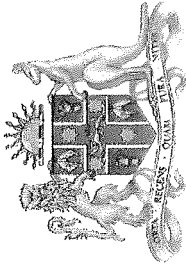


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Balance of Risk and Reward in PPPs

Australasian Council of Public Accounts Committees

New Zealand

April 2009

Peter Achterstraat - Auditor-General, NSW

Glenn Poole - Auditor-General, Queensland

Jeremy Lonsdale - Director, National Audit Office, UK

What is a PPP?



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PPF Privately Financed Project

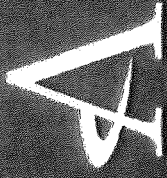
PPP Private Public Partnership

PFI Private Finance Initiative

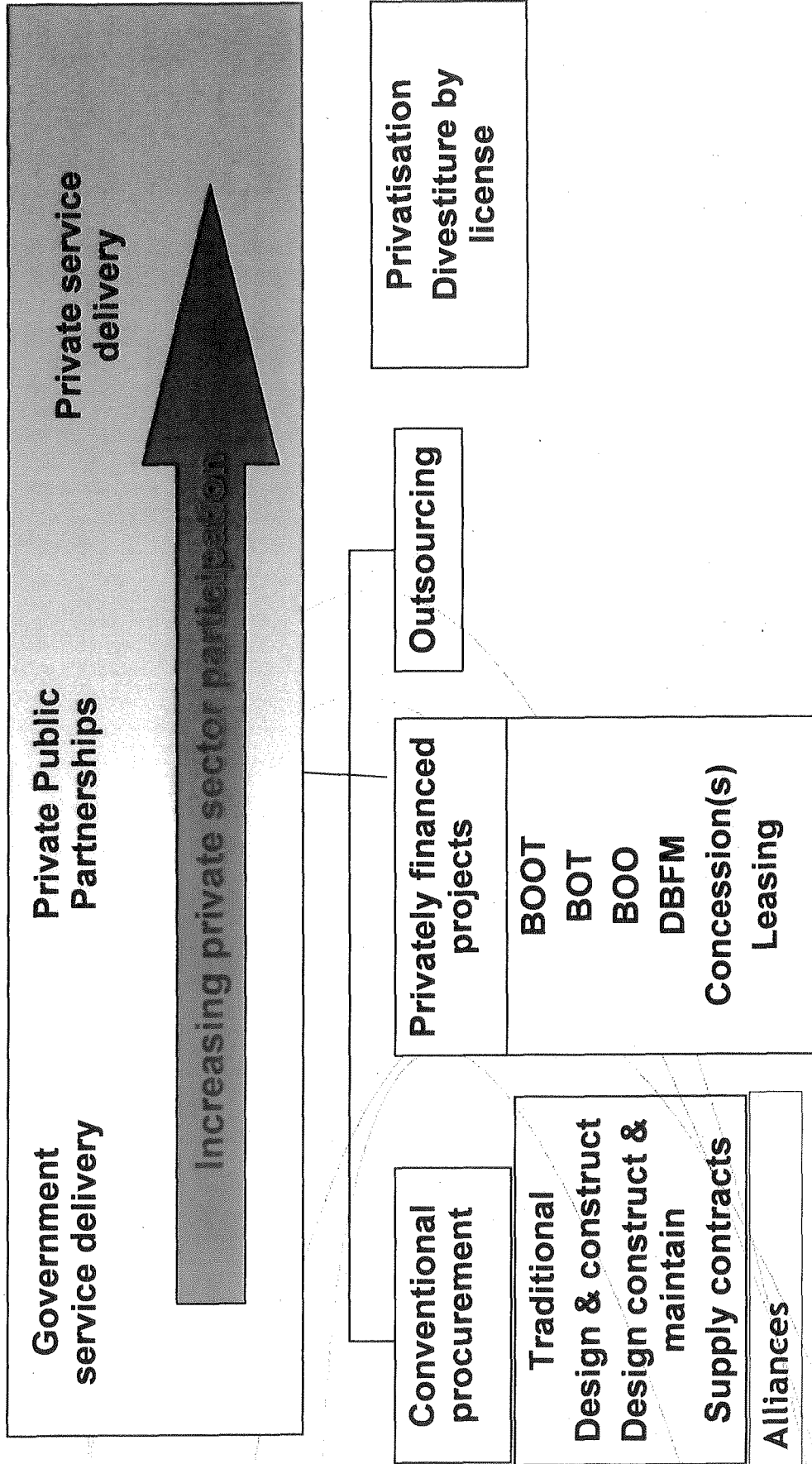
BOOT Build, Own, Operate, Transfer

DBFM Design, Build, Finance, Manage

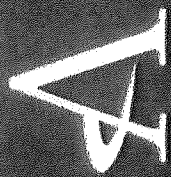
Methods of Procurement



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Types of PPPs



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- **Economic PPPs - Toll road**
- **Social PPPs - Schools, Hospitals**

