

Going global

The world of public private partnerships



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Contents

Executive summary	4
1 The case for PPPs	6
2 Essential drivers of success for PPPs	12
3 Lessons learnt for PPP markets around the world	17
References	23
Annexe: more about the PSSB	24

Executive summary

The UK is regarded as a pioneer in the development of public private partnerships (PPPs) and one of the most advanced users of PPPs in the world. PPPs are at the heart of the UK's successful public service reform agenda. It is on this basis that many countries are designing and developing PPP projects based on the UK model. Countries – and states within countries – thinking about PPPs are looking to the UK PPP experience to help advise and develop their own models, presenting real opportunities for UK firms to develop markets overseas.

PPPs have proved their worth by bringing about improvements in public service quality through shorter delivery times, better value for money and increased innovation through the use of competition across a range of sectors. This does not mean that developing a PPP market is easy: significant political, fiscal and institutional hurdles must be overcome in order to move from a traditional, public sector model of public service delivery towards one in which public, private and increasingly third sectors work together.

Despite these challenges, PPP markets continue to grow apace. A variety of countries now use them to deliver public services – and the range of PPP models employed is broad. Some countries are still in the early stages of using PPPs and are focusing on infrastructure and building projects, while others are at the stage of creating PPP units similar to the one within the UK Treasury. This report outlines the major models used and the ways in which they have been developed.

The CBI recognises the commitment to public service reform that has been shown by successive UK governments. Without this, the PPP market in the UK would not have reached the stage it is at today. The challenge now is to build on this success, in the UK and internationally. With a growing interest in PPPs around the world a strong export market for UK skills is developing. One priority we identify is the need for all politicians to commit to promoting the UK PPP model abroad and working with businesses in developing public service markets overseas, in particular taking on a stronger support role through UK Trade and Investment and other bodies.¹

Recognising that the UK can learn from other countries such as Australia and Japan is just as important as championing the success of the British experience. This report does not just champion the UK PPP model – it showcases best practice from around the world to which we should all be looking to continuously improve the way public services are delivered.

The report also draws on 'lessons learnt' by the UK and other countries in developing PPP markets to identify key recommendations that all countries should follow when moving forward with PPPs.

KEY RECOMMENDATIONS

All countries engaged in or looking to develop PPPs should:

- 1** Build on models other countries have tried and tested
 - 2** Develop high-quality, outcomes-focused public procurement managed by skilled professional staff
 - 3** Understand the needs and capacity of the market
 - 4** Ensure sustainable deal flows through managed markets to encourage new providers
 - 5** Use innovation as a means of delivering service improvements and value for money
 - 6** Create governance arrangements that are fit for purpose
 - 7** Move towards a competitive neutrality model that establishes a level playing field for all providers.
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1 The case for PPPs

Defining public private partnerships:

A public private partnership (PPP) is a type of long-term collaboration between a public authority and the private sector (and increasingly in the UK, the third sector). It creates a new approach to managing risk in the delivery of assets and services by combining the complementary skills and expertise of each partner in the interests of improving services to the public and delivering value for money for the taxpayer.

PPPs offer value for money, service improvements and a better chance of delivering projects on time and on budget. They are not new, but recent years have seen dramatic increases in the number of governments moving forward with PPPs, and the forms of PPP in use across the globe.

What type of PPPs exist?

When considering PPPs it is important to recognise that there are different names and versions understood by governments around the world. Projects that are considered forms of PPP in some countries would not be thought of as such in others. For example, views of what a PPP is in the UK can vary from the definition of a PPP in France.

It is also important to recognise that different governments and sectors will have different experiences with PPPs; and while the Private Finance Initiative (PFI) is one of the most common forms of PPP among national and regional governments, partnerships are not exclusively based on the PFI model.

The PFI is a system for providing capital assets for the provision of public services. In the UK, this model is used for a large number of infrastructure projects, and provides strong incentives to deliver on time and on budget, while

enabling governments to spread the cost of the investment over a 25 to 30-year period.² Typically, the private sector designs, builds and maintains infrastructure and other capital assets and then operates those assets to sell services to the public sector. In most cases, the capital assets are accounted for on the balance sheet of the private sector operator.

Such differences in definition and understanding can make accessing the international experience difficult: in the UK, the PFI is simply one type of PPP, while in some countries and regions, the PFI is the only model and therefore the terms PPP and the PFI are synonymous.

Furthermore, governments will use PPPs in different sectors. In Australia, PPPs are used heavily in toll roads, whereas in the UK they are hardly used for this purpose. In the UK there are new models being developed: alliancing and incremental partnering for example. There are also more specific joint venture models in healthcare and education called Local Improvement Finance Trusts and Local Education Partnerships.

It must be noted that there are wide-ranging definitions of PPPs across the world and as already discussed the understanding of these terms can vary considerably. However, it is possible to identify three broad frameworks in which these types lie. These include:

- *Design-Build-Finance-Transfer* – The private sector finances and constructs the asset, which gives the private sector the incentive to complete on time and within budget. The asset is only paid for by the public sector when it has been completed

- *Design-Build-Finance-Maintain* – The private sector is responsible for the design, build, finance and maintenance of an asset – this incentivises the private sector to design the building taking into account the long-term maintenance required. The focus is on the infrastructure and ‘hard services’ such as building maintenance
- *Design-Build-Finance-Operate* – The private sector designs, builds and finances a new facility under a long-term contract and operates the asset during the term of the contract. The public sector purchases services that flow from the asset in this period and ownership is usually transferred back to the public sector at the end of the contract.

The extent of public private partnerships can vary from complete state control, ownership and delivery of all services to a fully privatised market. Exhibit 1 sets out the spectrum of PPP models that exists internationally.

How have PPPs developed?

