

ceased to exist and, on the 1st April 1988, the present Works and Development Services Corporation (NZ) Limited was created.

- In - March 1986 personnel numbered 9,900
- March 1987 they numbered 8,964
- March 1988 6,880
- and [1989] 5,500

A year out [Works] should be down to [a] fighting weight of about 5,000 through both natural attrition and selective culling.

[Works has] purchased the Corporation's assets from Government, at market prices or indeed above, and the New Zealand Treasury [which] seems terrified of being accused by [Works] competitors of giving [Works] an unfair advantage, attacked the consultancy and construction markets in New Zealand and [is] now targeting overseas ventures.

During [Works] first year of operation [Works] attracted a revenue of NZ\$400M and achieved a profit of about NZ\$40M.

[Works] are still building roads and power projects and have extended ... consultancy activities overseas.

Nothing special about all this except that [Works] borrow ... funding from commercial banks at commercial rates and ... pay taxes just like any other private sector organisation.

[Works] conducts [its] own negotiations, with [its] own unions and without any linkage with Government sector determinations.

To those ... from the private sector there is little new in all this, however, [it is] a tremendous culture shock for the Public Servant.

This month sees the start of a new financial year ... and new frontiers to conquer!

[Works has] refocussed a tighter organisation directly on the market place with, for the first time, a market driven budget. ... managers have been given the challenge of producing a particular rate of return and [of] sizing their businesses accordingly.

More staff will shake out of the business this year, as greater productivity and efficiency of operation takes effect.

[Works is] returning increased revenue to [its] shareholders, the Government, by both taxation and dividend.

[Works has] just paid NZ\$12M in provisional corporation tax and paid a dividend to [its] shareholding government ... of around NZ\$6M.

[Works is] restructuring to more closely focus upon the individual markets of parts of [the] organisation. This takes the form of 4 divisions:

Consultancy Services

- both New Zealand wide and internationally

Civil Construction

- which continues to build and maintain roads in a new, competitive environment

Property Maintenance

- maintenance of buildings, Defence Bases, etc.

Computing Services

- [Works has] inherited the largest computing power and network in New Zealand and [has] turned it into a Bureau Service Company

[Works] realise that [it] should not be in the Computer Bureau business and [has] positioned this wholly owned subsidiary for sale within the next year.

[Works is] opening an office in Singapore and another in Sydney may follow later this year.

[Works] still provide[s] a Civil Defence call out service and [has] been first on the scene during the past year when Cyclone Bola hit New Zealand's East Coast, and when various floods affected both the Northern and West Coast Districts of New Zealand.

There is no commercial contractor with a wide enough coverage, or a willingness to provide such a ready reaction force. Nevertheless, [Works] still provide[s] the service and recover[s] [its] costs from Government funds.

[Works] still undertake[s] research 'in the National Good' but also for [its] own selfish commercial ends.

[Works] still train[s] engineers and other professionals and fund[s] Bursaries for University Education. However, [it is] no longer the training and trade school for the nation - [Works] now do[es] it for [its] own selfish ends.

[Works is] in joint venture with several international organisations in many areas of Consultancy, Construction and Facility Management.

These really are new frontiers for one of the most traditional of Public Works organisations.

PRIVATE SECTOR PARTICIPATION IN THE PROVISION OF INFRASTRUCTURE

- John Tyrill

In recognition by the New South Wales Government that a strong private sector is vital to the State's prosperity and in searching for new ways to involve the private sector in infrastructure projects, in 1989, the New South Wales Government published a brief guidelines document entitled "New South Wales State Development: Private Sector Participation in the Provision of Infrastructure".

This brief report notes that development of the State's public infrastructure has traditionally been funded by public sector borrowings, which have been subjected to tight restrictions to contain NSW's burden of debt. The report states that the Government will continue to ensure that funds are available through the State's Capital Works Budget for priority areas of need, but that it wishes to open opportunities for greater private sector involvement in the provision of infrastructure.

Under the heading "Project funding and community cost", the report states:

The private sector has recently demonstrated an increasing willingness to develop, construct, and invest in public projects, often in technically and financially innovative ways.

Private sector participation may provide these

projects at lower cost to the community, and at the same time enhance industry's capabilities in the export marketplace. Private industry can use such projects to expand product capabilities and to develop project management experience which strengthen its export potential.

All investment in infrastructure involves a cost which is borne by the community, whether capital funds are provided by the public purse or by private investors. All investment proposals therefore need to be carefully reviewed to determine their cost effectiveness and their relevance to the community's needs.

The NSW Government has prepared guidelines to encourage the private sector to identify public projects, to indicate an expression of interest in them and, where appropriate to develop them. The aim of the guidelines is also to ensure that fair competition results in the best option for the Government and the community. The aim of the guidelines:

- assist in the timely development of public infrastructure of acceptable standard on favourable terms for the people of NSW
- encourage the private sector to participate in such development and to submit innovative ideas on how to do so
- set out the parameters to which proposals should conform in order to focus the private sector on the preferred approach
- assist the private sector by establishing a co-ordinated mechanism for prompt evaluation and decision.

The report that suggests that either the private sector or the Government may identify appropriate infrastructure projects as subjects for proposals. Where the private sector brings potential projects to the attention of the Minister for State Development, the Capital Works Committee of Cabinet assesses the projects priority and funding options, including whether the funding would best be arranged through the Capital Works Budget or through the private sector.

The following guidelines apply to private sector involvement:

- the private sector bears the risks of project development
- there is no requirement for public sector financial support, either by way of capital injection or ongoing funding
- the private sector assumes responsibility for the operation and maintenance of the facility concerned
- the project is able to meet the same standards of economic evaluation set for publicly funded projects
- the return to the private developer reflects the risk borne
- consumer rights are not to be adversely af-

ected

- the facility is built and operated in accordance with relevant Australian and International standards and the private sector obtains and conforms with appropriate development approvals and regulations including those covering protection of the environment.

