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**PUBLIC-PRIVATE PARTNERSHIPS:  
DID A POTENTIALLY USEFUL CONCEPT SINK IN THE “MUDDLE OF IDEAS”?**

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*Budget cuts, budgets deficits, budget overruns, and limited budgets constitute the reality of today's public sector. This is not only a problem of scarce resources for new investments but the public sector is also struggling with maintaining assets and services at current levels. Therefore, public managers try to look at alternative solutions which may provide answers to present problems. Public-Private Partnerships seem to offer a good solution to budget deficits and inefficient operations. The framework introduces private sector resources and/or expertise as a partner in order to help, provide, and deliver public sector assets and services. It bonds private and public sector for the period of 20-30 years. Some say it is an excellent idea as it enables investments which otherwise would be never procured and it does not strain the budget. Others oppose it and say someday the bill will have to be paid off, and it will turn out to be much more expensive than a traditional procurement. Moreover, they say, it is a waste of taxpayers' money as PPPs don't bring efficiencies and are done in favor of private partner. The dispute grows and along with that the concept sinks in the muddle of ideas which often are false statements. Therefore, there is a need to talk more about the PPP arrangements and try to draw the true picture of it, in order to help public manager obtain comprehensive knowledge which will facilitate decision whether PPP should be conducted or not. The author of this paper looked at the dispute, tried to refresh the concept of PPP, and give an objective evaluation of it. It turned out to that it is hard to give one precise answer whether PPPs are worthy of public attention. However, there are some useful suggestions which can be drawn from the jumbled discussion.*

**INTRODUCTION**

Public-Private Partnerships (PPPs) became a fashionable concept in the discourse over the public sector's need for services provision and its ability to satisfy it with the traditional methods of procurement. There is a great pressure on governments to reduce government spending and the public sector debt. On the other hand, the needs are enormous and growing. However, raising taxes is not a favorable option. Therefore, some local governments look for alternative options. The City of Chicago undertook a competitive tender process to sell the rights to manage, operate, maintain and collect tolls on the Skyway toll road for a period of 99-years. This option was a better way to manage city finances since raising property taxes was something the city would do only as a last resort. This project set the new standards for the American transportation

PPP market. In 1999, in the UK, a public tender took place for the largest water and sewage PPP in this country. This project was the UK's first water project to be financed by the way of a bond issue, with a proportion of the cost covered by a guaranteed bond issue and the balance met by a combination of subordinated debt and equity provided by the sponsors.

The above examples are only a small indicator of the ongoing change within the public procurement. The truth is that Public-Private Partnerships take place across the globe. However, there is still a lack of understanding of this framework or at least a muddle of information on that. Some parties, usually governments and interested investors, believe the framework can solve the problem of increasing budget constraints and the enormous need for service provision within the public sector. Others, mostly labor unions, criticize and oppose it. Therefore, there is still an anxiety toward using this framework by the public sector. Public partners are afraid of arranging such projects as they seem to be difficult and complex, especially in terms of designing project finance. On the top of that, the ongoing dispute over PPPs does not provide clear evidence of either success or failure of this framework. On the other hand, the limited public budgets cannot handle new investments or are struggling with maintain the current assets and services. If a country, especially a developing one, wants to build up faster and improve the quality of life for its citizens it has to opt for alternative solutions. Such a solution might be PPPs.

This article helps to understand the PPP framework. It starts with a presentation of background information about PPP arrangements and their brief history. Subsequently, the author presents PPP definitions and structures. It is followed by a presentation of different approaches toward PPP and the ongoing evaluation of the framework. Finally, the author tries to come up with an answer to the question of the usefulness of PPP arrangements.

