

Circular on Issuing the Guidelines for VFM Evaluations of PPP (for Trial Implementation)

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Note:English version for reference only,Chinese version shall prevail.

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Finance departments (bureaus) of all provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in the state plan, and the Financial Bureau of Xinjiang Production and Construction Corps,

With the view of advancing the VFM evaluations of public-private partnership (PPP) projects in a well-regulated and orderly way, we have formulated the Guidelines for VFM Evaluations of PPP (for Trial Implementation) according to domestic realities and by using international experience for reference. Owing to lack of sufficient data accumulation in practice, it is difficult to form a mature measurement model. Since the quantitative VFM evaluations are still at the exploration stage, all regions shall make VFM evaluations according to objective demands and local situations. Please feed back any problems and suggestions in the course of implementation to the Ministry of Finance.

Ministry of Finance

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Appendix:

Guidelines for VFM Evaluations of PPP (for Trial Implementation)

Chapter I General Provisions

Article 1 In order to advance the PPP VFM evaluations in a well-regulated and orderly way, the Guidelines for VFM Evaluations of PPP (for Trial Implementation) (hereinafter referred to as "the Guidelines") are

hereby formulated in accordance with the Budget Law of the People's Republic of China and the Circular of the General Office of the State Council on Forwarding the Guiding Opinions of the Ministry of Finance, National Development and Reform Commission and People's Bank of China on Promoting the Public-Private Partnership Mode in the Public Services (Guo Ban Fa [2015] No.42).

Article 2 Value for money (VFM) evaluation mentioned hereunder is an evaluation method to judge whether to replace traditional investment and operation methods of government with PPP mode to provide public service projects.

Article 3 VFM evaluations shall follow the principle of authenticity, objectiveness and openness.

Article 4 With regard to projects with the PPP mode intended to be adopted in the People's Republic of China, VFM evaluations shall be conducted at the phase of identification or preparations for projects.

Article 5 VFM evaluations comprise qualitative evaluations and quantitative evaluations. Qualitative evaluations are primary at present, and quantitative evaluations are encouraged. Quantitative evaluations may be taken as important means of risk allocation in the whole life cycle of projects, cost calculation and data collection, and reference for project decisions and performance evaluations.

Article 6 Conclusions of qualitative evaluations and quantitative evaluations shall be considered as a whole in order to make conclusions of VFM evaluations. Such conclusions are classified into passing or failing. As for any project passing the VFM evaluation, the demonstration of financial capacity may be conducted. As for any project failing to pass the VFM evaluation, it may be re-evaluated after adjusting implementation programs; if it still fails to pass such evaluation, it will be unsuitable to adopt the PPP mode.

Article 7 The finance departments (or PPP centers) shall, together with competent departments of industries, conduct VFM evaluations, and actively make use of expertise of third-party professional organizations and experts.

Chapter II Preparations for Evaluations

Article 8 VFM evaluation materials primarily include: (preliminary) implementation plans, project output specification, risk identification and allocation conditions, historical materials of stocked public assets, (preliminary) feasibility study reports of new construction or rehabilitation or expansion projects, and design documents.

Article 9 In making the VFM evaluation, the finance department at the corresponding department (or PPP center) of a project shall, together with the competent department of industry concerned, define whether to make quantitative evaluation, and specify qualitative evaluation procedures, indicators and weights thereof, scoring standards and other basic requirements.

Article 10 In making the quantitative VFM evaluation, the finance department at the corresponding department (or PPP center) of a project shall, together with the competent department of industry

concerned, define quantitative evaluation contents, calculation indicators and methods, and whether to take conclusions of the quantitative evaluation as the decision basis of adopting the PPP mode.

Chapter III Qualitative Evaluations

Article 11 Qualitative evaluation indicators include six basic evaluation indicators: whole-life-cycle integration degree, risk identification and allocation, performance orientation and encouraged innovation, degree of potential competition, capability of government agencies and bankability.

Article 12 The whole-life-cycle integration degree mainly assesses whether links such as project design, investment and financing, construction, operation and maintenance in the whole life cycle of a project can be integrated fully in a long time.

