

## Public–Private Partnerships: An International Performance Review

### Essays on Service Delivery and Privatization

*Public–private partnerships are enjoying a global resurgence in popularity, but there is still much confusion around notions of partnership, what can be learned from our history with partnerships, and what is new about the partnership forms that are in vogue today. Looking at one particular family of public–private partnerships, the long-term infrastructure contract, this article argues that evaluations thus far point to contradictory results regarding their effectiveness. Despite their continuing popularity with governments, greater care is needed to strengthen future evaluations and conduct such assessments away from the policy cheerleaders.*

Public–private partnerships (PPPs), loosely defined as cooperative institutional arrangements between public and private sector actors, have gained wide interest around the world. But few people agree on what a PPP actually is. Some see it as a new governance tool that will replace the traditional method of contracting for public services through competitive tendering. Others see PPPs as a new expression in the language of public management, one intended to include older, established procedures of involvement of private organizations in the delivery of public services (Linder 1999). Yet others view PPPs as a new way to handle infrastructure projects, such as building tunnels and renewing harbors (Savas 2000). Then there are also a number of people who seem to use the terms “contracting” and “public–private partnership” almost interchangeably.<sup>1</sup>

The benefits or otherwise of private service provision versus government service provision and intervention in the economy have driven an important continuing debate. There is a certain amount of neologism attached to the use and discussion of PPPs, though. That is, PPPs are hailed as the main alternative to contracting out and privatization, and thus they are seen as a qualitative jump ahead in the effort to combine the strong sides of the public sector and the private sector. Many articles and papers—including this one—are devoted to the study of PPPs because the concept promises a new way of managing and

governing organizations that produce public services. Yet history indicates that there has always been some degree of cooperation between the public sector and the private sector (Wettenhall 2003, 2005). The stories of private contracting in the public sphere are numerous: Mathew the private tax collector from the Bible; the private cleaning of public street lamps in 18th-century England; the private railways of the 19th century; or the fact that 82 percent of the 197 vessels in Sir Francis Drake’s fleet, which successfully conquered the Spanish Armada in 1588, were private contractors to the Admiralty.<sup>2</sup> In recent history, the commercial company Falck (at one stage a part of the global company Group 4 Securicor) has partnered with the Danish public sector for nearly 100 years. We might view many of these arrangements as early cooperative forms of partnership.<sup>3</sup> Throughout this time, arguments about efficiency, service quality, and accountability in the two sectors have been well rehearsed.<sup>4</sup> These days, public–private partnerships have become a central tenet of “third way” governments.

So, why an article on PPPs if nobody seems to know precisely what they are, yet everyone is talking about them? The reason is threefold: First, there is a need to reexamine the different meanings and definitions given to PPPs to find out whether the concept is worth keeping and using for empirical studies. PPPs challenge the public sector in many ways, and policy makers, public managers, financial stewards, and citizens may respond differently in debates. Second, there is a critical need to review our experience with PPPs as they have evolved throughout the world. Even though the precise boundaries surrounding PPPs are still emerging, there are now sufficient experiments and developments taking place around the world going by the name of PPPs to draw empirical lessons as part of the broader history of government–business relationships. By gathering such evidence from different countries, we can better grasp what PPPs are and how they should be understood. Third, governments nowadays are beginning to enter into long-term

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business relationships with private partners under more sophisticated and far-reaching contracts than ever before. The huge financial commitments being made by governments in the name of citizens make such inquiries even more important. In the case of the Tony Blair government, for example, Edwards et al. (2004) report a commitment of £35.5 billion by the U.K. government for 563 private finance initiative (PFI) deals. In other countries, too, partnerships are popular—in Australia, for instance, more than A\$20 billion in private finance was recently being channeled into public assets over five years, according to Gray (2002).

This paper is structured as follows. First, various definitions of the PPP concept are reviewed. Second, we focus on the long-term infrastructure contract as one form of PPP and evaluate the performance of this partnership form by articulating evaluation criteria and then reviewing a range of available evidence from the literature on this family of PPPs. The article ends with a brief discussion on evaluation observations and implications.

### Defining the Public–Private Partnership Concept

Scholars have been divided in their thinking about PPPs. The greatest divide seems to be between researchers who view PPPs as a tool of governance and those who think it is a “language game” (Teisman and Klijn 2001, 2002). For many people, PPPs are connected with infrastructure projects and are institutional arrangements for cooperation expressed through the establishment of new organizational units. In the world of infrastructure projects, PPPs are also seen as financial models that enable the public sector to make use of private finance capital in a way that enhances the possibilities of both the elected government and the private company. Let us examine the theme of the institutional arrangement or governance tool first and then return to the discussion of PPPs as a discursive term.

#### Public–Private Partnerships as Organizational and Financial Arrangements

Most views of partnerships emphasize that PPPs are established because they can benefit both the public and private sectors. The line of reasoning is simple—both the public and private sectors have specific qualities, and if those qualities are combined, the end result will be better for all (Vaillancourt Rosenau 2000, 1). There is agreement in the literature that risk sharing is a major consideration for both sectors in combining these qualities. In addition to future uncertainty, a further component is the knowledge that not everything can be written into a detailed contract (Williamson 1985). Cooperation may entail some new product or service that no one would have thought of if the public organizations and private organizations had kept to themselves. Finally, a part-

nership involves a long-term commitment that may continue for a number of years.

