PPP Contract Management Tool

A G20 INITIATIVE

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Global Infrastructure Hub

PPP Contract Management Tool
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Sacira Coric and Simon Durmanic, Turner & Townsend
“Structuring, procurement and negotiation of quality PPPs are important to the success of those projects, but without effective management of a contract after financial close, there is significant risk that even the best projects can end badly.”

Chris Heathcote, Chief Executive Officer, Global Infrastructure Hub
“This reference tool is designed to help the public sector to realize the value and opportunities created in PPP contracts from financial close and throughout the contract life.”

Murray Rowden, Managing Director, Americas & Global Infrastructure, Turner & Townsend
GI Hub PPP Contract Management Tool

The PPP Contract Management Tool provides practical guidance on successful contract management post financial close, using case studies to provide real-life examples.

Download Full Tool
GI Hub PPP Contract Management Tool

• The reference tool is a guide aimed at providing practical advice for public officials responsible for the management of PPPs after financial close.

• It is intended to be user-friendly and interactive, providing guidance on managing PPPs from financial close to handback.

• Based on real experiences of governments around the world.

• Can be used by public officials in any country in either common or civil law jurisdictions.

• Guidance on projects delivered not only under a jurisdiction’s specific PPP laws, but also projects that are delivered under concession laws or other laws that fall within the broad definition of a public private partnership.
GI Hub PPP Contract Management Tool Methodology

1) Create master database
2) Randomly select 250 PPPs
3) Perform data collection
4) Investigate 25 case studies
5) Carry out three workshops
6) Create PPPCM Tool

- Informed by data on 250+ PPP projects globally (representative of regions and sectors)
- Economic infrastructure projects that reached financial close between 2005 and 2015
- Detailed case studies on 25 projects from Latin America, Europe, USA, Asia, etc.
GI Hub PPP Contract Management Tool Methodology

Workshopped with almost 30 countries in Asia, Europe and Latin America from November 2017 to April 2018.
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Breakdown by Sector and Region

- Energy
- Transport
- Waste
- Water

Regions:
- ANZ
- East Asia
- Europe
- Latin America
- Middle East
- North America
- South East Asia
- South Asia
- Sub-Saharan Africa

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GI Hub PPP Contract Management Tool Methodology

Capital value across sectors - sample database

- Number of projects
- Project Value (USD)

- Water
- Waste
- Energy
- Transport

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Report Chapters

1. Introduction
2. Setting up the Procuring Authority Team
3. Construction and Operations Routine Contract Management
4. Renegotiation
5. Managing Disputes
6. Managing Insolvency
7. Managing Default & Termination
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Key messages:

- Adequate resourcing needs to be employed for contract management activities (Chapter 2)

- Ends-users, businesses and community stakeholders need to be engaged at all stages of infrastructure delivery to ensure viability and enhance the services (Section 3.3)

- Governments need to focus on a positive relationship with the Project Company (Section 3.3 and Chapter 5)

- Performance monitoring mechanisms should be used to ensure the Project Company is performing in accordance with the PPP contract (Section 3.2)

- When managing change, the risk allocation agreed at financial close should be retained and value for money ensured (Section 3.5 and Chapter 4)
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PPP Contract Management

The PPP Contract Management Tool provides practical guidance on successful contract management post financial close, using case studies to provide real-life examples.

Chapter 2: Contract Management Team Set-up and Training

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Team structure – There is no set formula for the size and structure of a Procuring Authority contract management team. Consider:

- The size, geographic distribution and complexity of the project
- The scope and complexity of the service(s) being delivered, including its sector
- The complexity of the contractual arrangements
- The risks that have been retained by the Procuring Authority under the PPP contract
- The Procuring Authority’s positive obligations under the PPP contract
- Expertise that can be brought in using external advisors or other government departments (e.g. PPP unit)
Team structure

• Plan the set-up of the contract management team before financial close
• Evaluate the structure and resourcing of the contract management team on an ongoing basis and make adjustments as necessary (e.g. through transitions)
• Plan for changing workload, staff turnover, and ensuring continuity of knowledge
• Use external consultants where appropriate
• Centralise resources where there is a program of PPPs and benefits could be generated through synergies between different projects
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**EXAMPLE**

Training during the transition from financial close to construction

To assist with knowledge transfer on the Barranquilla Airport project in Colombia, workshops were carried out with new staff joining after contract award by representatives from ANI’s (Colombia’s National Infrastructure Agency) central knowledge teams, and the ANI team and consultants that structured the contract. The external consultants involved in the structuring, also worked hand-in-hand with the Procuring Authority for six months after contract signing and provide continued support, as and when necessary.

