

State-Private Partnership in the Field of Social Reproduction: Facility Management

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Abstract—This study is devoted to research on the advisability of using such a new specific form of state-private partnership in the field of social reproduction as Facility Management. Possibilities of Facility Management tools are considered as an example of such social reproduction spheres as: healthcare, education and science, culture and the arts. The study proved that the use of Facility Management methods can be useful for saving budget (state) funds, attracting alternative sources of funding (reimbursement), their modernization and reform in these spheres. The variants of registration of Facility Management contracts in the Ukrainian legal field using methods of outsourcing are considered. (*Abstract*)

Keywords—outsourcing; state-private partnership; culture and art; healthcare; education and science; social reproduction; facility management; financing (*key words*)

I. RELEVANCE OF STUDY

Lately, the question arises of the possibility of ensuring an equitable environment for all members of the Ukrainian community in meeting the different needs for the services of health, education and science, culture and art. Given the plurality of investors, the recoverable costs for such services consumed, the problem of determining the parity of participation in the process of government, commercial and non-profit sectors still is not solved. The solution to this problem lies in choosing the most adequate for the state of cost-recovery mechanism in the sphere of social reproduction. There is a need for the formation of such a socially equitable and economically efficient mechanism that would positively affect social reproduction.

Functioning in the areas of health, education and science, culture and art in Ukraine is almost entirely dependent on the state, including on the budget financing, which makes them very vulnerable in moments of budgetary constraints. Never, since gaining independence, Ukraine has managed to reach the statutory level of funding for these areas. Public funding of health, education and science, culture and art is very poor, so the state for itself is unable to meet all financial commitments and to perceive sustainable development of these areas. Development and attracting other sources of reimbursement is delayed because of a lack of interest from the private and

nonprofit sectors, and the negative attitude of the state administration in general.

Today, the most likely mechanism for attracting alternative sources of reimbursement in the areas of health, education and science, culture and art for their modernization and reform is a state-private partnership. State-private partnership is particularly relevant for development and ensure the normal functioning of socially important objects, which can not to be unable fully retained by the State or privatization of which are impossible. One such area is healthcare.

Special attention should be paid to promoting the development and widespread use of such a new form of state-private partnership as facility management. Despite the spread in Europe, this form of partnership is almost unknown in Ukraine, but it is worthy of domestic researchers' attention.

In our view, the introduction of the facility management services with attraction of professional facility companies in Ukraine is an effective and perspective direction of reforms, especially in the healthcare sector. Specially, is considering the potential probability of construction in Ukraine budget-insurance model of financing of the healthcare sphere.

The problem of application of the facility management instruments to the cost-recovery mechanism in the sphere of social reproduction, especially in healthcare, is not sufficiently studied from a theoretical and a practical point of view. Therefore, the purpose of this article is to study the possibilities of using the facility management in Ukraine as a specific form of the state-private partnerships in such social reproduction sphere as healthcare.

II. REVIEW OF EXPERIENCE

Study of peculiarities of development of the healthcare sector is the subject to numerous foreign and domestic scientists of different schools and directions. Problems of relations between the state and the private sector using tools of the facility management are mainly considered in the works of such foreign scientists. Russian researcher A. Talonov [1] is considering the particular use of the facility management services in the management of life-support of organization, namely: the management of its real estate, engineering and social infrastructure, space of building. Scientists V. Chasovskykh, V. Vyskochil, N. Ivanov [2; 3] are considering also the facility management as management of

organization infrastructure. V. Iljyin [4] proposes the introduction and use of information technologies for effective solve of facility management tasks at the property management market. Such researchers as A. Litvin, A. Hazov, E. Chuvashov [5] are considering use of the facility management, as a tool of management in property management from point of view of optimizing of operating costs.

Today, in the Western Europe and the North America using tools of the facility management can be found practically in any commercial or non-commercial structure. As examples are the classic multinational companies such as IBM, British Petroleum and others.

