



# Partnerships Victoria

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## Policy and Institutional Approaches for PPPs in Australia

- KDI / ADB/ ADBI Conference - Knowledge Sharing on Infrastructure Public-Private Partnerships in Asia
- 19-21 May 2009
- Richard Foster, Executive Manager, *Partnerships Victoria*



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## Agenda

- **How PPPs are defined**
- **Value for money approach**
- **Use of public sector comparators (PSC)**
- **Policy and institutional arrangements**



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## National PPP Guidelines Definition:

- **A long-term contract between the public and private sectors where government pays the private sector to deliver infrastructure and related services on behalf, or in support, of government's broader service responsibilities**
  - PPPs typically make the private sector parties who build infrastructure responsible for its condition and performance on a whole-of-life basis.
  - PPP projects cover economic and social infrastructure and typically include both a capital component and an ongoing service delivery component of non-core services.



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**In a practical sense, most Australian PPPs are:**

- **Economic infrastructure projects with direct user charging:**
  - For example, toll roads
  - Often referred to as BOOT projects
- **Economic or social infrastructure projects with government availability payments:**
  - For example, hospitals, schools, prisons, railway stations
  - Often referred to as DBFO, DBFM or PFI projects



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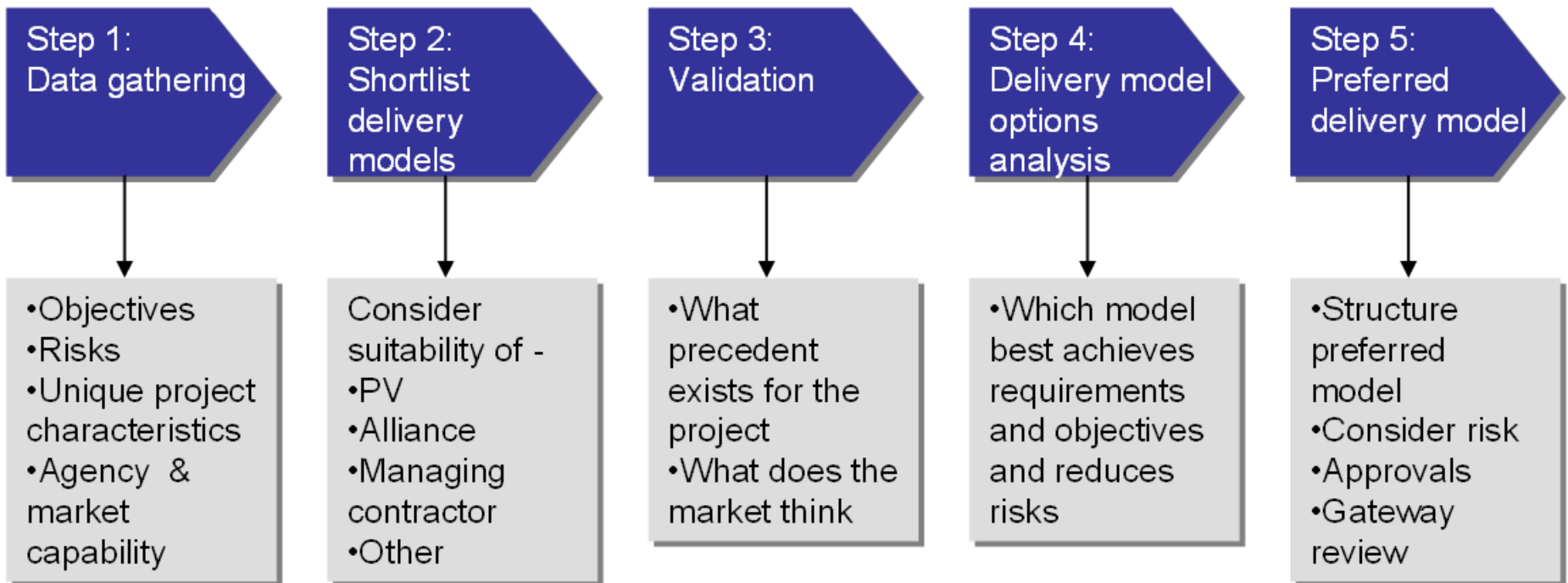
## Value for money is important at two stages:

- **When deciding whether to use PPP delivery for the project:**
  - Is PPP delivery expected to offer better value for money than other forms of delivery?
- **When evaluating private sector bids:**
  - Do the bids offer value for money compared to traditional delivery?
  - Which bid offers the best value for money outcome?



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## Selecting a delivery model





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## Hypothetical waste treatment project – Should PPP be a short-listed delivery model?

