

Report of the committee for promotion of PFI ~ *For realization of the true public-private partnership* ~

Cabinet Office, Government of Japan





_	Current 15 issues on PFI						
Issues that should be focused on, and have immediate measures taken for>			<pre>< lssues that should be studied ongoing ></pre>				
Ir	ndividual issues 1 The need for guidance for risk analysis and risk management	2 Clarification of the output specifications	9 Ongoing study concerning VFM assessment				
		3 Realizing more transparent	¹⁰ Study of financing				
		bidding process that can take advantage of the private creativity	11The need for further improvement in the roles of consultants				
		4Promotion of the standardization of agreements etc.	¹² Study an efficient structure for				
		⁵ Appropriate handling of the issues at the operations stage	the public and private sectors				
6	⁶ Share know how of, utilize, and make necessary adjustment with, other PPP methods		The need for expanding the players				
7	Steps for th	e prevention of global warming	Study for expanding the PFI market				
8	The nee	d for equal footing such as subsidies and taxes	¹⁵ Study on the disaster management and other current policy issues				



Responses to Specific Individual Process Issues

June 23, 2003



Basic Approach to and Commentary on PFI Project Contracts — Draft





November 15, 2007





- 1. Presents knowledge on creating required performance level documentation that is <u>clearer</u>, <u>more specific</u>, and <u>more</u> <u>flexible in keeping with the end purpose</u>.
- 2. Presents approaches to creating documentation and suggests checklists and outlines in the practical part.



<u>Compiled in a format that governments which lack</u> <u>sufficient knowledge on PFI can use immediately.</u>



Contents of Basic Approach to Required Performance Level Documentation Associated with PFI Project Contracts — Draft

Foreword: Role of guidelines on preparing required performance level documentation I Role of required performance level documentation seen from PFI processes II What is necessary in required performance level documentation

- III Issues with required performance level documentation and the direction of responses
- 1 Clarification of the government's intentions
- 2 Greater specificity, clarity, and detail in required performance levels
- 2-1 Greater clarity in required performance levels
- 2-2 Greater clarify in criteria to be attained
- 2-3 Unified examinations of required performance levels, monitoring, and payment mechanisms

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3 Other issues

Theoretical Part

Part

IV Requirements from the standpoint of countering global warming

V-Structure of required performance level-documentation [>]ractica

VI Preparation processes for required performance level documentation



Chapter VI presents practical checklists for preparing documentation. Below is a sample checklist.

Confirmation Period	Main Issue	Confirmation Item	Notes
Prior to feasibility	Clarify the purpose for the project and	The purpose for the government's project and the required outcomes are defined.	
study	required outcomes	There is shared recognition within the government through, for example, distribution of the defined outcomes.	
	Assessment of the project's priority	The project's priority has been examined from the taxpayers' point of view.	
Feasibility study	Assurance of the examination system	The feasibility study is entrusted to an advisor with expertise in defining required performance levels in the relevant field.	
		Staffing is increased as needed for internal agency examinations.	



VFM Guideline Revisions

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In the interest of assuring the transparency and objectivity of VFM assessments, the *VFM Guidelines* were revised (July 15, 2008) to state that the government is to release not only VFM figures but also the VFM assessment process and assessment method.

Significance of releasing VFM assessment information

- 1. Fulfills the government's duty to give explanations to citizens (taxpayers).
- 2. Private companies can better understand the government's requirements (and as a result we can expect more appropriate proposals).
- 3. Raises awareness that the government tries to assess VFM properly.



VFM Guideline Revisions (Assurance of transparency and objectivity)



- Information is released after the selection of the private company when releasing information ahead of time will negatively impact fair competition.
- Clear reasons will be given whenever any information is not released.



To promote measures to cut greenhouse gas emissions in PFI projects, a basic approach was arranged (June 2008) on a project scheme based on economic principles that both saves energy and reduces lifecycle CO_2 emissions.

Current situation and issues

- Japan is committed under the Kyoto Protocol to reducing its greenhouse gas emissions by 6 percent.
- Despite this, emissions have risen by about 40 percent (in 2006) in the "services and other businesses" sector, which contains many PFI projects.
- A framework has not been completed that evokes the ingenuity of private companies regarding energy savings in PFI projects.





Key point

• The most effective way of embedding in programs incentives to save energy is to include lighting, heating, and water utility costs in the project expenses.

Thus, even if the initial costs are comparatively high, energy-saving equipment will be enthusiastically adopted if it is possible for such equipment to lower the overall project cost that include lighting, heating, and water utility costs.





Type 1



Assessment from an energy-savings standpoint

- Integrated energy optimization is possible from design through to operation and maintenance.
- Although the initial investment is comparatively high, we can expect private companies to enthusiastically adopt energy-efficient facilities and equipment that will cut lifecycle costs. We can also expect private companies to engage in proactive energy management.

Energy-saving benefits: (excellent)



Type 2



Assessment from an energy-savings standpoint

- This is second-best option when Type 1 cannot be used. Making energy management part of the private company's operations works as an incentive to save energy.
- Because lighting, heating, and water utility costs are not included in PFI-LCC, there is concern that private companies will not proactively adopt energy-efficient facilities at the proposal stage.

Energy-saving benefits: (good)



Global Warming Prevention Measures in PFI Projects

Cabinet Office, Government of Japan

Type 3



Assessment from an energy-savings standpoint

• This type gives little room for private companies to exercise their ingenuity with respect to energy. Consequently, compared to Type 1 and 2, energy-savings benefits are difficult to obtain.

Energy-saving benefits: (moderate)



Numbers of bidders

• The number of bidders per project has been falling year by year, and recently almost all projects have four or less bidders.





• The percentage of tendered projects receiving no valid bids has climbed year by year. In 2007, 30 percent of all tendered projects were not bid on.



*1. The announced number of planned projects includes projects canceled because a lack of valid bids. (As of Aug. 31th, 2008) 32 *2. The figures for projects receiving no bids include projects that were later bid on when re-tendered.



