

Relevance of Public Private Partnership in Public Constructions

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The Public-Private Partnerships (P3) has evolved and developed over time. For the simple understanding, the P3 is a business arrangement between a government and a private sector service provider, that through a contractual arrangements obligates the private partners to deliver a specified level of service or outcome under specified terms.

The Canadian Council for PPP has defined P3 as a:

“co-operative venture where there is an allocation of the risks inherent in the provision of public service between the public and private sectors. A successful P3 builds on the expertise of each partner to meet clearly defined public needs and provide a net benefit (or value for money) to the general public through appropriate allocation of resources, risks and rewards.”

P3 amplifies the possibility for alternative ways of public systems, procurements, public services etc. It contributes to higher level of cost transparency and to a better understanding in the economic cost, financial cost and maintenance cost. The P3 projects facilitate transfer of technology from the private sector into public sector and bring out the optimisation of familiar practices in the administrative bodies. Associated with the P3 is a concept of lifecycle project, that facilitates identify the need up to the utilization of assets during the lifecycle and to provide for maintenance facilities through out the lifecycle.

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As a broader concept, any collaboration with the public bodies, such as local authorities, provincial or the Central Government and private companies can be referred to a P3. Over the years, it is mainly recognized that the P3 is a best way to retain the importance of the public sector services and to run them through private companies more efficiently than the bureaucratic public systems. The P3 brings in management skills of the Private Sector and financial resources from business community, in the scores of activities where normally public organization/companies have had the monopoly.

In spite of various benefits through a P3, there is a large amount of skepticism about P3 in the minds of public authorities; and more so, amongst the public employees, labour class etc.; who prefer to have traditionally run public systems.

Problem with the public systems

Generally public systems are attributed to a number of systematic faults that have detrimental effect on the efficiency, effectiveness and value for money desired from them. Some of them are as follows:-

- ***Few incentives for good performance***
- ***Lack of good information on performance***
- ***Lack of good information on customer satisfaction***
- ***Difficulty in terms of planning outcomes of public policy***
- ***Inefficient investment decisions***
- ***Poor-say of customers and stakeholders***
- ***Traditional internal management***
- ***Dominance of operations over strategy***
- ***Complicated procedures and decision centres etc.***

Types of P3's

There can be several different types of P3's which form a spectrum, in terms of risk allocated differently between the private and public sector partnership. The figure below can identify the P3 model and level of risk transfer from the public partner to the private partner:

Type of Arrangement	Public Sector Partner		Risk Transfer		Private
	Operations & Maintenance	Design Build	Design Build operate	Design Build Finance Operate	Design Build Own Operate (privatisation)

The increasing use of P3 method, including the different public sector capital investment, include risk identification and allows synergy to the P3, value for money and cost effectiveness etc. In the above spectrum, potential savings can be realized by including more services in the P3 model. The last being to Design-Build-Finance-Operate (DBFO) model allows for maximum risk transfer from the public sector to the private sector partner and potential savings to the public sector. However, this model is generally more applied by beginners and so far it is applied in UK and Australia.

Under the DBFO, the private sector finances any funding shortfalls for the project and designs; constructs and operates specified services within the specified time. The government establishes the performance of the objectives while the private sector partner is paid based on the performance in terms of the agreed objectives. The capital cost in DBFO are blended together in a service payment to the private sector over the operational period that usually runs up to 30 years. The responsibility for capital maintenance to the private sector in the central theme in DBFO P3 projects, that causes the operators to make the operating versus capital lifecycle cost tradeoffs, while consistently delivering a product that meets user needs.

Benefits of P3

Under the P3 arrangement, the private sector is given a broader design and construction ambit through the use of output based standards and use of prescriptive input, design criteria, materials specifications, operation procedures etc., along with the relevant standards.

P3 ensures that output based standards that maximize the potential for private sector innovation and efficiency, while still ensuring the functional needs are met.

Particularly for construction projects, risk and timing of cash flows is important. Upfront capital outlay during construction followed by annual O&M costs throughout the buildings' useful life is ensured by organizing cash flows through private sector.

