

Guidelines for the Development of Financial and Economic Calculations for Public-Private Partnerships

*(version of 25 September 2024)*

Table of Contents

[Abbreviations and Terms 2](#_Toc178586350)

[Introduction 6](#_Toc178586351)

[1. PPP Process and Regulatory Framework 8](#_Toc178586352)

[1.1. Public-Private Partnerships 8](#_Toc178586353)

[1.2. PPP Arrangements 10](#_Toc178586354)

[1.3. PPP Project Step by Step 11](#_Toc178586355)

[1.4. FEC and the Contract Price 12](#_Toc178586356)

[1.5. Statistical Treatment 14](#_Toc178586357)

[1.6. Selecting a Private Partner 15](#_Toc178586358)

[1.7. Competition and State Aid 15](#_Toc178586359)

[2. Justification of Project Implementation 18](#_Toc178586360)

[2.1. Needs Assessment 18](#_Toc178586361)

[2.2. Analysis of Possible Methods of Implementing the Project 19](#_Toc178586362)

[2.3. Project Feasibility Assessment 20](#_Toc178586363)

[3. Assessment of Alternatives to Project Implementation 21](#_Toc178586364)

[3.1. Analysis of the Suitability of the PPP Arrangement 21](#_Toc178586365)

[3.2. Analysis of Investment Affordability 23](#_Toc178586366)

[3.3. Finance Attracting Assessment 24](#_Toc178586367)

[3.4. Statistical Treatment Assessment of Partnership Contract 25](#_Toc178586368)

[3.5. Project Risk Analysis 28](#_Toc178586369)

[4. Calculation of Value for Money 32](#_Toc178586370)

[4.1. Description of the Evaluation Approach 32](#_Toc178586371)

[4.2. Procedure for Developing the Financial Model 33](#_Toc178586372)

[4.3. Determining Value for Money 40](#_Toc178586373)

[Annex A: Schematic Representation of the Development of FEC 42](#_Toc178586374)

[Annex B. A List of Sources of Information Used 43](#_Toc178586375)

[Annex C. Financial Model Assumptions Sheet 47](#_Toc178586376)

[Annex D. Financial Model Summary Sheet 51](#_Toc178586377)

[Annex E. Financial Model Sensitivity Analysis Sheet 52](#_Toc178586378)

# Abbreviations and Terms

|  |  |  |
| --- | --- | --- |
|  | LPFDS: | [Law on](https://likumi.lv/ta/en/en/id/238803-law-on-procurements-in-the-field-of-defence-and-security) Procurements in the Field of Defence and Security. |
|  | **Aid Law:** | [Law on](https://likumi.lv/ta/en/en/id/267199-law-on-control-of-aid-for-commercial-activity) Control of Aid for Commercial Activity. |
|  | **Baseline Model:** | Traditional public procurement model. |
|  | **CFCA:** | The Central Finance and Contracting Agency, which is the PPP Monitoring Authority under the PPP Law and also acts as the PPP Competence Centre. Should the Monitoring Authority's responsibilities be transferred to another body in the future, any reference in the Guidelines to the CFCA should be understood as a reference to the Monitoring Authority. |
|  | **CL:** | [Civil Law](https://likumi.lv/ta/en/en/id/225418-civil-law). |
|  | **Discount rate:** | The interest rate used in discounting cash flows to determine the net present value of future cash flows. |
|  | **DSCR:** | Debt service coverage ratio. This is a financial indicator that provides information about the borrower's ability to cover its debt service obligations over a given period. It is calculated by dividing the cash flow available to cover debt service obligations by the total amount of debt service obligations during the reporting period. |
|  | **ECBA:** | Economic cost-benefit analysis. |
|  | **EC:** | European Commission. |
|  | **ESA 2010:** | The European System of National and Regional Accounts referred to in Article 1(1) of Regulation (EU) No 549/2013 is an internationally compatible accounting framework designed to provide a systematic and detailed description of a common economy (i.e. a region, country or group of countries), its components and its relations with other common economies. |
|  | **EU:** | European Union. |
|  | **EPEC:** | European PPP Expertise Centre. |
|  | **Eurostat:** | The EU statistical authority referred to in Article 6(1) of Regulation (EC) No 223/2009 which develops, produces and disseminates European statistics in accordance with the principles of professional independence, impartiality, objectivity, reliability, statistical confidentiality and cost-effectiveness. Eurostat provides, inter alia, ex-ante or ex-post advice on the compliance of a Partnership Contract with statistical off-balance sheet treatment. |
|  | **Ex-ante:** | Eurostat's advice on the compliance of a Partnership Contract with statistical off-balance sheet treatment, received before the conclusion of the Partnership Contract. |
|  | **Ex-post:** | Eurostat's advice on the compliance of a Partnership Contract with statistical off-balance sheet treatment, received after the conclusion of the Partnership Contract. |
|  | **IRR:** | Internal rate of return. |
|  | **FEC:** | Financial and economic calculations. |
|  | **Financier:** | An economic unit that provides all or part of the funding required to finance a Partnership Contract. Such an economic unit can be, for example, an institutional credit establishment, any other credit establishment, any type of foundation, etc. |
|  | **Financing Contract:** | A contract that is concluded to attract and secure funding for the implementation of a Partnership Contract. |
|  | **Financial Model:** | Excel file forming part of these Guidelines. |
|  | **Financial close:** | Date on which the Financing Contract is signed. Depending on the structure and design of the PPP project, the financial close may take place on the same date as the signing of the Partnership Contract or after the date of signing of the Partnership Contract. |
|  | **MoF:** | Ministry of Finance. |
|  | **VFM:** | Value for money. |
|  | **VFM corridor:** | The difference between the lowest and the highest VFM calculated within FEC. |
|  | **Procurement Procedure:** | The procedure used to select a private partner. In the case of a Concession, the Concession Procedure under the [PPP Law](https://likumi.lv/ta/en/en/id/194597-law-on-public-private-partnership) applies to the selection of a concessionaire. For other PPP arrangements, as well as for delegation, the procurement procedure under the [PPL](https://likumi.lv/ta/id/287760-publisko-iepirkumu-likums), [LPPSP](https://likumi.lv/ta/en/en/id/288730-law-on-the-procurements-of-public-service-providers), [LPFDS](https://likumi.lv/ta/en/en/id/238803-law-on-procurements-in-the-field-of-defence-and-security) shall apply, except in cases where the procurement procedure is not applicable as provided for in these laws. A reference to a Procurement Procedure shall also include a reference to a Concession Procedure. |
|  | **Information Exchange Agreement:** | An agreement, which is concluded at the same time as a Partnership Contract and which governs the exchange of information between the public partner and the financier on the fulfilment of the private partner's obligations under the Partnership Contract and the Financing Contract. |
|  | **Institutional PPP:** | One of the three PPP arrangements (referred to in Paragraph 51 of this list and in Chapter 1.2 of the Guidelines), where a public partner and a private partner set up a joint venture which concludes a Partnership Contract as a private partner. |
|  | **Law on Prevention of Squandering:** | [Law on](https://likumi.lv/ta/en/en/id/36190-on-prevention-of-squandering-of-the-financial-resources-and-property-of-a-public-entity) Prevention of Squandering of the Financial Resources and Property of a Public Entity. |
|  | **CcL:** | [Commercial Law](https://likumi.lv/ta/en/en/id/5490-commercial-law). |
|  | **CtL:** | [Competition Law](https://likumi.lv/ta/en/en/id/54890-competition-law). |
|  | **Concession:** | One of the three PPP arrangements (referred to in Paragraph 51 of this list and in Chapter 1.2 of the Guidelines) implemented on the basis of a Concession Contract. |
|  | **Concession Contract:** | A Partnership Contract, on the basis of which only one of the three PPP arrangements (referred to in Paragraph 31 of this list and in Chapter 1.2 of the Guidelines) can be implemented, i.e. a Concession. |
|  | **Concession Procedure:** | A procedure set out in the PPP Law for selecting a concessionaire for a particular Concession. |
|  | **Principle of competitive neutrality:** | The assumption that both a public partner and a private partner face the same conditions in their business activities (e.g. prices, taxes) and that the public partner does not have any competitive advantage (advantage of the public partner over the private partner) simply because of its status. |
|  | **Contract price corridor:** | The potential contract price corridor for the Partnership Contract calculated within FEC. This is the difference between the potential lowest and highest potential Partnership Contract Price calculated within FEC. |
|  | **Contractual PPP:** | One of the three PPP arrangements (referred to in Paragraph 51 of this list and in Chapter 1.2 of the Guidelines), where a public partner and a private partner cooperate on the basis of a Partnership Contract. |
|  | **LLCR:** | Loan life coverage ratio. It is a financial indicator used to measure the solvency of a borrower. It is calculated by dividing the net present value of the cash flows available for debt service over the remaining term of the loan agreement by the outstanding amount of the loan during the reporting period. |
|  | **CR 107:** | [Cabinet Regulation of](https://likumi.lv/ta/en/en/id/289086-tendering-procedures-for-procurement-procedures-and-design-contests) 28 February 2017 No 107 "Tendering Procedures for Procurement Procedures and Design Contests". |
|  | **CR 1152:** | [Cabinet Regulation of](https://likumi.lv/ta/en/en/id/199083-procedure-for-the-conduct-of-financial-and-economic-calculations-determination-of-the-type-of-a-public-private-partnership-agreement-and-the-provision-of-an-opinion-regarding-financial-and-economic-calculations) 6 October 2009 No 1152 "Procedure for the Conduct of Financial and Economic Calculations, Determination of the Type of a Public-Private Partnership Contract and the Provision of an Opinion Regarding Financial and Economic Calculations". |
|  | **MMRA:** | Major maintenance reserve account - a reserve fund account that is set up to accumulate maintenance costs for the totals of specified future periods. |
|  | **NPV:** | Net present value. |
|  | **Partnership Contract:** | A public-private partnership contract to implement one of the three PPP arrangements: Contractual PPP, Concession or Institutional PPP. Reference in the text to a Partnership Contract shall also include a reference to a Concession Contract. |
|  | **Life cycle of a Partnership Contract:** | The period from the date of conclusion of a Partnership Contract until the full performance of all obligations and duties of all parties under the Partnership Contract, including without limitation the performance of all warranty and service obligations under the Partnership Contract, including after the expiry of the term of the Partnership Contract, and the settlement of claims and disputes arising out of or in connection with the Partnership Contract, whether by negotiation or in court, including after the expiry of the term of the Partnership Contract. |
|  | **Governance Law:** | [Law on](https://likumi.lv/ta/en/en/id/269907-law-on-governance-of-capital-shares-of-public-entity-and-management-of-capital-companies-thereof) Governance of Capital Shares of Public Entity and Management of Capital Companies Thereof. |
|  | **PPL:** | [Public Procurement Law](https://likumi.lv/ta/en/en/id/287760-public-procurement-law). |
|  | **Availability payment:** | Payment from a public partner to a private partner for the availability of a facility or service during the period of availability of the Partnership Contract. |
|  | **Period of availability:** | The period during which a building constructed or reconstructed and/or services implemented under the PPP project are available for use. |
|  | **PLCR:** | Project life coverage ratio. It is a financial indicator used to measure the solvency of a borrower. It is the ratio of the net present value of cash flows over the remaining life of a Partnership Contract to the outstanding balance of debt during the reporting period. |
|  | **PPP Law:** | [Law on](https://likumi.lv/ta/en/en/id/194597-law-on-public-private-partnership) Public-Private Partnership. |
|  | **PPP models:** | Models widely used in practice that can be implemented within a PPP arrangement, depending on the range of construction works and/or services involved in a particular PPP project, as well as the division of responsibilities and risks between a public partner and a private partner. |
|  | **PPP arrangements:** | Contractual PPP, Concession and Institutional PPP together. |
|  | **PPP:** | Public-private partnership. |
|  | **PPP project:** | A project designed to meet a specific societal need and to be implemented through one of the PPP arrangements and PPP models for which FEC are being developed. |
|  | **Senior debt:** | Senior debt is a loan that has a higher priority than other loans or securities, measured by the creditor's claims on the borrower's assets and earnings. |
|  | **Risk base:** | Project-related costs and revenues affected by occurrence of a risk. |
|  | **Risk probability:** | The probability with which a risk is assessed to occur. |
|  | **Credit tail:** | The difference between the maturity of the Partnership Contract and the maturity of the loan. |
|  | **Social impact:** | The long-term social change that will be achieved as a result of the PPP project. |
|  | **Subordinated capital:** | Subordinated Capital is a loan that has a lower priority than other loans or securities, measured by the creditor's claims on the borrower's assets and earnings. In the event of a default by the borrower, the claims of the subordinated creditor are not satisfied until the claims of the senior creditors have been satisfied in full. |
|  | **SWAP:** | Interest rate swap. |
|  | **LPPSP:** | [Law on](https://likumi.lv/ta/en/en/id/288730-law-on-the-procurements-of-public-service-providers) the Procurements of Public Service Providers. |
|  | **SASL:** | [State Administration Structure Law](https://likumi.lv/ta/en/en/id/63545-state-administration-structure-law). |

# 

# Introduction

The Guidelines on Financial and Economic Calculations for Public-Private Partnerships (hereinafter - the Guidelines) have been developed with the aim of unifying the understanding of PPP project implementers (in particular public administrations and local governments) on the structuring, planning and implementation of PPP projects in general, as well as to support the practical preparation of financial and economic calculations (hereinafter - FEC).

The Guidelines consist of two interlinked files - the descriptive part of the Guidelines (Word file) and the Financial Model (Excel file). Both files are to be used together. The data and information they contain can be evaluated and used in conjunction with each other. The Guidelines are not exhaustive and the level of detail in the descriptive and calculation parts of FEC needs to be tailored to each planned PPP project (see waiver included in the Financial Model).

The descriptive part of the Guidelines at the beginning of each sub-chapter visually illustrates its place in the overall context of the chapter.

This is followed by a reference to key documents that are recommended in addition to the descriptive part of the Guidelines in order to get a more in-depth view of the activities to be carried out at each stage of FEC. The abbreviated and/or translated name of the document is used in the reference, the full name of the document can be found in Table B of the Annex by searching for the full name corresponding to the indicated name in the column "Name of the document" in the column "Name used in the Guidelines".

**Outcome**

**Objective**

Similarly, at the beginning of each sub-chapter, the key objective for the execution of the relevant FEC development stage and the outcome to be achieved are highlighted.

The link between the information in a chapter and the information in another chapter of the Guidelines or in the Financial Model is visually highlighted on the right-hand side of the page behind the green line.

The Financial Model is ready to use, complete with detailed instructions and explanations of the actions to be taken on each page of the Financial Model. Depending on the PPP arrangement and model to be analysed, as well as on the specificities of the PPP project, the Financial Model may be supplemented with additional new sections during the preparation of FEC, following the instructions given.

The key assumptions in the descriptive part of the Guidelines are linked to the same visual references in the Financial Model by visual references in the margin of the page.

The Guidelines have the following annexes:

Annex A: Schematic Representation of the Development of FEC: The Annex schematically illustrates the activities to be carried out by a public partner to prepare FEC and submit them to the CFCA and the MoF for approval. The process starts with the activities that the public partner has to carry out before it reaches the decision to implement the PPP project and the related preparation of FEC. The sequence of individual activities may be changed or may be carried out in parallel, but the public partner must be able to answer all the questions in order to move forward through the activities indicated.

Annex B. A List of Sources of Information Used: The Guidelines were drafted on the basis of laws and regulations, informative materials and other information that was up-to-date as of the date of drafting of the Guidelines, i.e. 18.03.2019. In preparing FEC, users of the Guidelines must take into account any amendments made to those documents or updated versions of those documents that enter into force after the specified date of the Guidelines.

Annex C. Financial Model Assumptions Sheet

Annex D. Financial Model Summary Sheet

Annex E. Financial Model Sensitivity Analysis Sheet

Simplified FEC guidelines are published on the CFCA’s website, which can also be used for the development of the FEC. The Financial and Economic Calculations Form, which has been developed on the basis of these Guidelines, shall also be used for the preparation of the FEC. Both materials are available at <https://www.cfla.gov.lv/lv/finansu-un-ekonomiskie-aprekini> (*with updates to the FEC Guidelines on 25.09.2024*).

