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## Victorian Government Reforms PPP Policy to Support Infrastructure Growth

*By Catie Burdett and Kimberley Wilson*

The Victorian State Government announced on 2 May 2013, significant reforms to its Public Private Partnership (PPP) policy to support infrastructure growth in Victoria (Policy). The Policy is aimed at encouraging private sector investment in critical infrastructure by providing an alternative to full private finance.

Typically, unless there are financial market constraints, construction of PPPs is financed in its entirety by the private sector and repaid by the public sector over the concession life. Under the new Policy, the Victorian Government will make a capital contribution to some projects in order to reduce the amount of money the private sector is required to borrow, thus decreasing the overall cost of the project.

Under the Policy, a partial capital contribution may be made by Government in two ways:

1. As milestone payments during construction (eg for mega projects where the full private capital to fully finance construction cannot be raised); and/or
2. As a lump sum payment once construction is complete to achieve greater value.

The Victorian Treasurer, Michael O'Brien, said that under the Policy the Government would make a capital contribution to projects where there are liquidity concerns or there is an opportunity to optimise the amount of risk capital, effectively leveraging the lower cost of government borrowing. Assessment criteria such as risk allocation, cost, complexity and the need for innovation and competition would be applied to projects on a case by case basis. To date, the Government has proposed contributing money to the AUD630 million Bendigo Hospital, which will be built as a PPP. It is expected that contributions of this nature will increase as a result of the Policy.

Alternative approaches to financing public infrastructure have already proved to be successful in encouraging investment in other jurisdictions, both within Australia and internationally. The Queensland Government has included a lump sum payment to be made once construction is complete on the Gold Coast Rapid Transit project.

Internationally, the Canadian Government successfully launched the "P3 Canada Fund" in 2009 which is a PPP fund that provides alternative financing. The P3 Canada Fund is a merit-based program, designed to incentivise consideration of PPPs in public infrastructure procurements. Under the P3 Canada Fund, funding support (in combination with any other direct federal assistance) of up to 25 percent of the project's direct construction costs may be provided. Significantly, there has been an increased number of project proposal submissions since the establishment of the P3 Canada Fund.

The new Victorian PPP Policy also includes a mechanism under which Victoria will trial payment of partial bid costs for PPP projects. The Policy is outlined in a revised Partnerships Victoria Requirements document available at [www.partnerships.vic.gov.au](http://www.partnerships.vic.gov.au).

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