



Public Private Partnerships (PPPs) in Germany

- Principles of PPP/PFI in Germany -

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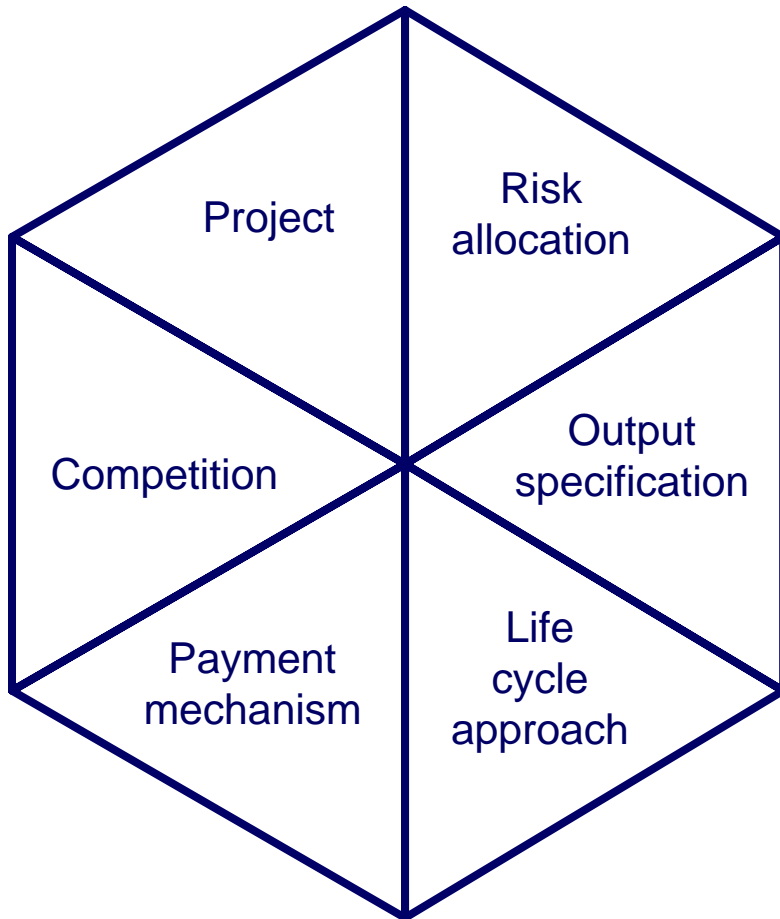
- PPP in Germany
- Providing, Organisation and Financing of the Transport Infrastructure in Germany
- Organisation of HGV-toll
- Challenges for Transport Infrastructure
- The Role of PPP in German Transport Policy

PPP – Our understanding

- PPP/PFI has emerged as an alternative procurement strategy for various sectors of public services
- PPP allows to procure public services more quickly and in an efficient way
- There should be no bias towards either the traditional or the PPP option
 - Experience in the UK:
(only) 20% of public projects fit into the PPP/PFI scheme
- PPP is not a way to
 - “build without money“
 - “invest without money”
 - “save money without spending money“

PPP – Our understanding

Elements of a PPP



Characteristics of a PPP

- A private partner finances a project and achieves a remuneration to refinance his investments, operating costs and in addition an adequate return on capital
- The partnership is fixed in a long-term contract
- The risks are allocated from the partner who is able to manage it
- The life cycle approach integrates all phases of a project like build, operate and maintain
- The services are defined in an output specification
- The payment mechanism is chosen according to the services and sharer risks

Public Services as potential “PPP markets”

State level

- Federal republic

- States /
Federal Laender
 - *16 States (13 territorial states and 3 city states)*

- Municipalities
 - *Cities*
 - *Counties*

Several Public Services

- Legislative Level / Framework
- Federal trunk roads and highways, Federal railways
- International airports (partly)

- Executive Level and States Tasks
- Education
- Country roads, Seaports (partly)
- Buildings of states administration

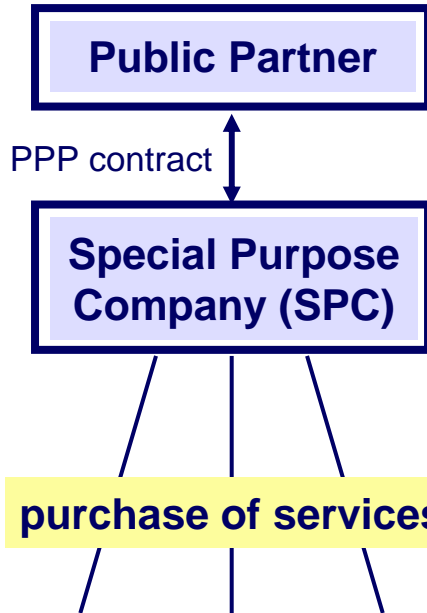
- Municipal Service Level
- Sports fields and public pools
- City halls, hospitals, schools and prisons
- Community supplies like energy networks

Sectors and "Products" for PPP

Transport	Supply/Disposal	Public Real Estates	
Air / Airports <ul style="list-style-type: none"> ▪ <i>Transport and other systems</i> 	Energy / Power, Gas <ul style="list-style-type: none"> ▪ <i>Generation, Transmission</i> 	Administration	Education
Roads / Roads (net) Bridges, Tunnels <ul style="list-style-type: none"> ▪ <i>Transport and other systems</i> 	Water / Drinking water, Wastement Treatment <ul style="list-style-type: none"> ▪ <i>Generation, Treatment, Transmission, Sewers</i> 	<ul style="list-style-type: none"> ▪ <i>City halls</i> ▪ <i>Ministry buildings</i> ▪ <i>Other public buildings</i> 	<ul style="list-style-type: none"> ▪ <i>Kindergartens</i> ▪ <i>Schools</i> ▪ <i>Universities</i>
Railway / Stations, Railway (net) <ul style="list-style-type: none"> ▪ <i>Transport and other systems</i> 	Waste <ul style="list-style-type: none"> ▪ <i>Removal, Disposal, Treatment</i> 	Health	Security
Water / Harbours, Waterway (net) <ul style="list-style-type: none"> ▪ <i>Transport and other systems</i> 	Telecommunication <ul style="list-style-type: none"> ▪ <i>Fixed nets, Mobile nets</i> 	<ul style="list-style-type: none"> ▪ <i>Hospitals</i> ▪ <i>Old peoples homes</i> 	<ul style="list-style-type: none"> ▪ <i>Police buildings</i> ▪ <i>Prisons</i>
	...	Culture	Defence
		<ul style="list-style-type: none"> ▪ <i>Museums</i> ▪ <i>Theatres</i> 	<ul style="list-style-type: none"> ▪ <i>Barracks</i> ▪ <i>Educational centres</i> ▪ <i>Administrations</i>
		Sports / Leisure	Others
		<ul style="list-style-type: none"> ▪ <i>Sports arenas</i> ▪ <i>Public pools</i> 	<ul style="list-style-type: none"> ▪ <i>Faire areas</i>

