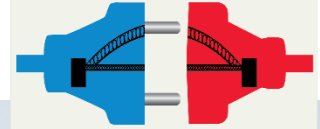


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*SESSION 2:*

# Public and Private Sector Collaboration



*Presented by*

**Mr. John D. M. Davie**  
Chairman,  
Altra Capital Limited,  
United Kingdom.

[www.altracapital.com](http://www.altracapital.com)

# Public and Private Sector Collaboration

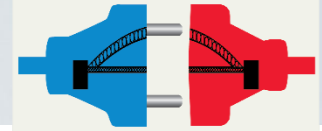
## PPP in a globally competitive market



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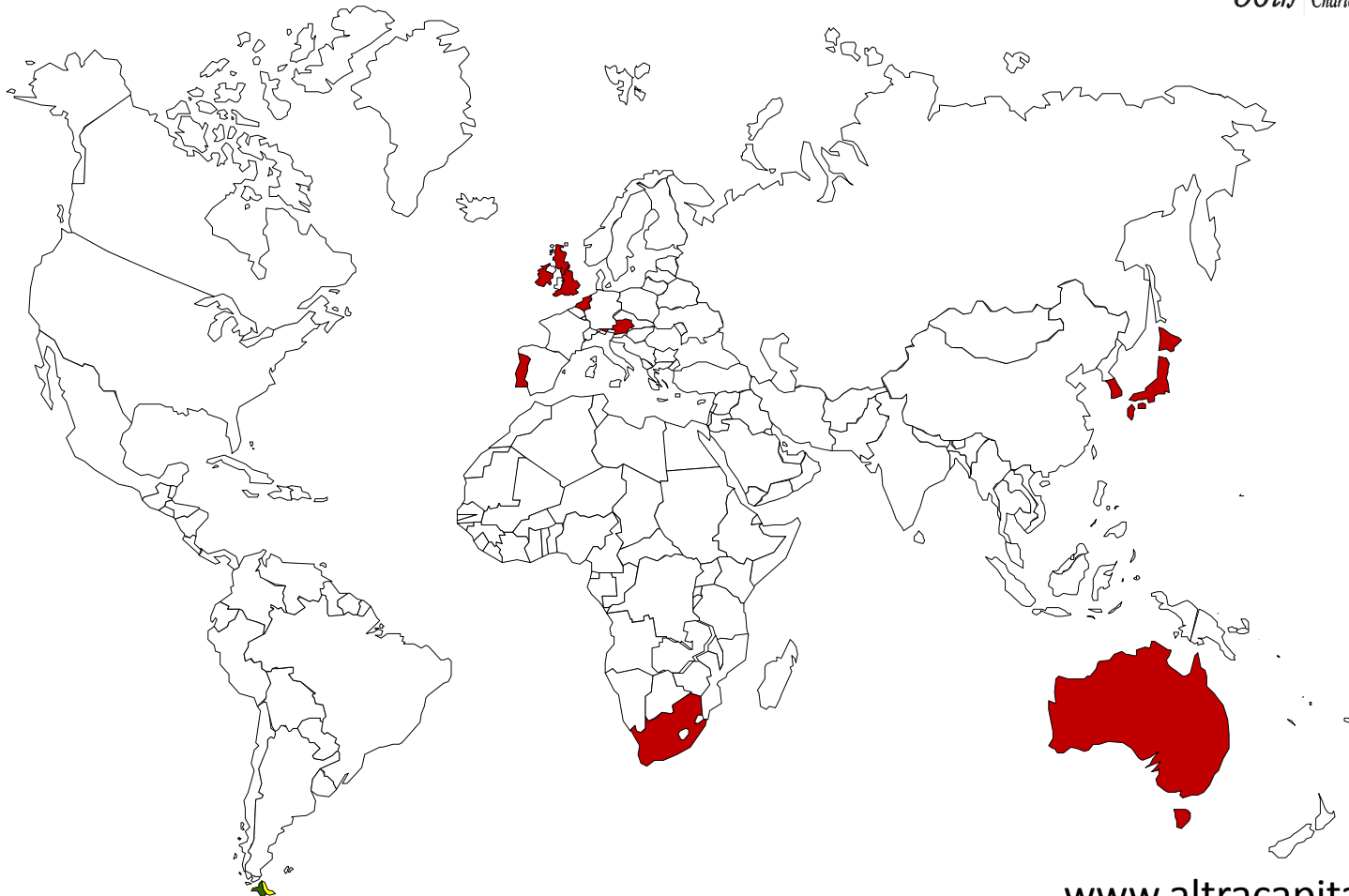
# Public and Private Sector Collaboration



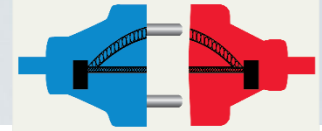
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## International interest in PPP in 1999



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## International interest in PPP in 2015



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## Why are banks not lending?

- Basel III effectively tripled the size of the capital reserves that the world's banks must hold against losses
- Top 19 banks
  - Risk-weighted assets are around **\$167,000,000,000,000**
  - Current Core Tier 1 = **\$3,340,000,000,000**
  - Basle III Core Tier 1 = **\$11,690,000,000,000**
  - **An additional \$8,350,000,000,000**
- **They do not fully trust each other yet!**

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## The P word

- Privatisation and PPP are not the same!
- Explaining the terminology is important!
- Privatisation: Existing Business
  - State owned entity tidied up for market
  - Dropped into Private sector
  - Little government control except regulation on tariffs
  - Asset is “lost” to the government
  - Not a partnership
  - Permanent
- PPP creating a new business
  - Government determines outputs it requires of private sector
  - Sets and monitors service and quality
  - Control of asset/service reverts to Public sector at end of contract
  - Temporary

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## PPP model

- Spread of capital cost amortised over all taxpayers for life of contract
- Combined services budget can't be raided
- Government budgets for operation and maintenance are protected
- Better integration of operation and maintenance with design
- A strategic whole life approach to delivering services
- Services paid for as they are consumed
- Provision of assets otherwise unavailable

## Result:

- **Better services to the public in the long term**



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## A fundamental principle behind PPP



- PPP is intended to transform government departments from being *owners and operators* of assets into knowledgeable *purchasers of services* from the private sector