#### **BACKGROUND INFORMATION**

Organizations, ranging from European Union to United Nation, not only endorse the partnerships idea but also actively employ it. For many, following the British lead, it focuses on attracting private financing for public projects. It covers a range of business structures. In March 2003 European Commission published guidelines for PPP in order to show how to combine private finance with the UE funds. Beside that, the framework is used in New Zealand, Canada and the USA and other countries. (Wettenhall, 2003)

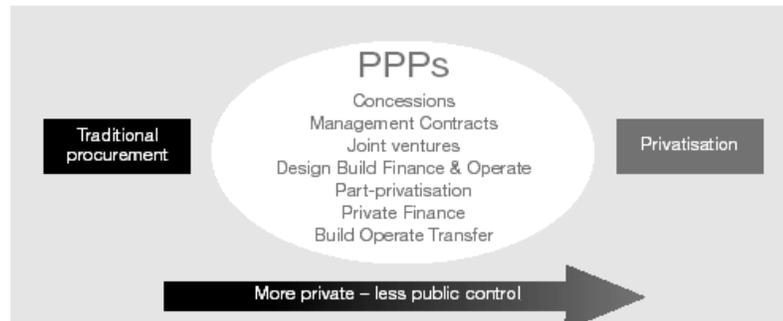
English and Guthrie (2003) write that in Australia this framework function under the name of Privately Financed Projects (PFP). In the UK the framework is mostly known as Private Finance Initiative (PFI).

PPP is frequently viewed as a derivative of the privatization movement, which fascinated conservative leaders in western liberal regimes on both sides of the Atlantic through much of the 1980s. However, the US government used

to apply partnerships as a key to coordinating federal initiatives in regional economic development through the 1970s. In the UK, the Conservatives introduced the Private Finance Initiative in the early 1990s as a form of PPP. The active promotion of the idea started in 1997 since the labor government came to power.

It is hard to decide whether the PPP is a sort of privatisation or privatisation itself. Maybe it is a completely new concept. There are many views on the topic. Wettenhall (2003) summarises some of them. He writes that e.g. by Ryan (2001) partnership is seen as an advance on — almost an alternative to — ‘contracting out and privatisation’. But others, like Chalmers and Davis (2001) see it not as an alternative but rather as a feature of contracting-out practice. Hess and Adams (2001) identify partnership as one of several emerging policy tools. They emphasize that much of the rhetoric remains confused, the result being “*a muddle of ideas*” in which ‘*a potentially useful concept is in danger of becoming just another public policy reform fad*’ (Hess and Adams, 2001, pp. 15). The National Council for Public Private Partnerships in Canada (2002) simply calls it an umbrella term for all activities which employ private resources for public sector needs. Figure 1 shows the most common believe that PPP falls somewhere between the traditional procurement and the privatization.

Figure 1 PPP Structures



Source: PwC, 2004

In the UK PPPs are the key part of government’s strategy for delivering modern, high quality public services and promoting country’s competitiveness. British PPP market is the biggest in value. According to PriceWaterhouseCoopers’ report (2004) the capital value of closed deals in 2003 equaled \$40bn, whereas the second, European (excluding the UK), PPP market was worth \$8bn. In both Americas it leveled at \$2.5bn.

Definitely, the scheme is being used worldwide. Although there is not one, common definition of PPP and not one particular structure which falls

under PPP umbrella, there are some patterns which one can be observed. Let us try to identify the most common ones.

#### **PPP DEFINITION**

Generally PPP projects are, or at least should be, driven by the public sector - yet PPP still means different things to different countries. As it was already mentioned in the above section (Figure 1), PPP can be viewed as a variety of contractual structures that fill the space between the traditional ways in which governments procured services and assets, and the full and permanent transfer of assets and service provision that occurs under privatization. In the UK PPP covers a range of business structures and partnership arrangements, from PFI to joint ventures and concessions, to outsourcing, and to the sale of equity stakes in state-owned businesses. Although widely used in Europe, there is not one definition of PPP at the EU level.

European Commission' Green Paper (2004) identifies some common characteristics of the projects which fall under PPP frameworks. We can use this approach to point out some basic features of those arrangements. In general, the PPP term refers to forms of cooperation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure or the provision of a service. This cooperation is usually characterized by relatively long duration of the relationship, majority of funds are provided by private sector, public partner concentrates primarily on defining the objectives, which are carried out by private partner, majority of risks, generally borne by the public sector, are transferred to private partner.

