

South East Wales Best Practice Club

Funding of Infrastructure in Wales

24th September 2013

Cardiff

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Tony Norris

Chair

South East Wales Best Practice Club

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Ed Evans

CEW

Director Exemplar Programme

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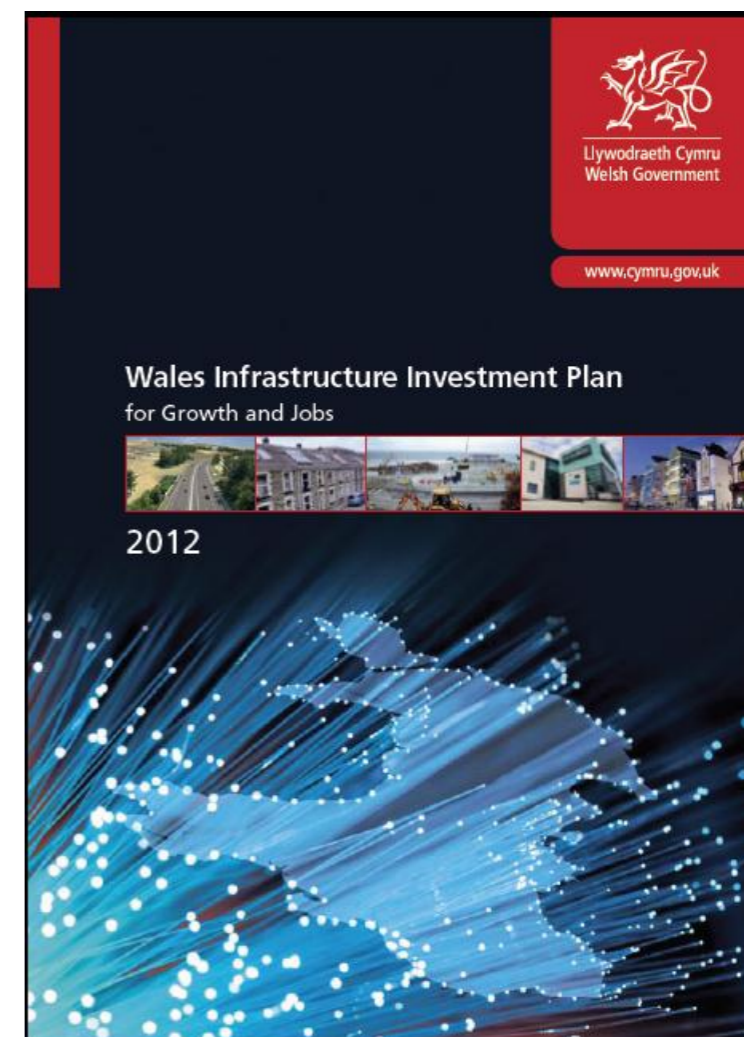
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IN WALES



Llywodraeth Cymru
Welsh Government

Wales Infrastructure Investment Plan

www.cymru.gov.uk



Matthew Pizii / Steve Davies

Summary

- Context for developing the WIIP
- Three key areas of work
 - Boosting resources available for investment
 - Improving planning and prioritisation
 - Increasing visibility / knowledge
- Progress to date
- Innovative Finance

Context

- Government commitment / Opportunity
- Good economic case for well chosen infrastructure investment
 - demand effects
 - long term impact on growth prospects
- Strong investment need in most key sectors in Wales

Three key areas of work

- Boosting resources available for investment
- Improving planning and prioritisation
- Increasing visibility / knowledge

Progress to date

- Annual Report / Pipeline - June 2013
- Ongoing updates - Autumn 2013
- Next full revision of the plan 2016 ?
- Key priorities for further work
 - engage
 - improve pipeline
 - stronger longer-term focus



Innovative Finance

- Why
- Current work
- Future opportunities



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Funding of Infrastructure in Wales

Factors in Successful PPPs

By
Robert Young, Managing Director
BAM PPP UK and Ireland

PRESS SPACEBAR



Agenda

- 01 ➤ BAM PPP experience
- 02 ➤ Financing
- 03 ➤ Problems with PFI
- 04 ➤ Other models
- 05 ➤ Success factors
- 06 ➤ Local SME involvement



