

# *Forging New Frontiers: Emerging Models in Government Financing*

Association for Finance Professionals  
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# Bios

**Peter Birkbeck** | [peter.a.birkbeck@ca.pwc.com](mailto:peter.a.birkbeck@ca.pwc.com) | 613.755.5661



Peter is a Managing Director in our Ottawa office and leads our Infrastructure and Project Finance practice in the National Capital Region. He specializes in the development of financial and procurement solutions at Treasury Level, involving deal-shaping and business cases in transport, military, health and nuclear sectors, and in particular those which are high profile and require approval from officials and Ministers. He has delivered a number of successful projects in Canada, in the mining remediation sector, for The Federal Contaminated Sites Secretariat, and financial due diligence work for CBSA. He recently completed a piece of work for the Government, in the Defence sector to evaluate comparative procurement practices and timelines among the allies. He is currently advising public works on a white paper on improving sole source procurement in Defence.

In the UK, he developed an extensive set of credentials around completing infrastructure projects using P3 and traditional funding. In terms of recent UK Government approvals, he managed the work to get ministerial approval for the Francis Crick Laboratory, a \$1bn joint venture between Government, two major charities and three universities. Peter has been seconded to Government authorities, several times. He was seconded to Kingston Hospital UK NHS Trust as the Project Accountant on the Trust's \$50m P3 deal, where he prepared the financial analyses content of the business case and managed its approval through liaison with the Department of Health. Peter was also seconded to the Capital Investment Unit of UK, NHS London (akin to a Canadian LIHN) to review business cases from providers in the London Area, and act as an internal NHS consultant.

**Tyler Nash** | [tyler.w.nash@ca.pwc.com](mailto:tyler.w.nash@ca.pwc.com) | 613.805.8273



Tyler Nash is an Assistant Vice-President in the PwC Ottawa Infrastructure and Project Finance Practice, where he provides strategic advice to both public and private clients through divestiture, M&A, capital raising and public-private-partnership transactions. Tyler specialises in strategic commercial and financial advice, research, analysis and financial modelling to inform these transactions. He has advised government clients with a value in excess of \$9B, working with clients to determine project feasibility and affordability, conduct value for money analysis, and advise on commercial and financial structuring elements of the procurement process and project agreement.

Tyler began his career in the public sector working on two landmark transportation projects in Ontario where he played a critical role in the Treasury Board Submissions for funding and procurement approval and was involved in the development of the project agreement and payment mechanism for these two first-of-kind projects before transitioning into consulting. He has been involved in all aspects of project lifecycle from conception to close and has experience in a breadth of sectors including energy, transportation, pipeline, and security both within Canada and abroad.

Tyler holds a Bachelor degree in Business Administration from Bishop's University and is a CFA Charterholder.

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# *Agenda*

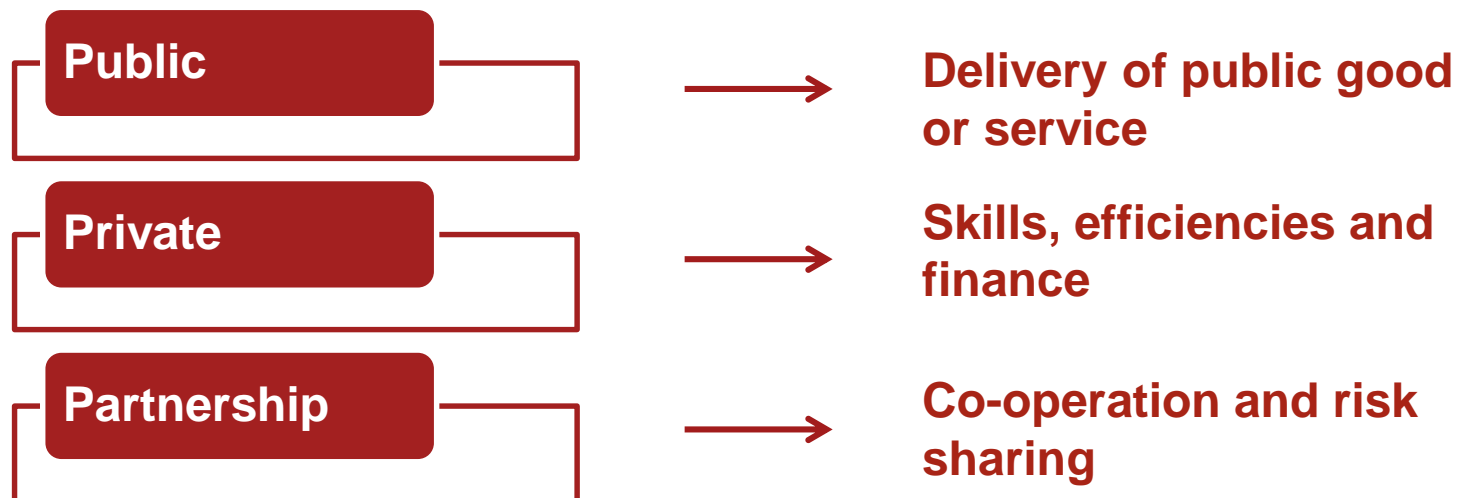
1. Overview of Alternative Delivery Models
2. Emerging Trends
3. International Examples
4. Financing Considerations

