

# OPS/PPP and Co-financing in Road Infrastructure Development in Sweden

A Status Report

by

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## **Alternative financing** of road infrastructure

1. State loans through the National Debt Office
2. Loans through project financing companies
3. PPP (OPS)
4. Road tolls / charges
5. Co-financing municipal/regional/other

## PPP/OPS is

**not** a way of financing infrastructure,

it is rather

a form of contract, a way of providing infrastructure, that uses the financing mechanism as a tool to achieve increased efficiency, i.e. "more road for the tax-payers' money"

# PPP

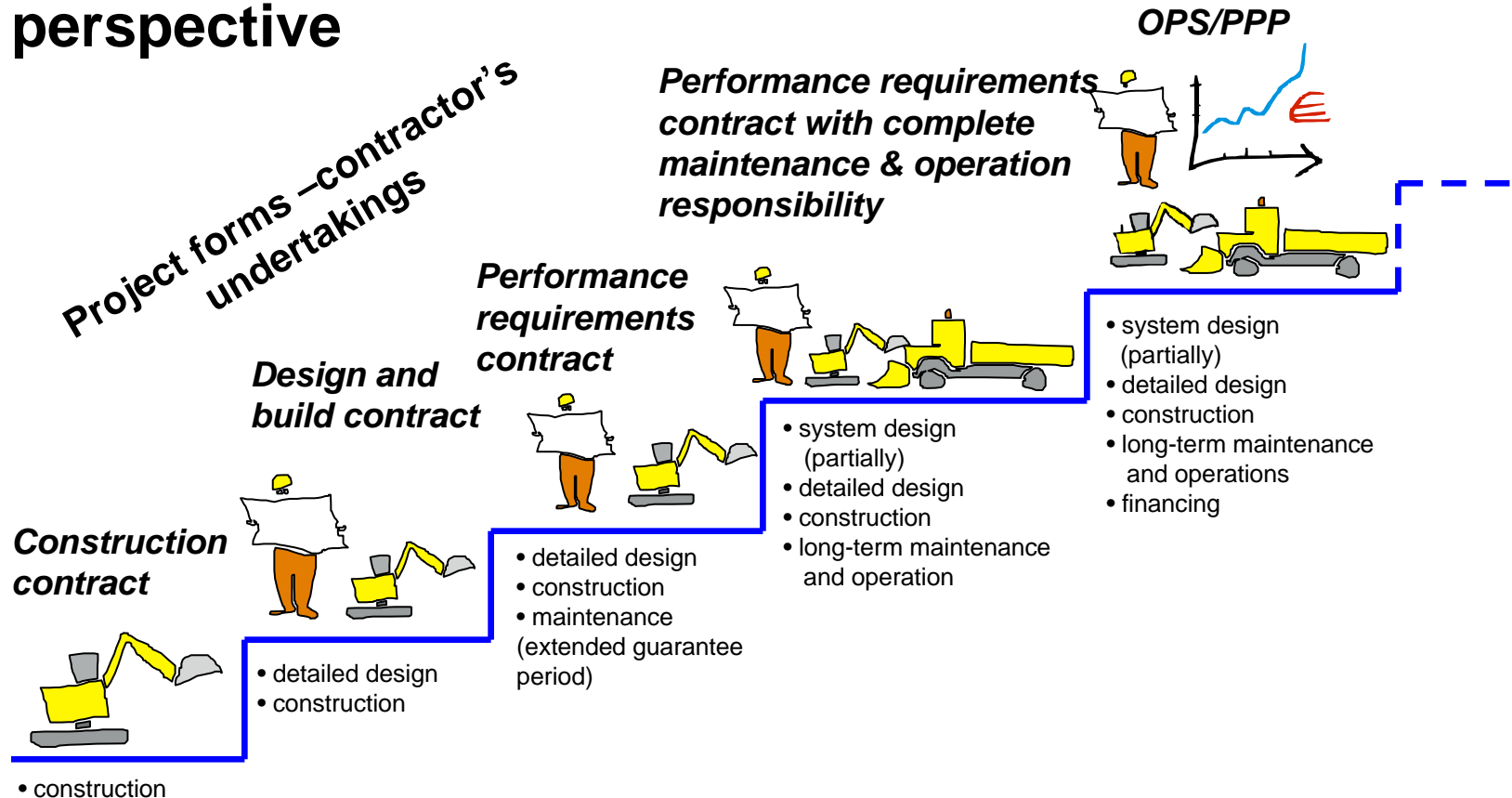
## **Component activities in a PPP project (DBFO)**

