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# International Experience with PPP Programs: Success, Failure and Key Lessons

Delivering Public-Private Partnerships in PNG

22 February 2012

# Why PPPs?

## ✓ Value for Money

- Synergies between design, construction, financing, operation, maintenance
- Efficient risk bearing or mitigation
- Better ability to innovate
- Lower long term use of Government resources

## ✓ Focus on long-term service rather than on asset

- Fitness for Purpose risk borne by private sector
- Payments only commence following successful commissioning
- Payments depend on performance

## ✓ Focus on Whole-of-Life rather than initial construction

- Maintenance driven by need, not budget availability

## ✓ Overall, better quality outcomes

# What PPPs are not

## ✘ A new source of money

- Somebody has to pay for them – either the Government or Project users
- Both have impact on Government balance sheet

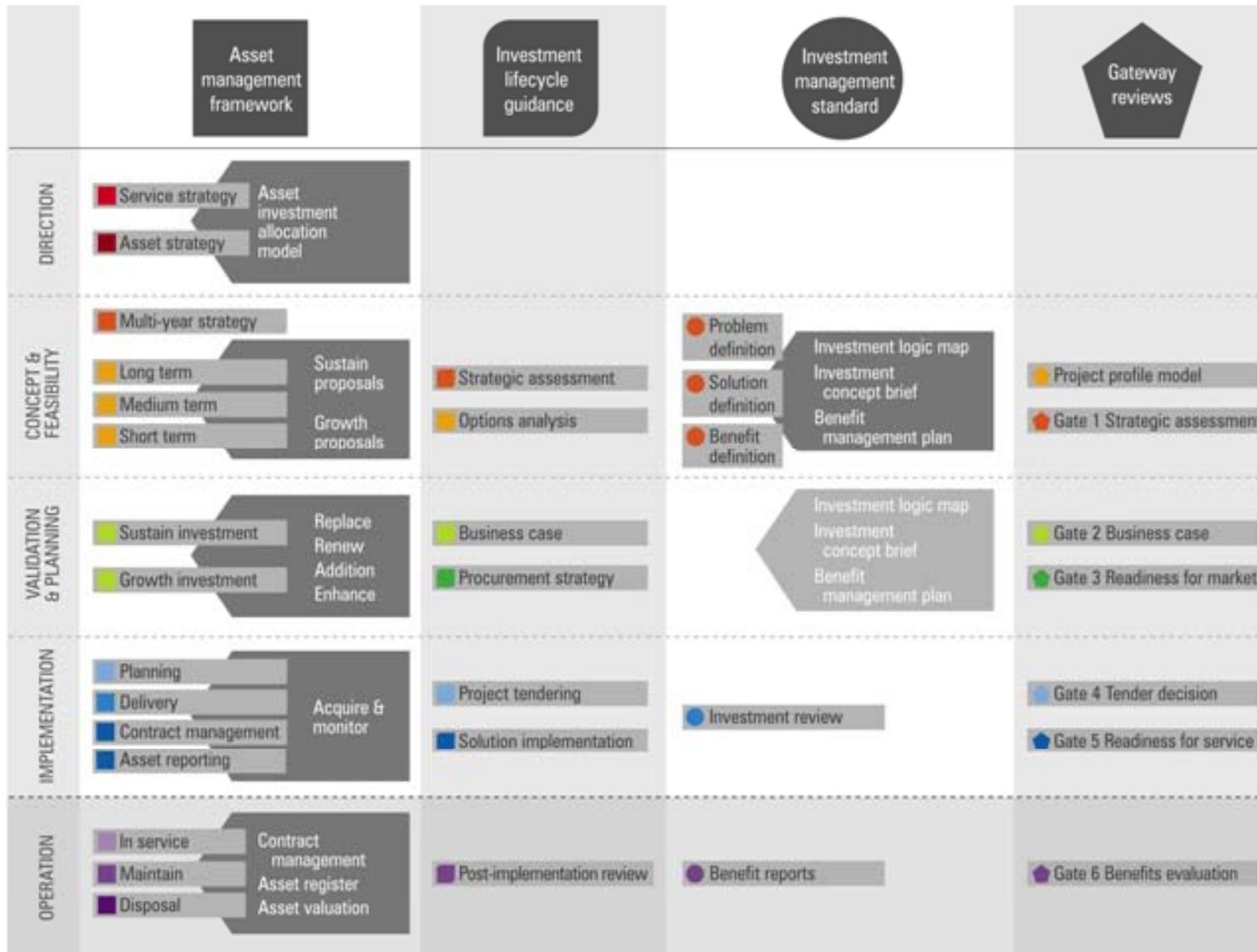
## ✘ A magic wand

- PPPs don't turn bad projects into good projects

## ✘ Suitable for all projects

- **Small projects**, as high procurement costs mean that they are likely to be uneconomic
- Projects involving **new technology** or **software development**, as the private sector generally can't bear development risks
- Projects that need **future flexibility**, as major changes may require complex contractual renegotiations

