



# A well-trodden path

## What can be learnt from other countries' experiences of PPPs?

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# Speakers



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Chris advises on all aspects of procurement law, particularly in respect of infrastructure and PPP projects. He has considerable experience of working on infrastructure projects in Iceland, including the Borgarlina and Isavia's Major Development Plan at KEF.

EVERSHEDS  
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Scott is an infrastructure finance specialist with 12 years of experience. He has provided financial and commercial advice on projects in road, rail and other sectors. He has advised clients on PPP projects across Europe including three Norwegian Road PPPs.



# Our visit to Iceland in November 2022

## Government

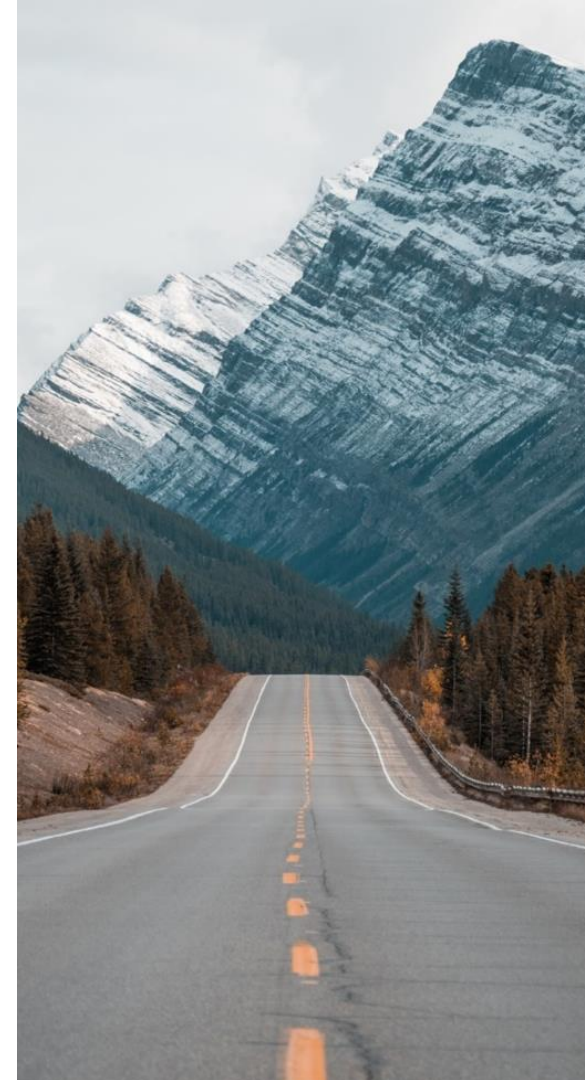
- Ministry of Finance
- Ministry of Infrastructure
- Vegagerðin
- Ríkiskaup
- Betri Samgöngur

## Finance

- Arion Banki
- Landsbankinn
- Innviðir
- Lífeyrissjóður Verzlunarmanna

## Contractors

- ÍSTAK
- ÍAV



# What do we mean by “Public Private Partnership” (PPP)?



*“A legal technology that allows private investment into public infrastructure projects”*

## Consistent Features of PPPs

- Contractor builds the project and operates it for an extended period (c.15+ years)
- Project finance transaction structure
- Use of long-term private financing resulting in high leverage
- Output-based specification and performance-linked payments

## Common Variations on PPPs

- Can be funded from user charges (e.g. tolls) **or** “availability payments” paid directly by government
- Can be funded fully by payments during operations **or** government can part-finance construction up-front (“capital contributions”)
- Projects can receive an on- **or** off-balance sheet statistical classification for the public sector

