

Public Private Partnership: THE CASE AGAINST

A Snap Shot of Ireland's PPP Buy-in

By Albert Hamilton

According to the Minister for Finance, Brian Cowan, the Republic's capital investment budget for the period 2006 to 2010 will be €43.5bn of which €5.5 billion (or 13%) is to be provided through PPP projects.

At the annual dinner of the Dublin Chamber of Commerce in October 2005 he stated that PPP projects are planned to form an important part of building the nation's capital stock. The Irish government is determined to deliver projects on behalf of the taxpayer that are to the highest international standards, that are on time and within budget. And, we are told, PPP will play a bigger part in Ireland's future public sector development.

The Minister has also stated that PPP is only a means to an end and the end, he relates, ...'is putting in place public sector services and infrastructure on a value for money basis for the taxpayer so that Ireland remains well placed to meet the challenges which it will face in the coming decades'(1.).

The basic guidelines for the Republic's capital projects require that the sponsoring agency (the entity having overall responsibility for planning and management of a project) shall, during the appraisal stage, examine various options for procurement. The majority of projects procured under the PPP option are likely to be those having an estimated capital cost in excess of €20m.

It is planned that PPP as a method of procurement will be used for developing national roads, transportation, housing, water services, waste management, education, criminal courts and prisons and there may be other beneficial service and infrastructure sectors.

The National Roads Authority are planning PPP as the preferred procurement strategy for, inter-alia, the N25 Waterford Bypass, the N7 Limerick Southern Ring (phase II), the M3 Clonee to Kells road from Galway to East Balinasloe and for various upgrades to the M50 around Dublin. The Department of Transport are planning PPP for metro extensions from St Stephen's Green to Swords via Dublin airport, a 34km western route from Tallaght to Ballymun and a Luas line from Dublin city centre to Lucan. The Department of the Environment is planning 30, or more, projects covering housing, drainage, sewerage, etc. In education, we are informed, 27 new schools and 17 third-level projects will be procured using PPP.

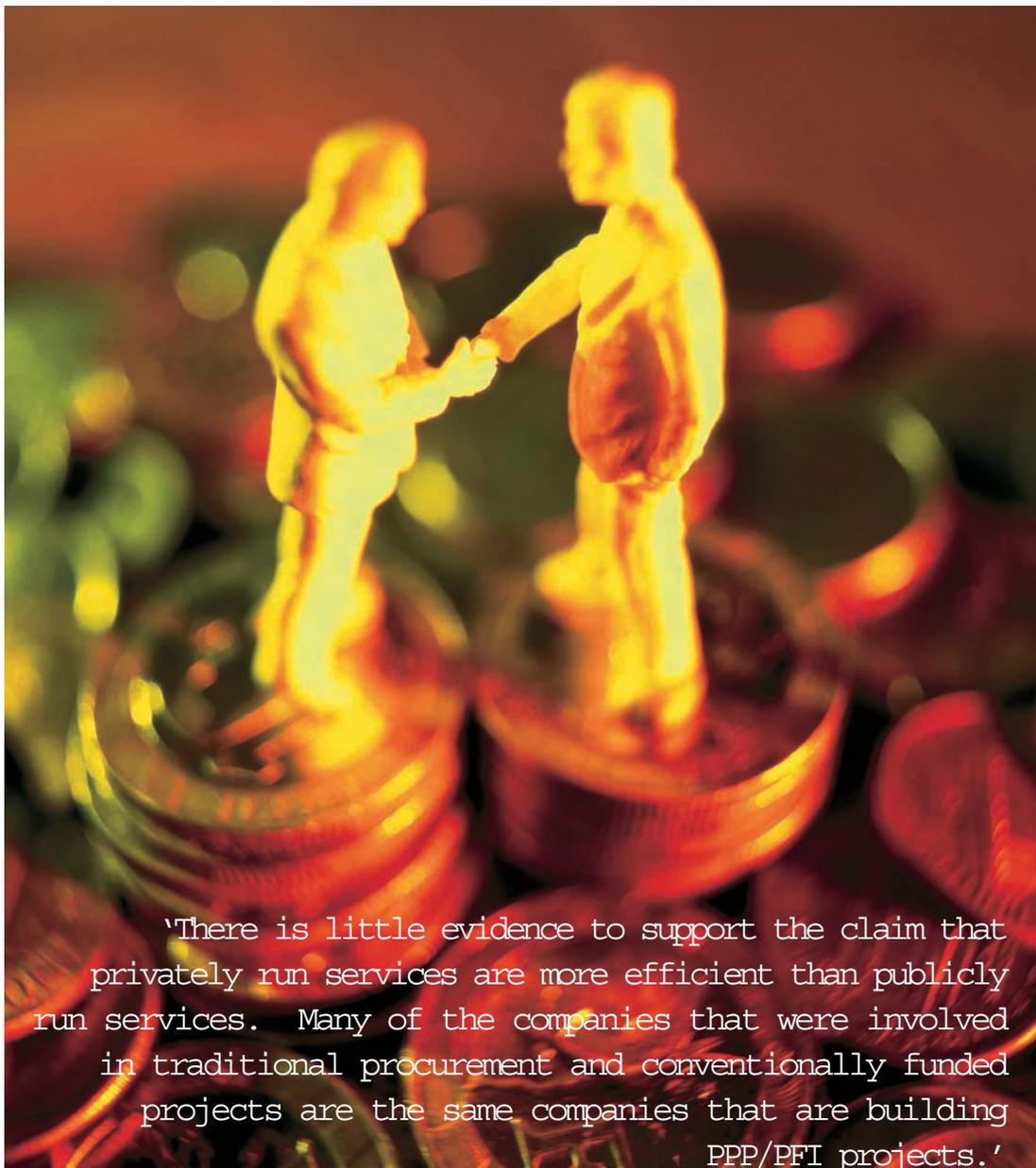
So, all-in-all, it can only be concluded that the Irish Government is fully embracing this so-called new method of procurement, the purpose being to provide 'value for money'.

