



PUBLIC-PRIVATE PARTNERSHIP IN GALICIAN MOTORWAYS: A HEAVY TOLL ON THE TAXPAYER

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EURORAI Seminar in Oviedo

April 2025





Autovías de la Xunta

Autopistas

Todos los tramos
afectados

Xunta Tramos
de la Xunta
Estado afectados

AG-56

Santiago de Compostela - Brión

■ **2035**

16 km

AG-11

Autovía do Barbanza

■ **2036**

40 km

AG-47

Autovía do Salnés

■ **2035**

19 km

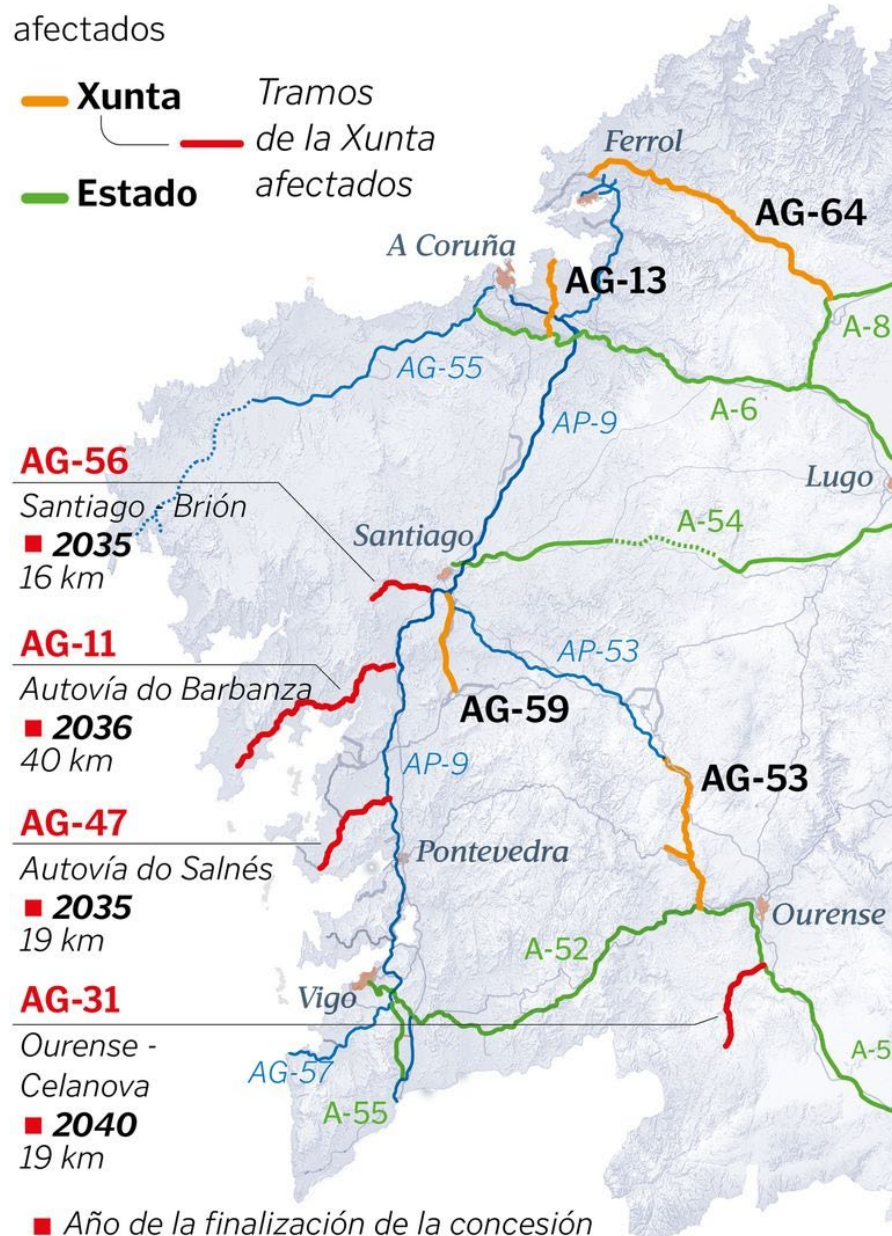
AG-31

Ourense -
Celanova

■ **2040**

19 km

■ Año de la finalización de la concesión



In Galicia there are 5 motorways in a public-private partnership

Motorway	Date of contract	Opening to traffic	License expiration	Length (Km)	Investment (M€)	Expected payments (M€)
AG-56 <i>Santiago-Brión</i>	2005	2008	2035	16	103	319
AG-41 <i>Salnés</i>	2005	2008	2035	19	44	180
AG-11 <i>Barbanza</i>	2006	2008	2036	40	94	332
AG-31 <i>Celanova</i>	2009	2013	2040	19	96	251
AG-55 <i>Costa da Morte</i>	2011	2016	2038	27	134	561
					471 M€	1.643 M€

5 PPP contracts. 4 with shadow toll (demand fee) and 1 availability fee

- **Private company:** designs, builds, finances maintain and operate
- **Administration:** Pays an annual fee depending on the demand (motorway traffic) and availability (quality). They are free of charge motorways for the user as they are paid by the taxpayer in annual instalments from the public budget.

