



Budapest 2006



Stream Two - Quality Project Implementation

Workshop Project Mechanisms, PPP

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Stream Two - Quality Project Implementation **Workshop Project Mechanisms, PPP**

The full presentation:

Part A	Provocative Questions	Wilhelm Reismann (Austria)
Part B	PPP in Austria	Wilhelm Reismann (Austria)
Part C	the Ramboll Experience	Flemming B. Pedersen (Denmark)
Part D	PFI in Japan	Akihiko Hirotani (Japan)

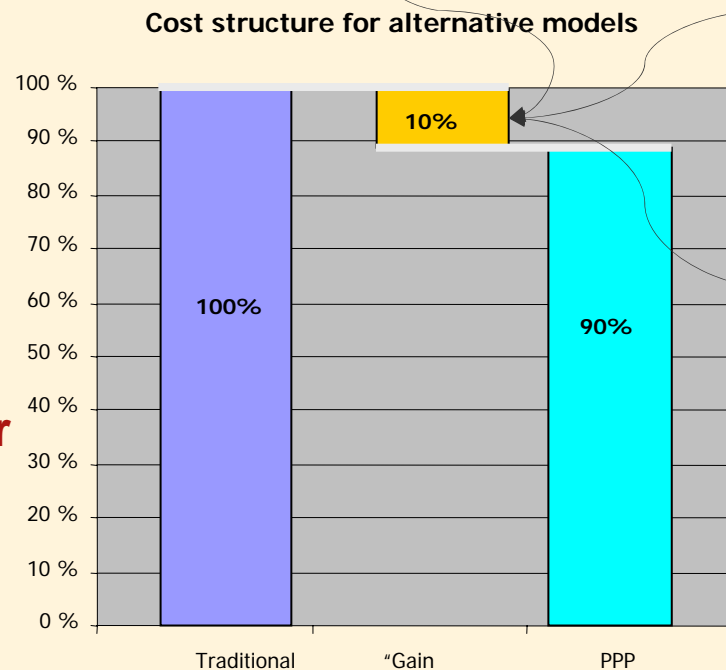
A selection, as a starter for discussion:

Have a look ...



PPP – Rationale and Benefits

- » **PPP means lower public risk exposure**
- » **PPP opens up for user payment => better resources allocation**
- » **PPP is an opportunity for earlier start-up of desired public projects.**
- » **PPP projects implies better budget control**
- » **PPP may give somewhat higher financial costs vs. "traditional" projects**



Innovation:
Functionality opens up for competition between different conceptions

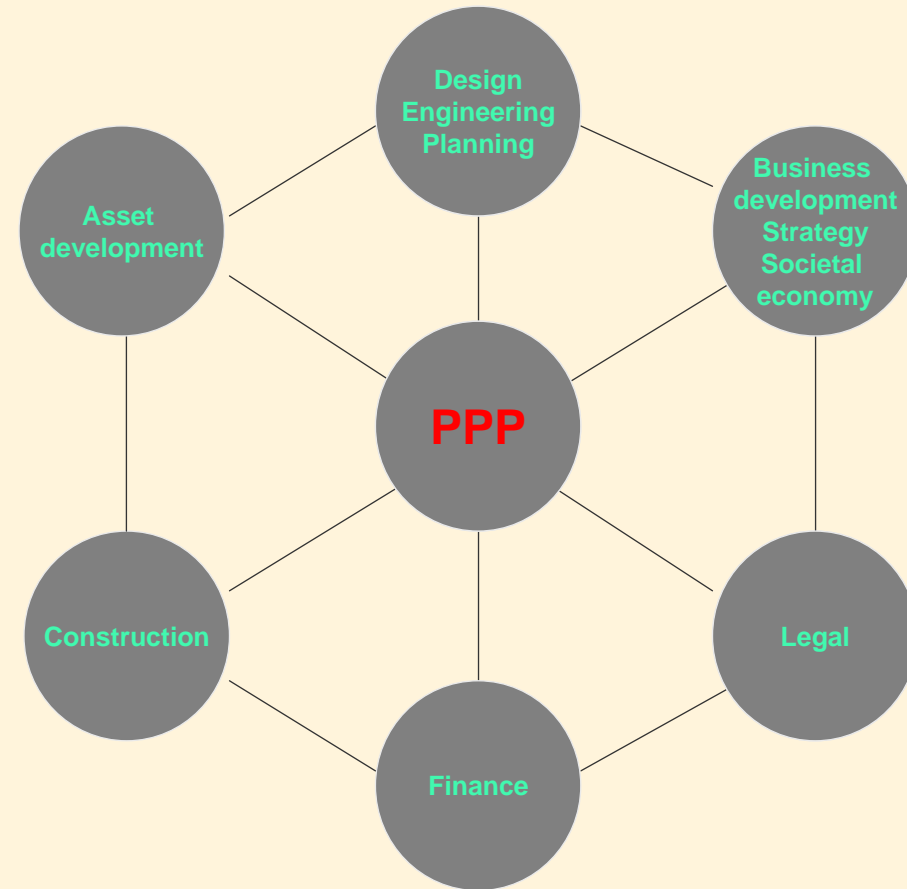
Effectiveness:
Competition means lower costs and "internal" public production is not favoured.