BAM PPP

- 01 ➤ Active since 1995
- 02 ➤ UK, Ireland, NL, Belgium, Germany
Switzerland
- 03 ➤ 35 projects, including
- 04 ➤ 10 roads – operational since 2005
 - 275km / €1.7bn
- 05 ➤ 10 schools – operational since 2003
 - 42 No. / €800m
- 06 ➤ Others include – hospitals, prisons, police HQs, courts & railways



Financing

- 01 ➤ Since 1999
- 02 ➤ Debt raised €4bn
 - 36 commercial banks + EIB (European and Japanese)
 - Institutional Investors / debt funds (Aviva, Allianz, NPRF)
- 03 ➤ Equity invested €250m
 - JV partners
Dutch Pension Fund – PGGM



Financing

- 01 ➤ Remains available
- 02 ➤ Across 19 active bids
- 03 ➤ 36 commercial banks + EIB
(European and Japanese)
- 04 ➤ 12 alternative financing options
(Institutional investors / debt funds)
- 05 ➤ Increased security required
 - Guarantees
 - 45% liability cap
 - Performance bond (> 20%)
 - BBB- credit rating
 - Letter of credit (> 10%)



Problems with PFI

- 01 ➤ Bad press
- 02 ➤ Lengthy process
- 03 ➤ High procurement costs
- 04 ➤ Poor value for money?
- 05 ➤ Lack of transparency
- 06 ➤ Lack of flexibility



Successful delivery

- 01 ➤ Good for all parties
 - Partnership
- 02 ➤ Public sector
 - VFM, transparent, flexible
- 03 ➤ Private sector
 - Risk v reward, efficient process
- 04 ➤ Debt providers
 - Robust, well developed, supported



Scottish NPD model

- 01 ➤ Procurement process
 - Reference design, dialogue uploads
- 02 ➤ Increased public sector involvement
 - Public sector director
- 03 ➤ Reduced risk transfer
 - Title / property
 - Utilities
 - Change in law
 - Hard FM
- 04 ➤ Capped returns for the private sector
 - Debt interest
 - No dividends
 - Surpluses returned to public sector



HMT PF2

- 01 ➤ Procurement process
 - Reduced timescale (18 months), centralised (PSBP), reference design, planning consents, reduced bid costs
- 02 ➤ Increased public sector involvement
 - Equity and director
- 03 ➤ Transparency
 - Information on returns to be published
- 04 ➤ Reduced risk transfer
 - Title / property
 - Utilities
 - Hard FM
 - Change in law
 - Insurance



EU and Irish experience

- 01 ➤ Less politicisation
- 02 ➤ Conventional PFI
- 03 ➤ Central procurement
- 04 ➤ Project pipelines
 - Irish Stimulus Programme
- 05 ➤ Acceptable, bankable contracts
- 06 ➤ Shorter timescales
 - Pre-PB (Ireland), post-PB (NL)
- 07 ➤ Lower bid costs
- 08 ➤ Losers' fees



Factors in successful PPPs

- 01 ➤ Central procurement
- 02 ➤ Appropriate risk transfer
- 03 ➤ Clear requirements
- 04 ➤ Supplementary information
- 05 ➤ Good dialogue
- 06 ➤ Expert staff and advisers
- 07 ➤ Bidder innovation
- 08 ➤ Clear bid evaluation criteria
- 09 ➤ Bid costs and reimbursement



SME involvement

01 ➤ Opportunities

- Ownership
- Employment
- Knowledge
- Resources
- Environment

02 ➤ Challenge

- Balance sheet strength
- Security package
- Liability (J&S)

03 ➤ Solution

- Partnering
- Supply chain assembly (subcontracting)
- Associated contracts (enabling works)





Thank you

MAIN SCREEN



Financial Advisors for Infrastructure

24 September 2013



TREASURY & DERIVATIVES | DEBT ADVISORY | PROJECT FINANCE | CORPORATE FINANCE

The best of other PPP models

Netherlands & Canada

- Meet their timetables
- Bid bonds
- Committed finance on final bid – but excludes some funding sources
- 2 centralised procurement agencies

Ireland

- EIB JV with Bank of Ireland
- Pay bid costs to losers
- NDFA – centralised procurement
- Central government counterparty

Scotland

- SFT – centralised advisory & policy body
- NFP
- Revenue funded
- No balance sheet games

England

- PSBP
- Centralised procurement
- Central government counterparty
- Rigid standard docs

