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PPP Motivations and Challenges for the Public Sector

Why (not) and how

October 2015



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Introduction

Background and Purpose of the Report

Policy-makers and project procuring authorities make reference to a range of motivations to justify the use of Public Private Partnerships (PPPs). This report seeks to identify the key motivations that have been used in communicating the rationale to use PPPs. This may be helpful for those seeking to establish, expand or improve their PPP programmes.

Similarly, identifying the challenges in implementing PPPs can help to address the potential limits to their delivery. The report identifies the main challenges for the public sector and proposes some of the approaches to deal with them.

For the sake of clarity, this report does not claim to tackle the issue of when to use PPPs or not to use them or make the case for or against PPPs. Neither does the report comment on the responsibilities and challenges faced by the private sector.

While there is a significant amount of research material now available on PPPs, it is important to stress that the quality of such material varies widely.¹ Indeed there is still a lack of robust evidence from which to draw definitive conclusions, as opposed to claims, one way or the other. Many studies reflect particular interests (which may be 'for' or 'against' PPPs) and may be limited in their objectivity. Additionally, some of the research and claims made will often reflect concerns about the underlying projects and not necessarily the PPP method itself.

Consequently, this report assesses the available research material to help identify the principal motivations and challenges for public authorities in implementing PPPs.

Structure of the Report

This report has the following structure:

- **Section 1** reviews the motivations for PPPs most frequently put forward by public sector stakeholders;
- **Section 2** considers the commonly observed challenges to the implementation of PPPs. Approaches, where relevant, that are used to address these challenges are highlighted throughout the text with the symbol ➡; and
- **Section 3** provides some concluding remarks.

¹ In addition to many of the standard documents and guides for PPPs, some of which are compiled in EPEC's Guide to Guidance (see www.eib.org/epec/g2g/), a further non-exhaustive list of documents from a range of PPP programmes, that describe PPP motivations and challenges, is given in the Annex.

1. Motivations for PPPs

This section provides a non-exhaustive overview of the motivations that are most commonly referred to in supporting the use of PPPs.

One of the main, if not the most important motivation for using PPPs, is their potential to improve value for money (VfM). Although the definition and scope of VfM varies, improving VfM in its broadest sense means using PPPs where they can improve the delivery of benefits relative to the associated costs across a range of alternatives. Many of the motivations described in this section may be considered as components of VfM insofar as they are important drivers in helping to ensure that VfM is achieved.

1.1. Project Preparation, Design and Construction

A strong motivation for the use of PPPs is to improve the ways in which infrastructure projects are prepared, designed and constructed. PPPs can do this in a number of ways.

Improving risk analysis, transfer and management

Significant risks are involved in the implementation of infrastructure projects. The technical complexity of constructing and operating such projects and the planning and approval processes typically involved are all sources of risk. Such risks need to be identified, quantified and managed.

Conventional procurement usually involves the procuring authority in the detailed specification of the project inputs (e.g. functional content and plan, construction design, materials to be used, civil engineering techniques to be employed) and the subsequent management of many of these risks. It is frequently claimed that, with the right incentives, the private sector may be better able to identify and manage many of the key risks of large projects. In other words, it can effectively provide insurance against a project's key delivery and performance risks more cheaply than the public sector. The public sector can then focus on what it does best, such as defining and monitoring the public service to be delivered. Thus, it is argued that allocating certain risks to the private sector can increase the overall efficiency in delivering the infrastructure and the associated public services.

Optimising the design and construction for better whole-life management

It is also claimed that well-structured PPPs create strong incentives to optimise costs over the life of the asset. This may be difficult to achieve in conventionally-procured projects where the contractor is only responsible for construction of the asset but not its subsequent long-term management. For example, bidders in conventionally-procured projects may be incentivised to put forward technical solutions or build to a quality that may reduce costs in the short term but lead to higher costs of maintaining or renewing project assets over the long term.

In contrast, the longer-term nature of PPP contracts incentivises the private partner to design and construct for lower overall long-term costs and to limit service interruptions during the operating phase of the project. This may involve higher initial investment costs so it is essential to avoid a simple comparison of PPP/non-PPP initial investment costs. PPP contracts and associated incentives can also be structured to help ensure that the private partner will hand back well-maintained project assets to the procuring authority at the end of the contract.

Increasing visibility up front of expected long-term costs

In addition to creating incentives to lower the long-term costs of service delivery, the requirement in a PPP to commit to the whole-life cost of the project from the outset requires such whole-life costs to be assessed and identified before the investment decision is made. Some argue that this can enhance the quality of the up-front investment decision by ensuring that the decision whether or not to proceed with a project is based on the true long-term costs of the investment. Non-PPP forms of project delivery, where the commitment is limited to building the asset, can ignore longer-term maintenance and operating costs. These costs may not be affordable or represent good VfM over the long-term. The use of PPPs can be described as a means to help overcome the prevailing incentives for short-term thinking and encourage better quality decision-making.

Better assurance of on-time, on-budget delivery

A consistent message from proponents of PPPs is that, once the commitment to deliver the project is entered into, PPP projects generally have a better track record of on-time, on-budget asset delivery when compared with conventional forms of procurement. There is increasing evidence to support this from a number of countries (see some examples in Box 1). However the practical difficulty of providing a counterfactual based on directly comparable projects procured conventionally is still a limitation on demonstrating this analytically.

The prospect of delivering a project on time and on budget can be a particularly important motivation in countries with a poor track record of delivering projects. PPPs are set up to achieve this by ensuring that private capital is at risk with respect to the performance of the asset and delivery of the service in accordance with the contractually agreed timescale and performance specifications ('no service, no payment'). In addition, in a PPP, the procuring authority is contractually committed to the project from the start. This can prevent, for example, situations where conventionally-procured projects are stopped and restarted at frequent intervals due to funding issues or changes in policy, resulting in higher overall costs and delays. In extreme cases, the advantage of a PPP may be as significant as the difference between having a project that is delivered and having no project at all.

Box 1: Studies of 'on-time, on-budget' delivery

With the endorsement of MAPPP, the central government PPP Unit in France, a study was carried out in 2011 on a sample of 34 PPP projects in France that had reached financial close since 2004.² The findings were as follows:

On time - not taking into account changes requested by the procuring authority, 79% of PPP projects were delivered within the contractually agreed timetable. Conditional payments to the private partner were seen as a strong driver in achieving this. The main reasons for delays were changes required by the procuring authority, changes in legislation and delays in obtaining permits.

On budget - 47% of the projects that were tendered as PPPs had cost overruns. In most of the cases the main reason for cost overruns was linked to variations required by the procuring authority (55% of the cases). However, most of the additional costs (80%) were limited to 3% of the initial budget, and only 7% overran the budget by 10% or more.

A more difficult task is to compare the performance of PPPs against similar conventional alternatives. Studies from the UK (NAO 2003 and 2008)³, Australia (2007)⁴ and Canada (2010)⁵ have all concluded, to varying degrees, that by keeping to schedule and to budget, PPPs can generate significant savings in time and money for procuring authorities when compared with conventional alternatives.

