Innovation can cost

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The Minister in charge of school buildings for the Walloon region, Jean-Marc Nollet, has announced that the Eu1 billion ($1.4 billion) French schools PPP project is scrapped. But the Belgian market is still buoyant, with at least 12 PPP projects out, or close, to launching to tender.

The scrapping of the project is just one example of the degree of political influence at the regional level on Belgian PPP, influence that has led to a market with a lot of competitive innovation in PPP modelling Flemish Schools and Liefkenshoek for example but little PPP model standardisation and therefore few of the cost benefits that go with that. The word vanilla does not exist in the Belgian PPP dictionary.

Political misconceptions about PPP have added to the issue. For example, Nollet argues that PPP procurement is too expensive, with interest rates for PPPs at 10%, and that current maintenance personnel cannot be recycled into other jobs. These are arguments and figures that are not borne out by the deals in the market to date, and a 10% interest rate would make any lender ludicrously uncompetitive.

The most recent example of how deeply entrenched politics is in Belgian PPP is the Oosterweel ring road project in Antwerp. A city referendum effectively buried the original plan of a bridge and the Flanders government has adopted a Eu3.2 billion cut and tunnel solution four two-lane tunnels that will cost Eu353 million more than the original bridge solution. THV Noriant (a consortium led by Vinci) was appointed preferred bidder in 2009 and will now have to renegotiate its original offer. The additional cost is to be met by the City of Antwerp and recouped with tolls. Construction is due to start in 2014 and finish by 2021.

Social infrastructure

Other less politically sensitive social infrastructure projects are going to tender and financing more smoothly though under a variety of different models. For example the German-speaking schools project for which best and final offers (BAFOs) were submitted on 23 September by Strabag and a consortium of Vinci-CFE and SKE will differ significantly from the landmark Eu1.65 billion Flemish Schools project, that reached financial closed on 10 June this year.

Flemish schools separated a financial sponsor, Fortis/ Fortis Real Estate, from the construction and maintenance contract using a DBM+F model. The Flemish government wanted to avoid the high bid costs of multiple small PPP projects but maintain competition between medium- and small-sized contractors. So it conducted a large PPP tender for financial sponsors, and kept this separate from a series of much smaller tenders for construction, which will take place on a rolling basis for bundles of between four and six schools. Conversely, the Eu140 million German-speaking schools project is structured as a traditional DBFM availability-based PPP with a 25-year concession post-construction.

	Size		
Name of project	(total project cost)	Procurer	Progress
Flemish Schools	Eu1.65 billion	Flemish government	Financial close 10 June 2010
Flemish bus depots cluster 1	Eu37.2 million	De Lijn	Financial close June 2010

German-speaking schools	Eu140 million	German speaking community	BAFOs entered 23 September 2010
Four prisons project	Eu230 million	Federal government	Shortlisted bidders announced in October 2010
North-South Kempen road	Eu100 million	Via-Invest	Preferred Contractor announced; invitation to
			submit finance BAFO
R4, South Ghent ring road	Eu80-Eu100 million	Via-Invest	Financing groups and DBM contractors prequalified
A11 road	Eu350 million	Via-Invest	Awaiting prequals; reported in November
North-South Limburg highway	Eu350 million	Via-Invest	Awaiting prequals; reported in November
Spartacus rapid tram line phase 1	Eu60 million	De Lijn	Tender delayed while line location agreed
Bus depots cluster 2	Eu95 million	De Lijn	Tender delayed, six pre-qualifiers
Liege tramway	Eu500 million	Tec	Early tender stage, financial adviser just appointed
Antwerp hospital	Eu150 million	Zna	Two shortlisted bidders. One invited to
			submit formal offer in March 2011
French-speaking schools	Eu1 billion	French speaking community	Cancelled

At the federal level the Belgian governments four-prison PPP programme is scheduled to appoint preferred bidders for the BAFO stage by February 2011.

The programme is divided into two packages. Two prisons are being tendered in French-speaking Wallonia, and two in Flanders. Shortlisted bidders for the Wallonia prisons are FuturePrisons (a consortium comprising SNC Lavalin, Cordeel and Willemen), Eiffage, and Arianne/Louis de Waele/Aramark/Cipex for the prison in Mons; and BAM/Dexia/KBC, Eiffage, and Arianne for the prison in Charleroi. Shortlisted bidders for both Flemish prisons in Dendermonde and Antwerp are BAM PPP and FuturePrisons.