Unfortunately, the term 'value' is not defined. What is often presented to demonstrate value is the performance criteria of project delivery relative to out-turn cost and expended time. Although these metrics are easily measured, and even more easily communicated to the public, what the public are not informed of is the potential for failed contractors and project outcomes and the potential for public bodies and taxpayers to be ripped off.

Currently, there is little that could be interpreted as total transparency when informing the Irish public at large on the merits and demerits of a procurement approach that has its lineage in helping developing nations, such as Turkey in the 1970s, to expand their archaic public infrastructure using private capital.

UK Experience of PFI/PPP

In the UK the approach of sub-contracting the design, building and operation of public services to private sector companies is termed PFI (Private Finance Initiative). A defining feature of PFI projects is the transfer of oper-



'There is little evidence to support the claim that privately run services are more efficient than publicly run services. Many of the companies that were involved in traditional procurement and conventionally funded projects are the same companies that are building PPP/PFI projects.'

ational risk from the public sector to the private sector.

Although the term PPP is used in the UK it is seen as a more nebulous operating relationship. PPPs in the UK are backed by government guarantees and involve no transfer of risk to the private sector. PPPs also tend to be so complex that they can obscure any hope of transparency, are difficult to monitor and have confused lines of accountability.

Between 1997 and 2004, over 620 new PFI public facilities were completed in the UK; this included over 240 new and refurbished schools, 23 new transport projects, numerous prisons and other public infrastructure. Based on this portfolio, it is estimated that the government of the period in question has committed the taxpayer to fork-out over Stg£200bn, which works out at about Stg£8bn each year from now until about 2030.

The current UK government revealed in April 2006 that it has a future programme of 200 projects costing Stg£26bn that it plans to sign-off before 2010. Contrast this with Ireland's budget of €5.5bn to be provided through PPP projects over the same time period.

The UK, as a world leader in developing this form of private sector operation of public services, has been taught lessons that the government of the Republic of Ireland would be advised to examine before they import 'lock, stock and barrel' an approach that is coming under increasing criticism (2.). Some of the criticisms are:

- A number of UK projects have been implemented not because they offered 'value for money' but because it was convenient for the government to classify the cost as 'off-balance sheet' and not declare it when accounting for government spending;
- A much greater criticism is that the government is creating a future mortgage on the taxpayer that has the potential of becoming unsustainable;
- A further argument is that the government is paying very high interest rates to private sector companies when they can borrow money at much lower interest rates;
- Before deals are signed with a private sector company the project being considered as a PFI candidate is to be compared with the same project if it were to be undertaken by the public sector. This comparison is often subjective and has the potential to be manipulated to ensure that the procurement approach adopted is PFI and not the public sector alternative;
- Although the private sector has been presented as being the model for the public sector to aspire to for greater efficiency, increased expertise, better project management and incentivised working, this is often found not to be the case. In many areas the private sector is not better;
- There is often a moral issue associated with a private sector company running public sector services; public services that the State has been mandated to run on behalf of its citizens.