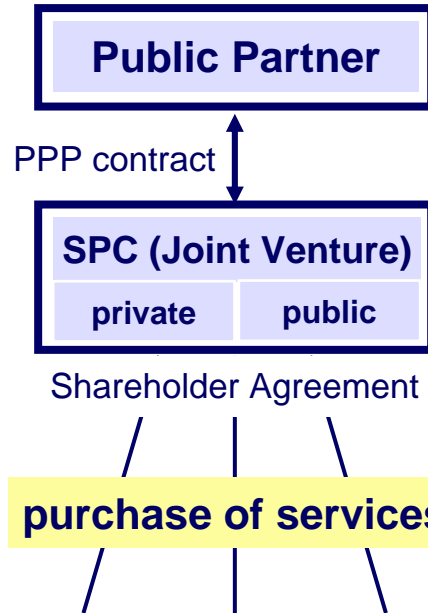
Contractual and Institutional Partnership

Contractual PPP



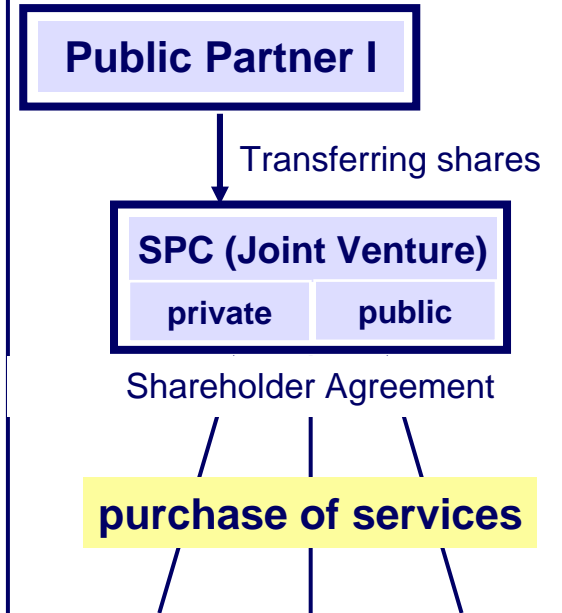
- “Vertical Partnership”
- PPP-Project contract e.g. as service contract
- Functional Privatisation
- without or only with temporal transfer of ownership

Institutional PPP



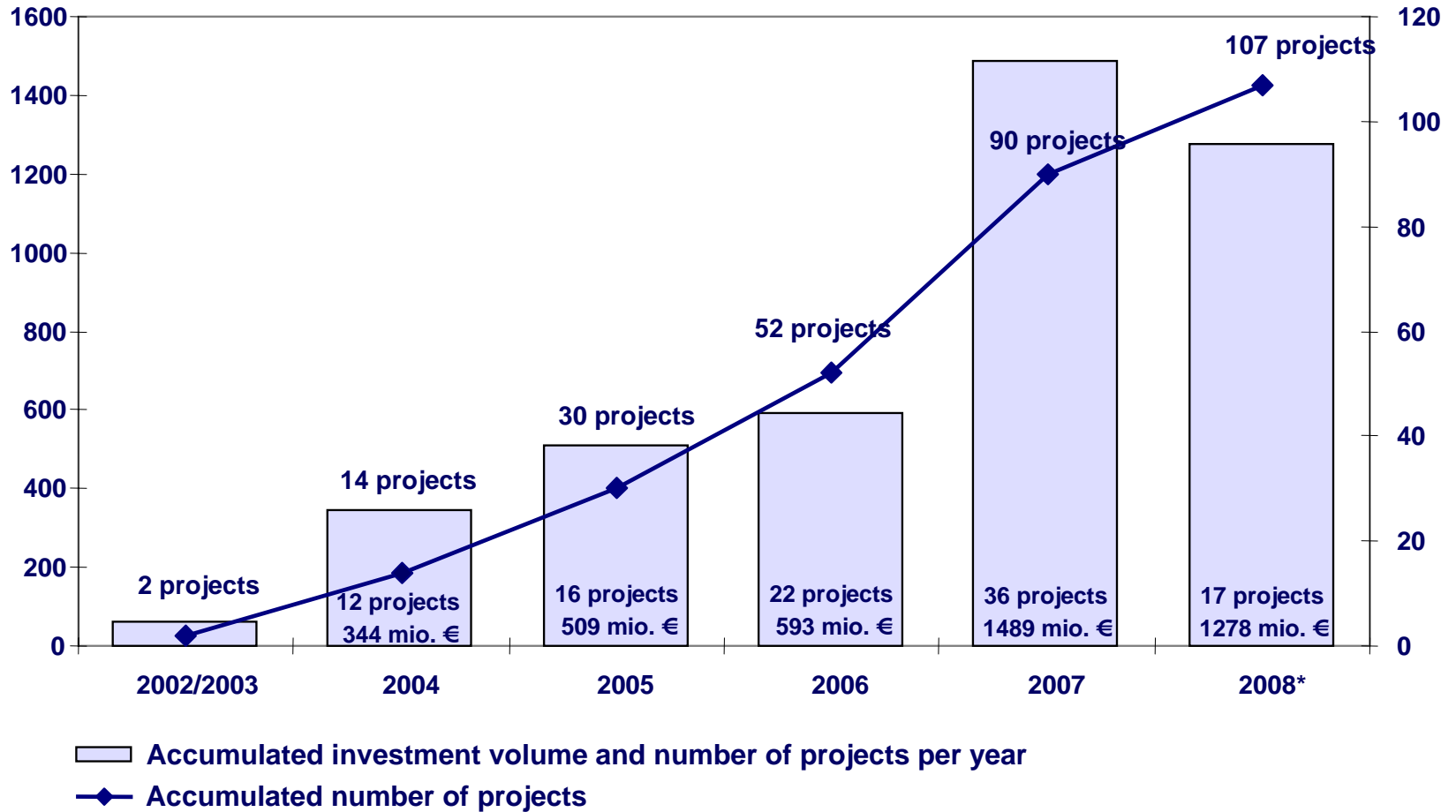
- like Contractual PPP
- but in addition
- “Horizozontal Partnership” at a second level

