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What can the UK learn from the Canadian approach to PPP?

he Canadian PPP market is now one of the most mature in the world. The country has managed to deliver a string of successful projects over recent years, worth a combined £20bn, and has a strong pipeline going forward.

Two key elements of the Canadian success have been the speed at which deals have been done - with projects often reaching financial close in a matter of months, instead of the vears it can take in the UK - and the ability to bring in institutional investors such as pension funds.

In the UK, the Treasury has already announced its intention to bring pension funds and insurers into the infrastructure arena, meaning the experience and developments in Canada could offer an insight into how the UK can unlock a potentially large source of funding. But can the Canadian model simply be imported into the UK, and are there more difficulties with Canada's approach that are not apparent from across the Pond?

At a breakfast seminar hosted at the Canadian High Commission, in partnership with RBC Capital Markets, a panel of experts who have worked in the Canadian market gave their views on how the model can be delivered in Britain, and Infrastructure UK's chief executive Geoffrey Spence offered the Treasury's perspective.



CHAIRMAN'S OPINION



"We must articulate private finance's merits"

SIR ANDREW FOSTER DEPUTY CHAIR, RBC EUROPE

While the UK is facing the most challenging economic circumstances we have ever seen, there still remains a very substantial infrastructure need that must be addressed. The Chancellor has rightly identified infrastructure investment as one of the country's key stimuli towards a responsible economic recovery. So we have a conjunction of a great need to develop infrastructure in a time of great economic duress.

If we in the UK do not accept the political reality surrounding

PFI, then we will have a tough uphill struggle. The private sector here has not organised its case. We have to articulate what the merits of private finance are and provide innovative ideas about potential new models. We have to take the existing challenges and criticisms head-on.

To this end, there is a lot we can learn from the Canadian model. You cannot simply graft all aspects of the Canadian version onto the UK system, but there are some elements that can definitely be imported. There is a lot of Canadian experience on the clarity, simplicity and transparency of procedures that can help the UK move forward.



GORDON CAMPBELL HIGH COMMISSIONER FOR CANADA

There is not a Western democracy that does not require infrastructure investment. Any major project that is not being done through a PPP is probably one that won't get built. People need to recognise that while there can be problems with PPPs, what went before has not been perfect either.

"Any major project that is not being done through a PPP is probably one that won't get built"

New procurement strategies in Canada now require PPPs to be considered. Every project will be first a PPP, and if it can't be made to work, only then will other options be looked at. I think we'll see a significant increase in the number of PPP projects across the country in the coming years. If you start using PPP to shift risk from the public sector, there is no end to the projects you can do.

We have very tough negotiations. If the private sector won't take the required level of risk on a project, we won't go ahead with the PPP. But there's got to be a mutual trust built in between the different sectors, which has happened in Canada now.

Canada and the UK should be looking to continue to build the partnerships we have.



VICKIE TURNBULL DIRECTOR, RBC CAPITAL MARKETS

There are C\$31bn-worth (£20bn) of projects already in Canada, and an estimated funding requirement of \$19.4bn (£12.2bn) in 2012-14.

A key to the fast and efficient delivery of Canadian projects has been a crisp 'request for proposals' process. This requires firm bid underwrites from bidders, which includes full financing. Because the financiers are unable to hold their debt financing commitment for a long time, that requires quick and firm deadlines for projects. The timeline from bid submission to financial close is 165 days for Ontario, to just 60 days in Alberta - although typically it is done in even less time than that.

What helps with this is that our documents are very consistent across all projects in an asset class within a province, and the key terms are consistent across all asset classes within a province. We also have a very transparent bid process.

The process is helped by the contractors, who provide robust security packages that are passed through the project joint venture. That allows us to obtain better rated debt from the ratings agencies so projects can enter the bond market for financing. This gives us access to two competitive sources of funding - the bond market and bank debt - as well as the possibility of hybrid transactions involving both sources.

"A key has been a crisp 'request for proposals' process"



SHEILA JAMIESON CLARK INVESTMENT DIRECTOR, **INNISFREE**

We've been looking at the Canadian market since 2007. The decision to invest there was very easy in terms of the stability of their economy, the legal system, and the country's openness to foreign investment.

In addition to that, what we need is pipeline, pipeline, pipeline. There is a huge commitment in Canada to the PPP model, which is based on the UK version but with some significant improvements.

"We need pipeline, pipeline, pipeline"

We have invested in seven projects so far, all in the healthcare sector. Each has been financed in a slightly different way: bank; bond; hybridwide equity (government financed). But our experience has been extremely good. And in a short space of time, we have been joined in Canada by a large number of UK PPP organisations, also attracted by these investment opportunities.

On the financing side, the bond market has been useful in filling the gap left by the European banks. It has been a question of capacity, though, unlike in the UK where the wrapped bond market was used on a value for money basis for projects over a certain size. But it is also about the ratings agencies: it has seemed at times pretty impossible to get to A-grade level in the UK, however, it is easy for certain contractors in Ontario.

But not everything that has worked in Canada will work in the UK. For example, the UK has to consider EU procurement rules; while government funding and milestone payments - which have worked well to lower debt funding costs but maintain risk transfer - may not be possible in the UK depending on the government's continued focus on reducing its deficit.



GEOFFREY SPENCE CHIEF EXECUTIVE, INFRASTRUCTURE UK

The UK government is committed to improving the long-term situation, not just for the short-term. The infrastructure investment package announced in the Autumn Statement is not a short-term fiscal stimulus in that sense. The financing model we had enjoyed up to 2007 is now broken, so we need new long-term financing models for infrastructure.

To that end, we have signed two memorandums of understanding with pension funds, and a third with the Association of British Insurers to create an unwrapped bond market. With the demise of the monolines we do not currently have a bond market for infrastructure in the UK that is particularly viable. So we basically have to invent an unwrapped bond market in the UK, where projects will come forward and get at least A-ratings.

That will be challenging. There is an optimism bias with ratings agencies if a project is in North America, which makes it easier for projects in Canada or the USA for example to achieve an A-rating and go out to the bond market. That has been the case over most of my career, I would say.

As far as Parliament is concerned, the private sector in the UK has not made its case on value for money for PFI deals, and there have been specific examples where the private sector made what the public has perceived as outrageous amounts of money. In terms of old PFI, Parliament now is united in its belief that private finance of this sort is bad value for money. They recognise that PFI has delivered projects on time and to budget, but the premium for that certainty is seen to be excessive.

Unlike some other countries, the Treasury has never seen PFI as 'additional investment', although departments often have. So the question has arisen from Parliament as to why we are spending so much money over the gilt rate to fund these projects.

Canada and the UK have a very close relationship and we compliment the Canadians for the successful PPP programme they have developed. which has definitely improved upon the original UK model.