



EVERYTHING YOU ALWAYS WANTED TO KNOW ABOUT PPPs

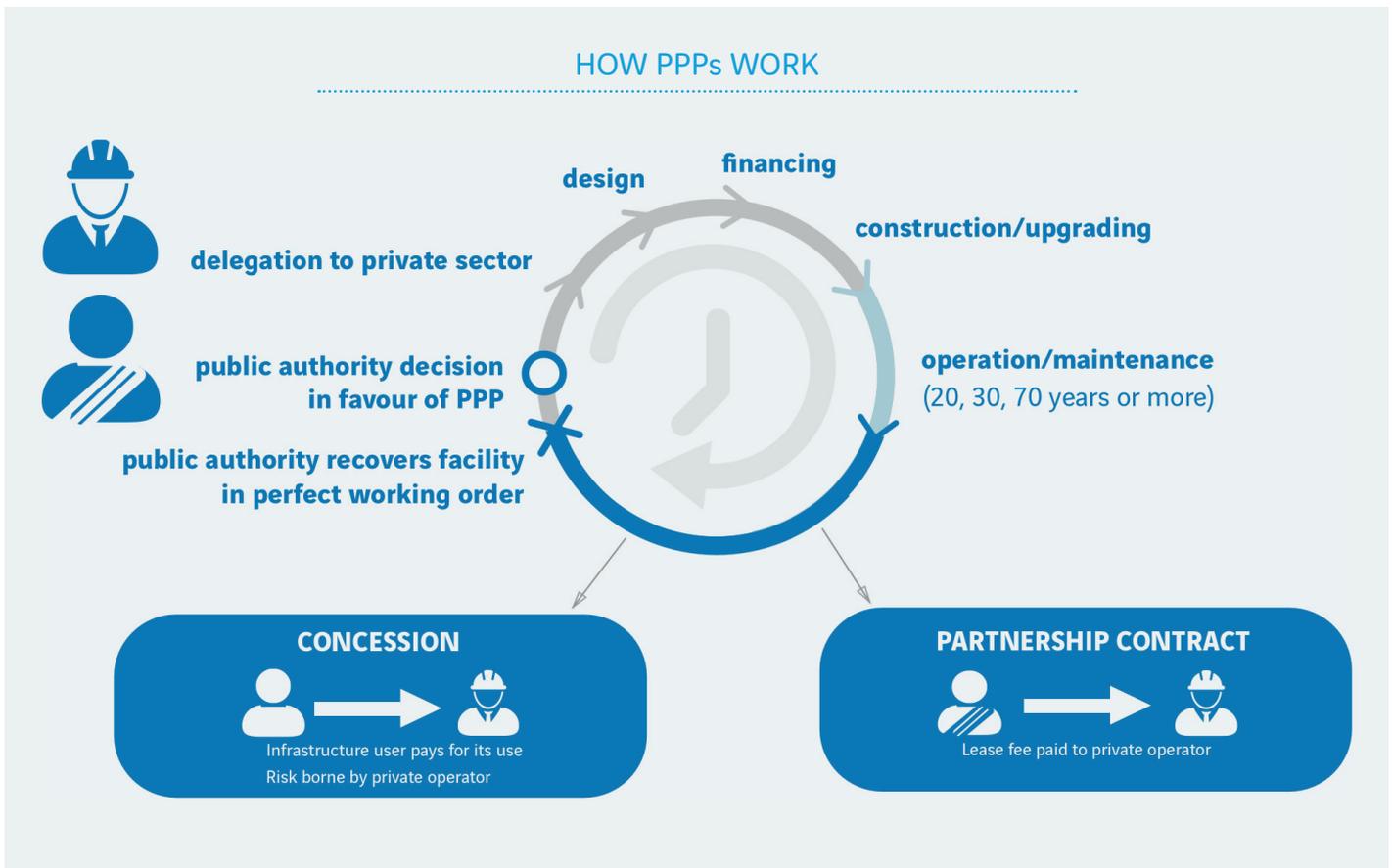
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01.

Everyone has an opinion
but who know exactly
what a PPP is?





What is a PPP?

A PPP or public-private partnership is an **all-encompassing long-term contract between a public authority (central or local government, public entity) and a private partner**, who will design, finance and build (or upgrade) the object of the concession (infrastructure or facility such as a building, stadium, road, bridge, rail line or airport needed for public service) and then operate and maintain it, often for 20, 30 or even 70 years.

At the end of the contract, the infrastructure or facility is returned to the public authority.

“PPP” covers several types of contract, but there are two main categories in France:

Concession: the public authority – the grantor – assigns responsibility for designing, financing, building (or upgrading) and operating the object of the concession (infrastructure or facility) to the private operator – the concessionaire – at that operator’s own risk. Under this model, the private partner bears the commercial risk (generally known as “traffic risk”) associated

with the use of the infrastructure or facility, and the infrastructure user pays for its use (the “user pays” principle). If there is a drop in the number of users, the concessionaire bears the shortfall.

Examples: the motorway network under concession in France or the Stade de France stadium near Paris.

The partnership contract: the missions assigned to the private partner by the public authority are largely the same. What changes is how the private partner is paid for executing those missions: the public authority pays a lease fee, which may vary in accordance with the availability of the structure and the private partner’s compliance with performance criteria set in the contract.

Examples: PPP for public lighting and video surveillance for the city of Rouen, Jean Jaurès University in Toulouse, the Allianz Riviera Stadium in Nice or the Matmut Atlantique Stadium in Bordeaux, the PPP for the dams along the Aisne and Meuse Rivers.



The PPP: one of several tools available to local government authorities

The concession or partnership contract approach may be efficient and relevant in some cases but not necessarily all. In the past, partnership contracts in particular have been poorly implemented, putting the whole economic balance of some projects at risk. It is up to public authorities to consider which contractual model is relevant based on the characteristics of the project. The PPP is just one of several tools available to them.

The public-private partnership, whether in the form of a concession or partnership contract, is not the appropriate contractual solution for all projects, but sometimes it's an excellent solution!

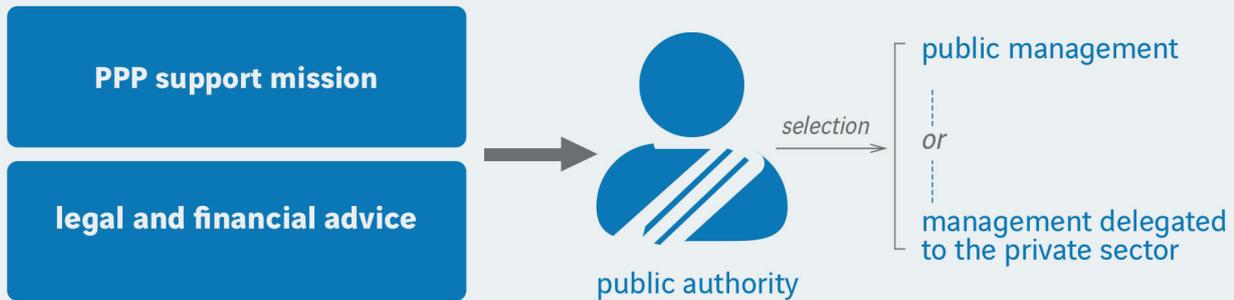
The PPP: a proven contract model that's been around for a long time

The oldest version of PPP in France is the concession, which appeared under the Ancien Régime. It enabled the country to build its first major public infrastructures, such as the Canal du Midi, and modernise the capital's urban infrastructure under the Second Empire (the Paris metro, road network, sewers, public lighting, water mains, etc.). The model then spread to many other sectors, including local public services and transport infrastructure.