The experience of PPPs across the globe demonstrates a clear trend. It is one of steady improvement, learning from mistakes and overcoming initial hostility to develop new

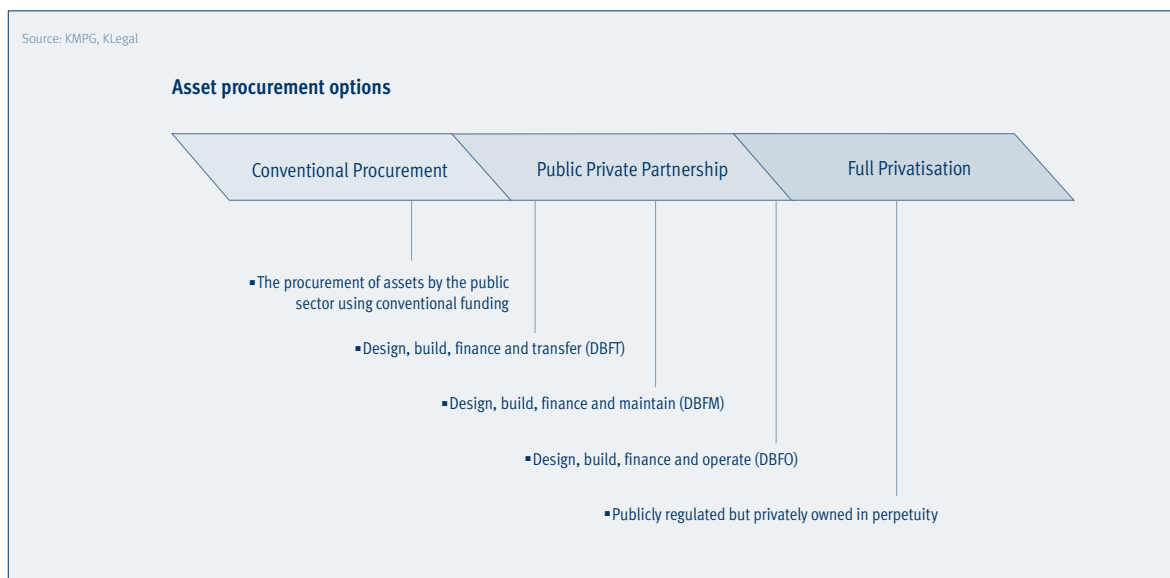
and innovative ways of involving the private sector in public services.

The concept of a working partnership between the private sector and public bodies is well established. Compagnie Générale des Eaux (CGE), launched in 1853 and the founders of Veolia Environnement, was contracted to supply water to the city of Lyons. The company was awarded a 50-year contract to supply water to Paris in 1860 and in 1867 won a contract with the municipality of Nantes to clear the streets of manure and refuse and to convert it into fertiliser.⁴

More recently, the last 25 years have seen a new phase in the development of PPPs. PPP toll tunnels were built in Hong Kong in the 1970s and American private prison companies were among the first in private provision of correctional facilities in the early 1980s.⁵

Today, PPPs are common practice in delivering services. Many governments have already established such partnerships and achieved a great deal in delivering infrastructure – such as roads or buildings, or services such as offender management. Exhibit 2 (page 9) shows the different stages of PPP development.

EXHIBIT 1 The range of partnership models ³



Since the early 1990s, successive UK governments have used partnerships between the public and private sectors to deliver public services. Because of this wealth of experience the UK is seen as being at the forefront of PPP development and many countries are looking to this market to inform their own models. For example, the Spanish regional government of Valencia and that of Singapore have already launched build and refurbishment programmes for their schools, both adopting strategies similar to the Building Schools for the Future model recently developed in the UK.

But the introduction of PPPs as a means of delivering public services has not been universally welcomed in many places – including the UK. Public scepticism over private involvement in services has been witnessed in most countries adopting PPP programmes. Concerns over service quality, costs to taxpayers, employment impact and accusations of ‘selling the family silver’ are among the issues governments have been required to tackle. In some areas

– again, including the UK – PPPs are still met with scepticism and a belief that the public interest is being sacrificed in favour of shareholder needs.

In the UK and many other countries, PPPs are actually proving themselves as vehicles for improving services and delivering not only efficiency savings but also generating better outcomes for citizens. PPPs are now particularly prevalent in sectors of industry where they have proven their worth: transport (roads, railways and airports), utilities (electricity, gas, water, sewage and telecoms) and amenities (lighting, social housing and accommodation) are all areas in which partnership between the public and private sectors have delivered value for money and improvement in services.⁶ But there are opportunities for governments looking to develop their PPP programmes beyond infrastructure and consider building in front-line service elements – as the UK has done in the healthcare, education, prison and local government sectors.

CASE STUDY

Carillion in Canada

In October 2006, the Royal Ottawa Hospital became the first operational PPP hospital in Ontario. This involved expanding the existing hospital into a facility that specialised in treating people

with severe mental illness across Eastern Ontario. One of the targets of this design, construct and commission project was to avoid disruption to current patient care during the construction period.

To achieve this Carillion developed the new facility on vacant land on the existing site of the hospital, using its experience in delivering hospital projects in the UK.

CASE STUDY

BUPA in Spain

BUPA’s Spanish subsidiary, Sanitas, has two high-profile PPP schemes – the La Moraleja Hospital, Madrid and in Manises, Valencia. In November 2005, BUPA opened the £32m La Moraleja Hospital in an expanding part of Madrid where the regional government wanted to rapidly provide more hospital facilities for the extra population. The hospital treats 200,000 patients a year and employs over 350 people. It is equipped with state-of-the-art technology due to private financing and provides a source of local employment. It was designed and built more rapidly than a public hospital could have been.

The Minister of Health for the Madrid region visited BUPA’s Redwood treatment centre in Surrey and was impressed with its results. He then spearheaded acceptance of a public private solution for further developments in Spain – clearly showing that the UK’s experience is leading to change elsewhere in Europe. Following the success in the Madrid region, Sanitas is the lead partner in a joint venture which has just won a 15-year PFI contract to manage and deliver a comprehensive range of GP, community and hospital services in Manises, on the

outskirts of Valencia. Private investment is enabling high-quality medical care for local people – Dr Eduardo Cabrillo, Head of Obstetrics and Gynaecology at Sanitas La Moraleja hospital, said: “*At La Moraleja, we are promoting the best health and care for our patients. We use the most innovative and evidence-based procedures across fields such as prenatal diagnosis, multiple pregnancies and medical complications in pregnancy*”.

International development funds are increasingly being channelled through PPPs

The success of PPPs across the world has been recognised by major national and international institutions. Many governments are now obtaining financing for PPP projects from organisations such as the World Bank, the Organisation for Economic Co-operation and Development (OECD) and the European Investment Bank (EIB). A large part of the funding from these organisations tends to go into infrastructure-based PPPs, such as transport, water and telecommunications. The OECD has even established a set of 'Principles for Private Sector Participation in Infrastructure' offering assistance to public sector authorities in setting up partnerships,⁷ and its forthcoming report *Infrastructure 2030* notes the growing need to invest in telecommunications, electricity transmission and distribution, and water up to 2030 – suggesting PPPs could be one way of financing this.⁸