# PPP Process and Regulatory Framework

## Public-Private Partnerships

**A public-private partnership**[[1]](#footnote-2) is a long-term cooperation between a public partner and a private partner aimed at meeting public needs in the execution of construction work or the provision of services[[2]](#footnote-3). PPPs are implemented on the basis of a Partnership Contract. One Partnership Contract may be concluded by one or more public partners and one or more private partners[[3]](#footnote-4).

A **public partner** may be:

1. the State
2. a local government or another derived legal person governed by public law
3. a legal person governed by private law which (i) has been established or is operating to ensure the needs of the public not having a commercial or industrial character (i.e. needs which are met otherwise than by goods and services on the market and which, for reasons related to those public needs, the State decides to meet itself or over which the State wishes to retain a decisive influence). Such public needs are generally identified in the areas of health, culture, heritage conservation, the construction and operation of infrastructure, and a range of other construction and service activities that meet the common needs of society)[[4]](#footnote-5), or (ii) is subordinate to or under the decisive influence of the State, derived public entity or another legal person governed by private law satisfying the criteria referred to in this Sub-clause (c) and activity of which is financed, by more than 50%, by the State, a derived public entity, or such legal person governed by private law which satisfies the criteria referred to in this Sub-clause (c)
4. an association or a foundation in which all members or founders are the persons referred to in Sub-clause (a), (b) or (c) of this Clause
5. a public service provider[[5]](#footnote-6)

A **private partner** is a legal person governed by private law with which the public partner has concluded a public-private partnership contract. A private partner may be a special purpose entity established by the private partner for the purposes of a specific PPP project, or a joint venture established jointly by the public partner and the private partner for the purposes of a PPP project.[[6]](#footnote-7)

A **Partnership Contract** is a civil contract in writing, usually for a time period of more than five years[[7]](#footnote-8), but not more than 30 years[[8]](#footnote-9). A Partnership Contract may be concluded for a time period that exceeds 30 years if it is necessary for the purpose of the Contract and the results to be achieved that are justified by financial and economic calculations (FEC)[[9]](#footnote-10) (e.g. projects for the construction and operation of railway or metro infrastructure requiring a particularly high level of investment).

In order to achieve the PPP's objective and intended result, the public partner and the private partner pool and use the resources available to them, such as property, financial resources, knowledge, experience. The public and private partner share the responsibility and risks under a Partnership Contract.[[10]](#footnote-11)

A Partnership Contract usually combines as equivalent and integral components the performance of a number of works or the provision of services that are traditionally performed or provided under separate, stand-alone contracts. The specific nature, different underlying principles and implementation of a Partnership Contract require in-depth understanding and experience in the planning, organisation, management, finance attracting, liability and risk allocation of PPPs. The usually mutually separated works and services under a Partnership Contract are to be carried out in a coordinated manner, which also sets the basic framework for the allocation of responsibilities and risks between the public partner and the private partner.

An **Information Exchange Agreement** shall be concluded additionally to the Partnership Contract in cases where a financier is involved in the PPP. The Information Exchange Agreement regulates the exchange of information between the public partner and the financier on the private partner's performance under a Partnership Contract and a Financing Contract. It usually sets out the procedures for the financier to exercise its right of intervention in case the public partner decides to terminate or unilaterally withdraw from the Partnership Contract.

In Latvia, PPPs are primarily regulated by the PPP Law. Its purpose is public-private cooperation, making efficient use of the resources of both sectors to meet public needs; ensuring openness in the Concession Procedure, free competition between private partners and their equal and fair treatment. In addition, the PPP Law aims at transparency in the performance of the Partnership Contract and at facilitating the fulfilment of the obligations set out therein until the end of the term of the Partnership Contract, by promoting the continuity of the construction works and/or services provided for in the Partnership Contract.

PPPs are regulated by the following **key laws and regulations** (the list is not exhaustive):

1. State Administration Structure Law
2. Civil Law
3. Commercial Law
4. Law on Public-Private Partnership
5. Competition Law
6. Law on Control of Aid for Commercial Activity
7. Law on Prevention of Squandering of the Financial Resources and Property of a Public Entity
8. Law on Governance of Capital Shares of Public Entity and Management of Capital Companies Thereof
9. Public Procurement Law
10. Law on the Procurements of Public Service Providers
11. Law on Procurements in the Field of Defence and Security
12. Cabinet Regulation of 28 February 2017 No. 107 "Tendering Procedures for Procurement Procedures and Design Contests"
13. Cabinet Regulation of 20 June 2017 No. 353 "Requirements for Green Public Procurement and Procedures for Application"
14. Cabinet Regulation of 28 February 2017 No. 105 "Regulations Regarding Thresholds of Contract Prices of Public Procurements"
15. Cabinet Regulation of 6 October 2009 No. 1152 "Procedure for the Conduct of Financial and Economic Calculations, Determination of the Type of a Public-Private Partnership Contract and the Provision of an Opinion Regarding Financial and Economic Calculations"
16. Cabinet Regulation of 20 October 2009 No. 1216 "Regulations on the Activities of the Monitoring Authority and Reporting on the Performance of the Contract by the Public Partner or its Representative".

## PPP Arrangements

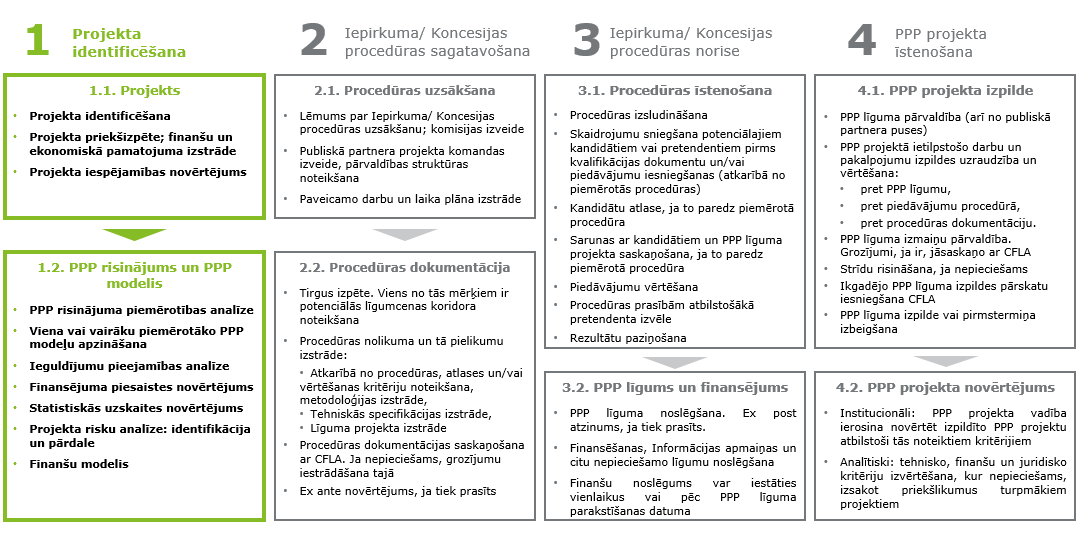
PPP can be implemented through one of the following three **PPP arrangements**:

1. **Contractual public-private partnership** (hereinafter - Contractual PPP). One of the most common PPP arrangements is Contractual PPP. Under it, the public partner and the private partner cooperate by concluding and implementing a Partnership Contract. The subject-matter of a Contractual PPP may be the execution of construction works and/or the provision of services using any of the PPP arrangements and PPP models set out in paragraphs (a) to (k) below.
2. **Concession**. A PPP arrangement implemented on the basis of a Concession Contract. Under it, the private partner carries out construction works (which may include design works), builds a structure or provides services in accordance with the public partner's requirements, assumes the risks associated with the exploitation of the structure or services and, in return, acquires the right to exploit the structure or services with or without additional payment from the public partner. In the case of a Concession, the private partner (concessionaire) takes the risk of building and exploiting a structure or providing a service to the public, receiving remuneration from the users of the structure or service (e.g. a public building for public use (multi-purpose centre, concert hall, museum, etc.).
3. **Institutional public-private partnership** (hereinafter - Institutional PPP). In an Institutional PPP, the public partner and the private partner cooperate to form a joint venture, entering into a Partnership Contract as a private partner. Before using an Institutional PPP, the eligibility of the public partner to engage in the planned commercial activity shall be assessed[[11]](#footnote-12) (see Chapter 1.7).

In practice, a number of **PPP models**[[12]](#footnote-13)have already been developed, which, if structured and designed accordingly, can be implemented within each PPP arrangement (the list is not exhaustive):

1. **FO**: Finance Only
2. **DBM**: Design, Build, Maintain
3. **DBO**: Design, Build, Operate
4. **BBO**: Buy, Build, Operate
5. **BOT**: Build, Operate, Transfer
6. **LDO**: Lease, Develop, Operate
7. **BLOT**: Build, Lease, Operate, Transfer
8. **DBFM**: Design, Build, Finance, Maintain
9. **DBFO**: Design, Build, Finance, Operate
10. **CBFO**: Conserve, Build, Finance, Operate
11. **DBFOOT**: Design, Build, Finance, Own, Operate, Transfer

## PPP Project Step by Step

The life cycle of a PPP project consists of four phases, each of which comprises two successive stages. The Guidelines cover both stages - "Project" and "PPP Arrangement and PPP Model" - of the first phase - "Project Identification" - of the life cycle of a PPP project.

**4.2 PPP project assessment**

* Institutional: PPP project management proposes to evaluate the completed PPP project against the criteria it has set
* Analytical: evaluation of technical, financial and legal criteria, where appropriate, making proposals for future projects

**4.1 PPP project performance**

* PPP contract management (including by the public partner)
* Monitoring and evaluation of the performance of works and services included in the PPP:
  + against the PPP Contract,
  + against a bid within the procedure,
  + against the documentation of the procedure
* Managing changes to the PPP Contract. Amendments, if any, to be agreed with the CFCA
* Dispute resolution, if necessary
* Submission of annual performance reports on the PPP Contract to the CFCA
* Performance or early termination of the PPP Contract

**3.2 PPP Contract and financing**

* Conclusion of the PPP Contract. Ex post advice, if required.
* Financing, Information Exchange and other necessary agreements
* Financial close may occur at the same time or after the date of signature of the PPP Contract

**3.1 Procedure implementation**

* Announcing procedure
* Provision of explanations to potential candidates or tenderers before submission of qualification documents and/or bids (depending on the procedure applied)
* Selection of candidates, if provided for in the applicable procedure
* Negotiation with candidates and agreement of the draft PPP contract, if provided for in the applicable procedure
* Evaluation of bids
* Selection of the tenderer meeting the requirements of the procedure
* Announcement of the results

**2.2 Procedure documentation**

* Market research. One of its objectives is to determine the potential contract price corridor
* Development of procedure regulation and annexes thereto:
  + Depending on the procedure, setting criteria for selection and/or evaluation, methodology development,
  + Development of technical specification,
  + Draft contract development
* Procedure documentation approval by CFCA. If necessary, implementation of adjustments therein
* Ex ante assessment if required

**2.1 Procedure commencement**

* Decision on the commencement of Procurement/ Concession procedure; establishing a committee
* Public partner project team establishment, determining governance structure
* Development of work to be carried out and timetable

PPP project implementation

Procurement/ Concession procedure process

Procurement/ Concession procedure preparation

**1.2 PPP arrangement and PPP model**

* **PPP arrangement suitability analysis**
* **Identifying one or more suitable PPP models**
* **Analysis of availability of investment**
* **Assessment of finance attracting**
* **Statistical treatment assessment**
* **Project risk analysis: identification and allocation**
* **Financial Model**

**1.1 Project**

* **Project identification**
* **Project preliminary research; financial and economic justification development**
* **Project feasibility assessment**

Project identification

Figure 1: The Role of the Guidelines for the Development of Financial and Economic Calculations for Public-Private Partnerships in the Life Cycle of a PPP Project.

Depending on the complexity of the planned PPP project, the time period that may be needed to launch and implement a particular PPP project before a Partnership Contract is concluded can be on average from two to five years. Therefore, the public partner should plan the optimal time, financial, administrative and human resources to carry out the main steps of the PPP process[[13]](#footnote-14):

1. **Need**: the public partner identifies a long-term public need to be met.
2. **Solution**: the public partner initially identifies a number of possible solutions to meet a specific public need. If a PPP is found to be one of these, the public partner shall develop FEC.
3. **FEC**: the public partner decides to develop FEC and notifies the CFCA.

As part of the development of FEC, possible alternative solutions shall be evaluated, the interest of the market, the potential private sector and financiers to be involved in the implementation and financing of the planned PPP project shall be identified. If the planned PPP project involves the construction of a new structure, the most suitable location for placing the structure shall be identified within the framework of FEC. In the case of reconstruction, renovation or demolition of a structure, it is necessary to identify who owns and uses the structure. The timeframe for acquiring or transferring ownership or use of the structure and/or land shall be included in the PPP project timetable.

In parallel, the potential allocation of responsibilities, risks and benefits between the public partner and the private partner shall be assessed, with a focus on the statistical treatment of the planned PPP project on or off the balance sheet of the general government sector assets (see Chapter 1.5).

When considering the alternatives for the implementation of the planned Project, the competition and State aid law aspects shall also be assessed during the preparation of FEC (see Chapter 1.7).

Once the development of FEC is finalised, FEC shall be agreed with the CFCA, the MoF and the responsible ministry, unless the responsible ministry is itself a public partner in the planned PPP project.

1. **Partnership procedure**: the public partner shall decide to implement the PPP project and choose the most appropriate option for selecting a private partner (see Chapter 1.6). The public partner shall decide to initiate a Procurement Procedure or a Concession Procedure by setting up a Procurement or Concession Committee. Please note that the start of the PPP project is the date of signature of the Partnership Contract.
2. **Partnership documentation**: the public partner shall draft a Partnership Contract and the partnership procurement documentation.

If the Cabinet has decided at the time of approval of the FEC that the PPP project is to be implemented as a project off the balance sheet of the general government sector assets from a statistical treatment point of view and the relevant Eurostat advice is required before the signature of a Partnership Contract, the draft Partnership Contract shall be sent to Eurostat for an ex-ante advice via the Central Statistical Bureau.

1. **Selection of a private partner**: the public partner shall carry out a procurement for the selection of a private partner (see Chapter 1.6). In the case of a Concession, the Concession Procedure under the PPP Law shall be applied.
2. **Partnership Contract**: The date of conclusion of the Partnership Contract is considered as the start of the PPP project. The Partnership Contract is concluded together with the other necessary agreements, including the Financing Contract, the Information Exchange Agreement and other contracts required depending on the objective and the results to be achieved from the planned PPP project.
3. **PPP project implementation**: the public partner and the private partner shall implement the PPP project or Concession. The public partner shall provide regular (once a year after the conclusion of the Partnership Contract) reports to the CFCA on the implementation of the PPP project or Concession. In case amendments to the Partnership Contract are necessary during its term, the public partner shall approve them with the CFCA. Concession Contracts and the allocation of risks they contain shall be monitored in more detail[[14]](#footnote-15).
4. **Completion of the PPP project**: after the PPP project is completed, the public partner shall compile and evaluate its results. As the end of the PPP project will not normally coincide with the end of the calendar year, the public partner shall submit to the CFCA a regular progress report on the PPP Contract for the last partial year of the PPP project.

