



Public Private Partnership: From PFI to PDP Alliancing Procurement Models

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Project Objective Success

“ Behind every successful Project, there is always a good leader and a great team”

S. Rowlinson & F.Y.K. Cheung [2004]
on Relational Contracting

But a Good Leader and a Good Team needs the
Right Project Procurement Model & Contract

- VFM Driven PPP Procurement Structures
- Private Finance Initiative the Main Structure
 - Ninth Malaysian Plan & National Privatization Plan
- Driven by Outsourcing Finance & Perception of VFM
 - Build Operate & Transfer
 - Build Operate Own & Transfer
 - Build Operate Lease & Transfer

The Positives of PFI

- Leveraging Private Sector
- Project Delivery + Operation & Maintenance
- Optimal Risk Transfer/ Government Risk Minimised
 - More Legal & Political than Financial
 - Possession of Sites & Certain Uninsurable Force Majeure Risk
 - Change of Objectives & Requirements
- Efficient , Effective & Encourage Innovation
- Integration of Design, Construct, Operate & Maintain
- Projects where Return on Capex & Opex Attractive

Negatives of PFI

- Over Compensation based on Concession Period
- Whole Life Cost v Concession Period Cost (Variable NPV)
- Private Sector Borrowing Cost
- Impact of Agreed Increases in Tariffs to the Public
- No or Very Little Control During Build & Operate
- Difficult to Establish True Performance & Service Output Measurements
- Danger of Condition on Transfer
- No Real Measure for VFM v Public Sector Comparator

Negatives of PFI

- PSC Subjective, Simplistic, Inaccurate & Lacking in Transparency & no Public Interest Assessment
- Polarised Perspective of Risks
- Over optimistic view of amount of Risks that can be transferred to the Private Sector

PFI in Malaysian Context

- PFI as a means of Socio Economic Objective
 - Encourage the development of Bumiputera entrepreneurship to embark on PPP/PFI procurements (PEMANDU , Annual Report 2011)
- Assisted Financing for Private Sector
 - EPF Funding
 - Facilitation Fund of RM20 billion from Government (for Land owned by SPV)
 - Islamic Finance using Sukuk Mudarabah

PFI in Malaysian Context

- Public Private Partnership Unit Guidelines
 - 3 short listed companies for evaluation + Direct Negotiations & Non-Transparent PQM
- No Facilities Management Company
- Review of Projection of Returns: Early Transfer
- Tariff Control in Exchange for Extended Concessions
- KPIs on Construction & Maintenance with Penalties (including LAD for delays)

PFI – Case Studies

- Plus North-South Expressway
 - Completed 15 months ahead of Schedule
 - Government Compensation for Toll Tariff Control
 - Government Guaranteed Return on Capex and Opex + Financial Obligations + Profit
- LRT
 - No Guarantees & Tight Fare Tariff Control
 - Non-Integration with other Transport System
 - Public Transport: Fare Box Revenue Forecast Poor
 - Concessionaire Insolvent, Government Bail-Out

PFI – Case Studies

- Seremban – PD Highway
 - Socio-Economic Impact of PD
 - Feasibility Traffic Studies Not Met
 - Concessionaire Insolvent, Government Bail-Out
- Metramac Highway
 - Public Demonstrations Over Toll (no alternative route)
 - Concession Agreement Terminated
 - Unspecified Compensation paid by DBKL

Hunt for New Models

- Success of BP's Andrews Oil Field Project
- Latham's Report (1994): "Construction the Team"
- Australia's Success in Highway Projects using Alliancing
- Private Sector: Partnering or Project Alliancing

Business Partnering

- Lateral or Vertical Partnering
 - Business Alliance: Long Term Business Strategy
 - Not Project Specific
 - MMC-Gamuda (lateral)
 - Petronas (vertical down stream with suppliers & service providers – Petronas Licensed)
 - Enforced Partnering : Local or Bumiputera Participation

Public-Private Partnering

- Long Term Business Partnering Possible?
 - Success : Long Term Supply Arrangements (Welsh Water Authority & Pipe Supplier)
 - Failures: Political Concerns, Lack of Transparency & Non-Competitive Pricing
- Project Specific Partnering: Project Alliance
 - Pioneers : US Army Corp of Engineers & Arizona Department of Transport

Project Alliancing

“ An agreement between Public & Private Sector to work cooperatively to achieve agreed outcomes on the basis of shared risks and rewards”.