Life cycle:
Optimizing investments and operational costs.



The Challenge of Co-operation

- » PPP is a close, demanding and challenging partnership – not only between public and private sector, but also between the private partners
- » There is a need to understand, accept and combine a wider than ‘normal’ range of interests and professions
- » The ‘trick’ is to make these resources work together as one group for the mutual benefit of all parties. Project Management is therefore crucial





PPP – Lessons Learnt & Focal Points

- » **Risk** mapping and management must be very high priority
- » **Legal** framework is complicated and mistakes are costly
- » **Earlier** and more cost effective completion of publicly prioritised projects
- » PPP means **innovation!**
- » **Capital expenditure** is less than in ordinary public projects
- » PPP ‘forces’ otherwise conflicting interests to **co-operate**. This is especial beneficial in joint municipal projects (schools, prisons, infrastructure)
- » PPP is politically **controversial**. PPP in the health sector (e.g. running hospitals) has not been successful



PPP may not be 100% PPP

- » A complete PPP project (Build-Finance-Operate-Transfer) is ***seldom seen*** - but very many public sector projects will benefit from only some stages of the PPP concept.
- » Principles of PPP co-operation can be employed in and benefit many other projects as well – legal, organization, finance etc.
- » Future "PPP" will be more a ***mix of various ways of innovative co-operation***. The PPP concepts help to better structure 'roles' and having more clear responsibilities.
- » Weak public economy will still make PPP a good alternative – however not to the full extent that private parties 'taking over' public responsibilities.



Consequences for Consulting Companies

- » An important lesson is that PPP projects give experience in **handling complex projects** with higher risks, but also higher profit opportunities.
- » There is a need to form **long-term partnerships** with preferred specialist partners which in turn will open up new market opportunities and more innovative ways to complete our projects.
- » We are moving from specialist design and construction consultants into much broader based **multifunctional and multi-skilled** teams
- » PPP principles and experiences are a useful **educational platform** on which to build new concepts and practical ways to implement large projects



PFI in Japan - Guidelines

- » The national government guidelines cover PFI projects that are to be implemented under strong influence of the central government.

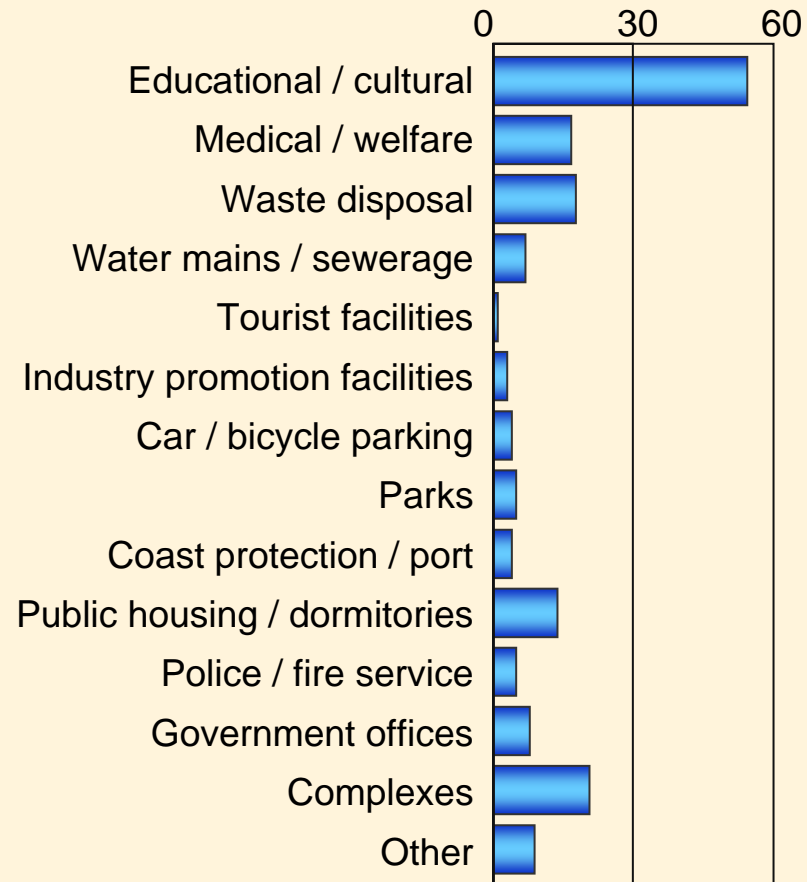
- » To date, five sets of guidelines have been developed and released.
Guidelines on...
 - PFI project process
 - Risk Allocation for PFI Projects
 - VFM (Value for Money) evaluation
 - Contracts
 - Monitoring



PFI Projects by Sector

- » The majority of projects are for public buildings, whilst there are only a handful of projects for public infrastructure
- » Scale of project – not so large
- » Road, river – no project
 - Due to the restrictions imposed by laws
 - Also, Road/river administrators have adequate resources.

