UNECE Working Party on Transport Trends and Economics

Considering alternative PPP structures

8 September 2014

pwc

The PwC CP&I team

c.1,000 professionals across the global network

800 infrastructure projects being worked on

c.£100bn project finance deals closed in 10 years

Introduction

Different options exist for using private finance to deliver transport infrastructure

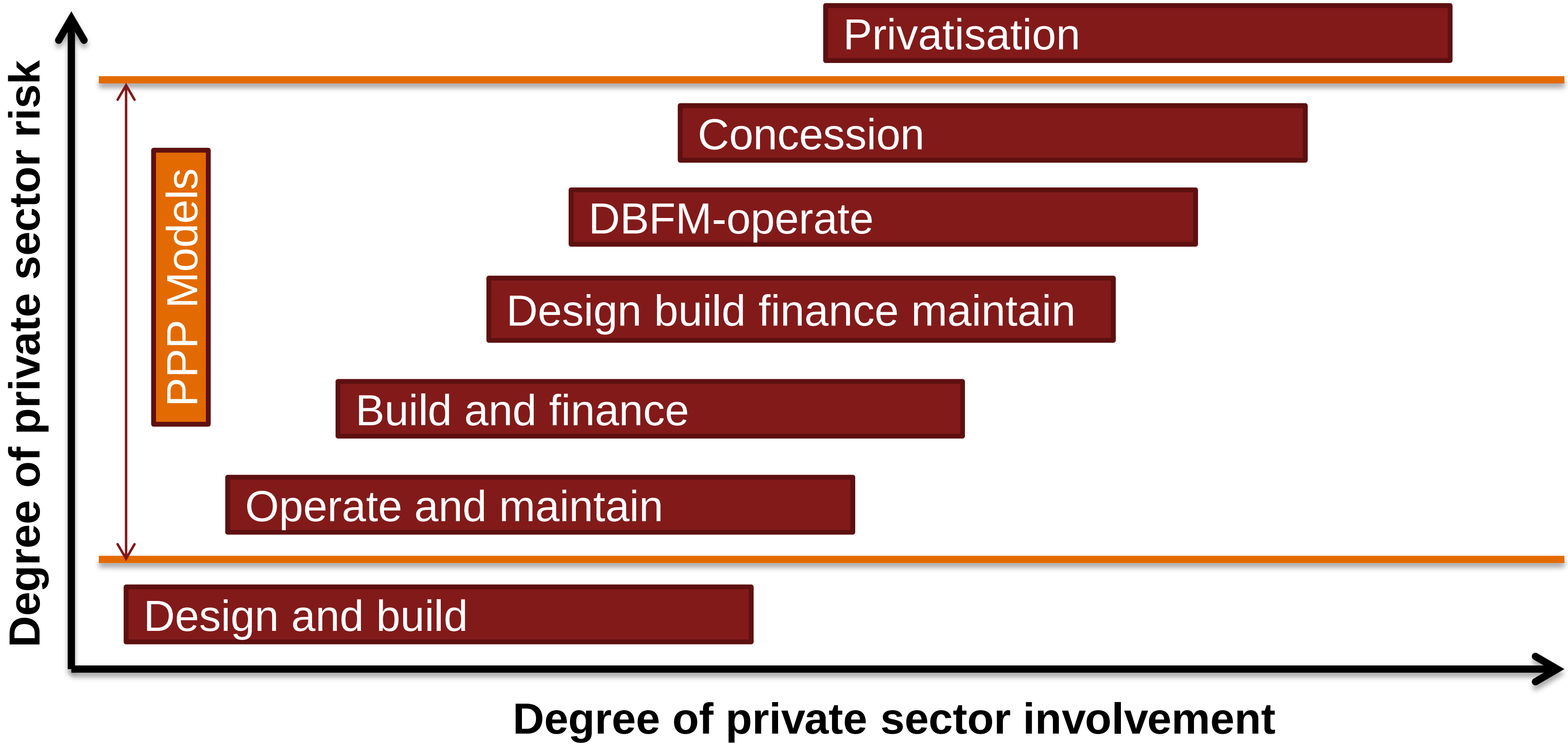
Most appropriate will depend on objectives of Government and specifics of project

This presentation provides a primer for certain of these options, setting out:

- Range of PPP structures
- Key considerations for Government
- Example structures:
  - Pros and cons
  - Case studies

