Best Practices in delivering P3

Sharing Arup’s state of the art global P3 experience

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• **Arup overview and P3 experience**
• Key issues about US infrastructure
• Why P3 and how can US benefit?
• Best practices in establishing and delivering P3
• Conclusion & key messages
Arup extensive role in P3

- Hospitals
- Government Offices
- Schools
- Toll Road
- Metros
- Airports
- Americas: High Speed Rail
- Highways
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Key issues about US infrastructure

- Road Accidents and traffic delays cost Americans more than $1 billion per day

- Almost 61,000 miles (37%) of National Highway System are in poor condition

- More than 152,000 bridges (1 of every 4 bridges in US) are structurally deficient or functionally obsolete

- Over $80 billion rail maintenance backlog to bring system back to state of good repair

(Source: Report to US House of Representatives Committee on Transportation & Infrastructure, 18 June 2009)

There is critical need to upgrade and build essential US infrastructure and cities to maintain global competitive advantage.
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Why P3?

Proven model for delivering wide range of essential infrastructure

- Transport infrastructure
- Resources
- Social infrastructure

Evidence of PPP success around the world

- Australia, 2008 study: PPP’s were 31% better than traditional projects in meeting budget and cost certainties

- UK, 2009 survey: Over 65% of PPP projects delivered on time and budget (30% in 1999)
Why P3 (..continued)

Advantages of P3

- Brings private enterprise, retains public control
- Risk allocation to party best able to manage it
- Whole-life perspective and innovation
- No payments until the facility is delivered and no cost over-run or delay payment
- Non-availability or poor performance deductions
- Bank finance brings enhanced levels of due diligence
- Achieve more for less

Types of Public-Private Partnerships

Public-Private Partnership is a broad term...

A long term agreement between the public sector and the private sector to deliver public services.

design build operate maintain renew finance

Eventual reversion
A typical risk allocation continuum

- Strict rules for risk allocation are elusive
- But getting it right is fundamental to the success of any Privately Financed Infrastructure project

**Public**
- Output Specification
  - Government /Authority Change Policy
  - Change in Law (discriminatory)
  - Planning
  - Force Majeure / Uninsurable risk

**Private**
- Revenue / Demand
  - Land/Project site
  - Economic benefits
  - Financing (macroeconomic)
- Financing (project specific)
  - Change in Law (general)
  - Design and project cost
    - Build quality
    - Completion
    - Performance
    - Maintenance
    - Safety

*On/off balance sheet treatment*
Key drivers for governments in UK, Portugal and Ireland
Degree of demand and other risk transfer to private sector
Tailoring P3 model to suit USA’s public sector need

Some examples of choices available

**Revenue drivers in Highways projects**

**Toll Roads**
e.g. M6 toll Road in UK

**Shadow Toll Road**
e.g. M40, A13 and A130 in the UK, some projects in Portugal

**Availability based payments**
M25 widening in UK requiring £1.5 billion private finance
$1 billion Presidio Parkway road project in San Francisco

**Remedial measures exercised by Public authority**
Upfront payments
Increased multilateral lending
Co-lending with private finance e.g. UK’s The Infrastructure Finance Unit (TIFU) provided finance on the £4 billion Greater Manchester Waste project

Create a P3 model for United States by drawing on lessons learned in other emerging and mature P3 markets
- Arup’s overview and P3 experience
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- **Best practices in establishing and delivering P3**
- Conclusion & key messages
1. Fundamentals for creating P3 environment

- Political will and public acceptance of P3 are critical to success
- Creation of a public P3 Unit to create pipeline of P3 deal flow
- Clear P3 policies to engage with market and private funders
- Robust legislation
- P3 solutions need to be commercially deliverable and financeable
- P3 model must have flexibility to address evolving scenarios in a project lifecycle
- Need to find balance between standardised models and innovations
2. Creating dedicated and effective P3 unit

Some examples around the world

Infrastructure UK
- Established in 2009 to develop strategy for UK infrastructure need and facilitating greater private sector investments
- Supports HM Treasury in prioritising and delivering publicly funded infrastructure

Infrastructure Australia
- Established in 2008 to develop strategic blueprint for Australia’s future infrastructure needs
- Facilitate its implementation in partnership with states, territories, local government and the private sector

European PPP Expertise Centre (EPEC)
- Mission to improve P3 organisational capacity
- 25 public sector entities enrolled
- Best of Breed guidance on P3
3. Strategic use of public funding – getting more for less

**Bridging the crisis**

**Strategic use to achieve specific outcomes:**

- Market creation (e.g. funding enabling infrastructure works to stimulate private sector investments)
- Providing gap funding (e.g. PFI Credits on selected UK based projects)
- Creating liquidity (e.g. Infrastructure UK’s TIFU to make available long-term debt at acceptable pricing in order to supplement bank/capital market funding)
- Assuring public sector commitment to strategic projects (e.g. through grants)

**Forms of State and public funding interventions**

- Upfront government payments
- Payments via tendering authority (e.g. UK PFI credits)
- Co-lending to project vehicle alongside commercial lenders (e.g. TIFU’s financing alongside other lenders on £4 billion Greater Manchester Waste project)
- Increase multilateral lending (e.g. European Investment Bank)
- Direct Guarantee to lenders covering limited percentage of senior debt (e.g. France, Portugal)
- Indirect guarantees (sub sovereign, refinancing)
5. Flexibility and innovation versus standardisation

Flexibility to address changing need

- The evolution of the international market
- Creating potential equity recycling
- Widening private funding pool by attracting institutional investors and pension funds
- Establishing pain-and-gain share mechanism (so public authority rewarded for risks it assumes)
- Provisions for refinancing and termination (if appropriate)
- Degree of market regulation to ensure fair competition

Innovation versus standardisation

- Finding balance between standardisation and innovation and value-add
- Creating flexible and robust P3 model that can be replicated
- Standardised templates to significantly reduce transaction costs
- Pre-selecting shortlisted bidders
- Benefits of sharing experiences among States and Federal agencies
- Maintaining competition to encourage innovation in design, build, operation, maintenance and finance
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Conclusion and key messages

- Significant increase in major projects delivered to time and budget
- Trend from construction-focused to service culture; innovation and life-cycle costs
- Funders demand rigorous evaluation and robustness testing
- Public sector focuses on outcomes; private sector on delivery
- Innovative funding spreads capital funding and, in the case of revenue-based P3, relieves tax burden

- P3 brings together efficiency and innovation – not cheap private finance
- P3 delivers service and outputs controlled by the Public sector
- P3 combines the Public sector’s social and strategic needs with private sector’s commercial expertise and finance
- A United States P3 model can be created by drawing on lessons learned
Arup is committed to offer integrated technical and financial advice by leveraging its state-of-the art P3 experience.