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PPP and Infrastructure

Federation of Icelandic Industries

Sissel Husøy, 13th of January 2016

shusoy@deloitte.no



Agenda

Introduction to PPP

PPP road projects in Norway

How to achieve value for money?

Short introduction to PPP

Public Private Partnership

PPPs are typically a long term arrangement between the public and private sectors whereby some of the service obligations of the public sector are provided by the private sector, with clear agreement on shared objectives for delivery of public infrastructure/real property and/ or public services.

While a traditional procurement is based on a detailed requirements specification, additional public funding and short-term contracts, a PPP project is based on:

- ✓ Service delivery and performance of the contract for a long period (20+ years)
- ✓ The supplier designs, builds, finances, operates and maintains the investment in the contracted period (DBFOM contract)
- ✓ Payment on delivery through the contract's life, providing incentives to build and deliver services on time and agreed cost with good quality the whole period

PPP is an alternative implementation of government projects

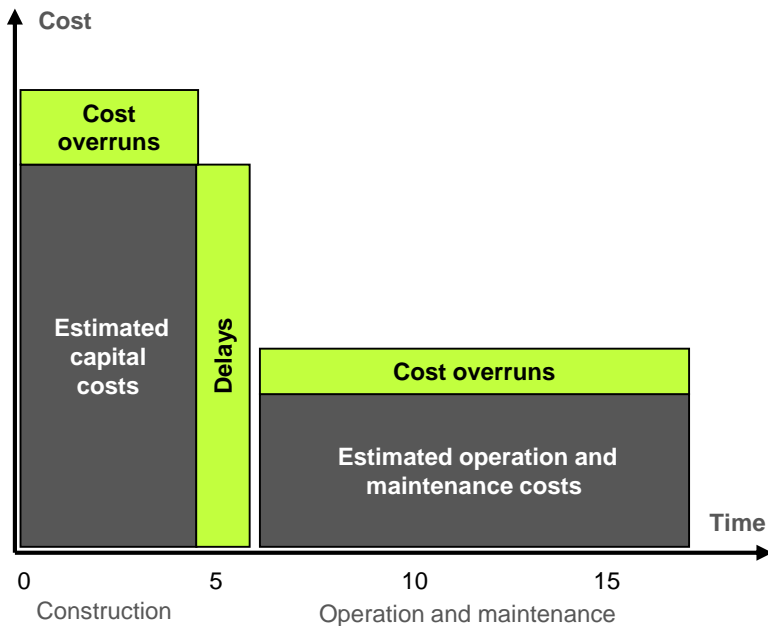
Design, Build, Finance, Operate & Maintain - DBFOM



Traditional approach

In Norway, both cost overruns and delays are customary in large public building projects

Illustration – traditional approach



Challenges

- ✓ The public procurer has few tools available to ensure proper incentive for the subcontractor to deliver on time, on budget.
- ✓ The lack of life cycle perspective in the different phases of the construction can lead to cheaper alternatives being chosen in the construction phase, which results in higher costs in the operation and maintenance phase.