Funding models

USA

- TIF Muni Bonds
- TIFIA

England – CTRL

- Bonds fully guaranteed
- Contingent liability

Netherlands

- Solvency free debt

France

- Cession Dailly



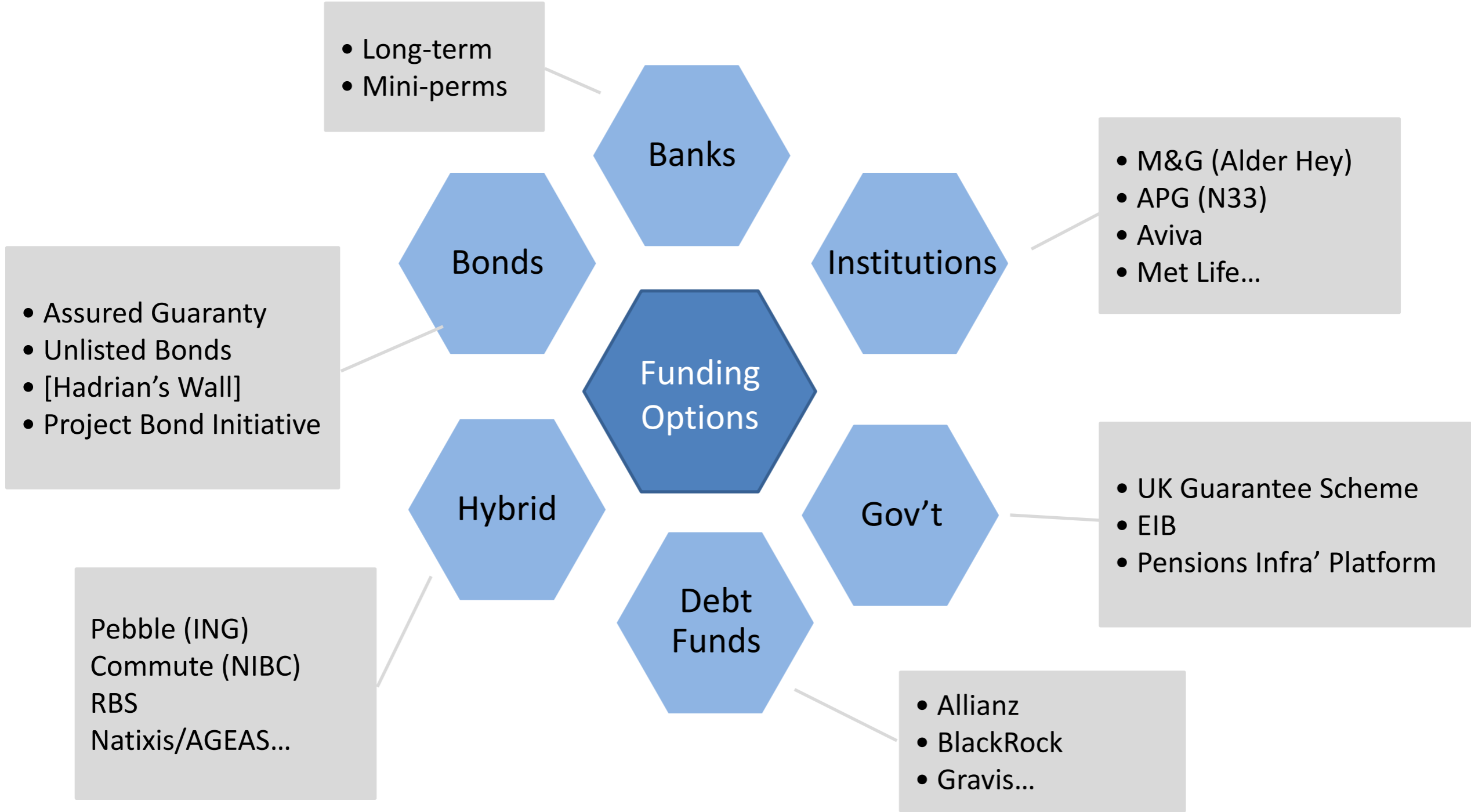
TIFIA

- The Transportation Infrastructure Finance and Innovation Act (TIFIA) program
- Provides Federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance
- TIFIA credit assistance provides improved access to capital markets, flexible repayment terms, and potentially more favourable interest rates than can be found in private capital markets for similar instruments
- TIFIA can help advance qualified, large-scale projects that otherwise might be delayed or deferred because of size, complexity, or uncertainty over the timing of revenues
- Each dollar of Federal funds can provide up to \$10 in TIFIA credit assistance - and leverage \$30 in transportation infrastructure investment