European Investment Bank's PPP definition seems to be a good summary of all other ones (2004, p.2):

“Public-Private Partnership” is a generic term for the relationships formed between the private sector and public bodies often with the aim of introducing private sector resources and/or expertise in order to help, provide, and deliver public sector assets and services. The term PPP is, thus, used to describe a wide variety of working arrangements from loose, informal and strategic partnerships, to design, build, finance, and operate (DBFO) type service contracts and formal joint venture companies.”

Just as there are many different definitions there are many ways the PPP projects can be delivered. David Seader (2002), Co-Founder and Chairman of the National Council for Public-Private Partnerships in the U.S., offers a categorization of partnerships delivery options depending on the type of the project: *new projects*, and *existing facilities and service*. Despite differences,

especially in the semantics, there are common delivery models which appear across the globe and offer more or less the same structures. The most common ones are presented below.

*Build-Transfer/ Design-Build or Turnkey (US)*

Build-Transfer (BT) or “turnkey” approaches involve the public sector “ordering” a project and the private sector delivering it on site. Ownership of the facility, in such arrangements, remains with the public sector. Therefore, the private partner is sole responsible only for the design and construction.

*Build-Lease-Transfer (BLT)*

This technique is similar to the BT (DB) option, except that the facility is passed on to the public sector under a lease structure upon completion and acceptance of the facility. The public sector still operates the facility (during the term of the lease).

*Build-Transfer-Operate or Design-Build-Operate (US)*

In the Build-Transfer-Operate (BTO) model, the private sector designs and builds a facility for the public sector, and usually provides the financing for it. The title for the new facility is transferred to the government but the contractor operates the facility and recovers its investment in the project over a set number of years (usually 30).

*Build-Operate-Transfer (BOT)*

Under the Build-Operate-Transfer (BOT) model, the government turns over development and initial operation to the private sector. Typically this would be a public-sector role. The private sector contractor or consortium of contractors finance the project, accomplish the construction, and operate the new facility for some specified length of time after which it is expected to transfer ownership to the government, usually at no cost.

*Build-Own-Operate-Transfer (BOOT) or Build-Own-Operate (BOO)*

In this case, the developer is much more like an owner. The eventual no-cost transfer of the facility to the public sector would most likely be well after the economic life of the facility has expired, or at least not until the financing has been repaid.

The Build-Own-Operate (BOO) method involves the greatest degree of private sector participation in development of a new facility. Under this model the sponsoring consortium finances the project and operates the facilities as the owner; it is not required to transfer the facilities back to the host government.

*Service Contract*

The public sector retains the greatest degree of control over its services and facilities when the private sector participates through a service contract. In service contracting, or “contracting out,” the government contracts with private entities to supply functional responsibilities that the governmental previously performed, such as garbage pick up, billing and collection, janitorial services, etc

*Management Contract*

Like the service contract option discussed above, in a management contract, a private partner operates a publicly owned facility under contract with the sponsoring government. A management contract is broader than a service contract since the private operator is responsible for all aspects of operations and maintenance.

*Lease*

In a lease structure, the government grants a leasehold interest in some or all of the assets (usually the entire existing system) with the requirement that the private firm will operate and maintain them pursuant to a lease agreement. The private firm charges the utility an agreed upon amount for providing the service. Investments in new or expanded facilities would still be the responsibility of the public owner of the assets, while the private lessee would be responsible for repairs and rehabilitation as needed of the leased property. Meter reading, revenue billing and collection may be contracted to the private firm, but rate setting and responsibility for overall financial results would still be the purview of the public owner.

*Concession*

With a concession, the government grants to a private partner the exclusive rights to operate, maintain and manage the entire system for an extended period of time. The basic system is still owned by the public sector, but the private concessionaire owns all improvements and extensions. The concessionaire sets the rates for the service under the regulatory requirements of the government. The concession yields total operational responsibility to the private consortium for the length of the concession without transferring or selling the assets.

*Partial/Full Divestiture*

A partial or full divestiture involves sale of public infrastructure to the private sector. Because the actual asset is transferred and government permanently loses control, this option introduces private ownership and is very similar to privatisation. A sale agreement will generally have certain conditions set by the government in order to assure the new owner continues to serve the citizens at the certain level.