Partial Privatisation



- “Horizozontal Partnership”
- Shareholder Agreement
- Partial Material Privatisation
- Permanent Transfer of Ownership
- Transferring shares of a public company to a private partner

100 PPP-Projects closed



Investment volume civil engineering: 2.956 m € 99 projects
 Investment volume road construction: approx. 1.321 m € 8 projects

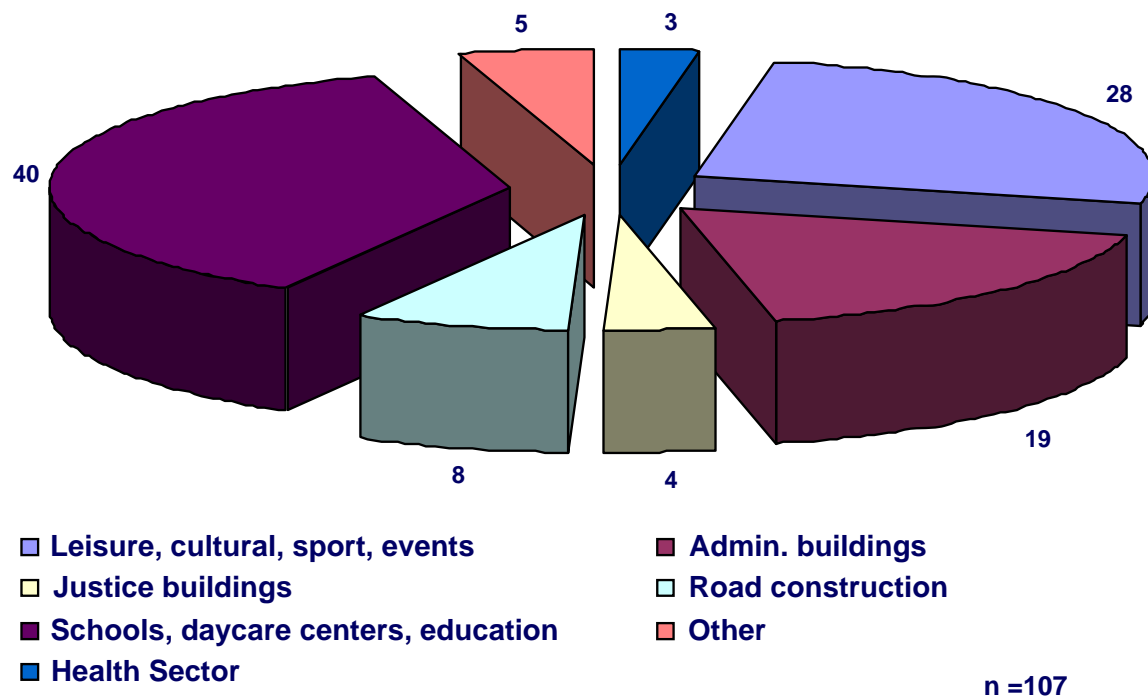
*as of 12.09.2008

PPP Projects in Germany

- Projects with signed contracts (as of 16.09.2008):
 - 99 civil engineering projects and 8 road construction projects
 - Investment volume approx. 3 bn € in civil engineering
 - And more than 1,3 bn € in road construction
 - Average efficiency gain 16,0 %, individual gain between 5 and 28%
 - Estimated savings approx. 680 m €
 - Strong increase in 2007
 - In 2008 so far approx. 1.300 m € investment volume
 - Average duration from tendering to contract 12 months
 - Announced and planned projects
 - More than 140 projects in preparation/announced/in bidding process
-

Projects with signed contracts

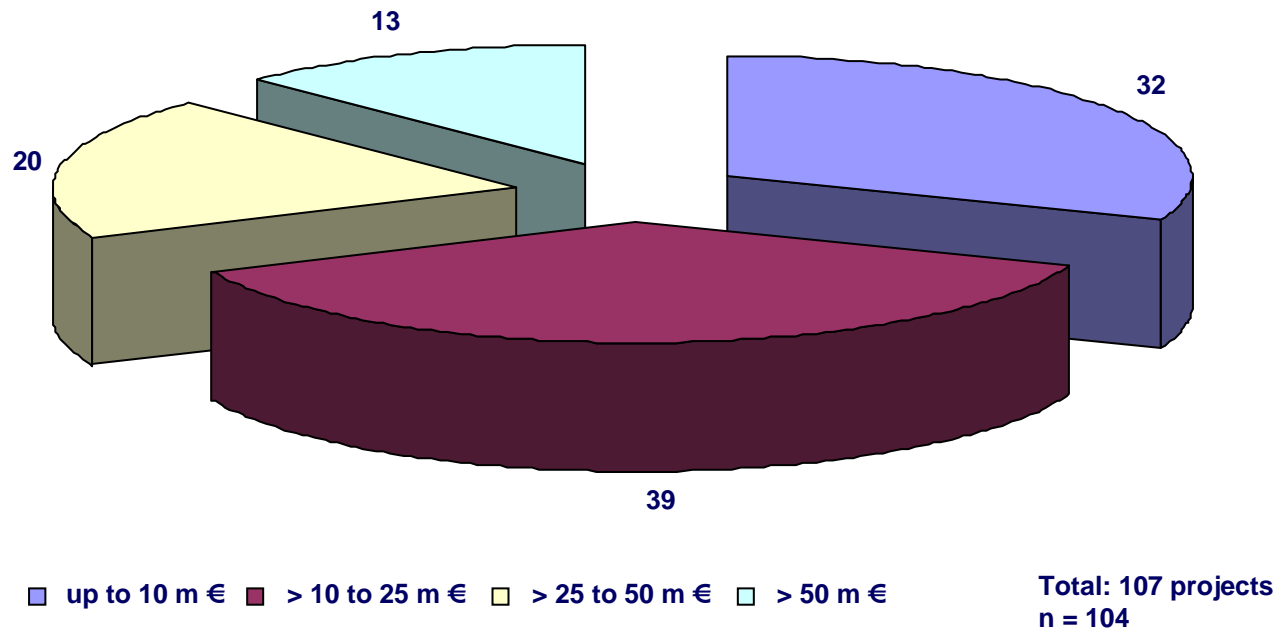
Breakdown according to building category



