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## Public private partnerships

With care and effort to align objectives lasting partnerships can be achieved

Governments & public sector organizations across the globe are increasingly turning to public private initiatives as a means to deliver improvements in public services. Under these schemes, private sector business insight can be applied to collaborative public sector projects.

In public private partnerships (PPP), the private sector manages the design, build, finance and operation of assets and services traditionally procured by government and funded by taxpayers.

A recent report by KPMG's Global Governments & Public Sector Practice and the Economist Intelligence Unit confirmed the growing popularity of these schemes.

### What is driving PPP?

- The growing popularity of PPP projects can be ascribed to global economic, market and investment trends:
- economic — given the huge costs and complexity of infrastructure projects there is an obvious gap for the private sector to step into
- market — new commercial models go beyond financing projects to allocating services to private companies through competitive bidding
- investment — infrastructure has emerged as a popular alternative investment class, offering diversification to investors.

## **The challenges**

As a pioneer of PPP schemes, KPMG firms have a thorough understanding of their immense potential. In the U.K., where PPP originated, a census of PPP projects by the U.K.'s National Audit Office found that 78 percent of the projects surveyed were delivering price certainty and resulted in no construction-related price increases to the government after contracts were awarded.

As an advisor to government in the creation of PPPs, our professionals frequently encounter the following issues:

- Procurement experience — PPPs are complex transactions and project teams may lack specialist experience. This can put the public sector at a disadvantage in negotiations with potential partners with considerable global experience.
- Public opinion — while those within government are convinced of their value, the electorate still needs to be won over. But details of partnerships are often difficult to explain.
- Political will — maintaining the political will to drive through PPPs over the long term is vital. Without it, private sector operators may divert key resources elsewhere.
- Thinking through objectives — decisions taken at the earliest stages can have long term financial, legal and technical consequences. Through appropriate examination of project objectives and consequences, experienced advisors can spot potential pitfalls.
- Making a partnership happen — the two parties involved must understand their differing objectives and priorities. A PPP has to find the ground where both parties feel they can succeed and meet their objectives.

## **What KPMG firms bring**

Our depth of experience of PPP means we can harmonize conflict and support governments & public sector organizations in overcoming challenges.

How can we make PPP work?

- Global reach — we offer our member firms' experience of multiple global markets - operating in 145 countries. We

understand how both sides work and can act as the bridge between governments and the private sector.

- Ability to handle complexity and size — PPPs are complex to structure because of their size and the long-term risks involved. They require a range of advisory services, including strategic advisory, financial analysis, liaison with investors and financial modeling. Tax implications need to be clarified and debt-restructuring carried out. Procurement advice, fairness audits and risk valuation are other areas to which KPMG firms can bring their experience.
- Track record — KPMG firms have been involved with PPP from the start. We have pioneered projects in defense, education and transport and have produced new generations of PPP models.

### The road ahead

Despite some fairly fundamental differences in the core objectives of public and private sector organizations, there have been significant improvements in structuring and managing large scale infrastructure partnerships in recent years. In our experience, when care and effort is taken to align objectives, true partnerships can be successfully achieved.

### Sources:

- [Performance agenda: an international government survey](#) , carried out by KPMG International and the Economist Intelligence Unit, June 2007.
- Lights; Water; Motion; (Strategy and Business); Issue 46, spring 2007. [http://www.strategy-business.com/media/file/sb46\\_07104.pdf](http://www.strategy-business.com/media/file/sb46_07104.pdf) (PDF 891 KB)



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