The above presentation does not provide all possible options as the scheme is being used worldwide and therefore has many different forms. However, those seem to be the most common ones. PPPs are widely used as they offer benefits to both side of the agreement. There is a strong support for those projects, but also a lot of arguments are put against them. Let us have a closer look at the dispute.

**THE “MUDDLE OF IDEAS”**

The UK government, the biggest supporter of PPP projects, defines (The Government’s Approach, 2000) PPP (PFI) as it enables investments, which

otherwise would not take place. It also advocates that the scheme offers value for money. However, there is a strong dispute over the sensibility of using PFI, especially among politicians. Maltby, IPPR's Research Fellow on PPPs, says that there are many '*wild, unsubstantiated, or simply false claims about the PFI*' (2002, 12<sup>th</sup> paragraph). More than anybody, trade unions oppose the idea. Bettignies and Ross (2004) wrote that they oppose that PPP framework as they are afraid that governments shift their work to private sector firms paying lower wages and offering a poorer quality of service.

There is also a dispute in the scientific world. For the most part, scientists and economists do not share with governments the huge enthusiasm for PPP. Robinson (2000) argues the UK Treasury's strict fiscal rules could be easily satisfied if the PFI was abolished. He claims that PFI could have been financed through the public purse. Ball et al (2000) follows his argumentation and say that PFI does not represent any additional investments. They study the matter of PFI '*being a good deal*' to the taxpayers. Bettignies and Ross (2004) emphasize the concern of PPP being a way to hide the public debt. Grimshaw et al. (2002, pp. 477) write '*the private sector partners... (are) winning favorable terms*' in the contracts and therefore take advantage of the public sector. Kelly (BBC News, 2001), research director at the Institute for Public Policy Research in London, says that effectiveness of PFI depends on the market sector, which it is applied to.

Because of the above presentation of such different outlooks, it becomes crucial to find an answer to the question of whether the PPP is a good deal for the public sector? One of the most common approaches is to research whether PPP represents value for money. There are many arguments used by both the allies and opponents of PFI. Through the analysis of most common arguments one can try to provide an accurate picture of PPP.

#### PROS AND CONS

Allies of the PPP believe it is a good way to avoid 'reckless government borrowing'. They say it does not affect the sustainable investment rule<sup>1</sup>. This might be achieved through significant risk transfer from public to private sector (Stern, 2002).

Especially in the UK, the government is enthusiastic about the scheme. This enthusiasm is supported by the constant government's revision of the projects. In 2004 British HM Treasury issued new guidance on assessing the value for money of PFI/PPP deals. In 2005 the National Audit Office (NAO) published its newest report on PPP (NAO, 2005). These analyses indicate that PFI has been successful in delivering high quality facilities for public services.

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<sup>1</sup> The rule states that public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level (usually below 40% of GDP)

Although, governments see some of the pitfalls they believes the PPP/PFI is a very good deal for the taxpayers.

United Nations, one of the main supporters of the PFI, at the organization's website describe PPPs as they

“offer alternatives to full privatisation by combining the social responsibility, environmental awareness and public accountability of the public sector, with the finance, technology, managerial efficiency and entrepreneurial spirit of the private sector”

The UK government expands this approach:

“Partnerships are delivering better quality public services by bringing in new investment and improved management, and are helping state-owned businesses achieve their full potential. ... [partnerships] help to deliver the high quality public services this country deserves. Partnerships enable the public sector to benefit from commercial dynamism, innovation and efficiencies, harnessed through the introduction of private sector investors who contribute their own capital, skills and experience. In this way, they provide better value for money, which means that, within the resources available, we can deliver more essential services and to a higher standard than would otherwise have been the case.” (The Government's Approach, 2000, pp. 4)

Due to the fact that PPP became a commonly use political tool there is a huge interest in the idea. It is believed to have advantages over traditional procurement, including risk transfer, innovation and value for money (Ball at al, 2003). However there are different results obtained from the evaluation of the performance of the PPP projects. This activates the public opinion and the discussion over the legitimacy of these statements.