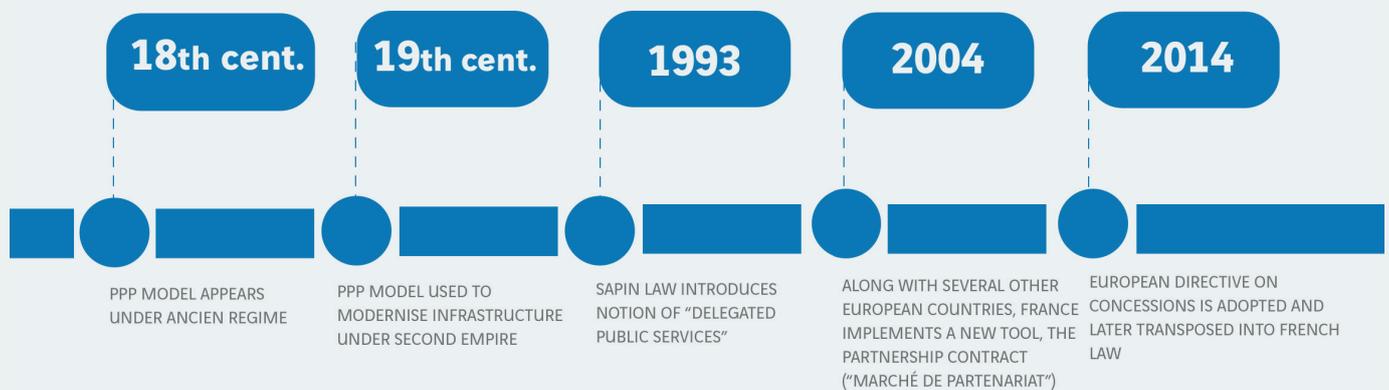
In 1993, France's Sapin Law introduced the notion of "delegated public services". The concession contract became more precisely framed in both national and European Union community law. A European directive on concessions, adopted in 2014, was transposed into French law in 2016. In addition, extensive case law has clarified the rules governing concessions, particularly since the early 20th century.

In 2004, along with several other European countries, France implemented a new tool, the partnership contract ("marché de partenariat") which, covered by new legal texts, offers authorities an alternative to concession and conventional public procurement contracts.

THE PPP: ONE OF SEVERAL TOOLS AVAILABLE TO PUBLIC AUTHORITIES



THE PPP: A MODEL THAT'S BEEN AROUND FOR A LONG TIME AND IS FRAMED BY LAW



PRESS KIT



Stade de France, Saint-Denis.

PPPs are at the heart of our daily lives

PPPs are part of daily life in France: roads, stadiums, high-speed rail lines, airports and so on. Thanks to the PPP model, Bordeaux will soon be within two hours of Paris by high-speed train, the 1998 World Cup and UEFA Euro 2016 were able to be played in France, and Paris found its world-renowned emblem: the Eiffel Tower!

Without PPPs, numerous useful projects would not have seen the light of day, or only much later.

THANKS TO PPPs

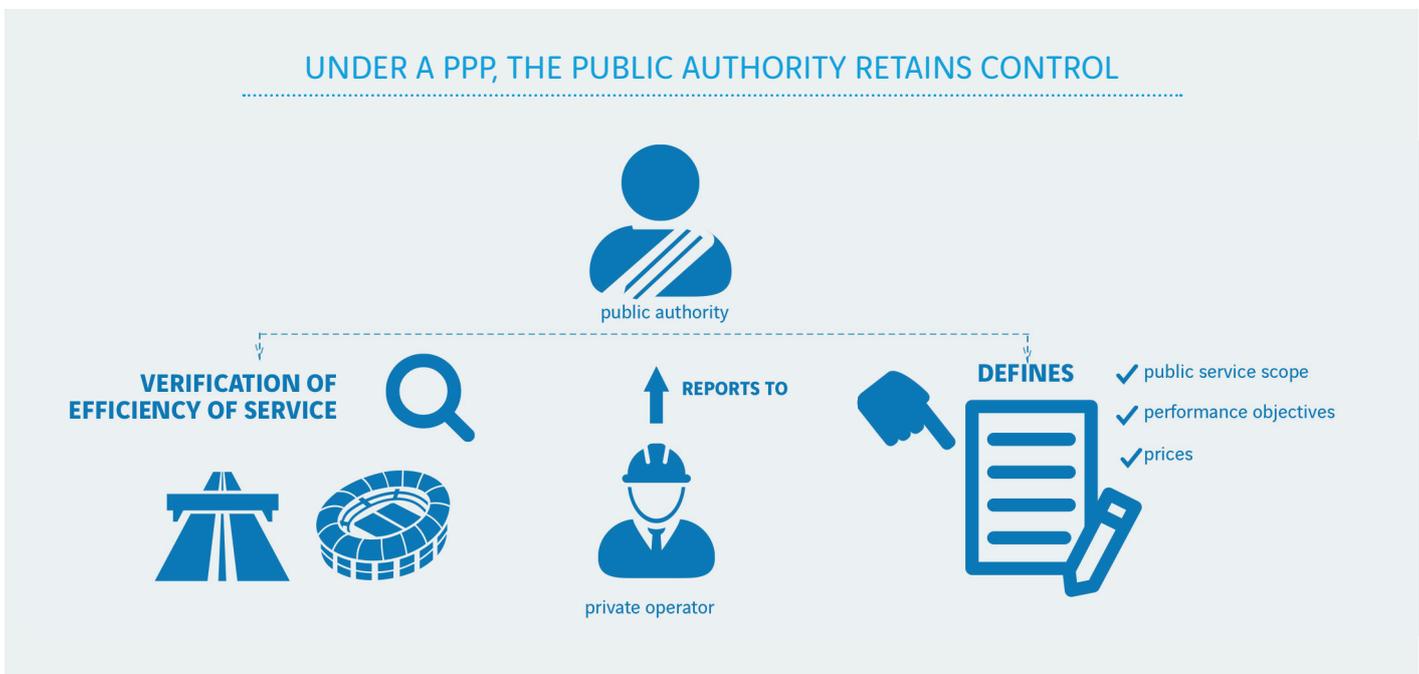




02.

Why assign the management of public infrastructure to the private sector?





A public service remains a public service

Irrespective of the management model, public services are tightly regulated by the public authority. Under a contract signed with a private partner, **the public authority retains ownership of the structures**, defines the scope of the public service, sets the performance objectives, verifies the efficiency of the service provided and validates the price of the service. All of this is set out by the public authority in the specifications and must be complied with by the private operator.

