Chapter 5

One More Time... How to Measure Alliance Success in Conditions of Public-Private Partnering

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INTRODUCTION

The Public Private Partnership (PPP) has increasingly been identified as a viable project finance solution throughout both high-income and lower-income economies (Grimsey & Lewis, 2004; Watson, 2003). It differs substantially from traditional public procurement paradigms in which governments outsource the design and construction of major infrastructural developments to desired output specifications (Grimsey & Lewis, 2004) while maintaining overall control and responsibility for financial and overseeing the project. Under this approach, both the ownership and the right to operate the asset are retained by the public sector entity that has oversight of the activity (Maguire & Malinovitch, 2004). On the other hand, a PPP encourages an entirely different form of inter-organisational relationship. In this case, a governmental body that lacks adequate funds for a major infrastructural development cedes the ownership of that development to a private entity or consortium for a given period (Maquire & Malinovitch, 2004; Quiggin, 2004).

In exchange, the private sector partners seemingly incur financial and developmental risks that are associated with the construction, design, and operation of the infrastructural asset (Officer, 2004). In a typical case, the government makes regular financial contributions to the privately operated development (often referred to as “rent”). At the end of the fixed period of time, the ownership and control rights of the asset would revert back to the public sector (Wettenhall, 2003).

Theoretically, a PPP should benefit both public and private partners to a similar degree. The governmental body indirectly enacts new infrastructural developments (or a refurbishment of pre-existing developments) that it could otherwise not afford, whilst the private

sector participant generates a substantial return on investment through their establishment of a substantial "business case" for entering the alliance in the first place. However, there have been an increasing number of documented cases in which such PPP arrangements have failed to deliver with respect to the satisfaction levels of all the participating stakeholders (Dixon, Dogan & Kouzmin, 2004; English & Walker, 2004; Hurst & Reeves, 2004; Newberry & Pallot, 2003; Watson, 2003). This has led to a degree of skepticism amongst many commentators towards the assumption that such inter-organisational relationships can ever be truly equitable (Dixon, Dogan & Kouzmin, 2004; Newberry & Pallot, 2003).

It has been suggested that the increased incidence of giving up, at least for many years, the ownership and control rights of major infrastructure assets to private entities will further exacerbate the diminution of the public interest and accountability when it comes to big infrastructural undertakings (Watson, 2003). Moreover, this exchange of roles between public and private sector is converse to the principles enunciated by Adam Smith (1776), who stated that one of the main roles of government was to undertake projects which are so large, complex (and risky) that no private sector organization would wish to accept the risk.

The purpose of this chapter is to review some of the broader issues that arise in relation to the increasing popularity of PPPs, with special attention to the power and control issues that tend to exist amongst the project stakeholders. This is a timely investigation on two grounds: firstly, because the appropriateness of the PPP model as the "best practice" form of inter-organisational arrangement is often accepted without thorough scrutiny (Quiggin, 2004) and secondly, because the less than equitable relationships that tend to exist between key stakeholders (including the smaller sub-contractors) have far-reaching implications for public procurement practice and current policy debates.

THE RISE OF PPPS: THE MOTIVATING FACTORS

The surge in the popularity of PPPs has its genesis in the debt crises that enveloped many governments in the early 1980s and the Private Finance Initiatives (PFIs) that were enacted by the conservatively-led administration in the UK to fund major infrastructural projects (Broadbent & Laughlin, 2004; Maguire &

Malinovitch, 2004). The public funding crisis was seemingly created by governments at the political level. The politico/economic pro-Keynesian mood of the post-World War II era, with its comparatively socially-focused attitude, gave way to the market-oriented approach fostered by Friedman (1982). An ideology that supported an increased share of economic activity for the private sector, and a planned diminution in the invasiveness of government, made the step towards tax cutting simpler. This shift was also accompanied by a significant movement in management ideology in both public and private sectors. The language accompanying these changes is epitomized by the demands for "lean organizations", "doing more with less", often achieved by constant restructuring to achieve "cost" and "efficiency" advantages.

Since that period, public jurisdictions as diverse as the New South Wales and Victorian state governments in Australia, the national governments of Ireland, New Zealand, Lebanon, United Kingdom and Ghana (among many others) seem to have embraced the concept of the PPP and the rhetoric that surrounds it (Awortwi, 2004; Clarke & Healy, 2003; Hurst & Reeves, 2004; Jamali, 2004; Maguire & Malinovitch, 2004; Newberry & Pallot, 2003). Even though the popularity of PPPs seems to have increased substantially in recent times, it is doubtful that it is as much of a "new" phenomenon as advocates seem to suggest. It may be nothing more than a new "label" for a type of inter-organizational relationship that has existed on a smaller scale in the past (Wettenall, 2003).

