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Are Public Private Partnerships value for money? Evaluating alternative approaches and comparing academic and practitioner views

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Abstract

In an earlier article in this journal (Grimsey, D., & Lewis, M. K. (2002b). Accounting for Public Private Partnerships. *Accounting Forum, 26*(3), 245–270), we examined the intricacies of the accounting issues raised by Public Private Partnerships (PPPs). It was argued that the critical accounting question from the public sector's viewpoint is not one of whether the arrangement is on or off balance sheet, but whether it represents good value for money. However, determining value for money for a PPP is an area in which, despite strong criticisms by a number of academic writers of the methods used by practitioners to evaluate value for money, surprisingly little engagement has taken place between the practitioners and the academics on the issues involved. This paper attempts to provide such an engagement. At the same time, because many of the academic critiques focus on the situation in one country (particularly the UK or Australia), we try to put matters into a broader, comparative context by considering approaches to value for money tests in a number of countries. Our examination is thus comparative in the sense of considering value for money tests in different countries, while also comparing the views of academics and practitioners.

Keywords: Public Private Partnerships, PPP; Private Finance Initiative, PFI; Value for money; Public Sector Comparator, PSC; Risk; Uncertainty; Discount rate

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1. The PPP route

Public Private Partnerships (PPPs) are a refinement of the private financing initiatives for infrastructure that started in the early 1990s and describe the provision of public assets and services through the participation of the government, the private sector and the consumers. There is no single definition of a PPP. Depending on the country concerned, the term can cover a variety of transactions where the private sector is given the right to operate, for an extended period, a service traditionally the responsibility of the public sector alone, ranging from relatively short term management contracts (with little or no capital expenditure), through concession contracts (which may encompass the design and build of substantial capital assets along with the provision of a range of services and the financing of the entire construction and operation), to joint ventures where there is a sharing of ownership between the public and private sectors. Generally speaking, PPPs fill a space between traditionally procured government projects and full privatisation.

Although many commentators consider PPPs to be a new version of privatisation (Minow, 2003), in our view PPPs are not privatisation because with privatisation the government no longer has a direct role in ongoing operations, whereas with a PPP the government retains ultimate responsibility.[2] Nor do PPPs involve simply the one-off engagement of a private contractor to provide goods or services under a normal commercial arrangement. Instead, the emphasis is on long-term contracts and strict performance regimes, such as build-operate-transfer (BOT) or design-build-finance-operate (DBFO) projects to design, construct, finance, manage and operate infrastructure under a concession, with revenues (either from government or users) according to services supplied. The private sector partner is paid for the delivery of the services to specified levels and must provide all the managerial, financial and technical resources needed to achieve the required standards. Importantly, the private sector must also bear the risks of achieving the service specification.

There are various reasons as to why governments might undertake PPPs, although paramount is the objective of achieving improved value for money (VFM), or improved services for the same amount of money, as the public sector would spend to deliver a similar project. There is a long history of publicly procured contracts being delayed and turning out to be more expensive than budgeted. Transferring these risks to the private sector under a PPP structure and having it bear the cost of design and construction over-runs is one way in which a PPP can potentially add value for money in a public project.

However, construction risk is not the only aspect of public procurement that needs to be addressed. There are also risks attached to site use, building standards, operations, revenue, financial conditions, service performance, obsolescence and residual asset value, amongst others, to be taken into account when evaluating whether the PPP route to public procurement constitutes good value for money. In fact, based on experience with Private Finance Initiative (PFI)[3] projects in the UK, there is an acceptance amongst public service project managers

[2] Of course, this depends on how privatisation is defined. Often in the United States privatisation is defined as any shift in the locus of the production of services from public to private, whereas in the UK the term is reserved for the explicit transfer of public assets to private ownership. For an extended discussion on this point, see Starr (1988) and Hood (1995), both reproduced in Grimsey and Lewis (2005).

[3] Private Finance Initiative is the UK programme encompassing PPP arrangements whereby a consortium of private sector partners come together to provide an asset-based public sector under contract to a public body. These,