The public service does not become a private service! The capital structure of a concession company (whether public or private ownership, or a mixture of the two) has no impact on the service provided by that company. The service remains a public service. Around 10 years ago, for example, the French government privatised the motorway concession companies. However, those companies remain responsible for the public service assigned to them, and framed by the concession contract that ties each of them to the concession grantor, i.e. the French government. The latter still owns the motorway infrastructure. It sets the objectives, defines toll prices and their increases, and verifies the service provided by the concession companies. The infrastructure, financed by the concessionaire, is returned to the public authority at the end of the concession.

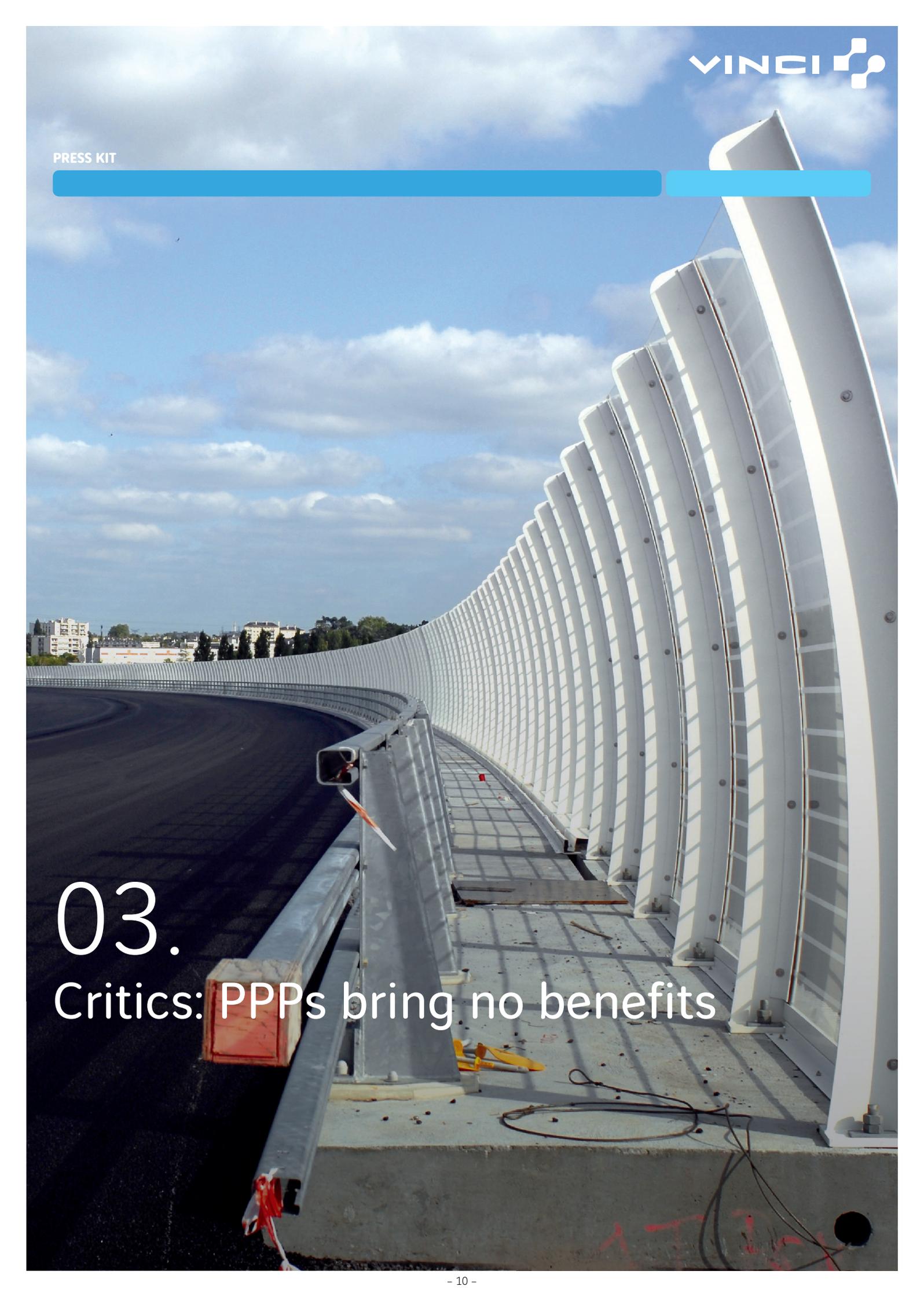
The public authority retains ownership of the structures and defines the scope of the public service.

The public authority does not give free rein to the private operator but decides what that operator is to do

Under a PPP, the public authority decides what is to be done; it does not give free rein to the private operator. **The public authority remains responsible for the public service and sets the rules governing how it is to be performed.** It only transfers the risks associated with the financing, construction and operation of the infrastructure, and the execution of those missions. If the private operator fails to comply with its commitments, the public authority takes remedial action.

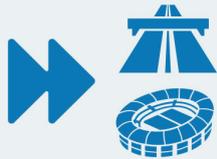
The private partner acts under the control of the public authority, and **is accountable to** that authority at all times through technical and financial reports, as well as through the submission of a detailed annual activity report. Sanctions are taken in the event it fails to comply with its contractual obligations.

Example: under motorway concession contracts, the specifications define in detail the investments to be made, as well as around 20 performance indicators, including waiting time at the toll plaza and road surface maintenance. (source: ASFA).



03. Critics: PPPs bring no benefits

THE FIVE BENEFITS OF PPPs



high-quality infrastructure & facilities available more rapidly



investment spread over the long term



permanent overall optimisation

(costs, delivery schedule, sustainable development)



application of latest innovations



private operator's expertise in risk management

It is up to the public authority to choose whether or not to adopt the PPP approach, which has at least five benefits:

⊕ SPEED

The general public can benefit more rapidly from high-quality infrastructure or facilities that might never have seen the light of day without a PPP, or only much later, **because it's the private partner that finances the infrastructure or facilities.**

⊕ COSTS EARMARKED AND DEBT SPREAD

The second benefit is financial but not for the reasons that spring immediately to mind. **By spreading the investment over the long term** (just like any individual does when signing a loan agreement to purchase a house or a contract to lease a vehicle with an option for purchasing), the PPP is a way for the public authority to relieve pressure on budgets in a period where the level of public debt is reducing considerably the authority's margin for manoeuvre. However, and more importantly, the PPP enables the public authority to **assign the construction and operation of a public facility to a single private operator and, by doing so, earmark the maintenance and management costs of the facility** so that it is always fit for purpose. It is thus a tool for managing costs and guaranteeing maintenance over the life cycle of the infrastructure. At the end of the contract, the public authority recovers a facility in perfect working condition, while public buildings that are managed conventionally are often somewhat dilapidated.

⊕ OVERALL OPTIMISATION (COSTS, DELIVERY, SUSTAINABLE DEVELOPMENT)

The PPP enables overall optimisation: in a "life cycle cost" approach, the low bidder wins the contract. It leads to a time saving for the public authority, with construction delivery targets met, a managed budget known in advance and better attention paid to sustainable development. Indeed, when the design and construction of a facility, as well as its management and operation over a long period, are assigned to a single private partner, it is in that partner's interest to make the right decisions – from the outset – for achieving a better performance, particularly in terms of the environment, and planning easier and less costly maintenance.

