



With new waves of privatisation on the horizon (see Ross Gittins, Sydney Morning Herald, today, March 10, 2014) it is a good time to review the difference between private sector involvement in the provision of infrastructure on a fee for service basis, and a PPP or Private-Public-Partnership.

Ross Gittins asks: "So how can the states do a lot more infrastructure investment without increasing their debt levels? By privatising existing businesses and reinvesting the proceeds in new infrastructure. [This is what Hockey hopes to encourage](#). One disincentive the states face is that, as well as paying them dividends, the businesses the states own in effect pay company tax to their state owners, whereas privatised businesses pay company tax to the feds."

This is an interesting political point, but I would like to address some of the asset management issues - those issues that determine whether the *community* (as distinct from different levels of government) win or lose.

So in this issue we look at the question of Private-Public-Partnerships - and what constitutes a true 'win-win' partnership.

True Partnerships offer great benefits, but most of what goes by the name of PPP is not a partnership arrangement.

Here I look at the critical differences. Then I turn to Alasdair McClintock who, in an earlier issue of SAM, and as part of a debate on the pros and cons of PPPs, delivered a rather negative, but wryly amusing, interpretation.

Do you know enough to argue a sound case with your decision makers?

Think, benefit - and enjoy!
Penny

Dr Penny Burns, Editor, AMQ International
08 8359 0559 www.amqi.com



Public Private Partnerships

The danger of Three letter acronyms

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. That is the problem with 3 letter acronyms like PPP, after a while, no one is quite sure what they mean, but equally no one is inclined to question what is meant. PPP, for example, could be interpreted as Public-Private-Participation or something similar, (thus encompassing practically everything other than a government monopoly) and increasingly this seems to be what is happening.

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.

Recognising a true Partnership

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?

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 – ask yourself, does the more money the private sector makes, mean 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

Case 1. 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)

Case 2. 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)

Case 3. 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) – *a partnership?*

Not yet. 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)

Case 4. 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.

Take, as an example the SA Government’s business arrangement with South Australian Water outsourcers in the ‘90s to provide overseas and interstate markets for the SA water industry. This was a partnership in that they had a joint venture to increase exports. The company profited by the sales made by its own company, the government profited by the boost to the SA economy from all companies in the water industry, so they both had a share of the benefits. Both the Government and the Company jointly promoted and developed the water industry, so there was shared resources and shared decision making. Well, there was - in theory! But the contract was a convoluted one in which, as well as promoting the SA water industry, the private company also managed the water assets on a ‘fee for service’ basis. It was dissatisfaction with this side of the contract that led to the contract not being renewed. The new contract now has an ‘open book’ arrangement and a greater degree of transparency and genuine sharing.



As you can see from the above, most arrangements made between the Public and Private Sectors in this country 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, in the part of the contract that worked well, the chosen measure of growth in the water economy was simply ‘exports’, defined clearly as both interstate and overseas sales and services. and measured independently by the ABS

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 **SAM Issue 102** on British Waterways). This company is able to use the network of British Waterways canals 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 in the consortium, 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

From all, British Waterways earned an income to aid it in its management, made it independent of government largesse and promoted community use of the canals.

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 asset management, 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.

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 that are clearly win-win
- 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.

Partnerships and Fee for Service Contracts

Most of what are called PPPs are NOT Partnerships, they are 'fee for service' deals and, unlike partnerships, what the private participant gains comes out of the public participant's pocket, just as in any 'fee for service' contract.

IF the private sector can provide the service at a real cost far less than the public sector would be able to do, and **IF** this real cost covers the private sector markups and any service reductions, **THEN** there is potential for community gain even in non-partnership arrangements.

A matter of perspective:

Submarines and U-boats



As an English 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.

For the perspective of one who has been involved in such non-partnership arrangements and has a rather negative view of them, we now turn to Alasdair McClintock

In the 2002 ATEM-AAPPA Conference held in Queensland, **Alasdair McClintock**, Director Property and Facilities Division, University of Queensland, took the CON side of this debate and his paper is presented here, with his permission. Alasdair has had experience with many procurement methods for capital projects including turnkey, design and construct contracts and novated leases. However he remains a cynic and mounts a strong argument *against the motion, that*

“The house moves Private Public Partnerships/ Private Finance Initiatives are the way to go”

What is a PPP?

I'll start by admitting I am finding it hard to find out quite what is meant by Public Private Partnerships/Private Financing Initiatives. They are being put forward as models where the private sector may provide the dollars, undertake the construction, provide ongoing maintenance and managerial services, while the public sector sticks to core business. Presumably in our case teaching, learning, research.

Risk Sharing

‘Isn’t that what BOO and BOOT contracts are all about?’ I ask.

‘Not really’ is the reply. ‘Anyhow that is a term from the bad old days’. ‘Could we call it a Joint Venture?’

“That’s putting it very simply. PPP’s and PFI’s value add” they reply. And then they come out with the classic oxymoron: “ It’s about risk sharing and minimising costs.”

See Also “The Public Demise of a Private Hospital” pp. 315-317 the Latrobe Hospital contract.

