



Assessing the options for PPP in transport projects – choices and challenges

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Introduction

- **What are PPP?**
- **Why use PPP?**
- **When do PPP work best?**
- **Assessing the options – using PPP for transport projects**
- **Challenges for effective use of PPP in transport projects**

What are PPP?

- **No agreed international definition of PPP but lots of jargon... BOO, BBO, BOT, DBFO, etc (and that's only in English!)**
- **PPP are long term, usually high value contracts between the public and private sectors to create an asset and use it to provide public services**

Definition of PPP

A Public-Private Partnership is a contractual agreement between a public entity (national, regional or local) and a (normally) private sector supplier. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for use of general public. In addition to sharing of resources, each party shares the risks arising from the delivery of the service and/or use of the facility.

PPP and the EU public procurement regime

- **PPP are a form of public procurement and fall within the definition of public procurement within the Public Procurement Directives**
- **No explicit reference to PPP in 2004 public procurement legislative package**
- **No other special rules in Community law covering PPP**
- **Introduction of new process of Competitive Dialogue in new legislative package (intended to make PPP easier)**

Types of PPP

- **Free-standing PPP**
- **Partly free-standing PPP**
- **Public service PPP**

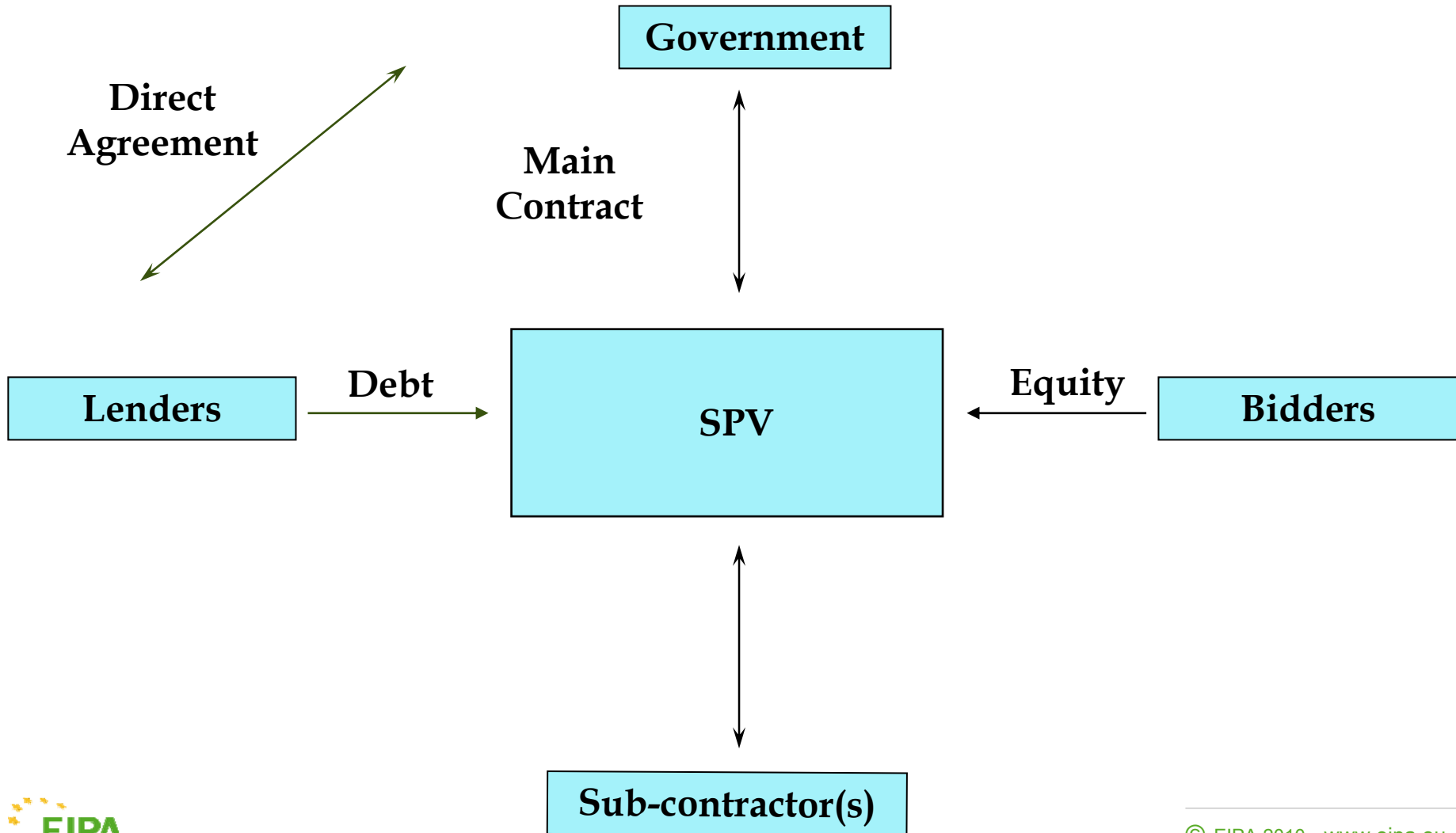
Key features of PPP – 1

- **Creation and/or exploitation of asset by private sector supplier. Public assets exploited can be land and/or right granted to provide a service by a public entity**
- **Provision of new/existing service over a defined period of time (often a longer period of time - say up to 30 years - than is usual in public contracts)**
- **Payment of periodic charge to supplier by public entity (and/or payments by the public directly as customer). Charge may vary according to service volume provided**

Key features of PPP – 2

- **No commitment by public entity to pay except when asset is being used in provision of service**
- **The sharing of the risks and benefits of the outcome of the project by both partners**
- **The public authority is responsible for defining the scope, quality, time scale, means of service delivery and, in some cases, prices for the service**

PPP contract



PPP process – 1

- **Public entity awards contract to private sector partner**
- **Private sector partner/consortium creates an ad hoc company (Special Purpose Vehicle) to operate the contract**
- **The SPV is financed from equity capital and also from borrowing (the majority)**
- **The SPV sub-contracts the construction and maintenance of the asset and operation of the service**

