PUBLIC-PRIVATE-PARTNERSHIP INITIATIVES IN QUEENSLAND

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Abstract
Over the last century, diverse arrangements have existed for the financing, ownership and operation of infrastructure both individually and in partnership by the public and private sectors. Nowadays, the matter of PPP models for infrastructure provision across developed and developing countries is critical given the growing demands on infrastructure facilities to support regional economic growth and development, and the increasing high cost of public provision. This paper commences with an overview of the Queensland economy and the general economic growth strategy of the Queensland government. Then it considers worldwide trends in PPP infrastructure initiatives, followed by a discussion of the PPP model adopted in Australia by the states of New South Wales and Victoria. It then examines in some detail the Queensland Government’s new State Infrastructure Plan and PPP policy, Achieving Value for Money in Public Infrastructure and Service Delivery, and explores the linkage between infrastructure investment and sustainable economic growth and development. Finally, there is a critique of these new policies on various grounds relating to their late introduction, limited scope and failure to fully engage the private sector, thereby expanding the supply of infrastructure services through PPP measures in order to remedy the present growth-retarding infrastructure deficit in rural and regional Queensland.

Key Words: Public-private partnership, regional development, infrastructure, Queensland.

1. INTRODUCTION

The issue of public-private partnership models for infrastructure development is critical given the growing worldwide demand for infrastructure to stimulate regional development in light of the increasingly high cost of provision of meeting infrastructure needs by the public sector. In Australia as elsewhere, what is required, are private finance initiatives (PFI) in provision of infrastructure to underpin the economy, international competitiveness, environmental and regional sustainable development. Variant forms of the Public-Private Partnership (PPP) instrument are now widely used to deliver infrastructure and other public good type
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services. It accounts for a very diverse range of cooperative or collaborative efforts that, "... implies a commonality among them which does not exist" (Schaeffer and Loveridge, 2002, p.170).

The term PPP has at least six distinctive meanings. PPP as management reform, problem conversion, moral regeneration, risk shifting, restructuring the public service and as power sharing (Linder, 2000). The Ministry of Public Affairs in British Columbia (1999) defines PPP in the following terms:

"Public-Private Partnerships (PPPs) are arrangements between government and private sector entities for the purpose of providing public infrastructure, community facilities and related services. Such partnerships are characterised by the sharing of investment, risk, responsibility and reward between the partners" (cited in Schaeffer and Loveridge, 2002, p.170).

In this paper, PPP is used as meaning, a combination of public service restructuring and risk shifting that is undertaken to achieve, "... leveraging public capital for infrastructure and other capital-intensive investments". In these PPPs, "... risk shifting assigns the supporting role not to the government, but to commercial interests", while, "... the purposes remain public even though resources are eventually mixed" (Linder, 2000, pp.29-30).

Public-Private Partnership defines cooperation between the public sector or government and the private sector. Partnerships are essential for planning and implementing federal, state and local government infrastructure initiatives in regional economic development. Initially, it was the government sector that played a major role in infrastructure provision. But since the privatisation initiatives began in the 1980s by the Reagan and Thatcher governments, and which were then adopted widely, the public sector was keen to shift, among others, the provision of health, education, telecommunications and transport services, to the private sector and non-profit organisations to keep expenditure under control and reduce debt. Now after the mass privatisations of the 1980s and 1990s, there is a move towards partnerships between the private and public sectors on a large scale in the UK, European Union, Canada and more recently in Australia.

The public sector was also criticised for inefficiency, bureaucratic delays and red tape, high costs and budget deficits. It was a general belief that government had failed in the provision of public goods and services and that the private sector would provide similar goods of better quality at a lower cost. This led to privatisation initiatives around the world in major developed countries. But in many cases, privatisation without proper regulation and corporate governance resulted in private sector failure and the collapse of many large firms. Given these failures, PPP of a cooperative nature is often necessary for the provision of public goods and services including infrastructure to achieve common goals and objectives. Partnership involves sharing of responsibilities, planning, developing Section two of this paper gives an overview of the Queensland economy and the general economic growth strategy of government. Section three looks at the

2. THE QUEENSLAND ECONOMY AND GROWTH STRATEGY OF GOVERNMENT

In the last two decades, the Queensland state economy has experienced rapid economic growth, largely due to structural change. Traditionally, the state has focussed on primary sector production with its large endowment of natural resources – agriculture, mining, forestry and fishing – but more recently the focus has shifted to the service sector including tourism and education (Bureau of Industry Economics, 1994).