## FEC and the Contract Price

The main tasks for the development of **FEC** are the following[[15]](#footnote-16):

1. determine whether the planned project shall be implemented as a PPP
2. if the PPP project involves construction, select the most appropriate location for the structure in good time. Given the selected location, FEC shall include the most appropriate option for acquiring the land (e.g. acquisition, disposal for public use or lease), a reasonable timeframe for acquiring the land and the related formalities
3. carry out market sounding to gauge the potential interest of private partners and financiers in participating in or financing the planned PPP project
4. calculate the potential contract price corridor of the Partnership Contract that is most likely to be expected at the time of selection of a private partner. A PPP project shall be structured and designed so that the potentially expected contract price is as low as possible within the framework of the allocation of risks, responsibilities and benefits as defined by the statistical treatment planned for the PPP project
5. verify the rational and efficient use of the public partner's financial resources if the planned project is implemented as a PPP
6. determine the most proportionate duration of the PPP project that is capable of recovering the investment made in the PPP project within a reasonable period of time
7. identify the most appropriate PPP arrangement and model for the planned PPP project
8. anticipate the main considerations and criteria that have a bearing on the choice of the most appropriate procedure for selecting a private partner (e.g. if the public partner is able to draw up a technical specification, it is likely to be possible to use an open call for tenders as the criteria for evaluating bids. If the public partner can develop bid evaluation criteria and technical specifications, but the subject-matter of the procurement is sufficiently complex, it is reasonable to consider a negotiated procedure. However, if the public partner is unable to develop bid evaluation criteria and technical specifications, it is likely that a competitive dialogue will be appropriate)
9. elaborate the planned allocation of responsibilities, risks and benefits between the public partner and the private partner in conjunction with the possible statistical treatment of the planned Partnership Contract (see Chapter 1.5)
10. structure the potential PPP project so that (i) as much competition as possible is ensured during the selection of the private partner (ensuring a sufficient level of competition during the Procurement Procedure), (ii) as few negative effects on competition as possible are created during the implementation of the PPP project (structuring the PPP project and setting the duration of the PPP project in a way that reasonable competition in the specific market does not disappear during the life cycle of the PPP project) and (iii) State aid elements, if any, are identified and recognised in a timely manner in the PPP project, allowing sufficient time, if necessary, for their approval in accordance with the procedure laid down in the laws and regulations
11. assess the right of the public partner to engage in commercial activities within the PPP project if an Institutional PPP is planned

A schematic representation of the development of FEC is included in Annex A to the Guidelines.

The potential **contract price corridor** for the Partnership Contract shall be calculated within FEC. The following considerations, which are most relevant to the competition aspect, justify the setting of a contract price corridor within FEC:

1. a PPP project is implemented in the public interest on the basis of a Partnership Contract, which is a long-term cooperation between a public partner and a private partner (see Chapter 1.1)
2. one of the main objectives of the PPP regulatory framework is free competition and equal and fair treatment of private partners[[16]](#footnote-17)
3. one of the main objectives of the procurement regulatory framework is to ensure free competition between potential suppliers, ensuring equal and fair treatment of them[[17]](#footnote-18)
4. one of the main objectives of the competition regulatory framework is to protect, maintain and develop free, fair and equal competition[[18]](#footnote-19). The procurement regulatory framework is one of the instruments that can be used to make an additional contribution to the achievement and implementation of the main objectives of the competition regulatory framework
5. the time period between the identification of a PPP project and the conclusion of a Partnership Contract can take on average two to five years. During this period, changes in the assumptions underlying FEC and market data may objectively occur. In order to be proportionate to the public interest to be served and the ability of the public partner to deliver it within the timeframe required for the implementation of the PPP project, the estimated contract price corridor of the Partnership Contract shall be calculated within the FEC
6. one of the characteristics of free competition in procurement is the ability of potential suppliers to compete on price by offering goods or services that meet the technical specifications
7. in the competition regulatory framework, competition means economic (business) rivalry between two or more market players in a given market, whether existing or potential
8. in order to ensure that competition between potential private partners is meaningful, while achieving the fundamental objectives of both the PPP and procurement and competition regulatory framework, it is reasonable to create a potential contract price corridor in the framework of a PPP project. This provides a basis for potential private partners to compete by offering a competitively priced solution in line with the technical specifications and requirements of the PPP project
9. a Partnership Contract's potential contract price corridor would also make the FEC a workable document in the longer term, without the need for periodic updates during the structuring and development of the PPP project

## Statistical Treatment

The FEC shall be submitted to the CFCA and the MoF. The CFCA gives an opinion on the assumptions included in the FEC and on the allocation of risks between the public partner and the private partner. In turn, the MoF provides an opinion on the expected impact of the conditions referred to in the FEC on the amount of the long-term liabilities of the State budget, the balance sheet of the general government sector budget and the debt.[[19]](#footnote-20) In other words, the MoF assesses the FEC and gives an opinion on the preliminary impact of the Partnership Contract on the balance sheet of the general government budget and debt, based on the assessed statistical treatment.

If the MoF considers that the potential Partnership Contract will not have an undesirable effect, a decision may be taken to initiate the implementation of the planned PPP project. The Partnership Contract shall be planned and structured as an on-balance or off-balance sheet Partnership Contract, as appropriate, in accordance with the decision of the Cabinet or other decision-making body under the PPP Law.

However, if the MoF finds that the planned Partnership Contract will have an undesirable effect on the amount of the long-term liabilities of the State budget, the balance sheet of the general government sector budget, and the debt, the Cabinet shall take a decision on the initiation of the implementation of the PPP project (regardless of whether the public partner in the planned PPP project is the State, a local government or another entity (see Chapter 1.1)).[[20]](#footnote-21) In this case, the decision of the Cabinet shall include a reference to the planning and structuring of the Partnership Contract as an on-balance or off-balance sheet Partnership Contract.

The decision of the Cabinet or other decision-making body under the PPP Law on the establishment of a statistical treatment requirement for the Partnership Contract may specify that the public partner shall obtain the opinion of the Central Statistical Bureau or Eurostat on the compliance of the Partnership Contract with statistical off-balance sheet treatment. Such an opinion may be obtained before the Partnership Contract is concluded (ex-ante advice) or after its conclusion (ex-post advice).

## Selecting a Private Partner

In order to select a private partner for a particular PPP project, the public partner shall choose the most appropriate means of selecting a private partner for the purpose and deliverables of the PPP project, the identified market and the potential range of stakeholders.

Depending on who the public partner is, the PPL, the LPPSP or the LPFDS shall be applied to the procurement of the Partnership Contract[[21]](#footnote-22). The procurement procedures provided for in those laws for the selection of a private partner shall not be applied only in the cases provided for in those laws. In the case of a Concession, the Concession Procedure under the PPP Law shall be applied.

PPPs have been identified as the most appropriate arrangement for delegating administration tasks[[22]](#footnote-23). In the case of delegation of a public administration task, the Partnership Contract shall be concluded in accordance with the procedure laid down in the PPP Law[[23]](#footnote-24), supplementing the Partnership Contract with the minimum mandatory content of the delegation contract[[24]](#footnote-25). Consequently, also in the case of delegation, the selection of a private partner shall be made using one of the procurement procedures or the Concession Procedure provided for in the PPP Law, unless the laws and regulations governing procurement or the PPP Law provide otherwise.

## Competition and State Aid

**Competition**. In order to ensure a proper and proportionate link between PPPs and the competition regulatory framework, competition aspects of PPPs need to be assessed beyond the competition between potential private partners for the right to implement a particular PPP project.

In particular, when defining the objective and deliverables of a PPP project, by sounding the market and the interest of potential private partners within FEC, the public partner shall structure the PPP project in such a way that free, fair and equal competition (provided that it exists in the relevant market) is protected, maintained and developed. The use of PPPs does not in itself automatically distort, restrict or exclude competition. However, choosing a PPP arrangement that is inappropriate for the market, the number of market players, the development and functioning of the market during the life cycle of the PPP project risks unduly distorting, restricting or excluding competition.

When planning and structuring a PPP project, it shall be taken into account that the Competition Council has a certain competence to assess and issue opinions on draft legislation and other documents if they contain market mechanisms that may directly or indirectly restrict competition[[25]](#footnote-26). The Competition Council is entitled to exercise this competence at any time during the structuring and development of a PPP project.

Therefore, when implementing a PPP project, the public partner shall, among other things, assess the burden that the particular PPP project could potentially impose on the conditions of competition. The loss of effective competition in a given market during the life cycle of a PPP project shall be seen as an independent and sufficient reason to consider another PPP arrangement, PPP model or non-PPP solution for the given project.

**A public partner's right to engage in commercial activities**. When considering an Institutional PPP, the public partner shall carefully assess its ability to engage in commercial activities within the FEC. Such engagement is allowed in one of the following cases[[26]](#footnote-27):

1. commercial engagement is necessary to prevent a market failure in circumstances where the market is incapable of serving the public interest; or
2. goods or services of strategic importance for the development of the national or local administrative territory or for national security will be created; or
3. properties of strategic importance for the development of the national or local administrative territory or for national security will be administered.

When assessing its potential commercial engagement, the public partner shall justify in the FEC that the PPP project's objective will not otherwise be effectively achieved. The public partner shall consult with competent authorities and associations or foundations representing merchants, and comply with the requirements of the laws and regulations governing the field of control of aid for commercial activity.[[27]](#footnote-28)

**State aid.** According to the case law developed by the Court of Justice of the European Union, in order to establish the existence of State aid, it shall be shown that:

1. the funds are provided by the State or from State resources; and
2. the aid confers an advantage on certain undertakings or the production of certain goods, and
3. the aid distorts or threatens to distort competition in the common market; and
4. the aid affects trade between Member States (it should also be noted that State aid affects trade between Member States both where there is trade between Member States in the aided sector and where there is no trade between Member States in the aided sector, provided that there is no surplus production on the relevant market[[28]](#footnote-29)).[[29]](#footnote-30)

The Aid Law is designed to ensure the necessary coherence between the EU and national legal frameworks on State aid. By explaining the EU legal framework in more detail, but without narrowing it down, and maintaining the primacy of the EU legal framework over the national legal framework in this respect, the Aid Law sets out the following features of aid for commercial activity, which shall be fulfilled simultaneously:

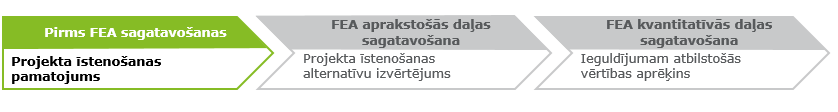
1. financial assistance is directly or indirectly provided from the State, local government, European Union or other public resources, and the public authorities have a controlling influence over the financial resources; and
2. the commercial company carries out commercial activity and acquires economic advantages which it could not acquire if the aid for commercial activity was not provided; and
3. financial assistance does not apply equally to all commercial companies, but it is provided to commercial companies depending on the size, type of activity or location thereof, as well as other differentiating criteria or is also provided to a particular commercial company; and
4. financial assistance affects trade and distorts competition in the internal market of the European Union.[[30]](#footnote-31)

Depending on the planned PPP project, its objective and deliverables, it is possible that during the structuring of the PPP project, some features characterising commercial aid (in other words, State aid) may be identified. If they cannot be excluded from the PPP project, the public partner shall include in the FEC and in the PPP project timetable the reconciliation of this State aid in the cases and procedures provided for in the laws and regulations[[31]](#footnote-32). Moreover, in case amendments to the Partnership Contract become necessary during the implementation of a PPP project, it is essential to assess each of them in depth in order to avoid increasing the existing State aid intensity or introducing new State aid.

The compatibility of PPP projects with the regulatory framework of State aid can be checked at any time during the term of the Partnership Contract. Recovery of unlawful State aid can also be sought in the case of PPPs[[32]](#footnote-33). It should be noted that unlawful State aid, including without exception unlawful de minimis State aid, will be recovered in full, applying a penalty interest rate determined by the European Commission to the amount to be recovered[[33]](#footnote-34). When engaging a private partner for the execution of a Partnership Contract containing State aid elements, it shall be ensured that the private partner has no outstanding commitments for the repayment of other unlawful State aid received in the past.[[34]](#footnote-35)

# Justification of Project Implementation

## Needs Assessment



Calculating value for money

Assessing project implementation alternatives

**Preparation of FEC quantifying part**

**Preparation of FEC descriptive part**

**Justification of project implementation**

**Prior to FEC preparation**

[Documents to be used](#_Pielikums_B._Izmantoto):

1. A Guide to Preparing a PPP Project
2. National Development Plan
3. Local government development plans
4. Medium- and long-term planning documents for the sector



**Outcome:**

**An identified project that addresses a pressing and long-term public need/problem**

**Objective:**

**Carry out needs assessment**

In order to contribute to the overall economic growth and social progress of the State, the public partner must invest in providing and improving access to the infrastructure or services needed by the society. The public partner must therefore first prioritise the needs of the society and plan investments. Correct prioritisation of public needs avoids the public partner diverting scarce time, human and financial resources to less important infrastructure or service projects. In prioritising public needs and identifying the projects to be selected for implementation, the public partner shall take into account, inter alia, the various medium- and long-term planning documents and development strategies at national, regional, local and sectoral level.

The need to invest in the implementation of a project is mainly justified by the following considerations:

* **insufficient capacity of existing infrastructure or services** to meet growing public demand
* **technical deterioration of existing infrastructure**
* existing infrastructure or services **no longer meet regulatory or environmental standards**
* **infrastructure that has deteriorated or been damaged** due to poor maintenance or force majeure needs to be replaced
* there is a **need for new infrastructure or a service** that has not previously been provided or delivered

In assessing potential projects that meet a range of public needs, the public partner shall, among other things, identify the societal and economic needs that would be met by the projects. The assessment shall be based on relevant and substantiated data available to the public partner and linked to national, regional, local and sectoral medium- or long-term planning documents and development strategies.

As a result, the assessment of multiple public needs shall provide an answer to the public partner as to which potential project should be objectively prioritised, resolving a significant mismatch between the public need and the public partner's ability to provide it itself.

## Analysis of Possible Methods of Implementing the Project

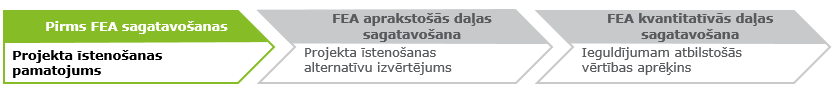
Assessing project implementation alternatives

**Preparation of FEC quantifying part**

**Preparation of FEC descriptive part**

**Justification of project implementation**

**Prior to FEC preparation**



Calculating value for money

[Documents to be used](#_Pielikums_B._Izmantoto):

1. [A Guide to ECBA Preparation](#_Pielikums_A._Izmantotie)
2. A Guide to Preparing a PPP Project
3. PPP Law
4. CR 1152



**Outcome:**

**Most suitable method of project implementation identified (e.g., where, how and when to implement)**

**Objective:**

**Analyse potential technical, legal and financial issues of the project**

In order to determine the most appropriate method of implementing the project identified by the needs assessment, the public partner shall assess the possible technical, legal and financial options in accordance with the following steps:

* identifying possible methods of implementing the project. (N.B. "Not investing" may be one of the methods to be included in the assessment)
* assessing the estimated financial impact of each of the implementation methods identified
* preliminary ECBA for each method of implementation identified (see reference to documents to be used: A Guide to ECBA Preparation)
* preliminary affordability analysis for each of the identified implementation methods (see Chapter 3.2)

The quality and affordability of future infrastructure to be created or services to be provided shall be prioritised in a cross-comparison of the identified implementation methods. At the same time, it should be kept in mind that the cost of the project will vary under each of the identified implementation methods, as in each case the public needs may be met to a different extent and quality. Therefore, the conclusion on the preferred method of implementing the project will be influenced not only by financial calculations but also by non-financial and strategic considerations.

Within the ECBA it shall be assessed whether the public benefits of the project will exceed or at least justify the total costs of the project. Therefore, the ECBA shall identify the financial costs of the project, project its potential revenues, and analyse its quantifiable social, economic, environmental and other benefits and losses, such as:

* reduced time spent on the road by road users,
* reduced number of road accidents,
* reduced fuel consumption or vehicle depreciation,
* reduced CO2 emissions,
* improved energy efficiency or functionality,
* reduced response times for emergency services,
* increased speed of delivery of various services, etc.

*The discount rate to be used for the ECBA is specified in Chapter 4.2, key assumption 3.*

The ECBA results in an economic NPV of the investment, expressed as the difference between the total net revenues and the costs of the project over its lifetime, which is discounted using an appropriate discount rate.

The positive and negative financial, social, economic, environmental and other effects of the project on national, regional, local and sectoral development, which cannot be quantified, shall be included in the descriptive section of the FEC. Examples of such effects include:

* improving working conditions for public administration staff,
* more efficient performance of public functions,
* residents' frustration with increased traffic volumes,
* traffic problems in the surrounding streets.

