

## Public Private Partnerships: Business Case Development

### CORRIGENDA

#### Page 22

At first dot point, replace “whole-of-life” with “capital.

#### Page 53

##### *Delete:*

This Project Assessment – PPP Suitability Checklist should be used in assessing whether a PPP option should be explored in the initial stages of project development.

- The Assessment column should be used to explain the reasoning for the likelihood rating given against each characteristic.
- The Likelihood column should be ticked high, medium or low depending on the project profile against each characteristic.
- Where a project is identified in the medium to high range of likelihood rating for a majority of the checklist characteristics (if high/medium > 10/19 characteristics), it is possible that the project will be able to achieve value for money under a PPP arrangement, and a PPP option should be considered and assessed as part of the Project Business Case.
- Submission to government should include at a minimum the assessment summary of PPP suitability.

##### *Insert:*

This Project Assessment – PPP Suitability Checklist should be used in assessing whether a PPP option should be explored in the initial stages of project development.

- The PPP Suitability Checklist is a simple, qualitative rather than quantitative, tool to evaluate whether a project has potential for a PPP arrangement. A detailed analysis of the “Project Characteristics” is not required, only high level justification for the ratings should be submitted.
- The “Assessment” column should be used to explain the reasoning for the rating given against each characteristic.
- The “PPP Potential” column should be rated High, Medium or Low against each project characteristic.
- Where a project is identified in the Medium to High potential range for a majority of the checklist questions (i.e. greater than 50%), it is possible that the project will be able to achieve value for money under a PPP arrangement. In this case a PPP option and associated detailed risk assessment should be considered as part of the project Business Case and assessed with an increased level of detail through the Scoping Study and Interim Business Case stages to sufficiently acquit requirements for assessing the value for money of a PPP option over traditional procurement.
- Where a project is identified and agreed with the relevant Agency Advice Unit and the PPP Unit to be in the Low potential range for a majority of the checklist questions, the process should revert to the normal Budget process for capital proposals.
- Submissions to Government should include at a minimum the assessment summary of PPP suitability.

Suitability Checklist Table, Pages 53-59, should be replaced by the following:

PROJECT ASSESSMENT – PPP SUITABILITY			
PROJECT CHARACTERISTIC		ASSESSMENT	PPP POTENTIAL High, Medium or Low
<b>Duration</b>	Is the duration of the project likely to exceed 15 years?	<p><i>PPP arrangements are long-term in nature, typically extending over a 15 to 30 year period. The duration of an arrangement reflects the period over which the public sector is required to provide a particular service or capability.</i></p> <ul style="list-style-type: none"> <li><i>Duration should be estimated from the time of financial close in tendering to the end of the project life.</i></li> <li><i>A PPP option will need to be explored under the PPP Budget Rule for property proposals, including those that encompass a design, build and lease arrangement (e.g. pre-commitment leases) that are longer than 15 years in duration.</i></li> </ul>	
	Is the duration of the project likely to exceed 25 years?	<p><i>As above, generally, the longer the project duration the greater the likelihood of success of PPP arrangements.</i></p>	
<b>Performance Based Contract</b>	Is it likely that Key Performance Indicators could be determined for service delivery?	<p><i>PPPs implement the principle of ‘payment for performance’ by placing the private sector’s remuneration at risk, contingent on their ability to meet the public sector’s requirement. When putting in place a performance based contract the possible loss of revenue should be a major incentive for the private sector to maintain the service level and to rectify any shortcomings in service delivery.</i></p> <ul style="list-style-type: none"> <li><i>E.g. specification of performance outcomes in terms of time and quality.</i></li> </ul>	

PROJECT ASSESSMENT – PPP SUITABILITY			
PROJECT CHARACTERISTIC		ASSESSMENT	PPP POTENTIAL High, Medium or Low
<b>Bundling of Contracts</b>	Will the project involve a number of individual service contracts?	<i>In many cases, the provision of a service or capability by the public sector is dependent on a number of separate contracts with different contractors. PPPs provide an opportunity to bundle a package of related services and an asset into a single long-term contract. The combination of a range of contracts involved in the delivery of Government services not only simplifies Government's contract management task, but in addition provides incentives to the private sector to design the underlying asset to minimise operating and maintenance costs.</i> <ul style="list-style-type: none"> <li>• <i>E.g. cleaning, maintenance, support, training.</i></li> </ul>	
	Will the project involve an asset provision contract?	<i>PPPs involve the procurement of an asset. The type of asset procured may vary greatly, e.g. office accommodation, roadworks.</i>	
	Is there potential to bundle a number of these contracts into a single long-term contract?	<i>For further discussion on PPP contract management see Financial Management Guidance 19 – “Public Private Partnerships: Contract Management”</i>	
<b>Ownership and Management Synergies</b>	Is there potential for ownership and management synergies?	<i>Frequently the ownership of an asset by the same entity that is responsible for the service delivery component of the output can provide significant benefits through synergies. This is often true of complex assets or large infrastructure projects, where management is best applied by parties which have some nexus with the design and construct phase.</i>	