⊕ INNOVATION

By assigning the project to the private sector, the public authority benefits its private partner's latest innovations and R&D throughout the contract. At the end of the contract, the public authority recovers a well-maintained facility that has benefited from those innovations.

⊕ RISK TRANSFERRED TO THE PRIVATE PARTNER'S EXPERTISE

The PPP enables the public authority **to transfer risks to the people most able to manage them:** technical risks associated with construction and operation, financial risks and usage or traffic risks.

PRESS KIT

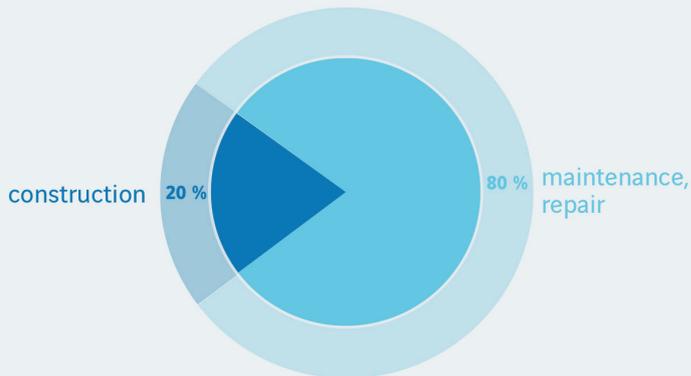
04.

Critics: PPPs are expensive

PRESS KIT



LIFE CYCLE COST OF INFRASTRUCTURE:
STADE DE FRANCE EXAMPLE



For the Stade de France, the initial construction cost only represented 20 % of the life cycle cost, with the remaining 80 % being attributable to operation, maintenance and repair costs.

PPP contracts are expensive.

Not true!

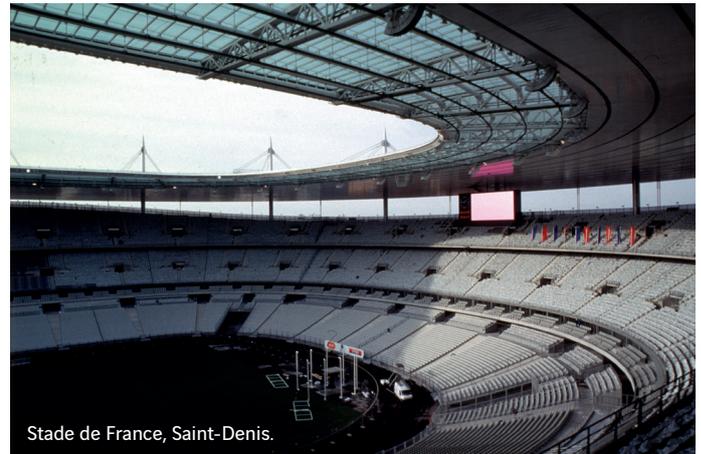
PPPs are awarded after a highly competitive process, which guarantees the best services for the best price.

Naturally, the private operator aims to make money on the basis of the capital it invests, the risks it takes and the work it does, and to make a profit.

Although building infrastructure is expensive, that cost only represents a small portion of the total cost for operating and maintaining the infrastructure over the long term.

It's important to consider, from the outset, the total cost of infrastructure construction, maintenance and operation throughout its life cycle, which is possible under a PPP because the costs are defined in the contract at the start of the project.

To be able to assert that PPPs are expensive would require a comparison to be made with the cost to a local authority of the same facility built under public programme management and operated by a public entity, with the costs including construction and delivery, financing, repair and maintenance (particularly payroll costs), and operation over 10, 20 or 30 years. Unfortunately, this comparison is hardly ever made.



Stade de France, Saint-Denis.

The construction cost only represents a small portion of the total cost to maintain and operate the infrastructure over the longer term.

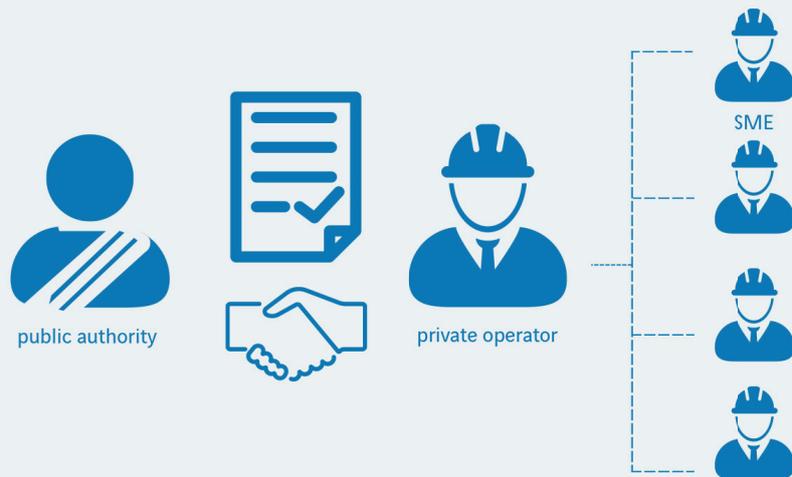


05.

Critics: PPPs are
a threat to SMEs



UNDER A PPP, THE PRIVATE PARTNER COMMITS TO AWARDING PART OF THE PROJECT'S EXECUTION TO SMES



Under a PPP, the private partner commits to awarding part of the project's execution to SMEs

The legal texts framing both partnership and concession contracts include provisions aimed at awarding a portion of the works or services to SMEs.

The portion of works or services awarded to small and medium-sized companies is, in fact, one of the selection criteria used for the award of a partnership contract. The new legal texts applicable to partnership contracts further strengthen the protection of SMEs by setting the minimum portion of the contract to be awarded to SME's or sole traders at 10% of the projected value of the contract. Under concession contracts, the law allows the public authority to require that bidders award a minimum of 10% of the total estimated contract value to SMEs or third parties. In reality, however, the portion reserved for SMEs can be bigger. On the South Europe Atlantic high-speed line between Tours and Bordeaux, for instance, SME's were awarded 25%.

The public authority also defines how the private partner's performance against its commitments is verified.

Moreover, as in conventional public procurement contracts, SMEs may form a joint venture in order to broaden their potential market.

The company is contractually required to meet its commitments

The private partner must comply with the commitments set out in the partnership contract, which includes the minimum percentage of the works reserved for SMEs.

The public authority also defines in the partnership contract how the private partner's compliance with its commitments will be verified and the sanctions to be applied in the event of non-compliance.

SMEs are supported and protected by the legal texts governing concessions and partnership contracts

The recently adopted texts transposing the 2014 European directives into French law further strengthened the measures aimed at boosting the involvement of PMEs in both concessions and partnership contracts.