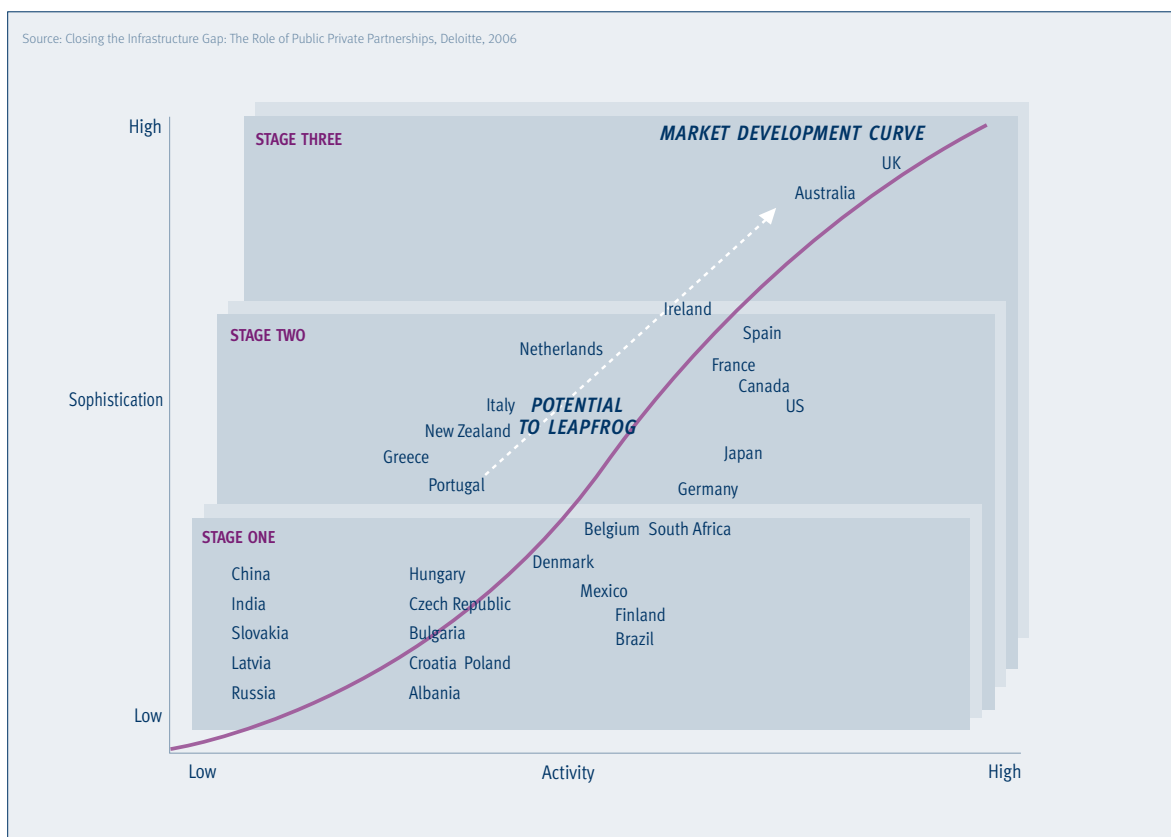
Ireland, Spain and many new EU member states are also using loans from the European Commission and European Bank for Re-Construction and Development (EBRD) to fund projects.

The UK now leads the way in many areas of PPP

The UK is recognised as one of the most advanced PPP users in the world. Governments are using the UK experience as a benchmark for their own models. Those governments seeking to go down the PPP route can and should look to the UK to inform their own development and learn from the UK experience. Firms involved in PPPs in the UK can also use their experience to help overseas governments solve problems they may face.

One example is France, where PPPs have previously focused on 'hard services' such as the construction of roads and prisons. In custodial services, private providers are only involved in building prisons – not in front-line service

EXHIBIT 2 PPP market maturity curve



delivery – because of the perceived operational risk and different view of who should be responsible for public protection. But since 2001 the French authorities have launched an extensive programme of prison projects and have introduced service elements to include ‘soft services’ such as cleaning, laundry, catering and vocational training. However, PPPs in French prisons have not yet extended to include offender management or any services that would require interaction with prisoners, while in the UK private providers have been working in partnership with the public sector to design, construct, maintain, finance and run prison services as well as delivering ‘through the gate’ resettlement services since September 1993.⁹

UK partnership models have evolved over time to include the delivery of complex services, and other governments are looking to do the same. This presents clear commercial opportunities abroad for companies operating in the UK PPP market – but the UK does not have a monopoly on innovation and there are areas in which other countries are advancing.

The UK can learn from best practice in other countries

The PPP market has been developing swiftly in Europe. The number of contracts procured and the value of contracts signed has shot up in recent years. From 2001 to 2006 in Europe (excluding the UK) the largest deals signed were all infrastructure-related – bridges, tunnels, rail, roads, airports and canals.¹⁰ The most contracts being procured during this period was by the Italian government. The largest contracts in the EU over this period were a €1,300m contract signed by the Belgian government in 2004 for road infrastructure,

and one of €1,200m by the Dutch government to deliver a railway. While other governments are learning from the UK experience, lessons can also be learnt in the opposite direction. The increase in the use of PPPs is mirrored across the globe, and countries are developing innovative models and techniques which the UK can also learn from.

With this in mind, a number of countries are leading the way in some PPP areas:

- The speed of the procurement process in Spain has been noted by contractors
- Australia is still leading the way on PPP toll roads
- Canada is experimenting with non-asset based PFIs such as the Driver Examination Services
- Japan is moving forward quickly in building on PFI and developing new models which have the potential to go beyond many UK initiatives.

In Japan, the Project Delivery Organisation (PDO) model is being used to deliver the Tana hospital in Tokyo. This model was also put forward in 2006 by the UK Treasury in the report *PFI: strengthening long-term partnerships*. The PDO model manages the delivery of a project through procurement, construction and operation. The PDO becomes the deliverer of the service to the public sector client on completion of the procurement phases. The aim of the model is to effectively manage procurement through early contractor involvement.

CASE STUDY

Serco in Canada

In September 2003, Serco formed a PPP with the Ontario Ministry of Transportation (MTO) to deliver driver examination services. Before the PPP was established some motorists were required to wait up to 15 months between applying for and taking a road test. One of MTO’s specific objectives for the private provider was to improve customer service levels and provide demonstrable value to the

government – transparency in the process was an important element given the high-profile concerns about the effect of outsourcing on public safety. The use of technology to allow applicants to book tests online, the replacement of examiners’ clipboards with handheld computers, allocating examiners to centres where demand is high and opening on Sunday mornings were some

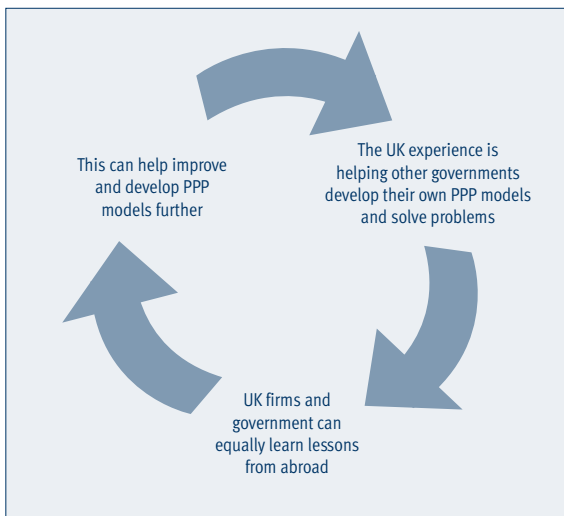
of the changes introduced to make the service more flexible and responsive to users, while also saving money. Service improvements include waiting times being reduced to an average of five weeks; calls to the call centre being reduced by 25% within the first three months; the refurbishment of offices; and the extension of opening hours in certain locations.

