

KDI / World Bank Joint Conference – Public Private Partnerships

Seoul, 7th December 2005

Jason Loos, Senior Manager, Department of Treasury and Finance



Overview

- *Partnerships Victoria*
- Accounting Treatment
- Case Studies:
 - Royal Women's Hospital
 - Correctional Facilities
- Project Experiences / Lessons



Definition of PPP

Private sector involvement in delivery of public services.

Scope varies around the globe, and can include:

- Privatisations
- Joint ventures
- Contracting-out
- **Private provision of public infrastructure & related services**

Victorian interpretation



Definition of *Partnerships Victoria*

***Partnerships Victoria* – Victoria's PPP Policy**

***Partnerships Victoria* – alternative means of providing infrastructure with focus on services/outputs**

The role of private sector can vary from providing infrastructure services only through to the full service delivery to users



Scope of PPP's

Increasing role of the private sector



Private party role

Infrastructure services only

Infrastructure and ancillary services

Infrastructure and partial private-to-public service delivery

Infrastructure and service delivery to users

Government role

All public-to-public services

Delivery of core public services

Delivery of core public services

No operational role

Example

Public buildings

Non-core hospital services, non-judicial court services

Community facilities linked to educational facilities

Roads, Rail Ports



Why?

Decisions on Social Infrastructure PPP projects are made on practical grounds:

- Necessity of direct Government delivery (Core Services)
- Value for money
- Protection of public interest

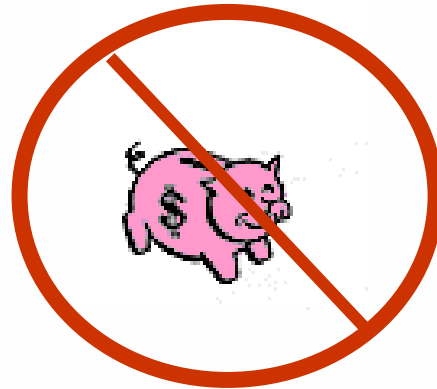
***Partnerships Victoria's* success relies upon real risk transfer reinforced by the commitment of private finance over an extended term**



Partnerships Victoria

Partnerships Victoria is NOT

- Another bucket of money
- An alternative to the Government Budget process
- A financial device to get things off the balance sheet
- Simply about building things



Partnerships Victoria

Key Commercial features » value-for-money

- Government is purchasing services, not an asset
- Relatively long-term contract, for mutual benefit
- Outputs clearly specified with measurable performance requirements
- Clear and enforceable risk allocation
- Government makes payments only upon delivery of services



Accounting Treatment of PPPs in Australia

- No accounting standard in Australia that applies directly to the reporting of PPPs
- Leasing standards have been used but it is recognised that these are not sufficiently flexible to cope with most service delivery PPP's
- Under *Partnerships Victoria* 14 contracts have been executed to date
 - 4 Off-State balance sheet transactions
 - 10 On-State balance sheet transactions



Accounting Treatment of PPPs (cont)

- On-State balance sheet – asset and corresponding liability recorded at commissioning
- Off-State balance sheet – formal accounts do not recognise the infrastructure asset and corresponding liability, rather disclosure is by way of notes to the accounts
- Risk/Reward determines accounting treatment
- Future Developments – IFRIC model



Contracted *Partnerships Victoria* Projects

Name

Status

County Court

Operational

Casey Hospital

Operational

TV & Film Studio

Operational

Wodonga Wastewater

Operational

Echuca Wastewater

Operational

Spencer Street Station

Under Construction

Mobile Data Network

Under Construction

Enviro Altona

Under Construction

Melb Mobile Radio

Under Construction

Emergency Alerting Systems

Under Construction

Correctional Facilities

Under Construction

East Link

Under Construction

Royal Women's Hospital

Under Construction

Showgrounds Redevelopment

Under Construction

**Around
\$4 Billion**



Royal Women's Hospital - Artist Impression



Royal Women's Hospital

Project Scope:

- Demolition works
- Underground Carpark
- Construction of 160 bed facility
- New Private Hospital Facility
- Consulting suites
- Retail precinct for the site
- Ancillary Services



Royal Women's Hospital (cont)

Private Sector Responsibility:

- Design
- Construction
- Finance
- Facility Maintenance
- Cleaning
- Security
- Help desk
- Car parking
- Grounds maintenance
- Pest control



Royal Women's Hospital (cont)

Public Sector Responsibility:

- Core Medical Service Provision
ie. Doctor's and nurses



Correctional Facilities - Metropolitan Remand Centre



Correctional Facilities – Correctional Programs Centre



Correctional Facilities

Private Sector Responsibility:

- Design, Construct and Finance:
 - 600 bed maximum-security remand centre
 - 300 bed medium security correctional programs centre
- Provision of plant and equipment
- Provision of furniture, fixtures and fittings
- Facilities Management Services
- Some Security Services



Correctional Facilities (cont)

Public Sector Responsibility:

- Custodial services
- Prisoner transport



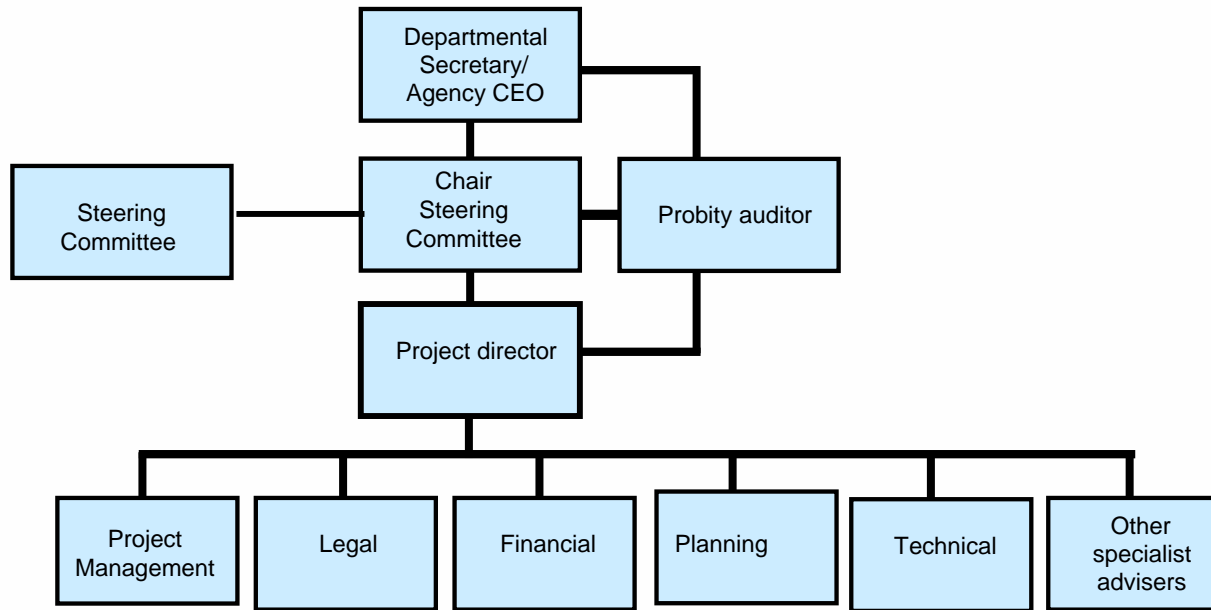
Project Experiences / Lessons

Lessons for Social Infrastructure PPPs

- Selection of suitable projects
- Market Testing
- Upfront project planning
- Skilled project team including suitably qualified Project Director
- Sufficient procurement budget



Project Management



Project Experiences / Lessons (cont)

- Balance between output and input specification
- Quality of design / functional brief
- Relevant and clearly defined evaluation criteria
- Clear service standards / KPIs supported by an effective payment mechanism (realistic KPIs and abatements)
- Optimal, not maximum, risk transfer



Project Experiences / Lessons (cont)

- Be cautious when dealing with departures to the risk allocation
- Maximise competitive tension and delay appointment of preferred tenderer. Minimise use of BAFO's
- In debt financed transactions ensure the project sponsors are bringing their banks along



Project Experiences / Lessons (cont)

- Interactive tendering
 - Balance with probity framework
 - Particularly useful with social infrastructure where government maintains operations
 - Received positive feedback from bidders
- Solution/contract must be sustainable



Project Experiences / Lessons (cont)

- Contract Management Policy
- Key Strategies:
 - Think about contract management early
 - Document “the deal” and how to manage it
 - Establish robust contract management governance
 - Identify single points of contact
 - Train our contract managers
 - Share knowledge across projects



Further Information - Detailed Guidance Material

- Policy June 2000
- Overview
- Practitioners' Guide
- Public Sector Comparator - a technical note
- Risk Allocation and Contractual Issues - a guide
- Contract Management Guide
- Public Sector Comparator - supplementary technical note
- Use of Discount Rates
- Standard Commercial Principles
- Other specified guidance
 - Probity, Conflicts of Interest, Interactive Tendering



June 2001

June 2003

July 2003

June 2005

www.partnerships.vic.gov.au



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