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**Alternative ways of financing
infrastructure**

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Introduction

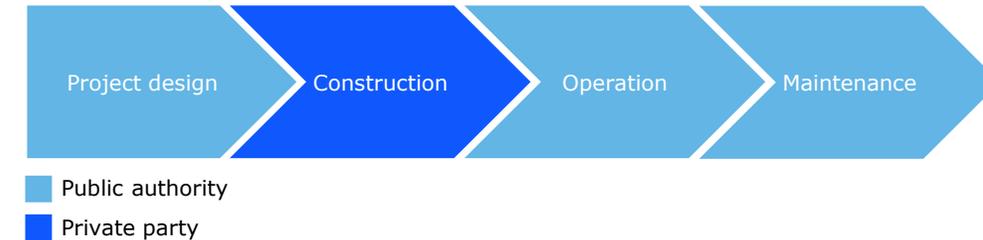
A short introduction to main elements in alternative financed infrastructure projects

PPP in DK

Focus on private sector involvement and the innovation that collaboration between public and private sector can foster

- PPP projects were initially introduced in Denmark in 2005, and the number of projects have steadily increased since then
- **PPP is not just PPP.** PPP is a procurement model used for a wide range of projects:
 - Availability based PPPs
 - Concessions
 - Commercial PPPs
 - Mixed models that are off balance sheet, long term and include financing from a private/commercial entity in different forms
 - PPPs with public financing focusing on life cycle costs

Traditional turnkey contract



PPP contract



PPP in DK

Focus on private sector involvement and the innovation that collaboration between public and private sector can foster

- PPP is not the goal. The goal is a solid contract that is taking risk allocation and life cycle cost into account
- Use some of the positive drivers from PPP in traditional contracts
- It is not making any sense to compare to financing cost without taking risk transfer into account
- The operational divisions in organisations are typically not very happy about a PPP project
- The goal is to unleash the potential in relation to public and private sector cooperation

Project overview

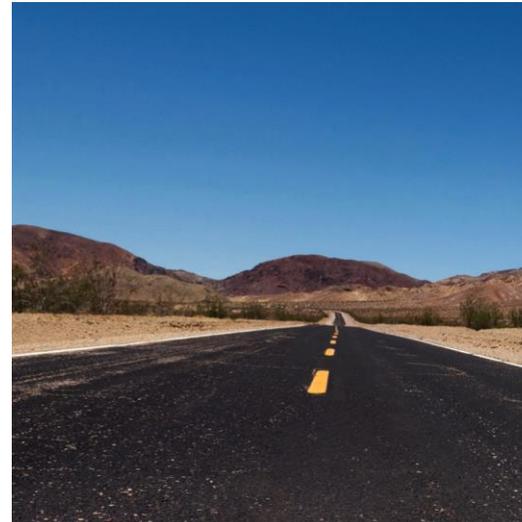
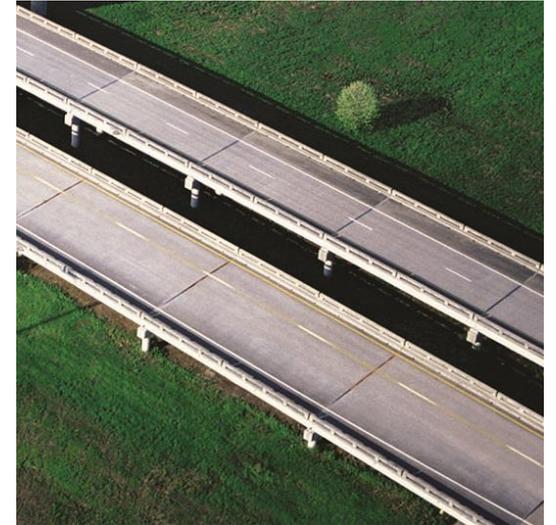
Some examples and learning points

The Kliplev-Sønderborg 26 km. highway

The first highway completed as a PPP project

Tender procedure: Competitive dialogue

- Deloitte Denmark advised The Danish Road Directorate (Vejdirektoratet) about financial modelling, development of payment model and general risk analysis as they developed the very first public highway completed as a PPP project in Denmark
- The PPP contract is structured in such a way that the highway is publicly owned throughout the operational phase, whereas the PPP supplier is responsible for financing of construction and construction as well as operation and maintenance for the first 26 years of the projects lifetime
- The PPP structure gives Vejdirektoratet a high degree of certainty about future expenses related to the project and it gives the PPP supplier an incentive to deliver the project on time as payments to the supplier starts with the completion of the project
- The Kliplev-Sønderborg highway was contracted at a price lower than Vejdirektoratet's initial estimated fair price and furthermore the project was delivered approximately 1 year prior to expected delivery and is therefore considered a great succes



