

ANALYSIS

What can we learn from:

AUSTRALIA'S 25 YEAR STUDY OF PUBLIC-PRIVATE PARTNERSHIPS

ABSTRACT

Infrastructure Partnerships Australia (IPA) have published a unique study of social infrastructure Public Private Partnership (P3) projects delivered across Australia and New Zealand over the past 25 years.

This study delivers an in-depth and critical examination of P3 projects. Whilst P3 remains nascent in the United States, this study gives critical insight to many of the questions that US precedent cannot yet answer – how do P3s work out in the long term? The analysis focuses on mature P3 projects well into their operational period. In this article, our North American team considers the analysis and its findings in relation to long term benefit realization against project promises.



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Australia's population is less than that of California but has a land mass that spans the width of the USA. So why are P3s so prevalent in Australasia? Why do they dominate the public social infrastructure sphere? More importantly, why should the US market heed their lessons learned? Here's why:

AUSTRALIA AND NZ'S P3 PEDIGREE

Okay, forget koalas. These guys mean business, the numbers say it all - Australasia has seen over 150 P3 projects in the last 25 years, clearly making them pioneers in the field. Their projects cover all asset types including correctional facilities, parking lots, sports stadiums, higher education, research, student housing, healthcare facilities, public courthouses, toll bridges, highway widening projects and metro systems - even affordable housing developments.

Investments in these deals has reached USD \$195bn over the past 25 years with no sign of slowing. Coupled with the fact that a broad-spectrum of payment mechanisms have been employed such as, Availability-Based, Revenue or Demand Risk Australasia provides the USA market with an excellent pool of case study projects that exemplify the inner workings of a comprehensive P3.

Australia continues to accelerate spending in the alternative asset classes. With the rise in demand for social infrastructure assets there is a well-stocked supply of mega P3 projects that are primed for the Australian market. Similarly, the USA market's demand for high quality social infrastructure projects is on the rise. The USA market has woken to the growing P3 market and the value these types of projects can add. Now is the opportune time to take notes from the success of the Australasia market. WT has distilled IPA's research study by highlighting IPA's key findings and providing commentary on its relevance to the USA market.

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“If you're in the public sector in the US, this study offers the answers to the questions you probably didn't know to ask.”

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RESEARCH CONTEXT & FINDINGS

The analysis led by IPA considered the experience and satisfaction with public agencies working on social infrastructure P3 projects. The minimum parameters required to be satisfied were twofold – that the project must have been operational for at least three years post substantial completion and that the underlying P3 contract structure(s) were reflective of P3 contracts employed in present day. Again, illustrating these projects prove to be excellent case studies for the USA market. Below are the five objectives IPA's investigation set out to answer:

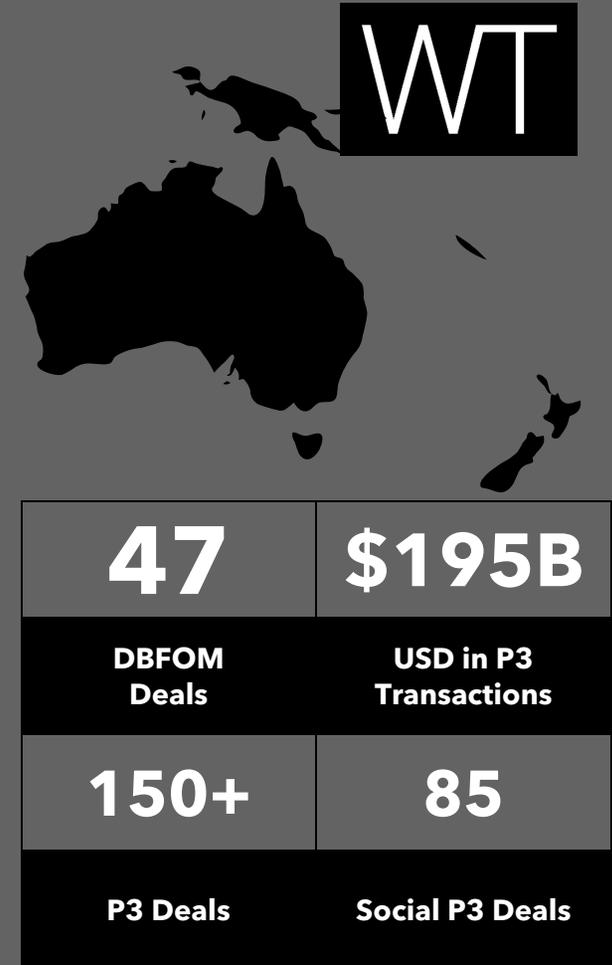
1. Assess if social infrastructure P3s are meeting the service delivery outcomes promised at the onset of the project.
2. Compare service provider and contract manager satisfaction with P3 assets and service delivery to that of traditionally procured and delivered assets and services.
3. Identify factors contributing to positive service provider satisfaction in P3s and what factors can be attributed to poor service provider experiences.
4. Assess whether value for money (VFM) is maintained over the long-term operating phase of social infrastructure P3 facilities.
5. Provide recommendations for future P3 projects.