## Project Feasibility Assessment

Calculating value for money

**Preparation of FEC quantifying part**

**Preparation of FEC descriptive part**

Justification of project implementation

**Prior to FEC preparation**



**Assessing project implementation alternatives**

[Documents to be used](#_Pielikums_B._Izmantoto):

1. A Guide to Preparing a PPP Project 7. Aid Law
2. A Guide to ECBA Preparation 8. CcL
3. PPP Law 9. Governance Law
4. SASL 10. PPL
5. Law on Prevention of Squandering 11. LPPSP
6. CtL 12. LPFDS



**Outcome:**

**The technical, legal, financial and social feasibility of the project described (included in the FEC documentation)**

**Objective:**

**Assess whether the project is technically, legally, financially and socially feasible**

Once the most appropriate method of implementing the project has been identified, the public partner must analyse its main principles, i.e. assess the feasibility of the project.

The feasibility assessment shall first include the key considerations and conclusions identified in the assessment of the public need to be met and in the preparation of the ECBA (see Chapters 2.1 and 2.2). This is followed by an evaluation of the following four aspects:

1. **Technical feasibility of the project.** This section should indicate the project objectives to be achieved and include descriptions such as:

* the technical description of the project
* the quality requirements of the project (e.g. compliance of the works with building codes or other standards, compliance of the service with technical or functional quality standards, compliance of the works or service with the quality requirements set out in the technical specifications)
* the duration of the project, indicating, if applicable, the possible stages and their sequence
* the methods and resources to be used in the execution of the works or provision of the services envisaged in the project (e.g. outsourcing, use of public partner resources, setting of resource charges in accordance with the Law on Prevention of Squandering if such are envisaged in the PPP project, etc.)
* the main technical and operational risks of the project (see Chapter 3.5)

1. **Legal feasibility of the project.** This section shall include at least the following:

* the public partner's right to tender and implement the potential project
* a list of the authorisations, consents and approvals required for the public partner, indicating the entities issuing them
* the obstacles or constraints to the implementation of the potential project identified by the public partner in the legal framework and the envisaged solution, including the timeframe

1. **Financial feasibility of the project.** This section shall consider at least the following:

* the main cost components of the potential project (see Chapter 4.2, key assumption 7)
* the main financial and commercial risks (see Chapter 3.5)
* the results of market sounding (demand, supply, trends, etc.)
* assumptions about the cost or price of using the infrastructure or service
* analysis of project affordability (see Chapter 3.2)

1. **Social and environmental feasibility of the project.** This section shall consider at least the following:

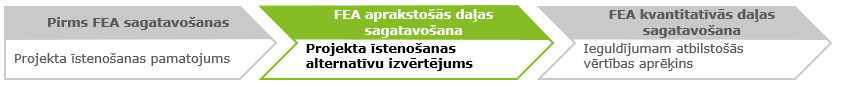
* the expected social impact of the project
* the expected environmental impact of the project
* where negative social and/or environmental impacts have been identified, solutions to avoid or mitigate them

# Assessment of Alternatives to Project Implementation

## Analysis of the Suitability of the PPP Arrangement

**Preparation of FEC descriptive part**

**Prior to FEC preparation**



Calculating value for money

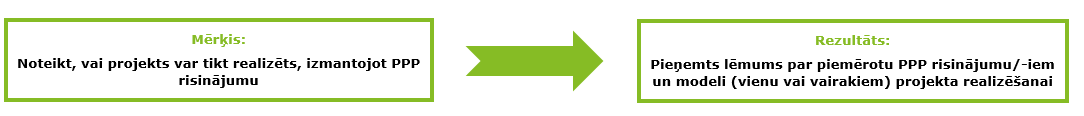
**Preparation of FEC quantifying part**

**Assessing project implementation alternatives**

Justification of project implementation

[Documents to be used](#_Pielikums_B._Izmantoto):

1. A Guide to Preparing a PPP Project 8. CcL
2. A Guide to the of VFM 9. Governance Law
3. PPP Law 10. PPL
4. SASL 11. LPPSP
5. Law on Prevention of Squandering 12. LPFDS
6. CtL 13. Laws and regulations governing commercial
7. Aid Law activity



**Outcome:**

**A decision adopted on the most suitable PPP arrangement(-s) and model (one or several) for the implementation of the project**

**Objective:**

**Determine whether the project can be implemented using a PPP arrangement**

In order to assess whether the project identified in Chapter 2 can be implemented in a PPP framework, the public partner must assess a number of issues related to the applicable regulatory framework, the capabilities of the public partner and the potential private partner, and certain project-specific aspects.

Applicable regulatory framework:

* does the regulatory framework allow for the project to be implemented using one of the PPP arrangements?
* if the project involves the delegation of a public administration task or the provision of a public service, does the regulatory framework allow the private partner to provide the public service or to delegate the specific public administration task to the private partner?
* does the regulatory framework allow the public partner to engage in commercial activities in the case of an Institutional PPP?
* does the implementation of the project within the PPP framework directly or indirectly distort, restrict or exclude competition during the selection of the potential private partner as well as during the life cycle of the PPP project?
* is the public partner entitled to conclude a Partnership Contract?
* would the Cabinet or another decision-making body under the PPP Law support the implementation of the project under the PPP framework?
* would end-users and other stakeholders support the implementation of the given project in a PPP framework?

Capabilities of the public partner and the private partner:

* does the public partner have the necessary competence, skills, experience and knowledge to develop the PPP documentation, implement the procurement and manage and monitor the Partnership Contract?
* has the public partner carried out market sounding in order to ascertain the interest of potential private partners in engaging in the PPP project and is there sufficient competition between potential private partners in the selection of the private partner?
* does the potential private partner have skills and experience that the public partner lacks, such as skills and experience in design, works execution, maintenance or service provision?
* have similar PPP projects been implemented in Latvia or abroad in the last 3 years for services (5 years for construction works)[[35]](#footnote-36)? If not, it is necessary to identify PPP projects implemented over a longer period of time, recording this information in market research results and using it for the development of the PPP documentation.

Project-specific aspects:

* would the life cycle costs of the project be reduced if the PPP arrangement combined several phases of project implementation, such as designing, building, financing and maintenance?
* are the time, human and financial resources required for the public partner to prepare the PPP documentation, conduct the approval process with the CFCA and the MoF, implement the procurement and conclude the Partnership Contract, ensure contract monitoring and regular reporting proportionate to the value of the project?
* will the implementation of the project meet a long-term public need? Is it reasonable for the public partner to expect that this public need will not significantly diminish during the life cycle of the PPP project?
* are there any benefits or advantages that the public partner would continue to derive from providing the infrastructure or service planned within the project itself?

When analysing the suitability of a PPP arrangement and models, it is necessary to assess the non-financial benefits of not implementing the project on the basis of traditional procurement, such as:

* + - * **accelerated delivery.** Using a PPP arrangement and a PPP model can speed up project implementation and delivery of the intended results. The Partnership Contract shall be structured in such a way as to incentivise the private partner as much as possible to deliver the works on time and to a high standard. This could be done, for example, by stipulating that the private partner is only entitled to start receiving payments once the works have been completed. Similarly, the ability of the private partner to attract finance earlier than a public partner for a particular project generally makes it more likely that the infrastructure or services will be delivered earlier
* **higher quality of delivery.** The use of a PPP arrangement and a PPP model can contribute to a higher quality of works or services. If, for example, construction and maintenance work is entrusted to a private partner, it is expected that it will be carried out in a mutually coordinated manner with the aim of preserving the residual value of the asset for as long as possible. Similarly, a correlation can be used for this purpose between the liabilities of the private partner set out in the Partnership Contract, which must be fulfilled before the public partner starts payments or makes a regular payment. In addition, the involvement of financiers and the commitment of the private partner to accurate, timely and high-quality performance help to ensure higher quality in PPPs. This ensures with high confidence that the private partner will receive timely and full payments from the public partner and/or obtain payments from users
* **wider social impact.** The use of a PPP arrangement and a PPP model can have a positive impact on wider society. For example, the structuring and planning of a PPP project and the selection of a private partner, compared to a traditional procurement, involves more precise calculations and justifications, more detailed consideration of the allocation of responsibilities and risks between the public partner and the private partner, and improved public sector capacity to manage and control the quality of projects. Wider macroeconomic benefits may also be identified, resulting from the economic and environmental impacts of the project's contribution

Where non-financial effects are identified that could result in losses if the project were to be implemented using one of the PPP arrangements or PPP models, details of such potential non-financial effects shall be included in the analysis. A PPP project may be implemented using the relevant PPP arrangement or PPP model, provided that the descriptive part of the FEC provides a sufficient, reasoned and comprehensive justification for the existence of other overriding national or public needs or interests that justify the implementation of the PPP project, recognising the potential risk of losses from non-financial effects. Based on these considerations, the Cabinet or another decision-making body as defined in the PPP Law will take a decision on the implementation of the PPP project using the PPP arrangement and PPP model analysed in the FEC.

The suitability analysis of the PPP arrangement leads to a decision by the public partner on the most suitable PPP arrangement and PPP model (one or more) to implement the project.

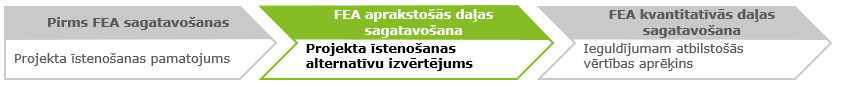
## Analysis of Investment Affordability

Calculating value for money

**Assessing project implementation alternatives**

**Preparation of FEC quantifying part**

**Preparation of FEC descriptive part**



**Objective:**

**Assess the ability and willingness of the public partner and/or end-users to pay for the service received**

Justification of project implementation

**Prior to FEC preparation**

[Documents to be used](#_Pielikums_B._Izmantoto):

1. A Guide to Preparing a PPP Project
2. A Guide to the Assessment of VFM



**Outcome:**

**Confirmation or denial of the affordability of the identified PPP arrangements/models**

Affordability refers to the ability of the public partner or end-users to pay a charge or price for the use of infrastructure or services that is able to cover the private partner's investment, e.g. in design, construction, maintenance, finance attracting, tax costs and return on investors' capital.

The analysis of investment affordability shall carefully analyse the expected costs of a PPP project. The cost plan shall be justified by the results of market research, based on expert opinions, and on discussions with potential service providers or contractors. Based on these, the likely level of payments by the public partner or end-users shall be determined.

In the case of a Concession, the **ability and willingness of end-users to pay** the calculated user charge or price must be assessed, especially in cases where the Concession would result in the introduction of a new payment or an increase in an existing payment. If it is determined that the new charge or increase in the existing charge will exceed the ability and willingness of end-users to pay the calculated usage charge or price, the obligation of the public partner to partially cover these end-user charges shall be provided. In such a case, the ability of the public partner to make a long-term commitment to pay all or part of the end-user charge or price must also be assessed in turn.

The public partner shall assess the impact of the preferred PPP arrangement and PPP model on the public partner's budget, identifying at least the following:

* the size of the public partner's budget and long-term commitments
* the long-term impact of the public partner's planned payments on its budget
* the long-term impact of the public partner's project revenues on its budget

The analysis of investment affordability may lead to the conclusion that one of the PPP arrangements or PPP models analysed previously is not suitable for a PPP project.

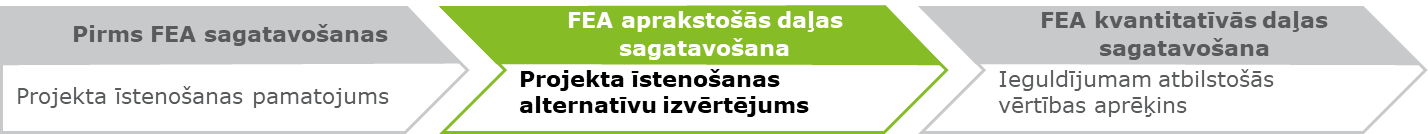
## Finance Attracting Assessment

**Assessing project implementation alternatives**

**Preparation of FEC quantifying part**

**Preparation of FEC descriptive part**

**Prior to FEC preparation**



Justification of project implementation

Calculating value for money

[Documents to be used](#_Pielikums_B._Izmantoto):

1. A Guide to Preparing a PPP Project
2. A Guide to the Assessment of VFM



**Outcome:**

**Data on conditions for attracting financing for the determined PPP arrangements/ models obtained**

**Objective:**

**Through market sounding determine whether the PPP arrangement/ model will be able to attract financing**

In the case of PPPs, a project is often financed by a combination of equity and long-term loan by the private partner. Depending on the risks transferred to the private partner in a PPP project, long-term loan typically accounts for 60% to 90% of the total financing attracted.

The principal and interest on long-term loans are repaid to the lender according to the interest rate and amortisation schedule specified in the loan agreement. For equity investors, however, the remuneration is not contractually fixed in advance. It depends on the performance of the PPP project and is paid periodically in dividends. This means that lenders take on relatively less risk, making long-term loan financing cheaper, thus reducing the overall cost of a PPP project.

International and national commercial banks, international development banks (such as the European Investment Bank, the European Bank for Reconstruction and Development and the Nordic Investment Bank) and non-bank financial institutions can be used to finance PPP projects. Each has its own objectives, priorities and risk appetite, which make their interest and approach to assessing PPP projects different.

*The data from the market sounding are used in the development of the Financial Model (see Chapter 4.2, key assumption 5).*

When assessing the ability of a PPP project to attract finance, the public partner must undertake market sounding to identify potential financiers and the conditions for attracting finance, including:

* whether all possible sources of funding have been identified (including commercial banks, development banks, equity investors, private equity or venture capital funds, EU funds)
* whether potential financiers have experience in financing PPP projects
* whether the project structure is conducive to attracting finance on favourable terms, e.g. favourable interest rate, loan term appropriate to the duration of the project, early repayment terms
* whether the financiers are likely to require a guarantee from the public partner to ensure a minimum level of revenue from the private partner

Whether the PPP project is to be co-financed by the EU or other funds (private equity or venture capital funds are assessed separately), the assessment of attracting finance shall include an analysis of the feasibility of attracting this finance. If co-financing by the funds is not possible, the analysis shall include a description of the considerations that led the public partner to reach this conclusion. Where co-financing from the EU or other funds is foreseen, the analysis shall describe the progress made in the absorption of the selected co-financing, such as the activities for which co-financing is available, the beneficiary of the co-financing, the amount, the timetable for absorption, the impact on administrative costs and other aspects. Where co-financing from the EU or other funds is possible for certain activities of a PPP project but not within the PPP project, the public partner shall consider separating these activities from the PPP project and implementing them separately.

The assessment of finance attracting may lead to the conclusion that one of the PPP arrangements or PPP models analysed previously is not suitable for the implementation of a PPP project.