Reducing interface risks by promoting more effective contract integration and project management

For conventional projects, the procuring authority may be required to organise the various elements required for the construction of the project under numerous separate contracts. For projects of a certain complexity with many different components, such as transport infrastructure, this can lead to significant interface risks. Public authorities may lack the specialist project management skills necessary to manage these risks. This can cause significant project implementation delays and cost overruns.⁶ A common claim is that PPPs enable contract integration and project management responsibilities to be transferred to the private partner, creating clearer and simplified lines of authority and responsibility between the parties. Equally, third-party equity investor and lender due diligence may also contribute to ensuring that gaps are addressed in the project management structure.

² Étude sur la performance des contrats de partenariat - PWC France (2011).

³ See the UK's National Audit Office report at: www.nao.org.uk/wp-content/uploads/2009/10/2009_performance_pfi_construction.pdf

⁴ See Infrastructure Australia report at: www.infrastructure.org.au/DisplayFile.aspx?FileID=450

⁵ See Conference Board Canada report at: www.conferenceboard.ca/e-library/abstract.aspx?did=3431

⁶ See: 'Systems Engineering in Transport Projects. A Library of Case Studies' produced by the International Council on Systems Engineering (INCOSE) Transport Working Group issues 7.0, December 2014

Harnessing innovation

By focusing on outputs and allowing more scope for the private sector provider to decide how best to deliver these outputs, incentives can be created to maximise efficiency in delivering public services. These incentives have led to significant changes in the design of buildings or the use of new technologies creating long-term operational efficiencies.

In a number of markets, PPPs have been effective in attracting into the market a wider range of skills, technologies and approaches from the global private sector. This benefit of PPPs was referenced specifically as a key success factor in the 'P3' hospitals programme in Canada.

1.2. Project Operation

PPPs may drive improvements not only in the up-front planning, design and construction of assets but also over their longer-term operation.

Improving asset maintenance over the long term

Public budgets typically distinguish between capital and revenue expenditure. When revenue budgets are under pressure, public authorities can be incentivised to make short-term savings by cutting the cost of on-going maintenance of infrastructure assets and by deferring life-cycle investment. This can lead to increased costs overall as the costs of delayed maintenance can greatly exceed regular, more timely, maintenance. Poor maintenance can also lead to a deterioration in the quality of the service being delivered. Many PPP proponents argue that PPPs provide a degree of certainty and discipline that adequate and timely maintenance will be carried out. This is because the private partner is contractually obliged to do so and the procuring authority is contractually obliged to pay for it.

PPPs may also offer some stability in long-term operating costs when the private partner is required to bear the risk of costs escalating faster than an agreed indexation provision. This further encourages the private partner to be vigilant when it comes to ensuring that preventive maintenance is carried out routinely, thereby minimising unexpected (more expensive) emergency repairs.

Improving the consistency of service delivery

Policy-makers and procuring authorities often refer to the benefits of PPP payment mechanisms. In particular, the requirement in a PPP for performance-based measurement can help to ensure consistency in the level and quality of services being delivered over the long term.

1.3. Funding and Financing

All PPP projects have to be paid for at some point, regardless of issues such as the financial structure and balance-sheet treatment. When talking about funding, reference is normally made to the sources of cash that ultimately bear the cost of projects. These sources broadly form two groups: tax-payers (whose taxes enable governments, for example, to make availability payments on their behalf) or users (who may for example pay a toll to use a highway). Financing, on the other hand, is money that must be paid back (e.g. loans or equity from the public or private sector). Finance is used to bridge the gap between project inception, when funding may not be sufficient, and later when resources are eventually available to pay for the project.

Enabling additional investment and improving affordability

By enabling authority or user payments (e.g. availability payments, tolls) that are paid over time for the service, PPP projects can spread the cost of paying for infrastructure over the lifetime of the asset. PPPs may therefore allow projects to take place that might otherwise not be possible due to current budget constraints. Thus, PPP proponents argue that a PPP can allow the benefits of a project to be delivered sooner than might otherwise be possible, even if they still have to be paid for over the longer-term.

Limits on the availability of public funding for projects may reflect public sector borrowing constraints. A PPP may or may not increase public sector borrowing levels depending on the applicable budgetary and/or statistical classification rules (usually based on the relative allocation of the project risks and benefits between the public and private sector and/or the level of control of the project by one of the parties). Many policy-makers now understand that exploiting budgetary or statistical rules may only create an illusion of project affordability, which can also lead to poor risk allocation and poor VfM. Furthermore, if future payment obligations are not properly recognised up front, then unexpected constraints may severely limit funding for future projects.

Improving budget certainty

Once the PPP contract is in place, the procuring authority will be able to rely on a high degree of certainty as to the cost it will incur over the long term. This is because the costs of construction, operation and maintenance are largely determined and contracted for up front. Furthermore, any increases in capital, operating or maintenance costs for the agreed service provision will, in most circumstances, be the responsibility of the private partner. Provided that the government's long-term payment obligations are properly recorded and monitored, a PPP can therefore provide a higher level of certainty on the long-term costs and budget impact of projects than other forms of public service delivery.

Matching long-term benefits to long-term funding

It is often argued that the long-term service delivery nature of a PPP contract enables better alignment between the period when the economic benefits of a project are delivered and the period when they are paid for. This could be seen as fairer for society over time. Conventional procurement, by contrast, requires the procuring authority to make a large up-front investment charged to today's taxpayers, the benefits of which are mainly enjoyed by future citizens (inasmuch as the up-front investment is funded through taxation of today's citizens as opposed to being financed by long-term debt).

Making the users pay for the economic benefits they receive at the point of use

User-pay PPPs (concessions) link the provision of the benefit of the investment directly to those who receive that benefit. For example in the case of real-toll roads, user-pay PPPs can be a fairer way to allocate the burden of funding the benefits of infrastructure among existing citizens. Clearly this raises a number of issues such as the level of the payment being reasonable and the users' ability and willingness to pay for the service.

In a fiscally constrained environment, user-pay PPPs may also be promoted to relieve the pressure on the government to finance and fund infrastructure from its own budget, although it is still citizens as taxpayers (today's and/or tomorrow's) or users that ultimately fund public services.

Benefiting from properly incentivised third-party project scrutiny

In addition to enabling funding for projects to be spread over time, PPPs can help to expose projects to wider up-front scrutiny by lenders, equity investors and sub-contractors. This limits the risk of the procuring authority undertaking unjustified or poorly structured or monitored projects. Since their capital will be exposed to the performance risk of the project, the sources of finance will usually carry out a significant amount of due diligence on the project: for example if they are required to bear demand risk, they will want to be assured that users are prepared to pay for the service. This work is usually carried out by lenders with the support of independent expert advisers (e.g. technical, legal, financial, insurance).