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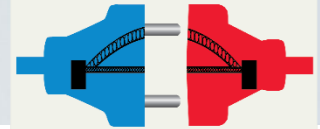
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## Types of PPP

PPP can be grouped into two sorts:

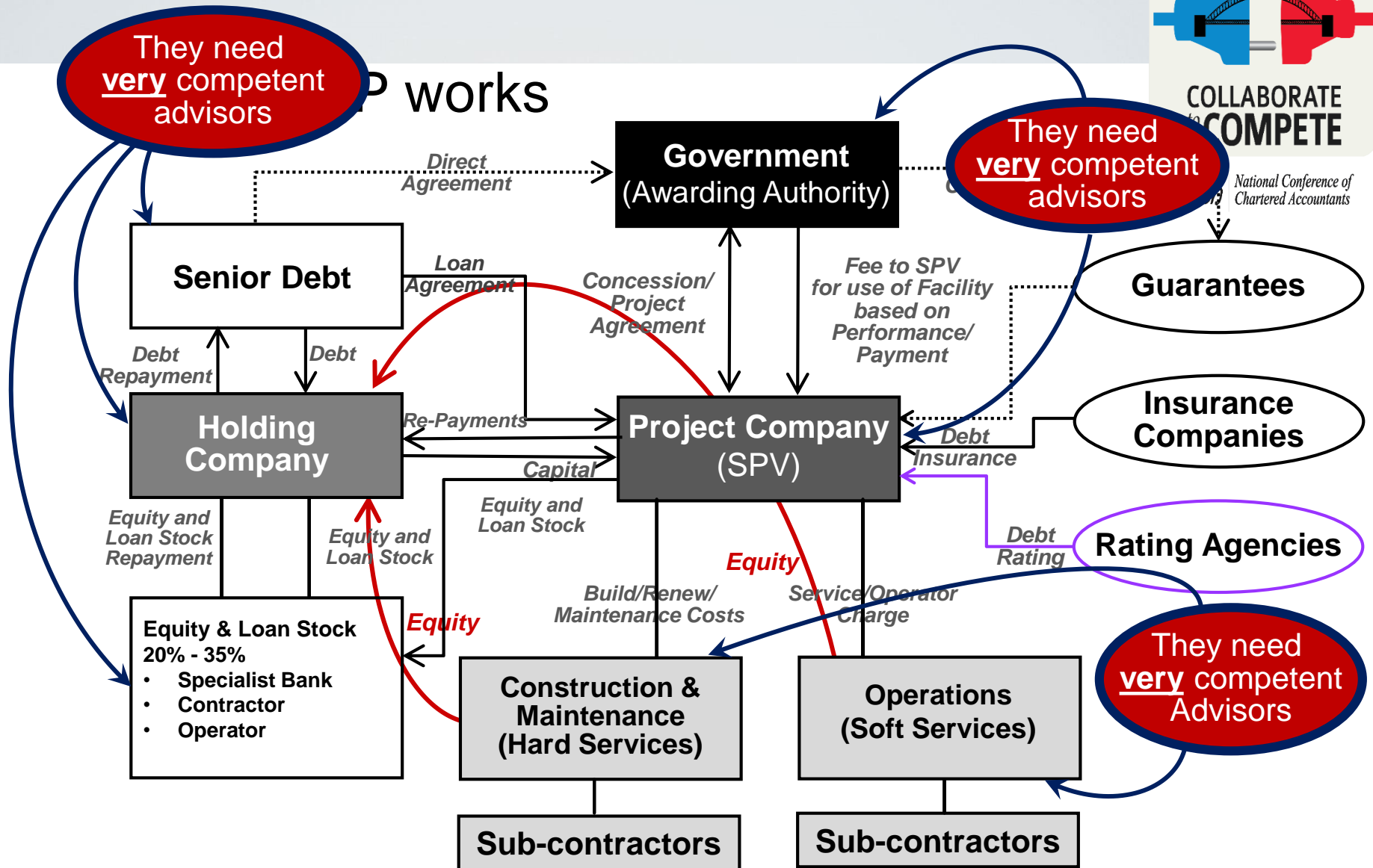
- User-Pay PPP where the private firm takes revenue and/or demand risk
  - User-Pay PPP is usually called a concession and relies on end-user customer payments
- Annuity based PPP where the government retains those risks
  - Annuity based PPP is usually called a DBFO (PFI) and involves availability payments

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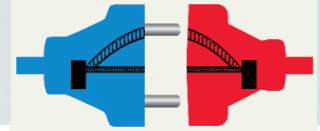
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## Finance