The Consello de Contas de Galicia (Galician Accounting Council) carried out two audits

2011 (initial assessment):

Analyses the infrastructure **planning** phases, the **contracting** process and the choice of the private partner, the **construction** of motorways and the first years of operation in 3 of them.

2023 (mid-term review):

focused on the **operation** of the motorways **and**, in particular, on the **contractual renegotiations**.

Planning: Why was a public-private partnership chosen?

Formal basis:

Budget restrictions (“**no money**”), even though in 3 of 5 cases there was a budgetary margin to accommodate the investments



SEC criteria

- **Transfer of** construction and demand or availability **risk**
- Allows **splitting and deferring** the impact on deficit and debt
- Distorts the rationality in decision making (accounting bias)
- Strong subjective component of interpretation

Real reason:

Avoiding consolidation, although in the end only 1 out of the 5 managed not to consolidate

Recommendation:

Use PPPs only if it is based on cost-benefit studies demonstrating that it was the one maximising value-for-money and not on accounting grounds

La Xunta frena la financiación privada forzada por el Consello de Contas

Infraestructuras ya no licitará más obra por el procedimiento de pago aplazado



PABLO LÓPEZ 🐦

Santiago - 22 OCT 2011 - 07:00 CEST

Recruitment: Were the selection criteria effective?

Motorways	Tender decrease	Does the winner bid offer the lowest price?	Does the winner bid offer the more realistic plan?	Real traffic deviation from prediction
AG-56 <i>Santiago-Brión</i>	- 25%	2 ^a (of 8)	6 ^o (of 8)	-17 %
AG-41 <i>Salnés</i>	- 22%	1 ^a (of 8)	8 ^o (of 8)	-36 %
AG-11 <i>Barbanza</i>	- 27%	2 ^a (of 8)	4 ^o (of 8)	-41%
AG-31 <i>Celanova</i>	- 24 %	1 ^a (of 5)	3 ^o (of 5)	-46 %

Design of the assessment criteria: aggressive bids were prioritised over realistic economic plans

It generated a **strategic component in the bidders** (win, then negotiate)

Construction (I): Are there delays in the deadlines?

Motorway	Delay	%
AG-56 <i>Santiago-Brión</i>	On time	0%
AG-41 <i>Salnés</i>	6 months	20%
AG-11 <i>Barbanza</i>	On time	0%
AG-31 <i>Celanova</i>	10 months	29%
AG-55 <i>Costa da Morte</i>	1 year and 5 months	77%

Th deviations are not significant when compared to the **76 %** of average delay of **public procurement**

PPPs are **effective** to build on **time**

Construction (II): Are there cost overruns?

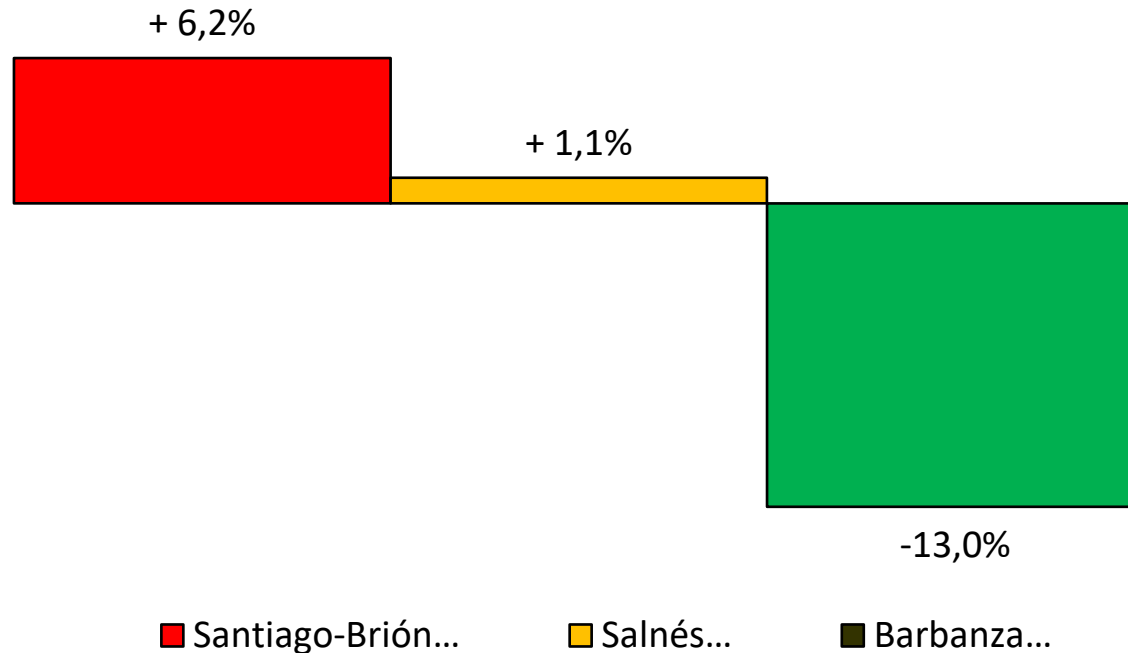
Motorway	% increases over initial budget
AG-56 <i>Santiago-Brión</i>	7%
AG-41 <i>Salnés</i>	21%
AG-11 <i>Barbanza</i>	12%
AG-31 <i>Celanova</i>	6%
AG-55 <i>Costa da Morte</i>	3%

