Component of the Project Assessment Framework

This document forms part of the Project Assessment Framework, as outlined below.

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<table>
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<th>Related policy documents</th>
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<td>Yes Queensland public private partnership supporting guidelines</td>
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1 Overview

Infrastructure Australia is responsible for the National Public Private Partnerships (PPP) Policy and Guidelines. With the assistance of Infrastructure Australia, the Council of Australian Governments (COAG) will monitor, review and, from time to time, refine the National PPP Policy and Guidelines and is also responsible for approving substantive changes to them.

Where the National PPP Guidelines allow jurisdictional flexibility, the Queensland-specific departures apply as set out in this document. Where further information is required, the Queensland Government will provide the relevant guidance for PPP infrastructure projects.

As a general rule, application of the policy is not mandatory for:

- the provision of infrastructure by Government Owned Corporations (GOCs)
- certain standard design and construction projects such as office buildings with long-term government tenants
- information and communication technology (ICT) projects
- Category 1 Water Authorities seeking community service obligation funding to procure new infrastructure, and
- general procurement of services by the Government where infrastructure is not being provided (for example professional consulting services).

Queensland Treasury is responsible for developing and overseeing Queensland’s contribution to the National PPP Policy and Guidelines along with Queensland-specific departures.

2 Objectives

The National PPP Policy and Guidelines and Queensland PPP Supporting Guidelines apply to all PPP projects undertaken by agencies in Queensland, unless a specific government decision advises that other provisions will apply.

This document outlines Queensland’s position where the National PPP Policy and Guidelines documents allow scope for jurisdictional departures and should be read in conjunction with the following documents:

- Project Assessment Framework (PAF):
  - Agencies should refer to the PAF Policy Overview for further information about the PAF’s application and the roles and responsibilities that may apply.

- Queensland Procurement Policy

- Queensland Government Building and Construction Training Policy
  - Any procurement processes that commence for public private partnerships in relation to building projects with a contract sum of $500,000 or greater (including GST) and civil construction projects with a contract sum of $3 million or greater (including GST) must comply with the training policy.

- National PPP Policy and Guidelines:
  - National PPP Policy Framework
  - Volume 1 Procurement Options Analysis
  - Volume 2 Practitioners Guide
  - Volume 3 Commercial Principles for Social Infrastructure
  - Volume 4 Public Sector Comparator Guidance
  - Volume 5 Discount Rate Methodology
  - Volume 6 Jurisdictional Requirements
  - Volume 7 Commercial Principles for Economic Infrastructure
  - Roadmap for Applying the Commercial Principles

Agencies will also be bound by other applicable legislation, standards, frameworks, policies and guidelines.
3

Using these guidelines

The Queensland PPP supporting guidelines outline the Queensland-specific requirements for PPP projects. These guidelines complement the National PPP Policy and Guidelines and replace the series of separate guidance documents that previously comprised Queensland’s Value for Money Framework.

The PAF outlines the Strategic assessment of service requirement and Preliminary evaluation project stages that occur before a project progresses further using the National PPP Policy and Guidelines.

The National PPP Policy and Guidelines set out a comprehensive framework for analysing and delivering potential PPP projects that support the Government’s strategic objectives. The framework provides for rigorous analysis of the viability of PPP delivery options, compared to traditional government delivery. It proposes a fair process for applying competitive forces to drive innovation and cost effectiveness.

These Queensland PPP Supporting Guidelines aim to guide the Queensland Government and private sector practitioners on the process and specific State issues they are likely to confront in analysing and developing major infrastructure proposals, and, where appropriate, delivering PPPs in Queensland. It is not a ‘how to’ manual. Circumstances differ widely between each infrastructure proposal, and specialist expertise is required to ensure the analysis is comprehensive. Rather, the purpose of these guidelines, in conjunction with the National PPP Policy and Guidelines, is to provide a working knowledge of the methods and issues that arise in the analysis of infrastructure projects, to allow better interpretation and application of technical and specialist advice.

A reference to the “relevant PPP authority” in the National PPP Policy and Guidelines means Queensland Treasury unless otherwise specified.

3.1 Roles of agencies in PPP procurement

Queensland Treasury has specific responsibilities in relation to potential PPP projects, including to:

- review preliminary evaluations with a particular focus on elements involving private finance
- assist in the preparation of business cases that involve elements of private finance (e.g. an option involving a PPP)
- lead procurement processes where the chosen delivery model involves private finance (e.g. a PPP)
- review and maintain the PAF, including these Queensland PPP supporting guidelines.

