Public Private Partnerships

Exploring the Possibilities

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Public Private Partnerships (PPP's)

Definition Characteristics Reasons Types Good Practices Benefits Pitfalls Recap



What are Public Private Partnerships (PPP's)

Definitions:

- PPP is an arrangement where private parties participate in or provide support for the provision of infrastructure.
- PPP describes a government service or private business venture which is funded and operated through a partnership of government and one or more private sector company.
- PPP is Not the procurement of an asset but the payment of a stream of services under specified terms and conditions.

Key Characteristics of PPP's

Participants

Focus on services

- Relationship
- Resourcing

Sharing

- Whole-of-life cycle costing
- Innovation
- Risk allocation

Continuity

Frameworks for PPP's

Project level

Project level PPP deals with the design and operation of infrastructure assets on behalf of the public sector.

Policy level

Policy level PPP deals with specialized decision making on behalf of the public sector

Example :

- Determining the best policies to effectively curb crime within a specified jurisdiction
- Improving the quality of education within schools eg. Curriculum content, teaching methods, learning environments etc.

Why Public Private Partnerships?

Traditional Procurement

- Inefficient
- Unreliable with
- Poor fiscal Management

Other factors

- Short political tenures government rush
- Rent seeking behavior interest groups
- Putting on a good spin moral hazards

Why Public Private Partnerships?

Mott MacDonald Report - Optimism Bias

- Inadequacy of the business case (58%)
- Environmental impact (19%)
- Disputes and claims incurred (16%)
- Economic influences (13%)
- Late contractor involvement in design (12%)
- Complexity of contract structure (11%)
- Legislative and regulatory changes (7%)
- Degree of innovation (7%)
- Poor contractor capabilities (6%)
- Project management team (4%)
- Poor project intelligence (4%)

Why Public Private Partnerships?

- Financial need budget deficit, large debt
- Aging or deteriorating infrastructure
- Growing demand on public sector services
- Search for greater efficiency and creativity
- Strides to introduce competition
- Lack of domestic experience or skills
- Need to educate local contractors while remaining competitive
- Bandwagon effect

Varying Models of PPP's

Model 1

- The Public entity transfer land, property or facility to private sector.
- Private sector builds or renovates facility
- Public sector sets standard of service
- Private sector provide service for set term
- Private sector transfer ownership at end of term

Model 2

- Public sector defines service over long-term
- No payments made until asset is delivered as promised
- Private sector assumes risks associated with design & performance
- Private sector provides no funding during construction
- Private sector allowed to own and run facility for profit

One Type of PPP

BOT – Build Operate Transfer

The Private Sector:

- Source Financing
- Carries out all designs
- Builds the infrastructure
- Operates the facility and,
- Hands over ownership to public sector.

BOT – Build Operate Transfer



The Dartford Crossing over the Thames River in London is an example of a BOT. The negotiated term of operation before transfer was 20 yrs.

BOT – Build Operate Transfer



The Sydney Harbour Tunnel is 2.3 Km long with dual carriage way.

Types of PPP's

- BOT Build Operate Transfer
- **BOO** Build Own Operate
- BOOT Build Own Operate Transfer
- **DBF** Design Build Finance
- DBFO Design Build Finance Operate
- DBO Design Build Operate
- **BLT** Build Lease Transfer
- **BTO** Build Transfer Operate

- DBFOM Design Build Finance Operate Manage
- Leasing
- Joint Ventures
- Operations or Management Contracts
- Cooperative Arrangements
- LROT Lease Renovate Operate Transfer
- DCMF Design Construct Manage Finance
- BOOR Build Own Operate Remove

Suitable Candidates for PPP's

- Transport (road, rail, ports, airports)
- Fixed links (bridges, tunnels)
- Water resources (filtration plants, irrigation, sewage treatment, pipelines)
- Tourism (facility development)
- Health (hospitals and specialized health services)
- Specialized accommodation facilities (courts, police stations)
- Educational facilities (schools, museums, libraries)
- Correctional services (prisons, remand and detention centres)
- Arts, sport and recreational facilities
- Convention centres
- Government office accommodation
- Social housing

Grimsey and Lewis, 2004, pp 92-93, - List is based on experience:

Suitable Conditions for PPP's

Accommodating Political framework

- Right Legal framework
- Public acceptance
- Quality practitioners
- Availability of finance

Good Practice, using PPP's

Ensure that:

- Private sector partner has the required <u>capacity</u>
- Ensure <u>public sector interests</u> are factored in
- Taxpayers are guaranteed <u>value for money</u>
- Private sector partner/s has proper motivation
- Establish a PPP Unit for Government









Benefits of PPP's

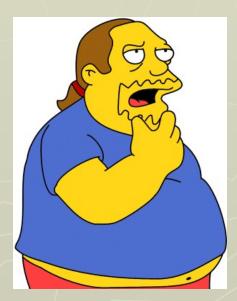
- Mitigates and properly allocates risks
- Provide incentives for lowering costs
- Ensures value for money
- Attract the right skills and management expertise
- Promotes innovation
 - Reduces corruption and waste
 - Reduce burden on taxpayers

Pitfalls of PPP's

- Depends on EGAP principle (Everything Goes According to Plan)
- The process of creating a PPP is much more demanding than a traditional procurement process. This is normally underestimated.

Recap on Public Private Partnerships (PPP's)

- Definition
 Characteristics
 Reasons
 Types
 Good Practices
 Benefits
- Pitfalls



The End

Have a Productive Discussion