Comment

BRIDGING THE FUNDING GAP

Mat Taylor from Viaduct examines the current difficulty in securing public sector finance for transport schemes – and proposes an interesting new alternative...

It is practically impossible not to know that there is a shortfall in central government funding where infrastructure projects are concerned. In the UK in particular, a lack of investment from successive governments has meant that the country will be playing catch up for some years to come.

We also know that infrastructure projects, particularly transport schemes, can help to boost economies through the creation of jobs during the construction phases and through longer-term benefits along the improved corridor. But – and it can be a very big 'but' – what do we do if there is simply not enough money in the coffers? Do we simply put potentially successful projects on the back burner and wait for sufficient economic recovery before funding applications are resubmitted when the economic (or political) climate is more positive?

To be fair, the UK Government is supporting the HS2 high-speed rail scheme and, irrespective of your take on the multi-billion pound project, this will hopefully provide significant jobs and increased localised spending during the construction – as well as for many years after. It will also provide opportunities to develop branch corridors to and from key points along the route.

The Government has also initiated the Pension Infrastructure Platform, which should improve the chances of infrastructure projects going ahead through the use of pension fund investments. Yet these efforts and initiatives may simply not be enough.

Even with the Pension Infrastructure Platform, many projects will be beholden to the state and the economic climate – which can be frustrating, to say the least. This frustration ripples down from the project sponsors to consultants, contractors, operators and, ultimately, the passengers.

"What do we do if there is simply not enough money in the coffers for transport schemes – do we put projects on the back burner?"

This frustration led to the establishment of the Project in a Box (PiaB) concept, a joint initiative between Viaduct and Mott MacDonald that aims to support worthwhile projects that have a good business case yet cannot secure funding from direct Government sources.

Consultants are often maligned and, as a consultant of over 20 years, I fully understand why some have earned such a bad reputation. Yet contrary to popular belief, many consultants have a passion for the projects they support in much the same way as an architect takes pleasure and pride in the buildings they design. This desire to make a difference and have a greater control over when and what projects we work on, coupled with the prolonged poor economic conditions, resulted in development of PiaB.

As opposed to waiting for clients to call, or tendering at every given opportunity, the PiaB team has started to look at potential projects that look worthy of further investigation. These projects are assessed on an engineering, economic and social basis to see if 1) there is a need and the scheme would 'make a difference' to the local communities, 2) there is a positive business case so the completed project could support itself and 3) it does not present too much risk at any stage of its life. Nothing different so far, I hear you say. Yet there is one key difference in that the 'consultants' are leading the way, driving these projects from a socio-economic angle and thus avoiding the sometimes blurred lines of local politics.

Once a reliable, albeit estimated, business case is in place (or an existing business case has been reviewed and verified), we identify potential interested funding parties who may be willing to finance the project, either completely or in part. Our funding partners carry out their own due diligence and, if their independent modelling appears favourable, we approach the relevant Local Authority or Local Transport Authority with our proposed scheme.

By removing the hurdles associated with asking central government for money, it is highly unlikely that the door will be closed on potential projects when a clear and strong business case exists. In fact, the various governments of the world are increasingly recognising that private finance is necessary in achieving sustainable economic recovery, at the same time as meeting the challenges that ageing infrastructure poses us all.

Private Finance Initiatives (PFI) are not new and they have received bad press of late. It is fair to say that several PFI schemes have just stopped short of being a license to print money. Yet the bad examples of PFI or Public Private Partnerships (PPP) should not automatically mean that the concept of using private investment to improve our infrastructure be dismissed. Any projects utilising any form of borrowing should be as self-sufficient as possible, demonstrating that they are close to being able to pay for themselves over a significant period of time.

The scrutiny of such agreements has rightly increased and in October 2013 the UK Government issued its 'son of PFI' PF2 standardised legal documentation to prevent the taxpayer from being held to ransom by onerous private finance deals. The PiaB team sees PF2 as a sensible step in encouraging investment from the private sector, especially when schemes are reliant upon future revenue subsidy from Treasury.

PiaB schemes can be part funded by Treasury if maintaining a contractual control is required, but we are positive, that there are projects that have a very strong business case, and as such may only be reliant on the state as guarantor.

Whilst in its infancy, PiaB has generated significant interest from sponsors and funders alike. The team provides the expertise to support sustainable projects that deserve to be built, while providing expert advice to funding bodies that may otherwise feel exposed in infrastructure sectors with which they are unfamiliar.

The identification of project risks is fundamental to the success for investor and end-user alike. The management of the project and revenue risks needs to be firm, after all the allocation of present and future risks determine where the money lies. The contract or agreement on any privately-financed project needs to be clear and concise when allocating risks, but only after these have been thoroughly interrogated and mitigated through feasibility and construction stages. Likewise, project risks need to be met head-on, not pushed to the back of a 30-year PFI contract term, and for this reason alone all the work carried out by the PiaB team revolves around whole life analysis.

In summary, PiaB can present an economically viable method of introducing sensible finance to infrastructure projects that demonstrate a good business case. We want to help get more sustainable transport solutions to the public, without having to wait for the Treasury to fund them. TAUT

> Mat Taylor has over 20 years experience in the transportation sector and has advised clients worldwide on a variety of commercial matters. Mat continues to provide the sector with commercial support through Viaduct Ltd, a company set up to promote transport projects in a sustainable and economically efficient manner.