

## **Unhealthy partnerships: the state of health**

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A major change in the way infrastructure and supporting services are to be funded is increasingly attracting the attention of state governments, which are confronted with growing demand for health services, a backlog of strategic investment and an ideological fixation against raising debt to fund future social and economic infrastructure. In the health industry, this includes the provision of hospitals, high capital technologies and health care facilities that have been traditionally a responsibility of government.<sup>i</sup>

Central to the debate about public-private partnerships is how we meet society's rapidly growing demand for social and economic infrastructure in a cost effective and equitable manner. Over the past two decades, the real capital expenditure on infrastructure has declined at the very time demand has grown. This has resulted in unmet demand for infrastructure and associated services. In the health sector, the ageing of the Australian population is further increasing demand for health infrastructure, such as hospitals and nursing homes and clinical services.

In response to these needs, state governments have looked to innovative approaches for the financing and operation of what have traditionally been funded from publicly originated investment and debt. In the traditional model, government borrowings were used to pay the principal and interest off over the life of the project. Public-private partnerships (PPPs) were developed as a way of reducing government debt and expanding opportunities for the private sector in infrastructure. Rather than governments borrowing, PPPs are mechanisms where the government agrees to lease or buy infrastructure and services from the private sector over a long period of time, during which a guaranteed rate of return is made available to the investing intermediary.

Definitions of PPPs tend to be vague and not very helpful. Christopher Sheil puts a compelling argument that the use of the term partnership to describe contractual relationships between the public and private sector is misleading. "The policies ... provide for the formation of starkly asymmetric, commercial, principal-agent relationships, and an asymmetric, commercial, principal-agent relationship is not and cannot be described as a 'partnership'".<sup>ii</sup> Public-private partnerships allegedly reside somewhere between complete public sector ownership and control and full privatisation of infrastructure assets and their services. The alleged difference between privatisation and PPPs is that the transfer of risk to the private sector is not excessive in the latter case.

### **PPPs in Australia**

All states have policies and special units established to promote PPPs. All of them set out criteria for assessing the provision of infrastructure through conventional debt financing compared to the use of PPPs. A major criterion is what is called the public sector comparator, which requires PPPs to demonstrate better value than the public sector financing alternatives. The NSW government has produced guidelines for

“Privately Financed Projects” (PFPs), which it sees as a subset of PPPs. The Victorian government has established “Partnerships Victoria”, a group that facilitates interaction between the public and private sector consortia. Western Australia, Queensland and South Australia have released public-private partnership guidelines.

An industry is developing around PPPs in Australia that strongly advocates the extension of PPPs into new areas of economic and social infrastructure projects. According to Professor Ken Wiltshire, around 10 per cent of new infrastructure projects are currently designated as PPPs. This is forecast to rise to 50 per cent over the next five years.

The ‘PPP industry’ straddles both public and private sectors. Within government, specialist PPP units have been created within treasury units. State governments have created infrastructure councils dominated by groups with a vested interest in pushing PPPs. On the private side, the industry includes a number of Australia’s largest engineering and financial companies and a number of specialist service providers in areas as diverse as prisons, water, hospitals and age care facilities. Many of these are global corporates that have been involved in PPPs in the UK and North America and are actively pursuing new opportunities in the growing Australian market.

PPPs are only suited to very large-scale projects, usually with a threshold of about \$100 million. This is because of the high costs of tendering, the transaction costs in establishing PPPs and the opportunity costs that the proponents see if they undertook smaller projects. The proposed Mater Hospital PPP project in Newcastle in New South Wales is illustrative of the tail wagging the dog, with the proponents raised the scale and cost of the project from \$68 million to over \$120 million because the original project was not considered sufficiently financially large enough.

### **The rationale for PPPs**

The growing importance of PPPs is associated with the rise of neo-liberalism as the primary model for running modern economies. The essence of neo-liberalism is the belief that government intervention in the economy impedes economic growth and efficiency. Conversely, neo-liberalism argues that markets are the most efficient mechanism for allocating resources and the private sector is best equipped to make assessments and take risks. Many consequences have flowed from the adoption of neo-liberal economic principles and policies.

