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Risk transfer and stakeholder relationships in Public Private Partnerships

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ABSTRACT

Drawing on stakeholder theory, this study seeks to gain an insight into the stakeholder management strategies used by the Procuring Authority in Irish road Public Private Partnerships to manage its complex stakeholder relationships.

Based on interviews with 38 key stakeholders the findings of this study indicate that the allocation, transfer and management of risk impact on the quality of stakeholder relationships. A proactive and somewhat accommodating approach is used by the Procuring Authority in its relationship with the Special Purpose Vehicle, while there is some evidence that collaborative relationships exist between the public sector bodies responsible for allocating risk.

1. Introduction

Public Private Partnerships (PPP's) can be defined as 'cooperation between public and private actors with a durable character in which actors develop mutual products and/or services and in which risk, costs and benefits are shared' (Klijn & Teisman, 2003, p.137). PPPs are often advocated on the premise that they provide better Value for Money (VFM) than traditional procurement (Demirag, Dubnick, & Khadaroo, 2004; Demirag & Khadaroo, 2008; Nisar, 2007; Reeves, 2011; Shaoul, 2011) by transferring risk to the Special Purpose Vehicle (SPV) as well as resulting in improved design and more efficient work practices (Grimsey & Lewis, 2005; KPMG, 2015). In order to obtain VFM, risk should be allocated to the party most adept at managing it (Department of the Environment, Heritage and Local Government, 2003; Department of Finance, 2006; Demirag, Khadaroo, Stapleton, & Stevenson, 2012) therefore it is important to understand how risk is allocated, transferred and managed in PPPs. In terms of understanding these risk related issues in PPPs, recent research concentrates primarily on public sector and/or financiers' perceptions of risks (Akinyemi, Ojiako, Maguire, Steel, & Anyaegbunam, 2009; Asenova & Beck, 2010; Demirag et al., 2010, 2011, 2012), which only provides a partial understanding of risk in PPPs. Prior work has generally focused on relations developed between the public and the private sectors in risk transfer and/or its management (Demirag et al., 2012; Edwards & Shaoul, 2003; English & Baxter, 2010; Iseki & Houtman, 2012). Previous empirical work fails to explore different stakeholder relationships within PPPs such as the relationships between the public sector bodies in the roads sector, which is a significant lacuna in the literature given that it is the most dominant sector in terms of European PPP expenditure (European PPP Expertise Centre, (EPEC) 2014).

Prior Irish PPP research has examined aspects of risk and stakeholder relationships in educational PPPs (Petersen, 2011; Reeves, 2008). Using a multi-level governance approach, Petersen, (2011) found that public sector stakeholders had conflict-

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ing objectives and while Reeves (2008) refers to risk transfer, his work focused primarily on the contractual relationships between the public and the private sector and the contractor and schools in educational PPPs (Reeves 2008). This paper builds on this existing work and examines the perceptions of multiple stakeholders in toll road PPPs through the use of stakeholder theory (Jawahar & McLaughlin, 2001; Mitchell, Agle, & Wood, 1997) and provides an insight into how public and private sector stakeholders are managed by the Procuring Authority in Irish road PPPs. There is some evidence to suggest that the allocation, transfer and management of risks may have a significant bearing on the quality of stakeholder relationships in PPPs (English & Baxter, 2010; Norton & Blanco, 2009; Reeves, 2008). This paper thus seeks to examine:

1. How risks are allocated and managed in Irish toll road PPPs and how this impacts on the quality of relationships between the public sector bodies.
2. How risks are allocated and managed in Irish toll road PPPs and how this impacts on the quality of relationships between the Procuring Authority and the SPV.