P-house

Offered as a concession agreement

Tender procedure: Competitive dialogue

- Region Midtjylland wanted to establish a parking facility at the Regional Hospital in Horsens
- The region wanted to book a number of parking places that the region would provide free of charge to the region's employees. At the same time, it should be possible for patients and relatives to park in the facility for an hourly fee
- The project was offered as a concession agreement in which a supplier had to design, construct, operate and maintain a facility in a 20-year contract in exchange for the right to charge an hourly fee for a pre-specified number of parking places besides the parking places available for free for the region's employees
- Upon expiration of the contract, Region Midtjylland will repurchase the P-house from the PPP supplier for a pre-determined price
- The bidders competed to offer the lowest concession payment to cover the construction and financing costs and operation and maintenance during the contract
- With this structure, the Region had the possibility to engage in a positive or a negative concession payment. A positive concession payment is an expression of the supplier to receive a payment from the region to take on the contract. A negative concession payment is an indication that the supplier will provide a payment to the Region to have the right to charge user fees related to the p-house. This situation will thus be applicable where the supplier sees opportunities for an increased earning potential



Roskilde-Fjord bridge connection

A hybrid of a PPP and a traditional construction

Tender procedure: Competitive dialogue

- In connection with the establishment of the Roskilde Fjord link the minister of transportation has established a state owned vehicle (SOV)
- The state contributes 659.5 mio.kr (2014-price), which are deposited in the SOV, which means the economy of the SOV is separated from the state capital
- The SOV has the following purposes:
 - Promote a main road (4-lane expressway) that are classified as a state road that passed south of Frederikssund and connects the Roskilde Fjord on a high bridge. In addition, taking a 2-lane road that connects the said main road, classified as state road
 - Take out loans to finance the facility via Sund & Bælt
 - Collecting payment for the passage of cars, including establishing, operating and maintaining a payment device



Næstved radiotherapy

The first Danish hospital expansion contracted as a PPP project

Tender procedure: Restricted tender

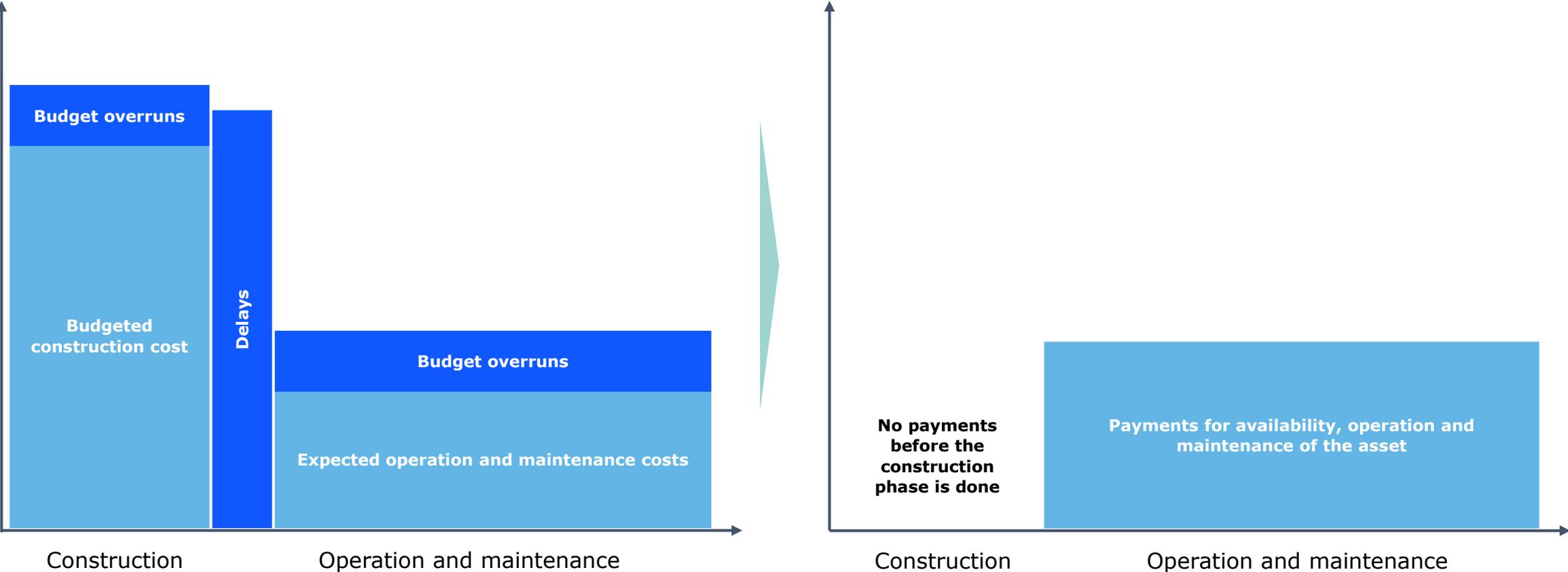
- Deloitte Denmark advised Region Sjælland in their PPP project concerning radiotherapy facilities at Næstved hospital, which was the very first Danish hospital expansion contracted as a PPP project
- In the project the PPP supplier will take over the existing radiotherapy building and also be responsible for projecting and constructing a new interconnected building
- Furthermore the PPP supplier will be financing the new and the existing building and responsible for outer operation and maintenance of the interconnected building
- In return Region Sjælland will be making quarterly availability payments to the PPP supplier and is furthermore obliged to buy back the building at a predetermined price after the operating period is ended. The operating period is initially set at 10 years with an option to extend
- Throughout the operating period the responsibility for treatment of patients, inner operation and maintenance as well as utility supply will remain with Region Sjælland



