



Pinsent Masons

Delivering essential infrastructure through PPPs - the UK experience

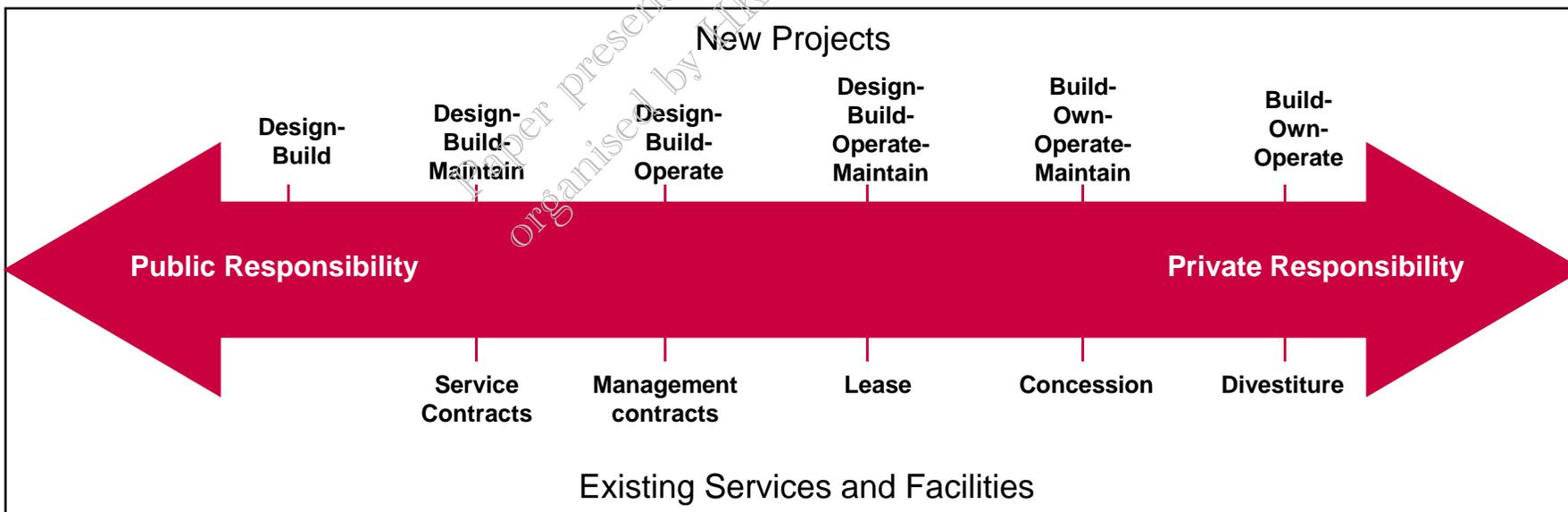
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PPP in the UK context

- In the UK PPP is a process whereby the public sector contracts with the private sector to deliver services on its behalf.
- There is a broad spectrum.
- In the UK context, there are many models of PPPs although the most common (and best known) is one where the private sector is responsible for building, operating, maintaining and financing the asset and providing a long term high quality service in exchange for regular payments from the public sector



Source: The National Council for Public Private Partnerships

PPP - the “traditional” pros and cons



PROS	CONS
<ul style="list-style-type: none">• Bring in private capital and make projects affordable• Budgetary certainty and avoiding “soft budgetary constraint”• Whole life costing and synergies of integration of DBF and M• Maximise use of private sector skills• Public sector only pays when services delivered• Quality of service has to be maintained• Accountability• Ensures that assets are properly maintained (transport costs increase disproportionately with inadequate maintenance)• Strong Customer Service orientation	<ul style="list-style-type: none">• Long term relatively inflexible structures• Procurement delays and high procurement costs• Loss of management control by the public sector• Private sector has higher cost of finance• Does not achieve absolute risk transfer• Requires public sector capacity and skills that may not be available• Potential for negative public reaction to profit and control• Transaction costs

Advantages and disadvantages of private finance



ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">• Discipline in risk analysis / allocation and voiding excessively aggressive financial schemes• Due diligence• Tight governance structures• Containment of adverse selection issues• Reducing the government's information deficit• Affordability within annual budgets• Conciliation of interests of public sector and lenders• Delegation of monitoring• Leverage effect of ADSCR (or why a 2% deduction results in the operator making no profit)	<ul style="list-style-type: none">• Cost of finance - more expensive than the equivalent cost of government borrowing• Excessive returns for equity investors• Higher cost of variations making project unduly rigid <p>On a balanced scorecard, what is important to you?</p> <div data-bbox="1207 1086 1841 1311" style="background-color: #e0f2f1; padding: 10px;"><p>Additional cost of finance can be limited to 5% of the overall cost and the “spread” on IRR may be as little as 2%</p></div>

A personal take on the lessons learned



- High level commitment and stakeholder management within government
- Clarity of requirements and the hierarchy between requirements
- There is a risk that the public sector “gold plates” the requirements
- Politics should be avoided; it’s a procurement methodology not a political statement
- Expectations on risk transfer and lead time need to be actively managed
- Clarity of market capacity
- Trust between the public and private sectors is essential (and needs to be earned)
- The private sector needs to make a reasonable profit
- Not all projects are suitable
- Programmes of investment are better than one off deals
- Standardisation has benefits but also has pitfalls
- Evolution of the model is both essential and inevitable but needs to come in stages to avoid market disruption and maintain market confidence
- Experienced advisers (legal, financial and technical. A project champion adds value
- Communication is the key