing of revenue / operating margins

- ➔ Mechanism for funding incremental capital expenditure
- ➔ Monitoring and Performance Evaluation metrics
- ➔ Process of information flow between the partners
- ➔ Penalties for non conformance
- Ensuring fair returns for the government and the private player
- Identifying the “right” private sector partner at the earliest; player needs to participate in the process of medical equipment procurement and configuration of the hospital