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Funding and Affordability



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Agenda

1. Value for money and affordability
2. Changes in the funding market
3. Impact on PPP's
4. Emerging response

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Value for money and affordability

- Risk transfer
- The cost of money
- Availability of money
- Time and money
 - where are we in the economic cycle ?
- Cost of equity and debt is key to the achievement of value for money

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Value for money

Model	Risk	Funding cost	Capital and opex costs
Conventional	High	High	High
PPP	Low	Low	High

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Funding market

- Lack of equity and debt
- Collapse of the inter bank market has drastically reduced liquidity
- Banks are struggling to raise funds
- Syndicated loan market has stalled
- Bank margins have increased
- Senior bank debt tenors have reduced significantly
- PPP is competing for scarce regulatory capital allocations

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Impact

- Government funding for new infrastructure and buildings is declining
- Cost of alternative private finance has risen dramatically
- Funding is scarce
- Increased cost of equity and debt means projects are less likely to achieve value for money
- PPP transaction volumes have dropped

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Funders

- Monoline wrapped bond market has gone
- Club or single bank deals, with EIB for example
- Some banks have withdrawn from the project finance market
- Some international players may be retreating to their domestic markets
- Earlier refinancing
- Banks' attitude to PPP risk versus the cost of money

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Bidders

- Reduced investment appetite
- Increased transaction risk
- Shortage of funding
 - Bigger margins than expected
 - Smaller commitments from banks
 - Refinancing

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Sponsors

- Higher transaction and funding costs
- Debt funding competitions
- How to maintain competitive tension ?
- Delays and uncertainty

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The emerging response

- Deals are being done
- Managing existing projects
- Infrastructure deficits remain
- Is this a temporary adjustment or are there fundamental changes to the PPP model as we know it ?

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Public sector

- Promoters bringing wider economic and social benefits to account
- Making better use of public financial resources
- More efficient capital planning
- Focus on asset and property disposals

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Wider response

- Tax increment financing
 - banking on future growth
- Expanding the regulated asset base
 - managing 'excessive' returns
- An increasing role for the State ?
 - UK - TIFU
 - France - IGD
- Accounting and budgeting changes

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Conclusion

- Is PPP dead and buried ?
- Greater scrutiny of potential PPP projects - broader whole life cost and benefit analysis
- Greater State role in promoting projects
- Stability should bring a narrowing of margins and availability of funding
- Financing risk remains private

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