



Comitato Interministeriale Programmazione Economica
Unità Tecnica Finanza di Progetto



**FMI meets
Italian PPP Task Force**

October 25th, 2005

**THE PPP
EXPERIENCE IN
ITALY
(1999 – 2005)**

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Ministry of the Economy and
Finance*



PPP/PFI Italian Market



The way forward



Legislative Reform



Appendix A – A case study: PPP in the Healthcare



Appendix B - Selected Projects





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PPP/PFI

Italian Market

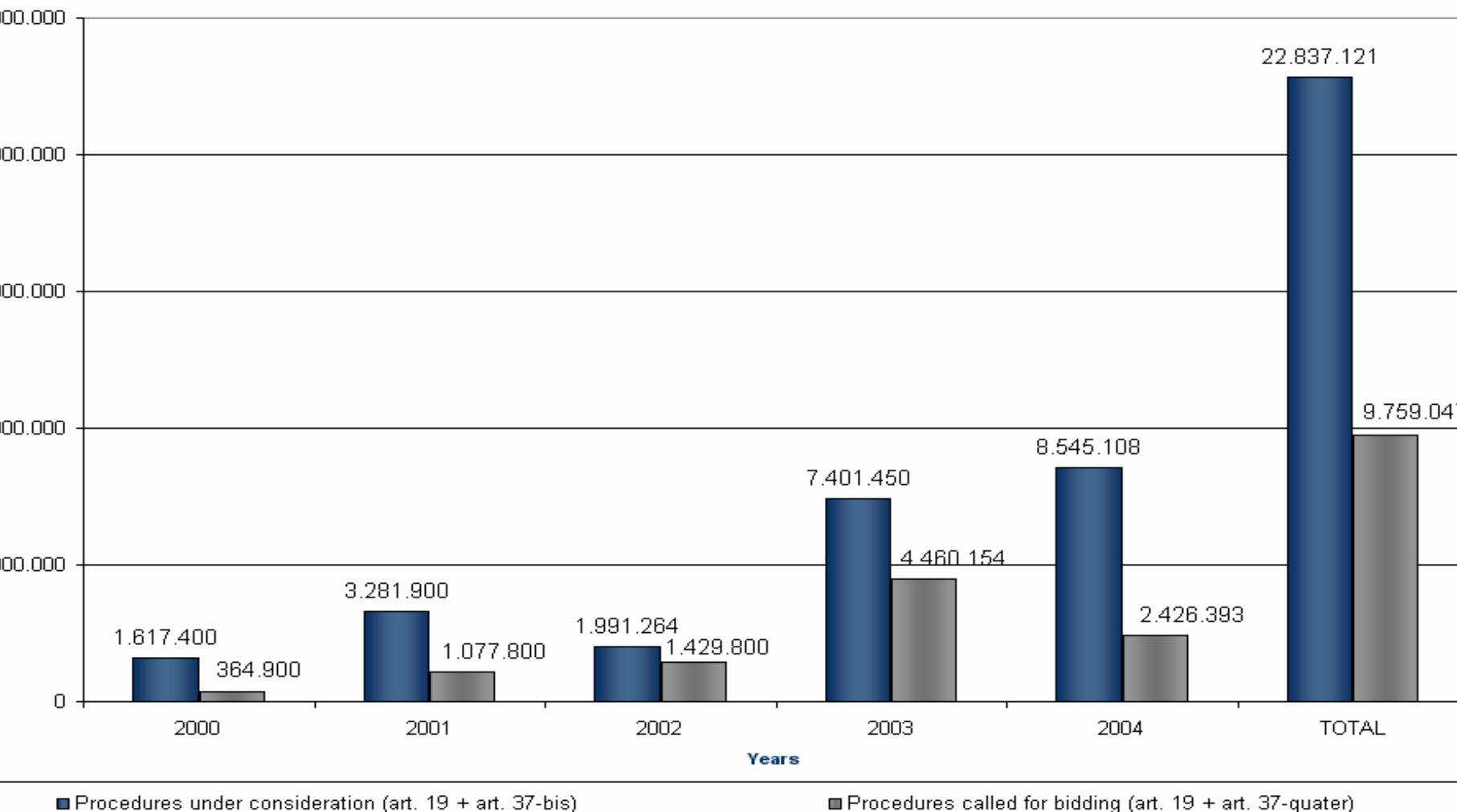


From decision to planning: financial aspects of project appraisal

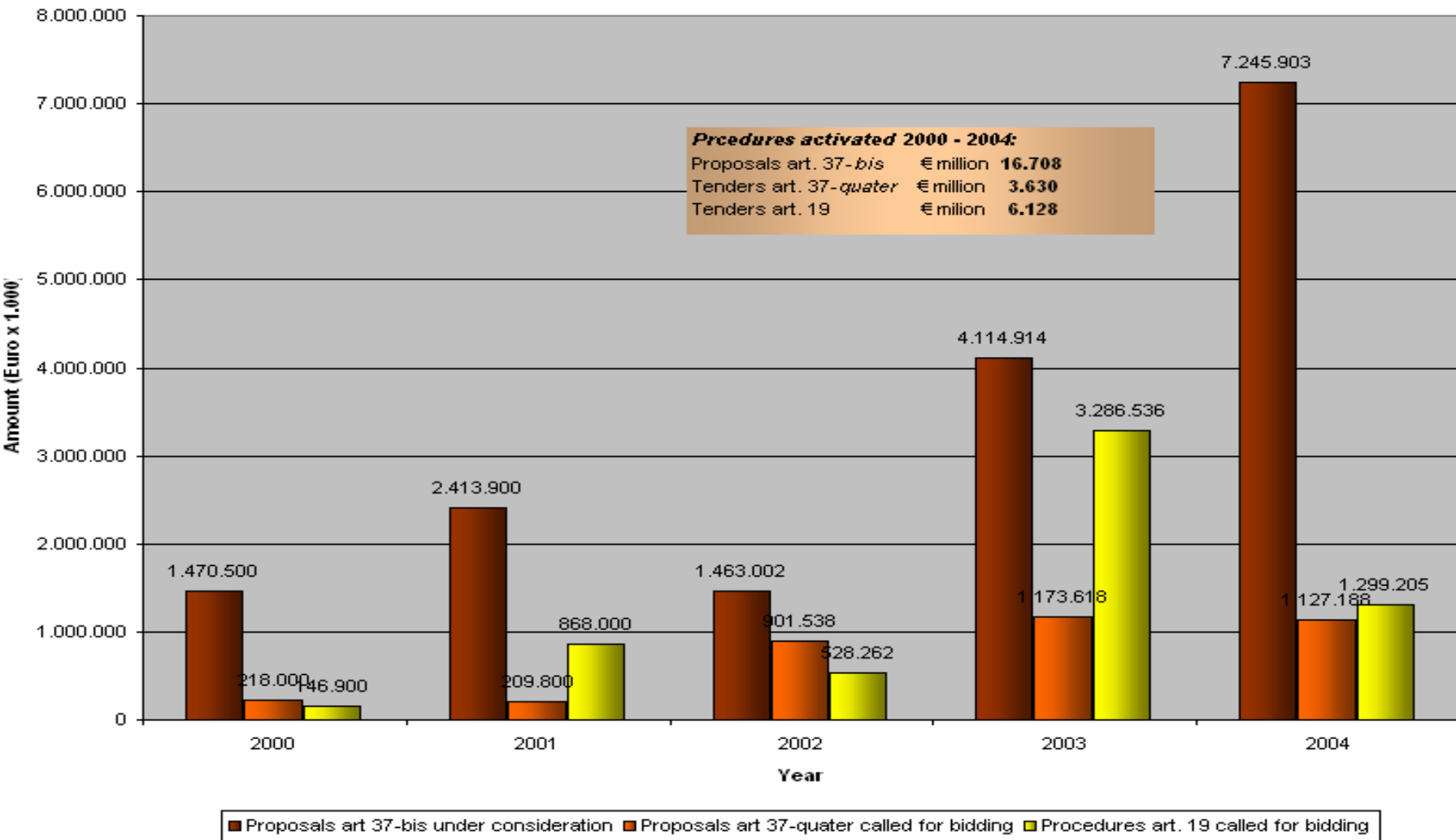
- ✓ The decision to undertake the project is taken by the Awarding Authority on the basis of the **feasibility study** and the **cost-benefit analysis** results. PPP is a possible option to explore.