- Design
- Build
- Finance
- Operate and maintain for 20-30 years

**Remuneration paid during the operation period based on how well the performance requirements are met in terms of**

- Availability
- Maintenance and operation
- Road safety, environment, etc

# OPS/PPP – An extension of a design and build contract and the next logical step from a LCC perspective



# PPP / OPS

## *Advantages include:*

- Efficient risk allocation
- Incentive for creative solutions
- Shorter construction periods
- Earlier availability of infrastructure that is of socio-economic benefit
- Holistic approach based on a LCC perspective
- One party responsible for optimizing the sum of all costs of infrastructure (construction, maintenance & operation and capital)

## *Disadvantages:*

- Complicated procurement
- Higher capital expenditure

# What is gained by using OPS/PPP as compared to design and build or performance requirements contracts?

- 3rd party insight/involvement increases discipline
- Effective risk allocation (with economic "pressure" on the PPP company, something that does not exist through public funding)
- Strong incentives to open the road to traffic as early as possible (focus on planning and production)
- One party responsible for optimizing the sum of all costs of infrastructure (construction, maintenance & operation and capital)
- Strong incentives (from both parties) to solve conflicts

# Basic requirements for a successful PPP in Sweden

- Full political support and an understanding that it involves long-term cooperation
- Begin “simple” with the right type of project
- Aim for a sensible allocation of risks between the parties
- Remuneration principles should be adapted to the type of project
- Invest resources in the preparations
- Focus on life cycle cost and “output”
- Avoid detailed control over the technical design of the project (“design freedom”)



# Criteria for choosing PPP projects

- Criteria we currently believe in:
- Appropriate investment size, ca SEK 1-3 billion
- Planning stage: approved final design plan
- Prioritised and well-demarcated
- Efficient allocation of risk
- Not a high-risk project
- Added value from operation and maintenance aspects, life cycle cost
- Contract term of 20-30 years should be permitted (i.e., no re-construction in the near future)

# Swedish PPP model, some basic principles

- **Final design plan** (approved at the time when the contract is signed) suitable for procurement
- **Basic contracts** and clear enquiry documents and other information to tenderers to minimize transaction costs
- **Performance requirements** which (as far as possible) correspond to the goals in transport policy (+incentives)
- **Risk allocation** optimising cost efficiency (risks should be borne by the parties best equipped to do so)
- **Overall responsibility**, design-build-operate-maintain => LCC perspective
- Close **cooperation** to maximize the advantages/opportunities of the model
- Remuneration based on **availability** and how well the **performance requirements** are met

