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PLANNING FOR HANDBACK DURING PROCUREMENT

SESSION 7 | 18.45 GMT 1/26/22

AGENDA:

- Why it is important to plan for the end of the contract from the start
- Embedding the expiry process into the procurement and contract terms
- Managing the relationship during the contract's life to ensure a smooth transition
- When to start gearing up for project expiry

INTRODUCTIONS



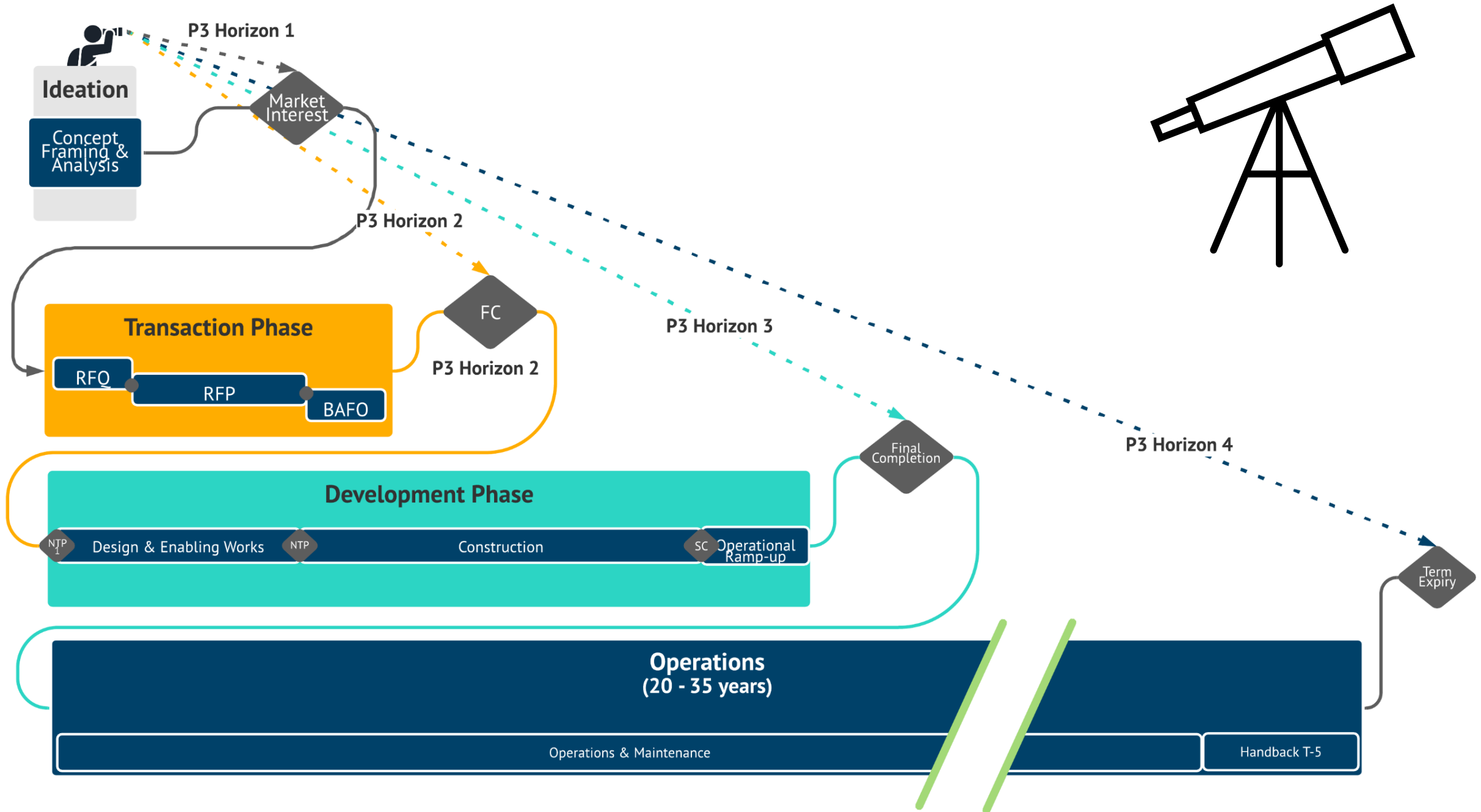
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HANDBACK IS A PHASE NOT A MILESTONE

In written form:

“The transition of operations, maintenance, and lifecycle obligations for a Project from the private developer to the public authority upon expiry of the P3 agreement.”



In reality:

The **last phase** of the project that can only be successful based on prior phases.