International experience of the facility management starts from the mid 1950's, when the first approaches to jobs in offices is appeared in the USA for optimizing production processes. In 1978 the corporation «Herman Miller Research Corp.» held a Conference «Facility Influence on Productivity». In 1982, the IFMA Association (International Facility Management Association, www.ifma.org) was established in the USA. Since the mid 1980's the facility management began to develop in the UK. In 1989 the GEFMA Association (German Facility Management Association, www.gefma.de) was established. Today there are number of standards of the facility management, the main developers of which are the follows: British Standards Institution (BSI FM Committee, www.bsigroup.com), European Committee for Standardization (CEN TC 348 FM Committee, www.cen.eu), International Organization for Standardization (ISO TC 267 FM Committee, www.iso.org).

With the development of the facility management at the international market the companies which provided the specialized services were appeared, for example such as: NZ Moray Property Ltd. (New Zealand); Drees & Sommer, Loy & Hutz AG, TRID GmbH, DUSSMANN AG & CO. KGAA (Germany); «OKIN GROUP» (Czech Republic); Flexim International (Switzerland); Colliers International FM (Russia); SAWATZKY PROPERTY MANAGEMENT (Canada); NCH ADVISORS INC. (USA); GLD INVEST GROUP (Austria).

In Ukraine operation of companies which provide complex services of the facility management just begins. The most famous include the follows: «SHEN - Service» Ltd., «FM STANDARD» (Hungarian-Ukrainian company), «OKIN Facility UA» (Czech-Ukrainian company), company «DEN», «Impel Griffin Group» Ltd. (Polish-Ukrainian multiservice company), «Techsupport Facility Management» Ltd., «Ukrhimklining - Profi» Ltd., company «Facility management», «Compass FM» Ltd. The most of companies which operate at the Ukrainian market are joint ventures with foreign partnership. But their activities at the domestic market is limited by the certain kinds of services (for example, cleaning services only), or individual economic sectors (for example, real estate commercial market only). A very small number of companies are offering usage of tools of the facility management in social areas. This activity has gained development mostly in the construction and real estate,

housing, banking and transport sectors. Out of focus of attention are the social services, in general, and the social reproduction spheres, such as the healthcare, in particular.

III. IDENTIFICATION OF THE PROBLEM

In Ukraine, areas of healthcare, education and science, culture and art still continue to be among the less developed areas of social reproduction. In our country the services of these spheres are called "social services" and, as a rule, most of these services were provided earlier and are available now "theoretically" free of charge. This principle is considered to be one of the major achievements of Ukrainian society. However, in practice the question arises of a real possibility to ensure fair conditions for all members of the society in meeting the different needs for the services of health, education and science, culture and art.

The share of public expenditure for education and science in the GDP at the time of independence of Ukraine reached an average of 5.8%. Over the last decade, the rate ranged from 4.3% (in 1999) to 5.4% (in 2013). In 2014, it was allocated about 6.8% of GDP [6] for the education and science sector. The legislation of Ukraine on education and scientific and technical activity determines the percentage of the GDP on education and science: these figures are equal to 10.0% (education) and 1.7% (science), respectively. But never, since gaining independence, Ukraine has managed to reach the statutory level of funding of education and science. Public funding of science still continues to be in amounts of 0.5 – 0.6% of the GDP. Thus, public funding of education and science is extremely unsatisfactory.

Today in Ukraine it is quite difficult to name the real figures of the level of public funding of art and culture due to the imperfection and fragmentation statistical base. Expenditures for culture in the state budgets from 1991 to 2004 did not exceed an average level of 0.33% of the GDP. The funding of culture from the state budget of Ukraine in 2005 was amounted to 0.5% of the GDP. In 2013, expenditures for culture and arts rose up to 0.6% of the GDP [6]. Despite the established in the legislation of Ukraine expenditures for culture in the amount of 8% of the GDP, this amount did not exceed 0.5% of the GDP for years of independence of Ukraine. In Ukraine, the budget financing of cultural institutions continues to be based on the "residual" principle, and it is the main source of their income, which makes this area very vulnerable in times of crises.