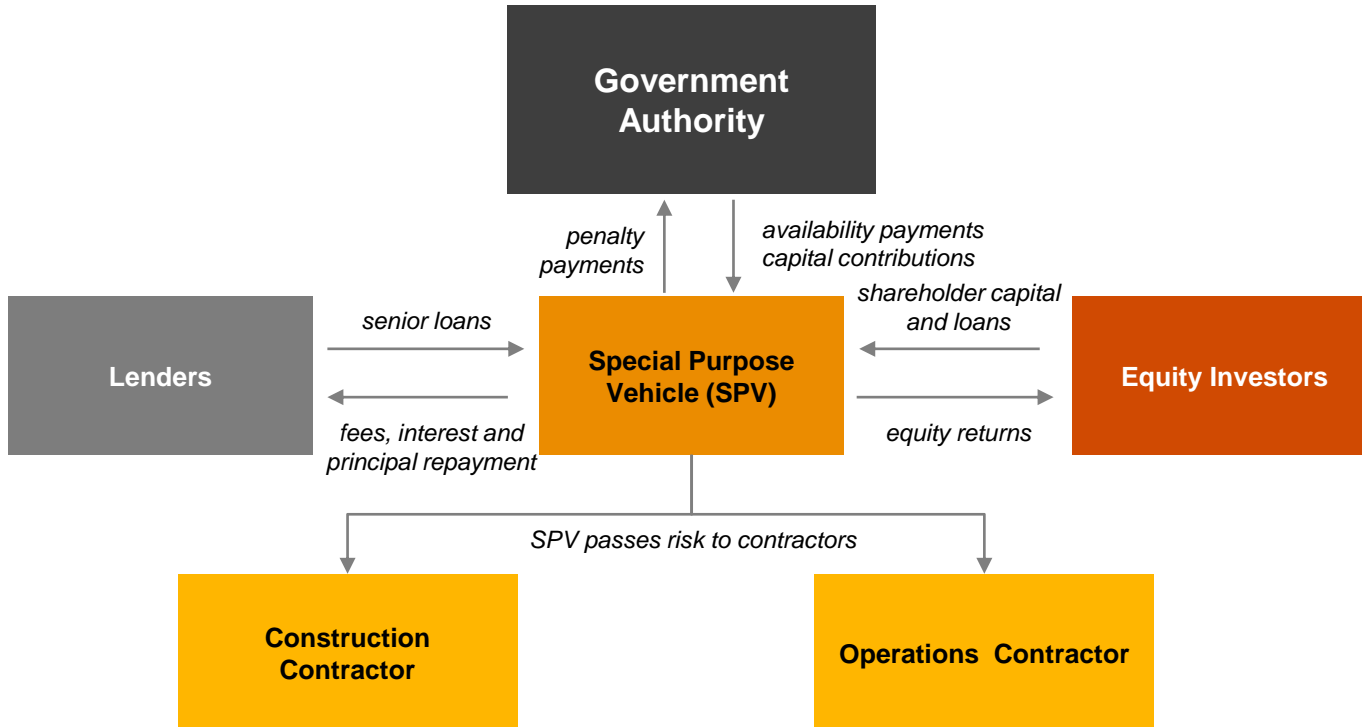
Type of projects delivered using PPP

*Roads | Trains | Trams | Hospitals | Schools | Prisons | Water Treatment | Waste Processing | Military Pilot Training | Stadiums | Street Lighting*

# What do we mean by “Public Private Partnership” (PPP)?

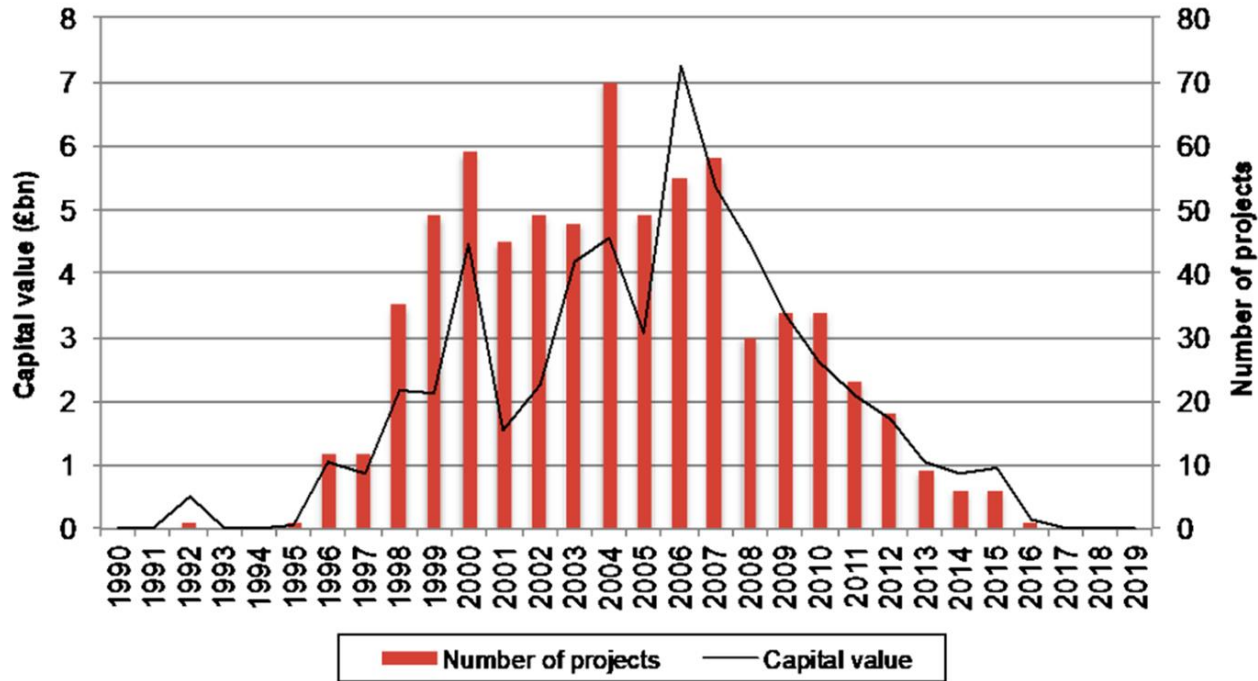


*“A legal technology that allows private investment into public infrastructure projects”*



# The rise ... and fall of PPPs in the UK

Chart 2.A: Portfolio of current PFI and PF2 projects - number and capital value by year of financial close<sup>1</sup>



Source: Current projects data.

