TCT workshops
PPP project lifecycle: phases and issues to be considered

TCT Headquarters, Belgrade
12 and 13 October 2022
Objectives of the session

1. Review the phases of the PPP project lifecycle

2. Discuss examples of transport PPP projects
Contents of the session

1. Phase I – Project identification
2. Phase II – Project preparation
3. Phase III – Project procurement
4. Phase IV – Project implementation
Contents of the session

1. Phase I – Project identification
2. Phase II – Project preparation
3. Phase III – Project procurement
4. Phase IV – Project implementation
Phases of the PPP project lifecycle

Phase I
Project identification

Phase II
Project preparation

Phase III
Project procurement

Phase IV
Project implementation
Phases of the PPP project lifecycle

Phase I
Project identification

Phase II
Project preparation

Phase III
Project procurement

Phase IV
Project implementation
Phase I – key activities

a) Defining the need: strategic plans, stakeholder engagement

b) Identifying potential solutions to address the need: long list $\rightarrow$ short list options analysis $\rightarrow$ preferred project option

c) High level analysis of affordability: identify costs, who might pay for them and how

d) Initial analysis of the delivery mode: PPP versus traditional procurement using initial stages of VfM assessment

e) Identification of detailed studies needed and engagement with stakeholders (other public administration, privates, potential users)

f) Identification of resources and plans to develop the project and its delivery, identify expected constraints and barriers
Phase I – control questions

✓ Is the need for the project clearly identified?

✓ Is there a wide enough range of possible project solutions considered?

✓ Is there a preferred project solution, including its scope, identified?

✓ Has an affordable and “contractable” delivery approach been identified?

✓ Is there initial stakeholder support for the approach?

✓ Is the authority ready and prepared to manage the next Phase?

Should we invest more time and resources taking the project forward?
Phase I example – defining a transport solution (1/2)

The issue: outdated insufficient urban transport network served by municipally owned enterprise, aging bus fleet, low passenger satisfaction

• Transport scenario proposed:
  – Tram under concession agreement
  – Large investment costs, lengthy implementation
  – Highly positive environmental impact expected
  – High density of services, positive impact in city congestion
  – High demand expected by preliminary studies
  – Remuneration model: user tariffs plus public service subsidies
  – Preliminary analysis of Eurostat treatment: off balance
Some key questions:

A. Are there other transport solutions identified, both PPP and non-PPP? Have those been assessed with the same level of detail?

B. Municipality: from transport operator to contracting authority and contract manager. Is the municipality ready for this change?

C. User tariffs: regulated, increase compared to bus services? What amount to be paid in public services to the concessionaire? How does this fit the budget? Is it foreseen as affordable?

D. Construction of the network: how would this fit a highly congested city for the next 4 to 5 years? Impact in current transport services?

E. Should be move towards project preparation?
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1. Phase 1 – Project identification

2. Phase 2 – Project preparation

3. Phase 3 – Project procurement

4. Phase 4 – Project implementation
Phases of the PPP project lifecycle

Phase I
Project identification

Phase II
Project preparation

Phase III
Project procurement

Phase IV
Project implementation
Phase II – key activities (1/3)

a) Detailed analysis of:

- Preferred project option: cost-benefit analysis (CBA) of shortlisted options resulted from Phase I
- Environmental and social impacts of the project
- PPP project delivery option: detailed VfM assessment
- Affordability: cost estimates, availability of funding and financing terms (“bankability”), budget impact, statistical treatment, financial model (public sector perspective)
Phase II – key activities (2/3)

b) If the analysis identifies it as the potentially optimal delivery mode, launch preparation of the PPP:

- Detailed definition of scope and outputs
- Detailed risk allocation: public, private, shared
- Draft PPP agreement
- Market sounding: technical and financial levels
- Definition of the procurement strategy (e.g. use of competitive dialogue procedure)
- Application for EU grant funding (if relevant)
Phase II – key activities (3/3)

c) Managing the process:

- Project team and governance (identified in Phase 1) to manage Phase 2 and beyond
- Procuring advisers
- Detailed updated plan: activities, timetable, intervention of decision makers, etc
- Look for permits, consents, approvals (e.g. land)
- Continued stakeholder engagement
- Updated risk register
Phase II – control questions

✓ Does the project still address the needs?

✓ Is the project still the best solution to address the needs?

✓ Is the PPP delivery mode expected to deliver VfM?

✓ Is the project affordable?

✓ Will the contractual and procurement arrangements ensure a strong competitive response?

✓ Is the Authority ready and prepared to manage the procurement process with the relevant permits, consents and approvals?

✓ Is there continued stakeholder support for the approach?

Should we launch now the formal procurement process?
Phase II example – avoid optimism bias (1/2)

The project: a 400 km HSR line is under preparation linking the three major cities of a country, parallel with the old conventional line (to be used for freight)

• Some information on the project:
  – Mature PPP market, significant portfolio in several sectors with good track record, but little experience in railway PPPs
  – Positive assessment of PPP option in Phase I: 30 year concession of infrastructure (DBFM), remuneration by availability
  – Strong potential for modal shift from road and air transport, but potential demand might be insufficient for a sound CBA
  – Strong political support at all levels of administration, including international bodies (i.e. availability of grants)
Phase II example – avoid optimism bias (2/2)

Some key questions:

A. Political support, private sector interest, strategic importance… Is this enough for the project to go to procurement?

B. Is there interest amongst potential rail services operators (open access rail market context)? What remuneration? What prices for tickets? Transport subsidies needed to ensure viability of operations?

C. Are we sure about modal shift and expected demand levels?

D. Have VfM (quality of the PPP solution) and affordability (can we pay for it) been re-assessed adequately along Phase II?

