

# Outlines of PPP/PFI

November 29, 2017

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JAPAN

# Revised Version of the PPP/PFI Promotion Action Plan 2017

\* Main revised items are indicated in red.

**Back ground**

- PPP (Public-Private Partnership) and PFI (Private Finance Initiative) contribute to the lessening of public expenditure. As many public facilities will need renovation due to aging in the near future, there exists a high possibility of developing businesses in which PPP and PFI can exert effects in any local public entities. Moreover, such businesses are anticipated to realize improved public services and create another business opportunities. As such, national and local authorities need to further promote PPP/PFI in an integrated manner.

**Points of the revision**

- **“Promotion of public-private cooperation in public real estate”** has been newly specified as a measure for the promotion.
- **Concrete measures have been brushed up** in a follow-up to the 2016 version (**further promotion of priority consideration**).
- **Passenger terminal facilities for cruisers** and **MICE facilities** have been added to the **priority fields**, such as traditional concession projects for airports and others.

**Outline of the revised version**

## Measures for promotion of PPP/PFI

Promotion of concession projects	Promotion of effective framework to prioritize PPP/PFI	Strengthening of regional capacity for PPP/PFI
<ul style="list-style-type: none"> <li>○ Setting of objectives in the priority fields for realization of concession projects</li> <li>○ Positive consideration and promotion of not only self-support accounting type projects but also mixed type projects</li> </ul>	<ul style="list-style-type: none"> <li>○ <b>Provision of support for establishment and management of effective framework to prioritize PPP/PFI in the next few years, when the comprehensive management plan for public facilities and the plan for each facility are prepared and carried out</b> <ul style="list-style-type: none"> <li>• <b>Accurate management by the central government and local governments with populations of 200,000 or more, and concrete promotion of lateral adoption of excellent examples</b></li> <li>• <b>Provision of support for prompt completion of preparation by local governments with populations of 200,000 or more</b></li> <li>• <b>Expansion of application to local governments with populations less than 200,000 based on regional situations and the status of management</b></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>○ Expansion of the horizon of utilization in the field of infrastructure</li> <li>○ Promotion of formation of projects through regional platforms                             <ul style="list-style-type: none"> <li>• <b>Encouragement of formation through dissemination of the operation manual</b></li> <li>• <b>Support for formation and operation of a wide-area regional platform</b></li> </ul> </li> <li>○ Positive utilization of the private sector's proposal                             <ul style="list-style-type: none"> <li>• <b>Establishment of guidelines for utilization of the private sector's proposal by the end of FY2017</b></li> <li>• <b>Provision of support proposed by the private sector from FY2017</b></li> </ul> </li> <li>○ Provision of support to local governments, such as provision of information                             <ul style="list-style-type: none"> <li>• <b>Bundling/wider area operations, lateral adoption of excellent practices for utilization of public real estate, strengthening and dissemination of one-stop contact point</b></li> </ul> </li> <li>○ Positive utilization of PFI Promotion Corporation's fund supply function and consulting function for formation of projects</li> </ul>
<p><b>Promotion of public-private cooperation in public real estate</b></p> <ul style="list-style-type: none"> <li>○ Promotion of public-private cooperation for improvement in regional values and residents' satisfaction, and creation of new investments and business opportunities                             <ul style="list-style-type: none"> <li>• <b>Expansion of the PPP/PFI method in parks</b></li> <li>• <b>Use of idle cultural facilities</b></li> <li>• <b>Improvement of environments for promoting the preparation of a comprehensive management plan for public facilities, the keeping of a fixed assets ledger, and participation of private business operations through public announcement</b></li> </ul> </li> </ul>		

**Priority fields for concession projects**

Airports [6 cases accomplished], Waterworks [6 cases: **through FY2018**], Sewerage [6 cases: **through FY2017**], road [1 case accomplished], cultural facilities [3 cases; **through 2018**], public housing [6 cases; **through 2018**], **passenger terminal facilities for cruisers [3 cases: through 2019], MICE facilities [6 cases; through 2019]**

**Target project size**

21 trillion yen (10 years between 2013 and 2022)

( Concession projects totaling 7 trillion yen; profit-making projects totaling 5 trillion yen (each local government with a population of 200,000 or more aims to carry it out); project for utilization of public real estate totaling 4 trillion yen (each local government with a population of 200,000 or more aims to carry it out about 2 cases), other projects totaling 5 trillion yen )

**PDCA cycle**

“Visualization” of each fiscal year's follow-up, the project size and the status of progress in measures; review of the action plan

# PFI Act (outline)

(Act on Promotion of Private Finance Initiative (Act No. 117 of 1999))

## Purpose (Article 1)

To improve the social infrastructure efficiently and effectively and to ensure the provision of affordable and good service to the citizens by taking measures for promotion of provision etc., of Public Facility etc. through utilization of private finance, management abilities and technical capabilities, thereby contributing healthy development of the national economy.