Private finance as a driver for project performance

It is also argued that because private capital only receives a return on condition that the project performs in line with the contractually agreed performance standards, a strong incentive can be created to ensure the performance of the project on time and on budget. In this respect, the interests of private capital are aligned with those of the public sector to ensure sound performance: private investors and lenders are not forgiving towards contractors or operators who deliver late, overrun on costs or deliver poor operational performance if this threatens project revenues due to deductions in availability payments or low usage. The creation of these incentives and the alignment of interests depend on the terms of the PPP agreement ensuring

that finance is genuinely subject to performance risk and that the agreement is properly enforced.

1.4. Broader Public Sector Reform

While innovation in service delivery is one form of change, PPPs may more broadly stimulate and improve existing public sector practice and culture by providing an alternative, and potentially competing, way of delivering a public service. This approach is sometimes referred to as 'contestability' and can be seen as holding up a mirror to the public authority to identify potential improvements that might otherwise not be so obvious. For example, the requirement to focus on and measure the performance of the private partner as an integral part of a PPP payment mechanism may lead to the introduction of similar performance measurement practices within the public sector itself where they may not have existed previously.

2. PPP Challenges and Possible Approaches

This section provides an overview of the main commonly observed challenges faced by the public sector to the delivery of PPPs. Some of the challenges (and indeed motivations) may be more perceived than real but this only highlights the importance of clear communications and stakeholder management. Where relevant, some of the approaches that have been taken to address such challenges are highlighted throughout the text with the symbol. ➔

2.1. Policy, Legal and Institutional Frameworks

PPPs usually require new approaches, policies and capabilities to support the preparation, design, delivery and management of projects and public services. A common criticism of PPPs is that they can be more complex and time consuming to procure and manage than conventional forms of procurement. In some cases, this criticism can be misplaced as it may be important to recognise that the existing conventional approaches may need improvement. However, in other cases, it may reflect genuine constraints in the policy, legal and institutional framework, which are discussed below, or in the implementation of the PPP process (discussed in section 2.2.).

Ensuring a strong, stable and visible political commitment to PPPs

Given the significant and long-term commitments involved, it is difficult to pursue a PPP programme without strong and stable political commitment. This is essential if both the public and private sector partners are to be expected to spend significant time and money preparing, investing in and implementing projects (see Box 2).

- ➔ *A range of tools can be used to help develop and demonstrate clear political commitment including (i) obtaining clarity on the fundamental policy driver(s) to using PPPs; (ii) producing PPP policy documents and specific PPP laws and guidance (see below); (iii) setting-up/maintaining well-resourced public sector teams (PPP Units) to assist with technically sound policy development and reporting at senior government levels; and (iv) committing to realistic budgets that support the development of the programme and of key PPP processes, such as high-quality project preparation.*

Developing the appropriate legal framework

PPP projects require a supportive and effective legal framework due to the public procurement processes involved and the heavy dependence of PPPs on the use of contracts amongst the various parties.

- ➔ *A dedicated PPP law is sometimes considered a necessary prerequisite, especially in countries with civil code systems. The development of any PPP law, however, should be informed by experience from existing PPP markets to avoid inappropriate restrictions on PPP activity.*

Box 2: Netherlands political support⁷

The Netherlands has had a fairly consistent PPP policy for over 15 years. During this period, it has had the opportunity to build up significant experience in the delivery of PPP projects. Successful projects have demonstrated that private finance can deliver projects on time and within budget and with a higher standard of due diligence and project and risk management than conventional alternatives.

Consistent and stable policy support has provided the necessary environment to attract high-quality bids and finance to projects: across the political spectrum, PPPs are now generally seen as a practical solution to delivering VfM infrastructure projects. Indeed the 2012 Coalition agreement in the Netherlands was explicit in its objective to stimulate PPPs. In addition, progress on PPPs is reported and discussed annually in Parliament.

- *Where a new PPP law is required, this should be as straight-forward as possible. This would allow any, more detailed, provisions that may be needed - usually at a later stage of PPP development - to come under administrative codes or regulations. This can help ensure that the PPP legal framework is more easily adaptable to changes in the PPP market. At the same time, this ensures that the overall, more broadly defined legal framework, approved at the national legislative level, remains consistent over time and appropriate for the prevailing needs and circumstances.*

Strengthening institutional frameworks

The institutional requirements for managing the PPP process can sometimes be under-estimated or, at times, over-elaborate.

- *Developing the appropriate institutional framework should involve a clear assessment of the institutional requirements for delivering the anticipated PPP programme/projects, such as whether a dedicated sector and/or central specialist PPP Unit should be established. The resulting institutional framework should be matched to the scale and scope of the programme and its functions, (such as project approval, policy development or technical support), and should be tailored to the gaps that have been identified. It is also important for the institutions to have the necessary reporting lines, budgetary and political support and operational flexibility to be effective. EPEC's report on establishing and reforming PPP Units and its reviews of the institutional arrangements for PPPs for 24 EPEC members provides further guidance in this area.*⁸

⁷ See Ministry of Finance at EPEC's Private Sector Forum at: [www.eib.org/epec/resources/presentations/Presentation M.%20Nijhof%20K.%20Ruiken Netherlands PS F 18%20April%202013 Brussels.pdf](http://www.eib.org/epec/resources/presentations/Presentation_M.%20Nijhof%20K.%20Ruiken_Netherlands_PS_F_18%20April%202013_Brussels.pdf).

⁸ See: www.eib.org/epec/resources/publications/epec_establishing_and_reforming_ppp_units_en.pdf.

Managing communications and public acceptability of PPPs

The complex technical nature of PPPs can create misunderstanding of their benefits and the rationale for their use. For example, PPPs are often linked to the privatisation or outsourcing of public services. As a result, PPPs can be associated with a wider debate around issues such as the protection of the rights of public sector workers and the acceptability of the private sector generating profits from the provision of public services. At the same time, not all PPPs are successful and may have been deployed poorly. This can lead to the 'sound of failure' being louder than the 'sound of success', which can in turn lead to opposition to the use of PPPs. Even in mature PPP markets, a shared understanding and acceptance of PPPs may be lacking.

- *Clear messages for ministers and those responsible for communicating PPP policy should be used to explain the rationale for PPPs. A PPP Unit can play a useful role in developing and supporting a communications strategy to underpin the PPP programme based on sound technical and data input. The PPP Unit can also be available to provide answers to enquiries from parliamentary representatives and citizens.*
- *At the early stages of launching a PPP programme, the issue of how the programme is to be presented and labelled should be considered carefully: it is usually more difficult to change perceptions later on. Policy-makers should be asking questions such as whether PPPs are part of a wider public services reform initiative or if they are a more focused, technical addition to a range of procurement processes. Depending on the response, the resulting PPP programme and approach may be very different.*
- *Stakeholder management i.e. understanding who may have an interest (both positive and negative) in the PPP programme or project, and what their concerns might be is also important so that these concerns and misunderstandings can be addressed in as far as possible and acted upon appropriately.*
- *Problems inevitably occur in all projects, not just PPPs. It is possible that the overall policy framework may not be perfectly developed at the outset to cover all eventualities. Opponents will utilise such opportunities to challenge the overall approach of using PPPs. There should be a capability to review and evolve PPP policies as experience is gained to address any shortcomings. Some programmes have also sought to improve transparency with respect to decision-making, PPP data and the terms of PPP contracts.*

2.2. Public Sector Capacity and Processes for Project Preparation

In addition to having the right institutional frameworks in place to support PPPs, a major source of constraint can be weaknesses in the capacity and processes to deliver PPPs within these frameworks. This can affect PPPs at all stages of the project cycle from initial analysis through to long-term management of the contract. PPPs require a wide range of skills some of which may be new to both the public and private sector.

