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Going Private

Three Key Drivers of Success for Governments to Consider on the Path to Privatisation

Jason LaBresh and Daniel Selikowitz

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AT A GLANCE

Now more than ever, policymakers are turning their minds to the benefits and risks of privatising Government assets. But is there a way for governments to “go private” and unlock lasting value while ensuring effective policy outcomes? We see three main points for Government decision-makers to consider.

LESSON #1: START THE PROCESS EARLY

It's never too early for policymakers to start thinking about how to maximise the value of Government's diverse assets. Being proactive can make sure value is not left on the table in the heat of a transaction.

LESSON #2: TAKE THE RIGHT ASSETS TO MARKET

Privatisation is not a one-size-fits-all solution to capital scarcity. It takes careful analysis to determine which assets will be most valuable in the hands of private operators, and which should be retained and improved.

LESSON #3: DON'T RUN THE TRANSACTION LIKE A BANK

Public sector privatisations involve uniquely complex trade-offs. They require a more nuanced approach to stakeholder management, bid evaluation and deal structure than private-to-private transactions.

NOW MORE THAN EVER, policymakers are turning their minds to the benefits and the risks of selling or leasing public assets to private sector operators. In Australia, for example, the high-impact [asset recycling program](#) pursued by the state of New South Wales has been a strong encouragement to other governments here and overseas.

Yet, privatisation has an inherent tension. On the one hand, it's a necessary and opportune time for governments at all levels to explore privatisation opportunities. On the other hand, privatisation processes almost invariably attract some degree of public backlash.

Privatisation is necessary because of the unprecedented number of large-scale infrastructure and social spending programs at federal and state levels – from the NBN to the NDIS, hospitals to highways. It's opportune because the market for public infrastructure of all kinds is hotter than ever. The number and type of prospective investors is proliferating each year, and piles of unallocated investment capital (“[dry powder](#)”) are burning holes in pockets and driving up valuation multiples. Companies like Transurban are [lobbying the Trump administration](#) to follow Australia's lead on asset recycling, reflecting the market appetite for state-owned assets. Vice President [Mike Pence](#), among others, appears to be warming to the idea.

At the same time, rightly or wrongly, privatisation processes almost invariably attract some degree of public backlash, which poses a real political risk. The recent shift to market-based models for several disability and healthcare services across Australia has elicited public concern from some unions, peak bodies and commentators. These groups argue that the transactions prioritise [commercial considerations over community needs](#), or that energy and infrastructure privatisations over the past decade have diverted [too much value](#) from citizens to corporations. The same trend is evident in the US, where many communities are [increasingly disillusioned](#) with the commercial and policy impacts of Public-Private Partnerships, asset sales and public sector outsourcing.

This begs the question: Can Governments “go private” and unlock lasting value for taxpayers, while protecting policy outcomes? In our experience, the answer is yes – but, as the aborted privatisation of [ASIC](#) shows, success isn't as simple as running a blockbuster sales process for a profitable asset.

We see three main points for Government decision-makers to consider on the path to potential privatisation of an asset to ensure value is not left on the table.

How can Governments “go private” and unlock real, lasting value for taxpayers, while protecting social policy outcomes?

Lesson #1: Start the process early

In our experience, Government assets are often left to operate in a ‘business as usual’ way until a need for significant additional funding arises and they are hurriedly brought to market. This can lead to disappointing financial outcomes and greater public backlash, as played out in [eastern Germany](#) in the 1990s with the rushed privatisation of multiple state-owned assets. In similar situations, the assets are not optimised, the transaction process is rushed, and there is limited time for thoughtful stakeholder engagement. Compare this to Malaysia’s more successful multi-year, strategic privatisation program since 1983, underscored by a robust policy framework and clear economic goals. Indeed, it is difficult, if not impossible, to reform assets once they are in play; under the spotlight of a looming transaction, revenue and cost moves that might have been straightforward at any other time become socio-politically unpalatable.

It is never too early for policymakers to start thinking systematically about how to maximise the value of a government’s diverse assets.

It is never too early for policymakers to start thinking systematically about how to maximise the value of a government’s diverse assets, and whether or not they can ultimately be brought to market. Like large corporations and private equity firms, high-performing public sector finance departments undertake regular “portfolio reviews” of their assets to determine where value lies and how much opportunity there is for value creation well before deciding whether or not to involve the private sector. The portfolio review process involves scanning the assets across units, Government Business Enterprises (GBEs) and departments, and assessing them against a combination of financial and policy criteria to ask:

- Where do we see opportunities to increase revenue or change the business model? For example, sensible price increases, creating new value-added products and services, behavioural economics interventions to improve payment rates (e.g. for fees and fines), or a more fundamental shift in the way we develop and deliver products and services.
- Where do we see opportunities to reduce cost? For example, by streamlining shared services, making better use of digital technology and automation, or simplifying our business processes.

