

# Corporate governance in PPPs

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# What do we mean by corporate governance in PPPs?

“Procedures, practices, incentives used in the preparation and delivery of PPPs”

*UNECE definition*

- nomination/selection procedures
- decision making structures
- consultation
- performance assessment
- accountability
- transparency

# Why good corporate governance in PPPs matters

- PPPs – opportunities and risks
- Good governance increases likelihood of beneficial impact
  - vfm, quality/price of outputs
  - increased support for PPPs
  - less risk of reversal of decisions
  - increased interest from private partners

# Public accountability/scrutiny

- Long term contracts/ financial flows between public and private sectors
- Key issues
  - negotiated at arms length
  - “real” benefits not just off balance sheet
  - size of future financial obligations

# Transparency

- Three stages- consultation, decisions, operations
- Availability of information to Parliament
- Public availability of information
- UK experience
- What is really commercially confidential?

# Commercial success/social progress



# Dispute resolution

- PPPs provide essential services
- Need to ensure continuation of service when a dispute occurs
- Key issues
  - how much it costs
  - avoiding lengthy and costly litigation

# Security and safety

- Plans for improvements in security and safety
- Cost cutting
- PPPs judged on safety record

# Key issues

- Why bad governance exists
- Governments' commitment to improving standards
- Role of media and civil society
- Role of auditor

**Corporate Governance in PPPs: Talk by Patricia Leahy, UK NAO,  
Intosai, Sofia, June 2004**

**Good afternoon. I am very pleased to have this opportunity to speak about corporate governance in PPPs.**

**As we all are aware PPPs are increasingly being used around the world to deliver public services. As Auditors of PPPs it is, of course, important that we understand the key drivers of value for money in PPPs. One of these is undoubtedly the quality of the corporate governance arrangements.**

**These will have an impact on the chances of PPPs delivering services in a value for money way - as well as increasing the chance of them being socially acceptable.**

**It is for this reason that UNECE ( the United Nations Economic Commission for Europe) has started to develop guidelines on corporate governance in PPPs, which it is aiming to finalise by this Autumn. The UK NAO is a member of the UNECE working group on the guidelines. This presentation sets out – briefly - the framework and the key issues that UNECE has identified.**

**First of all it is sensible to explain how UNECE defines corporate governance. As shown on the slide it is “The procedures, practices and incentives used in the preparation and delivery of PPPs.” The slide goes on to set out what in practice this covers.**

**Corporate governance can be interpreted in more narrowly – principally to cover Board structure and the appointment and selection of Board members. UNECE finds a wider interpretation more useful in the PPP context and its guidelines extend to consultation, performance assessment, accountability and transparency.**

**The next slide outlines the main benefits of good corporate governance**

**(i) better vfm – the benefits of which can be taken either in cost reductions or better service**

**(ii) increased support for PPPs, leading to less chance of a reversal of policy and increased interest from private partners.**

**I will quickly go through the main categories of issues discussed in the guidelines:**

**The section on public accountability/scrutiny deals with the potential problems inevitably arising from there being long term contracts/ financial flows between public and private sectors. Not only corruption - but whether deals are entered into solely because of the balance sheet treatment regardless of vfm, - and whether the future financial obligations created are manageable.**

**Hard evidence on corruption does not exist. The anecdotal evidence suggests that corruption is no more, possibly less of a problem than in conventional procurement. Deals being entered into because of the**

**balance sheet treatment is, however, a real issue, as is the size of the future financial obligations being created.**

**The next section discusses the benefits of transparency and what information should be available to Parliament and the public. Research on this issue in the UK shows a mixed picture depending on the sector in question. The performance of the NHS is the best. In other sectors commercial confidentiality is often cited as a reason for information not being given. But in our experience very little information is actually confidential. In the UK proposals exist for disclosure requirements to be established for the whole of the public sector.**

**In another section of the guidelines UNECE examines the extent to which PPPs that are successful commercially can continue the social objectives of traditional public services. Only positive case studies have been identified so far. The issue is how far private sector bodies can alleviate social concerns. The slide shows an example of a PPP project that has delivered social benefits. I believe this section of the UNECE guidelines will recognise that the private sector needs to make a profit – where ways cannot be found to reconcile social interests and profits it will fall to the state to fill the gap.**

**Achieving effective resolution of disputes is the subject matter of another section. The key issue is that PPPs often deliver essential and critical services. The public sector's position in negotiations following disagreements needs to be protected.**

**Contracts need to set out an efficient dispute resolution system. This might include arbitration or mediation. Litigation can damage the commercial relationship and seriously damage the public image of PPPs. The final section is on security and safety and the need for PPPs to continue to invest to improve the security and safety of the service provided. The London Underground PPP is cited as an example. Despite some incidents the evidence is that they are no more frequent than before the PPP and the investment promised under the PPP should improve safety.**

**This has been a very quick run through of the current key issues in UNECE's consideration of corporate governance in PPPs.**

**A number of questions follow – Why bad governance exists given the extensive experience and guidance that exists?**

**What commitment Governments will make to improve standards?**

**How to empower the media and citizens to identify problems?**

**And I will finish with a challenge for we auditors.**

**How best can we encourage good governance in PPPs? The spread of knowledge that a forum such as Intosai can bring certainly suggests to me that we can be a major force for improvement.**

**Thank you.**

