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# Private Sector Investments in Public Infrastructure



## Moderator:

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## Panel:

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- Duncan Ball, ABN AMRO Bank N.V., Canada Branch
- J. Michael Rolland, Borealis Infrastructure

# Private Sector Investment in Public Infrastructure

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- The Infrastructure Deficit
- A worldwide problem
- Governments don't have the money to:
  - build needed new infrastructure
  - maintain existing assets
  - replace worn-out assets

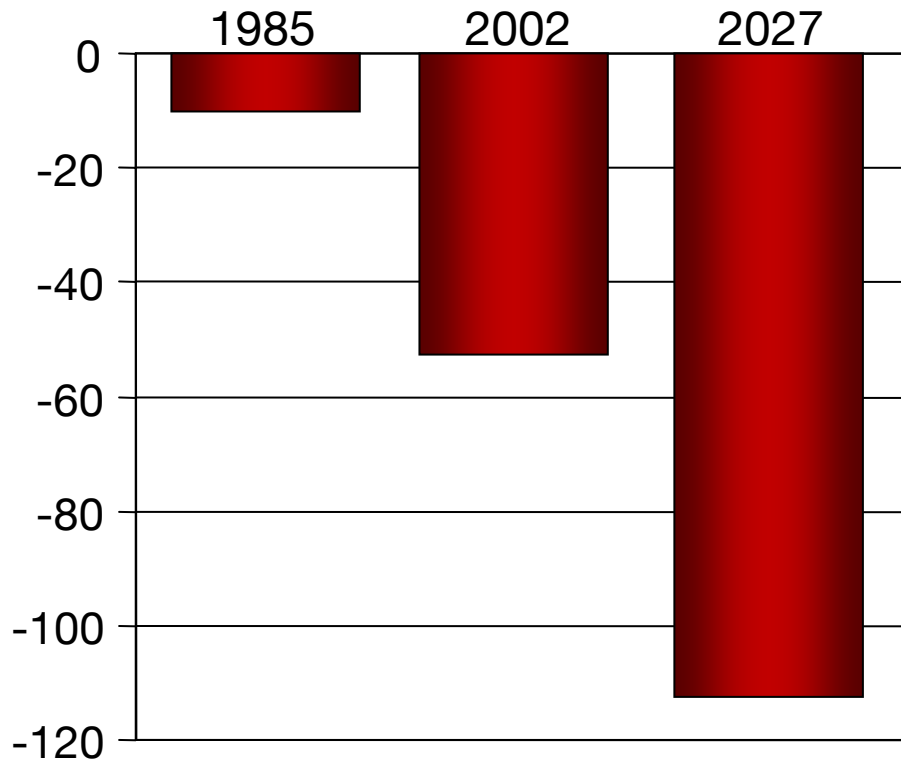
# Canada's Infrastructure Backlog

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Infrastructure Backlog  
(CAD\$ billions)



- Current backlog at over C\$50 billion (US\$45 billion)
- CAD \$112.5 billion (US\$101.8 billion) backlog expected by 2027

# What is a public-private partnership?

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- A contractual arrangement that bundles financing and operation/maintenance of government assets/services
- Government sets policy, identifies need
- Private sector companies compete to fulfill that need
- Government enforces contract, regulations

# A Win-Win-Win Partnership

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- **Government wins because PPPs:**
  - Address the infrastructure backlog
  - Stimulate economic growth, create jobs
  - Transfer costs & risks from public sector
  - Operating costs built into project cost

# A Win-Win-Win Partnership

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- **Private sector can win if:**
  - Reduced construction costs
  - Faster construction and faster returns
  - Profits through greater efficiency

