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PPPs & Veireno AS

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For this essay I will be focusing on partnerships between governments and actors in the private sector. I will be looking at the core idea behind such partnerships, issues with such partnerships and litterature on its efficacy. The case through which I will be looking at this is a recent partnership between the city council of Oslo, Norway and a private waste disposal company. As a quick primer, the city council of Oslo did in 2015 start a tender for the waste collection of the city's four regions. The winner of the process, for all of the regions was the inexperienced company Veireno AS. With a bid 16% and $12 million below the second contender Veireno was the first company to win all of the regions (Bjørnestad & Kirkebøen, 2017; Tømmerås, 2015, 2016). The contract was to go into effect in October 2016 and in the time between there was also an election which resulted in a change of political power for the city council. In the end of November 2016, as Veireno had been in control of the city's waste disposal for one month, the council had received about 18 000 complaints regarding the company's service delivery (Eggesvik & Elnan, 2017). Through October 2016 till March 2017 when the contract was invalidated and the municipality itself took over the waste disposal for the city (after the company settled for bankruptcy), Veireno AS had racked up more than 2000 violations of the Norwegian Working Environment Act and more than 30 000 complaints had been filed (Ibid.; Lavik & Hellesnes, 2017; Taylor, 2017). I will return to the case at the end of this essay.

Any state or government are inherently expected to be responsible for providing a certain set of public infrastructure and services, and as states and governments grow in complexity and scope, more and more services are expected of the public in return for their tax input. At various points, and in increasing amounts, governments seeking to both improve performance and reduce risk engage in various forms of partnerships with the private sector (Linder, 1999; Posner, Ryu & Tkachenko, 2009). The most common term for these kinds of partnerships is Public Private Partnerships (PPP), but what such a partnership entails or what kinds of agreements it is limited to is a matter of debate (Hodge & Greve, 2009). Linder (1999) define it "as a rubric for describing cooperative ventures between the state and private business." Savas (2005) argue that privatization, as a philosophical position regarding the relationship between private and public institutions, constitutes as a part of the PPP definition in that both parties play an important role. Savas disagree with previous notions that regard privatization as an simplistic action. Forrer et. al (2010) on the other hand disregard Savas and argue for a limited definition that, "[PPPs] are ongoing agreements between government and private sector organizations in which the private organization participates in the decision-making and production of a public good or service [and] share the risk of that production" and so it leaves privatization to its own. This paper follows the broader definition such as Savas' (2005) in which privatization is included and where it is assumed that privatized services are still under legal requirements and policy set by the government and thus share responsibility and need a dialogue. PPPs in one form or another has a long history and dates back to at least the Roman Empire where it was used to e.g. manage tax and toll collection (Forrer et. al, 2010). Since the 1990s there has been a steady growth in its use and a multitude of governments have set out to privatize several features of public service delivery of the state to the private sector and to companies that are, in the light of capitalism, inherently expected to turn profits (Boivard, 2010; Friedman, 1970).

One of the central points for PPP advocates is that as businesses are to turn profits, they are more inclined to optimize efficiency, therefore they run cheaper for providing the same service. To the same point businesses need to be innovative in order to stay competitive and so privatization of public services helps improve innovation. This again reduce financial pressure and can e.g. alleviate politicians from using tax increases to create budgetary leverage (Solomon, 2009; Macdonald, 2017). The problems that can arise on the other hand are rather many, but they are often more in terms of potential risks rather than an immediate effect. One issue is the potential for companies to exploit taxpayer money by making profits and is an issue that socialist leaning political factions often use. It is also an issue that the government stand to lose control over potentially critical parts of infrastructure and thus also protection for its citizens. At its core, the main debate in privatizing public infrastructure or engaging in PPPs is therefore often the act of balancing between the potential efficiency gains versus the risk of loss of control going awry.

The fabric and value of a social state has always been, in simplistic terms, to collectively share the benefits between those who provide for it. As with most anything in politics, when and through what means the society as a whole benefit and achieve pareto optimality is a complex issue of its own—and is also beyond the scope of this essay (Guenther et. al, 2016; Ng, 2004). But leaving the complexity aside, left leaning political factions that leverage socialist principles argue, at least on paper, that public goods can only be sufficiently well managed through the state and that corporate interests can not be aligned with public interests (Boivard, 2010; Tsoulfidis, 2010). Far left communist states have previously gone so far as to strive to eliminate the private sector altogether (Goodman & Loveman, 1991). But what is expected that the government is to deliver in terms of services also heavily depends on the nation state and cultural differences within and thus every prospect of a partnership needs to be viewed in its own context (Macdonald, 2017). Industry and more conservative leaning political factions argue that the public sector often is better equipped to provide the efficiency needed in the contemporary world (Boivard, 2010). It is a fair argument that market mechanisms can be leveraged to provide the state with better value for its money, and it is certainly true that as businesses operate under different priorities and principles they are in possession of skills and competence of a dynamic nature that will never be vital to a state serving a general public. Research also show that outsourcing of public infrastructure to the private sector can become true success stories, but there is no inherent correlation (Huxham & Hibbert, 2008). Hodge, Greve & Boardman (2010) argue that the success stories usually also inhibit an aspect of good and careful governance from the government, ensuring the businesses taking no undue advantage of citizens. Furthermore, they argue that the gains citizens did see did not appear through any inherent superior private sector performance either.

