

Value for Money in PPP Projects

Istanbul PPP Week 16

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Building a better
working world

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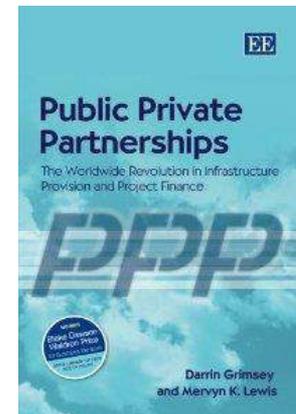
Darrin Grimsey is Partner with EY's Infrastructure Advisory Group in Melbourne and a leading adviser on infrastructure projects in Australia. He specialises in the delivery of infrastructure projects including commercial, strategic and financial advice, project structuring, risk identification and contract negotiations. He has extensive experience advising governments in Australia and elsewhere on infrastructure policy and guidelines well as delivering projects in health, education, corrections, justice and water.



He is currently advising the Victorian Government on its Outer Suburban Arterial Roads (OSARs) PPP project and the ACT Government on its bus strategy for Canberra. He was adviser on the Victorian Government's Ravenhall full service PPP and the ACT Government's light rail project for Canberra.

He was lead financial and commercial adviser to the South Australian Government on its ground-breaking \$2 billion New Royal Adelaide Hospital PPP project. Darrin also advised the Victorian Government on its \$1 billion Victorian Comprehensive Cancer Centre.

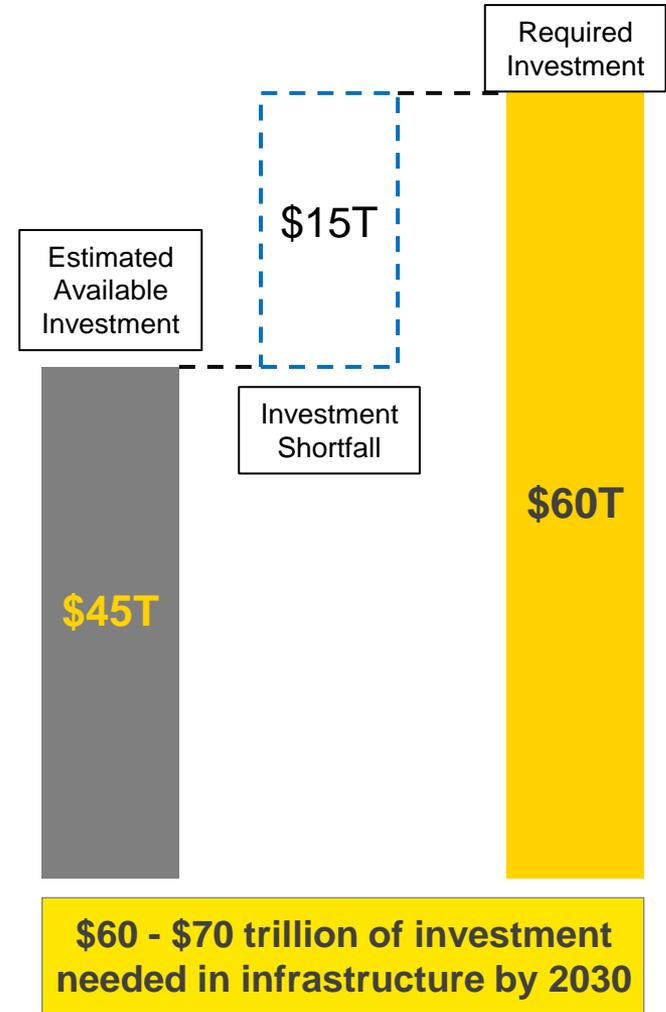
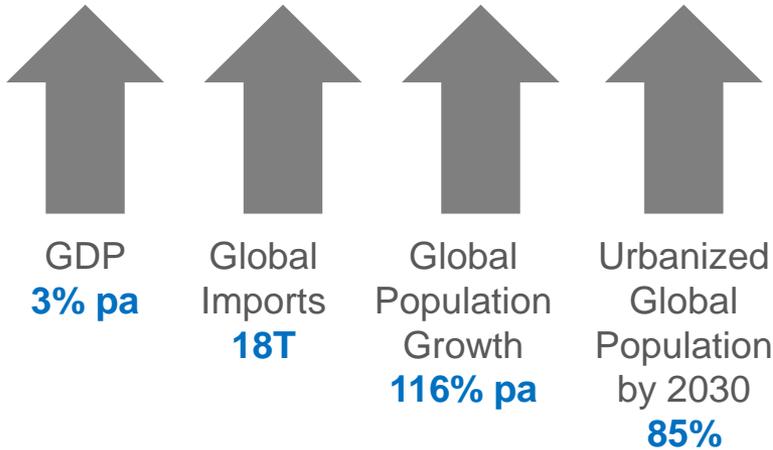
Darrin has published several papers in leading peer reviewed academic journals and books dealing with various issues relating to infrastructure, including *Public Private Partnerships: the revolution in infrastructure provision and project finance* which won the 2006 Blake Dawson Waldron award for business literature in Australia.