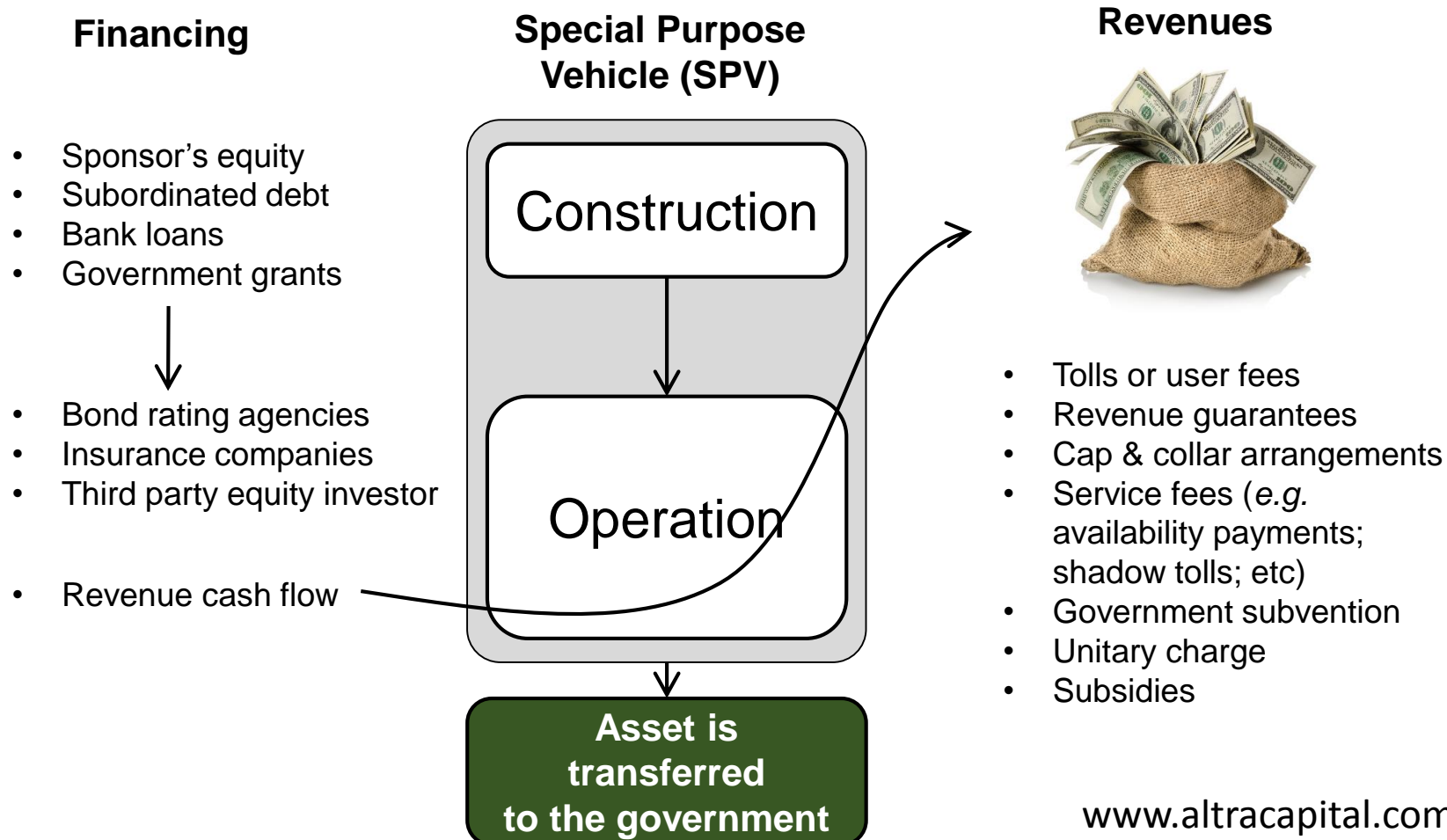


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## Financial Life-cycle of a PPP





## Key issues for lenders in PPP projects

### Micro

- Well defined projects; clarity on output specification
- Strong, experienced contractors
- Credible completion undertakings
- Appropriate allocation of risk reflected in payment regime
- High quality predictable cash flows – low volatility
- Alternative service providers in the event of bank's step-in
- Adequate termination protection
- Protection from other adverse events, change in law, force majeure, insurance etc.

### Macro

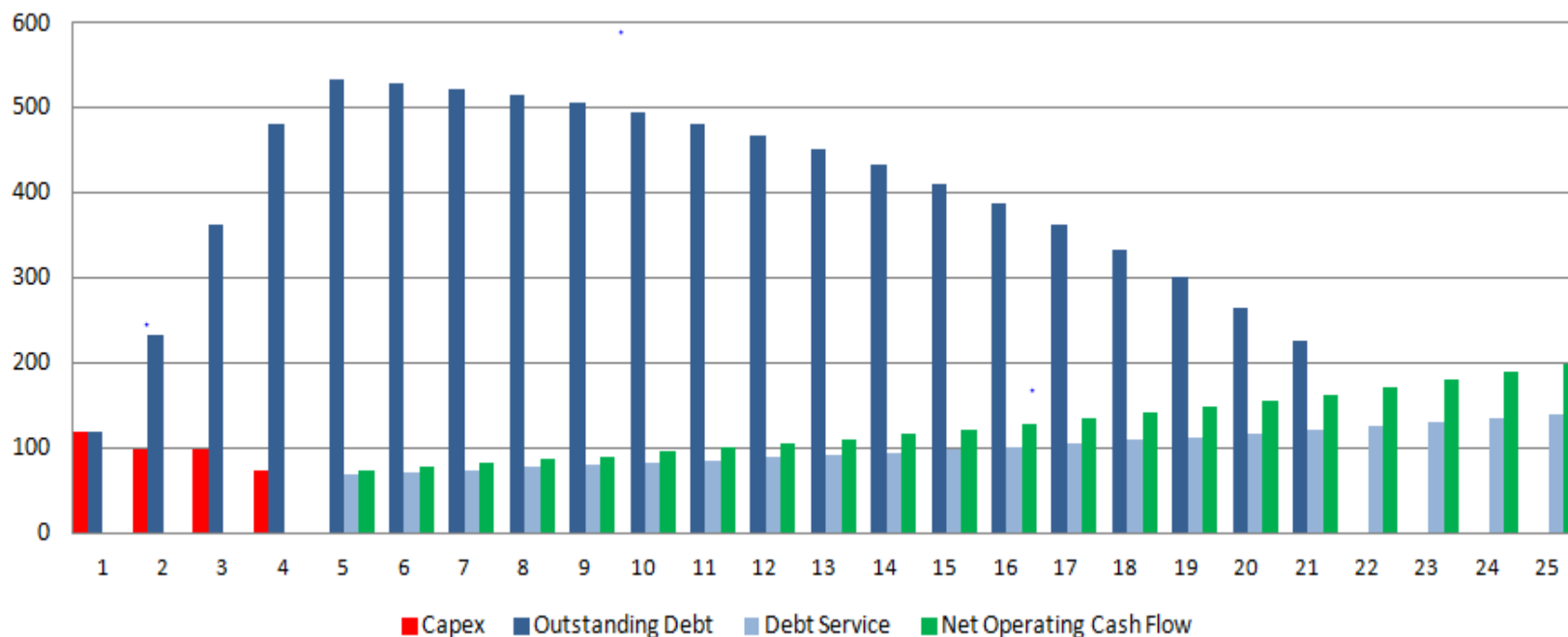
- Legal regime permitting taking of security and enforcement of contractual rights
- Political commitment to PPP and to specific projects
- Competition amongst construction companies
- Availability of service providers
- Availability/capacity of long-term debt market
- Availability of project equity
- Established exit route for project equity
- Transparent procurement process.

