Public Private Partnerships

Public Private Partnerships (PPP) is defined are partnerships between the public sector and the private sector for the purposes of designing, planning, financing, constructing and/or operating projects which would be regarded traditionally as falling within the remit of the public sector. Infrastructure projects such as roads and bridges are prime examples[1]. Key features of infrastructure PPPs include:

- the private sector invests in infrastructure and provides related services to the government
- the government retains responsibility for the delivery of core services, and
- arrangement between the government and the private sector are governed by long-term contract. It specifies the services the private sector has to deliver and to what standards. Payment depends on the private partner meeting these standards.

PPPs take many forms such as design, construct and maintain, and build, own, operate and transfer. The choice of form depends on factors such as the government's objectives, the nature of the project, the availability of finance, and the expertise that the private sector can bring. The main applications (by value) of PPPs in Australia and overseas are transport-related. However, PPPs are increasingly being used in social infrastructure such as hospitals and schools. To our knowledge there has been no detailed analysis of public-private partnerships to assess their impact using gender analysis tools.

An example of the increasing role of the private sector is roads. Whereas the public sector used to design, construct and maintain roads, private contractors are increasingly undertaking these activities. A major departure from traditional practice has been the use of the private sector not only to construct infrastructure but finance and operate it as well. This is perhaps most evident in NSW and Victoria whose governments have used build, own, operate and transfer (BOOT) arrangements for toll roads in Sydney and Melbourne. Victoria and South Australia have also adopted franchise arrangements for some public transport services. While the focus of past private sector involvement has been economic infrastructure such as roads, an emerging trend seems to be towards private sector involvement in the provision of social infrastructure such as hospitals and schools. For example, the Port Macquarie Base Hospital is the first public hospital that a private firm manages on behalf of the NSW government, and a private company won the contract to design, build and operate the prison at Junee.

There are a number of reasons governments are attracted to PPPs. These include:

- potential for value for money. The forms that value for money can take include: lower construction costs, lower operating costs and perhaps more efficient maintenance in the long run, than comparable public sector projects
- the transfer of risk is a driver of value for money. Risk can take many forms including those relating to construction, the size of the market (demand risk), the cost of operations and maintenance, declarations of force majeure, and changes to the law and regulations.
- early project delivery
- gains from innovation
- obviating the need to borrow to finance infrastructure investment, and

- access to improved services.

Partnership between the public and private sectors delivers overwhelming efficiencies in time and cost, as well as unleashing private sector expertise and innovation that enhances and improves infrastructure assets and services.[2]

Forms of Public-Private Involvement in Infrastructure are:

- Traditional Design and Construction (TDC) - The Government, as principal, prepares a brief setting out project requirements before inviting tenders for the design and construction of the project. Private sector contractors undertake to design the project in accordance with the brief, and construct it for an agreed sum, which may be fixed or subject to escalation.
- Operation and Maintenance Contract (O&M) - These projects involve the private sector operating a publicly-owned facility under contract with the Government.
- Lease - Develop - Operate (LDO) -This type of project involves a private developer being given a long-term lease to operate and expand an existing facility. The private developer agrees to invest in facility improvements and can recover the investment plus a reasonable return over the term of the lease.
- Build - Own - Maintain (BOM) - This type of arrangement involves the private sector developer building, owning and maintaining a facility. The Government leases the facility and operates it using public sector staff.
- Build - Own - Operate - Transfer (BOOT) - Projects of the Build-Own-Operate-Transfer (BOOT) type involve a private developer financing, building, owning and operating a facility for a specified period. At the expiration of the specified period, the facility is returned to the Government.
- Build - Own - Operate (BOO) - The Build-Own-Operate (BOO) project operates similarly to a BOOT project, except that the private sector owns the facility in perpetuity. The developer may be subject to regulatory constraints on operations and, in some cases, pricing. The long term right to operate the facility provides the developer with significant financial incentive for the capital investment in the facility.