More formally, Dutch public management scholars Van Ham and Koppenjan define a PPP through an institutional lens as “cooperation of some sort of durability between public and private actors in which they jointly develop products and services and share risks, costs, and resources which are connected with these products” (2001, 598). This definition has several advantages: First, it underlines cooperation of some durability. The collaboration cannot only take place in short-term contracts. Second, it emphasizes risk sharing as a vital component and other factors to share as well. Both parties are in a partnership together and on equal terms in the sense that both have to bear parts of the risks involved. There can be many types of risks. Third, they jointly produce something (a product or a service) and, perhaps implicitly, both stand to gain from mutual effort.

Infrastructure projects involve many forms of contractual arrangements (see Savas 2000 for an overview). These arrangements include BOT (build-own-transfer), BOOT (build-own-operate-transfer), as well as so-called sale-and-lease-back arrangements, whereby local governments sell their buildings and then rent them back on a 20- or 30-year contract from a financial organization. It is no surprise that with public infrastructure, a narrower definition of PPPs exists. For instance, Campbell (2001) suggests simply that “a PPP project generally involves the design, construction, financing, and maintenance (and in some cases operation) of public infrastructure or a public facility by the private sector under a long-term contract.”

A wider interpretation of partnership that keeps the organizational aspect but sees it in interorganizational terms is to conceive of policy networks as special arrangements for public–private cooperation. The literature on policy networks and governance is huge (see Börzel 1998; Kickert, Klijn, and Koppenjan 1997; Klijn and Koppenjan 2000; Milward and Provan 2000). In this literature, the intermingling and cooperation of public and private actors in inter-organizational settings is emphasized.<sup>5</sup>

**Table 1** A Typology of Public–Private Partnerships Based on Financial and Organizational Relationships

Finance/ Organization	Tight Organizational Relationship	Loose Organizational Relationship
Tight financial relationship	Joint-venture companies Joint stock companies Joint development projects Policy communities	BOOT, BOT, Sale- and-lease-back
Loose financial relationship		Issue networks

Overall then, PPPs seem to have at least two dimensions.<sup>6</sup> The first dimension is finance: How are public and private actors engaged financially in PPPs? The other dimension is organizational: How tightly organized are public actors and private actors?

There are also many other uses for the PPP concept. Osborne (2001) notes that in addition to being a cornerstone of New Labour's stakeholder society in the United Kingdom, PPPs have also become a tool for providing public services and developing civil society in such postcommunist regimes as Hungary, as well as a mechanism for combating social exclusion and enhancing community development under European Union policy. In the United States, PPPs have traditionally been associated with urban renewal and downtown economic development. As Osborne puts it, PPPs have "been central to national and state government initiatives to regenerate local urban communities, as well as often arising out of community-led attempts to deal with the crisis of government in American communities." The PPP concept seems to encompass at least five families of arrangements (see also Weihe 2005):

- 1. Institutional cooperation for joint production and risk sharing—an example of this institutional emphasis is the Netherlands Port Authority (Klijn and Teisman 2005; Van Ham and Koppenjan 2001, 2002)
- 2. Long-term infrastructure contracts that emphasize tight specification of outputs in long-term legal contracts, as exemplified by the United Kingdom (Berg, Pollitt, and Tsuji 2002; Ghobadian et al. 2004; Grimsey and Lewis 2004; Osborne 2001; Perrot and Chatelus 2000; Savas 2000)
- 3. Public policy networks in which loose stakeholder relationships are emphasized (Vaillancourt Rosenau 2000)
- 4. Civil society and community development in which partnership symbolism is adopted for cultural change, as in Hungary and Europe (Osborne 2001)
- 5. Urban renewal and downtown economic development—in the United States, for example, a portfolio of local economic development and urban renewal measures are pursued (Bovaird 2004; Osborne 2001)

It is clear that these PPP families cover a wide array of governance types and are more than just the PFI experience of the United Kingdom or the contracting practices of the United States.<sup>7</sup> And though they are not exclusive, they nonetheless seem to largely cover

different territories, with each emphasizing a different general characteristic or mechanism. Each of these PPP families also has implications different from those of traditional contracting arrangements: longer-term impacts, a larger potential role in infrastructure decision making, bigger financial flows, and greater capacity for risks to be shifted to either side of the partnership.<sup>8</sup> And each may have different accountability implications to ensure that this form of governance maintains public accountability at a high level.

**Public-Private Partnerships as a Language Game**

The broad alternative view of PPPs is as a language game. There are certainly, as Linder (1999) puts it, "multiple grammars" to the meaning of the PPP. Under this philosophy, the language of PPPs is a game designed to "cloud" other strategies and purposes. One such purpose is privatization and the encouragement of private providers to supply public services at the expense of public organizations themselves. Privatization proponent Savas (2000) openly admits in his book that "contracting out" and "privatization" are expressions that generate opposition quickly and that expressions such as "alternative delivery systems" and now "public-private partnerships" invite more people and organizations to join the debate and enable private organizations to get a market share of public service provision. Thus, Teisman and Klijn (2002), Linder (1999), and Savas (2000), writing from different perspectives, all agree that the use of the term "public-private partnership" must be seen in relation to previous, more pejorative terms, such as "contracting out" and "privatization."

It seems fair to say that a number of governments have tried to avoid using the terms "privatization" and "contracting out" in favor of speaking about partner-

ships. That may be a part of a general trend within public management of needing to renew the buzzwords from time to time, or perhaps it reflects the practice of advancing the same policy but under a different and more catchy name.

Viewed from this perspective, researchers should be careful about how they approach the empirical analysis of PPPs.

Analyzing the language game and how governments deliberately change discourse in the pursuit of getting policy votes from more supporters has always been central to public policy analysis, and a number of researchers have dealt with the language of public management reform and how new practices are introduced through the construction of meaning (Clark and Newman 1997).<sup>9</sup> There is no doubt that PPPs

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have become a favorite expression when describing new institutional arrangements for governments. The Blair government in Britain is famous for putting an emphasis on public–private cooperation and on PPPs especially.