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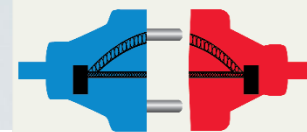
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## Typical financial characteristics for a PPP



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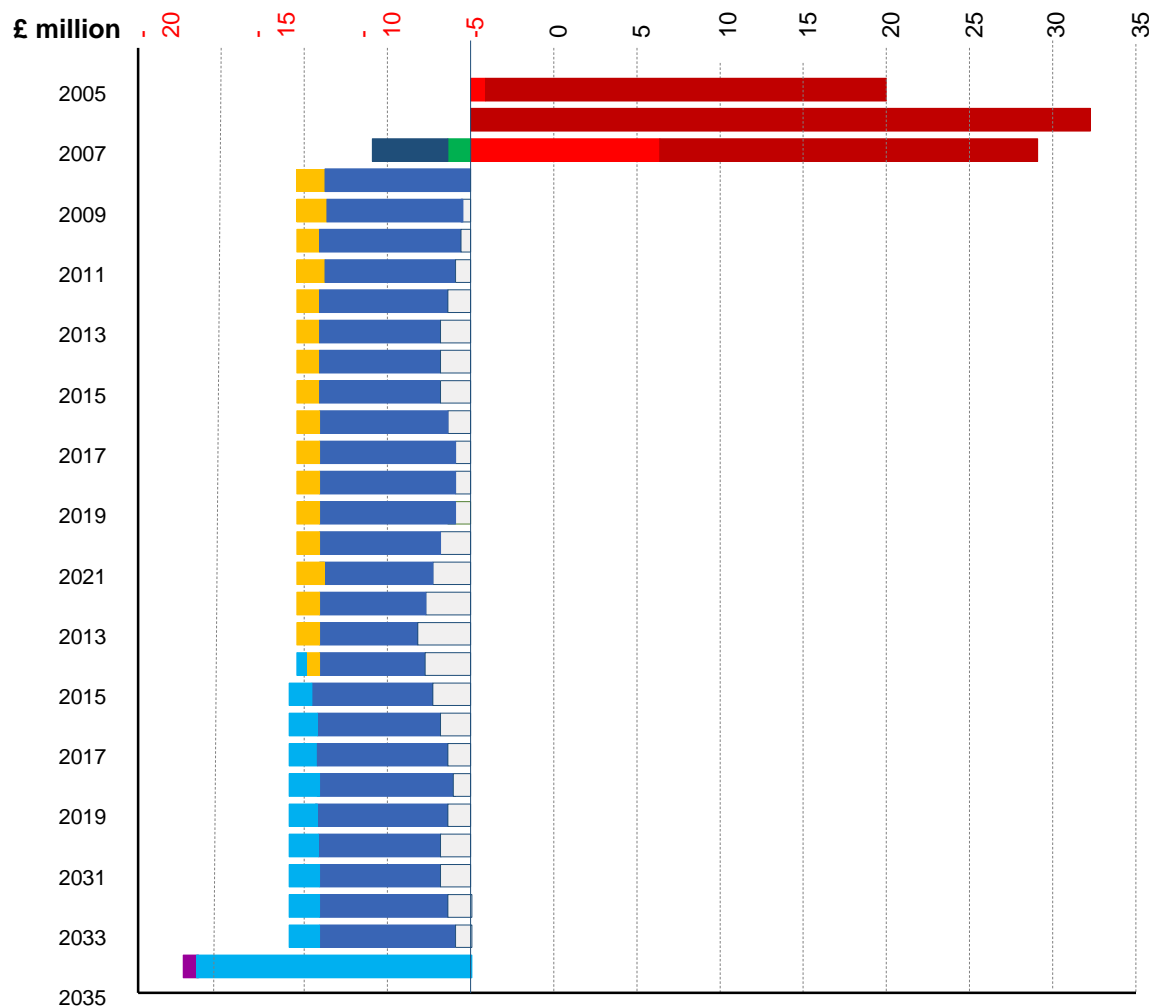
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## Project funding cashflow

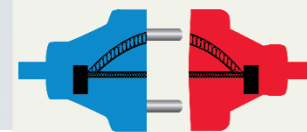


- Equity and Loan Stock invested
- Senior Debt drawdown
- Change of Law Reserve Account deposit
- Debt Service Reserve Account deposit
- Major Maintenance Reserve Account deposit
- Senior Debt repayment and interest payable
- Equity and Loan Stock repayment and interest payable
- Dividends
- Equity and Loan Stock repayment and interest payable