# PPPs sit within Government's Asset Management Framework



Department of Treasury & Finance, Victoria

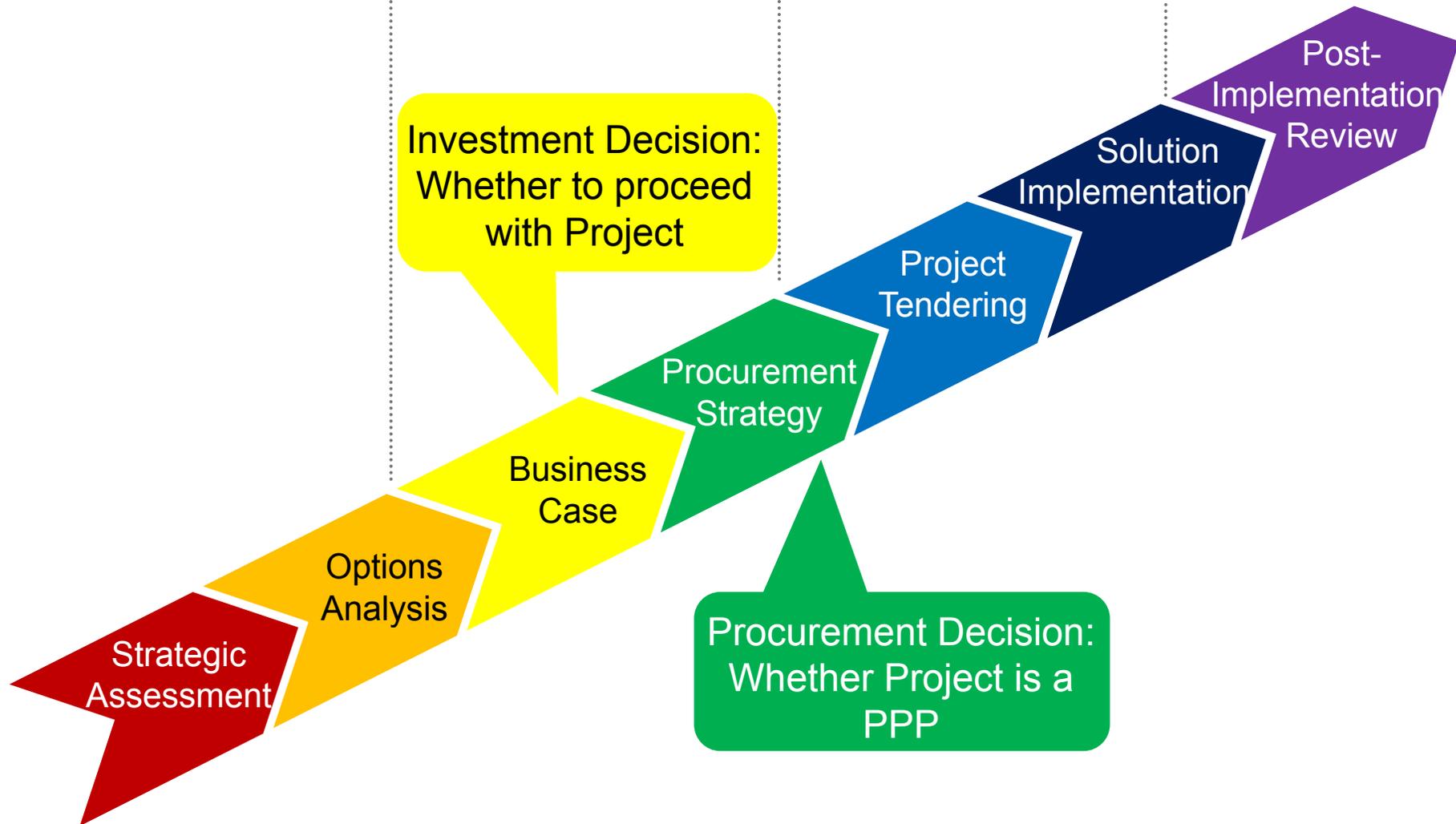
# Infrastructure Investment Lifecycle

Concept & feasibility

Validation & planning

Implementation

Operation



# PPP Process

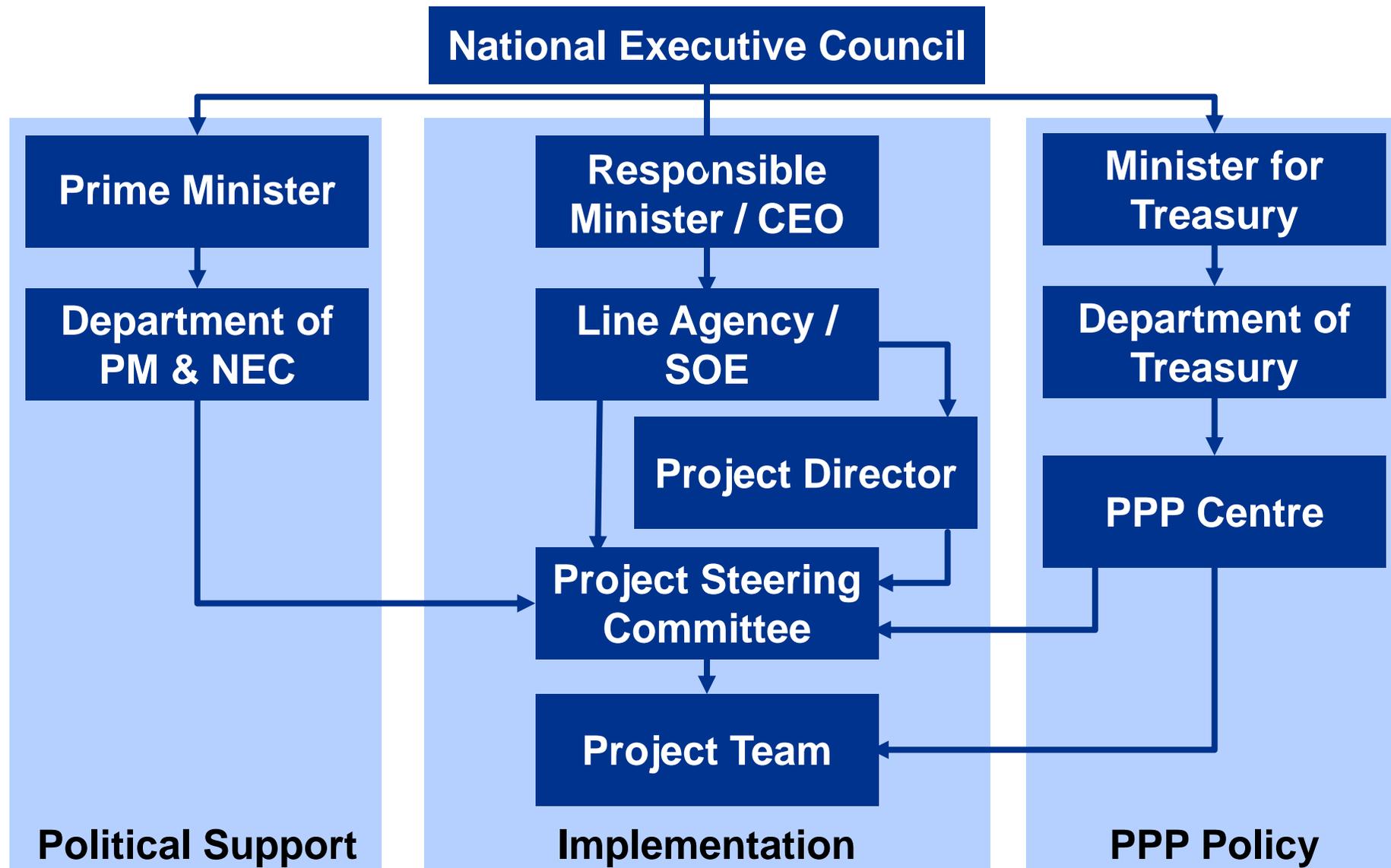
## Government approvals



## Key delivery phase



# PPP Governance Structure



# Is a PPP Law necessary?

## ▶ **PPPs are different from traditional contracts**

- Complex - integrating design, construction, financing, operation, maintenance
- Involve many parties indirectly - users, sub-contractors, financiers, insurers
- Inflexible – changes require complex renegotiations
- Long term (25+ years) commitments
- Large contingent liabilities - up to full contract value on early termination
- Value for Money can depend on allowance for future risks

## ▶ **Hence, PPPs need to sit within well-developed institutional framework**

- PPP Law formalises PPP Policy