Overall, PPPs may be perceived as too complex for the public sector to deliver. The issues however may not necessarily be one of greater complexity, but of different complexities. While PPPs may involve complexities of preparing, financing, procuring and managing performance-based contracts, they also hand over to the private sector complexities such as design, construction and maintenance of infrastructure, which the private sector may be better suited to manage.

Strengthening public sector capacity/capability

A lack of public sector capacity and experience is one of the key challenges for PPPs. Preparation, procurement and management of PPP contracts, can be a complex and resource-intensive undertaking for a procuring authority, especially those new to PPPs. A range of different skills are also needed throughout the project cycle. Even when the need for external advisers is accepted, these may not be affordable, may be limited in their availability, or may be poorly managed once recruited. The problem can be further compounded by resistance or inertia within the public sector to new and unfamiliar processes and approaches (such as developing contracts on an output rather than input basis). Finally, there is often political pressure to deliver projects more quickly than is feasible, without recognising the time and skills required adequately to prepare and procure them as PPPs.

- *The public sector resources and delivery timetables likely to be involved in a PPP should be identified at an early stage. Appointing specialist external advisers for financial, legal and technical issues should be expected, for which budgets for good quality advice need to be realistic. The procuring authority should be organised to manage such specialist advisers effectively. EPEC's publication on the 'Role and Use of Advisers' sets out some best practice for the procurement and management of advisers for PPP projects.⁹*
- *A central source of technical expertise, such as a PPP Unit, can support policy-makers and procuring authorities in acquiring a clear understanding of capacity requirements from the beginning. Such central expertise may also be able to develop strategies to help build up the depth of the advisory market itself and capitalise on lessons learnt.*
- *Developing standardised approaches to PPP contracts and other key documentation at a national or sub-national/sector level (as has been deployed in the French, Dutch and UK markets for example) can help to ensure the quality of project documentation, as well as reducing preparation times and costs. Many of the problems that arise during the construction and operational phases of a PPP can be attributed to PPP agreements that were not clear in the first place.*

⁹ See: www.eib.org/epec/resources/publications/role_and_use_of_advisers_en.pdf.

Managing the PPP process

Even if the legal framework is adequate and there is potential access to the necessary skills within government, another constraint can be a lack of clearly defined powers and processes in the public sector for the effective management of the various phases of PPP project development. Recognising that PPP project preparation and procurement is essentially a project management undertaking, a number of governments have developed public sector project management approaches and processes. These include:

- *a focus on the **project delivery team** and how it is organised to ensure clarity with respect to roles, responsibilities, powers and accountabilities;*
- *a **project assurance process** so that all projects follow an agreed methodology in their preparation and implementation. This may involve standard approaches to assessing the economic case for a project such as (i) defining the long-term needs; (ii) assessing whether a project is affordable; (iii) whether the terms of the PPP are likely to meet with strong competitive interest from the market; (iv) ensuring that the procuring authority has the appropriate skills to manage the process and (v) assessing that the project is likely to demonstrate VfM;*
- *a **project approval process** (complementing the assurance process) that covers the key stages of project preparation and procurement. This prevents a project from moving to a new stage, such as launching a tender, when it is not yet ready for that stage. It also helps to demonstrate effective spending control and ensures that good decisions are made at the project level. This role is often played, at central government level, by the Ministry of Finance or a central procurement body. Projects at sub-national level will have to go through similar approvals through their own treasury or finance function;*
- *ex-post evaluation mechanisms to determine if the benefits that were foreseen at the outset are actually being delivered and if not, why not (see Box 3). This can also be used to inform future PPP procurements, creating a virtuous circle of continuous learning.*

Box 3: 'Gateway 5' in the UK

In the UK, the 'Gateway Reviews' are a series of reviews, graded from 0 to 5 that help the public sector manage the project delivery process. These can be applied to all projects whether delivered as PPPs or otherwise. The reviews involve a peer approach in which independent practitioners from outside the programme or project use their experience and expertise to examine the progress and likelihood of successful delivery of a programme or project. These reviews take place at defined critical stages or 'gates' during the project development process. This approach ensures that issues can be identified and dealt with at the earliest possible stage, not at a later stage when it may be costly to make changes. The reviews use a series of interviews, documentation reviews and the project team's experience to provide a valuable additional perspective on the issues facing the project and an external challenge to the robustness of plans and processes. Additionally, it is important that those responsible for the project are prepared to be challenged in this way.

Gateway 5 is titled *Operations Review and Benefits Realisation*. It is the last in the project's development process and is designed to ensure that the desired benefits of a project are being achieved and that the proposed business changes are operating smoothly. The review itself may be repeated at regular intervals during the lifetime of the new service/facility.¹⁰

Addressing the relative length of time in preparing a PPP project

Putting in place the additional processes to prepare and approve PPPs may create a disincentive to proposing PPP projects. These should be taken into account when considering and evaluating the implementation timetable. However, this raises questions as to whether alternative forms of project delivery are subject to the same level of scrutiny in assessing, preparing and procuring projects and if not, why not.

In a number of countries, the disciplines and processes involved in preparing and approving public investment projects have become similar whether or not the project is ultimately procured as a PPP. This recognises that many of the disciplines that should be applied in good PPP project preparation should be no different to those that should be applied in any form of public investment activity and vice versa (e.g. economically rational selection of the underlying project, affordability and VfM analysis, ensuring the capacity and capability is available to deliver the project).

➔ *In addition to addressing the institutional and management capabilities to deliver PPPs, treating PPP procurement as one of a number of procurement options can also help to ensure that the PPP process is not more or less*

¹⁰ See the UK Government report at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/62295/Gateway_5_Report_Template_v4_Delivery_Confidence.doc.

onerous than other public investment processes. This can also encourage good project delivery approaches which are then applied equally to all projects.