## Covered facilities (public facilities, etc.) (Article 2)

- Public facilities etc. (roads, railways, ports, airports, rivers, parks, etc.)
- Official facilities (government buildings and accommodations)
- Rental houses and public interest facilities (cultural facilities, waste treatment facilities, medical facilities, social welfare facilities, parking lots, etc.)
- Information and communications facilities, heat supply facilities, research facilities, etc.
- Ships, airplanes, artificial satellites, etc.

## Administrators of public facilities, etc. (Article 2)

- Head of each ministry and national agency (including the Chairperson of the House of Representatives, the Chairperson of the House of Councilors, the Chief Justice of the Supreme Court, and the President of the Board of Audit)
- Head of a local government
- An independent administrative agency, a corporation having a special status, and another public corporation

## Basic policy (Article 4)

Basic policy for the implementation of qualified projects (Cabinet decision)

## Private Finance Initiative Promotion Corporation of Japan (Articles 31 to 67)

Investments and loans for improvement of public facilities for which use fees are collected as its own revenue

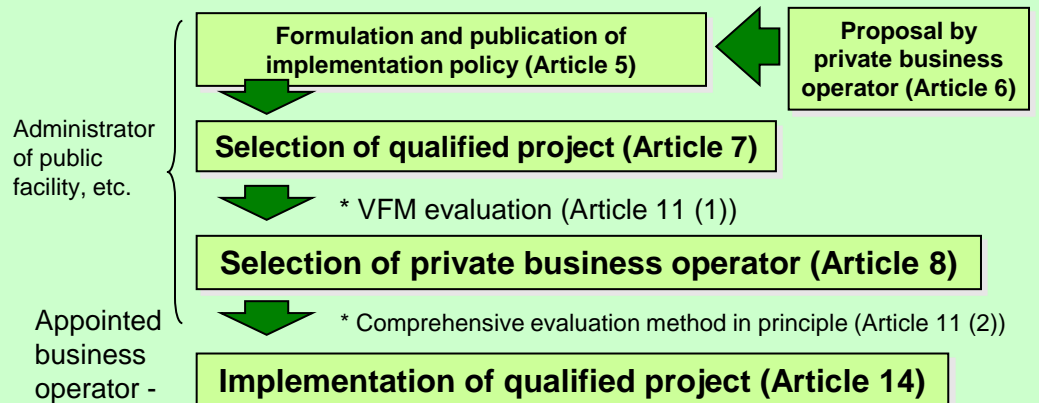
## Council for the Promotion of PFI (Article 83)

Chairperson: Prime Minister; members: ministers of state  
Drafting of basic policy, adjustment among related administrative agencies

## Committee for the Promotion of PFI (Article 85)

Members: 9 academic experts appointed by Prime Minister  
Discussions about basic policy, research and discussions about implementation of PFI

