

Overview of PPP

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Agenda

- Introduction
- Types of PPP
- Institutional Issues
- Enabling Environment
- Regulation and Process

Relevance?

‘.....a genie has been released from its bottle; the realisation that economic choices must be made based on risk-adjusted whole life costs and benefits will alter the nature of international economic competitiveness. In a sense, this is as fundamental as the discovery of gravity. When nations spend half their GDP on public services it was only a matter of time before the penny dropped...’

‘PPP In-Depth’ - City and Financial – January 2006

Relevance?

La motivación central para recurrir a APPs consideramos debe buscarse en la eficiencia relativa de la operación pública y privada de la actividad en cuestión, en los recursos adicionales que podría generar la gestión privada, y en las implicaciones económicas e institucionales que salirse de dicha actividad puede traer para el gobierno - y no en consideraciones basadas en contabilidad fiscal.

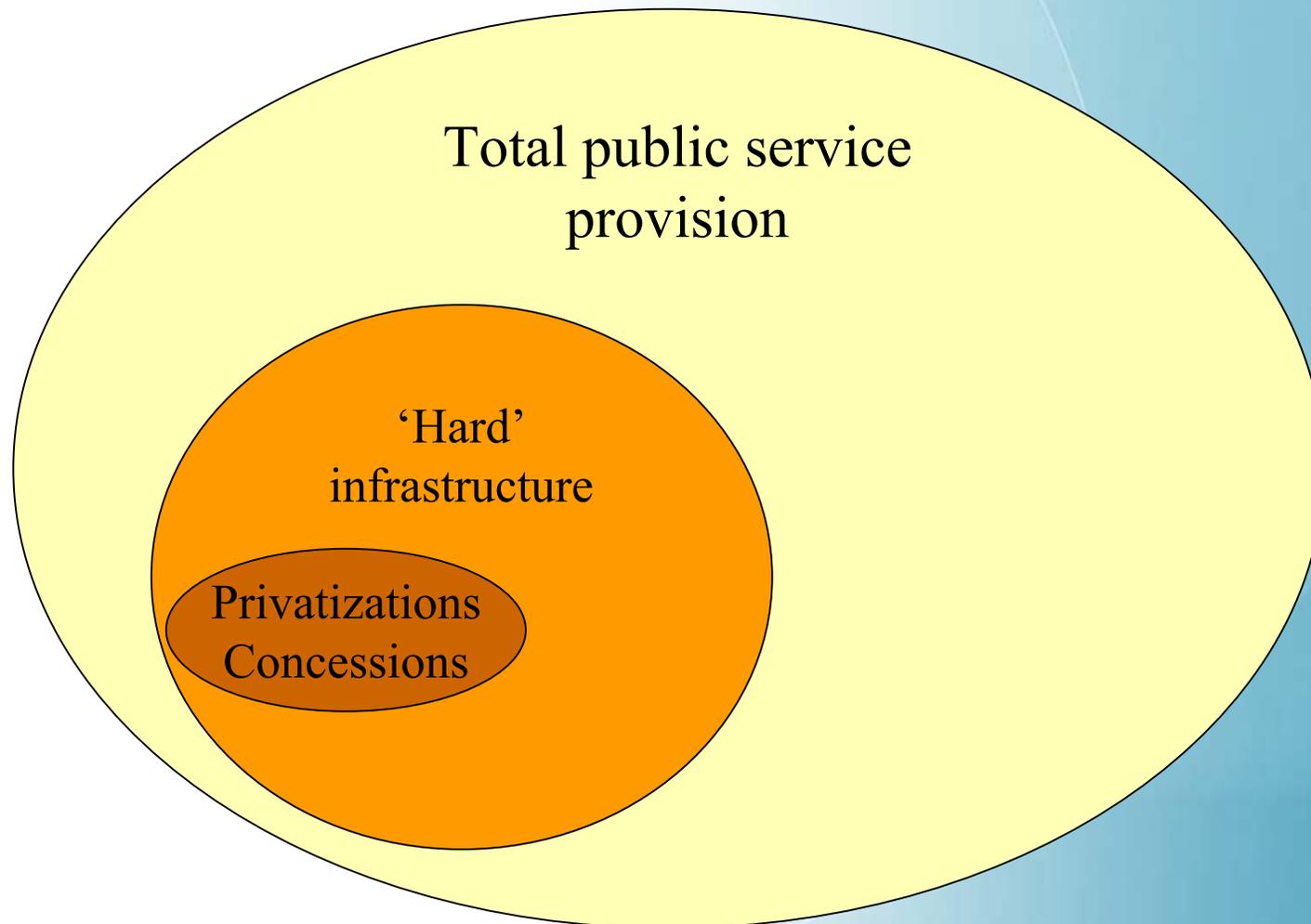
Extracto – Resumen Ejecutivo : Proyecto Piloto en Inversión Pública y Política Fiscal
(Fondo Monetario Internacional – 30 de noviembre de 2004)

Relevance?

Una parte importante de las carencias que hoy se observan es consecuencia del inadecuado mantenimiento de la infraestructura existente. A su vez, la falta de mantenimiento suficiente se ha debido, en buena medida, a prácticas programáticas y presupuestarias deficientes en el sector público. La misión encontró que si bien el control de calidad de los proyectos individualmente considerados ha mejorado considerablemente en los últimos años, los procedimientos para priorizar y presupuestar su ejecución y posterior mantenimiento requieren fuertes mejoras, sin las cuales la eficacia del gasto público de inversión se verá comprometida. La urgencia de realizar estas mejoras se incrementará conforme avance el proceso de descentralización.

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Scope



Limitations

- Limits to privatization
 - political, technical, commercial
- Limits to concessions
 - affordability, commercial (eg telecoms vav water), regulatory, distributional



Leading to separation of capital provision and service provision

- Limits to outsourcing
 - shorter term, weaker efficiency incentives

PPPs are Not Just a Financing Tool

Wider focus on issue of *outcomes* and *procurement reform* leads policy makers to address:

- Project preparation, risk management and focus on whole life cost efficiencies
- Sustainability - under-maintenance of public infrastructure
- Value for money: optimum balance of cost and quality
- Implications for institutions and processes

Types of PPP



Concession



Contract for Services - 'PFI' (UK) or 'PPS' (Mexico)



