

British & Australian experts discuss progress in P3s abroad

Both Tim Wilson and Peter Noble have spent some valuable time in the government trenches of public-private partnerships over the past several years. Their comments at the Board of Trade on May 3, 2000 launched a set of day-long workshops in which the two experts shared their experiences with Canadian public sector managers in Toronto and Ottawa.

Tim Wilson, consultant with WS Atkins plc and former head of the Private Finance Policy Team at the U.K.'s Treasury Taskforce, described the journey of P3s in his country as "expensive, time consuming and controversial." While one newspaper espoused the benefits to hospitals and schools using P3s, another denounced the government's role in any partnerships with the private sector. But in the end, Mr. Wilson believes that P3s have been successful.

He was quick to point out that the Private Finance Initiative (PFI) of the U.K. government is distinct from privatization. In PFI, **"The government maintains control of what it's best at and forms partnerships to instil the commercial discipline of the private sector."**

He believes that P3s continued in the U.K. following the election of the Labour government because "there is no dogma associated with it." He asserted that the business of government is not the ownership of assets but rather value for money. Arthur Andersen and the National Audit Office have both concluded that P3s have achieved savings of 17 and 20 percent respectively. Mr. Wilson said, however, that it is hard to put a price on how P3s have modernized government and brought about new kinds of procurement.

For the private sector, advancements have been made simply because the cost of non-

delivery is too high and "they can't afford to fail." For the public sector, long term asset maintenance has begun to take hold and significant improvements in service delivery have occurred. The prisons have been able to tackle such difficult issues as suicide through the use of output specifications in contracts that allowed the private sector to improve cell design and reduce the number of incidents.

In response to the argument that the public sector can borrow more cheaply, Mr. Wilson responds that, **"The value extracted from the use of funds is much more important than the cost of borrowing."** In the area of employee transfer, the government has published guidance on openness, consultation and statements of intent for pensions and benefits. Most importantly, he stressed that the government should not impose public sector working conditions on the private contractor, allowing them instead to create new and better conditions themselves.

Peter Noble, director at Macquarie Bank Ltd. of Australia and former director of project and outsourcing development at the Department of Treasury and Finance in Victoria, began with a summary of the fiscal picture in the State of Victoria in 1992. He pointed to a poor credit rating, growing deficit and high unemployment as examples of a government in crisis. As a result, there was a strong mandate by the new party in power to reform government processes. This commitment resulted in new hospitals, a stadium, water/wastewater treatment facilities and a 15-year own and operate contract for the public transit.

There has been a remarkable restoration of financial structures to the point that Victoria

exceeds growth levels in the rest of Australia. Traditional public services are now measuring and quantifying customer service. There is significant political support for P3s, and “The government is committed to contracting when the benchmarks are met.”

Mr. Noble’s principal piece of advice is to **“get the investment structure finalized early.”** He also stressed that the benefits of P3s need to be communicated to the public, customers and the workforce. For private sector bidders, he suggested that the government provide solid timetables and the same processes whether it is a privatization, P3 or contracting out. In the end, he noted, it comes down to confidence: confidence in the process, confidence in the outcomes and confidence that the market can achieve results and increase competition.

Mr. Noble outlined the policy stand of the pro-P3 Victorian government, which is expected to be released next month. The main commitments are:

1. To maintain financial confidence
2. To develop increased transparency in decision-making
3. To improve government services, and
4. To ensure all Victorians benefit from the above initiatives

With regard to tax-exempt municipal bonds, Mr. Noble explained that the federal government has deemed certain assets to be tax-exempt (e.g. toll roads, airports) under the infrastructure tax policy.

Both speakers noted that their countries assess the cost savings of P3s over the life of the project. Additionally, neither has seen any major examples of defaults on private sector debt. Mr. Wilson said, “As long as the government can maintain its commitment to the commercial terms, the project will be successful.” Mr. Noble stressed that due diligence on the contractor is the key to a good P3 record.

Additional Resources

Australia

- Melbourne City Link Project
www.citylink.vic.gov.au/pages/home.html
- State of Victoria 5-Step Procurement Cycle
www.vgpb.vic.gov.au/polguid/polmenu.htm

United Kingdom

- A Step-by-Step Guide to the PFI Procurement Process
www.treasury-projects-taskforce.gov.uk/series_1/step/step0.htm
- Public-Private Partnerships: The Government’s Approach
www.hm-treasury.gov.uk/docs/2000/ppp.html
- Sample Contracts
www.treasury-projects-taskforce.gov.uk/series_other/contract/contents.htm
- Standardisation of PFI Contracts
www.butterworths.co.uk/worldwide_ordering.htm or call 44 020 7400 2682
- Treasury Taskforce Case Studies
www.treasury-projects-taskforce.gov.uk/studies/case.htm
- Treasury Taskforce Technical Notes
www.treasury-projects-taskforce.gov.uk/series_3/main3.htm
- Value for Money Drivers in the Private Finance Initiative
www.treasury-projects-taskforce.gov.uk/series_1/andersen/7tech_contents.html

Tim Wilson and Peter Noble delivered their remarks at the Board of Trade in Toronto, Ontario on May 3, 2000 as part of The Canadian Council for Public-Private Partnerships continuing breakfast series with leaders involved in topical public-private partnering initiatives. The breakfast was sponsored by the Association of Municipalities of Ontario (AMO), Bennett Jones, Industry Canada, Macquarie North America Limited, PricewaterhouseCoopers, RBC Dominion Securities, SuperBuild Corporation, and Treasury Board of Canada Secretariat.