EPSU briefing "10 facts about public-private partnerships (PPPs)"

(Brussels, 01 December 2011) Below you will find a briefing from the Public Services Internal Research Unit (PSIRU) on the problems that PPPs can cause. We hope that this is useful to you in the upcoming discussions on the European Commission’s (EC) legislative proposal regarding concessions, expected soon. This is likely to cover many forms of PPPs.

The EC argues that PPPs are beneficial for the public, and in spite of growing evidence of their shortcomings, continues to promote them as a viable way to deliver public services. As the PSIRU briefing makes clear, this is not the case.

At the heart of the “myths” that support PPPs is the idea that PPPs somehow bring additional private resources into public services or infrastructure. Thus, the EC claims in the 2010 Communication “Mobilising private and public investment for recovery and long term structural change: developing Public Private Partnerships” COM (2009) 615 “Developing PPP as an instrument becomes critical as the financial and economic crisis is taking its toll on the ability of the public purse to raise adequate financial means and allocate resources to important policies and specific projects.” This is not true: the great majority of PPPs rely on a stream of income from payments by governments (for the hospital, school, railway, etc.) , i.e. public spending. The Communication itself recognises this when it says, “…. public sector participation in a project may offer important safeguards for private investors, in particular the stability of long term cash-flows from public finances.”

The EC has stated that EU rules on concessions will not aim to promote concessions, only to establish a clear legal framework for their use. This however is disingenuous: Member States – including local and regional authorities - may be tempted to resort to PPPs as a ‘quick fix’ for budgetary restraints, even if the long-term consequences are disastrous. This temptation is all the greater if they are only told about the benefits of PPPs.
The PSIRU briefing therefore aims to put the record straight by showing the serious financial, and operational, problems that have arisen with actual PPPs. The briefing draws in particular on evidence from Parliamentary enquiries in the UK, which

accounts for a very large percentage of European PPPs and which has the longest experience with PPPs.

In summary, the PPP briefing shows that PPPs do not supplement public spending – they absorb it.

The facts covered in the briefing are:

1. The private sector does not assume the risk
The Eurostat rules on risk transfer are very weak and risk cannot be transferred to private companies for nothing. There are very different standards and approaches to risk transfer which lead to different results. Different assumptions can lead to big differences in the value given to risk transfer and so can easily be used to 'fix' the result. Some of the claimed risk transfer may also be illusory.

2. PPPs do not guarantee better value for money
Eurostat does not carry out a value for money assessment of PPPs. PPP proposals are normally compared with some 'public sector comparator' but most assessments are flawed. There has not been a systematic assessment of value for money nor of benefits from tax revenues, with many PPP owners based in tax havens.

3. The normal public sector option is not always considered
In practice, there is no alternative to PPPs. Normal public sector procurement is not an option because it would show an increase in government debt.

4. PPPs are not better at finish buildings on time or on budget than ordinary contracts
Taking account of the whole process and the additional cost of 'turnkey contracts', reveals that PPPs are not more on time and on budget than ordinary contracts.

5. The rules on PPPs don't ensure complete transparency
Private companies insist that many aspects of PPPs are kept secret.

6. Any competitive tendering associated with PPPs does not guarantee savings
PPP tendering procedures take longer and cost more than normal procurement, and so create additional transaction costs for both governments and companies. The complexity leads to the use of negotiated or ‘competitive dialogue’ procedures, and the cost of bidding means that few companies can afford to bid for PPPs.

7. PPPs do not ensure better design innovations
Experience in the UK suggests that PPPs may not generate better designs than normal procurement.

8. The private sector is not necessarily more efficient at running services
A large number of comparative studies present a very mixed picture, which strongly suggests that there is no systematic difference in efficiency.

9. The private sector can’t raise money more cheaply than governments
Governments can nearly always raise capital at a lower cost than the private sector and the difference is large and the crisis has made the problem worse. Rather than making more use of PPPs, public authorities are avoiding further PPPs and even renationalising existing ones.

10. PPPs are not necessary to solve the problems of countries in crisis
There is no evidence that countries making more use of PPPs are less likely to have fiscal problems. We hope that you find the briefing useful to clarify the discussions around PPPs and to address the imbalance in information about their performance.

FACTSHEET - EPSU Briefing on Public-Private Partnerships (PPPs) (EN/FR/DE/ES/SV/RU)

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