Often, the policy promises regarding privatization of public services are much more optimistic than what the new reality show (Hodge & Greve, 2009). This does still not necessarily entail that these partnerships have been completely unsuccessful, but rather that its effects was in varying degrees overstated. Flinders (2010) argue further that the effect and success rate differ heavily per area. Whereas contracting out in areas such as building of roads show large efficiency improvements, PPP provisions of schools and hospitals often does not (Forrer et. al, 2010). The obvious difference in these examples is the level of direct service delivery. Whereas the result of a road project is a public service, the result of a hospital deal is a continuous public service with private actors on the public's behalf. PPPs are necessarily of the latter character and from the perspective of the businesses, the government is a large and stable client and thus partnering can be good for its future security, given everything else is in order.

The single biggest issue when it comes to private involvement in the delivery of infrastructure and services for the public is accountability in one form or another. If the private sector does not deliver on its promises under moral, ethical, qualitative or legal standards, it is essential for the government to be able to hold the private actor(s) accountable for their misperformance. The ability to accomplish such accountability in an sufficient manner is the risk run by the governments, and thus should be mitigated to the best of ability. But still, and depending on the situation, reaping the benefit while still being able to keep the necessary protections is something of a fine balance. Willems & Van Dooren (2011) state that accountability from the public to the government has a long history and that the scope of what it entails has expanded from financial accounting to good governance. They further argue that the shift towards PPPs led to increased mechanisms for accountability but that it at the same time still has serious shortcomings. Forrer et. al (2010) argue that, before entering in an agreement, the terms and conditions deserve high scrutiny by the government because private actors are entering for very different reasons than those of the state. And PPP contracts are often made for long periods of time, as shorter terms increase bureaucracy and lessens private sector security (Flinders, 2010). Governments can also not rely on the businesses to hold themselves accountable within partnerships and thus good and continuous audit processes are imperative (Forrer et. al, 2010). This is also important from the government's side in order to ensure an equal power relationship between the parties, which can influence the efficiency of the partnership and thus also its value (Shaoul et. al, 2012). Not all public services are easily quantifiable to the extent that an audit will be able to uncover the true value either. Flinders (2010) use the example of Police Officers and argue that the fact that one officer makes more arrests than another does not necessarily mean that the former is a 'better' officer than the latter. It might just as well be that the opposite is true as the value of a Police Officer is more likely to lie in his ability to e.g. de-escalate situations before a crime is committed. Forrer et. al (2010) argue that however the measures, it is crucial that they are agreed upon prior to the formation of the partnership in order to build a good working relationship between the involved parties.

As has been touched upon a couple of times the debate around PPPs revolve heavily around the risks involved in privatization the delivery of public goods. Of most notable character are issues such as fragmentation of service delivery, erosion of public sector skill base and immeasurability of outputs and efficacy (Macdonald, 2017). And this yet assume good governance is already in place. If this is not present, further risks such as was discussed in regards to accountability, namely the risk of private sector monopolization, contract corruption and unequal power relationships. Forrer et. al (2010) argue that, as we have discussed, one of the reasons governments enter PPPs is due to the shifting of risks, but the government cannot shift all of the risk. In the case of an interruption of service from the business, the government need to retain some residual capacity to still be able to perform the function.

In the case of the city of Oslo's waste disposal problem reports from the council member in charge of the tender back in 2015 indicate that there was no assessment of how Veireno AS was to deliver, nor how they could justify such a low offer. In contrast to previous tenders, the weighting of price had been adjusted from 50% to 75% and understanding of the assignment was only weighted at 15% (Eggesvik, 2017). Cost was then a larger driver than before in the process but as the risk of failure of delivery was not well addressed in the contract, the risk taken landed solely on the city council—without them apparently being fully aware of its consequences (Dagsnytt Atten, 2017). Although the failure to deliver quickly became apparent with the reporting of more than 5000 complaints in the first month, the city council was unable to provide an alternative solution for another five months. And that again was only because the company filed for bankruptcy. The city council was left with no other options due to the monopolization of service the tender had resulted in and the municipality retaining no residual capacity (Eggesvik & Elnan, 2017). From the risks and points that has been discussed throughout this case, it is evident that the PPP of Veireno and the city council of Oslo first of all started with a very weak plan. The previous city council's lack of effort in ensuring that the contracting company would be able to deliver on its promise and the current council's inability to provide an alternative solution (which may be attributed to an unequal contract) led to a near incapacitation of Oslo's waste disposal. The details will be discussed further in the next essay.

Public Private Partnerships have both given room for fruitful plays between business and government, but there are also large numbers of failed partnerships; on near every grounds possible, and with near every outcome possible (Hodge & Greve, 2009). Good partnerships are often characterized by the level of good and thorough governance by the government;

creating clear lines of actionable accountability on the part of the business. In any regard, a good partnership is complex in that it has to take a lot of environmental and circumstantial factors into account, which again makes every partnership unique. Given this per-case nature it is easy to see why PPPs also are not easy; every considered case is fundamentally different and require skilful planning and broad considerations from both parties—and if it so has, it just might work.

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