## Statistical Treatment Assessment of Partnership Contract

**Prior to FEC preparation**

**Preparation of FEC descriptive part**

**Preparation of FEC quantifying part**

**Assessing project implementation alternatives**

Calculating value for money



Justification of project implementation

[Documents to be used](#_Pielikums_B._Izmantoto):

1. Guidelines for PPP Statistical Treatment
2. ESA 2010
3. A Guide to Preparing a PPP Project
4. A Guide to the Assessment of VFM



**Outcome:**

**Confirmation or denial of the statistical treatment of the Partnership Contract on the balance sheet of the general government sector assets**

**Objective:**

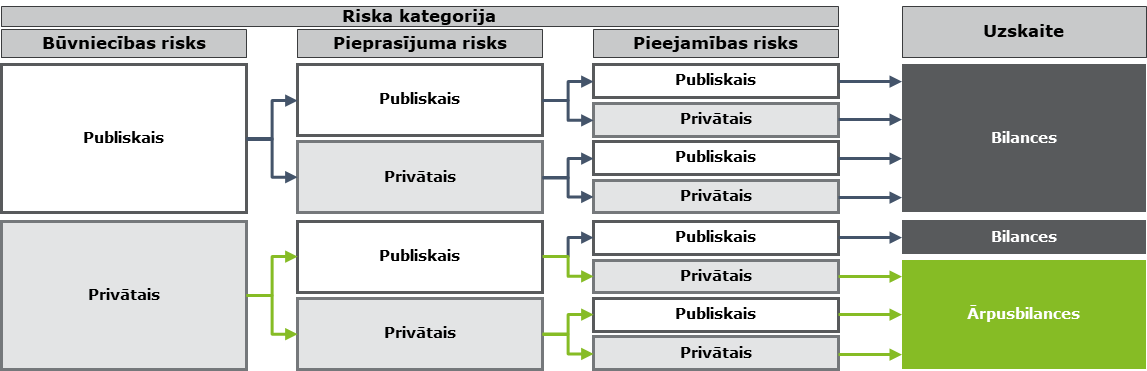
**Determine the statistical treatment of the Partnership Contract**

Given the budgetary deficit constraints imposed on the State, the statistical treatment of a Partnership Contract can play a crucial role in assessing the most suitable PPP arrangement and PPP model for a PPP project. Whether a Partnership Contract is accounted for on or off the balance sheet of the general government sector assets is assessed by analysing which party, the public partner or the private partner, bears the greater risk and will receive the greater share of the rewards from the assets. The main risk and reward elements to be assessed are:

* **construction risk:** related to the execution of construction works (e.g. cost increases, extra costs, delayed delivery of construction materials, loss or damage caused by or resulting from construction works and discovered during operation, non-compliance with technical regulations or building codes, environmental risks and other risks that give rise to liabilities to third parties)
* **availability risk:** related to service delivery (e.g. ensuring the quality of the service meets the specifications within the planned scope and timeframe, additional maintenance or financing costs)
* **demand risk:** related to the demand for the service (e.g. a decrease or increase in the number of end-users of the service, other than due to low quality or insufficiency of the service; other circumstances affecting the quantity or quality of the service)

Below are the risk allocation combinations between the public and private partner that determine the on-balance sheet or off-balance sheet recording of the Partnership Contract, as required by ESA 2010.

**Risk category**



**Off balance sheet**

**On balance sheet**

**On balance sheet**

**Treatment**

**Public**

**Public**

**Public**

**Public**

**Public**

**Public**

**Public**

**Private**

**Private**

**Private**

**Private**

**Private**

**Private**

**Private**

**Availability risk**

**Demand risk**

**Construction risk**

Figure 2: Risk Allocation Combinations and Statistical Treatment

As illustrated in Figure 2, the Partnership Contract will automatically be recorded on the balance sheet of the general government sector assets if the public partner assumes the construction risk. In this case, it won't even matter how the risk of demand and availability is allocated. On the other hand, if the construction risk and the demand or availability risk have been effectively transferred to the private partner, the Partnership Contract will be recorded off the balance sheet of the general government sector assets.

In addition to these risks, other terms and conditions of the Partnership Contract relating to the public partner's liabilities are also assessed, such as the amount of the public partner's financing, guarantees and early termination events, the residual value of the asset and the risk of obsolescence, which includes the risk that the asset will not be worth as much as expected at the end of the contract, and the extent to which the public partner has an option to acquire the asset.

*The Partnership Contract provisions with materiality "Automatically on BALANCE SHEET" and "VERY HIGH", as well as those that include a reference to a certain percentage threshold, are included in the FEC Financial Model worksheet "Statistical Treatment Checklist Questions", which serves as an example and shall not be considered as exhaustive. The FEC developers shall add to the list other identified provisions of the Partnership Contract that are relevant to the PPP project.*

In assessing the potential statistical treatment of the Partnership Contract, the public partner shall identify all those terms and conditions of the Partnership Contract which, when ranked in order of materiality, have the following effect - "Automatically on BALANCE SHEET", "VERY HIGH", "HIGH" or "MEDIUM". Materiality shall be assessed in accordance with Chapter 3 of the "A Guide to the Statistical Treatment of PPPs".

If no terms and conditions of the Partnership Contract are identified that have an impact on the statistical treatment of the Partnership Contract, it follows that the Partnership Contract is off-balance sheet.

If **one or more** terms and conditions of the Partnership Contract are identified as having a materiality of "Automatically on BALANCE SHEET", the Partnership Contract shall be on the balance sheet.

If no terms and conditions of the Partnership Contract are identified as having a materiality of "Automatically on BALANCE SHEET", but **one or more** terms and conditions of the Partnership Contract are identified as having a materiality of "VERY HIGH", "HIGH" or "MEDIUM", the statistical treatment of the Partnership Contract shall depend on the combination of these criteria.

According to the "A Guide to the Statistical Treatment of PPPs", the **Partnership Contract is off-balance sheet** if any of the combinations of materiality criteria listed in Table 1 below is met.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **VERY HIGH** | **HIGH** | **MEDIUM** |
| 1. | Not more than 1 | 0 | Not more than 2 |
| 2. | 0 | Not more than 2 | Not more than 1 |
| 3. | 0 | Not more than 1 | Not more than 4 |
| 4. | 0 | 0 | Not more than 7 |

Table 1: Combinations of Materiality Criteria that Lead to Off-Balance Sheet Recording

As follows from Table 1, the Partnership Contract is off-balance sheet, if there are:

* no more than one "Very High", no "High", no more than two "Medium" materiality criteria
* no "Very High", no more than two "High", no more than one "Medium" materiality criteria
* no "Very High", no more than one "High", no more than four "Medium" materiality criteria
* no "Very High", no "High", no more than seven "Medium" materiality criteria

If the highest number of criteria in Table 1 is achieved in each combination or the combinations of materiality criteria in Table 1 are exceeded, there is a high probability that the Partnership Contract will be on the balance sheet. In either of these cases, the analysis produced by the public partner may be considered inconclusive by the Central Statistical Bureau or Eurostat. Therefore, in addition to the terms and conditions of the Partnership Contract, an in-depth assessment of the Partnership Contract may be carried out in order to decide on the statistical treatment of the Partnership Contract. In addition, the practical ability of the public partner to decide on (determine over) the asset during its economic life may be one of the elements to be assessed, assessing at least the following:

* the degree to which the public partner determines, for example, the design, quality, maintenance and operation
* the extent to which the public partner will benefit from the asset if it continues its economic life after the end of the Partnership Contract

If, in the course of the statistical treatment analysis of the PPP project, the public partner concludes that the Partnership Contract should be recorded on the balance sheet of the general government sector assets, but that such recording treatment makes a PPP arrangement infeasible, the public partner may review not only the terms and conditions of the Partnership Contract, but also whether certain activities under the PPP project could be separated from the PPP project and implemented separately through traditional procurement.

The statistical treatment analysis may lead to the conclusion that one of the PPP arrangements or PPP models analysed above is not suitable for the project.

## Project Risk Analysis

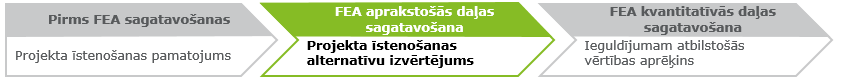
Calculating value for money

**Assessing project implementation alternatives**

**Preparation of FEC quantifying part**

**Preparation of FEC descriptive part**

**Prior to FEC preparation**



[Documents to be used](#_Pielikums_B._Izmantoto):

1. A Guide to Preparing a PPP Project
2. [Risk Tool](https://ppp.cfla.gov.lv/)
3. A Guide to the Assessment of VFM
4. Allocating Risks in PPP Contracts

Justification of project implementation



**Outcome:**

**PPP project risks identified and optimum risk allocation determined**

**Objective:**

**Assess potential PPP project risks and their effects on VFM**

Appropriate and well-considered risk identification, assessment and allocation is one of the key factors in achieving value for money in a PPP project.

PPP project risk analysis includes:

* qualifying (identifying and defining) risks
* quantifying risks (determining impact, probability, baseline and potential costs)
* risk allocation (determining individual and shared risks of the public partner and the private partner)
* mitigating the impact of risks
* monitoring and managing risks during the life cycle of the PPP project

Within the framework of the Risk Tool and the FEC, the initial qualification, quantification and allocation of the risks of the PPP project shall be carried out. It shall be refined and developed during the private partner selection process by identifying and assessing new risks not previously identified in the FEC.

The aim of risk qualification is to anticipate existing and potential threats to the successful implementation of the PPP project. Risks need to be separated into the different phases of the PPP project (e.g. construction and maintenance). Further quantification and allocation of risks shall be made depending on the phase in which it has been qualified.

*The most common risks are included in the Risk Tool*

One or more of the following approaches may be used to qualify risks:

* **risk Working Group meetings.** Their aim is to identify the main risks, their likelihood of occurrence and potential impact. In order to get the broadest possible view of the risks, it is important to include all parties involved in the structuring and planning of the PPP project - the public partner's project team, the consultants involved, if any, other stakeholders and representatives of the end-users - in the working group.
* **list of risks in the Risk Tool.** The Risk Tool contains a sufficiently broad list of risks for initial risk identification. However, the specific circumstances of each PPP project shall be taken into account when preparing the risk analysis for the PPP project. The list of risks in Table 2 is not exhaustive and the risks in the table are presented to give a general idea, and not all risks in the table will be applicable to the specific PPP project (*with updates to the FEC Guidelines on 25.09.2024*).
* **experience of similar projects.** It providesempirical data on actual risks and their costs. This makes it possible, for example, to identify a previously unrecognised risk.
* **related documents and guidelines.** Standardised Partnership Contracts, various EPEC and Eurostat guidelines on statistical treatment of Partnership Contracts can prove to be an important source of information on the potential risks of PPP projects and their allocation.

| **Risk category** | **Risk description** |
| --- | --- |
| **Location risks** | |
| Acquisition/use of land/buildings | Availability of the land/building to be used for the project; ownership or usufruct rights, obligations arising therefrom; loss of land value due to the project. |
| Consents/permits | Construction permit; environmental impact assessment; negative outcome of public consultation on environmental impact; public objection to project implementation on the proposed land. |
| Access to land, easements | Cost and delay risks caused by the need to obtain consents or permits from adjacent landowners. |
| Geological and topographical conditions | Geological and topographical conditions on the construction site, which may lead to additional costs, including due to inaccurate site surveys or the use of outdated data. |
| Environmental and social risks | Latent environmental conditions (e.g. previous pollution) and any risk of further harm to the environment or society. |
| Public service risk | Risk of default by the third party responsible for the connection to the public service network; risk of temporary diversion of public services during construction or damage to existing public service networks (e.g. pipes and cables on site). |
| Archaeological finds | Cost and delay risks associated with possible archaeological finds on the site |
| Use of vacated property | Risks associated with the continued use of the vacated property; risks associated with the relocation of users from previous premises to new premises. |
| **Construction risks** | |
| Designing | Risks related to inappropriate project design, project changes and delays in project approval. |
| Construction | Risks related to construction cost overruns and delays in completion and commissioning (e.g. labour disputes, poor project management and supervision, inadequate quality, defects, problems with subcontractors, permitting). |
| Technology | Risks associated with the use of new and untested technologies in construction or operation, with the obsolescence of the technology used, with the emergence of new technologies that change the way the asset is used. |
| Supply risk | The risk of default by the private partner, as well as risks related to the quality, cost and timing of the resources supplied. |
| Revenue risk during construction | Risk that the revenue earmarked to finance the project will be lower than expected in case the project involves taking over and operating an existing project as part of an overall project (e.g. renovation/extension of an existing facility). |
| **Operational/ performance risks** | |
| Availability risk | The risk of disruption to the availability of the site and/or the provision of services in accordance with the quality standards, scope and price of the contract. |
| Operational, performance and maintenance risk | Risks related to planned cost increases during the maintenance phase (service provision, maintenance of the facility at the required quality level, accidents, pollution, higher than planned demand/use levels) |
| Demand risk | Risks associated with lower than expected demand (e.g. due to demographic changes or a decrease in users' ability to pay). In the case of availability payments, the public partner runs the risk of paying for an amount of services that is not actually needed. In the case of end-user charges, this creates a revenue risk (see below). |
| Revenue risk | In the case of user charges, the risk that revenues will be lower than expected due to lower demand, changes in users' ability/willingness to pay or price changes. In the case of availability payments, the risk that the public partner will not be able to meet its financial commitments in the long term. |
| Cooperation risk | Risks related to the dependency of the PPP project on other services provided by the public partner, as well as risks related to the cooperation between all project stakeholders. |
| Defining the project specification | Risk related to insufficient definition of the project specification (e.g. quality of service delivery, payment mechanism). |
| Supply risk | Risks related to the availability or price of resources needed to provide the service (e.g. availability and price of electricity), increase in insurance costs; risk of default by the private partner; changes in the composition or shareholding of the private partner. |
| Residual value | Risk related to the quality and residual value of the facility at the end of the Partnership Contract. |
| **Economic/financial risks** | |
| Financing risk | The risk associated with attracting financing (loan and equity) on acceptable terms before financial close. |
| Interest rate risk | Risks related to interest rate fluctuations and unexpected changes. |
| Inflation risk | The risk that resource prices rise faster than expected. |
| Currency risk | Risk related to exchange rate fluctuations. |
| **Political, legal, *force majeure* and other risks** | |
| Political risk | Risks related to political activity in the country. |
| Legal risk | Risks related to regulatory changes that negatively affect the private partner, the project or the industry, general regulatory changes that affect the cost of operations (i.e. affect the market as a whole). |
| Force majeure | Force majeure preventing performance of contractual obligations. |
| Early termination of the Contract | Financial losses resulting from the early termination of the Partnership Contract due to the insolvency of the private partner or the public partner. |
| Other risks | Other risks that could have a negative impact on project implementation, such as a negative report from the State Audit Office. |

Table 2: Description of Risk Categories

The allocation of risks shall be carried out in such a way that the specific risk is borne by the counterparty that is better able to influence or manage the likelihood of the occurrence of the risk, or to control or absorb its impact. In a Partnership Contract, the risk may be transferred to the public partner, the private partner or both partners jointly.

Transferring a large share of the risks to the public partner limits the value for money of the PPP project and reduces the private partner's incentive to deliver the project to the quality and at the cost agreed in the contract. However, when deciding on risk allocation, it shall be taken into account that the private partner expects to be compensated for the risks transferred to it, which in turn increases the overall cost of the PPP project and the level of payments of the public partner and/or end-users, respectively. It must be assessed whether the private partner will be able to manage the risks involved at a lower cost compared to the public partner. If this is not the case, the allocation of risk to the private partner will reduce the value for money. The public partner must also bear in mind that an ill-considered allocation of risks to the private partner may adversely affect the interest of potential private partners in the PPP project and reduce competition between them. Optimal risk allocation is a prerequisite for effective risk management and higher value for money.

The risk analysis may lead to the conclusion that one of the PPP arrangements or PPP models analysed previously is not suitable for the PPP project.

The Risk Tool[[36]](#footnote-37) shall be used for risk analysis. A summary of the Risk Tool (both sections: "Risk Questions" and "Risk Assessment") shall be annexed to the FEC. The risks for which mitigation costs have been identified in the Risk Tool shall be indicated in the "Risks" worksheet[[37]](#footnote-38) of the Financial and Economic Calculations Model (MS Excel) and therefore also in Section 3.5 of the FEC. The allocation of risks must be done in such a way that the partner better able to influence or manage the probability of occurrence, control or absorb the impact of the risk is the one to bear the risk.

When using the Risk Tool, it shall be noted that in a Partnership Contract the risk may be transferred to the public partner, the private partner or both partners jointly (three options). Two or all three options are not possible at the same time. The risk shall be transferred to **either** the private partner **or** the public partner, **or** it shall be indicated that the risk is shared between the private and the public partner. The respective mitigation costs of each party shall be provided if mitigation measures are possible for the risk concerned. In case the risk is shared between the public and the private partner, a detailed explanation of the shared risk, what is directly borne by each party, what costs are foreseen in relation to the risk sharing shall be included in Section 3.5 of the FEC.

Section 3.5 of the FEC shall provide a description of the main risks, including construction, availability, demand, and costed risks, risk mitigation actions for both the Baseline Procurement Alternative and the PPP Alternative, as well as conclusions on the results of the risk analysis. The Risk Tool, and hence the “Risk Analysis” worksheet, shall reflect the costs that will actually be incurred during the lifetime of the project in managing the risk.