Facing a better informed private sector

Another constraint can be the lack of symmetry in capability and knowledge between the public and private sectors. A procuring authority dealing with a single project may find itself at a disadvantage to private sector bidders which have superior knowledge of terms, conditions and prices from previous projects. This asymmetry in access to information may develop even further as the private sector replaces the public sector in project delivery and operations (sometimes referred to as the 'principal-agent problem'). To help to address this problem, a number of PPP programmes involve:

- ➔ *collating information on deals from across the public sector and sharing best practice on PPP projects (e.g. on pricing or on contractual conditions) to improve the public sector's position in negotiations. In particular, collecting and establishing benchmark cost data has been found to help ensure that PPP service requirements are better costed and assessed as affordable. This can be particularly important for the affordability analysis, as well as in the bid assessment phase and in any contract negotiations with the private sector; and*
- ➔ *exposing certain components of the project to market forces at regular intervals, particularly those components with costs that fluctuate for reasons outside the PPP contract (e.g. labour costs, sector-specific inflation). This can help ensure that the costs to the public sector are in line with the market. For this reason, procuring authorities may exclude certain 'soft' services altogether from the PPP arrangement (e.g. security or catering where labour costs usually make up a significant part of the overall cost).*

Assessing ex-ante VfM

In order to justify the choice of the PPP option, procuring authorities are usually required to estimate the benefits of the PPP option relative to conventional procurement approaches at an early stage in a project's preparation. In many cases however the choice of a conventional approach does not have to be justified in comparison to a PPP approach. So the PPP route may involve an additional process not required for other approaches. Furthermore, the analysis usually depends on making assumptions about the future, such as expected future costs and benefits. By their nature these assumptions are open to challenge. Furthermore, reliable data may be limited and the methods of analysing this information, such as discounting and probability analysis, can be complex and open to debate.

- ➔ *Guidance materials for the assessment of VfM and a central source of expertise to support the assessment process have been developed in some PPP programmes (for example the Evaluation Préalable in France). Wherever possible, VfM assessments should be based on clear evidence and reliable data. Over-reliance on purely quantitative analysis should be avoided: a number of PPP procuring authorities now recognise that combining qualitative and quantitative assessments is important at various stages in the project cycle*

and seek to avoid over-elaborate analysis. The assessments should also be linked to approval and decision-making processes. EPEC's report on VfM assessment provides further guidance and information.¹¹

Achieving the appropriate allocation of risks

As shown in Box 4 below, allocating risks to the private partner that are better managed by the public partner may lead to low interest from the private sector in the PPP project or may even make the project un-bankable. If such risks are accepted by the private party, this may lead to higher costs than necessary to manage such risks or, ultimately to failure of the PPP. Similarly, allocating risks to the public sector that are better managed by the private sector may not maximise the potential VfM.

The constraint of poor risk analysis and allocation can be further compounded by incentives to allocate risks to the wrong party such as seeking to satisfy statistical requirements to ensure off-balance sheet treatment of a project – the allocation of a particular risk to the private partner may help to satisfy the statistical risk-based classification of the project as off-balance sheet but in VfM terms, this may not be the appropriate risk to allocate.

- *A robust analytical approach to both individual project risks and aggregate PPP programme risks is essential if projects and programmes are to be bankable and deliver VfM. This underscores the importance of appropriate capacity and the processes mentioned above. In particular, experienced advisers and effective sounding of the market during project preparation should be used to assess the feasibility and the terms upon which risks may be allocated to the private sector.*

- *In some PPP programmes, use is made of standardised contracts to help bring greater consistency to risk allocation across projects and, because such contract terms are already tested in the market, provide confidence that the allocation of risks will be both acceptable to the market (i.e. bankable) and represent VfM.*

¹¹ See EPEC's paper on 'Value for Money Assessment' available at: www.eib.org/epec/resources/publications/epec_value_for_money_assessment_en.pdf.

Box 4: A selection of issues in PPP risk allocation

Project planning risks

Large projects involve significant preparatory administrative activities such as obtaining permits and authorisations (e.g. construction and environmental approvals), land purchases, expropriations and public enquiries. Most of the risks associated with these activities are not transferrable to the private partner in a PPP. Therefore, before launching the PPP contract procurement procedure, the procuring authority will need to have completed many of the main administrative steps to avoid material changes to the project specifications during the procurement phase.

Construction risks

Infrastructure sometimes has to be constructed in difficult environments or on unknown terrain. The willingness and ability of the private sector alone to bear cost and timing risks in exceptionally difficult construction projects may be limited. For instance, projects involving major tunnelling and significant geological/archaeological uncertainties will not be suitable for PPPs unless adequate risk-sharing arrangements are adopted. Splitting projects into parts or adopting 'cost-plus' contracting techniques for challenging construction components of the project may be more appropriate.

Demand risks

Transferring demand risk to the private sector has to be carefully evaluated, as (i) demand will depend on a wide range of economic factors and (ii) infrastructure pricing is very much set by public policy (i.e. outside of the private partner's control). The performance of PPPs based on demand (e.g. toll road concessions) has proven to be mixed around the world. Some projects (e.g. in Spain, Ireland and Greece) have experienced financial difficulties as a result of lower traffic volumes than expected at the outset. Private sector sponsors and lenders are often reluctant to accept demand risks in greenfield PPPs without protection measures (such as the LGTT¹² or minimum traffic guarantees¹³).

Interface risks

In order to renew, upgrade or build infrastructure, key interfaces with other elements of infrastructure have to be addressed. Projects that can be ring-fenced, and where interfaces with other projects or the rest of the network can be minimised, are more likely to be suitable for PPPs.

¹² LGTT is the acronym for the Loan Guarantee Instrument for Trans-European Transport Network Projects, a financial instrument set up and developed jointly by the European Commission and the EIB, which aims to facilitate greater participation of the private sector in the financing of trans-European transport infrastructure.

¹³ For details on the use of public guarantees in PPPs, see www.eib.org/epcc/resources/epcc-state-guarantees-in-ppps-public.pdf.

2.3. Project Operation

PPPs have also faced constraints during their operational phase. This may be the result of the underlying project itself turning out to be inappropriate or subsequent difficulties with, or opposition to, paying for the project. This can reflect poor project selection and preparation (concerning both PPP and non-PPP issues). At the same time, the management of the PPP contract may turn out to be beyond the capacity of the procuring authority that is managing the day-to-day aspects of the contract. Two common constraints in relation to the operation phase are discussed below.

Dealing with changes over the life of the PPP project

A frequent criticism, especially for authority-pay PPPs, is their lack of flexibility to accommodate changes over the contract life and the costs sometimes associated with requesting changes (even minor) to the service requirements. This may reflect poorly-prepared PPP contracts, poor management of the contract, technological developments, major changes in requirement or policy or, more fundamentally, the inappropriate use of the proposed form of PPP in relation to the nature of the services. PPPs are usually best used where the long-term service requirements are predictable and stable and limited technological changes are expected (see Box 5).

- *Long-term service requirements and their means of delivery should be carefully identified at an early stage (capacity, functionality or standards) as part of project preparation and decision-making process. Where these are expected to change significantly over the PPP contract life, the PPP option may not be appropriate. A number of governments use guidance to help procuring authorities determine when the PPP option may not be suitable. Alternatively, it may be possible to exclude some elements of the service requirement that are likely to change significantly or more frequently over time and use the PPP to deliver the more stable requirements of the project.*

- *The design of the PPP contract needs to be considered carefully to ensure that smaller changes can be accommodated. This can be done by using, for example, a competitively determined pre-priced menu of changes or pre-determined formulae that can be applied in line with capacity changes.¹⁴ Shorter contract lengths, financial structures and early termination rights should also be considered in the design of the contract. However, it needs to be recognised that flexibility will usually come at a price. Therefore, striking a balance between price, long-term flexibility and certainty of whole-life costs should form an important part of the procurement design and evaluation of a PPP project.*

¹⁴ See for example the provisions for managing changes in UK HM Treasury's Standardised PF2 Contract at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207383/infrastructure_standardisation_of_contracts_051212.PDF.

