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# PPPs and Social Infrastructure – UK Experience

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Infrastructure and Projects Authority (IPA) - UK Government

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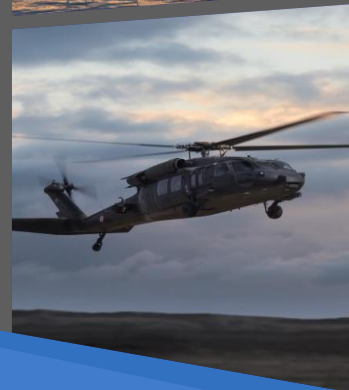
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# About the IPA



Reporting to Cabinet Office  
and HM Treasury



# Infrastructure and Projects Authority

## Who we are

The IPA is the government's centre of expertise for infrastructure and major projects.

We support the successful delivery of all types of infrastructure and major projects; ranging from railways, schools, hospitals and housing, to defence, IT and major transformation programmes.

## Our purpose

Our purpose is to continuously improve the way infrastructure and major projects are delivered, in order to support government priorities and improve people's lives.

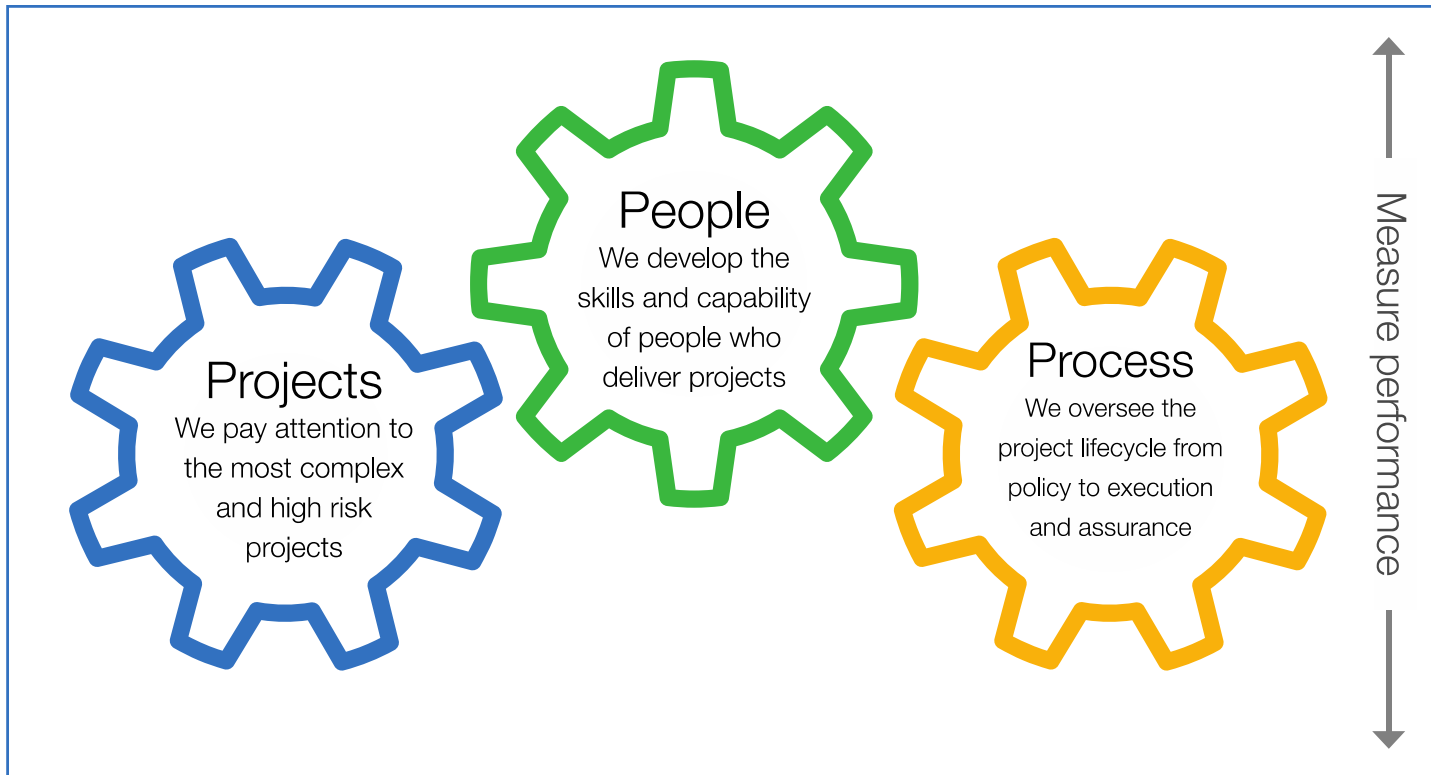
We aspire to create the best performing project system of any country in the world.