Aggregators (PSBP)

- Spreading set-up costs
- Ensuring a programme of projects
- Scalable
- Refinancing risk
- Ratings – probability of default
- Portfolio effects
- Varying credit quality of partners
- Markets move to compete

Current UK debt structures



Appendix – Centrus Credentials, CVs & Contact Details

Who we are



- 11+ mostly ex-Royal Bank of Canada employees
- Based in central London
- Specialising in Infrastructure, Housing and Utilities advisory
- Bank debt, institutional debt and equity
- Including dedicated specialists in derivatives
- FCA regulated
- Launched June 2012

www.centrusadvisors.co.uk

Low cost, high quality, financial advice
Focused on helping our clients to win business

Centrus specialises in:

Sectors

- Government Offices
- Health & Hospitals
- Housing & Urban Regeneration
- Rail
- Renewable Energy
- Roads
- Schools
- Secure Accommodation
- University Student Accommodation
- Utilities
- Municipal Waste
- Water and Waste Water

Products

- Full project financing advisory service
- Full debt and treasury advisory service
- PPP/PFI bid advice
- Secondary equity sales management
- Refinancing, roll-over and restructuring analysis and advice
- Project bond issue and private placement advice
- Feasibility studies and option appraisals
- Financial modelling
- Operational models and business plan models
- Swap valuation and restructuring advice
- Portfolio modelling

Currently advising on projects in the UK, the Netherlands, Sweden and Canada

Credentials since launch:

Infrastructure	 <p>TBI</p> <p>B30 Hague</p> <p>€40m Financial Advisor Ongoing</p>	 <p>Balfour Beatty</p> <p>Dumfries & Galloway Hospital</p> <p>£200m Financial Advisor Ongoing</p>	 <p>mutualenergy A Northern Ireland company working for consumers</p> <p>Gas to the West Northern Ireland</p> <p>£200m Financial Advisor Ongoing</p>	 <p>campus living villages</p> <p>Royal College of Music</p> <p>£30m Financial Advisor Ongoing (PB)</p>	<p>CONFIDENTIAL MANDATE</p> <p>Sell-side M&A</p> <p>Financial Advisor Ongoing</p>
	 <p>SKANSKA Innisfree</p> <p>New Karolinska Hospital</p> <p>SEK 18bn Financial Modelling Ongoing</p>	 <p>Kelda Water Services</p> <p>Projects Aberdeen & Alpha</p> <p>Financial Modelling Ongoing</p>	 <p>Jlif</p> <p>Peterborough Hospital (Equity purchase)</p> <p>Financial Advisor Closed 2013</p>	<p>CONFIDENTIAL MANDATE</p> <p>PPP restructuring</p> <p>Financial Advisor 2013</p>	 <p>carillion</p> <p>Birmingham Energy Savers (Green Deal)</p> <p>Financial Advisor Closed 2012</p>
	 <p>Llywodraeth Cymru Welsh Government</p> <p>PRINCIPALITY BUILDING SOCIETY</p> <p>Ely Bridge Structuring, Debt & Equity Raising</p> <p>Ongoing</p>	 <p>orbit group</p> <p>£100m Shelf Facility (Pricoa)</p> <p>2013</p>	 <p>curo</p> <p>£75m Private Placement (M&G)</p> <p>2013</p>	 <p>Genesis</p> <p>£125m Sale & Leaseback + £60m PP (M&G)</p> <p>2013</p>	 <p>Southern Water</p> <p>£250m Public Bond Issue</p> <p>2013</p>

The Team



Matthew Houseley has advised clients on the structuring and financing of European project financings for over 20 years. Matthew worked for Royal Bank of Canada for 12 years following a 9-year career at Greenwich NatWest and was the Managing Director, Head of RBC's Social Infrastructure team. Matthew has helped to deliver funding for government offices, hospitals, housing, rail, renewables, roads, schools, secure accommodation, universities, waste and water projects. Other work has included advising clients on equity disposals (typically PFI or PPP related), as well as regeneration initiatives and restructurings and capital raisings. Matthew is currently working on projects in the UK and the Netherlands and has previously worked on projects in France, Ireland, Italy, Sweden and the USA. For the first six months of 2003 Matthew was seconded to Partnerships UK where he established the Refinancings Taskforce. Matthew holds a BA in Physics from Jesus College, Oxford University.