● Numbers of projects by sector



(source: Cabinet Office of Japan)



PFI Projects with Problems

- » “Spo-park Matsumori” (sports facility and swimming pool)
35 people were injured due to the fallen ceiling boards by earthquake.
Causes for private side:
 - inadequate installment of anti-deflection harness
 - inadequate construction management of architectCauses for public side:
 - no inspection for installment of harness

- » “Thalasso Fukuoka” (warm-bath facility)
Opened in 2002, failed in Nov. 2004
Causes for private side:
 - Over-estimation of visitorsCauses for public side:
 - Lack of awareness of the demand estimation risk
 - Risk analysis, evaluation, allocation, countermeasure no





PFI in Japan - Future Prospects

PFI for public buildings of local governments

- Due to poor financial situation, most of the local governments have reduced number of in-house engineers.
- “Baby-boom generation” engineers will retire in immediate future,
- From this viewpoint, local government will be driven to rely on PPP/PFI more.
- However, for road/river infrastructures, administrators have adequate resources, it is likely to remain so in the foreseeable future

Identification of PFI projects proposed by private

- The first private-proposed PFI project was identified in 2006.



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PPP in Austria

Positive (+) and Negative (-) Experiences

ASFINAG Motorway A5 Vienna - Brno (CZ)





Positive (+) and Negative (-) Experiences

(+)

intense and in-depth preparation during tendering,
risk analysis, life cycle costs,
technical, economic and legal aspects

(+)

better final price
if competition can be maintained until closing negotiations
and last and final offers from 3 bidders



Positive (+) and Negative (-) Experiences

- (-) it had been expected that the bidders would take more risks than they finally accepted, e.g. risk of permits
- (-) the combination of Continental law (Austrian law in the contract) and Anglo-Saxon law (contract models from UK and Ireland) has posed problems in various cases
e.g. compensation in case of earlier termination
- (-) high efforts during project preparation, especially for the first project of a kind,
- (+) although the high efforts are compensated by the reduced costs



“Provocative Questions in Search of Intelligent Answers“

- (1) Will PPP dominate our infrastructure markets in **future** or is the future of PPP already past ?
- (2) Will the “**lessons learnt**” be sufficient to make better laws, project structures, contract, teams, design, ... for successful PPPs in the future?
- (3) Do we know **practical examples** ? Can we recognise a trend ?



Provocative Questions

(4) PFI, concessions have been successful in the UK, in France, Spain etc., in the new EU member states?

What about **Central Europe? Germany, Austria?**
Still too rich? Not flexible enough? Not used to?

(5) Is PPP only an excuse for our governments and national economies: “**Build now, pay later**”
European infrastructure in spite of Maastricht?



Provocative Questions

(6) Is PPP an excellent tool for “**less experienced political systems**” to use international expertise and have infrastructure projects ready much earlier (and cheaper) than going the “old fashioned” way ?

Or is it especially **dangerous** for them to deal with such complex systems fully relying on foreign expertise ?

Do we know practical examples ?



Provocative Questions

- (7) Is our **legislation** (in your country? in the EU?) adequate for PPP?
Are the laws ruling the procurement procedure sufficient ?
Too complicated? Unclear? ?
- (8) Can a set of **contracts** - as thick and good as they may be –
ever sort out the problems a 30 years´ term will bring ?
Do we not need another way of understanding, agreeing,
sharing, partnering ?
Can PPP be the occasion to start thinking about simpler
contracts?



Provocative Questions

- (9) Are the **engineers** deeply enough involved in the preparation of PPPs ? From the public side ? From the private side ?
Could PPPs be better, if we were involved more deeply ?
- (10) Do we have to explain, to demonstrate that the quality of a PPP project does primarily depend on the **engineering solutions**, before commercial profit, financial viability or contractual conditions can be finally assessed, fixed, agreed ?



Provocative Questions

(11) Tendering a PPP project is a delicate task. The balance between

- (a) defining too strictly, thus limiting the innovative potential of the bidders and
- (b) providing too much freedom, thus provoking high costs (frustrated costs for bidders)

and too complex procedures and decisions is hard to find.

Can we find practical examples for problems caused by (a) or (b)?

Can we give practical examples where the balance has been well managed ?



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**Thank You !
Let's discuss**

**+/- ?
!!! +/- ???
! +/- ? !!!**