Addressing the Challenges that are Emerging in the Continued Increase in PPP Use in the Republic of Ireland

Louis Gunnigan & David Eaton
Why choose this topic?

- Topic emerged from PhD research
- Vague understanding of existence of challenges
- No indigenous research into how these challenges came about
- PPP programme moving from pilot stage to full implementation
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<td>– Reports into PPP introduction in Ireland</td>
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<td>– Previous research literature on organisational culture</td>
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Context – PPP in Ireland

- PPP Pilot programme introduced in 2000
- 74 active PPP projects by 2004
- Next phase of PPP programme currently being prepared for release in during 2006
Research Process

- Record the current position
- Identify the challenges under the headings of Risk, Value and Innovation
- Identify the Organisational Culture factors that influence the actions of the people involved
- Establish the means by which each challenge can be met
The Irish PPP Procurement Process

Why this topic?
Research Source
Context
Research Process
Irish PPP Process

The People
The Differences
Risk
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Innovation
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Progress to date
The Way Forward?
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Project Identification

PPP
Options Appraisal
Statutory Process
Pre-procurement
Procurement
Construction
Operation
Review

TRADITIONAL PROCUREMENT
Site Suitability, briefing & site report
Outline Sketch Scheme
Developed Sketch Scheme
Tender Action & Report
Post Contract Cost Control
Practical completion, handover of building, Final Account
The People

The Public Sector
- Risk Averse
- Motivated primarily by actual work but also by opportunity for advancement

The Private Sector
- Risk Acceptance
- Motivated primarily by actual work but also by financial rewards

(Houston 2000)
## The Differences

|-----------------|-----------------|---------|------------------|-------------------|------------|-----------------|------------|

### Public Sector
- Importance of protection of the State
- Protection of the employees of the State
- Political risks of PPP
- Personal risks
- Lack of understanding of the private sector
- Use of private sector consultants in PPP Pilot stage

### Private Sector
- Importance of protection of the shareholders’ interests
- Corporate responsibility
- Risk/Reward relationship
- Personal rewards
- Lack of understanding of the public sector
- Building long-term working relationships with public sector organisations
CA decides on risk transfer

PSO believes risk transfer is excessive

No existing mechanism for joint approach to risk reduction prior to transfer

Jointly work to identify and reduce risks

Develop standard procedures for risk reduction

Incentivise risk reduction

Public sector – risk averse

Private sector – accept risk at a price

Current Status

Outcome

Required

What can be done

Cultural Issues

Risk

CA decides on risk transfer

PSO believes risk transfer is excessive

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Current Status

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What can be done

Cultural Issues

Risk
**Value** *(Time /Cost /Quality)*

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<td>Research Source</td>
<td>Cost is the main issue</td>
<td>CA and PSO to work together to reduce costs without compromising time or quality</td>
<td>Open book tendering</td>
<td>Difficulty for CA in working with PSO to increase PSO profits</td>
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<td>Context</td>
<td>No mechanism for jointly working to reduce overall costs</td>
<td></td>
<td>Stated sum for profit</td>
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<td>Research Process</td>
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<td>Profit incentive for lower costs</td>
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<td>Irish PPP Process</td>
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<td>More widespread use of ECI &amp; PIPS</td>
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**Value**

- Innovation
- Development of True Partnership
- Progress to date
- The Way Forward?
- Conclusion
# Innovation

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<td>Initial output specifications too detailed</td>
<td>Cost saving innovation</td>
<td>State specification in performance terms rather than technical terms, e.g. PIPS, PeBBu</td>
<td>Political risk of getting it wrong (CA)</td>
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<td>Restrictions in planning process mitigated against innovation</td>
<td>Product–enhancing innovation</td>
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<td>Development of understanding of end user needs (PSO)</td>
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<td>Some product enhancing innovation in pilot projects</td>
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## Why this topic?

- Research Source
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- Irish PPP Process
- The People
- The Differences
- Risk
- Value

## Innovation

- Development of True Partnership
- Progress to date
- The Way Forward?
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Development of True Partnership

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Innovation

Development of True Partnership

Progress to date
The Way Forward?
Conclusion

Spirit

Cooperation

Formal Partnership Agreement
Progress to Date

- Some introduction of ECI but not yet in PPP
- Bidding costs becoming a major issue
- Risk allocation inequality being openly debated
- Output specifications moving away from technical description
The Way Forward?

Potential new contractual approach

- Options Appraisal & Partnership
  - Spirit Building
- Procurement and Cooperation
  - Building
- Statutory Process & Formal
  - Partnership Agreement
- Design and Construction
- Operation
- Review
Conclusion

- Challenges exist in Risk, Value and Innovation
- Organisational culture is an issue in addressing the challenges
- Need to develop true partnership rather than try to change organisational culture in order to take on challenges