# What we do

## Project delivery system



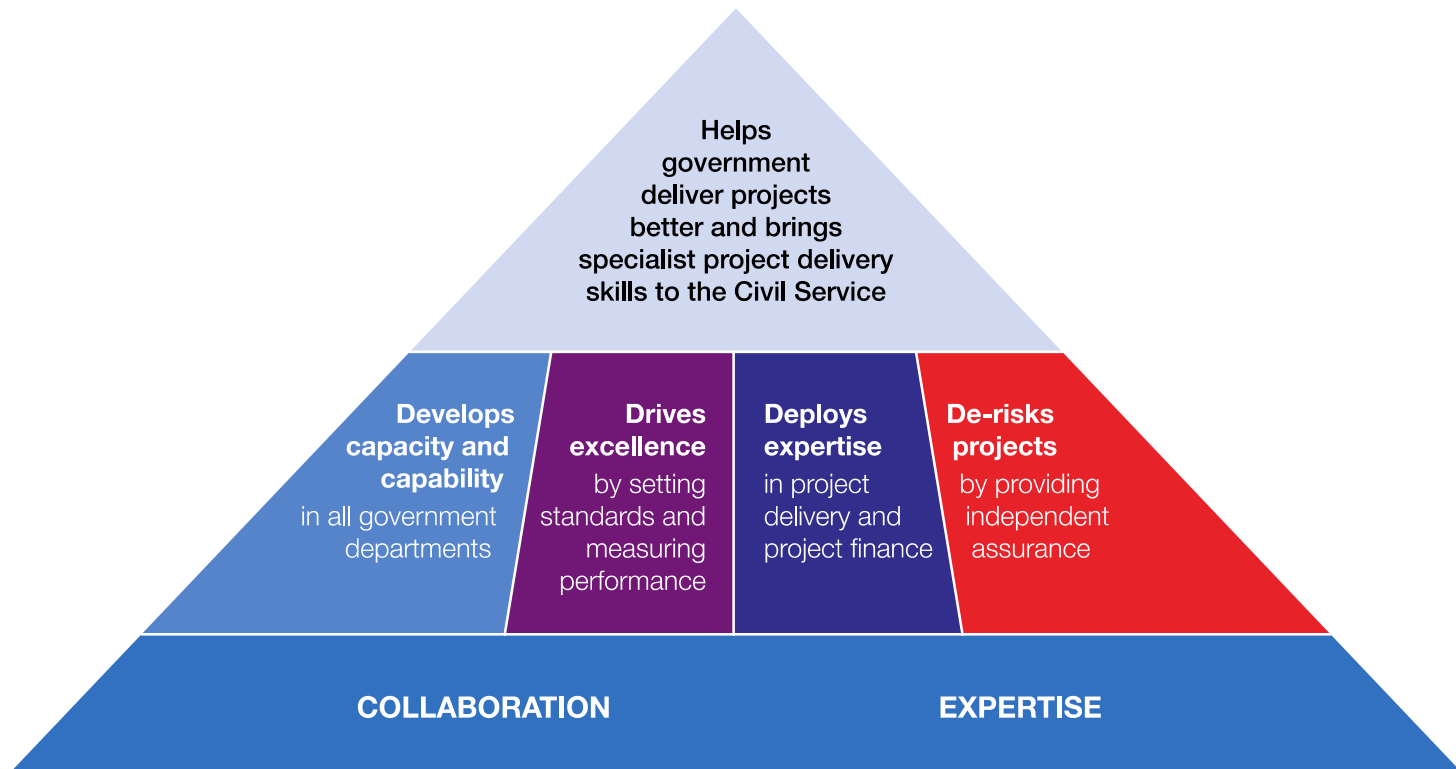
The right environment for successful delivery



