

## 2<sup>nd</sup> Public Private Partnership Conference Belgrade Building Successful Partnerships



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- > **UK**
- > **Other EU countries**
- > **Driving Change**

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### **UK**

- > **UK government has used PFI/P3 for over 25 years to build social infrastructure like schools, hospitals, prisons, high profile bridges and roads.**
- > **Currently over 700 PFI/P3 contracts in operation with around EUR 70bn assets built using them.**
- > **Government will pay private companies around EUR 230bn until the 2040's for existing deals.**

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### ***UK cont..***

- > **Clear signs of distress were there well before National Audit Office (scrutinizes public spending for Parliament) report in January 2018.**
- > **After 25 years still no data on benefits to show PFI/P3 model provides value for money. Public Sector Comparators not evident yet UK Treasury continues to assert it does.**
- > **UK Treasury to publish work on collecting data on benefits and set out what they will do to evaluate value for money for projects currently in operation.**
- > **Some investors have made large returns which suggests overpaying for transferring risks of projects, one of the stated benefits of PFI/P3.**
- > **UK Treasury should set out more clearly the nature and level of risk they consider appropriate to transfer to the private sector.**
- > **Perceived inflexibility in contracts and profits made by secondary equity sales not shared with Government.**

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#### ***UK cont..***

- > **Industry argues procurement culture focused solely on lowest cost led to poor quality product.**
- > **Private Sector failure to communicate value of P3 especially to wider public**
- > **UK Government in the October 2018 Budget abolished the use of the PFI model for new infrastructure projects but remains committed to the use of P3 where it delivers value for money.**
- > **PFI/P3 has its critics both in and outside the construction industry but the abolition may be a surprise but its likely a new model will replace it to allow the private sector the opportunity to fund public infrastructure as it cannot build the infrastructure it needs without it.**
- > **Idea raised is use of crowd funding for part of a project.**
- > **Need to look at Equity model – Scotland has non-profit distributing model**

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### ***Other EU countries***

- > **Since 1990's around 1750 P3's worth around EUR 336bn have reached financial close**
- > **Most P3's have been implemented in the transport sector in UK and Western Europe**
- > **A recent survey by European Court of Auditors on P3's in France, Greece, Ireland and Spain found that;**
  - > **An increased risk of insufficient competition putting contracting authorities in a weaker negotiating position.**
  - > **Negotiating on aspects not part of traditional procurement therefore takes up more time than traditional projects.**
  - > **Majority were subject to inefficiencies in the form of delays during construction and cost increases.**

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### ***Other EU countries cont..***

- > **Good levels of service and maintenance.**
- > **P3 option chosen without comparative analysis such as Public Sector Comparator thereby failing to demonstrate value for money and ensuring a level playing field between P3 and traditional procurement.**
- > **Risk allocation was often inappropriate, incoherent and ineffective with high returns for investors.**

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#### ***Driving Change***

**Private investment policy has lost its way- re-establish value for the taxpayer and genuine transfer of risk**

#### ***Public Sector***

- › **Base P3 selection on sound comparative analyses. Make PSC's compulsory.**
- › **Establish clear P3 policies and strategies.**
- › **Create a procurement environment to encourage private sector into the market.**
- › **Bidders should be selected on quality and price not a race to the cheapest price.**
- › **Stand behind legislation to underpin long term stable markets.**
- › **Incentivise investment in long term outcomes.**
- › **Need more funding to prepare projects and to prepare governments for the demands.**



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#### ***Driving Change cont..***

##### ***Public Sector cont..***

- > **More technical support for governments as P3 is a huge leap from their usual business of public service and they need extra help and advice to deliver a robust solution.**
- > **Contracts need to be simpler. Tendency towards over-lawyered, over engineered structures. Legal documents can spell out what must go right and what happens when things go wrong- leaders from each entity must regularly share interests and concerns.**

##### ***Private Sector***

- > **Drive new opportunities with ideas and investment.**
- > **Innovate to create new markets that drive change. Currently exists but not at the scale envisioned.**
- > **Focus on social value alongside financial return. Industry to do a better job to engage with the local community around projects and articulate benefits to society.**
- > **Be prepared to sacrifice short term returns for longer term gain.**

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#### *Driving Change cont..*

#### *Private Sector cont..*

- > **stating interests such as building a reputation to win future P3 work and generating a profit openly and honestly.**

#### *Shared*

- > **more time to get things right.**
- > **make projects true partnerships and build in mechanisms to share problems and concerns.**
- > **admit failures when they occur and move quickly to correct them.**
- > **commit to achieve each others' goals.**
- > **reduce focus on contract terms as this often makes partners act more like adversaries than allies.**

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***“Success can be defined as a situation where the project is completed on time and on budget and with all participants being happy survivors of the experience”***