



International experiences with contracting out & public-private partnerships (PPPs)

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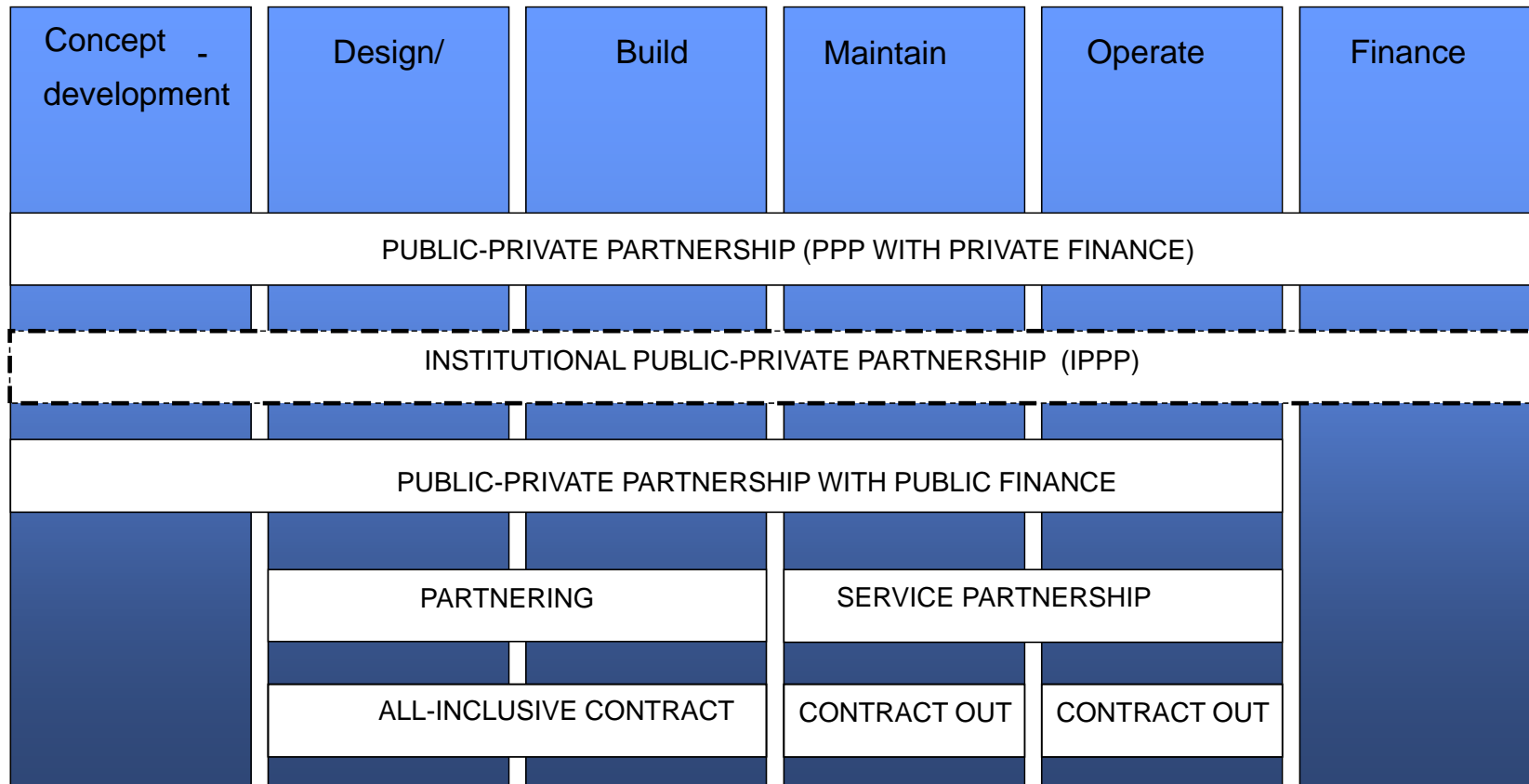