Firstly, there has been a reduction in the role of government in managing economies. Tax minimisation policies for firms and households have reduced the resources available for public capital and recurrent expenditures. Secondly, government debt has been labelled as economic incompetence because it ‘crowds out’ investment for private sector investment and exerts upward pressure on interest rates. The Loans Council has severely constrained the capacity of state governments to borrow. The Commonwealth government has searched for ways to get out of the bond market altogether. Surplus budgets (or the absence of government debt) have become a core indicator of the health of an economy. A core piece of legislation in NSW, for example, is the General Government Debt Elimination Act, which sets targets for the government to ensure the state budget is in surplus. Financial markets ‘punish’ governments with high levels of debt by downgrading their creditworthiness. Whether

this has an impact on how economies perform is debatable. The point is that PPPs may have little to do with how much is invested in infrastructure and the quality of services, and more to do with reducing government debt and the public sector borrowing requirement.

At the core of the neo-liberal model is an ideology—an ideology that emphasises the inherent efficiency of the private sector operating in a competitive environment, compared to the public sector. The private sector is ‘more innovative’, ‘leaner’, subject to ‘market discipline’ and has ‘more expertise’ than the public sector. There is little factual basis for these assertions. Evidence of poorly run government business enterprises can be countered with evidence of many innovations emanating from the public sector and spreading to the private sector, and the rate of failure within the private sector. The evidence for this is clear in the case of PPPs. A good example of failure is the surrender of the La Trobe Valley Hospital back to the Victorian government in 2001, following the acceptance of the operating consortia that their assertions about operating a regional hospital less expensively and injecting new capital into the hospital proved false. The trend in the competitive tendering process is for exaggerated claims about the benefits of PPPs, such as cost savings and improved services, to be scaled down dramatically once they are put into practice.

### **Some of the assertions about PPPs**

Underpinning the acceptance of PPPs as a legitimate tool in the funding of public infrastructure are a number of ideological and practical assertions, many of which have gained currency through their repeated statement rather than any objective analysis.

#### *1. The private sector is inherently better at providing services*

One of the key assumptions underlying the utilisation of PPPs is that the private sector is able to deliver services in a more effective and efficient manner than the public sector. Advocates often argue that the introduction of PPPs will improve the provision of services through better management and systems. The private sector is motivated by the profit motive, and hence the private sector has an incentive to continually reduce costs and improve delivery. While this is superficially appealing, it fails to recognise some distinct differences that exist between the two sectors, and therefore the fallacy of such comparisons. The public sector has different responsibilities compared to the private sector. Not all services can be provided profitably. That is not to say that the public sector does not need to constantly improve its performance. However, the criterion for comparing the two sectors often needs to be differentiated. Private sector failure is sufficiently well documented to demonstrate the fallacy of any ‘inherent’ argument. In the Australian health industry, the benchmarking institutions of care reside with the government and not for-profit sectors not in the private sector

#### *2. Private provision provides a better quality of service to the community*

Inherent within arguments in favour of PPPs is the assumption that the private sector will bring better service delivery. Through the prescription, monitoring and measurement of service provision, it is argued that a better service outcome can be achieved. Whilst it is generally true that a service may be delivered better where the

outputs are clearly defined, this is true for both sectors and not an argument for or against the provision of services by the public or private sectors. In the UK's experience with PPPs in the health sector, for example, at the privately financed Darent Valley Hospital in Dartford and Gravesham, nurses have complained that the design was not conducive to effective care, and equipment was not working properly when the hospital opened. At the privately produced Princess Margaret Hospital in Swindon, the recovery room was located 80 metres from the operating theatre.<sup>iii</sup> Other PPP hospitals have faced leaking sewage, unusable rooms, and no air conditioning. Cumberland Infirmary has become infamous for a glass atrium that was too hot in the summer, while in other privately financed hospitals there have been complaints of corridors that are too narrow to turn a trolley and of nurses' stations being placed where some patients cannot be seen.<sup>iv</sup>

### *3. Private is better because it is free of political interference*

Many advocates of privatisation and PPPs argue that by removing services from the public sector the capacity for political interference is reduced. This argument has gained weight in recent times with the failure of Regional Health Services in such areas as Camden Campbelltown in NSW to address significant patient service shortfalls. Political interference is portrayed as containing inefficiency, corruption and poor resource allocation. However, this argument fails to recognise the private sector where such practices can also exist (see Enron, for example). In fact, the growing inter-relationship between the public and private sector associated with PPPs, in many instances, increases political pressure for governments to endorse projects that may or may not be required.

