Qualified Accolades as Government Crosses the Public-private Divide

Economics & Deregulation | Alan Moran

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Public Private Partnerships (PPPs) worldwide are redefining the frontiers between public and private provision of infrastructure. Victoria has seen their profile raised with the planned partnership for the Scoresby Freeway. This project has assumed notoriety both from its escalating costs and the ambiguous government messages about whether it is to be paid for by real or phantom tolls.

PPPs extend the traditional sub-contracting of private providers in government project development. They provide finance and can also incorporate design, management, building, maintenance, and operation. Usually the deal involves governments leasing the facility and eventually gaining full ownership.

As well as roads, PPPs finance, airports, phone links, court houses and myriad other pieces of infrastructure that allow us to trade, travel, talk and litigate. Governments traditionally provided these capital structures with their own funds.

Harnessing private sector skills and approaches to public provision is always likely to bring cost savings. Better value for money is obtained partly by opening projects to the greater scrutiny that is inherent with commercially provided finance, and partly through putting pressure on trade union monopolies.

In Australia, State Labor Governments, anxious to avoid antagonising trade unions loudly claim to have 'no ideological presumption that either the private or the public sector can deliver projects more efficiently or effectively'. That said, the key saving is from trying to avoid the sort of wasteful work practices presently under the spotlight in the Cole Royal Commission.

As illustrated by continued delays with the Saizeriya food factory and a slew of other operations, Victoria is particularly susceptible to union pressure in construction projects. PPPs offer the potential for hard-nosed private sector operators to counter indulgent working conditions, which in the past were responsible for massive cost over-runs on government projects. Indeed, in the UK, which like Australia has a 'no ticket no start' union culture on building sites, lower construction costs have been crucial in bringing a claimed 17 per cent cost savings from PPPs.

Not surprisingly, union leaders have tried to discourage partnerships, which they see as threatening the practices which, though wasteful, contribute to their power base.

As a result, Australian ALP State Treasurers are walking a tightrope between seeking savings and placating their union allies. For this reason, for the time being Victoria has quarantined their major school expenditures from the PPP concept. NSW however has not seen the need to make this exclusion..

Political opposition has contributed to these partnerships experiencing a slow start in Victoria. The $500-900 million Spencer Street station redevelopment is the only project of substance that has reached approval stage. That said, one PPP not normally mentioned by the present Victorian Government is the highly innovative $1.8 billion City Link project (it was, after all, a Kennett/Stockdale initiative).

Victoria's legacy of inefficient government built infrastructure projects contributed in the early

1990s, to downgrades in the State's credit rating and a generally moribund economy. Infrastructure projects in the pre-Kennett/Stockdale era included excessive costs of electricity and gas facilities and roads like Melbourne's south east 'arterial' with its in-built inefficiencies designed to leave it uncompetitive with union dominated public transport.

PPP systems plan to prevent such waste with rigorous procedures in place both to solicit projects from the private sector and to test costings for new infrastructure between government provision and different forms of private ownership.

However a lingering anxiety about PPPs concerns the new-found source of funding they offer to government. While in the past a new police station was financed out of current revenues, it can now be paid off on hire purchase. This adds weight to other troubling trends. Over recent decades, privatisation and out-sourcing have reduced the call for government spending on infrastructure, reflected in lower relative levels of State Government investment. Australia-wide this peaked at 4.8 per cent of GDP in the late 1970s and is now half that share. Yet the aggregate size of State and local government has increased from around 16 per cent to 20 per cent per cent of GDP.

In other words, a diminished call on public expenditures has not been matched by downsizing public sector activity. Always reluctant to hand back money to those from whom they have taken it, State and local governments have boosted their expenditures to fill the gap left by activities they have exited.

PPPs offer politicians more scope to spend in areas which offer political dividends while seemingly not increasing the level of government spending. This requires increased sophistication by budget-watchers and credit rating agencies to measure government spending over time on a consistent basis.

It is due to these sorts of considerations that Public Private Partnerships deserve just two and not three cheers. But for its two cheers, the partnership approach offers the prospect of considerable savings in public money.

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