
Statement of the Objective and Principles for the Private Provision of Public Infrastructure

Introduction

The high cost of developing and maintaining public infrastructure and related services is a major concern throughout Australia. Private provision of public infrastructure and related services (PPPI) is one procurement option for addressing this concern.

PPPI is defined as a project in which the private sector not only provides public infrastructure but also has a significant and long-term involvement in the operation and/or maintenance of the infrastructure. This is undertaken for either a contracted payment stream from government or for third party (user pays) revenues.

PPPI deals with new infrastructure and is not about privatisation of existing infrastructure or outsourcing of existing services. PPPIs are also not joint venture partnerships, where public and private partners share agreed business objectives. They are contractual arrangements between the Government as a purchaser of services and the private sector as a provider of services.

PPPIs: A procurement option

PPPIs are a procurement process in which the private sector provides public infrastructure and related services under a contract that recognises and values the risk of providing that infrastructure and its associated services and the amount of risk transferred to the private sector. Value for money for Government is achieved when the private provider balances the asset's design and construction costs with the asset's lifetime operational and maintenance costs and can deliver the service at a lower whole-of-life cost than if Government delivered the service.

The decision on the private sector's involvement is not taken until after bids have been received and a detailed value for money comparison is made between the final bids and the cost of providing a similar service by the public sector. Undertaking this comparison involves not only the detailed identification of the project's risks, and the party best able to manage those risks, but the pricing of those risks to enable decisions about the optimum level of risk transfer. Consequently, PPPI processes are complex long-term arrangements that require a systematic and rigorous development process if value for money is to be achieved.

Policy Statement

Where appropriate, the ACT Government will consider private provision of public infrastructure and related services (PPPI) as a procurement option.

Objective

The main objective of involving private sector entities in providing public infrastructure services is to obtain value for money.

In a large and complex project, significant savings may be achieved by fully integrating, under the responsibility of one private party, the initial design and construction of the infrastructure with the maintenance and operation of the infrastructure over its life. Such an approach will also allow significant project risks to be allocated to the private party.

The governing principle of a project's risk allocation is that risk should be allocated to whichever party is best able to manage and mitigate the risk. Managing and mitigating risk means reducing the likelihood of the occurrence of a risk and the impact of the risk if it does occur. In most projects, it would be unlikely that all project risk would be transferred to the private sector.

PPPIs have been incorrectly promoted as a means of avoiding bringing debt onto the government's balance sheet and as a means of bringing forward infrastructure projects which otherwise could not be funded within current budgetary constraints.

A PPPI project generally commits the government to paying a stream of cash flows over the duration of the contract. Whether these long-term commitments are reported in the balance sheet makes little difference to value for money or the long term financial position of the government. Even if the cash flow commitment from a PPPI is not accounted as a liability on the government's books, it will increase the government's operating loss (or reduce its operating surplus) and place pressure on the government's credit rating. Payment commitments are as real as those associated with balance-sheet debt and should be considered in a similar manner.

More generally, PPPIs do not relieve governments of the burden of having to pay for infrastructure. The only exception to this generalisation is where the infrastructure services will be paid for by third party access payments, levied on a user pays basis. Toll roads are an example.

Principles

For a PPPI project to deliver value for money the following principles should be applied.

- PPPI is only appropriate to projects with significant and long-term private sector involvement (of more than \$20m and 25 years);
 - PPPI is a procurement option and is therefore subject to existing procurement guidelines and circulars; and
 - Contracts are based on output specifications, rather than input specifications.
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Process

The first decision to be made is not how to procure the service but whether the service should be purchased at all. It is critical that this decision be based on a rigorous assessment of the costs, benefits and risks of the various options available.

For a PPPI project to deliver value for money a sound process must be followed. The following are important characteristics of the PPPI process.

- The PPPI procurement process is complex and requires detailed information collection and analysis to be confident that value for money will be achieved;
- PPPI contract management requires particular skills, which need to be procured before the contract is executed;
- An inter-departmental steering committee will oversee the whole of the project following Cabinet's approval to fully develop a business case. This oversight will include responsibility for preparing further cabinet submissions to be put to Cabinet by the responsible minister. The steering committee will be chaired by a senior executive from the proponent line agency and include a senior executive from each of Chief Minister's Department and the Department of Treasury; and
- The steering committee will oversee the formation of a project team, which will contain representation from the Department of Treasury, to assist in the development and analysis of the full business case, the detailed development of the Public Sector Comparator, and the evaluation of tenders.

Policies and Guidelines

Existing ACT Procurement Guidelines already cover much of what is entailed in managing a PPPI. The Procurement Board will issue a procurement circular on the objective and principles of PPPI and the Board's role. Detailed documents covering the following topics will also be issued:

1. Practitioners' Guideline on the Approval Process;
2. Risk Allocation and Contractual Issues; and
3. The Public Sector Comparator

Further information.

For further information on PPPI, contact the Manager, Major Project Analysis, Economic Management Branch, Department of Treasury on 620 70337.