British HM Treasury and the National Audit Office's (NAO, 2003) researches have provided the evidences of the very good performance of PFI within the UK. HM Treasury reviewed a sample of 61 projects and the NAO 37 projects, out of a total of 450 PFI projects that were operational. NAO and the HM Treasury report that:

- PFI projects are being delivered on time and on budget (88% coming in on time or early, and with no cost overruns on construction borne by the public

sector) Previous research has shown that 70% of non-PFI projects were delivered late and 73% ran over budget;

- The operational performance of the PFI has met with approval from public sector clients
- In most projects (75%) the overall performance of the private sector partner was matching up to expectations at the time of the contract close. Twenty five percent said that the performance was “far surpassing” their expectations.
- Eighty one percent of public bodies involved in PFI projects believed that they are achieving satisfactory or better value for money from their PFI contracts

PricewaterhouseCoopers (PwC, 2002) was commissioned by the British Office for Government Commerce to undertake a study of rates of return in PFI projects out of concerns that the expected returns of the private sector have been excessive. PwC looked at a range of 64 projects that reached financial close between 1995 and 2001. It found that the average spread between project internal rates of return (IRR) and the weighted average cost of capital (WACC) was 2.4%. Karpova (2002) writes that cost savings to national and local governments from PPP arrangements in the USA are ranging between 20-25%. However, they vary from sector to sector.

In contradiction to governments, UNISON (2003), the largest trade union in Britain, claims that PFI projects do not bring extra money, cost more, are over budget and delivered late. Moreover, the union says that the design and quality is poor and risk stay in the public sector. The Ontario Health Coalition, a network of over 400 grassroots community organizations in Canada, published in 2005 100 examples of domestic and international PPP projects which show the evidence of cost overruns, delays, design and construction flaws, quality problems, failed contracts, and service cuts associated with the framework.

Maltby (2002, 12<sup>th</sup> paragraph) said:

“There are good reasons to use the PFI in some circumstances. But instead of promoting potential value for money benefits, or focussing on genuine concerns, both Government and the Unions are making wild, unsubstantiated, or simply false claims about the PFI. It is time to end this PFI fundamentalism.”

Bearing in mind Maltby’s statement one should look for objective sources of information. Scientists, economists try to draw a true picture of PFI as they try to objectively analyze the matter of the PFI being a good deal to public sector. The way of financing, value for money, level and quality of investments and innovation are the main concerns for the researchers. They try

to find an answer; does the PFI really represent a better option than a traditional procurement. Below the author briefly presents those researches.

#### **ADDITIONAL INVESTMENTS?**

Currie (BBC News, 2001) at City University in London says the level of investment that would be required for some projects like building new schools would start a fiscal crisis if it was funded with government money. *'The PFI is well worth it to bring in capital which otherwise might not be available'*, he says. *'It's a framework to bring in money for services which otherwise might be left to languish, such as schools'* (BBC News, 2001, 1<sup>st</sup> paragraph).

Kelly (BBC News, 2001, 2<sup>nd</sup> paragraph), says that using the policy as a way of loosening the constraints on capital investment is a particularly bad rationale for the scheme. *'It's just an accounting device'*, he says. Further he articulates that *'the government asks the private sector to put the money up front and then pays it back through annual charges. The taxpayer still pays the bill'*. Furthermore, he points out, if this was the only rationale, the government could borrow the money more cheaply on private capital markets on its own. Robinson's report (2000) argues the arguments of additional investments and explains the accounting matters. He believes that if PFI had been put an end to at the time of the Comprehensive Spending Review and the same capital spending had been undertaken through conventional means, the sustainable investment rule would have been satisfied, and by definition so would the golden rule<sup>2</sup>. If PFI had been replaced by normal public sector spending, debt to GDP ratio would still have fallen below the borderline. Investments could have been done using money raised through conventional public borrowing rather than through the PFI. Robinson claims that the Treasury's new fiscal framework is entirely compatible with not having the PFI at all - the initiative is not necessary to secure prudent public finances. For many, if not all, public sector managers PFI is seen as the *'only game in town'* and that the conventional financing route is closed to them by Treasury fiat. Ball et al (2000) agree with Robinson. The result of their research did not support an argument of increased investments. In contradiction, the author of this paper in his research, conducted in 2003, has found that the City of Newcastle upon Tyne, in the UK, would never be able to fix and build schools for the city if not the PFI.