The **cost overruns** are also lower than those of **public works** carried out by the traditional method

Better negotiating position of the administration: negotiation with the work completed and not stopped

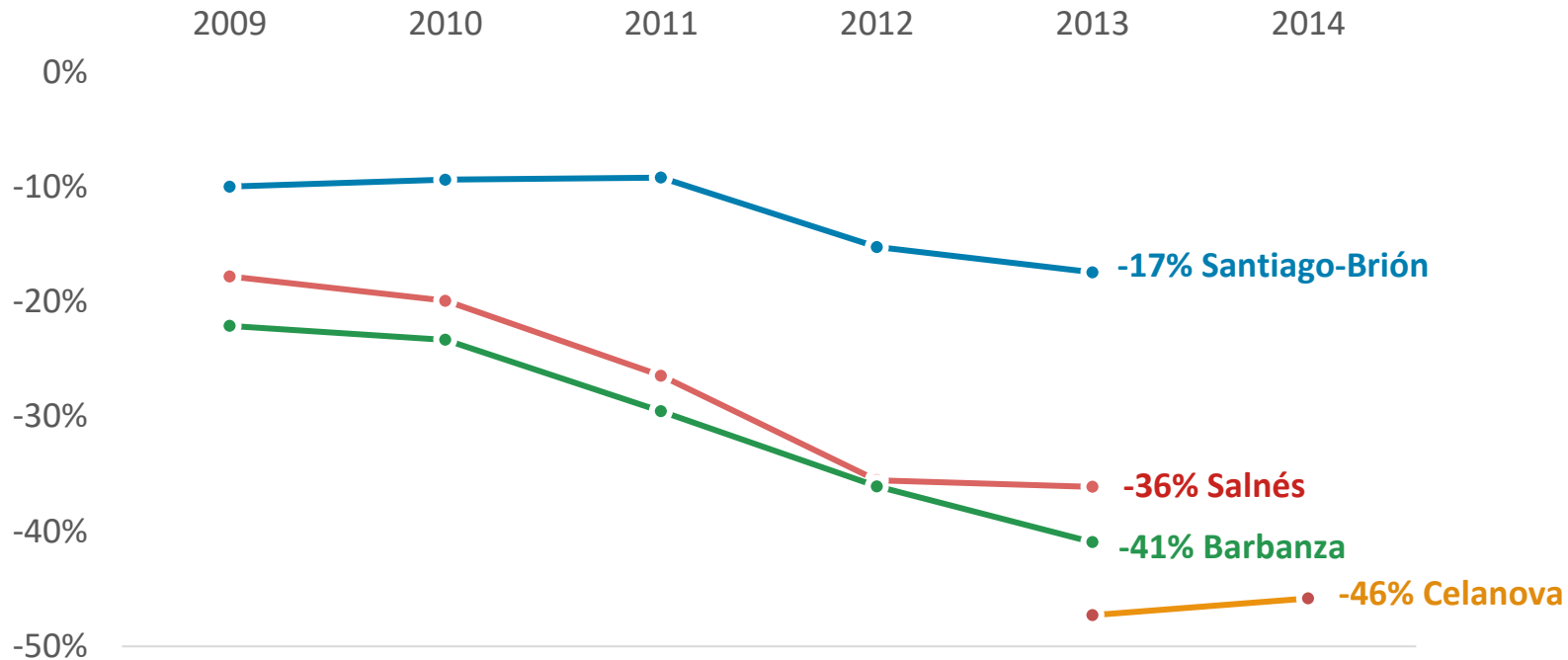
Operation (I): Was the demand risk transferred appropriately?