Traditional approach vs PPP approach

Illustration – traditional approach

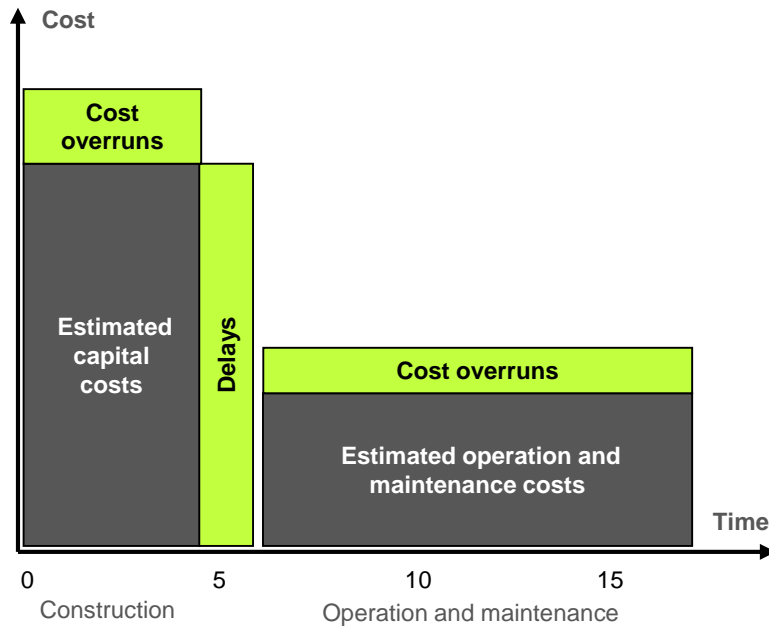