IPA commissioned the University of Melbourne to undertake this research with the support of the Treasuries of New Zealand, New South Wales, Victoria and Queensland Australia.

#1 DELIVERY OF GOODS

The research paper found that 95% of projects delivered on the services promised at the onset of the project. This is a key point for us in the USA market because it overwhelmingly demonstrates that in the long-term, public sector owners are in-fact realizing their promise of goods. Many of these goals may have been contractually enforceable, but some were perceived satisfaction levels of the public owners. Of course, each P3 is unique and subsequently has individualized project goals that do not necessarily translate from project to project. However, this research illustrates that P3s can deliver on their stated commitments and benefits – irrespective what those goals were. This is significant. We hear continuing descension within government about failed attempts at (a version of) P3. But like the saying goes,

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“Service providers (95%) stated that their P3 project has delivered on the service promised by the relevant state government and delivery agency.”

(p. 14).

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garbage-in = garbage-out. If we take heed of what good structuring, planning and delivery entails, we can mitigate for those same issues arising on a project employing the P3 model.

One of the **five underlying recommendations** of the report was that governments should endeavor, when supported with an independent business case analysis, to secure P3 contracts to meet current and future social infrastructure demands as they are able to deliver high quality assets.

#2 PREFERENCE OVER TRADITIONAL

The market is entering a transition phase in terms of major infrastructure projects and their delivery method. This phase is ushering in an era whereby project owners are trading up from traditional Construction Manager at Risk (CMAR) or Design-Bid-Build projects to more forward thinking P3 projects such as Design Build Finance Operate Maintain (DBFOM) projects. IPA's research found that P3s provided superior outcomes to that of traditional projects.

This finding should instill confidence in USA public owners newly considering alternative delivery methods to help realize their ambitious infrastructure objectives. P3s deliver higher quality projects that public agencies prefer to work in. This again supports the paper's first recommendation for government agencies to seek and secure P3 contracts to deliver social infrastructure projects over the traditional delivery methods for projects.

#3 HIGHER QUALITY FACILITIES MANAGEMEN

P3s in their nature are long-term contracts as their scopes typically encompass operations and maintenance of the facilities. When done correctly P3 contracts encourage partnership between the Facilities Management (FM) team as the operator and the owner as the user. These contracts mandate a high standard of care throughout the term of the project by embedding prescriptive and performance-based assessments, which ensures the facility is maintained to a higher standard of quality than typical publicly maintained facilities. This is especially important for social infrastructure projects, namely higher education institutions that

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“P3 projects are working very well, and on balance were providing superior service outcomes for the service providers and their client community.”
(p. 14).

“in P3 projects there is more pressure on getting the service right, with greater accountability than in a non-P3 project...”
(p. 16).

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struggle with restrictive budgets.

As outlined in WT's [Leveraging P3 to Drive Sustainability](#) article, education institutions have historically faced challenges with maintenance upkeep and often significant deferred maintenance issues exacerbated by aging facilities. Through unequivocally robust contract structures P3 projects are able to offer a guarantee that most traditional projects cannot confidently offer; that building users will have access to the same high-quality facility on day one as they will in year 25. This feat is achieved of course with the help of experienced contract managers, a project manager who is able to effectively communicate between the Owner and FM provider and engaged on-site team. P3s deliver this and with this assurance public owners can create budget certainty for their operating expenses allowing for investment elsewhere. It was also noted, and our WT team concurs, that P3 projects offer a *'more rewarding professional experience.'* (p. 16).

