Do public-private partnerships still have a future?

Veronica Vecchi, Bocconi University, Professor of Business Government Relations

Angelo Tanese, Director General, Health Authority of Rome, and Adjunct Professor of Organizational Change

Stephen Osborne, University of Edinburgh Business School, Professor of International Public Management

Public Private Partnerships (PPP) are under discussion because of the mixed results achieved and the deteriorated trust between public and private actors. However, the abandon of PPP could represent a severe mistake in public policy. Based on the recent Italian experience, authors argue that a new approach to PPP, based on the ESG/SDGs and Impact Investing agenda, could represent an opportunity, both for the public and the private sector, to contribute to solve wicked problems and generate societal value. The commentary paves the way for a reflection on this renewed approach to PPP and the need for a new set of skills in the public and private management to support the transition.

A series of criticalities in public – private partnerships (PPPs) over the last twenty years has led both to questioning of their effectiveness and to a deterioration/politicizing of the relationship between public and private actors (e.g. Willems & Van Dooren 2016; Hodge & Greve, 2017; Bertelli et al 2020; Amaya et al 2020, Tariq & Zhang 2020). Compounding this has been mixed evidence about the achievements of PPPs. In the UK, for example, the discredited Private Finance Initiative (PFI) model of PPPs has been systematically critiqued (Smith 2018) and is now no longer used for new project delivery (HM Treasury, 2018). In Italy, too, PPP contracts have diminished and often the preferred implementation alternative appears to be to take no action whatsoever (Vecchi et al. 2020b).

Despite this, alternatives to PPP are still vague, especially if there is a need to leverage private sector capital and competence into investments funded by taxpayers - such as in healthcare in the UK (HM Treasury, 2020). PPP evaluation, though, has often focused on a narrow perspective, such as its potential for financial savings alone rather than from a more holistic perspective of its ability to create value across society more broadly. This has, arguably, contributed to worsening the perception of PPPs by key societal and economic stakeholders. Increasingly, it seems, PPPs are being consigned to the 'dustbin of history'.

We argue here that this would be a significant mistake in public policy. PPPs can attract those economic players and investors who consider society and societal challenges the cornerstone of their new competitive business strategies. Increasingly, corporations and investors are becoming engaged in the creation of societal, rather than solely shareholder, value, through Environmental, Social and Governance (ESG) models and Impact Investment strategies (Vecchi et al. 2022; Vecchi 2022). That being so, an alignment between the need of the public sector to identify more sustainable, innovative and effective solutions and the willingness of the private sector to invest in this direction may be possible. An ESG/Impact-based approach can enable this to occur within a framework that explores and mediates individual and societal, as well as economic, value creation (Osborne et al 2021a).

Further, PPPs can also lever in multiple stakeholders to resolve 'wicked problems' of public management. During the first wave of the Covid-19 pandemic, Italy, like many other countries, found it impossible to source sufficient personal protection masks and breathing ventilators. In response, Italian public and private organisations showed an extraordinary ability to forge new collaborations. These partnerships were created in a hurry and without preconceptions, and with the sole objective of giving an immediate response to the looming health crisis. Such experiences have been welcomed as a renaissance of the PPP model (Vecchi et al. 2020a).

Innovative models of PPPs are now emerging, which can respond to these twin imperatives. In Italy, for example, responses to the European Next Generation (hereafter Next Gen) initiative, which sets specific social, environmental, digital and economic policy goals to be achieved by 2026, have been offered a new trajectory for PPPs. Two 'mega-digital' PPP projects have been recently launched as part of the Italian Next Gen plan: the National Cloud and the National Telemedicine Platform. In addition, the Italian Treasury has appointed the National Development Bank (Cassa Depoisti e Prestiti - CDP) as the key advisor for the implementation of the Next Gen plan – and with a strong focus on the use of PPPs (Vecchi et al 2021). The CDP has also included the development of outcome-based contracts in its strategic plan, as a new frontier of PPP evolution (Stadtler 2016).

This emergent Italian PPP framework has three important features. First, it moves beyond the discrete mobilisation of private capital for hard infrastructure, which was the main political argument for PPP (and especially the PFI) in the past. Rather it tries to explore how PPPs can add value both to individual citizens and to society through collaborative public ventures. Second, it has developed within a public service ecosystem context that understands how multiple agents are required to interact to achieve societal value creation – and within the prevailing milieu of societal and political values and beliefs (Osborne et al 2022). Third, it responds to the need for more sophisticated approaches to risk governance than PPPs have previously adopted and which have often undermined them (Osborne et al 2020a). Italian PPP contracts, for example, increasingly follow the concession model. According to European

Union law, this approach differs substantially from the traditional procurement model for risk allocation, and which is not necessarily based on the allocation of the demand risk to the market (Ma et al 2018; Vecchi et al. 2020b).