PPP structures

Source: UNECE 2013



Considerations for Government

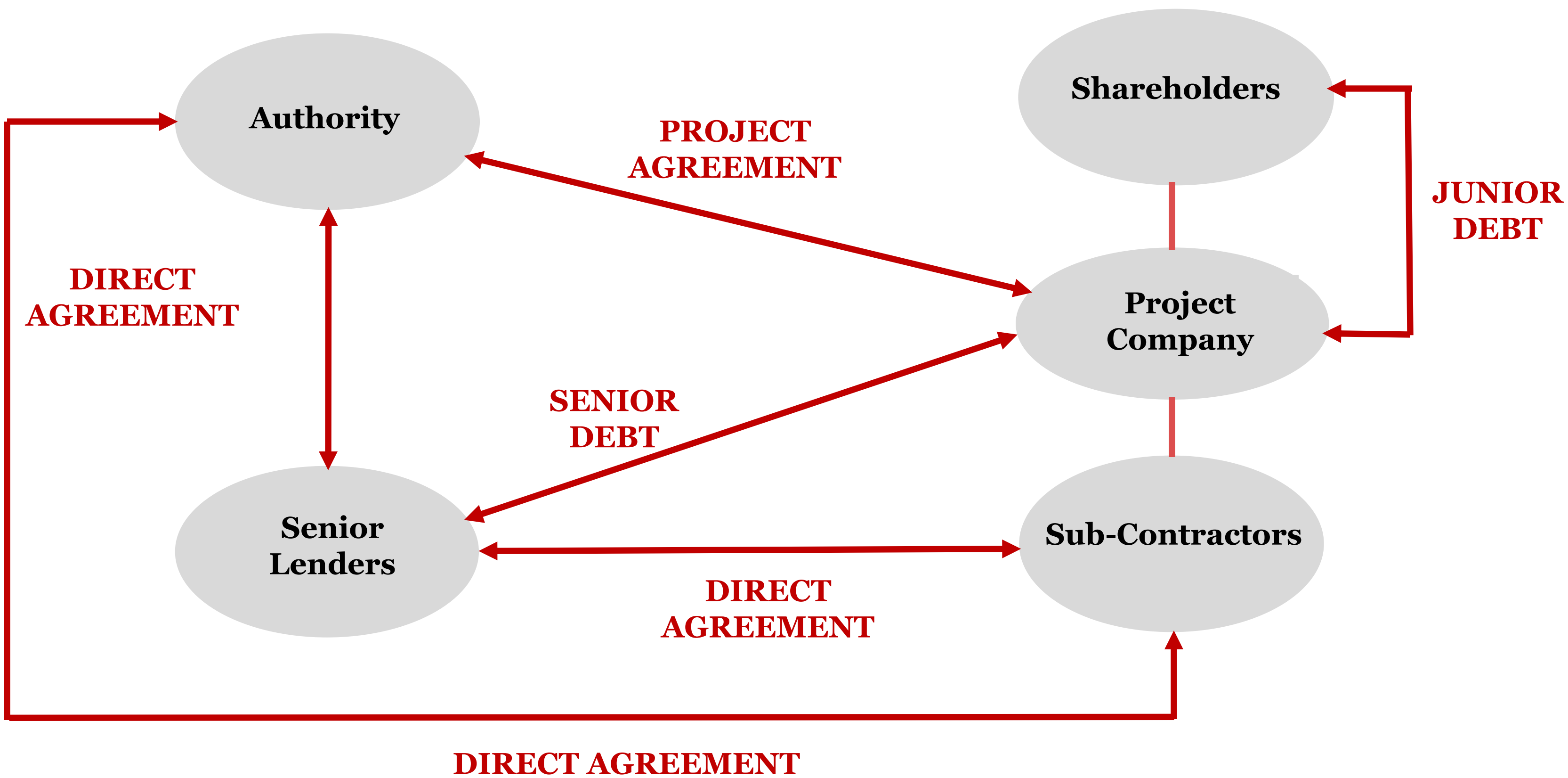
Financial	• Affordability • Certainty of outcome • Payment profile
Risk	• Risk transfer • Must consider Value for Money • Sustainability
Ownership	• Sale or concession? • Constraints on use • Handback?
Private Sector Innovation	• Define asset or service required? • Lifecycle risk • Market competition
Deliverability	• Market appetite • Complexity • Flexibility
Broader constraints	• Political • Legal • Statistical/accounting

Options

Following slides present different PPP-style structures:

Example PPP Structures	
	Traditional PPP structure *(Design Build Finance Maintain)*
	Construction Financing *(Design Build Finance)*
	Post construction financing *(Concession/Privatisation post-construction)*

Traditional PPP Model
Design Build Finance Maintain



Traditional PPP Model

Strengths and weaknesses

Strengths	Weaknesses
• Public sector only pays for service that it receives • Private sector incentivised to consider "whole life cost" • Granular allocation of risk • Evidence indicates projects delivered on time and on budget • Significant international precedent	• Cost of risk transfer (risk premium) • Complexity of documentation, procurement and delivery • Requires strong legal framework • Limited flexibility