# How we operate

## IPA's operating model

Home of the Project Delivery function





# Our principles



## Expertise-based

Everything we do is based on our expertise in infrastructure, project delivery and project finance. We draw upon expertise across government and industry. We encourage our people to develop their expertise further.



## Performance-focussed

We measure the outcomes of our work and strive for continuous improvement. We deliver what we promise and provide innovative solutions to problems. We challenge the status quo.



## Valued by stakeholders

We aim to be valued by all our stakeholders and have a reputation for independence. Our relationships are based on trust and collaboration. We provide constructive challenge as well as support.



## One team

We work as one team with a common purpose. We both learn from our setbacks and celebrate our successes. We are an inspiring, supportive and diverse organisation, which follows the core values of the Civil Service.



# Our priorities

## Setting up projects for success

Success or failure of a project is often determined by how it is set up. We help set up projects for success by influencing the policy environment, deploying our expertise as early possible, developing tools and standards to ensure realistic project objectives are established at the outset and helping projects access the resources they need.



## Creating market confidence

We need a confident private sector to help deliver and invest in infrastructure and major projects. We create confidence by providing foresight and transparency on the future pipeline of projects, establishing financial policies and products to support private investment and ensuring government priorities are consistent and clear so the market can plan.



## Building delivery capability

Great project leaders deliver great projects. We develop project leadership in government and build delivery capability by providing world class leadership programmes, developing career pathways, leading the project delivery and project finance professions and developing government to act as an exemplary client.



