

On Public–Private Partnership Performance: A Contemporary Review

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Abstract

Private finance-based infrastructure public–private partnerships (P3s) are globally popular, including renewed interest in the United States, but their performance remains contested. This article explores the meaning of P3 and the notion of P3 success, and points to multiple interpretations of both. It proposes a new conceptual model of the P3 phenomenon, including five levels of meaning: project, delivery method, policy, governance tool, and cultural context. Numerous criteria exist on which the success of P3 might be judged. These are as oriented toward politics and governance as they are toward more traditional utilitarian policy goals concerned with project delivery, or value for money (VfM). Indeed, governments have dozens of different goals in mind. Given mixed international results to date for VfM, it is posited that to the extent that infrastructure P3s continue to show popularity, governments may stress P3 success more on the basis of political and governance strengths, than utilitarian characteristics.

Keywords

contracting, infrastructure development, public–private partnerships, performance, policy

Introduction

Public–private partnership (P3) is popular with governments around the world, including a renewed interest in the United States (Garvin & Bosso, 2008), in China, and among Organisation for Economic Co-Operation and Development (OECD; 2012)

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countries, but its success remains strongly contested. The purpose of this article is to explore what constitutes high performance, and thus “success,” for infrastructure P3s. As Little (2011) observed, we all want satisfactory outcomes from large public projects and to achieve this, they need to be “organized for success.” One of the paradoxes of the last few decades has been the continuity and even growth of infrastructure P3s despite the loud voice of critics. Indeed, there is little doubt about the success of P3s judging on the basis of global interest; the frequency of use in countries such as Australia, Canada, or the United Kingdom; or by the delivery of timely new infrastructure. There has been considerable work undertaken to date on the multiple meanings of P3, more generally, the multi-disciplinary languages spoken by commentators and on the evaluation challenges faced by those interested in assessing P3s as projects or activities (Garvin & Bosso, 2008; Hodge & Greve, 2007; Vining & Boardman, 2008a). Additional work has also looked at arenas such as best practices (Martin, Lawther, Hodge, & Greve, 2013) and P3 performance management systems (Lawther & Martin, 2014). While acknowledging the arguments of reformers, there has been less fundamental probing, however, on the theory of P3 and understanding their performance and relative success. There is a need to better understand the potential causal factors behind why they may be capable of producing better performance compared with traditional arrangements. And yet, before this is possible, we need to more clearly articulate what we mean by “better performance” as well as specifying “better performance . . . for whom?”

This article examines both the meaning of P3 and the notion of P3 performance, and points to multiple interpretations of both. It proposes a new conceptual model through which to view the P3 phenomenon from the perspective of governments.¹ This conceptualization acknowledges the inherently political nature of P3s, and as such, it represents a fundamental challenge to the traditional project-oriented conceptions of P3. As a consequence, the dimensions of P3 success are argued as being as oriented toward politics and governance as they are toward more traditional utilitarian policy goals concerned with project delivery or efficiency. A review of one single dimension of “success” is then undertaken by reviewing the international P3 experience with value for money (VfM) performance. Mixed empirical results are found. The continuing popularity of P3 methods is then discussed and it is argued that governments may be judging the P3 approach as successful on the basis of its political and governance strengths, rather than on its utilitarian characteristics.

This article is divided into three parts. Part one examines the variety of forms and levels of P3, and proposes a new conceptual model² through which to view infrastructure P3s. Part two details the theoretically based criteria for high performance using inspiration from some of the recent literature on “policy success.” Part three reviews some empirical studies of P3 success in terms of VfM experience. Conclusions are then offered and implications of adopting the new P3 conceptualization are noted.

P3s: Definitions and Dimensions

P3s have seen a range of definitions. Garvin and Bosso (2008, p. 163), for instance, defined P3s as “a long-term contractual arrangement between the public and private

sectors where mutual benefits are sought and where ultimately (a) the private sector provides management and operating services and/or (b) puts private finance at risk.” The OECD (2008) defined P3s (or using their acronym, PPPs) as

an agreement between government and one or more private partners (which may include the operators and the financiers) according to which the private partners deliver the service in such a manner that the service delivery objectives are aligned with the profit objectives of the private partners and where the effectiveness of the alignment depends on a sufficient transfer of risk to the private partner. (OECD, 2008, p. 17)

Others have viewed P3 more broadly. Van Ham and Koppenjan (2001) saw it as “cooperation between public-private actors in which they jointly develop products and services and share risks, costs and resources which are connected with these products and services.” Vives, Benavides, and Paris (2010, p. 412) argued that as almost all public infrastructure projects involve the public and private sectors in one way or another, “all projects are therefore a public-private partnership.” And more broadly again, authors such as Weihe (2005) and Hodge and Greve (2007) have placed infrastructure P3s as one of several different families of partnership activities between the two sectors.

There are several crucial concepts here. One concept is “risk.” In almost all definitions, sharing of risks in an explicit way is mentioned as one of the key aspects of P3. This differs from earlier ideas on risk sharing through contracting out/outsourcing arrangements where this was more implicit. Another key concept is “innovation”: the public sector and the private sector have to come up with new solutions and “work together or achieve a common purpose.” More is expected of P3s than just “ordinary” collaboration. There is also a sense of hope that the relationship is a long-term one—and desirably longer than the temporary relationship achievable through traditional “contracting-out” of services. In addition, many partnerships entertain the notion of a certain degree of power sharing while working together jointly.

The long-term infrastructure contract (LTIC) partnership is now prominent. The LTIC P3 is typically organized around a design, finance, build, own, operate, transfer model and involves private sector financing and private sector project management capabilities. The public-private partnership label has come a long distance from its historical origin under the urban development and downtown renewal experience of the United States from the 1960s (Bovaird, 2010). And while conversation about P3s can be complex in the disciplines of engineering and project finance, they remain stubbornly ambiguous, fluid, and slippery in the disciplines of political science, and public policy and administration.