*as of 12.09.2008

Projects with signed contracts

Breakdown according to investment class



*as of 12.09.2008

Goals of Federal Government with PPP/PFI

- Efficiency
 - Procurement of public services with an optimal ratio of funding and achieved benefits
- Bring forward prior projects
 - Realisation of huge and important projects earlier than the available funds in the annual budget allow
- Modernisation
 - PPPs setting Benchmarks for conventional procurement
 - Optimisation of administration structures
- Innovation
 - Innovative solutions are expected from procurement by the private partner

Evolution of PPP in Germany

Sector

PPP in Buildings

- since 2003

PPP in Roads

- since 1994

Motivation

- Efficiency
- Transparency
- Compare variants of procurement
- Value for Money Assessment
- Additional funds
- Road Pricing / User Financing

Strategy

Hochbaugutachten

FStrPrivFinG / F-Model

Pilot Projects

A-Model

Realisation

- Schools
- Hospitals
- Other social infrastructure
- 2 F-Model Projects
- 4 A-Model Pilot Projects

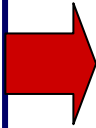
Providing the Transport Infrastructure in Germany

- The network of transport infrastructures is provided by 3 separate levels of federal authorities
 - The federal government represented by the ministry of transport, building, urban affairs and housing (BMVBS)
 - Responsibility for the national transport infrastructure network on federal level and general tasks of transport
 - The BVWP is the plan for the national transport infrastructure network on federal level; it includes roads, railways and inland waterways as different means of transport; the extension and operation of airports mainly belongs to local responsibility but is also considered in BVWP
 - Federal Laender and local authorities are organised differently
 - E.g. tasks of transport partly related to Ministries of Economy
 - Equivalent plans to the BVWP exist for the subordinated network for each level

Federal Transport Infrastructure Network in Germany

State level

- Federal republic
 - Ministry of Transport (MoT)



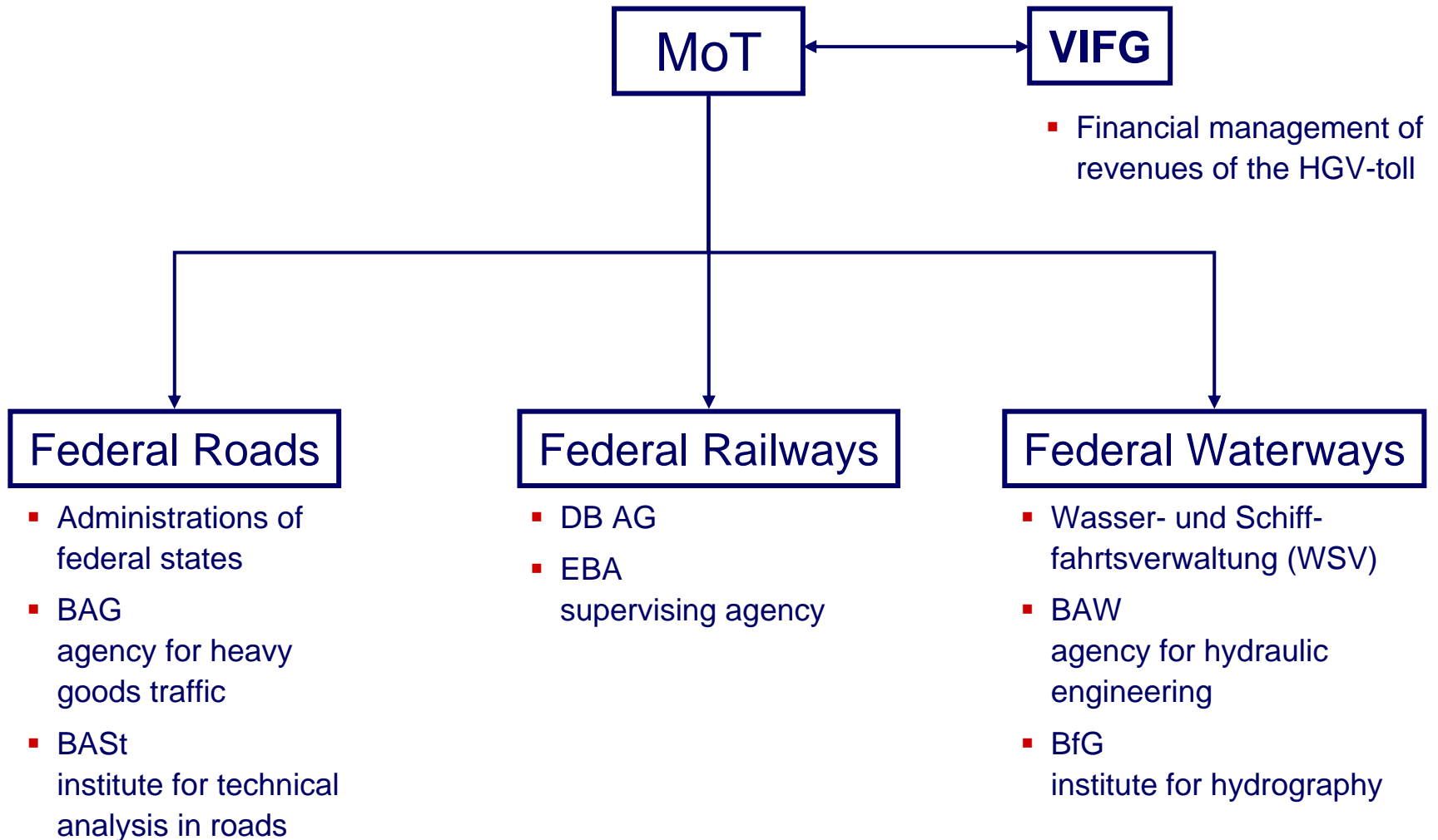
- States / Federal Laender
 - 16 States (13 territorial states and 3 city states)

