UK PPP Program - Policy
Background and Implementation

Edward Farquharson

December 2009
PPP Policy Objectives

- Improved value-for-money procurement of public services
- Reform / modernisation of public services
- Contestability in delivery of public services
- Antidote to short-termism in both public and private sectors
- Improved transparency of costs of public service delivery
- Not privatization: accountability retained
- Overcome capital budget constraints
- Direction of travel: outcomes based procurement
Since April 2009, over 23 major projects have reached financial close worth over US$5.7bn

Source: PUK Projects Database
PPP Projects by Value – US$ bn

- Transport, 41
- Education, 17
- Health, 22
- Accommodation, 12
- Environment, 6
- Equipment, 8
- Housing, 3
- Other, 6

Total: US$115 Bn

Source: PUK Projects Database
PPP Projects by Number

- Health, 275
- Education, 224
- Accommodation, 114
- Equipment, 36
- Environment, 56
- Transport, 64
- Housing, 25
- Other, 119

Over 900 signed
Over 700 operational

Source: PUK Projects Database
NAO submission to House of Lords

• Private finance can deliver benefits but is not suitable at any price or every circumstance
• Private finance projects normally deliver what is asked of them – high levels of contract manager/user approval*
• Private finance projects deliver real risk transfer – what happens when things go wrong
• But important to:
  – establish the benefits justify higher cost of finance
  – institutional incentives may drive use of PPP
  – evaluation tools need further development
  – competitive tension can sometimes be stronger
  – projects require very careful management

*Ipsos MORI report on operational PFI contracts
Key Facts: 2007 – 2009

- Total number of deals – 385
- Number of deals currently in pre-approval stage – 442
- Number of deals in tender – 486

### Top 10 countries by value and number of closed deals 2007 - 2009

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Value (Millions of euros)</th>
<th>Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UK</td>
<td>18,1000</td>
<td>178</td>
</tr>
<tr>
<td>2</td>
<td>Portugal</td>
<td>12,601</td>
<td>15</td>
</tr>
<tr>
<td>3</td>
<td>France</td>
<td>8,204</td>
<td>29</td>
</tr>
<tr>
<td>4</td>
<td>Greece</td>
<td>7,781</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>Italy</td>
<td>6,086</td>
<td>20</td>
</tr>
<tr>
<td>6</td>
<td>Belgium</td>
<td>3,774</td>
<td>30</td>
</tr>
<tr>
<td>7</td>
<td>Ireland</td>
<td>3,084</td>
<td>24</td>
</tr>
<tr>
<td>8</td>
<td>Spain</td>
<td>2,963</td>
<td>12</td>
</tr>
<tr>
<td>9</td>
<td>Germany</td>
<td>2,880</td>
<td>35</td>
</tr>
<tr>
<td>10</td>
<td>Poland</td>
<td>2,142</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: European PPP Report, DLA Piper/EPEC Dec 2009 Report / infranews database
Challenges and Trends

• Liquidity shortages/development of new sources of long term debt funding/recognition of illiquidity risk

• Challenges to existing risk allocation models

• More availability based/social infrastructure projects

• Role of the EIB

• Development of common approaches to common problems – EPEC
  www.eib.org/epec
Delivery - institutions
The Case for a PPP Unit

• Common issues across *projects* – joining up the public approach
• Common issues across *time* – institutional memory
• Public/private asymmetry of PPP skills
• Complexity of PPPs
• PPP skills are scarce and expensive
• ‘Intelligent client’ function
Role of a Unit

- Policeman/scorekeeper
  - Approval body e.g. of contracts – consistency/quality
  - Recording explicit/implicit liabilities

- Friend/counsel
  - Member of the Project Board
  - Handholding project team
  - Troubleshooter

- Analyst/Strategist
  - Review and development of guidance/policy
  - Taking the programme, as opposed to project, view
UK Public Sector PPP Institutions

- Auditing bodies
  - e.g. National Audit Office
- Devolved Government PPP Policy Units
- Local Government Association
- Local Partnerships (LGA and PUK jv)
- Partnerships UK Implementation
- HM Treasury Policy
- Sector Department Private Finance Units
- Partnerships for Schools PDO
PUK: Resources

• Approx 70+ specialists: mid to late career level
• Specialists in
  – Procurement
  – Project management
  – Law/contracts
  – Finance: project finance, equity
  – Public accounting
  – Commercialisation of public assets
  – Sectors: transport, health, education, housing, property, defence, waste, water, ITC
• Drawn from private, public and third sectors
• Not transaction advisers, but know how to manage them
Delivery - processes
Quality Control