A study carried out by the Economics of Public Private Partnerships Chair (ePPP) in 2016 revealed that making procedures more flexible has had a positive impact for SME's by improving the effectiveness of their participation in this type of contract without negatively affecting the price. (ePPP Chair, 2016)

PRESS KIT

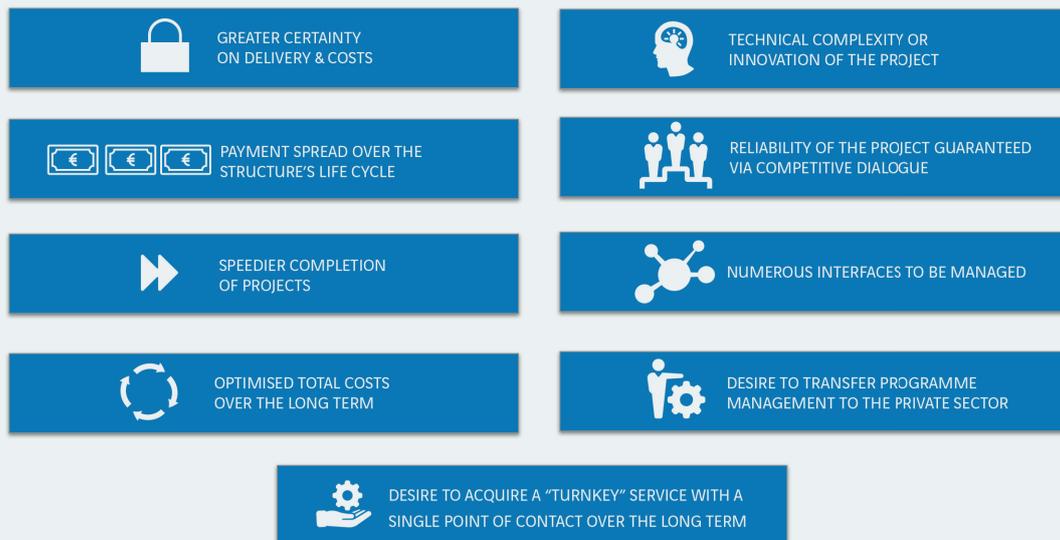
A low-angle, upward-looking photograph of a bridge's steel truss structure under construction. The sun is shining through the complex network of beams, creating a lens flare effect. In the foreground, a walkway with metal railings and corrugated metal decking leads towards the center of the bridge. Safety netting is visible on the sides of the structure.

06.

Critics: PPPs are
a "time bomb"
for public finances

PRESS KIT

THE PPP APPROACH MUST NOT ADOPTED PURELY FOR DEBT MANAGEMENT REASONS. FACTORS THAT MAY INFLUENCE A PUBLIC AUTHORITY'S DECISION INCLUDE:



THE PUBLIC AUTHORITY SMOOTHS ITS DEBT OVER TIME



The following criticisms are made most frequently of partnership contracts: lease fees increase over time, costs explode over 20 or 50 years and are greater than those of a project carried out under public programme management, etc. In reality, the exact opposite is true. One of the benefits of partnership contracts is that these expenses are firmly set and spread through time. As a result, they can, in full transparency, be projected, **smoothed and earmarked in order to manage all the complex issues confronting public authorities.** Fee and price indexing laws are, thus, "set in concrete" by the contract for the period of the concession. **PPPs do not eliminate or defer debt, they smooth it through time.**

Expenses are smoothed and earmarked in order to manage all the complex issues confronting public authorities.

Moreover, when there is a budget deficit, all public investment is financed by public debt. **To compare a PPP with a facility built under a conventional approach, it would be necessary to add the cost of additional debt contracted by the public authority, which no-one does.**

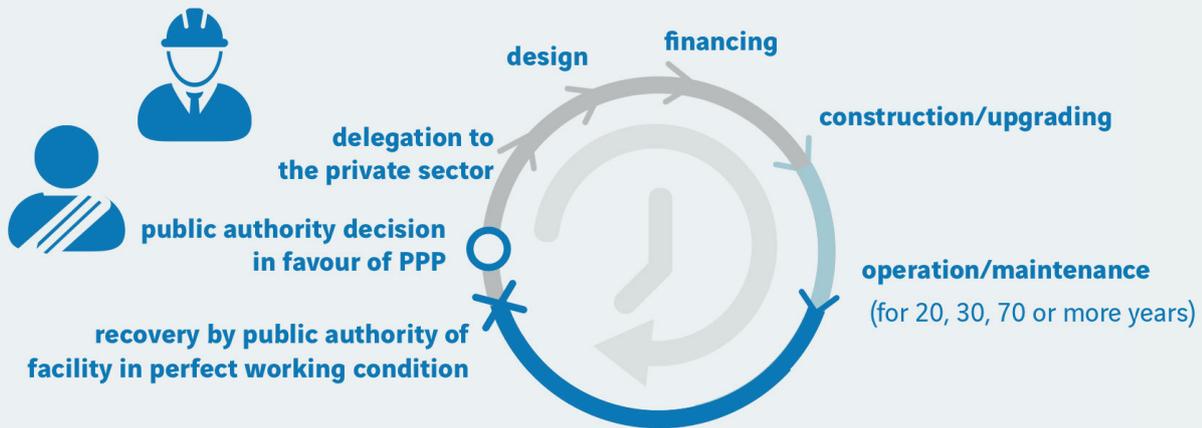
Lastly, it is to be noted that debt arising from PPPs is consolidated in the public debt figures. PPPs are not, therefore, a means for public decision-makers to hide debt or rid themselves of the need to comply with the Maastricht criteria.

07.

Critics: the private sector only takes a short-term view



THE PPP, A VERY LONG-TERM PARTNERSHIP



This requires very real commitments on the part of the private partners in terms of investment.

The investment, committed throughout the life cycle of the project, enables the public authority, with its limited resources, to continue its development and provide people with useful, modern infrastructure and facilities.

Example: a study found that, overall, public authorities are satisfied with the quality-to-price ratio of partnership contracts. Indeed, 80% of public decision-makers surveyed stated they are moderately satisfied. Of these, 67% were satisfied or very satisfied. (Saussier, 2012)
The quality of service provided on French motorways under concession is also unanimously recognised (annual survey of users produces an overall 7.9/10 satisfaction rating).

Infrastructure evolves through time. It must be constantly maintained and upgraded.

Because the private partner is free to propose new ideas to the public authority, which remains the sole decision-maker, it is de facto positioned to take a **long-term view**.

PRESS KIT

BY ADOPTING THE PPP MODEL, THE PUBLIC AUTHORITY
CAN SPREAD ITS DEBT OVER TIME



PUBLIC DECISION-MAKERS ARE GENERALLY SATISFIED WITH PPPS

moderately satisfied

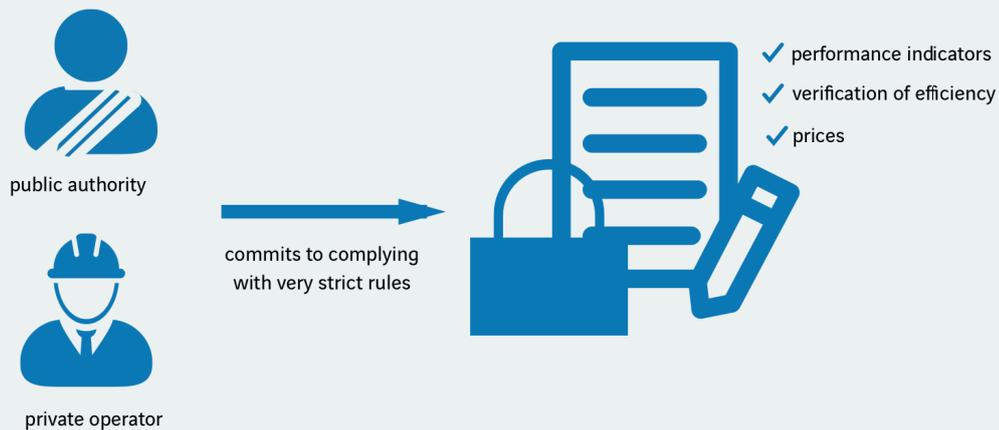


08.