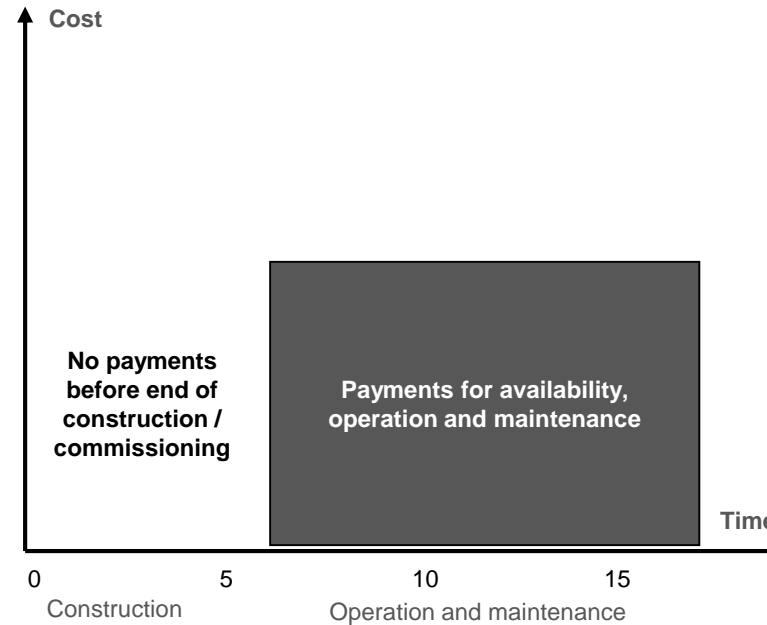
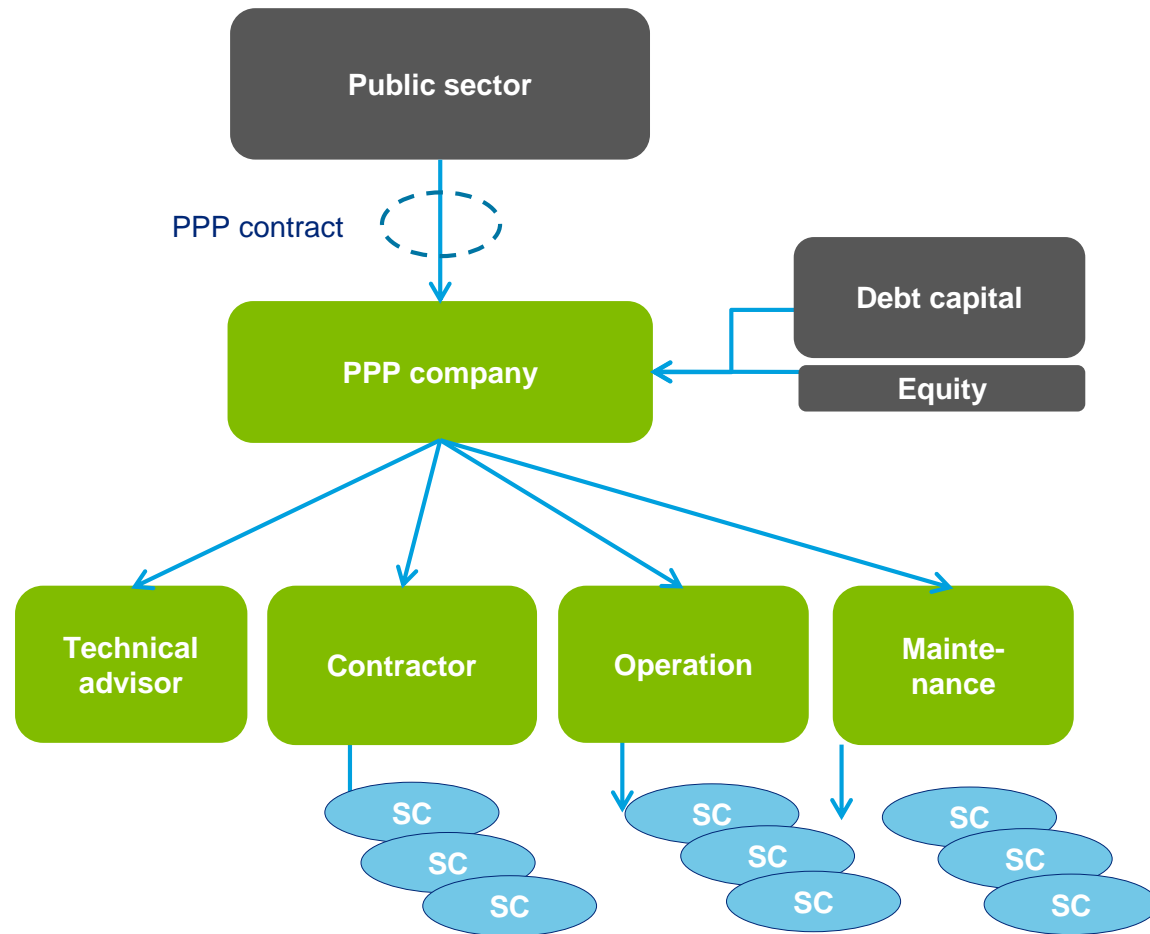