Perhaps the bigger issue here is the need to think about LTIC P3 not simply as a project delivery arrangement but in a more sophisticated way; as a phenomenon (Hodge & Greve, 2013). This view of LTIC P3 is shown in Figure 1. They observe that P3 conversations seem to cover five meanings, as follows:

1. a specific infrastructure project or activity;
2. an organizational form, project delivery arrangement, or a management tool;

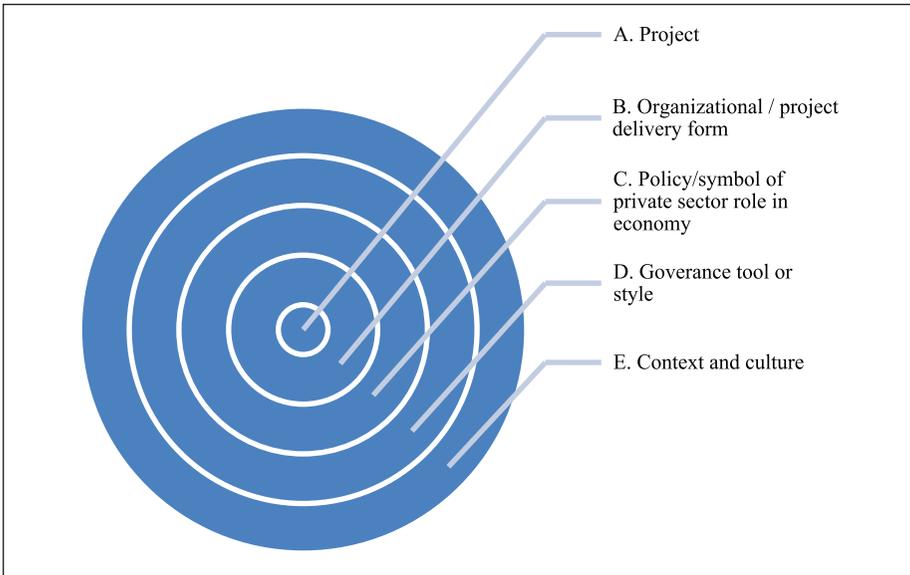


Figure 1. Dimensions to the public-private partnership phenomenon.

Source. Adapted from Hodge and Greve (2013).

3. a policy, statement, or symbol as to the role of the private sector in a mixed economy;
4. a tool or style in the modern governance task; and
5. a phenomenon within the context of a broader national history and set of cultural assumptions.

At the narrowest level (A), therefore, P3 is viewed as a single project. So in Victoria, Australia, the new \$5.7 billion desalination plant is itself “the P3,” and comments about the success or failure of the project amount to comments about P3.³ At Level B, P3 is viewed as a specific type of infrastructure delivery mechanism with a specific institutional and financial architecture in place to initially fund and deliver construction works as well as operate the long-term facility. While conceptions of P3 over the past two decades have covered both public and private financing,⁴ the more recent preference has increasingly seen this delivery architecture assuming private finance, which, it is argued, encourages superior project performance and early delivery. This view is typical of the engineering and project finance disciplines. So, while not an entirely new concept, this level of P3 meaning is typically a delivery mechanism emphasizing the preference for private finance, the bundling of long-term contracts through a consortium and new governance and accountability assumptions. The next conceptual level (Level C) takes this project tool one step further and sets the private finance delivery of P3 infrastructure as a policy preference for a jurisdiction.⁵ Indeed, in some jurisdictions, it may become “the only game in town”⁶ for large infrastructure

development. It may also operate at a wider policy level not as one single P3 type, but acknowledging a wide variety of alternative project delivery options available to governments (all of which may use differing arrangements of public and private sector skills). The list of P3 options presented by Little (2011) or the OECD list of acronyms are manifestations of this. The breadth available here is therefore essentially a policy statement that the private sector has a valid and indeed a major role to play in today's mixed economy, whatever technical delivery option is chosen.

Broadening out again in this conceptual model, Level D represents the degree to which P3 has always had an inherent governance dimension. For a start, the use of huge private contracts with a consortium for delivering high-profile government projects is a strong regulatory tool in governing. While largely within the context of existing planning systems and political processes, the LTIC contract nonetheless plays a central new role. Not only does it shape the choice architecture available to the public, but large economic incentives can also be employed to ensure that the promise of the early achievement of government objectives is met—even for complex projects and in controversial circumstances. P3s can also function as a broader governance tool and mark a particular style of governance. For instance, the Labour government of the United Kingdom throughout the 1990s struggled to develop its relationship with the City of London. But as Hellowell (2010) pointed out, P3 provided the incoming Tony Blair and his “New Labour” government with advantages (p. 310). Indeed, the use of private finance had the “crucial [political] advantage that borrowing undertaken through it did not score against the main calculations of national debt” and borrowing was thus essentially “invisible” to public sector borrowing and investment measurements. Blair’s re-branding of the Private Finance Initiative (PFI) as P3 not only assisted U.K. New Labour in establishing a stronger relationship with the City of London, but international promotion of P3 ideas then enabled this relationship to be cemented (Hellowell, 2010). Both of these political characteristics of P3 suggest that P3 continues to have an inherently political, and thus governance, context as well as any functional engineering or economic meaning. These dimensions are inherently bound together. The P3 phenomenon also exists within a cultural/historical tradition. In Victoria, Australia, for example, the Bracks/Brumby governments (2000–2010) branded a specific set of infrastructure delivery arrangements using private financing as P3. A broader and less partisan view of partnership would have acknowledged that the latest P3 policy is simply the most recent step in a long developmental process in which the delivery of large infrastructure projects using the private sector has been progressively changing through history,⁷ albeit particularly noticeable over the past three decades. They also branded their P3 policy as different to the PFI policy of the United Kingdom. This Australian P3 branding might be contrasted against the traditional affermage model of partnership long adopted in France, or the modern use of the P3 terminology by a country such as the People’s Republic of China. The huge Beijing Line 4 construction project has been labeled as a P3, but the reality is that, it most likely has public ownership of just above 92%⁸ and would by Western analysts be regarded essentially as a “public-public” partnership.⁹ Notwithstanding, this arrangement nevertheless clearly signals new directions in terms of institutional, contractual,

professional, and project delivery dimensions for China. P3 here implies the use of increasingly professionalized project management methodologies in which new commercial, financing and institutional arrangements are being trialed in preference to traditional methods of the public bureaucracy. In this sense, P3 in China represents an important symbolic move to innovate, to commercialize, and to professionalize. At Level E of our conceptual model then, the P3 brand represents change.