3.2 Role of Cabinet and Cabinet Budget Review Committee

Underpinning this policy is a Cabinet approval process to oversee the implementation of project initiatives.

The Cabinet Budget Review Committee is responsible for the review of each proposal as part of its consideration of the project’s conformity to government policy, and the project’s priority and affordability. Cabinet approval will also be sought at key stages of the project.

This accountability structure and approval process will apply unless otherwise decided by Cabinet or Cabinet Budget Review Committee.
3.3 Approvals

The following table summarises the National PPP stages and approvals and the Queensland equivalent stages and approvals.

Queensland’s PPP project stages (i.e. post preliminary evaluation) align with the National PPP Policy and Guidelines stages except for the RFP and negotiation and completion phases. In Queensland, these latter two stages are compressed into a single Binding bid stage.

The ‘pre-PPP project stages’, namely the Strategic assessment of service requirement and Preliminary evaluation stages, form part of the PAF.

Additional government approvals are also required in certain situations such as:
- where there is a material change to the project including an amendment to the key project objectives, scope of services or the conclusions or major assumptions of the business case (including the economic and financial appraisals)
- where there is any material change in the risk allocation to that last approved by the Government
- where an amendment to the budget funding is required, or
- where significant issues relating to the public interest arise.

<table>
<thead>
<tr>
<th>National PPP Stage</th>
<th>Queensland Equivalent Stages</th>
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</thead>
<tbody>
<tr>
<td>Approval of project investment and procurement</td>
<td>Strategic assessment of service requirement</td>
</tr>
<tr>
<td>Obtain funding and project approval</td>
<td>Preliminary evaluation</td>
</tr>
<tr>
<td></td>
<td>Initial determination of project priority and affordability</td>
</tr>
<tr>
<td>Project development phase</td>
<td>PPP business case</td>
</tr>
<tr>
<td></td>
<td>Confirmation of project priority and affordability, funding approval, and if PPP delivery, seek approval to proceed to EOI stage and release the EOI</td>
</tr>
<tr>
<td>EOI phase</td>
<td>EOI stage</td>
</tr>
<tr>
<td>Approval to release the EOI</td>
<td>Approval of short-listed proponents and proceed to the binding bid/ request for proposal (RFP) stage</td>
</tr>
<tr>
<td></td>
<td>Release RFP to shortlisted proponents</td>
</tr>
<tr>
<td>RFP phase</td>
<td>Binding bid or RFP stage</td>
</tr>
<tr>
<td>Approval to issue the RFP to short-listed bidders</td>
<td>Approval of preferred proponent (or preferred bidder) status</td>
</tr>
<tr>
<td>Approval of preferred bidder</td>
<td>Approval to finalise project agreements within agreed parameters and proceed to financial close</td>
</tr>
<tr>
<td>Negotiation and completion phase</td>
<td>Approval for the Portfolio Minister to execute the final project agreements in consultation with the Treasurer and the Premier</td>
</tr>
<tr>
<td>Approval to execute contract</td>
<td>Management of the project agreements</td>
</tr>
<tr>
<td>Contract management</td>
<td>Management of the project agreements</td>
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Business case development

The guidance on the development of business cases for the Queensland Government projects is set out in the PAF. The following sections set out the specific additional requirements for business cases for projects considered as potential PPPs in Queensland.

4.1 Development of an output specification

The output specification underpins the entire PPP procurement process. The purpose of an output specification is to comprehensively and accurately state the outcomes required from the process, i.e. the identified service requirements.

The focus of an output specification is on the services required (rather than the assets wanted) and the service standards expected by the Government (regardless of who will deliver the services). Output specifications should be clear, unambiguous statements of what is needed, not how it is to be provided. It is generally acknowledged that the development of output specifications will require significant expertise.

It is important that the output specification is clearly defined and quantifiable, as it will become the foundation for indicators against which performance will be measured and payment made. This is necessary in order to achieve a clear and unambiguous contract structure for the payment of services and satisfaction of service requirements. The project team and responsible agency should be indifferent as to how a particular service requirement is met, provided that the required service standard is achieved in a timely and cost effective manner. It may be prudent however, depending on the nature of the project, to ensure that any solution meets certain minimum design and construction criteria, rather than rely on payment or penalty mechanisms alone for a guarantee of performance.

Developing the reference project can be undertaken either sequentially or concurrently with the development of the output specification.