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# *Overview of Alternative Delivery Models*

# ***What Are the Alternative Finance and Delivery Models***

- There is no widely accepted definition;
- Depends on country, politics and person;
- **General Definition:** A contractual agreement formed between a government agency and a private sector entity that allows for greater private sector participation in the delivery of public goods and services.



# Overview of Models



Risk  
Transferred to  
other Party

Traditional Model  
Operating Lease  
Finance Lease  
Managed Service  
PPP - Design-Build  
PPP - Build Finance  
PPP - Design Build Finance  
PPP - Design Build Finance Operate  
PPP - Design Build Finance Operate Maintain  
Social Enterprise  
Joint Venture – Unincorporated  
Joint Venture - Incorporated  
Concession  
Privatization



Authority  
Control

***Each model can be customized to reflect unique project factors and policy objectives***

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# ***Common Features and Differences between Alternative Delivery Models***

## **Common Features**

- Partnering approach
- Long-term contracts
- Transfer of risk and responsibility to private sector
- Private financing
- Payment linked to performance
- Viability depends on rights of authority to do it

## **Key Differentiators**

- Degree of risk transfer
- Degree of public sector control
- Ownership of assets
- Responsibilities of private partner
- Availability of standard contract
- Consequences of financial failure

***Key Tenant: Risks allocated to party best able to control occurrence and manage outcomes***

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# *Emerging Trends*



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## *Emerging Trends*

- Globally \$57 trillion in infrastructure needed over the next 20 years
- Fiscal capacity not sufficient to support this
- More efficient ways to deliver goods and services (e.g. Public Private Partnerships)
- Exploration of new financing models to unlock value of government assets
  - Monetizing latent assets
  - User fees
  - Land value capture
- Lessons learned from other jurisdictions (e.g. the UK PF2)

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## *Emerging Trends*

Some recent Canadian examples:

- Federal P3s: DCC, Champlain, DRIC
- CDPQ – Transit Projects in Quebec
- Sale of HydroOne in Ontario
- Government Owned Contractor Operated (GoCo) model for AECL