- ✓ The decision to undertake the project on PPP basis is taken once the **existence of preliminary conditions** has been verified.
- ✓ Basically are **4 main conditions** to be simultaneously verified:
 1. **Affordability** and convenience for the public side
 2. Equity investors **return on investment**
 3. **Financial soundness** (bankability)
 4. **Public funding** (in Capex) requirements, depending on the project business plan (IRR \Leftrightarrow WACC).



Global contractual PPP Market (year 2000-2004)



Global contractual PPP Market (year 2000-2004)



Summary of Contractual PPP Procedures (year 2000 – 2004)

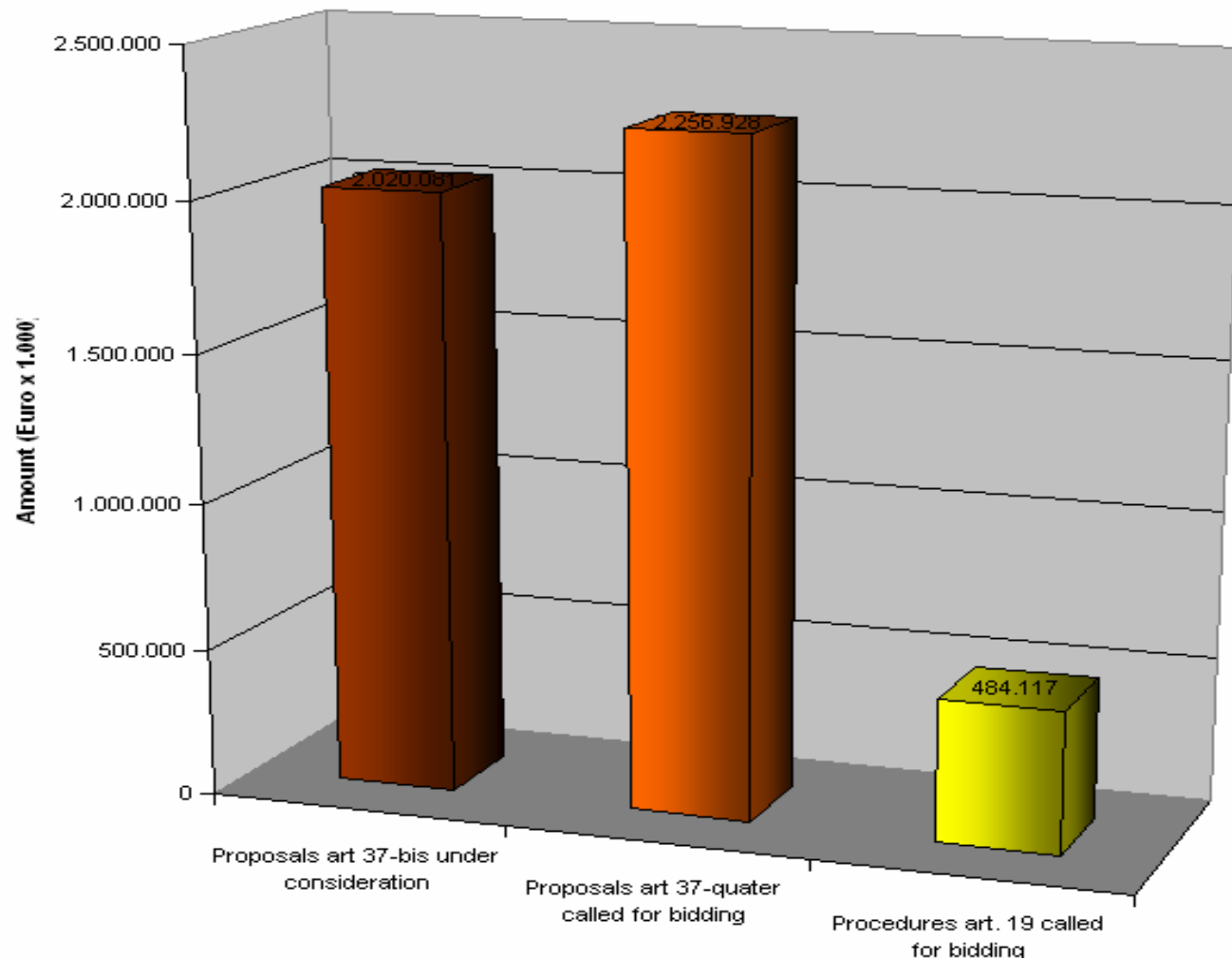
- Types of procedures considered: DBFO contracts in Public works
- Number of procedures launched by Public Administrations: **2.463**
- Total amount of investment launched: **22,84 billion euro**