A balance between VFM + Public Interest +
Community Acceptance + Service Quality +
Planning & Integration Quality + Innovation +
Economic Externalities v PSC

Project Alliancing – Key

- Sharing of Risks (lose-lose)
 - Unless transferred to 3rd Parties (insurance)
 - Unless inherently rest with the Party (payments & resources)
 - Performance Obligations seen as Collective
- Sharing of Rewards (win-win)
 - Target Price or Guaranteed Maximum Price Savings
 - Continuous Value Engineering & Innovation
 - KPI milestone Bonuses

Project Alliancing – Key

- No Blame, Best for Project Philosophy
- No Dispute Clause except for Willful Default
- Enforced Structure for Risks Monitoring and Risks Solving
 - NEC: Joint Risks Register, Allocate Responsibility for Action & Monitor Information
 - Information Not Data, Excess to Partner's Information
 - Risk Review Meetings
 - Contingency Planning

Project Alliancing – Key

- Limited Class of Events of Default
- Joint Management Team
- Integrated Project Team
- Incentive to Maintain Design & Tendering Team during Construction
- Alliancing Charter: mission, objectives and behavioral commitments
- Competitive Single or Multi Target/Max Cost
Early Involvement

Why Alliancing?

- Reduces Litigation
- Improves Cost Controls
- Improves Time Controls
- Improve Product & Performance Quality
- Efficient & Non-Blame Trouble Shooting
- Efficient & Non-Blame Solution Driven Problem Solving
- Closer Relationship & Enhanced Communications
- Continuous Improvement

Direct Contract Alliancing

- None in Malaysia
- Are we ready – culture, attitude and behavior?
- Government Open Book with Alliance Contractors
- Government's Team Not Ready?
- Some Concepts of Alliancing like Shared Risks & Gains for Certain Matters such as Material Price Fluctuation is Norm

PDP Alliancing : MRT

- MMC-Gamuda KVMRT Sdn Bhd
- Private Program & Project Management Alliance
- Contract with the MRT Corp (Ministry of Finance: Government)
- Target Delivery Cost & Schedule
- Fee of 6% of total aggregate work package contract value fee (about RM14.7 billion but excludes tunneling package of RM8.28 billion)

PDP Alliancing: MRT

- RM2.75 billion reimbursable
- Target Schedule
 - Phase 1: Sungai Buloh to Semantan: December 2016
 - Phase 2: Rest of Line : end July 2017
- > Target Delivery Cost or Schedule
 - Shared Risk by % reduction on 6% fee (formula)
- > 15% of Target Delivery Cost
 - Full Risk

PDP Alliancing: MRT

- 8 Viaduct Packages (8 Main Contractors)
- 8 Elevated Stations (8 Main Contractors)
- 60 other Packages covering Relocation, Earthworks, Piling, Demolition, Systems & Specialist M&E works
- Large Number of Prime Cost Works for Stations
- Develop the Design & Specs & Approvals & Advise on Packages, Tenders, Evaluating Bids

PDP Alliancing: MRT

- Tripartite Contracts with Main Contractors
- Manage and Administrate the Contracts Entirely
- Step In Provision for Failing Main Contractors
- Government has Independent Engineering Checkers

PDP Alliancing: MRT

- How much Float is there in the Target Delivery Cost & Schedule?
- Target Delivery Cost & Schedule Variable depending on Government Defaults
 - Depends on how well the PDP bargained and allowed for these matters
- Government Variations: Reported to be 0.87%
- Possession of Land Delays for Some Stations?

PDP Alliancing: MRT

- Tunneling Package RM8.28billion
 - PDP allowed to bid since only Malaysian company with expertise (Smart Tunnel)
 - Was there a Dutch Tender to ensure Malaysian Participation?
- MMC Gamuda awarded the Tunneling Package - Direct Contract with MRT Corp
- MRT Project: Hybrid PDP
- Was this a Carrot for Tighter Delivery Target Cost?

Reasons for PDP Alliancing

- Unattractive or Uncertain Returns (More Public Less Commercial Interest Projects)
 - Government's direct involvement Required
- Brown Field (High Impact on Public & High Risk on Time & Cost Project)
- Schedule is Priority & Budget Surety Needed
- Cap on Government Risk
- Single Point Responsibility

PDP Alliancing

- Benefit of Multi Contractor Pricing
- Not Confident of Own Ability to Manage & Integrate
- VFM v PSC
- Relationship with PDP in other Direct Contracts
- PDP has the skills and experience
- PDP has a sufficient balance sheet strength

Other PDP Experiences

- Crossrail Project (USD 12bil): Bechtel/Systra
- Korea High Speed Rail (USD 16bil):
Bechtel/Hyundai
- Channel Tunnel Rail Link (USD 11bil): Bechtel
- Qatar Bahrain Causeway (USD 6bil): Vinci
- Moscow Airport (USD 11bil): Bovis Lend Lease
- MRT 2, Malaysia?

PDP Successes

- London Olympics (USD 10bil): Laing O'Rourke
 - NEC Alliancing Contract used with Contractors
 - PDP + Alliancing Style Management

“Whichever Innovative Model is used, it is how the Management Teams display a fundamental commitment towards valuing success of the Project as their success which makes the real difference: But they need help from the right Procurement Model”



Thank You