

# IS PPP DEAD AND BURIED? EVOLVING THE PPP MODEL IN LIGHT OF THE ECONOMIC CLIMATE

*“A new generation of public private partnership (PPP) solutions is set to emerge on the back of the current global financial crisis and will be used to accelerate developments across Europe and further afield.”*

European policy continues to drive demand for infrastructure investment and in view of the challenges and uncertainties a global economic recession brings is starting to dictate new and different PPP style funding models. Active markets already addressing these issues not only include the UK, but Germany, Holland and Abu Dhabi.

Transport continues to drive large-scale infrastructure projects but its future financing and that of other major public works calls for governments across the globe to take a larger stake and levels of involvement with increased guarantees. Accelerating infrastructure development is therefore critical to negating unemployment and tackling the impact of the global economy.

In the UK, the government's multi-million pound spending stimulus to build roads, schools and hospitals could be put in jeopardy unless the ground rules are changed.

Pre-credit crunch, private finance initiatives (PFI) provided a passport to public private partnership (PPP) solutions, but now that has all changed with banks now generally unwilling or unable to finance large scale projects.

The impact of the financial crisis on banks which historically funded PPP/PFI projects, has further fuelled the problem and could lead to governments' plans to kick start their economies with public works being stalled.

## No longer an appetite for investing

In view of the increased risks and the shortage of bank funds, many private companies no longer have the appetite for investing in designing, financing, construction, operating and maintaining new buildings or infrastructure.

Non availability of debt and a lack of lenders prepared to take on the risk has potentially scuppered the PPP model in its present form. The banks' approach to risk is hardening and the need to thoroughly mitigate this through increased understanding of a project is more important than ever.

Public sector infrastructure schemes need private sector skills in management to achieve performance and cost improvements. But, with risk capital dried up, is PPP dead and buried, or can the model rise like the phoenix from the ashes of this recession?

### New financing era

The answer of course lies to a great extent with governments and other international funding institutions being both a large shareholder and bank guarantor. A new financing era has arrived, where the flexibility of the PPP model will be severely tested.

Looking at new forms of evolving the PPP model in light of the economic climate is a pathway being explored and a number of potential solutions are emerging. Central to our thinking is to ensure PPPs become an effective way of financing, managing and operating transport infrastructure and services during these challenging times, whilst assessing long term taxpayer costs and risks.

Changing the PPP finance model requires governments to take greater risks which will enable private sector partners to invest in areas where they have the capability and experience necessary to deliver required benefits.

### Visionary approach

Greater emphasis also needs to be made towards the social economic benefits delivered to a country or region which could mean adopting a more visionary approach to PPP models to include agglomeration benefits. Failure to do so will mean that PPP projects may never get off the ground on a pure cost benefit basis.

Detailed consideration needs to be given to contract conditions, roles, risks and performance requirements during tendering, operation and reversion of any concession due to likely increased government involvement.

Who knows, there could come a day when PPP could be part of an institutional IPO, or even an IPO with multi-PPPs structured to spread and limit financial risk across sectors and projects.

What we do know for certain is that if governments are trying to stimulate consumer confidence spending and jobs, nothing could be better than kick-starting large-scale infrastructure developments, as acclaimed by the Obama campaign.

But any monies utilised in PFI/PPP models must be totally justifiable as the taxpayer is in no mood to swallow any further in-direct refinancing of private investment funds or banks.

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