International PPP Centre of Excellence

People First PPPs for the United Nations Sustainable Development Goals

Complex Program Group

Organising for a Complex World

People First PPP

The Governance Model

NextGen PPP for a Complex World

People First PPP

The Governance Model
NextGen PPP for a Complex World

Sustainable Development through People First Public-Private Partnerships"
Presentation to the UNECE International PPP Forum
Geneva 7 - 9 May 2018

<u>Effective approaches</u>*: "I am thinking for instance of the 'inverted bid model', whereby the traditional infrastructure bidding process is reversed by first having the government tender for the long-term owner-operator, then followed by separate bids for construction, operation and maintenance."*

Secretary General, OECD

Dr. David H. Dombkins – Complex Program Group

The Governance Model is the Next Generation of PPP:

1. delivers complicated and complex programs including services delivery (health services, etc) and landmark programs
2. incorporates community services obligations as core and enforceable outcomes
3. unbundles the components
4. substantially reduces risk through early equity / contractor involvement and multi-stage business cases
5. proactively manages emergence through defined process governance
6. incorporates robust governance system that is transparent
7. reduces tender cost, tender schedule, and contract management cost
8. reduces cost, risk and delivers effective value for money through interactive tendering
9. builds on The Inverted Bid Model that was developed for equity based PPP and was recommended by G20/OECD as best practice

1. **Delivers complicated and complex programs including services delivery (health services, etc) and landmark programs**

- **Programs subject to emergence (such as health care services)**
- **Programs in countries with low PPP Readiness**
- **Countries where there are no established consortium leads**
- **Programs in fragile countries where the private sector won’t invest**
- **Landmark programs such as the One Belt One Road program**

NOTE:
Overcomes the limitations of traditional PPP Models that rely on scope certainty
Proactively manages emergence.

People
First
PPP

2. Incorporates community services / obligations as core and enforceable outcomes

- **Incorporates people first PPP principles formally into the contract**
- **Option to put community services obligations ahead of returns to investors**
- **Governance process is defined in the contract to manage emergent change. This ensures that the project continues to serve the community and avoids costly win/ lose renegotiation**

NOTE:
The Governance Model gives legal power to People First PPP through making community services obligations the core outcome above profit. The Governance Model enables the community services obligations to transform as society changes.

3. Unbundles the components

- Components of the project are unbundled
- Flexibility in component scope and tender sequence
- Components separately tendered (value for money & fit for purpose)
- Supports full range of contracting methodologies
- Increases the level and scope of competition
- Option to use performance based and set term contracts for SPV manager

4. Substantially reduces risk through early equity / contractor involvement and multi-stage business cases

- Brings an owners mindset to program development and operation
- Encourages equity investors to tender
- Builds in efficiency and value-for-money through a whole-of-life focus
- Drives an asset ownership approach and culture
- Removes short term windfall approach
- Incorporates multi-staged business cases to reduce risk
- Stops bias of optimism by promoters and consultants

5. Proactively manages emergence through defined process governance

- Core assumption is that there will be ongoing change and emergence
- Contract incorporates processes to proactively manage change. The governance model uses Interactive Tendering to drive convergence in understanding the scope and uses win/win Process Governance to manage emergent risk, rather than win/lose contract management
- Incorporates foresight and WAVE Model as formal processes
- Protects commercial balance and removes re-negotiation risk
- Delivers short and medium term outcomes, while maintaining focus on vision

NOTE:
The Governance Model provides a program constitution that defines the core governance and management processes. These processes resemble those used by private sector boards and management.

6. Incorporates robust governance system that is transparent

- Establishes a project constitution that resembles a corporate constitution
- Defines structure, roles and responsibilities, and operation of the SPV Board and the SPV Manager
- Defines the core processes:
  - Periodic strategic planning
  - Foresight
  - Procurement
  - Transparency
  - Management of emergence
  - KPI, performance measurement and reporting
  - Project planning, delivery, and business cases
  - Asset management