Whatever its origins may be, the justification for utilizing a PPP, rather than more traditional approaches, are typically stated in terms of the following benefits [adapted from Watson, 2003; Grimsey & Lewis, 2004; Quiggin, 2004)]:

- The elimination of inefficient and costly service deliveries by government-owned operators;
- Access to expertise and personnel that are not available in-house in the public sector;
- The incorporation of "private sector discipline" that leads to a decrease in the amount of projects than run overtime and/or exhibit cost overruns; and
- The perceived transfer of the risk of various projects to private entities will tend to reduce the burden of public debt that is

incurred by unexpected events (such as strikes, lock-outs, unforeseen costs, and inaccurate financial modeling).

This rhetoric is espoused by most PPP advocates, although as the case studies and the historical review of PPPs demonstrate, these justifications are not always borne out by the experiences of government or their taxpayers. Furthermore, when these ventures become untenable, the parties tend to resort to media or legal clashes which further entrench the difficulties associated with achieving the desired outcomes of the PPP. Indeed, when the justifications for the development of PPPs are closely examined, it is difficult to measure the claims that are made, or to confirm or deny that such outcomes are achievable.

First, the "elimination of costly service deliveries by government-owned operators" is a typical statement used to justify the transfer of a major project to a PPP. The notion of "costly" is in itself ill-defined. The traditional view that government business operations are costly and uncompetitive is a widely held view which can be challenged with just one or two examples (see below). It is also a truism to say that monopoly businesses can command a price for their products, and there is anecdotal evidence that this label is commonly applied to government enterprises. However, while a competitive-tendering approach to letting PPP arrangements may be used, a former Auditor-General has stated that, in his view, the infrastructure development via PPPs in NSW Australia, are leading to the creation of private sector monopolies and all the disadvantages that attach to that type of economic structure (Harris quoted on ABC, 2006).

The situation is further complicated by the introduction of historical cost accounting methodologies and other key performance indicators (KPIs) by government within most agencies. For example, attempts to apply private sector standards to public infrastructure led to measures such as "ride quality", pavement durability" and "road safety" in additional to typical financial returns being adopted as KPIs for a government agency responsible for roads and traffic management (Auditor-General, 2005, pp. 153-154). While such an approach may help to demonstrate some level of performance of public sector entities, questions remain over the validity of many of the values placed on long-term assets.

Second, the issue of “access to expertise” is more challenging. It is rare for government to pay "top market rates" for personnel. The establishment of a new PPP gives rise to the completion of a complex contract (now usually described as a procurement contract although this definition might create a more robust examination of PPP contract at the outset). In the case of the Sydney Cross-City Tunnel (CCT) described below, the contract ran to several hundred pages, the details of which were unknown until the government agreed to release the entire contract. How these contracts are negotiated in each case is not clear, although in the CCT case (below) it is apparent that the parties were assisted by more than one former state politician. The private partners in this case included the international corporation Bilfinger Berger which is assumed to be highly experienced in negotiations of this type. There is a further complexity that needs to be mentioned: the use of summary documents in place of the actual contract. The NSW Auditor-General (2005, p. 3) mentions that:

> PFPs (Publicly Financed Projects) typically involve complex and voluminous contractual documents that may not be readily accessible and may be difficult to analyze and interpret. Because of this, the Guidelines require the relevant government agency to prepare a contract summary for all projects designated as PFPs [PPPs]. There is a standing request from the Treasurer to the Audit Office, asking us to check each summary against the source contracts, deeds, etc and report whether the summary complies with the disclosure requirements of the Guidelines.

Seemingly, these instructions create a serious dilemma for government and taxpayers. A document that summarizes a contract that comprises several hundred pages of terms and conditions is likely to omit significant levels of information. This was the situation which arose in the Sydney Cross-City Tunnel case which will be discussed in this chapter where the contractual requirements governing the operation of this PPP appear to limit the expansion of public transport for the next thirty years.