The language question is an issue of some significance. If partnerships are characterized historically to encompass the breadth of past government–business relationships, they bring with them the aura of almost all economic wealth-creating activities. Though advocates are quick to be associated with such positive outcomes,<sup>10</sup> they are also quick to selectively carve out what today constitutes the PPP policy arena in local jurisdictions. Of course, language games are at the heart of all public policy debates. But the pursuit of such language games in the PPP arena can lead, for example, to the amusing situation in which two governments on opposite sides of the globe see PFI-type PPPs in opposite ways. Consider the long-term infrastructure contract family of PPPs exemplified in the United Kingdom’s family PFI policy. In Victoria, Australia, such PPPs are argued to have nothing to do with privatization and are vigorously separated from this policy. In the United Kingdom, however, the Treasury sees the two as inherently connected and speaks of PPPs as directly equivalent to privatization (Her Majesty’s Treasury 2003). In other words, the same PPP phenomenon is thus being framed in two opposite ways for local political gain.

So, PPPs are a broad church of many families. It is not a simple matter to judge whether PPPs are (1) the next chapter in the privatization story; (2) another promise in our ongoing attempts to better define and measure public sector service performance;<sup>11</sup> (3) a renewed support scheme for boosting business in difficult times; or (4) a language game camouflaging the next frontier of conquering transaction merchants, legal advisors, and merchant bankers pursuing fat commissions. Perhaps the PPP phenomenon is all of these, and we need to understand the performance of each partnership family member better.

### Evaluation Frameworks

A comprehensive evaluation of the PPP phenomenon would require assessments of all five partnership family types. In addition, an evaluation of PPPs would logically begin with the objectives set by government in initiating the partnership. However, vague partnership goals are typical, and for the multiplicity of partnership arrangements possible, a huge potential array of goals is possible for the five PPP families. As a consequence, our discussion here will focus on one partnership family type—the PFI model from the United Kingdom. For this one mode of PPP—PFI infrastructure provision—we will briefly evaluate the degree to which the part-

nership model appears to have been successful. Looking at the international empirical experience, how have PFI-type PPPs performed? How have these PPP outcomes for citizens compared with alternative approaches available around the world, and who have been the biggest winners and losers in these changes?

Many conceptual frameworks are available to assist us in better understanding and managing PFI type PPPs. They remind us that such PPPs cover a continuum of operations (including financing, design and development, operation, and ownership) (Asian Development Bank 2000; AusCID 2003; European Commission 2003)<sup>12</sup> and may be based on either public financing or private financing arrangements (Jones 2002; State Government of Victoria 2001). Few restrictions exist on the policy areas to which such PPPs may be applied, with partnerships including the construction of buildings, tunnels (Hodge 2005), port development (Van Ham and Koppenjan 2001), sports stadiums (Greve 2003), wastewater management systems (Johnson and Walzer 2000), construction and operation of prisons, education (Levin 1999), and transportation (Klijn and Teisman 2001), as well as such social policy arenas as human services and welfare service provision in the United States (Rom 2000; Romzek and Johnston 2002) and emergency services (Greve and Ejersbo 2005).

Yet another framework concerns the type of “evidence” marshaled in our evaluation of partnership success. Three possible sources of evidence exist: policy rhetoric, the legal contract, and historical outcomes experience (Hodge 2004a). These vary from the weakest proof of success at the policy rhetoric end to the strongest proof of success at the historical outcomes end. So, after the dust has settled, how have PFI-type PPPs performed?

### Evaluating PFI-Type Partnerships

First, we might observe that the reasons behind PFI-type PPPs have changed over time and are—like the rationale behind outsourcing policy decisions—somewhat slippery. As Edwards et al. (2004) suggest, the rationale seems to have begun with broader macroeconomic concerns in terms of public sector debt levels and then moved to more direct value-for-money concerns. The (PFI) PPP phenomenon was thus initially underpinned by two promises. These two promises were that, compared to traditional infrastructure provision arrangements, the PPP model would lead to (1) reduced pressure on government budgets, allowing a greater capacity to spend on other policy priorities because of the use of private funding for infrastructure; and (2) better value for money in the provision of public infrastructure.<sup>13</sup>



Like its cousin privatization, the PFI-type PPP concept has been the subject of much rhetorical assessment and commentary. The extremes display a remarkably similar and colorful pattern of salesmanship and praise on one hand and stinging criticism on the other. Bowman (2001), for instance, reports that PPPs are seen by some in the United Kingdom as “yet again screwing the taxpayer,” with private project sponsors being caricatured as “evil bandits running away with all the loot,” and London Underground issues being labeled as “Son of Fat Cat.” Similar attitudes in Canada have seen PPPs there being described in such terms as the memorable phrase “Problem, Problem, Problem” (Bowman 2000). On the other side of the coin, PPPs have been dubbed a “marriage made in heaven” by other commentators who appreciate the allure of better-defined and controlled services through tight contracts. We are certainly now drowning in promises by governments around the world that PPPs will provide public sector services more cheaply and quickly, with reduced pressure on government budgets. Strengthened monitoring and accountability are also claimed, with stronger business and investor confidence implicit in this reform.

Serious evidence on the veracity of these claims and counterclaims is less voluminous—indeed, it is one of the surprises of the existing PPP literature to find that for the size of the financial commitments to PPPs being entered into by governments around the globe, the evidence on cost and quality gains for techniques such as the PFI seems limited. Given that PPPs are an inherent part of the ongoing privatization debate, perhaps this is not so surprising. But stewardship in the public interest demands that this evaluation deficit be addressed.

