Lessons from UK PPP project experience as reported last year by the National Audit Office.

There are currently over 700 operational PPP deals in the UK, with a capital value of around £60 billion. Annual charges for these deals exceed £10.3 billion, about 1.3% of total UK public spending. Over the last 20 years, capital investment using PPP has averaged around £3 billion a year –about 6% of the amount of publicly financed government capital investment.

Although small in comparison with both public expenditure and publicly-funded capital investment, PPP has been <u>perceived</u> as a significant contributor both to better public service on the one hand and to <u>profits for private sector</u> companies in the business.

As the NAO report states, the potential for efficiencies and improved outcomes for the public sector under PFI include (i) certainty over construction costs; (ii) improved operational efficiency and (iii) higher quality and well-maintained assets.

However, the NAO reports that there is little evidence that Government HAS to use PFI <u>in order to obtain these outcomes</u>. Much of the argument for using private finance in the UK seems to rest on EUROSTAT's view that PPPs need not be counted as public debt.

The UK has been one of the most common users of off-balance sheet PPPs in Europe. These represent 1.7% of GDP, the third-highest in Europe and the highest among the European economies in the G7.

In considering whether or not to use PPP in the Region you therefore do need to be clear about the place of PPP in an overall public service improvement strategy.

However, let us assume that PPP does <u>indeed</u> lead to more efficient and effective provision of economic and social infrastructure - and hence better public service. What other major lessons can be learnt from the UK?

Again, I turn to NAO reports. Their conclusion from numerous studies is that public bodies often do not have the in-house capability or expertise to manage PPP contracts effectively. The long-term nature of PFI contracts means that, in some cases, the officials who negotiated the deals, such as myself, have moved on, resulting in a loss of expertise – 85% of PFI payments in 2016-17 relate to procurement decisions made over 10 years ago and 42% relate to decisions made over 15 years ago (including my two prisons and schools). Also, because there are very few new PPP deals in procurement, departmental private finance units, and the PPP teams located within HM Treasury are much smaller than they used to be.

I believe that it is important for you to <u>understand</u> what this means to this Region's likely PPP programme and <u>learn</u> how to avoid the same thing happening. In order for PPP to work there must be a balance between the risks taken and rewards gained by the public and private sectors. In the UK the balance of rewards is heavily weighted towards the private sector: there is scarcely any evidence that the rewards of the private sector are the result of careful management of the construction and operational risks passed to them.

I will now probably upset more than half of you. The failure by the UK to invest in effective public sector PPP capacity building has led to many projects where the winners are not the public, but the banks and virtually all the shareholders of SPCs and their parent companies. Failure to invest in public sector capacity building has led to an unfathomable reliance on external technical, financial and legal advisers, many of whom barely understand PPP more than the public officials - and who are conflicted by a desire to earn unwarranted and excessive fees and/or by the professional work that they might do for firms on the opposite side of the table.

Lessons from applying PPP in less PPP-mature economies

I have worked in a number of European transition economies. I have also worked in developing economies and several small island states. I would like to quote from Gyan Chandra Acharya, UN Under- Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (SIDS).

"PPPs present opportunities as well as challenges. For SIDS, due to their smallness and other related constraints, including limited financial and human resources, these challenges are magnified". "While there is no one-size-fits-all on the issue of PPPs there are already lessons learned and good practices that can be shared among SIDS to strengthen their institutional knowledge and capacities.

Attempts to use PPP in such economies to improve infrastructure, diversify economies, meet SDGs, etc. are almost doomed to failure without imagination and the casting aside of current PPP methodologies.

In relation to challenges for PPP's in developing countries, a study by Sader (2000) and the Camdessus Report (2003), which focused on the experience with partnerships in the water sector, the main obstacles within developing countries include:

- Conflicting aims—Often one project is expected to serve several policy objectives, e.g., financial, macroeconomic, social and environmental.
- Award procedures—Award procedures often lack transparency and do not employ objective evaluation criteria. Corruption has been a problem.
- Regulatory frameworks—Existing legislation in many countries was designed to define public sector responsibility in infrastructure and is inadequate to govern private participation. In addition, human capital such as relevant regulatory expertise is in short supply in many countries without much experience in privately operated utilities.
- Public governance—Multiple public authorities attempted to enforce conflicting rules and objectives, e.g., central versus sub-national governments, or regulatory bodies versus ministries. In addition, non-existent or inexperienced regulators created uncertainty about price and tariff setting.
- Existing service providers—Incumbent service providers, often state owned, often receive preferential treatment.
- Political commitment—In countries where the rule of law is not firmly entrenched, new administrations reneged on contracts signed by previous administrations.

The picture painted by this 9-year old report is still fresh.

Economist Intelligence Unit Infrascope covering **EASTERN EUROPE, CENTRAL ASIA AND THE SOUTHERN AND EASTERN MEDITERRANEAN**

The Infrascope identifies areas that require attention within specific countries and across the group. Although all countries in the study have developed enabling regulatory frameworks, overall PPP coordination is lagging in many of them. Transparency is also an issue: the majority of countries reviewed do not yet require the publication of contracts, for example, and governments do not generally have publicly accessible PPP registries.

PPP maturity depends not merely on having the right regulations and institutions in place. The index shows that initiating a successful PPP programme requires more than adequate regulations, and important factors include strong political will, long-standing technical experience and capacity, and a favourable market in terms of size, investments and financing conditions.

In summary, although the UK has probably the most extensive and longest-running PPP programme, improvement is still needed. The nature and management of PPP are both evolving even in the UK. It is therefore difficult at any one point in time to identify the crucial lessons that can be learnt from the UK's experience. However, I believe from the evidence, some of which I have referred to, that the single most significant indicator of success is the extent to which leaders and managers of the PPP process work in a favourable environment, are competent (having had appropriate on-the-job learning), are confident enough to take on opponents (and instruct advisers) and are truly committed to making a success of their work.