- Number of procedures tendered by Public Administrations: **1.059**
- Total amount of investment tendered: **9,76 billion euro**

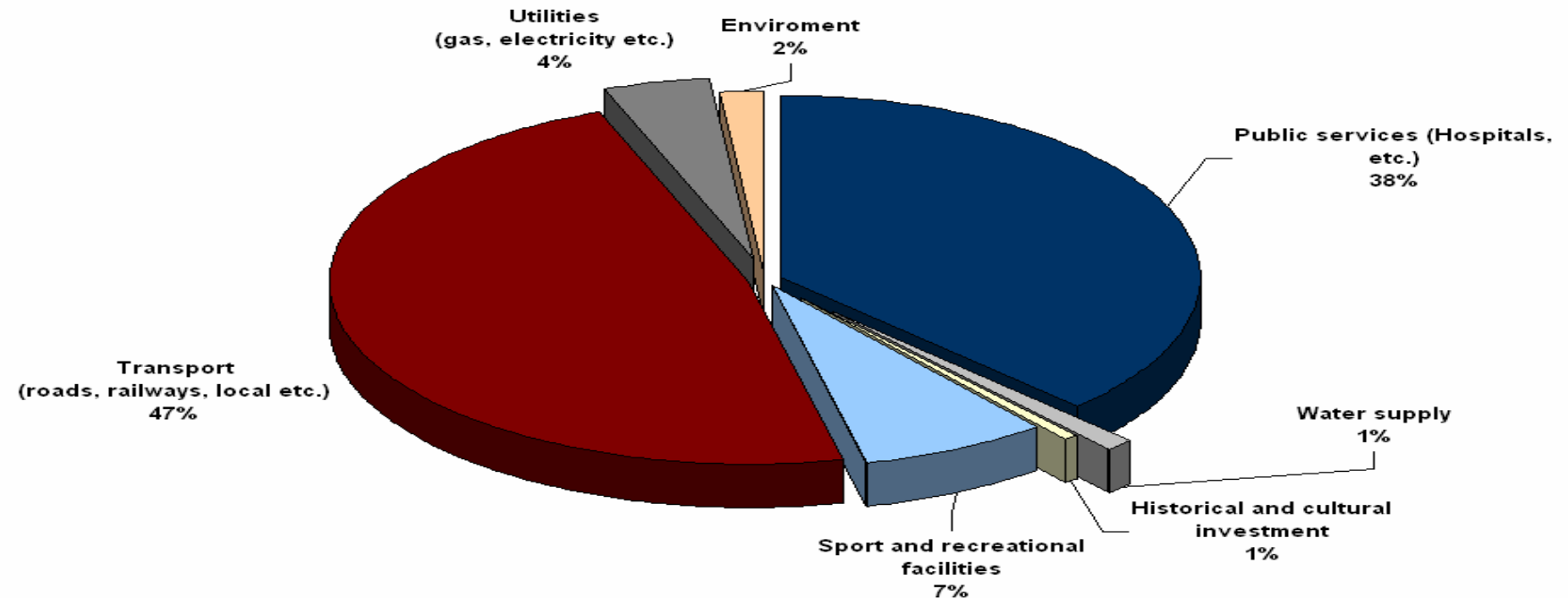
- Share procedures tendered/launched: **43%**

- **Year 2004:**
PPP/PFI procedures tendered vs. Public work total market: **around 10%**

Global contractual PPP Market (year 2005, 1st sem.)



Contractual PPP Market by sector (year 2000-2003)



PPP's launched (year 2000 - 2003)	Amount (million €)	Number of initiatives
Public services (hospitals, etc.)	5.365	754
Water supply	160	22
Historical and cultural investment	86	23
Sport and recreational facilities	1.007	353
Transport (roads, railways, local)	6.824	140
Utilities (gas, electricity, etc.)	626	138
Environment	224	50
Total	14.291	1.480

The most performing sectors:
Transport infrastructures (by amount)
Public services (by number of initiatives)



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The way forward



THE WAY FORWARD (1)

General and Legal issues for the (near) future:

Consider PPP approach systematically. Avoid stop-and-go-policies;

Complete the “cultural change” in the Public Adm: “ From asset ownership to service delivery”;

Improve competence and know-how of Public Adm in considering and assessing PPP approach.

Reduce the total duration and complexity of the concession PPP awarding process (from three-stage to one-stage procurement procedure);

Consider the option to set-up a legal framework specific for PPP contracts.



THE WAY FORWARD (2)

Financial and operational issues for the (near) future:

Increase the efficiency of the public spending thru reducing public upfront funding in favor of payments based on availability;

Reduce the need of public grant introducing alternative sources of financing (private equity funds, rotating funds, quasi-equity and mezzanine, specialty funds - Galaxy - etc.);

In the PPP procurement, postpone the concession contract signing at financial closing.

Experiment new financial tools, in cooperation with international and EU financing institutions (i.e. BEI for healthcare and metro projects);

Implement a strong project control for PPP projects in construction phase;

Implement an accurate risk assessment and allocation systematically.





Consiglio Interministeriale Programmazione Economica
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Legislative Reform



The Italian Framework Legislation for PPP's scheme (1)

Public Works Law (Law n. 109/1994, reformed in 1998 as amended by law 166/2000)

Two procedures in order to awarding concession contract (DBFO):

- Concession under public initiative (article 20)
- Concession under private initiative (articles 37-bis and ss.)

