Tread Carefully with Public-Private Partnerships

Before entering a contract, understand the framework and six key components

by Kathryn M. Vanden Berk

There continues to be a lot of buzz surrounding public-private partnerships (PPPs).

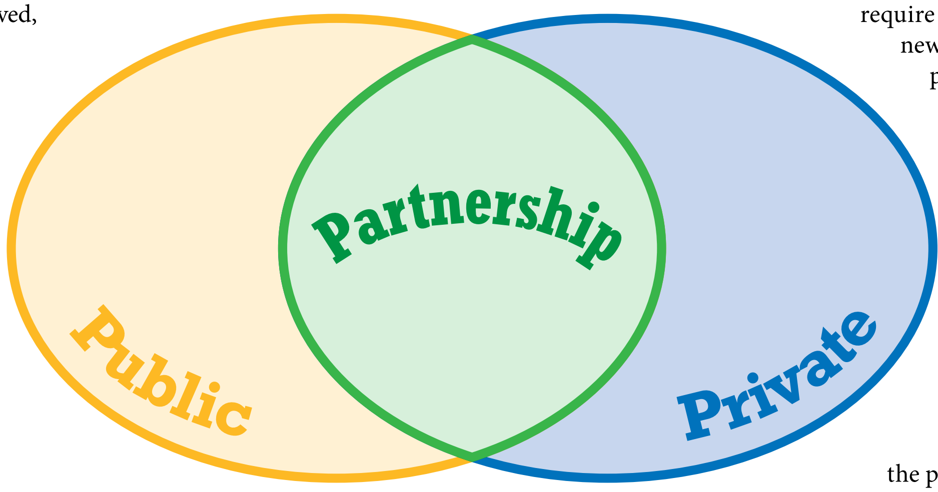
There is no doubt that PPPs present nonprofit human service organizations with new business opportunities, but these relationships also involve risks. It's important that providers fully understand how PPPs work, as well as what risks and rewards are involved, before they enter into such a contract.

PPPs operate at the boundary of the public and private sectors. Thus, they represent a new way for public services to be delivered.

On the surface, PPPs seem like a good deal for everyone involved. The government accomplishes its goals without expanding bureaucracy. Private agencies gain a new revenue stream to support larger workforces and more complex organizations. The public receives expected services at a better value for their tax dollars.

PPPs involve contractual arrangements in which the resources of a public agency and a private organization are combined. In some cases, both parties share the risks and rewards of the program, although the private agency's potential for profit typically is limited.

PPPs are common for delivering services related to public safety, public utilities, and charter schools. In Chicago, for example, private providers operate parking meters and the Chicago Skyway toll road.



In the child welfare field, most PPPs center around the delivery of specific services. The licensing and operating of foster homes is a common example.

Understanding the 'Public' and 'Private' Roles

When a public agency enters into a PPP, it gives up its traditional direct services role and instead takes on a procurement and monitoring role. Its essential tasks are to define the scope of the business and monitor achievement.

Defining the scope of business requires a contract that clearly specifies priorities, targets, outputs, and incentives.

This change from input-based to output-based contracting may require the government to find new ways of prioritizing, providing resources for, and approving transactions. It also requires paying attention to the expectations of both parties so that contractors are not lured into promising more than they can deliver.

Almost always, the public agency retains ultimate program responsibility. This requires careful monitoring of the contract so the provider does not become lax, nonproductive, or unscrupulous.

In the best PPPs, the government finds ways to monitor without micromanaging the contract.

On the other hand, the essential role and responsibility of the private agency is to deliver the business objectives in a cost-effective way.

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There is no set formula or absolute, foolproof technique for crafting successful PPPs. There are, however, six key components that greatly increase the chances of success.

The private agency in a PPP must be effective and efficient, and it must be capable of tracking the outcomes that fulfill the contract.

The most important task for a potential private provider is to be sure that the organization's capacity is equal to the task. This may require additional staff training, installing new office equipment, or taking on debt-financed facilities.

Over time, this investment is designed to pay off. But, it often can be a barrier at the beginning of a project, one that might put the kibosh on the entire initiative.

Preparing the Organization for Success

Organizations considering entering a PPP must, first and foremost, be sure they can articulate how the partnership will benefit the agency. This should be discussed with, and communicated to, the board of directors.

The organization should also pay careful attention to how the contract defines the partnership and consider:

- Does the contract adequately describe the services and the outputs?
- Can appropriate outputs even be defined?
- Should there be a period of transition so that the organization can get a better idea of what is involved before establishing a long-term contractual relationship?

There is no set formula or absolute, foolproof technique for crafting successful PPPs. There are, however, six key components that greatly increase the chances of success. Learn more about these components in the sidebar on this page.

PPPs do not offer a universal solution, but they do provide a flexible framework for leveraging the skills and resources of the private sector to provide better quality, more sustainable, and more cost-effective public services.

DISCLAIMER

This article has been prepared to convey general information about a topic of interest to the boards and executive staff of nonprofit human service organizations. Although prepared by an attorney, it should not be used as a substitute for legal counseling in specific situations. Readers should not act upon the information contained in this article without professional guidance.

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Six Keys to Successful Public-Private Partnerships

There are six critical components of successful public-private partnerships (PPPs):

- **Commitment.** There must be commitment from "the top" on both sides. For private organizations, this means the board of directors.
- **Monitoring.** Once a partnership is established, the public sector party must remain actively involved in the project or program. Ongoing monitoring should be done as often as needed to follow progress and ensure success.
- **Detailed Contract.** The contract must clearly describe the responsibilities of each partner and include a clearly defined method for resolving disputes.
- **Guaranteed Revenue Stream.** The revenue needed to make the project or program sustainable must be assured for the length of the partnership.
- **Stakeholder Support.** In addition to gaining approval from the board of directors, the private sector party must communicate openly and candidly with employees, service beneficiaries, local media, and affected labor unions. This helps to avoid misconceptions and ensure the benefits of the partnership are understood.
- **Value for the Money.** The best way for PPPs to succeed is for everyone to realize that the public is getting maximum value for its money. The organization doesn't always need to be the absolute lowest bidder, but it must be able to demonstrate that it is the best choice for the partnership despite the higher cost.