Unsustainable Bidding Costs – A Critical Issue for Public Private Partnerships

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Financial Support for Research by
Construction Industry Institute, Australia (CIIA)
Introduction

- Increasing demand for infrastructure by governments
- Increasing use of private sector
- Paper presents preliminary findings
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Innovation in Procurement

- Change can be driven by legislation
- Private and public sector sharing the vision
- “Working with Government – Guidelines for Privately Financed Projects” – NSW Policy Paper
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Sustainable Infrastructure

- Growing economies fuelling demand for infrastructure
- Nexus between economy and infrastructure standards
- Innovation and procurement
- Private and public traditionally separate
- Innovation being encouraged by government
- Innovation allows non-government entities to contribute intellectual property to process
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Australian Public Private Partnerships

- Public Private Partnerships a recent phenomenon
- UK regarded as a world leader – Australia and others catching up
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Privately Financed Project (PFP) NSW Approach

- Better value for money
- Competitive and transparent
- PFPPs part of broader PPPs programme
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What is a PFP?

- Specific form of PPP
- Capital and ongoing operations by private sector
- Core service retained by public sector
- Concession period may be very long
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Current Extent of PFPs in Australia

- High percentage of projects do not proceed
- NSW and Victoria most active states
- Transport projects predominate
- Water projects
- Correlation between complexity of project and abandonment
- Political support influences projects
- Ease of measurement of outcomes important
- Transfer of risk
- Value for money

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- Risk transfer not always easy
- Financiers particularly risk-averse
- Impact of PPPs on economy of country
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Unsustainable Partnerships

- Potential of PPPs not always realised
- Bid risks-
  - Cost of preparation
  - High rate of abandonment
  - Taxation difficulties remain
  - “Best value” difficult to define
  - Innovation not always welcome
  - Public sector comparator often unfair
- Many PPPs not true partnerships
- PPP projects usually high profile – high political risks
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Barriers to PPPs

- Taxation
- Lack of consistency across government agencies
- Lack of expertise in government
- High bid costs
- High project value – keeps small contractors out
- High risk to contractors
- Small contractors’ lack of expertise and experience
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The Future for PPPs

- Risk transfer matters to be sorted out
- Bid costs need to be reduced
- Rewards to participants must reflect risks borne
- NSW Schools Project promised much but seems to have fallen short in most respects
- School project valued at $83M in construction terms cost participants some $5M to $6M in bid costs – returns do not match the risk
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Conclusion

- Re-engineering the procurement process
- Public acceptance of private provision of services growing
- PPPs allow government to provide infrastructure off balance sheet
- PPPs gaining acceptance globally
- Private sector operations need to be extended
- Bid and transaction costs need to be reduced