Looking at the first of these two promises, the claim is that private finance enables governments to more easily shift resources to other policy priorities. But does private financing provide more public infrastructure compared to traditional publicly funded infrastructure? Research in the United Kingdom through the 1990s suggests this is not the case. Privately funded infrastructure in the United Kingdom has simply replaced what would have been provided under public funding (Hall 1998). In addition, we would logically expect that the provision of public infrastructure through initial private financing would not reduce the ultimate liability of government for such infrastructure. The early claim that private financing of public infrastructure reduces pressure on public sector budgets and provides more infrastructure than is otherwise achievable is seen, therefore, to be largely false.<sup>14</sup> A mechanism through which governments may turn a large, once-off capital expenditure into a series of smaller, annualized expenditures has simply been provided.

There is one important exception, however. In the case in which a government enters into an infrastructure deal requiring users or citizens to pay directly, such as tolls on a new road, it is clear that there is little impact on public budgets. Such an arrangement does reduce pressure on public sector budgets, but only because government has essentially purchased the infrastructure through the private credit cards of future road users rather than using its own resources.

We look now at the second of these two promises, the claim that PPPs better enable value for money to be achieved in the provision of public infrastructure. This claim is a more worthy candidate for careful assessment. How does the evidence here stack up?<sup>15</sup> Early work by Hall (1998) in his careful analysis of the initial U.K. experience notes that value for money in PFI schemes depends on any gains in efficiency through private sector involvement more than compensating for higher finance costs and that it is difficult to obtain clear evidence on this in the absence of an accurate and uncontroversial public sector comparator. He presents evidence of early PFI deals in the United Kingdom that achieved significant savings overall for roads projects (despite two of the four projects apparently providing better value for money under traditional procurement methods) and two prison contracts that generated about 10 percent savings compared to publicly financed prisons (but with all of these savings coming from one prison). Added to this is the National Insurance Recording System contract, which projected some 60 percent cost savings compared to an equivalent public sector development. These estimates however, are provided within the general context of the initial U.K. contracts being subject to considerable uncertainty and are qualified to the extent that managers may have aimed to report cost-saving successes for political reasons, knowing that outcomes for long-term contracts are always uncertain. Overall, Hall (1998) sees the evidence on performance as nevertheless providing “some grounds for optimism.”

More prominent initial estimates of efficiencies to be gained through PPPs include a 17 percent cost savings figure from Arthur Anderson and Enterprise LSE in their analysis of 29 business cases, a 10 percent to 20 percent figure based on seven empirical cases from the National Audit Office (2000), and Shepherd (2000), who suggests cost savings of between 10 percent and 30 percent. In all instances, savings in these business cases are mainly attributable to the calculus of risk transfers from the public to the private sector. The later analysis of Pollitt (2002) also gives a careful “pass mark” to PPPs. He observes that in the late 1990s, even the U.K. Treasury did not appear to know what its PFI commitments were and that unions were critical of the PFI initiative, and he cites the Institute for Public Policy Research (2001), which judged PFIs

as being “successful for prisons and roads but of limited value to date in hospitals and school projects.” Importantly, he summarizes the findings of the National Audit Office, which show that in a sample of 10 major PFI case evaluations undertaken, the best deal was probably obtained in every case, and good value for money was probably achieved in eight of the 10 cases. More recent support has come from Mott-Macdonald (2002) and the National Audit Office (2003), both of which report PPPs as being delivered on-time and on-budget far more often than traditional infrastructure provision arrangements.<sup>16</sup>

As has been the case for its privatization parent, the evidence on (PFI) PPP effectiveness is not all one way, however. From the United Kingdom, authors such as Pollock, Shaoul, and Vickers (2002) and Shaoul (2004) have been highly critical of PFI arrangements across a wide range of services, including roads, hospitals, and rail transportation infrastructure. Likewise, Monbiot (2002) famously labeled PPPs as “public fraud and false accounting ... commissioned and directed by the Treasury” in a stinging attack accusing the U.K. government of failing to represent the public interest. Internationally, there has also been criticism. U.S. commentators such as Bloomfield, Westerling, and Carey (1998) observe that in the case of a Massachusetts correctional facility, experience suggested lease purchase financing arrangements were 7.4 percent more expensive than conventional financing and that “inflated sales pitches” disguised the real costs and risks to the public. In Europe, Greve (2003) characterized the Farum PPP case study as “the most spectacular scandal in the history of Danish Public Administration,” resulting in higher taxes for the citizens of Farum, more debt for that local government, and a former mayor currently on trial in the courts. Australian PPP analyses, such as Walker and Walker (2000), have been similarly uncomplimentary, likening off-balance-sheet PPP infrastructure financing deals to the misleading accounting trickery of the worst entrepreneurial kind and judging that PPPs have eroded accountability to Parliament and the public. In support, they cite the Sydney Airlink BOOT project, in which the private project consortium expected to achieve a real rate of return of around 21 percent to 25 percent compared to the return to the public through government of 2 percent for the proposed rail link between metropolitan Sydney and Mascot Airport (Walker and Walker 2000, 204). They also report a pre-tax return to private investors of 24.4 percent for Sydney’s M2 Motorway, according to the New South Wales Auditor General.<sup>17</sup>