Governments – both federal and state – are finding the many calls on the public purse make it impossible to provide the capital needed for all the hard infrastructure the nation requires. This won't change as spending on critical social programs continues to take a big slice of tax revenues[3]. The ability to attract this capital will depend on governments and the private sector agreeing on the right Public-Private Partnership models and getting the risk/reward ratios right. Superannuation funds are one obvious source of funds but the projects themselves must be sufficiently attractive. Aging infrastructure is increasingly expensive to maintain. New infrastructure to accommodate growth, new technologies and a desire to live in a less carbon intensive world is expensive.

Recent public private partnerships included:

- The New Royal Adelaide Hospital being successfully contracted. It is Australia's largest ever health PPP, weighing in at around $1.7 billion.
- Sunshine Coast Hospital PPP in Queensland valued at around $2 billion, with three consortiums shortlisted to advance to the detailed bid phase.
- Comprehensive Cancer Centre in Victoria is about to be awarded
- Western Australia has been actively deepening opportunities for private investment in its projects, too, with the Mundaring Water Treatment PPP; the QEII carpark project and soon, the Goldfields Prison.
- New South Wales is considering a PPP for a planned convention centre and the North West Rail project to be delivered under PPP arrangements.

It is well recognized that much of Australian infrastructure market requires significant improvement in this regard, in recent years some clear features that characterize successful projects have emerged. There are four key features that seem to typify a successful project:

- They have a champion within government at a political level to drive outcomes;
- There is confidence within the bureaucracy to execute;
- Government support is paramount, regardless of how the project is financed; and
- Experienced advisers with specific sector expertise are involved in the process.
  Increasingly public private partnerships are being used in human services.

In the United States, States have provided support and funding for public-private partnerships and collaborations to provide comprehensive systems of early care and education for young children. Anticipated advantages include leveraging potential funding, coordinating and aligning resources, increasing availability of technical assistance, and building public will to support policies and funding.

There are a number of examples of State public-private partnership structures and collaborative strategies that receive State funding to improve the quality of and expand access to early care and education programs[4].

Partnerships Victoria

The *Partnerships Victoria* policy, introduced in 2000, provides the framework for a whole-of-government approach to the provision of public infrastructure and related ancillary services through public-private partnerships. There are 21 *Partnerships Victoria* projects in existence worth around $10.5 billion in capital investment.

The policy focuses on whole-of-life costing and full consideration of project risks and optimal risk allocation between the public and private sectors. There is a clear approach to value for money assessment and the public interest is protected by a formal public interest test and the retention of "core" public services. Since 2002-03, *Partnerships Victoria* projects have accounted for approximately 10 per cent of annual public asset investment commitments. *Partnerships Victoria* aims to use the innovative skills and abilities of the private sector in a way that is most likely to deliver value for money and improved services to the community.

Partnerships Victoria is most useful for major and complex capital projects with opportunities for innovation and risk transfer[5].

Attachments

Sharp, L, Tinsley, F. (2005), PPP policies throughout Australia: A comparative analysis of public private partnerships, *Public Infrastructure Bulletin*, Volume 1, Issue 5.

NSW Schools PPP Project 1 – Infrastructure Partnerships Australia
www.infrastructure.org.au/DisplayFile.aspx?FileID=36, [Accessed 1 September 2011]

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[1] Webb, R., Pulle, B. (2002), *Public Private Partnerships: An* Introduction, Research Paper no. 2002-03, http://www.aph.gov.au/library/pubs/rp/2002-03/03rp01.htm#whatareppp
[2] Infrastructure Partnership Australia (2011) http://www.infrastructure.org.au/Content/CaseStudies.aspx [Accessed 1 September 2011.
[3] Infrastructure Partnerships Australia (2011), *Partnerships 2011 Infrastructure and Investment Conference 2011*, http://www.infrastructure.org.au/Content/Partnerships2011ConferenceMagazine.aspx [Accessed 1 September 2011]
[4] National Child Care Information and Technical Assistance Center (2011), Public-Private Partnerships Supporting Early Care and Education and After-School Care, http://nccic.acf.hhs.gov/poptopics/public-private.html [Accessed 1 September 2011]
[5] Partnership Victoria (2011) http://www.partnerships.vic.gov.au/CA25708500035EB6/0/B2FD4F20E80A14B4CA2570AE00050F22?OpenDocument [Accessed 1 September 2011]