Initial assessment. Public-private vs public alternative comparison



1. Initially private company assumed the demand risk
2. The **lower than expected traffic** reduced their revenues and led to financial **losses**
3. At that early stage the **cost of the public-private partnership** for the administration was **lower than the traditional public procurement alternative**

Operation (II): Was the demand risk transferred appropriately?



The **contract and tender specifications** stipulated that the **risk of demand** was assumed by the **concessionaire**

However, a **law** is passed that **allows the renegotiation** of contracts **to compensate** for the drop in traffic and avoid the bankruptcy of the concessionaires

Operation (III): Was the demand risk transferred appropriately?

Motorway	Toll increase (in percentage)	Estimated cost of payments to concessionaires (M€)
AG-56 Santiago-Brión	0%	0
AG-41 Salnés	38 %	42
AG-11 Barbanza	36 %	74
AG-31 Celanova	112 %	89
		205 M€

1. While it would correspond to the concessionaire to bear the risks of a low demand, it was the **public budget** that **bore the brunt** of the concessionaires' **falling revenues**
2. The **tariff increases** were calculated so that the concessionaire would **obey** the ratios required by the **banks** in the private financing contracts. The financier's collections and the concessionaire's positive **profitability** are **guaranteed**.
3. **It violates the principle of equality between bidders** since the resulting tolls are higher than many of the non winner bids
4. Jurisprudence has held in similar cases that the **fall in demand** due to the crisis **was not a compensable** unforeseeable risk
5. **Conclusion:** The demand risk was **not effectively transferred**

Renegotiation: What could the Xunta de Galicia have done?

	Cumulative payments (2014-2040)	Present value (6%)
Cost of the continuation of the concession (option chosen by the administration)	717,4	356,1
Cost of early reversal of the concession (alternative option set out by the Consello de Contas)	411,9	298,2
Total savings early reversal	305,5 M€	57,9 M€

1. **The benefits of the early reversion** of the concession **were not** adequately **evaluated**
2. The Consello de Contas showed that it would have been the **most value for money option**
3. It was also **viable** from a financial, accounting and legal point of view
4. It would have **avoided the moral hazard** of contract renegotiations

Is the maintenance and quality of the service satisfactory?

1. Technical performance audits and availability indicators show that **maintenance and quality of service is satisfactory**
2. **PPP contracts** provide **demanding** financial **penalties** for **poor performance** that are applied
3. In traditional **public procurement**, **incentives** for good maintenance are **weak**
4. The public-private partnership proved to be **effective** in this aspect

Governance: Is administrative management and control effective?

1. It is not appropriate for the **same body** to **plan, contract, supervise** the construction and operation and decide on **renegotiations**.

Recommendation: segregate recruitment and monitoring

2. **Strategic decisions were inadequate**: choice of model, selection rules and renegotiations
3. **Technical decisions** related to inspection and control tasks are **properly** carried out
4. Problem of **lack of resources and excessive outsourcing of essential tasks** (basic evaluation reports for awards, studies that determined the amount of rebalancing and inspection tasks).

Recommendation: reinforcement and specialisation of own resources.

Transparency:

How much does it cost the taxpayer to make highways free of charge?

Motorways	Length (Km)	Toll amount complete journey (euro)
AG-56 <i>Santiago-Brión</i>	16	1,43
AG-41 <i>Salnés</i>	19	0,98
AG-11 <i>Barbanza</i>	40	1,70
AG-31 <i>Celanova</i>	19	5,71
AG-55 <i>Costa da Morte</i>	27	8,46

Recommendations from traffic and financial analysis

Motorway	2015	2016	2017	2018	2019	2020	2021	2022
AG-56 <i>Santiago-Brión</i>	4,40%	7,35%	8,60%	11,70%	13,20%	-9,75%	7,51%	10,72%
AG-41 <i>Salnés</i>	7,78%	12,34%	15,16%	14,80%	19,78%	-13,40%	6,98%	12,02%
AG-11 <i>Barbanza</i>	-1,47%	0,35%	0,87%	0,32%	0,31%	-18,92%	-7,27%	-5,37%
AG-31 <i>Celanova</i>	4,33%	6,92%	9,29%	9,32%	8,09%	-19,61%	-1,34%	0,72%

Based on the analysis of traffic, the accounting situation of the concessionaires and the financial ratios committed to the banks, the **Consello de Contas identified** potential **savings** in the public budgets

La Xunta rescata cuatro autovías con «peajes en la sombra»

El gobierno gallego calcula un ahorro de unos 30 millones de euros al año hasta el momento en el que terminase la concesión

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