Public-private partnerships

Public-private partnerships (PPPs) are long-term contractual agreements between the government and a private partner whereby the latter typically finances and delivers public services using a capital asset (e.g. transport or energy infrastructure, hospital or school buildings). The private party may be tasked with the design, construction, financing, operation, management and delivery of the service for a pre-determined period of time, receiving its compensation from fixed unitary payments or tolls charged to users. PPPs account for less than 15% of annual capital central government expenditure, and there is a great variation across countries in the extent to which PPPs are used: the United Kingdom has the most projects (648), followed by Korea (567) and Australia (127).

Governments may choose to pursue PPPs since, compared to more traditional forms of infrastructure procurement, these partnerships may allow them to better harness the private sector's expertise in combining the design and operation of an asset, allowing services to be provided in a more efficient manner. Governments with sufficient experience and enough data to make a judgement regarding PPPs report that these outperform traditional infrastructure projects with respect to timeliness, construction costs and quality (Figure 4.8). Experiences from some OECD member countries, however, suggest that not all PPPs are well-managed, and therefore may not deliver the expected benefits. Long-term contracts for certain services can be too inflexible given the changing needs of the public sector and changing technology, and the PPP procurement process has often been lengthy, complex and costly for both the public and the private sector. Countries also report that transaction costs for the public and private parties for PPPs is higher than for traditional infrastructure procurement. Last, there have been incentives in some countries to use PPPs in order to finance assets off the public balance sheets. If designed with such a purpose, PPP projects can be excluded from public sector net debt. This in turn entails a lack of transparency of future liabilities and fiscal risks.

In response to these challenges, the OECD developed *Principles for Public Governance of Public Private Partnerships*. The Principles provide specific guidance under three broad headings: *i)* establishing clear, predictable and legitimate institutional frameworks for PPPs supported by competent and well-resourced authorities; *ii)* grounding the selection of PPPs in value for money; and *iii)* using the budgetary process transparently to minimise fiscal risks and ensure the integrity of the procurement process.

There is no clear answer as to whether one of the procurement methods consistently outperforms the other when calculated over the whole life of the asset. Greater use of value-for-money assessments is recommended to ascertain *ex ante* whether a particular project is a good candidate for a PPP agreement. A project's value for money should be evaluated in all its phases with a focus on the full life-cycle costs of the asset and the potential risks the project represents to the public sector. However, while the majority of member countries (21) conduct relative value-for-money assessments of PPPs compared to TIPs, the majority of these do so for only certain projects (Table 4.9). Absolute value-for-money assessments are more commonplace. Some countries have put dedicated PPP units in place to ensure robust value-for-money assessments of PPPs, to align stated objectives with the profit objectives of the private sector, and to ensure that they are administered in a transparent manner. In 2010, 17 OECD countries had set up such units, with more countries beginning to follow this trend.

Methodology and definitions

Data are from the 2012 OECD Survey on Budgeting Practices and Procedures. Survey respondents were predominately senior budget officials. Responses represent the countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude budgeting practices at state/local levels.

The PPP concept includes both – pure PPPs –, e.g. projects where the main source of revenue for the private partners is government (in the form of regular payments or a unit charge), as well as concessions (where the main source of revenue is user charges levied by the private partners on the beneficiaries of the services).

Relative value for money tests compare several forms of procuring the asset in order to determine which form represents the most value for money. Absolute value for money tests determine whether a project overall (e.g. a dam, an airport, a high-way) represents value for money for society. Methodologies for both kinds of assessments vary by country.

Further reading

Burger, P. and I. Hawkesworth (2013), "Capital budgeting and procurement practices – towards an integrated approach?", presented at the OECD Annual Network Meeting of Senior Public-Private Partnership Officials, 15-16 April 2013.

OECD (2012), *Principles for Public Governance of Public Private Partnerships*, May 2012, OECD, Paris, *www.oecd.org/gov/budgeting/PPPnoSG.pdf*.