Over the last decade, the share of public healthcare expenditure in the GDP ranged from 2.6% (in 2002) to 3.9% (in 2013). During the years of independence in Ukraine it was allocated more than 4% of the GDP in 2014, namely, 4.1% [6; 7] for healthcare. According to the World Health Organization, it cannot be expected to work effectively in the field if the cost of it is less than 5% of the GDP, while the share of the GDP allocations for healthcare, which is less than 6%, indicates a malfunction of this field. About 8% of the GDP is spent on healthcare in the European region and about 9% - in the EU. Medical systems of Norway and Sweden, known for high standards of medical support, are almost fully

funded by the state. The level of health expenditure is about 9% of the GDP. In Germany, these costs make up almost 11% of the GDP, and in the UK they are almost 10% of the GDP. In calculating per capita (at purchasing power parity in US\$) total expenditure on the national healthcare system in Ukraine is 6 times lower than in the European region [8]. All this shows that our government alone is not able to fulfill all financial commitments in this area.

Unlike other sectors of the national economy, healthcare in Ukraine are almost entirely dependent on the state budget financing. Development and attracting of other sources of funding are constrained by the lack of interest of private (commercial) and nonprofit (social) segments, and negative attitude of the public administration in general. But only the budget financing, as evidenced by even a cursory review of the national statistics and some international indicators, is not enough for the normal interaction of healthcare organizations with other sectors of the national economy, which already operate under the laws of the market. Under these conditions, economically efficient and socially equitable reimbursement for the services in the sphere of social reproduction in full is impossible, neither in theoretical nor in practical aspects. Therefore, the mechanism of reimbursement in the sphere of social reproduction should be formed to reflect the interests of all members of society, to take into account the existence of a plurality of investors and compulsory equal participation in the social reproduction of the state, commercial and non-commercial segments.

IV. STATE-PRIVATE PARTNERSHIP

A kind of institutional and organizational alliance of the state, commercial (private business) and non-profit segments established for implementation of socially significant projects in a wide spectrum of activities – from the development of strategically important sectors of the national economy to the provision of public services across the country or separate territories - is a state-private partnership (hereinafter referred to as SPP). Therefore, the use of tools and methods for the SPP in the cost-recovery mechanism in the sphere of social reproduction is quite relevant. Especially it should be considered that state-private partnership is, primarily, an integration of different priorities, interests and resources to achieve common goal. It is very important is that SPP makes it possible to combine the resources of the state and business. The contribution from the state involves infrastructure, new segments of customers, financial guarantees, etc. and the contribution from businesses comprises investments, management skills, cost reduction, innovative solutions. Strategic directions of use of mechanisms of cooperation between business and the state are transport, communications, housing and urban services, innovation, and in the social sphere - education, healthcare, culture and comprehensive system of social protection of population.

To regulate relations in the sphere of SPP in Ukraine a special Law of Ukraine “On State-Private Partnership” was adopted in 2010, which sets the legal framework and basic principles of interaction between the state partners with

private partners [9]. This law established the follows, the SPP is the cooperation between the state, local communities represented by the relevant state agencies and local governments (public partners) and legal entities, except state and municipal enterprises, or individuals - entrepreneurs (private partners) which is based on the agreement. According to article 4 of the Law of Ukraine “On State-Private Partnership” healthcare, tourism, leisure, recreation, culture and sports are some of the industries in which implementation of the SPP is possible.

According to Section II of the Forms of implementation and the objects of SPP of the law of Ukraine "On State-Private Partnership", in the framework of the SPP in Ukraine the treaties may be concluded on: (1) concession; (2) joint activities; (3) distribution of products (4) other contracts. Product distribution is a specific form of the SPP, which is used exclusively in the mining industry and is regulated by special legislation. Consequently, the statutory forms of the SPP in the areas of social reproduction (healthcare, education and science, culture and art) remain the concession and joint activities. However, the Law of Ukraine "On SPP" permits concluding the so-called "other contracts". In this case, the Law specifies that the type of a contract is determined by the authority, which decides on the implementation of the SPP, and that such contracts are governed by the Law taking into account peculiarities stipulated by this Law, in case when they are provided by the present Law with the decision on the implementation of the SPP. One of such "other forms" of the SPP in the areas of healthcare, education and science, culture and art can be helpful to a specific form of the SPP using the facility management.