The P3 phenomenon is therefore as much a political entity as it is a procurement or managerial entity and P3 decision making and choices are part of the fabric of Western democratic process. But if the P3 phenomenon is so big, then how might we judge if it is successful or not? The next section begins the process of answering this question.

Understanding the Promises of P3s

We are all deeply interested in the success of our own version of P3 and measuring it against the goals which have been set for it. But how should we assess performance if P3 is as much a political project as it is a technical matter? And what might be a suitable definition of the LTIC P3 approach so that we can judge effectiveness?

In concept, partnership performance could be judged at each of the five levels indicated in Figure 1. Relevant lenses on partnership success would therefore range from the narrowest of these perspectives (at the project level), to a broader organizational or project delivery level; and through the policy and governance perspectives to the broadest levels of societal change and benefit. At the narrowest level, the literature is full of claims of project success. We certainly enjoy brand new infrastructure, and when it is delivered to expected standards, this is itself one measure of success. It is certain, visible, and has common-sense appeal. There is also little doubt as to the power of images when it comes to showing off new projects. New court houses, hospitals, roads, and schools have an innate beauty and across the board appeal to our sense that public infrastructure is a core task of government. Indeed, historically, John Major's initial rationale for the birth of the U.K. PFI was the call by the Confederation of British Industries for a large-scale program of infrastructure public works and the ability of private finance techniques to deliver infrastructure without increasing the Public-Sector Borrowing Requirement. It enabled the U.K. government to regain its capacity, at least in the short term, to govern successfully. It also visibly improved the confidence of financial markets and provided financial transactions. In Australia, the historical adoption of P3 policies was driven more by a desire for a less litigious approach to infrastructure provision, along with a professional ethos of "New Public Management" under which all public sector services were being contractualized with stronger specifications. The belief here was that these guaranteed higher performance. As well, with early successes such as Melbourne's CityLink project, private contract law enabled reform minded governments to break through the paralysis culture existing at that time and crash through the delivery of infrastructure priorities (Hodge & Duffield, 2010).¹⁰ In both jurisdictions, too, it was clear that new P3 techniques assisted governments in putting their infrastructure project priorities onto the public

agenda, itself not an insignificant achievement, as well as symbolizing “sophistication” and “the best of both worlds” as projects were delivered to expectant voters.

These P3 characteristics and promises contrast the more frequently repeated technical rationales. Such explicit technical promises have included reducing pressure on public sector budgets, providing better VfM for taxpayers, reducing risk to government from projects, better accountability, better on-time and on-budget delivery, and greater innovation. A range of implicit promises can also be discerned for P3 over the past few decades including encouraging a more innovative public sector, improved palatability for user funding for infrastructure, provision for long-term infrastructure life-cycle costs, and boosted sales of professional P3 services abroad. After recent credit market failures and stock market downturns, perhaps P3 these days is also aimed at governments broadly supporting businesses and preferentially adopting the P3 mechanism in difficult market circumstances (the objective of business assistance) or the broader societal objective of economic development.

Additional objectives are also possible. Indeed, Table 1 articulates two dozen goals of P3 including many which are non-technical or implicit as well as the better known explicit and technical goals. Disciplines may argue over which of these goals matter the most, and the extent to which some goals apply to infrastructure in general as well as justifying P3s in particular. While there is no neat one to one correspondence, and categories overlap, governments clearly expect P3 to deliver benefits across a far wider base than often discussed. What is clear, however, is that many goals are possible for P3 and that these promises span a range of areas from project and technical concerns at one extreme through to political arenas such as policy, governance, and culture at the other. This multiplicity presents a complex challenge for those interested in assessing the worth, value, and success of P3.

Against the many promises of P3, how might we then determine if P3 has been performing successfully? What dimensions might be in such an evaluation framework? This simple sounding question is not so simple to answer. Jeffares, Sullivan, and Bovaird (2013), for example, focused on measuring the performance of partnership through a theory-based evaluation and suggest six “performance domains”: *democracy* (democratic theory), *policy* goal achievement (network theory), *transformation* to produce new public sector behaviors (institutional theory), *connectivity* to stimulate innovation (innovation theory, network theory), *coordination* to achieve synergies (resource dependency), and *coalition/sustainability* to achieve sustainable partnerships (discourse theory). Each is valuable and brings different P3 values into the spotlight. They also explicitly acknowledge “the politically loaded nature of P3s as public policy instruments” and view P3s as both a political and managerial entity. Huxman and Hubbert (2009) likewise saw high performance in terms of multiple dimensions, and Skelcher (2010) argued that the least examined dimensions of P3 have been legal governance, regulatory governance, democratic governance, and corporate governance.

Thinking from a traditional disciplinary perspective, too, there are different kinds of criteria and different values for “performance.” Economists tend to look at economic factors concerning P3, political scientists and public policy scholars are likely

Table 1. Objectives—Both Explicit and Implied to Date.

Objective	Number	Objective/promise made by government
Financial	1	Provides better value-for-money for taxpayers
	2	Reduces pressure on public sector budgets
Project Delivery	3	Provides better on-time delivery
	4	Allows better on-budget delivery (reduce optimism bias, reduce strategic misrepresentation)
Cultural change	5	Allows greater infrastructure (project) innovation
	6	Encourages a more innovative public sector
Policy	7	Enables provision of infrastructure without appearing to increase public sector borrowing
	8	Supports businesses in difficult global market conditions (business assistance/subsidy)
	9	Improves political feasibility to impose user fees
	10	Infrastructure project risks managed away from government
	11	Enables a crash-through approach to delivering public infrastructure projects through the use of private contract law
Governance	12	Be a symbol differentiating a progressive government, and one which optimizes the use of markets and private sector capacity
	13	Helps put infrastructure issues onto the public policy agenda
	14	Improves business and financial market confidence
	15	Improves government financial credentials
	16	Improves accountability
	17	Enables a less litigious approach to public infrastructure provision
	18	Emphasizes project delivery over planning concerns
	19	Eases the business of governing and helps control the public agenda
	20	Enhances electoral prospects
Economic	21	Strengthens broad, societal economic development
	22	Encourages the development of a P3 construction and finance sector
	23	Boosts export sales of professional P3 services abroad
	24	Enables the full life-cycle costs of infrastructure to be provided