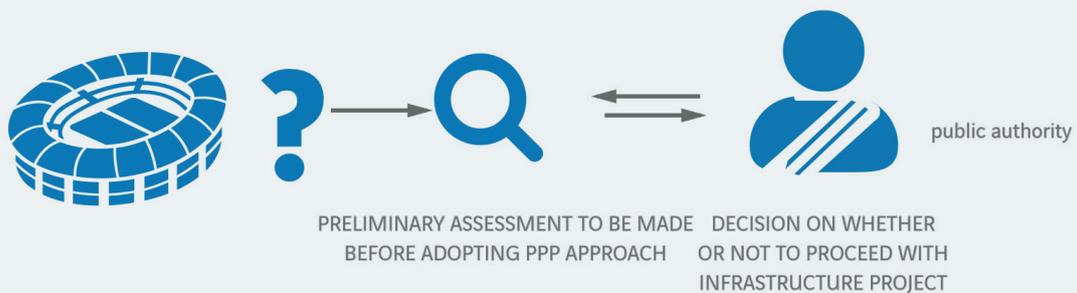
Critics: the PPP financing method is totally incomprehensible

PRESS KIT

THE PPP: ONE OF THE SAFEST FORMS OF CONTRACT



THE PUBLIC AUTHORITY'S OBLIGATION TO PROVE THAT A PPP IS THE MOST ADVANTAGEOUS APPROACH: PARTNERSHIP CONTRACT EXAMPLE



PPPs enable **sound** and **predictable** management of public spending over the long term. The cost of the project over 20, 30 or even 70 years is known from the outset and takes into account maintenance and repair, as well as developing new services and adapting existing services to better fit with user expectations and needs, which are constantly evolving at an ever increasing pace.

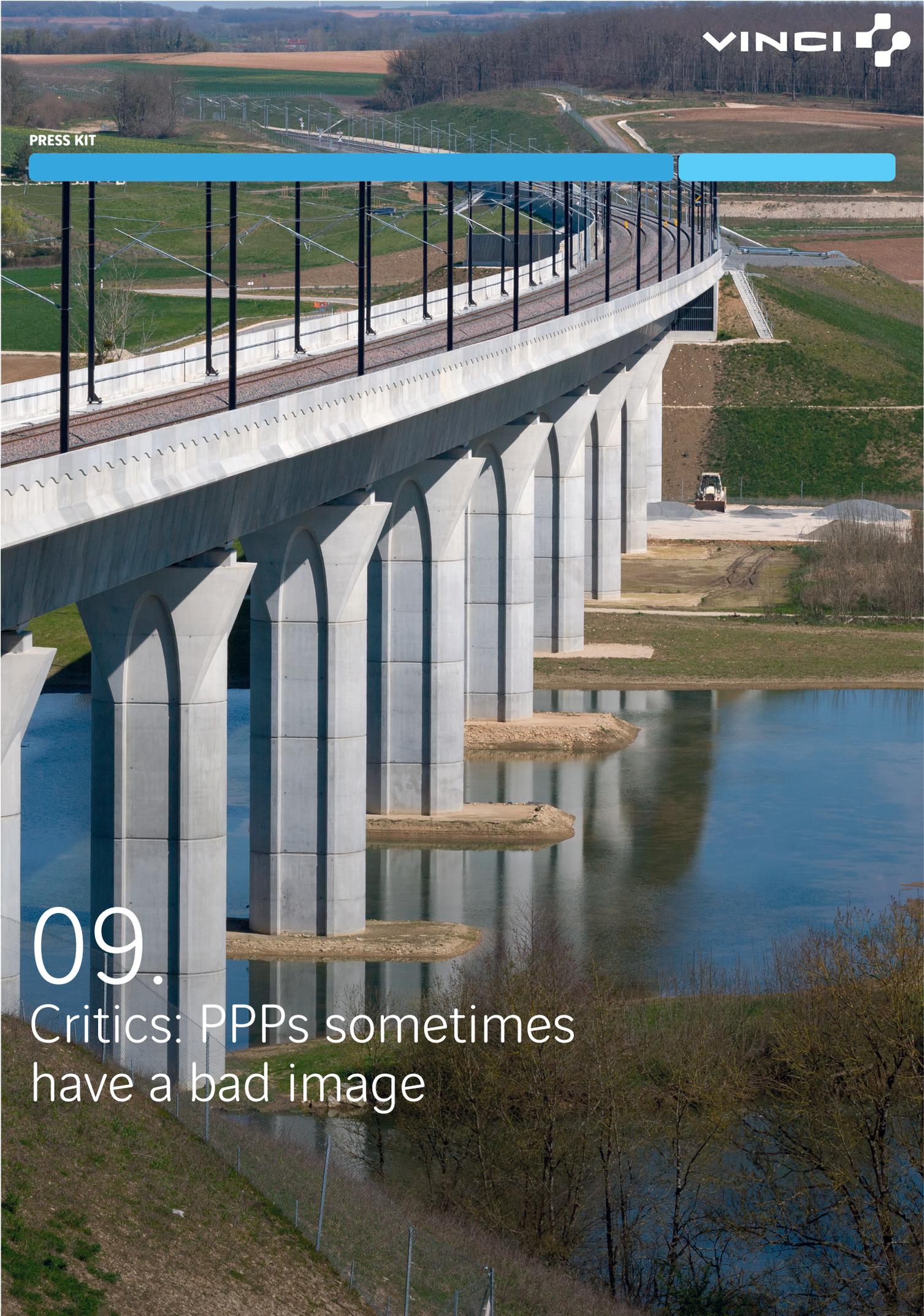
The rules governing PPPs are very strict and contracts are drafted carefully and in great detail. The public authority and its private partner are obliged to comply with the rules. Because of the very precise financing framework, PPPs are one of the safest and most transparent types of contract.

The public authority must prove that a partnership contract is the most advantageous approach.