This can deliver:

- Reduced procurement times, as the private sector partner is incentivised to deliver on time
- Improved procurement capability
- Early private sector involvement in projects.¹¹

The diagram below (Exhibit 3) illustrates the ‘virtuous circle of international PPP development’. The UK experience is helping other governments to develop their own PPP models and markets. In the same way, the UK is learning from other countries that are designing new models to move forward in PPPs – as seen in Japan. Building on the lessons learnt is a driver of success and can help improve PPP models further.

EXHIBIT 3 The ‘virtuous circle’ of international PPP development



2 Essential drivers of success for PPPs

Countries with successful PPP markets have at least one of three common characteristics:

- Political will to develop PPP models
- A degree of fiscal constraint that reinforces the need for a value for money approach
- The right legal and institutional framework on which to build a range of PPP models.

The importance of each of these factors in driving forward PPPs will differ from country to country, but without them it is hard to promote successfully the PPP models now used in the UK and many other countries.

The importance of political will

There must be political buy-in for PPPs to make progress, and political stability is key to their continued success. Long-term commitment from a government to PPPs is important for business confidence. Other groups, such as lenders, will be reluctant to enter and invest in PPP markets if there is no clear political support. This requires a clear vision from the government of what it hopes to achieve by using PPPs and adequate resource commitments to create a sustainable pipeline of deals.

Since 1992, UK Labour and Conservative governments have both shown a clear commitment to PPPs and brought forward reforms to develop PPP markets. This process started with the introduction of a PFI model under the Conservative government in 1992, and has gathered pace since the change of administration in 1997. The Labour party was elected in 1997 on a manifesto that promised to “reinvigorate the private finance initiative” and referred to Labour as the “pioneer of the idea of public private partnerships”.¹²

This commitment to public private partnerships was further demonstrated in 2000 through the publication of *Public-Private-Partnerships: the government’s approach*. It stated that Labour saw PPPs as a way to develop a constructive relationship to renew Britain’s infrastructure in key areas such as railways, urban regeneration, housing and childcare.¹³ The report also identified three main objectives for the government’s use of PPPs:

- To deliver significantly improved public services by contributing to increases in the quality and quantity of investment
- To release the full potential of public sector assets – including state-owned businesses – and hence provide value for the taxpayer and wider benefits for the economy
- To allow stakeholders to receive a fair share of the benefits of a PPP. This includes customers and users of the service being provided, taxpayers and employees at every level of the organisation.¹⁴

As a result, the last ten years have seen concrete steps taken to develop PPPs in the UK:

- A specific PPP/PFI taskforce has been set up within the Treasury
- The government has committed to the PFI until 2010
- The Office of Government Commerce (OGC) has been created to guide procurement, and the National Audit Office (NAO) has been given the power to independently oversee PPPs.

The national case studies in this section demonstrate that other countries are now following a similar route, and benefiting from taking bold political steps to adopt PPPs.

PPPs offer one way of helping resolve problems of fiscal constraint

Underlying the global drive for PPPs in recent years are two key trends. One is the demand from citizens for ongoing improvements in infrastructure and public service delivery, the other is the budgetary pressure faced by governments worldwide.

In some countries, such as the UK, the former has been the driving force. Public support for reform is one part of this – 62% of UK citizens surveyed in 2006 wanted the pace of public services reform to increase.¹⁵ However, the UK is likely to be increasingly influenced by the latter constraint – future public sector spending agreements are unlikely to mirror the generous settlements of the late 1990s. The UK's Comprehensive Spending Review, expected later in 2007, will place government spending departments and local governments under tighter budgetary constraints than

previously. In continental Europe, growth has been slow over the past decade overall, placing tight constraints on public spending, while the strong economic growth of the emerging economies of Central and Eastern Europe has been balanced by their exceptionally high infrastructure requirements, many of which have resulted from under-investment over previous decades. The requirements to modernise public services or update infrastructure are often the drivers to the development of PPP markets. High investment needs for these changes, coupled with tight budgetary constraints, can explain much of the international growth of the PPP sector in recent years.

A lack of efficiency and innovation in traditional public service provision can incentivise governments to partner with the private sector to utilise their experience and resources. Delays in delivery, overrunning on cost and user dissatisfaction with services are common factors in many

NATIONAL CASE STUDY 1 Spain

PPPs in Spain date back to toll road construction during the 1970s and 1980s but the latest moves towards PPPs were boosted in the mid-1990s by the electoral success of the conservative Partido Popular. The Populists were behind the drive for private investment in infrastructure, and devised the National Infrastructure Plan, which focused on

private financing of road projects. The rise of the Socialist Party to power in March 2004 meant the project was subject to intense ideological debate and financial scrutiny, but the success of the PPPs approach convinced the government to include private sector involvement in its plans for the development of new infrastructure.

Today, Spain's regional governments and municipalities are the force behind PPP development which is extending to healthcare, education, prisons, government buildings and accommodation – and Spain is now noted as an exemplar on PPPs' usage.

NATIONAL CASE STUDY 2 France

France has traditionally been sceptical about private sector involvement in public service delivery. But attitudes are now changing and there is growing interest in using PPPs. The Ministry of Finance has also established a PPP Taskforce – the Mission d'Appui à la Réalisation des Contrats de Partenariat Public-Privé (MAPPP). Changes to legislation began in 2002, with the

introduction of laws which allowed a PFI-style model to be used for the justice sector in building police stations, prisons and courts. Following the successful launch of a €1.4bn hospital programme in 2002, this model was extended by the centre-right government in December 2003 when it launched the 'Plan Hôpital 2007' to speed up modernisation of France's hospitals. Under this plan,

the government committed additional resources available to the hospitals concerned, enabling them to invest €6bn over five years.¹⁶ The government also launched a €1.3bn prison programme in 2004, and in 2007 ongoing projects include building a university hospital, national road works and renovating a prison.

overstretched public service facilities. The private sector can offer skills and experience that bring innovation and efficiency to services and will improve outcomes.