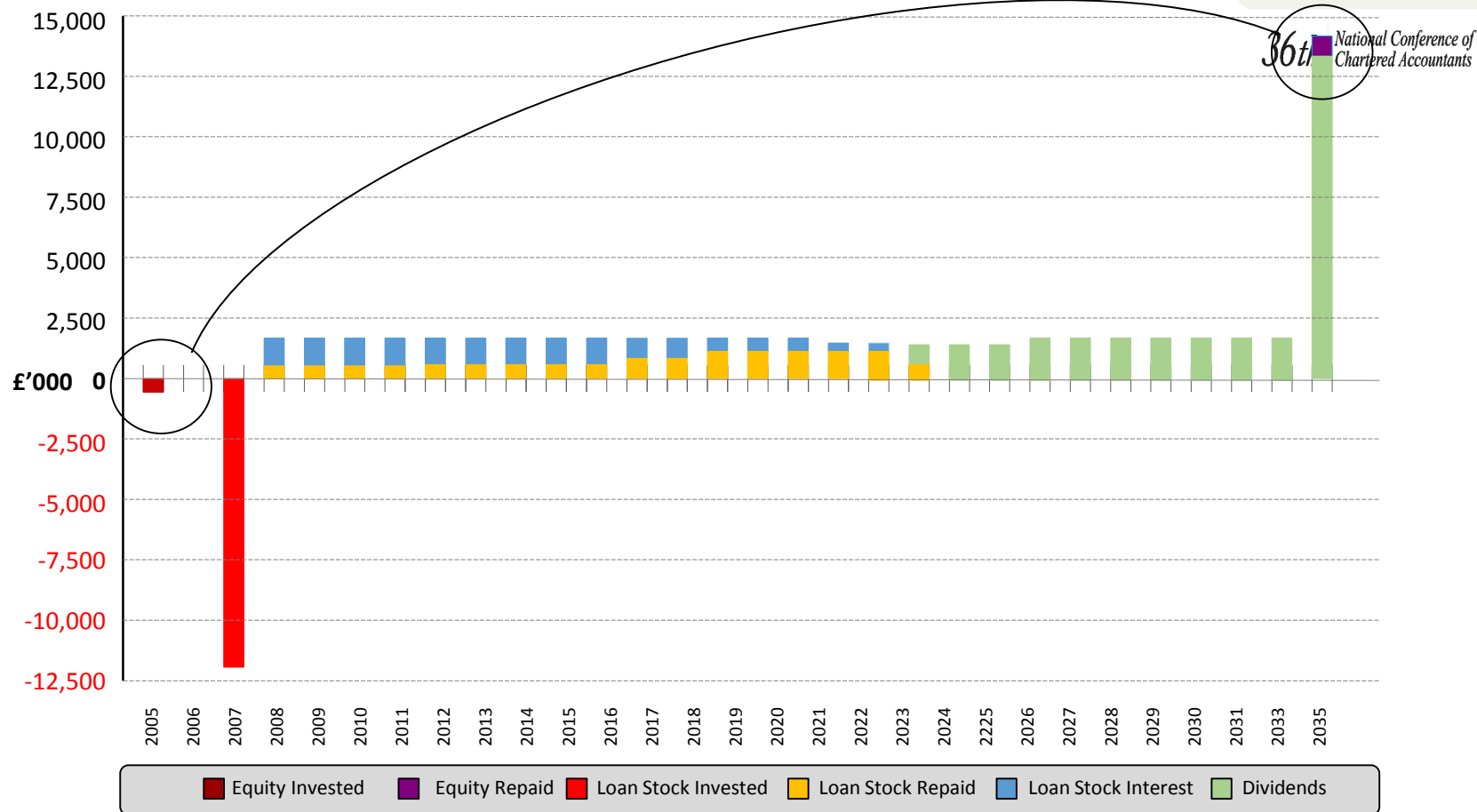
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## Cashflows to shareholders