“Over the period 1974 to 1993, Queensland experienced rapid economic growth, with Gross State Product (GSP) increasing approximately 2.5 fold in real term and employment increasing 1.7 times . . . With a more open economy and increased import dependence, Queensland will become more reliant on external sources and markets with their associated advantages and disadvantages, for example access to cheaper manufactured products, but being a predominantly primary and service economy which is heavily reliant on exports of primary commodities and services such as tourism to gain export income will make the economy more vulnerable to downturns in global economic conditions” (West, 1999, pp.85–103).

Over the decade from 1987 to 1998, the Gross State Product (GSP) of the Queensland economy has continued to grow strongly, with an average annual GSP rate of growth per capita of 2.4 per cent compared with 1.8 per cent for the balance of Australia (Crossman, 2000). The robust growth of the Queensland economy has continued to outperform other Australian states, with real GSP growth of 3.2 per cent in 2000–2001 and 4.4 per cent in 2001–2002 (Queensland Government, 2002a, p.1).

This strong economic growth has been achieved in spite of Queensland having a tradition of small government, low levels of public debt, lower than average state level of service provision and a very conservative approach to the provision and financing of additional economic infrastructure. Nonetheless, the Queensland government has traditionally adhered to a strong pro-development policy (Carden, 1999) with the state sector historically comprising a high proportion of the state economy including key infrastructural services which has continued in recent years against the trend of privatisation elsewhere (Smith, 1997).
Successive state governments since 1990 in particular have adopted various strategies to promote economic growth and development. These include the Goss Labour Government's 1992 'Queensland-Leading State', the Borbidge-Sheldon Coalition Government's market enhancement approach in its 1997 'State Economic Development Strategy' and the current Beattie Labour Government's 'Whole-of-Government Priorities and Outcomes Statement' which includes, "... a growing, knowledge-intensive and value-adding business and industry base, and competitive and cost-effective infrastructure" (Crossman, 2000, p.18). The 2001 'State Infrastructure Plan' (SIP) together with annual Implementation Plans is an important part of the current Government's pro-development policies. The Queensland Government's seven main policy priority areas are: "... more jobs for Queenslanders; building Queensland's regions; Skilling Queensland - the Smart State; safer and more supportive communities; better quality of life; valuing the environment; strong government leadership" (Queensland Government, 2002b, p.7). The SIP is a whole of government approach and, "strategic planning tool to support of State and regional economic development" (Queensland Government, 2002b, p.1). The SIP continues the tradition of the State government taking a leading role in managing and supplying the infrastructure necessary to support continuing economic growth:

"... it will assist the Government to take an active role in facilitating the development of telecommunications, skills and education and innovation and technology infrastructure throughout the state" (Queensland Government, 2002b, p.3).

3. WORLDWIDE PUBLIC-PRIVATE PARTNERSHIP INFRASTRUCTURE TRENDS

Arrangements for the provision of infrastructure by the public and private sectors during the last one hundred years in countries such as the UK, France and USA have been much more complex and varied than often realised. The main findings of research by Jacobson and Tarr (1995) as to infrastructure ownership and financing trends in these three countries over the past century include the following:

- The value of politically important actors as well as the working of government, political and legal institutions have shaped decisions about infrastructure development, the sorts of public goods demanded and the roles played by private firms.

- The range of choices that has historically been made with respect to the ownership, financing, and operation of different infrastructures has been far too varied to be encompassed by simple distinctions between 'public' and 'private'.

- The growth of knowledge-intensive activities and the role of technology infrastructure in these activities have advanced...

- The need for more jobs for Queenslanders has also been a key priority...
Throughout the world, many infrastructures owned and operated by the governments have been built by private firms (Jacobson and Tarr, 1995, p.1).