# A Win-Win-Win Partnership

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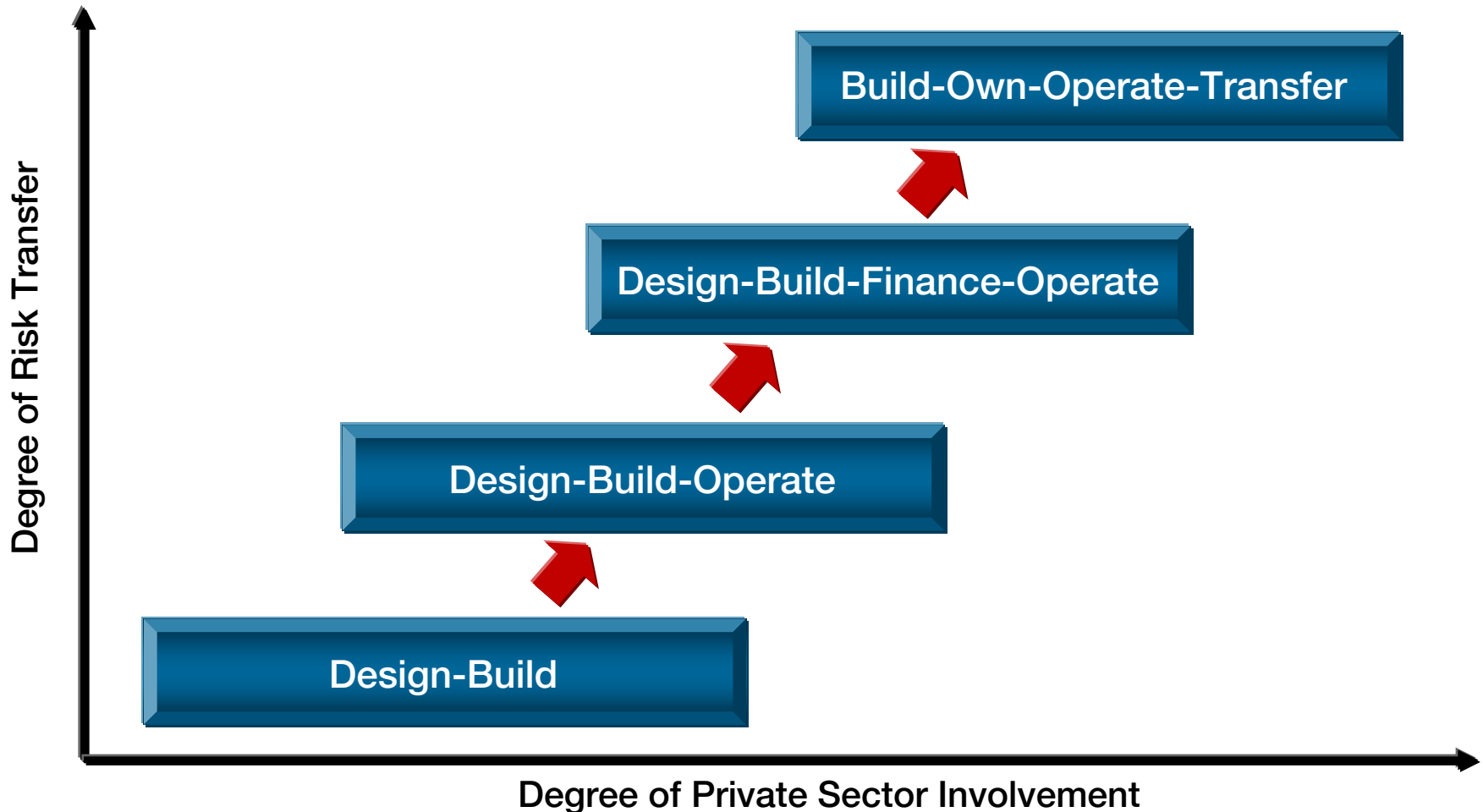
- **Public wins if:**
  - Delivered on time & on budget
  - Better value for money

# More Private Involvement = Less Public Risk

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# Favourable Conditions Checklist in Canada

