A skills and knowledge-base for PPPs

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A significant amount has been written about public–private partnerships (PPPs), including from a policy, legislative framework and marketplace angle – some of it very supportive of the benefits of these arrangements, some critical. Less has been written about the financial capabilities – including the skills of individuals and teams – and financial frameworks required for the successful set up and delivery of a PPP arrangement or programme.

As PPPs represent perhaps the most complex arrangements that public sector financial professionals will encounter, attaining the right skills at the right time becomes relevant to the broader government finance professionalisation debate. This includes the ongoing development of government financial frameworks. For example, we suggest that for PPPs to work and be successful public sector accounting frameworks need to be on an accruals basis – using International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS).

Undertaking a PPP, and getting the right capability in place at the right time to achieve this, therefore provides the opportunity to develop a wider legacy of financial skills within government.

Both public and private sector parties must have a consistent level of skills and a willingness to develop their knowledge jointly. Without consistency of knowledge across both parties and a willingness to develop knowledge together, PPPs may experience delays, offer sub-optimal value for money or suffer from post-willingness to develop knowledge together. Public and private sector parties must have a consistent level of skills and a willingness to develop their knowledge jointly. Without consistency of knowledge across both parties and a willingness to develop knowledge together, PPPs may experience delays, offer sub-optimal value for money or suffer from post-contract award outcomes that are not as beneficial as originally envisaged.

Getting the right skills in-house

Before embarking on a PPP arrangement or programme, both senior public sector officials and private sector directors need to consider whether they have all of the financial capabilities or skills they need in-house. In the absence of a particular skill set, it might be appropriate to train, hire or appoint external advisors.

To assist with assessing the capacities required, it is helpful to understand the different roles that finance professionals might have and the different work they might deliver. A distinction can be drawn between those finance professionals responsible for the ‘stewardship’ of funds and those responsible for the ‘strategy’.

If a PPP programme is being launched, there is the opportunity to move financial resources between individual PPPs, either with a range of organisations or within a central team. Again, some of these functional skills (which include business case, modelling, negotiation and auditing skills) may be required throughout the life of the PPP arrangement, whereas others are only needed periodically. The challenge is to map when skills will be required.

Standardising requirements, approaches and contracts

As the service requirements for a PPP will be fixed for up to 30 years via a legally binding contract supported by significant sums of private financing, a high degree of diligence is required at the procurement stage. This diligence covers the responsibilities of each partner in relation to the risk and reward events. It is for this reason that PPP procurement often takes a long period of time and involves a wide range of professional skills, including significant input from financial professionals.

Asking finance and other professionals to articulate the ‘investment need’ is a powerful way of getting them to consider the way in which assets will be used and services delivered. This should be tested as part of the development of a business case in line with best practice, which will need to measure need and estimate pricing. In the case of PPP, the need is often set out in terms of service-based outputs linked with a series of risks that the private sector partner is being asked to take on with its private finance. The mechanism of a market competition further refines the ‘investment need’ and pricing. It also challenges the risks (and rewards) that different private sector bidders are willing to take. Once the contract has been awarded, the investment needs to continue to be monitored against the contractual terms and the original business case.

The output of a PPP arrangement is likely to be the creation of a new or significantly refurbished capital asset during the construction phase. After this phase comes the operational phase, at which point there is a lower level of financial capability requiring different skills. However, it is still important that the entire team understands the context of the arrangements, the history and discussions in relation to the arrangement and can identify contract trigger points that may result in a need to ramp up the financial capability. The real gains in PPP are delivered not upon the signing of a transaction but on the successful implementation of the PPP contract, requiring effective oversight and partnering skills within the public sector partner.

By standardising requirements, approaches and contracts the need for sophisticated financial capability can potentially be reduced. For example, if there is a standard PPP approach on offer, the need for a focus on the financial strategy might diminish. Standard PPP contracts take less time for both the public sector and the private sector to understand and negotiate.