Article 13 The risk identification and allocation indicator mainly assesses whether all risk factors can be identified fully and allocated reasonably between government and private partners in the whole life cycle of a project.

Article 14 The performance orientation and encouraged innovation indicator mainly assesses whether to establish performance standards and a supervision mechanism oriented by the supply quantity, quality and efficiency of infrastructures and public services, and carry out government procurement policies of energy conservation and environmental protection and supporting domestic industries and so on, and whether innovations of private partners are encouraged.

Article 15 The indicator of degree of potential competition mainly assesses the attraction of project contents for the participation in competition of private partners.

Article 16 The indicator of capability of government agencies mainly assesses the capability of government of function transformation, service optimization, lawful performance, administrative supervision and project implementation management.

Article 17 The bankability indicator mainly assesses the market financing capability of a project.

Article 18 The finance department (or PPP center) at the corresponding level of a project may, together with the competent department of industry concerned, set supplementary evaluation indicators according to concrete situations.

Article 19 Supplementary evaluation indicators are mainly other influence factors not covered by the six basic evaluation indicators, including project scale, expected useful life, types of major fixed assets, accuracy of whole life cycle cost calculation, growth potential of operation revenue and industry demonstration.

Article 20 The weight of the six basic evaluation indicators among all the evaluation indicators is 80%, and the weight of any of such indicators generally does not exceed 20%; the weight of supplementary evaluation

indicators is 20%, and the weight of any of such indicators generally does not exceed 10%.

Article 21 The scoring of each indicators comprises five grades: favorable, relatively favorable, common, relatively unfavorable and unfavorable, corresponding to scores of 100~81, 80~61, 60~41, 40~21 and 20~0. The finance department (or PPP center) at the corresponding level of a project shall, together with the competent department of industry concerned, formulate clear and accurate scoring standards for each indicator as per scoring grades.

Article 22 The expert panel of qualitative evaluation is composed of economic experts of finance, asset evaluation, accounting and finance, and experts of relevant industry, engineering technologies, project management and laws.

Article 23 The finance department (or PPP center) at the corresponding level of a project shall, together with the competent department of industry concerned, hold the meeting of expert panel. Materials necessary for qualitative evaluations shall be served to experts before the holding of the said meeting to ensure that experts grasp necessary information.

Article 24 Basic procedures of the meeting of the expert panel are as below:

(I) Experts give scores item by item as per evaluation indicators after full discussion. See appendix for the scoring sheet of experts; and

(II) Calculate weighted average as per indicator weights, get scoring results, and form opinions of the expert panel.

Article 25 The finance department (or PPP center) at the corresponding level of a project shall, together with the competent department of industry concerned, make conclusions of the qualitative evaluation as per opinions of the expert panel. In principle, if scoring results exceed 60 points (inclusive), the qualitative evaluation is passed; otherwise, the qualitative evaluation is not passed.

Chapter IV Quantitative Evaluations

Article 26 Quantitative evaluation judges whether the PPP mode can reduce the whole life cycle cost of a PPP project by comparing the present value of net costs of government (PPP value) in the whole life cycle of the project with public sector comparator (PSC), provided that the output performance of the PPP mode and that of the traditional investment method of the government are the same.

Article 27 The PPP value equals the present value of different financial expenditures such as the equity investment, operation subsidies, risk taking and supporting investment in the whole life cycle of a PPP project, which is calculated pursuant to the Guidelines for the Demonstration of the Fiscal Capacity of Public-private Partnership Projects (Cai Jin [2015] No.21).

Article 28 The PSC is the sum of whole life cycle values of the three costs below:

(I) net costs of construction and operation maintenance of a reference project;

(II) competitive neutral adjustment value; and

(III) all risk costs of the project.

Article 29 According to concrete conditions, a reference project may be determined as:

(I) a virtual project with assumption that government implements it in a practically feasible and the most effective traditional investment method and the project has the same output as that of the PPP project concerned; or

(II) a project implemented in a traditional investment method of government in the same or similar region and with the same or quite similar output as that of the PPP project concerned in the recent five years.