So while PPPs can offer a route to addressing budgetary pressure, PFIs and other types of PPPs require the public sector partner to think about the whole-life costs of a project and to be less influenced by short-term budgetary constraints. PPPs allow communities to benefit from public service facilities and infrastructure earlier than they would have done otherwise, and relieve pressure due to under-capacity in other sectors.¹⁷ When considering whether to invest in private finance, a public authority must consider the benefits and value to the public over the long term.

Achieving value for money in PPPs

Value for money is a key driver in public private partnerships. Value for money does not simply equate to selecting the cheapest bid; it means opting for the best solution for the long-term and entering into partnerships that will deliver services which meet citizens' needs.

In the UK, one of the main drivers for PPPs post-1997 was the need to ensure that money spent in a major infrastructure investment programme has been invested wisely. This requires effective procurement tools and good contract

management so that projects are delivered on time and within budget, and proper risk transfer.

Traditional procurement meant that if the project went wrong, taxpayers would unknowingly pick up the bill. The use of private capital has increased the transparency of public finances, as the flow of money between partners has to be recorded and accounted for.¹⁸

The success of the PFI model in the UK has resulted in the delivery of hundreds of capital projects on time and to budget. This model was developed to counter traditional procurement processes, which often resulted in cost and time overruns and where public facilities were often poorly maintained over their lifetime due to a lack of steady public investment.

UK Treasury figures show that 70% of non-PFI projects were delivered late compared to 20% of PFI projects, and that 73% of non-PFI contracts ran over budget compared to 20% of PFI projects (Exhibit 4).¹⁹ A report by the National Audit Office, *PFI: Construction Performance*, found that 75% of the construction elements of PFI contracts were on time and within budget.²⁰ The PFI model also allows governments the option to spread the cost of the asset over a longer period of time. One of the benefits of using a PFI arrangement is that payment for an asset does not begin until it has been

NATIONAL CASE STUDY 3 Japan

The election of Prime Minister Koizumi in 2001 saw a move towards PPPs and more private involvement in public services. Prior to 2001, state law in Japan did not allow the government to enter into contracts of longer than five years. To address this, laws enabling the promotion of the PFI were passed to provide a solid legal framework, followed by further legislation to open up the public service provision to private sector involvement. As a result, 94 projects have been launched since the introduction of this legislation, of which 30 have reached contract award stage.

Japan's progress in PPP development since 2001 has been much quicker than the UK's over a comparable period. For example, Japan's approach to contracts – traditionally based on trust between the parties rather than explicit contracts – has meant that transactions have been completed in approximately one year, quicker than has been the case in the UK.²¹ The breadth of PPP development is also impressive – current projects cover sectors such as government facilities, healthcare, waste disposal, leisure, education and serviced accommodation for public sector workers, and Japan has

a further 20 projects in the pipeline. PFI-style contracts in particular are emerging, with the first PFI prison contract awarded in 2006 for the Mine Rehabilitation Promotion Centre. This includes delivering a wide range of services but, like the French and German prison model, private sector providers will not be permitted to deliver face-to-face services. This is a feature also seen in Japanese PFI hospitals, where responsibility for delivering clinical services remains with the public sector.

completed and meets the specification. Because providers assume most or all of the construction risk and the finance it gives them the incentive to deliver on time in order to recoup their investment sooner.

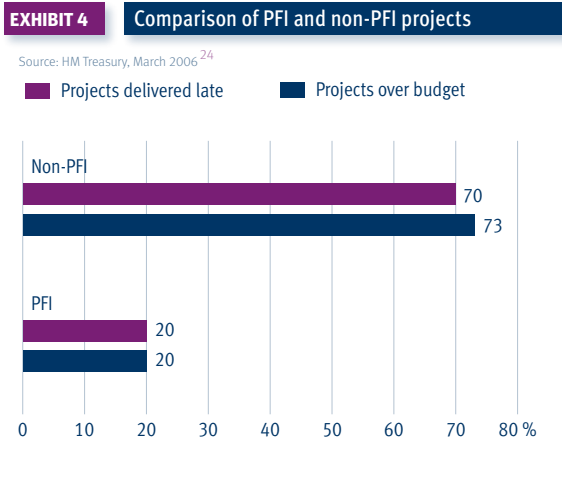
Evidence of this can be found in the custodial services sector, where prisons were completed on time and within budget as a result of PFI contracts, saving the taxpayer up to £260m between 1991 and 2002.²² Quality of service is a key element considered in the bidding phase and, in the case of Altcourse Prison in Liverpool, the contract went to the bidder who came first in quality evaluations – a private sector consortium. Bridgend Prison in South Wales and Altcourse are also good examples of delivering on time

and within budget. For example, on the Bridgend contract, one private consortium’s bid cost £50m less than that of a similar public sector scheme.²³ The prison also opened five months ahead of schedule, reducing the need to house prisoners in police cells.

The need for a solid legal and institutional framework

Potential investors and providers will look for appropriate frameworks before choosing to enter into a partnership, and will seek relevant safeguards for those involved in the partnerships. A sound legal and institutional framework is therefore a vital precondition for the success of any PPP market. Associated governmental bodies can support the development of partnerships by providing support and advice to public authorities looking to use PPPs as a route to deliver services and can also assist with various issues relating to financing of projects.

In the UK, the Treasury and National Audit Office have taken several steps to address these issues. The Treasury has issued guidance on these issues in three reports: *Transforming Government Procurement*; *PFI: Strengthening long-term partnerships*; and the *Value for money assessment guide*. The National Audit Office is an independent body responsible for scrutinising government spending which also conducts regular investigations and publishes reports on the performance of PPPs in the UK, allowing PPPs to be more transparent. It also provides information that can be used to analyse markets and development.



CASE STUDY

John Laing Infrastructure Limited in Norway

UK firms are increasingly using their PPP expertise overseas to deliver projects ahead of schedule and within budget. John Laing Infrastructure Limited, together with its partners Skanska ID and Skanska Norge, won the contract for a PPP road project in Norway. The concession was, when awarded, the largest single contract in the Norwegian highways sector. Construction was completed within 23 months and the

new road opened in June 2005 – three months ahead of schedule. The Mayor of the Skaun Community, through which the E39 runs, said:

“The new E39 is very important for Skaun’s future development, and for the region as a whole. Local people are very pleased; they’ve wanted a new road for thirty years. Usually it would take four or five years to build a road like this but we

have one in two years. It’s a very short construction time”.