Illustration – PPP approach



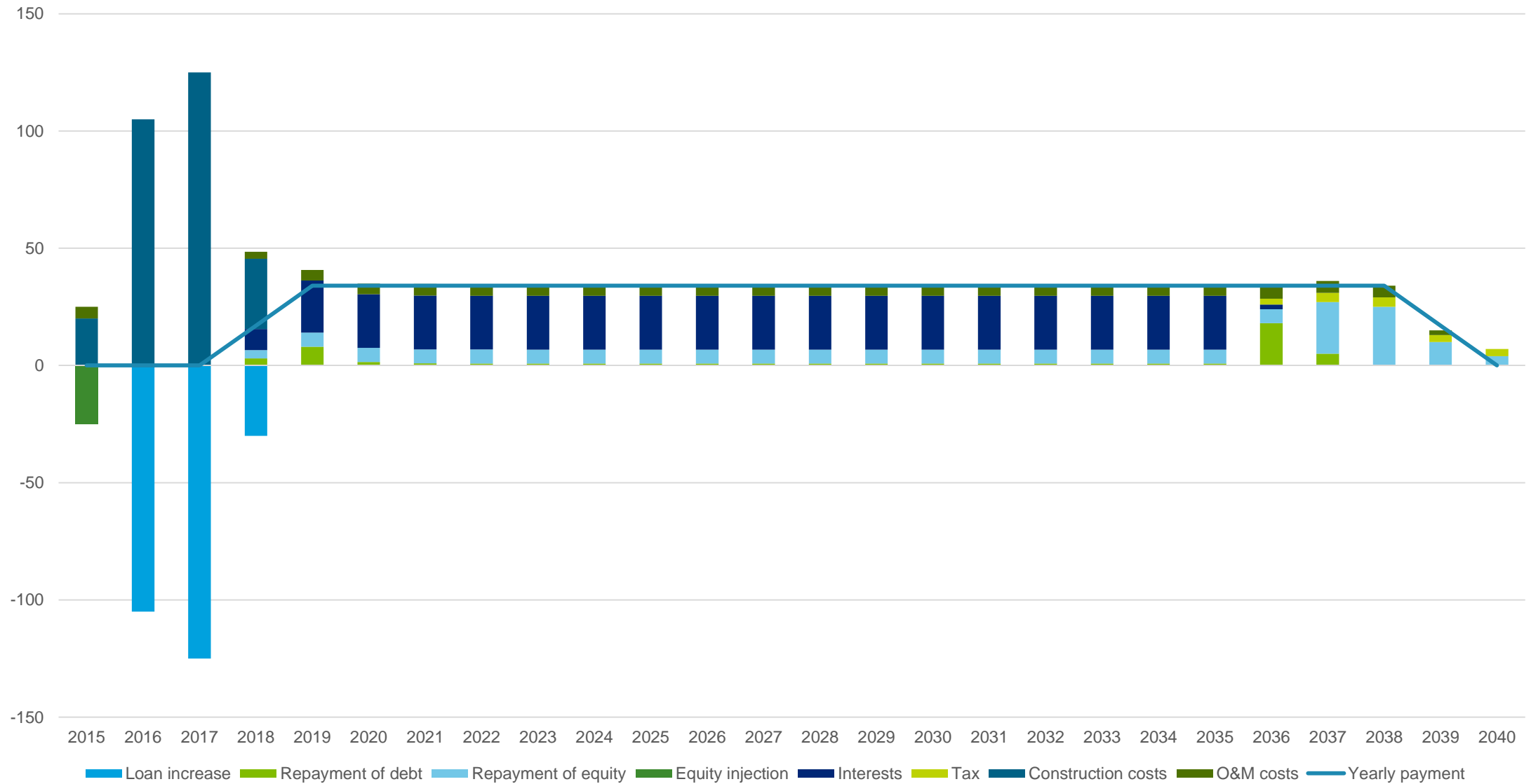
- In a the conventional public capital procurement the public sector lacks efficient tools to influence and manage the project risks
- PPP contributes for the right incentives throughout the whole investment life cycle

Overall responsibility for the design, build, finance, operation and maintenance provides strong incentives for holistic thinking, optimal risk allocation and efficient use of resources



Sub-contractors:

Cash flow for a typically PPP project



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Three PPP pilot road projects in Norway

To test whether PPP would result in increased efficiency in the implementation and operation of road projects

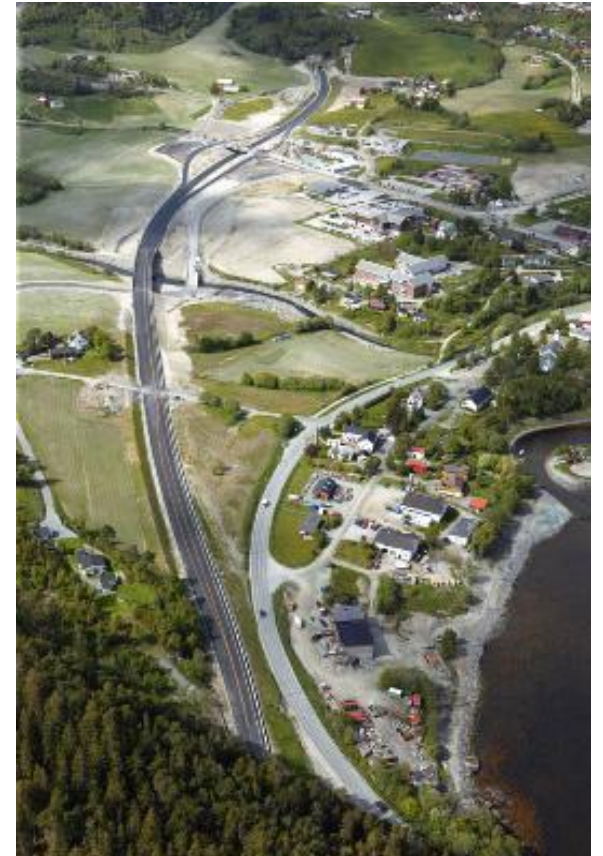
E39 Klett – Bårdshaug (Orkdalsvegen)