Joint Venture*



Investment Programme Management

** Partnerships UK is an example*

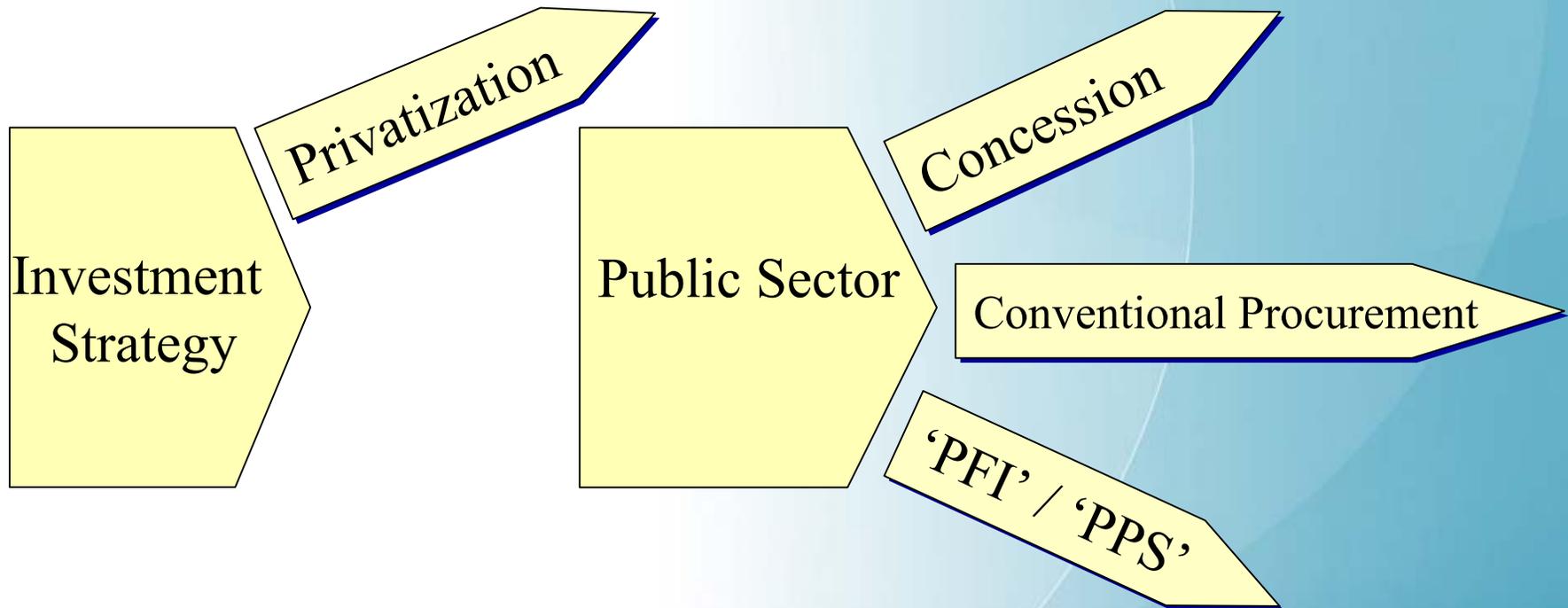
Other 'PPP' definitions

- Outsourcing (or almost anything that involves the public and private sectors working together) – US terminology – very broad
- User pay regulated 'infrastructure' concessions – bit narrow
- Privatization – misleading

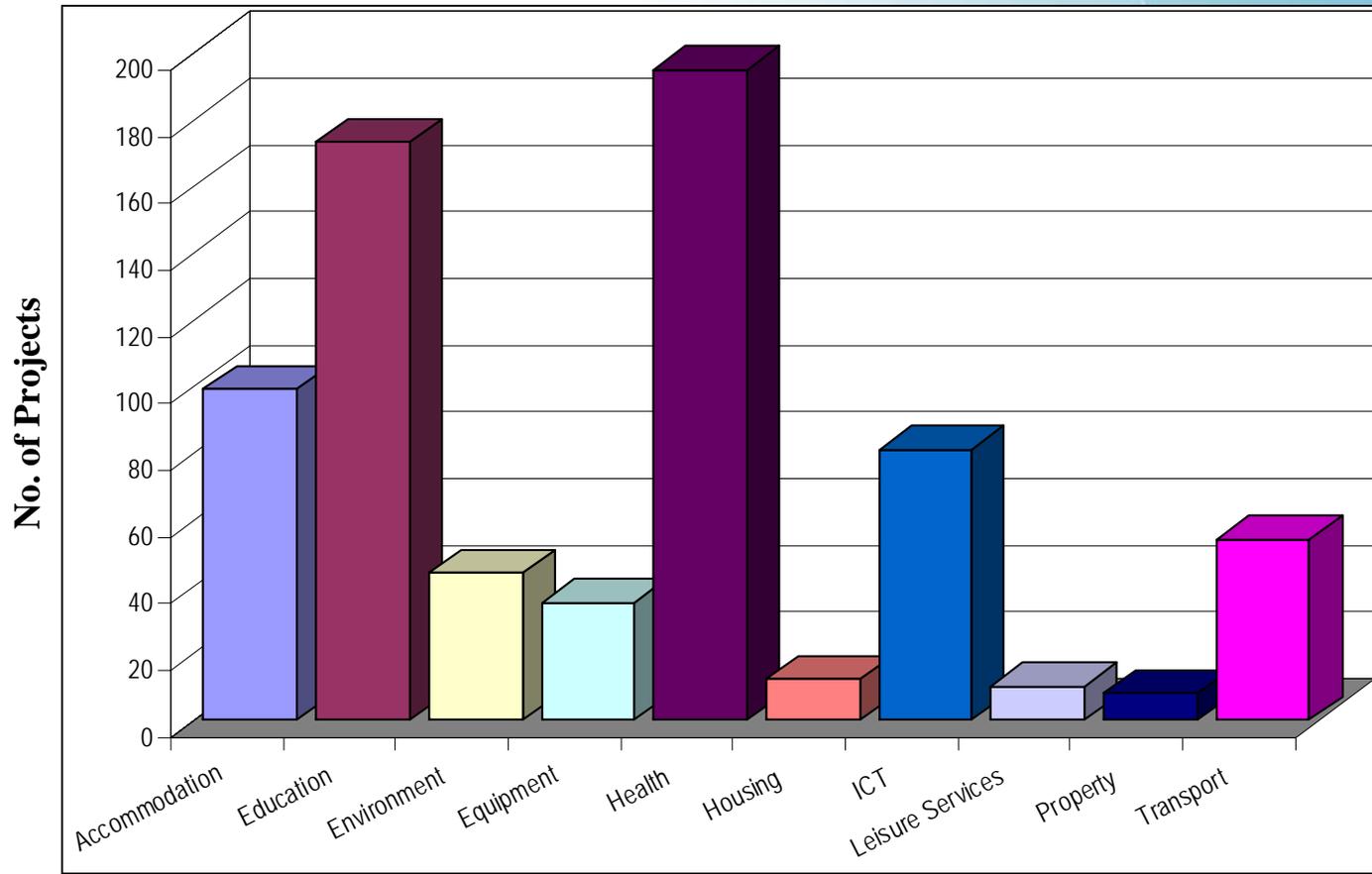
Distinction between Privatisation and PPP?

Where does accountability for public services delivery lie?

Linking Ideas



Scope



Drop Series Fields

Example UK: 731 projects that have reached financial close

PPP - Common Features

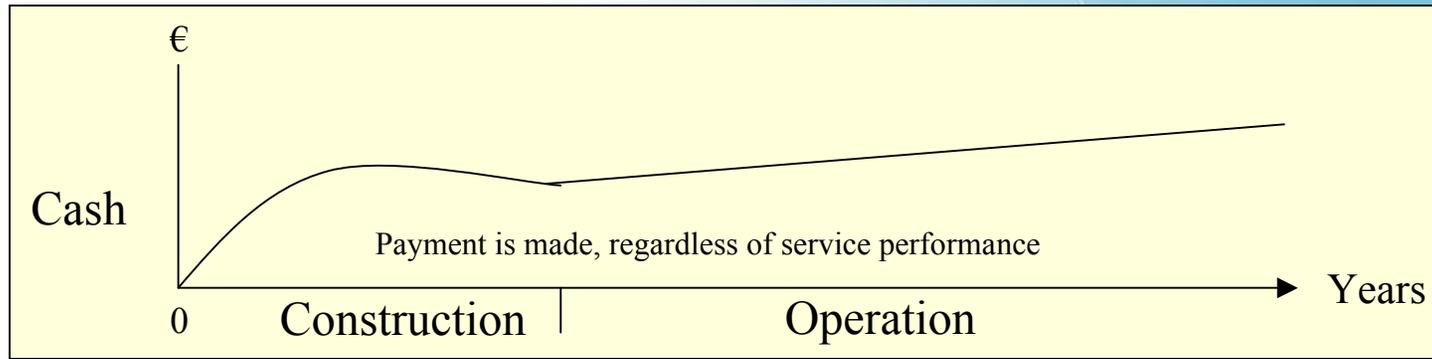
- (a) Applied across a broad range of sectors
- (b) Mostly applies where major capital investment is required
- (c) Based upon long-term (e.g. greater than 10 years) arrangements