More recent global experience with (PFI) PPPs has also matched this pattern, and it has been as fascinating as it has been mixed. Five recent contributions view the empirical experience of partnerships in terms

of the PFI phenomenon. Boardman, Poschmann, and Vining (2005) review experience in North America, Shaoul (2005) and Pollitt (2005) each review experience in the United Kingdom, and English (2005) and Hodge (2005) review experience from Australasia. Their findings present some interesting contrasts. Pollitt, at one end, shows not only the popularity of PFI—the U.K. government typically raises some 15 percent to 20 percent of its capital budget each year through this mechanism<sup>18</sup>—but also its empirical success. Indeed, his conclusion after looking at five case studies is that, despite the lengthy and costly bidding process among a small number of bidders, and despite observing government’s extreme positive stance in the face of high-profile problems with individual PFI projects compared to the previous government-procurement system, “it seems difficult to avoid a positive overall assessment.” Thus, relative to what might have happened under conventional public procurement, Pollitt (2005) argues that projects under PFI “are [now] delivered on time and to budget a significantly higher percentage of the time ... with construction risks ‘generally transferred successfully’ and with ‘considerable design innovation.’” Importantly, though he acknowledges it is possible that many of the assumed benefits of PFI projects are hypothetically available through conventional procurement, the reality in his view is that these would not be achieved without the learning and leverage provided through the PFI initiative.

At the other end is the contrast provided by Shaoul’s recent evidence. In the context of the government’s rationale, itself described as an “ideological morass,” she presents a litany of failed PFI project examples: a value-for-money appraisal methodology biased in favor of policy expansion, the pitiful availability of information needed for project evaluation and scrutiny, and projects in which the value-for-money case rested almost entirely on risk transfer but for which, strangely, the amount of risk transferred was almost exactly what was needed to tip the balance in favor of undertaking the PFI mechanism. Added to this apparent manipulation of the public sector comparator process is the observation that in hospitals and schools, “the PFI tail wags the planning dog,” with projects changed to make them “more PFI-able,” highly profitable investments being engineered for private companies with “a post-tax return on shareholders’ funds of 86 percent,” several refinancing scandals, and conspicuously unsuccessful IT projects and risk transfer arrangements that in reality meant that risks had not been transferred to the private sector at all but were taken by the public. Not surprisingly, Shaoul (2005) concludes that, at best, PFI has turned out to be very expensive, with, moreover, a lack of accountability leading to difficulty in learning from past experiences. Partnerships, in her view, then, are “policies that enrich the few at the expense of the

majority and for which no democratic mandate can be secured.”

Other evidence from the United States and Australasia lies between these extremes. Boardman, Poschmann, and Vining (2005), for instance, note the difficulty of capturing transaction costs in any comparison between partnership and traditional project delivery and catalogue 76 major North American “P3” projects. They note that less than half of these P3s include a significant private financing role. Five transportation, water-supply, and waste-disposal projects are presented, showcasing a series of “imperfect” partnership projects with high complexity, high asset specificity, a lack of public sector contract management skills, and a tendency for governments to be unwilling to “pull the plug” on projects once under way—all conspiring against the simple notion that partnerships guarantee either political or commercial success. The authors particularly point to private entities being “adept at making sure, one way or another, that they are fully compensated for risk-taking” and even strategic behavior such as declaring bankruptcy (or threatening to go bankrupt) in order to avoid large losses. The tension here with governments needing to hold their nerve and watch commercial failures materialize as risks are borne by commercial entities, on one hand, and yearning to be viewed as successfully governing a growing and vibrant market economy, on the other, is clear.

The Australasian empirical evidence on PPP performance also appears patchy. English (2005) notes the failure of the Latrobe Regional Hospital case in the state of Victoria and provides a reminder of both the importance and the difficulty of value-for-money estimates. A 20-year BOO project, this arrangement failed only two years into the contract because of a commercial failure to understand the case-mix funding model, as well as ineligibility for additional top-up funding. Importantly, too, English notes that amid the appearance of full disclosure by the state government, crucial documentation in terms of public sector comparator calculations and financial arrangements underpinning the PPPs were still withheld from citizens and were not provided through Freedom of Information requests—imperfect PPP arrangements, indeed. The auditor general’s line in reviewing this situation was also interesting—apparently seeing this case not only as a financial failure of the private hospital but also as a governance failure by government. Interpreting English’s observations here, the government did not behave as an intelligent and informed buyer. It accepted an unsustainable price bid in the first place, did not undertake any comparative analysis to benchmark public provision, and did not recognize that the government was unable, in reality, to transfer the social responsibility of hospital provision.<sup>19</sup>

Hodge (2005) observes the Australasian experience and notes the logical policy stepping stones in terms of privatization, competition, outsourcing, and the service-purchasing ethos, as well as a desire to copy Blair’s New Labour policies. From a listing of 48 projects, he looks in detail at three recent cases and observes that although commercial risks have been largely well managed, the same success cannot be claimed for the governance dimension. Governance risks appear to have increased with PPPs. For these cases, the unavailability of project economic evaluations, the fact that most deals are two-way affairs between government and business without explicitly including citizens, the length of time governments can tie up future governments, the apparent willingness to protect investor returns rather than the public interest, the lack of clarity of commercial arrangements, and the desire of governments to proceed with hasty project construction for political purposes all appear to contribute to this conclusion.

Importantly as well, evidence from an evaluation of eight PPP case studies in Victoria by Fitzgerald (2004) is presented. Two crucial observations are made here of Fitzgerald’s work. First, the superiority of the economic partnership mode over traditional delivery mechanisms is dependent on the discount rate adopted in the analysis. Indeed, opposite conclusions were reached when using an 8.65 percent discount rate at one extreme (leading to the conclusion that the PPP mechanism was 9 percent cheaper than traditional delivery) compared to an evaluation adopting a 5.7 percent discount rate (where the PPP mechanism was apparently 6 percent more expensive).<sup>20</sup> Second, the point is made by Hodge (2005) that government has clearly moved from its traditional stewardship role to a louder policy advocacy role. As a consequence, we might reflect that government now finds itself in the middle of multiple conflicts of interest, acting in the roles of policy advocate, economic developer, steward of public funds, elected representative for decision making, regulator over the contract life, commercial signatory to the contract, and planner. Far more debate is needed to discuss the ways in which long-term public interests can best be protected and nurtured in the light of experience, particularly noting citizen concerns around low PPP transparency and high deal complexity.