Agenda

Part 1: Experiences with contracting out
→ followed by questions and discussion

Part 2: Public-private partnerships
→ followed by questions and discussion

The public-private toolbox



The changing scope of public and private

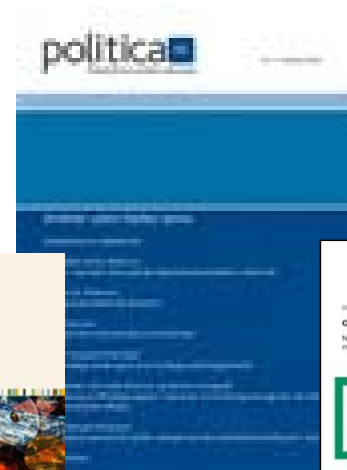
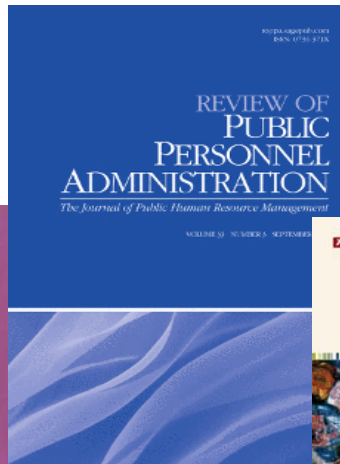
- Local government reform:
 - Larger units: Volume of projects
 - Professionalism: Managing complexity in PPPs
- Complex problems require collaboration across multiple stakeholders
- Innovative solutions within networks of public, voluntary and private actors
- Interdependence is a basic condition
- Perhaps a less ideological approach to working together across public-private boundaries
- From New Public Management (NPM) to New Public Governance (NPG)
- Changed role of the public sector: From contract holder to qualified partner



Contracting out: Key research themes

- 1) To what extent is there documentation for contracting out having led to an improved connection between price and service quality compared to in-house production?
- 2) Are there differences in the documented effects of contracting out within the technical and social service areas?
- 3) What are documented effects for the employees affected by contracting out arrangements?

→ Various research projects, some of them carried out for the Organisations of Public Employees – Denmark (OAO), The Danish Confederation of Trade Unions (LO) and the Confederation of Professionals in Denmark (FTF)

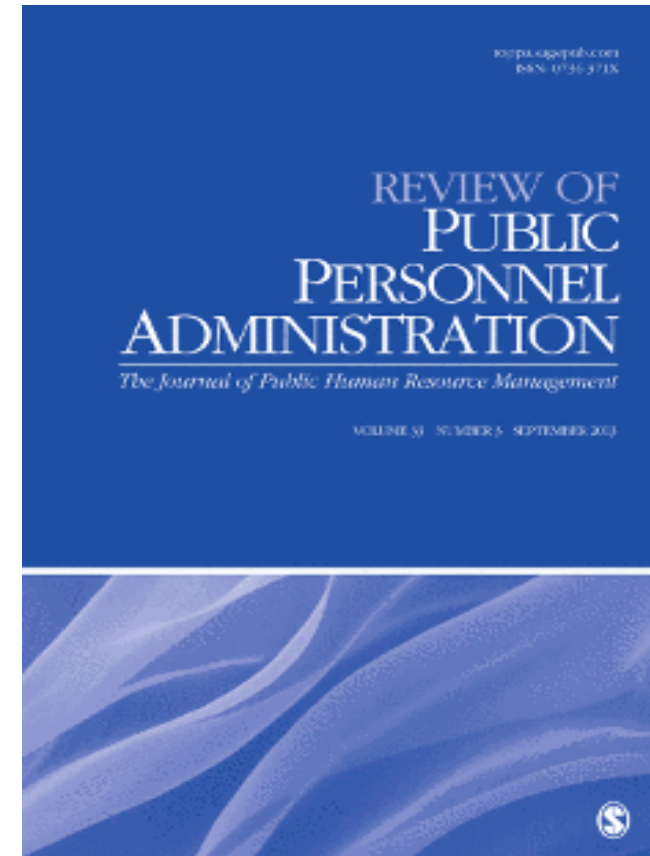


Results for economy and quality

- Documented cost savings within the technical service areas
- But smaller effects and more mixed results than often presented in political debates on privatisation and contracting out (5 – 15 % cost savings)
- No general documentation of positive effects of contracting out within the social service areas
- However:
- Very few studies that documents the social service areas
- And a general lack of knowledge concerning;
 - Quality consequences
 - Transaction costs
 - Broader effects such as security of supply, innovation, knowledge transfer, etc.