*For more information, see the Barranquilla Airport Case Study.*
Section 3.3: Stakeholder management
Stakeholder management

PPPs involve a vast array of interconnecting relationships
Stakeholder management: end-users, businesses and the community

- Ensure end-users, businesses and community stakeholders are engaged at all stages of infrastructure delivery to ensure viability and enhance the services
- Consider each relevant stakeholder group, as they may have different interests and desired outcomes
- Ensure ongoing transparent engagement on all relevant issues
- Define the role of the Project Company in the management of end-users, businesses and community stakeholders
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Design Input

The I-495 Express Lane project in the USA highlights that public engagement with key stakeholders can deliver a better project for the community and for the project sponsor. Initial plans for the project included just one access point into the region’s largest employment centre. After early feedback from major employers, elected officials and transit advocates, the project team changed the scope of the project to include three major entry and exit points to serve the busy commercial area. By proactively engaging stakeholders early, the parties were able to work collaboratively to develop a transportation solution that provided a better outcome.
Stakeholder management: Project Company

• The relationship between the Procuring Authority and the Project Company is key to the success of a PPP

• Consider the interests of the Project Company, including any changes in its circumstances

• Use contractual provisions to protect the rights of the Procuring Authority rather than as punitive measures

• Treat disagreements and disputes objectively: Do not allow a poor relationship with the Project Company to affect the approach taken to a dispute and do not let the existence of a dispute affect an otherwise positive relationship

• Focus on a positive relationship, even in the presence of ongoing disputes
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EXAMPLE
Treatment of disputes

Several projects have highlighted how the relationships between the Procuring Authority and Project Company remained positive throughout all commercial disagreements and formal disputes. This was achieved by separating disputes from day-to-day operational matters, and in the Central Berkshire Waste project in the UK, the fact that the offices were co-located was also helpful.

For more information, see the Central Berkshire Waste Case Study.

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Data

Examine data on renegotiations, disputes and other major contractual events.

Data Categories

1. Master database
2. Renegotiation data
3. Disputes data
4. Other prominent issues

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Years after financial close

Prevalence of disputes, by Year N after financial close

<table>
<thead>
<tr>
<th>Year N</th>
<th>Prevalence (%)</th>
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<tbody>
<tr>
<td>1st</td>
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<tr>
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<td>11th</td>
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<tr>
<td>12th</td>
<td>35%</td>
</tr>
</tbody>
</table>

1st year: 165 projects
2nd year: 165 projects
3rd year: 162 projects
4th year: 148 projects
5th year: 137 projects
6th year: 125 projects
7th year: 101 projects
8th year: 85 projects
9th year: 71 projects
10th year: 57 projects
11th year: 46 projects
12th year: 33 projects
Section 3.2: Performance monitoring

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3. Construction and operations routine contract management

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Performance monitoring

• 20% of disputes in PPPs globally involve KPIs or payment mechanisms
• Ensure adequate resourcing is employed for performance monitoring activities
• Use KPIs and payment mechanisms to ensure the Project Company is performing in accordance with the PPP contract, not as punitive measures
• Assess the operational effectiveness of KPIs before operations commence or early in the operations phase, and on an ongoing basis
• Closer performance monitoring will be required for risks that cannot be transferred to the private sector due to their inherent nature
EXAMPLE
Pro-active management of KPIs

There was an issue with excessive noise on the Brabo 1 Light Rail project in Belgium. The mitigation, was proactively managed by both parties. Data was collected during noisy periods and appropriate mitigations were developed and implemented.

For more information, see the Brabo 1 Light Rail Case Study.
Chapter 4: Renegotiation

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Data

Examine data on renegotiations, disputes and other major contractual events.

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1. Master database
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3. Disputes data
4. Other prominent issues
GI Hub PPP Contract Management Tool

Prevalence of renegotiation, by Year N after financial close

Prevalence (%)

Years after financial close

1st year 146 projects
2nd year 146 projects
3rd year 143 projects
4th year 128 projects
5th year 117 projects
6th year 109 projects
7th year 92 projects
8th year 77 projects
9th year 52 projects
10th year 51 projects
11th year 42 projects
12th year 31 projects
Prevalence of renegotiation by sector, based on 146 projects
Managing change (renegotiation, scope changes)

- Introduce policies to limit frequent renegotiations
- Consider the transparency of the renegotiation process and ensure good record keeping practices
- When managing change, the risk allocation agreed at financial close should be retained and value for money ensured
- While limiting frequent renegotiations, also be mindful of opportunities that may be available through renegotiation
- Consider termination as an alternative to renegotiation
- Be aware of the broader implications of a renegotiation, including assessing opportunities for procurement of better PPP projects
EXAMPLE

Opportunities to be assessed

The original plan for expanding the Queen Alia International Airport Expansion project in Jordan had been to execute the project in two stages. Once it became clear that the first stage of expansion would not be sufficient to account for passenger growth, both parties agreed to change the design to allow the expanded terminal to be able to accommodate higher volumes than originally estimated. The incentives for both parties were in alignment, and the changes had a positive impact on the project.

For more information, see the Queen Alia International Airport Expansion Case Study.
Thank you!

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