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Time for Some Clear Thinking on ..

Public Private Partnerships

The term ‘private public partnership’ is often used loosely for any kind of relationship between the private and public sectors, including outsourcing or contracting-out, BOOT and DCM projects, and privatisation.

However, it is worth making a distinction between a ‘fee for service’ arrangement and a genuine ‘public-private-partnership’ because it is the confusion of these forms that has caused much of the bluster in the media and much actual grief on the ground.

A TRUE Public-Private-Partnership provides great benefits to all parties, but many arrangements masquerade under the name of ‘partnership’ so

- How can you recognise a genuine partnership?
- What should you look for in setting up your own partnerships and
- What benefits can you expect?

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PPP – What it is, and what it is NOT

A True Partnership

- Is an identifiably separate entity
- Where partners share resources, risks and decision-making
- And share the benefits

The best guide to whether any given arrangement is a genuine partnership or not is to look at the funding – is it the case that the more money the private sector makes, the more the public sector pays? If so, it is not a partnership. It may be another form of co-operative venture, or it may be simply a 'fee for service' market arrangement, but it is not a partnership.

Let us put this in common day-to-day terms

- **You take your car to the garage instead of servicing it yourself** – a partnership?
Clearly not, this is a 'fee for service'. (*c.f. the Government buying services from the private sector*)
- **You arrange an attractive deal with your garage** – you will use his services exclusively for the next 2 years, in return he will give you priority and a cheaper rate – is this a partnership yet?
No, just a financial deal; it's still 'fee for service'. (*cf Government 'contracting out' services for a period in return for a good deal*)
- **You agree to refer all your friends** and you get an even better rate (say a 1% reduction for each referral, or some free service)
– but the arrangement is still a 'fee for service'. (*cf the government doing a 'state wide' deal for a service – such as Information Technology Services in South Australia*)
- You are well connected and know many people so **you and the garage agree to set up a joint car maintenance and repair business**, separable from the rest of the garage business (selling petrol, etc). You agree to share the decision-making, risks and profits from your joint venture, with you responsible for attracting trade and the garage responsible for doing the work. Do you now have a partnership?

YES! Now you have an identifiably separate entity, shared resources, risks, decision making and shared profits.

(cf the SA Government's business arrangement with the South Australian Water outsourcers to provide overseas and interstate markets for the SA water industry is a partnership. They have a joint venture to increase exports. The company profits by the sales made by its own company, the government profits by the boost to the SA economy from all companies in the water industry, so they both have a share of the benefits. Both the Government and the Company jointly promote and develop the water industry, so there is shared resources and shared decision making.)

As you can see from this, most of the arrangements made between the Public and Private Sectors in this company are NOT true partnerships – merely 'fee for service' market deals. In the majority of cases there are no shared resources, or shared decision making and no sharing of the benefits.

PPP – The Success Characteristics

The success characteristics of TRUE PARTNERSHIPS are

Clear measures of performance

In the SA Water case, the chosen measure of growth in the water economy was simply 'exports', defined and measured by the ABS as both interstate and overseas sales and services.

Shared resources

Each party needs to bring something of value to the table, something that enhances the other party's ability to be successful.

Take for example, Watergrid (see Issue 102 on British Waterways). This company is able to use the network of waterways throughout Britain to provide a *national water supply and treatment* service.

- From British Waterways, Watergrid gained
 - the use of the canals, management knowledge of the canals, public goodwill
- From the two private water companies, Watergrid gained
 - Knowledge of the supply and treatment of water and wastewater
- From Partnerships UK, Watergrid gained
 - Corporate knowledge and the management of partnerships themselves

In a true partnership, 'the whole is greater than the parts'

Shared Decision Making

Ensures that the goals of each of the partners are tempered by the goals of the other.

Where the public sector partner has social and environmental goals and the private sector partners have commercial goals, shared decision making ensures a viable, long term trade off. (see PPP and TBL)

Shared Profits/Benefits

This is where it becomes important to define your performance measures. Partners may share profits, as in the Watergrid example, or they may share benefits, as in the SA Water example. For a successful partnership, all must see themselves as benefiting fairly from the success of the venture.

If this is not the case, the partnership will fail. (And this 'all' means not only the principals who sign the deal but the 'players', public servants and company employees. (see PPP—*The Principals and the Players*)

PPP – and the Triple Bottom Line

The opportunity for synergy and checks 'n balances!