Promoters submit
Proposals

Contents of the proposal:

- Outline design, feasibility study, business plan, draft concession contract
- Proposal submission: June 30th of each year

"First refusal" right to the
promoter

- Selection criteria: most economically advantageous offer for the public interest
- The Promoter has the right to accept the best conditions arising from the bidding procedure



The Italian Framework Legislation for PPP's scheme (2)

No limitations on public contribution in capital expenditure and concession extension:

- Public contribution and concession length are determined with a view of assuring the economic-financial equilibrium of investment and relevant operation

Public contribution can be paid in cash or in public properties to be dismissed

- for an equivalent value

Concession long term contract

Concessions can be renegotiated by special provision art.19, p. 2-bis 109/94:

- changes imposed by the administration to the basic assumptions, new tariff mechanism or new condition of performance
- changes in law

Risks and Insurance

- In this moment conventional insurance is the only instrument covering risks that the parties could not bear



The main changes: *II edition of “10 Temi per migliorare il ricorso alla finanza di progetto” (10 issues to enhance PFI)*

Rolling timetable in order to submit proposal by promoter without fixed time

Guidelines in order to involve in planning phase all public authorities that have to grant any permission, authorization, licence in following stage (protect environmental, healthy, planning, archeological or cultural interest)

Find out a different dispute mechanisms resolution to ensure the continuity of services in PPP's scheme

Improve general skills of the public sector in procurement process, in PPP's contract and negotiation





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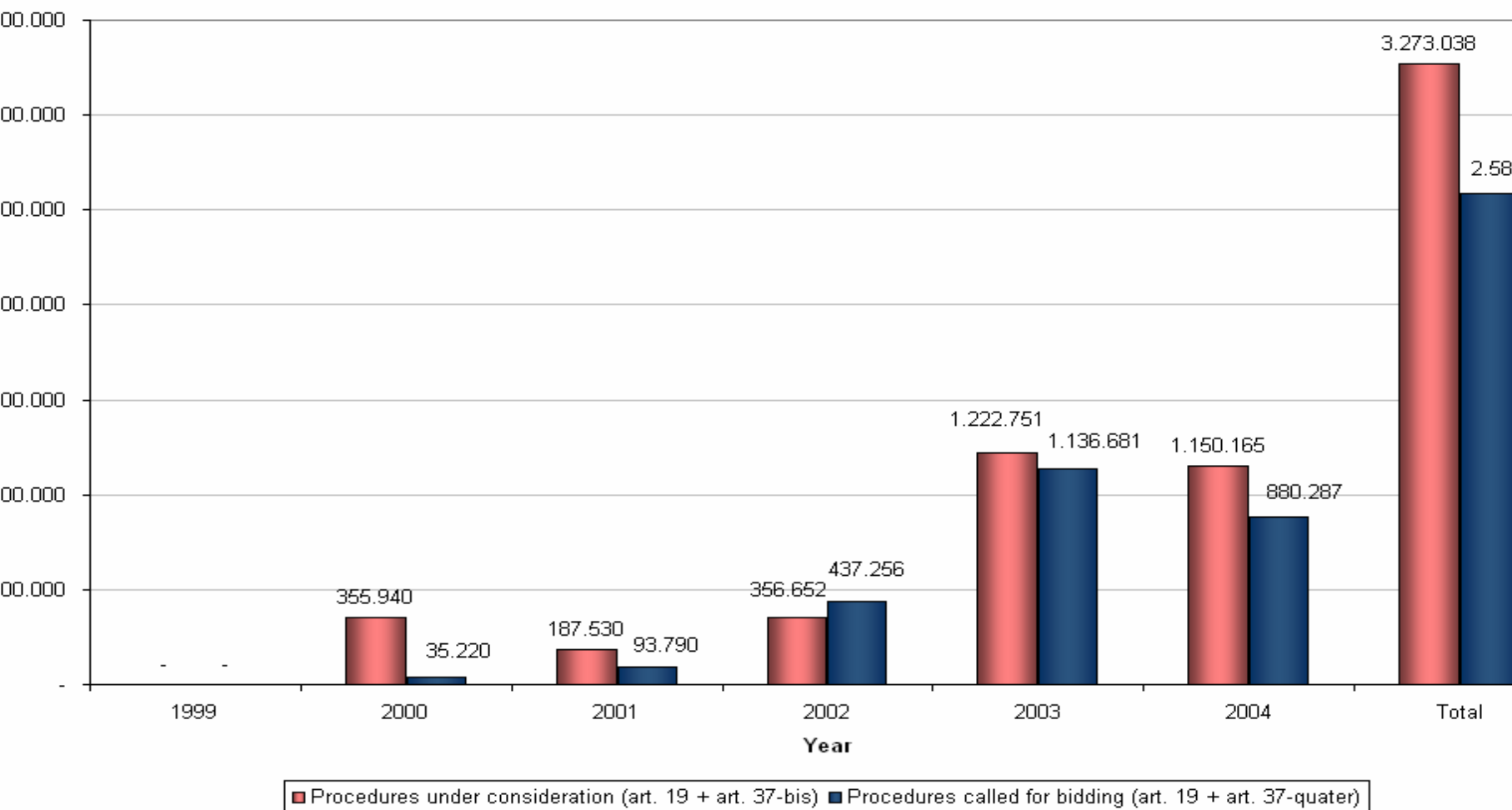
A case study: PPP in the Healthcare Services

Appendix A



PPP in the Healthcare services

Contractual PPP Market in Healthcare (year 2000 – 2004)



Source: years 1999-2001 data OICE and UFP; years 2002-2004 : data Infopieffe and UFP

Survey of the biggest 52 PPP initiatives in healthcare

Sample specifications

Projects with investment amount exceeding **10 million Euro**, whose procedures started in year **1999 – 2005**

52 initiatives proposed to the market:

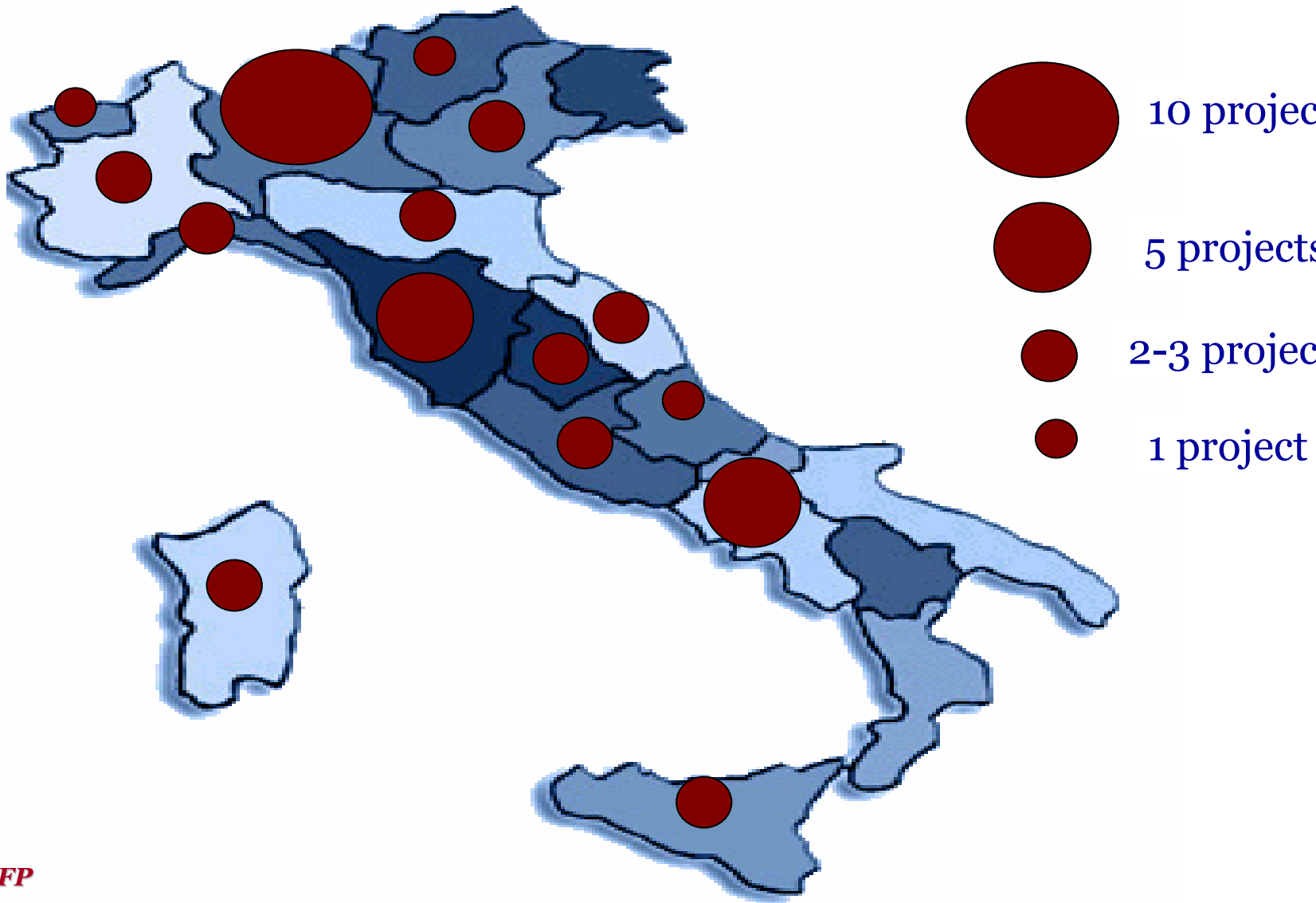
- ✓ **24** *new hospital construction*
- ✓ **17** *refurbishment of existing hospitals*
- ✓ **11** *structures for caring aged people and other buildings*