Third, the issue of “private sector discipline” is a double-edged sword. Of course the private partner is likely to be disciplined as it seeks to control costs, complete the task and earn a satisfactory rate of return on investment. It is this aspect of “private sector discipline"

that is likely to cause most difficulties for politicians and taxpayers: what is a fair rate of return on publicly invested funds? Is it ethical for government to create a PPP which earns an income at the expense of the public? Furthermore, how "disciplined" is the private sector? Once again, generalizations are made that can be attacked by single example. Corporate governance failures (Enron, Worldcom), executive misdemeanors (McCarty of American Airlines), corporate financial failure (Wilson, 2002) and near-failure (Chapter 11 Bankruptcy in the USA) are all examples of situations where "private sector discipline" has become questionable. Chance, of course, plays a part (Porter, 1990), however, the scale and scope of corporate failure raises questions about the reliability of the assertion that the private sector exercise some type of discipline.

Fourth, the "transfer of risk from the public to the private sector" is also a dubious notion as one example to the contrary challenges the assertion. In Australia, the transfer of risk seems to vary from PPP to PPP. For example, the Sydney Harbor Tunnel, a comparatively early PPP in Australia, ensured the risk was always covered by the government, as did a tollroad construction project in the 1990s. In the latter project, the usage of the new tollroad was much lower than expected in the initial months of operation. It transpired that the government was liable for this loss of income, a cost borne by taxpayers (Harris, 1994) although this situation now appears to have corrected itself.

There is no evidence in the literature to suggest that the power relations that tend to exist between PPP stakeholders are equitable in a sense of being "fair" (Awortwi, 2004; Dixon, Dogan & Kouzmin, 2004; Hurst & Reeves, 2004; Newberry & Pallot, 2003). It seems that the dominant partners tend to be of the "big private sector consortium" type, as will be suggested by the content of the case studies later in this chapter, who seem to have so much leverage that they can (in some cases) bias the terms and conditions of the PPP to suit their preferences.

This research does not suggest that PPPs should not continue to be adopted. It simply implies that steps must be taken on a policy level to enact an adequate regulatory framework that encompasses higher standard of accountability and disclosure when issuing a Request for Tender. It should also be noted that "commercial-in-confidence" issues associated with PPPs appear to have become so

sensitive that they interfere with the need for transparent and accountable contract arrangements. While a tender process appears to occur in the case of the PPPs examined in this chapter, there is a lingering doubt that ideology also influences the process and outcomes.

A discussion of PPP cases from Australia and Germany are presented in the following section. The aim of the cases is to illustrate the influences of the four motivating factors discussed in the preceding section of the chapter.

CASE 1: THE SYDNEY CROSS-CITY TUNNEL, NSW, AUSTRALIA

The construction of the Cross-City Tunnel (CCT) under the city of Sydney was first announced in 1998 and competitive tenders called in September 2001 (CrossCity Motorways, 2006a). The successful bidder was Cross City Motorway Consortium (now known as CrossCity Motorway Pty Ltd), an alliance between Bilfinger Berger BOT, Cheung Kong Infrastructure and clients of RFEEF Infrastructure Investments. The CCT will be operated by CrossCity Motorway Pty Ltd until 2035 (Auditor-General, 2005, p. 155). CCT maintenance will be provided by Baulderstone Hornibrook, a subsidiary of Bilfinger Berger BOT.

The type of legal structure chosen by the CCT closes the "corporate veil" on company affairs. The words "proprietary limited" in the company title (abbreviated to "Pty Ltd") mean that the company is registered as a private company whose shareholders have limited liability in the event of the company being wound up. This is extremely significant legal protection for the shareholders of such an organization. A company of this nature requires only one director to be appointed although that director is expected to live in Australia. In the case of CCT, however, it has a number of Directors (DBA, 2006).

In addition, details of the financial performance of a private company in Australia are not required. The operations of the company and how it deals with its alliance partners is in the hands of the shareholders and director(s) are also not disclosed. It allows almost complete privacy of operation compared with the almost complete transparency of operation required of a government institution. Usually there is no audit of records and complete privacy of operation and protection of shareholders is created. For taxpayers, such a

model is contrary to the open and accountable requirements placed upon public agencies and their mandatory audit requirements.

This marks the most significant variation between public and private sector management of infrastructure. It also represents an alarming weakness in the approach of governments that engage in major contracting partnerships without imposing provisions for a more open and transparent corporate structure. For example, the requirement that such an agreement could only be made with a public, listed company would immediately increase the amount and frequency of data available to the public. Although this may not be a perfect solution, it does ensure some on-going due diligence can be carried out annually (public companies require independent audit), profitability details are made public and shareholders, while quite limited in their power, have the opportunity to challenge company policies in a public forum such as the Annual General Meeting.