Interestingly, the recent reviews of Boardman, Poschmann, and Vining (2005) and Hodge (2005) both conclude independently that “caveat emptor” is the most appropriate philosophy for governments to adopt as they move forward with infrastructure PPPs. Such a lesson provides a contrast between the empirical reality of global experience and the notion that “all the evidence that I have ever read on PPPs has been positive,” as one Australasian government minister responsible for billions of dollars of partnership investments recently argued.

Overall, it would be fair to observe that citizens have been somewhat apprehensive of the political promises made regarding PFI-type PPPs. This is hardly surprising. History provides us with plenty of examples of citizens being subjected to governments that are ideologically bent on applying the latest policy prescription when the patient was not ill and the policy is not at all effective. Moreover, a range of examples from supplying electricity in Manila<sup>21</sup> to the London Underground rail transport debacle,<sup>22</sup> or a similar recent partnership farce in Sydney's Cross City Tunnel (Davies and Moore 2005), show that government reforms undertaken in the name of partnership can easily go wrong, for a host of reasons.

In addition to the evidence for and against PPPs, the question of the counterfactual is also critical here. On one hand, the exact "alternative" against which private finance schemes are assessed is often left cloudy. For instance, many jurisdictions already use private contractors to provide public infrastructure through regular competitive-bidding arrangements. So the use of private firms to provide public infrastructure is not new. On the other hand, historical experience also reminds us that the London Underground (under public ownership) "has had a history of completing investment projects over budget and late"—for instance, line upgrades for the Jubilee Line were up to six years late and 30 percent over budget. Moreover, an analysis of some 250 projects by the London Underground between 1997 and 2000 reveals cost overruns averaging 20 percent. What might we make of all this?

Overall, it seems that the economic and financial benefits of PPPs are still subject to debate—and hence considerable uncertainty.

### Discussion, Observations, and Implications

One matter that is critical to our assessment is to establish just what is new under these PFI-type PPP arrangements. Clearly, neither the rhetorical partnership label nor the existence of government–business deals with the private sector is really new. We have centuries of accumulated evidence of maladministration, although too often, this goes unacknowledged. Also disregarded are government decisions involving the provision of infrastructure lasting several decades with regard to the long-term consequences of recovering costs. What is new in the PFI model of partner-

ship, however, is the preferential use of private finance arrangements, the highly complex contractualization of "bundled" infrastructure arrangements, and altered governance and accountability assumptions.

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History provides us with plenty of examples of citizens being subjected to governments ideologically bent on applying the latest fashionable policy prescription when the patient was not ill and the policy was not at all effective.

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Importantly, the first two new aspects of infrastructure provision—private finance and increased contractual complexity—have major implications for the third—governance and accountability arrangements. How well have PPPs performed along these dimensions?

The availability of private financing for major infrastructure projects has essentially given governments a new capacity to use a "mega-credit card" to charge infrastructure deals. And these deals can be consummated through the development of large legal contracts in which projects are purchased as if "off the shelf." The political incentives for government have been high: quicker promised delivery of infrastructure and more positive relationships with finance and construction businesses. These incentives have also been closely aligned with incentives for the finance industry in terms of continued business transactions, new financial deals and perhaps even policy influence and project-selection priority.

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The dimensions of governance and accountability also deserve careful deliberation. In particular, there is always potential for enthusiastic governments to implicitly make trade-offs amid fervent reforms. For instance, with contracts of up to several decades, to what extent are the governments now entering these arrangements reducing their own capacity and flexibility to make future decisions in the public interest? There appears to have been little discussion of this "lock-in effect" at the political and administrative levels throughout the most recent PPP era, though independent analysis of such issues exists in the research literature.<sup>23</sup> PFI-type PPPs also seem to have provided only limited opportunity for meaningful levels of transparency or public participation. With limited transparency and complex adjustment formulae in PPPs, the clarity of partnership financial arrangements can also be difficult to fathom. This does not give citizens confidence in the arrangements when, despite the rhetoric of risk sharing with private financing, a significant financial role for government is often the reality.

These issues could broadly be interpreted as concerns about fundamental accountability at the levels of



policy, project governance, and financial transparency. When such concerns are married with the observation that PPPs can offer short-term political attractions to governments by providing early project infrastructure (and perhaps even moving capital expenditures off budget), the implication is that far greater attention to accountability and governance mechanisms is warranted.

On the global political stage, it is clear that PFI-type PPPs currently enjoy policy popularity, as well as commercial attractiveness, in the business sector. It is an attractive policy for third-way governments that are eager to please markets. But it is also clear that evaluations of PFI-type PPPs deliver contradictory evidence. Why might this be so? The reasons are likely manifold: a lack of independent evaluators; poor evaluation rigor; poor definition of the “counterfactual” against which the PPP is judged; evaluations by auditors general who, in most jurisdictions, cannot question government policy; the use of inaccurate discount rates for time value-of-money estimates of net benefit; inaccurate estimates of risk transfers from the public to the private sector; and predicted benefits being estimated at an early stage of a long-term contract, so that optimism and political sensitivity are both high. As well as the debatable value for money, critics have also charged that transaction costs have been high and competition weak despite being more reliable in terms of on-time delivery for major projects.