ca. 4,5 billion euro total investment

ca. 15.500 beds

PPP in the Healthcare services

Survey of the biggest 52 PPP initiatives in healthcare



Source : UFP

Survey of the biggest 52 PPP initiatives in healthcare

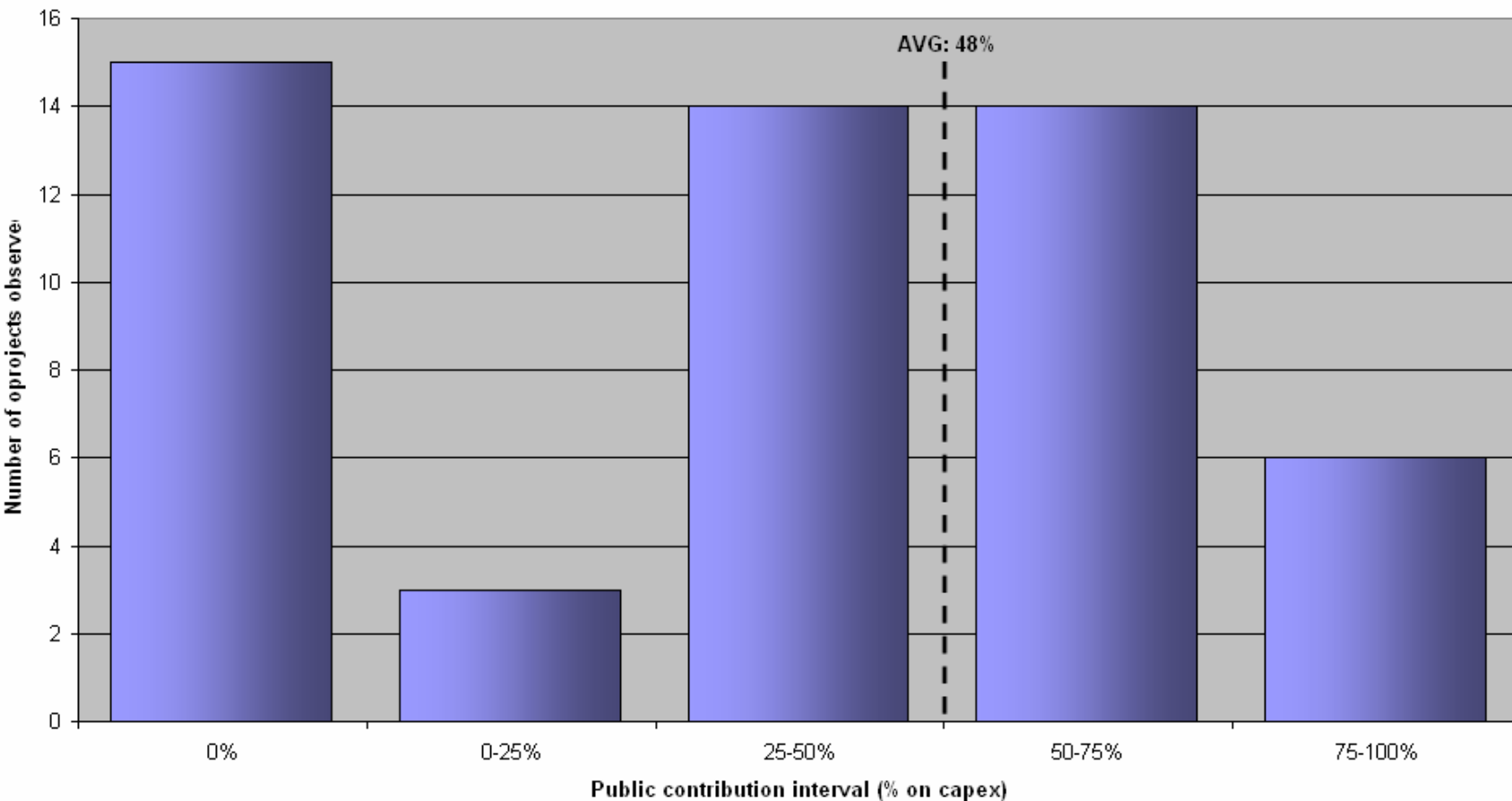
Research results

- **38 initiatives** awarded or currently bidding (75%):
 - ✓ **16** concession awarded (1,4 billion €)
 - ✓ **22** initiatives under evaluation or at bidding stage
- **14 initiatives** quitted (25%)
- **Public contribution in capital expenditure :**
 - ✓ For **15 initiatives (28%):** none;
 - ✓ **Average public contribution: 48% of the investment**
- **Average procedure duration to conclusion:**
 - ✓ **Public initiative procedure: 260 days**
 - ✓ **Private initiative procedure: 420 days**
- **240.000 €** average cost of bed

PPP in the Healthcare services

Survey of the biggest 52 PPP initiatives in healthcare

Project Finance in Healthcare
Public contribution distribution (% on capex)



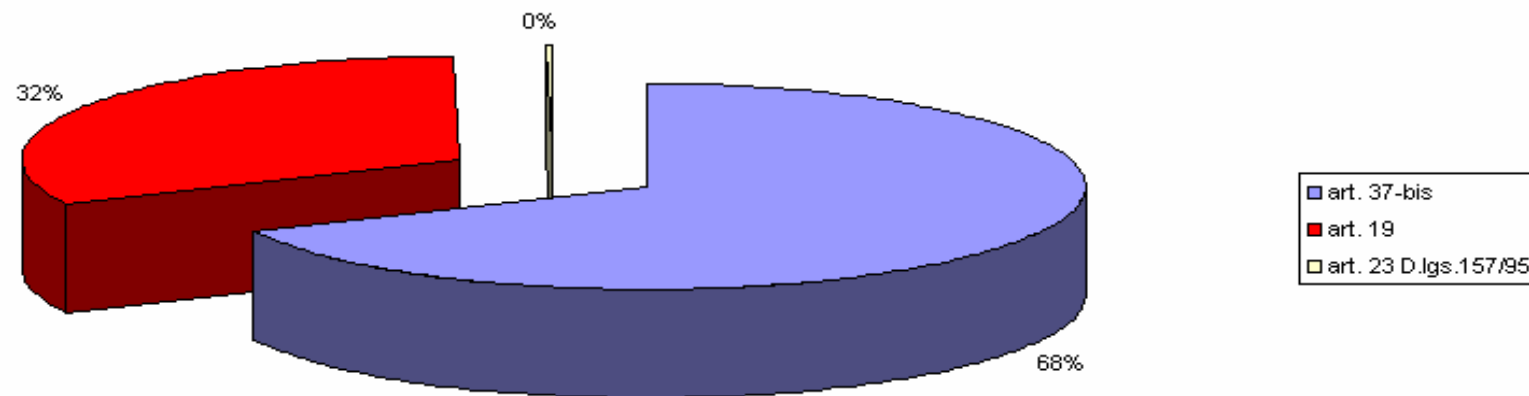
Source : UFP



PPP in the Healthcare services

Survey of the biggest 52 PPP initiatives in healthcare

Project Finance in Healthcare
Procedures completed or under evaluation 1999 - 2005
Capex distribution per type of procedure



Survey of the biggest 52 PPP initiatives in healthcare

What's not gone

- **The most frequent causes of time delay in contract closing:**
 - ✓ *Unavailability of the public rate of the investment*
 - ✓ *Changing in building site location, due to NHS local authority requirements*
 - ✓ *NHS estates to be previously dismissed*
 - ✓ *Proposals not matching the requirements of public interest and therefore to be modified*

- **The most frequent causes of early quitting:**
 - ✓ *Unaffordable proposals for the public side (payments exceeding the public side budget)*
 - ✓ *Proposals not complying the private market requirements*