The public authority's obligation to prove that a PPP is more advantageous than other types of management

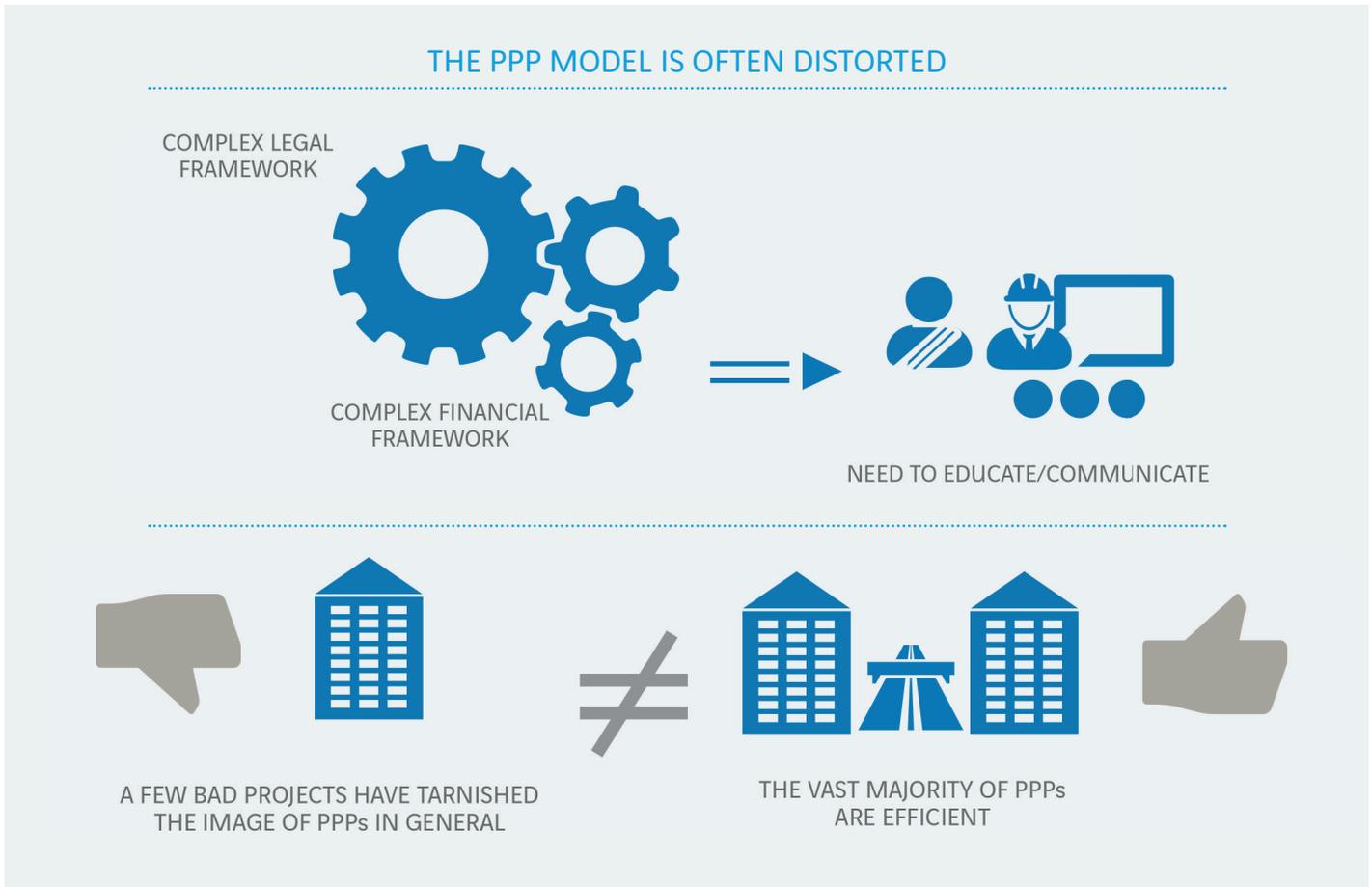
Before adopting the partnership contract solution, for example, **the public authority must prove that it is the most advantageous form of contract** from a financial viewpoint. This is not necessary for other methods of public procurement. **The public authority must, therefore, carry out a "preliminary assessment", spelling out the economic, financial, legal and administrative reasons** for deciding in favour of a partnership contract rather than any other contract type. Adopting a partnership contract approach presupposes that this assessment demonstrates that the partnership contract brings more advantages than disadvantages compared with other forms of public procurement contract.

PRESS KIT

A large, modern concrete bridge with multiple arches spans a wide river. The bridge has a white concrete structure with dark metal railings. A train is visible on the tracks on top of the bridge. The surrounding landscape is green and hilly, with some trees and a small construction site visible in the distance. The sky is clear and blue.

09.

Critics: PPPs sometimes have a bad image



There are two reasons that may sometimes explain why PPPs suffer from a poor image

The first is the complexity of the PPP model, which can sometimes make it difficult to understand how it works. Private operators should probably communicate more and make a greater effort to explain the model and its legal and financial aspects. Only 42% of French people state that they know the difference between a public management method and management assigned to a private partner.

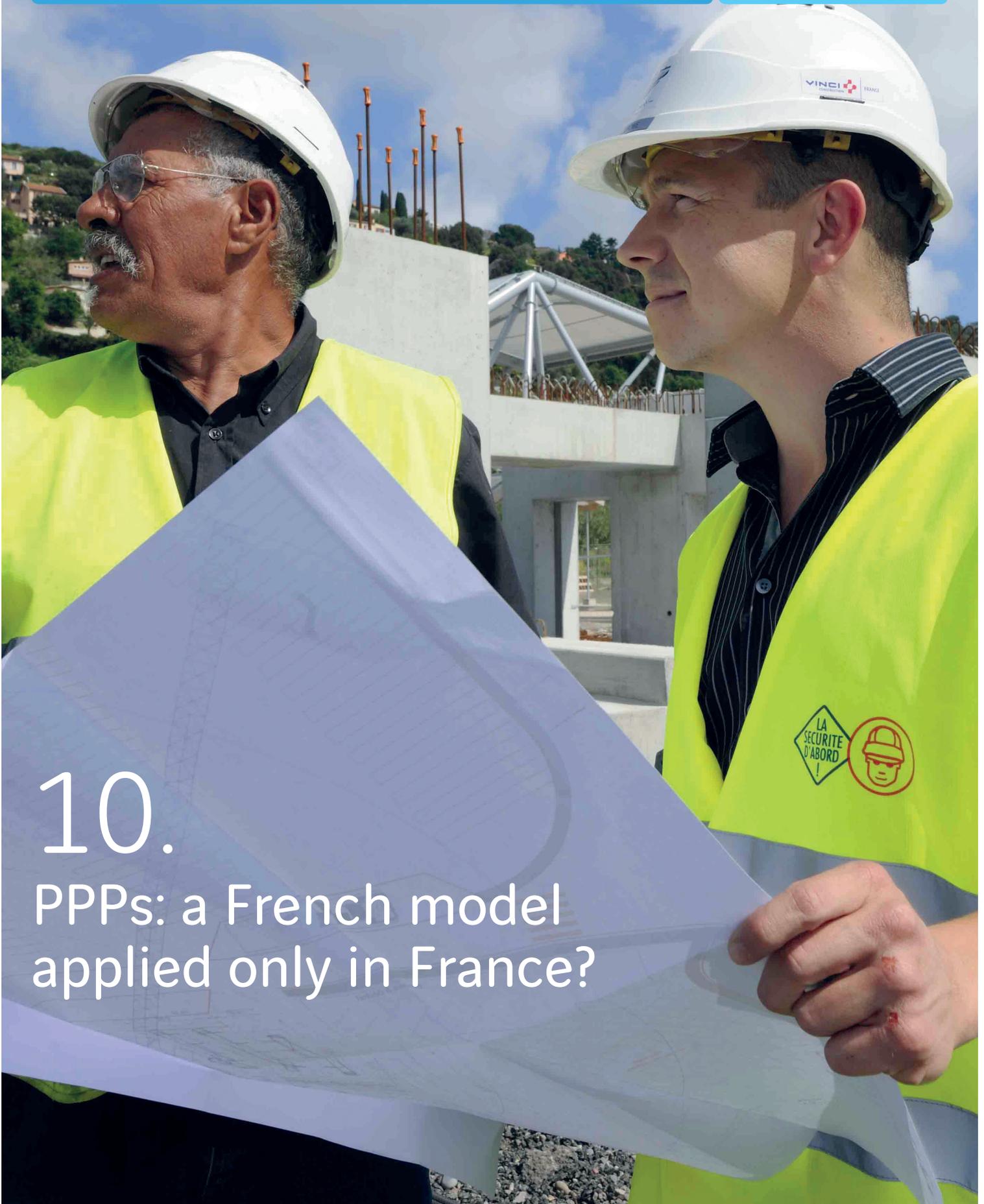
The second is due to a few failures, projects in the past that experienced problems and made a bad name for the PPP model. Irrespective of the system and contractual model selected by the public authority for issuing a project, the decision must be based on an accurate socio-economic analysis that identifies the need and enables it to be clearly analysed. The PPP must not be a means of having a private partner finance a “bad” project, i.e. one that serves no useful purpose, is disproportionate to the need, is poorly scaled, or does not meet the needs and expectations of the region or users.