PPPs are required to meet infrastructure demand



Global growth is driving demand for more Infrastructure



SOURCE: World Bank Economic Data

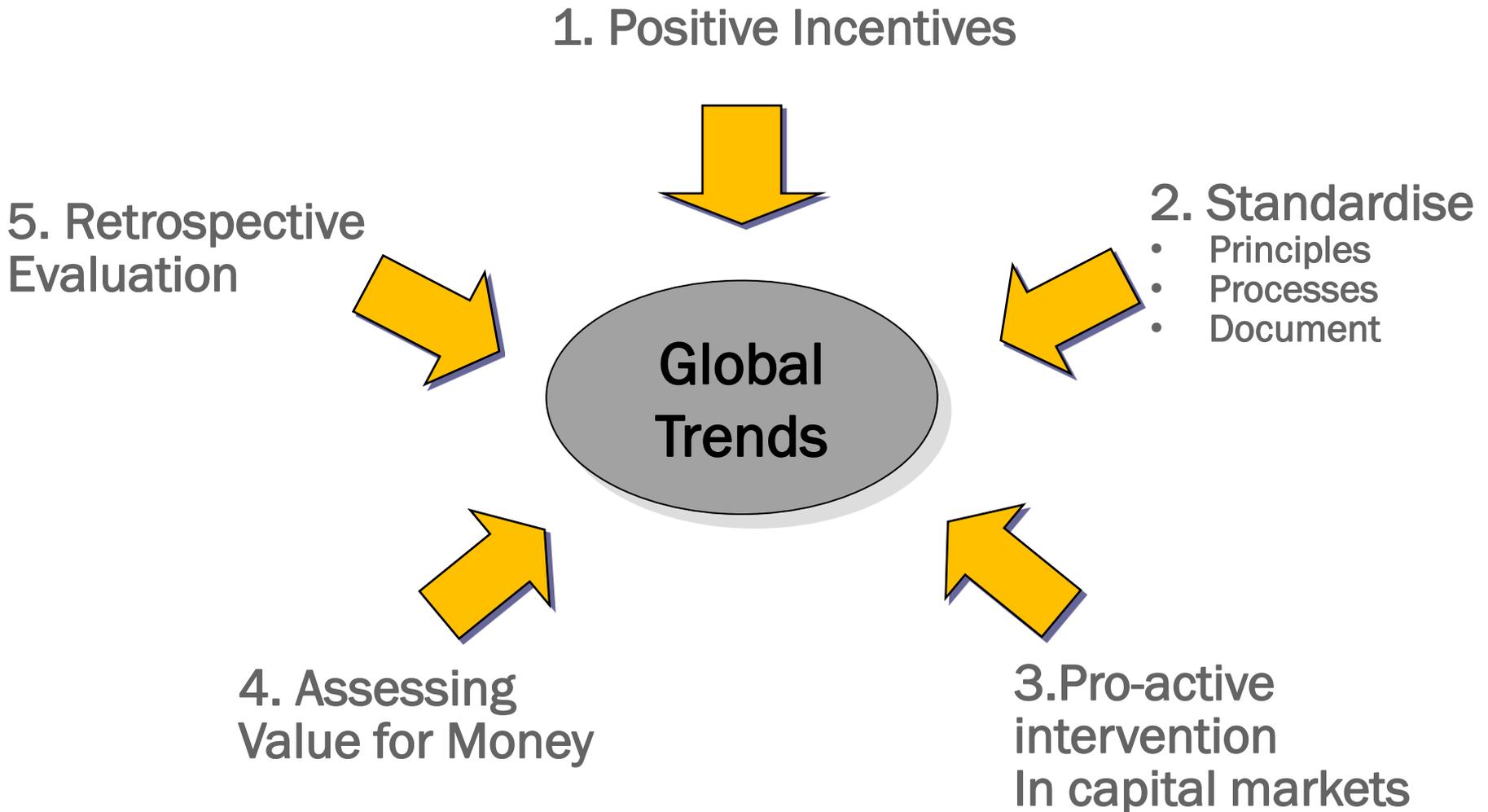
EY Global PPP Review for Victoria Government