The output specification should be drafted in such a manner to ensure that it captures relevant ‘value for money’ drivers initially identified in the Preliminary evaluation stage of the PAF. For example, it would be inappropriate to limit the provision of a service to a timeframe too short to enable the private sector to generate sufficient income to present a value for money delivery option to the Government.

Determining the level of detail required in the output specification requires striking a balance between allowing the private sector scope to generate a value for money delivery option through innovation and risk allocation, and the complexity of the assessment required to determine the best value for money bid. In general, as more detail is added to the output specification, the assessment becomes easier but the scope for innovation decreases.
Table 2: Items to consider for inclusion in an output specification:

<table>
<thead>
<tr>
<th>Structure</th>
<th>Content</th>
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</thead>
<tbody>
<tr>
<td>Project description</td>
<td>Policy outline and contracting requirements statement.</td>
</tr>
<tr>
<td>Organisation outline</td>
<td>Structure of organisation and project interfaces.</td>
</tr>
<tr>
<td>Stakeholder requirements</td>
<td>Schedule of stakeholder requirements, for example, expectations of core service providers.</td>
</tr>
<tr>
<td>Scheme objectives</td>
<td>Strategy outlined in the preliminary evaluation and purpose of the project — What is it to achieve?</td>
</tr>
<tr>
<td>Performance standards and monitoring</td>
<td>Required operating performance in output terms, with details of monitoring requirements.</td>
</tr>
<tr>
<td>Quality standards</td>
<td>Minimum asset quality criteria, codes and standards.</td>
</tr>
<tr>
<td>Constraints</td>
<td>Constraints essential to an acceptable solution, including environmental, stakeholder or other minimum requirements.</td>
</tr>
<tr>
<td>Payment criteria</td>
<td>Basis on which payments may be made (availability, use, flexibility, and performance).</td>
</tr>
<tr>
<td>Change mechanisms</td>
<td>Provision for change in load conditions, etc.</td>
</tr>
</tbody>
</table>

4.2 Development of the reference project

The reference project is the most likely and efficient form of public sector delivery that the Government would traditionally have used to satisfy all elements of the output specification.

Developing the reference project can be undertaken either sequentially or concurrently with the development of the output specification. This ensures that the reference project meets the service requirements of the project, and helps to assess the validity of the output specification. It is sometimes easier to define the output specification after the identification of the required inputs for the requisite project services. This does not, however, imply that the project should be procured on the basis of those inputs.

The reference project then forms the basis for the public sector comparator. As such, it should be updated and refined as issues that impact on the output specification or the expectations of the project are identified.

When developing the reference project and the public sector comparator, the project team should limit the scope of what is included to those activities which form traditional delivery. Other commercial developments should only be included in the reference project if the agency has a mandate from the Government to undertake such business activities.

Note that the compilation of a reference project for a social infrastructure project (e.g., prison, hospital) may differ in focus when compared with an economic infrastructure project (e.g., water treatment plant, road). Therefore, the terms of reference outlined below may not be applicable to all projects, although the level of detail should be taken as a guide irrespective of sector.

The type of project may also indicate the most appropriate group of advisors to develop the reference project. For instance, architects may be the most appropriate advisors to develop reference project for a serviced accommodation type project; but for an economic infrastructure project, engineers may be better placed to develop the reference project.
4.3 Terms of reference for the reference project

The team developing the reference project should also be involved in developing the output specification, to ensure linkages between the two, and that the public sector comparator is correctly costed.

Where possible and applicable, a geotechnical survey of the preferred site is recommended for all projects. This assists in accurately estimating the costs involved in building on a particular site, taking into account specific ground conditions. The survey also highlights whether the site has appropriate access to services (i.e. electricity, gas, water, etc.) that may impact on costs.

While the terms of reference for a reference project will change on a project-by-project basis, typical terms of reference is shown below:

- compilation of the reference project concept drawings based on the draft project output specifications. The concept drawing should encompass:
  - details of the site and positioning of buildings, plant and machinery
  - details of services access e.g. electricity, water, gas, travel plan arrangements, parking, and demonstration of how the flow around the site will be maintained throughout the development
  - functional relationships between building areas, process diagrams, road alignments, etc. as required
  - scale 1:500 (key areas shown to 1:200)
  - drawings to show year-by-year development including enablers, demolitions, etc. and with complex interfaces, further detail may be necessary
- schematic drawings of the key relationships with a macro of key areas at a scale of 1:100
- diagram of the functional relationships for the whole project
- ground and site conditions based on the site geotechnical survey
- estimation of costs involved in providing utility and other necessary services to the site (if applicable)
- room data sheets are to be prepared for all key service areas (if applicable)
- process, mechanical, electrical and control diagrams and specifications (if applicable)
- a cost estimate of the net area is to be calculated based on the room data sheets, (if applicable) with an appropriate industry standard grossing factor applied. Note that the net area usually includes mechanical and electrical services, specialist equipment and ICT costs
- prepare a list of the required FF&E (furniture, fixtures and equipment) for the project and an estimation of the costs of procurement and installation in accordance with the output specification
- details on the method of construction with a construction programme, development control plan, summary of construction assumptions and areas requiring special attention, e.g. dewatering.