Gate 0: Strategic Assessment
- Confirm Strategy

Gate 1: Business Justification
- Confirm Justification

Gate 2: Procurement Strategy
- Competitive Procurement

Gate 3: Investment Decision
- Contract Award

Gate 4: Readiness
- For Service

Gate 5: Benefits Evaluation
- In-Service
- Confirm Benefits

Opportunity to influence Whole Life Expenditure
0% to 100%

Time
Outline Business Case

- **Project Management**
  - Assemble Project Team and Governance arrangements
  - Develop project management risk register

- **Assessment of project factors**
  - Assess scope, legal, technical, environmental, social project issues

- **Affordability**
  - Identify project costs in more detail
  - Identify of sources of project revenue

- **Risk allocation**
  - Identify project risks in more detail
  - Propose risk allocation and mitigation

- **Market assessment**
  - Assess potential interest from funders and contractors and adjust project scope if necessary

- **Project documents**
  - Develop project documents, concession terms

- **Stakeholder mgmt**
  - Alignment of project with stakeholder objectives

- **Value for money**
  - Valuation for money assessment

- **Tender phase preparation**
  - Preparation of procurement phase management, bid documents and bidder information

- **Project marketing**
  - Initial market awareness

- **Readiness for market**
  - Assessment of outline business case for readiness for market

The issues may impact on each other requiring re-adjustment.

External legal, technical, financial, environmental, advisory support.

Source: World Bank, PPIAF, ICA, 2009 based on a document prepared for them by PUK
Example of Project Governance Structure

Source: World Bank, PPIAF, ICA, 2009 based on a document prepared for them by PUK
Value for Money Assessment

- 3 stage approach:
  - Programme level
  - Project level – pre market launch
  - Procurement level

- Balanced qualitative and quantitative assessment

- Embeds evidence-based approach

- Generic VfM model

- Discount rate

- Guidance: www.hm-treasury.gov.uk
Qualitative assessment

• Viability
  – Measurable and definable outputs, clear scope
  – Operational flexibility
  – Equity/efficiency/accountability reasons not to use private sector service provision
  – Not at expense of labour conditions - TUPE

• Desirability
  – Do the benefits outweigh the costs?

• Achievability
  – Market interest, time scales
  – Quality of competition
Deliverability Checklist

• Clarity of requirements and scope
• Risk allocation
• Indication of commercial interest
• Project information and contract terms prepared
• Affordability
• Expected accounting treatment
• Project team/processes
• Suitability of proposed advisers
• Indicative timetable
• Value for money
• Commitment of stakeholders/users
• Approvals / appropriate powers confirmed
• Commitment of sponsors / users
Competitive Dialogue/RfP Stage

Source: World Bank, PPIAF, ICA, 2009 based on a document prepared for them by PUK
Some lessons learnt

- Communicate strong central sponsorship and stable long term policy commitments if changes are to be made across markets.
- A view about what you want the market to look like in 5 – 10 years’ time.
- One shot – difficult to change things later.
- Mix of mandatory procedures and support.
- Contract standardization but not too soon.
- An independent assessment and pass / fail control point – “kite mark” to reassure the bidder market.
Some lessons learnt cont.

- Rigorous use of the Business Case
- Project Governance
- Scrutinise the deliverability of a project before real engagement with the market.
- Scrutiny can prevent bad projects going to market, but cannot create good ones.
- Need for skilled properly resourced project delivery workforce.
- Programme delivery platforms
- Proper attention paid early on to the operational phase of projects
UK PPPs in the transportation sector – some examples
DBFO Roads

• Real tolls – commercial concession
  – highways
  – estuarial bridges

• Shadow tolls – usage risk

• Availability payment – no usage risk

• Hybrids
  – milestone payment supplement to toll
  – availability payment supplement to toll
  – blended milestone/availability
Road maintenance

• DBFO street lighting
  – Renewal and maintenance of road lighting
  – Availability based concession
  – Performance measures based on achievement of lighting levels

• DBFO roads maintenance
  – Refurbishment and on-going maintenance
  – Availability based concession
  – Performance measures based on road quality indices
DBFO structures in light rail

- DBFO risk transfer profile – common
- Demand risk
- Public sector subsidy
  - milestone payments
  - availability payments
- Hybrid
  - shared revenue risk, part milestone/availability
- Examples: Docklands, Nottingham, Croydon

Docklands Light Rail, London
Other examples

- London Underground
- Channel Tunnel Rail Link
- London Luton Airport
- Ticketing system – London Underground
- Highways Traffic Control
Lessons learned

• A variety of PPP structures available, key themes:
  – robust risk allocation
  – increased certainty of delivery and performance
  – whole life O&M interest drives good behaviours

• Milestone payments limit public sector remedies

• Availability payments assure performance at a cost

• Transferring user/revenue risk can be problematic and may be inefficient

BUT

• Hybrid arrangements can produce efficient combinations