Sector Specific Application & Comparison

The Irish Prison Service is commencing a major capital programme of works to replace 40% of its estate and to provide for an increasing population of prisoners. Currently there is about 1,800 prison places to be found within the Republic's nine institutions (prisons).

The IPS are planning two projects for delivery by about 2010, namely, the relocation of Mountjoy prison complex to a new facility at Thornton, North Dublin and a new prison complex in Munster for adults and 16/17 year old offenders. Both projects are at the early stages of appraisal and are being considered as suitable for design, build, finance and management by private sector companies. A rough cost estimate for each project indicates they could be within the range of €100m to €250m or more. The IPS has no experience of PPP projects.

By contrast the current prison population in the UK is approaching 80,000 persons held in 137 prisons in England and Wales.

Since 1995 the Prison Service has signed ten PFI contracts for new prisons(3.). The ten operational PFI prisons account for about five per cent of the estate and hold 7,500 prisoners, which equates to over 10% of the total prison population.

PFI prisons are often promoted as examples of how the PFI can be used successfully to provide all the key elements of a public service. However, the success of Prison Service management teams in bidding against private sector teams for the operation of prisons has reached the stage where the Prison Service can now compete successfully on operating costs.

All the evidence available suggests that private prisons perform no better, and in many cases are worse, than public equivalents. In addition, there is the whole ethical question of profiting from the administration of criminal justice. It is clear, therefore, that the government should seriously reconsider the plan for privately run prisons in Ireland.

The Case Against PPP/PFI

Public services are not like other commodities. They exist to support the social, economic and environmental well being of communities. A recent Mori poll survey in the UK showed that over 80% of people rejected the use of private companies to run public services.

Because there is not sufficient financial reserves many public authorities know that PPP/PFI is the only way to get finance. The government should only undertake what it can afford and, except in exceptional and appropriate circumstances, reduce the amount it has created as a mortgage to be repaid by future generations.

PPP/PFI projects, by the nature of the process, cost much more than conventionally funded projects. The use of advisers in the upfront appraisal stage is reputed to account for on average four per cent of the capital value of a project. Private companies cannot borrow at the low interest rates available to public authorities; such borrowings are built into the cost that the client has to pay.

It is becoming apparent in the UK that clients who sanction such projects are having difficulty in servicing the debt to the extent that services are being cut or reduced to save money. In the wider system of public services, PPP/PFI can have a seriously detrimental effect.

There is little evidence to support the claim that privately run services are more efficient than publicly run services. Many of the companies that were involved in traditional procurement and conventionally funded projects are the same companies that are building PPP/PFI projects.

Transference of project risk to make the project 'value for money' is highly suspect. The UK's National Audit Office has called the value for money calculation 'pseudo-scientific mumbo jumbo where the financial modelling takes over from sound thinking'.

Best Practice Project Management

The author believes that the primary reason why different procurement fads 'hit the street' is the historical experience of public sector projects not being delivered successfully. The decision to search for procurement approaches that will change delivery failure to success will always have a popular following.

Surprisingly, public bodies do not yet appear to realise that it is the management of projects that determines successful outcomes. In that regard the correct organisational and project team structures, clearly defined authorities and responsibilities of an experienced stakeholder team and the application of best practice procedures are what will ensure success.

The sector type, size and complexity of each and every project is what should determine the procurement strategy to use, not some passing fad or popular fashion that, like PPP/PFI, will sooner or later be exposed as totally inadequate except in very exceptional circumstances.

REFERENCES:

- (1.) Address by the Minister for Finance at the 2nd Irish Public Private Partnerships Policy Forum; Dublin; 5 April, 2006.
- (2.) Roe, Phillipa & Craig, Alistair. *Reforming the Private Finance Initiative*. Centre for Policy Studies; London, 2004.
- (3.) National Audit Office. *The operational performance of PFI prisons*. Report by the Comptroller and Auditor General; HC 700 session; 18 June 2003.

THE AUTHOR

Albert Hamilton is an Honorary Professor at the National Centre for Project Management, Middlesex University, London. He was Kent Professor of Project Management, University of Limerick, during the 1990s. He is an engineering graduate of Queen's University, Belfast.

Readers wishing to respond to the issues raised in this article can email their comments to m.martin@jemma.ie.