New approach to public procurement

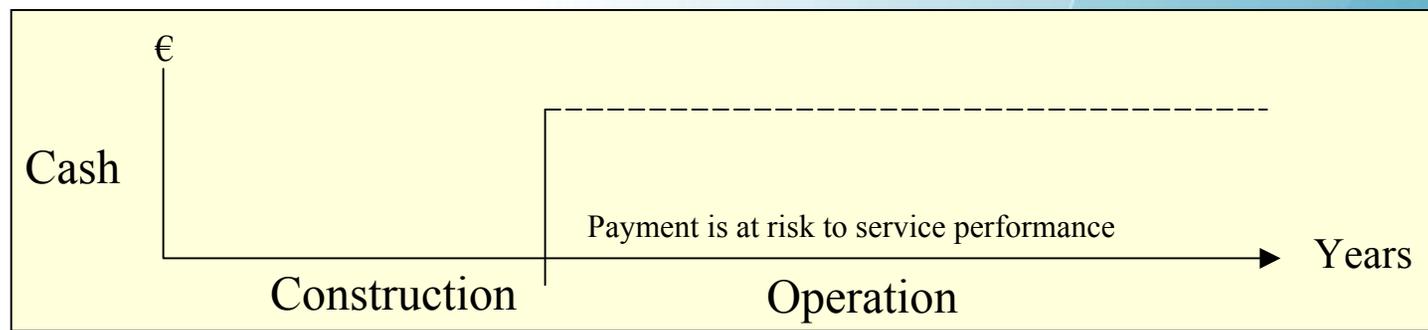
- Output based contracts
- Certainty of whole life-of-asset costings
- Single point responsibility – integration / scope
- Innovation
- Competition
- Capital at risk to long term performance
- Optimal risk transfer
- **Private sector capital at risk to performance in the delivery of public services**

Comparison With Conventional Procurement

(A) Conventional (input-based) procurement



(B) PPP (output-based) procurement



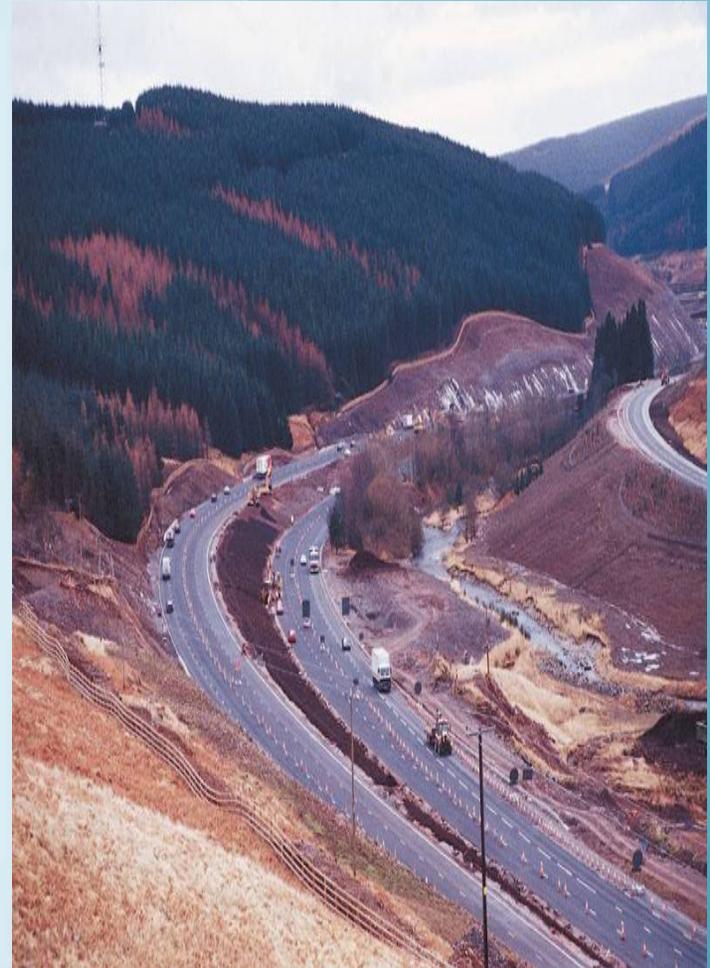
Importance of the Unitary Charge

- Payments apportion risk:
 - Availability
 - Performance quality
 - Usage / volume
 - Additional revenue streams (where possible)
 - No guarantee of return
- Composite total payment



Why Embark on a PFI Programme?

- 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 services delivery.
- Overcome capital budget constraints.



Institutional Issues

Public sector capacity issues

- Joining up across time
- Joining up across sectors
- Asymmetry in experience/skills
- Market knowledge
- Role of the private sector
- Independent scrutiny

