1. Case studies

1.1. Case study: London Transport – the economic advantages of re-municipalising PPPs

Transport for London (TfL) originally set up nearly one quarter of the UK's entire PPP programme. Nearly all of these PPPs have now been terminated.

Between 1996 and 2005 ten PPPs were set up for various developments of the underground and light rail public transport systems in London.

The three largest PPPs were set up in 2003, for the renovation and maintenance of the entire London underground railway system. These were awarded to two large private consortia, Metronet and Tubelines, under PPP contracts worth over £17 billion (USD $26 billion). TfL and the government guaranteed 95 per cent of all the debt raised by the consortia to finance the PPPs.

These PPPs were set up despite strong opposition from the elected London mayor and assembly and their professional advisers, who wanted the work to be done by direct labour, financed by issuing bonds.

The first terminations happened in 2007 following the collapse of Metronet, which held two of the PPP contracts. Metronet was unable to manage the work within the amount budgeted in the PPP, and ran up a deficit of over £1 billion. TfL refused to provide an extra subsidy to cover this loss, and Metronet went bankrupt, although its shareholders had already received generous dividends. The overall cost to the taxpayer of this collapse was estimated at between £170 million and £410 million. The final report on the PPP stated, "The legacy left by Metronet's former shareholders was one of poor programme management and system integration, ineffective cost control, a lack of forward planning and inefficient fiscal management."[1]

The UK parliament's Transport Committee summarized the lessons in a series of damning statements:

- "It is difficult to lend any credence to the assertion that the Metronet PPP contracts were effective in transferring risk from the public to the private sector. In fact, the reverse is the case….
- "In terms of borrowing, the Metronet contract did nothing more than secure loans, 95 per cent of which were in any case underwritten by the public purse, at an inflated cost— the worst of both possible worlds.
- "Metronet's inability to operate efficiently or economically proves that the private sector can fail to deliver on a spectacular scale…. We are inclined to the view that the model itself was flawed and probably inferior to traditional public-sector management. We can be more confident in this conclusion now that the potential for inefficiency and failure in the private sector has been so clearly demonstrated.
- "In comparison, whatever the potential inefficiencies of the public sector, proper public scrutiny and the opportunity of meaningful control is likely to provide superior value for money. Crucially, it also offers protection from catastrophic failure. It is worth remembering that when private companies fail to deliver on large public projects they can walk away—the taxpayer is inevitably forced to pick up the pieces."[2]

The other major PPP for renovation of the system, Tubelines, was terminated in 2010. This contract also included provision for reviews after seven years, with arbitration in case of disputes. TfL challenged the cost estimates of the consortium for the next period, and won the arbitration award. Tubelines, which was already months behind in its work, could not continue, and TfL bought the company for £310 million.

The process revealed that lawyers had been paid over £400million for one reason or another during the lifetime of the PPPs.[3] It also revealed the hopeless inaccuracy of consultants' forecasts of private sector efficiency. "As the partnership was being put together, PricewaterhouseCoopers, a consultancy, predicted that the private sector could extract savings of up to 30 per cent, a figure that informed the entire project. But the consultancy published no adequate evidential basis for that figure."[4]

Following the termination of the PPPs, the work was re-municipalised, re-financed by TfL through bonds, and carried out by workers directly employed by TfL. This enabled TfL to save money by reducing the financing costs, and also to achieve efficiency savings of over £2 billion by removing duplication, competitively tendering sub-contracts which Metronet and Tubelines had awarded to themselves, and improving planning and scheduling.[5]

In effect, the public sector alternative originally advocated by the elected mayor has now been adopted as the solution to the failure of the PPPs.

TfL have also terminated all their other PPP contracts, worth more than £2 billion in total. In each case, the contracts were terminated because of performance problems, and because of the opportunity to gain more savings from cheaper capital costs and more efficient operations.