# Key Lesson 1: Be clear on the “rules of the game”



## Government Objectives

- Decide what you want to achieve from PPPs:

Affordability  
(off-balance  
sheet  
treatment)?

Better  
delivery of  
projects  
(build and  
operations)?

Unlock  
private sector  
capacity and  
capability?

Attract new  
entrants to  
infrastructure  
sector?

- ...then set up the “rules of the game” to achieve the objectives



## Develop PPP Framework

- Develop standard form contract documents that can be adapted to different projects
- Develop standard procurement process and documents (PQQ, ITT etc.)
- Develop contracts in consultation with the market - including contractors and lenders
- Internationally recognised contracts better for attracting overseas bidders



## Intelligent Client

- Develop specialist PPP capability in government - e.g. dedicated PPP unit
- Responsible for developing, maintaining and improving the PPP framework and standard documents
- Act as advisers to project teams on PPP implementation

SCOTTISH  
FUTURES  
TRUST

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PartnershipsUK



An Ghníomhaireacht Airgeadais d'Fhorbairt Náisiúnta  
National Development Finance Agency

# Key Lesson 2: Do enough PPPs to get economies of scale



## Create a project pipeline

- Identify list of projects to be delivered using PPP - and stick to it!
- Provide timelines so bidders can plan their resources and investment
- Start with the simpler/smaller projects
- Recover government's up-front costs over a number of PPP projects



## Make the market

- A good pool of bidders are needed for successful tenders
- Market likes to see a pipeline of projects to invest in bidding capability in a new market
- Publicise PPP programme to a wide market
- Publish detailed information online (e.g. contracts)
- Take steps to ensure combined local + international collaboration
- Use English



## Grow eco-system of expertise

- As more PPPs are done, local expertise will develop in government, contractors, investors and advisors (legal, financial, technical)
- Lessons are learned from earlier projects and applied to later projects, improving delivery efficiency
- Develops a body of knowledge and expertise needed to manage PPP projects during their life



# Key Lesson 3: Pick the right projects



## Not too big, not too small

- Some projects are too big and complex
- Lending market limit on project size c.EUR 2bn
- Small projects (< EUR 50m) don't justify PPP fixed costs (without a programme)
- "Sweet spot" probably EUR 50m to 1bn capex



## Exclude "soft" services

- PPP contracts not the best way to deliver user-facing services - not flexible to changing needs
- E.g. cleaning, security, customer service, light maintenance etc. ("soft facilities management")
- Use PPPs to build and maintain core assets



## Avoid uncertainty

- Don't transfer unmanageable risks:
  - Demand
  - Latent defects in existing assets
  - Unproven technologies



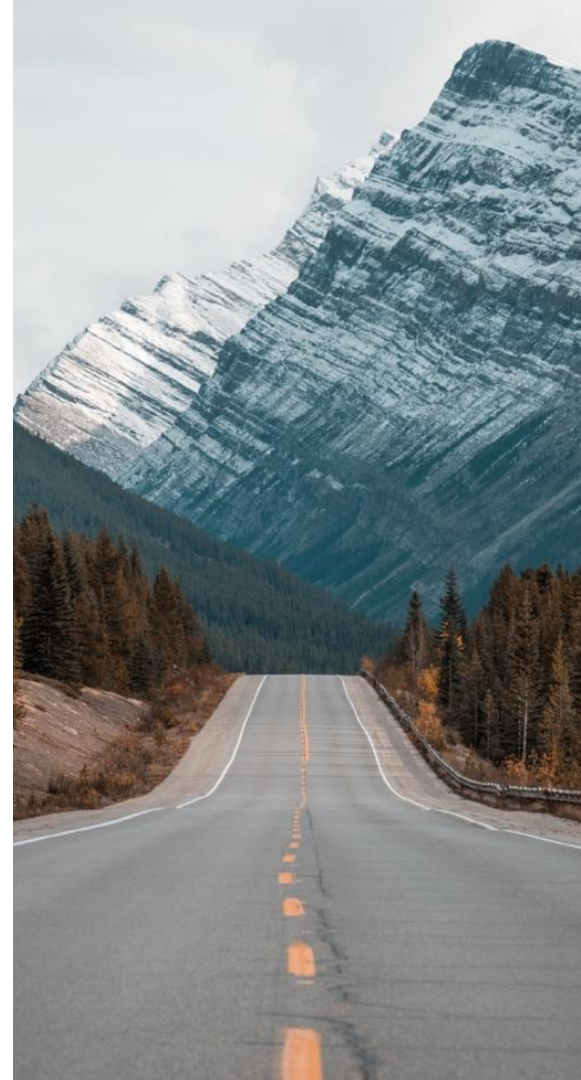
## Think about flexibility

- PPP contracts can be difficult to change once entered into
- Authorities need to think carefully about future needs when specifying a PPP project
- Options and change mechanisms can be built into contracts to make this process easier



# Next steps for PPPs in Iceland?

- Establish a small dedicated PPP team within government
- Develop and agree objectives for PPPs
- Evaluate key projects' suitability for PPP (e.g. Sundabraut) and start development of PPP framework to meet project deadlines
- Engagement with contractors and investors, in Iceland and abroad



# Takk fyrir



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