Source. Adapted from Hodge and Greve (2013).

to see if the political mandate is being fulfilled, project finance folk assess whether risks are sufficiently rewarded, and sociologists want to know the difference P3 makes at a broader societal level including being clear about who the winners are as well as

the losers. The pioneering public administration work of Waldo (1948) reminds us that despite the attractiveness of “efficiency,” it is “certainly not to be employed as the sole deciding criteria for public policy decisions or public management” (cited in Cooper, 2003, p. 6). Freiberg (2010) looked through a regulatory lens and listed the major dimensions when evaluating government work as simply instrumental values (effectiveness and efficiency) and non-instrumental values¹¹ (such as fairness, clarity, understandability, due-process, proportionality, transparency, flexibility, and accountability.) In addition to these different disciplinary values and criteria, the straight technical challenge presented to the evaluator when assessing the relative success of a LTIC P3 is another dimension of evaluation. Evaluators face six serious infrastructure P3 evaluation challenges: defining the evaluand (i.e., the subject which is put under scrutiny), multiple P3 objectives, multiple discourses and disciplines, the evaluator’s role, evaluative rigor for an individual P3, and accurately summarizing multiple evaluation studies (Hodge, 2010).

Overall, then, there are many dimensions relevant when judging P3 success, and much of our judgment of governments resides outside the project itself or the techniques used to deliver the project. The government’s policy context, its governance style and broader issues of societal culture and history all matter.¹²

So, how then should we understand “political success” for partnerships? P3 political success here is to be understood in the context of democratic governance. While engineers may aim for structural integrity and bankers should focus primarily on the efficient use of capital, the final arbiters of determining the “public value” of infrastructure is politicians in a democracy (Moore, 1995). There are those who think that all projects may be “politicized” in the bad sense of the word, meaning that projects will be influenced by power-seeking politicians without regard to democratic ideas. In democratic theory, however, political success is more connected to achieving political objectives that are reached through a democratic process and therefore democratically legitimate.

While the risk of politicians extracting rents for projects may sometimes be real (see Brinkerhoff & Brinkerhoff, 2011, for P3s in developing countries and the risk of corruption), for politics and democracy more generally, National Audit Offices (NAOs) along with a range of other scrutiny mechanisms and oversight bodies play crucial roles in determining whether P3 projects will be deemed successful. The active work of the NAO (2003, 2009) in the United Kingdom, for example, and the vast number of reports produced to date attest to the fact that the democratic evaluation of P3 success has its proper place.

Judging by the frequency of past use and today’s continued policy attraction, LTIC P3 has been judged by governments such as those in the United Kingdom, Canada, and Australia, as successful. But what is meant by “success?” Like talk of “good” governance and “better” regulation, success is an attractive linguistic (McConnell, 2010). It is not “all or nothing,” though, and governments may achieve policy success to a degree across many fronts. McConnell’s view is that three dimensions are crucial. To his mind, governments *do process* (defining issues as problems, examining options, consulting, and so on), they *do programs* (using a wide variety and combinations of

policy instruments), and they *do politics* (engaging in activities that can influence electoral prospects, maintaining capacity to govern, controlling the public agenda, and steering policy direction; McConnell, 2010).¹³ Clearly, LTIC P3 is intimately associated with all three of these spheres and success can reside in each, as well as having a temporal dimension in terms of durability. These insights on “political success” are central to any discussion on P3 performance.

But with such a broad conception of P3 as a phenomenon, multiple possible P3 models in use, wide ranging performance dimensions across dozens of goals as well as the usual technical challenges inherent in evaluation exercises, there is an obvious question—Is LTIC P3 evaluation tractable? Perhaps, as with any inherently political assessment, the answer lies in acknowledging up-front the breadth of the P3 phenomenon, and the chosen evaluand and then providing as rigorously as possible, another clue to be added to the contested terrain of P3 evaluation. The sobering reality is that a comprehensive assessment across all five levels of the P3 phenomenon model encompassing all promises and using all identified performance dimensions would be impossible.¹⁴ Most real life evaluations do not for an instant contemplate such a complex task; they focus on a few performance dimensions and criteria which they personally regard as important from their own perspective.

Some Thoughts on P3 Performance

Having said this, do we know much about the performance of LTIC P3s today? Actually, no. We contend that, contrary to the repeated advertising claims and popular mythology, we know very little about the performance of LTIC P3s—even at the most elementary levels. Let us take just one performance area to demonstrate this: VfM, as well as looking briefly at on-time or on-budget delivery, and governance. Let us also define LTIC P3s as a delivery mechanism, usually with a bundling of long-term contracts through a consortium, an emphasis on the use of private finance, and with contract arrangements carrying new governance and accountability assumptions. Our analysis can now proceed.

VfM performance reviews such as Hodge and Greve (2009, 2013) suggested a few big lessons. First, despite the considerable experience with the LTIC P3 family around the world, the polarized advocacy and criticism, and numerous professional glossy reports,¹⁵ rigorous performance assessments in terms of the public interest have been surprisingly limited. Independent rigorous assessments have been even scarcer. This has left our judgment as to the performance of P3s disappointingly open. Several assessments of P3 performance have of course been made covering either more general ground¹⁶ or particular P3 concerns,¹⁷ but many have analyzed business case projections rather than measurements of actual costs.¹⁸ Most have also not been particularly rigorous from a statistical perspective, and have failed to employ control groups (Hodge, 2010). The counterfactual of “traditional procurement” has also usually been vague as well, so that such assessments are rendered unreliable. Hare (2013) put it accurately when he remarked that the available P3 evidence is “both weak and mixed.”