#4 FLEXIBILITY

P3s can be a daunting undertaking as they are inherently complex. There is a common misconception in the market that P3 models are rigid compared to traditional procurement methods. While the contract structures are more demanding and if managed incorrectly can be applied in a way that restricts flexibility unduly however, an experienced contract management team can help identify areas in the contract that may pose potential roadblocks. An example would be the Change Management process during the operating phase. A public owner's priorities may shift during the term of the agreement and they may subsequently need to re-program space within the asset. It is paramount that these considerations occur prior to contract execution. This ensures the commercial terms can be embedded with similar provisions that one would expect in traditional procurement models as well as flexibility for owners in the long run.

This brings us to the research's second fundamental recommendation that public agencies and key decision makers from both parties should be heavily involved during the planning and early implementation phases. This is where experience matters. Owners must have confidence when proceeding with a P3

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5 ways to improve the planning of future P3s to achieve better outcomes:

- 1 Involving contract managers in the early stages of the procurement process to identify and assess additional benefits associated with the choice of a procurement model.
- 2 Engaging with additional public agencies during bidding and design refinement phases of the project.
- 3 Improving contract management practices to ensure a consistent level of expertise among contract managers within and across state governments.
- 4 Ensuring that all contracts provide flexibility provisions to manage future changes as the community's service needs evolve.
- 5 Building strategies in the P3 arrangements that promote open and smooth communications between public agencies and FM operators during operational phase.

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project and many require the help of seasoned professionals.

#5 LONG TERM THINKING

Echoing the above point, P3s allow and should encourage operators to be engaged from the onset of a project. This provides an opportunity for the FM team to positively influence the asset's design to leverage lessons learned. This minimizes the learning curve and maximizes operational effectiveness. It is clear from the research that the projects with the most success were those where the contract managers were present during the formulation of the commercial terms. Social P3 infrastructures are complex and the USA market having the ability to bridge interests between the contracting parties is instrumental in success. An emphasis on 'Partnership' should always be given priority. This promotes greater goodwill, cost involvement and ultimately fosters an environment that strives for success.

This brings us to the studies third recommendation; that government agencies and private developers should strive to continually revisit contractual terms during their formulation to encourage outcome-based service definition rather than overly prescriptive key performance indicators (KPI). This is because KPIs are at jeopardy of becoming quickly outdated but contractually enforceable leaving both parties in a bind. As previously noted, it is paramount that owners have experienced contract managers that are well versed in the intricacies of P3 contract structures.

The experienced contract managers can potentially identify overly complex structures and ensure there are areas in the commercial terms that allows an evaluation of requirements to avoid obsolescence in ever changing fields such as, green energy practices and information technology.

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“P3 facilities maintain value for money over the long term. There was no evidence of price creep or risk transfer back to the public sector during the operational phase of the case study projects.”

“the price of the P3 contract was matched by its high level of service, and they [contract managers] felt this price was appropriate and welcomed.” (p. 21).

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#6 VALUE FOR MONEY

The report outlined that case study P3 projects maintained their value over time relative to traditional build competitors. This is hugely important for the USA market as it demonstrates that although P3s may have a higher initial cost, the investment produces dividends in the long run. An aspect that was not measured was innovative features. As P3s engage the private market they often times integrate pioneering features that ameliorate the asset.

With the involvement and incentivization of the private sector, public sector owners are able to realize innovative practices not otherwise available, or affordable to them through traditional procurement models. This is a significant factor to any USA public institution who is looking to maximize their facilities. By leveraging the immense value add that P3s offer this reinforces the recommendations previously discussed.

#7 EDUCATION

Education of P3 delivery models and a lack of fundamental understanding of their inner workings naturally inhibits P3s reach and effectiveness to impact the market. The study's **fourth recommendation** was that of continued education for both the governmental and private sector parties on the roles and responsibilities of their contract. The USA market is playing catch-up on P3s and as previously noted it is paramount that the public owner has experienced advisors with a wealth of knowledge to help navigate the complexity of P3s to ensure maximum value is delivered and prevent misguided or misinformed decisions.

