

# Improved PFI/PPP service outcomes through the integration of Alliance principles

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## Abstract

This paper explores management and governance of private finance initiatives/public private partnership (PFI/PPP) projects via the integration of Alliance concepts into the typical concession agreements. In this context, appropriate governance is defined as achieving and improving long-term service outcomes. This paper presents the findings of a study that has investigated aspects of contract structure, risk management and those features of concession agreements that drive service behaviour. The study entailed industry surveys and the analysis and comparison of infrastructure projects in Australia. The findings give rise to contributions and impediments to the successful governance of PFI/PPP projects through structuring agreements to achieve improved value for money.

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## 1. Introduction

Recent private finance initiative/public private partnership (PFI/PPP) projects implemented in the developed world have focussed heavily on achieving value for money (VfM) outcomes for governments through the application of robust processes. Robust processes have been articulation of clear service obligations through output style specifications ([Appendix 1](#)). Commercial benefit, public interest and community acceptance are tested through the project procurement and bidding processes and are rectified contractually with terms and conditions that clearly detail service charge regimes, risk allocation and the expectations of all concerned at the time of contracts are signed. Ongoing behaviour of the participants and incorporation of any nec-

essary changes are managed through the administration of these contracts. This ongoing management is in its infancy and equitable. Transparent techniques of management are still being developed.

PFI/PPP contracts are long-term agreements that, by their nature, require flexibility to ensure that appropriate service outcomes are achieved over the full duration of the agreement. Changes are inevitable, yet processes for the ongoing management, governance and control related matters associated with sustaining the initial VfM objectives are still developing. In this paper, governance and control is defined as achieving and improving long-term service outcomes.

This paper outlines current PFI/PPP governance processes and details specific areas the taxpayers expect through long-term government involvement and regulation. A number of areas of debate are identified and inclusion of Alliance contracting concepts is proposed as a mechanism for future improvement. Alliance concepts are explored and tested through surveys of clients and providers of PFI/PPP projects to quantify the perceived area of weakness and potential mechanisms forward. Long-term issues

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with respect to risk, sustainability of the initial VfM, and facilitation of a process to manage changes have been analysed through a series of case studies investigating a number of transport projects. The focus of this analysis is to maintain and improve service outputs for PFI/PPP projects.

**2. Long-term issues and flexibility**

*2.1. Current PFI/PPP governance approach*

Current PFI/PPP processes for the evaluation and establishment of long-term outcomes are similar in jurisdiction such as the United Kingdom, Canada, The Netherlands, South Africa and Australia. The overall approach is similar to the process detailed in Fig. 1 [1–3] where a business case establishes the need for the project and a community’s interest is quantified and tested via either an implicit or explicit public interest test. The financial benefits of the project are quantified through the establishment of a reference project and measured via a tool called the public sector comparator (PSC). The required service outcomes are specified in terms of an output specification that is released during the bidding process as part of the project brief and request for tender.

The expectations detailed in the project brief and request for tender are ultimately translated into terms and conditions of hard money contractual agreements involving both the performance standards expected and the financial structuring of the PFI/PPP. These terms and conditions establish the ground rules for ongoing governance. The PSC has been used to:

- (a) Quantify that the decision to adopt a PFI/PPP procurement strategy is appropriate.

- (b) As a reference by which testing and comparison of tender submissions can be performed.

The PSC is therefore a most important measurement of VfM and thereby warrants closer evaluation in terms of the appropriateness, or otherwise, of relying heavily on this measurement in the establishment of the dynamics for long-term management of a PFI/PPP contract.

One of the most recently released policies is that of the Australian Government’ Department of Finance and Administration [4] states that PFI/PPP should be used where it can offer superior value for money outcomes relative to other procurement methods. In this context value for money is the best available outcome after taking account of all benefits, costs and risks over the whole life of the procurement. The VfM test is a comparison of the private PFI/PPP proposals against the PSC which consists of three core elements. They are raw cost; competitive neutrality adjustments; and risk (transferred and retained) [5]. Similar measures are adopted by other jurisdictions (Appendix 1). Most of relevant measurements include that the PSC develops and prices a reference project that incorporates an assessment of innovation, risk transfer, improved asset utilisation and service outcomes and management synergies (Appendix 2). Questions remain about the appropriateness of using the PSC as a complete test for value and appropriateness of PFI/PPPs.

*2.2. The appropriateness of the PSC*

Major issues relating to the application of the PSC are:

- The PSC is limited in its quantification of value.

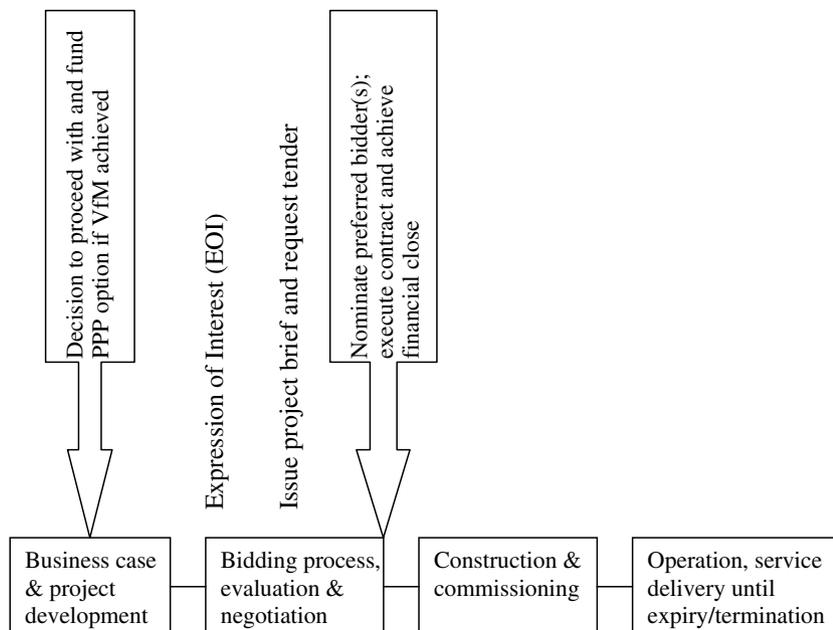


Fig. 1. PFI/PPP relationship continuum.

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