- Municipalities
 - Cities
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Federal transport infrastructure network (2007)

- Germany's inter-urban road network has a length of more than 231,000 kilometres
- Federal road network
 - *highways (Bundesautobahnen):* 12.550 km
Traffic volume: average of 50.000 vehicles per day (up to 150.000 on some sections)
 - *trunk roads (Bundesstraßen):* 40.700 km
Traffic volume: around 10.000 vehicles per day
- Federal railway network
 - *Lines (with 1 or more tracks):* 34.128 km
 - *High speed lines (v > 160 km/h):* 3.224 km
- Federal national waterway network
 - *Canals, Rivers and Maritime Lanes (2005):* 7.354 km

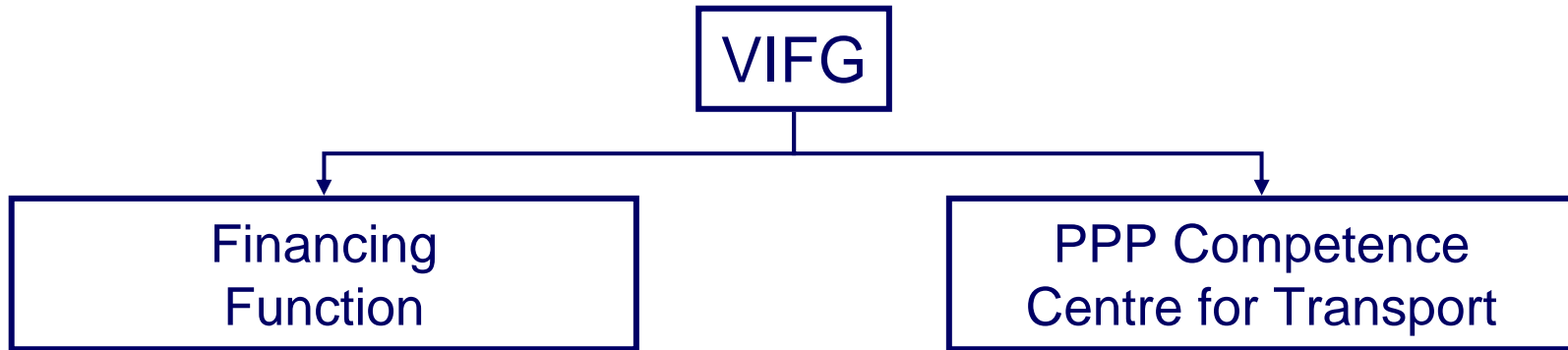
Organisation of the Transport Infrastructure in Germany



Foundation of the VIFG

- The VIFG was founded in 2003 following the recommendations of the “Pällmann-Kommission” and is based on the VIFG act.
- Government objectives:
 - Point out the connection between charging the users and using the charges
 - Finance programs for different transportation infrastructures (road, rail, waterway)
 - Relieve the public sector of certain tasks
- ABMG § 11 (toll revenues):
 - The toll revenues belong to the federal government. Costs for operation and control of the toll system as well as the administration costs for the VIFG are paid from toll revenues. The remaining toll revenues are completely fixed for objects in the traffic budget aiming to achieve the improvement of the transportation infrastructure, mainly for the trunk roads. The revenues and the costs are balanced differently in budget.

Functions and Tasks of the VIFG



- Provision of investment capital
- Financial management
- Adjustments between different transport infrastructures
- ...
- Financial compensation for federal states in case of the road tax refunds

- Provision of support to the project executing organisation
- F- and A-Model projects
- Development of new private operator programs
- ...

Competence Centre „PPP in the Transport Sector“

- Supporting the project executing organisations that are realising PPP projects in transportation sector, particularly in F-Model and A-Model projects.
 - In addition the VIFG is supporting two chosen municipal projects since 2007
- Bundling of existing investigations of PPP for the transport sector
- Evaluation of international experiences and analysis of the transferability to German cases
- Analysis of efficiency and feasibility of existing and new developed PPP-models for PPP-measures in transport sector
- Concentration and interpretation of past ideas of different models plus pointing out appropriate models for future developments in BOT
- Support the modernisation of administration with experiences from PPP