The CCT, an Australian version of a PPP, is a public-private partnership or alliance where only one of the parties is required to disclose its actions: the public agency. In this case, the Roads and Traffic Authority (RTA) has consistently provided significant amounts of information via its public affairs activities. In normal circumstances, the taxpayer, who has very limited access to the financial performance of the company, has only the information provided by the company – in this case CCT – either by media release or publicity on its corporate website. This latter information, available to online visitors consists of the information the company is willing to disclose voluntarily. It is not always possible to validate such data unless directors of the company are required to provide information under oath to events such as parliamentary enquiries, although even then the outcome can be uncertain.

At the time of the invitation for bids to construct the tunnel, the RTA engaged in a procurement process which demonstrated the concern about having adequate expertise to plan and instigate the tender process. The assessment panel considered the three proposals short-listed from the publicly invited “Registrations of Interest” (Road and Traffic Authority, 2003). This panel comprised three senior civil servants representing the RTA and the NSW Treasury Corporation and “a principal of Evans and Peck Management” (Road and Traffic Authority, 2003). Evans and Peck (2006, p. 1) describe themselves as “an international management

consultancy, specializing in improving performance and outcomes in the delivery of major projects." The place of Evans and Peck on the assessment panel suggests the government's perceived need for greater expertise in the evaluation of bids.

In the case of the CCT, a corporate website exists and includes a minimalist news digest for the public. A search of the company record on the official Australian Securities and Investment Corporation website (www.asic.gov.com.au) discloses only the most basic information. However, interested parties can pay for a company search which provides details of directors and a limited amount of company data that might assist the state or any taxpayer to draw independent assessment about the alliance partner.

The foregoing discussion illustrates the negative aspects of the CCT without examining the drawbacks caused by the contract agreed between the New South Wales Government (represented by the Roads and Traffic Authority) and CrossCity Motorway Pty Ltd. This also led to detrimental consequences for the taxpayers of New South Wales because contract required the Roads and Traffic Authority to modify the roads near the entries and exits to the CCT. The aim of these requirements was to divert as much traffic as possible into the tunnel.

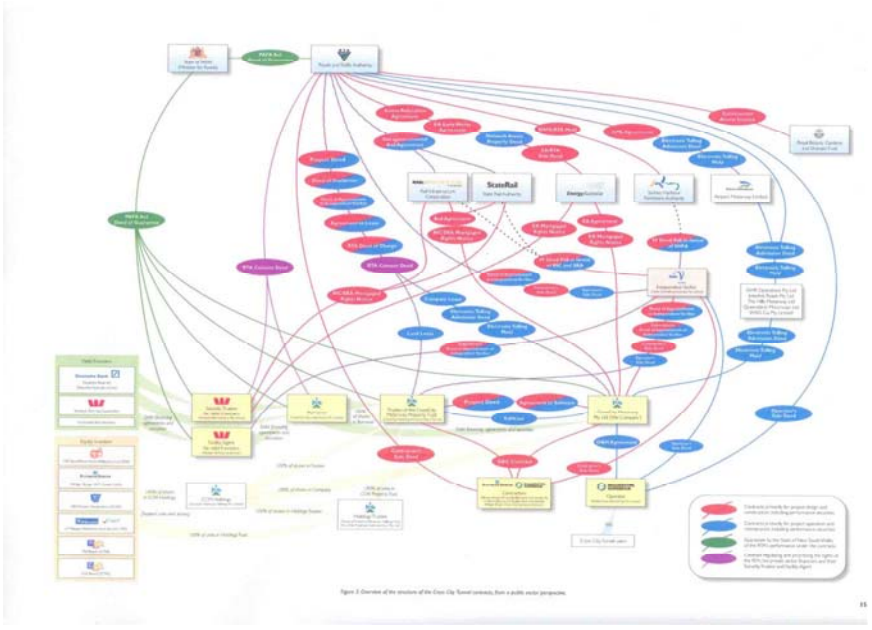
Furthermore, it appears the state is now prevented from expanding public transport if these new services impinge on the performance of the tunnel. A recent report suggests that tunnel usage is around 25,000 movements per day compared to the 90,000 – 100,000 forecast at the time the tunnel was developed (CrossCity Motorways, 2006b; Road and Traffic Authority, 2003). Considerable resistance to the toll being charged has led to the toll being abandoned to allow motorists to sample the tunnel and, more recently, to provide a 50% discount for a three month period to CCT motorists (CrossCity Motorways, 2006c, p. 1).