If we view success as simply P3 VfM results compared with traditional procurement, the findings of these studies have also been revealing. Reviews such as Hodge and Greve (2009) showed that the evaluation literature comprised three groups of findings. The first is a large group of evaluations showing superior P3 performance compared with traditional infrastructure delivery. Mainly through the calculus of risk transfers, these report lower cost estimates (of up to 20%) compared with traditional procurement. These have been bolstered by reports that P3s were delivered on-time more often (76% compared with 30% for traditional projects) and on-budget (78% compared with 27% for traditional arrangements; Macdonald, 2002; NAO, 2003). An equal sized group of studies, though, oppose this conclusion, and do not support a judgment of P3 superiority. Serious concerns from this opposing group included excessive returns to investors (Vecchi, Hellowell, & Longo, 2010), a VfM appraisal methodology biased in favor of policy expansion, and pitiful availability of information needed for project evaluation and scrutiny (Shaoul, 2005). Even the U.K. Public Accounts Committee of Parliament labeled the public sector comparator (PSC) process as clearly “manipulation.” Ball, Heafey, and King (2007) noted “almost entirely subjective” risk analyses, and the U.K. Audit Commission (2003) “found no evidence that PFI projects delivered schools more quickly than projects funded in more conventional ways.” As well, Pollock, Price, and Playe (2007) criticized the above-mentioned on-time and on-budget findings as having no solid evidence base, stating that “all claims based on [this] are misleading.”¹⁹ A third similarly sized group of studies was also observed. These studies doubt claims of P3 success and conclude that far greater analytical care was required before P3s could be judged as superior to traditional methods. Blanc-Brude, Goldsmith, and Valila (2006), for example, conducted careful regression analyses across EU countries and found P3s were 24% more expensive than our expectations from traditional procurement—ironically, at about the same magnitude of traditional project cost-over-runs.²⁰ Fitzgerald (2004) argued that the size of costs savings claimed in his Australian P3 assessment was largely dependent on the discount rate used (with a lower discount rate suggesting a cost increase of 6% rather than the 9% cost saving estimated using the higher discount rate). Vining and Boardman (2008a) judged only one half of the Canadian P3s reviewed as successes, and Jupe (2009) viewed P3s as “imperfect solutions” for transport in the United Kingdom.²¹ This pattern of contest continues today with practitioners again recently confirming good VfM for LTIC P3s (Eadie, Millar, & Toner, 2013), others skeptical of VfM when practitioners ranked it 17th of 20 potential benefits (Umar, Zawawi, Khamidi, & Idrus, 2013), and yet others continuing their policy criticism with LTIC P3s being headlined “fabulous deals—for all but taxpayers” (Davidson, 2013). As well, concerns continue about the capacity of governments to negotiate good deals on behalf of citizens (Bloomfield, 2006) along with the ultimate affordability of LTIC P3s (Hellowell & Pollock, 2007).

On the alternative broad performance domain, *governance*, there have also been a range of illuminating commentaries. Indeed, questions of P3 governance and the legitimacy of P3s as a governance tool have been just as controversial as matters of project efficiency and effectiveness. On one hand, LTIC P3s appear to have helped governments

regain the capacity to steer the state as far as setting the infrastructure renewal policy agenda and then delivering new infrastructure projects. On the other hand, however, multiple accusations have been levelled—ongoing analytical manipulation with public sector comparisons lacking legitimacy and favoring private finance delivery, decision-making arrangements lacking transparency, large complex commercial deals clearly being done with business partners rather than with citizens also as equal “partners,” traditional methods of gaining access to information and review through Freedom of Information or Administrative Law not now available to citizens under private law contracts, and governments lacking accountability amid multiple conflicting roles.²² Little wonder that Siemiatycki (2007) asked bluntly “What’s the secret?” and Hodge (2006) labeled PFI type P3s “the illegitimate child” of the P3 family (p. 324).

In one sense, perhaps such concerns are not surprising. Governance matters are particularly important in that the public interest needs to be protected despite the delegation of authority to private concerns. But at the center of this governance challenge there is an inherent and continuing tension. As Skelcher (2010) said, tight governance is needed to protect the public interest, but weaker governance is also required to enable risk-taking and innovation, along with incentivized private actor participation. These mechanisms can together provide a fair basis for potential investors as well as a framework that should reduce risks of corruption and opportunism. But P3s equally “raise important issues of democratic governance,” and while “organizations in the public domain are required to account for their activities in the public arena of discourse,” “forms of third party government like P3s muddy the waters of accountability,” and may lead to a “democratic deficit” (Skelcher, 2010). Interestingly, P3s are much like a form of quasi-governmental body, emerging in a multiplicity of forms through ad hoc processes, and frequently a function of executive rather than legislative decision. So to Skelcher, creating effective constitutional oversight remains a priority challenge for P3. Having said this, observers such as Willems and van Dooren (2011, 2012) argued that most P3 accountability concerns are overstated and fail to understand the breadth of today’s multiple and complex avenues through which communities hold governments to account. Perhaps the historical counterfactual of traditional accountability and transparency mechanisms have also tended to be overly optimistic and romantic as well.

Either way, and despite any of the above criticisms or concerns, the attraction and success of P3 as a “buy-now, pay-later” arrangement from the perspective of governments has been visible. Crystal clear in jurisdictions such as the United Kingdom, Canada, and the Australian States has been the support of major political parties, the political pay-offs in terms of project delivery, and the considerable strengthening of the governments’ relationships with city financiers. Despite some visible failures and policy U-turns, there have been clear attractions in the use of P3s by the state in these jurisdictions.

Reframing Our Views on P3 Performance

Perhaps it is time to rethink notions of P3 success. There are several observations to make here. First, we ought to remind ourselves that the P3 phenomenon is a big target

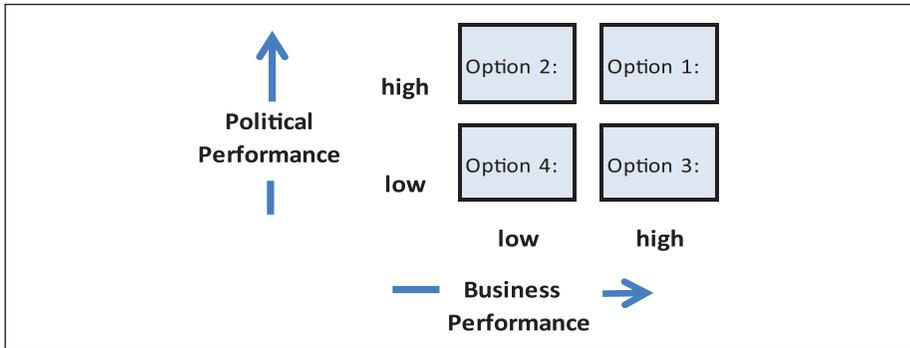


Figure 2. Political and business performance.

in debates. If citizens do not support a particular project, are skeptical about a delivery method, or do not like either the P3 policy more broadly or any government contract condition (such as restrictions on transparency, for example), then P3 is criticized and stands accused of poor performance. On the contrary, if a project is supported or is seen as being well delivered, or perhaps government policies are viewed positively, then P3s are judged as successful. Either way, P3 is a big target, in political discourse.