Key Themes

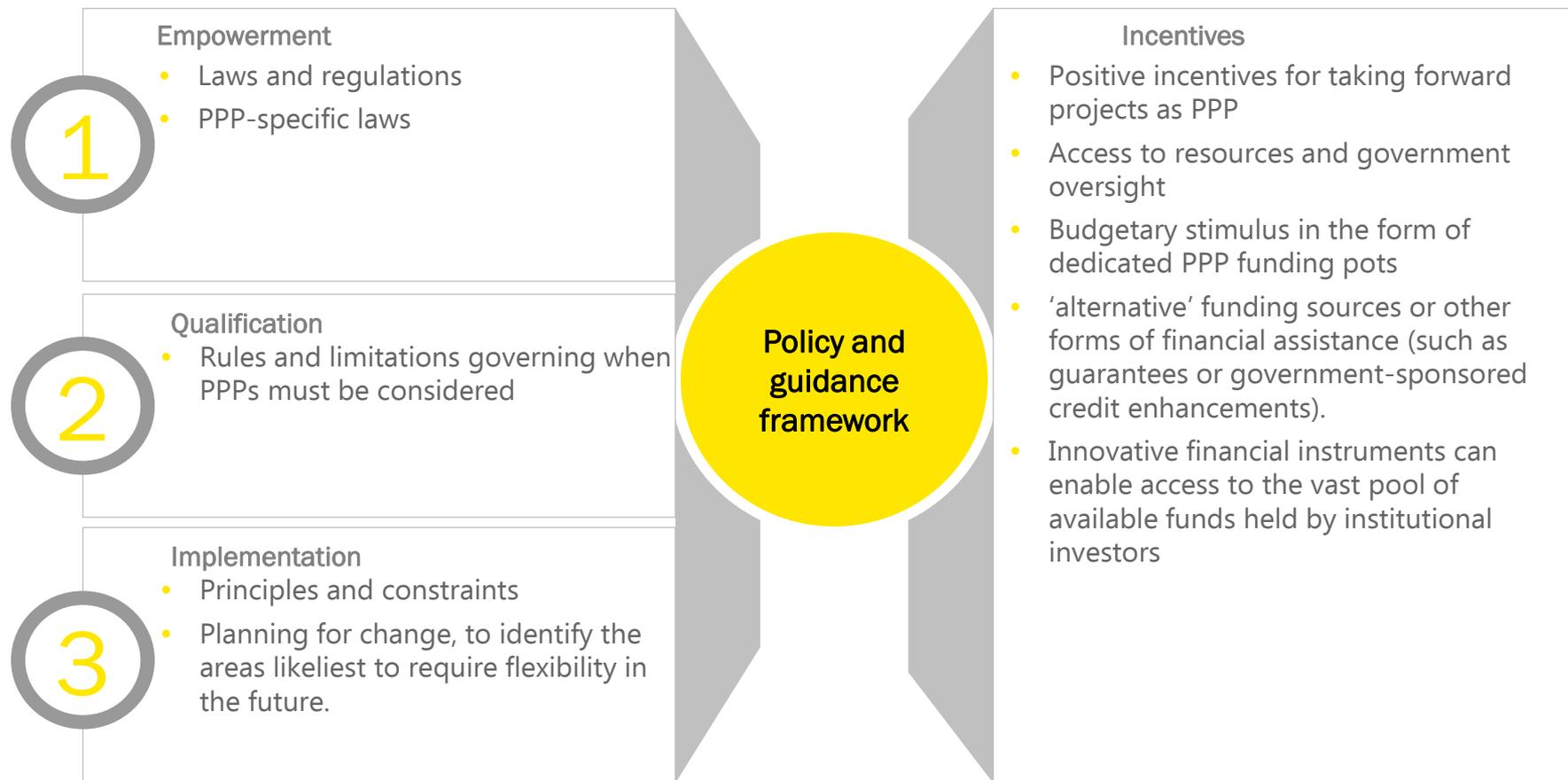


EY Global PPP Review for Victoria Government

5 Key Findings



1. Positive Incentives



For governments it is essential to keep an open eye on developments elsewhere

2. Standardise

- Frameworks consist of two main elements:

Standardisation

- Reinventing the wheel for each transaction
- Move towards greater standardisation of commercial principles, procurement processes and contractual documentation.
- Template risk allocation matrices, contracts and contractual schedules – including pro-forma technical specifications and performance regimes.

Dedicated PPP unit

- There is no 'one size fits all'
- Assigning separate authorities for policymaking, contracting/monitoring, and dispute resolution
- Most established within a central government department (such as finance) or as executive agencies owned by a central department.