Given that the raw public sector comparator and the risk valuation process are developed on the basis of the assumptions underlying the reference project, it is recommended that a value management exercise be undertaken to confirm or validate the reasonableness of underlying assumptions/technical aspects. Any changes to the reference project are to be fully reflected in the raw public sector comparator cost estimates and the risk estimates.

4.4 Development of the public sector comparator

The development of the public sector comparator requires specialist skills and is therefore likely to be undertaken by a financial advisor in conjunction with Queensland Treasury and the responsible agency. The public sector comparator is a hypothetical model that estimates the risk-adjusted, whole-of-life cost to the Government if the reference project was to be delivered via a traditional delivery method.

The public sector comparator represents the true financial cost (net of any revenues) to the Government of meeting the output specifications under a traditional delivery method. As such, the public sector comparator:

- includes a full, whole-of-life, risk adjusted estimate of project cost
- is a key management tool during the procurement process, as it focuses attention on the output specification, risk allocation and development of a comprehensive estimate for the project
- serves as a benchmark for bids evaluation
- encourages the private sector to put forward its most efficient bids.

The key attributes of the public sector comparator are:

- the model is presented in net present value terms. The net present value is based on the 'time value of money' concept and takes into account the effects of the timing difference of cash flows over the project life by calculating the total, net amount of all cash flows in equivalent values
- the net present value analysis is conducted using nominal cash flows discounted at a nominal discount rate (the discount rates used must be developed in consultation with Queensland Treasury)
- it is costed over the life of the project
- it takes account of the risks identified in the forecasted cash flows.

The public sector comparator is comprised of two elements:

- raw public sector comparator (base costing), and
- risk adjustments (transferable and retained risks).

It should be noted that, consistent with the National PPP
4.5 Raw public sector comparator

The raw public sector comparator indicates the general order of magnitude of the non-risk adjusted capital and non-risk adjusted operating expenditure. It will be released to shortlisted bidders unless the State determines that there are exceptional circumstances where the release will materially compromise the State’s negotiating position.

The raw cost estimates for the public sector comparator are based on the reference project and are generally derived by technical advisors in consultation with Queensland Treasury and the responsible agency. To build up the raw costs for the public sector comparator, the terms of reference for this work by the technical advisors include, among other things:

- to estimate each cost in accordance with the scope of the project, detailing assumptions used for each cost category and the breakdown of the costs in each cost category
- to provide the cost estimates as at an agreed date
- to provide details on inflation/indexation of costs for each cost category over the project term. For example, labour rates/wages usually rise faster than consumer price index, and construction materials may also inflate at different rates. Guidance should also be sought directly from Queensland Treasury for inflation assumptions relating to long-term projects
- to reflect the true financial cost of the project to the Government rather than the cost to the agency (this may be different, for instance, when a GOC is the traditional delivery mechanism)
- estimation of the timing of construction costs over the construction period
- to detail the assumptions regarding:
  — the payment terms of the contractor (i.e. are there any holding costs included in the raw estimates)
  — derivation of the discount rate
  — details of foreign exchange
  — insurance assumptions
- estimation of the replacement cost capital items and when they occur over the project term
- to detail and separate out the costs relating to revenues to the Government
- to ensure that the costs provided correlate with the scope of the reference project, and that any changes to the reference project are reflected in amended cost estimates.

4.6 Goods and Services Tax (GST)

Currently, GST is paid on most goods and services at a rate of 10 per cent. Agencies are entitled to a GST refund from the Australian Tax Office for any GST paid. The Australian Tax Office advises that it aims to refund GST within 14 days of the lodgement of the business activity statement. As such, the cost of the timing lag between the remittance of GST and the Australian Tax Office refund of GST is not considered material, and therefore, the public sector comparator is usually calculated net of GST.

However, the GST has a minor working capital cost resulting from the timing lag between the payment and collection of GST. For budgeting purposes, the GST position of the agency should be checked, as it may be different to that described above.

