

Executive Summary

Delivering the PPP promise



“ Sustained investment in infrastructure – especially transport infrastructure – is vital if Europe is to maintain its competitiveness against rapidly growing emerging economies. ”

Rt Hon Alistair Darling MP, UK Secretary of State for Transport at the 2005 PPP Transport Summit

PPPs in context – public procurement models and the need for investment

The ‘infrastructure gap’, and its negative impact on economic growth, job creation and social cohesion in Europe, has been recognised for many years. Across Europe, the need to improve infrastructure, particularly in the transport sector, is seen as a necessary condition to successful economic growth. However, governments have limited financial resources to devote to increased capital expenditure for improving public services and face restrictions on their ability to raise debt, in particular due to adherence to the principles of economic convergence and fiscal restraint enshrined in the Maastricht Treaty.

In order to bridge the growing gap between the cost of the infrastructure needed and the resources available, and to ensure that the infrastructure is delivered as efficiently and cost-effectively as possible, the key question is how to deliver cost-efficient investment. In this context, Public Private Partnerships (“PPPs”) are a growing element of public sector procurement across Europe.

Advantages and Disadvantages of using PPPs

PPP procurement is only one of several options for procuring infrastructure. Consideration must be given as to whether a project is suited to a PPP structure, and whether there is strong political support for a PPP solution.

The principal reason for using PPPs is that, where the project is suitable, they can deliver better value for money than the alternatives. All arguments for and against PPPs must be considered within the context of that overriding objective.

Key advantages for using PPP procurement:

- PPPs make projects affordable
- PPPs maximise the use of private sector skills
- Under PPPs, the private sector takes life cycle cost risk
- With PPPs, risks are allocated to the party best able to manage or absorb each particular risk
- PPPs deliver budgetary certainty
- PPPs force the public sector to focus on outputs and benefits from the start
- With PPPs, the quality of service has to be maintained for the life of the PPP
- The public sector only pays when services are delivered
- PPPs encourage the development of specialist skills, such as life cycle costing
- PPPs allow the injection of private sector capital
- PPP transactions can be off balance sheet

Key challenges in using PPP procurement:

- Does sufficient private sector expertise exist to warrant the PPP approach?
- Does the public sector have sufficient capacity and skills to adopt the PPP approach?
- It is not always possible to transfer life cycle cost risk
- PPPs do not achieve absolute risk transfer
- PPPs imply a loss of management control by the public sector
- PPP procurement can be lengthy and costly
- The private sector has a higher cost of finance
- PPPs are long-term relatively inflexible structures

Current PPP activity across Europe and selected major markets

The PPP approach is increasingly being adopted to deliver new investment in infrastructure. Many countries initially develop PPPs in the transport sector and later extend their use to other sectors, such as education, health, energy, water and waste treatment, once the value for money benefits are proven and public sector expertise is established.

Geographically, the PPP market has remained concentrated. While there is evidence to suggest that the PPP concept is becoming more established across Europe with the UK market reaching a good level of maturity and strong deal flow in the pipeline for Spain, Portugal, Italy and Germany, the global spread of PPPs has been slower than many market participants had hoped.

Figure 4 on page 36, shows an updated Summary of PPPs by country and sector for the European market. Figure 10 on page 54, shows this activity for selected international markets where there is concentrated PPP activity.

Solving recurring issues

The use of PPPs raises a number of complex issues and choices, the solutions to which are often project or country specific. However, there are a number of fundamental issues raised time and again across a wide spectrum of PPPs.

Legal impediments and uncertainties regarding PPPs affect both the public and private sector. Accounting issues and balance sheet treatment provide further uncertainties which must be addressed from the outset of a project. Procurement and State Aid, affordability, and speed and costs of a PPP procurement, can all benefit from the sharing of experience and best-practice across countries as well as within countries.

Recommendations

PPPs are complex and recurring issues continue to hinder their development. Given the potential which PPPs have for the delivery of essential public services we make the following recommendations:

- Build national PPP Centres of Excellence
- Balance Sheet treatment should not drive the decision to undertake a PPP
- Develop shadow private sector bid models at the outset
- Streamline speed and cost of procurement
- Share refinancing benefits
- The EU Commission should provide guidance on PPPs for the public sector which includes guidance on procurement procedures
- Create an EU Knowledge Unit

Conclusion

The modernisation of public services and infrastructure is a promise governments have made to their citizens. We believe that Public Private Partnerships offer a viable alternative to traditional procurement methods and we would like to see the public and private sectors doing more business together. Delivering the PPP promise means delivering solutions that fund new roads, improve rail services, modernise hospitals, and build new schools and social housing, more quickly and efficiently, so that together we can close the service and infrastructure gap that currently exists within and across Europe.