### *4. Private involvement reduces the level of financial risk to government*

A key reason for the introduction of PPPs is the desire of governments of all persuasion to reduce public sector financial risk. By transferring risks to the private sector the public balance sheet is improved. This argument has some short-term appeal. The utilisation of private funds does make the government balance sheet look more attractive in the short term. However, it increases the level of contingent liability exposure where service contracts fail. As the La Trobe Valley Hospital example demonstrates, when essential services are provided by the private sector and they fail, the public is forced to act as guarantor. The public risk can be said to be greater as its ability to directly manage the risk is reduced. The public sector remains the provider of last resort. In cases where the private sector loses money and walks away from a contract, the public sector must intervene to maintain services. After reporting a loss of \$6.2 million in 1999, the 257 bed La Trobe Hospital, which had been owned and operated by private company Australia Health Care (AHC), was handed back to the Victorian government.<sup>v</sup>

### *5. The amount of funds available for other essential services is increased*

Another major reason often stated for the adoption of PPPs is that it frees up public funds that could be used in other essential services. This argument would have some validity if in practice these 'savings' were applied in this way. There is little evidence of this happening. Most commonly, funds 'saved' in this way have been allocated to consolidated revenue to be used to retire debt, not used in the provision of

better community services and infrastructure. This argument could also be said to have some traction if the net cost of services provided under the PPP arrangements were demonstrably less expensive, not just to government, but the consumers of the services.

#### *6. Private investment accelerates the availability of community goods and services*

Another common argument is that the injection of private funds into community assets and services accelerates their creation. The argument is that, without the injection of private investment, much needed goods and services would be deferred or not undertaken. Whilst this also has some short term attraction, it fails to recognise the longer term liabilities that accumulate, changes to the investment strategies of the partnering organisation over the life of the project, and the asset allocation decision-making process that comes with the deals. The latter is often not recognised but is important in terms of equity and inherent in the nature of the projects. Typically, PPPs emerge when an investor or government identifies an opportunity. They are rarely developed out of any identified priority of need, or, even when they are, they are developed at a premium to government.

#### *7. PPPs reduce taxation*

Similar to some other arguments, advocates of PPPs argue that, through the injection of private funds, overall taxation rates can be reduced. Reduced expenditure can mean reduction in the need for revenue. However, this is in practice only true in the short term. With many infrastructure PPPs having an operational life of over 20 years, the real cost and therefore tax liability, as well as tax foregone, could be significant, especially as the replacement and refurbishment costs are accumulated over the life of the project. This is not possible where the income streams are channelled to only one of the partners. To date, taxation has not been reduced but increased through the application of user charges (for example, freeway charges), in affect increasing the level of indirect taxes. Consumers bear most of the costs.

#### *8. The user pays principle is a fairer way of paying for services*

Inherent in the utilisation of PPPs is that the end users pay a fee to the PPP partners. Rather than the community paying through general taxation, it is argued that the users of the services should pay, which, it is argued, is more equitable. However, in practice this is difficult to demonstrate. As the rebates paid to users of motorways illustrate, the application of the user pays principle is not equitable, as it charges a fixed fee to all users, regardless of their ability to pay. To insure a reliable rate of return to the operators of the schemes, governments have tended to enter exclusive supply agreements with the developers whereby alternative and pre-existing services are downgraded and, in the case of some infrastructure, removed as a way of reducing competition. The closure and incorporation of existing public infrastructure, as envisioned at the Mater Hospital in Newcastle, into new PPP projects is a case in point. This proposal by the Hunter Regional Health Service (with the blessing of the NSW Health Department) would see a long term community funded asset given away to a private operator. In addition, in this example residents would end up paying for more infrastructure through fees in part because the proponents require a project of 'sufficient scale' to make the project sufficiently attractive for their involvement.

