Can cross-sectoral collaborations be structured to deliver public value more effectively on a large scale?

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Public–Private Partnerships (PPPs) are collaborative organisational structures supported by public, private or even non-profit partners who agree to share risks, resources and decisions in building and implementing certain projects. PPPs have been used by many governments as collaborative models to attract private sector financing or bring in private sector operational capacity, for medium to large-scale projects. This has typically resulted in governments ceding operational control over key assets while sharing some financial risks.

**Singapore’s Experience**

PPPs are not new to Singapore. Singapore has utilised PPPs as vehicles for various projects, including water treatment plants, waste disposal plants and education infrastructure. The largest PPP to date is the Sports Hub, which brings together private bank financing for the Sports Hub Consortium to build and manage Singapore’s key national sporting facilities, with an annual payment by the Government for use of these facilities.

While the Sports Hub PPP won several international awards, it also prompted a re-assessment of how PPPs should be structured. This was in part due to the financial crisis in the late 2000s. Even though the private sector had ostensibly taken over the construction of the Sports Hub, further loan support from the government was required during the crisis. Singapore’s experience with the Sports Hub is not unique. Taiwan’s high-speed rail system, also a PPP, required government support when there was a reduction in passenger use during the crisis, and the PPP could not meet debt service payments. This underscores the point that private sector financing can be quite tenuous, and that the private sector does not always have as much capacity as the government does to undertake the higher level of funding risks associated with these large-scale infrastructure projects, or absorb risks associated with uncertain future revenue streams.

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Furthermore, unlike some developed economies with large public deficits, Singapore has often run budget surpluses. There is adequate fiscal space for the construction of the sports facilities. With its strong fiscal balance sheet, the Singapore government is also able to raise funds from the market easily, at lower interest rates compared to the private sector. This would have made more economic sense than requiring private firms to raise finances. Arguably, under these circumstances,
a more straightforward model would be for the Government to finance the construction of these facilities, and contract them to a managing agent upon completion instead.

Finally, the construction of the Sports Hub was also much delayed due to a variety of reasons, including cost overruns. The case for PPPs in Singapore thus appears further weakened.

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Fresh Perspectives for PPPs
Nevertheless, new perspectives are emerging. Governments may have the financial strengths, but may still want to engage the private sector for the purpose of fostering innovation and competitiveness. Importantly, PPPs offer opportunities for the state to co-create with the non-state sector, sometimes even converting liabilities for the state into valuable social assets.

Another important and emerging perspective is that the state should not view ex post facto negotiations or re-negotiations of a PPP as a failure. No amount of prior contractual negotiations can possibly cover all scenarios over the long lifespan of a project. In fact, problems associated with PPPs — delays, financing renegotiations, subsidies, etc — are also present in state-owned projects. Internal government bureaucracy re-negotiates resources, responsibilities and outcomes all the time. It is unrealistic to expect otherwise when dealing with private sector players.

Thus, a successful PPP needs to be developed as a flexible organisational and financial model along a risk curve (project complexity and risks over time). There should not be a “template mentality”; one should be thinking about a PPP toolkit instead. It is important for the PPP model to be flexible enough to evolve over time, while ensuring sufficient certainty for private sector partners and governments alike. This calls for a different set of skills for public sector officials.

What Skills, Resources and Capacities are Needed?
There are at least four skills required to develop PPPs: political management, negotiation, financial structuring and innovation.

First and foremost, we have to recognise that PPP decisions are based on necessity as well as political considerations. By necessity we refer to the need to improve or expand the government’s financial or operational capacity to deal with a public policy problem. This is the problem statement. The government will then have to decide if it is worth the resulting political risks when the private sector is brought in to help solve a public problem.
Second, good negotiation skills are necessary. Public sector officials need to properly communicate with stakeholders, and have a good appreciation of the motivations and incentives of various parties. The common denominator of a successful PPP is a partnering government employee with multi-sector experience (public and private). A civil service with only lifelong career officials may have more challenges creating and implementing successful PPPs.

Through innovation and creativity, government can reduce the need for private sector financing, thus reducing risks. The financial structuring of PPPs is more about assumptions than models. In selecting and evaluating PPP projects, the emphasis is too often on the successful completion of the design and construction phase as defined by an on-time and on-budget outcome. Rather, it is more important to test out financing assumptions, and enter into a PPP knowing what the worst-case scenarios are for the state. Similarly, select and manage projects whose programming of public activities minimises, if not avoids, the soft cost of an annuity of liabilities/subsidies.

New York’s Central Park Conservancy and Bryant Park Restoration Corporation are great examples of how PPPs created and managed by the private sector can introduce innovation and competitiveness to public assets through collaboration with the public sector.

In the 1970s, New York’s Central Park¹ and Bryant Park² had become liabilities to the city. They were relatively unsafe, their facilities deteriorated, and the surrounding residential real estate and economic activity were in decline.