Second, the question of “success” (or of “high performance”) cannot be resolved without asking “success for whom?” Success may be seen quite differently by the various actors and groups interested in public infrastructure. But let us for the moment view success as occurring simply along two independent axes—the political dimension and the business dimension. P3 projects may therefore succeed or fail in political terms independently of whether projects succeed or fail in business terms. Each of these axes is of course a continuum, but for ease in illustrating this concept, Figure 2 shows four options for success in political and business terms.

One key policy aim of a P3 program is presumably success in the political sphere as well as success for those businesses completing projects as shown in Option 1. This is indeed the ideal if we are to get the best from both the public sector and the private sector together. Furthermore, if businesses are not succeeding through this policy long term, then investors will presumably no longer be willing to continue to invest in P3s. Option 2 represents a P3 project which is politically successful for one reason or another, but which say, because traffic demand or other project risks were underestimated, has resulted in poor financial returns to businesses involved.²³ Option 3 shows the situation where business may well have succeeded (and may have even made super-profits) but either because the public have become aware of this or because excessive government secrecy has surrounded the project, the P3 project is seen by citizens as illegitimate, and thus politically unsuccessful. Last, Option 4 represents the project in which poor financial returns (or even bankruptcy) has occurred to businesses, with the project itself also being unpopular as well. Instead of the best of both

worlds, we have ended up with the worst of both worlds. The important point illustrated here is that a large public–private “performance space” exists, and that political success is in concept independent of business success. And while we might all seek projects in Option 1, we may risk paying an excessive price for this. It is important therefore for governments to know and also make transparent to citizens the financial returns earned on P3s.

It is clear, thirdly, that more than two decades after the United Kingdom’s initiation of private finance as a policy preference for delivering large public infrastructure projects, we still contest the value they provide citizens compared with traditional infrastructure delivery methods. There is no doubt that the auditors have been evaluating P3 experiences more harshly in recent times as well. The NAO (2009) in the United Kingdom, for instance, warned PFI was “one of many routes of delivery,” and that while it “can work well,” it was “not suitable at any price or in every circumstance.” The NAO found financial modeling which was “error-ridden and given undue influence as the basis for decisions,” and in which “too much weight [was] placed upon subjective judgments of risk, which can easily be adjusted to show private finance is cheaper” (NAO, 2009, p. 8). It also explicitly noted the difficulty in properly evaluating the United Kingdom’s use of P3, and stated “[so] government cannot satisfy itself that private finance represents the best VfM option.” Perhaps the U.K. NAO developed more independence in its judgments after the global financial turmoil of 2008? Confirming this U.K. Audit Office theme, the more recent global analysis of Boers, Hoek, van Montford, and Wieles (2013, p. 470) reviewed 48 audit reports from 21 Audit offices internationally. Their conclusion was that “there is still no hard evidence to show that DBFM(O) projects represent the most efficient form of government procurement,” and that while there are potential benefits to be gained from using P3s, “there is no reason . . . to assume that these benefits will automatically accrue.” These analyses follow earlier sobering independent assessments from both the United States (Government Accountability Office, 2008) and Australia (Public Accounts and Estimates Committee, 2006).

Added to this contestation are other criticisms. Davies (2008), for instance, observed that in the case of alliance contracts, Australian governments all direct managers “to achieve value for money, but are silent on how value for money should be measured” (p. 200). VfM is, to him, “a nebulous concept” which “frightens auditors”; Davies (2008, pp. 242, 216). Boardman and Vining (2010) charged that “no government has performed normatively appropriate analyses of P3,” and commented that as well as inappropriate analytical methods, the discount rates in common use are too high, favoring private finance solutions. They also criticize criteria such as “on-time,” “on-budget,” or “VfM” as all “weak,” given that our real interest ought to be on efficiency measured in terms of unit costs, for example. Indeed, if we enquire how many published studies exist which analyze the relative efficiency of P3s on the basis of cost per unit work (such as cost per kilometer), they can be counted not only on one hand, but on one finger. In our reading, Blanc-Brude et al. (2006) is the single exception. Likewise, we might ask how many studies comprehensively demonstrate the amounts paid to bear various levels of risk types benchmarked across delivery

types? Such studies are again rare.²⁴ Moreover, Zwalf (2013) pointed to a diversity of discount rates in use in his examination of 10 jurisdictions across Europe, Australia, Canada, and South Africa, with each jurisdiction having “a unique formula for developing their discount rates.” These P3 performance evaluation concerns are not minor.

Fourth, what is beyond doubt across the globe is the powerful role of political dynamics as well as the crucial role P3 has played in linking governments to the business sector. Indeed, the robust political success of the P3 phenomenon along with continued proclamations of success by advocating governments seem to contrast the mixed empirical performance results we noted above.²⁵ The U.K. government, for example, has now signed up to over 700 projects through the PFI (P3) technique at a cost of well over £63.8 billion,²⁶ and despite many criticisms on technical matters such as poor VfM and loss of face over manipulated business cases, this government has clearly seen its P3 policy as successful. Even the most recent U.K. review (HM Treasury, 2012) was billed as addressing “fundamental concerns” “expressed by Parliament, the public sector and taxpayers”, and yet it simply revised its former PFI policy to become “PF2,” rather than dissolving it or substantially altering direction. Likewise, three successive state governments of Victoria, Australia, have also pushed ahead with a P3 policy over the past decade despite multiple high-level policy reviews, and it continues to be a popular choice in other jurisdictions such as British Columbia and many states of Canada. For advocating governments, P3 success seems to have been inevitable.