## Project implementation



## System for the right to operate the appointed project (Article 16)

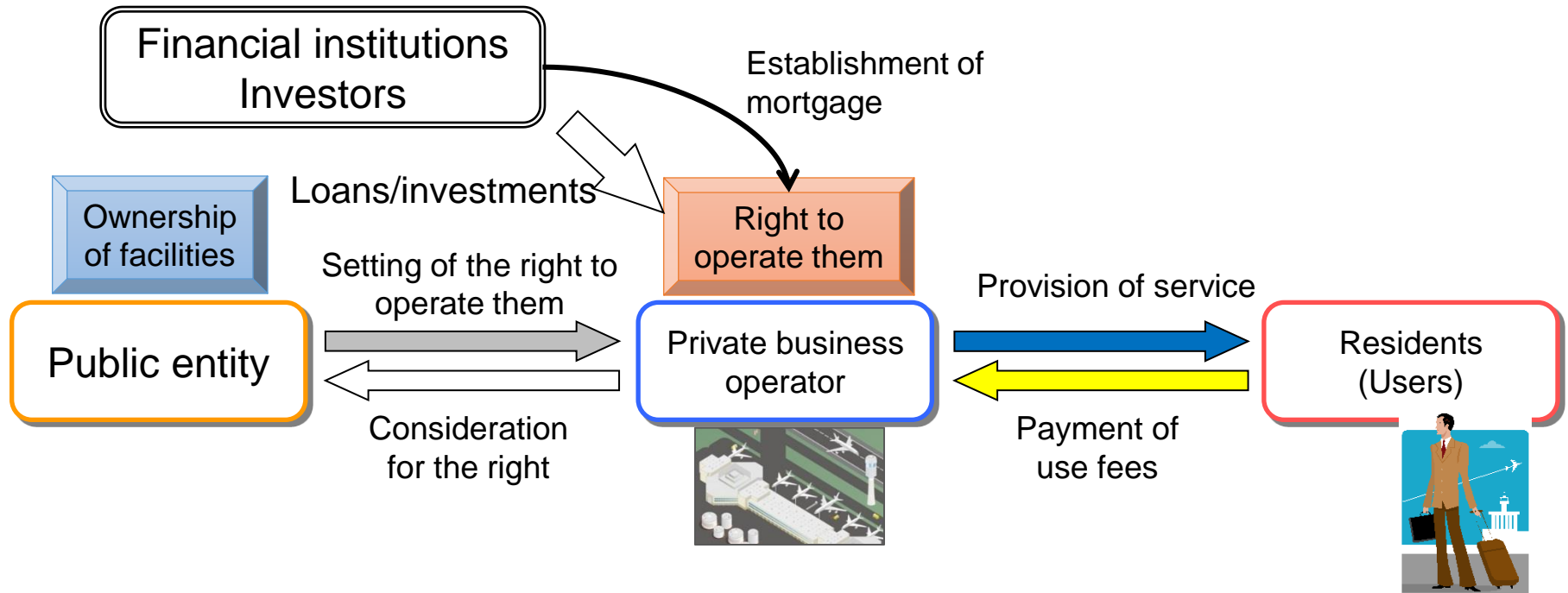
Regarding a public facility for which use fees are collected, the right to operate public facilities is transferred to the private operator while the ownership of the facility continues to belong to the administrator of the public facility.

## Support measures, etc.

- Term of national obligations: from 5 years to 30 years (Article 68)
- Lending of administrative property (Articles 69 and 70)  
The central and local governments' administrative property (land, buildings, etc.) can be lent for PFI projects.
- Free use of national and public property (Article 71)  
The central and local governments' property can be used for PFI projects free of charge or for a low consideration.
- System for dispatching retired public employees (Articles 78 and 79)  
Under this system, public employees who have technical know-how about the operation of public facilities, etc. can be retired and responsibility can be dispatched to persons with the right to operate public facilities, etc.

# Concession (System for the right to operate the appointed project)

- Regarding public facilities for which use fees are collected, the right to operate the facilities is transferred to a private business operator while the ownership of the facilities continues to belong to the public entity.  
(Introduced as a result of the amendment to the PFI Act in 2011)
- Regarding public facilities owned by a public entity, high-quality service that reflects users' needs is provided by enabling a private business operator to operate the facilities stably and freely.



# Examples of concession projects

As of November 13, 2017

## Airport

### Tajima Airport

The operation project began in January 2015 and has been carried out since then.

### Kansai International Airport Osaka International Airport

The implementation policy was published in July 2014. An operation contract was concluded with a special purpose company (SPC) newly founded by ORIX/VINCI Airports Consortium in December 2015. The operation project began in April 2016 and has been carried out since then.

The implementation policy was published in April 2014.

### Sendai Airport

An operation contract was concluded with a special purpose company (SPC) newly founded as a member of Tokyu-Maeda-Toyotsu Group in December 2015. The operation project began in July 2016 and has been carried out since then.

### Kobe Airport

Implementation contract was concluded in September 2017 to begin the project in April 2018.

### Takamatsu Airport

Implementation contract was concluded in October 2017 to begin the project in April 2018.

### Shizuoka Airport

Application guidelines were published in May 2017 to begin the project in April 2019.