In many developed countries worldwide such as the USA, Canada, UK, and European Union countries, PPP and PFI are being used to provide economic infrastructure services. In the UK from 1979 during the period of the Thatcher Government, contracting out the provision of public services was adopted, followed in 1992 by private finance initiatives of public sector activities on the grounds of cost efficiency. Then in 1994, "... a universal testing rule' required that private financing should be considered for every public sector" (Spackman, 2002, p.285). In 1997, the new incoming Labour Government abolished this rule and introduced PPP which, "... includes (a) complete or partial privatisation; (b) contracting out with 'private finance at risk' still described as PFI projects; and (c) selling government services in partnership with private sector companies" (Spackman, 2002, p.285). In 2000, the government set up a support organisation for PPPs, 'Partnerships UK'. By 2002, some 500 PFI contracts had been approved.

According to Spackman (2002, pp.288–290), there are eight main arguments supporting the private financing of public services:

- Easing macroeconomic constraints
- Bypassing controls of public service investment
- Evading formal constraints on borrowing or spending
- Semi-privatisation of self-financing projects
- Capital rationing as an instrument for change
- More effective monitoring by private financiers
- The contractual benefits of long-term capital at risk
- Enforcement of whole life costing.

Privately financed projects are required to achieve value for money objectives along with risk bearing by the private sector. There are also a number of arguments against PFI-PPPs. It is claimed that they may lack accountability, cost too much, arguably should only be used as last resort capital financing, large multinationals tend to be their main beneficiaries, PFI-PPP schemes often have large transaction costs – including consultancy and advisory fees – involve substantial costs and have adverse long term lock-in characteristics (Hood and McGarvey, 2002, p.23).
Because the Private Finance Initiative is of such recent origin, experience with it is too limited so far to allow any definitive assessment to be made of its overall comparative merits. In light of this, Montanheiro (2001, p.416) states that:

"...there is yet no judgment on whether PFI is, in fact, providing the 'best' 'value-for-money' as government might expect... As the overall number of PFI increases so does the country's behaviour towards resource allocation. It might be, therefore, that PFIs are, or better still, will prove to be efficient".

4. ADOPTION OF PUBLIC-PRIVATE PARTNERSHIP MODELS IN AUSTRALIA

The 2000 PPP policy, 'Partnerships Victoria', of the present Victorian Labour Government builds on the extensive restructuring and microeconomic reform of the near bankrupt state economy as undertaken by the former Kennett Liberal Government (Costar and Economou, 1999) as well as the extensive experience of successive UK governments, to establish partnerships for the provision of public infrastructure and service delivery. It draws on the Government's 'four pillars' of responsible financial management, promoting statewide growth, improving service delivery and democratic governance. In 'Partnerships Victoria', the focus is on value for money outcomes - based on a public sector comparator - wider benefits to the public, so that, "...choices between public and private provision of public infrastructure and related ancillary services will be made on practical grounds, based on needs, a public interest, consumer rights and equity" (Government of Victoria, 2000, p.1). As elsewhere, much attention is paid in this policy to the concepts of risk identification, allocation and management with the intention that the structure of any PPP entered into efficiently allocates various risks to the party best able to manage them. In addition, the value of any risk to be transferred "...will be estimated and included in the Public Sector Comparator to allow for a like with like value for money assessment" (Government of Victoria, 2000, p.10).

'Partnerships Victoria' was extensively relied on by the Queensland State Government in developing its recent 'State Infrastructure Plan', and 'Public Private Partnership' policy initiatives.

After a decade of mixed experience with a wide range of infrastructure financing initiatives, in mid-2001, a New South Wales (NSW) Government Taskforce conducted a series of state-wide 'Working with Government' workshops to discuss the common problems faced by developed countries such as infrastructure funding to meet the growing demands of an increasing population, urbanisation, an ageing population, higher community expectations and requirement to replace ageing and obsolete infrastructure. The objective of these workshops was to produce an informed government infrastructure policy that achieved, "...optimum value for money, not just in the delivery phase of individual projects, but throughout the whole of their life-cycle and across all government
programs" (NSW Government, 2002, p.1). There would be, as in other countries, private sector participation in provision of new infrastructure considered suitable for PPP projects where it brings benefits in the public interest and is socially just and equitable, satisfying value for money and risk-sharing objectives. The public resources saved through these PPP projects would be redirected to other priorities of government.

