

The 'CREDIT CRUNCH' and PFI/ PPP FINANCING of INFRASTRUCTURE and DEVELOPMENT PROJECTS

Andrew W Morley, FInstCES, UK
Chairman, Commission 10



THIS PRESENTATION

- History of Public Projects
- Privatisation of Public Services
- The Private Finance Initiative
- PFI/ Public Private Partnership
- PFI/ PPP status/ condition in mid 2008
- Emergence/ effects of the 'Credit Crunch'
- Conclusions



History of Public Projects

- Military adventures and taxes
- Industrial Revolution and 19th century
- Entrepreneurs and private companies
(the great civil engineers like Telford and Brunel)
- High 'front end' investment
- Funding, technical and time risks
- Lengthy period before payback begins



History of Public Projects

- Increasing needs of civil society
- Failures of the 19th century model
- Government, public corporations,
municipal authorities
- Discredited due to time and cost overruns
- Poor public services by monopolies
- 1980's government and privatisation



Privatisation of Public Services

- Monopolistic public corporations privatised
- Alternative service providers/ competition
- Electricity, gas, telecoms (later railways)
- Water companies and regulators
- Highways maintenance services
- Education and hospital facilities management (outsourcing)



Private Finance Initiative

- Continuing need for relatively high risk investment into, eg, highways
- Consortia of private companies bid to finance, design, construct and operate
- Concessions typically 25 years
- Education and hospitals – high content of facilities management
- Later, IT and military infrastructure needs

PFI/ Public Private Partnership

- 1997 change of government
- PFI tarnished by some early mistakes/ excessive profits (unrealised risk!)
- Still economic reality so, re-branding!
- Greater involvement of public sector
- Some risk sharing and review processes
- Development and refinement of contracts
- Many major schemes

PFI/ PPP status mid 2008

- Around 1000 projects
- More than £40bn capital value
- More than 500 projects operational
- Committed £170bn operational payments
- Peak £9bn per annum (Treasury claims)
- Many deals at or in various stages of near to 'financial close'

Emergence and effects of the Credit Crunch

- Inappropriate (crazy!) securitisation and excessive lending = financial bubble
- Defaults in payback
- Loss of confidence in banking securities
- Absence of 'money' in the markets
- Government underwriting of bank debt
- Diminished appetite for financial risk
- Banks taking smaller shares of deals

Emergence and effects of the Credit Crunch

- Reflationary packages by governments
- Public spending into infrastructure
- Slower economic growth
- Possibly severe impacts on LDCs and emerging economies
- Revitalised role for WBG/ IMF
- Virtuous lending and development?

Conclusions

- Need for public projects to meet societal needs and expectations
- PFI/ PPP as a model to provide them
- Further transparency in contracts
- Major overhaul of the banking system
- Emergence of (yet more) innovative funding mechanisms
- Re-invention of the wheel?

Thank you for your attention

(and to my employer for his continuing financial support!)