Understanding different financial frameworks

The accounting and financial position for public sector entities around the world is often less clear than it is for major private
sector entities. Some jurisdictions have highly developed frameworks. In the UK, for example, the regime for public sector accounting involves complexity that is, arguably, more testing than that of the private sector. In the UK, expenditure budgets are normally fixed and outturns need to be achieved within tight tolerance (below budget, as well as over). Under this budgetary regime, there are a number of types of spending. For example, capital and revenue budgets are recorded separately and there are limited opportunities to flex budgets, either in-year or between years. Budgetary affordability is, for the most part, determined by financial accounting. However, the national accounts, which measure deficit and debt within a statistical framework, are also relevant. In the UK, in the case of certain PPP arrangements, budgetary affordability is determined by national accounts.

At the other end of the spectrum of complexity, public sector entities in many jurisdictions still report on a cash basis. Here, no consideration is given to accruals, assets or liabilities. Entering PPP arrangements with a cash accounting system still in place would seem to be problematic. Thankfully we are seeing a worldwide trend from cash-based accounting to accrual accounting and budgeting. This is a key building block in progress towards the broader context of public sector financial management reform.

Issues to consider

We ask below a series of questions that are useful when assessing financial skills and frameworks to ensure the successful set up and delivery of PPP arrangements:

- Have you assessed the members of the finance team and the wider finance community in your organisation to establish whether you have the right mix of roles?
- There are a range of technical capabilities required for financial professions involved in PPP arrangements, including business cases, financial modelling, financial accounting, contract auditing, etc. Do you have, or do you know how you might develop or acquire, the skills to cover each?
- Do you have a clear understanding of the life cycle of your PPP arrangement or programme? Can you map the range of financial skills/mix of roles against this life cycle?
- If you have undertaken a PPP arrangement in the past, do you recognise that they offer a significant opportunity to really understand the financial implications underpinning the delivery of public services? Irrespective of this, do you have an approach to maximise the benefits gained through setting up PPP arrangements?
- Some of the benefits of PPP arrangements are: forcing an articulation of the need, contractualising the arrangement, pricing the service and monetarising risk. Do you agree? If you do, even if your PPP project ultimately does not progress, how will you add this information to the ‘corporate memory’?
- Have you considered the training requirement for your finance team and the wider finance community within your organisations? Are there key roles that you will need to fill and where, once filled, you will need to retain these individuals? What is the role of the central function?
If there are not adequate financial skills and knowledge within the public sector, do you believe that a private sector financier will price for this risk?

Do you believe there is a robust financial framework in place? For example, we believe that entering PPP arrangements with a cash accounting system still in place would seem to be problematic.

PPPs are partnership arrangements between the public sector and private sector. Do you understand the financial capacity and financial frameworks of your counterparty? Are you confident they will result in a successful set up and delivery of the PPP arrangement?

Through a PPP programme there is a real opportunity to develop a wider legacy of financial skills within a jurisdiction. This is in addition to developing infrastructure and providing construction and facilities management jobs. Have you got a skills transfer programme as a result of your PPP programme?

### Conclusion

Setting up a PPP arrangement is expensive – it has been estimated that the combined spend by the public and private sector, either externally or with internal teams, comes to more than ten per cent of the capital value in some cases. This is the cost of articulating the need, contractualising the arrangement, etc. Then, once the PPP arrangement is operational, it is vital that money is spent on appropriate monitoring plans. This supports the case for putting in place appropriate financial skills and frameworks at the right time.

PPP arrangements are one of very few types of arrangement that governments enter into where the costs of not having the right skills and frameworks in place at the right time are directly passed back to them. With PPP arrangements, a private sector bidder is likely to load the price quoted to cover risks associated with a lack of public sector commissioner finance capacity. For example, if it is going to take twice as long and involve twice as much work to progress a bid, they will price for this.

Putting in place the right finance skills and the right financial frameworks (including accruals accounting under IFRS and IPSAS) before embarking on a PPP arrangement or programme are investments that will pay back significantly for both government and private sector bidders.

### ENDNOTE

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