## Measuring and improving performance

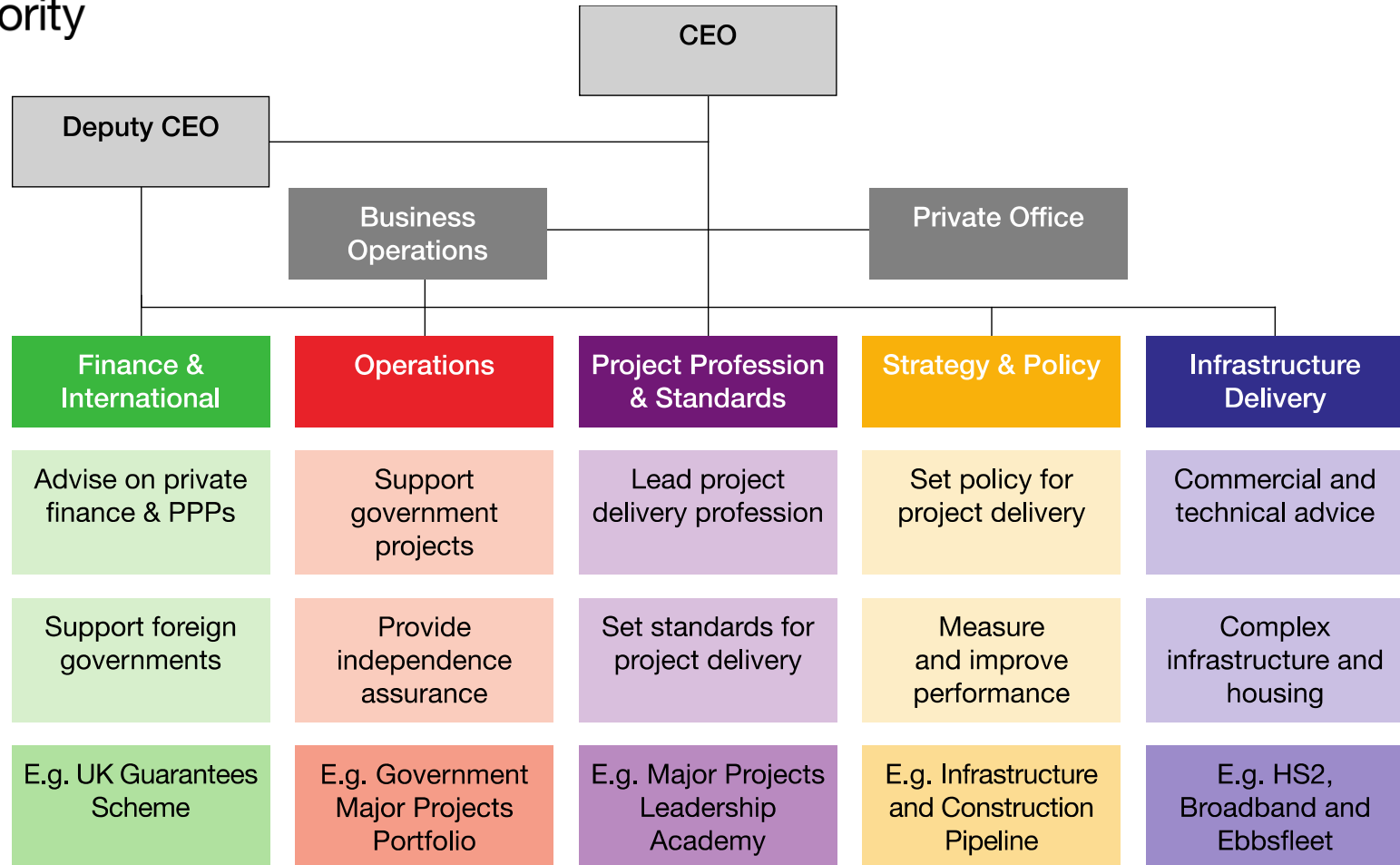
We do all we can to help infrastructure and major projects deliver their intended benefits for society and provide value for money for the taxpayer. We seek to measure the performance of projects over time, to understand what is necessary to improve performance of the system and adjust the system accordingly.







# Our teams and activities





# Our teams and activities

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## Finance & International

The Finance and International team is comprised of project finance specialists. We advise government on the availability and policy implications of private finance and support Public Private Partnerships (PPPs) across government. Where necessary, we oversee financial market interventions such as the UK Guarantee Scheme (UKGS). The International team provides training and advice to foreign governments on their infrastructure plans and programmes.

**46 schools**

under the Priority Schools  
Building Programme, and the

**£340m**

**Midland Metropolitan  
Hospital,**

are being delivered via PF2

The UK Guarantees  
Scheme has so far issued

**£1.7bn**

worth of  
**guarantees,** supporting

**£4bn**

of investment in  
**9 UK infrastructure  
projects**

The IPA has  
advised over

**60**

**foreign governments**  
on their infrastructure  
plans and programmes

### Example

The Finance team supported the financing of the Mersey Gateway Bridge - a new tolled crossing of River Mersey (Runcorn-Widnes) in North West England. The £605 million project was financed using a mixture of debt, equity and mezzanine products. As part of this package, UKGS supported the issuance of £257.2 million 29-year guaranteed senior bonds.