- **Is it large-scale and long-term?**
  - ✓ (\$100m plus, long-life asset)
- **Are there measurable outputs?**
  - ✓ (Treatment of waste to comply with environmental regulations etc)
- **Are there opportunities for risk transfer?**
  - ✓ (Design, construction, operation, incoming waste(?), energy cost(?))
- **Is there scope for innovation?**
  - ✓ (Significant scope in design, construction and operation)
- **Is there market capability and appetite?**
  - ✓ (Market testing; Private sector delivery and operation of waste treatment plants has occurred elsewhere)
- **Are there non-core services?**
  - ✓ (Operation of the plant)



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## Hypothetical waste treatment project – Selecting a delivery model from a shortlist

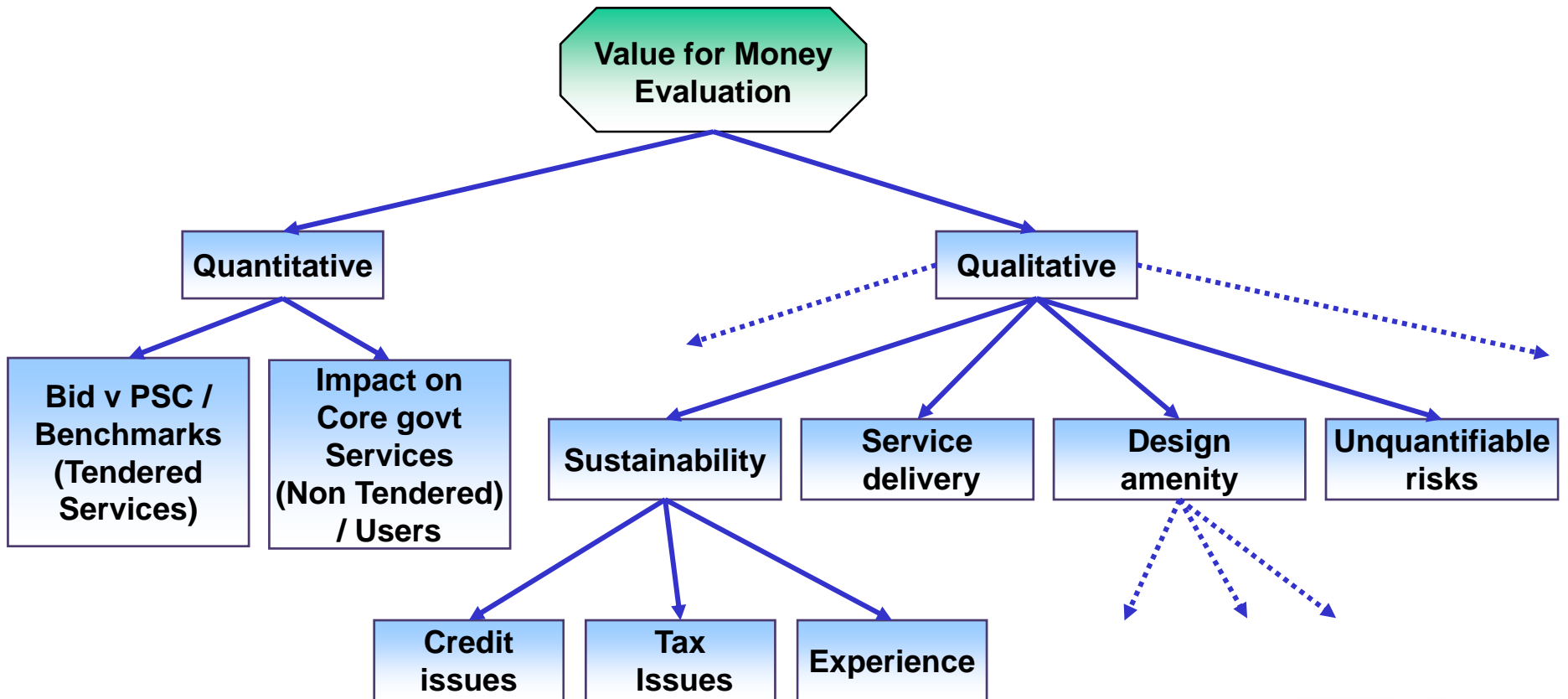
Objective	PPP	Traditional Delivery
Budget certainty	✓✓✓	✓✓
Time certainty	✓✓✓	✓✓
Flexibility for scope changes	✓	✓✓
Stakeholder management	✓✓	✓✓
Market interest	✓✓	✓
<b>Total score</b>	<b>11</b>	<b>9</b>