New South Wales was the first Australian state to develop, in 2002, a systematic 10 year ‘State Infrastructure Strategic Plan’ (SISP). It takes into account the changing needs of the community on an annual basis in terms of provision of public goods and services, and the methods by which they could be delivered such as PPPs. The private sector along with the government can assist in the production, provision and delivery of services and infrastructure by providing PFIs, technical expertise and skills, risk-sharing and providing opportunities for risk-sharing and innovation. The NSW Government has plans to invest over AA$26 billion on road, rail, public and community housing, improving water quality, hospitals and educational facilities. All this cannot be achieved by government alone and needs the ‘Privately Financed Project’ (PPF) mechanism to supplement its funding deficit.

Although the Victorian and NSW State Governments drew on the extensive UK experience in PPPs and PFIs, they were aware of the need to develop infrastructure financing and provision models that reflected their own unique needs, circumstances, and institutions.

5. QUEENSLAND’S NEW STATE INFRASTRUCTURE PLAN AND PPP POLICY

In November 2001, the Queensland Government’s ‘State Infrastructure Plan’ (SIP) was released as a basis for the strategic provision of globally competitive high quality infrastructure, supporting business and industry, and promoting state and regional economic development. The SIP as a whole is a government approach to infrastructure planning for regional development that extends beyond the traditional utilities provided by the Queensland public sector to include telecommunications, innovation, technology and investment in human capital. In light of the established linkage between infrastructure investment and sustainable economic growth and development (Gramlich, 1994; Otto and Voss, 1994; World Bank, 1994; 3iNetwork, 2002) and the inadequacy of existing Queensland infrastructure (EPAC, 1995), the SIP links infrastructure planning to its broad pro-development policies by:

- Establishing strategic economic development objectives for all public and private sector infrastructure planning
- Coordinating and integrating infrastructure provision to support economic development
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- Establishing economic infrastructure priorities for the State Budget
- Providing a mechanism for identifying private sector investment opportunities in infrastructure provision
- Providing greater confidence for businesses to expand and invest in new developments, (Queensland Government 2002b, p.2).

In the ‘State Infrastructure Plan’ the Queensland Government makes a clear linkage between infrastructure and economic growth in the operation of the state economy and provides a number of examples of infrastructure investment enabling important private sector development opportunities and initiatives to proceed.

“Examples of the success of catalytic infrastructure investment programs can also be seen in Queensland. For example, the success of Emerald as one of the few rapidly expanding inland centres in Australia is closely associated with the construction of the Fairbairn Dam and the irrigated agriculture and mining activities that rely on the water the dam supplies. The growth of Gladstone as a light metals centre has a strong connection with a decision to proceed with the Gladstone Power Station. Multi-billion dollar export mine developments in the northwest became possible following the construction of a gas pipeline between Ballera in the southwest and Mount Isa... consideration must now be given to strategic infrastructure investments or facilitation initiatives in strategic land and corridors, research and development infrastructure and broadband telecommunication networks” (Queensland Government, 2002b, p.2).

Each region is characteristic of its own social, cultural, economic, geographic, political and national endowment features, which in turn interact with the provision of infrastructure to determine the region’s economic development path and differences in performance (Higgins and Savoie, 1997; Fujita et al, 1999).

It is well recognised that Queensland’s existing infrastructure is deficient restricting regional development. However in a state with a large land mass and small population base, the government faces serious difficulties and challenges in providing an adequate supply of infrastructure services especially in rural and regional Queensland. These challenges include: the high cost of servicing the small scattered population to ensure equity of access, the demands of fast-growing coastal growth centres, remoteness to key markets, and the infrastructure requirements of large private sector capital intensive projects. Most infrastructure services are still provided through Government-Trading Enterprises (GTEs). These have been extensively restructured over the last 5–6 years, following a historic record of low efficiency and profitability though improving in recent years. Very few assets and services have been fully privatised in Queensland due to union and public opposition. In 1995–96, the return on assets of Queensland GTEs increased...
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from 5 per cent to 7 per cent (Steering Committee, 1997, p.178). The value of present state infrastructure is about A$65 billion. In 2000–2001, the State Budget allocated some A$5.3 billion to capital works expenditure of which A$1.8 billion was for transport and A$1.4 billion for energy.