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Political Accountability	<ul style="list-style-type: none"><li>▪ Regular and open elections</li><li>▪ Absence of Corruption</li><li>▪ Separation of political and administrative roles</li></ul>	✓
Effective Public Sector Management	<ul style="list-style-type: none"><li>▪ Apolitical and professional public service</li><li>▪ Capacity to successfully manage PPPs</li></ul>	✓

# Favourable Conditions Checklist in Canada

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Civil society and media	<ul style="list-style-type: none"><li>▪ Citizen participation in policy making</li><li>▪ Independent media</li><li>▪ Freedom of Information</li></ul>	✓
Private Sector Interface	<ul style="list-style-type: none"><li>▪ Public-private dialogue</li><li>▪ Streamlined regulation</li><li>▪ Strict rules on government procurement</li><li>▪ Corporate governance review and oversight</li></ul>	✓

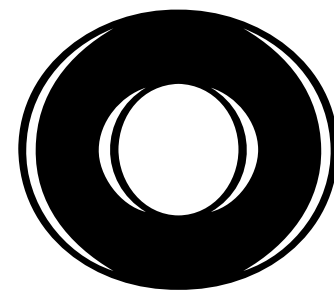
# Favourable Conditions Checklist in Canada

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Institutionalized Checks and Balances	<ul style="list-style-type: none"><li>▪ Independent judiciary</li><li>▪ Independent audits of government spending</li><li>▪ Conflict of interest rules</li><li>▪ Ombudsman</li><li>▪ Civil Society Watchdog</li></ul>	
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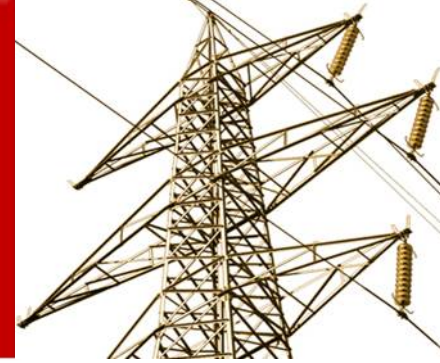


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# Range of International Activity

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# International Activity



- PPP's are happening around the world in many different sectors
- Often have different names (e.g. PFI, commercialisation, privatisation), but the basic framework for success remains the same:
  - Public sector leadership & experience
  - Appropriate transfer of risk to those best able to manage them
  - Better / faster / safer / cheaper outcome