It nonetheless appears that some lessons have emerged from our PFI-type PPP experience to date. For instance, some sectors (such as roads and bridge infrastructure) appear to have experienced less trouble than other sectors, while sectors such as information technology have seen PPPs discontinued as a viable policy option. Likewise, value for money in the health and education sectors has been surrounded by some doubt in the United Kingdom (IPPR 2001, 90–93). But the strong and independent evaluation of PFI-type PPPs has been sparse, and there is a serious need currently for rigorous assessments which explicitly evaluate this partnership policy.

It appears that insufficient research has been undertaken to be fully informed on outcomes to date. And less visible consequences of PPP reforms also need airing and debate, including value-for-money issues, the unavailability of simple performance information such as the economic returns on taxpayer funds invested in PPPs, contract complexity or secrecy, and concerns over longer-term governance and public accountability issues.<sup>24</sup> Governments need to keep their governance responsibilities clearly separated from commercial performance concerns. This presents new dilemmas and pressures for government. Citizens will increasingly ask, who will oversee new related legisla-

tion and planning? Who should look after the contract deals and regulate how risks are handled for decades to come? And who will protect users and evaluate these projects on behalf of citizens? Perhaps the transparent work of parliamentary committees, auditors general, and regulators needs strengthening here, but governments will no doubt need to begin by gaining a better understanding of how to separate and strengthen the intelligent, long-term governance role from any commercial responsibilities and short-term political kudos.

Moreover, it is important to be aware of who is pushing for PPPs around the world. Greater clarity is required in articulating the interest groups at play, the extent of their influence, and the payoffs. Many countries seem to have established single-purpose organizational entities that promote PPPs (Britain and the Netherlands are examples), but other countries have organized themselves in a more decentralized way for PPPs (e.g., the Nordic countries). If countries make special organizational units for PPP policy, this suggests a clear top-down push for PPPs across government and a need for clearer separation of policy advocacy from the stewardship responsibilities for public funds. If countries have not established centralized units, a more bottom-up approach to PPPs might be expected, with room for greater local experimentation. Germany, Sweden, and Denmark seem to be examples of that trend. Who is responsible for PPP policy and who is pushing for PPPs is a factor that should be watched carefully in the years ahead.<sup>25</sup> All this is occurring within a context in which the broader church of PPP families will continue to enjoy a resurgence because of the political, rhetorical, and commonsense timelessness of the partnership notion.

## Conclusions

The PPP movement has enjoyed a long historical pedigree. Today, it continues to manifest a huge diversity of approaches around the globe. A distinction between social (or organizational) partnerships and economic partnerships seems to be appropriate in order to grasp the division among the various uses of the term PPP around the world. Likewise, the rhetorical power of the partnership notion must be acknowledged. Certainly, the contemporary phenomenon of private finance-dominated partnership arrangements represents one important family of arrangements within the broader partnership church, although it is often viewed only through a narrow commercial lens. A range of PPP experiences in terms of successes and failures can be seen around the globe, and there is little doubt that some of the glowing policy promises of public-private partnerships have been delivered. Equally, though, evaluations of PPPs such as the PFI-type partnership arrangements initiated in the United Kingdom have, in reality, delivered contradictory evidence as to their effectiveness.

Given this wide range of results—and considering that with long-term contracts in place over decades, assessments so far have been too early in the life of projects to be reliable—the citizens paying for these projects face considerable uncertainty. Such PFI-type PPPs have new characteristics compared to traditional partnerships, including the preferential use of private finance, high deal complexity, and altered governance and accountability assumptions. Too little independent assessment has been undertaken on these matters to date, and as a consequence, governments ought to be operating with a philosophy of “caveat emptor.”

This finding is important amid ideological blind spots appearing among many PPP advocates, such as central treasury departments, which seem more intent on policy advocacy than on questions of stewardship. PPPs promise much. But careful evaluation, away from the loud noise of cheerleader squads, is now needed to ensure that governments maintain their high standards of policy effectiveness while continuing to harbor the desire to look good to voters and the business sector by building infrastructure. Good government, after all, is effective and accountable government.

## Notes

1. In his well-known book on contracting in the public sector, Donald F. Kettl (1993) sometimes describes contracting as “public–private partnerships” and points out that the United States has a long tradition of using PPPs.
2. See Wettenhall (2003) for this observation. Wettenhall (2005) also comments that cooperative public sector activities go back centuries and that “there is nothing new about the mixing of public–private endeavors ... whatever the new enthusiasts may think.” Importantly, he observes that although the theater of privateer shipping, for example, was vital to England’s rise as a major sea power and its growth as a global economic empire, it was also a “feeble and corrupt system” in which political interference and leading officials promoted partnership ventures intent on plunder.
3. Although the contract is awarded through a “contracting out” procedure, the fact that Falck has been a market player for so many decades makes it more than just “another business firm.” The classic work of Selznick (1984), which describes the way organizations transform themselves into institutions through “infusion with value,” suggests the need to study the development of PPPs as a separate phenomenon from traditional contracting arrangements.
4. See McIntosh, Shauness, and Wettenhall (1997).
5. A policy network in agriculture involving government departments, farmers, farmers’ organizations, and other interest groups could be viewed as a PPP because it entails cooperation of some durability between public and private actors.
6. Other dimensions are, of course, possible here. Brinkerhoff (2002), for instance, suggests the two dimensions of “mutuality” (to describe mutual interdependence, with the expectation of equality in decision making and equal benefits to parties for enduring partnerships) and “organization identity” (to describe the extent to which an organization remains consistent and committed to its core values and constituencies).
7. Of course, it is debatable whether some of these arrangements are partnerships at all, given the characteristics of specific deals. For example, when no shared risk taking or development of ideas occurs, the arrangement would seem to be more a traditional contract. Likewise, many of the short-term contracting arrangements in human services under performance-based contracting, though termed partnerships, are actually traditional contracts.
8. It is not surprising that the public does not care for the fine distinctions made by some professional, commercial, and political groups regarding what is and what is not a PPP or whether one type of relationship is the same as another. As a consequence, the demise of the British Railtrack, although itself not strictly a PFI-type PPP, carries with it the judgments of all PPPs and takes the sheen off of a wide range of partnership possibilities with different characteristics.
9. Clark and Newman (1997) see “managerialism” and a focus on “customer orientation” as a way to shift minds in the public sector.
10. Although PPP advocates are quick to claim the positive benefits of past government–business relationships, they are silent on the negative outcomes from this link and the desire of citizens over the past few centuries to control government–business links through stronger and more powerful regulatory and accountability mechanisms.
11. The recent history of the international public sector is replete with schemes that feed our desire to better define public sector services and measure performance. Examples of such schemes include, but are not limited to, performance indicators and targets, management by objectives, total quality management, benchmarking, contracting and outsourcing, systems analysis, zero-based budgeting, performance budgeting, output-based budgeting, results budgeting, program budgeting, program planning and budgeting systems, competitive tendering, and best value in local government. Many of these have been sold with enthusiasm, attracting huge investments by governments. Undoubtedly, many of these initiatives have delivered significant benefit, but