### *9. Private involvement can inject world best practice into service provision*

Some advocates argue that the introduction of the private sector can produce important and required organisational change through the introduction of new techniques and processes. Whilst there is little doubt that private arrangements can lead to learning opportunities, PPPs do not inherently produce this result. Some times in practice the transfer of knowledge flows in the opposite direction, with the operator learning information of a critical nature that makes the relationship one of co-dependency rather than a partnership. In addition, in practice there appears to be a tendency to transfer personnel from the purchaser to the provider, which can see a reduction in the skill base. The erosion of employment conditions in the PPP funded hospital sites in the UK Health system saw an acceleration of health personnel out of the health industry—an expensive and difficult to remediate situation

### *10. The introduction of new players will increase employment opportunities*

PPPs claimed capacity to accelerate investment is said to increase employment opportunities. Whilst new investment in infrastructure and services will create new jobs, it may not increase overall employment. Experience suggests that, the opportunity for reducing net employment costs in the post-construction phase will reduce if the PPP takes over an existing project. Where a new project is created, net employment may increase. In the case of a competitive market, cost competition may see a reduction in employment. Experience elsewhere therefore supports the actions of unions requiring employment guarantees for workers affected by PPPs.

### *11. Contracts introduce greater accountability*

Through the use of performance contracts, proponents of PPPs argue that transparency is created and therefore higher levels of performance accountability can be achieved. Whilst it is true that greater specificity can lead to greater accountability of performance, such arrangements presuppose strong contract administration skills and capacity. Strongly prescribed performance contracts have led to increased costs in terms of accountability regimes and contract variations needing to be made during the life of the contract, often at high cost to the community.

### *12. Performance contracts contain measurable outputs to assess performance*

The use of performance contracts with measurable outputs is a key characteristic of PPPs. However, they are not unique to PPPs, and the utilisation of PPPs is not the only way to ensure robust performance. In addition, as Victoria's Brack's government found when entering office after the Kennett government's flirtatious infatuation with PPPs, there are significant risks in establishing fixed outputs in service contracts that span a number of years or a period of uncertainty. More specifically, in hospitals the policy will divide the ownership and control of the buildings from the clinical services, yet there is an obvious relationship between the two, as the level of building hygiene is a direct cause of hospital-acquired infections. This will introduce a direct conflict between private commercial and public interests. As PPP policies specifically rule out monitoring firm 'inputs', the private operators will be the recipients of all residual income. Thus, it will be in the private operator's interest to minimise input

expenditures in all areas, but in the public interest for investment levels to be technically optimised. At the least, therefore, there will be service losses at the margin.<sup>vi</sup>

### *13. PPPs increase the depth and size of the Australian debt market*

Some financial analysts have seen merit in PPPs for Australia's equity and debt markets, arguing that the raising of private capital—especially for large infrastructure projects—provides greater depth to those markets. Paradoxically, the long-term debt market has been reduced principally because of the reluctance of government to raise capital. In effect, the raising of capital through PPPs is more expensive than if government undertakes the exercise. At a time when governments can raise funds at a cost of 8 per cent, proponents of PPPs expect to achieve a rate of return of 20 per cent. Obtaining funds through equity raising simply transfers the risk from public to private hands at a greater commensurate cost to the community as a whole.

### **The implications of current PPP policies**

A major concern with the development of PPPs is the reduction in transparency and accountability inherent in the arrangements. 'Commercial-in-confidence' protections are the norm to protect the commercial arrangements. Whilst this can be critical in many cases to the private sector, it has the undesirable affect of reducing and in many cases eliminating public accountability. Increasingly, incoming governments have discovered the costly legacy left to them by previous governments not revealed to the parliament or, in some cases, not made privy to even auditor generals. The common use of partnership entities, often separately incorporated, means that the levels of reporting and therefore accountability are reduced from levels the public would normally expect.

An examination of many PPP arrangements has demonstrated the differing capacity of each party to the agreement to identify potential difficulties and negotiate amenable terms. This is not surprising as the level of experience is often unequal. Investment banks such as Macquarie Bank, a major PPP player in infrastructure projects, have over a decade of experience in developing PPPs. Despite the creation of specialist PPP management units in some state and federal jurisdictions, the experience and expertise has often been demonstrated to be uneven. PPPs have often seen the interchange of government staff and private sector staff within the deals, a movement that could be seen to be beneficial to both parties. However, this is only the case where public accountability is guaranteed and transparency of dealings between the parties is assured.