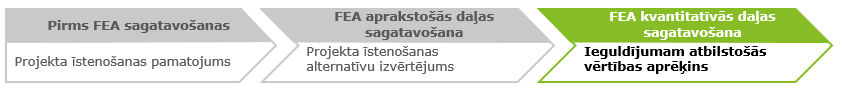
Section 3.5 of the FEC shall provide a description of the methodology for quantifying the risks in order to ensure the credibility of the reasonableness of the alternative (*with updates to the FEC Guidelines on 25.09.2024*).

# Calculation of Value for Money

**Preparation of FEC quantifying part**

Assessing project implementation alternatives

**Preparation of FEC descriptive part**



**Calculating value for money**

Justification of project implementation

**Prior to FEC preparation**

[Documents to be used](#_Pielikums_B._Izmantoto):

1. A Guide to the Assessment of VFM
2. Recommendations, Guidelines and Best Practices Bearing on Competitive Neutrality
3. A Guide to ECBA Preparation
4. A Guide to the Statistical Treatment of PPPs



**Outcome:**

**Best alternative contract type for project implementation determined and expected contract price calculated**

**Objective:**

**Prepare the Financial Model for the assessment of the PPP arrangement/ model**

## Description of the Evaluation Approach

The calculation of Value for Money (VFM) shall be made for each PPP arrangement and PPP model that the public partner has determined, in accordance with Chapters 2 and 3 of the Guidelines, to be appropriate for the implementation of the PPP project. VFM means the best available outcome, analysing all the benefits, costs and risks expected over the life cycle of the PPP project.

The VFM calculation includes an evaluation of the costs of the PPP project and a comparison of two or more alternatives: (a) the PPP model implemented under the PPP arrangement and (b) the traditional procurement or Baseline Model. Alternatives are compared on the assumption that all alternatives provide the same quality and quantity of works or services. However, the timetable of the costs of the compared alternatives may differ significantly, i.e:

* **in the case of a PPP**, the obligation of the public partner and/or the usersto start making payments arises when the private partner has completed the works or started to provide the services specified in the Partnership Contract. Payments are made regularly throughout the duration of the Partnership Contract
* **in the case of traditional procurement**, the public partner starts payments already during the development and implementation of the works or services. Payments may be continued during the provision of the service or the maintenance of the structure if the provision of the service or the maintenance of the structure is carried out by the successful tenderer in a traditional procurement

The calculation of VFM does not include non-financial benefits of the PPP arrangement and the PPP model, as these cannot be measured in monetary terms with sufficient reliability. However, when deciding whether to implement the PPP project, the financial benefits need to be assessed together with the non-financial benefits identified in the FEC (see Chapter 3.1). See Annex A (Schematic Representation of the Development of FEC) for the impact of non-financial benefits on project implementation.

VFM calculation is developed in three stages. The steps and potential challenges of each stage are described in Table 3.

|  |  |  |
| --- | --- | --- |
| **Stage 1** | ***Challenges in calculating VFM*** | **Stage 2** |
| **PPP Project Model** | **Baseline Model** |
| ***Step 1***  Develop the Financial Model including projected capital and maintenance costs and revenues, including identified efficiency/synergy benefits, if any. | Lack of reliable information on costs, in particular operating costs for the Baseline Model and the PPP Project Model with the same quality and scope of service. | ***Step 1***  Adapt the developed PPP Project Model by adjusting the assumptions to the traditional procurement, including the planned capital and maintenance costs and project revenues, if any. |
| ***Step 2***  Indicate project costs and revenues according to project risks, plus the cost of risk, the cost of managing the Partnership Contract and the cost of financing attracted. | Lack of reliable information on quantification of risks (likelihood and impact), calculation based on assumptions. | ***Step 2***  Indicate project costs and revenues according to project risks. |
| ***Step 3***  Determine the potential amount of the availability payment and/or user charges. | The difference between the theoretically accepted tax regime and the actual tax regime. | ***Step 3***  Review the model to ensure that the principle of competitive neutrality between the Baseline Model and the PPP Project Model is respected (see Chapter 4.2, key assumption 9). |
| ***Step 4***  Use an appropriate discount rate to calculate the NPV of the PPP Project Model (see Chapter 4.2, key assumption 3). | The discount rate used has a significant impact on the result. | ***Step 4***  Use an appropriate discount rate to calculate the NPV of the baseline model (see Chapter 4.2, key assumption 3). |
| **Stage 3** | | |
| Comparison of the NPV of the PPP Project Model and the Baseline Model | | |
| The difference in the NPV between the two models may not be significant.  When deciding on a project implementation arrangement, it is important to consider the non-financial benefits (see Chapter 3.1). | | |

Table 3: Stages for Comparing the PPP Project Model and the Baseline Model

## Procedure for Developing the Financial Model

The Financial Model is developed in an excel file. Its structure is shown in the figure below.

*Figure 3: Financial Model Structure*

**Input sheet(s).** The input sheets contain variable basic assumptions to be used for the calculations. The public partner obtains them from the PPP project documentation and other sources of information.

**Calculation sheets.** The calculation sheets contain the NPV calculation of the PPP Project Model and the Baseline Model and intermediate calculations such as capital, financing and operating cash flows, project key indicators, sensitivity analysis and other calculations.

**Results sheets**. The results sheets present a summary of the calculations, including a comparison of the NPV of the public partner's cash flow in the PPP Project Model and the Baseline Model, the VFM corridor, the contract price corridor and other key indicators to help users of the Financial Model visualise the viability of the PPP project.

*For a more detailed description of the VFM corridor and the contract price corridor, see Chapter 4.3.*

The FEC model calculations use the following indicators and basic formulas:

* **Discount factor** - a factor by which future cash flows are multiplied to obtain the present value of the cash flows.

DFn - discount factor in period *n*

*i* - annual discount rate

kn - time factor for period *n* in years from the start date of the PPP project

* **NPV**

NPV - net present value

NPn - cash flows in period *n*

DFn - discount factor in period *n*

* **Internal rate of return** (IRR) - the discount rate at which the net cash flows available to repay investments become equal to the original investment.

NP*n* - cash flows of the original investment or cash flows available for repayment of the investment over period *n*

N - number of periods in the Partnership Contract

n - period *n* of the Partnership Contract

IRR - internal rate of return

When developing the Financial Model, the public partner must show at least the following key indicators in the results sheet:

* IRR of the private partner's equity after tax
* IRR of the private partner's equity (including subordinated capital) after tax
* Debt service coverage ratio (DSCR). This is a financial indicator that provides information about the borrower's ability to cover its debt service obligations over a given period. It is calculated by dividing the cash flow available to cover debt service obligations by the total amount of debt service obligations during the reporting period
* Loan life coverage ratio (LLCR). It is a financial indicator used to measure the solvency of a borrower. It is calculated by dividing the net present value of the cash flows available for debt service over the remaining term of the loan agreement by the outstanding amount of the loan
* Project life coverage ratio (PLCR). It is the ratio of the net present value of cash flows over the remaining life of the Partnership Contract to the outstanding balance of debt during the respective period

**Description of the key assumptions**

The key assumptions used in the Financial Model are grouped into 11 categories according to theme. The chapter goes on to describe the key assumptions included in each category, provides guidance on their use in the Financial Model and references to the sources of external assumptions used.

The categories are numbered consecutively and the numbering and formatting used correspond to the respective assumption categories in the Financial Model's input worksheets. The sources used for the key assumptions and the relevant links are provided in the Financial Model.

At a minimum, the Financial Model shall include and the input sheet shall describe the following key assumptions:

**Terms and dates.** The start date of the Financial Model is the planned date of signature of the Partnership Contract. The key assumptions define the date of signature of the Partnership Contract, the duration and the period of the works (if any).

1

**Macroeconomic assumptions.** This section defines the indices used in the Financial Model and justifies their choice. The value of an index shall be expressed as a percentage per year. The preferred source for the indices is the MoF forecasts. If no MoF forecast is available for a particular index, another appropriate source shall be used. For example, the Central Statistical Bureau or international databases (Bloomberg, S&P Capital IQ, Economist Intelligence Unit, etc.) can be considered as such. Indices shall be provided for each future calculation period. If data for the required future period are not available, their historical values for the latest available period shall be provided. The indices must be provided at least for the first year of implementation of the PPP project in which the Partnership Contract is to be signed. Links to the sources to be used are provided in the Financial Model.

2

**Discounting assumptions**. Discounting is the process of determining the present value of future cash flows. Given the time value of money, the euro is worth more today than tomorrow. The discount rate used to discount the public partner's cash flows is the nominal discount rate, which is calculated on the basis of the real discount rate set by the MoF, applying the relevant consumer price index forecasts (published on the website of the Central Statistical Bureau).

3

**Tax rates.** The key assumptions section shall show current and future tax rates in accordance with the laws and regulations in force. If they are amended to change the tax rate for future periods, the amended rates shall be shown for the relevant periods. Links to the sources are provided in the Financial Model.

4

**Financing structure.** The financing structure used in the Financial Model assumptions shall be based on the results of market sounding gathered in line with PPP best practice assumptions and confirmed in negotiations with potential private partners and financiers. A non-exhaustive list of types of funding to be included in the financing structure:

5

* **Private partner's equity.** Indicate the private partner's planned equity share of the total investment and the private partner's minimum after-tax real rate of return on equity. This rate is determined by taking into account the following rate components according to the Financial Asset Pricing Model used in financial theory to estimate the expected return on a risky asset (see the Financial Model for links to the sources):
* *The risk-free rate* is a hypothetical rate of return on an investment that has no risk of financial loss over a given period of time. The risk-free rate is usually a long-term government bond rate with an appropriate maturity closest to the planned life cycle of the PPP project. Information on Latvian government bond rates and maturities is available on the Treasury's website.
* *The equity risk premium* is the reward for the additional risk that the private partner takes when investing in a PPP project. It is determined by multiplying the market risk premium (the premium for fluctuations in financial markets as a whole) by the equilibrium beta coefficient (sensitivity to changes in financial markets, taking into account the capital structure of the private partner or the industry). A link to a possible source of information on the market risk premium and beta coefficient is provided in the Financial Model.
* *Other appropriate risk premiums*, such as volume premium (an additional risk premium reflecting the private partner's required reward for the risk arising from the size of the PPP project, e.g. for very small or very large projects) and other project specific premiums (additional risk premiums reflecting the private partner's required reward for the risk arising from the circumstances of the PPP project, e.g. the expected liberalisation of a regulated market).
* **Share of public partner's equity in total investment.** This section should only be completed in the case of Institutional PPPs where it has been confirmed that the public partner is eligible to engage in such a structured PPP arrangement.
* **Subordinated capital.** Indicate the planned share of subordinated capital in the total investment and the corresponding interest rate, determined on the basis of market research results and negotiations with financiers.
* **European/national/regional funding.** Justify the availability of EU/national/regional funding at the time of project commencement and indicate the planned share of funding in the total project capital investment (see Chapter 3.3).
* **Senior debt.** Indicate the planned share of senior debt in the total project capital investment and the corresponding interest rates. By default, an annuity or smoothed repayment schedule is used, where the regular repayments are equal for the duration of the loan. In the case of a PPP project implemented through a Contractual PPP or a Concession, it is important to determine the basic requirements of the financiers and to consider them as minimum requirements for the sufficiency of cash flows to repay the obligations. The assumptions on these shall be based on negotiations with financiers (e.g. European Investment Bank, European Bank for Reconstruction and Development, Nordic Investment Bank, commercial banks). A non-exhaustive list of indicators used to justify the ability to repay or service debts:
* Debt service coverage ratio (DSCR)
* Loan life coverage ratio (LLCR)
* Project Life Coverage ratio (PLCR)
* Major Maintenance reserve account (MMRA) replenishment requirements. This is a reserve fund account that is set up to accumulate maintenance costs for the totals of specified future periods
* Debt service reserve account (DSRA) replenishment requirements. This is a reserve fund account that is set up to accumulate liability payments for the totals of specified future periods
* Interest rates shall be determined by taking into account the following rate components: credit risk premium, administrative premium, profit premium, interest rate swap (SWAP) premium
* Credit tail. This is the difference between the duration of the Partnership Contract and the duration of the loan

**Capital investment cost plan.** The capital investment cost plan shall be based on the results of market research, expert opinions and negotiations with potential service providers or contractors. Capital investments shall reflect efficiencies and/or synergies (understood as the increase in operational effectiveness resulting from combining several activities into a single, interrelated project subject to a single accountability mechanism) that may arise for the private partner, for example, from combining the construction and maintenance phases of the project, from using efficient technologies, or from having more influence over the PPP project's delivery approach, thereby reducing the amount of capital investment compared to a traditional procurement procedure.

6

**Cost plan.** The cost plan shall be based on the results of market research, expert opinions and negotiations with potential service providers or contractors. Routine and major maintenance costs shall reflect efficiencies and/or synergies (such as those listed in the Guideline's key assumption category 6), thereby reducing the level of costs compared to a traditional procurement procedure.

7

For the following cost items, indicate the planned costs per quarter:

* Daily or routine maintenance costs (routine maintenance costs in the Financial Model)
* Periodic capital investment or major maintenance costs (major maintenance costs in the Financial Model)
* Insurance costs
* Administrative costs for the private partner
* Administrative costs for the public partner

8

**Revenue structure.** This section defines the types of revenue to be obtained - user charges and/or availability payment. Where user charges are envisaged, the capacity and willingness to pay of users shall be based on the results of market research. Revenue shall also include the expected interest income on the cash in the reserve accounts, i.e. on the funds in the debt service reserve account (DSRA), in the major maintenance reserve account (MMRA) and/or other accounts from which interest income is calculated on the funds held.

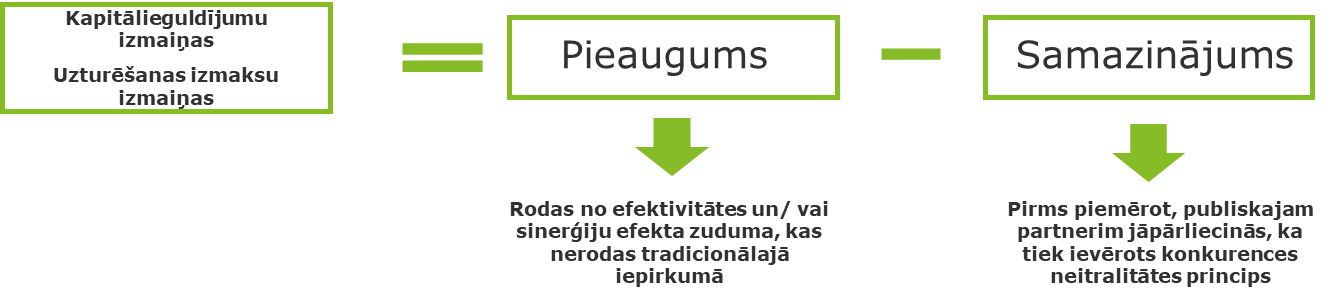
**Baseline Model assumptions.** This section defines the capital investment and costs of the project if the PPP project would be implemented through a traditional procurement procedure. The positions are shown by quarter, taking into account the following considerations:

9

* **Extension of construction period -** indicate the difference in quarters between the construction period in a traditional procurement and that in the PPP Project Model (typically, the Baseline Model expects construction to take longer than the PPP Project Model)
* **Costs calculated on the basis of the relevant items in the PPP Project Model and subject to adjustments:**
* Changes in capital investment and maintenance costs **-** indicate the difference between an increase in capital investment/maintenance costs compared to the PPP model (usually resulting from the loss of private partner efficiencies and/or synergies (see description of key assumption category 6 of the Guidelines) (as these do not arise in traditional procurement) and a decrease in capital investment/maintenance costs compared to the PPP model (if dentified as likely to arise in traditional procurement).

**Changes in capital investment**

**Changes in maintenance costs**

****

**Before applying, the public partner must ensure that the principle of competitive neutrality is respected**

**Arising from the loss of efficiencies and/or synergies not found in traditional procurement**

**Decrease**

**Increase**

Figure 4: Calculation of Changes in Capital Investment/Maintenance Costs

If the public partner identifies any decrease in capital investment or maintenance costs, it must ensure that this is based on market evidence that respects the principle of competitive neutrality. The principle of competitive neutrality is the assumption that both the public partner and the private partner face the same conditions in their economic activities (e.g. prices, taxes) and that the public partner does not have any competitive advantage (advantage of the public partner over the private partner) solely because of its status (see reference to documents to be used: Recommendations, Guidelines and Best Practices Bearing on Competitive Neutrality).

