



# Major Projects in a Changing Financial World: an MPA seminar held at Templeton College, Oxford, in January 2000

*MPA events are confidential. They provide a forum where someone involved in a major project can tell it the way it was. This summary is available to both members and non-members, and care has been taken to ensure that its contents do not breach confidentiality. This account cannot, therefore, do full justice to the event, so members please read the full proceedings when you receive them. Best of all, members, come to the events. Non-members, think about joining!*

## **Participants**

Over 50 participants attended the seminar and the following organizations were represented:  
BAA Plc, Balfour Beatty Major Projects, Barclays Capital, Bechtel Ltd, British Telecom Plc, British Trade International, British Energy, Brown & Root, CMS Cameron McKenna, Costain Group Plc, European Investment Bank, Freshfields, George Corderoy & Co, Herbert Smith, High-Point Rendel Ltd, HM Treasury Taskforce, Linklaters & Alliance, Macquarie Bank, Mott MacDonald, Ove Arup Partnership, PA Consulting Group, PricewaterhouseCoopers, Railtrack, AEA Technology, Rolls-Royce Marine Power, Scott Wilson Group, Sir Robert McAlpine, Taylor Woodrow Construction, Templeton College, Thames Water, University of Birmingham, Willis Corroon Construction Risks Ltd, WSP Group

- How are public–private partnerships (PPPs) working out?
- Have the hard and sometimes painful lessons of early PFI projects really been taken on board?
- How is the public sector improving its procurement procedures?
- Are the new ways of funding winning support?

The seminar considered leading questions like these and came up with points for action.

## **Action: the strategic issues**

The speakers came from diverse backgrounds, but there were clear messages for action for all the parties, both on a strategic and a more practical level:

### **Government**

- Improve public sector procurement procedures
- Ensure greater continuity of procurement staff
- Learn to delegate within the procurement hierarchy
- Set priorities in public sector projects in transport and other areas
- Set cut-off dates for the definition of projects
- Consider the benefits of co-funding TENs or other infrastructure projects. (The banking and contracting sectors would like to see the CTRL refinancing structure replicated but government is less enthusiastic)

### **Government and private sector**

- In certain sectors in Europe, there is little private involvement to date—PPPs could be developed to the benefit of the economy
- Consider using the PFI structure for a non-PFI project—one contractor reported warmly on the benefits of packaging a private sector project in this way

### **Banking**

- Make sure that the benefits of your financial products are fully communicated

### **All parties**

- Improve the tendering process
- Foster partnerships
- Keep an open mind over new sources of funding
- As we move towards European Monetary Union, rethink the rules of the game as far as corporate governance and, in turn, the funding of projects are concerned

## Action: tactical tools

The strategic principles were complemented by more detailed observations as to how change could be brought about.

### *Government*

- Use your new body, Partnerships UK, to ensure that projects offered on the market are of high quality and well thought through; to set out a career path in procurement in the civil service; to help with raising capital; and to speed up the whole procurement process

### *Government and private sector*

- Structure PPPs carefully—there are examples of floundering PPPs all over Europe. Governments sometimes bail out projects, but they don't always
- Maintain a strong client involvement—public sector organizations who regularly procure construction projects demonstrate the real difference that an experienced client can make
- Benefit from the massive investor demand in the bond market—consider using bonds for project funding

### *Banking*

- Bonds are widely perceived as having a number of disadvantages as compared to loans—it is time that these myths were exploded

### *Funding institutions*

- In the general enthusiasm for technology stocks, don't overlook the solid long-term value offered by infrastructure funds

### *All parties*

- Long-term partnerships are important—all parties must commit to making them work
- Tendering costs present a huge risk to all contractors and PFI has worked to the disadvantage of many contractors. Streamline procurement in the public and private sector (compress the stages, if possible), decide if working with a preferred bidder is the most cost-effective way and don't let the lawyers re-invent the wheel.

## **New ways of funding projects: M2 motorway in Sydney**

*Need for the project:* Sydney's suburbs grew without good arterial roads. To enhance the economy of the Sydney metropolitan area, a new road was needed out to the north-western suburbs.

*Meeting the need:* A 20-km toll road, the M2 motorway, was conceived. The tender was won by a consortium led by the Abi Group, which teamed up with Obayashi, the Japanese contractor. The forecast daily traffic was 72,000 vehicles. The minimum concession period was 36 years.

*Financing plan:* The financing plan had a number of novel features. Financial close took place in December 1994, with listing occurring directly after. The initial finance plan was made up of:

RPI indexed bonds	£100m
Bank debt	£55m
Equity	£90m
Total funding	£245m

*Outcome:* The road opened in early June 1997, six months early, causing the share price to shoot up. Then the traffic forecast of 72,000 vehicles a day proved wrong and daily traffic was only 43,000 vehicles, so the share price fell. The traffic gradually climbed to 66,000, and the share price rose again. The project was refinanced in September 1999, and two and half years on, the share price was 2.5 times the original investment. Investors felt comfortable with the investment and Macquarie Bank, which had arranged the finance, went on to develop and own other infrastructure projects.