- Delivery models are qualitatively assessed against project/procurement objectives
- The objectives may be weighted
- If the analysis has identified specific weaknesses of the preferred model, mitigants are considered



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## Value for Money Evaluation of Bids





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## Value for Money Evaluation in Victoria

- **A wide range of qualitative aspects of the bids are considered**
  - Evaluation of qualitative aspects is often subjective, but a robust framework and process ensures that the evaluation is fair and reasonable
- **The detailed qualitative evaluation requires detailed bids**



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## SEITA's CEO Ken Mathers with the EastLink bids





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## Hypothetical Bid Evaluation

Criteria	Weight	Bidder A	Bidder B	Bidder C
Risk Adjusted Cost	* * *	1	2	3
Commercial & Risk	* * *	C	B+	C
Master Planning	* *	B+	C	B+
Functional Design	* * *	B	A-	B
Project Management	* *	C	B	C
Commercial Development	*	A-	B	B-
<b>FINAL RANKING</b>		<b>2</b>	<b>1</b>	<b>3</b>



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## What is the Public Sector Comparator?

- **The estimated risk-adjusted whole of life cost of a public sector project if delivered by government**
  - Based upon a reference project



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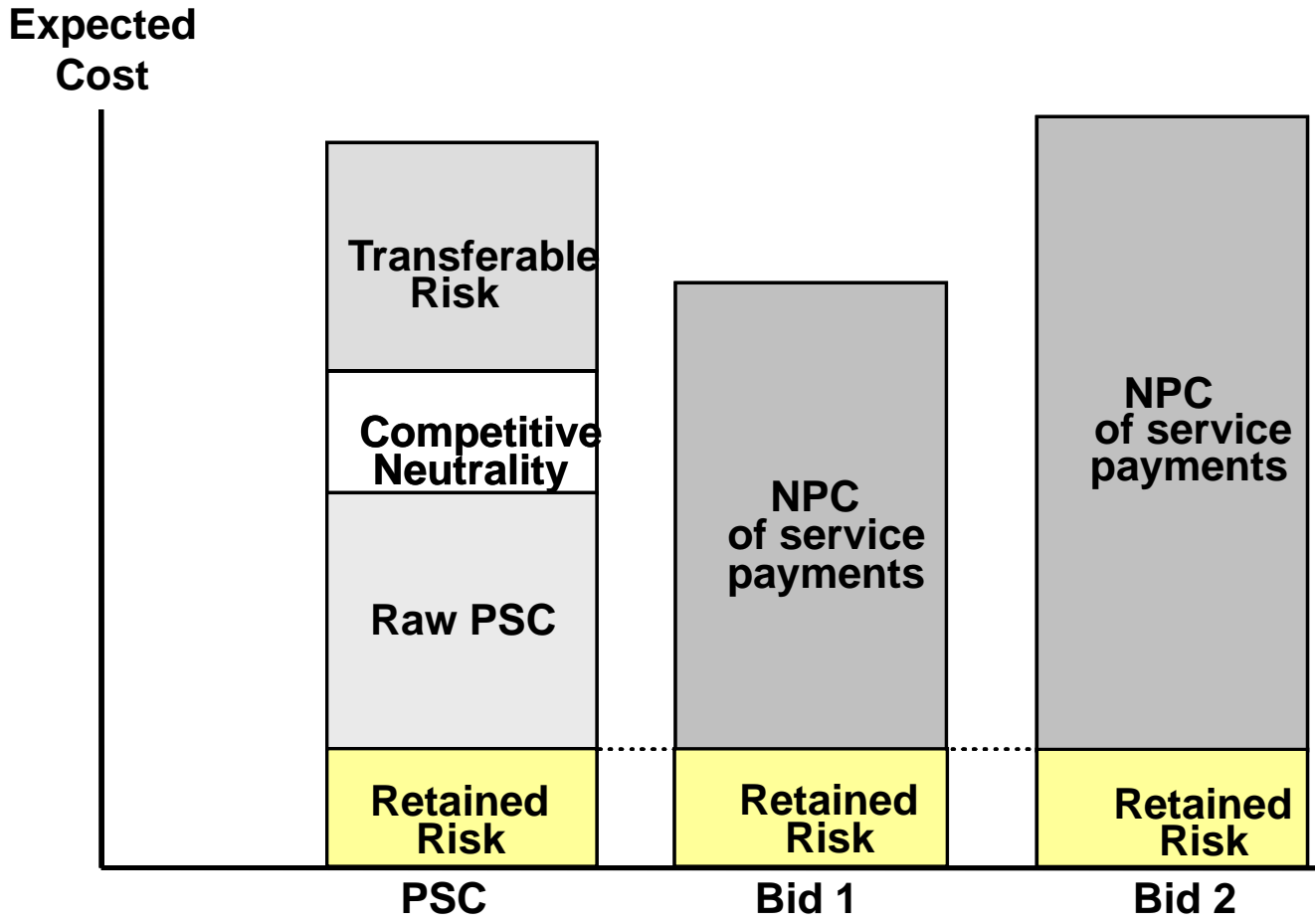
## Use of the Public Sector Comparator in Victoria

