



# Public-Private Partnerships:

*The Phenomenon, Public Value Promises & Professionals*

1. The PPP Phenomenon
2. Some Implications of 'Phenomenon'
3. PPP Promises and Performance
4. Public Value



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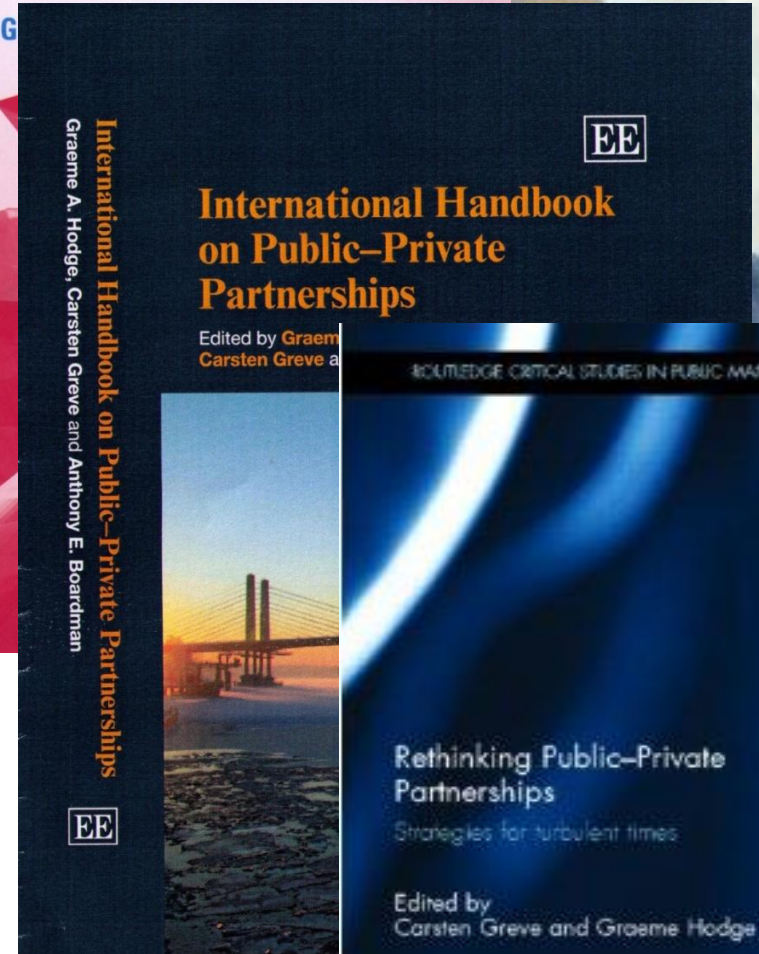
# 1. Public-Private Mi... Time

- Public & private marrying has a long pedigree
- History brings both good and bad news, though...
- The phrase 'PPP' dates back to the US 1940s, and its urban regeneration in 1960s-1970s
- Subsequently, prominent after Tony Blair labelled the British PFI initiative (1997) 'PPP'
- Today we have moved from:

Public **versus** private → public + private



Edited by G



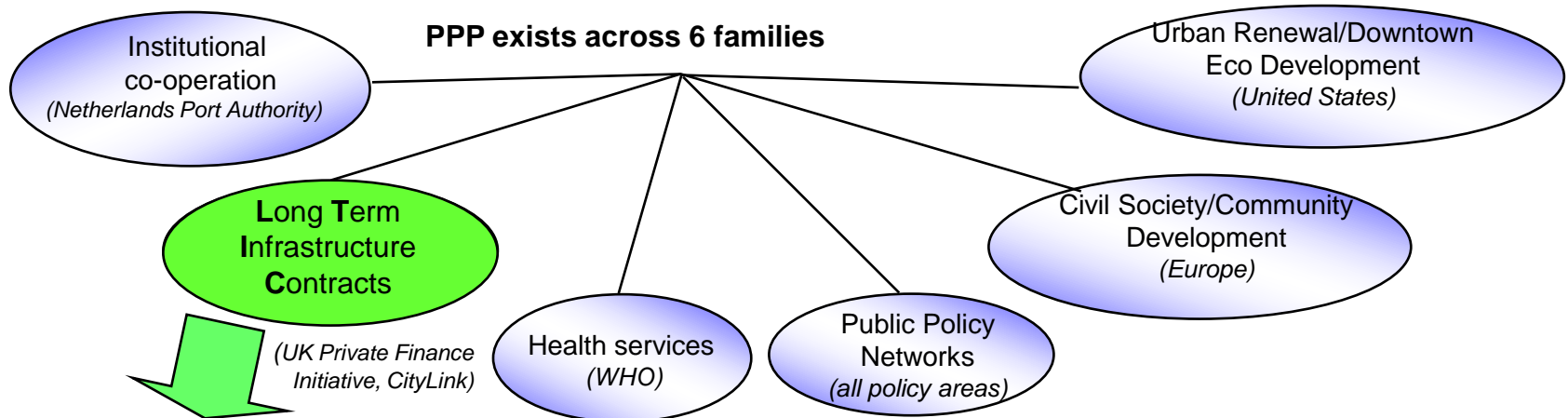
ROUTLEDGE CRITICAL STUDIES IN PUBLIC MANAGEMENT

Rethinking Public-Private Partnerships  
Strategies for turbulent times

Edited by  
Carsten Greve and Graeme Hodge

## 2. The Modern PPP Phenomenon

- The PPP semantic covers:



- The LTIC PPP family itself has many members:

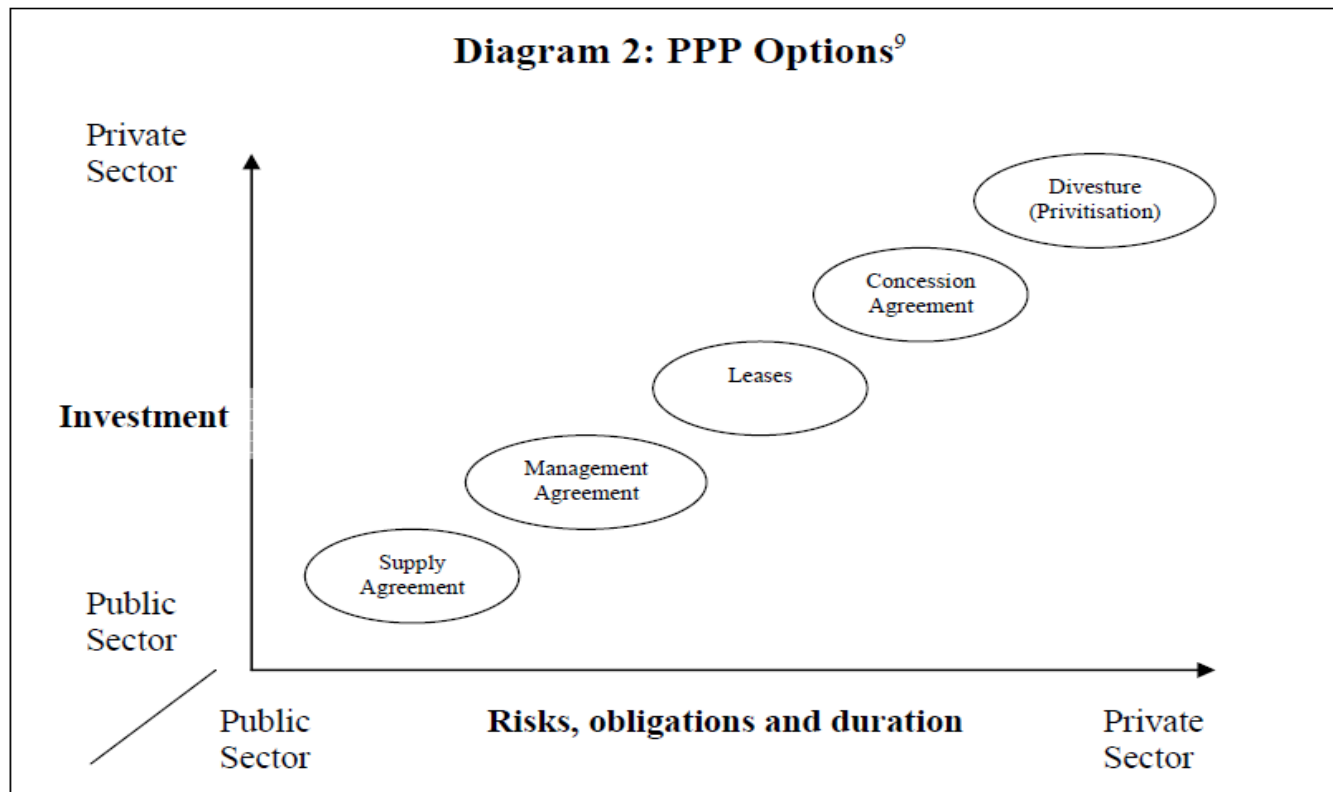
- 7 tasks are required - define the need; design; finance; build; operate; maintain and pay for the services. → hence, at least 128 ( $2^7$ ) pure combinations exist...(or 2,178 mixed options ie  $3^7$ )