Laing attributed the success to the involvement and support of an established and experienced team drawn from the partners’ resources. Close co-operation with the local community was an integral element of the consortium’s approach.

Many governments have passed PPP laws or established PPP units dedicated to developing PPP programmes on a national or regional level. PPP units are a means of providing support, knowledge and confidence to existing players in the market as well as those thinking of entering. They represent a positive step towards opening up services to business and promoting PPPs. For example:

- The French government has set up the PPP unit – ‘Mission d’Appui Partenariats Public-Privé’ – to oversee the introduction of new legislation, develop guidance and take on the role as a mediator to resolve issues
- Brazil passed legislation on PPPs in December 2004 and created PPP forums to discuss implementation and look at international experience
- The Italian government has also set up a PPPs unit based on the UK Treasury’s PFI taskforce – Unità Tecnica Finanza di Progetto (UTFP). The aim of the UTFP is to help identify projects suitable for private sector involvement, and to provide assistance to central, regional and local administrations on PPP development
- The Netherlands has followed the UK model by establishing a PPPs unit in every major government department as well as a PPPs centre within the Ministry of Finance – similar to Partnerships UK.²⁵ This not only helps co-ordinate PPP projects but shows a long-term commitment by government to developing partnerships, which gives the market greater confidence
- Poland is also moving towards private sector involvement in public service provision and passed the Public Private Partnership Act in October 2005
- The Czech Republic passed the Act on Concessions Agreement in April 2006. The legislation allows for private involvement in delivering public services and demonstrates a tangible commitment by its government to PPPs.

3 Lessons learnt for PPP markets around the world

The experience of the UK PPP market shows there are significant challenges to the development of successful public private partnerships. It also demonstrates the key drivers encouraging governments to adopt PPPs and the factors that help make them successful. This section focuses on issues related to market design and outlines key recommendations based on lessons learnt that will be useful for governments that are thinking of embarking on the PPPs journey or taking their existing models forward.

KEY RECOMMENDATIONS

1 Build on models that other countries have tried and tested

It makes sense to build on what works – for example, the success of the PFI in the UK has been integral to the modernisation of public services and is helping to ensure taxpayers receive better value for money. As one of the most common PPP models, this is a clear lesson for all those involved in developing PPP markets.

A recent CBI report on the PFI shows there are clear lessons to be learnt from its success:

- Linking design and service delivery creates long-term benefits
- Sharing risk creates incentives to succeed
- Increased financial transparency and accountability
- Improved service user and staff satisfaction
- A higher priority is given to environmental sustainability.²⁶

Just as many governments are looking to the UK model for guidance in designing and developing PPP markets, the

UK has learnt from other countries. For example, private involvement in the UK prisons sector was developed on the lessons learnt from the US and Australian experiences. In America, prison contracting on a larger scale emerged in the early 1980s. Previously, private involvement was limited to providing services such as laundry, cleaning and catering. Integrating design and management contributed to innovative services delivered on time and within budget. In the UK, the introduction of radial prison design, which relies on clear lines of sight and control rooms at the centre of radiating wings, technology such as CCTV and electronic keys helped deliver operational efficiencies. Japan has also learnt from this and will be using electronic tagging in its first PFI prison, which will help reduce costs significantly.²⁷

Governments are also increasingly interested in moving beyond purely infrastructure and construction PPPs towards those that include service delivery and non-asset based partnerships. In the area of active labour market policies – known in the UK as welfare to work – A4e and Working Links have been using their UK experience to advise governments and deliver programmes overseas, highlighting the ongoing development of PPP models.

2 Develop high-quality, outcomes-focused public procurement managed by skilled professional staff

Some of the initial barriers in developing the UK PPP model have related to public procurement. Increasingly, there are moves towards focusing procurement more on outcomes rather than simply focusing on the specification. This is to ensure services meet the needs of citizens rather than just fulfil contractual obligations.

Providing value for money through improved public procurement means competitive supply markets must be managed by skilled professional staff who need expertise in project management, contract management, market management and model design.²⁸ Procurement and

commercial skills are essential ingredients as they lead to positive partnership relationships with providers. Public sector commissioners need these skills to be able to work with providers so they can design services suitable for the people that use them.

To fully develop these skills, the CBI believes:

- The private sector should build links with public sector commissioners in central and local government and share best practices through existing programmes and more informally. This will help individuals working in commercial
- Governments should look to how the UK Cabinet Office established the capability reviews and the Professional Skills for Government (PSG) programme to assess the efficacy of commercial and delivery skills to deliver increased value for money in public services
- All central departments and significant strategic-level public bodies must have commercial directorates, or their equivalent, to ensure procurement policy and delivery are joined-up

and delivery roles in the public sector better understand what can be achieved through smarter commissioning

CASE STUDY

PricewaterhouseCoopers (PwC) in Europe, Canada and Australia

PricewaterhouseCoopers has worked on many of the world's major PPP projects across sectors including health, education, transport, home affairs, criminal justice, local government, housing, social welfare, defence and international development.

In the roads sector, PwC developed the shadow toll for the UK DBFO roads programme and this mechanism is now widely used around the world,

including the SCUT IP5 in Portugal, which at the time of signing was the largest shadow toll in Europe. Other major roads projects around the world include the E18 in Norway, the A19 in France, the N4/N6 Kinnegad to Kilcock in Ireland and the award-winning Golden Ears Bridge in Canada.

PwC has worked with HM Treasury and other government departments in the UK to successfully implement PPPs and has informed projects with other

governments. The State of Victoria in Australia benefited from the UK experience by working with PwC to shape and implement the Partnerships Victoria policy to introduce and support the state's PPP programmes. PwC also worked with the German Ministry of Transport to develop a PPP framework and guidelines that have been instrumental in furthering the development of PPPs for infrastructure procurement.

CASE STUDY

GSL in Australia and South Africa

GSL has been involved in the UK market for a number of years, providing a range of services such as care and justice services, healthcare and facilities management through PPPs. The company has used this experience to develop overseas operations in South Africa and Australia. Particularly in the custodial sector, GSL is using its experience in running immigration centres in the UK in the operation of Australian detention services for the Department of Immigration and Multicultural Affairs.

Examples of GSL's innovative approach include setting up a large commercial laundry processing 15,000 items per week to industry standards, assembly of office furniture and metalwork parts and welding and assembling and packaging of ironmongery. Such training, personal development and rehabilitation are common features in the Mount Gambier and Port Phillip prisons in Australia and in the work by GSL in South Africa. This is common practice in GSL prisons in the

UK. Integrating design and management has also allowed GSL to develop innovative solutions to many of its overseas prisons. One prison is designed in a way that allows prisoners to be housed according to their needs. It consists of 13 self-contained accommodation units, a 35-bed psycho-social unit for prisoners with intellectual disabilities, and a youth unit housing 60 young offenders aged 17-25 which allows them to be separated from older prisoners.