# PPP Team within IPA

*“Setting the conditions for the successful delivery and operation of Public Private Partnerships”*

- To set, maintain and implement PPP policy in England and work closely with the Devolved Administrations on their policies.
- Ensure effective delivery of new PF2 projects building on the successful implementation of the recent pilot PF2s.
- Support contracting authorities – dealing with operational issues and maximising the potential of the Operational PPP Efficiency Programme.
- Provide advice and support to department Private Finance Units (PFUs)
- Provide advice and support to HMT spending teams.
- Manage fiscal and reputational risk around the PPP portfolio.

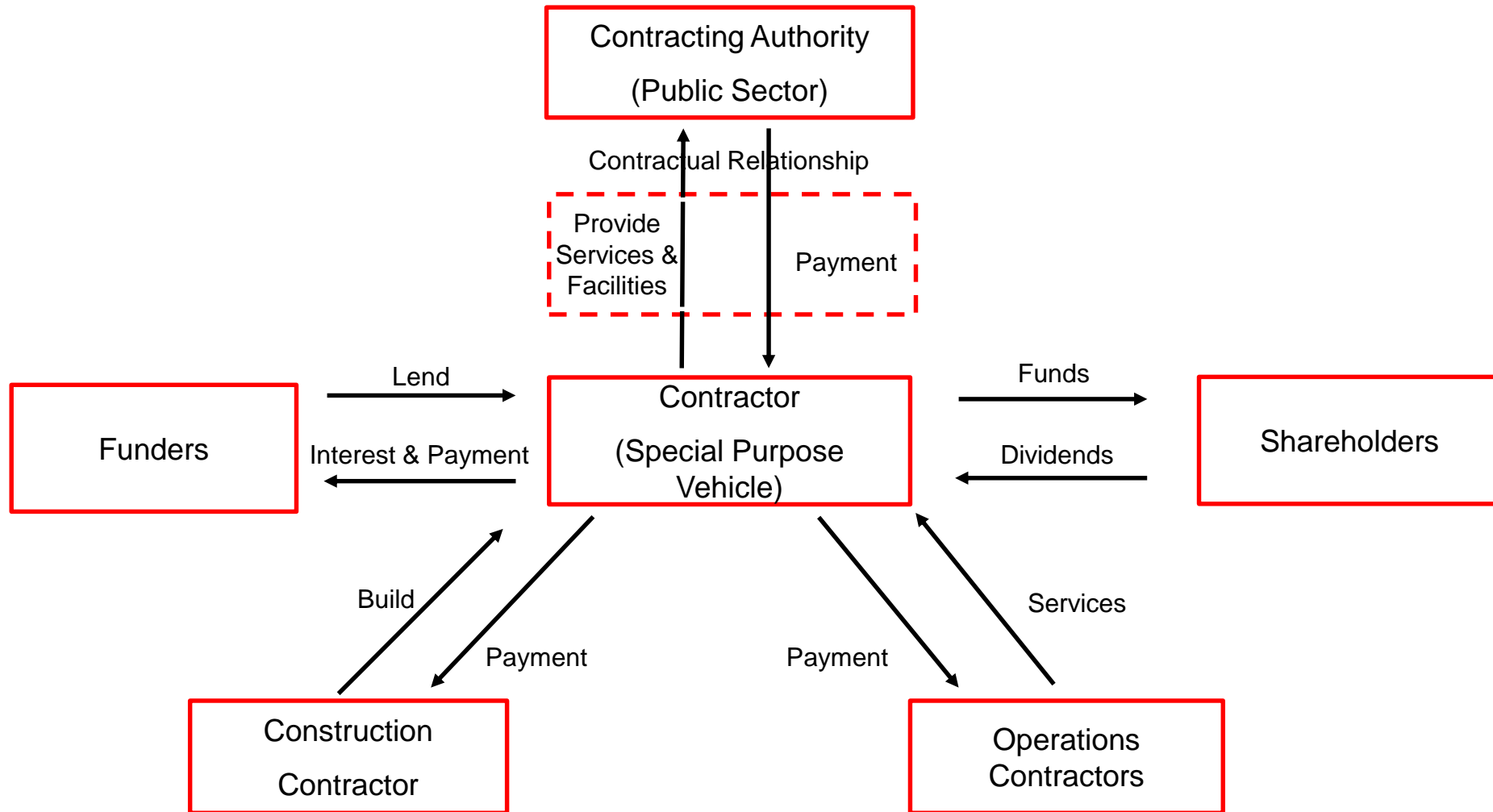


# The UK PPP Portfolio

(Data as at 31 March 2016)