Introduction

From traditional turnkey contracts to alternative financed contracts

Cost profiles



Introduction

Main advantages using alternative finance

Enables the public sector to focus in outcomes and core business

Properly structured PPPs enable governments to focus on outcomes, instead of inputs. Governments can focus leadership attention on the outcome-based public value they are trying to create.

Value for money

Transfer of assets/service integration and whole life cost **risk** to the private sector can deliver improved service at reduced cost.

On-time & on-budget delivery

Payments are linked to the delivery of required outputs – thus PPPs have solid track record of on-time or early construction completion.

Ensuring that assets are properly maintained

PPP contracts require the contractor to maintain assets in good condition over the life of the contract.

Attract international contractors/investors

PPP is a globally recognized procurement model. The successful use of this model does attract contractors/investors/lenders as they recognize and understand the model. It can also be seen as the demonstration of a maturing and credible economy.

Focus on service performance

Private-sector infrastructure providers reliant on continuing revenue stream so incentivised to provide good service.

Affordability

When governments can't afford capital costs upfront due to the budgetary constraints, PPP allows the option to spread the costs over the asset's lifetime. This can allow projects to proceed that would otherwise be unaffordable.

Dos and don'ts

Based on our experience

Do's

- Select projects suitable for using private finance
- Prepare the tender in a close dialogue with the market
- Dedicate resources to properly structure the tender and the contract, and to manage the process
- Dedicate resources to manage the contract beyond procurement
- Allow enough time for the procurement (preparation and structuring of the tender)
- Concentrate on obtaining and maintaining a good, solid relationship with the selected supplier

Don'ts

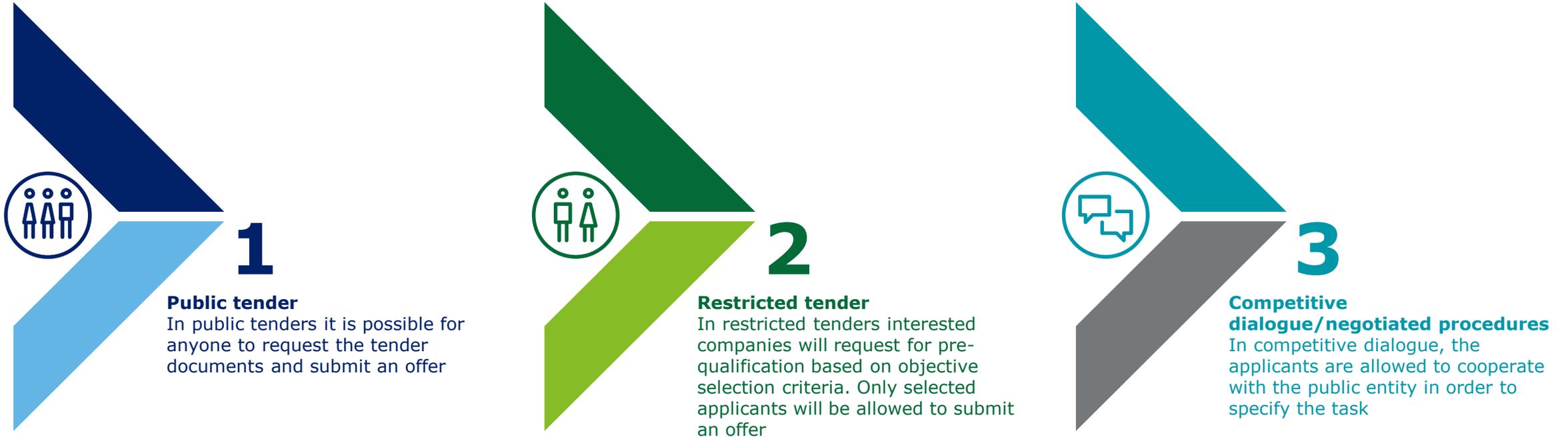
- Do not use private finance if you need a lot of flexibility with regard to the asset that you enter into a contract about
- If regulatory framework is expected to change a lot
- If technology is going to change
- Do not set overly ambitious timelines
- If using a commercial PPP model be sure that the commercial market exist

Tender processes

Best practice

Tender processes

Different types of tender processes



Following the EU procurement procedure:

- Market test
- Optimal price
- Innovation in procedures and service
- Lengthy proces
- Time comsuming and costly
- Needs preparation and consideration

Tender processes

Main phases of a tender process





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