- Central government departments should set up sector-specific procurement ‘academies’ to pool procurement and contract management expertise. Each department should identify the skills required for complex procurements and delivery models, including the effective use and management of advisors
 - Public bodies should improve the detail of project specifications and ensure they have been well thought through and are appropriate for delivering policy outcomes
 - Central government should establish a more informal mechanism by which bidders can raise concerns about the way procurements are progressing. This would significantly increase supplier confidence in the market
 - Quantitative and qualitative evaluation criteria should be published at the start of all procurements
 - Above a certain threshold, all projects should go through gateway reviews. These must trigger external interventions by central or regional procurement teams where appropriate and should be widely available. Public authorities should be obliged to accept help from the appropriate body if poorly performing projects are allowed to continue
 - Best practice guidance covering ongoing partnering arrangements should be issued
 - All projects should have a named sponsor at the highest level to provide strategic vision and point of accountability through the life of the contract
 - All projects should develop an end-to-end project plan at the outset, setting out the obligations and dependencies on both sides and stipulating how resourcing challenges will be met.²⁹
- 3 Understand the needs and capacity of the market**
- Governments must undertake a thorough supplier assessment in order to deliver the best public service outcomes. This requires a strategic approach to assessing markets and suppliers and links to aspects of procurement and contract management, such as early engagement. Getting a clearer picture of what the market can and cannot deliver is necessary if authorities are to understand the supply side and help providers respond to the needs of citizens. More effective needs assessment can help tailor services and ensure the right provider is selected for the project.
- For procurement to be successful, robust reviews must be applied before the tendering process to identify what the needs are. This requires government to analyse and thoroughly think through what aims it wants to achieve before going out to procure the services. Clarity from governments and public authorities is essential to ensure effective commissioning and avoid procurement process delays. This is one lesson the UK has learnt the hard way. The average cost of delay on a UK health PFI scheme is 1% of capital cost, amounting to £2.45m over each deal and total losses of £98m over the health PFI programme.³⁰
- To harness the full benefits of PPPs, there needs to be an outcomes-focused approach with clear objectives for all groups involved. This requires a thorough needs analysis of what services or assets are required and rigorous planning.

CASE STUDY

KPMG in Ireland, Australia, Canada and Portugal

KPMG has played a key role in the development of policy for the National Roads Authority (NRA) in Ireland, including consideration of tolling strategy, public sector discount rates, payment mechanisms and process methodologies. In 1999, the PPPs process was new to Ireland and as such it became a key objective to

educate the market to maximise interest and competitive pressure. KPMG’s advice to the NRA on the marketing of the scheme and its structure, especially in the early days, drew primarily on experience in the UK but also countries like Australia, Canada and Portugal. The PPP roads programme has in recent times led

developments in the marketplace and has attracted strong competitive interest from local and international companies far beyond original expectations. The benefit of this competitive interest has been reflected in the excellent terms of the deals signed to date.

In the UK, businesses and public authorities involved in PPPs have found that without the right commissioning process, a partnership is likely to run into trouble.

4 Ensure sustainable deal flows through managed markets to encourage new providers

Establishing a sufficient deal flow – that is, maintaining enough projects in the pipeline to keep the PPP market thriving – is crucial to encouraging providers to enter markets. Companies make investment decisions on the basis of the potential market growth, so it is vital that markets are sustainable and resources are available to incentivise, reassure and encourage private providers to get involved in PPPs. This can also apply to federal governments reassuring regional governments that are introducing PPPs. There needs to be a long-term commitment to PPPs from government and a clear indication of future deals and development to encourage entry into the market. This also includes ensuring that deals are fairly advertised to all bidders to counter concerns that in-house teams benefit from unfair advantages. There must be transparency and rigour in the tendering process – ensuring thorough needs assessments and clear project specifications for bidders will help avoid procurement delays.

Effectively managing risk is a priority if private providers are to be encouraged to enter the market. In most PFI, the risks of meeting required standards of delivery, construction costs and delays are met by the private sector. The public sector is considered to be more able to deal with allocational risk, the risk of future changes of public service requirements and risks around the actual use of the

facility such as demand.³¹ Effective risk allocation creates incentives for projects to be delivered on time and to budget. Companies will not want to get involved in a partnership where they are responsible for risks they are not best equipped to deal with.

Although the UK Treasury has developed guidance on how to quantify risk, the public sector tends to have limited experience in this, which can often mean projects are prone to optimism bias and budgeted for the best possible scenario (often lowest cost and earliest completion, rather than the most likely).³² This links to issues around the capacity of public sector procurers and the need for skills development.

It is also important to ensure risks are properly transferred to the most appropriate party and contracts are of sufficient length. Transferring too much risk, or risks the private provider has little control over, can lead to delays and cost overruns and eventually discourage participation from new providers. The reverse is also true – if contracts are too short, the private sector will be discouraged from entering the market due to the cost of re-bidding for contracts and the time needed to recoup their investment in service improvement. This acts as a barrier to innovation, whereas longer contracts allow the time for providers to be more creative in designing services.

5 Use innovation as a means of delivering service improvements and value for money

Private sector involvement can help bring new skills and ideas to the way public services are delivered. Co-operation

CASE STUDY

G4S in the USA, The Netherlands, Israel and the Channel Islands

Employing over 470,000 people, operations of Group 4 Securicor (G4S) are conducted in more than 100 countries. The justice services in the UK, the US, The Netherlands, Israel and the Channel Islands, include: adult and youth custody and rehabilitation facilities; the provision and installation of electronic monitoring services; the operation of custody suites for South Wales Police; and the provision of services to the UK Border

and Immigration Agency to detain and escort immigrant detainees within the UK and for worldwide repatriation.

In the UK, G4S is responsible for over 1,000 adult and juvenile prisoner places at HMP and Young Offenders Institution Parc in South Wales and the operation of the Oakhill Secure Training Centre for young people in Milton Keynes, as well as the Dungavel House Immigration Removal

Centre. In the USA, G4S operates eight youth facilities in the States of Florida and Tennessee housing over 1,100 juvenile offenders. In The Netherlands, G4S operates eight immigration detention facilities with 850 places for both male and female detainees.

The electronic monitoring business in the UK, the US and Israel monitors more than 36,000 offenders daily.

between different sectors brings together skills and ideas in designing and developing better services for the end user. In contracts where providers are required to reduce costs, they are incentivised to think of an original solution to the existing situation. Focusing on the processes and specifically how the outcomes will be achieved can be restricting and limit innovation.

