

Public/Private Partnership (“PPP”) for Public Infrastructure Projects

What have we learned from the UK Experience?

David Braybrook
IMIA Conference, Rome
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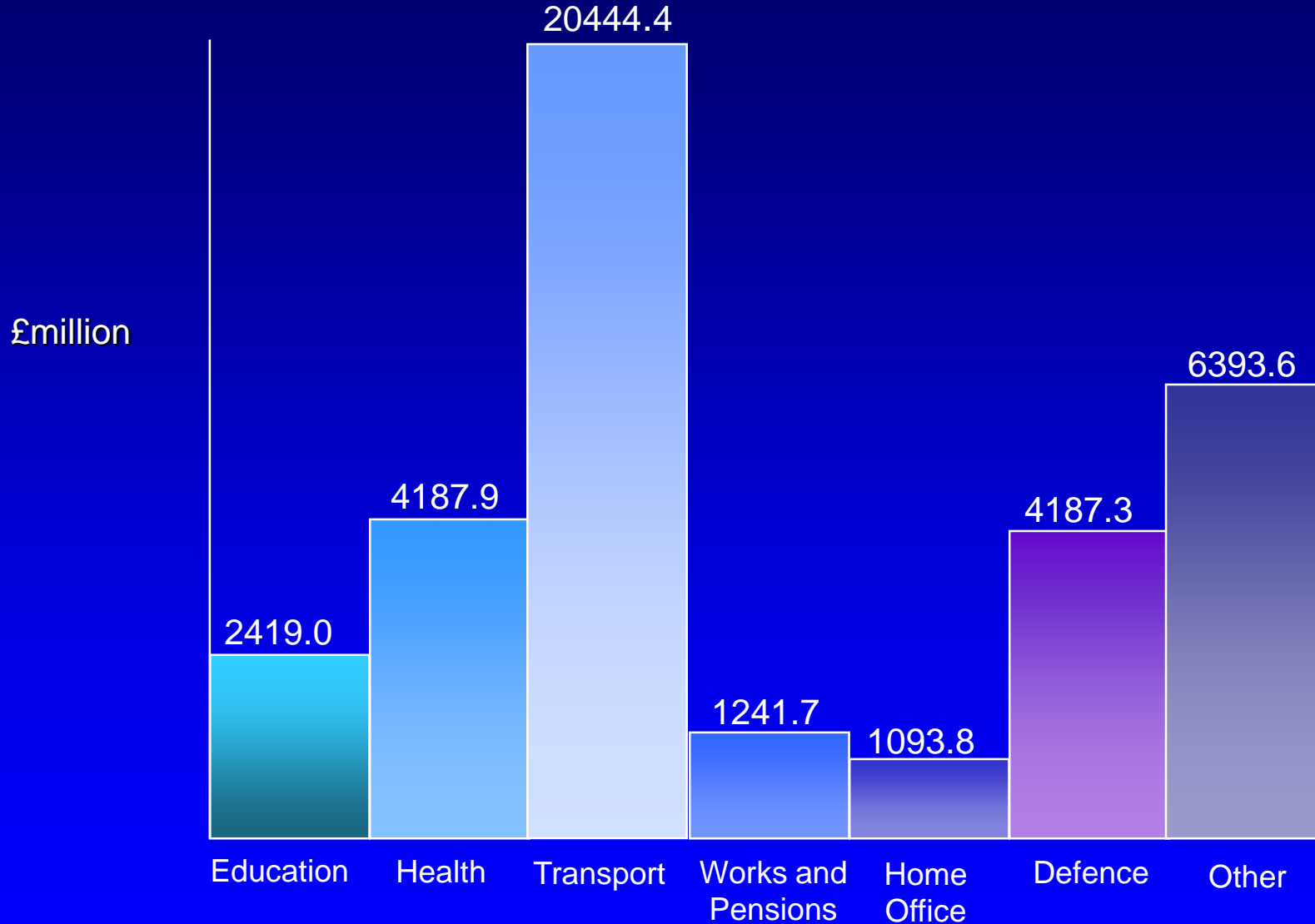


PPP in the UK

- Established by Conservative Government in 1994
- Public sector services provided by private sector companies
- 626 PPP projects let to date : Capital Value circa £40,000m
- Concession period : 25/30 years