Construction financing

Design Build Finance

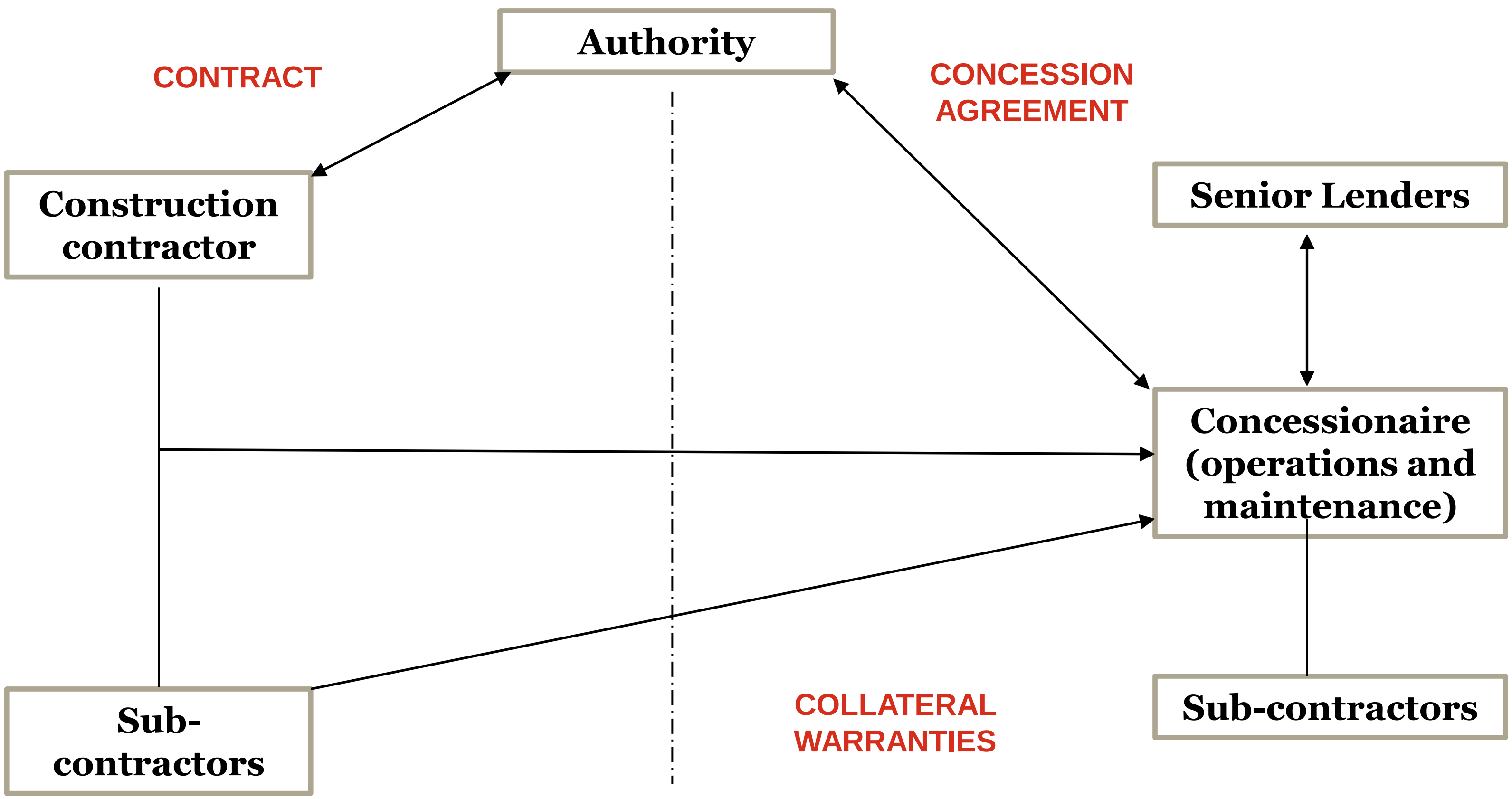
- As PPP structure but with some or all of the finance repaid through payments linked to construction milestones.
- Assets may be held by public sector or new concession may then be granted/assets sold

Strengths	Weaknesses
• Passes construction risk to private sector • Reduced PPP premium post construction • Operational flexibility • Short term financing – greater liquidity in bank markets	• Private sector not incentivised to consider “whole life cost” • Public sector pays for asset, not service – exposed to long term performance risk

Case study – New Tyne Crossing

- New crossing required for additional capacity
- Construction and maintenance of new road tunnel and maintenance of existing tunnel
- c.£250m (€310m) capital value
- Each bidder provided two proposals: (i) traditional PPP and (ii) significant payment at end of construction
- Value for money analysis identified latter as preferred option

