

IT Projects in Public Sector: Who's at Risk...and Who pays for it...

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KPMG Slovakia

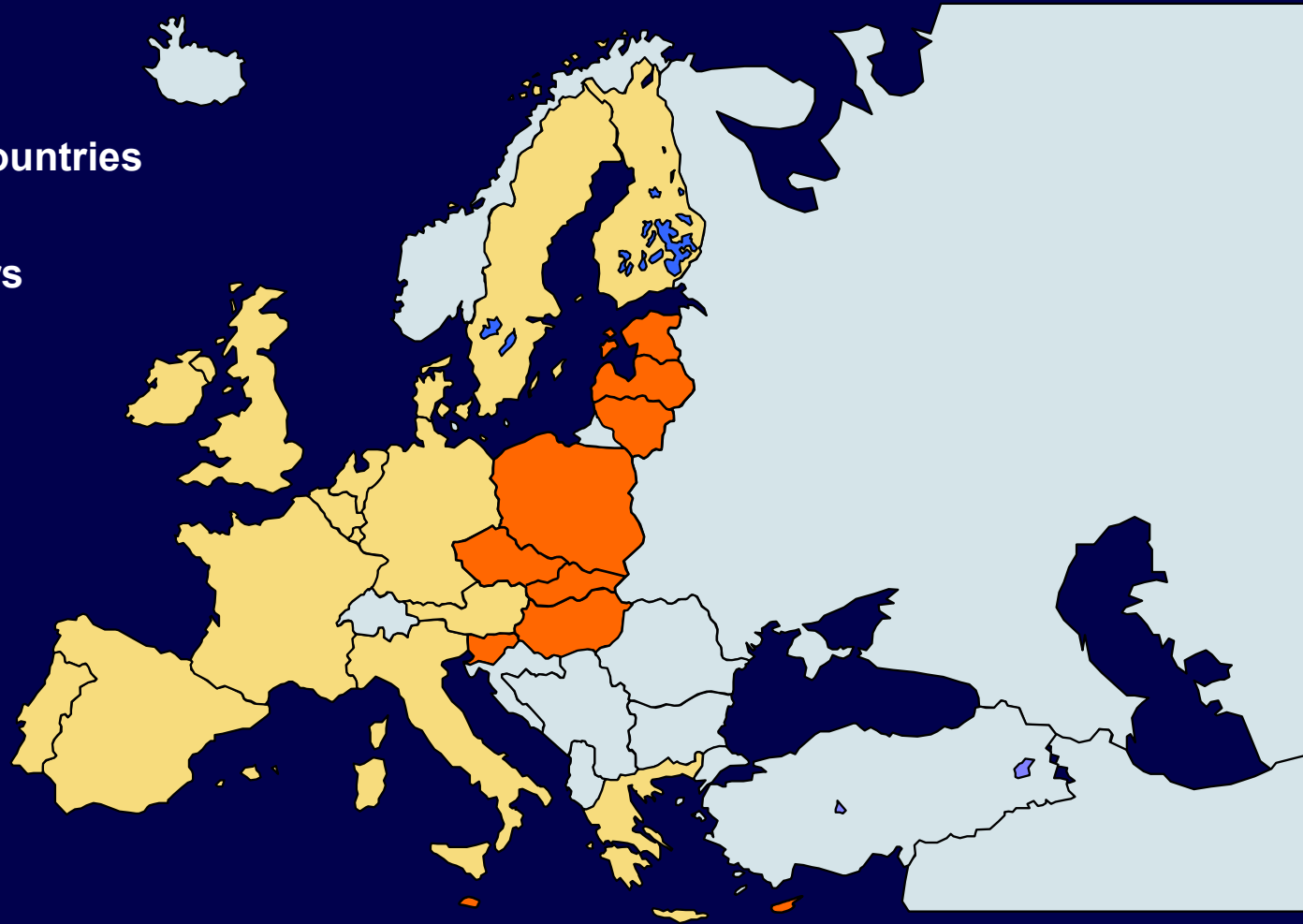
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EU Accession – Going forward

Existing EU countries

New EU-joiners



EU Enlargement Foreign direct investment

- Reduced political and economic risk, harmonisation of legislation, free movement of goods and (ultimately) services, etc.
- Leading to doubling of FDI to Euro 30 bln per annum into EU accession countries
- EU accession will reinvigorate FDI in the region following the slow down / completion of privatisation in recent years

	KPMG	Clients
Opportunities	<ul style="list-style-type: none">■ Increased number of transactions (both PE and corporates)	<ul style="list-style-type: none">■ New stable market and investment potential■ Business opportunities due to harmonization■ Reduced transaction costs

EU Enlargement

Investments initiated by EU financial assistance

- Euro 40bn is to be allocated in 2004-2006 to accession countries in EU financial aid (structural funds and cohesion funds)

	KPMG	Clients
Direct opportunities	<ul style="list-style-type: none">■ Assistance in fund raising■ Participation in public tenders funded by EU financial assistance■ PPP projects	<ul style="list-style-type: none">■ Wide range of possibilities relating to investments available through EU funds – especially investments organized in the form of PPP



IT Projects – Who's at risk?...and Who pays for it...