- OECD (2008) listed 14 options (BOM, BOO, DBO, DCMF... BOT, BOOT, BTO)

- The World Bank's PPPs included JVs & divestitures

- EC has the 'Junker plan'

## 2. The Modern PPP Phenomenon



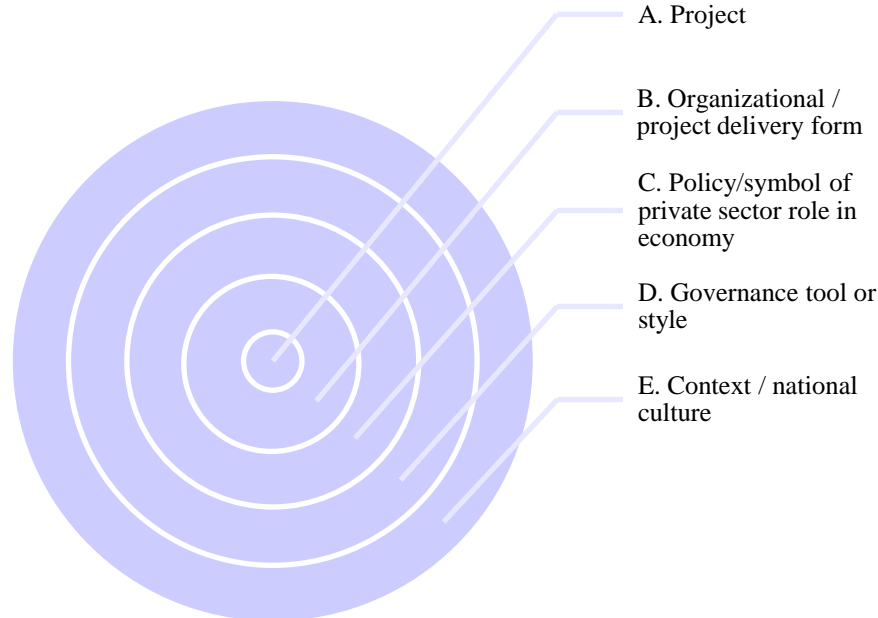
UNESCAP, c 2004

- I used to view LTIC PPPs as a family:



## 2. The Modern PPP Phenomenon

- Our LTIC PPP conversations cover 5 meanings and view PPP as:
  - A. The Project
  - B. Organisational / project delivery form
  - C. Policy / Symbol of private sector role in economy
  - D. Governance Tool / Style
  - E. All within an historical/cultural context

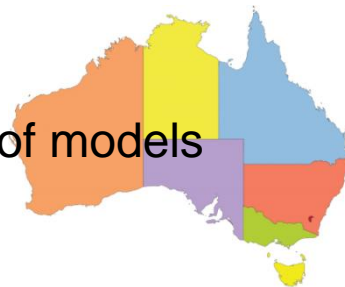


# 3. Implications of PPP as a Phenomenon

## 1. In one important sense, there is no such thing as 'the PPP model'.

LTIC PPPs have numerous dimensions:

- Some PPP definitions are specific, others cover a spectrum of models (eg Canadian, UK)
- Finance type? (public / private)
- Risk transfer/sharing? (certain / sufficient / significant / optimal)
- Transparency, accountability & governance arrangements
- Is there a national PPP model?
  - In Australia
  - In Canada
- The UK's National Audit Office (2009, 6) noted the narrow view of PPP as PFI was not accurate... *The PFI model is widely used but .. there are also hundreds of other types of PPPs, ranging from small joint ventures to the London Underground PPPs which have a capital value of £18 billion'.*



# 3. Implications of PPP as a Phenomenon

## 2. Perhaps 'PPP' is simply a Brand

- Brands differentiate products / services / ideas from those of competitors' ...

- 'Brand = a cluster of meanings' (Batey, 2008)
- They aim to evoke image & emotions, not precision...

- The PPP brand:

- differentiates a new approach from 'business as usual' or 'traditional delivery methods'
- symbolizes positive business relationships, more sophisticated ways to govern and perform... and is deliciously ambiguous

- Asking whether PPP 'works' is nonsensical...



# 3. Implications of PPP as a Phenomenon

## 3. PPP as a brand is not bad! It acknowledges its psychological and political function

- Branding helps raise the profile of public infrastructure issues onto the public agenda and energises us in policy debates of traditional approaches (which often 'failed to launch')





# 4. LTIC PPP Success?

Victorian Comprehensive Cancer Centre  
(\$1,274m, 25 yr contract)



# 4. PPP Success and Promises

## What have been the promises against which we might judge success?

1. Initially to get around the PSBR (X)
2. Reduce pressure on govt budgets (X)
3. **Provide better VfM** (✓)
4. Better accountability, on-time & on-budget delivery, project innovation ...
5. Better on-time & on-budget delivery & project innovation?
6. Stronger market confidence, improved public sector innovation, & increased international 'sales' of professional services
7. Business assistance in difficult global times, and economic development

Formality / Technicality	Technical	Non-Technical
<b>Explicit</b>	<ol style="list-style-type: none"> <li>1. Value-for-Money for taxpayers</li> <li>2. On-time delivery</li> <li>3. On-budget delivery</li> <li>4. Improved accountability</li> <li>5. Enables visibility of full life-cycle costs</li> </ol>	<ol style="list-style-type: none"> <li>10. 'Reduced pressure' on public sector budgets</li> <li>11. PPP as a friendly policy label</li> <li>12. Increased project innovation culture</li> <li>13. LTICs enable government i-f priorities to be delivered</li> <li>14. Visible symbolic use of market discipline and private sector capacity</li> </ol>
<b>Implicit</b>	<ol style="list-style-type: none"> <li>6. Project risks managed away from government</li> <li>7. Provides i-f off-budget or off-balance sheet</li> <li>8. Improves government financial credentials</li> <li>9. Strengthen economic development</li> </ol>	<ol style="list-style-type: none"> <li>15. PPP is a political brand differentiating government and symbolizing progress</li> <li>16. Enable 'crash through' delivery of mega-projects under private contract law</li> <li>17. Enable user pays provision for road infrastructure</li> <li>18. Business assistance in turbulent times</li> <li>19. Business and financial markets are confident and happy</li> <li>20. A more innovative public sector</li> <li>21. Help put infrastructure funding needs / projects on public agenda</li> <li>22. Boost sales of professional services abroad</li> <li>23. Strengthened links in networked / collaborative government</li> <li>24. Enhance electoral prospects</li> <li>25. Ease the business of governing</li> </ol>

## Better VfM for Infrastructure Provision?

1. Traditionally, large cost overruns of 20 - 45% occur for road and rail infrastructure projects (average=28%) Flyvberg et al, 2004
2. Likewise, demand often falls short (averaging -40% for rail) but +10% for road)
3. Optimism bias occurs when forecasting ... 'strategic misrepresentation'?
4. Examples: Channel Tunnel 80% cost overrun, Jubilee Line London Underground 80%, Concorde 1100%, Sydney Opera House 1400%...



