PUBLIC PRIVATE PARTNERSHIPS
in Member States

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Content

- PPPs definition and example
- PPPs in the EU: size and composition
- Measuring PPPs macroeconomic significance
- Risks and benefits of PPPs
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- Lessons learnt and way forward
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Public Private Partnerships (PPPs) are one of the tools used by public authorities for the provision of public services; how PPPs are dealt with under Public Procurement law depends on the precise form they take.

International institutions and market players use different definitions of the concept of PPPs.

ESA 2010, for example, defines PPPs as follows: "Public-private partnerships (PPPs) are complex, long-term contracts between two units, one of which is normally a corporation (or a group of corporations, private or public) called the operator or partner, and the other normally a government unit called the grantor. PPPs involve a significant capital expenditure to create or renovate fixed assets by the corporation, which then operates and manages the assets to produce and deliver services either to the government unit or to the general public on behalf of the public unit."

According to the OECD, PPPs are characterised by the fact that the private operator is in charge of both building and operating the infrastructure and that, at least for the contractual period, the private operator is also the owner of the assets.
**Example of PPP**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Public</th>
<th>Private</th>
<th>Shared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction, Quality of service and Maintenance</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Demand</td>
<td></td>
<td>X</td>
<td></td>
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<tr>
<td>Changes in legislation</td>
<td></td>
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<td>X</td>
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1- Private consortium designs, builds, and operates hospital facilities based on a public authority’s specified requirements, often as an output rather than input specification;

2- Public authority purchases services for a fixed period, after which ownership reverts to public authority
In the EU 1184 PPPs have reached financial close between 2000 and 2015, for a cumulative value of nearly 270 billion EUR.

The largest sector in terms of value is the transport sector with a cumulative amount of more than EUR 150 bn. More than 70% of all transport PPPs are road projects and they amount to about EUR 95 bn.

Source: Dealogic Projectware database, extraction 07/12/2015
Note: Social and Defence: defence, education, government buildings, hospitals, prisons, police, recreation facilities; Transport: airports, bridges, railways, urban railways, roads, tunnels; Waste and Water: water and sewages, waste;
Graph 5: Total value of PPP projects per Member State, Mn EUR (UK right axis), 2000-2015.

- The overwhelming majority of PPP projects can be found in the UK which, with EUR 120 bn, counts for more than 45% of the PPP value in the EU;

- With the exception of Slovenia and Sweden, all Member States have active PPP projects in the transport sector.

- In recent years there has been a slow-down in the use of PPPs across all Member States.

Source: Dealogic Projectware database, extraction 07/12/2015. 20 countries.

Note: Social and Defence: defence, education, government buildings, hospitals, prisons, police, recreation facilities; Transport: airports, bridges, railways, urban railways, roads, tunnels; Waste and Water: water and sewages, waste;
The macro-economic significance of PPP is relatively small. On average between 2000 and 2014 investments realized through PPP equalled about 0.7% of total gross fixed capital formation;

PPPs are more significant when related to public investment. Their ratio over the 15 years is about 5% of Public GFCF;

Relevance of PPP is heterogeneous across the EU. Portugal has the highest ratio of PPP over total GFCF at 4%, followed by the UK with 2.5%.

Cohesion countries and EA countries most severely hit by the crisis are those where PPPs are used relatively more often.

Source: Dealogic Projectware database, extraction 07/12/2015, OECD and Eurostat
Note: country coverage in Dealogic – 20 (see annex 1).
Graph 1. Evolution of Gross Fixed Capital Formation and value of PPPs in the EU (2007=100)

• PPPs and GFCF move up in tandem before the crisis;
• GFCF decreased sharply and then stagnates from 2009 onwards;
• The value of PPPs decreases after the crisis and then fluctuates until 2013. PPPs collapsed in 2014 and 2015;
• There is some evidence that in the transport sector PPPs continued to play an important role even after the crisis;

Source: Eurostat and Dealogic Projectware database, extraction 07/12/2015
## Quality, managerial efficiency and transaction costs