No matter what type of contract or what sector of activity, any business model can malfunction. The fact that a specific PPP project is singled out for criticism does not mean that all such projects – which, in the main, operate perfectly well – should be given a bad name.

Malfunctions sometimes appear in the execution of projects under public programme management, with late deliveries and cost increases.

The public authority can not decide in favour of any given contractual model unless it has a clear vision of the structure it wants to have built. Then, on project launch, it must draw up the detailed project specifications.

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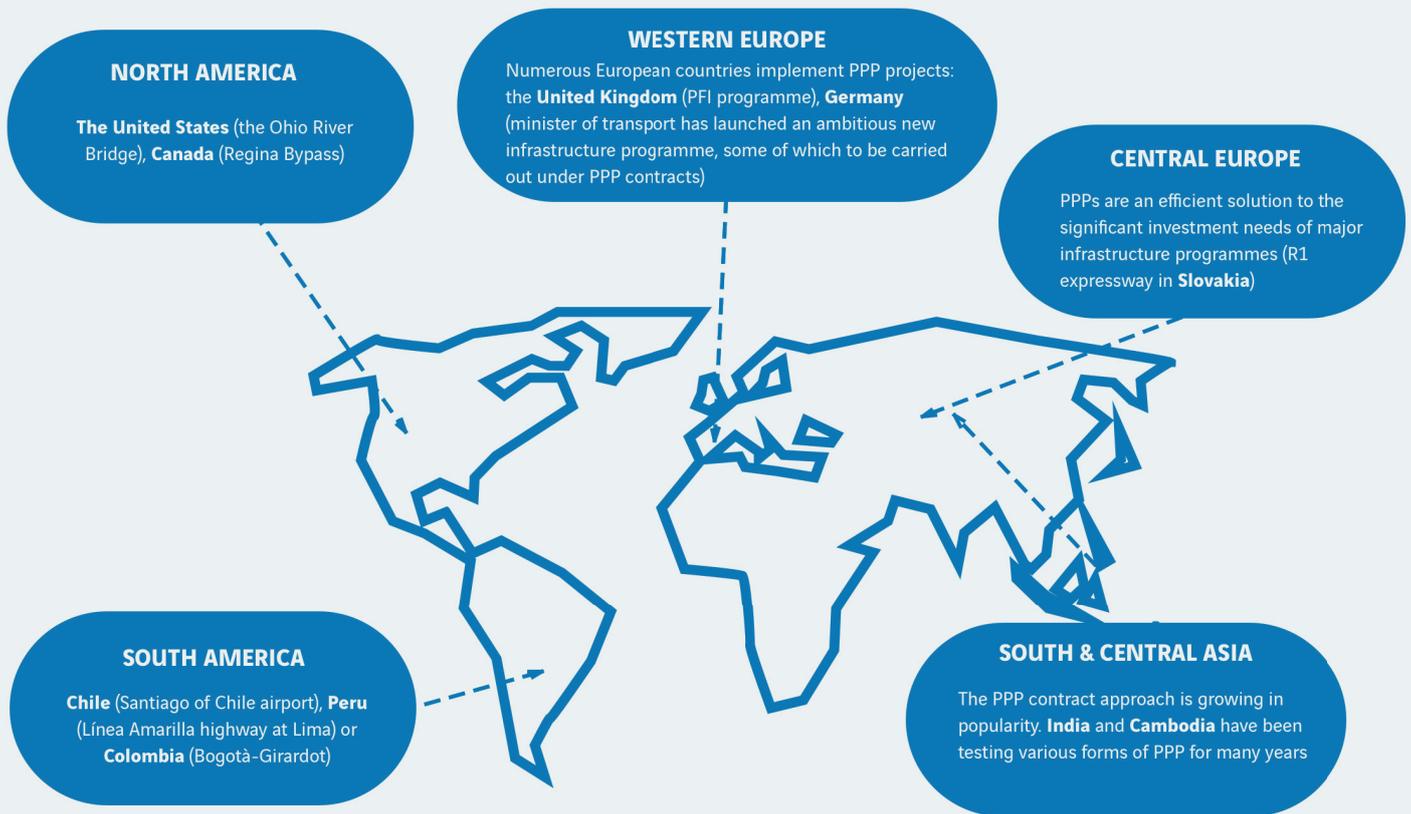


10.

PPPs: a French model applied only in France?

PRESS KIT

THE PPP MODEL IS BEING ADOPTED ALL OVER THE WORLD



Most of the international institutions recommend the PPP model because they believe it is a good way to optimise the efficiency of public procurement. This is the case, for example, of the World Bank and the International Monetary Fund (Brault, 2012).

The World Bank created a free on-line training course in June 2016 to help people understand PPPs.

<https://fr.coursera.org/learn/partenariats-public-privé>

Additional information

About VINCI

VINCI is a global player in concessions and construction, employing more than 185,000 people in some 100 countries. We design, finance, build and operate infrastructure and facilities that help improve daily life and mobility for all. Because we believe in all-round performance, above and beyond economic and financial results, we are committed to operating in an environmentally and socially responsible manner. And because our projects are in the public interest, we consider that reaching out to all our stakeholders and engaging in dialogue with them is essential in the conduct of our business activities. VINCI's goal is to build long-term value in this way for its customers, shareholders, partners and employees, and for society at large. www.vinci.com

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