#### **VALUE FOR THE MONEY?**

Although argument of additional investment is commonly used the most important issue seems to be value for money (VFM). This issue was researched by Ball et al (2000). Similarly Bettignies and Ross (2004),

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<sup>2</sup> The golden rule allows the government to borrow for investment, not to fund current spending.

describing the economics of PPP in Canada, investigated risk allocation, efficiency and incentives, competition, economies of scale, public sector borrowing and quality. They add the importance of labor relations issues to the discussion.

The issue of value for money requires more attention. Everybody refers to that while talking about PPPs. Gershon (2002, pp.1), the Chief Executive of The Office of Government Commerce in the UK, emphasis a government approach:

“PFI continues to play an important role for meeting the long-term service delivery needs of the government. PFI projects may enable departments to be more efficient, ...they may deliver services directly to the public... Government remains committed to PFI for both approaches because of the opportunities it can offer for improved VFM.”

Does the use of the PFI allow better value for money? The answer to this question is the most difficult one, as it is hard to define value for money. Ball et al (2000), in their research, looked for the cost and forms of financing, the bidding process, the importance of innovation, public sector comparator and other efficiencies.

In relation to the *cost and forms of financing* they found two main concerns. The first one was the cost of borrowing. Government is believed to borrow at the lower rates than private sector. However, government counters this argument. The consultants' report, commissioned by the Treasury Taskforce, (Treasury Taskforce Private Finance, 2000) considered this issue and concluded that, although private finance may represent an additional cost, it is not such a significant cost. Moreover, the private sector is able to deliver savings in other aspects and therefore sustain better value for money. Ball et al's (2000) second concern was the way in which the projects are funded. PFI projects are usually partly funded through equity (with a required rate of return for shareholders), with the usual split being 90% debt and 10% equity, although this can vary. Their findings suggest that equity funding in PFI projects is declining. It amplifies risk distribution, with the public sector taking on more risk. The advantage of this structure, however, is the lower cost of finance – equity funding can be expensive, as the researchers investigated, the average rates of return to equity holders was around 15%, but they even came across the ones of 30%.

According to Ball et al (ibid.) *the bidding process* is undoubtedly more expensive under PFI than with traditional methods for both public and private sector partners. Generally, the cause for that is the use of external consultants for legal, technical and financial advice. NAO (1999) estimates that the cost of the bidding process under PFI can be in the region of £0.5 million to £2.5

million (\$0.96 million to \$4.82 million). Others estimate that the bidding costs to the private sector under PFI are seven times higher than under conventional tendering, with total costs for all bidders reaching 3% of total project costs (PwC, 2004). This is one reason why local authorities are being encouraged to bundle together such projects. Ball et al (2000) suggest PFI is only suitable for relatively large capital projects - £10 million minimum (\$19.31 million). However, this could be argued by the participants of the PPP Conference at Warsaw in December 2004<sup>3</sup>. Practitioners believe that PPP is available for all projects (small as well).

#### **INNOVATION?**

Innovation is also very important in terms of the value for money argument. PFI is believed to bring innovation to projects. Ball et al (2000) reference to the government statement that:

“Private finance may, therefore, represent an additional cost, but it is not such a significant cost that value for money is inherently likely to be imperilled, provided the private sector is able to deliver savings in other aspects of the project.”  
(Treasury Taskforce Private Finance, 2000, pp. 9)

Thus, the one of the major benefits of PFI is seen to be the opportunity for innovation in terms of funding packages, delivery of services, and construction of the asset. Innovation can lead to savings in terms of both construction costs and operational costs.

Value for money is usually determined by the development of a *Public Sector Comparator*, which involves a comparison of a PFI project to traditional procurement. Ball et al (2000) and Wynne (2002) say that sometimes there is no way to make the comparison, as PFI is the only option for public clients. However, nowadays PSC is very often prepared or even required by some countries regulations. (Industry Canada, 2003, Quiggin 2004)

#### **OTHER EFFICIENCIES?**

PFI may be driving other efficiencies in the public sector. Ball et al (2000) try to see the issue of value for money and PFI in a wider context. They believe that PFI drives other efficiencies in the public sector. Bettignies and Ross (2004) name them. They say through partnership public sector gains scarce skills and complementarities. These arguments strongly oppose Unison

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<sup>3</sup> The author of this review was a participant and on the second day lead the workshop on PPP for local authorities. The conference took place 8-9 December, and was organized by MGG Conference.