Results for public employees

- Article forthcoming in 'Review of Public Personnel Administration'
- All studies documenting results for employees (2000-2012)
- Documented effects on employees are generally negative
- Although some positive effects were also found
- Examples include;
 - Lower job satisfaction
 - Faster pace of working
 - Stress and burn-out
 - Changes in skill levels
 - Less job security



Sector-wise conclusions

- Road maintenance: Cost savings (Blom-Hansen, 2003)
- Garbage collection: Mainly cost savings with more or less same service quality (many international studies)
- Cleaning at public schools: Cost savings but major problems with documentation of service quality (Christoffersen, Paldam og Würtz, 2007)
- Employment services: No/mixed results and differences between research and consultancy reports
- Child-care: No significant effects (Rambøll/Danish Tendering Council, 2011)
- Nursing homes: cost savings 16-18 % (although only 3 documented cases in Denmark)



Conclusions

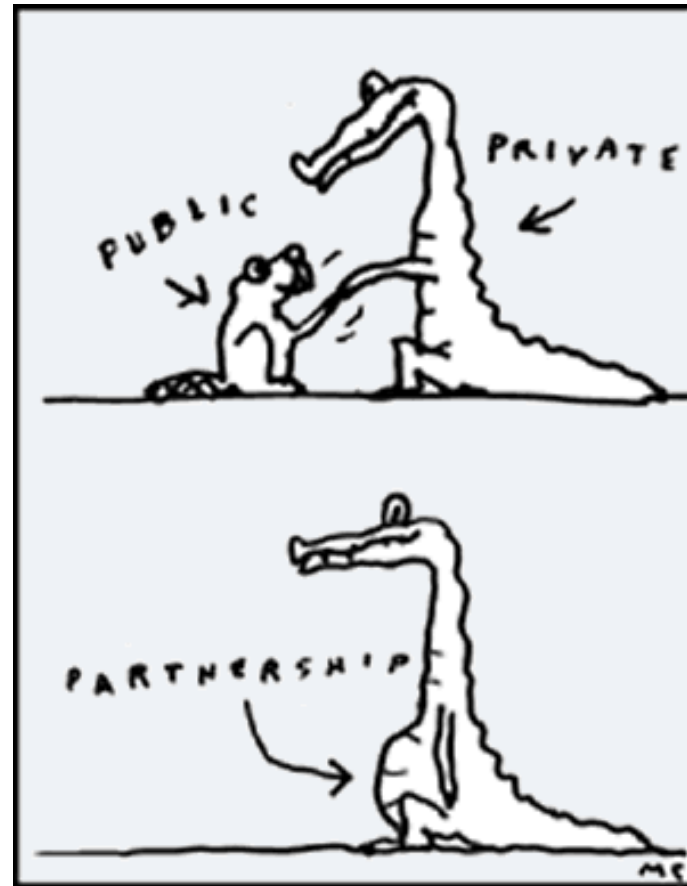


Are we measuring the same?

- Major weaknesses in study designs in most consultants' reports and ministerial releases (bias in case choice, selection problems, lack of data, over-optimistic conclusions)
- Lack of evidence of effects in relation to quality of service → problem in relation to assessment of productivity in both the public and private sector
- Are we measuring the same ? (e.g. service quality and task composition)
- Effects over time and dynamic adaptation
- Is there a competitive market in all (small) municipalities? (and whose responsibility is it to create the market)
- Research indicates that general statements concerning universal "efficiency potentials" oversimplify a more nuanced reality