When it was devised, in 1999, it won plaudits around the world for its daring. No other contract before had attempted to shift so much risk onto the private sector.

My concern, in a review of the contract approach at the time, was with whether the private sector could stand up under the strain.

As it turned out, it could not.

You will find this in the Archives, SAM 92 on RISK - Managing it Strategically

A case in point

We have just discovered a classic on our campus. The chiller drain on one of our new buildings was connected to the stormwater. Consequently we have been putting some choice little chemicals into the river. Yes I suppose the builder was sharing the risk - the risk that it would ever be discovered. Well it has! And it sure minimised the price but not the cost!

It seems with PPP's and PFI's the core in 'Core Business' can become as thin as the stork. I understand in England, the Bobby is back on the beat and Bob the builder is behind the police desk doing the paperwork like processing traffic fines. Quite clearly, it's not about sticking to the knitting.

I hear some builders are lending their hand to a spot of nursing. Then I'm told that with a dose of PFI's and PPP's schools, hospitals can all be built with no major upfront capital commitment.

Finance

Bob the Builder or banks, superannuation funds or insurance companies finance the work. There's no holding back waiting for funds. Everybody's employed and society gets immediate benefits from these new facilities. No wonder politicians like it. It's a sure winner for catching votes. No wonder Bob the Builder likes it. Long term maintenance contracts give a more stable cash flow Everybody's a winner and everybody gets their mark up!

So should we encourage our VC's to wallow in the waters of PPP and PFI? No! Because it's a falsehood that's why. It's just a devious way for borrowing money. Whatever way you look at it, it's mortgaging the future! If you want to do that to future generations just go out and borrow the money. Be straight about it: 'I'm going to leave behind me a great big sodding debt!' And keep it clean. Don't snare them into bodgy deals with Bob the Builder and Freda the Financier. In the longer term they are all dead

How many of the high profile builders are still around that were here say 20 years ago?

Where's Cintra, Kratzman, Graham Hall, Kern, KD Morris? The lawyers say don't worry. You can cover for builders ceasing business by clauses in your contract.

How many of those builders of twenty years ago have the same corporate structure? Hollands, Walters, Baulderstones, Barclays. The lawyers say don't worry. You can cover for mergers, take overs, foreign ownership by clauses in the contract. I want operational control not contractual clauses!

We can ask the same questions about the stability of possible financial partners: Remember HIH? I'm sure AMP and SunCorp are rock solid albeit Paul Batchelor and Steve Jones's personal gains might have funded a general purpose building or two. A solution to your personnel problems?

Between a rock and a hard place

Look, I can see if a VC chancellor has a hopeless facilities section that is stagnated and moribund she or he might be tempted into the waters of PPP and PFI. It's another form of outsourcing. Bob the Builder and Freda the Financier will take care of all the capital works and facilities management while the VC gets on with core business and these days maybe a bit of spin doctoring.

I know I'm a cynic but I have yet to be convinced by those companies knocking on my door and telling me about the amazing successes in England. What do I care? This is Australia. It may well work in England. The population of Greater London is equivalent to that of Australia. Therefore they have a critical mass to support a market. They can afford to employ people working full time in maintenance. I can't even get a subbie back during the defects liability period. What chance have I with the maintenance under a PPP contract?

Whose in control?

I can just hear the conversation: **'Reg, can you get over to the Uni a light has failed.'**
'I'm in Toowomba mate' Will he jump into his ute with his rottie in the back and wing his way to the Uni?

No! He'll wait until a dozen bulbs have blown. Of course, the experts will tell you this will all be covered with your KPI's. If they don't provide the service, you don't pay. That's not the point! I want a service. Withholding payment doesn't resolve the problem. I want control over that service and I don't want to be dependent on the performance of independent builders, financiers, lawyers and a plethora of contracts and terms of agreement.

What if my cynicism is unfounded? The PPP all goes swimmingly but I want to make changes to the building and services provided?

Oh that can be covered in the contract and terms of agreement, the experts cry.

In Conclusion

Colleagues I put it to you for PFI and PPP read AA and LFL. They are complicating the process of borrowing, building and maintenance and putting it beyond your control. How can costs be minimised when there will be so many middlemen in your own state, interstate and possibly overseas, all looking for a mark up? Cost can only be minimised at the expense of quality of product and service. They say don't consider PPP's or PFI's unless the capital budget is in excess of \$50 million because legal fees are so great. Doesn't that tell you something?

Colleagues I put it to you that if you wallow in the waters of PPP's and PFI's they are murky, with rip tides and full of sharks and loan sharks. Colleagues for PFI read AA. That is accounting alchemy for PPP read LFL: Lollies for lawyers.

And remember KPI can also stand for - Can't Possibly Implement.

Footnote: Many studies, particularly in the UK, have sought to prove or disprove the notion that PPPs, or rather private participation of all kinds, and often not differentiated, have been beneficial. Despite early claims of '10% savings', the studies have failed to demonstrate this, or even to describe the likely source of the savings - unless it is by reducing the scope of activities carried out.