Financing the Transport Infrastructure in Germany



- Federal Roads
 - Federal budget
 - Revenues from HGV-toll



- Federal Railways
 - Federal budget
 - Capital Resources from DB AG



- Federal Waterways
 - Federal budget
 - User fees for waterways

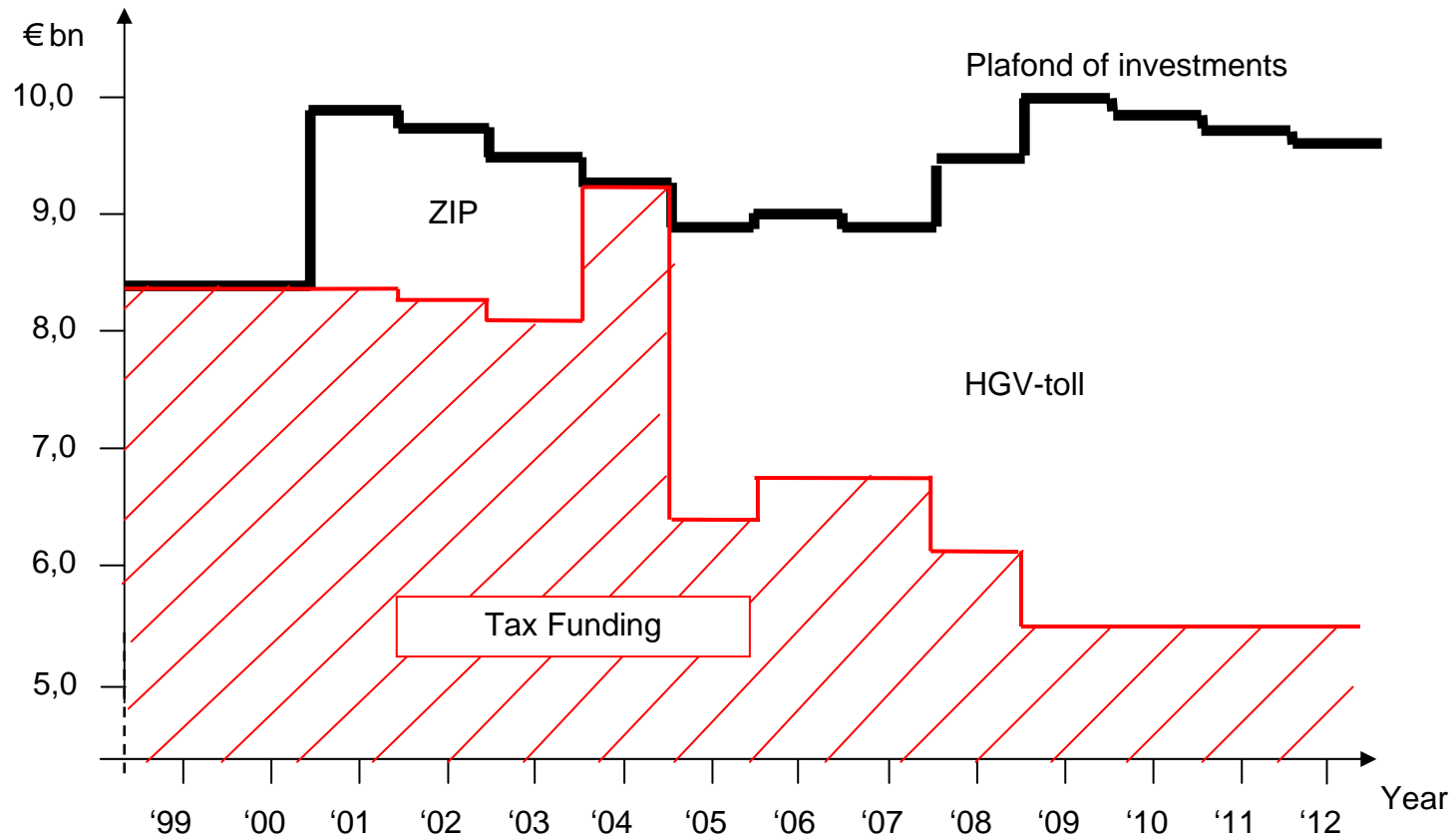
Annual Budgets for Transport Infrastructure

- Investments in federal roads without a appreciable boost in spite of enhancement of HGV-toll

	Actual 2007	Target 2008	Draft 2009	Plan 2010	Plan 2011	Plan 2012
Federal Budget	€ 261,6 bn	€ 283,2 bn	€ 288,4 bn	€ 292,4 bn	€ 295,2 bn	€ 300,6 bn
Transport	€ 20,3 bn	€ 20,7 bn	€ 22,3 bn	€ 22,0 bn	€ 21,9 bn	€ 21,9 bn
Investments						
Roads	€ 4,93 bn	€ 4,93 bn	€ 5,23 bn	€ 5,04 bn	€ 4,89 bn	€ 4,85 bn
Railways	€ 3,40 bn	€ 3,70 bn	€ 3,92 bn	€ 3,92 bn	€ 3,92 bn	€ 3,92 bn
Waterways	€ 0,59 bn	€ 0,80 bn	€ 0,90 bn	€ 0,89 bn	€ 0,88 bn	€ 0,87 bn
Investments total	€ 8,92 bn	€ 8,43 bn	€ 10,05 bn	€ 9,85 bn	€ 9,69 bn	€ 9,64 bn

Annual Budgets for Transport Infrastructure

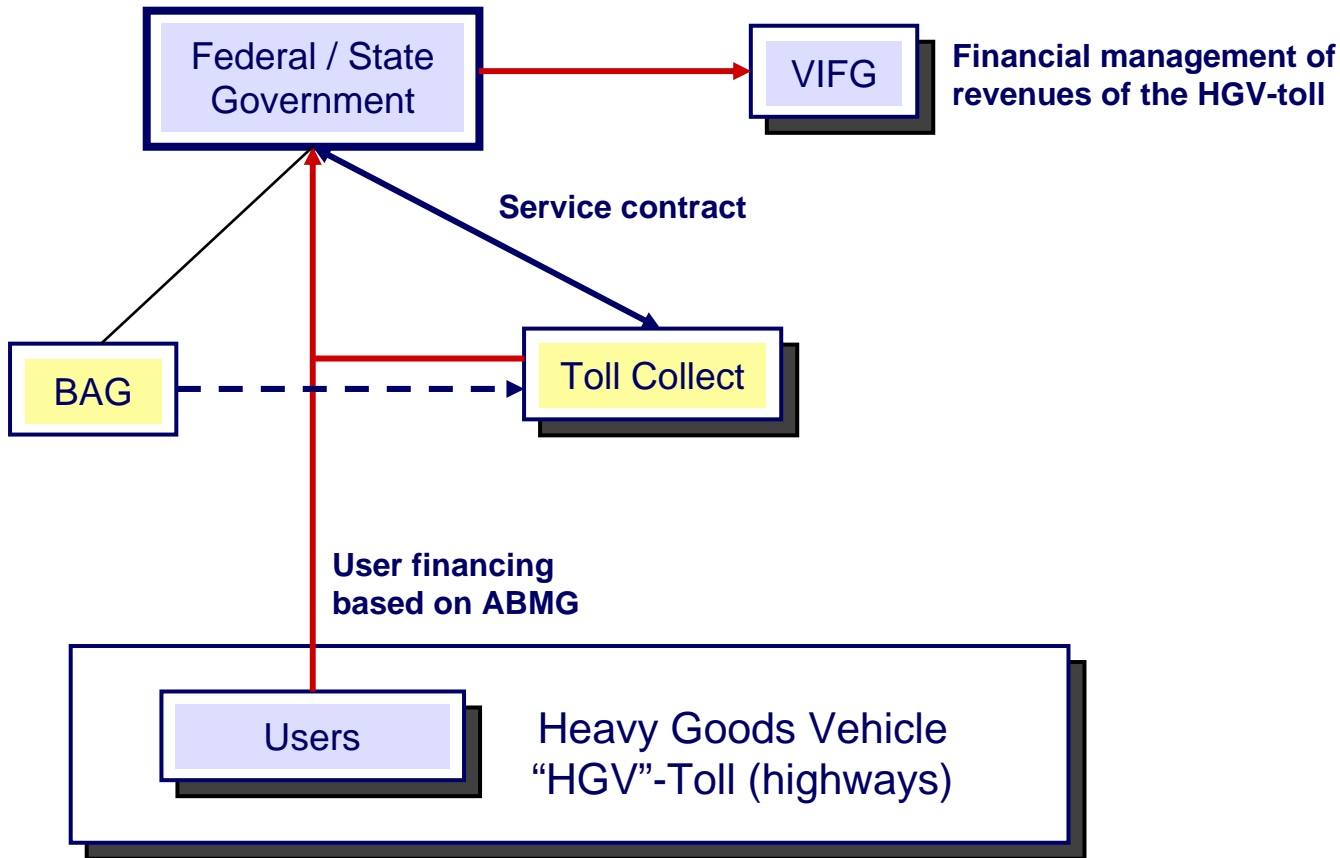
- Revenues from HGV-toll do not enhance investments in transport infrastructure; investments from federal budget decreasing simultaneously