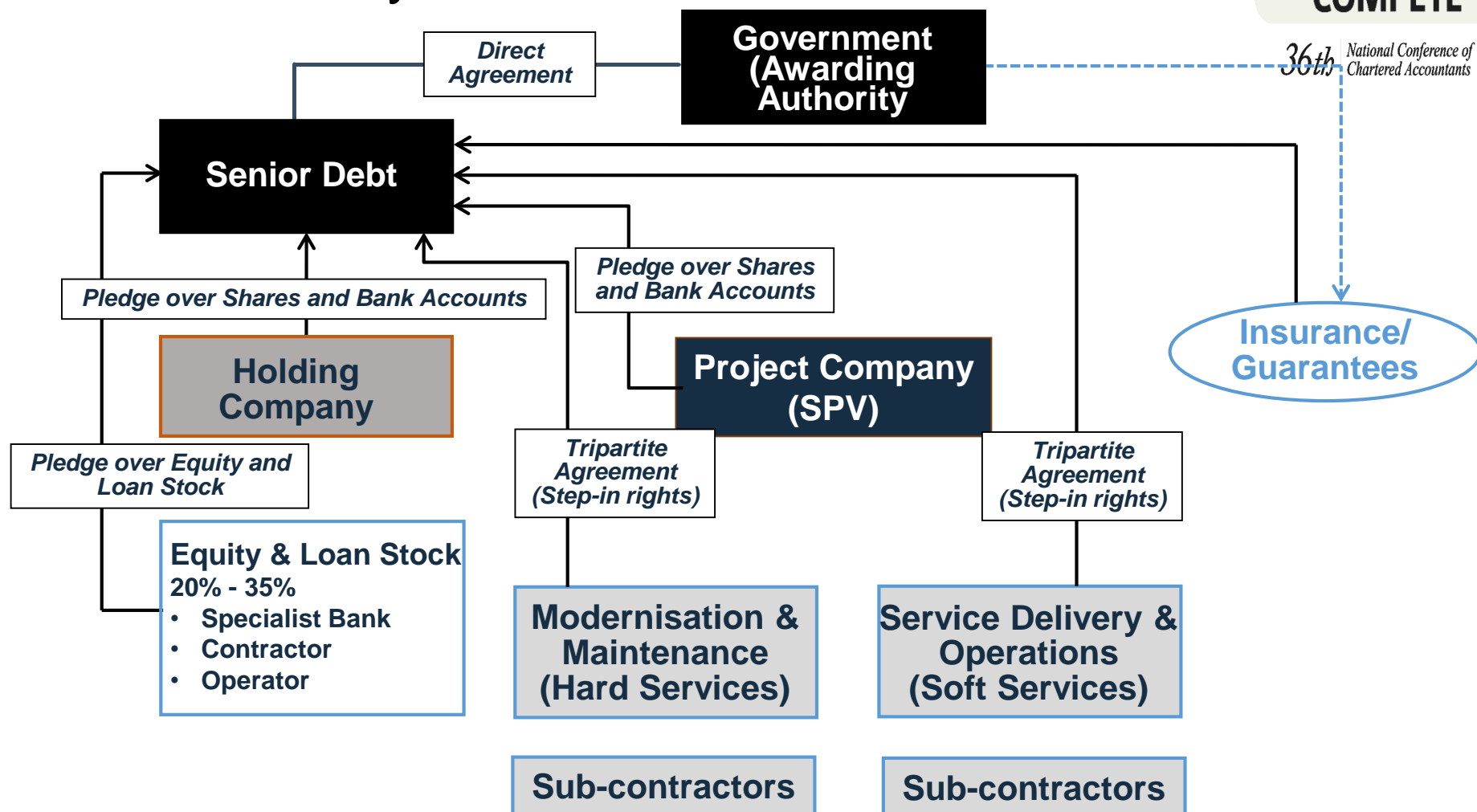


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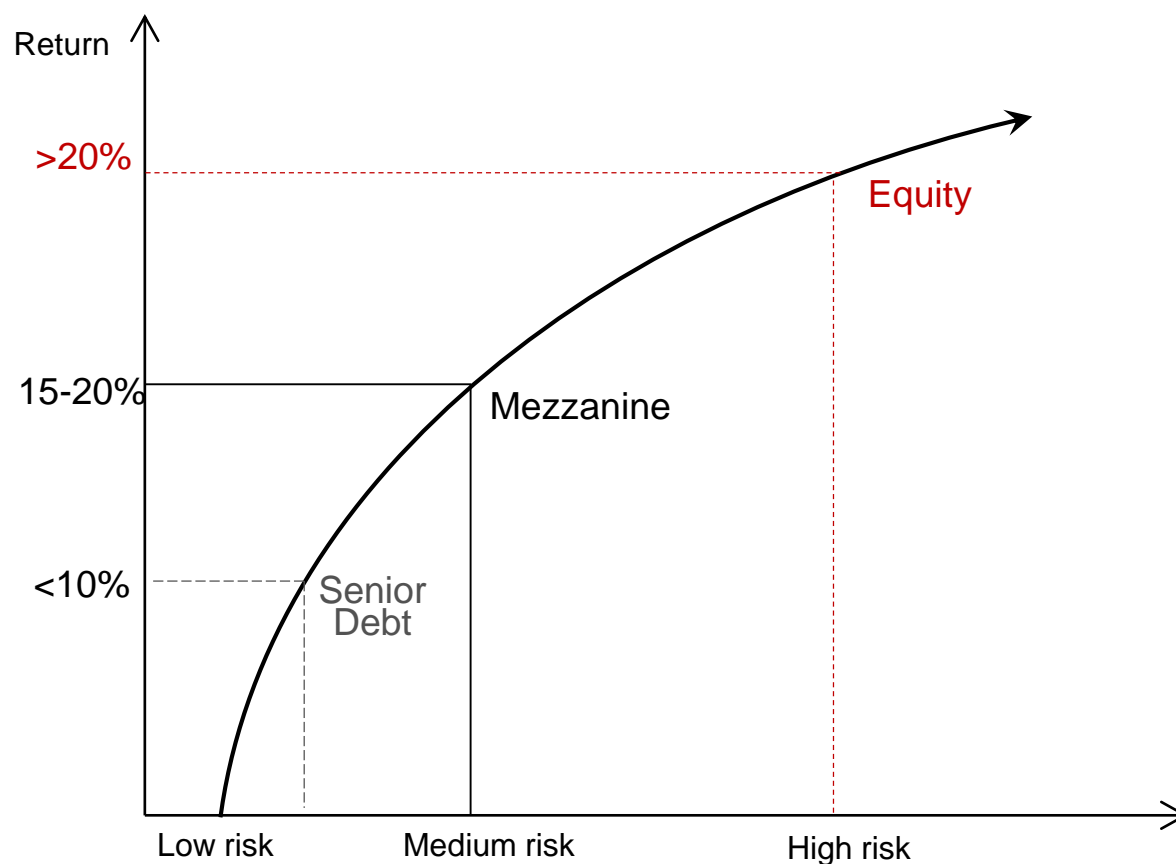
## Loan security in PPP

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## The financing tool-box



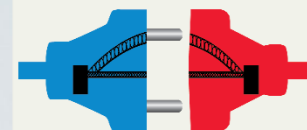
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### Commercial viability – will the project work and make money?

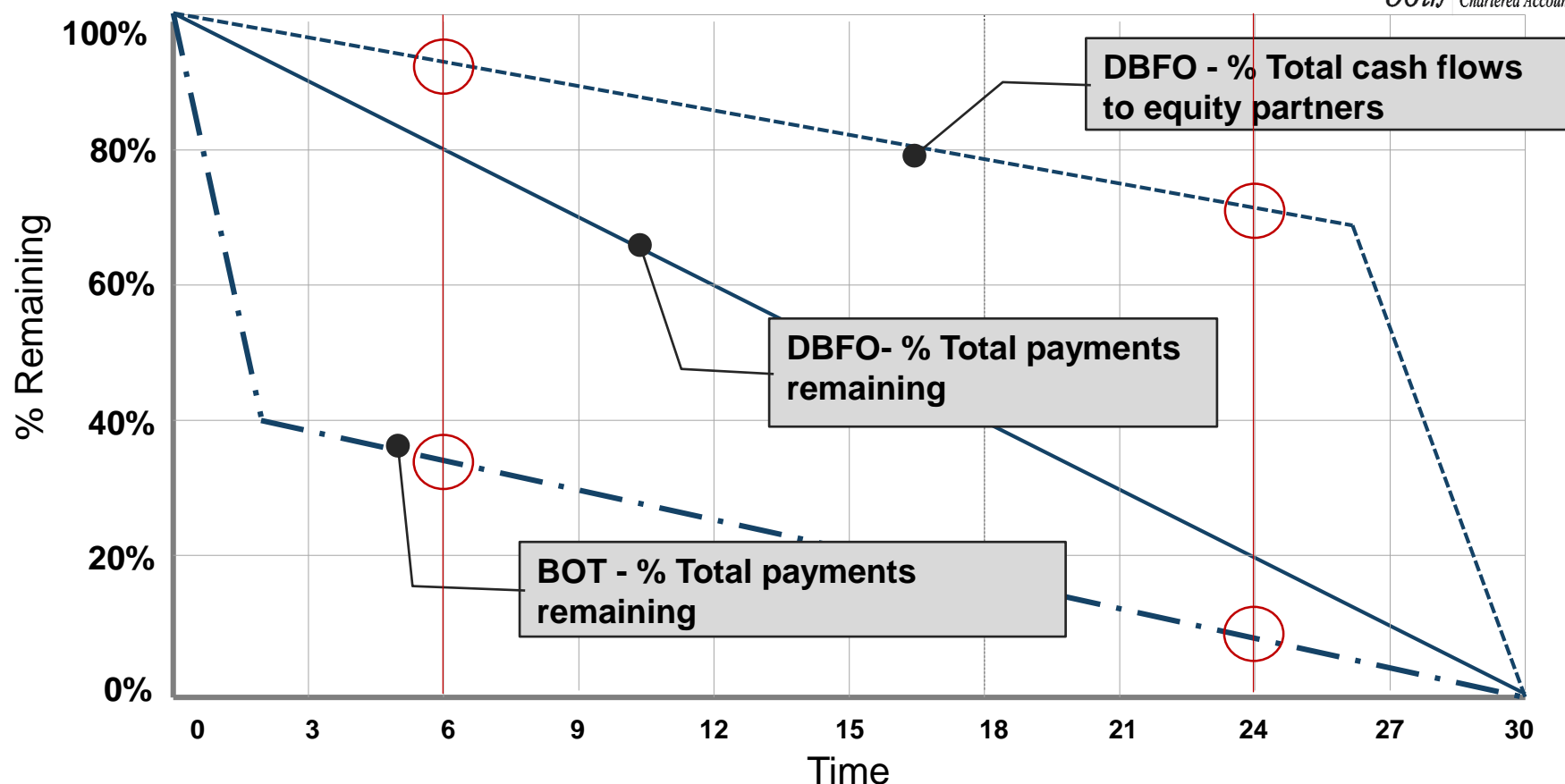
- Is there a sound market for the project or service?
- How will current and future competition affect the viability of the project?
- How are the running costs expected to escalate?
- How reliable is the supporting infrastructure (e.g. the roads leading to the bridge which the project will construct)? Is a guarantee available from the public entity?
- How reliable are the input supplies (e.g. fuel), and are alternatives available?
- Does the project company have the resources and skills to successfully implement and manage the project?