- Croydon Tramlink is a light rail system which was constructed and then operated from 2000, under a 99-year PFI concession agreement. The company invested £80 million while the government invested £125 million, but the government also guaranteed a subsidy of £4 million per year to the operating company. The contract was ended in 2008 after the company refused to cooperate with a new ticketing system which would have generated more passengers but no more profit. TfL saves at least £4 million per year for over 90 years.[6]
- The PPP for the system's electronic ticketing system of 'Oyster cards' was also terminated in 2010. The PPP contract was for 17 years, but included 'break' clauses which allowed TfL to terminate the contract five years early. The decision to terminate was taken following two major failures of the system affecting hundreds of thousands of passengers for hours. Instead of the PPP, TfL itself has now taken on the £101 million debt which finances the work, but at much lower cost, because it pays lower interest rates than the private companies. The savings are so great that TfL took over the debt six months early, in February 2010, which saved an extra £4 million. The work has been re-tendered under a normal three-year operating contract, which itself costs £10 million per year less than the PPP deal, as well as requiring higher standards of work. In total, the lower interest rates and lower payments for work together mean an annual saving of about 18 per cent compared with the original PFI contract, which was costing just over £100 million per year.[7]
- The Powerlink PFI was a 30-year contract signed in 1998 to manage, operate and maintain the electrical system of the London underground. It was extensively revised soon after it started.[8] It was terminated by TfL in 2012, 15 years before the scheduled expiry date, using a break clause written into the contract. TfL is making savings of £225 million over the next 15 years by switching from expensive private borrowing to cheaper public borrowing, and gaining greater flexibility in managing and developing the service.[9]
- Two extensions to the Docklands Light Railway (DLR) were built and maintained under 30-year PFI contracts from 2003 and 2005. Both were terminated in 2012, because of cheaper financing costs through public borrowing, and greater operating flexibility. TfL expects savings of £250 million over the remaining 15 years.[10]

The remaining PFI, Connect has already experienced problems, falling three years behind schedule. It may also be terminated when the halfway stage of its contract is reached in 2014.[11]

The termination of the contracts has brought two great benefits to Transport for London, the public authority responsible for London's public transport.

- Firstly, great savings have been made by replacing expensive private debt with cheaper public borrowing raised by issuing bonds.

- Secondly, TfL has achieved efficiency savings of over £2 billion by removing duplication between the companies and the costs of managing the contracts, competitively tendering sub-contracts which Metronet and Tubelines had awarded to themselves, improving planning and scheduling, and gaining much greater flexibility to adjust its operations in response to changing conditions instead of being forced to use a rigid contractual framework for a long period. [12] [13]

TfL continues to reject PPP proposals in favour of conventional public finance. It rejected a plan to use PPPs for procuring trains for the new Crossrail development in London.

At the end of 2013, it was decided that a new an extension of the London underground to Battersea will be financed by the public authority borrowing up to £1 billion, underwritten by a government guarantee, which means the interest rate will be as low as possible. Moreover, it will not be paid off through higher fares, but out of property taxes paid by local developers and businesses that will benefit from the extension as a result of higher property values and extra business.[14]

Table 1. London's £20 billion transport PPPs: 96 per cent terminated

LU=London underground; Light rail=Docklands Light Railway.

PFI project	Start date	sector		Value (£m)	Date of termination
Metronet SSL	2000	LU	Renovation	6,700	**2008**
Metronet BCV	2000	LU	Renovation	5,400	**2008**
Tubelines	2000	LU	Renovation	5,500	**2010**
Prestige	1998	LU	Ticketing	1,300	**2010**
Croydon Tramlink	1996	Light rail	Light rail	205	**2008**
Powerlink PFI	1998	LU	Power system.	133	**2013**
Woolwich DLR	2005	Light rail	Extension	177	**2011**
City Airport DLR	2003	Light rail	Extension	147	**2011**
Connect	1999	LU	Communication s	475	-
Lewisham DLR	1995	Light rail	Extension	142	-
Total value				20,179	
Value terminated				19,562	
% terminated				97%	

Source: compiled from TfL 2011, TfL 2014

Table 2. Lessons from London transport PPPs

1. Public sector alternative	Better public sector alternative was supported by elected politicians	"The first Mayor of London, Ken Livingstone, and his Transport Commissioner, Bob Kiley, championed an alternative method of raising money, via the issue of bonds secured against future fare revenues from London. This was rejected by the Treasury."[15]