* Changes in administrative costs of the private partner - indicate the difference between the administrative costs of the private partner in the PPP Model and in the Baseline Model (e.g. reduction of administrative burden due to the absence of costs related to the Partnership Procedure and the servicing of the Partnership Contract).
* **Administrative costs of the public partner -** indicatethe administrative costs incurred by the public partner in traditional procurement (costs).
* **Socio-economic costs -** indicatesuchsocio-economic costs that would be incurred if the project were implemented using traditional procurement, e.g: in the PPP Project Model, the probability of delays in works completion is low, whereas in the Baseline Model it is more likely, and therefore the socio-economic costs of works delays and/or unavailability of services shall be included in the Baseline Model (thus underlining the advantages of the PPP Project Model). Such costs shall be assessed using ECBA (see Chapter 2.2 and the reference to the documents to be used: A Guide to ECBA Preparation).
* **Cost of risks** - the approach to quantifying risks is the same for the PPP Model and the Baseline Model. The quantification of risks shall be carried out in the "Risks" worksheet of the Financial Model, according to the methodology described in the key assumptions category 10 of the Guidelines.

**Quantifying risks.** In accordance with the PPP project risk analysis described in Chapter 3.5, the public partner is required to quantify the identified risks.

10

For the PPP model, the quantification of risks shall be done in the Risk Tool[[38]](#footnote-39), while the risks of the Baseline Model shall be properly assessed in the "Risks" worksheet of the Financial Model (Excel). For the Baseline Model risks, the probability and impact of the occurrence of the specific risk shall be determined, the risk value and the risk cost shall be calculated.

The risk analysis shall identify the probability, impact and value of the specific risk, identify mitigating actions[[39]](#footnote-40) and monetise them.

**Risk probability**. Reflects the probability with which a risk is assessed to occur (on a scale of one (1) to three (3)). If the probability of the risk occurring is assessed as high (three (3)), it may jeopardise the implementation of the project. When assessing the risks affecting the project, each risk is assigned a probability of occurrence degree (1, 2 or 3).

The **risk value** is the result of multiplying the probability of the risk by the impact of the risk.

**Risk allocation**. The objective of risk allocation is to transfer the management of each risk to the partner best placed to manage it qualitatively and to minimise the cost of its occurrence.

The **risk cost** is calculated taking into account risk mitigation measures and is determined by the expert method. Examples of costs of risk mitigation measures:

* construction quality risks require the services of a building surveyor. The cost of the building surveyor will be the cost of mitigation
* the cost of obtaining construction insurance policies, performance bonds will be the cost of mitigation
* the cost of engaging specialists to carry out monitoring activities

The risk value is formed by multiplying the probability of the risk by the impact of the risk, which can be 1, 2 or 3, thus the possible risk values are 1,2,3,4,6,9[[40]](#footnote-41) respectively. Costs are necessarily identifiable for risks with a risk value of nine (9) or six (6). The descriptive part of the FEC shall also identify the cost (potential loss) of the risk occurrence.

Where the risk value is four (4), the cost of avoiding the risk may be optionally determined.

If the risk probability is high (3) and the risk impact is low (1), the risk does not need to be quantified. If the risk probability is low (1) and the risk impact is high (3), then the cost of avoiding the risk can be optionally determined. In this case, the cost of the risk occurrence (potential loss) shall also be specified in the descriptive part of the FEC.

For risks with a risk value of two (2) or one (1), the cost of avoiding the risk shall not be determined.

In the Risk Tool it is possible to have a risk value of zero (0), meaning that the risk does not exist.

Not all potential risks need to be quantified as not all of them have a material impact on the Financial Model (Excel). **The risks that must be quantified** are construction, availability and demand risks, as well as those risks that have a material impact on the specific nature of the PPP project. In the case of a PPP project involving construction, those risks that are construction related and may affect the construction process shall be quantified. On the other hand, if the PPP project is related to the provision of a service, more emphasis shall be placed on the risks of availability or, in the case of a Concession, on the risks of demand.

It shall be noted that the relevant risk that is present in the PPP model may not be present in the Baseline Model. If the risk is present in both the PPP model and the Baseline Model, the mitigating actions may differ.

The cost of occurrence of risks is not included in the cash flow of the Financial Model (Excel) as it is the probable cost of occurrence of the risk. If the cost of the risks occurring is high, resulting in a material impact on the project, then mitigating actions can be foreseen for the risk concerned and included in the (Excel) cash flow (*with updates to the FEC Guidelines on 25.09.2024*).

**Statistical treatment.** Statistical treatment, i.e. risk identification and allocation, shall be carried out in the Risk Tool[[41]](#footnote-42) and annexed to the descriptive document of the FEC. The conclusions of the analysis of the statistical treatment shall be reflected in the descriptive document of the FEC (*with updates to the FEC Guidelines on 25.09.2024*).

11

## Determining Value for Money

The financial results of the project implementation alternatives shall be compared and analysed, identifying the type of contract and the estimated contract price of the best alternative and the estimated impact of the project on the State budget.

**Determination of VFM**

A positive VFM occurs if, when comparing the total cash flows of the public partner in the Baseline Model and in each of the PPP arrangements and PPP models evaluated, the NPV of the project implementation alternative is higher than the NPV of the Baseline Model. The alternative with the highest VFM shall be considered to be the most advantageous for the public partner.

As the financial assessment of VFM is based on assumptions, the outcome of the calculation will involve some inaccuracy. Therefore, conclusions shall be assessed on a relative basis, accompanied by a sensitivity analysis and always considering the expected non-financial benefits and losses, as a positive VFM does not necessarily mean that a PPP arrangement or PPP model should be used, just as a negative VFM does not mean that a PPP arrangement is not suitable for the project.

For each PPP arrangement and PPP model, a Partnership Contract price corridor and the resulting VFM corridor shall be defined. The contract price corridor is formed between the potential lowest and highest potential contract price of the Partnership as calculated by the FEC as a result of the sensitivity analysis. The basic principles of the sensitivity analysis and the principles for determining the Contract price corridor are described below.

**Partnership Contract price corridor**

The Partnership Contract price is the sum of the availability payment and/or end-user payments, equal to:

* the total discounted cash flow of the public partner when the availability payment is paid in full on the date of signature of the Partnership Contract; or
* the total undiscounted cash flow of the public partner when the availability payment is paid over the life cycle of the PPP project.

The calculation of the contract price corridor also includes an VFM corridor, which is the difference between the potential lowest and highest calculated VFM as a result of the sensitivity analysis. Contract price and VFM corridors are interlinked and usually vary in proportion to the inverse.

**Sensitivity analysis**

The sensitivity analysis adjusts the key assumptions in the models to determine their individual impact on the most important model outputs - the VFM and the Partnership Contract price. The sensitivity analysis results in the VFM and Partnership Contract price corridors. These include the range between the possible maximum and minimum value of the VFM and the Partnership Contract price. The price fluctuations between the VFM and the Partnership Contract are most often inversely proportional. For example, an increase in capital investment will increase the Partnership Contract price, but is likely to reduce the VFM, as the difference between the PPP Project Model and the Baseline Model will decrease.

The public partner shall identify and test key assumptions and justify the selected sensitivity range with the results of market research. The sensitivity analysis also determines the volatility of the results of changes in key assumptions by applying positive and negative percentage or absolute fluctuations (e.g. changes in capital investment costs, extension of construction period, changes in macroeconomic indicators, changes in interest rates, changes in costs and revenues, etc.).

|  |  |  |
| --- | --- | --- |
| **Increase** | **Increase/decrease** | **Decrease** |
| Capital investment | Macroeconomic indices | Level of demand |
| Costs | Discount rate | Usage fee |
| Interest rates |  |  |

Table 4: Negative Impact of Changes in Assumptions on VFM

The sensitivity analysis can be developed manually using the Microsoft Excel function DATA TABLES, which is embedded in the Financial Model worksheet 'Sensitivity Analysis'. In this worksheet, indicators can be added, their range of fluctuations defined and the price fluctuations of the VFM and the Partnership Contract calculated accordingly by reference to the variables in the assumptions sheet using the DATA TABLE function. Whichever method is chosen, the calculation principles used are the same. The minimum and maximum values derived from the lower and upper threshold of the key assumptions are used to determine the price corridor for the VFM and the Partnership Contract.

**Scenario analysis**

The sensitivity analysis may be complemented by a scenario analysis if the public partner foresees specific scenarios in which the interrelationship of the key assumptions can be objectively demonstrated. For example, assumptions about the expected level of demand for services (e.g. number of users, frequency of use, prices of the service) are key in a Concession. When carrying out a sensitivity analysis, several demand scenarios can be tested, such as:

* *a base case* using the most likely expected level of demand for the service
* *a down-side case* in which the level of demand is lower than the base case; and
* *an up-side case* with a higher level of demand than the base case

In a PPP project with an availability payment, the most important assumptions are the level of the private partner's costs (consisting of e.g. capital investment, maintenance costs, financing costs). When carrying out a sensitivity analysis, several cost scenarios can be tested such as:

* *a base case* using the most likely expected cost levels
* *a down-side case* with cost levels higher than the base case; and
* *an up-side case* with cost levels lower than the base case

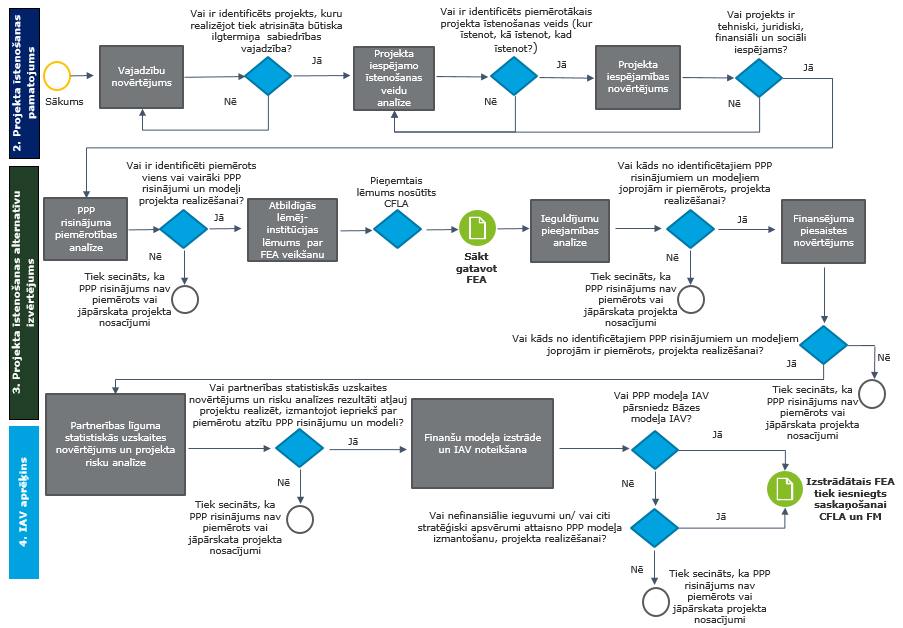
Whereas the sensitivity analysis will assess the effect of changing a key assumption, a scenario analysis will assess the effect of a group of (usually linked) assumptions changing at the same. Sensitivity analysis usually focuses on the assumptions that are likely to have the greatest impact on the project's cash flow, e.g. capital investments, costs, interest rates and macroeconomic indices. The scenarios analysed can be presented as separate financial models using the Financial Model.

The development of scenario analysis shall be considered taking into account the specificities of the PPP project and external factors. The rationale for developing a scenario analysis could be, for example, if the public partner considers, when developing the FEC, that:

* the project assumptions are interrelated; or
* changes in the general economic situation have a high probability of triggering certain combinations of assumptions.

Both sensitivity and scenario analysis are useful for the public partner, providing a better understanding of the risks and potential challenges of a PPP project.

# Annex A: Schematic Representation of the Development of FEC



Financing attracting assessment

**2. Justification of project implementation**

**3. Assessment of the project’s implementation alternatives**

**4. MFV calculation**

**Developed FEC are submitted to the CFCA and MoF for approval**

Do non-financial benefits and/or other strategic considerations justify the use of the PPP model for project implementation?

Does the partnership's statistical treatment assessment and risk analysis allow the project to be implemented using a PPP arrangement and model that has been previously recognised as suitable?

Does the VFM of the PPP model exceed the VFM of the Baseline Model?

Are any of the identified PPP arrangements and models still suitable for project implementation?

The PPP arrangement is found not to be suitable or the project conditions need to be revised

The PPP arrangement is found not to be suitable or the project conditions need to be revised

The PPP arrangement is found not to be suitable or the project conditions need to be revised

The PPP arrangement is found not to be suitable or the project conditions need to be revised

**Start preparation of FEC**

The PPP arrangement is found not to be suitable or the project conditions need to be revised

Have one or more suitable PPP arrangements and models been identified for project implementation?

Decision adopted sent to the CFCA

Are any of the identified PPP arrangements and models still suitable for project implementation?

Is the project technically, legally, financially and socially feasible?

Analysis of possible ways of implementing the project

Has a project been identified that addresses a major long-term public need?

Has the most suitable method of implementing the project been identified (where, how, when to implement?)

Yes

Development of the Financial Model and determination of the VFM

Statistical treatment assessment of the Partnership Contract and project risk analysis

Investment affordability analysis

Decision of the responsible decision-making authority to carry out the FEC

PPP arrangement suitability analysis

Project feasibility assessment

Needs assessment

Start

No

No

No

No

No

No

No

No

No

Yes

Yes

Yes

Yes

Yes

Yes

Yes

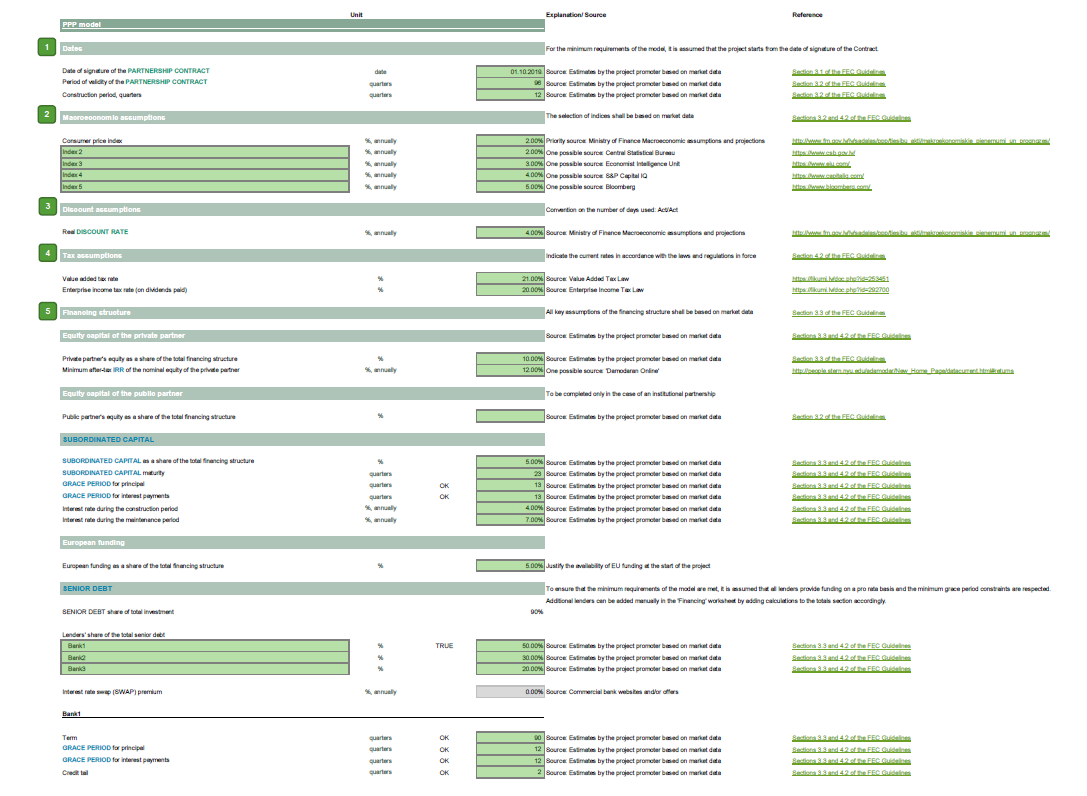
Yes

# Annex B. A List of Sources of Information Used

(up-to-date versions as of 18.03.2019)