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## Cashflow can influence behaviour



Percentage of total nominal cash flow remaining in a typical BOT and DBFO model and percentage of total cash flows to equity remaining in a DBFO model

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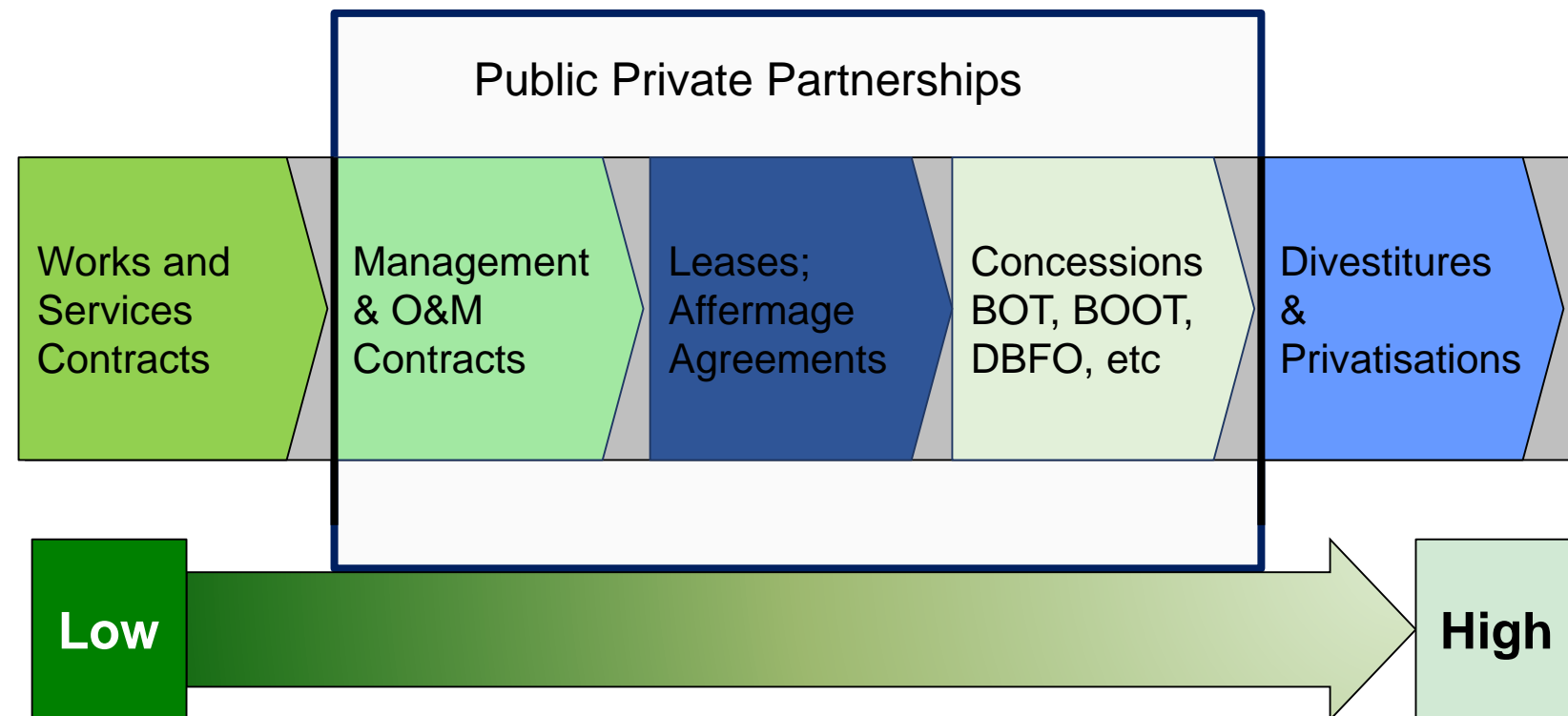
## Risk and risk mitigation

- PPP was designed as a means to transfer risk to the party **best able** to manage it
- A well designed PPP project contract will represent a better way to share all types of risk
  - responsibilities are negotiated at contracting stage
  - assessed on a case by case basis
  - assigned appropriately to the parties involved, according to who is best able to manage the particular risk

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## Risk Identification



- Political
- Environmental
- Planning
- Market
- Economic
- Financial
- Natural
- Project
- Design
- Technical
- Human
- Criminal
- Safety
- ???