Many public sector entities have public assets that can be 'leveraged' with private sector resources and know-how to provide a new and improved service to the community.

Public sector—clearly defined social and environmental goals
subject to an economic constraint

Private sector—clearly defined economic goals (ie profits)
subject to social and environmental constraints

Take the British Waterways example again. Here we have a canal company with the environmental goals of improving the quality of water and waterside habitats and the social goals of providing boating and recreational facilities to the people of Britain, increasing social welfare through greater employment, and restoring heritage assets to be enjoyed by future generations. All of this costs money, so they are operating under economic constraints. (It is NOT part of British Waterways charter to make a profit. BW's interest in revenues are purely for the ability such revenues provide to attain their social and environmental goals)

The private sector companies are there to make a profit by providing good quality water services that their customers want. In doing so, they have to be careful to avoid causing environmental and social damage.

This is where shared decision making generates true triple bottom line outcomes.

If a decision would result in increased revenues to BW, potentially they are interested – but *not* if it means that their environmental and social goals are threatened. Clearly trade-offs need to be made.

If there is a potentially profitable action but damage would be caused, the partners need to weigh up the cost of putting right the damage. ***Every decision is a TBL decision if there is equal public private participation.***



Submarines and U-boats

As a child I learned that u-boats were a subset of submarines. No doubt, a German child would have viewed submarines as a subset of u-boats. It's all a matter of perspective!

Similarly, one could say that public-private-partnerships were a subset of the totality of dealings between the public and private sector, being those that specifically relate to 'partnerships' in the way that we normally use the word 'partnership' in ordinary conversation, i.e. an identifiable, separate, entity with joint sharing of resources, decision-making and benefits (e.g. a marriage or business partnership). Or we could use the word to mean the totality of dealings. In other words, a PPP could be the whole category of private-public dealings, or a subset of it – it's all a matter of perspective!

Lately, Governments (in all countries) have tended to use the term 'public private partnerships' in this wider, all inclusive, sense.

However treating a u-boat as 'the same as' a submarine would have led to disaster for British troops during WW2 (and similarly for German troops). And the same can be said today of treating all dealings between the public and private sector as if they were 'win-win' partnerships, failing to make the distinction between these and 'fee for service' transactions.

Both can be beneficial, but it pays to keep them straight.

PPP – The Principals and the Players

The Boardroom and the Factory Floor

Partnerships may be decided in the boardroom, but whether they work or not is determined on the factory floor.

The Government may declare an arrangement with the private sector to be a 'partnership', a 'win-win', but if the 'players', e.g. the public sector unions and employees see the arrangement as a threat to their livelihood, or if the private sector employees find themselves competing with the public sector to retain their positions, then 'down on the factory floor' where it really counts, we have *no partnership*.

Look Around at the so-called partnerships that have failed - and notice the absence of

- An identifiably separate entity with clear performance measures
- Shared resources
- Shared decision making
- Shared benefits

If we look around, we find that those 'partnerships' that have failed have done so because they did not contain the success features we have listed; they did not have an identifiably separate entity where both public and private sectors shared the resources, decision making and profits/benefits.

Instead, these so-called 'partnerships' have been strictly 'fee for service' arrangements, such as the hospital outsourcing contracts that have caused so much grief and the prison outsourcing contracts that have raised so much public outrage.

It is not for nothing that public service unions decry the current rash of 'partnerships' proposed by government as 'privatisation under another name'. Most of them are! This, however, doesn't mean that there are not great benefits to be had from genuine partnerships.

Agree or Disagree?

Answer back—you can write to me at editor@amqi.com or,
Put your point of view or comments on any issue at
www.amqi.com/forums

Partnerships and the Asset Manager

As an asset manager, you have two choices

- (1) You can let others (finance, policy, planners, politicians) decide, simply accept their decision and try to do your best within the new arrangements, OR
- (2) You can try to throw some light on the very complex set of issues that are involved and apply some 'clear thinking'. This issue of SAM is for those who choose the second route.

However your route will not be an easy one. Even the 'sensible' sources, such as the Canadian Council for Public-Private Partnerships that makes it very clear that contracting out and arrangements in which one 'partner' merely provides funds, are not 'true partnerships, falls into what I call the 'big trap'.

What is this BIG TRAP?