# Midland Expressway, UK

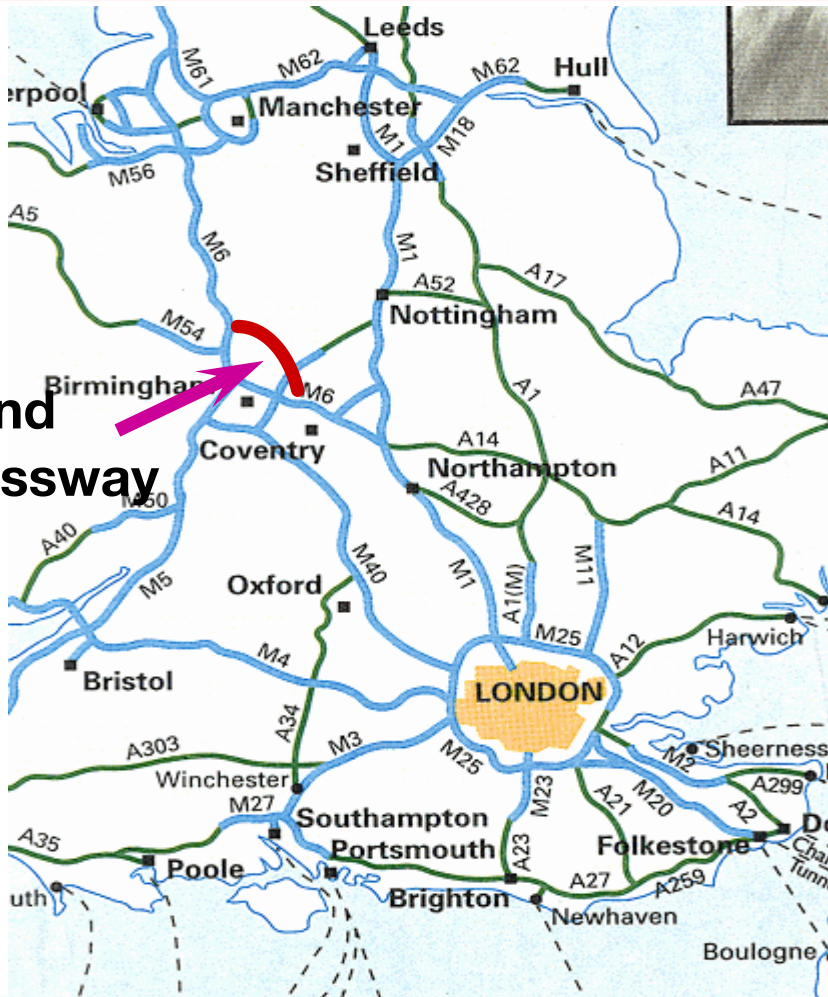


- Severe congestion around Birmingham
- Competitive tender to private sector
- Financial close September 2000
- C\$1.55 billion (US\$1.4 billion) total project funding
- User pay - tolls

# Was it a Success?



**Midland  
Expressway**



- Cost & revenue risk transfer to private sector
  - Construction, maintenance, operations & financing risk allocated to parties best able to handle them
- Better / faster / cheaper outcome

# Royal Woman's Hospital, Australia



- Australia's largest specialist women's hospital
- C\$280 million (US\$250 million)
  - New public hospital
  - 980 space underground car park
  - 60 bed private hospital
- 28 year concession

# Another Success



- Will be leading hospital in this sector in Australia
- Project documents signed ahead of schedule
- Significant cost, design & maintenance risk transferred to the private sector
- Transaction structure allowed extremely competitive financing package
- Operations to commence June 2008

# Apa Nova, Romania



- Partnership between Municipality of Bucharest & the private sector
- International competitive tender process to:
  - Provide improved water distribution
  - Complete the Cirvina potable water treatment plant (259,000 m<sup>3</sup>/day)
- Bucharest contributing existing infrastructure & will own new infrastructure

