Government of India
Ministry of Finance
Department of Economic Affairs

Public Private Partnership Appraisal Committee (PPPAC)

33rd Meeting on March 9, 2010

Record of Discussion

The 33rd meeting of the Public Private Partnership Appraisal Committee (PPPAC), chaired by Finance Secretary was held on March 9, 2010. The list of participants is annexed.

2. The Chairman welcomed the participants and observed that the proposals under consideration heralded a new phase in respect of PPP projects considered by the PPPAC. While most of the Central sector PPP projects considered by PPPAC till date were from the transport sector viz., roads, ports and airports, the instant proposals were first of their kind and aimed at development of housing stock and services on a PPP mode. He congratulated the representatives of Ministry of Home Affairs (MHA) for their initiative and noted that it was expected that the success of these projects would give fillip to PPPs in the housing sector.

3. Additional Secretary, MHA presented the proposal. It was noted that the Finance Minister in the Budget Speech 2009, announced the creation of one lakh dwelling units for Central Para-Military Forces[1] (CPMF) personnel through innovative means of financing. Accordingly, MHA identified 246 locations, which could be the possible sites for development of housing stock (approximately 60,000 units) in the PPP mode for CPMF. Based on consultations, five pilot clusters have been developed, consisting of 30 sites, which are proposed to be bid out as the first/pilot phase of the large programme. MHA was, accordingly, seeking in-principle approval of PPPAC for the project clusters to commence the bid process. The project clusters under consideration are:

i. Development of the Kadarpur NCR Housing cluster on BOT (Annuity basis)

ii. Development of the Jalandhar (Punjab) Housing cluster on BOT (Annuity basis)

iii. Development of the Kathgodam (Uttarakhand) Housing cluster on BOT (Annuity basis)

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[1] Consisting of Assam Rifles, Border Security Force, Central Industrial Security Forces, Central Reserve Police Force, Indo-Tibetan Border Police and Sashastra Seema Bal

iv. Development of the Assam-1 Housing cluster on BOT (Annuity basis)

v. Development of the Assam-2 Housing cluster on BOT (Annuity basis)

4. Joint Secretary, MHA informed that the housing satisfaction level of CPMF was low, in the range of around 15.4 per cent. The housing stock was traditionally being augmented and maintained through budgetary support, and by public procurement. Hence, generally, around 2,000 to 3,000 housing units have been developed for the forces on an annual basis. As per a study by Planning Commission, to increase the housing satisfaction to 25 per cent through the conventional system, a period of 20 years would be required to cater to the requirements of the existing strength of the CPMF forces. Furthermore, the manpower of the CPMF was likely to increase, which may further depress the housing satisfaction levels. Hence, there was need to explore alternative financing mechanism.

5. Chairman, PPPAC noted that the justification for augmentation of the housing stock for the forces in an expeditious manner was unexceptional; he queried whether the Ministry proposed to develop the project only through budgetary support, i.e. annuity pay outs, or whether certain economic activities to generate revenues within the projects were also being contemplated. Joint Secretary, MHA informed that for the instant proposals an annuity structure has been envisaged where the PPP operator will be responsible for construction and maintenance of the housing units in return for annuity payments. Revenue generation through inclusion of other economic activities, so as to reduce the outflow of annuity payments had been examined by MHA. In view of the security consideration at the sites, it was decided to proceed ahead with development of the projects without any additional revenue generation component. It was informed that after preliminary estimation, the cost of the 5 projects was Rs. 1,744.00 crore for housing stock of around 13,000 residential units. The project cost estimates have subsequently undergone revision on account of harmonising the construction rates with CPWD rates and inclusion of components such as financing costs, IDC, return on equity, etc. The final cost in respect of the five projects was Rs. 2,488.59 crore.

6. The Advisor to the Deputy Chairman, Planning Commission stated that this is the first housing project on PPP mode being considered by PPPAC and hence, it would be advisable to establish core principles and parameters to allow replication of the process in other projects proposed to be developed by MHA. He made the following observations:

6.1 MHA should ensure that the houses are built in accordance with the entitlement of the personnel for whom it was intended and in accordance with the CPWD norms. Joint Secretary, MHA confirmed that the norms for building/ allocation of dwelling units traditionally being used would also be applicable for units being developed through the PPP framework.

6.2 The feasibility report and completed term sheet have not been provided along with the project documents as prescribed under the Guidelines for Formulation, Appraisal, and Approval of PPP projects for seeking in principle approval. Joint Secretary, MHA informed that the detailed term sheets and the feasibility reports are under the process of finalization and MHA would forward the same to members of PPPAC for examination and record.