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WT'S ANZ P3 EXPERIENCE

- Adelaide Courts Precinct
- Bendigo Hospital PPP
- Canberra Light Rail
- CityLink-Tullamarine Widening
- Eastern Goldfields Regional Prison
- Grafton Prison PPP
- Melbourne Convention Centre Redevelopment (Victoria)
- Melbourne Metro Tunnels and Stations PPP
- Optus Stadium (Perth Stadium) PPP
- Fulham Prison PPP Term Renewal
- Port Phillip Prison PPP Term Renewal
- Perth Courts Complex
- Queenstown, Auckland and Christchurch Schools PPP
- Ravenhall Prison PPP
- Royal Adelaide Hospital
- Royal North Shore Hospital (RNSH) PPP
- Southern Cross Station (Victoria)
- Sunshine Coast University Hospital (SCUH) (Queensland)
- Sydney International Convention Centre PPP
- University of Melbourne 1,000-Bed Student Housing
- University of Tasmania Student Housing
- Victoria (Ararat) Prison PPP
- Victoria County Court
- Victoria Prisons Project
- Victorian Comprehensive Cancer Centre (VCCC) PPP
- Victorian Desalination Project
- West Gate Tunnel Project (CityLink)
- Western Roads Upgrade (WRU) ("OSARS")
- Western Sydney Airport (Badgery's Creek / Aerotropolis)

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IN SUMMATION

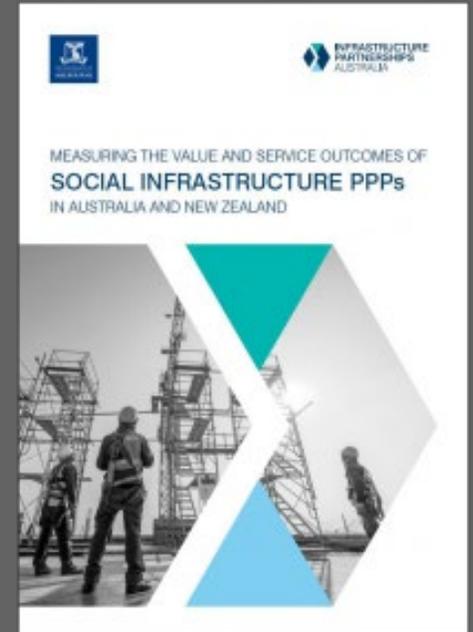
The level of satisfaction was higher within P3 projects with the quality of service delivered and the ongoing high levels of satisfaction provide demonstrable evidence to the fact that the P3 model was a successful means of achieving and maintaining positive outcomes for large scale social infrastructure projects. The fifth and final recommendation the study concluded was that of improving clear and consistent communication between the contractual parties. This is often an aspect of project implementation that is underestimated as its seemingly a simple action, yet it is deceptively difficult to get right. More often than not, these are reasons why project teams disintegrate, and lack of communication can seriously hinder a project's effectiveness.

The research clearly shows that P3 projects do in fact deliver on the services promised, which is hugely important to our USA market. Not only do P3s make true on their promises, but all projects that were investigated opened to the public on-time and to date they have out-performed their traditional counterparts. They provide value for money and have illustrated that owners and developers indicated an overwhelming preference to work or operate business within a P3 facility over that of the traditional government-owned and operated facility.

P3 projects are now realizing the commitments of services made and WT commends IPA for providing this instrumental piece of research.

This investigation has illustrated the benefits that P3s deliver over traditional projects. The USA market is realizing the immense impact P3 projects have had on the social infrastructure sphere and their traction continues to accelerate. With Australia having over 150 P3 projects, and our Canadian neighbors to the north reaching financial close on 200+ P3 projects in the past several decades it is time for us to catch up. In the wake of COVID-19, it may be more paramount than ever to employ P3 projects to ensure public entities can deliver high quality assets while helping reboot the economy.

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SOURCES

Infrastructure Partnership Australia (IPA).
(N.D.)

Social Infrastructure PPPs
[Accessed | 27 May 2020]
Source: [LINK](#)

Australia ranks 4TH globally
(USD 40.80BN deal value, 103 DEALS) as
scored by Infraction Deals Country
Factbook (2018)
Source: [LINK](#)

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