4.7 Risk adjustments

Risk and uncertainty are inherent in all projects, no matter the size.

For project management, the most serious consequences of risk can be broadly characterised as:

- failure to keep within the cost estimate
- failure to meet the completion date
- failure to achieve the required quality and operational requirements.

Projects sometimes ignore risk or deal with it in an arbitrary way, for example by simply adding 10 per cent “contingency” onto the estimated cost of a project. This contingency is almost certain to be inadequate and will result in cost overruns and delay. It is therefore essential that risk is identified and valued, where possible, in order to gain a full appreciation of the likely cost to the Government of pursuing the project.

The identification and costing of risks is particularly important, as risk allocation and its financial consequences will play a key role in assessing value for money and contract negotiation.

In practice, it is likely that some combination of the individual risks identified (whether quantified or not) will be encountered. It is important to make some assessment of the implications of the combined impact of the identified risks. It must also be recognised that not all identified risks will be quantifiable and that it is important to ensure that such risks are also captured in the analysis (not only for business case development, but also during bid evaluation).

The analysis of the combined range of identified and quantified risks provides a greater understanding of the risk spectrum or “volatility” that is inherent in the project. Volatility can be considered in terms of a probability (or confidence level) that is usually expressed as the P-90 - the range of outcomes bounded by the fifth and ninety-fifth percentile probability outcomes.

For the Government, the cost volatility under a traditional delivery model will likely to be higher than that under
a PPP structure, given the Government retains all risks under the traditional delivery model whereas under an PPP option, some risks will be transferred to the private sector. Therefore the potential range of cost outcomes for the public sector comparator will be wider than that for the PPP structure.

It is important to recognise that probabilities and uncertainties in cost estimate vary from stage to stage and therefore so do the measures of likely cost outcome and volatility. The quantification of risks at the identification and appraisal stages of a project should be detailed enough to give a reasonable upper limit for the project. Then, as risks and uncertainties are removed or reduced, the risks should reduce.

4.8 Reality check of the risk-adjusted public sector comparator

The type of reality check or review conducted depends largely on the complexity of the project. The extent of the review process can range from a comprehensive audit of the calculations in the model to independent advice on the raw cost estimates. As it is usual for the scope of the project to change during the development of the public sector comparator, the reality check is important in ensuring that the estimated costs are consistent with the scope. As stated earlier, regularly checking the reference project and ensuring ongoing communication between the Government project team, technical advisors and financial advisors regarding changes to the scope of project services will help to ensure that the assumptions underlying the public sector comparator are robust.

A review of risk adjustments could be performed by comparing the percentage likelihood of the risk occurring and the associated cost impact to empirical evidence from previous projects. See Appendix A for public sector comparator frequently asked questions.

4.9 Sensitivity and scenario analysis

Sensitivity analysis is a repetitive calculation technique used to consider the impacts on the whole project of potential changes to key variables in the public sector comparator. The technique is very useful as the effect of a small change in one variable can produce a marked difference in the public sector comparator. Sensitivity analysis can also be extended to look at the individual variables that comprise the project, for example:

- capital costs
- operating and maintenance costs
- refurbishment costs
- discount rate
- inflation rate.

Sensitivity analysis is particularly useful in determining the variables that have a significant impact on the public sector comparator and can support considerations in relation to project affordability.

A limitation of sensitivity analysis is that each variable is considered independently, without quantifying their combined impact or the extent to which ranges are achievable.

To deal with this, scenario analysis techniques can be used to examine the potential impacts on the whole project of changes to different ranges and combinations of key variables in the public sector comparator. Undertaking scenario analysis can produce a range of values which may give focus to key areas and variables which could critically impact project outcomes.

4.10 Value for money assessment of project delivery options

One of the key objectives of using a PPP delivery model is to obtain a value for money outcome for the Government.

The assessment of value for money may be three-dimensional:

- The economic assessment is concerned with the worth of the project to the Government, the community and the users of the services. This assessment is based on cost-benefit analysis techniques that focus on the broader economic, social and environmental impacts of the project (triple bottom line). An economic assessment should include the cost and benefit differentials arising from different project delivery options yielding different timing outcomes. The Cost-benefit analysis supplementary guidance to the PAF provides further detail on undertaking cost-benefit analysis.

- The financial assessment is primarily concerned with the likely cost of the project to the Government (or end users). The assessment is usually based on a discounted cash flow analysis that spans across the whole life of the project and incorporates risk valuation. Using discounted cash flow techniques, the various project delivery options can be compared by measuring the net present value of the project under each option.