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## Anatomy of a PPP Contract



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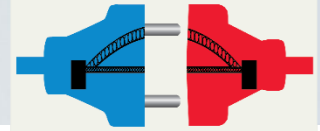


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## Outline

- Relationship of the Parties
  - The Works Period
  - The Services Period
- Intervening Events
  - Compensation Events
  - Relief Events
  - Force Majeure Events
- Changes in Law
- Termination Events and compensation on termination
- Refinancing

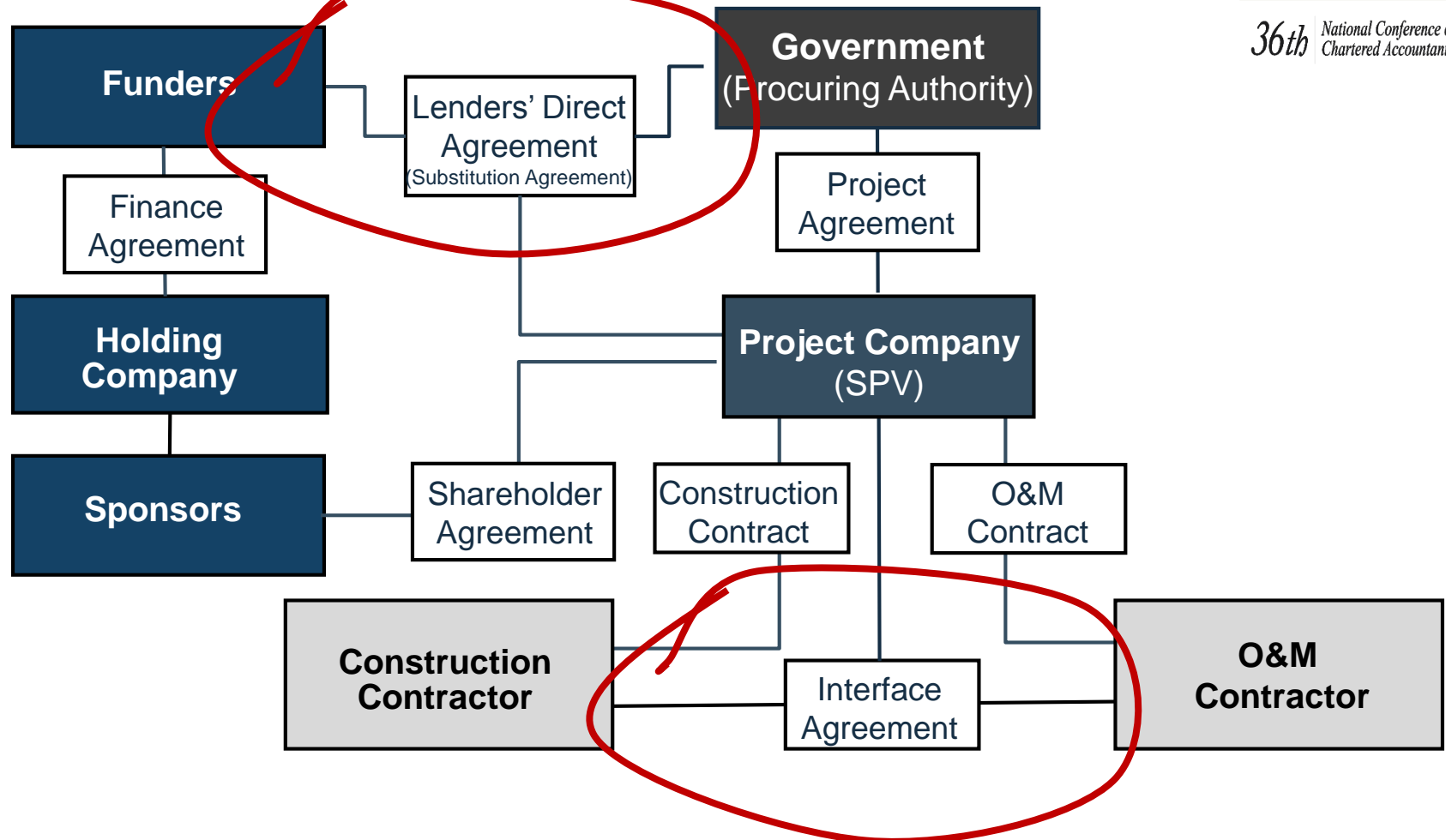
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## PPP contracting structure



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## Refinancing



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- With the current reduction in banks tenor due to the credit crisis, this has assumed greater prominence in PPP's
- Who takes the risk
- Soft and Hard Mini Perms
- Reduction of borrowing costs following completion of construction: controls required?

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Everything we have discussed  
today is set out in more detail in  
the

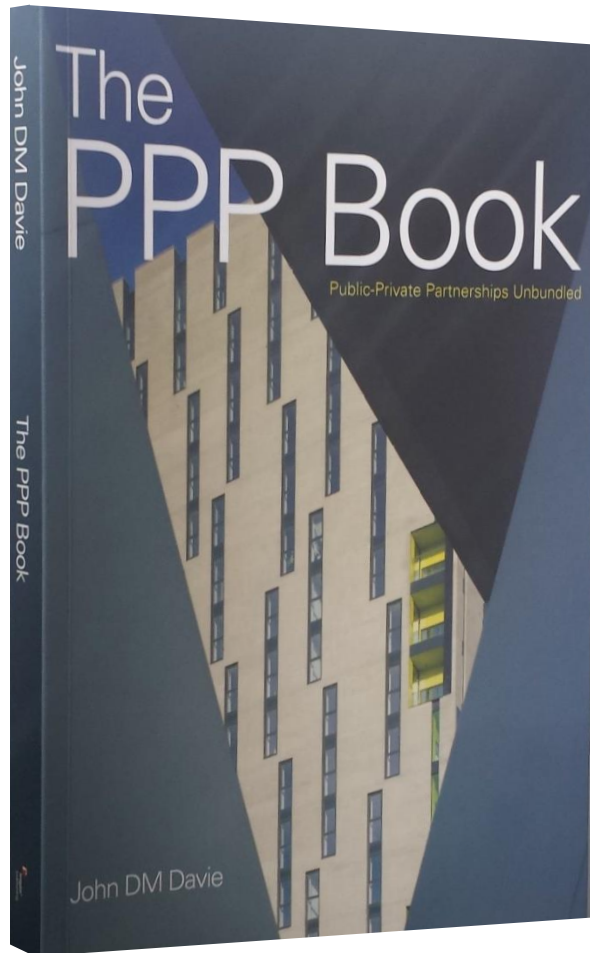
# The PPP Book

Public-Private Partnerships unbundled

TPG Inspire Publishing

[www.pppbook.co.uk](http://www.pppbook.co.uk)

which is in your library



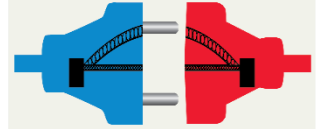
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# Thank you!