### Fukuoka Airport

Application guidelines were published in May 2017 to begin the project in April 2019.

### Kumamoto Airport

Market sounding began in June 2017 to begin the project in April 2020.

### Several airports in Hokkaido

Market sounding began in July 2017 to begin the project in FY2020.

### Hiroshima Airport

Market sounding began in October 2017 to begin the project around April 2021.

## Waterworks

### Osaka City

A draft implementation policy was published in November 2014 (revised in August 2015).

### Nara City

A draft ordinance for implementation policy was submitted to the assembly in February 2016.

### Hamamatsu City

Due diligence has been conducted in FY2017.

### Izunokuni City

Due diligence has been conducted in FY2017.

### Miyagi Prefecture

Due diligence has been conducted in FY2017.

### Murata Town

Due diligence has been conducted in FY2017.

## Sewerage

### Hamamatsu City

Implementation contract was concluded in October 2017 to begin the project in April 2018.

### Nara City

A draft ordinance for implementation policy was submitted to the assembly in February 2016.

### Miura City

An ordinance was promulgated in December 2016 to establish a council for deliberations on project surveys.

### Susaki City

Due diligence has been conducted in FY2017.

### Ube City

Due diligence has been conducted in FY2017.

### Murata Town

Due diligence has been conducted in FY2017.

## Road

### Aichi Prefectural Road Public Corporation

The Special Zone Act was revised at an ordinary session of the Diet in 2015 to introduce concession into local road public corporations' toll road projects. The operation agreement was concluded with a special purpose company (SPC) newly founded by the Maeda Group in August 2016. The operation project began in October 2016 and has been carried out since then.

- ✓ Hamamatsu city will transfer operating rights to the Seien facility, which treats half of the city's sewage, to the consortium that includes Veolia for JPY2.5 billion.
- ✓ The consortium will be in charge of maintenance and replacement of the facility for 20 years.

## Deal Info

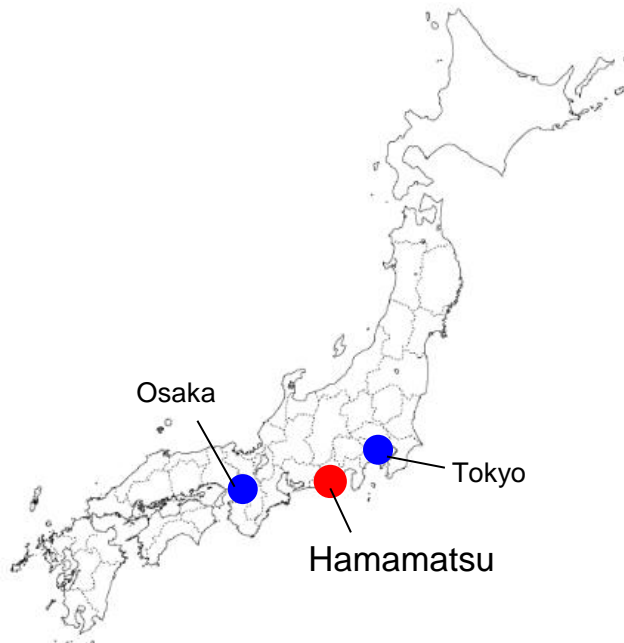
Concession Fee: JPY 2.5b (USD23b)  
Value for Money: 14.4% (Based on the offered price)

## Preferred Bidder (consortium)

Veolia Japan (in lead)  
Veolia Jenets / JFE Engineering / Orix / Tokyu  
Construction/ Suyama Construction

## Schedule

FY2014	Research on business structure, documentation & due diligence
June 2015	Implementation Policy (1 <sup>st</sup> draft)
Dec 2015	Implementation Policy (2 <sup>nd</sup> draft) Required standards documents
Feb 2016	Amendment of the local regulation of Hamamatsu city Definition of qualified project
April 2016~	Transfer of Seien facility from Shizuoka prefecture to Hamamatsu city
May 2016	Application guidelines
March 2017	Selection of preferred bidder
April 2017	Execution of basic agreement
Oct 2017	Execution of project agreement
April 2018	Commencement of concession



PFI was incorporated in order to enhance efficiency and effectiveness of the facility development and the management of the international flight area.