- Approximately 716 PPP Projects.
- 686 Operational Projects
- Circa £59.4 billion capital value
- Approximately £209 billion of future (long term) Unitary Charge payments
- Over 120 projects will have been signed for more than 10 years – **changes in requirements are inevitable**
- Central, coordinated support to drive best value from long term commitments in changing environment essential

# A Typical PPP Structure in the UK





## Stakeholders Perspective & Requirements – Do they match?

PPP Phase	Funders	Private Sector	Public Sector
<b>Procurement</b>	Win deal at best margins – Supply chain robust, experienced and risks backed off, technical DD, syndication,	Minimum effort, competition, low bid costs, robust supply chain arrangements, relief events, compensation events, security Package. Risk backed off, technical DD (equity)	Best Value for Money to meet output specifications. Competition, Lean Procurement, technical DD (equity)
<b>Construction</b>	Manage construction drawdown, good communications, quality of build, technical compliance	Build on time – meet output requirements with minimal efforts – mobilisation and relationships (avoid LADs)	Quality maintained – no changes. Fully commissioned and compliant-adequate handover with 'soft-landings'
<b>Operations</b>	Protect Investment – debt and interest paid, rating maintained and relationships positive. Funders not exposed	Protect Cash – Maintain ratios, pay funders, pay shareholders, risk passed down and managed, cash flows efficient, maintain rating, secondary markets, churn	Get services delivered at no extra cost to the correct standard, output specs and KPIs maintained and handback criteria being met. Consistency, secondary market (risk)



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# The Perception of UK PPP

**Big and Bold**

**Complex and Difficult to do**

**Buildings or Service Transformation?**

**20+ Years Experience**



What Have  
we learned?





# Some Key Lessons Learned

- Services designed for 100% occupancy with surge potential
- Design flexibility key – clinical practices will change over life of project.
- Passive PPP Management philosophy not great.
- Ensure contracts have teeth usable contract levers
- Strong management essential
- Do things in ‘real-time’
- Public sector teams have to have capability and capacity throughout
- Build quality defects have to be avoided
- Output Specifications and KPIs have to be good to avoid future problems
- Strong management essential
- SPV, Construction & Service Delivery partners from the same organisation should be avoided





# The Supply Chain

Selection of the correct Supply Chain is essential and its importance cannot be understated

Market capacity and capability has to be there to meet the public sector requirements:

- Large concurrent construction programmes need large construction companies with robust supply chains for package delivery.
- Geographical packaging can make delivery easier or equally extremely difficult.
- Market sounding will always say yes.
- Day to day operations for 25 – 30 years can stress supply chains.

A PPP Project will only be as successful as the weakest stakeholder be it public sector, external advisors, primary supply chain stakeholder, secondary level supply chain stakeholder, specialist supply chain stakeholders and, not to be forgotten, policy makers (A policy has to be deliverable, meaningful and measurable).



# A UK PPP supply chain Example



## PSBP – Delivery of 46 Schools capital value £750m

- Batch 1 - HLR 7 Schools
- Batch 2 - NE 12 Schools
- Batch 3 - NW 12 Schools
- Batch 4 - Yorks 7 Schools
- Batch 5 - Midlands 8 Schools

How did the supply chain respond to this challenge?