These very different public spaces were converted from liabilities into major tourist, real estate and community assets through two different types of PPPs. New York retained ownership of the parks but transferred operations to the privately financed and managed non-profit Conservancy and Corporation. The results have been startling increases in the assessed value of the areas surrounding the parks, one primarily residential, the other commercial.

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1. http://www.centralparknyc.org/about/
Finally, enter into a PPP only when there is a genuine potential for non-state innovation, instead of just depending on promised efficiency gains.

**Framing PPPs Towards More Complex Issues**

There are three key concepts associated with the formation of PPPs. The most important is to properly frame the problem. The second is the identification, analysis and organisation of the partnership’s stakeholders. The third is the use of a set of PPP tools rather than a template to complete the formation of the partnership. Such a toolkit would include financial structuring skills such as the development of key assumptions that will impact use and revenue projections, motivations and incentives of stakeholders, and negotiation issues.

The best example of a fundamental asset is water — a simple, essential asset. Water desalination in Singapore, as a PPP, is a more straightforward construct since outcomes like quality and quantity are easily measured. The nation’s high-income level also ensures that most will find water affordable. Of course, the same water in other countries could also involve very complex PPPs; it may be necessary for the water to be treated, protected, distributed and accessed by huge populations.

The challenges associated with improving public health outcomes are typically more complex than providing adequate and safe supplies of drinking water. Healthcare requires a system or network of assets: facilities for prevention, diagnosis, treatment and long-term care. Maximising the outcomes associated with these assets may not necessarily be a function of cost and investment. The innovation may be in terms of the public and private configuration of these assets. Even when resources and interests become aligned to support improved public health, behaviour and culture may present serious obstacles.

It may be therefore better to frame the problem as delivering superior healthcare outcomes, rather than one of the Government purchasing services. As healthcare often reflects complex underlying social challenges, it becomes useful to bring in different perspectives. Ideally, the framing of

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The best way to realistically approach the formation of a PPP is by understanding the type of asset and public-policy problem that is the focus of the PPP. Essentially, all PPPs are best understood as either fundamental or complex assets. Fundamental assets can have either simple or complex structures.
PPPs must shift from one where the state co-opts the private sector to provide financing and solutions (another form of outsourcing), to one where state and non-state actors come together to solve complex social problems.

An example can help illustrate this point. A traditional form of PPP might involve a design-build-finance model, where the private sector builds a hospital to meet the demand of a public authority. However, this would create incentives for the operator to increase demand for hospitalisation. If the PPP contract does not allow the operator to charge for the increase in demand, there would be incentives to cut back on services.

A different form of healthcare PPP could instead create incentives for the operator to meet healthcare outcomes; for example, to reduce the incidence of non-communicable diseases like obesity or diabetes amongst the population. Once the problem is framed differently, other potential stakeholders could emerge. This will then change the operator’s incentives towards finding solutions for public education, early screening and monitoring. Again, the key is to frame the challenge properly.

A number of countries are evaluating changes to their use of PPPs, focusing on an amalgamation of economic and social PPP structures. These changes will require a more explicit recognition of subsidies and risks by the public sector. It will be the public manager’s primary responsibility to allocate the opportunities associated with a PPP (revenue, efficiency, capacity) against the risks (financial shortfalls, underserved populations, environmental changes and political decisions).

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Conclusion

PPPs have worked well in many countries but have also attracted critics. Too often, critics charge that governments have entered into PPP agreements that lead to pressure to re-negotiate financial terms when financing conditions deteriorate, when revenue streams do not materialise or when costs overrun. However, this line of criticism conveniently ignores the fact that government-owned projects often also face cost overruns and poor management, resulting in additional project subsidies. The key difference here is that PPPs, involving private sector actors, often result in these subsidies being made very explicit. This may attract greater political controversies, but it does not necessarily imply weaker governance.
In all likelihood, PPPs will become a permanent part of the public sector landscape. There are financial and non-financial reasons driving this. Even in Singapore, a fiscally healthy country, there could be greater reliance on PPPs in the future. The population is ageing, and trend economic growth is slowing as a result. Fiscal space will become tighter in the future. Coinciding with this, there will also be more ageing infrastructure (economic or social) that would need to be replaced. PPPs offer opportunities to introduce innovation into the financing and management of government assets and services.

As Singapore works to improve its evaluation and strategic use of, and expertise in PPPs, it can also become a valuable PPP hub for the region where there is a great financing need for infrastructure. As a potential partner, Singapore brings distinctive strengths.

Its access to capital, expertise and experience in the development process are well known.

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Singapore should build PPP capacity while it still does not really require it from the fiscal standpoint, and when it still has luxury to experiment and learn. It may stand to reap good rewards in the future.

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