E39 Lyngdal – Flekkefjord (Allfarveg)

E18 Grimstad-Kristiansand (Agder OPS Vegselkap)

Lessons learned

- PPP Company gives the opportunity to design, construct and build in the most efficient way
- Reduced construction and building period (from 5 to 2,5 year)
- Life cyclus perspective gives better quality on the constructions
- Efficient O&M is considered already in the design and construction phase
- Good availability and traffic service, efficient operation, high saftey
- High aesthetic and environmental quality



Picture from E39Orkdalsvegens brochure
www.orkdalsvegen.no

White paper on road reform

New Road Company, PPP framework and toll road organization

Government intention:

More cost efficient and faster implementation of infrastructure investments

Means:

- A new Road Company is established – Highways and project finance view on investments
- PPP strategy/framework re-established
- New toll road organization

Adjustments to former PPP strategy from early 2000

- Pipeline of projects established
- Large down payments early in concession period
- More flexibility to contractors regarding solutions, design and choice of materials

Three upcoming PPP projects

The first project is expected to be announced this spring

- Rv 3/rv 25 Ommangsvollen – Grundset/ Basthjørnet
 - 7 km new two/three lane highway and 10 km 4-lane motorway
- Rv 555 Sotrasambandet
 - 16 km new 4-lane motorway including a major bridge
- E10/rv 85 Tjelsund – Gullsfjordbotn – Langvassbukt
 - 81 km new two lane highway

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How to achieve value for money?

There are several advantages related to the use of a PPP approach

- Competition on many elements:
 - ✓ Design
 - ✓ Construction
 - ✓ Financing
 - ✓ Operation and maintenance
- Functional requirements
- Quicker implementation
- Flexibility and innovation
- Optimal distribution of risk
- Operating expertise
- Contract management
- Life cycle perspective
- Agreed upon level of maintenance
- Payment and compensation
- Payment at delivery



Elements in PPP contributing to cost efficient solutions and savings
– enabling for value for money in a PPP project

..but also some challenges

The challenges related to PPP are different than the ones related to traditional public investments and operational models, which calls for another type of competencies:

- Requires a different competency related to tendering
- More focus on choosing the most appropriate contractor
- Risks related to incurring higher transaction costs
- The long term contracts creates a need to regulate for not known conditions
- Risks related to more expensive financing
- Higher requirements related to guarantees and how to handle a potential bankruptcy



Important to engage advisors that have experience with PPP from the public side



External factors is important for a successful PPP environment

PPP success factors

- **Committed governments**
 - P3 champions
 - Consistent deal flow
 - Central PPP non-profit agency
 - Regional PPP non-profit agencies
- **Strong legal framework**
- **Value for money**
 - Performance-based contracts
 - Appropriate risk transfer
 - Built-in life cycle maintenance
- **Deep financing markets**
- **Public sector expertise**
 - Institutionalized through dedicated agencies
 - Standardized documentation
- **Procurement**
 - Competitive
 - Efficient
 - Transparent and fair
- **Promote collaborative partnerships between public sector agencies/departments and industry**
- **Educate stakeholders and the community on the economic and social benefits of PPP**
- **Advocate for evidence-based public policy in support of PPPs**
- **Facilitate the adoption of international best practices**
- **Discipline is critical**
 - Government commitment to fair process is key
 - All parties have to be committed to effective risk transfer
 - Investors and lenders must remain disciplined in risk assessment and pricing



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