# Yet Another Success



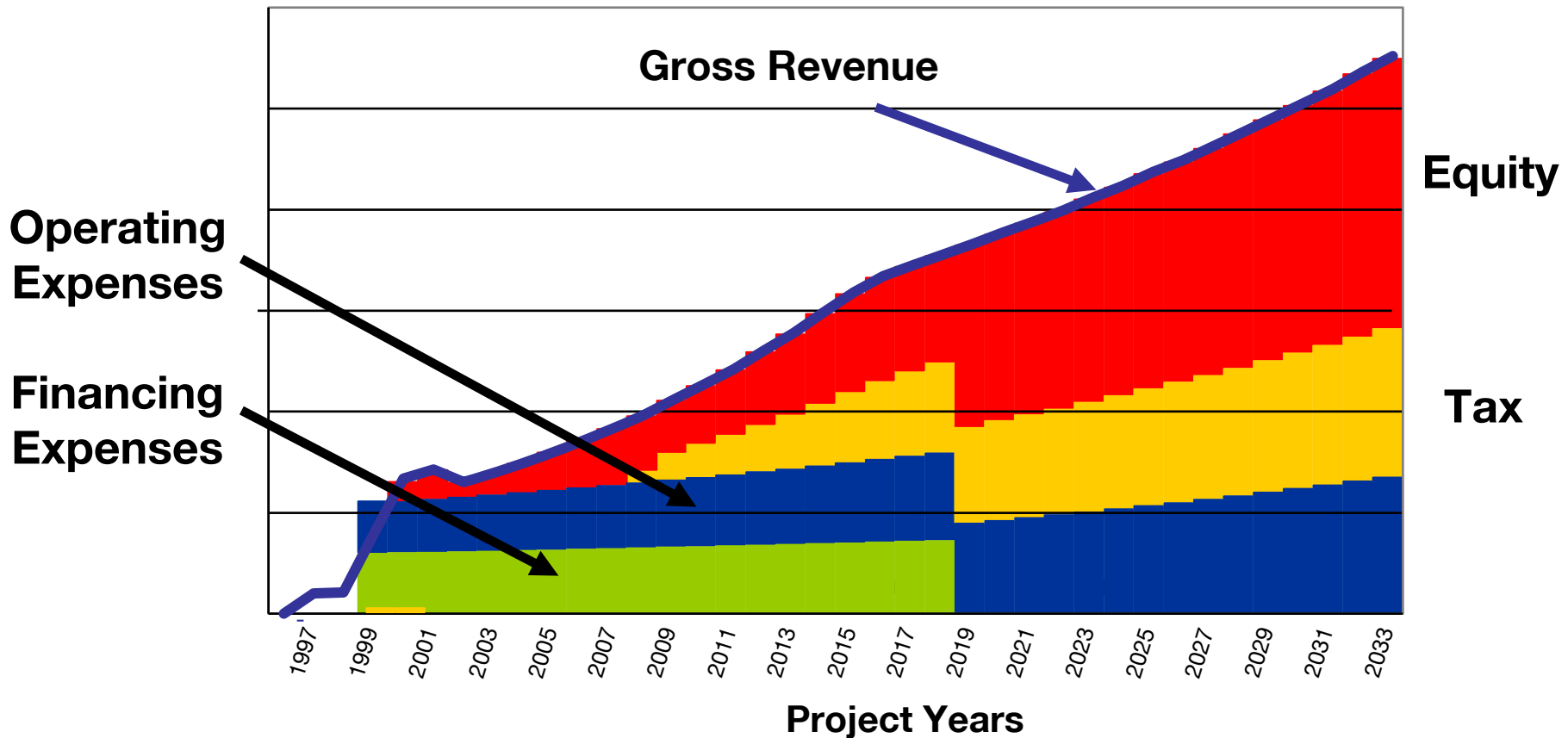
- Cirvina plant had been started ten years earlier, but wasn't yet finished
- Quality of life & economic growth had been stifled by lack of potable water
- Private sector profits tied to operational efficiencies
- Introduction of new technology, know-how & management methods

# Brisbane Airtrain, Australia



- New rail line linking Brisbane's airport to the City & Gold Coast
- Extensive traffic & cost studies
- Clear delineation of who does what
- Very high expectations for financial success

# Cash Flow Diagram For Brisbane Airport Rail Link



# End Result



- Construction & operation costs within budget
- Ridership spectacularly below forecasts
- Revenue shortfalls forced a restructuring of equity & debt
- Was this a well-constructed PPP?

# Yes It Was!



- State of the art transit facility delivered – on-time & under budget
  - Better / faster / cheaper than if public sector alone
- Appropriate risk transfer
  - Private investors mis-calculated
  - Private investors “lost their shirts”
- Bottom line – community is better off

# Sectoral Discussion

# PPPs are popular across a range of sectors...



- Social Infrastructure
- Transportation
- Utilities
- Other

# Social Infrastructure...



- Accommodation
- Defence
- Education
- Health Care
- Leisure
- Justice
- Social Housing



# Transportation...



- Airports
- Bridges & Tunnels
- Light Rail / Rail
- Ports
- Roads



# Utilities...



- Energy
- Water
- Waste Water
- Waste Management



# Other...



- Information Technology
- Ideas constantly developing

# PPPs are everywhere...



- PPPs are simply a means of delivering infrastructure and services
- Tendency to think of PPP as a “foreign” method
- Key point is the delivery of the infrastructure or service

# PPPs are everywhere...



- Lots of examples of successful PPPs right here in Canada.....