The scale of this PPP is demonstrated by the number of significant relationships established to undertake and maintain this PPP. While the exact nature of each of the relationships is not relevant to this chapter, the scale of the relationships is. The involvement of multiple parties at the level of the state is the first issue to note. Second, these relationships must be managed by both the state government agencies and CCT. Third, these relationships will cross generations because the contract has a life of 30 years.

Fourth, the parties to the contract at the time of its inception are already changing and, as they change, the interpretation of parts of the contract may change. Fifth, the funding and control aspirations of the state may change over time, creating limitations to the scope of the state's involvement in the management of its own affairs. A good example of an ideological shift that demonstrated a significant change in government policy can be found in the New Zealand government's preparedness to effectively re-nationalize Air New Zealand Limited when it seemed to be failing financially in 2001 (Wilson, 2002).

As Figure 1 demonstrates, the scale of the dependent and interlinked relationship between the state government, its agencies and staff, and the CCT Company is very complicated. The long-term complexity of these multiple relationships suggests that the parties will continue to have difficulties balancing the multiple demands created by a development under a city.

FIGURE 1
Contracting Relationships of the CCT Project



Source: Road and Traffic Authority (2003).

CASE 2: THE HERREN TUNNEL, LŰBECK, GERMANY

The Herren Tunnel is reported to be the first PPP to be undertaken by a government in Germany since the passing of the Private Financing of Highway Construction Act (1994) (RoadTrafficTechnology, 2006). The PPP, which resulted in work on the tunnel commencing in 2001, came into operation in 2005 and will remain with the private operator until 2035. The tunnel will then be handed back to the city "free of defects" (FEDEMAC e-news, 2005, p. 7). The successful contractor, in this case, was Herrentunnel Lubeck GmbH & Co. KG (HLKG), a joint partnership between Hochtief Projektenwicklung GmbH and Bilfinger Berger BOT GmbH.

The legal structure of the Lubeck tunnel mirrors the structure used to construct the CCT. Once again, a shield of financial and operating privacy has been created with the use of a private company structure (GmbH). Bilfinger Berger appears again in a key role during the contractual and operating process, bringing both negotiating, finance and commercial expertise to the PPP. However, the operating and legal structures are different. The Lubeck operation offers Hochtief and Bilfinger Berger a concession to operate the tunnel until 2035, whereas the CCT offers Cross City Motorway Pty Ltd ownership for the same period. The Herren tunnel is 50% funded by the German Federal Government which agreed to meet the cost of a new bridge over the River Trave at Lubeck, whereas the local government of the city of Lubeck decided it preferred to have a tunnel under the river, thus avoiding shipping problems that had previously existed when the river was spanned by the former bridge.

Despite oblique criticism in the media (DW, 2005) regarding the removal of the bridge, there is evidence that the adoption of the tunnel solution, while much more expensive than a new bridge, serves the port of Lubeck far better than a new bridge and associated road works. The fact that the tunnel must be returned to the state "free of defects" provides some certainty that the state will receive a working asset at the end of thirty years provided there is no deterioration of the concrete structure. It cannot be ascertained whether there are any other restrictions placed upon the expansion of public transport that might affect the tunnel usage, which is currently estimated at 45,000 vehicles per day (DW, 2005).

MEASURING ALLIANCE SUCCESS

The two cases demonstrate the complexity of measuring alliance success in a PPP environment, with the principal question being: from whose perspective is "success" measured? In both cases the capacity of the contractor to carry out the task has been demonstrated: both tunnels have been successfully completed and are operating without any apparent technical complication. This can be deemed an engineering success. However, whether the tunnels are an operating success is less clear and requires the researcher to examine the contracts involved.

It is unclear whether "value for money" is more likely to be achieved under a PPP or under a contract which outsources engineering planning and execution of major infrastructure but with ownership and operating responsibility remaining with the state. In the case of the Lubeck Tunnel, the solution was roughly twice the price of the German Federal Government's cost estimations for simply replacing the existing bridge. There is not enough evidence available at this stage to determine which a better solution is in the long-term. For example, although anecdotal evidence suggests the tunnel is the better solution, it was not possible to find Net Present Value data to establish a quantitative comparison. In the case of the CCT, the tunnel is completed, it is not attracting the usage anticipated and the cost of the shortfall appears to be met by taxpayers rather than CrossCity Motorway Pty Ltd. If this is the case, then it is apparent that the commercial advantage goes to the private sector.