Richard Dodson has been a financial advisor on project finance transactions for 10 years. For 6 years, he was part of Royal Bank of Canada's Infrastructure Finance team where he advised sponsors primarily on PPP/PFI transactions. This has included funding structures using bank debt, capital markets and also institutional funding. This has involved optimising the financial and commercial aspects of the bid strategy and developing financial models to analyse the project. He has worked on projects across a range of sectors including both social infrastructure and transportation, predominantly in the UK but also in a number of other European countries. Prior to RBC, Richard was at Operis Business Engineering where he led one of its three modelling teams. Richard is a Chartered Financial Analyst and has completed London Business School's Corporate Finance Programme.



Stephanie Paillat previously worked at Royal Bank of Canada for 5 years, structuring finance and providing financial advice for infrastructure projects in the UK, France and Sweden in health, education, transportation and accommodation projects. Prior to RBC, Stephanie worked for 6 years at PwC in Paris and London. She started as an auditor, certifying regulatory accounts for financial institutions. Then she spend 3 years advising large investment banks on risks associated with their activities with a special focus on regulatory compliance (Basel) and financial performance management. She developed there a strong knowledge and expertise of financial products. Stephanie holds a Master of Science degree from the Ecole Centrale de Lyon, in France, where she studied Mathematics and Physics.

The Team



Phil Jenkins is a leading figure in the financing of the UK residential sector and has extensive investment banking experience spanning 15 years across the banking and capital markets as well as debt advisory. Phil has played a central role in the development of the bond market for the residential sector and, having structured, arranged and sold many of the housing related bond issues since 2008, has extensive contacts and a high profile amongst the major institutional investors in the UK. As well as setting up the first EMTN borrowing programmes and the first unsecured bond structures for housing associations, he has advised many of the UK's leading housing providers on their funding strategies, funding options, debt raisings and bank negotiations. Phil is a regular conference speaker and press contributor on housing finance and sits on the boards of two housing associations.



Geoff Knight has over 20 years of investment banking experience and has been a leading figure in advising European corporate borrowers on accessing the capital markets. Geoff most recently has worked for RBC Capital Markets (as Head of Corporate DCM in Europe), and prior to that at Lloyds Banking Group where he was instrumental in helping to build up the capital markets platform. Geoff has specialised in and is best known for originating, structuring and placing debt for infrastructure and utility companies in both the public and private sectors and has built broad based relationships with the leading institutional investors in these sectors. As well as advising on and leading primary debt raisings, Geoff has helped high profile clients plan and execute refinancing strategies, liability management and consent solicitation processes, investor positioning strategies, credit rating analysis, and creditor negotiations. Geoff is a Chartered Management Accountant and an Associate Member of the Association of Corporate Treasurers.



A corporate banker for over 25 years, Paul Stevens has considerable experience of structuring and arranging finance across a range of organisations and sectors, including housing, regeneration, education, healthcare and charities. Until May 2012 Paul led the housing finance business at Santander where he was responsible for relationships with over 300 customers and a loan portfolio approaching £10 billion. Under his leadership, the bank became one of the market leaders in delivering both loan and debt capital markets solutions. Now an advisor, Paul is well placed to support organisations with managing, arranging and restructuring their finance, recognising the challenging and ever changing financial markets. Paul has also served a non-executive of a major housing provider in the UK and has undertaken a number of consultancy roles on a voluntary basis. He is regularly invited to speak publicly both in the UK and internationally. Paul has an MBA from Henley where he graduated with distinction.



John Shinton led the Royal Bank of Canada's UK Housing Finance Team up to 2006 and has arranged over £4bn of finance for Housing Associations in both the bond and bank markets. He has led many of the most significant and innovative developments in private finance for social housing over the last 20 years, most notably: the establishment of THFC (the Housing Finance Corporation); development of rated cash flow structured HA bond issues; loan security trust arrangements; structuring the financing of the Gentoo Group and the financial modelling behind the new home purchase product the Gentoo Genie and a new venture created by the Welsh Government and Principality Building Society to unlock housing investment in Wales.