These are positive developments. However Italian experience also suggests that these new evolutions of PPPs will also fail if they are not managed strategically in relation to societal and economic needs. Indeed, a PPP is neither simply an alternative procurement route to accelerate the delivery of investments (as in the way that the Next Gen initiative set tight milestone for the implementation of the programme) nor a mechanism through which to outsource a big bundle of contracts to the market, as has often been the case in the past (again, the PFI is notable here). Rather it should be conceived as an approach to achieve challenging societal and economic results through collaboration and innovation – and that responds directly to both the ESG and to the UN Sustainable Development Goals (SDGs) agendas. This requires a fundamental strategic orientation (Osborne et al 2020b) to be embedded within PPPs in the future. Achieving such a strategic approach to PPPs, however, requires an investment in public managers and public management (re-)education, after a decade dominated by spending reviews and by a return to bureaucratic formalism. This new breed of public managers will require key skills:

- to be able to manipulate and understand Big Data and work effectively in a digital environment,
- to provide leadership and vision (rather than simply management) to PPPs, including by creating an effective strategic orientation for PPPs,
- to design PPP contracts according to a ‘horses for courses’ approach, based on the specific societal goals to achieve,

- to manage projects at the operational level and with a sophisticated understanding of risk governance,
- to understand the processes and dynamics of the creation of individual and societal value within dynamic public service ecosystems,
- to work collaboratively with business partners in a creative manner,
- to adopt an innovative and novel approaches to PPPs, where appropriate, and
- to design and adopt more sophisticated approaches to evaluating the benefits and risks of PPPs, including their outcomes

Finally, private sector managers will also have a responsibility to develop their own new set of skills – and in particular to be able to explore how to combine the creation of financial/economic value with the generation of non-financial value at the individual and societal levels. This will require them to understand and appreciate societal issues, to engage proactively with public managers, to design PPPs based on long-term and sustainable bases, and to mitigate the risks associated with pay per result and performance approaches to PPPs.

If this re-orientation can be achieved, then PPPs can offer an opportunity for investors and other economic player to implement ESG/SDG strategies and to play a salient role in the transition to a more sustainable and resilient economic model (Tirole, 2017). In turn, this will build the foundation upon which to create the widespread legitimacy, trust, and capacity which are critical to make PPPs a sustainable option for the future, rather than a legacy of the past (Casady et al. 2020). Underlying this has to be a belief in PPPs as an effective way to respond to the exigencies of the ESG/SDGs agenda and not as a short-term mechanism to lever in private finance to already failing public projects.

References

Amaya M, Bertelli A & Woodhouse E (2020)'The political cost of public–private partnerships' *Governance* (33,4) 771-788

Bartelli A, Mele V & Whitford A (2020) 'When new public management fails' *Governance* (33,3) 477-493

Casady, C. Eriksson, K., Levitt, R. & Scott, W. (2020). (Re)defining public-private partnerships (PPPs) in the new public governance (NPG) paradigm. *Public Management Review*, *22*(2), 161–183.

HM Treasury. (2020). *Infrastructure Finance Review: Summary of consultation feedback*.

Hodge, G., & Greve, C. (2017). On public–private partnership performance: A contemporary review. *Public Works Management & Policy*, *22*(1), 55–78.

D Ma, Q Du & K Wang (2018) 'A concession period and price determination model for PPP projects: based on real options and risk allocation' *Sustainability* (10, 3) https://doi.org/10.3390/su10030706

S Osborne, T Brandsen, J Nemec & V Mele (2020a) 'Risking innovation. Understanding risk and public service innovation' *Public Money & Management* (40,1), pp. 52-62

S Osborne, M Cucciniello, K Strokosch & G Nasi (2020b) 'Strategic user orientation in public services delivery—the missing link in the strategic trinity?' *Public Money & Management* (41,2) 172-175

S Osborne, G Nasi & M Powell (2021a) 'Beyond co-production: value co-creation in public services' in *Public Administration* (99,4) 641-657

S Osborne, M Powell, T Cui & K Strokosch (2022) 'Value creation in the public service ecosystem: An integrative framework' *Public Administration Review* [in press]

Public Money & Management (https://doi.org/10.1080/09540962.2021.1916189)

Smith R (2018) ‘Failure of the Private Finance Initiative’ *British Medical Journal* (doi: https://doi.org/10.1136/bmj.k311)

L Stadtler (2016) ‘Scrutinizing public–private partnerships for development: towards a broad evaluation conception’ *Journal of Business Ethics* (135) 71–86

S Tariq & X Zhang (2020) ‘Critical failure drivers in international water PPP projects’ *Journal of Infrastructure System* (26, 4) https://doi.org/10.1061/(ASCE)IS.1943-555X.0000581

Tirole, J. (2017). *Economics for the Common Good*. Princeton University Press.

Vecchi, V., Cusumano, N., & Boyer, E. (2020a). Medical Supply Acquisition in Italy and the United States in the Era of COVID-19: The Case for Strategic Procurement and Public–Private Partnerships. *American Review of Public Administration*.

Vecchi, V., Casalini, F., Cusumano, N., & Leone, V. (2020b). PPP in Health Care—Trending Toward a Light Model: Evidence From Italy. *Public Works Management and Policy*, *25*(3), 244–258.

Vecchi, V., Casalini, F., Cusumano, N., & Leone, V. (2021). *Public Private Partnerships: Principles for Sustainable Contracts*. Palgrave Macmillan.

Vecchi, V., Casalini, F., Cusumano, N., (2022, forthcoming), *Public Private Collaborations for Long Term Investments*. (Edward Elgar, Cheltenham)

Vecchi V., (2022 forthcoming), ‘Public Private Partnership for sustainable development’, in Schedler K. (ed) *Encyclopedia for Public Management*, Edward Elgar, Cheltenham.

Willems, T., & Van Dooren, W. (2016). (De)politicization dynamics in public–private partnerships (PPPs). *Public Management Review*, 18(2), 199-220