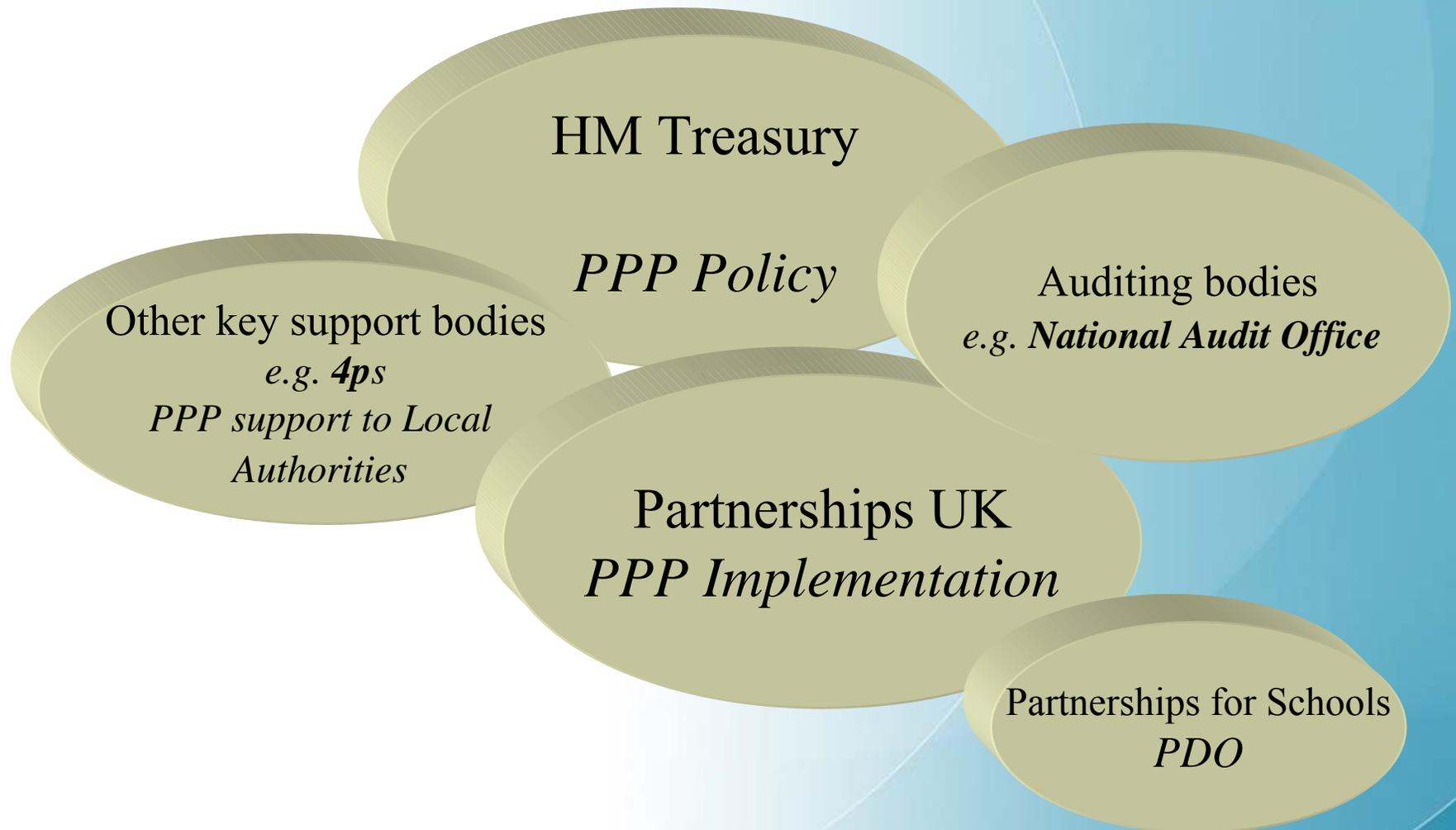
Institutional challenges

- Cuts across Government
- Generic nature of issues
- Resources scarce and expensive



Central response

UK PPP policy and implementation bodies



PUK Activities

Programme/policy implementation

- Policy Support
- Guidance, Standardisation, best practice, databases etc.
- Help desk

Project support

- Transaction Quality Control
- Transaction Support
- Investment programme management (PfH and PfS)
- Co-sponsoring projects (Development Partnership Agreements)
- Commercialisation Investments

Other International examples

- Partnerships Victoria, Australia
- South Africa Treasury PPP Unit
- Mexico: Unidad de Inversiones, SHCP
- Brazil: Unidade PPP Ministério do Planejamento
Unidade PPP Minas Gerais
- Partnerships British Columbia
- PPP Centrum, Czech Republic
- Holland, France, Germany, Portugal...

Potential PPP Unit Programme Roles

- Technical input to policy,
- Guidance material and best practice,
- Project databases
- Development and quality control of contract standardization, risk transfer strategies and contract payment mechanisms,
- Development of PPP procurement governance structures
- Help desk support to public sector
- PPP training,
- Government-wide PPP website,
- Communication issues
- Liaison with the State Audit Office
- Interface with other Government and multilateral bodies
- Frameworks to contract PPP advisors.

Potential PPP Unit Project Roles

- Transaction Support – specific delivery focussed support to individual PPP transactions
- Responsive interventions to assist procuring authorities throughout process
- Support to the procuring authority with the selection and management of PPP advisors,
- Project quality control
- Operational PPP project support

Partnerships for Schools

- Joint Venture with DFES/PUK 50:50 shareholders
- National structure to establish common framework and approach, saving time and cost for public sector procurement
- Support local projects by
 - developing standard documentation
 - providing expert resources in procurement support
 - spreading learning across all projects
 - assisting private sector partner selection, negotiation of legal and financial agreements
 - investing in local LEPs
 - ongoing influence through shareholding/LEP Board
 - ongoing support to public sector for new project delivery/VFM
 - organisational development

Enabling Environment

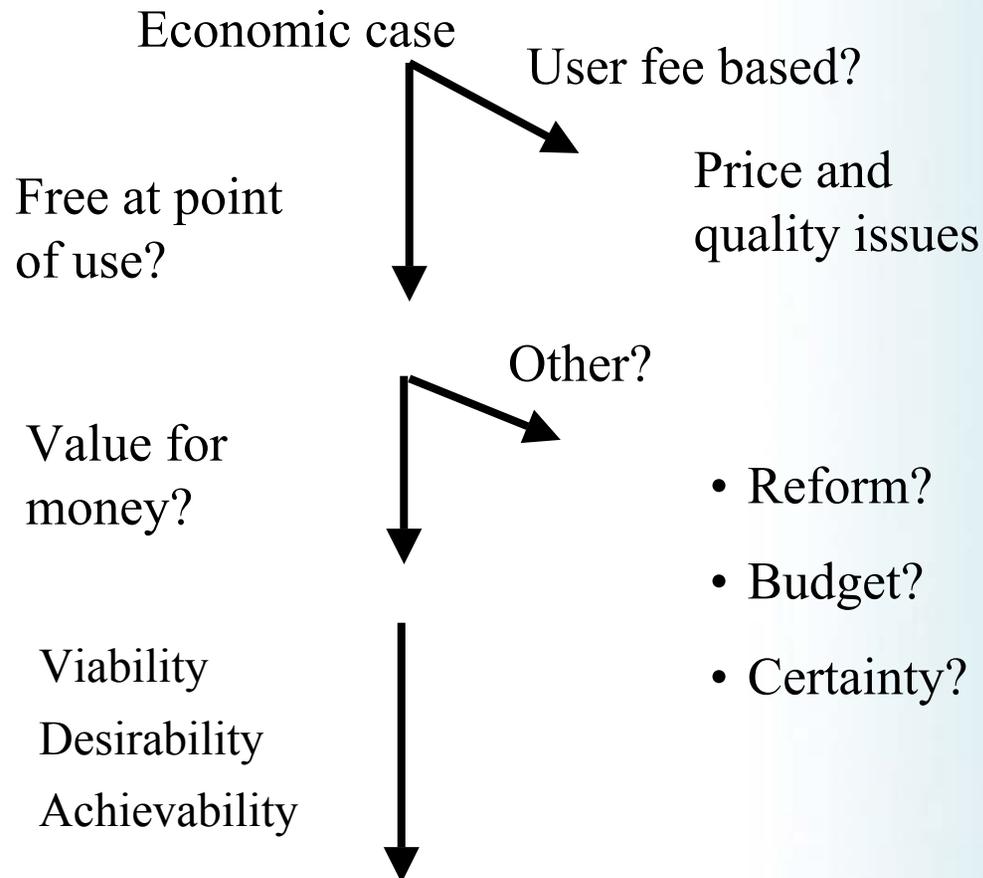
Top Line Essentials

- Legislative framework
- Policy framework
- Institutional reform
- Capacity building:
 - Public sector
 - Private sector
- Central support
- Communication strategy
- Programme development
- Quality Control