Mark Gomar has extensive investment banking and debt capital markets experience with a twenty year career at Swiss Bank Corporation (UBS), Charterhouse Bank and WestLB. Latterly at WestLB, Mark made the switch to asset management and became responsible for various distressed debt and private equity portfolios and subsequently spent three years with Nikko Principal Investments as a principal in private equity. More recently Mark has specialised in advising borrowers on accessing the non-bank debt markets in the UK as the financial crisis has engulfed the banking sector. A large proportion of the transactions he has worked on as investor or as advisor have involved the commercial property sector. He has also advised companies on pensions related issues. Mark is a graduate of Cambridge University and holds an MBA in Finance from Cass Business School. He has been a trustee of two London-based hospices, Trinity Hospice and Noah's Ark Children's Hospice.

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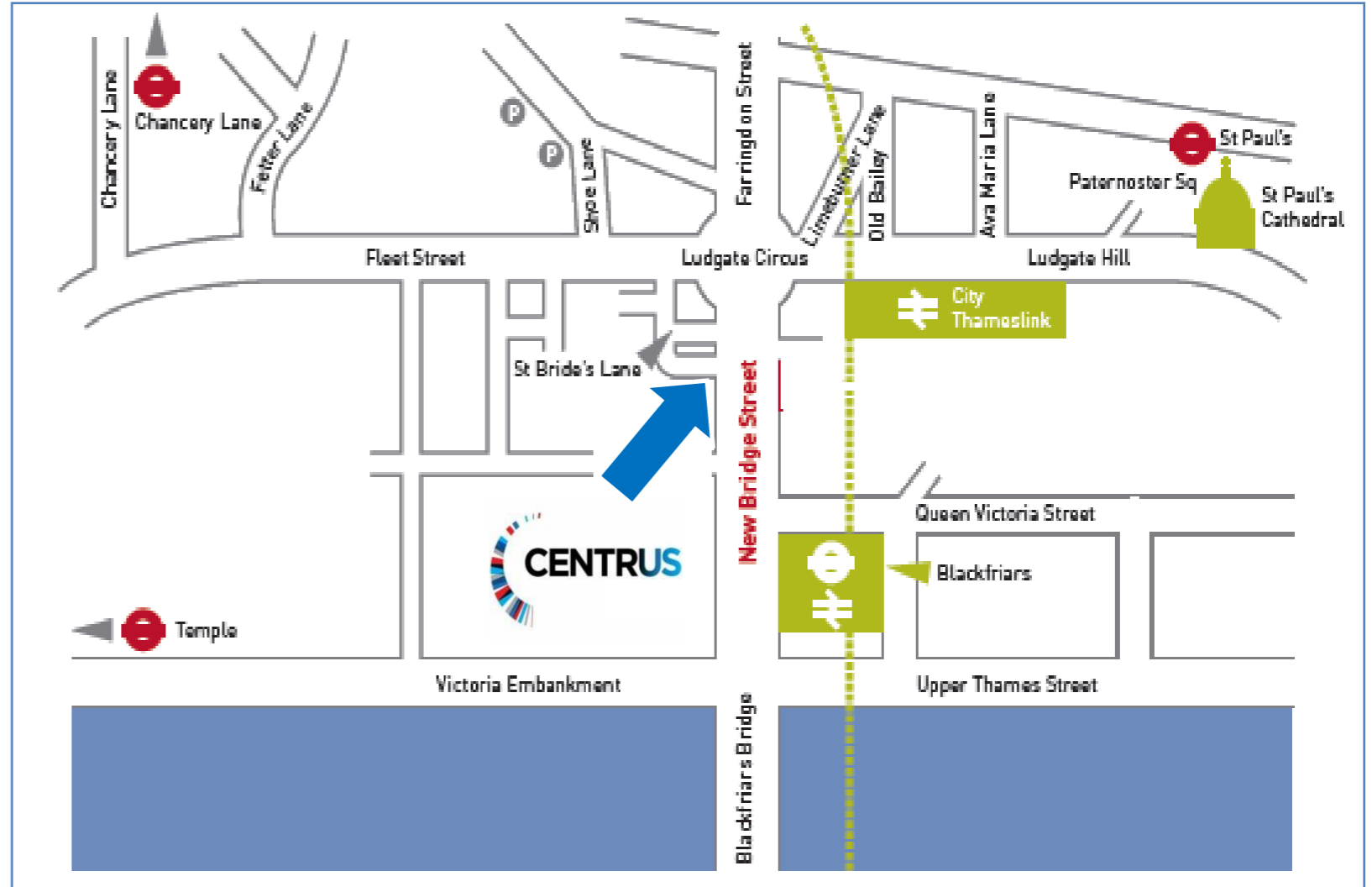
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DUNDAS & WILSON