## Name of the Project

Development and Operation of International Passenger Terminal at Tokyo International Airport

## Operator

“Tokyo International Air Terminal Corporation”(SPC) was established by Japan Airport Terminal Co., Ltd., Japan Airline Corporation, ANA Holdings, etc.

## Period of the Project

- ①Period of the project is from the contract day to the end of the land lease period.
- ②The land lease period of the project is 30 years from the commencement of construction of the facility.
- ③The facility opened for public use in October 2010.  
Expansion of passenger terminal building in March 2014.

## Land Area

15ha (13ha before expansion. Including CIQ facilities)

## Facilities Subject to the Project

- International flight passenger terminal building (except for CIQ related facilities)
- Connecting passage
- Curve side ※ pedestrian way
- Parking spaces for airport users
- Parking spaces for employees
- Other related facilities

## Method of Implementation

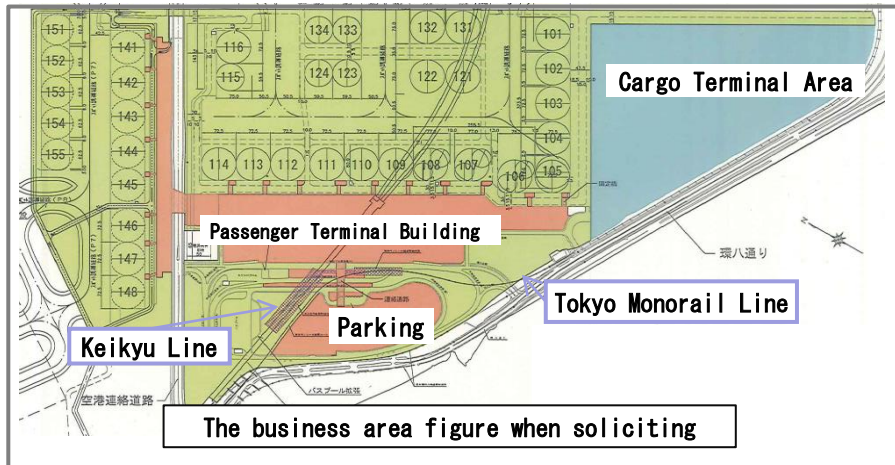
SPC designs and supervises the construction works of the facilities, and retains the ownership of the facility until the end of the contract period. SPC is also responsible for maintenance and operation. And the national government or the third party designated by the government is allowed to purchase the facilities from SPC at the market value at the end of the contract period.



PFI was incorporated in order to enhance efficiency and effectiveness of the facility development and the management of the international flight area, which includes ①Development and management of the passenger terminal, ②Development and management of the cargo terminal and ③Development and improvement of apron, etc. Started operation on October 21, 2010. Expansion of passenger terminal building on 30th March 2014.

## Development and Management of the International Flight Area Utilizing PFI scheme

- Efficient and effective facility development by using the know-how of private sector
- Providing better services for airport users



- Development of the international flight area was conducted as three separate projects as follows through PFI:
  - Development & operation of the passenger terminal  (about 15ha)
  - Development & operation of the cargo terminal  (about 17ha)
  - Development and Improvement of Apron, etc.  (about 68ha)
- New stations of Keikyu Line and Tokyo Monorail Line were built in line with the development of the international flight area.

## The Method of Development

	Development & Operation of Passenger Terminal	Development & Operation of Cargo Terminal	Development & Improvement of Apron, etc.
Overview of Facility	Passenger terminal building, parking spaces, etc.	Cargo sheds, truck yard, etc.	Apron, roads in the airport, etc.
Description of Duties	Operation, design, construction management and maintenance of the passenger terminal building, etc	Operation, design, construction management and maintenance of the cargo terminal building, etc	Design, construction and maintenance of apron, etc.
Operation Method	<b>Financially Free-Standing Project</b> (No funding from national government. SPC recovers its investment cost spent on facilities improvement by collecting PSFC (Passenger Service Fee Charge) and tenant fees.)		<b>Services Sold to the Public Sector</b> (National government pays the facilities usage fee)
Method to Select Contractors	<b>Open recruitment-type proposal</b> (In principle, as a selection criteria, one's capability to operate airport terminal is evaluated)		<b>Open tender based on comprehensive evaluation</b> (As a selection criteria, emphasis is placed on the cost of facilities development.)
Project Duration	Approximately 30 years		

(Note) Competition is encouraged by separating the selection processes between terminal operator and construction.