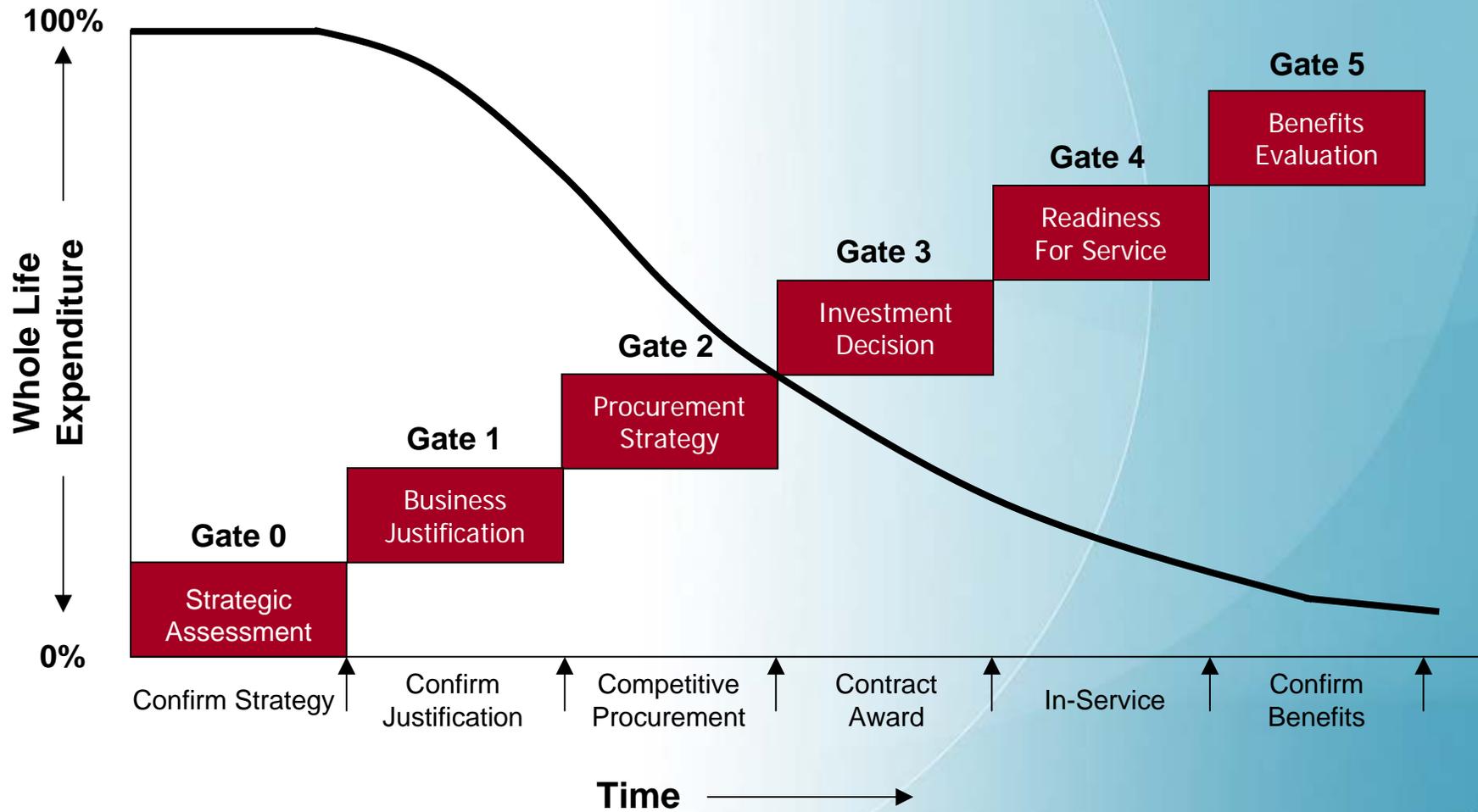
**... above all political
commitment**

‘Regulation’ of PPP

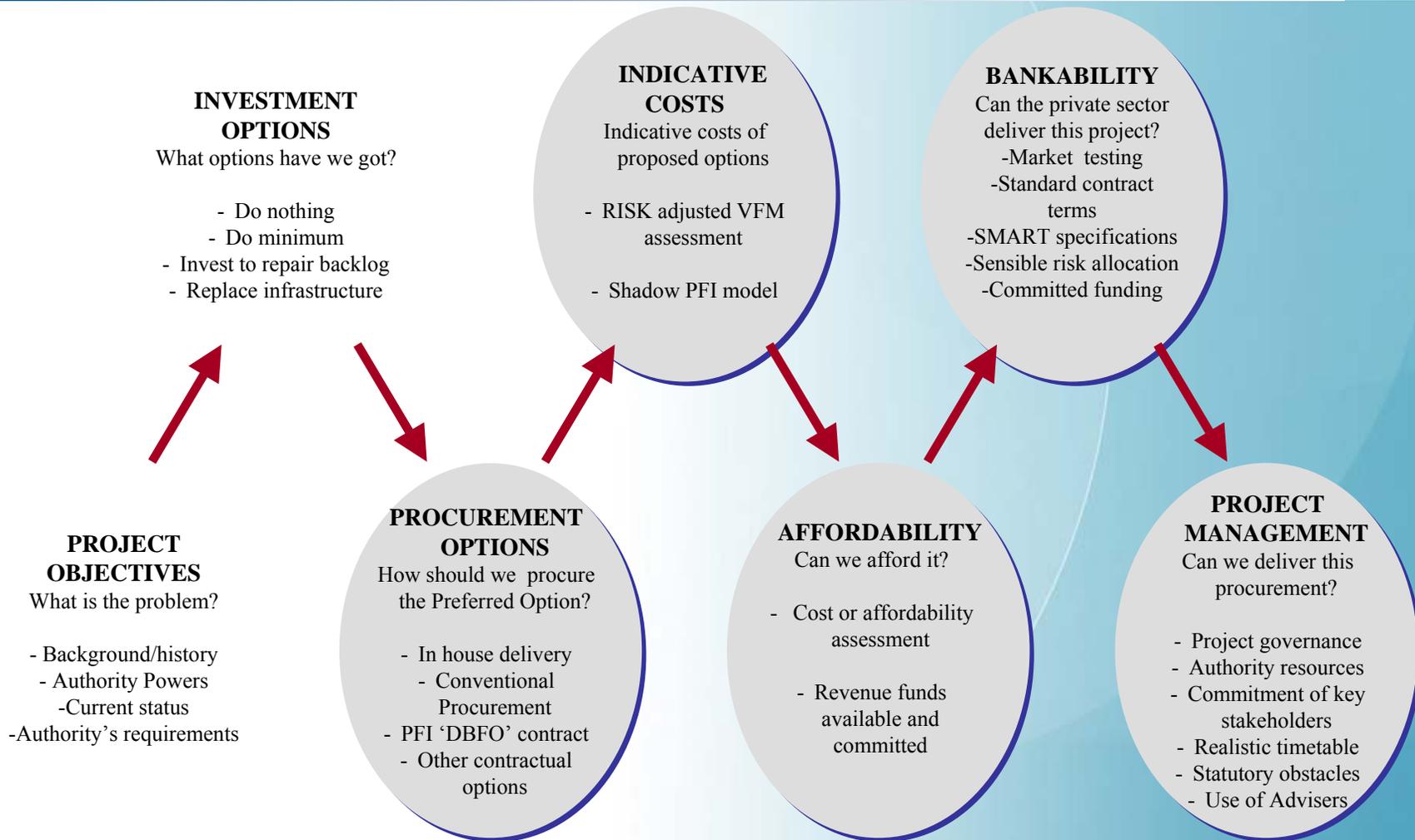
Relevance of Regulation



Opportunity to Influence Project Outcome

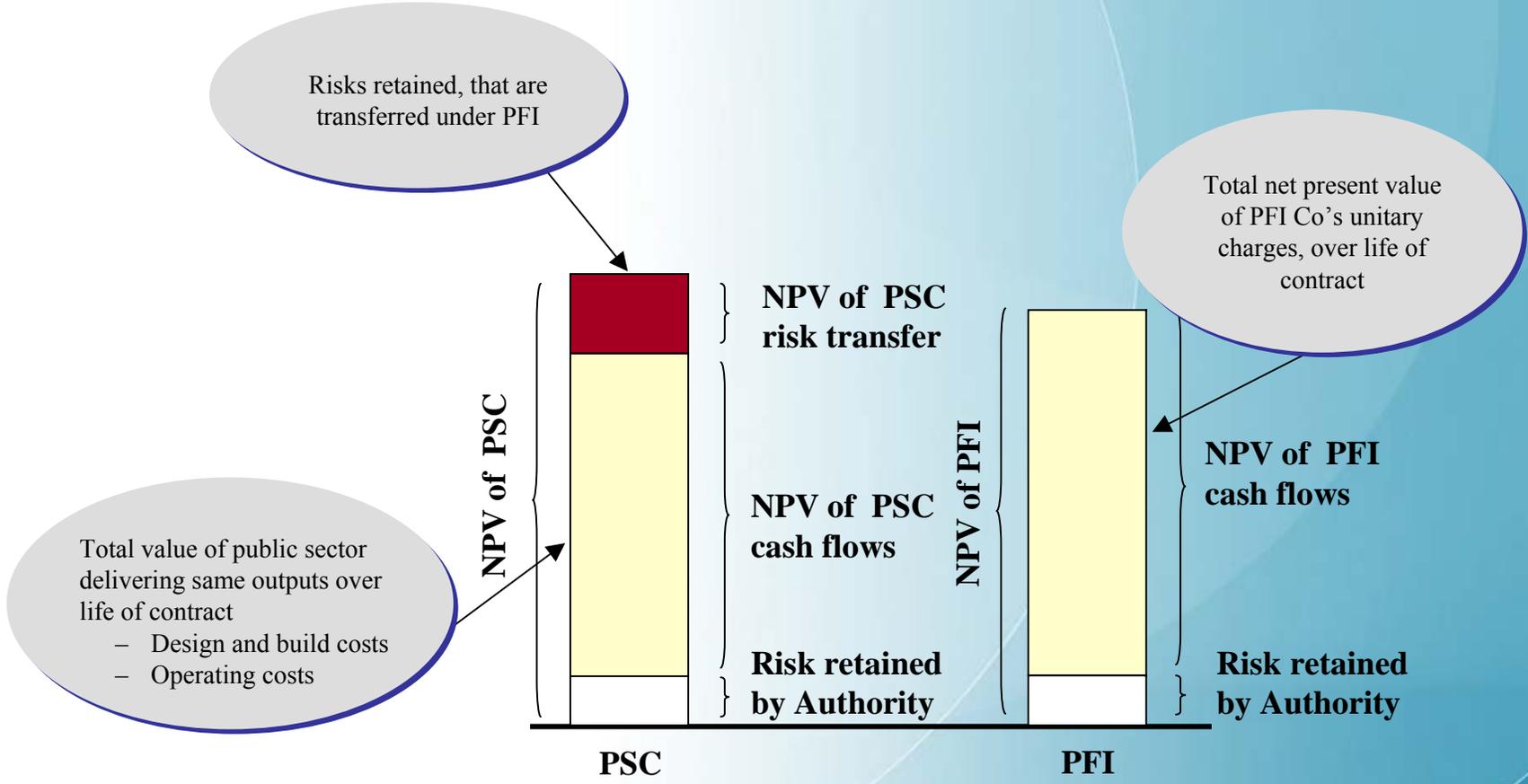


Ensuring the Right Procurement Decision



Public Sector Comparator

Typical Profile of Net Present Cost of PSC vs. PFI

