Public Private Partnerships

This Public Private Partnership (PPP) module is intended to provide guidance on the use of private finance for the delivery of infrastructure projects in the transportation sector. The module aims to provide an understanding of PPPs, why they are used, the advantages and disadvantages, the main types and their historical contexts. In addition, the module explores the processes for developing a Strategic Service Model (SSM) for the transportation sector. This is critical to ensure that prior to embarking on a PPP programme, the authority fully understands the totality of its infrastructure needs and therefore targets those projects that are suitable for PPPs.

The module comprises of eight chapters. You can access summaries below. The whole module is coming soon.

1. Introduction, Background, and Structure of the Module

Summary

This chapter outlines the structure of the module on Public Private Partnerships.

The PPP module is intended to provide guidance on the use of private finance for the delivery of infrastructure projects in the transportation sector. The module aims to provide an understanding of PPPs, why they are used, the advantages and disadvantages, the main types and their historical contexts.

2. Introduction to Public Private Partnerships

Summary

This chapter provides a general background on PPPs as a mechanism for project funding.

Many governments are increasingly attracted to PPPs as a strategy which combines the state with its strengths in regulation and the protection of the public sector and the private sector with its strengths in finance, management and innovative technologies. PPPs represent an agreement between a government and the private sector for the provision of public services or infrastructure and can help relieve pressure on governments' budgetary requirements. A PPP is generally structured in a way that the public sector entity does not incur any borrowing; rather, PPP borrowing is incurred by the private sector entity implementing the project. PPPs contain a number of wide-ranging benefits and risks. However, substantial cost escalation is a current global trend. There is a wide range of project structures and financing options that, if analyzed and chosen effectively, can help ensure to mitigate these risks.

3. Strategic Service Modelling and Project Identification

Summary

This chapter sets out the methodology for developing the Strategic Service Model for sustainable transport infrastructure and the procedures for identifying and prioritising projects.

Gathering a robust evidence base from which to assess the state of existing infrastructure and to identify future priorities is key to ensuring effective use of PPPs. Most infrastructure assets last for many decades, so governments should start by defining what the infrastructure vision should be over the long term, e.g.

the next 50 years. In deciding on which projects take priority, Cost Benefit Analysis is a well-accepted methodology to achieve a consistent and effective prioritisation. The difficult and contentious decisions that policy makers face in pursuing these new projects means that an emphasis on careful marketing, both internally within government and to the wider stakeholder community, is important.

4. Project Appraisal and Business Case Development

Summary

The objective of this chapter is to provide a comprehensive picture of what needs to be addressed before a PPP project can be successfully launched on the market.

The 10 Step guide, detailed in this chapter, is used to ensure an effective project appraisal and sets out the issues involved in the preparation of a PPP "outline business case" document. The preparation of this document, following the required analysis, is a discipline that enables an assessment to be made by an authority as to whether the project is sufficiently well developed. This ensures a strong competitive market response that will meet the authority's requirements. The key outcome of this guide is to provide the authority with an understanding of existing needs, establish the project objectives, and examine the range of options to identify the most effective PPP procurement approach. After this has been established, key steps such as risk allocation, timetabling and tendering need to be addressed.

5. Project Finance

Summary

This chapter shows how the project finance structure should be designed to optimise the costs of finance for the project and underpin the allocation of risks between the public and private sectors as agreed within a PPP contract.

In project finance, lenders and investors rely on the cash flow generated by the project to repay their loans and earn a return on their investments. Well-crafted project finance ensures that the interests of the main lenders to the project are aligned with those of the authority, i.e. that both need the project to succeed in order to meet their objectives. Where this is the case, the authority can be confident that the lenders will take on much of the burden of assuring the ongoing performance of the project. Finance for PPP models usually comes from a varying make up of equity, senior debt/interest on project bonds, mezzanine funding and quasi-equity, and government support. The types of risks related to the project will usually determine the forms of project finance chosen.

6. Procurement of PPP Projects Including Contract Management

Summary

The purpose of this chapter is to guide authorities through the key stages of a typical PPP procurement process and outline how an authority decides to whom it will award the contract for the works, services or supplies.

The complexities of PPP contracts, such as risk allocation, project scope and financing structure, mean that the procurement process is rarely straightforward. The type of procurement procedure chosen will depend on these factors. While a fairly simple project could use an open tendering process, some PPPs may require a prolonged competitive dialogue with a range of bidders in order to conclude a deal. Once finalised, effective contract management is essential to ensure adequate performance standards from the outset.

7. Sustainability

Summary

This chapter identifies best practices and develops clear guidelines for incorporating sustainability into transport PPPs.

For sustainability to be effectively incorporated into a PPP project, it must be made explicit and measurable. Sustainable PPPs ensure that development simultaneously enhances the ability to adapt to environmental change and improves the quality of life and services available to people. The long-term focus of PPPs, as well as the strong partnerships they establish, demonstrate the strong sustainable development potential of PPPs. Governments bear the most responsibility in ensuring this potential is realised. Early and effective identification of sustainability issues, rewarding of tenders that consider sustainability and clear performance criteria can all assist in incorporating sustainability into PPPs.

8. Governance

Summary

This chapter focuses on what a country needs to do to be successful in introducing and maintaining PPPs.

Good governance in managing PPPs is essential to ensure that the private sector's involvement yields the maximum benefit for society. Key requirements for good governance in PPP projects include competitively selecting the strategic private investor, properly disclosing relevant information to the public, and having a regulatory entity to appropriately oversee the contractual arrangements throughout the life me of the concession. The exact legal framework adopted will depend on a country's context but should always provide transparency for the process of selecting a PPP partner and the way in which public and private resources will be applied to the PPP. Given the potential scale of transport infrastructure PPPs, legal frameworks should also reduce the risk of corruption and opportunism. If the principles of good governance outlined in this chapter are followed, they will lay the foundations for a prosperous PPP environment, with increased political support for PPPs leading to economic benefits for governments.