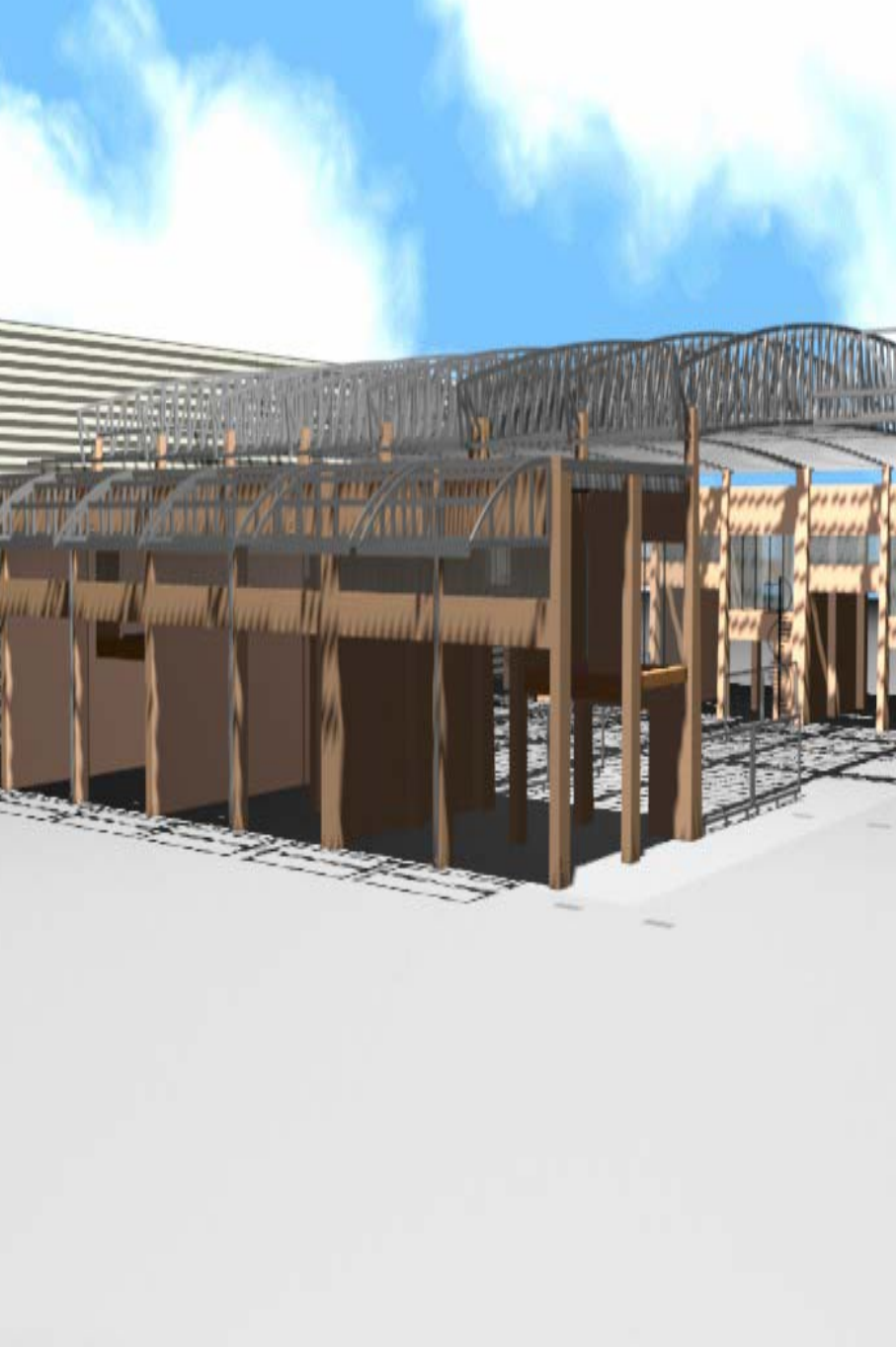
Survey of the biggest 52 PPP initiatives in healthcare

What's gone

- **Approval and construction time shortened vs. traditional procurement**
 - ✓ *Mestre new hospital: 3 years from procedure launching until site opening for construction*
- **Private party stronger commitment**
 - ✓ *Respect of the completion time*
 - ✓ *Construction and availability risk fully borne by private*
 - ✓ *Technical obsolescence risk for medical equipment borne by private*
 - ✓ *Contracts signed with no public contribution at more convenient supply conditions for Health Authorities (i.e. energy generators for hospitals)*



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Selected Projects

Appendix B

FLORENCE TRAMWAY

Awarding Authority: Municipality of Florence

Promoter: RATP, Alstom, Ansaldo, others

Date of proposal: December 2002

Procedure: art. 37-bis - law 109/94

Length: Km. 13,5 (construction of lines 2&3);
km. 21,0 (operating of lines 1,2&3)

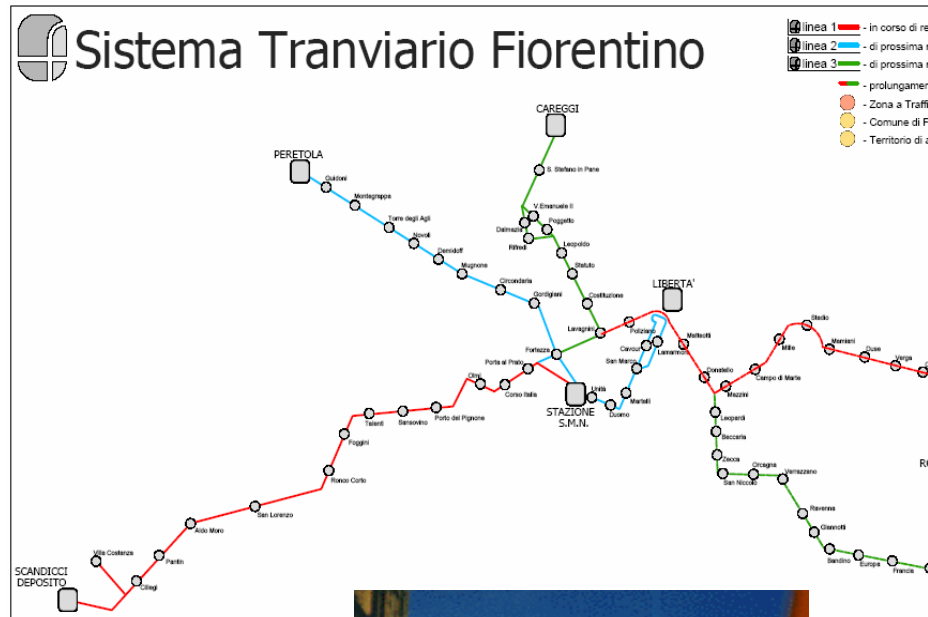
Total investment: € 292 million

Public contribution: € 152 million (52%)