7. Reduces tender cost, tender schedule, and contract management cost

- Early finance / contractor involvement and the staged business cases approach means that finance, design teams, and contractors only invest in detailed designs as the business cases are progressively approved
- Supported by equity investors - Many equity investors and contractors are unwilling to tender for PPP projects because of the high cost and bias to high leveraged loan finance
- The Governance Model integrates contract management into the core operational process. It effectively eliminates ‘man matching’ contract management and significantly reduces contract management / change management / contract re-negotiation risks

8. Reduces cost, risk and delivers effective value for money through interactive tendering

- **Reduced uncertainty results in significant cost savings**
- **Facilitates partnering capacity of contractors**
- **Facilitates competency assessment of project teams**
- **Removes windfall profits**
- **Removes costly contract re-negotiation**
- **Early input by finance / contractors**
- **Separately tendered components**
- **Option to have SPV manager on a performance based term contract**

NOTE:
The private sector price scope uncertainty as a risk. The Governance Model uses Interactive Tendering to drive convergence in understanding scope and uses win/win Process Governance to manage emergent risk, rather than win/lose contract management

9. Builds on The Inverted Bid Model that was developed for equity based PPP and was recommended by G20/OECD as best practice

- **Supported by international equity investors and banks**
- **Governance Model enables flexibility in SPV, component scope, and component tender sequence**

OECD/ G20 Best Practice - *“Governments may adopt an ‘inverted bid model‘, whereby the traditional bidding process is reversed by first having the terms of project financing fixed through a funding competition prior to the construction, operation and maintenance tender and raising of any additional debt. In effect, government tenders initially for the long-term owner-operator followed by separate bids for construction, operation and maintenance and residual debt.”*

People First PPP

Features of the Governance Model

Solicited and Unsolicited Bids

Phase 1: Origination

The process is originated and managed by the SPV Manager, in compliance with local procurement guidelines.

Project selection: a focus on very large landmark projects for ‘low quality’ economic and social infrastructure.

Optional equity partner: the SPV Manager may choose to competitively engage an early equity partner (to provide 0-100% of the project finance, determined on a case-by-case basis), based upon their proposed minimum IRR.

Features of the Governance Model

Solicited and Unsolicited Bids

Phase 2: Business Case and Consortium

The SPV Manager and Government (together with any optional equity) jointly lead (i) the development of a progressively more detailed business case, and (ii) the competitive procurement of the full project consortium.

Strategic Business Case (50% documented): expected to have a -10% to +20% range of accuracy, with development costs of AUD$100-$350K. The SPV Manager will competitively procure other key contractors / operators (where the SPV Manager is not providing these services). Government has a Stop/Go decision after the Strategic Business Case.

Final Business Case (100% documented): expected to have a -5% to +10% range of accuracy, with development costs of AUD$350-$3,500K. The SPV Manager will competitively procure the remainder of the project finance as debt (open to both equity and debt financiers).