- The quality assessment is based on defining the service requirements in terms of the outputs sought by the Government. As part of business case development, the output specification must be developed to sufficient detail for incorporation into the documentation at the Binding bid stage. The reference project and associated public sector comparator also developed for the business case must be based on the output specification, and therefore must be capable of delivering the services at the requisite level of quality. Ultimately, the final quality assessment is undertaken as part of the evaluation process during the Binding bid stage, when the bids received are assessed for quality against each other and the public sector comparator.
The economic assessment and financial assessment form the core part of analysis undertaken at the Preliminary evaluation and Business case development stages. The qualitative assessment is an ongoing requirement of all viable project delivery options. Further details about the qualitative assessment process appear in the following section.

### 4.11 Value for money—qualitative assessment

The purpose of the qualitative assessment is to subjectively test whether the objectives, service requirement and proposed structure of the project are likely to provide the private sector with sufficient scope to access the value drivers under PPP delivery.

As a guide, qualitative assessment should address the following issues:

- **Risk allocation:**
  - Have risks been allocated to the party best able to manage and control the risks?
  - Is there a genuine transfer of risk to the private sector?
  - Does the market have sufficient management quality to control the transferred risks?
  - Does the market have the appetite to take the risks being transferred?
  - Is there sufficient credit quality in the market?
  - Can the contract be developed to enforce the risk allocation?
  - Can the risk allocation be relied upon even under extreme circumstances, such as private sector default?
  - Have design, planning, completion and operational risks been allocated to the private sector?
  - To what extent is residual value risk transferred to the private sector?
  - Is payment at risk to service performance?

- **Whole-of-life costing:**
  - Is the private sector free to determine the operating and maintenance requirements to meet the output specification?
  - Is the private sector responsible for all refurbishment requirements?
  - Is the private sector responsible for performance of the asset throughout the contract period?

- **Innovation:**
  - Is the private sector free to determine how to deliver the services?
  - Is the manner of the design and construction of the asset a decision under the control of the private sector?
  - Is there scope for innovation either in asset design or service delivery?
  - Is the scope of service delivery sufficient to provide incentive for innovative design solutions?
  - Is the private sector responsible for all or only part of the services required to be delivered from the asset?
  - To what extent is the public sector responsible for service delivery utilising the asset?

- **Economies of scale:**
  - Is the market for the service large enough to access significant economies of scale, either in construction or operations?

The business case should incorporate a broad discussion of the qualitative assessment of the project’s value for money, with reference to each of the value drivers. As a minimum, all of the issues identified above should be addressed as part of this assessment.

A useful tool for summarising the qualitative assessment is to adopt a scoring mechanism against each of the value drivers. For example:

- ✗ represents no scope for value generation
- ✓ represents some scope for value generation
- ⬤ represents reasonable scope for value generation
- ⬤⬤⬤ represents excellent scope for value generation.

### 4.12 Compilation of the PPP business case

This section provides the Government project team and responsible agency with guidance on the deliverables to be included as part of the submission to Cabinet Budget Review Committee and Cabinet. It should be noted that the guidance provided in this section is indicative only and the final format for submission should be considered on a project-by-project basis. A suggested contents list for a public private partnership business case is as follows:

1. Executive summary
2. Project background
   - Profile
   - Project need
   - Project priority
3. Project Options
4. Output specifications
   - Outcomes
   - Services
   - Outputs
   - Commercial structure and payment mechanism
5. Reference project development
6. Delivery options – Traditional and PPP
4.13 Consideration by Cabinet

At the end of the PPP business case development stage, a submission will be presented to Cabinet Budget Review Committee and/or Cabinet seeking:

- confirmation of project priority and affordability
- approval to proceed with the recommended project delivery option
- where a PPP delivery option is recommended, approval to proceed to the EOI stage (stage 4).
- where a traditional delivery option is recommended, funding approval for project delivery.

The key deliverables to Cabinet Budget Review Committee and Cabinet are as follows:

- **Cabinet Budget Review Committee and/or Cabinet submission**
  This should be a document prepared by the Government project team that effectively acts as an executive summary of the business case (stage 3). It should provide an overview of the business case, and should summarise and highlight the specific issues for consideration at the Cabinet Budget Review Committee and Cabinet levels.

  Guidance on the specific requirements of the final Cabinet Submission is contained in the Queensland Government Cabinet Handbook.