Legal Framework of HGV-Toll

- HGVs with a maximum permissible weight of at least 12 t on federal highways
- Started on 1st of January 2005
- Average toll rate:
 - 12,4 cent/km when started
 - 13,5 cent/km now
 - between 16,3 - 18 cent/km expected in 2009
- Differentiation according to axles and emission classes
- Charging based on the exact number of kilometres driven
- Toll revenues aroused from €3 bn (2005) up to €5 bn (2012)
- Earmarking of revenue

Organisation of the HGV-toll



Legend:

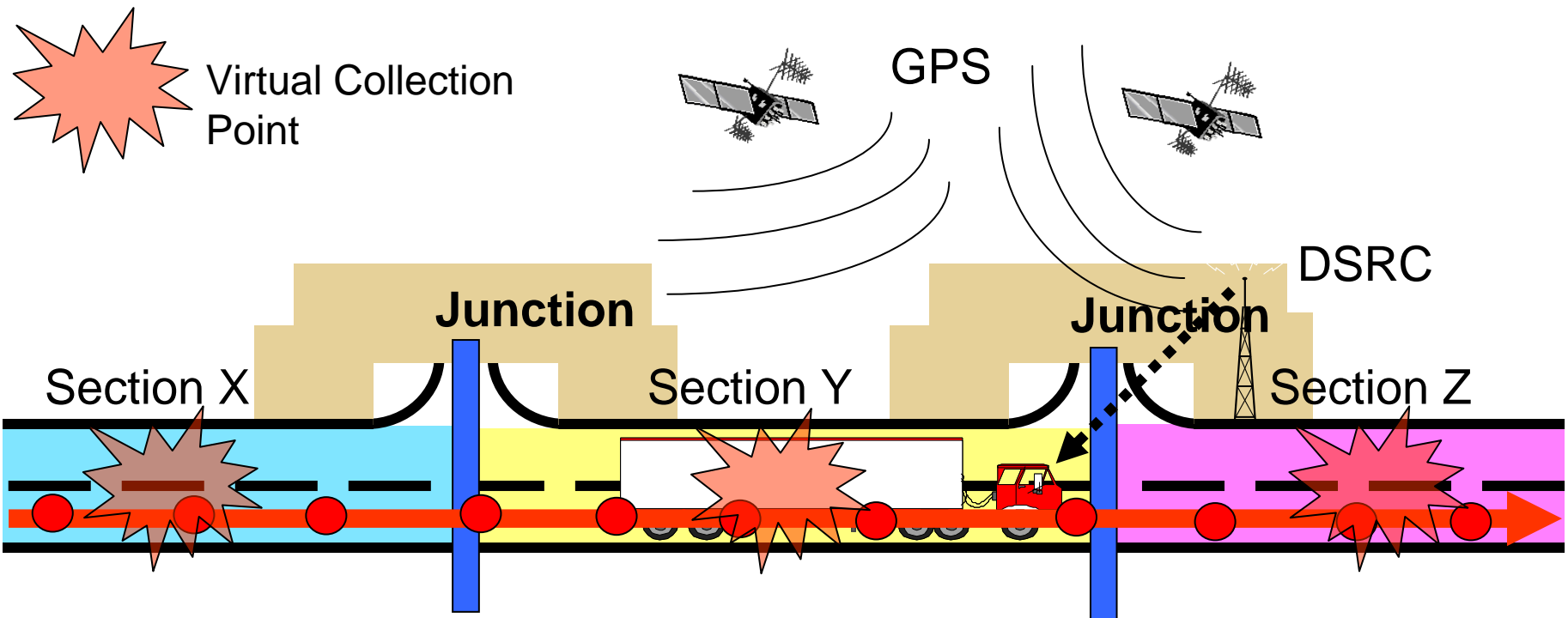
- Toll payments / forwarding
- ↔ Contractual relation
- Implementation of federal tasks
- BAG** Controlling Entity for Toll Collect

