



Changes in political will and the legislation that stems from it are exactly what's needed to boost the PPP market in Australia, says **Jonathan Tyler**

PPP picks up pace

Although not new to Australia, PPP has been rather slow to take off here and is not without its share of challenges. Victoria was the first state to embrace the concept on a large scale, seeing it as a viable alternative perhaps, to selling off public assets, and certainly, as a way to finance services and infrastructure, and to transfer the risks associated with providing them.

While Victoria arguably leads Australia with a well-established government policy framework (through Partnerships Victoria) for delivery of PPPs in place, there are moves afoot to follow the UK's lead in having a simplified approach to PPPs and establishing the National PPP Forum.

The forum aims to harmonise policies and processes, encourage better co-ordination and information sharing among Australian governments, reduce bid costs, increase the level of consistency across jurisdictions and to share lessons learnt to increase skills and knowledge in the public sector.

One of these lessons, hopefully, will be about the level of private sector support provided by government. With the exception of Victoria, the states and the federal government have not been as supportive of the private sector, and this is one of the key differences to date with the Australian PPP market and the UK model.

Public sector comparators

While the UK has mature value-for-money benchmarks to guide the PFI process, the Australian PPP market uses relatively untested public sector comparators (PSC) as a price benchmark against which PPP bids are judged. Unless the private sector can deliver the project for a lower cost than public provision, the project will not go forward as a PPP or, as is often the case, the bidders are placed in the position of having to place a 'best and final offer' – or Bafo – as a result.

The bidding process

At present, the bidding process is too involved and costly, and while consortiums of FM and design and construction companies form naturally to provide the bundled services needed to provide the anticipated savings, these consortiums form special project vehicles (SPVs) to better shoulder the burden of risk.

Since the PSC is often set around 18 months ahead of the bidding process, any cost blow outs in materials (such as a steel price increase of 45 per cent recently, as an example) can cause real hardship since there is little transparency or flexibility in the PSC process. In the newer economic infrastructure market

such as road toll motorways, where projects are usually Au\$1 billion plus, there are limited players and competition is dwindling. To reverse this trend, the government has already made changes to bid conditions, requiring local business involvement in the delivery of services to projects.

In the social infrastructure market, where projects are usually below Au\$500 million, the number of players is increasing slowly and competition remains relatively strong. However, it is widely accepted that more work is required to simplify the bidding process to encourage new entrance (and therefore investors) in the market.

The treasury's intention to apply a much stricter test of whether soft services should be included in future PFI deals reflects the difficulties in matching the impact of failures in highly visible services provision with appropriate abatement penalties, given the relatively small value soft services contracts. These developments are being watched with interest in Australia because of the potential impact on longer term services procurement.

Public sentiment

Despite the bad press generated from some very public failures of the PPP process, like the Sydney Cross City Tunnel (where motorists are not supporting the toll fee and the project deal has undergone intense media scrutiny), the political will is starting to turn in favour of actively and transparently supporting PPP's.

The Australian Prime Minister John Howard has announced that all federal department and agencies seeking funding for new investment in projects involving asset-based procurement with a whole of life cost in excess of Au\$100 million must be considered for delivery by a PPP arrangement, and that the cabinet must give a detailed explanation where this is rejected. This might be the surest sign yet that PPPs in Australia are going to experience momentous growth.

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