Value of PPP deals by Government Department



Project Finance

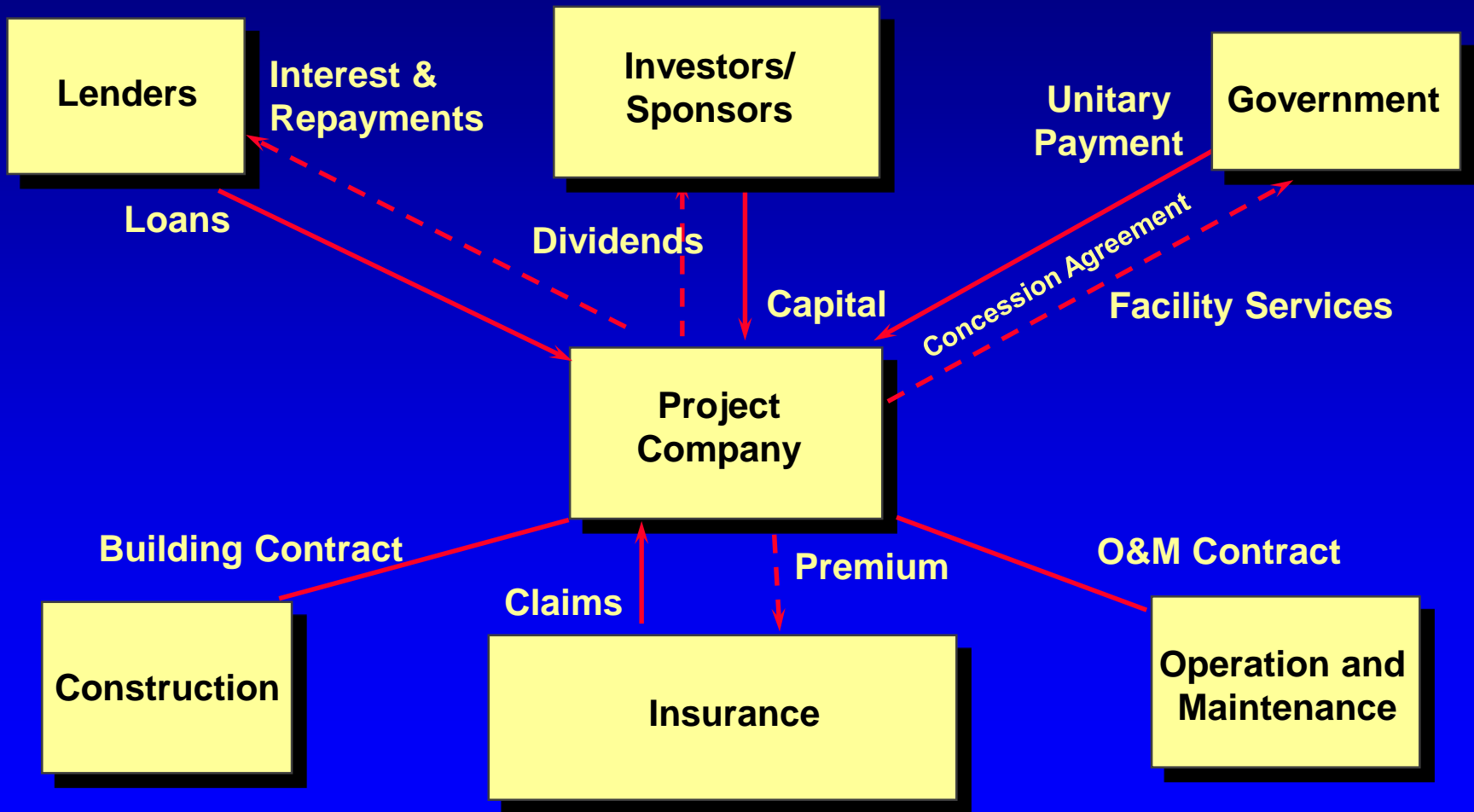
Financing of the project is:

- Secured on revenues, not assets
- Limited or no recourse to borrower
- Off balance sheet
- More risky from lenders perspective – want more control

PPP : Maximise transfer of risk to private sector



Typical Project Structure



Analysis of the Risks

- Risk – any uncertainty which could impact adversely on the project
- Risk Carriers
 - HM Government
 - Concessionaire/SPC
 - Contractor / Operator
 - Lenders
- Risk Allocation
 - Matrix



Risk Allocation

- Identification
 - experience
- Analysis
 - frequency and impact
- Allocation
 - ability to manage
 - cost



