

operating, and maintaining a new multi-deck car park facility at the Site. In addition, Capella is responsible for operating and maintaining other car park facilities at the Site over the contract term, including street-level parking spaces and the NCH car park. It is also responsible for constructing a childcare center on the roof of the multi-deck car park and three retail outlets along Hospital Avenue.

The project was financed by Capella through a mixture of debt and equity. It was ultimately delivered without any significant capital contribution by the State or the Trust. The State and the Trust are not required to share any losses that may occur upon refinancing of the debt but are entitled to 50 percent of the benefit of any refinancing gains.

Under the agreement the State assumed responsibility for financing and constructing the new NCH's car park and for ongoing maintenance at that parking site. Capella took on the responsibility for operating this car park and would be entitled to collect and retain all revenues generated from it.

Over the operating phase of the project, Capella derives its revenue from the receipt of staff and visitor parking charges, and commercial rental income from the retail outlets. Capella bears the full car demand risk and is also required to pay a license fee to the Trust of approximately AUD 2 million (USD 1.4 million) per year, payable in quarterly installments.

### Lessons Learned

Construction of the car park began in September 2011 and was completed in November 2013, eight months ahead of schedule. The completed facility increased the total number of available parking bays from 3,000 to over 5,000. However, due to a decision to cap staff parking fees at a rate below that specified in the agreement with Capella, as well as delays in the opening of the NCH that negatively impacted Capella's revenues, the State has had to pay compensation to Capella totaling about AUD 15.89 million (US\$11.38 million) through the end of August 2017. In February 2018, a Special Inquiry was initiated to review and amend the contract with Capella concerning policy changes that may trigger compensation under the contract.<sup>102</sup>

PPP projects are prone to changes, especially during the implementation period given the typically long duration of a PPP agreement. When and if a problem is identified, it is best for the parties to proactively engage to address the issue immediately rather than deferring the decision, as any delay can prove expensive for one or both parties. This project highlights the importance of identifying and addressing potential future adverse occurrences in the PPP contract to the fullest extent possible, as that is the foundation of the partnership in the event that any problems arise.

<sup>102</sup> Capella Capital. 2013. "QEII Medical Centre Car Parking Project." Capella Capital. Accessed January 25, 2019. <https://capellacapital.com.au/projects/qeii-medical-centre-car-parking-project/>;

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<sup>103</sup> User: (WT-shared) Shoestring at wts wikivoyage ([https://commons.wikimedia.org/wiki/File:Downtown,\\_Thimphu,\\_Bhutan.JPG](https://commons.wikimedia.org/wiki/File:Downtown,_Thimphu,_Bhutan.JPG)), <https://creativecommons.org/licenses/by-sa/4.0/legalcode>

## 48. Challenging Case: Multi-level Car Park, Thimphu City, Bhutan



Photo Credit<sup>103</sup>

### Background

To help address traffic congestion in Thimphu City, the capital of the Kingdom of Bhutan, the Royal Government of Bhutan (RGoB), through Thimphu Thromde, planned the construction of both on- and off-street parking facilities in the city center, to be delivered through a PPP.

### Project Structure

With help from the International Finance Corporation (IFC), acting as the transaction advisor, the city entered into a 22-year PPP concession contract with KCR Private Limited. KCR Private Limited is an SPV set up by the winning consortium following competitive tendering and award. The SPV comprises CE Construction Private Limited (Nepal), KNG Private Limited (Bhutan), and Rinson Construction Private Limited (Bhutan).

Under the PPP agreement, KCR is responsible for designing, developing, financing, operating, and maintaining two multi-level car parks (MLCPs) located at either end of the city's main road. The two facilities are required to contain at least 550 parking spaces. Commercial facilities are allowed to occupy 20 percent of the total MLCP area. In addition, KCR is responsible for refurbishing, operating, and maintaining about 1,000 existing, off- and on-street public parking spaces in the city center.

KCR is responsible for financing the full cost of the project and will earn revenue to recoup its investment entirely from parking fees and commercial rental income. KCR further agreed to pay the city an annual concession fee of USD 230,000. Most risks, especially finance, design, construction, and demand, are carried by KCR.

### Lessons Learned

The two MLCPs in Thimphu, which were expected to be completed by 5 November 2017 and 1 July 2018, respectively, were still under construction as of January 2019. Recent reports indicated that both MLCPs were expected to open in the first half of the calendar year 2019. KCR requested an extension of both the construction completion date and the concession period due to changes in the project design, an increase in the scope of work, and an unexpected need to relocate utility cables. These changes led to a rise in the project cost from BTN 450 million (USD 4 million) to almost BTN 800 million (USD 7 million).<sup>104</sup>

Keeping construction cost-efficient and on-schedule under changing circumstances can be a significant challenge for any infrastructure project. Due diligence during the planning and project preparatory phases are vital to preventing cost overruns. At the same time, the PPP agreement should explicitly account for any changes to the project scope, design or works that increase the project cost and provide a clear framework for adapting to such a change, with due regard to the allocation of risk among the parties and the viability of the project.

<sup>104</sup> International Finance Corporation. 2015. *Public-Private Partnership Stories – Bhutan: Thimphu Parking*. Washington, D.C: World Bank Group. Accessed November 27, 2019. [https://www.ifc.org/wps/wcm/connect/5e9b7c12-9e17-47ef-9b53-9b23b9f7919a/PPPStories\\_Bhutan\\_ThimphuParking.pdf?MOD=AJPERES&CVID=IHovEo0;](https://www.ifc.org/wps/wcm/connect/5e9b7c12-9e17-47ef-9b53-9b23b9f7919a/PPPStories_Bhutan_ThimphuParking.pdf?MOD=AJPERES&CVID=IHovEo0;)

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