PROJECT ASSESSMENT – PPP SUITABILITY			
PROJECT CHARACTERISTIC		ASSESSMENT	PPP POTENTIAL High, Medium or Low
<b>Risk Transfer</b>	Is there potential to achieve value for money through the transfer of the costs of certain project risks to a private sector party? Including (but not limited to) any of the following risks:	<p><i>Risks are inherent in all projects and have the potential to significantly alter the public sector’s financial outcomes. Inadequate recognition and mismanagement of risks is often the reason that some major projects run over budget and/or over schedule. PPPs provide an opportunity to allocate risks to those entities with the skills and experience to manage them at a lower cost, even where the Government retains step-in rights and remains ultimately accountable to the taxpayer. Placing risk where it can be best managed will reduce the likelihood and severity of project shocks. This will also lead to lower risk premiums and therefore lowers overall project costs.</i></p> <ul style="list-style-type: none"> <li>• <i>For further discussion on PPP risk transfer see Financial Management Guidance 18 “Public Private Partnerships: Risk Management”</i></li> <li>• <i>Risk transfer is the allocation of a risk onto the party who can effectively manage the risk at a lower cost.</i></li> </ul>	
	• Design and/or construction risk	<i>E.g. design modification may be required; there may be an unforeseen increase in materials and labour costs.</i>	
	• Ownership risk	<i>E.g. life of building and plant is shorter than expected.</i>	
	• Operational risk	<i>E.g. operating costs vary from original budgeted projections.</i>	
	• Residual value risk	<i>Residual value risk is the risk borne by the party that takes ownership of the asset at the end of the contract.</i>	
<b>Third Party Revenue</b>	Is there potential for the asset to earn additional revenue, by selling excess capacity associated with the underlying infrastructure to third parties?	<p><i>In some cases, only part of an asset’s capacity is utilised by the public sector during the delivery of the service or capability. PPPs provide an opportunity for the private sector to utilise the full capacity of the assets, by selling the excess capacity to the public sector and other parties. Utilising the full capacity of assets in this way effectively lowers the cost to the Australian Government of the provision of a service or capability (ie the additional revenue earned by the private sector).</i></p> <ul style="list-style-type: none"> <li>• <i>E.g. commercial/retail rentals in adjoining space, sale of excess production output to third party users.</i></li> </ul>	

PROJECT ASSESSMENT – PPP SUITABILITY			
PROJECT CHARACTERISTIC		ASSESSMENT	PPP POTENTIAL
			High, Medium or Low
<b>Innovation</b>	Does the project lend itself to clearly definable and measurable output specifications?	<p><i>PPP tender offers need to communicate Government’s output specification requirements without being overly prescriptive (e.g. number of hospital bed hours available) in order to allow private sector innovation in the choice of inputs, how services will be delivered and how the asset will be maintained. Output specifications should include the following:</i></p> <ul style="list-style-type: none"> <li><i>the level of service quality and design and should be related to the objective for service and user requirements; and</i></li> <li><i>any need for improvements in service standards over the life time of the contract.</i></li> </ul>	
	Is the project likely to involve a high degree of complexity?	<i>E.g. there may be numerous phases and milestones involved in the project that are contingent on each other.</i>	
	Is there significant scope for innovation (including the use of new technologies) in the delivery of this project?	<i>E.g. innovative design solutions which might involve the application of intellectual property, substantial research and/or testing prior to development of the asset.</i>	
<b>Market appetite</b>	Is there likely to be private sector demand for involvement in this project?	<p><i>An assessment should be made as to whether the private sector would be capable and willing to involve itself in the project as a PPP.</i></p> <ul style="list-style-type: none"> <li><i>This will require a subjective assessment, rather than an formal approach to the market.</i></li> <li><i>Research should be done into other examples of this type of asset being procured under a PPP arrangement previously, in other jurisdictions and/or overseas.</i></li> </ul>	
	If the project were a PPP would it be a real business opportunity that would be likely to attract a number of competent bidders?	<i>Capability to fulfil the project requirements might depend on factors such as the availability of relevant skills, technical ability, the size of the market and the level of interest of financial markets in funding the projects.</i>	

**Assessment Summary:**

*A summary should be given on the overall conclusions of the PPP suitability assessment.*

- Particular reference should be made to the business driver for the project and whether or not this is likely to be compatible with a PPP arrangement.*
- Where other project characteristics, not listed above, are of importance to this assessment these should also be stated here.*

*Submissions to Government should include at a minimum this assessment summary of PPP suitability.*