Queensland's new 'Public Private Partnership Policy – Achieving Value For Money in Public Infrastructure and Service Delivery', is a key government initiative to promote sustainable economic development and growth across the state's disparate regions by providing additional efficient, effective infrastructure services in conjunction with the private sector. In doing so, the Government's aim is to achieve 'value for money' in an administrative framework of PPP whose objectives are as follows:

- To deliver improved services and value for money through appropriate risk sharing between public and private sector parties
- Encourage private sector innovation
- Optimising asset utilisation

In defining the scope of the PPP Policy, the Government distinguishes between 'core' and 'non-core' public services and infrastructure, and includes delivery of 'hard' and 'soft' infrastructure and the ancillary services needed to operate and maintain these facilities. The Policy clearly reserves the provision of 'core public services', for example delivery of community services or the exercise of statutory powers, exclusively to the public sector. Further, the Policy provides for four project delivery options: Design, Build and Operate (DBO); Design, Build, Finance and Operate (DBFO); Build, Own, Operate (BOO), Build, Own, Operate and Transfer (BOOT). A number of these delivery options have been relied on by the Government for some time already. But what is new, however, is the inclusion of a wider range of delivery options within an administrative and managerial framework that is linked to a whole of government 'State Infrastructure Plan' designed to promote the Government's broader commitment to regional economic growth and development. The 'Value For Money' framework is also limited in operation to projects whose expected capital value, subject to variation, exceeds A$30 million. Further, the policy framework is subject to and restricted by other existing State regulatory policies and guidelines including the State Purchasing Policy, Local Industry Policy, Capital Management Works Framework, and Employment Security Policy.

The PPP Policy includes extensive technical Guidance Material – that draws heavily on 'Partnership Victoria' sources – developed by the Queensland Treasury and Department of State Development's Infrastructure Partnerships Taskforce.
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(IPT) for the efficient delivery of infrastructure projects and services. This Guidance Material includes: Overview; Value For Money Framework; Risk Management; Project Resourcing; Probity and Process Governance; Business Case Development; and, Contract Development and Management. The stated purpose of this body of supporting documentation is, "...to provide users with a working knowledge of the methods and issues that arise in infrastructure analysis, and better prepare them to interpret and analyse specialist and technical advice" (Queensland Government, 2002c, p.2).

6. CONCLUDING COMMENTS

The Queensland Government deserves some credit for adopting in 2001–2002, new SIP and PPP Policies and for making a clear link between infrastructure provision and regional economic development. They were long overdue measures. These SIP and PPP initiatives ought to have been developed and implemented by previous Queensland governments over the 1985 to 1995 period in which there were extensive microeconomic reforms being debated and implemented Australia-wide by the Commonwealth and some leading States. However, Queensland can now benefit from the costly experience of other states in Australia as well as from the UK, USA and European Union countries. The PPP Policy should be understood in the context of the low level of privatisation initiatives undertaken in Queensland since 1990 and preferred use of weak forms of privatisation such as competitive tendering, contracting out and corporatisation of government trading entities. Due to Queensland’s unique geographical and population density characteristics and community service obligations that promote equitable access to a minimum level of infrastructure services in remote, rural and regional areas, a large continuing presence by government is required. But since this requires large continuing capital expenditure on the part of government, which has reserved this field to itself in the past, excluding private sector involvement, there has been a long history of under-provision of infrastructure, which has in turn constrained regional growth and development. The two Beattie Labour Government initiatives must therefore be appraised and analysed according to the simple test of whether they can overcome the growth-retarding infrastructure deficit in rural and regional Queensland.

The PPP Policy continues to reserve 'core activities' such as utilities to the public sector. The private sector is still partly excluded so that the evident infrastructure investment shortfall will not be adequately met. Moreover the potential scope of application of the PPP Policy is also constrained by State Preference Policies including the State Purchasing Policy, Local Industry, Employment Security Policy, and the Capital Management Works Framework. Due to the Government reserving the provision of infrastructure in the core area to itself, it will require a continuing commitment of large capital expenditure from the annual State Budget, which will prevent resources being allocated efficiently elsewhere. And finally, because the two SIP and PPP policies have only recently been released so that their initial implementation is still in process, it will take
some 5–10 years for sufficient experience to accumulate in order to allow a
determination to be made whether the 'Value For Money Framework' objective of
providing the best infrastructure delivery options through public, private and PPP
projects, is being met. Although the climate in Queensland may be bright and sunny, the future of infrastructure provision in the State faces the prospect of stormy weather.

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