The report suggests that proponents should themselves decide how far to develop a concept before submitting it to the Minister for State Development and suggests that they should provide a brief overview of the proposal, sufficient to allow the Government to decide its need for the project and the appropriateness of private sector participation. The reports suggests that proponents should not disclose proprietary ideas at this early stage, but states that the simple identification of a potential project will not be regarded as a proprietary idea or as intellectual property. This is no doubt a short coming of the Government's proposals as proponents are unlikely to invest in the development of a concept which is picked up and implemented by the Government through its own capital works programme or which is advertised for expressions of interest, if there is insufficient protection for the proponent.

In putting forward proposals, the report suggests that proponents should provide the following information:

- the nature of the project
- an outline of the financial arrangements, the viability of the project, and the extent of any Government participation envisaged
- any Government facilities or services required to implement the project
- the expected timescale to completion
- any relevant history or other details of the proposal.

If the Capital Works Committee of Cabinet decides that the project is of high priority and that it is appropriate for the private sector to be involved in its development, then the relevant minister or ministers, together with the Minister for State Development, will develop a functional specification for the project. Expressions of interest are then invited from the private sector, which in turn are evaluated by the relevant minister or ministers working with the Minister for State Development. A recommendation is then made to the Capital Works Committee for selection from the proponents.

The basis for assessment of proposals is as follows:

- the capabilities of the proponent in terms of design, construction, operation and arranging finance
- the cost effectiveness of the proposal to the Government and the community, and the benefits to the NSW economy
- the technical and financial feasibility of the project
- design quality
- the ability of the proponent to add value to the

project through creativity and the application of intellectual property.

Proponents may be invited to provide additional input during the course of the evaluation process.

The report states that all expressions of interest and any intellectual property contained in them, including details of technology of finance, shall be treated in confidence.

Once the Capital Works Committee is satisfied that the conditions for selection have been met, then a contract will be negotiated, subject to the proponent obtaining the appropriate development approvals.

The obvious weak point of the procedure set out in this report is the lack of protection for the proponent of a development concept. There is a potential for the proponent to commit a good deal of time, resources and money to the development of a concept which could create a job for a competitor. It is this problem which lead to the AFCC developing a discussion paper on private sector provision of infrastructure, which is reported below.

Interestingly, in September, the ACTU launched a 570 page report compiled by the Evatt Research Centre at the initiation of the Australian Public Service Federation, which attacks the NSW Government's reasons for privatisation as "politically motivated" and in some cases intellectually shallow.

This report argues that the claims that privatisation produces micro economic benefits are not justifiable and that changing from public to private ownership does not necessarily result in structural reform or increased productivity.

The NSW Government's sale of assets, corporatisation and privatisation has attracted a great deal of controversy and comment in the press. Only time will tell what increases in efficiency and benefits to the community result from this political philosophy.

PRIVATISATION - AFCC DISCUSSION PAPER - PUBLIC INFRASTRUCTURE FROM PRIVATE INVESTMENT

- John Tyrill

AFCC has prepared a discussion paper on private sector construction of public infrastructure, which raises a number of interesting issues for government, construction Authorities and the construction industry generally. This discussion paper proposes the preparation of guidelines both to encourage the development and to manage the realisation of private sector initiatives for the provision of public infrastructure.

The discussion paper notes that, in the public interest and public accountability, governments are usually anxious to gain the benefits of competition. The discussion paper notes that competition between proponents to identify and develop proposals for private sector provision of public infrastructure is an effective form of competition. It further notes that this form of competition will function best in the event that the private sector knows the various

Governments' infrastructure policy goals and where the private sector is confident that a proposal can result in a negotiated contract.

As expressed in the discussion paper, at issue for the private sector is the question whether the Government policies and procedures provide a reasonable probability of reward for ingenuity displayed and development capital risked. It is AFCC's view that a hard and fast policy of referring all private sector proposals to open or even selective tender is likely to kill the motivation necessary for the development of such proposals. The paper notes that negotiated contracts may be the only option where the proponent owns something too vital to the proposal, such as land or a patented process. Much of the content of the discussion paper is addressed at situations where this is not the case.

In relation to projects identified and initiated by a government, the paper notes that the government will normally initiate "user pays" projects by calling for expressions of interest. The paper suggests that the Government's goal should be to encourage all interested parties to submit a preliminary proposal, with a view to asking for firm proposals from two and not more than three chosen from those proponents whose proposals best satisfy the brief in economic and functional terms. AFCC proposes that, when proceeding from preliminary to firm proposals, an allowance should be made for cost reimbursement, at the detailed design stage only, to be paid from the project. AFCC suggests that these costs are part of industry overheads and that they should be clearly attributable to the specific project.

In relation to projects initiated by the private sector, AFCC notes that a government could simply action the proposal in the same fashion as a project which it initiates, but suggests that to do so would kill motivation and thereby initiative. AFCC suggests that therefore, in practical terms, government can only action private sector proposals by calling for "expressions of interest" or by negotiating directly with a proponent.

In calling for expressions of interest, the paper suggests that there are three issues of particular concern. These are:

- Where the proprietary interest, if any, of the proponent can and should be protected in the call for expressions of interest;
- Where the proponent should be given any commercial advantage; and
- Whether the proponent should receive compensation if a competitor succeeds in winning the project.

The paper suggests that calls for expressions of interest should be phrased in such a way as to hide the proprietary element of concepts. If the project depends upon a novel proprietary idea and this idea cannot be protected, then the paper suggests it may be inappropriate to call for expressions of interest for the proposal. The discussion paper does recognise the difficulties in protecting proprietary interest.