Another measure is the capacity of the public sector to provide financially worthwhile contracts for the private sector to fulfil. This provides significant economic benefit to parts of the community, especially employees of the alliance partners in every role that is required to complete the task and maintain the assets. The availability of major public sector projects is, in some ways, simplified for government by the use of a PPP. The difficult financing decisions may be made by the alliance partner rather than by the government, although the government may be required to be a loan guarantor. The development cost of the project is seemingly passed on to the contractor and its financiers, while the operating costs and the recouping of the initial outlay is buried in a toll designed to cover all the capital and operating costs of the project – for the life of the contract.

In terms of establishing the measurable advantage of a PPP from a financial point of view, the position is less clear. In many cases, especially the CCT and Herren Bridge cases described in this chapter, the real financial situation is unlikely to become clear until the state resumes the assets in 2035 and discovers for itself the financial impact of the entire project. The private company structure hides the actual financial return to the operators and, while these could be modelled, the efficiencies in both construction and operation achieved by the contractor are not available for detailed scrutiny, but can only be estimated. In thirty years it will be another generation of stakeholders who will understand the actual position created by PPPs of this nature.

Politically, the PPP provides a suitable structure for politicians. The inconvenience caused by construction can be blamed on the contractor rather than the government. The cost of the project has a minor immediate impact on the government's budget and the outsourcing of the cost of the project appears to be a prudent financial decision, especially if the risk is effectively assumed by the contractor. If reduced political pressure on politicians is deemed to be a measurable advantage, then this too provides a very subjective measure of alliance success.

POWER IMBALANCES AND THE INADEQUACY OF PROJECT BENEFITS

In terms of the distribution of power and control that is exhibited in the rubric of PPPs, the overwhelming consensus in the academic literature appears to be that the private sector stakeholders tend to hold sway in most projects (Awortwi, 2004; Dixon, Dogan & Kouzmin, 2004; Hurst & Reeves, 2004; Newberry & Pallot, 2003). The origins of this power imbalance can be traced to a number of factors, and many of these are tabulated in the list below (Awortwi, 2004; Dixon, Dogan & Kouzmin, 2004; Jamali, 2004; Newberry & Pallot, 2003; Quiggin, 2004; Watson, 2003):

- The ceding of the ownership rights of the infrastructural assets to the private sector (which leads to issues relating to “commercial-in-confidence” and a lack of accountability);
- The subjection of the operations of the infrastructural assets to market-driven imperatives (at the expense of the quality of service delivery for the end-user);

- The relative inexperience of the public sector in negotiating favorable terms in such arrangements;
- Inadequately prepared tender documents;
- A lack of support for debt financing within the public sector (which tends to lead to overly-hasty PPP formulations without due recourse to objective cost-benefit analyses); and
- The perceived alignment of the PPP concept with the deregulation, down-sizing, and outsourcing rhetoric that is circulated amongst senior politicians and various public sector reformists.

What the private sector stakeholders seem to gain from PPPs are the potentially large returns on investment, and these can be up to double the amount that the industry averages would predict (Clarke & Healy, 2003). This is perhaps due to the fact that most of the resulting PPP operations are monopolies and that the resulting goods or services are not readily substitutable in the marketplace (especially roadwork, public transportation, hospitals, and utilities). At any rate, the rent-seeking motives of the private sector partners tend to confuse the various needs of the two other stakeholder groups: first, the public sector partners; and second, the ultimate end-users of the infrastructural assets (i.e. the general public). As Watson (2003, p. 5) notes, the "individual pecuniary interests and maximizing the return on shareholders' funds take precedence over concerns such as equity or procedural fairness to citizens".