- most have also fallen short of meeting the initial promises made.
12. The Australian Council for Infrastructure Development (2003), for instance, lists the most common PPPs as design and construct, operate and maintain, design-build-operate, build-own-operate-transfer, build-own-operate, lease-own-operate, and alliance.
  13. There has been some further shifting of the PPP goalposts over time. By 2005, these goals had changed to include better on-time and on-budget delivery of infrastructure, improved creativity and innovation in infrastructure provision, and the general ethos of better value for money.
  14. The claim that when government spends money on PPPs, more money is available for other policy initiatives has been largely discredited and is now seen as false by independent commentators. This has not stopped advocates from continuing to spew such rhetoric, however. Epstein (2005) and Hopkins (2005) give two recent examples in which the same argument is still being used by advocates to support PPP investments. In the first example, PPPs were advertised to “take the fiscal pressure off the Government and enable them to do more humanitarian things without blowing the budget,” while the second insisted that PPPs “release government funding for other projects.”
  15. Interestingly, the evidence on the effectiveness of PPPs appears to come from two distinct research domains: public policy and public finance on one hand, and construction engineering and economics on the other. There appears to be little cross-fertilization between these two areas. This paper draws mostly from the public policy and public finance domain.
  16. They report that although traditional “public” infrastructure provision arrangements are on time and on budget 30 percent and 27 percent of the time, respectively, PFI-type partnerships are on time and on budget 76 percent and 78 percent of the time, respectively.
  17. At the same time, however, these authors concede that “there can be situations where BOOT schemes are good deals for both government and private sector.”
  18. The share of total infrastructure investments provided by private financed arrangements is difficult to determine in developed countries. Pollitt estimates the figure to be 15 percent to 20 percent of the capital budget in the United Kingdom, and an earlier figure puts the number around 10 percent to 13 percent (Her Majesty’s Treasury 2003, 128). Importantly, Pollitt also notes that this proportion is as high as 50 percent in sectors such as transport.
  19. We should also keep our analysis of the commercial outcomes for government separate from our assessment of the policy-delivery mechanism. In other words, the terms on which this hospital was transferred back to government after the “political failure” would need to be known before we could assess the relative success of the subsequent commercial transaction to the taxpayer.
  20. Fitzgerald reports the likelihood that the \$A2,700 million being repaid by the Victorian government as of 2004 was around \$A350 million higher than it should have been.
  21. See, for example, Hodge (2004b, 241), who notes that after independent power producers were contracted to build greater capacity, the “purchased power adjustment”—an additional charge remitted to private power producers for unused power—increased more than 200 percent. Moreover, overall electricity power bills almost doubled, and power prices were double those in neighboring countries such as Thailand and Malaysia. This situation understandably outraged citizens in the Philippines.
  22. See, for instance, “Enron-on-Thames: Railtrack and British public finance,” *The Economist*, March 30, 2002, or more recently, Redwood (2004).
  23. For instance, Daniels and Trebilcock (1996) observe that public policy decision making cannot be avoided through the PPP mechanism, despite instances of problems occurring and these being seen as simply contractual concerns between the two parties, rather than being public policy concerns.
  24. We might observe that public accountability concerns continue to be debated across all PPP families. At one extreme, Johnston and Romzek (2005) observe that accountability effectiveness varies across competitive short-term government service contracts and that “effective contract structures and management of contract accountability are elusive goals.” This is a sobering comment, and it reflects the observation that even for simple contracting tasks, public accountability matters can be complex. At the other extreme, concerns over public accountability continue to plague PFI-type PPPs and conflict with repeated assurances of accountability improvements by such advocates as Grimsey and Lewis (2004) or Savas (2000). Even narrowing public accountability concerns down to strict legal accountability, the jury is still out on PPP success because we are only a few years into contract arrangements usually lasting several decades (Evans and Bowman 2005).
  25. On the matter of the interest groups behind PPPs, along with their evolving political profiles and policy rationales, one interesting question is whether PPPs represent a temporary “policy window” (Kingdon 1995) in a time where political pressures are, for a period, married to financial availability and business opportunity, or whether they are a longer-term and more stable phenomenon (Greve 2006).

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