***New models suggest Canada is looking for alternative project development and delivery models.***

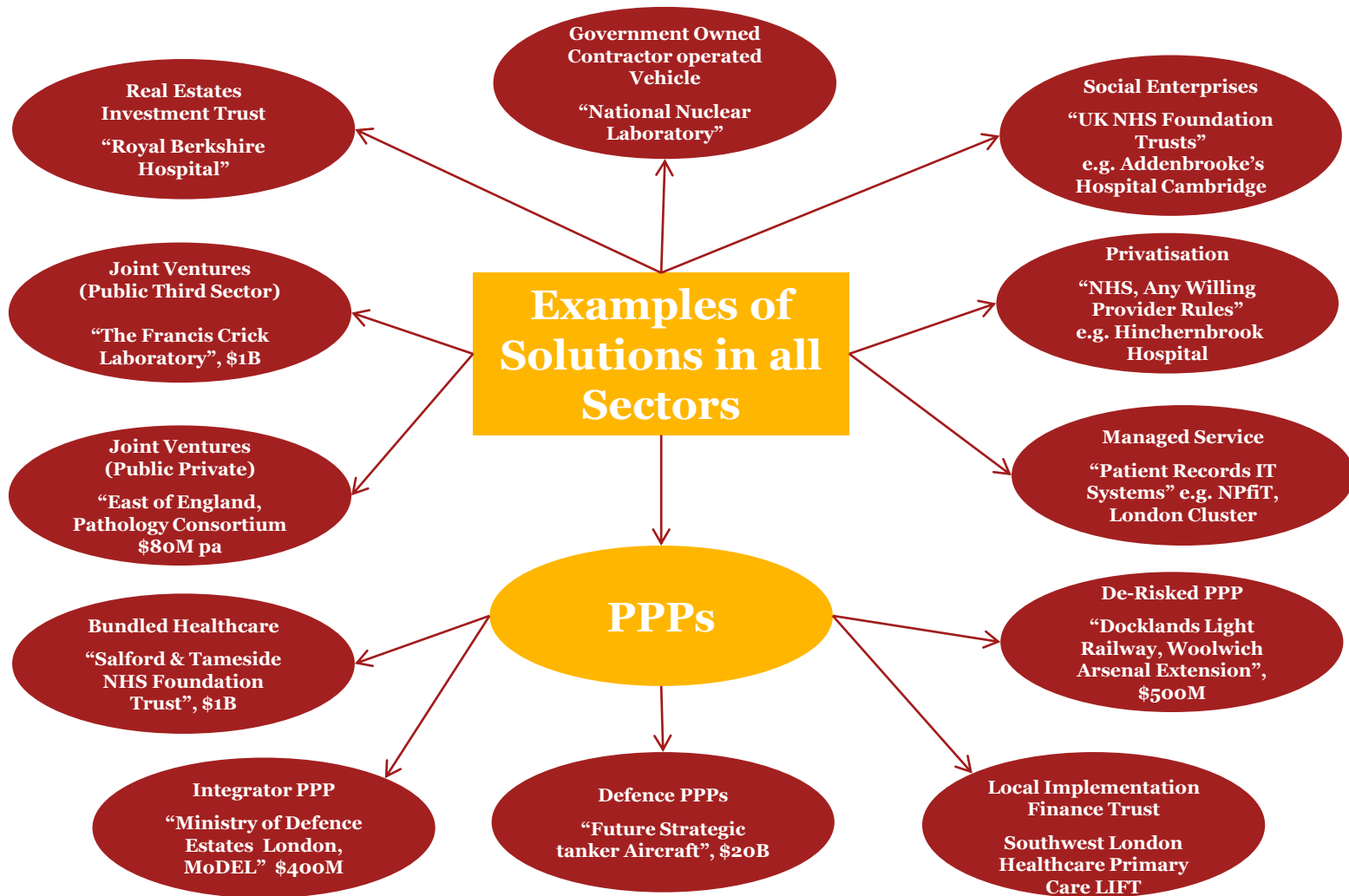
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## ***New Government themes***

- Creation of Delivery units in key policy areas
- Public Services and Procurement, procurement streamlining and prioritization of green and social objectives
- DND, invest in NSPS and cyber. An open competition for C18 replacement
- Health, continued investment in a national digital health solution
- Transport, Building Canada Fund emphasis on roads, bridges and ports
- Science, support for incubators and Regional Development Agencies
- Infrastructure (& Communities), no P3 screen, emphasis on housing and indigenous community assets. Establishment of Canada Infrastructure Bank (provides low cost financing and guarantees)