Building service delivery into PPP programmes is a key area where the UK has moved ahead of other countries. For example, Serco designed and built a Ministry of Defence training academy with the concept of ‘people flow’ in mind. The design was divided with the accommodation kept on one side, the central hub containing the refectory and library and the classrooms on the other side. This meant the provider could clean the refectory, kitchens and classrooms in the morning and, while students were in lessons, the contractor could clean the accommodation – saving manpower and avoiding having to move students around unnecessarily.³³

In the prisons sector, PPP prisons are planned to maximise efficiency. The introduction of competition has encouraged significant innovation in prison management regimes, organisational culture, design, construction and technology. Initiatives such as requiring all prisoners to be provided with 15 hours out of their cell each day, innovative designs, the use of CCTV cameras and magnetic keys have helped reduce staffing numbers.³⁴ Another example is in prison education, a daily activity required for all inmates, where one prison was designed so that the education accommodation was next to the housing wing, which meant that prisoners were near their classrooms, saving prison officers’ time and reducing the distance they had to cover.

6 Create governance arrangements that are fit for purpose

Governments should develop partnership models for public authorities to demonstrate what successful partnering relationships look like and the skills required to make them successful. These bodies can act as a source of procurement and contract management excellence.³⁵ Commercial directorates should be set up in all central government departments and large public bodies to ensure procurement and delivery are joined up. The Czech government is making moves towards this and has entered into partnership with the UK and The Netherlands through an EU twinning project. These countries provide PPP expertise to the Czech Ministry of Finance to help increase efficiency and develop PPP methodology and standards.³⁶

Agencies should be set up to act in a role similar to that of the UK’s Office of Government Commerce (OGC). This could support procurement and issue best practice guidance covering partnering arrangements.

Governments in South Africa, Germany, Ireland and Italy are among those that have developed dedicated PPP units. In South Africa, the National Treasury has already established the National PPP Unit in 2000 and also a Municipal Unit. Similarly, Germany has a public private partnership taskforce to support individual projects and help knowledge transfer. Italy has also created the ‘4P Council’ responsible for the promotion of PPPs, and the Irish and Indian governments have set up websites (www.ppp.gov.ie and www.pppinindia.com) to act as a central point of access and support for PPPs.

CASE STUDY

Serco in Germany

Since 2005, Serco has been running the partly privatised Hünfeld prison in partnership with the State of Hessen – the first of its kind in Germany. Around 45% of the services are provided by Serco, including building management, psychological and

medical care for offenders, education and recreation management – with a 15% saving compared to full state provision. The company was able to use its experience from running prisons, young offender institutes and detention centres in the UK to

inform its experience in Germany. More recently, the provider’s prison management operations have extended to Australia.

7 Move towards a competitive neutrality model that establishes a level playing field for all providers

Competitive neutrality policy means competition should be conducted in a way that is fair to all concerned. This is a key lesson that countries developing PPP models can learn from the UK experience. It relies on the government taking on the role of designing markets and establishing even-handed regulatory frameworks in a fair and transparent way.

Competitive neutrality is crucial to ensure providers' trust in the market. But it is only a feature of the most developed PPP markets and achieving competitive neutrality is likely to be an indication that a country has an almost fully developed PPP market. The UK is moving towards this model and this will give other countries a chance to learn from its experience – just as the UK will learn from countries such as Japan and The Netherlands which have made significant progress towards competitive neutrality. Ensuring public sector or incumbent contractors are not given an unfair advantage over other providers is key to ensuring the best provider is delivering services. Despite having a mixed market for public service delivery, the UK has faced challenges when including the private sector in delivering public services. A key concern for the UK public service market has been to establish a level playing field so providers compete fairly, regardless of which sector they represent.

Many countries seeking to engage the private and voluntary sectors more closely are recognising the importance of a level playing field. In order to gain the confidence of the private sector to enter the market, competition law needs to be updated. The European Union has also placed an obligation on member states to ensure public undertakings are treated neutrally.³⁷

The Japanese government is taking on a role in establishing competition in public services and is developing its own policies and competitive neutrality frameworks. Japan is moving forward in market testing policy developments, aiming to open public services to competition and make them more transparent, while The Netherlands has introduced a competitive market for the delivery of a public task in welfare services.

Governments should address taxation and regulation inconsistencies and ensure that tax and regulation are applied even-handedly across sectors to encourage new providers. In India, the Advocates Act protects the legal services industry

and restricts foreign law firms from operating in the country. However, there are signs that this is beginning to change. In May 2007, senior Indian ministers visiting the UK indicated they were looking to introduce a parliamentary bill allowing foreign firms to set up local operations. This is a positive step towards opening up the market and levelling the playing field.³⁸

The CBI has already produced recommendations on competitive neutrality in the UK in its report *A fair field and no favours: competitive neutrality in UK public service markets*.³⁹ If implemented at a national level, these would result in a highly advanced, competitively neutral PPP market. They include the need for government to:

- Develop a comprehensive policy framework on competitive neutrality. This should include a clear commitment to the underlying principle of a level playing field between public, private and voluntary sectors
- Spell out the detailed elements of a competitively neutral procurement policy, ensuring processes are fair, costing issues are addressed in an even-handed way and contract administration is non-discriminatory
- Address the taxation and regulation of different providers. Because of its complexity, a separate review of VAT and its application to the public-private interface may be required
- Review the rules governing the establishment and management of public sector trading activities in both central and local government
- Investigate the application of competitive neutrality to quasi-public bodies enjoying the benefit of government patronage, tax concessions, implicit guarantees or other unfair competitive advantages
- Introduce a less formal administrative complaints procedure to complement investigations should allow scope for policy recommendations to which this government should be obliged to respond.

Creating a framework of processes and safeguards which ensure the most innovative, efficient and reputable provider has the greatest chance of winning a contract to provide a public service is crucial. Without action, providers will be discouraged from entering or remaining in the market, thereby removing the benefits of competition and value for money.

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Annexe: more about the PSSB

What is the CBI's Public Services Strategy Board?

Formed in 2002, the Public Services Strategy Board (PSSB) leads the CBI's campaigning work on public service reform. As a funder, user and provider of public services, business is keen to influence the ongoing debate of public service reform and shape policy development in this area. Our campaign seeks to increase awareness and understanding of the contribution business is making to one of the most pressing public policy issues facing the UK today.

The PSSB is made up of CBI member companies which are involved in the design and delivery of a wide range of public services and support functions.

The CBI Public Services Strategy Board promotes quality and value in public services through competition and choice.

For more information about its work visit:
www.cbi.org.uk/publicservices

