

Public-private partnerships are increasingly important in delivering major projects. Neil Hughes examines the background

**A** public-private partnership (PPP) is a long-term contractual agreement between a government agency and a private partner for the delivery of goods or services. As partners, each party shares in the potential risks and rewards inherent in the delivery of the goods or service, including financial risks and responsibilities, and quality assurances for the taxpayer.

PPPs are not privatisations because the government entity involved in the agreement retains control and ownership of the project. There are many different kinds of PPPs, with varying levels of private sector involvement. The most common is called a design-build-finance-operate-maintain (DBFOM) transaction, where the government grants a private sector partner the right to develop a new piece of public infrastructure.

The private partner takes on full responsibility and risk for delivery and operation of the public project against predetermined standards of performance established by the government. The private sector partner is paid through the revenue stream generated by the project, which could take the form of a user charge (such as a highway toll) or, in some cases, an annual government payment for performance (often called a 'shadow toll' or 'availability charge').

Any increases in the user charge or payment for perfor-



West-Link toll bridge: an example of a successful public-private partnership in action

MAURA HICKEY

# Why public-private partnerships work

mance are typically set out in advance and regulated by a binding contract.

## Guaranteeing the work

In a public-private partnership, the government retains control over the quality of public infrastructure in a number of ways.

- The government typically owns the infrastructure, while the private sector partner has a lease or a right to use the infrastructure, which expires at the end of the contract agreement (sometimes referred to as a 'concession' or 'franchise').

- The government establishes the performance standards and penalises the private sector partner if standards are not met.

- The government establishes the user charges and terms on which the public can access the infrastructure.

## Advantages of PPPs

When the government delivers new projects without using a PPP, it would typically:

- employ and take responsibility for private sector consultants who would design and engineer all or part of the road

and then bid construction to a private sector company; taxpayers would bear the responsibility of any budget overruns or delays.

- Issue a bond to private sector investors to finance construction; taxpayers would be responsible for repayment of interest and principal.

- take responsibility for operating and maintaining the facility, elements of which might be contracted out to a private company. Again, taxpayers would bear responsibility for any quality defects or unexpected problems.

By entering into a PPP, all these activities are integrated into one long-term contract

with a private-sector partner to the advantage of the taxpayer.

Projects can be delivered years ahead of when they might otherwise be available. There are often stipulations that construction be completed on time and within budget, thus shielding taxpayers from cost overruns and delays.

The private partner brings the efficiencies and innovations of the private sector to the job because funding is available up front. Major infrastructure projects do not have to be phased in as funds become available, greatly reducing overall cost and time.

Additionally, the design

meets the performance standards at the lowest possible construction cost, and this can result in significant cost savings compared to traditional methods.

The private partner takes the responsibility and risk for interest rates and repayments, lifting that burden from taxpayers. The private partner is also responsible for all maintenance and operations, in accordance with standards set by the government.

Users rather than taxpayers pay for what they use. Thus, those who benefit most from the project pay for it with tolls, freeing taxes for other projects and needs.

## Importance of PPPs

Like most countries, Ireland's growing economy and population depend on a sound, safe and reliable transportation infrastructure. Unfortunately, unlike most states, Ireland's infrastructure is poor by international standards.

Innovative partnerships have proved to be an effective way to bring private capital and expertise to the solution of pressing public problems.

Neil Hughes is managing partner of Hughes Blake Chartered Accountants

## Growth of PPPs

By Post Reporter

More than 60 significant public-private partnership schemes are currently operational or planned, according to Department of Finance figures.

The schemes, all valued at more than €20 million and many valued at over €250 million, include major road projects, health facilities, schools, prisons, sports and cultural projects and environmental works, including a number of sewage schemes.

All major road projects completed in recent years have been undertaken on a PPP basis. The National Roads Authority is a key player in this area and manages all the PPP projects in its own sector.

PPPs involve a subsequent charging of tolls to motorists to allow the private contractor to recoup some funding.

In 2005, as PPPs spread into new areas such as education, environment and the arts, the government extended the role of the National Development Finance Agency to manage and oversee PPP programmes outside the road and rail sectors.

The agency operates as part of the National Treasury Management Agency.

For more details on all aspects of the process, see the government's PPP website at [www.ppp.gov.ie](http://www.ppp.gov.ie).

As well as a list of projects under way, this provides briefing notes and guidance for those involved in PPP contracts. It also includes a full range of contacts for those involved in the key state agencies in managing PPP projects.