Consistent positions leading to greater private sector engagement

Standardisation outcomes

Shorter procurement timeframes leading to lower bid costs

Clear correlation between standardisation and lower bid costs

Primary roles

Policy direction

Program and project delivery support

Approvals

Quality control

Promoting PPPs within government

Engaging with market participants

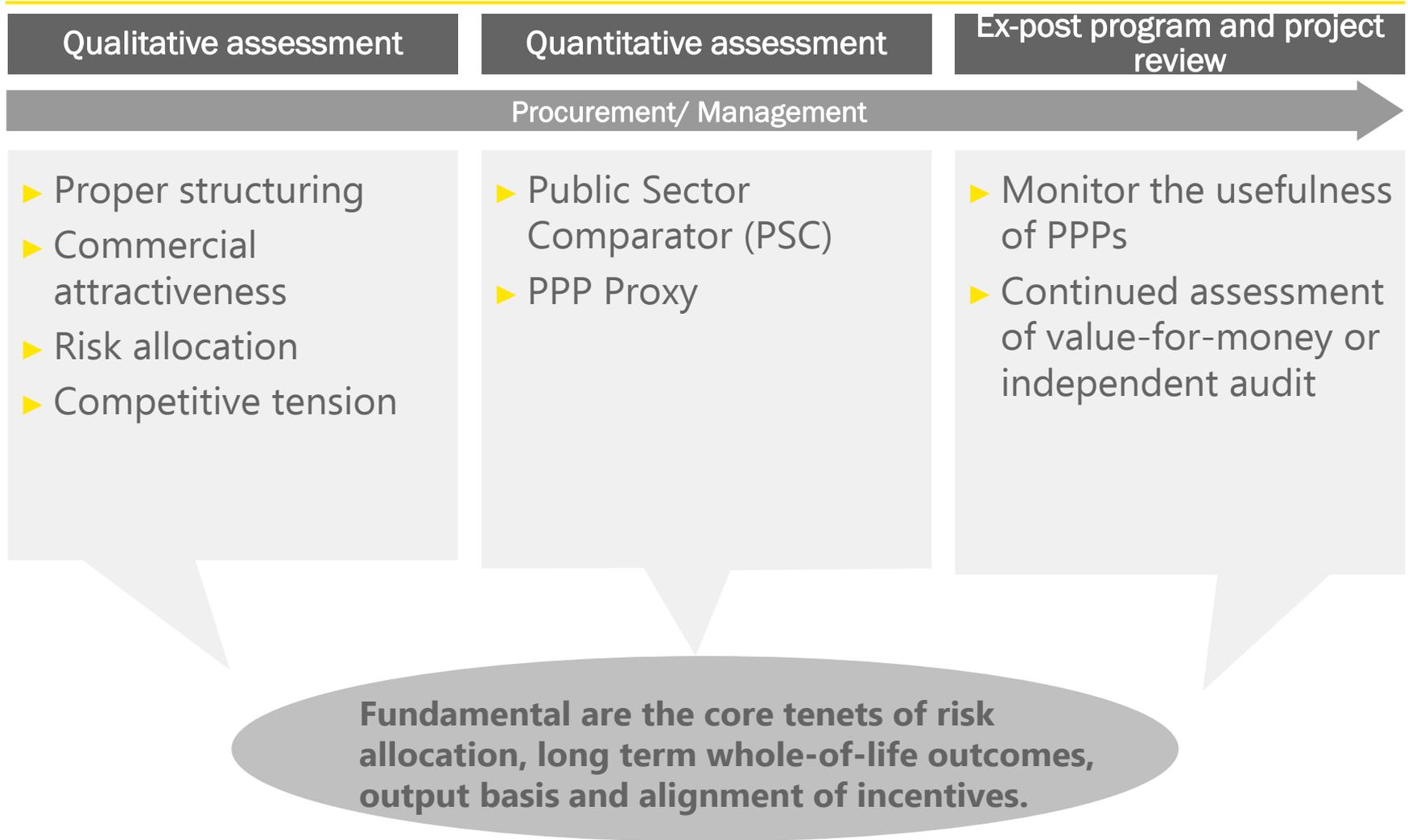
Secondary roles

Trend towards a more sector-specialisation in a dedicated PPP-unit in line ministries

3. Proactive intervention in the capital markets

- In many of the world's markets, the **prized participation of pension funds** and insurers is returning to PPPs. This is not, however, the case everywhere.
- Participation has not been a purely market-instigated phenomenon – it has been **driven by government intervention**.
- Different forms of intervention include:
 - subsidising the interest payments or providing credit enhancements for project bonds
 - project bundling
 - government guarantees.
- Institutional investors are attracted by products or instruments that match their risk appetite – this is likely to be **a fruitful avenue for governments to investigate and pursue**.

4. Value for Money



5. Retrospective Evaluation

- **Absence of a robust and accepted methodology for measuring the success**
- Mid-term or retrospective evaluation focus on:
 - financial and operational performance
 - contractual requirements
 - timely reporting
- Feedback loops needed

The Future of PPPs

Commissioning and Contestability

Commissioning

- ▶ Governments face increasing costs and shrinking budgets.
- ▶ Consumers are demanding better public services
- ▶ Governments must innovate
- ▶ Commissioning is a natural progression PPP evolution
- ▶ New ways to leverage value and improve delivery of projects

Contestability

- ▶ The Government tests the market to ensure the best approach to project delivery
- ▶ Different service delivery models should be considered

From

- ▶ Government choosing
- ▶ Doer
- ▶ Siloed
- ▶ Contract managers
- ▶ Program managers
- ▶ Control

To

- ▶ User choice and control
- ▶ Enabler
- ▶ Collaborative
- ▶ Relationship managers
- ▶ Outcome managers
- ▶ Influence

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