(2003) and Foot (2004) by saying it is an overstatement. Grimshaw et al. (2002) studied in details two PFI projects. They said there might be some gains within special categories. These were specialization, market discipline, contract-performance discipline, private sector discipline and flexibility. However, the results of their research were not in favor of PFI. They found that the public sector partners tended to underestimate the time and resources needed to negotiate and to manage the terms and conditions of the partnership contract. They wrote (2002, pp. 502) that *'this put the private sector partners in the driving seat and enabled it to exploit its greater experience in working to contract and winning favorable terms'*.

#### **RISK TRANSFER?**

The valuation of risk is central to the value for money calculations of the PSC. The Arthur Anderson Report (prepared for the Treasury Taskforce, 2000) estimates that savings of an average of 17% have been achieved in the range of PFI projects they studied. However, the question arises how the risk distribution differs under PFI from that of traditional procurement. Ball et al (2000) explain in their work, the project cannot be counted as a PFI, unless the sufficient risk is borne by the private sector, so that the asset appears on the private rather than the public sector balance sheet. Bettignies and Ross (2004) say that wise division of risk lead to better projects and make them successful. However, the division is very hard and involves cooperation of both sides.

This brings us to the conclusion which, by looking at the above discussion, is rather a challenging task. Mostly because of the lack of clear evidence which one could base on the answer to the question of the usefulness of PPP arrangements. Let us try to approach this task.

#### **CONCLUSION**

To summarize these ambiguous outlooks and research outcomes, one may try to draw some general conclusions. Although the approaches to PPP evaluation seem to be similar, there is not one precise answer whether PFI offers a good deal to taxpayers. Simply by looking at the additionality and VFM issues there is no consensus. There is a need to do more research and try to evaluate PFI constantly as well as wait for the 'entire outcome' evaluation in the future. Additionality and value for money are the most common arguments used in the discussion. In order to provide some final statement one could look at Ball et al (2000, pp. 106) research conclusion; *'Whether PFI is a good deal for the public purse depends essentially on individual projects being certain of achieving vfm over the life of what can be very long-term contracts'*. Kelly (BBC News, 2001, 3<sup>rd</sup> paragraph) says that the argument of PFI projects offering value for money is the most important. Private money brings better management plus greater incentives to finish projects on time and within the budget. However, he says, the policy has had mixed results. *'From what we*

*could tell it seems there is a strong reason for thinking the PFI is delivering real value for money in some sectors like prisons and roads, ...But in hospitals and schools there's no evidence of significant gains, and in some cases there have been significant losses.' Thus, it is worthy looking for more research within special sector in order to obtain better evaluation.*

The author of this paper believes however, based on his personal research and the evidence mentioned in the paper, that there are some conclusions which one can be applied to any PPP arrangement in order to determine or improve its value for money. The first one would be in line with Ball et al (2000) conclusion that each project has to be evaluated separately. There are some sectors, which has proved to be more successful then others. Therefore, it is good to look at those experiences and transfer them to the sectors which have obstacles in adopting PPP. Additionally, consulting should be used wisely as it can drive the cost of the project up and make it too expensive. It is a good practice to use governmental agencies or non-profit organizations, if available, to facilitate the process with the proper expertise. Moreover, it is a helpful to establish a shadow project in order to monitor if the public sector would get a better deal if the project was done in a traditional way. Finally, the smart risk allocation is crucial in each case. The public sector should retain some risks in order to assure value for money. Pushing all risks to private sectors drives the costs up and may not be the most efficient allocation of potential risks. If the public and private partner follow those suggestions they are more likely to obtain a successful agreement which will benefit both sides in a short and long term. The bottom line here is that this relation is designed to last at least 20-30 years. It is crucial to establish a solid foundation for it in order to assure successful tenure.

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