## 4. PPP Success and Promises

- Contrary to hype, we know little about LTIC PPPs
- Many claims, but few strong empirical evidence. Only a few sizable groups of studies exist

**Despite this, LTIC PPPs have been politically successful for most governments ... We need to rethink PPP success**

- Arthur Andersen & LSE Enterprise (2000) 17 % cost savings estimated against the PSC
- Pollitt (2003)
- Pollitt (2006)

... better delivery (76% vs 27%)

(2006) PPPs were 24% more expensive than traditional contracts ~ same over-runs...

- Jupe ('09) UK PPPs & SOE both imperfect
- Sarmiento ('15) conflicting claims

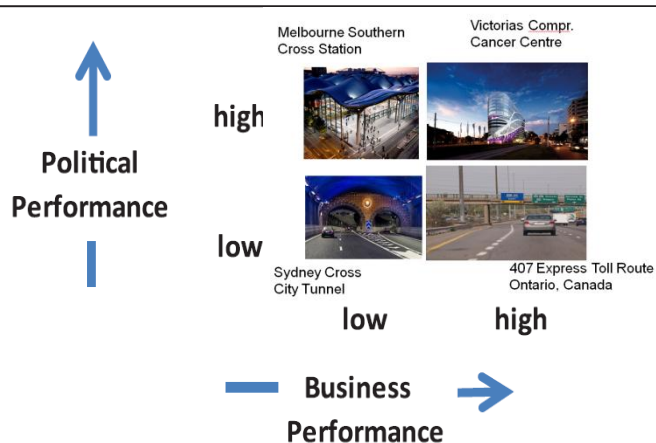
US: Bloomfield et al ('98) saw corrections PPP as 'wasteful & risky'

- Australia: Walker & Walker (2000) saw 'accounting trickery', eroded A/Cy, & M2 24% roi
- Shaoul (2005) saw manipulated PSC & VfM estimates and huge shareholder returns
- Reeves & Ryan (2007) PPPs 8% - 13% more expensive
- Pollock et al ('07) reviewed Mott Macdonald 'not evidence based but biased to favor PFI... all claims ... are misleading'
- Leviakangas (2007) private finance not cheaper
- Hellowell & Pollock ('09) PFI reduces health system capacity

*Governance* reviews have similarly had mixed findings (PSC manipulation, complexity, PPP oversight, secrecy, lower accountability & little community involvement)

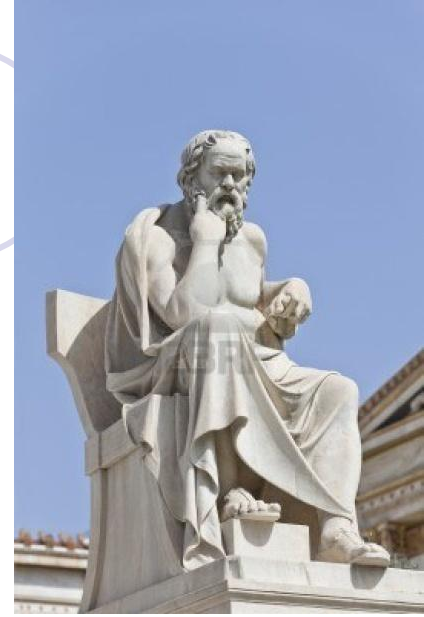
# 4. PPP Success and Promises

- **Rethinking PPP Success:** After 20 yrs we still contest VfM
  - NAO (2009, UK) ... private finance can deliver benefits, but ... [the] financial modelling is error-ridden and ... can easily be adjusted to show private finance is cheaper'...[so] 'government cannot satisfy itself that private finance represents the best VFM option'
  - Boers et al (2013, 470) reviewed 48 audit reports globally:.. 'there is still no hard evidence to show that DBFM(O) projects represent the most efficient form of government procurement'...
  - Sarmento (2015) Academics and auditors are sceptical about VfM, governments and supporters are not