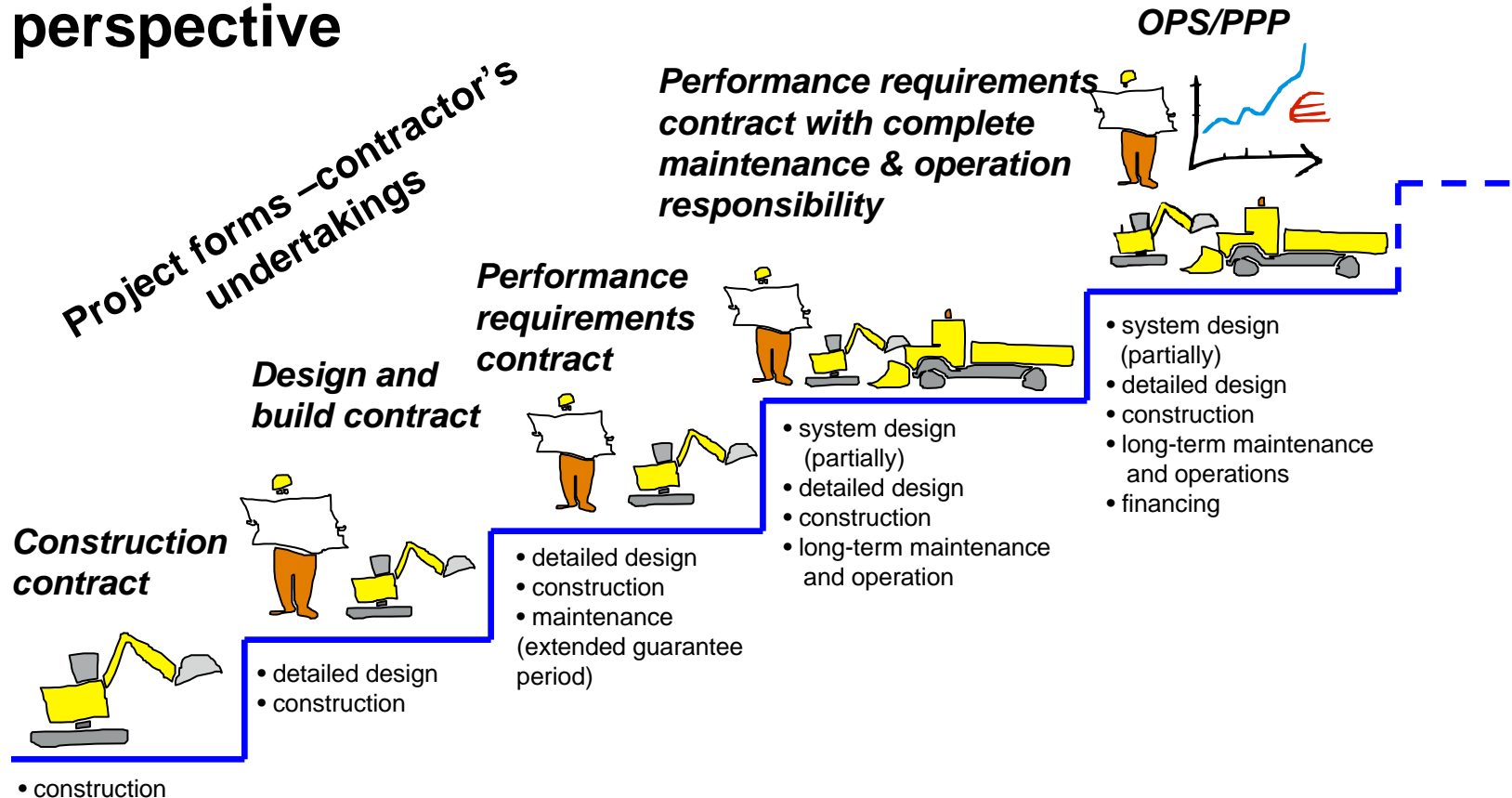
## Government report, June 2007

- PPP / OPS is worth trying
- Swedish model for PPP / OPS presented
- Four shortlisted projects
  - National Road 50 Mjölby - Motala (including the bridge across Skepparpinan)
  - E22 Hurva - Kristianstad
  - E4 Sundsvall South (including the bridge across Sundsvallsfjärden)
  - County Road 259 Södertörnsleden

## Recent developments

- PPP/OPS currently not on the political agenda
- Increased focus on co-financing
- Government interest in developing new and more efficient forms of providing (although government-funded) infrastructure remains

# OPS/PPP – An extension of a design and build contract and the next logical step from a LCC perspective



## Government report, April 2008

- Letter of Intent, co-financing of three projects:
  - National Road 50 Mjölby – Motala (including the bridge across Skepparpinan)
  - E4 Sundsvall South (including the bridge across Sundsvallsfjärden)
  - Umeå "package" including the western bypass
- General model for co-financing
- Guidelines for developing new efficient forms of providing infrastructure