# Social Infrastructure PPPs Delivered in Canada



- Abbotsford Regional Hospital & Cancer Centre
- VGH Academic & Ambulatory Care
- William Osler Hospital
- Royal Ottawa Hospital
- UNBC Northern Sports Centre
- Nova Scotia Schools
- Paramedic HQ
- West Carlton Community Complex

# Social Infrastructure PPPs planned in Canada



- Durham Court House
- North Bay Hospital
- Sault Ste Marie Hospital
- Niagara Regional Hospital
- Various Hospitals in Ontario
- Long Term Care in BC
- Niagara Hospital
- Education Facilities
- Providence Hospital
- Ambulatory Care Facilities
- Hospitals in Quebec
- Recreation Centres
- GTA Youth Centre

# Transportation PPPs Delivered in Canada



- Confederation Bridge
- Highway 407 ETR
- Charleswood Bridge
- Highway 104
- Alberta Highway Maintenance
- Sierra Yoyo Desan Road
- Edmonton Ring Road
- Fredericton-Moncton Highway
- William Bennett Bridge
- Sea to Sky Highway
- RAVP/Canada Line
- Kicking Horse/ Trans Canada Highway
- Golden Ears Bridge

# Transportation PPPs planned in Canada



- Calgary Ring Road, Alberta
- A25, Quebec
- A30, Quebec
- Niagara Peninsula Highway
- Gateway, BC



# Utility PPPs Delivered in Canada



- Dartmouth water
- Moncton Water
- Edmonton Water
- Bruce Power Plant
- Enwave Deep Cooling
- Wind Power

# Utility PPPs planned in Canada



- New Megawatt capacity in Ontario
- New Megawatt capacity in BC
- New Megawatt capacity in Quebec

# Other PPPs Delivered in Canada



- Driver Education
- Teranet

# Other PPPs planned in Canada



- IT Outsourcing
- Olympic Stadium Roof

# Conditions for Success

# Overview

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- Can a Public infrastructure need best be met through a partnership with the Private Sector?

# Guiding Principles

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- Project Size and Definition
- Competitive Private Sector Market
- Value for Money to the Public
- Risk Transfer

# Project Size and Definition

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- Project must be of sufficient size to allow Private Sector to deliver value as a unified procurement
- Private Sector value to Public maximized when there is an opportunity for Private Sector to demonstrate/deliver initiative and innovation

# Competitive Private Sector Market

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- Private Sector skills must be available
- Skills must be available from a number of Private Sector organizations
- Private Sector response/interest is likely

# Value for Money

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- Key financial test for any Public-Private Partnership
- Procurement approach must deliver economic advantage to Public Sector

# Risk Transfer

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- Risk transfer has a value if Private Sector eliminates “real risks” for Public Sector
- Allocation of risk should be based on which partner is best suited to manage risks

# Successful PPP's

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- Political Leadership
- Public Sector Involvement
- Fully Developed Plan
- Communication Plan
- Dedicated Income Stream

# Political Leadership

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- Commitment from the “highest level”
- Leadership role
- Statutory foundation for partnership implementation

# Public Sector Involvement

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- Remain actively involved
- Ongoing monitoring

# Fully Developed Plan

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- Know what to expect from partnership
- Detailed contracts
- Clearly defined dispute resolution

# Communication Plan

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- Open and candid communication with all stakeholders
- Reminder that stakeholders are a very broad group

# Dedicated Income Stream

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- Identifiable means of repayment
- Single source or combination of sources

# Conclusion

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- A “How To Approach” can lead to success

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# Conclusion

# Public-private Partnerships in Canada



- Canadians see need for private sector involvement in infrastructure renewal
- 86% agree that governments are having trouble keeping up with required investments
- 60% agree that it is time to engage the private sector more fully

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# Questions?

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