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Risks</th>
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</thead>
<tbody>
<tr>
<td>Increase efficiency thanks to better risk sharing and incentives to perform.</td>
<td>Lengthy contracts may make demand projections increasingly unreliable.</td>
</tr>
<tr>
<td>better project management and innovation.</td>
<td>Regulatory capture and investments hold-up</td>
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</tbody>
</table>

- Important to develop well-structured PPPs in order to create strong incentives to optimise costs and maximise benefits over the life of the asset.
## Financing and Funding of PPPs

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Risks</th>
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<tbody>
<tr>
<td>Once efficiency/innovation gains are factored in, higher value for money.</td>
<td>Higher cost of finance for the private partner vs. public</td>
</tr>
<tr>
<td>Current market conditions, with excess liquidity and low interest rates, may provide attractive opportunity to finance PPPs</td>
<td>Revenue sources have become increasingly scarce due to fiscal constraints and/or subdue demand conditions</td>
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</tbody>
</table>

- Public authorities should:
  - make realistic affordability analysis;
  - set up funding arrangements for the PPPs in such a way as to provide clarity and predictability to prospective investors.
## Fiscal benefits and fiscal risks

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<tbody>
<tr>
<td>Spread the upfront capital expenditure of a project over the life-time of the asset.</td>
<td>Contractually ring-fenced payments over a long period may not take into account the economic cycle.</td>
</tr>
<tr>
<td>The private partner is assuming certain risks that would otherwise be left with the public authority</td>
<td>The public often remains the provider of last resort of the services if the private sector is unwilling or unable to supply the service because of insufficient returns</td>
</tr>
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- PPP contract should include:
  - The possibility of modifying the funding arrangements to respond to significant changes in circumstances.
  - The transfer to the private provider of any increase in costs associated with agreed service provision
Contingent liabilities

Liabilities related to private-public partnerships (PPPs) recorded off-balance sheet of government, %GDP

- Statistical treatment of PPPs, either on or off Government balance sheet;
- Even those PPPs which are recorded off the government's balance sheet may generate significant liabilities for the public sector;
- Transparency about the future fiscal costs is important to reduce the risk that deferred expenditure leads to bypassing value-for-money and affordability;
- Portugal, Cyprus, Hungary and UK are the Member States where contingent liabilities related to off-balance PPPs are the greatest.

Source: Eurostat
Note: Total outstanding liabilities related to PPPs recorded off-balance sheet of government are expressed in the adjusted capital value. It is an initial contractual capital value that is progressively reduced over time by the amount of the "economic depreciation" which is calculated on the basis of estimates or actual data. The adjusted capital value reflects the current value of the asset at the time of reporting. The amount is deemed to reflect the gross fixed capital formation and debt impact in case that government would have to take over the assets during the life of the contract.
Governance of PPPs

The preparation phase it is crucial to rely on a solid framework for deciding on the most appropriate delivery modes based on cost-benefit and/or value for money analysis;

The design of the contract should include clauses to minimize costs and ensure good quality of the deliverable.

The award procedure for PPPs should follow the requirements of the EU legislation.

The implementation of PPP contracts depends on the overall efficiency of the administrative and legal system.

Note: The indicator goes from 0 (most efficient) to 6 (least efficient). For the structure of the indicator please refer to Appendix II.
Lessons learnt and way forward

- PPPs deliver higher Value for Money than other procurement methods although the difference is often not significant.

- PPPs have slowed down considerably in recent years, despite drop in cost of finance, due to slow economic recovery, while some see this as a reflection of statistical treatment of PPPs.

- Main obstacles for PPPs are the lack of adequate administrative resources and stable political commitment.

- Not every project is suitable for PPPs.

- Lack of "good press" on PPPs, requires improvement in communication from the public authorities to the citizens to highlight also their benefits.

- Emerging issue: lack of "funding" as opposed to the lack of "finance".
Issues for discussion

- **Value for Money**: are all PPPs worth it?

- **Governance and regulatory framework**: how to ensure adequate administrative capacity?

- **Funding**: how to overcome the funding gap?

- **Communication**: how to explain PPPs to the public?
Thank you very much!