Post-construction financing



Post-construction financing – strengths and weaknesses

Strengths	Weaknesses

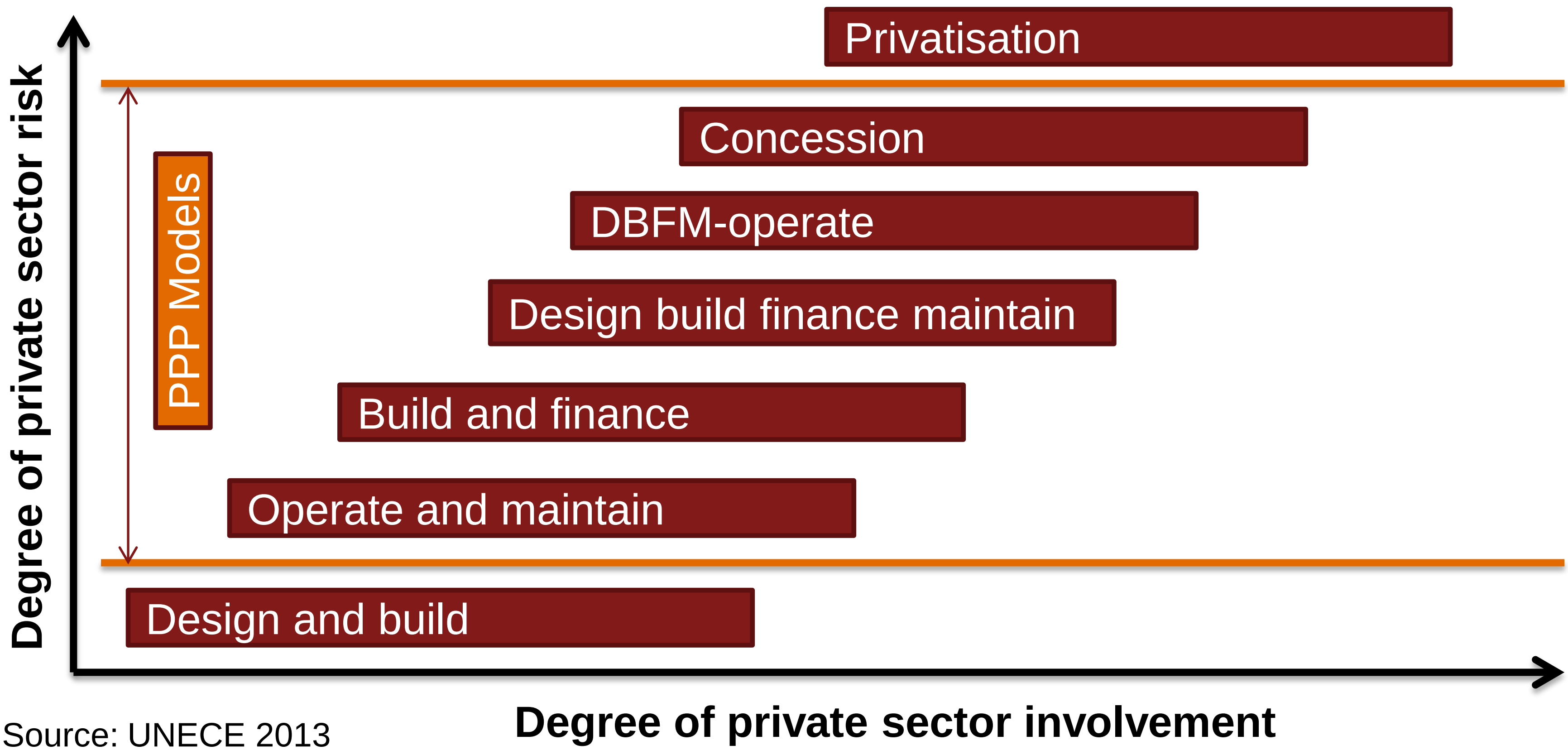
• Reduced risk premium during construction
• Flexibility during design and build
• Removes significant complexity from procurement
	• Public sector retains construction risk which it may not be best placed to manage
	• Private sector finance not involved in design – less focus on:
	  • service requirement; and
	  • long term cost
	• Long term risk for construction

Case study – Crossrail Rolling Stock and Depot Procurement

- Procurement of 65 trains, a depot and a long term maintenance contract
- Commenced procurement as a privately financed project
- Switch to traditional procurement 13 months before close due to time constraints
- Traditional contracts but with ability to sell trains to a “ROSCO” following construction
- Sophisticated buyer

Conclusion

- Range of options for using private finance
- Preferred option depends on project and procuring authority



Source: UNECE 2013

Any questions?