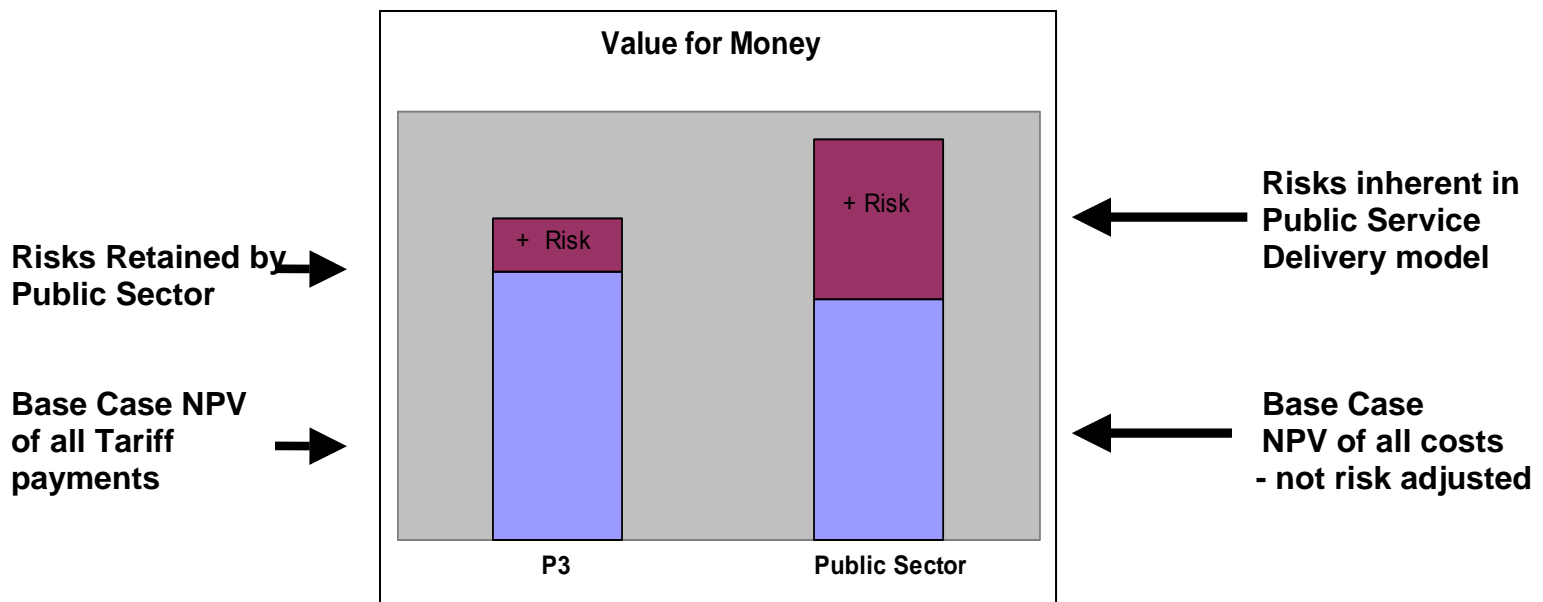
In case the private partner does not perform to the standards agreed to in the private contract, performance link deductions are made.

In the P3 arrangement, maintenance of assets is included as part of the contract. This ensures better maintenance and longer life of the assets. The private partner faces significant financial penalties if they fail to properly maintain the facilities.

Other benefits that can be derived are as follows:-

- ***Optimum allocation and transfer of part of risk to private partners***
- ***Realistic evolution and control of costs***
- ***Optimised whole life costs***
- ***Fixed capital costs***
- ***Contractual incentives are provided to perform***

- *Acceleration of infrastructure provision*
- *Faster implementation*
- *Partnership provides higher quality of services at lower cost to public*
- *Easing budgetary constraints*
- *'Value for money' issues*
- *Economic & social benefits*
- *Streamlined construction schedule and reliable project implementation*
- *Indirect benefits*
- *Access to extra budgetary resources*
- *Reforming the role of State*
- *Technological benefits*



COUNTRY EXPERIENCES:

Canada

With the setting up of Canadian Council for Public-Private Partnership, the P3 arrangements have been institutionalized in public system. It has been recognized that the need for the infrastructure in the public sector, especially, Roads, Health-care and Education sector is growing as the average demand of

building is increased. With limited public funds, capital inflow from private partner is important.

One of the earliest places to adopt for P3 approach for schools was the Canadian province of Nova Scotia, which in 1997 established the P3 programme. The Public revenues were insufficient, due to depressed economy, that was required to build the first class public schools for their future prosperity. With limited funds and with taxes being already too high, Nova Scotia created and the ambitious and comprehensive programme to encourage private-public investors to build new facilities that would be leased on a long term basis to the provinces public school system. In key sectors like education and health-care infrastructure gap is being bridged by the P3 projects.

Germany

In Germany a Guideline as a practical manual for the public and private sector has been issued. The Guideline aims at promoting the acceptance and understanding of P3 and describes the P3 procurement process covering the whole lifecycle from identifying the need to the utilization of assets. It provides support for all phases of the P3 project implementation.

German approach has developed an Efficiency Comparison to provide an objective and transparent process for the identifying the most beneficial and most economical procurement concept. The Efficiency Comparison is not an one time calculation but a continuous realisation and decision process with the whole project lifecycle.

Although P3 projects can even today be implemented under the exiting legal provisions relating to public construction in Germany, it has been recognized that P3 projects require to be examined by relaxing some legal restrictions regarding budget law, tendering laws, grants/subsidies and tax laws

that exists today. It is viewed that elimination of most of these restrictions could stimulate P3 as an alternative arrangement.

The Federal Competence Centre(FCC) will be federal organizational unit in Germany for supporting respective departments on federal, county and municipality level dealing with the implementation and preparation of P3 in the public building construction sector. The FCC will clearly recommend for its constructing framework for P3 and recommend tools and methods in actual projects.