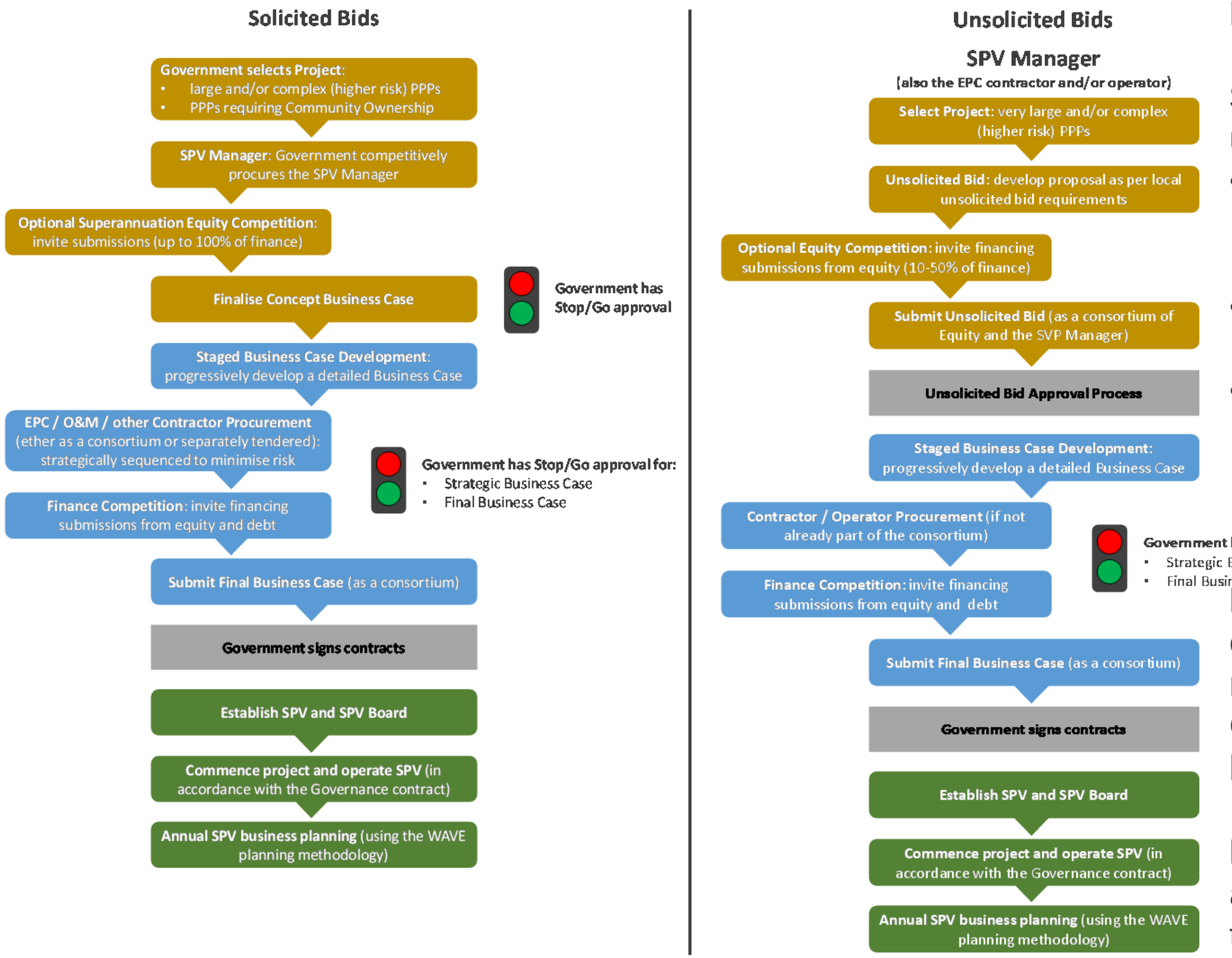
International PPP Centre of Excellence

People First PPPs for the United Nations Sustainable Development Goals

People First PPP

Features of the Governance Model

Solicited and Unsolicited Bids



Phase 3: Project Delivery

SPV and SPV Board: the SPV Manager/lead contractor is engaged using a Governance Contract, which:

- specifies the governance structure and internal processes for the SPV and SPV Board. The SPV Board consists of representatives from the Government, investors and the SPV Manager;
- uses a cost-plus model, where costs are guaranteed, and profit / overheads are subject to a performance-based fee multiplier (0-2);
- The lead contractor competitively procures contractors and suppliers (using Government procurement guidelines) – this maintains both value-for-money and local engagement.

Flexible Risk Transfer: for projects with user-pay funding (including expanded value-capture strategies), the Government's IRR guarantee is revoked once demand rates have stabilised at a threshold level. The Governance Contract includes a formal process for annually re-benchmarking the SPV's business plans.

Exit: the SPV Manager is engaged for theimplementation, as well as an additional 3-5 years (commissioning and initial operations) after which the SPV Manager is re-tendered.

People First PPP

Project:	**WestConnex, Sydney, Australia**
Project Proponent:	**New South Wales State Government**
Project Organization:	**Multiple Contractors are currently tendering to purchase 49% equity**

Public Organization: The New South Wales State (NSW) Government, Australia, established the Sydney Motorway Corporation as a private company limited by shares in August 2014 under the Corporations Act 2001 to develop the program and to be the SPV Manager. The program will be completed in 2023.

Private Organization: The government is progressively contracting the DCM of components to the private sector.

Capital Providers: The program is being initially funded **(AUD20 billion)** by the NSW government. The program is approximately 40% completed and the government is in the process of tendering the sale of 49% of the program. The remaining 51% will be sold once the program is completed and demand is stabilized.