| **No.** | **Document name** | **Name used in the Guidelines** | **Date or year of adoption** | **Issuer** | **Reference to chapters used or required to be used** |
| --- | --- | --- | --- | --- | --- |
| 1. | [Law on Public-Private Partnership](https://likumi.lv/ta/en/en/id/194597-law-on-public-private-partnership) | PPP Law | 18.06.2009 | The Saeima | [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_īstenošanas) |
| 2. | [State Administration Structure Law](https://likumi.lv/ta/en/en/id/63545-state-administration-structure-law) | SASL | 06.06.2002 | The Saeima | [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_īstenošanas) |
| 3. | [Civil Law](https://likumi.lv/ta/en/en/id/225418-civil-law) | CL | 28.01.1937 | The Saeima |  |
| 4. | [Commercial Law](https://likumi.lv/ta/en/en/id/5490-commercial-law) | CcL | 13.04.2000 | The Saeima | [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_īstenošanas) |
| 5. | [Competition Law](https://likumi.lv/ta/en/en/id/54890-competition-law) | CtL | 14.10.2001 | The Saeima | [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_īstenošanas) |
| 6. | [Law on Control of Aid for Commercial Activity](https://likumi.lv/ta/en/en/id/267199-law-on-control-of-aid-for-commercial-activity) | Aid Law | 19.06.2014 | The Saeima | [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_īstenošanas) |
| 7. | [Law on Prevention of Squandering of the Financial Resources and Property of a Public Entity](https://likumi.lv/ta/en/en/id/36190-on-prevention-of-squandering-of-the-financial-resources-and-property-of-a-public-entity) | Law on Prevention of Squandering | 19.07.1995 | The Saeima | [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_īstenošanas) |
| 8. | [Law on Governance of Capital Shares of Public Entity and Management of Capital Companies Thereof](https://likumi.lv/ta/en/en/id/269907-law-on-governance-of-capital-shares-of-public-entity-and-management-of-capital-companies-thereof) | Governance Law | 16.10.2014 | The Saeima | [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_īstenošanas) |
| 9. | [Public Procurement Law](https://likumi.lv/ta/en/en/id/287760-public-procurement-law) | PPL | 15.12.2016 | The Saeima | [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_īstenošanas) |
| 10. | [Law on the Procurements of Public Service Providers](https://likumi.lv/ta/en/en/id/288730-law-on-the-procurements-of-public-service-providers) | LPPSP | 02.02.2017 | The Saeima | [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_īstenošanas) |
| 11. | [Law on Procurements in the Field of Defence and Security](https://likumi.lv/ta/en/en/id/238803-law-on-procurements-in-the-field-of-defence-and-security) | LPFDS | 13.10.2011 | The Saeima | [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_īstenošanas) |
| 12. | [Regulation No. 107](https://likumi.lv/ta/en/en/id/289086-tendering-procedures-for-procurement-procedures-and-design-contests) "Tendering Procedures for Procurement Procedures and Design Contests" | - | 28.02.2017 | The Cabinet |  |
| 13. | [Regulation No. 353](https://likumi.lv/ta/en/en/id/291867-requirements-for-green-public-procurement-and-procedures-for-the-application-thereof) "Requirements for Green Public Procurement and Procedures for Application" | - | 20.06.2017 | The Cabinet |  |
| 14. | [Regulation No. 105](https://likumi.lv/ta/en/en/id/289083-regulations-regarding-thresholds-of-contract-prices-of-public-procurements) "Regulations Regarding Thresholds of Contract Prices of Public Procurements" | - | 28.02.2017 | The Cabinet |  |
| 15. | [Regulation No. 1152](https://likumi.lv/ta/en/en/id/199083-procedure-for-the-conduct-of-financial-and-economic-calculations-determination-of-the-type-of-a-public-private-partnership-agreement-and-the-provision-of-an-opinion-regarding-financial-and-economic-calculations) "Procedure for the Conduct of Financial and Economic Calculations, Determination of the Type of a Public-Private Partnership Contract and the Provision of an Opinion Regarding Financial and Economic Calculations" | CR 1152 | 06.10.2009 | The Cabinet | [Chapter 2.1](#_Vajadzību_novērtējums), [Chapter 2.2](#_Projekta_iespējamo_īstenošanas), [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.2](#_Ieguldījumu_pieejamības_), [Chapter 3.3](#_Finansējuma_piesaistes_novērtējums), [Chapter 4.2](#_Finanšu_modeļa_izstrādes), [Chapter 4.3](#_Ieguldījumam_atbilstošās_vērtības) |
| 16. | [Regulation No. 1216](https://likumi.lv/ta/id/199823-noteikumi-par-uzraudzibas-institucijas-darbibu-un-publiska-partnera-vai-ta-parstavja-liguma-izpildes-parskata-sniegsanu) "Regulations on the Activities of the Monitoring Authority and Reporting on the Performance of the Contract by the Public Partner or its Representative" | - | 20.10.2009 | The Cabinet |  |
| 17. | Regulation (EC) No. 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No. 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No. 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities | Regulation (EC) No. 223/2009 | 11.03.2009 | European Commission |  |
| 18. | Handbook on Public Private Partnership (PPP) in Built Heritage Revitalization Projects | - | 2017 | Interreg Central Europe | [Chapter 1.2](#_1.2._PPP_risinājumi) |
| 19. | A Guide to Preparing and Procuring a PPP project | A Guide to Preparing a PPP Project | 2018 | European PPP Expertise Centre (EPEC) | [Chapter 1.3](#_PPP_projekts_soli), [Chapter 2.1](#_Vajadzību_novērtējums), [Chapter 2.2](#_Projekta_iespējamo_īstenošanas), [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 3.1](#_PPP_risinājuma_piemērotības), [Chapter 3.2](#_Ieguldījumu_pieejamības_), [Chapter 3.3](#_Finansējuma_piesaistes_novērtējums), [Chapter 3.4](#_Partnerības_līguma_statistiskās), [Chapter 3.5](#_Risku_analīze) |
| 20. | Guide to Cost-Benefit Analysis of Investment Projects, Economic appraisal tool for Cohesion Policy 2014-2020. | A Guide to ECBA Preparation | 2014 | European Commission | [Chapter 2.2](#_Projekta_iespējamo_īstenošanas), [Chapter 2.3](#_Projekta_iespējamības_novērtējums), [Chapter 4.1](#_Novērtēšanas_pieejas_apraksts), [Chapter 4.2](#_Finanšu_modeļa_izstrādes), [Chapter 4.3](#_Ieguldījumam_atbilstošās_vērtības) |
| 21. | A Guide to the Qualitative and Quantitative Assessment of Value for Money in PPPs | A Guide to the Qualitative and Quantitative Assessment of VFM | 2018 | European PPP Expertise Centre | [Chapter 3.1](#_PPP_risinājuma_piemērotības), [Chapter 3.2](#_Ieguldījumu_pieejamības_), [Chapter 3.3](#_Finansējuma_piesaistes_novērtējums), [Chapter 3.5](#_Risku_analīze), [Chapter 4.1](#_Novērtēšanas_pieejas_apraksts), [Chapter 4.2](#_Finanšu_modeļa_izstrādes) |
| 22. | Regulation (EU) No. 549/2013 of the European Parliament and of the Council on the European system of national and regional accounts in the European Union and its Annex A | Regulation (EU) No. 549/2013 and  ESA 2010 | 21.05.2013 | European Commission | [Chapter 3.4](#_Partnerības_līguma_statistiskās) |
| 23. | A Guide to the Statistical Treatment of PPPs | Guidelines for PPP Statistical Treatment | 2016 | Eurostat | [Chapter 3.4](#_Partnerības_līguma_statistiskās), [Chapter 4.2](#_Finanšu_modeļa_izstrādes) |
| 24. | Allocating Risks in Public-Private Partnership Contracts | Allocating Risks in PPP Contracts | 2016 | Infrastructure Hub | [Chapter 3.5](#_Risku_analīze) |
| 25. | Competitive Neutrality. A Compendium of OECD Recommendations, Guidelines and best practices bearing on competitive neutrality | Recommendations, Guidelines and Best Practices Bearing on Competitive Neutrality | 2012 | OECD | Chapter 4.2 |

# Annex C. Financial Model Assumptions Sheet



A screenshot of a computer

Description automatically generated

A screenshot of a computer

Description automatically generated

A screenshot of a computer

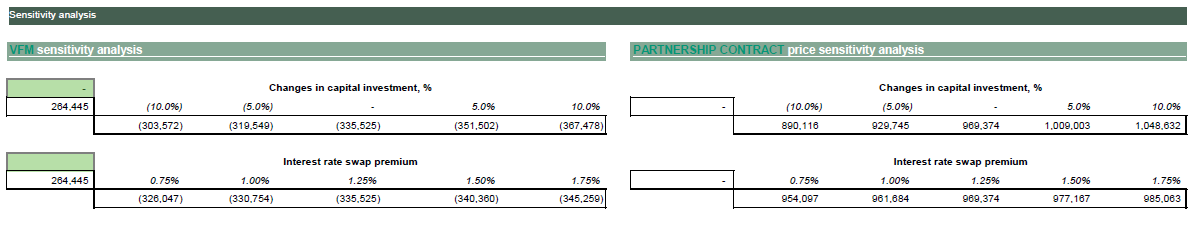
Description automatically generated

# Annex D. Financial Model Summary Sheet

A screenshot of a computer screen

Description automatically generated

# Annex E. Financial Model Sensitivity Analysis Sheet



1. The proper legal term for a public-private partnership is *public and private partnership* [↑](#footnote-ref-2)
2. PPP Law, Article 1(1) [↑](#footnote-ref-3)
3. PPP Law, Article 1(1) [↑](#footnote-ref-4)
4. PPP Law, Article 1(17). Public needs not having a commercial or industrial character are needs that are not related to direct availability of goods and services on the market and that are important for meeting the public interests. See, for example, Paragraph 4.6 of the Judgment of the Department of Administrative Affairs of the Supreme Court of the Republic of Latvia of 14 May 2015 No. SKA-0018-15; Judgment of the Court of Justice of the European Union (current title) of 22 May 2003 in Case C-18/01 Korhonen and Others v Varkauden Taitotalo Oy, Paragraphs 47-51, 57-58. [↑](#footnote-ref-5)
5. PPP Law, Articles 1(15) and (16); SASL, Articles 1(1) and (2), Article 4 [↑](#footnote-ref-6)
6. PPP Law, Article 1(21) [↑](#footnote-ref-7)
7. PPP Law, Article 60(5). The duration of a Concession Contract may be shorter than five years if the compensation provided to the private partner does not exclude the risks of structure or service exploitation. [↑](#footnote-ref-8)
8. PPP Law, Article 1(4), Article 60(1). Article 62 of the PPP Law sets out the minimum content of a PPP Contract. [↑](#footnote-ref-9)
9. PPP Law, Article 60(3) [↑](#footnote-ref-10)
10. PPP Law, Article 1(1) [↑](#footnote-ref-11)
11. SASL, Chapter XI [↑](#footnote-ref-12)
12. Handbook on Public Private Partnership (PPP) in Built Heritage Revitalization Projects. Version 1, 05/2017. Interreg Central Europe, pp. 41-48. Available: <https://www.interreg-central.eu/Content.Node/O.T1.1-Handbook-new.pdf> [↑](#footnote-ref-13)
13. PPP Law. A graphical representation of the PPP project cycle is available on the CFCA's website: <https://www.cfla.gov.lv/lv/citas-programmas/publiska-un-privata-partneriba/ppp-projekta-cikls> [↑](#footnote-ref-14)
14. PPP Law, Article 9(2) [↑](#footnote-ref-15)
15. PPP Law, Article 14; EPEC Guidelines [↑](#footnote-ref-16)
16. PPP Law, Article 2(1) [↑](#footnote-ref-17)
17. PPL, Article 2; LPPSP, Article 2; LPFDS, Article 2 [↑](#footnote-ref-18)
18. CtL, Article 2 [↑](#footnote-ref-19)
19. PPP Law, Article 15 [↑](#footnote-ref-20)
20. PPP Law, Article 16 [↑](#footnote-ref-21)
21. PPP Law; PPL [↑](#footnote-ref-22)
22. SASL, Article 45(4) [↑](#footnote-ref-23)
23. SASL, Article 451(1) [↑](#footnote-ref-24)
24. SASL, Article 451(2) and Article 46 [↑](#footnote-ref-25)
25. CtL, Article 7(2). Letter No. 1-11/189 of the Competition Council of 14 February 2017 to the Riga City Council "On the Riga City Council's Planned Public-Private Partnership Contract in the Waste Management Sector", available at: "https://www.kp.gov.lv/oldfiles/38/citi/2017\_14\_02\_pppatkr.pdf [↑](#footnote-ref-26)
26. SASL, Article 88(1) [↑](#footnote-ref-27)
27. SASL, Article 88(2) [↑](#footnote-ref-28)
28. Judgment of the Court of Justice of the European Union (current name) of 10 July 1986 in Case 234/84. Kingdom of Belgium v the European Commission [↑](#footnote-ref-29)
29. Judgment of the Court of Justice of the European Union (current name) of 8 May 2003 in Joined Cases C-328/99 and C-399/00 Italy and SIM 2 Multimedia v the European Commission. [↑](#footnote-ref-30)
30. Aid Law, Article 5 [↑](#footnote-ref-31)
31. PPP Law, Article 4(14); Aid Law, Articles 5 and 6 [↑](#footnote-ref-32)
32. Judgment of the Court of Justice of the European Union (current name) of 30 June 2015 in Joined Cases T-186/13, T-190/30 and T-193/13 Netherlands and Others v the European Commission [↑](#footnote-ref-33)
33. Judgment of the Court of Justice of the European Union (current name) of 20 September 2011 in Joined Cases T-394/08, T-408/08, T-453/08 and T-454/08 Regione autonoma della Sardegna and Others v the European Commission [↑](#footnote-ref-34)
34. Judgment of the Court of Justice of the European Union (current name) of 9 March 1994 in Case C-188/92 TWD Textilwerke Deggendorf GmbH v Germany [↑](#footnote-ref-35)
35. PPL, Article 46(3)(1) and (2) [↑](#footnote-ref-36)
36. Available: <https://ppp.cfla.gov.lv/> (registration required) [↑](#footnote-ref-37)
37. Available: <https://www.cfla.gov.lv/lv/finansu-un-ekonomiskie-aprekini> [↑](#footnote-ref-38)
38. Recommendations for risk mitigation actions available at <https://www.tandfonline.com/doi/full/10.1080/15309576.2020.1741406#abstract> <https://www.foxmandal.in/anatomy-of-risks-in-ppp-projects-in-india-and-how-to-mitigate-them/> <https://pure.spbu.ru/ws/files/19637708/Risk_management_in_public_private_partnership_projects_1939_6104_16_4_155.pdf> (avoti aplūkoti 25.09.2024) [↑](#footnote-ref-39)
39. Possible risk values (risk probability x risk impact): 1x1=1; 2x1=2; 3x1=3; 1x2=2; 2x2=4; 3x2=6; 1x3=3; 2x3=6; 3x3=9. A value of 3 is formed from 1x3 or 3x1, meaning either high probability or high impact. [↑](#footnote-ref-40)
40. Possible risk values (risk probability x risk impact): 1x1=1; 2x1=2; 3x1=3; 1x2=2; 2x2=4; 3x2=6; 1x3=3; 2x3=6; 3x3=9. A value of 3 is formed from 1x3 or 3x1, meaning either high probability or high impact. [↑](#footnote-ref-41)
41. Available: <https://ppp.cfla.gov.lv/> (registration required) [↑](#footnote-ref-42)