

PERFORMANCE AUDIT INBRIEF

The New Schools Privately Financed Project

About the audit

The NSW Government is increasingly turning to the private sector to help provide public infrastructure using public-private sector partnership (PPP) type contracts.

In recent years the NSW Department of Education and Training (DET) has let two major contracts of this kind to provide NSW Government schools in new urban release areas.

There are many forms of PPP. Each needs to be assessed on its merits. The *New Schools Privately Financed Project* is a form of public-private partnership known as a privately financed project (PFP).

We examined this new approach to see whether the processes for awarding the first privately financed schools contracts were adequate to maximise the potential for value for money.

Audit opinion

In our view the contracts in the *New Schools Privately Financed Project* were established and let in a way that greatly assists their potential for delivering value for money.

We found that DET developed:

- a clearly defined business case with the objectives of a faster supply of schools, possible cost savings, innovation and simplified services management
- good tender lists with competitive tension maintained throughout the tender processes
- a sound performance monitoring and reporting system, with provision for it to intervene in the case of poor contractor performance.

The contracts in the *New Schools Privately Financed Project* are at an early stage of their 30 year lives and the savings and other benefits are not guaranteed. The contracts will need to be carefully managed over the 30 year period to ensure that benefits are realised and that costs do not escalate beyond expectations.

Key findings

Was the business case clearly defined?

We looked for a clearly defined business case, to explain how DET had chosen the PFP approach. We found that DET:

- clearly defined its requirements from the outset. Its objectives included a faster supply of schools, possible cost savings, innovation and simplified services management
- presented a persuasive case that the proposed project was likely to provide value for money when compared to other options, although this was not supported by comprehensive financial and economic analysis of all the alternatives
- established that the project was likely to be affordable, but new schools were only advanced one or two years earlier than would otherwise have been expected
- identified that allocation of risks between the public and private sectors most likely to deliver better value for money
- scoped the project to maximise its prospects of achieving value for money. But we also found that the process involved a number of changes made to the lists of schools as detailed planning and negotiation progressed.

Was the process sufficiently competitive?

We looked to see whether there had been genuine competition between bidders.

We found that DET:

- managed to create good tender lists and maintain competitive tension throughout the tender processes. These processes were, for the most part, sufficiently transparent to ensure that the market was well informed



Further information

Sean Crumlin

Phone: 02 9275 7286

Email: sean.crumlin@audit.nsw.gov.au

The full report is available on our
Internet site: www.audit.nsw.gov.au

- retained qualified external advisors, identified the key contractual issues likely to arise and developed a considered approach to the evaluation process
- set its current school buildings specifications as the minimum requirement, which provided greater certainty in relation to the final product but may have limited further innovative design
- evaluated all aspects of the bids received and then chose as preferred bidder the one that offered it best value
- employed the public sector comparator for added competitive tension, particularly in the final stages of negotiation with the successful proponents
- assumed that the public sector comparator could not achieve efficiencies from bundling new schools, as this would have exceeded the level of funding available using traditional means.

The cost of the public sector comparator exceeded the net present cost of the private sector bid. The 'saving' was partly achieved as a result of risks transferred to the private sector.

The public sector comparator is very sensitive to the assumptions made. We found that, whilst on the whole they seemed reasonable, some of the assumptions could reasonably be questioned.

Are performance standards adequately established and monitored?

The Government needs to be in a position to confirm that the private party is performing according to the output specifications in the contract. We found that:

- the incentives for performance are clearly designed to encourage good performance by the contractor, with appropriate benchmarks

- the reporting and monitoring system has been thoroughly prescribed and is considered appropriate for the task. However, as it is largely reliant on self-monitoring by the contractor, DET will need to carefully oversight and regularly audit the effectiveness of the system
- there are adequate contract mechanisms that DET can use to make changes to school facilities, or to intervene as necessary - such as in the case of poor contractor performance
- DET had not as yet completed work on a Contract Administration Manual to identify what needs to be done by whom and when
- there needs to be an appropriate process of review, removed from the day-to-day function of contract administration.

Summary of recommendations

We recommend measures to strengthen DET's and Treasury's oversight of the *New Schools Privately Financed Project* including:

- expediting completion of the Contract Administration Manual
- utilising the cross-agency *Project Management Steering Committee* for continued oversight
- designing a process to review whether the project continues to provide value for money.