Box 5: Use of PPPs in the roads sector in Germany ¹⁵

Since 2003, the German Transport Ministry has used the so called 'F' model involving direct tolls and the 'A' model involving payment to the private operator of government collected tolls, to deliver some of its most significant road projects through PPPs.

In addition to demonstrating VfM, road PPPs in Germany are said to have led to the early and efficient delivery of important projects. These projects take advantage of the cost and time discipline of PPPs and act as a benchmark and driver for the performance of conventional procurement.

The low-risk nature of the road sector appears therefore to be particularly suitable for PPPs. This is because the long-term needs of a road PPP are relatively predictable. In addition, PPP road projects have limited potential for technological change (the tolling system applied to lorries in Germany does not have any impact on the private partner in these PPPs).

Managing PPP contracts in operation

There can sometimes be an expectation that, once the PPP contract is signed, the procuring authority can leave the project to the private sector. This can lead to underestimating the required level of resourcing by the procuring authority to play an effective role during the contract management phase. Even well-structured PPPs can turn out to deliver poor VfM because the contracts are managed poorly.

- *In order to extract the full benefits of the PPP contract, the procuring authority must be fully aware of the terms of the PPP agreements and be prepared to enforce its rights and deliver on its obligations in an active and constructive way.*
- *The procuring authority should expect to mobilise and maintain appropriate resources and expertise over the term of the PPP contract. In particular, it needs to be prepared to handle changes or contractual problems (or have access to appropriate support) even if the PPP agreements provide for these.*
- *Those who will be responsible for managing the PPP contract would ideally be involved in the project prior to contract signature to ensure that the terms of the contract are well understood and there is a smooth hand-over (if necessary) from the procurement team. Development of a contract management function/process supported by a manual that facilitates interpretation of the PPP agreements is also a measure used by contract managers. EPEC's report*

¹⁵ See German Ministry of Transport presentation at: www.eib.org/epec/resources/presentations/german_presentation.pdf.

on 'Managing PPPs during their contract life' provides further guidance on what issues need to be managed by the public sector.¹⁶

2.4. Market Supply and Financing

Establishing how to get the best value from the market and ensuring that there is capacity in the market to respond to and understand the authority's requirements can be a frequent challenge for the public sector when launching a PPP project.

Developing market competition and capacity

In markets or sectors with a weak track record in PPPs and a limited domestic market, the capacity of contactors, service providers, investors and lenders to deliver PPPs may be particularly constrained. As a consequence, PPP procurement may not provide the level of competition or quality of bids necessary to deliver VfM. PPPs often require a consortium of different companies with different skill sets coming together to deliver the whole project. If some of those elements are missing (e.g. experienced bidders who can assemble and integrate effective bidding consortia), the procuring authority will struggle to demonstrate the benefits of using a PPP.

A particular capacity constraint may be the availability of domestic financiers that can support PPP projects with long-term limited-recourse (project) finance. International lenders and equity investors can play an important role in bringing their experience of handling some of the more common PPP risks and may be more familiar with PPP-typical financing structures.

Limited market capacity can also be an issue for the future, especially if a poorly performing contractor needs to be replaced. If alternative contractors or sources of finance are not available, the procuring authority may need to terminate the PPP contract and/or take over the project, taking back those risks that were intended to be transferred to the private sector.

- ➔ *Strategies to develop and encourage market capacity should be seen as part of the government's activities to develop a PPP programme. This may involve strong engagement with financiers, construction and facility management companies and professional advisers (see Box 6). This may be seen as a private sector issue, but it is still a public sector responsibility to recognise and address it.*
- ➔ *At the project level, effective assessment of the market ('market sounding') during the project preparation stages should be carried out well before the PPP decision is taken. Such an assessment can help to shape the design of the project and the allocation of risks to match the capacity of the market.*

¹⁶ See: www.eib.org/epec/resources/epec_managing_ppp_during_their_contract_life_en.pdf.

Box 6: Irish government stimulus for PPPs ¹⁷

The post-2008 financial and fiscal crises had a significant impact on the Irish PPP market. A number of projects were cancelled and deferred, leaving considerable negative sentiment among sponsors and investors towards PPPs at the time.

Building on Ireland's previously positive track-record with PPPs, in 2013 the government announced a EUR 1.4 billion stimulus programme. This identified a clear pipeline of projects with potential for delivery as PPPs. It also initiated a new approach to the procurement and delivery of PPPs in order to reduce the cost and time of bidding. This required buy-in from key stakeholders to ensure these proposals were credible and to overcome the negative sentiment caused by the fiscal crisis.

The Irish government met with equity sponsors, financiers, construction and facility management companies, construction supply-chain partners and professional advisers to ensure their proposals were deliverable. These soundings emphasised the importance of having a credible project pipeline, a manageable deal size and clear availability of funding given Ireland's fiscal position. The process of market sounding itself emphasised the seriousness of the government's intent and helped to re-establish market credibility in the programme.

This has helped resurrect PPPs in Ireland and establish a pipeline of work going forward.

- ➔ *It is important to be aware of the potential future risks when projects show limited bidder interest or if only a single bidder is available. This may be a sign that market capacity will also be weak in the future if the contractor needs replacing (or that the risks will turn out to be unmanageable or the costs have been underestimated by the private sector and so lead to re-negotiation of the PPP contract).*
- ➔ *More strategically, the public sector can look to the market as a whole and identify actions that it can take to encourage market interest and the development of capacity. Such actions include communication of political support, clarity of the PPP decision-making processes, close understanding of the market's constraints and appetite for programme-wide risk through market consultations and actions to address these risks. The development and communication of forward-looking project pipelines can help to signal to the market the need (and opportunity) to establish capacity ahead of projects being launched on the market. Subsequent management of the pipeline can then help to ensure that the flow of projects launched is managed to meet market capacity. Conversely, it is worth emphasising that the promotion of an*

¹⁷ See presentation from the National Development Finance Agency in Ireland at: [www.eib.org/epc/resources/presentations/Presentation%20S.%20Burgess%20NDFA PSF 18%20April%202013 Brussels.pdf](http://www.eib.org/epc/resources/presentations/Presentation%20S.%20Burgess%20NDFA%20PSF%2018%20April%202013%20Brussels.pdf)

unrealistic pipeline, not grounded in evidence or unrealistic in capacity terms, can have the opposite effect and destroy the credibility of a PPP programme.