It is simply the assumption that private sector provision of capital, over and above any efficiency gains provided by private sector involvement, frees up the use of public funds— see the following quote from the Council

In addition to maximizing efficiencies and innovations of private enterprise, public-private partnerships can provide much needed capital to finance government programs and projects of a commercial nature, thereby freeing public funds for core economic and social programs.

This is simply not so! The use of private capital simply turns a public capital commitment into a public recurrent commitment.

Gains for the public sector will occur if the NPV of the recurrent commitment is **less** than the alternative public capital commitment.

YOUR RESPONSIBILITY?

An asset manager should be able to present enough information on the cost make-up of the two alternatives to enable the agency's decision makers to make a wise decision.

Drainage: Is 'Service Delivery' Life More Appropriate?

Max Benefit: "The reason why many infrastructure lives will prove to have been underestimated may turn out to be because we are still looking at physical condition rather than service delivery. You may wish to read a recent article in the "Journal of Infrastructure Systems", titled "Markov model for Storm Water Pipe Deterioration", which studies drainage pipes (mainly concrete and vitreous clay) in the Newcastle area, NSW.

Based on 4.5% of the network undergoing CCTV survey, the research showed:

- Pipe diameter affects structural deterioration rates
- Pipe construction material affects structural deterioration rates (concrete lasting longer)
- Soil Type and exposure classification (proximity to the sea or heavy industry) affects structural deterioration rates
- There was no relationship between condition and hydraulic capacity (serviceability). Hydraulic capacity was reduced by silt and debris build up and tree root intrusions, but generally not by weakened structural condition.
- Their AAS 27 estimated useful life of 70 years was shown to be way too conservative...the curves show that average lives of around 250 years are more likely if based on structural condition."

Jane: "Max Benefit, what you say makes sense but it seems that engineering research is, in general, more concerned with predicting asset condition decay. The study you quote has focussed on service condition decay – and found it to be very different. Do you, or anybody else, know of any other work that is being done in predicting service decay?"

Max Benefit: "Our council is currently involved in research with a local research institution. We don't expect any results in the short term but in the medium/longer term the results will probably be similar and have accounting policy, depreciation, revaluation and asset management planning implications.

We will need to decide whether to base useful life on structural deterioration or hydraulic capacity. The latter is more likely to be relevant, as the economic benefit gained from pipes is that they get water away/prevent floods (and the research showed that even severely cracked pipes continued to do that in most cases). This will become particularly important as urban redevelopment and possibly climate changes puts greater loads on the network.

It is interesting to note that if we do base economic life on hydraulic capacity, we will have to make policy decisions first on how much we are going to clean out pipes, as the cleaning/root intrusion frequency will materially affect the resulting useful life.

Thus the way we look at 'life' will end up determining how long it is!"

TO TAKE PART IN THIS ONGOING DIALOGUE

www.amqi.com/forums

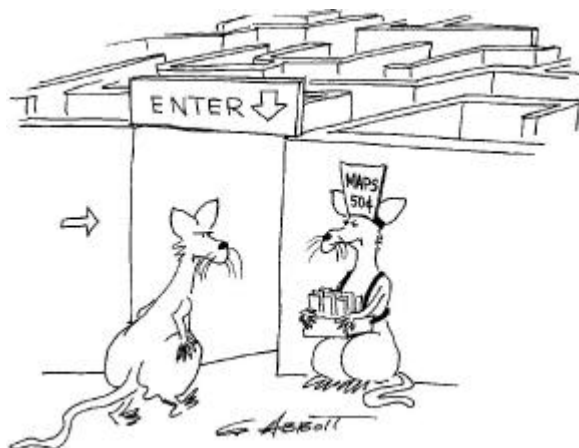
What's new on the Virtual Asset Management Community Site?

The Cartoon Caption Challenge

Purely for fun. Invent a caption with an asset management twist. Or just enjoy the cartoon for its own sake. Your choice! There will be a new cartoon on the home page each week so why not start your week with a challenge to the gray cells?

Good captions are welcomed and will be acknowledged. Send them to editor@amqi.com (include the cartoon date)

Jan 24



Jan 31



46 New Articles Now Accessible from the Resource Library

SOMETHING FOR EVERYONE

46 New Articles have been added to the Library Collection.

Since 1997 the American Public Works Association have held a special Asset Management Stream in their annual conference and the papers for these sessions have been edited and published by the National Research Council of Canada.

Links to these papers have now been entered in the Library and you can search for them by key word or if you wish to browse the entire collection, just search on "APWA AM Papers".

Enjoy!