Risk Management

RETAIN THE RISK

**MANAGE AT
SOURCE**

**PRICE THE
CONSEQUENCES**

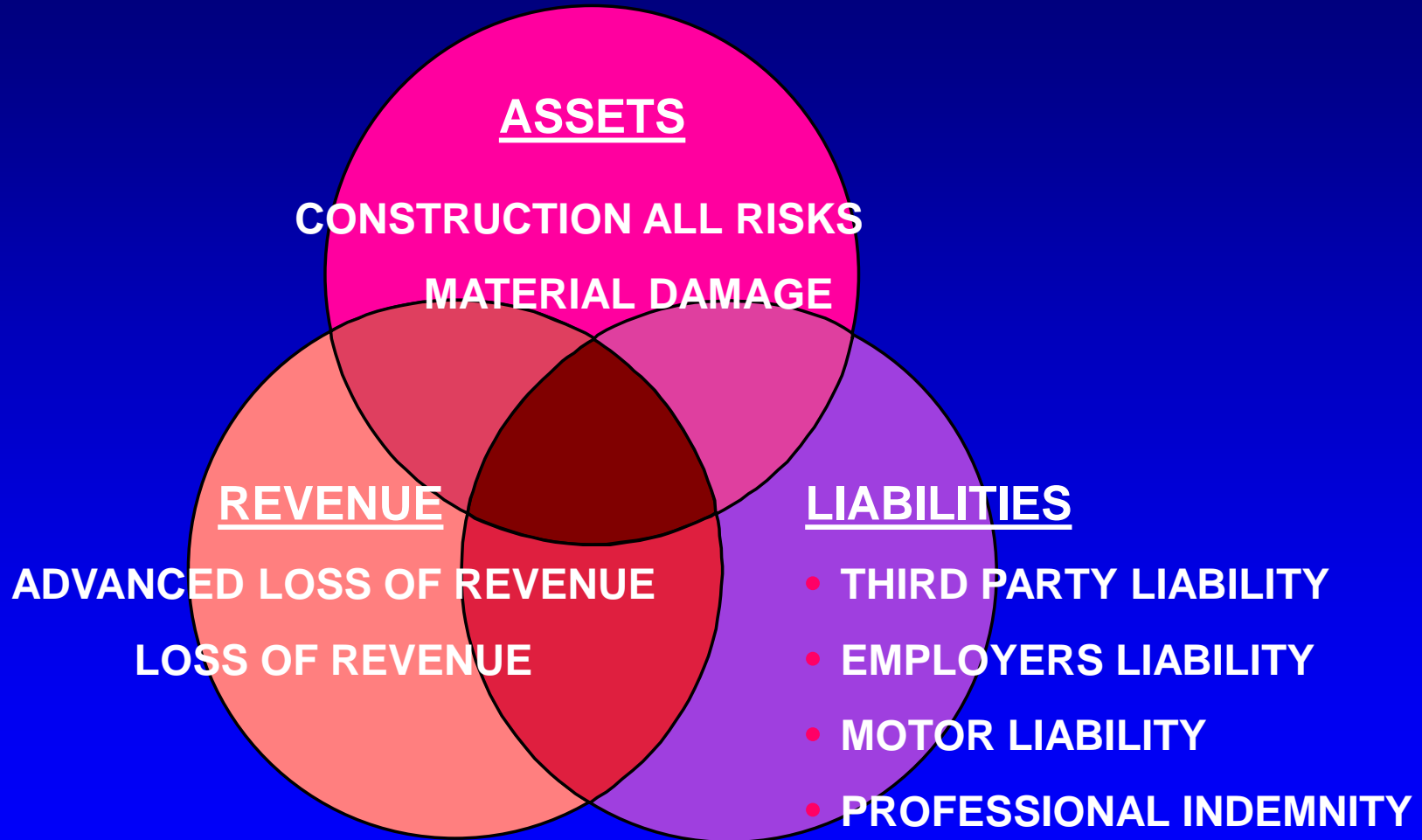
TRANSFER THE RISK

BY CONTRACT

BY INSURANCE



Core Project Insurances



Lenders Requirements

Must be catered for in the insurance programme:

- Non Vitiating (and subrogation)
- Reinstatement (Economic test)
- Loss Payee provisions
- Contribution
- Non payment of premiums

Other Contractual Requirements:

- Security of insurers
- Premium increases
- Uninsurability



Non Core Insurances

- Non damage delay
- Latent Defect
- Environmental Liability
- Project Professional Indemnity
- Cost Overrun
- Cancellation – Bid costs
- Lifecycle – Whole Life Defects insurance
- Change in legislation – capital costs
- ART solutions



JLT PPP Construction Book

160 closed transactions : 65 transactional, 95 advisory

94 transactional at financial close or preferred bidder stage:

Health : 31

Roads : 14

Police/Courts : 9

Schools : 26

Ministry of Defence : 3

Others : 11

Of all PPP projects valued in excess of £50m capital value, JLT is the placing broker for circa 30% (in capital value) - £10,000m



Loss Experience

JLT Construction PPP Book : CAR, DSU & TPL 1995 to June 2003

<u>Type</u>	<u>Premium</u>	<u>Claims - Paid & Outstanding</u>	<u>Loss Ratio</u>
Hospitals	£10,804,000	£ 310,109	2.8%
Education	£ 6,607,000	£1,870,113	28.3%
Roads	£13,880,000	£9,267,344	66.6%
Light Rail	£ 5,873,000	£ 598,400	10.1%
Water	£ 371,000	£1,159,758	312.6%
Buildings *	£11,286,000	£1,551,890	13.7%
Power	£ 38,000	0	0
IT & Traffic	£ 785,000	0	0
ALL	£49,644,000	£14,747,614	29.7%

* Including libraries, prisons, police stations and fire stations



Why the good results?

- More disciplined and sophisticated risk analysis and management
- Detailed specification and performance criteria before project commences
- Double/treble checking of design and contract programme
- Higher calibre of construction personnel
- Margin better but downside greater – focuses minds
- Contractor often has equity stake in project. Vested interest in long term performance of project
- Bidding costs preclude all but most resourceful



Conclusion

- “Positive experience and incredible learning opportunity for construction industry in UK” – Skanska UK CEO
- Delivering better quality facilities on time and to budget
- Opportunity for UK insurance market to write significant book of new and profitable business

