

The Future of PPP

Public-Private Partnerships

Public Service Magazine, May 2003

Paul Gosling examines some of the issues surrounding the introduction of private financing as a means of funding and running public services. He concludes by stating that effective accountability to citizens will determine the durability of the PPP model of public service.

Contents:

- The PPP model - Only Game in Town
- Towards the Mixed Economy of Public Services
- Effective Accountability to Citizens
- What is your vision of public services in the Future?
- Further Information

The PPP model - Only Game in Town

For many public bodies, Public-Private Partnerships (PPPs) are currently the *only game in town*. In local government, in education, and in Northern Ireland the government has effectively said that if you want new buildings then a very large chunk of the financing and the organisation of the project has to come through PPPs. For the present, it seems implausible that an anti-PPP government will take office to move policy in a different direction.

No one denies that PPPs are expensive, both in transaction costs and for the cost of borrowing. (This was most obviously the case with the London Underground, where according to leading transport analyst Christian Wolmar it cost £400 million to work-up the contracts.) To the government and the opposition, the apparent benefits – private sector contract management skills, risk transfer, capped budgets, shorter implementation dates and off-balance sheet financing – more than compensate.

There has, as yet, been no definitive and unchallenged analysis of whether PPPs and Public Financing Initiatives (PFIs) are a good thing. Rather, there have been isolated criticisms, which suggest ways in which their operation might be improved. Transaction costs will be brought down through the use of pro-forma contracts. Building standards may be more closely tied into contract specifications. Public sector clients must form closer relationships with those actually delivering services. Contracts need to focus less on notional risk transfer. And the conditions of employment under a PPP will have to match even more closely those of the public sector.

Towards the Mixed Economy of Public Services

But one of the real reasons for the current government's enthusiasm for PPP has largely been overlooked. It provides a practical means of implementing the Prime Minister's desired objective of creating a mixed economy in the provision of public services. It brings in private sector providers without going through the even more controversial and confrontational process of outright privatisation.

Not that PPP has to involve a public body contracting with the private sector for service delivery. In Northern Ireland there is a distinct chance that future PPP deals could be tri-partite affairs in which service delivery is taken over by the voluntary sector. With government prioritising the use of voluntary groups and social enterprises as service delivery agents – especially for social services – such a PPP model might be applied across the UK.

When Tony Blair has discussed a *mixed economy of public services* he has not only referred to services being provided by the public, voluntary and private sectors. He has also talked of the need for a mix of channels of delivery. And when it comes to electronic service delivery there remains much opportunity for PPP contracts to be used.

But inevitably not all contracts will perform adequately. As well as disputes over service standards, we can expect conflict in 20 years time if some of the buildings are in bad repair over whose responsibility it is to put it right.

One thing we can be certain of is that no National Health Service hospital will be allowed to close its doors and chuck the patients onto the street because the PPP contract has failed to work. A hospital management company might just possibly be allowed to go bankrupt, the private sector service provider may be wiped out, but ultimately the government – as with Railtrack – will have to bail out the hospital itself and form a successor management body.

Effective Accountability to Citizens

There is probably one key factor, which will determine the extent to which PPPs will be a central element of future public service delivery – accountability. If the public perceives PPP schemes to suffer from the same aloofness and independence as quangos, then discontent could force them to be removed from front line service delivery.

Analysts who trust in consumer choice in the public sector may argue that the market will provide real accountability. The risk is that the parallel is not with the highly competitive supermarket sector, but with financial services. Here consumers have often been too confused to exercise real choice, allowing themselves to be coerced by financial advisers into selecting the wrong products.

Until now, the introduction of markets into the public services has often left the citizen sidelined. It can be the service provider – the school or the doctor – who chooses the *customer*, rather than the other way round. And if PPPs remain the concern only of two sets of contract negotiators, then they may become as discredited as the often derided quangos.

In the end it is probably the ability of PPPs to embrace a form of effective accountability to citizens that will determine their durability, not the heavily debated argument over cost.

What is your vision of public services in the Future?

Let *Public Service Magazine* know your views by e-mailing: psm@fda.org.uk

Further Information

Paul Gosling is a freelance writer. This article appeared in the May 2003 issue of *Public Service Magazine*.

Contact the editor of *Public Service Magazine* or Paul Gosling at:

E-mail: psm@fda.org.uk

Web site: www.fda.org.uk

This article is available at www.caledonia.org.uk