United Kingdom(UK)

Towards the end of last century, UK's Secretary of State for Education and Environment announced a major commitment to improve the British Public schools for providing school facilities.. P3 was considered the key. Between 2001 and 2004 they intended to commit viz. 12\$ billion to school facilities, out of this an estimated \$3.9 billion were devoted for school construction under the Private Finance Initiative (PFI) component of P3 programme. Starting from the major P3 projects agreed in Dorset County, Enfield, Hillington, Dudley, Portsmouth, Leeds, Edinburgh and Glasgow.

Even for London underground, while the public sector continues to own and operate the Tube, private sector companies are contracted to carry out maintenance and upgrade the infrastructure. New trains have been added by P3 on the Northern Line and funding for the new public functional system across the network. Importance on the safety, security, replenishment, replacement are also being routed through P3.

P3 projects have become essential to renew its infrastructure, with more investment at predictable levels for the long term. On an average, P3 projects have sufficient savings of 17% as compared with the public sector. Since 1997,

35 hospitals are built, projects covering 373 schools are underway and another 281 schools have been given green signals.

The P3 projects investment is now available in National Air Traffic Services, the Channel Train Link and modern promotion scheme around the country. London Underground is working in the partnership with the private sector. On the Docklines Light Railway, £200 million P3 delivered the Levisham link two months early and on budget in 1999.

Another P3 is underway to London City Airport. P3 proposes well bring the first committed long-term investment programme (£13 Million over 15 years) for the underground with higher public sector support. P3 companies are to be paid by results, and charged for poor performance. To reduce this can avoid partnership as early as possible.

United States (US)

Along side developments elsewhere, in the US also P3 projects were put up by providing flexibility in the laws relating to public school systems. These partnership resulted in American communities building their schools faster and for lesser money than that would have been possible under the traditional approach to the school construction. The projects were taken up in Florida, Texas, California, Arizona, North Carolina, New Jersey etc. In several other sectors involving public buildings construction, roads and highways, hospitals etc., P3 projects are increasingly used in preference to traditional public projects.

P3 arrangements are notable in the areas of Electricity & Gas, Sewerage and Water Supply. The legal and regulatory aspect of functioning and implementation of the P3 arrangements is also in place. Regulatory Authorities have been appointed and 'rate pay application' are to be filed by the services for their decision. The Regulatory Authorities have to give their decision on the

application within 210 days, failing which clearance of proposals in the application is automatic. Even for subsequent revision of rates for the services are covered under jurisdiction of Regulatory Authorities. The Regulatory Authorities monitor implementation of the P3 arrangement and quality of services provided, to the satisfaction of the citizen.

P3 in Norway

In February 2001, the Parliament discussed a white paper in Norway. The Parliament then decided to examine whether P3 was the suitable model for financing and building roads in Norway. Three roads were selected to test the P3 models to achieve greater efficiency in road projects. The P3 concept was to be implemented in schools also but initial focus was on the road sector. The P3 companies in Norwegian model will receive an annual payment, but with the actual level of payment being varied according to the pre-defined criteria. These criteria are related to goals of good accessibility, high performance and high level of traffic safety on the road network. The annual payment consists of Government funding and toll money. The promotion mechanism is based on four elements:-

- ***Availability of payment for the road being accessible to certain standards.***
- ***Performance payments based on the operation and maintenance of the road being of a specified standard.***
- ***Safety payment based on the safety record of the road in other .comparable roads in Norway.***
- ***Traffic payments relating to traffic that is significantly higher than the estimated forecasts.***

Under the road construction, P3 model of Norway, entire responsibility to deliver services will be of the private sector. The P3 contract will, with the P3

companies, fully responsible to ensure that the project road is perceived by the users and the surrendering population to have good aesthetic and environmental standards over the life of the contract. The P3 model assures the value for money allocation of risk between the public and private sectors clearly defined in the P3 Contract. Part of toll money is also to be allocated for the road development.

The recent experiences revealed that realization of transportation projects by the private sector lead to savings, access to new sources of funding and moving ahead with higher priority level. It is also expected that similar benefits will accrue from P3 projects in Norway.

The Irish Model

In Ireland, P3 projects are expected to adopt and ensure additional infrastructure development and mainly alternative procurement mechanism for projects which are already in the pipeline. The current infrastructure deficit is perceived to be reduced if a concentrated and sustained effort is made to increase the extent of development. The P3 projects have been working in the areas like increasing the quality of child care, increasing supply of high quality care, building and improving the State and community care system, providing technical support to employees insurance scheme etc. The capital value of projects is small but, however, the benefits that are expected to be accrued by introducing P3 projects, similar arrangements will be made in the other sector as well.

Lessons for CPWD

The country experiences tell us that organizations like CPWD in India can benefit significantly by going in for P3 projects. The vital financial resource gap, higher technological and manufacturing skills that may exist with the private

partner will help achieve synergy. The clear design, engineering, inputs and standards specifications, will improve the quality of construction, provide innovations and introduce the lifecycle maintenance of projects.

While the ownership of assets may remain with the Government, the maintenance and service providing can be that of the private partner. The present system of CPWD paying for everybody's rents, rates and taxes will also be automatically decentralized – a factor that adds to the overhead cost of CPWD in book but saves the same for the clients. There is no doubt that the legal and administrative systems and laws governing CPWD's organization will have to undergo a 'sea-change' before CPWD changing to P3 gears.