- *Transaction* – sets commercial expectations
- *Design & Construction* – sets foundation for asset quality long term
- *Operations & Maintenance* – maintains asset quality
- *Hand back phase* – establishes plan, cost & schedule for replacements
- *Owner Oversight* – manages expectation, early intervention, hand back preparedness

THE HANDBACK SPECTRUM



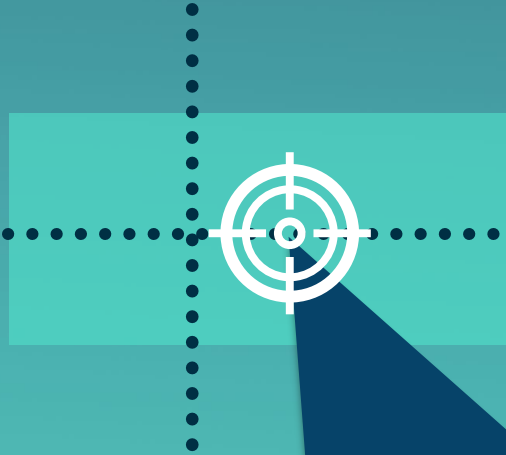
Client #1

“I need this project to be affordable now, funding 30 years from now is not a priority for me”



BROAD

“each element of the Project shall be in a condition which is consistent with the due performance by the developer of it’s obligations under the P3 agreement..”



The “Sweet Spot”

- *Outcomes-based handback requirements i.e. what needs to be prioritized and why;*
- *Appropriate consideration of end-user requirements; and*
- *Sufficient flexibility to enable private sector innovation and ensure value for money.*

Client #2

“I want to have an “as-new” building handed back to me”