Net construction costs mainly include the cash and the value of physical materials such as fixed assets and land use right and intangible assets invested in respect of design, construction, upgrade, transformation and thorough repair of a reference project, net of proceeds from transfer, lease or disposal of assets in the whole life cycle of the reference project.

Net costs of operation maintenance primarily include costs of raw materials, equipment, labor, etc. in the whole life cycle of a reference project, and management fees, selling expenses, financial expenses in operation period and so on, net of the revenue of user charges able to be obtained in the circumstance of assuming the same payment mechanism of the reference project and the PPP project concerned.

Article 30 The competitive neutral adjustment value is primarily the expenses less paid for a project implemented with the traditional investment method of government as compared with the adoption of the PPP mode, and generally includes less paid land costs, administrative examination and approval fees and relevant taxes.

Article 31 All risk costs of a project comprise the risk taking costs able to be transferred to private partners and the undertaking costs of risks retained by government, and are calculated as per Article 21 of the Guidelines for the Demonstration of the Fiscal Capacity of Public-private Partnership Projects (Cai Jin [2015] No.21).

The undertaking costs of risks retained by government equal to the risk undertaking expenditures in the whole life cycle in the PPP value. In comparing the PSC with the PPP value, either of them may be deducted.

Article 32 The discount rate used to calculate the PSC shall be the same as the discount rate used to calculate the PPP value, and be calculated as per Article 17 of the Guidelines for the Demonstration of the Fiscal Capacity of Public-private Partnership Projects (Cai Jin [2015] No.21) and relevant regulations.

Article 33 Where the PPP value is less than or equal to the PSC, it will be identified that relevant quantitative evaluation is passed; where the PPP value is larger than the PSC, it will be identified that relevant quantitative evaluation is not passed.

Chapter V Evaluation Report and Information Disclosure

Article 34 The finance department (or PPP center) at the corresponding level of a project shall, together with the competent department of industry concerned, complete the preparation for VFM evaluation report after making VFM evaluation conclusions, submit the report to the provincial finance department concerned for filing, and upload the electronic version of the report to the National PPP Integrated Information Platform.

Article 35 The VFM evaluation report includes the contents below:

(I) Basic project information, mainly including project overview, project output specification and performance standards, PPP operation methods, risk allocation framework and payment mechanism.

(II) Evaluation method, mainly including qualitative evaluation procedures, indicators and weights, scoring standards, scoring results and opinions of expert panel, and the PSC, calculation bases of PPP value, calculation processes and result of quantitative evaluation.

(III) evaluation conclusion, i.e. passing or failing.

(IV) appendixes, generally including (preliminary) implementation program, project output specification, feasibility study report, design document, historical materials of stocked public assets, PPP project contract, performance monitoring report and interim evaluation report.

Article 36 Within 5 working days after the preparation of the VFM evaluation report, the finance department (or PPP center) at the corresponding level of a project shall disclose the main information (excluding any national secret and business secret) of the report through channels such as National PPP Integrated Information Platform.

Article 37 Within the cooperation period of a PPP project and upon expiration of the period, the finance department (or PPP center) at the corresponding level of the project shall, together with the competent department of industry concerned, take relevant VFM evaluation report as an important integral part of project performance evaluation, which can be used for statistics and analyses for reference.

Article 38 The finance departments (or PPP centers) at all the levels shall reinforce the construction of VFM evaluation database, and well do the work such as collection, statistics, analyses and submission of qualitative and quantitative evaluation data.

Article 39 The finance departments (or PPP centers) at all the levels shall, together with competent departments of industries, intensify the supervision and management over the third-party professional organizations and experts of VFM evaluations, and conduct credit records, track, report and information

release via the National PPP Integrated Information Platform. Finance departments at the provincial or equivalent level shall consolidate the supervision and management over VFM evaluations in the whole provinces (municipalities directly under the Central Government or autonomous regions).

Chapter VI Supplementary Provisions

Article 40 The Guidelines shall take effect as of the date of issue, and be valid for 2 years.

Appendix: 1. Flowchart of VFM Evaluation

2. Scoring Sheet for Experts of VFM Qualitative Evaluation

附：

PPP 项目财政承受能力论证工作流程图