E. Are we being overoptimistic in any key factor?

F. Should we launch procurement?
EPEC’s PPP project preparation tool – a checklist approach

**Phase I**
Project identification

- Need for investment identified
- Option analysis carried out
- Stakeholder interests checked
- Preliminary suitability as a PPP

Readiness to start preparing the project as a PPP

**Phase II**
Project preparation

- Managing & planning the process
  - Steering committee
  - Project team
  - Advisers
  - Authorisations
  - Plan and timetable

- Affordability
  - Life cycle costs identified
  - Financing costs
  - Market sounding
  - Advisory input
  - All funding sources identified
  - Contingent payment commitments identified

- Risk analysis
  - Identification
  - Evaluation
  - Allocation
  - Mitigation/management

- Market sounding and bankability
  - Private sector capacity/interest
  - Contractor capability
  - Financing sources, appetite, terms
  - Involvement of advisers
  - Strength of competition

- Assessment of PPP option
  - Comparison of costs of long term delivery options
  - Assessment of qualitative factors

- Preparing for procurement
  - Choice of procurement procedure
  - Pre-qualification criteria
  - Tender evaluation criteria
  - Tender evaluation team
  - Project promotion plan
  - Tender documents
  - Draft PPP contract prepared including all key terms to reflect:
    - proposed risk allocation,
    - performance requirements,
    - payment mechanism etc.

- Budgeting, accounting and statistical treatment
  - Expected Eurostat treatment

Readiness to procure the project as a PPP
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4. Phase IV – Project implementation
Phases of the PPP project lifecycle

Phase I
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Project preparation

Phase III
Project procurement

Phase IV
Project implementation
Phase III – key activities (1/2)

a) Develop the formal procurement process (e.g. competitive dialogue)

b) Reconfirm along the process that:

- The needs identified are still addressed
- The choice of project is still valid
- The choice of PPP delivery still delivers VfM
- The PPP project is still affordable
Phase III – key activities (2/2)

c) Process management issues to be taken care by the public authority:

- Start preparing for the construction and operation phase, including for contract management
- Updating the risk register
- Updating and managing stakeholders, communicate adequately
Phase III – control questions

✓ Does the project still address the needs?
✓ Is the project still the best solution to address the needs?
✓ Does the proposed PPP offer from the market represent the best deal for the Authority?
✓ Is the project still affordable?
✓ Is there continued stakeholder support?
✓ Is the Authority ready and prepared to manage the PPP contract?

Should we sign the PPP agreement?
Phase III example – financial crisis during procurement (1/2)

The project: a motorway PPP project has been structured (availability payments), procurement launched and is running its final stages

• Some information on the project:
  – Mature PPP market, significant portfolio in several sectors
  – Good track record for motorway PPPs, both concessions and availability payments, with capable public and private partners
  – Motorway PPP under procurement: sound CBA, positive quantitative VfM comparing PSC and proposals from bidders
  – Preferred bidder chosen and in final stages of negotiation
  – Problem: financial crisis kicks in, banks increase project finance (PF) costs, reduce tenure and volume of lending
Phase III example – financial crisis during procurement (2/2)

Some key questions:

A. What immediate effects of changing conditions of PF in the operation? Costs and tenure match financial needs of SPV?

B. How can the public sector react? Potential funding (e.g. capex contributions, guarantees) to reduce financial needs and adapt the project to the new financial conditions?

C. Does the procurement legislation allow for substantial changes?

D. How would previously excluded bidders react?

E. What are the expected changes to VfM?

F. Should we sign the PPP contract?
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Phase IV – why contract management?

To ensure VfM expected at contract signature is duly delivered during project implementation, by...

1. Monitoring private partner performance
   a. Schedule and quality of outputs according to specifications
   b. Ensure private partner keeps financial and technical capacity

2. Ensuring public partner payments
   a. On time and linked to schedule, performance and quality
   b. On budget, according to contractual dispositions

3. Solving issues arising during contract lifetime: contract changes, renegotiation, litigation, default, force majeure...
Phase IV – key activities (1/2)

a) Monitoring service delivery

b) Managing payment mechanism for availability based PPPs

c) Supervision of user charges in concession PPPs

d) Managing contract events (e.g. changes, refinancing of the SPV, disputes)

e) Stakeholder management and communications

f) Managing and updating the risk register

g) Planning for and managing contract termination and contract expiry

h) Ex-post reviews (e.g. performance audits)
Phase IV – key activities (2/2)

• The previously mentioned are **standard tasks** during:
  – Construction period
  – Operation period
  – Termination/expiry process

• Important to **differentiate day to day** contract management activities versus **less frequent but more complex** issues (e.g. contractor default, step in by lenders)

• Important **not to underestimate the resources** for Phase IV: key issue to attain the VfM expected at contract signature
Phase IV – control question

Were the outcomes achieved with efficiency, effectiveness and economy?
Phase IV example – contract management is not easy...

PPP company – Contract management team – Ministry of Finance

Contracting authority

Strategic guidance

Performance information (outputs)

Performance information (budget)

Reporting standards

Performance information

Output performance report

Budget performance report

Users – public – media – decision makers
Phase IV example – contract management is not easy...

- Contract management, a technical task
- Professional, stable, well dimensioned teams
- Clear definition of responsibilities
- Clear reporting channels and standards
- Transparency
- Strategic guidance
- Performance information (outputs)
- Performance information (budget)
- Reporting standards
- PPP company
- Contract management team
- Ministry of Finance
- Users – public – media – decision makers

**Phase IV Project implementation**
Phase IV example – do not take unilateral decisions!

- Portugal: pre-2012 unilateral decisions of the Public Authorities triggered significant litigation and contingent liabilities

**Portugal - Fiscal contingencies from PPP contracts**

- Source: UTAP, Ministry of Finance
EPEC Guide to Public-Private Partnerships
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