

Public-private partnership

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Public-private partnership (PPP) is a system in which a government service or private business venture is funded and operated through a partnership of government and one or more private sector companies. These schemes are sometimes referred to as PPP or P3.

In some types of PPP, the government uses tax revenue to provide capital for investment, with operations run jointly with the private sector or under contract (see contracting out). In other types (notably the Private Finance Initiative), capital investment is made by the private sector on the strength of a contract with government to provide agreed services. Government contributions to a PPP may also be in kind (notably the transfer of existing assets).

Typically, a private sector consortium forms a special company called a "special purpose vehicle" (SPV) to build and maintain the asset. The consortium is usually made up of a building contractor, a maintenance company and a bank lender. It is the SPV that signs the contract with the government and with subcontractors to build the facility and then maintain it. A typical PPP example would be a hospital building financed and constructed by a private developer and then leased to the hospital authority. The private developer then acts as landlord, providing housekeeping and other non medical services while the hospital itself provides medical services.

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Origins

Pressure to change the standard model of Public Procurement arose initially from concerns about the level of public debt, which grew rapidly during the macroeconomic dislocation of the 1970s and 1980s. Governments sought to encourage private investment in infrastructure, initially on the basis of accounting fallacies arising from the fact that public accounts did not distinguish between recurrent and capital expenditure.

The idea that private provision of infrastructure represented a way of providing infrastructure at no cost to the public has now been generally abandoned, interest in alternatives to the standard model of public procurement persisted. In particular, it has been argued that models involving an enhanced role for the private sector, with a single private

sector organisation taking responsibility for most aspects of service provisions for a given project, could yield an improved allocation of risk, while maintaining public accountability for essential aspects of service provision.

Initially, most public-private partnerships were negotiated individually, as one-off deals. In 1992, however, the Conservative government of John Major in the United Kingdom introduced the Private Finance Initiative (PFI), the first systematic program aimed at encouraging public-private partnerships. In the 1992 program, the main focus was on reducing the Public Sector Borrowing Requirement, although, as already noted, the effect on the public accounts was largely illusory. The Labour government of Tony Blair elected in 1997, persisted with the PFI sought to shift the emphasis to the achievement of "value for money" mainly through an appropriate allocation of risk.

A number of Australian state governments have adopted systematic programs based on the PFI. The first, and the model for most others, is Partnerships Victoria.

Early problems

Because of the focus on avoiding increases in public debt, many private infrastructure projects in the early 1990s involved provision of services at substantially higher cost than could have been achieved under the standard model of public procurement. The central problem was that private investors demanded and received a rate of return that was higher than the government's bond rate, even though most or all of the income risk associated with the project was borne by the public sector.

A number of Australian studies of early initiatives to promote private investment in infrastructure reached the conclusion that, in most cases, the schemes being proposed were inferior to the standard model of public procurement based on competitively tendered construction of publicly owned assets (Economic Planning Advisory Commission (EPAC) 1995a,b; House of Representatives Standing Committee on Communications Transport and Microeconomic Reform 1997; Harris 1996; Industry Commission 1996; Quiggin 1996).

One response to these negative findings was the development of formal procedures for the assessment of PPPs in which the central focus was on "value for money" rather than reductions in debt. The underlying framework was one in which value for money was achieved by an appropriate allocation of risk. These assessment procedures were incorporated in the Private Finance Initiative and its Australian counterparts from the late 1990s onwards.

Subsequent debate

Although the general view that governments should seek "value for money" has been widely accepted, there have been continuing disputes over whether the guidelines designed to achieve these goals are appropriate, and whether they have been correctly applied in particular cases. Much of the discussion has been based on debates over the UK Private Finance Initiative.

PSPP Variant

Some social enterprises have proposed, or are operating, partnerships with the state and commercial partners which they call Public Social Private Partnerships (PSPP) .

Specific cases

While some PPP projects have proceeded smoothly, others have been highly controversial. Australian examples include: Airport Link, the Cross City Tunnel, and the Sydney Harbour Tunnel, all in Sydney; the Southern Cross Station redevelopment in Melbourne; and the Robina hospital in Queensland.