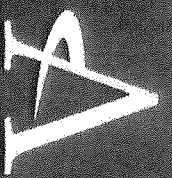
Major PFPs Awarded Under Current Guidelines



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- New Schools 1 and 2
- Cross City Tunnel
- Westlink M7
- Lane Cove Tunnel
- Parramatta and Chatswood Transport Interchanges
- Newcastle Mater Hospital
- Long Bay Prison and Forensic Hospitals
- RailCorp Rolling stock

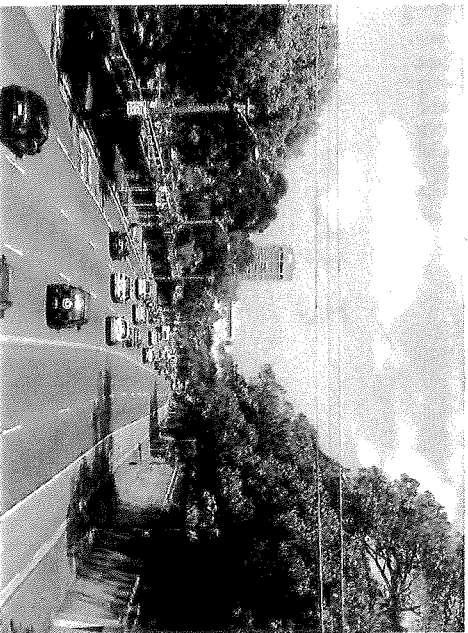
Funding Example



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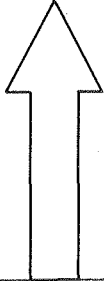
Toll Road

Capital Costs (excluding land)	\$1,000M
Operating Costs (excluding finance)	\$ 50M p.a.
Revenue	\$ 200M p.a.



Equity	\$350M
Debt	\$650M

SPV builds road
for \$1,000M



SPV P/L Account

Tolls \$200M p.a.

Less:

Financing Costs \$ 35M p.a.

Operating Costs \$ 50M p.a.

Total Cost \$ 85M p.a.

Profit \$115M p.a.

Risks



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a. Building Costs

b. Financing Costs

c. Operating Costs

d. Revenue Stream

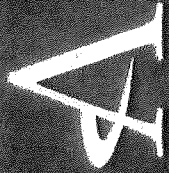
Risk Identification and Allocation



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- Site Risk
- Design, Construction and Commissioning Risk
- Sponsor Risk
- Financial Risk and Benefits
- Operating Risk and the Payment Mechanism
- Market Risk
- Network and Interface Risk
- Industrial Relations Risk
- Legislative and Government Policy Risk
- Force Majeure Risk
- Asset Ownership Risk
- Tax Risk

Risks



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What can go wrong?

and

Who pays for it?

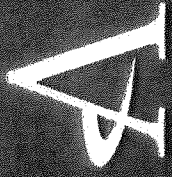
What Can Go wrong?



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1. Cost overrun
2. Construction date blow out
3. Lack of revenue - low patronage
4. Maintenance cost overrun
5. Obsolescence
6. Unable to roll over finance
7. SPV in liquidation

Who Pays For Things That “Go Wrong”?



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**This depends
on the terms of each
particular contract**

Government Guarantees



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Building Costs

- i. Government builds access roads etc

Financing Costs

- ii Direct Grant
- iii Co-lender
- iv Credit guarantee

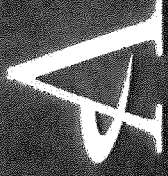
Operating costs

- v Capped

Revenue Stream

- vi Ensured revenue stream

Role of Auditor-General on PPPs



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- Pre-contract summary
- Financial audit of relevant government agencies
- Performance audits



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THANK YOU