Aside from the tendency of PPPs to favor the private sector stakeholders, there are two further concerns that should be elaborated. First, it should be noted that there is scant empirical evidence that PPP arrangements deliver many of the benefits that justified their implementation in the first place; especially with regard to "value for money" (Hurst & Reeves, 2004), a reduction in cost (Watson, 2003), and the adequate transfer of risk (Quiggin, 2004). Second, it is almost always the case that PPPs, as they are currently being implemented, do not result in favorable outcomes for the third stakeholder group in the relationship: the general public (Watson, 2003). This is evidenced in cases as diverse as the failure of private operators in Victoria and New South Wales to enhance the day-to-day convenience or "value for money" of road users (Fullerton, 2006), and the lack of efficiency that was associated with the development

of solid waste collection services in Africa (Awortwi, 2004). In all such instances, the rent-seeking imperative of the private partners tends to lead to unfavorable terms of agreement for public sector entities and a worse than expected outcome for the general public in terms of infrastructure quality (due to the cost-cutting regimens that are inevitably put into place to strengthen the bottom-line in the eyes of shareholders).

THE PLACE OF SMALL AND MEDIUM SIZED ENTERPRISES IN PPPs

While it does not play a centre stage role in the discussion of this chapter, the position of the Small and Medium-Sized Enterprise (SME) needs to be considered. SMEs are frequently identified as one of the groups to be specifically encouraged by government procurement policies, yet their size and financial scale works against them being a principal contractor in a PPP. Typically, they gain benefit from the outsourcing policies of the principal contractors and thus their contribution is not easily estimated. This is especially relevant when measuring alliance success and power balance given the equity contribution in PPPs between larger counterparts and smaller contractors. Future measure of PPP success should consider the role and impact of these entities.

CONCLUSION

This chapter has explored some of the contemporary dilemmas created by particular states as they embark on the PPP solution to a shortage of government funding for major infrastructure projects. The cases illustrate that governments who are supposedly experienced in the development and implementation of PPP arrangements (the state of New South Wales, Australia and its CCT project) are capable of instituting long-term contracts that benefit the contractor but may be blatantly disadvantageous to the polity. After many years of experience with PPP arrangements in Australia such repeated occurrences pose deeper questions of morality and efficacy. In contrast, the involvement of the German national and regional government in the development of the Herren Bridge appears to pose fewer ethical and operational risks even though the cost of the selected alternative was much greater than simply replacing the existing, outdated infrastructure.

In conclusion, the objectives of PPP arrangements are compared to the funding objectives outlined earlier in the chapter. First, PPPs are potentially able to reduce, if not eliminate, costly service deliveries by government-owner operators, although the extent to which the outcomes are more or less efficient than government remains a contentious outcome.

Second, in the case of the CCT, there is clear evidence that the government agency (if not the government itself) felt obliged to use advisers from the private sector to assist the selection of the successful bidder for the construction and management of the CCT. The evidence shows that the advisor contributed 25 per cent of the assessment panel – a very significant contribution by any standard.

Third, the incorporation of "private sector discipline" remains extraordinarily unclear. As noted earlier in the chapter, the meaning of this notion is quite ambiguous and the outcomes of both matters pose the question: "private sector discipline" or "private sector opportunism"? The right of the private sector is beyond question in a capitalist or market-based business environment. However, where the private sector is acting in the place of government, a high standard of transparency might be anticipated; a standard mirroring that of the government agencies charged with the planning, execution and implementation of the PPP. Despite such supposition, the evidence presented is quite different. Hidden behind the shield of a private company structure, the alliance partner is able to hide its financial and operating behaviour even though the task performed is ostensibly for the benefit of the polity.

Fourth, the perceived transfer of the risk may not protect either the public or the public debt from unforeseen events. It is presumed that the operators of the CCT considered their project would be accepted by the public and be used at the level anticipated. It is possible to assume that the private operator did not care whether or not operating goals were achieved because taxpayers were likely to fund the shortfall. It is likely that Adam Smith (1776) would be unimpressed with the role of both government and the private sector in the operation of some PPPs.

In conclusion, this study indicates that despite the failure of some PPPs to deliver on what their advocates have promised, the popularity of such funding arrangements continues to grow (Watson, 2003). It is

clear from the evidence presented that the needs of the polity come a distant second to the financial needs of the state and the private sector provider. Furthermore the apparent skills deficit of the state and the skills superiority and experience of the PPP contractor identified in the cases of this chapter suggest that the balance of power in the development and conduct of long-term PPP arrangements is clearly in the hands of astute, experienced and sophisticated corporations who operate behind the veil of the private corporation. It is thus an impending aim of this study to further explore the dynamics of power and partnership satisfaction in order to develop recommendations of procurement policy for governments and managers seeking to build successful PPPs.

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