For PPPs to work effectively, costs must be borne by the users of the services. For the public sector in a practical sense, this involves the contribution of real assets, cash or a licence to operate what was a public asset or service in consideration for a community benefit through the creation of a new asset or services. Project assessments must therefore include a consideration of equity issues, as the transfer of limited and valuable community assets and or rights is an issue affecting the whole community and not just the beneficiaries of the asset or service

From a public policy point of view, significant criticism has been levelled at the use

of commercial in confidence arrangements being put in place to avoid public scrutiny. Often commercial in confidence clauses have been used by both the private and public sectors to avoid criticism of poorly put together agreements or the awarding of unjustifiable terms and conditions. Clearly there is a need for robust public scrutiny mechanisms that meet the following criteria: (1) be able to expertly review complex contracts in a way that is both commercially competent and publicly defensible; (2) Be subject to the auditor generals within each appropriate jurisdiction; 93) Involve where appropriate the commissioning of project specific consultative mechanisms with affected stakeholders in the development.

In considering any reuse of public assets, there is a strong need to ensure that the asset is used in the most beneficial manner. This is especially true in the case of PPPs, where public assets may be alienated for considerable periods of time. There is a need for a public benefit test that goes beyond a project appraisal and encompasses a broader analysis, beyond the expertise of one government department. The establishment of PPP units within whole-of-government portfolios such as premiers' departments could assist in this process.

### **Trends in the operation and ownership of PPPs**

Whilst PPPs are a relatively recent innovation in the funding of public infrastructure and services, trends are emerging. These fall into four main areas-

1. Pressure on governments to reduce the cost of the transaction in the areas of bidding, submission development, assessment, project documentation and contract negotiation. Whilst a desirable objective, concern has been raised at the levels of probity, disclosure and detail to remain.
2. Refinancing of PPPs during the life of the arrangement is becoming a major issue in older projects as circumstances change and investment strategies change. A major concern here is that contractual arrangements put in place at previous times may be altered to the advantage of the exiting or entering party by default due to changed circumstances. If yields are known to be less than that projected by the originating party, a new party is able to leverage a more favourable arrangement. In addition, concern has been raised over the difficulties in maintaining the quality of service pertaining to the project during the renegotiation and "partner search process" timeframe where the exiting party is the operator.
3. Governments granting approvals to projects that do not meet their own planning, environmental or service standards. This can occur due to the inherent conflict of interest that can arise through government being both a party and a consenting authority, especially in circumstances where there is potential or actual partnership failure.
4. Private sector parties are seeking to build in open-ended fee and penalty structures within the contract, from which project profits can be derived separate from the actual project service provision. Increasingly, project parties have realised that there are more profits to be made from the provision of consulting fees to the 'partnership' entity than in the actual operation of the service. Exclusive agreements for the provision of these services are becoming increasingly common within PPP

contracts and memorandum of agreements for this reason. This has led to increasing concern about the phenomena of the 'captive partner', which can lead to narrow advice, self-interested advice and uncontested pricing of such services.

## **Alternatives to PPPs**

### *Opportunities for funding: the case for a new approach in the future*

The development of new means of funding has always followed a process that recognises the changing nature of need, opportunities and the techniques that can meet those needs. The development of a futures exchange as a means of funding commodity trading and reducing the level of risk to participants was only made possible by the growth of transnational trade and the ability to communicate in real time about a standardised product. In the same way, the reinvigoration of funding for community infrastructure and services should be seen as a problem needing a solution, rather than simply a problem. PPPs are one attempt to resolve the problem of insufficient public funding for necessary public infrastructure and services; however, it is only one way and, as we have seen, comes with potentially high risks and costs.

As the environment changes, so do the opportunities for innovation. Significant changes have occurred and will continue to occur in the Australian community that will impact upon the financial market, and therefore the methods of raising funds for much needed investment. The most notable of these include: unprecedented inter-generational wealth transfer, fuelled by property inheritance and income growth; the exponential growth of superannuation funds seeking new investment opportunities; continuing expectations for higher quality services and infrastructure; a continuing reluctance by government to increase levels of general taxation in line with international benchmarks, and the increasing adoption of user pay systems of revenue raising; growing disparities between different levels of service and amenity across the country and between socio-economic groups; an increasingly financially sophisticated community that will increasingly require more accountability as their participation rates increase in the investment market; and a reduced proportion of the population supporting a growing ageing population, who require high levels of care and amenity.