# *International Examples*

# A wide variety of alternatives in other jurisdictions



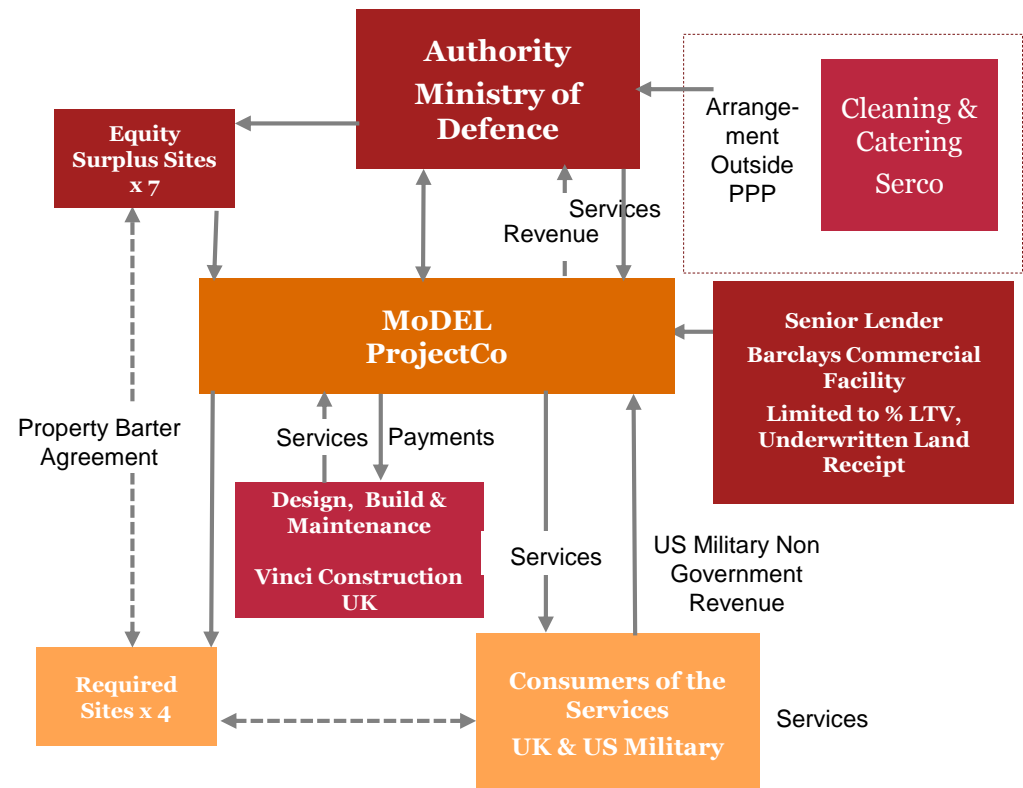
# Ministry of Defence Estates London – “MoDEL”

## Features

- Used the UK “Integrator” Model
- Standard PPP terms not adopted
- “Prime Plus Contracting” mechanism, disposal of surplus sites to fund capital requirement
- Sale and Lease back of existing estate to ProjectCo, then the lenders take performance risk on new builds
- Maximum drawdown from senior funders, \$200M or 75% “Loan to Value”
- ProjectCo did not have planning consent but could prepare and manage sites for disposal or development

## Pros

- Maximises the use of the excess estate
- Passes the program to the Integrator
- Cleaning and catering procured outside the arrangement, complies with UK PF2 rules



## Cons

- The Integrator ultimately benefitted from land receipts well in excess of MoD’s estimates
- Demarcation risk with facilities management

