An Introduction to PPP's

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Outline

- A Definition of PPP's
- Principles of PPP's
- PPP Models
- Benefits of PPP's
- Participants' Requirements
- Risks and "Value for Money"
- "Bankability"
- Ports as an Asset Class
- Myths

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A Definition of PPP's

- Broadly speaking:
  - A contractual framework, or structure, where the public and private sector come together to deliver a project/service that is traditionally provided by the public sector, by means of risk transference
  - Various structures exist; however, the key principle is that better value can be achieved through leverage of private sector competencies and the allocation of risks to those parties best-suited to manage them

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A Definition of PPP's

- Several models can be considered, including:
  - Service Agreements / Outsourcing
  - Joint Ventures
  - Concessions / Project Delivery
    - Design – Build (DB)
    - Design – Build – Operate (DBO) Structures
    - Design – Build – Finance (DBF) Structures
    - Build – Operate (BO) Structures
  - Hybrid Structures
  - Asset Securitisations / Sales

A Definition of PPP's

- "Infrastructure" is broadly considered to include:
  - Transportation
    - Maritime – terminals, ports, equipment
    - Surface – tolled and non-tolled roads, bridges, tunnels
    - Aviation – terminals, airports, ATC
    - Rail – light rail, metros, transit
  - Utilities
    - Power, telecommunications, water, wastewater
  - Social
    - Healthcare – hospitals, clinics, laboratories
    - Governmental – buildings, courts, prisons
    - Other – museums, stadiums, concert halls

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A Definition of PPP's

- "Non-Infrastructure" classes include:
  - Information technology
  - Equipment
  - Training
  - Services

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Principles of PPP's

- PPP's should ideally achieve the following objectives:
  - Maintain or improve service levels
  - Leverage private sector skills in project delivery through improved skills, technologies and innovation
  - Access to capital and cost efficiencies
  - Maintain safe and secure operations
  - Optimise risk transfer
  - Procurement utilising life-cycle costs
  - Efficient asset management
  - "Value for money"

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Principles of PPP's

- Objectives are achieved through:
  - Equity
  - Operations Risk
  - Competition

The foregoing equates to private sector commitment and discipline.

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PPP Models

- Differing circumstances and objectives lead to different structures
- No “silver bullet” or “one size fits all” solution
- Markets differ
  - Regulatory / institutional frameworks
  - Available funding options through capital markets
  - Local requirements / considerations
  - Public perceptions

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PPP Models

- Increasing private sector participation through:
  - Works and services contracts
  - Management and maintenance contracts
  - Operation and maintenance concessions
  - Build-operate-transfer concessions
  - Full privatisation

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Benefits of PPP's

- Project delivery schedule compression
- Cost reduction / inflation hedge
- Best practices = ↑ revenues and ↓ costs
- Risk allocation to parties best-suited to manage
- Increased competition = efficiency
  - Finance
  - Development / construction
  - Operations and maintenance

Benefits of PPP's

- Integrated approach to development and operations
- Innovation
  - Finance
  - Technology
- Defined performance metrics = Accountability
- Enhancement of relationships between public sponsor and private provider

Participants' Requirements

- Public
  - Regulatory / institutional framework in place
  - Stakeholder buy-in (political / institutional)
  - Accelerated project delivery (finance / innovation)
  - Risk transference (cost / schedule)
  - Cost efficiencies (best practices / technology)
  - Competition (price)
  - Qualified providers (experience)
  - Internal resources (procurement / administration)
  - Accountability (monitoring / management)

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Participants' Requirements

- Private
  - Regulatory / institutional framework in place
  - Essential to public ("demonstrated" need)
  - Demonstrable feasibility (market / technical / environmental / financial / risk allocation)
  - Risk management (allocation / rewards)
  - Transparency (procurement)
  - Due diligence (volume / costs / revenues / risks)
  - Public sector "buy-in" (permitting / acquisition)
  - "True" partnership (contractual framework)
  - Innovation (costs / risks / revenues)

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Risks and "Value for Money"

RISK	PUBLIC	PRIVATE
Legislative (existing and future)	Major responsibility	Sharing within defined parameters
Acquisition and Environmental	Major responsibility	Sharing within defined parameters, with public sector assistance
Permitting and Planning	Major responsibility	Sharing within defined parameters
Design and Construction		Major responsibility
Operation and Maintenance	Sharing within defined parameters	Major responsibility
Financing		Major responsibility
Termination		Major responsibility, unless demonstrably caused by public
Insurance	Sharing based on availability of commercial rates	Major responsibility
Force Majeure	Sharing based on event and availability of insurance	Sharing based on event and availability of insurance

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Risks and "Value for Money"

- Risks
  - Identify, allocate and mitigate
- "Value for money"

A. Present value of risk transferred
B. Present value of public sector procurement costs
C. Present value of retained risks

Public

D. Present value of concession payments
E. Present value of retained risks

Private

- "Value for money" when A + B + C > D + E

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"Bankability"

- Financiers require:
  - Appropriate allocation of risks
  - Clearly defined and well-drafted contractual terms
  - Well-defined procurement process
  - Ability to enter into dialogue with bidders
  - Transparency

The better the understanding of these considerations the likelier that the result will be a more competitive bid price.

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Ports as an Asset Class

- Ports are attractive due to the following:
  - "Long-dated" assets
  - Increases in global trade
  - High operating leverage
  - Strong cash generation ability / potential
  - Stability of cash flows / earnings
  - Scarcity of capacity
  - "Embedded" value of land

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Ports as an Asset Class

- Ports are considered assets with an ability to generate stable and growing cash flows due to the following:
  - Typically "naturally" hedged against inflation
  - Strong entry barriers (scale/cost and regulation)
  - Off-takers can generally be considered to be somewhat inelastic to price, within limits
  - "Demonstrable" and "pressing" need (essential)
  - Predictable capex (maintenance and growth)

Myths

- PPP's are detrimental to the public as a result of private sector's profit motive
- PPP's should be used when public entities are strapped for cash
- PPP's will deliver cash windfalls to either the private sector or the public sector, or both

Effective communication is key!

THANK YOU!

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