

# Public Private Partnerships

Exploring the Possibilities

James Robinson  
PSOJ Research Economist  
July 28, 2008

# 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
- ▶ Relationship
- ▶ Resourcing
- ▶ Sharing
- ▶ Continuity
- ▶ Focus on services
- ▶ Whole-of-life cycle costing
- ▶ Innovation
- ▶ Risk allocation

# 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**

# 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 capacity
  - Ensure public sector interests are factored in
  - Taxpayers are guaranteed value for money
  - 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**