Overall capex for the programme is around Eu230 million, which breaks down into three prisons at around Eu50 million each and one at Eu80 million. The tender for each of the prisons has been launched separately, but in parallel, and a single consortium may be awarded more than one contract.

Belgium also looks likely to break into the health PPP sector, with the Eu150 million new Antwerp hospital project advancing with two shortlisted bidders CFE (Vinci) and Interbuild (BAM). The project, procured by Flemish health authority ZNA, is structured as a 25-year concession incorporating a classical availability-type structure with other project financing elements such as revenue from car parks, catering, restaurants and developed land assets to reduce the availability payments. One of the bidders is expected to be invited to enter a firm offer in March 2011.

Transport

In the transport sector there are four Via-Invest projects in or close to the market under the DBM+F model. Via-Invest is a joint venture of ParticipatieMaatschappij Vlaanderen (PMV) and the Flemish government.

A BAFO is expected in November for the financing part of the Eu100 million Kempen north-south road link. The contracting consortium is led by Jan De Nul with Aswebo nv/Kumpen. Two financing groups are shortlisted: The Dutch Infrastructure Fund/ING/KBC/SMBC and DG-Infra+/Dexia/BNP Paribas Fortis/NIBC. The Eu100 million project is structured as a 30-year availability concession and the financing tender is likely to move quickly, with a BAFO expected in late 2010-early 2011 and announcement of the winner shortly after.

The same two financing consortiums are also in the running for the similarly sized R4 Ghent south city ring road. Three contracting consortiums are pre-qualified for the project, one led by Jan De Nul, one led by Eiffage and the other group made up of three smaller Belgian contractors led by Van Laere.

Two other Via-Invest projects are less advanced and are awaiting the pre-qualification of contractors. Jan De Nul, Besix/Eiffage/Heijmans, Colas (Bouygues) and BAM/CFE (Vinci) are lined up for the A11 Brugge-Zeebrugge Port highway and the North-South Limburg highway each with a project cost of around Eu350 million. A preferred bidder for both is not expected until early 2012.

The Flemish transport authority, De Lijn, is running two projects in parallel the bus depots cluster 2 with a cost of around Eu95 million and the first phase of the three-phase Spartacus rapid tramway, worth around Eu60 million. But both projects are delayed by a political debate about the precise location of the tramway.

Outside of the Flemish region, Tec a subsidiary of the Wallonia regions transport authority (SRWT) is in the process of appointing financial and legal advisers for the Eu500 million Liege tramway PPP project.

Healthy pipeline but...

Although the deal pipeline in Belgium is healthy, the problem facing international banks and sponsors is that federal legislation has not yet standardised PPP, creating different DBFM contracts and structures. For example, although the Flemish government has been active in stimulating its PPP pipeline with a slew of guarantees for projects like the Liefkenshoek rail concession and Flemish Schools, and has sometimes separated the financial sponsors from the contractors by using the DBM+F model, the approach has led to an array of different models that take time, and resources, for sponsors and lenders to absorb. Similarly, the German-speaking region has adopted its own models with tendencies toward German-style DBFM contracts.

PPP projects in Belgium are structured under arrogating public tender legislation, and different granting authorities evolve their own PPP templates. While the Flemish region, in particular, has developed very large projects and has a backlog of experience, to many international banks outside Belgium the risk allocation and models are unfamiliar, which has led to higher tender costs and possibly higher debt margins than might otherwise have been necessary. For the Eu700 million construction revolver on the Flemish schools project banks receive a flat margin of 300bp over Euribor and the commitment fee is an upfront 150bp, even though the deal benefits from three types of Flemish government guarantee.

Until a federal PPP law is enacted, Belgium is slowly building a case history of different PPP models. Although the current fragmented market appears to benefit some banks and local contractors, a unified federal PPP contract will mean less time structuring and negotiating deals and should improve annual deal volume. The cancelling of the French speaking schools PPP shows that above all, political will is essential to the vitality of the Belgian projects market. With Belgium mired in a three-year-old political crisis, and partition openly discussed in domestic and foreign circles, the prospects for a federal PPP push look remote.