- **WHAT IS INTERNATIONAL EXPERIENCE WITH PUBLIC SECTOR IT PROJECTS IMPLEMENTATION?**

- **WHAT FORMS OF FINANCING DO THEY USE IN EUROPE AND OVERSEAS?**

Why governments fail in implementation of large IT Projects (OECD report)

- ⑩ Exceeded budgets
- ⑩ Over-run deadlines
- ⑩ Low quality of new system agreed prior to the project
- ⑩ **Political risks of large public IT projects**
- ⑩ **E-government in danger** - governments must get the fundamentals of IT right if they want to harvest the huge potential of going online.

Getting IT right

summary of goals to be followed

- **Governments should:**
- establish appropriate governance structures
- think small, use known technologies
- identify and manage risk
- ensure compliance with best practices for project management
- hold business managers accountable
- recruit and retain talent, prudently manage knowledge
- establish environments of trust with private vendors
- involve end-users.
- **NB: The general lesson is not that governments should not take any risks; rather, governments must identify risk, determine which risks they are willing to take, and manage the relevant risk within appropriate governance structures.**

Getting IT right

summary of goals to be followed

- Examples: **The UK** has set up a database on all high-profile public sector IT-enabled projects, including project descriptions as well as a list of people running these initiatives. The database will allow existing resources to be used in future projects.
- **The Danish Government** has set up a Government IT Council, in which top managers across the government discuss business issues in relation to the use of IT.
- **Example:** In New Zealand, risk-based funding rules for complex projects have been developed. Using quantitative risk analysis, each risk is assessed along with its impact and probability. Thus, the fiscal impact of a project's risks can be made explicit to decision-makers. However, expert advice only makes sense if project management deals promptly and thoroughly with the issues raised.



Processes for funding of large public IT projects – the UK example

- ⑩ (Source: the UK Parliament's Public Accounts Committee First Report.)
- ⑩ **The Treasury's Expenditure Divisions control public expenditure** (including annual Spending Review of central government expenditure)
- ⑩ **Reviews, Agreements, Future goals.** Annual Spending Reviews (prepared by Departments and agencies) produce high-level plans, budget allocations and performance measures, later used as the basis of formal agreements with the Treasury (**Public Service Agreements PSAs**) for a rolling period of three years. The PSAs contain performance targets and a budget allocated for an agreed portfolio of projects (they are published via the Treasury website).
- ⑩ The “**Invest to Save Budget**” makes capital funding available (in addition to the PSA allocation) where major opportunities for improvement have been identified. The **Modernisation Fund** is part of this budget, with funding specifically for IT projects.

Sourcing options in the UK – an inspiration for Slovakia

Frequent outsourcing of IT. Main approaches:

- **The Private Finance Initiative** (PFI, from 1992) has promoted the procurement of major projects as packages in which the private sector designs, builds, finances and operates the project, possibly for many years. This is in contrast to traditional procurement in which the public sector provides all the finance and, typically, takes much of the development risk. (E.g. the new National Insurance Recording System.)
- **Public/Private Partnership:** An organisation is likely to seek business partners and/or a Public/Private Partnership (PPP) consortium for services where the business aspects are the primary concern, with IS/IT as a supporting component.
- **Framework catalogues:** A recent development of framework deals, in which departments work closely with suppliers. Contracts are phased and let out on a modular basis so that competition can apply at subsequent stages, and other suppliers can be brought in as appropriate.
- **Channel services:** These are intended to provide citizens with the best possible range of access paths or “channels” to government through electronic service delivery (provided by a number of public and private sector organisations working in collaboration). (E.g. A new channel service project underway: the Department for Education and Employment (DfEE) Connexions Card project. A number of private sector providers will contribute to service delivery, which will use smart card technology to play an important part in ensuring that every young person stays on in learning post 16 and achieves a worthwhile qualification by the age of 19.)



PPP Advisory Services are taking off...