- **PPP business case**
  In preparing the business case, the Government project team should refer to the suggested table of contents outlined on the previous page.
5 Queensland-specific requirements

Each of the following sub-sections outlines the Queensland-specific requirements for PPP projects, with reference to the National PPP Policy and Guidelines document and relevant section. Unless a departure is listed for a particular section, the National PPP Policy and Guidelines should be followed.

National PPP Policy and Guidelines Overview

SECTION 3.2 UNSOLICITED PROPOSALS AND EXCLUSIVE MANDATES

The Queensland Government’s preference is to maximise the use of competition to gain value for money.

Exclusive mandates are only considered in exceptional circumstances and are not standard government policy. The key issue for the Government in agreeing to any exclusive mandate is that the party requesting the exclusive mandate demonstrates such a significant commercial advantage over other proponents that calling for expressions of interest could not reasonably be expected to generate a better value for money outcome for taxpayers and the State. If the proposal is considered to be a priority, it will be progressed either within the National PPP Policy and Guidelines or pursuant to an exclusive mandate. Refer to the Guidelines for the assessment of market-led proposals.

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SECTION 3.1.1 PPP SUITABILITY

Projects with total capital costs equal to or above $100 million should trigger evaluation of PPP as a potential procurement method for the relevant project.

SECTION 3.6 MANAGING CONTRACTOR

The generic Managing Contractor contract referred to in the National PPP Policy and Guidelines differs from the model used by the Queensland Government for building projects.

The current form of this contract is a ‘managing contractor design and construction management’ contract for stage one, with an option for a stage two (negotiated guaranteed construction sum) contract.
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Practitioners Guide

**SECTION 4.3**
**RELEASE OF THE INVITATION FOR EXPRESSIONS OF INTEREST (EOI)**

A notice should be published inviting interested parties to register their interest in participating in the EOI process. The process will then take one of the following forms, where:

- all interested parties receive the EOI documentation, or
- interested parties are required to submit a summary of their experience and capabilities with suitable proponents then receiving the EOI documentation.

EOI submissions received by the Government will then be subject to a formal evaluation process in order to shortlist proponents for the request for proposal (RFP) phase of the PPP process.

**SECTION 5.4.4**
**REIMBURSEMENT OF REASONABLE BID COSTS**

Consistent with the *National PPP Policy and Guidelines*, the Queensland Government will typically not reimburse any part of bid costs incurred by bidders. However, the Queensland Government is keen to consider ways of reducing costs to bidders.

For example, further stage-gating the tender process and reducing the quantity of information required to be provided by bidders at the early stages of the tender process may be appropriate. At all stages of the tender process, careful consideration will be given as to the level of detail of information required to be provided by bidders. Only information that will actually be used in evaluation of bids should be requested. Efforts will be made to make information requirements as clear as possible to bidders at each stage of the tender process.

Consideration will also be given to using standardised formats and word limits when seeking information from bidders. In some cases it may be appropriate for common due diligence information to be shared by bidders. Other ways of reducing bid costs will be considered on a project-by-project basis.

**SECTION 6.5.3**
**REVIEW AND DISCLOSURE REQUIREMENTS**

In order to promote transparency and accountability, the Queensland Government will prepare a project summary following the financial close of the project.

In preparing the project summary, the *Queensland Procurement Policy* should be considered so that information disclosure requirements under the policy are met.

As PPP contracts will likely exceed $10 million, the *Queensland Procurement Policy* requires substantial details to be published about the PPP contracts and the selection processes. Some details of the contract and the selection process may be omitted from the summary to protect genuine commercial-in-confidence material and intellectual property of the preferred proponent.

**SECTION 10.1**
**REFINANCING**

**Financial risks and benefits**

The Queensland Government reserves the right to seek to share in any gain from refinancing by the private party on a project-by-project basis, in accordance with, and to the extent of, an agreed pre-determined formula documented in the contract.

**SECTION 13**
**PROBITY AND INTEGRITY**

The Queensland Government will apply the principles set out in Section 13 of the Practitioners Guide, with the following specific State additions:

- In procurement processes, Queensland public sector employees must comply with the ethical obligations in the *Public Sector Ethics Act 1994*, the *Financial Accountability Act 2009* and the *Queensland Procurement Policy*.
- The key requirements of these documents are that procurement processes are conducted with fairness and impartiality, including the provision of timely and consistent information to bidders and the consistent application of selection criteria during the process.
- Where the procurement of construction has a capital cost greater than $100 million, or goods and services procurement has a value exceeding $10 million, and the procurement is high risk, it is mandatory to engage an independent probity advisor or probity auditor. An agency may engage a probity advisor or auditor for lower value or lower risk projects if the advisor would assist in addressing specific probity issues.