- ➔ *The size of the project can be a challenge for PPPs. PPP projects usually need to be of a certain minimum size to justify the transaction costs that are involved during the procurement phase (e.g. bid preparation, negotiations, advisers' costs) and attract the interest of bidders and associated financing. Smaller projects may benefit from bundling with other similar projects to generate economies of scale in project documentation and procurement. Box 7 illustrates a PPP programme that has tried to match project size to the needs of the market. On the other hand, projects that are too large can also face constraints in the financing and contracting pool available. Very large projects may present additional challenges if a contractor subsequently fails and needs to be replaced. Such projects may need to be split into smaller, but still coherent, parts provided that this does not present complex additional interface risks between the separate project components.*

Box 7: English schools programme¹⁸

The Department for Education in England has developed a new pipeline for its schools building programme. This *Priority Schools Building Programme* mixes private and public procurement. As part of building the pipeline, the availability of private finance has clearly been a key issue. To diversify its financing sources, the Department looked at different models which rely less on bank debt (e.g. bond finance). To manage its future pipeline and attract potential new finance sources, the Department has set up a separate vehicle to finance bundles of individual school projects (which individually may not meet minimum financing criteria). The objective is to achieve the necessary critical mass and ensure VfM by improving competition for providing the finance. There is, of course, a natural limit to this bundling, in particular if it upsets the geographical integrity of the projects.

Poor competition may not necessarily be a consequence of limited market capacity, but a reflection of poorly prepared projects or a badly run tender process. In some PPP markets, public authorities have been exposed to opportunistic contract re-negotiations. One of the causes can be bidders presenting bids that are lower than their true costs ('low-balling') in the expectation that once selected, they can re-negotiate better terms in the absence of competition.¹⁹

- ➔ *Preparation for the tendering phase and appointing the teams should be carried out well in advance. This is likely to involve procuring and putting in place the necessary legal, financial and technical advisers that can help to ensure that*

¹⁸ See UK Department for Education report at: www.gov.uk/government/collections/priority-school-building-programme-psbp

¹⁹ Unsolicited bids can also present problems for procuring authorities, especially if they limit competition or lead to projects that turn out to be unbankable, but they are less commonly found in EU jurisdictions.

bids, when they are received, can be quickly and thoroughly assessed and understood in terms of their true costs and deliverability. In the EU, one of the advantages of the competitive dialogue procedure, which uses negotiation to improve bids, is that it can enable bidders' proposals to be thoroughly interrogated and understood. This can enable the terms of the project to be adjusted as necessary in a competitive environment. It also ensures that bidders too have a strong understanding of the procuring authority's requirements.

Justifying the higher cost of private finance

The cost of private finance in a PPP is typically higher than that at which the public sector can borrow. This may appear to undermine the rationale for using a PPP. However, it is important to make clear that this mainly reflects the fact that the private partner is assuming certain risks in a PPP that would otherwise be left with the procuring authority. The private party is taking-on the costs of managing such risks which would otherwise be a cost that the public sector, and ultimately the tax payer, would otherwise have to bear.

- *It is important that the cost charged by the private sector to bear the risks allocated to it is justified, hence the relevance of good risk analysis, VfM assessment, strong competition and, subsequently, good contract management. At the same time, it is important to understand whether the higher costs of private finance are due to other factors, such as liquidity constraints, poor competition or inefficiencies. In this case, consideration may be given to limiting the proportion of private sector financing – enough to incentivise risk transfer – and use public funding for the balance, if it is available.*

PPPs may also be chosen by default because private finance is the only option available due to public sector financing constraints (i.e. limitations on what it can borrow) and/or funding constraints (i.e. limitations on what it can spend).

- *The assessment of VfM can still be important to demonstrate whether or not the expected benefits of the investment and associated services and of its delivery through private sector involvement are justified by the costs associated with a PPP approach, including the cost of private finance.*

2.5. Funding and Finance

Addressing affordability constraints and managing long-term fiscal risks

PPPs can create significant future payment obligations for governments. These commitments may be unaffordable for the procuring authority (or for the government as a whole in the case of programmes of PPPs) at a later date or limit flexibility on future spending decisions. Whether conventionally procured or procured using a PPP, the project ultimately has to be paid for by the tax-payer or the user. The issue therefore is to ensure that the long-term payment obligations are recognised and that

the resources are available to meet these obligations over the PPP contract life. Public authorities may not always do this.

It can be forgotten that conventional forms of procurement also create long-term payment obligations that need to be recognised, such as the obligation to fund the long-term maintenance of the asset. The difference with a PPP is that this obligation is committed to contractually. In other cases, the public sector may have the option to delay or forgo paying for long-term maintenance because there is no contractual obligation to do so. In many cases, this option is exercised due to the de-prioritising of this spending obligation in later years. This may make conventional procurement approaches appear more flexible. However, as mentioned in Section 1.2, it the discipline of ensuring timely maintenance that keeps the asset in good condition (and therefore keeps the costs lower overall) and is often exactly what procuring authorities are seeking from a PPP (but see also Section 2.3. for approaches to enhance the flexibility of PPP contracts).

- *The long-term affordability of a PPP project should always be assessed in the preparation stages of the project to identify potential future payment obligations and the sources for meeting them. This involves a realistic assessment of expected capital and operating costs, revenues and financing conditions and the use of financial models and market sounding. Financial and technical advisory support should be used if the technical capacity to carry out such an assessment is not already available within the public sector team.*
- *A fiscal framework should be established to ensure that future PPP project liabilities are recorded, disclosed and monitored across the PPP programme, paying particular attention to PPPs that may be off budget or recorded off balance sheet for accounting or statistical purposes. It is important to recognise that the budgetary framework horizon may not match the long-term nature of fiscal commitments arising under PPPs, especially where cash accounting principles are used.²⁰*

It is also important to identify the range of potential liabilities the public sector has in PPPs, including (i) firm (or direct) service payment obligations (e.g. availability fees, shadow tolls); (ii) contingent contractual (explicit) obligations (e.g. guarantees, termination payments); and (iii) contingent non-contractual (implicit) obligations (e.g. renegotiations, project rescues). EPEC's reports on 'State Guarantees in PPPs' and on 'Termination and Force Majeure Provisions in PPP contracts' highlight how the treatment of these issues can effect public sector liabilities.²¹ The effectiveness of such a process of identification may be reinforced by establishing caps on the stock of and/or annual spending on PPPs (an example of this is provided in Box 8).

²⁰ Accrual accounting standards on the other hand require the immediate recognition of at least some obligations to make payments later, such as explicit availability payment obligations. Current international accrual accounting standards also require that a contingent obligation be recognised as a liability when the probability that a payment will be made is considered to exceed 50% and when a reasonably reliable estimate of the payment amount can be made. For the public sector, this is set out in 'IPSAS 19', see: www.ifac.org/sites/default/files/publications/files/ipsas-19-provisions-cont-1.pdf.

²¹ See: www.eib.org/epcc/resources/epcc-state-guarantees-in-ppps-public.pdf and www.eib.org/epcc/resources/Termination_Report_public_version.pdf.

Box 8: UK PPP liabilities

The Treasury has published data sheets for most of its PPP projects on an, at least, annual basis for over eight years.²² These have always included the capital value of projects and the associated on-going availability ('unitary charge') payments. Over time, the data provided has evolved to include balance-sheet treatment (under different standards), equity holders and refinancing details.