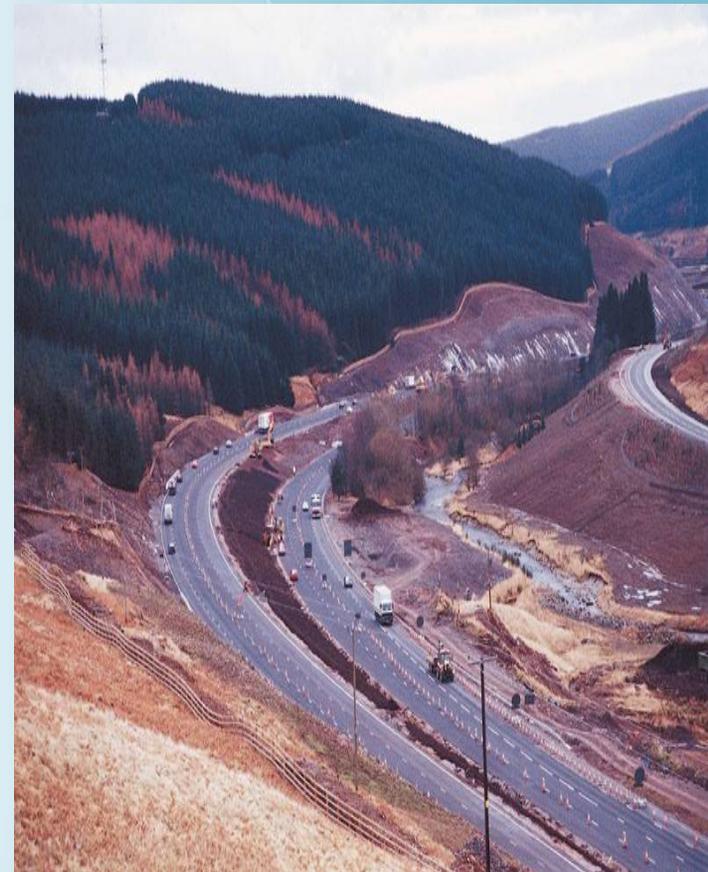


New Approaches to VfM Assessment

- *Quantitative analysis*
 - Placed in context
 - Evidence based
 - Optimism bias
- *Qualitative tests*
 - Contractible } ‘Viability’
 - Flexibility/cost }
 - Scope for cost/time overrun savings } ‘Desirability’
 - Innovation }
 - Length }
 - Capacity } ‘Achievability’
 - Competition }