P3s have also easily adapted to today’s more turbulent times. Australia, for example, has seen many new P3 projects announced amid a rash of high-profile P3 controversies and failures along with government sponsored reviews of the P3 approach. These have included Sydney’s Cross City tunnel where the private Cross City Motorways company was declared insolvent in 2006, Brisbane’s M7 Clem Jones Tunnel²⁷ where the Rivercity Motorway Limited was placed into receivership in 2011, and Brisbane’s Airport Link where the Brisconnections company was recently declared insolvent. This has led to calls for new P3 directions and current discussions aiming to “re-balance” the risks borne by government on the one side and the business consortium on the other, rather than throw out existing P3 LTIC models.²⁸ There clearly continues to be real benefits to governments to proceed down the P3 road in the face of policy critics. Governments themselves have been happy to provide initiating supportive legislation and regulatory governance arrangements, central P3 units and taskforces, and supporting loan arrangements (e.g., see Boardman & Vining, 2010; Hammerschmid & Ysa, 2010). Put another way, and as we said a few years ago, despite controversial legitimacy and VfM findings, “P3s have usually been politically effective for reformist governments” (Hodge, Greve, & Boardman, 2010). The implication here is that we need to think far more seriously about how P3s contribute politically, and develop stronger analytical frameworks to analyze P3 as a governing mechanism with political payoffs.²⁹

Conclusion

A range of different conceptions of infrastructure P3s exist, and as a consequence, there are different ways to view P3 performance. We concluded that P3 has meanings across five levels—individual project, project delivery method or organizational form, policy or symbolism, as governance tool, and as part of a broader historical context of what constitutes “public” and “private” in a given society. This broader view essentially stressed that P3s are a bigger phenomenon than an infrastructure project. This argument has major implications for how we judge P3 performance.

Our examination of alternative theoretical approaches to determining performance argued that definitions of performance depended on the perspective one took. It may be viewed from on-high (at the societal level) where it included political matters, program (utilitarian) matters, and process (legitimacy) matters; at the project or activity level (where goals and deliverables are judged); or from the level at which one could observe how the organizations combined to innovate, to collaborate, and to transform to deliver outcomes. No single view of success (neither political, nor financial) provided a meta-framework, and both narrow and wide conceptions of success were possible, as well as the traditional views of disciplines such as economics, engineering, political science, or public administration. It was concluded that future notions of success should integrate a sense of what matters across a range of lenses from the political, through the program to the process, as well as technical matters.

We noted some of the existing empirical P3 evidence focusing on VfM performance and confirmed that mixed results exist internationally. This lack of P3 success stands in marked contrast to the usual positive judgments made by advocating governments, however. We also concluded that the future environment will see P3 remaining as a powerful political ideal, with considerable flexibility to evolve to stay useful as a governing political tool. In this light, P3s are likely to continue capturing the hearts of elected representatives. So, to the extent that P3 projects continue being seen as “successful” by advocating governments, their views on success may well be due to their emphasis on the political and governance strengths of P3s over the promised traditional utilitarian project benefits.

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Notes

1. As noted by one reviewer, this article looks at the public–private partnership (P3) phenomenon through an Anglo lens. It also does not attempt to address the matter of P3s in transition economies, a discussion of which would increase complexity manifold.

2. Helpful conceptual models exist in all disciplines. Our proposed conceptual model aims to be useful in two ways. First, it attempts to put engineering elements such as the project itself and relevant associated delivery techniques into the broader world of P3 as a phenomenon, and understand these are part of a modern technology of government. In doing so, the model invites us to step outside the usual engineering or finance view. Second, the conceptual model aims to help us think about the public policy implications of P3 as a phenomenon using a multi-disciplinary lens.
3. Likewise, comments about specific mega-projects such as The Channel Tunnel in Europe fall into this category. The project itself is spoken of as the P3.
4. See Boardman, Poschmann, and Vining (2005).
5. So, as Smith (1999) noted, while Hong Kong successfully delivered several huge (FDBO) road infrastructure projects over the period late 1960s to late 1990s, and the Channel Tunnel project was given its initial blessing by Margaret Thatcher and Francois Mitterand in 1984, it was late in the 1990s when the U.K. government put the idea of private sector financing for major projects “at the very heart of government’s philosophy.” In other words, the late 1990s saw the United Kingdom turning the P3 idea from a project delivery option into a public policy.
6. The preference for private financing as “the only game in town” may be either explicit, as was effectively the case in the United Kingdom, or implicit, where despite formal policy guidelines advertising either public or private financing as being possible, the jurisdiction consistently produces forward project assessments which favor the private finance option.
7. Many authors have written on the rich history of marrying public and private endeavors. Wettenhall (2005, 2010), Bovaird (2004, 2010), and de Vries (2013), for instance, drew on the work of over 300 authors. As Wettenhall (2005) remarked a decade ago, “whatever the new enthusiasts may think, there is nothing new about the mixing of public-private endeavors” (p. 22).
8. Paper presented by G. Hodge to the China-Australia Governance Program, Guizhou Workshop, April 28-29, 2010, titled “Towards Service Oriented Government Through Public-Private Partnership: Some Reflections and Directions for China.”
9. Of course, labels rarely tell the full story. “Medibank Private” is an Australian government health insurer. Established in 1976, it has been Australia’s largest health insurance provider. It was established through the Health Insurance Commission (now known as Medicare Australia), and has operated commercially as a Government Business Enterprise. It was, despite its name, 100% government owned until late 2014. Source: http://en.wikipedia.org/wiki/Medibank_Private
10. This is despite the latter labeling the CityLink project as “an expensive experiment.”
11. Freiberg (2010) reminded us that we expect governments to employ both utilitarian as well as non-utilitarian values in their decision making. He comments that while effectiveness and efficiency are important values in governing, an action or decision by government may well be effective and efficient but “may also be illegal, secret, unfair, or disproportionate to the [size of the problem], and it may affect certain groups in the population more than others” (p. 263).
12. Of course, as one referee pointed out, the development of an analytical frame holding the dimensions of political and governance success in a matrix might be tempting. This has indeed been attempted; see, for instance, the guidance material of the Victorian Government in Australia where a series of boxes, when ticked, guarantees, at least in the eyes of advocating bureaucrats, that “the public interest” has been defined and met. However, reducing politics and governance down to a checklist, to the authors, is not sensible. Such attempts

to define “the public interest” are overly reductionist to our minds and do not help our understanding of political processes nor how we might best influence them toward better infrastructure decisions.