- A Public Private Partnership (PPP) is a collaboration between the Public and Private Sectors to deliver services to the general public
- Under a typical PPP structure the Public sector defines the services and performance standards required and the Private sector designs, builds, finances and operates the required infrastructure, in return for payments based on performance

PPP Advisory Services are taking off...

- Public sector defines services in quality and output terms from general social-economic policy objectives
- Payment mechanism sets operator's remuneration on a service delivery basis
- Private sector is assessed on a Value For Money basis
- Risk Adjusted Whole Life Cost approach
- Risk is shared between the public and private sector parties according to their respective management abilities



KPMG 's PPP Advisory Services - examples

Department for Work and Pensions Modernisation Programme, GBP6bn

Project:

The Department for Work and Pensions (DWP) Project ACCORD and other IT procurement projects delivering to the Department's Modernisation Programme, the UK Government's largest and most comprehensive programme of IT modernisation.

Project Detail:

To achieve its programme of reform the DWP needs to make substantial changes to existing IT. The DWP is largely reliant on its systems to process and pay benefits that are based on 1980s technology. The DWP's programme of IT modernisation aims to upgrade or replace these systems to deliver an integrated service with the flexibility to meet the DWP's constantly evolving policy objectives and improve the experience of its customers.

Our Role:

KPMG's PPP Advisory Services is providing strategic advice on IT procurement, commercial strategies, deal structuring, evaluation and process. Our transaction team is involved in bid and model evaluation, risk analysis, accounting, negotiation support and commercial input into legal documentation on each of the individual IT project procurements.



KPMG 's PPP Advisory Services - examples

UK Highways Agency National Roads Telecommunications Services Project, GBP400m

Project:

UK Highways Agency (HA) development of a PPP to support the HA's current and future highways communications systems, wherever they may be deployed on the trunk road core network.

Project Detail:

The initiative is centred on the availability of a telecommunications service for the HA, but will also seek revenue from this and other assets for the provision of additional services, for example data transmission for third parties, an aerial site service and possibly back-haul services for mobile communications. Key drivers for the success of the partnership will be the private sector's ability to develop a national strategic approach to the management of the network and the potential to generate third party revenue from providing a mast and aerial service to mobile phone operators.

Our Role:

KPMG's PPP Advisory Services has delivered ongoing financial and commercial advice on the development of the partnership approach, value for money criteria, service specifications, payment mechanism and principles for risk allocation.



KPMG 's PPP Advisory Services - examples

Department for Education and Skills Connexions Card, GBP100m

Project:

Implementation by the Department for Education and Skills (DfES) of a major PPP project based on smart-card and Web-enabled technology. The project is one of the largest smart-card procurements in Europe to date.

Project Detail:

The Connexions card and service was set up to provide rewards and discounts to attract and keep 16- to 19-year-olds in further learning. This project was closely aligned to a range of policy initiatives across a number of government departments and agencies and enjoyed high ministerial commitment. The project began in 1999 with a number of local pilot schemes and in 2000 the DfES decided that a private sector partner should be sought to help deliver the scheme nationally. A contract with a private sector partner was successfully signed in July 2001.

Our Role:

KPMG's PPP Advisory Services helped DfES to select a private sector partner to deliver the Connexions card. We also advised the department on developing a robust commercial structure to meet the project objectives and obtain good value for money from the scheme.



KPMG 's PPP Advisory Services - examples

Driver & Vehicle Licensing Agency PACT, GBP300m

Project:

The Driver & Vehicle Licensing Agency's (DVLA) selection of a strategic business partner. The partner will be responsible for delivery of IT services to the DVLA, working with the Agency to develop and implement its long-term strategy and assisting the DVLA in improving the delivery of its services to the public.

Project Detail:

The DVLA's 'Partners Achieving Change Together' (PACT) project selected a private sector partner to not only provide IT services to the Agency but also to act as a strategic partner to the DVLA in working towards and achieving the Agency's long-term strategic goals. The DVLA sought to develop a mutually beneficial partnership which will deliver high quality, value for money public services, provide the means for the DVLA to meet its e-government targets and also help the Agency to exploit new business opportunities. A contract with a private sector partner was signed in September 2002.

Our Role:

KPMG's PPP Advisory Services acted as financial advisers to the DVLA on this project. We worked closely with the Agency to develop a commercial framework which will allow the PACT partnership to flourish, while at the same time advising the DVLA on how to achieve good value for money in the services it receives from its partner.



Who can pay for IT?

- State budget?
- EU fund (cohesion, structural)?
- World Bank, EBRD?
- PFI/PPP arrangement?
- Venture capital fund?
- Strategic partner/supplier ie Outsourcing?
- Combinations..?

Structure the finance to reflect the risk profile!