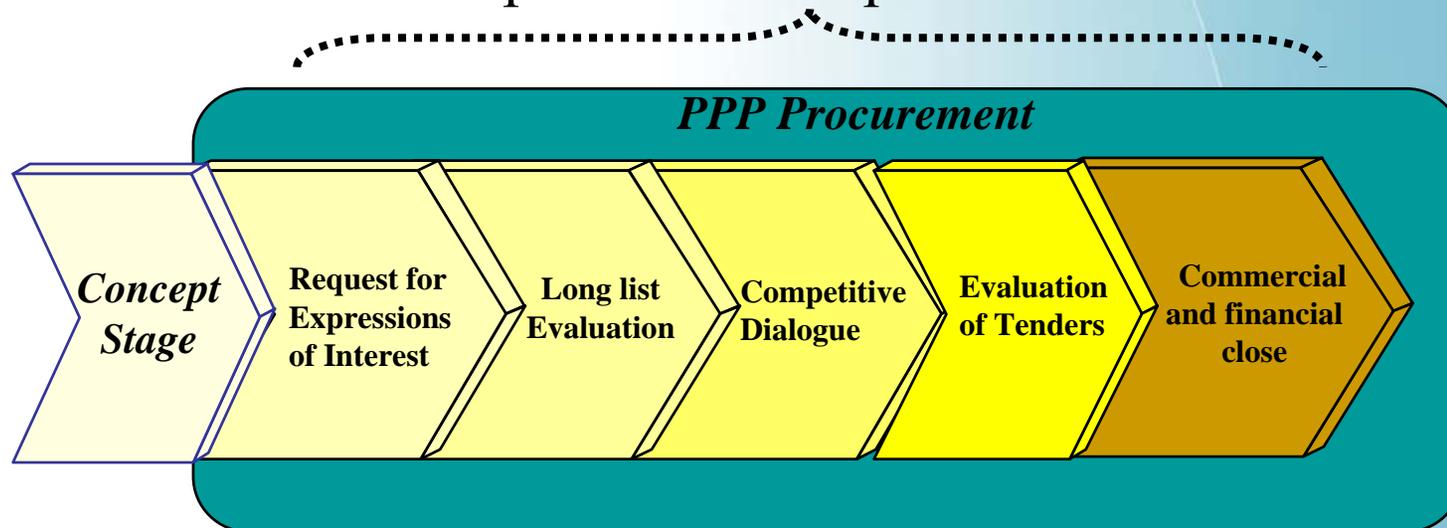
Principles

- **Making the right decision**
 - investigating the benefits of PFI
 - is PFI a viable option?
- **Making the decision right**
 - managing the procurement (and the contract) to deliver the required benefits



The Procurement Steps – a staged process?

Extent of exposure to competitive tension



- Point of formal engagement with market
- Procurement rules
- Complexity
- Risk transfer

Progressing through the process

- **Dialogue Phase**

- Aim is to “identify and define the best means suited of satisfying [the contracting authority’s] needs
- Phase should continue until the contracting authority is satisfied that it has identified and defined its requirements with sufficient precision to enable Final Tenders to be submitted
- May be conducted in “successive stages” – no limit to the number of stages provided that at the end of the dialogue there are sufficient bidders to allow for a genuine competition (usually a minimum of two)
- Dialogue continues until the contracting authority identifies the solution to meet its needs

Approvals

- **Staged Approach**

- OJEU
- ITN
- PB

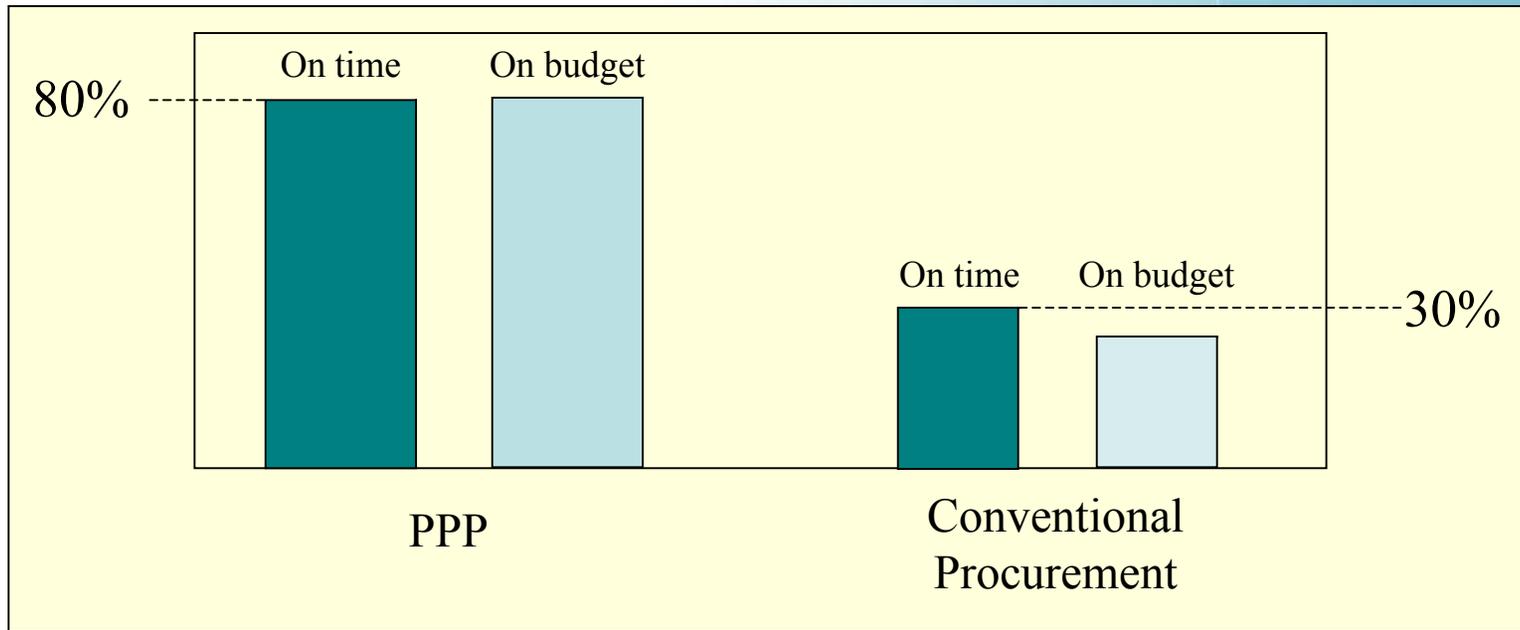
- **Matters to consider**

- Requirement (time, cost, performance)
- Affordability
- VfM

Does it deliver?