The rest of the paper is organised as follows. The next section outlines the Irish roads sector with its key stakeholders. Section 3 examines the allocation, transfer and management of risk in PPPs, with previous empirical work in this area provided. Section 4 outlines the theoretical framework and explores the relationship between the public sector bodies responsible for PPPs and the relationship between the Procuring Authority and the SPV. In Section 5, an overview of the research methods is provided. Section 6 presents the empirical findings where we examine the relationships between the Procuring Authority (National Roads Authority (NRA)) and the SPV and the Procuring Authority and other public sector stakeholders in the PPP process such as the Department of Transport Tourism and Sport (DOTTAS) and the National Development Finance Agency (NDFA). Quotations from the interviews are provided where appropriate to support the findings. The implications of the findings for VFM and taxpayers are then discussed in the final section.

2. PPPs in Ireland

This section discusses the introduction of PPPs in Ireland and outlines the key stakeholders involved in Irish road PPPs.

2.1. PFI and the adoption of PPPs in Ireland

The concept of New Public Management which evolved in the late 1970s/early 1980s (Hood, 1991) involves a market type model, utilising the private sector more in the delivery of public services. The modernisation of the public sector was central to the ideology underpinning New Public Management (Connolly, Reeves, & Wall, 2009; Demirag, Khadaroo, & Clark, 2009; Lapsley, 2009), with the emphasis on achieving closer cooperative relationships between the public and private stakeholders (Wettenhall, 2007). Relationships between stakeholders from both the public and private sector, particularly in terms of sharing risk, were a cornerstone to Labour's 'Third Way' philosophy in the United Kingdom (UK) (Broadbent & Guthrie, 2008), with the Private Finance Initiative (PFI)[1] a prime example of where this occurred (Jupe, 2012). Implemented in the 1990s to improve roads, schools, prisons and hospitals, PFI was pivotal in terms of modernising the UK public sector. Upon assuming office in 1997, Labour reinvigorated the PFI programme and rebranded the PFI, resulting in the term PPP becoming more commonplace, with PFI included under this definition (Shaoul, 2005). Using the UK PFI model as a blueprint, the Irish Government introduced PPPs in 1999 (Demirag & Burke, 2013), based upon the premise of achieving optimal risk transfer and obtaining VFM (Department of Finance, 2007).

PPPs were initially implemented across a range of sectors such as roads, waste management and education by the Irish Government (Reeves & Ryan, 2007) who have produced two National Development Plans, 2000–2006 and 2007–2013 (see Fig. 1) which outline their proposed investment in Irish roads. A recent report by the Irish Business and Employers' Confederation (2013) has highlighted the need to improve Ireland's infrastructure, advocating that PPPs play a vital role in improving the country's roads (Irish Business and Employers' Confederation, 2013). Ireland's initial PPP roads programme yielded €2.1 billion in private sector funding (Irish Business and Employers Confederation, KPMG, 2011). Furthermore, Ireland was 7th with regard to the value of PPP deals across Europe in 2014 (EPEC, 2014) and in terms of Irish PPP expenditure, the roads sector accounts for the majority of the outlay (Demirag & Burke, 2013), with €4.345 billion invested in Irish roads by April 2013 (Reeves, 2015). Recent initiatives outlined by the Irish Government to stimulate PPP roads investment included the Government Infrastructure Stimulus Plan. An €850 million investment is expected in three PPP roads projects under Phase One of this plan (Department of Public Expenditure and Reform, 2012): The M 11 Gorey to Enniscorthy PPP project includes the construction of the Enniscorthy Bypass with 26 km of existing road also being converted into motorway; while the N25 New Ross Bypass project involves building a new 13.6 km road accompanied by a new bridge; The N17/N18

[1] Connolly and Wall (2009, p.1) define PFI as when 'a private sector organisation usually undertakes to design, build, finance and operate a property in order to provide the required service demanded by the public sector body responsible for the ultimate delivery of service'. Although many countries have adopted broadly similar policies to the UK's PFI, the PPP arrangements differ internationally (Demirag, Khadaroo, & Stapleton, 2015). PPPs involve a vast array of partnership models between the public and private sectors including joint ventures and public social private partnerships therefore the scope is a lot broader than the PFI (Roy, 2008).