## ▶ **Important that PPP Law doesn't limit flexibility to adapt PPP model to changing circumstances**

# Some recent international PPP developments

- ▶ **Australia's *National PPP Guidelines*, December 2008**
  - Drew together best of individual State and Commonwealth guidance
- ▶ ***Review of Barriers to Competition and Efficiency in the Procurement of PPPs*, KPMG for Infrastructure Australia, May 2010**
  - Broadly supportive of Australian practices
  - Identified some problems and recommended some improvements
- ▶ **The UK's *Reform of the Private Finance Initiative: Call for Evidence*, HM Treasury, December 2011**
  - Aimed at improving the UK's relatively inefficient practices



# Key success factors for PPP projects and programmes

- ▶ **Strong political support for PPP Policy and for Project**
- ▶ **Consistent application of PPP Policy**
- ▶ **Appropriate project selection**
- ▶ **Clear forward program of projects, to give market confidence**
- ▶ **Experienced Project Director and Project Team**
- ▶ **Appropriate level of delegated authority**
- ▶ **Ready access to key decision makers**
- ▶ **Timely decisions**

# Key success factors for PPP projects

- ▶ **Use of international precedents**
- ▶ **Extensive project preparation**
- ▶ **Well developed output specification**
- ▶ **Limit design specification to critical matters such as safety standards**
- ▶ **Extensive interaction with bidders at all stages**
- ▶ **Only using one bid stage unless absolutely necessary**
- ▶ **Consider contribution towards bid costs**

# What makes PPP projects fail?

- ▶ Failure rate is **very low**
- ▶ Most failures have been due to poor demand forecasts (e.g. toll roads)
- ▶ Other causes:
  - Over-complexity (e.g. London Underground)
  - Poor due diligence / under-pricing by Contractor (e.g. Reliance Rail)
  - Requirement for new technology or software development (e.g. NHS Patient Records)

# Thank you

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