- **At project approval:**
  - Funding is approved based on the preliminary Public Sector Comparator
  - This funding (apart from transaction costs) is set aside during the procurement process, and is available for traditional delivery of the project if acceptable PPP bids are not received
  - Upon execution of a PPP contract, the funding is re-phased to match government's payment obligations under the contact
- **At bid evaluation:**
  - Bids are assessed against the final Public Sector Comparator



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## Public Sector Comparator





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## National approach

- **Across Australia**
  - Infrastructure suitable for PPP delivery is primarily a State responsibility
  - 45 contracted projects and >10 in the market
  - Each jurisdiction pursued PPP projects under separate guidance
- **2008 – renewed push for a national approach**
  - Infrastructure Australia established
  - December 2008 – National PPP Policy and Guidelines were published, following development through the inter-governmental PPP Working Group
  - Ongoing PPP reform agenda



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## Portfolio Responsibility

- **Projects are a result of an asset requirement identified by a Procuring Agency**
  - All Ministers have power to enter into PPP contracts
- **Each State has a central unit responsible for PPP policy and involved in key project approvals**
  - Typically located in the Finance / Treasury or Infrastructure department



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<b>Sample PV Projects</b>	<b>Procuring Agency</b>
<b>New Hospital Projects</b>	<b>Department of Human Services</b>
<b>EastLink Toll Road Southern Cross Station</b>	<b>Department of Transport</b>
<b>Waste Water Treatment Projects</b>	<b>Department of Sustainability and Environment / Relevant Water Authority</b>
<b>Prisons, Court Buildings</b>	<b>Department of Justice</b>
<b>New Schools</b>	<b>Department of Education and Early Childhood Development</b>



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## Partnerships Victoria Unit – Key Roles

	Policy Role	Advisory Role
Project Implementation	<ul style="list-style-type: none"> <li>• <b>Development of policy and guidance material:</b> <ul style="list-style-type: none"> <li>• Process guidance</li> <li>• Standard commercial principles</li> </ul> </li> <li>• <b>Liaison with other jurisdictions</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Provide expert commercial advice</b></li> <li>• <b>Ensure policy issues identified / addressed</b></li> <li>• <b>Maintain integrity of <i>Partnerships Victoria</i>:</b> <ul style="list-style-type: none"> <li>• Policy positions</li> <li>• Process</li> </ul> </li> <li>• <b>Monitor budgetary issues</b></li> <li>• <b>Facilitate Treasurer’s approvals</b></li> </ul>
Contract Management	<ul style="list-style-type: none"> <li>• <b>Development of policy and guidance material</b> <ul style="list-style-type: none"> <li>• Effective contract management</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Provide expert commercial advice</b></li> <li>• <b>Ensure policy issues identified / addressed</b></li> <li>• <b>Maintain integrity of <i>Partnerships Victoria</i> policy positions</b></li> <li>• <b>Monitor budgetary issues</b></li> </ul>



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## PPP Governance Arrangements in Victoria

- **Treasurer is PPP Minister, responsible for PPP policy matters**
  - Senior Minister
  - Also oversees Budget
- **Portfolio Minister has project responsibility**
  - PPPs are about long term service delivery
- **PPP Unit**
  - Located within Treasury
  - Sole responsibility for PPP policy
  - Active role in PPP procurement process
  - Centre of Expertise



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## Summary

- **Australia uses a standard definition of PPPs**
- **Value for money approach:**
  - Value for money is considered in both quantitative and qualitative senses
- **Use of public sector comparators (PSC):**
  - Used for both budgeting and for evaluating bids
- **Policy and institutional arrangements**
  - Primarily State-based, with National guidance
  - Central PPP Units
  - Projects delivered by individual agencies



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## Contact Details

- **Richard Foster**  
**Executive Manager, *Partnerships Victoria***
- **Phone: +61 3 9651 2221**
- **E-mail: [richard.foster@dtf.vic.gov.au](mailto:richard.foster@dtf.vic.gov.au)**
- **Web: [www.partnerships.vic.gov.au](http://www.partnerships.vic.gov.au)**