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

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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!)