Part 2: PPPs

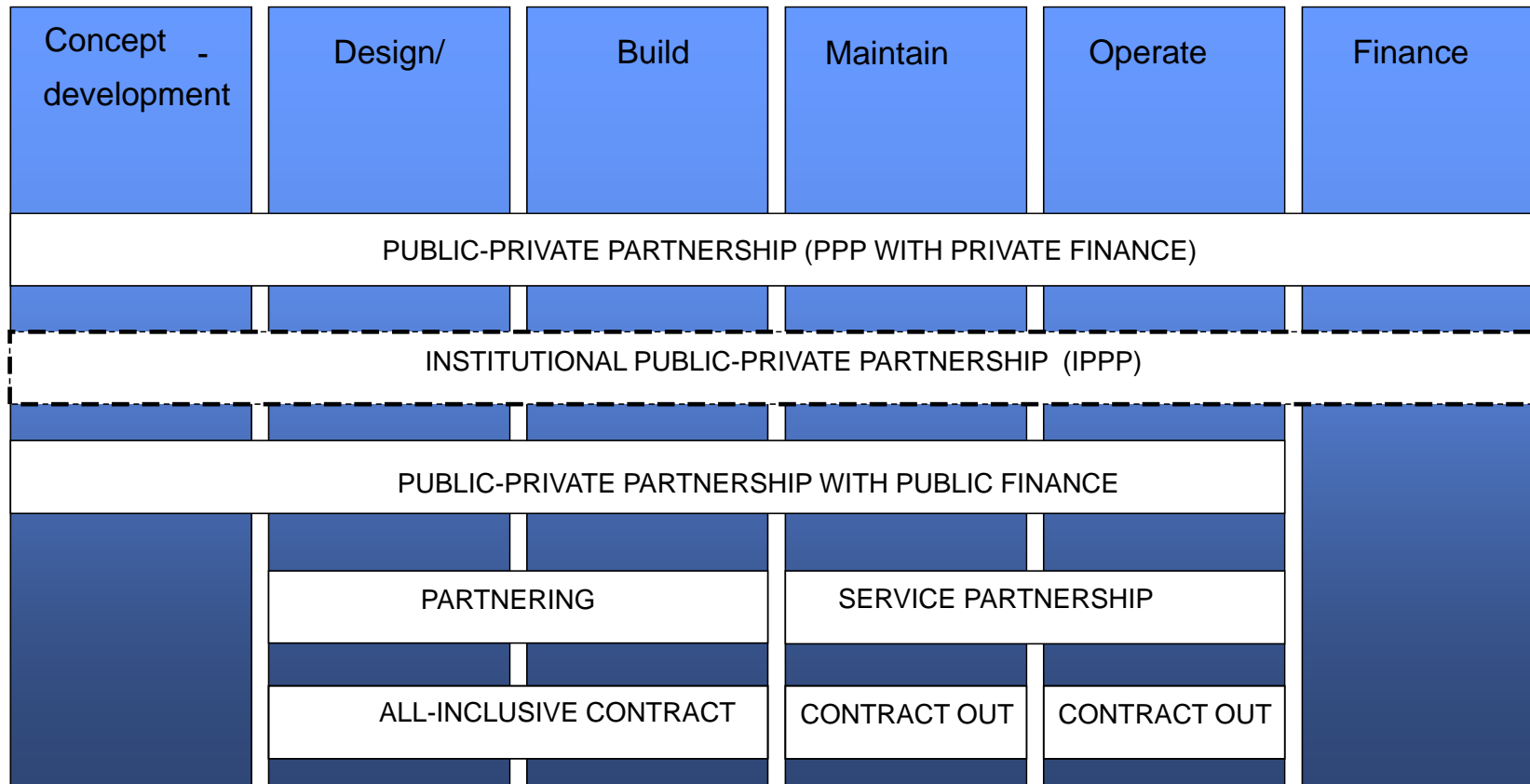


Public Private Partnerships: A brand!

- Private Finance Initiative (PFI) in the UK → Tony Blair 1997: Partnerships and Third Way
- Vested interests: OECD, World Bank, UN, European Union - PPP is a good thing!
- Governments across Western democracies: PPP as a good thing! (although not always clear why)
- Academic research: PPP experiences are so far mixed and private finance is not always efficient
- Partnerships are really not all that new (Wettenhall, 2003)
- PPP as "language game" or "organisational/financial scheme" (Hodge & Greve, 2005)
- Partnerships are really not all that new (Wettenhall, 2003; Weihe, 2008)



The public-private toolbox revisited



The European PPP market

- Value of the European PPP market: app. 200 billion Euro in 2007 (Blanc-Brude et al., 2007)
- UK: App. 920 major construction and infrastructure projects (covering roads, underground, railways, schools, hospitals, defence, etc.)
- The capital value of PPP projects eight-doubled between 2003 and 2006 (excl. UK) (Babcock & Brown, 2008)
- PPP amounts to app. 10-15 % of total asset-based investments in the UK (but much less in other countries)
- KPMG report from 2005: The Danish PPP market has a potential of app. 3 billion Euro over a five year period

The origins and development of Denmark's PPP programme

- 1999: PPP introduced by the Finance Ministry
- 2001-2003: PPP mentioned in a few government reports
- 2004: Action Plan for PPPs and 7 pilot PPP projects
- 2004: Universal PPP testing-requirement (only transport and at central government level)
- 2004-2007: testing of PPP pilot projects, development of guidelines, etc.
- 2007: First Danish PPP project operational (Vildbjerg School)
- End of 2009: PPP unit dissolved
- 2011: New PPP "contact point" and "PPP standard model"
- 2008/9-today: more projects in the pipeline



