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The UK's Experience of PPP

PPP Team within IPA

“Setting the conditions for the successful delivery and operation of Public Private Partnerships”

- To set, maintain and implement PPP policy in England and work closely with the Devolved Administrations on their policies.
- Ensure effective delivery of new PF2 projects building on the successful implementation of the recent pilot PF2s.
- Manage fiscal and reputational risk around the PPP portfolio.
- Support contracting authorities – dealing with operational issues and maximising the potential of the Operational PPP Efficiency Programme.
- Provide advice and support to department Private Finance Units (PFUs)
- Provide advice and support to HMT spending teams.

PPP Portfolio in the UK

722 PPP Projects

Capital Value £57 billion

679 Operational Projects - Including



Some Benefits & Disadvantages of PPP Projects

Disadvantages:

- Reduced contract flexibility
- Complicated
- High Termination costs reflecting long service contracts.
- Increased commercial risks due to long contract period and the high monetary values of contracts.

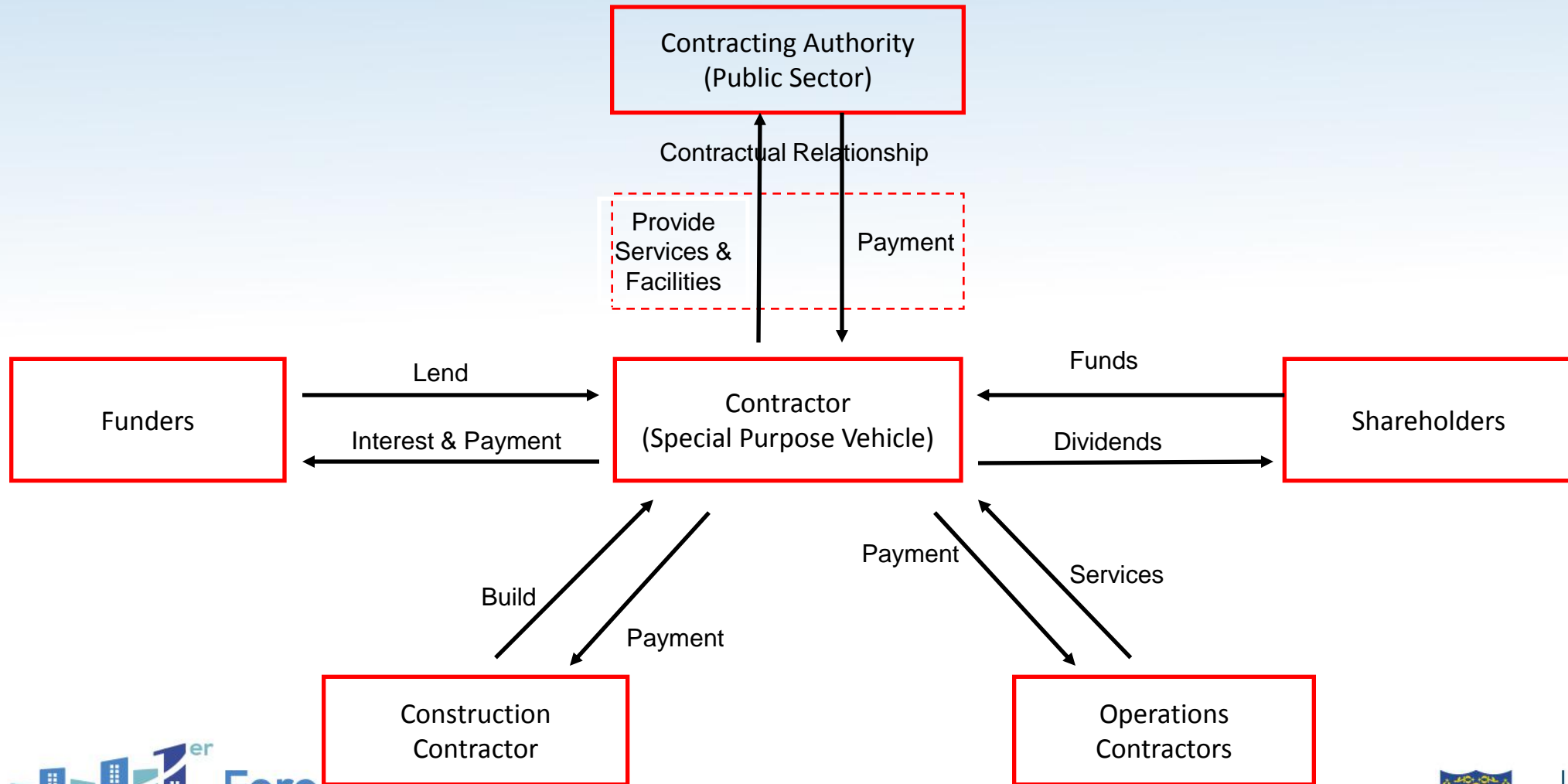
Advantages:

- Encouraging the allocation of risk to those most able to manage them.
- Encouraging ongoing maintenance by constructing assets with more efficient and transparent whole-life costs.
- Incentivising performance by specifying service levels and applying penalties to contractors if they fail to deliver.
- Fewer contractual errors through use of standardised contracts.
- Assets will have to meet certain conditions at handover to the public sector at the end of the Term therefore reducing long term maintenance liabilities.
- A 'prolonged' defects liability period

Structuring, Building & Operating Hospital PPP Projects



A Typical PPP Structure in the UK



Public Private Partnership – what does it actually mean?

Public Private Partnerships (PPPs) projects encompasses different types of models including; joint ventures, strategic infrastructure partnerships and private finance Initiative (PFI) projects.

*A **public–private partnership (PPP, 3P or P3)** is a cooperative arrangement between one or more public and private sectors, typically of a long term nature.*

“Cooperative arrangement” – What does this mean to different stakeholders?

The Funders

The Private Sector

The Public Sector

Procurement

Construction

Operations

Stakeholders Perspective & Requirements – Do they match?

PPP Phase	Funders	Private Sector	Public Sector
Procurement	Win deal at best margins – Supply chain robust, experienced and risks backed off, technical DD, syndication,	Minimum effort, competition, low bid costs, robust supply chain arrangements, relief events, compensation events, security Package. Risk backed off, technical DD (equity)	Best Value for Money to meet output specifications. Competition, Lean Procurement, technical DD (equity)
Construction	Manage construction drawdown, good communications, quality of build, technical compliance	Build on time – meet output requirements with minimal efforts – mobilisation and relationships (avoid LADs)	Quality maintained – no changes. Fully commissioned and compliant-adequate handover with 'soft-landings'
Operations	Protect Investment – debt and interest paid, rating maintained and relationships positive. Funders not exposed	Protect Cash – Maintain ratios, pay funders, pay shareholders, risk passed down and managed, cash flows efficient, maintain rating, secondary markets, churn	Get services delivered at no extra cost to the correct standard, output specs and KPIs maintained and handback criteria being met. Consistency, secondary market (risk)

All of the above to make sure it's on time and on budget

Did the UK always get it right?

No!

Have we learned?

Yes!

Will we continue to learn?

Yes!

Lessons Learned PPP Hospitals in the UK

Patients always come first!!



Lessons Learned - 1

- Hospital services designed for 100% occupancy with surge potential
- Design flexibility key – clinical practices will change over life of project.
- Passive PPP Management philosophy not great.
- Self reporting contracts have to be monitored
- Ensure contracts have teeth usable contract levers
- Output Specifications and KPIs have to be good to avoid future problems
- Build quality defects have to be avoided
- Strong management essential

Lessons Learned - 2

- Do things in 'real-time'
- SPVs assume public sector always blinks and backs down
- During construction move to monitoring rather than testing regime.
- Inspect before the end of the defects period (with SPV)
- Public sector teams have to have capability and capacity throughout
- Public sector teams have to be credible and 'mean business' – be commercially astute – think long term
- Maintenance and lifecycle has to be monitored and completed
- SPV, Construction & Service Delivery partners from the same organisation have to be avoided
- Think like the other parties, know what their drivers are

The Future



AUTUMN STATEMENT 2016

Presented to Parliament by
the Chancellor of the Exchequer
by Command of Her Majesty

November 2016

Cm 9362

3.27 Private Finance 2 (PF2) – The government will develop a new pipeline of projects that are suitable for delivery through the PF2 Public Private Partnership scheme. A list of projects to make up the initial pipeline, covering both economic and social infrastructure, will be set out in early 2017.



Thank you for Listening.