V. FACILITY MANAGEMENT

The term "Facility Management" (hereinafter referred to as FM) has quite a large number of interpretations in literature, but the most common is the concept of the FM as infrastructure organization management or property management, engineering and social infrastructure of the organization. In general, the FM is a comprehensive property management (integral property complex) through integration of people and processes, which is transmitted to outsourcing to certain contractors or to the specialized FM - companies [10].

The central idea of the FM is the principle of separation of functions of any organization into core and non-core functions. To profile functions are referred those functions for execution of which the organization concerned was created. In addition to the profile functions, the activity of any organization involves a large number of related or non-core functions (food catering, payment for utilities and communal services, purchase of linen, lubricants, communication services, garbage collection, cleaning, maintenance, communications, etc.). All these non-core functions may be subjects for the FM.

There is no point in dwelling on theoretical studies of the FM essence in this article. Its arsenal of practical tools and methods, which could be applied to the cost-recovery mechanism of reimbursement in the sphere of social

reproduction, is more important for further research. Facility management represents a practical method that provides analysis, documentation and optimization of all relevant costs as regards the processes taking place in objects, with regard for real jobs and interests of the owner. The key practical challenge of the FM is the effective modernization and estimation of the ways to reduce infrastructure costs while supporting (or increasing) the quality of services. Today, in the areas of healthcare, education and science, culture and art there is a situation in which a significant portion of funds in the budget is spent on providing non-core functions of the respective institutions.

Healthcare financing from the state budget focused mainly on the maintenance of area, but not on treatment of patients, namely: 60% of the funding goes for salaries of health workers (according to the World Health Organization, if the share of wages in the structure of healthcare spending is more than 30%, this fact indicates a lack of reproduction process in the area); 30% of the funding goes for housing utilities (including commercial and office expenses); 10% of the funding goes for treatment of patients. Continuing the example, the expenditures of local budgets for healthcare in the structure resemble the expenditures of the state budget, namely: salaries are accounted for about 68 – 70% of their total volume; medicines are accounted for 7% - 8%; the nutrition of patients - 4 – 5%; utilities - 9 – 10%; the purchase of equipment - 3 – 4%; other expenses - 7% to 8% [6; 8].

The same situation is in the education and science sphere today. A significant portion of the budgets of institutions of education and science is spent on infrastructural needs. Such practice of financing and cost-sharing of budgets cover virtually all institutions that depend on state funding, including in the culture and art sphere.

According to the international practice, the FM always reduces the maintenance costs of real estate while increasing service quality by hiring support staff and by savings in wholesale purchases of supplies, food, building materials, etc., because one FM company can take care of multiple institutions [11].

Today in accordance with the Ukrainian legislation the FM can be legalized in two ways. Although it should be noted, that the legislative concept of "Facility Management" is not defined and there are no installed additional restrictions on the FM contracts. The first method is the complete outsourcing of all non-core functions of the specialized FM - company. Such FM can be legalized by the conclusion of the contract property management agreement. The second method is a partial outsourcing of a separate non-core functions to a specialized FM company. This FM can be legalized through the conclusion of the suborder contracts.

Outsourcing by itself is considered as a competitive advantage and when outsourcing of a fairly wide range of services is concentrated in the hands of a service company (the FM company), its effectiveness is increasing by several times. Thus, the use of this form of the state-private partnerships as the FM makes sense and can be used as one of the most

effective ways to save budget funds. It should be noted, that the FM concept is fitted well into the context of national legislation, which clearly states that the implementation of the state-private partnership involves implementation of one or more of such functions as: design, financing, construction, restoration (reconstruction, modernization), maintenance, search, service, and other functions related to the implementation of agreements concluded under the SPP.

VI. CONCLUSION

The use of the FM benefits as one of the innovative forms of the SPP in the social reproduction area will significantly expand the boundaries of the traditional concept of maintaining the concept of management of resources and processes, which do not belong to the core activities of the organization as a strategic infrastructure management. A significant dependence of the results of functioning of organizations on the level of infrastructural provision of the processes implemented in these organizations; a significant proportion of infrastructure costs in total costs of organizations; presence of significant reserves to increase the efficiency of the infrastructure and capacity of its rational organization these are all factors which determine the feasibility of using tools and methods of the FM in the mechanism of reimbursement in social reproduction areas including balanced participation of the state, commercial and non-commercial segments.

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