UK PFI: Evidence of Benefits

Delivery on time and on budget

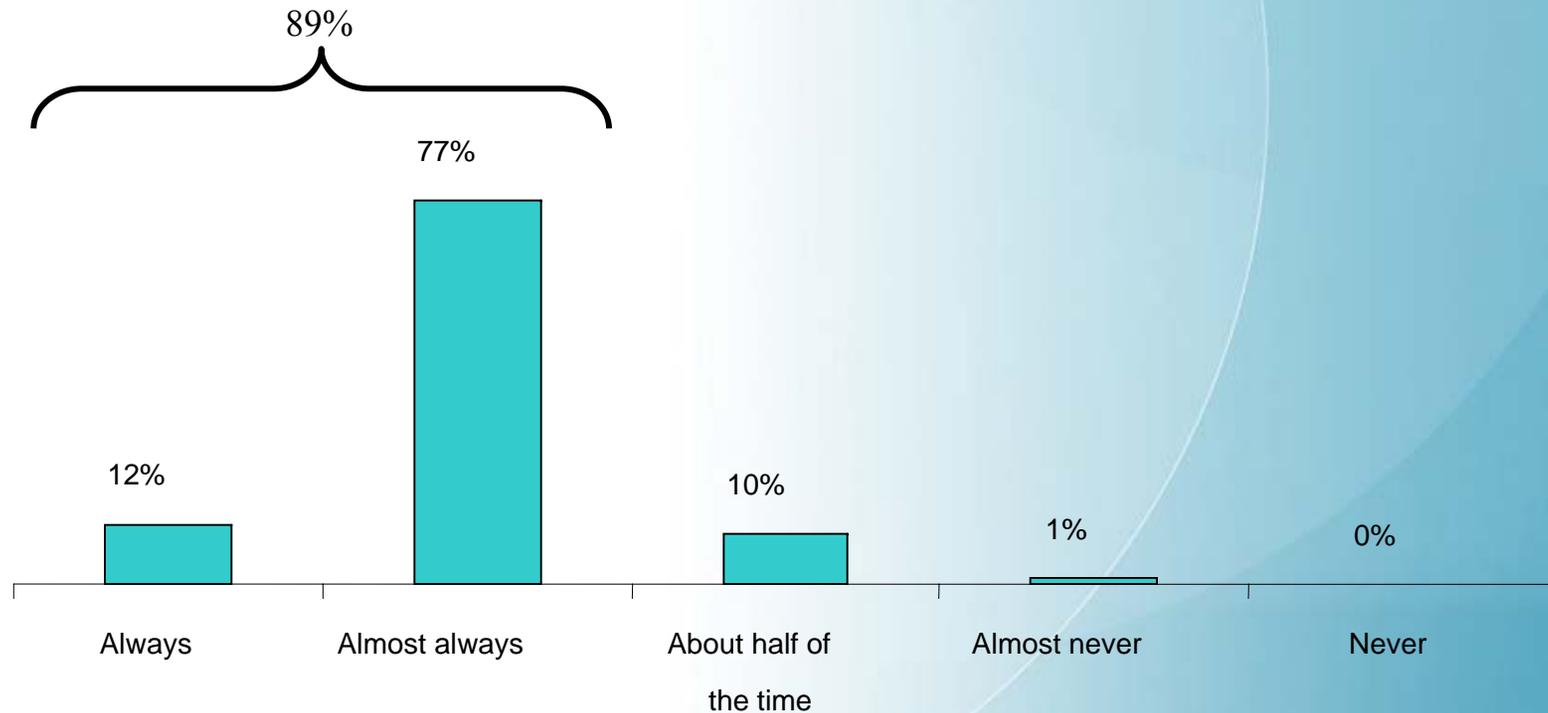


Performance of completed projects – No. of Projects

Sources: *National Audit Office – UK Parliament - Expenditure Auditor*

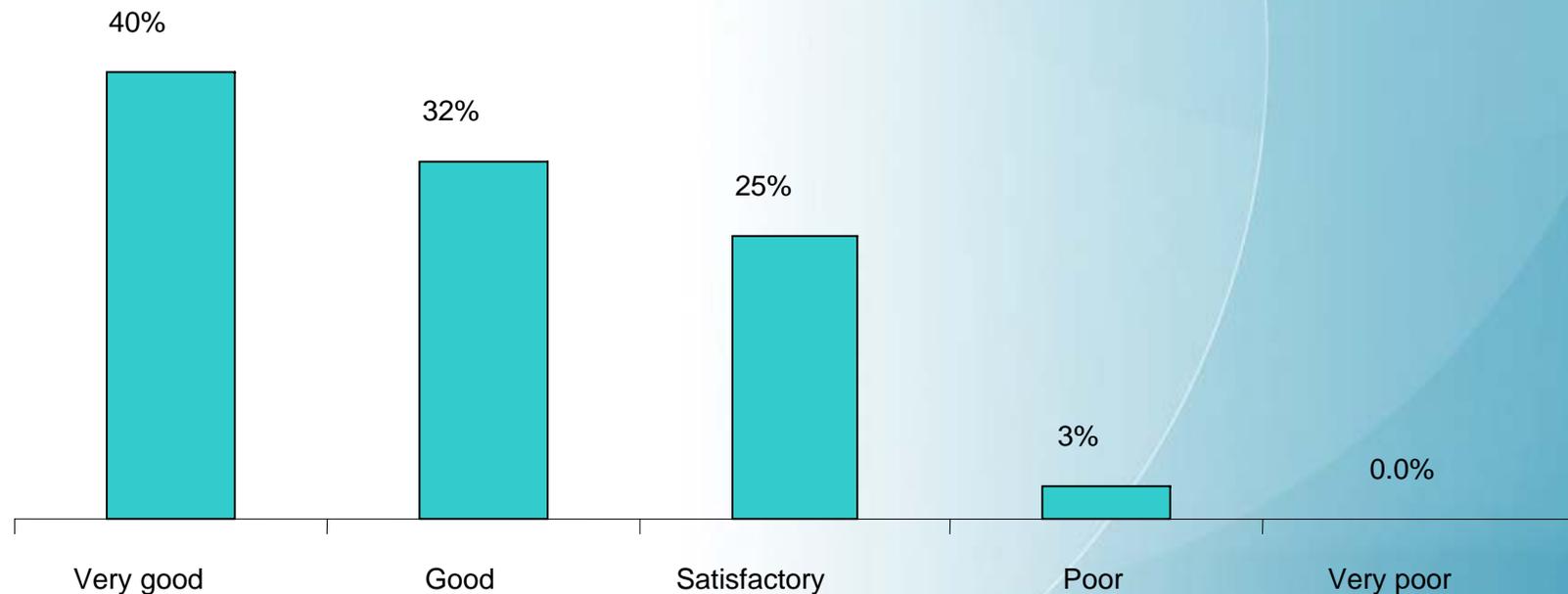
Service Provider Performance

Performance measurement shows that the contract service levels are being achieved...



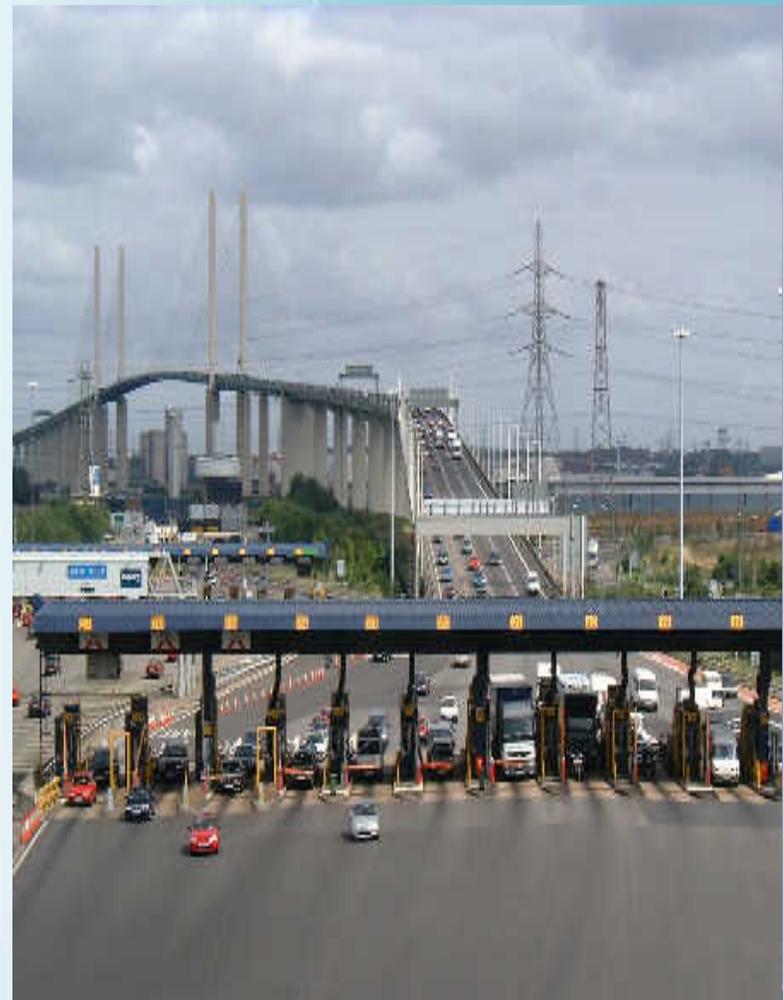
Relationship

Quality of day-to-day operational relationship between the public and private sector contract management teams



The Most Common Questions?

- Isn't public sector finance cheaper and so better value for money?
- Aren't you privatising the nation's schools and hospitals?
- Won't profit get in the way of performance?
- Doesn't it take too long?
- Aren't bid costs too high?



Session End