As many projects considered for PPP delivery would meet the thresholds for use of a probity advisor or auditor, the engagement of a probity professional should occur at an early stage in the procurement process.
SECTION 10.6.2 DEFECTS LIABILITY PERIOD

The Queensland Government will implement all provisions set out in Section 10.6.2 of the National Commercial Principles for Social Infrastructure, each of which will be linked to a specific timeframe set out in the project agreements as follows:

- The project agreements will include a specified limited defects liability period during which the private party must rectify all defects which exist at completion or which are discovered during the specified defects liability period. It is intended that the defects liability period will operate in addition to the private party’s maintenance obligations under the services specification (or output specification).
- The private party will have an obligation to rectify all defects which exist at completion or which are discovered during the operating term.
- In each case, where the private party fails to rectify defects, the Government may either direct rectification by the private party (in which case a further defects liability period will apply to such defect, if paragraph (a) applies) or may itself rectify (or have a third party rectify) such defects at the private party’s cost. Such amount shall be a debt due and payable by the private party to the Government. The Government may set off such amount against amounts owing to it or make a demand for such amount under any performance bond provided in respect of the project.
- Nothing in this Queensland departure will affect the private party’s obligations to deliver the contracted services to the services specifications (or output specification) or the Government’s right to abate payments to the private party.

SECTION 26.0 CALCULATION OF TERMINATION PAYMENTS

Queensland notes the calculation of termination payments set out in the National PPP Policy and Guidelines is representative of industry standards. However, the Queensland Government reserves the right to calculate termination payments in accordance with the terms set out in the project agreement on a project-by-project basis.
Appendix A – Frequently asked questions

What relevance does the public sector comparator have on our budget?
The public sector comparator promotes full cost pricing at an early stage in the project cycle. The public sector comparator is commenced during the development of the business case and therefore sets the budget funding limit for funding approval that may be sought from Cabinet Budget Review Committee/Cabinet.

Is it always necessary to construct a public sector comparator?
Yes. Not only is the public sector comparator an integral component of Queensland’s public private partnership policy, it also represents best practice benchmarking for all government capital investment projects irrespective of the ultimate means of procurement.

The public sector comparator is a key management tool during the procurement process and focuses attention on outputs, risk and costing at a very early stage in the project. The public sector comparator is also a reliable means of demonstrating value for money and provides a consistent benchmarking and bid evaluation tool.

By what stage does the public sector comparator need to be completed?
The public sector comparator is developed and refined during the Business case development stage (stage 3). It needs to be developed to an extent that it can be presented to Cabinet/Cabinet Budget Review Committee at the end of the Business case development stage in order to assist Cabinet/Cabinet Budget Review Committee to make a decision as to whether the project should proceed to the Expressions of interest stage (stage 4).

Can the public sector comparator be changed?
Yes. The public sector comparator can be changed during the procurement process, subject to certain constraints. The public sector comparator should be regularly discussed throughout the procurement process and, where necessary, amended as a result of changes in scope, or if it becomes apparent that a significant component has been mis-priced or omitted. However, where there is an impact on the potential funding requirement, it will be necessary for Queensland Treasury to consider whether it may be necessary to resubmit the business case to Cabinet Budget Review Committee and Cabinet.

How accurate does the public sector comparator need to be?
The sole convincing argument for a public private partnership delivery is that it offers the potential for the Government to secure better value for money and greater innovation in the delivery of services. To determine whether the public private partnership delivery option is likely to deliver a value for money outcome, the public sector comparator must be a robust and defensible estimate of the cost to the Government of providing the services through a traditional means of procurement. Having said this, it should be kept in mind that risk quantification is a subjective element of the public sector comparator.

What should be assumed about future inflation?
Guidance should be sought directly from Queensland Treasury for inflation assumptions relating to long-term projects.

Should the public sector comparator be based on cost figures from previous projects, even though things can be done better?
If a government agency believes that things can be done better under conventional public sector procurement than in the past, and there is significant credible and verifiable evidence to support this belief, then the public sector comparator should reflect these efficiencies. Evidence of potential for future cost savings might be provided by a declining trend over a significant period. Equally, if costs have been increasing, this trend should be projected into the future. If cost savings are possible, but there is no supporting evidence for their realisation, then they should not be incorporated into the public sector comparator. However, sensitivity analysis should be undertaken to understand the effects of such possible cost improvements on the public sector comparator.