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Beyond Contract

What makes a PPP successful?

Stephen Reeve with Warren Hatter

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foreword

Partnerships are now a well established way of going about delivering public services. Many of these are public-private partnerships (PPPs), where the private sector helps in different ways to deliver services. These range from fairly simply outsourcing of single services – blue or white collar – to complex strategic service delivery partnerships that often involve a number of different services and a contract that spans a good number of years. Other forms of partnership include public-public ones – where two or more public agencies join together to help deliver services – either off their own bat or with a third (often private) party.

Much of the focus of thinking and analysis around such PPPs has been up at the front end of the process. How does the client go about specifying what it wants? How should contracts be written and appropriate risk allocation and sharing be sorted? How soon should the client go to preferred bidder stage rather than keeping two or more competitors in the running?

But just as important in genuine 'partnership' PPPs is how these partnerships run post contract signing. For if the public are to rely on a contract that runs for 5, 10 or even 20 plus years, they need to be assured that we know how to manage such long relationships.

This study is therefore not only important but pretty seminal in having as its focus the issues that arise in the real world post contract signing. Its unique ability to tap into the experiences of operational managers of actual partnerships gives very important insights into what the issues are.

One insight is in fact just how important it is to really have bottomed out all of the key issues right at the start. If you have not bottomed out the problems, gone for the hard questions and conflicts, rather than sidestepping or ignoring them completely, then you will have made a mistake and they will come back to bite you, very painfully, later. A well-functioning, on-going partnership cannot be built upon shaky foundations.

But such success up front is not a sufficient condition for ensuring success. This report reveals a number of insights into the process and practices of making partnerships work.

Some of these are not that surprising while others open up new area of thinking and enquiry. It is clear for instance that in the minds of those operating them, PPPs go through a number of phases – particularly if they are to have a long life – in each of which different stresses and tensions are likely to arise. So different skills and focus are needed at different times.

Linked to this, it is noticeable that the day to day managers often take over after all those – on both client and provider side – who were involved in setting the original vision, purposes and governance of the partnership, have left or moved their focus onto other things. Keeping the dynamics going is difficult but essential.

This report does not pretend to offer a fool proof way to success on PPPs. But it offers many pointers to issues that need to be taken into account, to be watched, supported and monitored, so that partnerships continue to prosper.

PPPs are an increasingly important part of the way that we deliver and receive public services. It is vital that we work hard on making sure that they work to increase the quality and cost-effectiveness of public services. That means that more focus from government, from advisers and from councils and other public service providers themselves needs to be on how to make these partnerships deliver well over the full period of their existence. This report begins that journey.

Dan Corry

Director, New Local Government Network

1 practitioner insight into public-private partnership

This pamphlet contributes to the debate on, and around, public private partnerships (PPPs). The authors are acutely aware of the heat which the debate engenders nationally, and of the passionately held beliefs and political stances. This analysis attempts to fill a different space however, and is an attempt to show how working in partnership is perceived from the inside, particularly from the point of view of those managing these new structures and processes. The findings are relevant to policy makers, to organisations already in partnership, and those considering partnership activity.

The content comes directly from practising managers. A set of research techniques allowed them a voice and the space and time to articulate their experience, around the central question: 'What makes a PPP successful?'. Given the opportunity to air their views and talk with each other frankly as members of a practitioner community, the themes resulting from their conversations are to be found in chapters 4 to 8. These chapters identify the key attributes of good partnership from the practitioners' viewpoint; and demonstrate ways of achieving each set of attributes at different stages in a partnership. We hope that practitioners will borrow and learn from these 'do's and don'ts'.

As the research progressed, it became clear that we were able to learn a lot from the way that practitioners tell the 'locker-room stories' that have informed this report. These findings are discussed in chapter 3. They shed new light on the partnership experience, and are of real interest to policy makers.

National context

PPPs and private finance initiatives (PFI), in their various forms, represent a significant section of UK public sector capital spending. Absorbing between 10% and 15% of such spend (HM Treasury, 2003; Spence, 2003), these forms represent a new force operating within a traditional dichotomy of directly managed or contractually procured assets and services. PFI programmes in local authorities have increased in value since 1997/8. By March 2003 over £3bn of PFI Credits had been issued to local authorities for projects where contracts had been signed. Education absorbs about half of local authority PFI, whereas it accounts for only 18% of traditional capital spending (ODPM, 2003).

The 'model' is still in its infancy, and is represented by a wide variety of structures and processes which go under the name of

partnership, epitomised perhaps by the semantic division and confusion which reigns between PPP and PFI.