Some examples

International

Some international health care programs may be considered public-private partnerships:

- The Global Alliance for Vaccines and Immunization is financed per 75% (750 Mio.US\$) by the Bill and Melinda Gates Foundation, which has a permanent seat in the supervisory board of GAVI.
- As a UN agency, the WHO is financed through the UN system by contributions from member states. In recent years, the WHO's work has involved more collaboration with NGOs and the pharmaceutical industry, as well as with foundations such as the Bill and Melinda Gates Foundation and the Rockefeller Foundation. Some of these collaborations may be considered global public-private partnerships (GPPPs); half the WHO budget is financed by private foundations.
- The Global Fund to Fight AIDS, Tuberculosis & Malaria, a Geneva based UN connected organisation, established in 2002 to dramatically upscale global financing of interventions against the three pandemics.
- The TB Alliance is financed by public agencies and private foundations, and partners with research institutes and private pharmaceutical companies to develop faster-acting, novel treatments for Tuberculosis that are affordable and accessible to the developing world.
- DNDi, the Drugs for Neglected Diseases Initiative was founded in 2003 as a not-for-profit drug development organization focused on developing novel treatments for patients suffering from neglected diseases.

Australia

- Airport Link, Sydney
- Cross City Tunnel, Sydney
- Eastern Distributor, Sydney
- Lane Cove Tunnel, Sydney
- Sydney Harbour Tunnel, Sydney
- M2 Hills Motorway, Sydney
- M4 Western Motorway, Sydney
- M5 South Western Motorway, Sydney
- Westlink M7, Sydney
- CityLink, Melbourne
- EastLink, Melbourne
- Newcastle Mater Hospital Redevelopment, Newcastle, NSW

Canada

- The 407 ETR toll road in Toronto, Ontario
- The Royal Ottawa Mental Health Centre in Ottawa, Ontario
- The William Osler Hospital in Brampton, Ontario
- The Viva bus rapid transit network in York Region, Ontario
- Confederation Bridge construction in Prince Edward Island
- Canada Line automated rapid transit service in Greater Vancouver, British Columbia.

India

- NISG, Hyderabad

Republic of Ireland

PPPs are being increasingly used in Ireland to deliver both major and minor infrastructural projects essential to support the country's economic growth and population changes.

- National Maritime College of Ireland
- West-Link bridge on M50 motorway in Dublin

Germany

- TerraSAR-X, Friedrichshafen

United Kingdom

- Blueprint (GeneralPartner) Ltd
- Private Finance Initiative
- The maintenance of London Underground: Metronet and Tube Lines (since 2003)
- National Air Traffic Services (since 2001)
- Some National Health Service (NHS) hospitals and other agencies
- Firrhill High School
- Williamwood High School

United States

- California Fuel Cell Partnership (CaFCP)
- California State Route 125, San Diego, California
- Central Park, New York City
- Chicago Skyway Bridge, Chicago, Illinois
- Indiana East-West Toll Road, (Interstate 80/Interstate 90), Northern Indiana
- Southern Indiana Toll Road, (Interstate 69, proposed), Martinsville to Evansville, Indiana
- Las Vegas Monorail, Nevada
- The redevelopment of downtown Chattanooga, Tennessee from the mid-1980s to present.
- Pocahontas Parkway, suburban Richmond, Virginia
- Dulles Greenway, suburban Washington, DC
- Silver Line (Washington Metro), suburban Washington, DC
- HOT (High Occupancy or Toll) Lanes on the Capitol Beltway, suburban Washington, DC, ^[1]
- Water Taxi Beach, Hunters Point, Queens, New York

See also

- Build-Operate-Transfer

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External links

- PPP Bulletin <http://www.pppbulletin.com>
- The Institute for Public-Private Partnerships, Inc. <http://www.ip3.org>
- Canadian Council for Public-Private Partnerships - Publications - <http://www.pppcouncil.ca/publications.asp>
- Canadian Union of Public Employees (<http://www.cupe.ca/p3s>)
- United States PPP lobby - National Council for Public-Private Partnerships <http://www.ncppp.org>
- BBC News article <http://news.bbc.co.uk/1/hi/uk/1518523.stm>
- Industry Canada Website <http://strategis.ic.gc.ca/epic/internet/inpupr-bdpr.nsf/vwGeneratedInterE/Home>
- thePFI.net <http://www.thepfi.net>
- C.R.E.A.M. Europe - Public Private Partnerships in the EU Enlargement <http://www.cream-europe.eu>
- UNISON <http://www.unison.org.uk/pfi/>
- PPP website - Infrastructure Finance <http://www.europeanpublicfinance.com>
- Public Private Finance <http://www.publicprivatefinance.com>
- Irish Government PPP website <http://www.ppp.gov.ie>

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