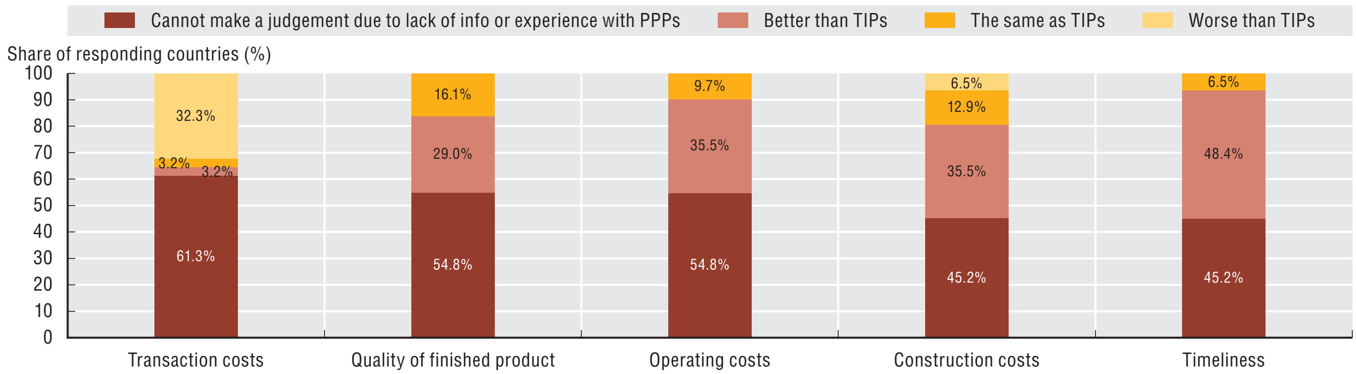
OECD (2010), *Dedicated Public-Private Partnership Units: A Survey of Institutional and Governance Structures*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264064843-en*.

Figure and table notes

4.8 and 4.9: Data are not available for Iceland.

Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.

4.8. Countries' assessments of PPPs relative to TIPs along various dimensions



Source: 2012 OECD Survey on Budgeting Practices and Procedures.

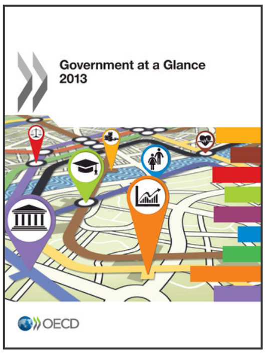
StatLink http://dx.doi.org/10.1787/888932942222

4.9. Value for money assessments of PPPs and TIPs and dedicated PPP units

	Use of relative value for money assessments	Use of absolute value for money assessments		Dedicated PPP unit reporting to Ministry of Finance	Dedicated PPP units in line ministries	No dedicated PPP unit exists in central/federal government
	For PPPs	For PPPs	For TIPs			
Australia	●	●	■			✓
Austria	x	x	❍			✓
Belgium	x	x	x			✓
Canada	●	●	❒	✓	✓	
Chile	●	●	■	✓	✓	
Czech Republic	..	..	❒	✓		
Denmark	❍	■	■		✓	
Estonia	x	x	❒			✓
Finland	❒	■	■			✓
France	❒	●	❒	✓		
Germany	●	●	●	✓	✓	
Greece	●	●	❒	..	..	..
Hungary	❒	❒	x		✓	
Iceland	..	..	..	..	..	..
Ireland	●	●	●	✓		
Israel	■	■	■	✓		
Italy	❍	❒	❒			✓
Japan	❍	●	■		✓	
Korea	■	●	■	✓	✓	
Luxembourg	❒	❒	❒			✓
Mexico	●	●	●			✓
Netherlands	■	●	■	✓	✓	
New Zealand	●	●	■	✓		
Norway	x	x	■			✓
Poland	x	●	●	✓	✓	
Portugal	●	●	●	✓		
Slovak Republic	x	x	❍			✓
Slovenia	■	●	■			✓
Spain	❒	❒	❒			✓
Sweden	❒	■	■			✓
Switzerland	❒	❍	❍			✓
Turkey	❍	●	●	✓		
United Kingdom	●	●	●	✓		
United States	❒	❒	■			✓
Russian Federation	❍	●	●	✓	✓	
OECD total						
● Yes, for all projects	10	17	7	14	9	15
■ Yes, for those above certain monetary threshold	4	4	13			
❒ Yes, ad hoc basis	8	5	8			
❍ No	4	1	3			
x Not applicable	6	5	2			

Source: 2012 OECD Survey on Budgeting Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888932943476



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