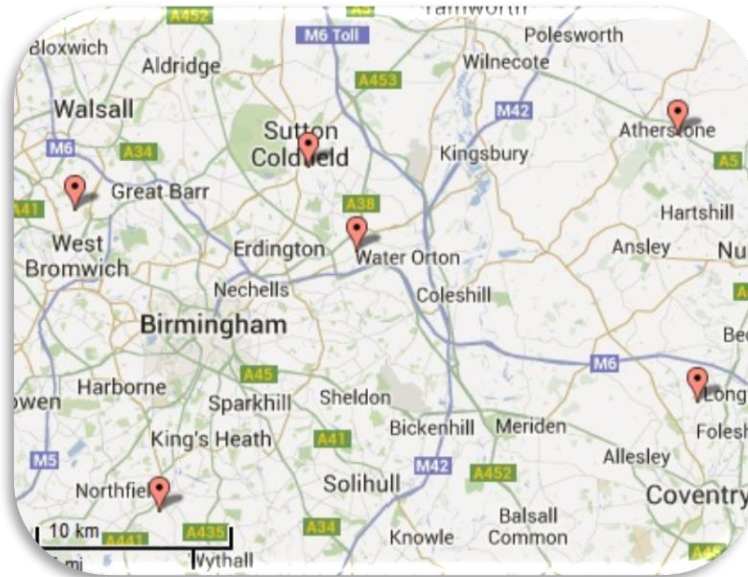
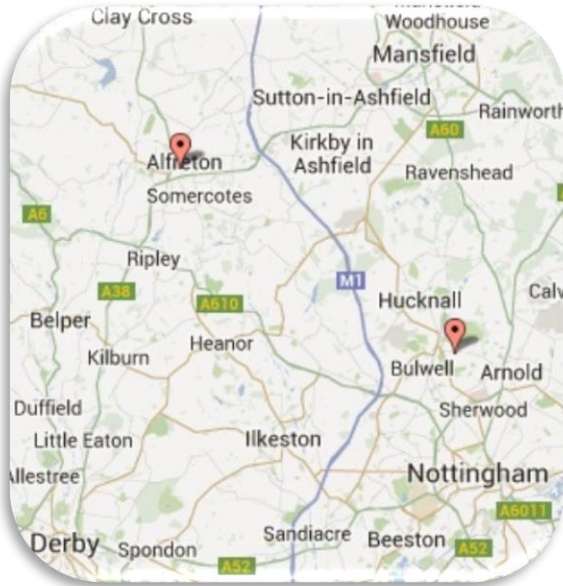


## Midlands PF Batch £122m

**Advisors:** Ashursts, Grant Thornton, Arcadis

**Construction:** Laing O'Rourke

**Facilities Management:** Laing O'Rourke





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## North East PF Batch (£94m)

**Advisors:** Ashursts, EY, Mott MacDonald

**Construction:** Galliford Try Plc

**Facilities Management:** Galliford Try Plc







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Supply Chain Risk – Has to be fully considered and mitigated no matter what the sector



**Construction:** Carillion Construction

**Facilities Management:** Carillion Services

Sandwell Metropolitan Borough Hospital -  
£300m capital value PF2 – In Construction

Supply Chain has to be experienced and the risk has to be spread – A few examples



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**Balfour Beatty**

  
**carillion**

  
**wates**

 **Interserve**

**COSTAIN**

**LAING O'ROURKE**

Sir Robert  
**McALPINE**

**MORGAN  
SINDALL  
GROUP**



# Summary

- UK has an extensive and mature PPP Portfolio
- Over 20 years experience in development, procurement, delivery and operations of PPP projects
- PPP Projects in all sectors: Health, Education, Defence, Law & Order, Highways to name a few
- We have made mistakes along the way and have learned and continue to learn from our mistakes
- PPP is a partnership and is only as good as the weakest stakeholder or supply chain member
- It can only work as a long term partnership that is transparent, open, honest, mature and proactive

Sorry this has been a rushed presentation but time constraints apply

**Thank you for listening**



# Infrastructure and Projects Authority



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