In 2013, a cap on government exposure to PPP projects was introduced in response to continued criticism about the lack of transparency around UK PPP liabilities. This proposed to limit future PPP payments over a five-year period, from 2015-16, to GBP 70 billion (in nominal terms). This cap covers the existing stock of centrally funded PPP contracts, regardless of balance sheet treatment, as well as future PPP projects procured by central government.

2.6. Conclusion

There are many factors that can inhibit the successful delivery of a PPP project by the public sector. At the same time, governments and procuring authorities have found ways to address a number of the challenges and constraints. Overall, it is important to remember that a PPP should not be seen as an end in itself but as a means to deliver projects and their associated public services. The PPP route may not be the most appropriate one but successful PPP programmes have processes that enable the public sector to identify suitable PPP opportunities but recognise and accept when the challenges are too great for a particular project to be procured as a PPP. Such processes help to ensure that PPPs are used only where they really can deliver the most benefits for the costs involved when compared with alternative forms of project delivery.

²² See UK statistical files available at: webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/ppp_pfi_stats.htm and www.gov.uk/government/statistics/pfi-projects-data-march-2013.

3. Concluding Remarks

Identifying and communicating the rationale to use PPPs should be a central component of a PPP programme. Accordingly, policy-makers should not ignore the importance of [good communications](#) as one of the activities in developing and delivering successful PPP programmes and projects.

As this report highlights, there is a wide range and combination of motivations that policy-makers may identify to underpin their use of PPPs and deliver them well. VfM is usually the key underlying motivation but this in turn is driven by a number of subsidiary drivers, such as improved risk allocation, better visibility of long-term costs and on-time, on-budget delivery. PPP policies typically evolve or change over time, so effective communication is an active and ongoing process.

Equally important is the [recognition and assessment of the challenges](#) to delivering a PPP programme and its component projects and addressing these challenges where possible. Key requirements for a successful PPP project include:

- [a supportive and stable policy, institutional and legal framework for PPPs](#);
- [strong political support and strategic intent](#), especially as PPPs may involve the reform of existing processes and markets and long-term commitments;
- [a technically competent public sector client](#) that is both aware of the technical skills required and able to access these from the public and private sectors;
- [effective public sector governance and project management capability](#) to ensure, among other issues, that projects are chosen that are suitable for PPP contract structures and are prepared thoroughly before they are put out to tender and that the preparation, procurement and contract management stages are well managed;
- [the establishment of credible and coordinated project pipelines](#);
- [a responsive private sector market](#) that is potentially capable and willing to support a PPP programme thereby ensuring a competitive environment;
- [strong management of and support from project stakeholders](#); and
- [effective communications capability](#).

Annex – Selected Documents on PPP Motivations and Challenges

| Country | Title | Year | Sponsor |
|------------------|---|------|---|
| Australia | Review of Partnerships Victoria Provided Infrastructure | 2004 | Treasurer of the Australian Government. |
| Australia | Performance of PPPs and Traditional Procurement in Australia | 2007 | Infrastructure Partnerships |
| Australia | Report on the performance of PPP projects in Australia | 2008 | National PPP Forum & The University of Melbourne |
| Canada | Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments | 2010 | The Conference Board of Canada |
| Canada | Breaking New Ground: P3 Hospitals in Canada | 2011 | The Canadian Council for Public-Private Partnerships |
| Finland | Life-cycle model evaluation Finland | 2013 | The Finnish Transport Agency |
| France | Partenariats public-privé et performance des investissements publics | 2009 | Fédération Nationale Entreprise et Performance (FNEP) |
| France | Étude sur la performance des contrats de partenariat | 2011 | PricewaterhouseCoopers |
| France | La performance des contrats de partenariat en France : Une première évaluation intégrant la phase d'exploitation | 2012 | Chaire EPPP, IAE de Paris – Panthéon - Sorbonne. |
| France | Les contrats de partenariat : des bombes à retardement | 2014 | Sénat |
| France | Les partenariats public-privé du plan hôpital 2007 : une procédure mal maîtrisée | 2014 | Cour des Comptes |
| Germany | PPP on the move or going south? Empirical indications for successful PPP decisions from German municipalities | 2010 | International Public Procurement Association |
| Germany | Joint Progress Report on the economic efficiency of PPP Projects | 2011 | Presidents of the Courts of Auditors of the Federal Government and of the Länder. |
| Ireland | Public-Private Partnerships in Ireland: A Review of the Experience | 2013 | Nevin Economic Research Institute |
| Multiple | Successful Examples of Public-Private Partnerships and Private Sector Involvement in Transport Infrastructure Development | 2005 | Joint - Organisation for Economic Co-operation and Development/ European Conference of Ministers of Transport - Transport Research Centre |
| Multiple | Evaluation of PPP projects financed by the EIB | 2005 | European Investment Bank |
| Multiple | Public-Private Partnerships and collaboration in the Health sector: An Overview with Case Studies from Recent European Experience | 2006 | World Bank |
| Multiple | PPPs: the passage of time permits a sober reflection | 2009 | Institute of Economic Affairs |
| Multiple | Review of Lessons from Completed PPP | 2009 | European Investment Bank |

| Country | Title | Year | Sponsor |
|-----------------|---|------|---|
| | Projects Financed by the EIB | | |
| Multiple | A preliminary reflection on the best practice in PPP in healthcare sector: a review of different PPP case studies and experiences | 2012 | United Nations Economic Commission for Europe, World Health Organisation and Asian Development Bank. |
| Spain | PPP projects in transport: evidence from light rail projects in Spain | 2012 | Chaire EPPP, Institut d'administration des entreprises de Paris – Panthéon-Sorbonne. |
| Spain | PPPs in Spain: critical financial analysis of toll road and healthcare cases | 2013 | Sauder School of Business |
| UK | Review of large public procurement in the UK | 2002 | Mott MacDonald |
| UK | Audit Commission - PFI in schools | 2003 | Audit Commission |
| UK | PFI: Construction Performance | 2003 | National Audit Office |
| UK | Evaluating the operation of PFI in roads and hospitals | 2004 | Association of Chartered Certified Accountants |
| UK | The private finance initiative: a policy built on sand | 2005 | Unison |
| UK | A Framework for evaluating the implementation of Private Finance Initiative projects | 2006 | National Audit Office |
| UK | Effectiveness of operational contracts in PFI | 2007 | KPMG LLP and The Business Services Association |
| UK | OGC Gateway™ Process Review 5: Operations review and benefits realisation | 2007 | Office of Government Commerce |
| UK | The performance and management of hospital PFI contracts | 2010 | National Audit Office |
| UK | Project Finance Initiative | 2010 | House of Commons - Treasury Committee |
| UK | Lessons from PFI and other projects | 2011 | National Audit Office |
| UK | A new approach to public private partnerships PF2 | 2012 | HM Treasury |
| USA | Highway PPP: More Rigorous Up-front Analysis Could Better Secure Potential Benefits and Protect the Public Interest | 2008 | Government Accountability Office |
| USA | Key Performance Indicators in Public-Private Partnerships | 2011 | Office of International Programs, Federal Highway Administration U.S. Department of Transportation, American Association of State Highway and Transportation Officials. |



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