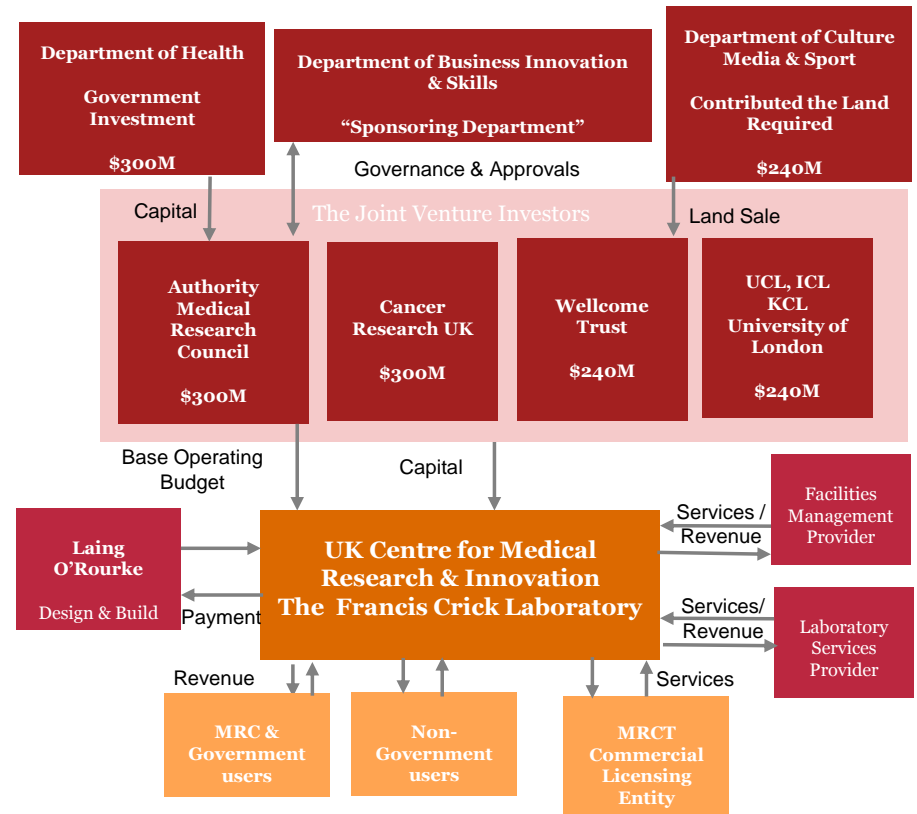
# The Francis Crick Laboratory, a Joint Venture

## Features

- An incorporated Joint venture with the “Third Sector”
- Charity limited by Shares for Tax purposes
- Joint Venture created before any procurement activity, to establish mission and culture
- Supported by Prime Minister & Mayor of London from the outset
- CEO Sir Paul Nurse, President of the Royal Society
- Competition for contractor ran simultaneously with the JV creation

## Pros

- Delivery model precisely matched with investor and end user requirements
- The model is not the physical solution, it is the institute, which it is hoped, will endure