6.3 Since the proposed PPP projects are not based on cost recovery through user charges and all payments are proposed to be made by the government through annuity payouts, MHA needs to make a comparative study of the cost per unit/house under PPP mode vis-à-vis conventional procurement mode. A 'Value for Money' (VfM) analysis may also be undertaken which would give an indication of the effectiveness of the PPP mode vis-à-vis conventional procurement method. The VfM analysis is more popular in developed countries and they adopt this methodology before approving projects especially in social infrastructure projects. Joint Secretary, MHA indicated that a VfM analysis was undertaken based on the cost estimates, estimation of raw Public Sector Comparator (PSC), competitive neutrality, retained risk etc. and the results revealed a strong case for pursuing the PPP mode. It was agreed that MHA would share the VfM analysis with the members of PPPAC for information and record.

6.4 Since the instant project entailed incurring future budgetary commitments for making annuity payouts through budgetary provision, approval of the Department of Expenditure (DoE) on the proposed committed expenditure may be obtained upfront before initiating bid process for the projects. Further, MHA may make a separate budgetary head in its budget provisions to enable making annuity payment to the Concessionaires. Joint Secretary, MHA informed that the Ministry had held preliminary consultations with Planning Commission regarding requirement of annuity and provisions had been made for a separate budget head. Planning Commission had made a token provision of Rs. 2 crore for these projects during BE 2010-11.

6.5 The annuity payment may be spread over a longer period of time, in order to reduce the annual annuity payouts and the requirements of budgetary provision by the Government. Additional Secretary, MHA stated that the concession period of 15 years including 2-3 years of construction period have been provisioned for all the clusters, based on the period of annuity payments consistent with PPP projects executed in other sectors, and the average maturity of debt available to private players in the market.

6.6 The Equity Internal Rate of Return (IRR) at 15.93 per cent threshold appeared to be on the higher side and the basis of calculation of the same may be provided to the members of PPPAC. Joint Secretary, MHA indicated that Equity IRR threshold of 15.93 per cent is based on the assumptions of an equivalent average long-term equity market return in India. On a query from Advisor, Deputy Chairman, Planning Commission, it was further clarified that the IRR for power transmission projects was benchmarked at 15.5 per cent by CERC. It was decided that MHA would examine whether there is any scope for estimating the TPC with a lower IRR.

6.7 Clause 3.5.2 and part of Clause 1.2.1 restricting the number of short-listed bidders to five/seven had been deleted from the project RfQ, which is a significant departure from the model RfQ document. Additional Secretary, MHA stated that it was not proposed to put a restriction on the number of pre-qualified bidders as the objective was to encourage a large number of developers to participate in the bid process since many projects, some in unattractive locations were proposed to be bid out.

7. Joint Secretary, DoE sought clarifications on whether the requirement for budgetary support for payment of proposed annuity outflow for the projects was in addition to Rs 540 crore currently allocated to MHA for CPMF housing. Further, in case MHA proposed to book the expenditure under 'Plan' head, it was necessary that MHA obtain approval of Planning Commission for the same and ensures that it is accounted for during the preparation and finalisation of the 12th FYP estimates. The need for VfM analysis and development of precise Standards and Specifications for building and maintenance of the housing units was reiterated. JS, MHA clarified that the ongoing activities of developing and maintaining housing stock for CPMF as public procurement would continue; the instant proposal was an attempt to augment the existing works. Hence, the requirements of the Ministry were in addition to the current allocation. It was proposed to book the expenditure on annuity out go as a 'Plan' expenditure. Preliminary discussions with Planning Commission regarding the need for budget allocation for incurring the proposed committed expenditure had commenced.

8. Joint Secretary, Department of Economic Affairs (DEA) stated that most of the issues have already been covered in the above discussion and listed out the observations of DEA in respect of the project RfQ:

8.1 Clause 1.2.7, which provides for attaching Feasibility Report as a part of the Bidding Documents has been removed in the project RfQ. This would result in insufficient information on the projects and would impact bidder's interest, resulting in poor bid response. The Clause may be reinstated.

8.2 The Clauses 3.2.3 and 3.2.4 have been diluted to allow determination of threshold of eligibility as 10 per cent of the Total Project Cost. The provisions of the Model RfQ, determining the threshold as 20 per cent of TPC, may be restored in the project RfQs.

8.3 Clause 2.2.3 which provides for adequate O&M experience had been deleted. As the proposed project envisages O&M, the clause may be restored.

8.4 Clause 2.2 (b) allows a government owned entity to be a single applicant. This clause may be suitably modified to provide that while the majority consortium partner for the project must be a private entity, a government owned entity may be allowed to bid as a non-majority partner/member in the consortium.

8.5 Since, there is no restriction for any applicant to apply for any of the other projects/clusters expected to be rolled out in the coming months, MHA may consider developing a guideline for restricting the award of many annuity projects to one applicant.