Collection of HGV-Toll



Collection of HGV-Toll

- Charges established by virtual collection points



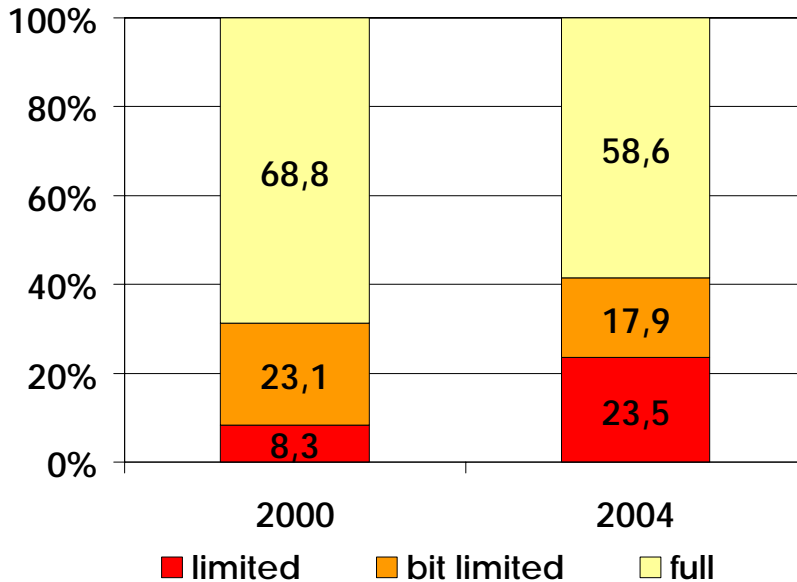
Challenges for Transport Infrastructure

- Evolution of Traffic
 - The long-term forecast of traffic growth has still begun
The forecast has already been overtopped at 6%;
even 8 years earlier measured to the planned year of BVWP (2015)
 - The net capacity for handling up the goods traffic is an essential question mark for the business location of Germany.

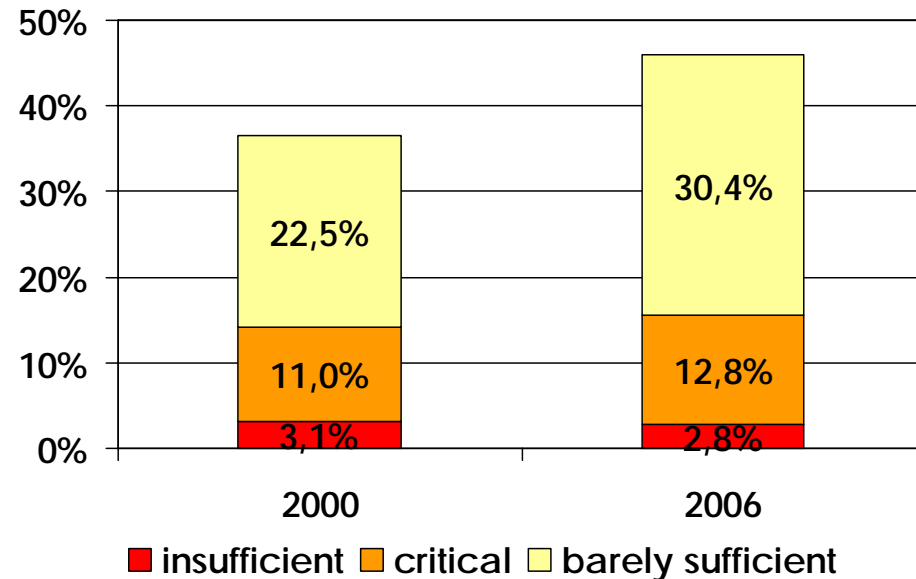
	goods traffic forecast up to 2015 (BVWP)	long-term forecast 2025	actual performance 2007	%
Railways	148 bn tkm	152 bn tkm	114 bn tkm	18
Roads	374 bn tkm	704 bn tkm	466 bn tkm	78
Waterways	86 bn tkm	80 bn tkm	65 bn tkm	10
Goods Traffic total	608 bn tkm	936 bn tkm	645 bn tkm	100

Challenges for Transport Infrastructure

- Serviceability of federal trunk roads (Bundesstraßen)



- Condition of bridges in federal roads network
app. 45% need renovation



Transport Policy of the BMVBS

- Planning process in transport policy
 - Disposition of a national transport plan (BVWP) to specify the needs and to divide them by priority
 - Mid-term investment strategies are fixed in five-year plans
investment framework gives certainty for planning and investments up to 2010
 - Declaration of annual financial needs for the disposition of the budgets
 - Important strategy plans for the transport sector are picking up PPP-issues explicitly
 - Recommendations of the Pällmann-Kommission (1998)
 - Master plan for good traffics and logistics (draft 2008)
 - Target of federal government:
achieving a part of 15% of PPP on the whole investments of the federal budget
-

Financing of PPP-Projects

- Financing of PPP in federal budget
 - Commitment authorities (VE's) for PPP-projects decrease the free disposable quantity in roads budget for following years
 - Whereas in A-Models the quality is determined during the transfer period and the financing is secured by the commitment authorities, it is not the same in conventional schemes
 - The structural underfinanced budget is getting worse by a-models, so that the economic variant could not be chosen in case of the almost constant ceiling.
- The PPP-strategy of transport policy currently concentrates on project level
 - PPP for realization for several projects (in a more economic way)
 - PPP is not established as an instrument for a sustainable modernization of administrations

Financing adjusted to the needs in infrastructure

- To come up to the responsibility for a transport infrastructure with financing adjusted to the needs the policy requires solutions in treasury politics
 - Proposal of the Pällmann-Kommission:
change of the system from tax financing to user financing should guarantee the good quality and quantity of the supplied transport infrastructure.
 - Conclusion of the Pällmann-Kommission:
PPP as a variant for procurement cannot display its full economic advantages in the total system until this change is implemented.
 - Current proposals for financing transport infrastructure from several alliances and scholarship are based upon these principles, even though the implementation in detail is favoured in different ways.

Political Business Foundation for PPP-Projects

- The success and the acceptance of PPP-projects is highly influenced by the fact, that there is a clear political statement over the whole lifetime of the projects
 - PPP today is often still noticed as a compromise to solve financial problems. This leads to an interior distance to the project
 - PPP should not be seen as a „stand-alone“-solution. PPP offers a positive share to solutions when it is understood as part of an combined conceptional approach of PPP and conventional procurement
 - A clear and positive position of decision makers to the projects and participants after project start is also necessary
 - This helps to reduce the participant's reservation against PPP