In response to these and other changes, new financial products will emerge and some existing products will disappear. Governments in Australia have failed to innovate sufficiently to meet the needs of the community. A seemingly universal belief that debt by its very nature is bad and that increased direct taxation is politically unacceptable has meant that both federal and state treasuries are hamstrung in a way that is historically unprecedented. Debt in itself is not a problem. It is the nature of the debt and whether the debt is being used to invest in productive activities, rather than recurrent expenditure. Australia's infrastructure historically has been provided through the raising of debt. Most PPPs involve the raising of debt by the private party. Whether government or private participants raise the debt, it adds to the national debt, which has always been relatively high in Australia. This is not surprising or particularly problematic in Australia's case, as expanding infrastructure quickly in a growing economy has proven itself an economically desirable strategy. The raising of debt to fund productive assets therefore represents a good investment if it is done efficiently, in a cost-effective manner, and with an understanding of the financial

risks. A central PPP question is not the raising of debt as such, but who raises the funds.

Governments will need to change their approach to the funding in line with these changes, or increasingly see their capacity to both provide and regulate the provision of both public and private goods and services in Australia decline. You can only steer the boat if you maintain the necessary authority of captaincy. As authority is diluted, so is the capacity to make decisions about the direction and speed of travel. PPPs dilute government capacity to determine the direction, location and speed of development. Generally, PPPs require that governments will remain responsible for all of the outcomes beyond the specified outputs of the contract, and private partners remain the recipients of all of the residual income. They are one option but not necessarily the best option.

The critical financial question facing governments is how to meet the increasing demand for better infrastructure and services, when revenue streams are stagnant or in decline. PPPs are principally being used to access private funding sources that would be more efficiently accessed directly by government. Treasury departments are attempting to reduce the level of reported public sector borrowings without accurately accounting for the risks, liabilities and costs of these transactions. Unlike the UK, no accounting standard has been developed to accurately report the real costs of PPPs in Australian public sector accounts. Governments are using this sleight of hand to meet the political agenda of better services and infrastructure without accounting for the real costs.

Ultimately, consumers are paying the premium imbedded in these arrangements, which in the short-term is estimated to be twice the cost if government supplied the finance directly. Consumers are also paying through user pay charges. Finally, PPPs are exposing future generations to significant contingent liabilities that have not been allowed for. As the Commonwealth Department of Finance and Administration policy on the use of private financing states: “it is generally more expensive for the private sector to raise capital through private capital markets than the Commonwealth to do so directly.”<sup>vii</sup> Even where equity raisings are used by the private sector, higher returns are required by private investors because of comparative returns available elsewhere, and the level of contingent risk in dealing through a commercial intermediary structure and not government. In addition, where equity raising is used, there is considerable risk that, where profits do not meet market expectations, service standards may be put in jeopardy as a means of reducing costs and maintaining profit forecasts.

Under PPPs the government effectively grants an exclusive licence to a private corporation to collect tax from its citizens for the period of the contract. Effectively, from a financial point of view, PPPs are channelling private investment through an intermediary structure at additional expense that could otherwise been directly sourced by government at a lower cost. The challenge for PPPs is to realise authentic measurable public benefits that would not have come through sole public participation. Currently this test is not being effectively exercised, with short-term considerations driving the decision-making process. There is little thought as to what will happen once the PPP term of managing has expired.

As a recent CPSU-SPSF-Evatt Foundation study concluded: “To the extent that pro privatisation policy makers argue that governments can regulate the behaviour of private firms to prevent gaming without distorting incentives they are effectively making a case for governments continuing to manage the function directly.”<sup>viii</sup>

### **Other options**

Any alternative strategy to direct additional funds into public infrastructure and services must be: (1) cost competitive; (2) able to meet service standard requirements; (3) able to transparently show the total cost of the transaction over the life of the project; and (4) be economically sustainable.

#### *Savings bonds*

Saving bonds are fixed term, and generally fixed return deposit instruments usually guaranteed by government. They are extremely common throughout Europe, the USA and Canada as a way of providing investors a secure means of increasing their levels of private savings. Governments in turn have been able to utilise the savings to finance infrastructure and initiate expanded services where appropriate. Increasingly Australians will need access to such types of investments as they seek to balance their investment portfolios, either directly or indirectly through superannuation. From a public policy point of view, any innovation that increases the attractiveness of saving over speculation must be welcome as one way of addressing Australia’s historically low rate of savings and subsequent high levels of foreign sourced debt. The application of debt to productive income producing infrastructure such as capital works in the transport, road and housing sectors makes such an instrument a low risk, low cost innovation. By comparison, private consortia operating in a PPP will always seek to purchase the benefit of a secure income stream similar to a government security, but with higher rates of return than those available from investing in government securities.