## Cons

- Complexity of the joint venture solution
- Risks

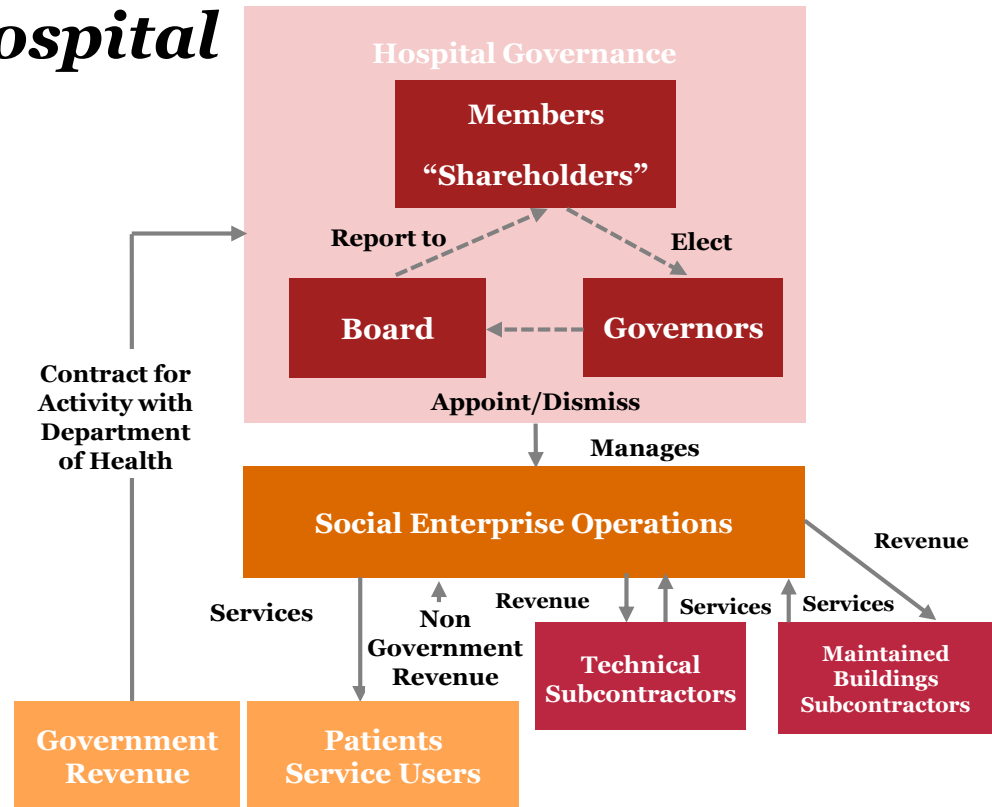
# Social Enterprise, UK Hospital

## Features

- Primary purpose is a common good (environmental benefit, health outcomes)
- It is run using a commercial approach but is usually “not for profit”
- Surpluses can be retained for reinvestment in the services
- Measure of success is not a financial return but performance against the social measurement
- Articles restrict what it can do

## Pros

- No clear definition on structure, so there is flexibility on how this is set up
- Maximizes the commerciality versus social impact interplay
- Politically supportable model



## Cons

- Complex to set up and no instructions on how to do it
- Restrictions on what it can do with financial return
- Restrictions on what it can do with assets