PPP process – 2

- **The periodic charge is paid by public entity to the SPV**
- **The SPV uses this income to repay its loans and pay dividends to its shareholders**
- **The public entity and the financier usually have a direct side agreement, which can cover matters such as step-in rights, termination etc**

Advantages of PPP

- **Design, build, operate synergy**
- **No alternative financing**
- **Need to explicitly identify risks**
- **Potential risk transfer to private partner**
- **Continuity in capital investment**
- **Potential for improved services, lower costs, improved income collection**
- **Potential to change method of service provision**
- **Additional due diligence**

Disadvantages of PPP

- **Lock-in**
- **Cost of termination and role of lenders**
- **Loss of service delivery capability**
- **Paying for specific risks**

Use of PPP for transport projects

- **PPP/concessions are being used widely for road, bridges/tunnels, light rail, heavy rail, airport and ports projects at national and sub-national level**
- **PPP/concessions are being/have been used for transport projects in several EU Member States, including Austria, Belgium, Bulgaria, Czech Republic, Cyprus, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, the Netherlands, Latvia, Poland, Portugal, Romania, Slovakia, Spain and the United Kingdom**
- **A sector with more experience than most!**

How PPP fits with transport projects

- **Contractibility**
- **Proven technologies**
- **Ease of performance management**
- **Sustainable risk transfer**
- **Understanding of risks**
- **Capital/operating cost balance**

Assessing the options for transport projects

Is there a good project?



Is the project a priority?



Is PPP the right way?



What type of PPP?

Challenges for PPP in transport projects - 1

- **Importance of strategic planning and management (at/between all levels of government)**
- **Forecasting demand/transferring demand risk**
- **Determining how much users can/will pay and how**
- **Dealing with cross-cutting policy issues/setting priorities**
- **Scoping projects (size/ability to finance)**
- **Blending PPP with EU Structural Funds**

Challenges for PPP in transport projects - 2

- **Complexity of contracts - public sector skills needed**
- **Need for genuine case by case assessment**
- **Complexity of contracts - maintaining competition during procurement processes**
- **Managing competition for proprietary technologies**
- **Need for effective regulation and contract management**

The great unknown....

PPP - with adaptations - has not ended as a result of the global financial crisis

BUT... too soon to assess impact of sovereign debt uncertainties and recent austerity measures

European PPP Forum

WEB SITE

<http://www.eipa.eu> then search for PPP

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