8.6 There were discrepancies in the project documents and the PPPAC Memos in respect of the number of housing units proposed to be constructed, project cost etc. The same may be corrected before the issue of RfQs.

9. Joint Secretary, MHA informed that all the above RfQ related issues and discrepancies would be resolved and suitably incorporated in the revised RfQ documents.

(Action: MHA)

10. The representative of the Department of Legal Affairs indicated that MHA should ensure that the land, though in possession of CPMF, is free of encumbrances. It was noted that many factors such as master plan, by-laws of the particular area, land availability, housing standards of the particular forces etc. are critical to the success of any particular projects.

11. Secretary, Planning Commission pointed out that the instant projects are expected to set the tone for development of other PPP projects in the housing sector in the country. Hence, there was need to facilitate and encourage the development of these projects, while at the same time ensure that the quality of documentation is not compromised. Hence, there should be clarity about performance standards and specifications, which should be clearly provided in the project DCA. Joint Secretary, MHA informed that for the instant proposals, the specifications and standards and performance parameters would be developed based on the Central Public Works Department (CPWD) norms for construction. The Chairman, PPPAC endorsed the views of Secretary, Planning Commission. He observed that in other sectors, especially in roads, all the specifications and standards are being clearly stipulated as per the Manual of Specifications and Standards of IRC. However, for the housing sector, where the structure is very complex and various construction options/technologies are available, adopting a single accepted norm would be difficult. Therefore, precise standards for construction and operations and maintenance may be developed to ensure quality of construction and prompt maintenance service during the period of concession, which were the key objectives of adopting the PPP framework for the instant projects.

(Action: MHA)

12. The project proposals were granted in-principle approval subject to the following conditions:

12.1. MHA would share the Feasibility Reports, Term Sheets and VfM analysis in respect of the projects with members of PPPAC.

12.2. MHA would provide the basis of cost escalation and review the requirement of 15.59 per cent IRR.

12.3. MHA would review the deletion of Clause 3.5.2 ('short-listing of bidders') from the project RfQs; the final decision on the matter, however, would rest with MHA.

12.4. In Clause 3.2.3 and 3.2.4, the threshold would be indicated as 20 per cent of the Estimated Project Cost in accordance with the of Model RfQ document.

12.5. There would be no enrichment of the entitlement of housing units of the personnel through the proposed PPP projects.

12.6. The MHA would examine whether the CPWD norms could be made more specific and precise, so as to ensure better life cycle monitoring.

(Action: MHA)

13. The Chairman observed that while for the instant projects, the view of MHA that commercial exploitation of land or other revenue generating activities were not feasible due to security constraints was being accepted, MHA would explore possibilities of reduction in the annuity outflow for the projects at the remaining 215 indentified locations through generation of economic activities/ commercial exploitation of the assets.

(Action: MHA)

14. Joint Secretary, DEA cited the UK experience of setting a ceiling on the extent of annuities paid by Her Majesty's Treasury (HMT) for a 25 year time frame and the process followed by HMT to allocate PFI credits to various projects sponsors in UK to ensure that the committed liability remain within acceptable limits. Joint

Secretary, DoE informed that the Department had initiated consultations with Joint Secretary (Budget), DEA in this regard; however, the discussions had not resulted in determination of ceiling levels for annuity payments by Central Government or the procedure for allocating annuity payments among diverse needs of varying sectors. The Chairman advised DoE to set up an Inter-Ministerial Group (IMG) to take forward the process in consultation with Planning Commission and Budget and Infrastructure Divisions of DEA.

(Action: DoE, DEA, Planning Commission)

15. The meeting was ended with vote of thanks to the Chair.

Annex

Ministry of Finance
Department of Economic Affairs
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Public Private Partnership Appraisal Committee (PPPAC)
33rd Meeting on March 5, 2010

List of Participants

I. Department of Economic Affairs

i. Shri Ashok Chawla, Finance Secretary (In Chair)
ii. Shri Govind Mohan, Joint Secretary
iii. Ms. Aparna Bhatia, Director

II. Department of Expenditure

iv. Ms. Meena Agarwal, Joint Secretary
v. Ms. Parama Sen, Director

III. Planning Commission

vi. Shri Sudha Pillai, Secretary
vii. Shri G. Haldea, Adviser to Dy. Chairman
viii. Ravi Mital, Adviser

IV. Ministry of Law

ix. Shri G. S. Yadav

V. Ministry of Home Affairs

x. Shri V. Trivedi, Additional Secretary
xi. Shri Ashok Lavasa, Joint Secretary
xii. Ms. Sreyasi Chaudhuri, DS
xiii. Shri Sanjay Kundi, DIG (W)
xiv. Shri M.K. Qureshi, SE (C)
xv. Shri Ravindra Thathu, Commandant (Arch)