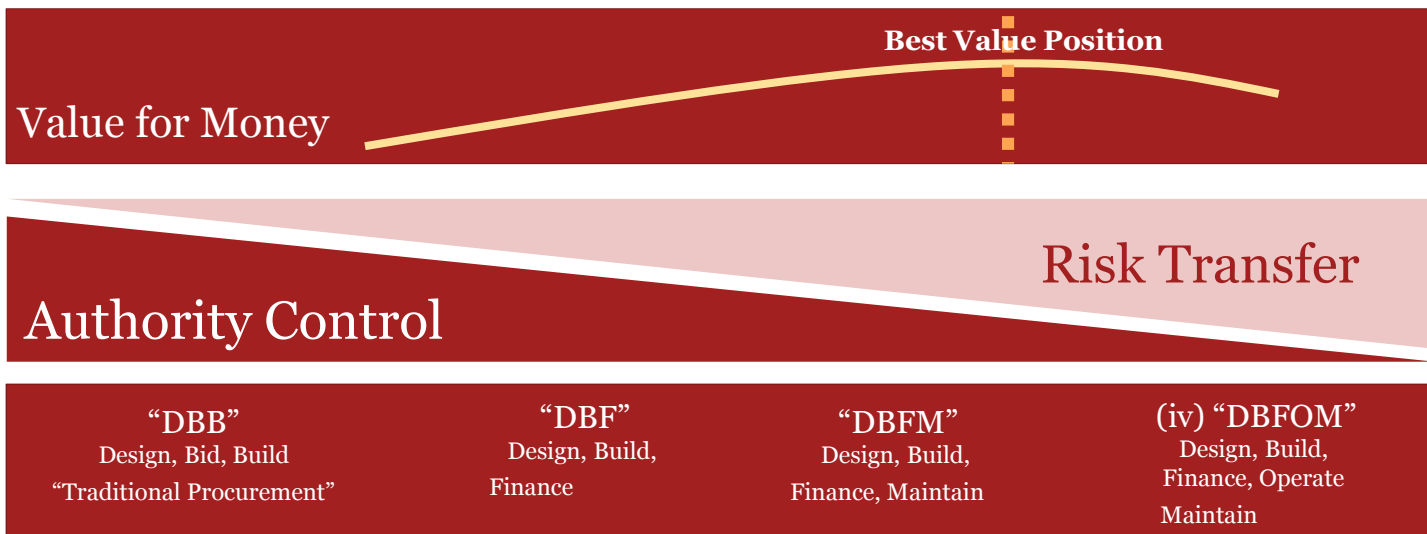


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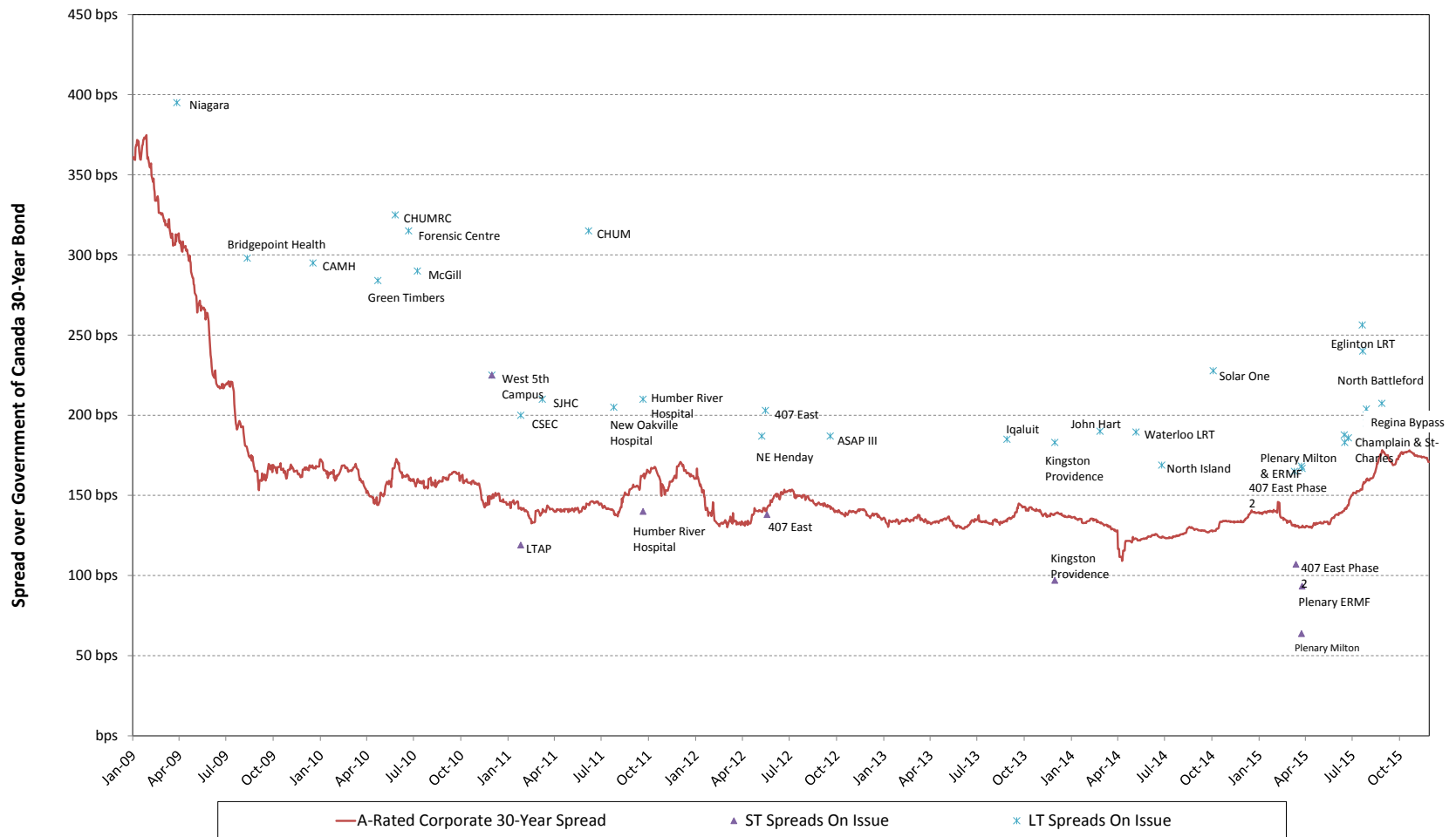
# *Financing Considerations*

# What is the Value Proposition of External Financing?

- Private finance may provide additional sources of capital but it comes at a higher cost
- Government debt is priced based on ability to collect taxes, private debt is priced on specific project or entity risks
- Pricing riskiness of project or entity



# Financing Rates and Spreads on Major PPP Projects



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## *Key Considerations*

- Guarantee
- Strength of counterparties
- Security packages
- Priority
- Debt service coverage ratios
- Project, company risk and risk allocation
- Benchmark projects or transactions
- Type of rating sought (indicative opinion vs report)

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# *Questions*

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