Non-profit distributing (NPD) projects in Scotland

William Simmons
Cardiff, 24 September 2013

Presentation Agenda

- PFI-type projects – attitudes in Scotland
 - The NPD model
 - NPD – issues to be aware of/commercial considerations
 - SFT Standard documentation
 - Risk transfer changes
-

PFI-type projects – attitudes in Scotland

- Scottish Government policy
- Scottish Futures Trust – who are they/what do they do?



SCOTTISH
FUTURES
TRUST

NPD model – key characteristics (1)

- Seven "NPD model" projects signed in Scotland to date
 - Substantively equivalent to a 'traditional' PFI scheme
 - Project structure and shape generally unchanged eg
 - Contractual framework and authority/SPV risk balance broadly as per normal PFI
 - To date senior/junior raised in approx 90/10 proportion
 - Senior funder rights broadly unaffected
 - But.....
-

NPD model – key characteristics (2)

- SPV entity - nominal equity only (including for procuring authority)
 - SPV barred from making distributions. Surplus funds returned to public good. Investor return driven via sub-debt coupon
 - SPV board – still broadly controlled by private sector investors, but public sector appointees with residual protective controls
 - Public sector director has specific refinancing initiation rights. Broadly equivalent to 2008 HMT refinancing addendum rights
 - Underpinned by mandatory SPV articles of association, supported by complementary controls within Project Agreement
-

NPD model – issues to be aware of

- No strong incentive to retain risk at SPV level
 - Surplusing mechanism – frequency of cash sweep/reserving strategy
 - Places emphasis on return of profit via sub-debt and sub-contract margins
 - More limited market for NPD/interest from third party equity/funds?
 - Genuine benefit to public purse/political value?
-

SFT standard documentation

- All to be taken forward as NPD projects
 - SFT standard form documentation to be applied
 - Documentation drafted to suit accommodation – alterations to be made for other sectors on project specific basis
 - Origin of document – an amalgam of Scottish school and health standard forms
 - Broadly SoPC compliant
-

SFT standard documentation – risk transfer simplifications

- A small number of risks revisited, generally for "value for money" reasons
 - The key changes are:
 - Title risk to be broadly retained by public sector
 - Capital expenditure due to unforeseen change in law during 'operational' phase – retained by public sector
 - Energy price and consumption – retained by public sector subject to technical acceptance of relevant build standards
 - Insurance premium costs – broadly now a pass through cost
 - Scope of FM service – to be hard FM only as a general rule
-

DUNDAS & WILSON

Contact Details

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-

Dundas & Wilson

Leading UK firm:

We have acted in more than 120 PFI/PPP projects which have reached financial close in the UK.

We are ranked 1st for real estate; 2nd for utilities; 4th for regulation; 7th for finance companies; and 5th overall out of 100s of UK law firms in the latest Chambers survey of which legal firms act for FTSE 100 companies.

We are the number one firm in Scotland - with 22 Band 1 rankings in the 2012 UK Legal 500 and Chambers 2013 UK directories - more than any other firm.

Across the UK we have over 60 partners ranked in these directories as experts in their field and a number of senior associates and associates identified as legal stars of the future.

Innovative:

Financial Times top 30 firm in Europe for innovation.

Standout entry (second highest) for innovation in client service in the FT Innovative Lawyer awards 2012.

Highly Commended for innovation in client service in the FT innovative lawyers awards 2011, ranked alongside magic circle firms.

Ranked second in the UK for our ability to provide alternative billing solutions in the Legal Week Client Satisfaction Survey.

Winner of Most Innovative Client Service Initiative at the Managing Partner Forum Awards for Management Excellence 2013.

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Shortlisted: Deal & Dealmaker Awards 2013 - Legal Advisor of The Year

KEY FACTS

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Refreshment Break

10 minutes



Workshop Sessions

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**CONSTRUCTING
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IN WALES

- Challenges and Opportunities
- Impact on Welsh Construction
 - How to make it happen



Group Feedback



Summary

Tony Norris