13. McConnell (2010) gave an example of each: flood control in the Netherlands (for utilitarian “programme” success), Australian Prime Minister Kevin Rudd’s historic “Sorry” speech at Parliament House in 2007 following the forced removal of perhaps up to one third of aboriginal children from their families over the period 1910 to 1970 (for success in terms of “politics”), and electoral system reform in British Columbia, Canada (for the case of “process” success).
14. Interestingly, Yescombe (2013, p. 228) concluded that even with a narrower focus, evaluating the effectiveness of P3 long-term infrastructure contract (LTIC) projects on the basis of value for money (VFM) is “virtually impossible.” He notes in his finance discussion comparing the private finance option with the traditional public finance case that “clearly proving the case either way *ex ante* for any particular project is virtually impossible since such a proof depends on unprovable assumptions on risks and costs stretching forward for many years . . . and equally *ex post* proof is also impossible since a P3 project that did happen cannot be compared with a public procurement that did not.” This would seem a remarkable admission at the end of two decades throughout which the greater cost of private finance was justified on the basis of overall cost efficiencies compared with traditional (publicly financed) LTICs.
15. See, for example, Organisation for Economic Co-Operation and Development (OECD; 2008), PricewaterhouseCoopers (2005), Ernst & Young (2007) and Deloitte (2006).
16. See, for example, Hodge and Greve (2007); Berg, Pollitt, and Tsuji (2002); Bovaird (2004); Ghobadian, Gallear, O’Regan, and Viney (2004); Edwards, Shaoul, Stafford, and Arblaster (2004); Grimsey and Lewis (2004); Osborne (2001); Perrot and Chatelus (2000); Pollitt (2005); Savas (2000); Shaoul (2005); and Rosenau (2000).
17. See Flinders (2005); Macdonald (2002); National Audit Office (NAO; 2000); Pollock, Shaoul, and Vickers (2002); and NAO (2009), for examples of P3 reviews taking a more specific focus.
18. Exceptions here include multiple studies by Shaoul as well as Fitzgerald (2004), Allen Consulting Group (2007), Leviakangas (2007), and Blanc-Brude, Goldsmith, and Valila (2006).
19. Difficulties in extracting this research data from behind government claims of “commercial-in-confidence” also amplified the concern that peer review scrutiny was not welcomed because this well-publicized study lacked rigor.
20. This review rightly cautioned against making any further VfM conclusions, however, arguing that life-cycle costs over the longer term were still unknown.
21. Hodge and Greve (2009) judge the “most optimistic reading of the evidence thus far is that it is mixed” and view PFI type P3s as “politically successful but financially dubious,” or as the U.K.’s House of Commons Committee of Public Accounts (2011) aptly put it a few years ago, “PFI deals look better value for the private sector than for the taxpayer.” Bent Flyvberg (cited in Eldrup & Schutze, 2013, p. 24, 105) appears to similarly have a mildly positive but ambiguous conclusion as to LTIC P3 success. He lists five project failures from Australian and U.S. PFI type P3 projects as well as the massive London Underground maintenance firm Metronet in the United Kingdom, and acknowledges “robust empirical evidence is missing,” but then concludes that “in sum, while several P3s struggle to meet their goals, empirical evidence from academia and practice suggests that P3s actually can deliver on their promises to improve project performance, to achieve innovation, and to transfer risks.”

22. Governments face multiple conflicts of interest, simultaneously acting as policy advocate, economic developer, steward for public funds, elected decision makers, regulator over the contract life, commercial signatory to the contract, and planner (Hodge, 2006).
23. We might comment that the very fact that businesses fail on occasions to achieve desired financial returns in one sense proves that risks can be appropriately allocated and borne by private investors. On this basis, the P3 delivery model “works as expected.” Systemic business failures, however, are likely to result in government P3 policy being seen as a failure.
24. Note that the real question with P3s is not on the issue of “sufficient” or “appropriate” transfer of risks and the extent to which such risks were borne, but just what the P3 policy on average resulted in taxpayers or users paying for particular risks to be borne (Siemiatycki, 2014). Demirag and Khadaroo (2013) likewise argued that “the important question to ask “is whether the premium paid to the private sector for P3 projects is worth the amount of the risk transferred from the public sector to the private sector” (p. 442).
25. The NAO’s (2009, p. 4) review in the United Kingdom reported after a dozen years of PFI experience and followed 72 VfM reports to Parliament. Telling was the fact that it neither reported the PFI model as giving consistently high performance, nor did it see high performance as a major driver for ongoing PFI work. Instead, it noted that “th[e] drive towards using private finance is in part driven by Government officials’ belief in its benefits” as well as “a less commendable zeal for off-balance sheet solutions which have not appeared in statistics of Government debt.” The overall view of the United Kingdom’s National Audit Office (NAO) was modestly supportive, stating that “private finance projects normally deliver what is asked of them” and “that private finance can deliver benefits” but as well as the comments already noted in this paper, the NAO commented explicitly that “institutional incentives have encouraged the use of private finance.”
26. See Hare (2013) and Hellowell (2010).
27. The projected number of vehicles traveling through Brisbane’s Clem Jones Tunnel was reported to be 21,178 vehicles per day rather than the 60,000 vehicles projected (Heger, 2010).
28. It is important to acknowledge that the recent construction of Victoria’s \$5.7-billion desalination plant was greeted with suspicions on the opposite grounds—that private investment returns granted have been excessively generous. This project deal was born in the midst of the 2008 global financial credit crisis, and on this basis demonstrated the political will to continue with the P3 approach for iconic projects and a willingness to support this approach with taxpayer resources in difficult financial times.
29. Having said this, we ought to remember that not all governments have taken the P3 policy road. Many have not, and Scandinavian countries such as Denmark and Norway on one side of the globe and New Zealand on the other exemplify those who have strongly resisted such attempts historically. As Greve and Mörth (2010) stated, “governments in Scandinavia mostly steered clear of promoting P3 policies” because in their view, these countries were under little financial or political pressure to spend beyond their means (p. 454).

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