Thinking about these questions and thoroughly understanding an asset’s value is essential, whether or not the asset ends up being privatised. They become especially critical in advance of a privatisation. Steps to improve value that are sensible and straightforward – such as modest price increases for services, or redeployment of resources – can be politically challenging once a transaction is announced. Being proactive and systematic can make sure hundreds of millions, or even billions, of dollars in value aren’t left on the table in the heat of a transaction.

Lesson #2: Take the right assets to market

Privatisation is not a one-size-fits-all solution to capital scarcity, and the public sector’s ability to realise value from its own assets should not be underestimated. It takes careful analysis to determine which government-owned assets will be the most socially and financially valuable in the hands of private operator and which to retain and improve in-house. Typically, the assets most suited to privatisation are

those with well-understood business models, operating in markets populated by experienced private sector operators, with fewer social policy complexities and strong amenability to ongoing regulations and monitoring by the Government.

The NSW Government exemplifies how to do this well with its [recent announcement](#) of a concession of the Land and Property Information (the LPI). The LPI's land title registry unit is a profitable business unit that will benefit from well-publicised trends towards [digitisation](#), and operates at the intersection of Government policy and a well-developed private market. It lends itself well to efficient private operation, and is set to be leased to a private operator for [\\$2.6 billion](#) under a 35-year concession arrangement. By contrast, the LPI's spatial services unit is a business unit that produces and distributes technically specialised geospatial data, some of which is used by other Government agencies for the public good (e.g. emergency services) and some of which intersects with the more nascent spatial data market. For these reasons, it was [not included](#) in the recent concession agreement. The asset split reflects a nuanced understanding of the types of assets or business units that can generate significant value for the taxpayer through privatisation, and the types that don't.

Lesson #3: Don't run the transaction like a bank

When investment banks, private equity firms and large corporations bring assets to market, the primary focus of their efforts is on the financial payoff. This is also vital in a public sector context, as exemplified by the commercial changes made by the Turkish Government to its [Turk Telecom](#) deal to overcome past failures and create competitive tension.

However, unlike in most private-to-private transactions, public sector privatisations are characterised by complex trade-offs between commercial and policy considerations that necessitate a more nuanced approach. Policymakers also need to take steps to ensure that the transaction structure apportions risk and reward appropriately between the taxpayer and the private sector.

Public sector privatisations are characterised by complex trade-offs and require a more nuanced approach.

In our experience, achieving a holistically successful outcomes requires:

- **Thoughtful, transparent stakeholder engagement:** Most successful privatisations are characterised by transparent decision making and proactive stakeholder engagement. Stakeholder engagement can take a variety of different forms depending on the specific circumstances; for example, the Turkish Government broadcasts all public tenders on live TV, while the UK Government undertakes detailed stakeholder consultation and makes detailed prospectus documents available to the public.
- **A robust regulatory framework:** Before pushing ahead with a transaction, policymakers must be comfortable that the asset can and will be effectively regulated. The regulatory and legislative framework can't merely give Government an 'emergency exit' if things go wrong; rather, it needs to provide policymakers with the right level of control and oversight over key strategic decisions and the ability to pivot if circumstances change. Singapore's Public Sector

Divestment Committee puts the right checks and balances in place, while Italy has legislation in place to protect minority shareholders in privatisations (often employees and retail investors in the broader population).

- **A multifaceted approach to bid evaluation:** Evaluating bidders and their bids based on numbers works in an investment banking context, but the same approach sells policymakers and their stakeholders short. Governments need to take a more sophisticated approach to evaluating the commercial and policy implications of competing bids, trading off a bid's financial strengths against its ability to build social capital and deliver policy outcomes. This applies to all public-private transactions, and particularly social service privatisations and PPPs, such as prisons and hospitals.
- **A system-level approach to value creation:** It is important for governments to think as broadly as possible about the long-term economic potential of their assets. For example, the financial upside from selling the data asset of an information businesses to a monopolist may be dwarfed by the broader economic impact and tax revenue that could flow from making the data freely available to entrepreneurs, investors, resellers and end users. Making clear, fact-based trade-offs is critical to determine the approach that will yield the greatest absolute value over the long-term.

Many other examples of successful and unsuccessful privatisations exist, with much to be learned from them all. Ultimately, policymakers can maximise economic and social value creation by taking three steps. First, systematically scan their portfolio to identify and prioritise value creation opportunities. Then, identify which assets are more valuable in private hands, which are more valuable in government hands, and which are a case of “wait and see.” Finally, above all, start this process today.

About the Authors

Jason LaBresh is a senior partner and managing director in the Sydney office of The Boston Consulting Group. You may contact him by e-mail at labresh.jason@bcg.com.

Daniel Selikowitz is a principal in the Sydney office of The Boston Consulting Group. You may contact him by e-mail at selikowitz.daniel@bcg.com.

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For Further Contact

If you would like to discuss this report, please contact one of the authors.

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