PPPs in Denmark – current projects

Project	Finance	Sector	Authority
Vildbjerg Skole i Trehøje	PPP with public finance	Teaching	Herning Kommune
Ørstedsskolen i Rudkøbing	PPP with private finance	Teaching	Langeland Kommune
Frederikshavn Ny Byskole	PPP with public finance	Teaching	Frederikshavn Kommune
Helsingørskole og svømmehal	PPP with public finance	Teaching	Gribskov Kommune
Nye arkiver til Rigsarkivet i København	PPP with private finance	Public buildings	Bygningsstyrelsen
Tinglysningsret i Hobro	PPP with private finance	Public buildings	Bygningsstyrelsen
Skattecenter i Haderslev	PPP with private finance	Public buildings	Bygningsstyrelsen
Retsbygninger i Herning, Holbæk, Holstebro og Kolding	PPP with private finance	Public buildings	Bygningsstyrelsen
Hovedsæde til Vestre Landsret i Viborg	PPP with private finance	Public buildings	Bygningsstyrelsen
Politistation i Hobro	NA	Public buildings	Bygningsstyrelsen
Retten i Roskilde	PPP with public finance	Public buildings	Bygningsstyrelsen
Landsarkivet i Viborg	NA	Public buildings	Bygningsstyrelsen
Magasinbygning til stadsarkivet i Aalborg	PPP with public finance	Public buildings	Aalborg Kommune
Musik- og teaterhus i Odense	PPP with private finance	Culture and leisure	Odense Kommune
Svømmecenter i Randers	PPP with private finance	Culture and leisure	Randers Kommune
P-hus ved Aarhus Sygehus	PPP with private finance	Parking facility	Region Midtjylland
Motorvejsstrækning Kliplev-Sønderborg	PPP with public finance	Roads (motorway)	Vejdirektoratet
Daginstitution i Skanderborg	PPP with private finance	Day care center	Skanderborg Kommune

But also many projects rejected as PPPs

- Light rail way ved Ring 3, suburban Copenhagen
- Prison (Østdanmark)
- Parkeringshus i Ørestaden
- Omfartsveje ved Næstved
- Sportspark i Gentofte
- Skole i Kalundborg
- Mega-sygehus i trekantsområdet
- Bro over Roskilde Fjord i Frederikssund
- Svømmehaller i København
- Tunnel fra Lyngbyvej til Amager
- Etc.

Selected PPP country experiences

- Norway: 3 road schemes as PPP, but PPP rejected for future projects (public finance seen as more attractive)
- Sweden: New hospital (Karolinska) + Arlanda-Stockholm railway
- Netherlands: Widespread debate about PPPs as urban development but fewer projects actually implemented
- Ireland: infrastructure deficit in the 1990's and falling shares of EU funds → large-scale PPP program
- Ireland: App. 70 major PPP schemes planned and/or implemented (the private finance element has been crucial)
- California: Private financing of major road projects (toll-roads), inspiration from Europa (in particular France)
- Spain: Mainly PPPs in transport: roads, light railways etc.

Different national PPP approaches

	Anglo-Saxon PPP approach	Continental European PPP approach	Scandinavian PPP approach
<i>Country examples</i>	UK, Australia, Canada, Ireland	Netherlands, Germany, France	Denmark, Norway, Sweden, Finland
<i>PPP objectives of governments</i>	Remedy budget constraints, some degree of marketisation ideology and NPM- reforms (for example emphasis on value-for-money)	Remedy budget constraints and launch of new public governance based on horizontal cooperation	Unclear objectives, a mix of NPM principles (value-for-money) and new public governance elements (innovation, mutual added value)
<i>Governance approach</i>	Widespread policy and regulation measures	Intermediate to high policy and regulation measures but fewer money earmarked for projects	Limited or unsupportive policy and regulation measures
<i>Projects and sectors</i>	Large deal flow, high diversity in PPP sectors	Medium deal flow, primarily 'hard' infrastructure (roads, railways, etc.)	Low deal flow, few sectors covered

A comparison of UK and Scandinavia

UK:

- Financing challenges at national and local level in the early 1990s
- Infrastructure deficit and worn-out buildings
- Policy solution: PPP/PFI (the Private Finance Initiative) provided private capital from the early 1990s onwards

PPP as a **financing tool**

Value for money (PPP as efficiency and partnership)

Scandinavia:

- Strong public finances made private finance largely redundant
- Relatively well-built infrastructure throughout (although some problems with low maintenance levels)

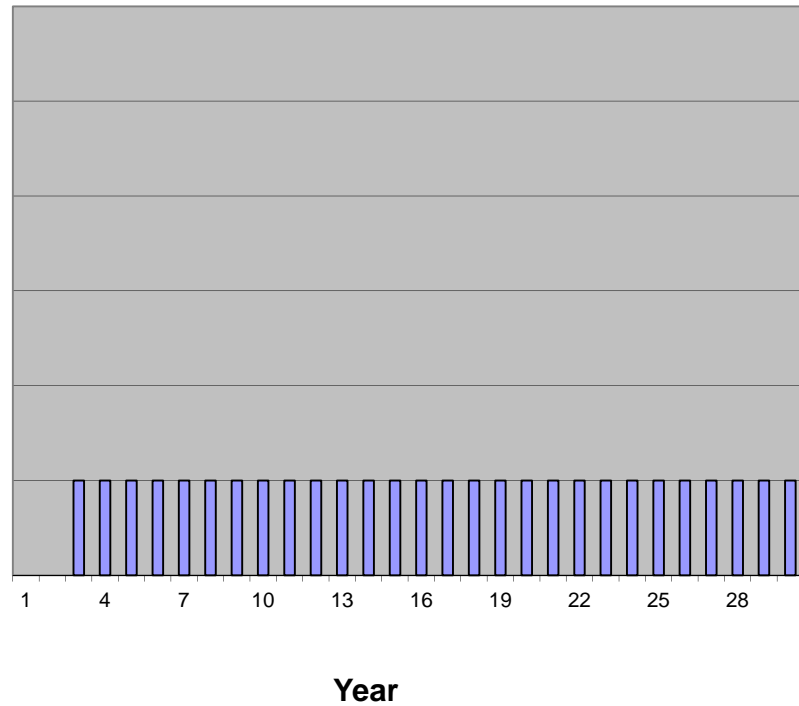
• PPP as an **efficiency/partnership tool**

→ The UK now increasingly focus on efficiency and value for money

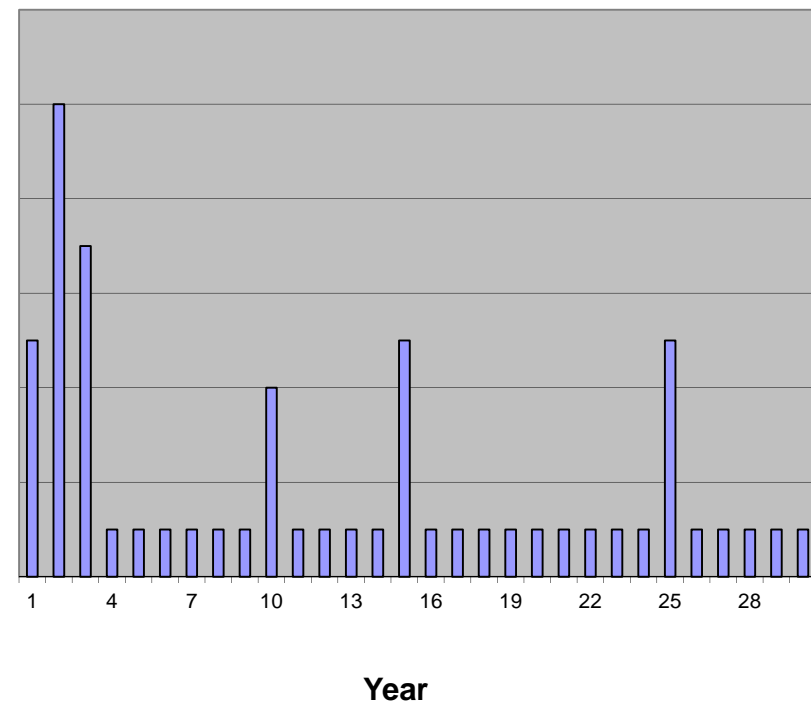
→ All PFI/PPPs on balance sheet: increase public debt with 2,5 % of GDP (House of Commons Committee)