Why is this project a Case Study for People First PPPs:

WestConnex is being implemented using the next generation of PPP
Developing a large Landmark greenfield infrastructure program
Uses the Inverted Bid Model to unbundle the components
Reduces overall risk and cost – eliminates windfall profits
Turns a greenfield project into a brownfield project during implementation.

.

1) **Where:** The program is in Sydney NSW, Australia

2) **Why:** WestConnex is part of an integrated transport plan to keep Sydney moving – easing congestion, creating jobs and connecting communities. The new motorways will provide crucial support for Sydney's long-term economic and population growth.

3) **What:** WestConnex is a 33 km system of motorways including 16km of tunnels.

4) **Who:** **Th**e NSW government established the *Sydney Motorway Corporation* to develop the WestConnex Program. The government is contracting component projects using a range of contracting strategies. The government will sell the program in two phases.

1) **When:** The program commenced in 2014 and will be completed in 2023. In January 2018 the government called expressions of interest to sell 49% of the program and will call tenders from shortlisted investors. The government will sell the remaining 51% once the program is completed and the demand is stabilized.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
17 PARTNERSHIPS FOR THE GOALS

People First PPP

a) **Increase access to essential services and promote equity**

Sydney's population is growing rapidly and the existing road system has become highly congested.

b) Develop a resilient infrastructure and improve environmental sustainability

The Program has eight sustainability objectives with measurable targets defined for each objective:

Objective 1: Demonstrate sustainability leadership and continual improvement
Objective 2: Protect and enhance the natural environment and local heritage
Objective 3: Contribute to liveable communities (ease congestion, connect communities, integrate land use and transport planning and enable urban revitalisation)
Objective 4: Optimise resource efficiency (materials, energy, water, land) and waste management
Objective 5: Increased resilience to future climate
Objective 6: Design allows for future transport needs (transport modes, connectivity for multi- modal, extensions, access points)
Objective 7: Sustainable procurement – whole- of-life environmental, social and economic considerations
Objective 8: Maximise equitable training and employment opportunities.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
17 PARTNERSHIPS FOR THE GOALS

c) Demonstrate the economic and financial effectiveness of the project

- Cutting up to 30 minutes off an average peak hour trip between Liverpool and South Sydney
- Saving motorists a combined 110,000 hours per day by reducing congestion
- Reducing vehicle maintenance costs for motorists
- Cutting up to 40 minutes off a typical journey from Parramatta to Sydney Airport
- Building tunnels that are wider, taller and less steep than the current M5 East
- Creating 10,000 jobs during construction, including 500 apprenticeships/traineeships
- Providing a high-quality connection from the Port Botany and Airport precincts to the M4, M5 and Sydney Western and South Western suburbs
- Delivering more than $20 billion in economic benefits to NSW
- Enabling the efficient distribution of freight, taking heavy vehicles off the local road network
- Providing the environment for 25,000 new jobs and 25,000 residences to be created over the next 20 years.
- Building road tunnels underground to reduce the impact on communities
- Enabling dedicated lanes for public transport on Parramatta Road
- Facilitating development of new homes and businesses
- Reconnecting suburbs on either side of Parramatta Road
- Removing trucks using the new underground tunnels from surface streets, returning local streets to local communities.

d) Be replicable and scalable

- WestConnex is an AUD$20 billion program that provides a robust model for other Landmark Infrastructure programs such as the One Belt One Road Program

- WestConnex uses a form of the Governance Model / Inverted Bid Model

- The Governance Model is extremely flexible and supports bespoke PPP solutions:
    - Stages equity finance
    - Staged privatization
    - Early equity involvement
    - Early Contractor involvement
    - Staged contractor involvement
    - Government led SPV managers
    - Performance based set terms SPV managers
    - The full range of component contracting options
    - Countries lacking in PPP Readiness
    - Public NGO Partnerships in Fragile countries
    - Services delivery plus infrastructure programs.

Complex Program Group

Organising for a Complex World

Dr. David H. Dombkins

Chair - Complex Program Group
+61.452.436.577
daviddombkins@complexpm.com