Relatively few 'early adopter' private sector companies – usually with a construction, engineering, utilities or facilities management background – engage with an increasingly wide range of public sector central, regional, and local bodies.¹

Aided by an increasingly expert advisory sector, this activity has almost come to be seen as an industry in itself. With one look over their shoulder at what remains of the stability pact, other European Union countries are attracted by a sense of 'off balance sheet' procurement. In Australia and New Zealand, innovative experiments in public service are taking place. Elsewhere there is a tangible sense that PPP/PFI is about to take off as a global phenomenon. The UK seems to be at the epicentre of this expansion, with players from all sides ready to offer advice, experience and consultancy. Fuelling this 'export' stream is the UK experience of 'first strike advantage', generated by the UK's particular historical, economic and political circumstances.

Despite all this, controversy remains. Positions on the moral case, or the economic case, for PPP are deeply entrenched. Neutral judgements essentially seem to be signalling a 'jury's still out' position, whilst the Government is reigning back in some arenas (IT and the 'softer' services), yet expanding in others (schools, waste management). Advocates for the effectiveness of PPP structures frequently cite that "under PFI, 76% of projects have been delivered on time and 78% within budget" (PublicPrivateFinance, 2004), whilst opponents seize, for example, on the Audit Commission Report into early PFI procurement of Schools (Audit Commission, 2003). The Government, pushed by the need for a response to the European Acquired Rights Directive, and the variation in TUPE provisions (the regulation guaranteeing the terms and conditions of workers transferred to the private sector), has intervened somewhat late in the two-tier workforce controversy (Maltby, 2003).

This paper does not represent a foray into that national debate. It takes as a start point the fact that this new form exists, and is an attempt to move from that position into understanding what these forms are all about for those who operate within them and must make them work.

¹ Appendix I (page 26) details the major companies involved in the fields of facilities management, construction, IT and architecture.

Stephen Reeve's personal interest

Stephen Reeve is a business school academic, with long experience of postgraduate management programme leadership. It was the recognition of increasing numbers of managers entering such programmes citing a background of PPP, PFI and 'partnership' which provoked an academic interest in these new forms. This interest was intensified by the nature of the 'locker room stories' such managers came with. Compared with traditional managers², they appeared to express much more confusion, talked of stressful work relationship environments and a sense of lonely pioneering in their work roles. They were looking for some more secure ground from the business school curriculum. This was not forthcoming, as it appeared that the very novelty of their situations left traditional managerial curricula some way behind.

One form of response was the formation of a Practitioner Forum, for managers who work in PPP-type environments. The 'safer' context of a university allowed for discussion of issues in ways that were otherwise untenable, given reasons of confidentiality and/or competition. It quickly became obvious that one of the issues of importance to them was the very isolation that many felt – they were trying to manage in new ways that didn't seem to have many guidelines or instruction, yet could not communicate with others about this because of the reasons cited above. Individual managers often feel that they are the only ones going through the experience of trying to steer partnership, and that their experience is utterly case specific.

Spinning compasses

What emerged was a great deal of similarity in the experiences expressed by the different managers, and a sense that they were signalling something different, that was difficult, required new solutions and was not well sign-posted. Senior practitioners conjured up analogies such as spinning compasses, lights going on and off, intermittent engine function, radio silence, lack of instruction, and scarcely contained panic. It seemed that many such managers were sailing through a kind of Bermuda Triangle where most of the 'old' tricks and skills simply didn't work – they were having to learn, and learn fast, but there was not much navigational help around. That triangle appeared to be the new form of partnership, where neither the old certainties of contract, nor the safety of command and control any longer prevailed.

Members of the Practitioner Forum wanted to move beyond discussion to make some kind of contribution to the 'art' or 'science' of managing within PPP environments. This report is the first such contribution to enter the public domain.

² More strictly private or public; more explicitly contractual or hierarchical

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Welcome to a world where 'partnership' means just that; where resorting to referring to the binding contract is a sign of failure; and where it is easy to feel isolated, as though you are solving a set of unique problems that no-one else is dealing with. Welcome to the world of senior practitioners involved in Public Private Partnerships (PPPs), a world seldom discussed in policy circles, where the focus is on deal-making, not what happens after a partnership deal has been signed.

NLGN has worked with the University of Brighton Business School to find out what PPPs feel like from the perspective of senior practitioners, drawn from all sectors across a wide range of partnerships and service areas. They tell a different story from that told by policy-makers, and their analysis tells us things that we cannot learn from the type of input/output analysis usually applied to PPPs and PFI schemes. This report contains the findings of this qualitative research, and will be of interest to policy-makers, practitioners, and any organisations starting down the partnership route, or considering it.

Beyond Contract: What makes a PPP successful? does two things. It clarifies what partnerships look like from the inside, and encourages policy-makers and deal-makers to take this into account.

The central point is that senior practitioners are trying to move 'beyond contract' to ensure that partnership means just that – *partnership*. Second, the report outlines – stage by stage as a partnership progresses – what the key principles are that a real partnership needs to achieve, and suggests practical ways of doing so.

The report is the seventh publication in NLGN's 'Delivering Change' series, which aims to help senior officers and elected members learn from practical evidence of change to respond positively to the local government modernisation agenda.

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