The finance in PPPs

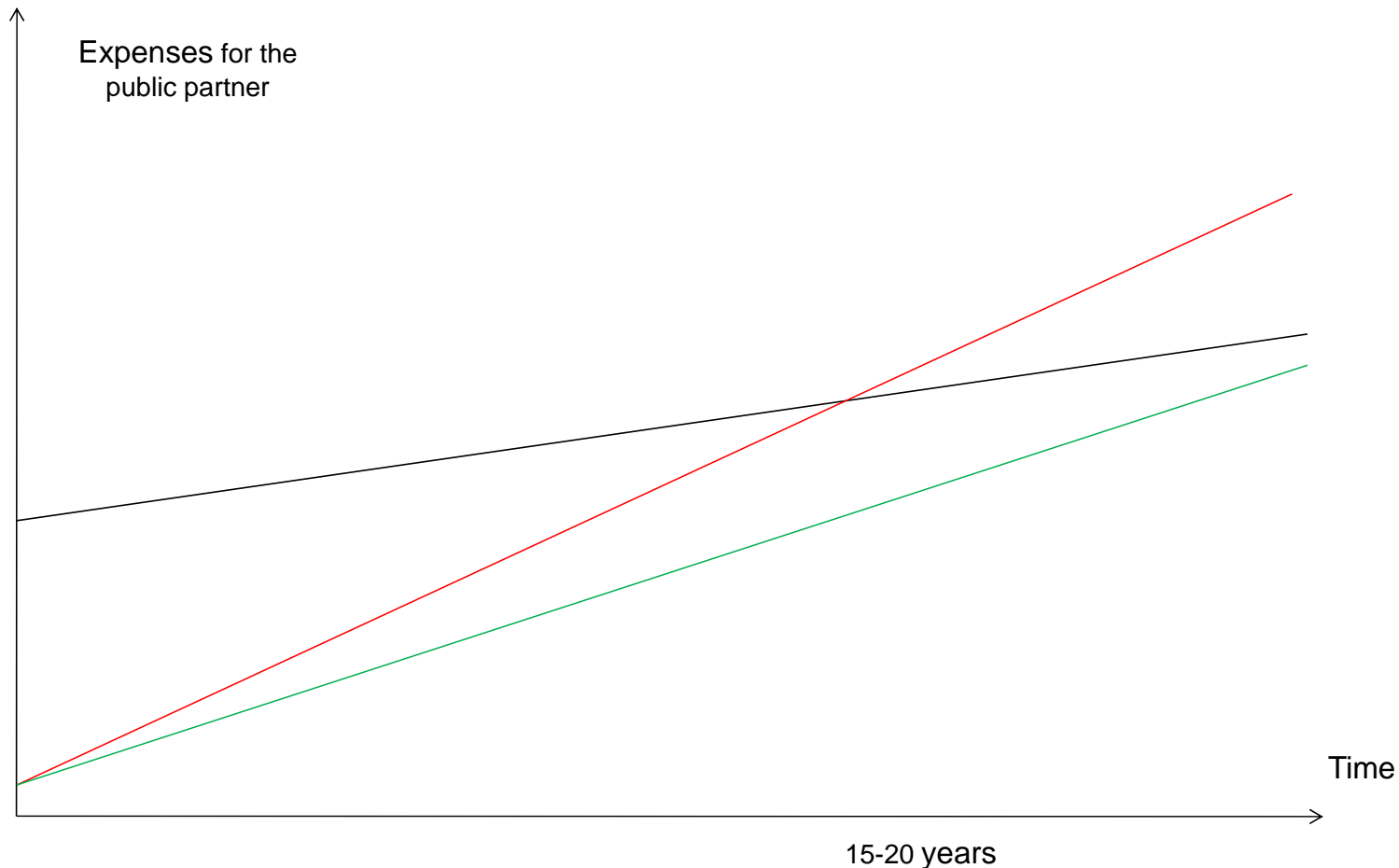
PPP-project: the public partner's payment profile



Traditional project: the public partner's payment profile



Policy and governance challenges related to the long time horizon in PPPs



Conclusions: Are PPPs better value-for-money?

- VFM: "defined as the effective use of public funds on a capital project" (Grimsey & Lewis, 2002: 109)
- → better quality for the same money or same quality for less money"
- In contrast to the objective of placing major public investments on or off government balance sheet (Eurostat decision, 2004)
- Governments + consulting firms + international organisations: overwhelming positive assessments
- Academic research within economics, public administration, public management: Mixed experiences, positive and negative experiences documented
- Major lack of independent evidence for VFM in all EU countries
- Present situation: reinvention of the institutional framework for Danish PPPs (PPP with public finance)



Thank you!

Questions and discussion (or coffee)

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