# 4. PPP Success



- **Fundamental matters still need resolution:**
  - ‘No government has performed appropriate P3 analyses’ (Bdman&Vining, ‘10)
  - Wide diversity of discount rate methods/parameters Zwalfe (2013)
  - Low statistical reliability of VfM assessments – one unit cost assessment
  - Appropriate level of transparency?
- But PPPs usually politically effective for govts
  - UK 2012 review acknowledged longstanding criticisms, but UK PFI model also became *PFI 2*
  - Despite high profile failures (Sydney’s CCT, Brisbanes’ M7 Clem Jones Tunnel and Airport Link) Australia has aimed to ‘rebalance risks’
  - PPP breadth leaves much room to evolve...



# 4. PPP Success and Promises

## FINANCIAL REVIEW

July 2016

- US presidential candidates Donald Trump and Hillary Clinton are both pledging big investments to fix America's decaying infrastructure, opening up business opportunities for Macquarie Group, Transurban and IFM Investors. ... *a rare consensus ... to boost the economy and create well-paid blue collar jobs...*



# 5. Road Pricing and History

- **Road pricing** idea back in fashion, with its attractive equilibrium calculus
- **Transurban study:** Congratulations! (and I agree that 'a technological solution exists'... p5)
- But:
  - First raised by Pigou (1920) and Knight (1924)
  - Governments should not outsource their brains (Hodge 2000)
  - Private Value  $\neq$  Public Value
  - Nb: UK Parliament prior to 1800s contracted out its accounting / treasury functions to a body of businessmen: a most 'dynamic' and 'flexible' system ... sustained by corruption
- These policy debates and influence require greater transparency

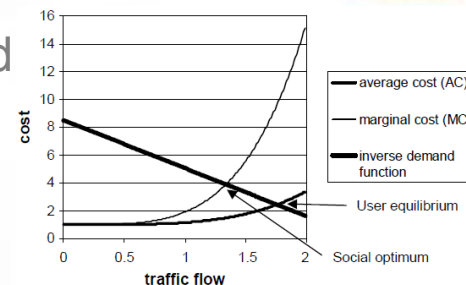
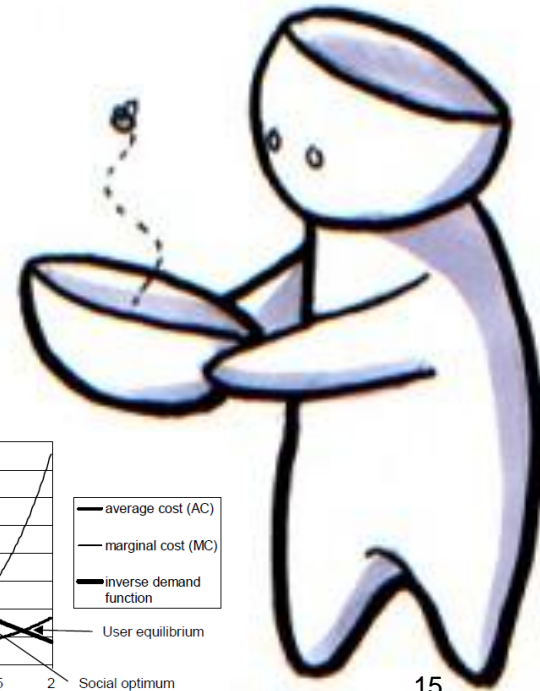


Fig. 1. The Pigou-Knight analysis.





## 6. Conclusions



- PPP is a phenomenon (including numerous delivery methods – and is as much about politics and governance as it is about engineering or finance)
- It is also an ideal – debates are evolving but the arena is ambiguous debates will magnify not resolve
- Western LTIC PPPs are politically effective (raising the i-f profile & quicker delivery) but financially dubious without transparency (Hype aside, we know little about PPP performance in terms of VfM or cost-efficiency.)
- Evolving PPPs will find success in political & technical logic
- Transparency remains our biggest LTIC PPP challenge
- To the extent that our own version of PPPs are financially dubious but politically successful, these have serious implications for professionals such as transport engineers