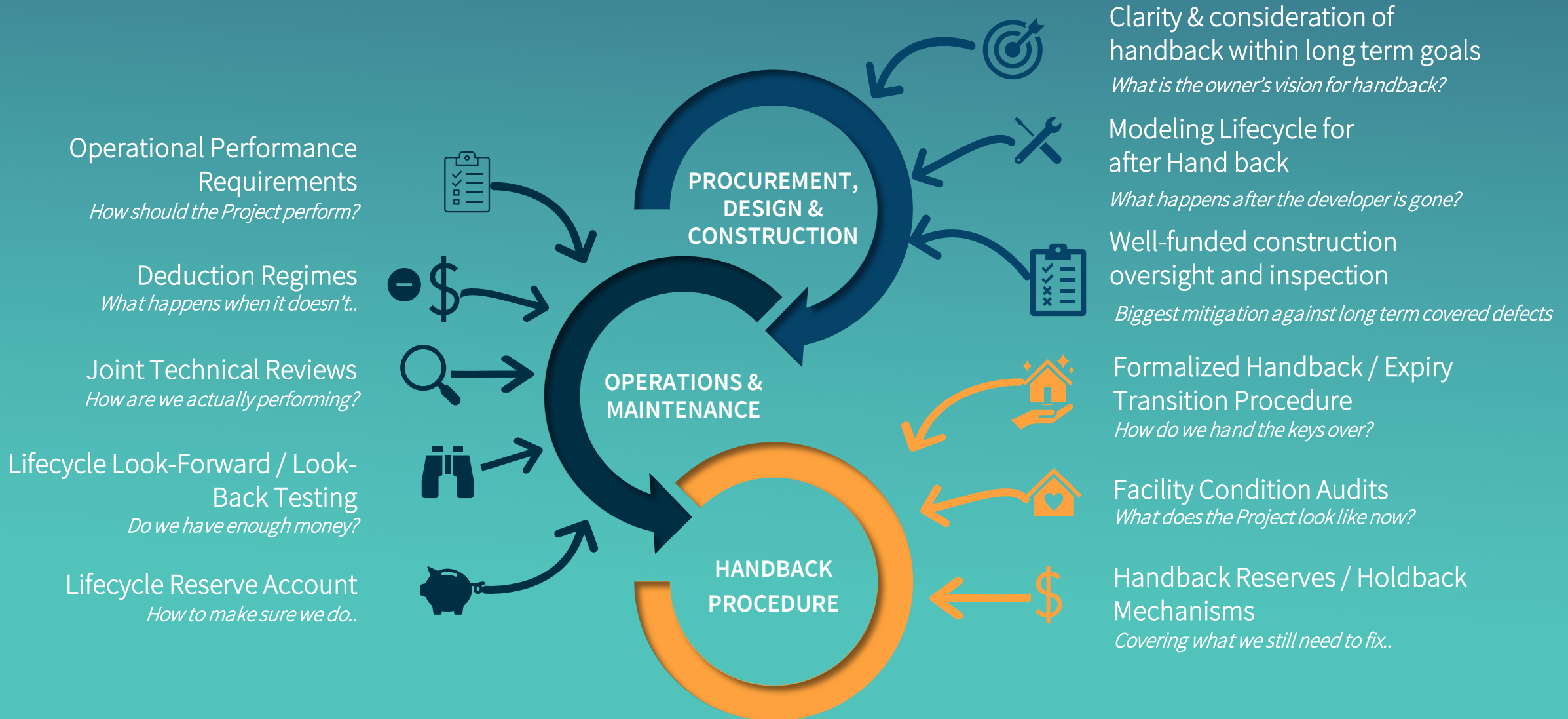
NARROW

Defined “residual life” requirements for major components

Specified quality standards for individual Project assets

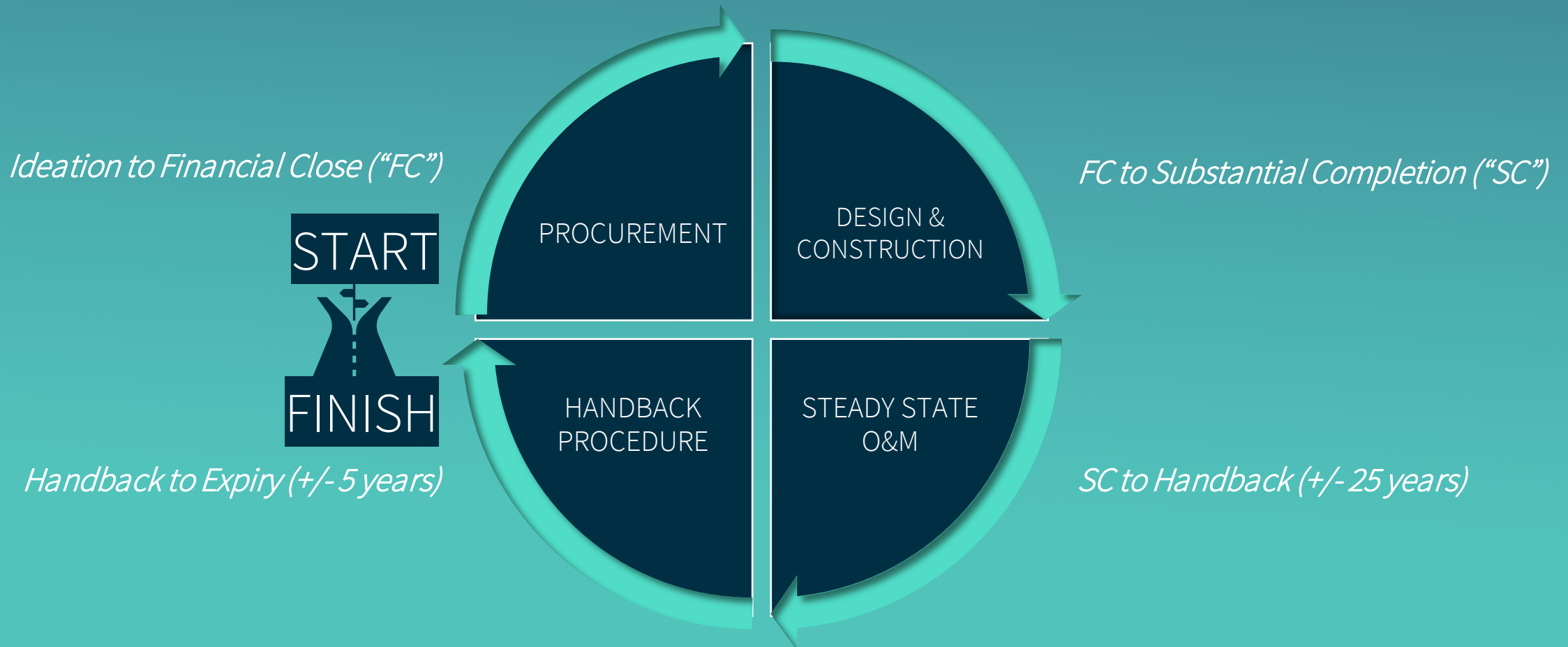
Project must function at a specified standard at handback.

EMBEDDING HANDBACK INTO PROCUREMENT & CONTRACT TERMS



WHAT SUCCESS LOOKS LIKE

Successful handbacks will be affected by a continuum of accountability through each phase, as well as commitment to strong relationship management between ProjectCo and Owner (even if the requirements have been inadequately defined).



WHEN TO START GEARING UP FOR PROJECT HANDBACK

- Typically, on North American P3's, the formal Handback / expiry transition process commences between 1 and 5 years prior to Handback.
- 5 years would be a recommended minimum to commence the formal process, with subsequent analysis and checkpoints leading into expiry of the term.
- LC look-back/look-forward mechanisms and joint technical reviews provide a snapshot in time of lifecycle that may identify potential downstream issues and deficits at handback.
- Starting the practical discussion on what handback looks like can start as early as transition / operational ramp-up to ensure operator and client staff structure maintenance management systems and operational reporting to demonstrate satisfaction of handback requirements.

KEY RECOMMENDATIONS FOR THE PROCUREMENT STAGE

- Drive accountability from the Project's dealmakers to establish appropriate outcomes and processes for Handback, even if they won't be around to see it.
- Establish an operational term that is practical in the context of the Project and its natural lifecycle, not an arbitrary "round number" of 25/30 years.
- Formulate outcomes-based handback requirements which meet user needs but retain flexibility for innovation / value on the part of the private developer.
- Necessitate a lifecycle model which considers the life of the asset after handback to inform evaluation of bids and provide a tool to facilitate the transition at expiry.

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