#### *Community revolving loan funds*

Many of the goods and services required within the community, which are not being supplied, are not large scale or commercially attractive due to their size. Most PPP parties believe that projects under \$100 million are not worth the effort in arranging. However, there still remains a gap in the access to finance for projects of a lesser size. CRLFs can provide an effective mechanism for the provision of debt funds for small businesses, community health facilities, tourism infrastructure etc. Whilst there are a number of such funds operating in Australia, they operate in isolation, without any or little government support. The Canadian government over the last twenty years has recognised the effectiveness of these mechanisms, especially in disadvantaged areas, and subsequently operates a program assisting in the establishment of such bodies. Acting as autonomous agencies, they are able to raise funds locally, blend with government and private funds, and make loans available that create or maintain jobs, enhance infrastructure and promote investment into local economies. Unlike PPPs, they are both the raiser of capital through government-backed bonds and the manager of the local project. Some three hundred government accredited CRLFs successfully operate throughout Canada.

### *Social venture funds*

Social venture funds aim to invest in social infrastructure and services by combining philanthropic, private and public funds to provide innovative solutions to community problems. Despite recent small tax changes announced by the federal government aimed at encouraging greater levels of corporate and private philanthropy, Australia falls well behind in the number of philanthropic institutions compared to the US. Efforts to promote these entities could provide an effective alternative source of funding for much needed social infrastructure and services, particularly at a local level

### *Pooled development funds*

The federal government established the pooled development fund program to address the scarcity of funding available for small to medium sized business. Through the provision of tax breaks, registered venture capital firms act as intermediary structures between investors and small to medium sized businesses. An extension of the PDF program to include not just businesses but infrastructure such as roads, hospitals and community facilities would be both consistent and tax effective, as it aims to address the same problem, a lack of investment capital.

### *Superannuation funds*

One of the most significant changes to occur in the financial and investment markets in Australia over recent times has been the growth of funds held in superannuation funds. Superannuation funds are estimated to hold over \$400 billion in investments. A recurring issue for these funds is the need to create a balanced portfolio of investments through a diversified selection. Much of the funding for PPPs in Australia can be ultimately sourced to superannuation funds, usually through intermediaries such as specialised infrastructure or property trusts. There is no financial reason why governments could not establish investment opportunities for larger projects directly with the market, rather than through an intermediary, and thereby reducing the project costs. Superannuation funds in turn are looking for secure longer-term investments. Once again, the facilitative role of government is crucial if these opportunities are to be realised, as government is the only body able to establish the framework within which these opportunities can be captured.

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### **NOTES**

i. This article was commissioned by the Health Services Union. It draws, in part, on earlier research for a group of Australian unions in 2003. Further work is continuing looking at some of the alternatives to PPP based funding both here and overseas as part of a submission to the ALP federal enquiry into PPPs.

ii. Sheil, C (2003) "Privatisation, politics and public-private partnerships", Hayward D & P Ewer (eds) *Visions of Victoria*, Vulgar Press, 2003, p. 72

iii. Pollock, A, & J Shoal, N Vickers (2002) 'Private finance and "value for money" in NHS hospitals: a policy in search of a rationale?' *BMJ (British Medical Journal)*, 18 May; 324 (7347): 1205-9.

iv. S. Ward (2002), 'PFI is here to stay', *BMJ* 324:1178 (18 May).

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v. Pollock, A & J Shaoul, D Rowland, S Player (2001), *Public services and the private sector*, Catalyst Working Paper, November 2001.

vi. Sheil, C (2002) "Partnerships, Privatisation and the Public Good", Submission on 'Public-Private Partnerships in Western Australia: Draft Principles and Guidelines, CPSU-SPSF Group & Evatt Foundation, p 24.

vii. *Commonwealth Policy Principles for the Use of Private Financing*, October 2001, p. 5 (at [http://www.finance.gov.au/budgetgroup/Commonwealth Budget -Overview/pf\\_principles.html](http://www.finance.gov.au/budgetgroup/Commonwealth Budget -Overview/pf_principles.html)).

viii. Sheil, C (2002), p 14.