Concession Period: 35 years (incl. 5 years of construction)

Contract restrictions: Awarding Authority's participation of 25% in equity of SPV

Current status: Concession awarded on January 2005; under preliminary stages



HOSPITALS OF CASTELFRANCO VENETO AND MONTEBELLUNA

Awarding Authority: Unità Sanitaria Locale

8 Asolo (Local Health Authority)

Promoter: Guerrato SpA & others

Date of proposal: June 2001

Procedure: art. 37bis - law 109/94

Number of beds: 420

Total investment: € 122 million

Public contribution: € 31 million (25%)

Concession Period: 28 years (incl. 4 years of construction)

Current status: Concession awarded on April 2004; under construction



NEW MESTRE HOSPITAL

Awarding Authority: Unità Sanitaria Locale 12 Venezia (Local health authority)

Promoter: Consortium led by Astaldi SpA

Date of proposal: June 2001

Procedure: art. 37bis - law 109/94

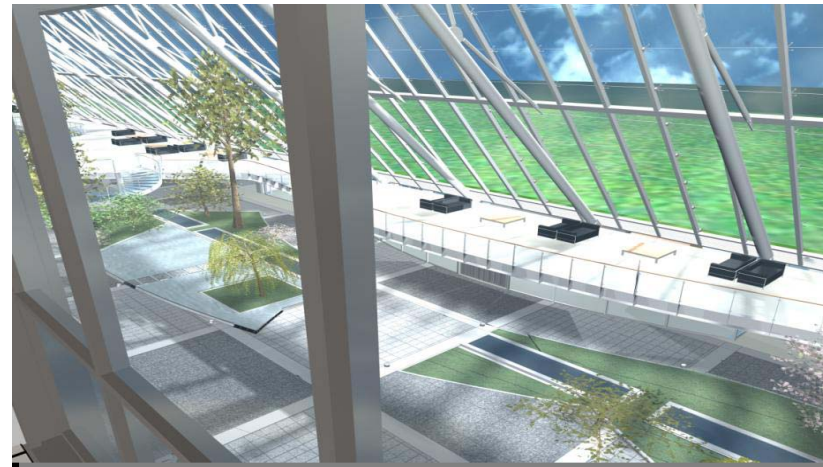
Number of beds: 680

Total investment : € 238 million

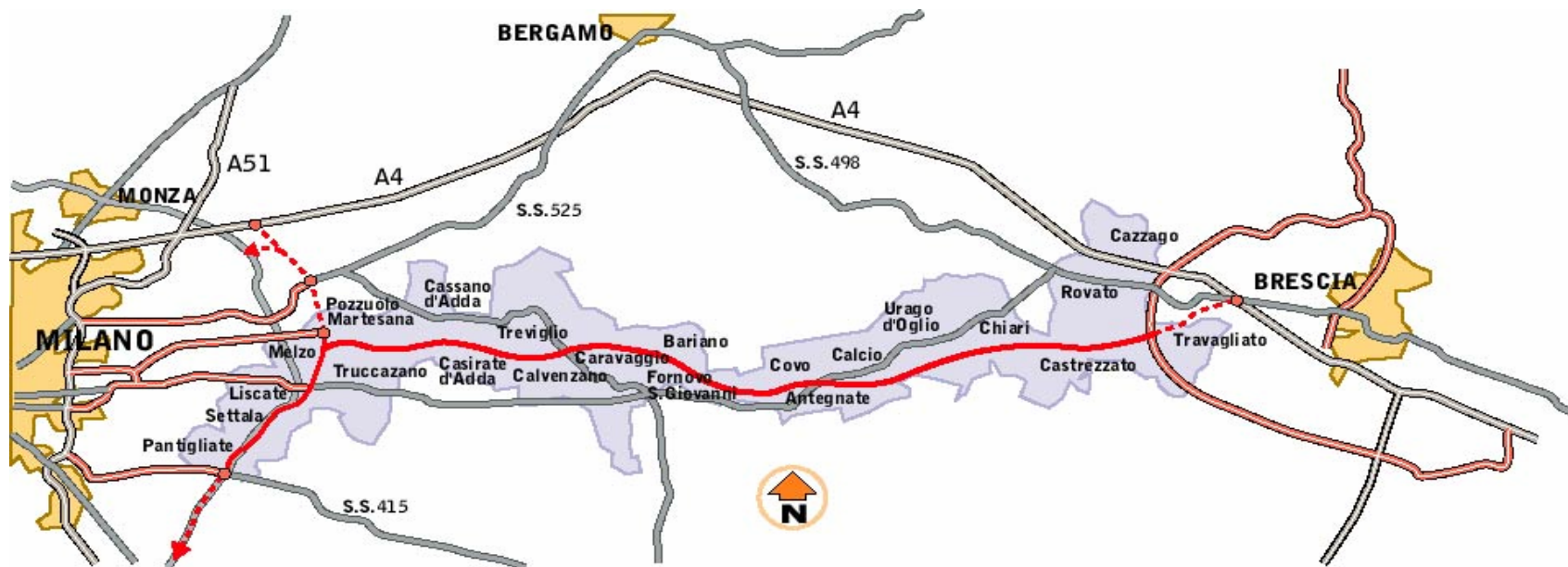
Public contribution: € 100 million (42%)

Concession Period: 29 years (incl. 4 years of construction)

Current status: Concession awarded on June 30th, 2002; under construction



RE.BE.MI. (Milano – Brescia toll highway)



- Awarding Authority : ANAS
- Promoter: ATI BRE.BE.MI. SpA
- Procedure: art. 37bis - law 109/94
- Concession Length: Km. 62
- Total investment: € 723 million

- Public contribution: 0%
- Concession Period: 23 years

Current status:

- Concession awarded in July 2003
- Under discussion between public and private side in order to allocate cost overruns