	but rejected in favour of PPP	"In comparison [with Metronet], whatever the potential inefficiencies of the public sector, proper public scrutiny and the opportunity of meaningful control is likely to provide superior value for money." [16]
2. Public borrowing is cheaper	PPPs have now been replaced by public borrowing through bonds at much lower cost	"Replacing private borrowing with public sector borrowing will bring ongoing savings of up to GBP £250 million over the remaining life of the concessions."[17]
3. Government guarantee	The bank loans raised by the PPPs were nearly all guaranteed by the government	"In terms of borrowing, the Metronet contract did nothing more than secure loans, 95 per cent of which were in any case underwritten by the public purse, at an inflated cost— the worst of both possible worlds."[18]
4. Forecast cost savings from PPP	Consultant (PWC) forecast of savings was horribly wrong	"As the partnership was being put together, PricewaterhouseCoopers, a consultancy, predicted that the private sector could extract savings of up to 30 per cent, a figure that informed the entire project. But the consultancy published no adequate evidential basis for that figure."[19]
5. Operating efficiency	Private companies did not contain costs and relied on state subsidies	"Metronet's inability to operate efficiently or economically proves that the private sector can fail to deliver on a spectacular scale…."[20] "The legacy left by Metronet's former shareholders was one of poor programme management and system integration, ineffective cost control, a lack of forward planning and inefficient fiscal management."[21]
6. Competition	PPP companies favour themselves when awarding sub-contracts	"Significant savings have been made through procurement and maintenance efficiencies, namely the re-procurement of maintenance outsourcing…. "The review and revision of supply chain contracts with the previous shareholders… led to an estimated saving of £0.5 billion."[22]
7. Incomplete contracts	Long-term contracts in PPPs for operation, maintenance and services are inflexible	"PFIs are the least flexible form of contract, in many cases binding both client and contractor to a series of outputs that have diminishing desirability and/or affordability, with much less scope to negotiate change than under other forms of contract." [23]
8. Risk transfer	Like other PPPs, these were said to 'transfer risk' to the private sector	"Given that public authorities are typically procuring essential infrastructure, they will need to step in if a PFI contractor fails. Thus risks cannot be truly said to be "transferred"… risk can be fully transferred only if the procuring authority could abandon a failing PFI concession, which is unlikely ever to be the case…. The

		private sector is willing to bear significant risk only if it is paid enough.[24] "It is difficult to lend any credence to the assertion that the Metronet PPP contracts were effective in transferring risk from the public to the private sector. In fact, the reverse is the case." [25]
9.Transaction costs	Tendering, monitoring and managing contracts creates additional transaction costs	"The removal of the need for contractual [management]….and elimination of duplication between LU and Metronet that was inherent in the PPP structure…full integration of back office and support functions activities …[and] procurement and maintenance productivities will enable a cost reduction of £1 billion" [26] "The lawyers involved in the PPPs raked in £400 million in fees over the course of the contracts."[27]

1.2. Case study: PPPs in India

India has the greatest number of PPPs of any developing country, in a range of sectors. By the end of 2012 there were 758 PPP projects under way or complete, worth $70 billion. But the record of performance and sustainability is already bad in a number of sectors. Even the Economist magazine gave a damning assessment of the reality: [28]

> "That smart new airport in Delhi is losing money. Related property deals were criticised by an anti-graft agency in August. The new express-train link connecting it to Delhi has been shut as a result of engineering faults. The service's operator, Reliance Group, says it is financially ruinous. In India's far west a giant new power plant, one of the biggest investments being made in India, is in trouble, due to soaring coal costs. Its owner, Tata, has taken a write-off…. The condition of these projects is murky, partly because most have their finances ring-fenced and do not reveal them in public.…The banking system is grappling with dud loans related to PPP projects…. Lots of super roads have been built but during the bubble firms bid too much…. plenty of contracts won in 2007-10 will not make a profit. In electricity generation many firms wrongly assumed they could get cheap coal from the state-run coal monopoly, or gas from sputtering offshore energy fields (which are themselves largely operated under PPP-style contracts). Only a quarter of all projects are on or ahead of schedule."

The government response is to consider allowing companies renegotiation of contracts, as well as:

> "The government is considering the introduction of a force majeure clause in public-private partnership projects to allow renegotiation of contracts to revive private participation in infrastructure development and salvage some big-ticket projects. The Planning Commission has proposed adding a provision for renegotiation in PPP contracts, including existing projects, to deal with unforeseen developments in a draft note sent to concerned ministries. ET has reviewed the note. A large number of existing infrastructure projects in sectors such as highways, power, airports and ports have run into rough weather because of unforeseen circumstances, and the lack of provision for renegotiating the contracts has made them unviable for investors. This year GMR and GVK walked out of mega-highway projects worth Rs 10,700 crore, while most recently Reliance Infrastructure pulled out of the Rs 5,800-crore Airport Express line of the Delhi Metro. There are problems brewing in the Gurgaon Expressway project, while Tata Power and Reliance Power are struggling to transform their ultra-mega power projects powered by imported coal into profit-making ventures due to changes in input costs. Private developers have been demanding a

renegotiation provision in PPP contracts because they cannot foresee all the events and contingencies during the entire contract period, which is typically 20 years or more.

"The government has targeted to attract at least half of the $1 trillion investment envisaged in the infrastructure sector during the 12th plan period (2012-17) from the private sector. The Cabinet Committee on Economic Affairs had in July directed Planning Commission to come up with a proposal for strengthening the PPP regime after various big-ticket projects failed. The proposed force majeure clause will come into play only when a project "is likely to become infructuous or when the parties are facing a situation that could not have been contemplated by a prudent and diligent person and the contract does not provide a remedy for the same," the commission said in its draft note. "As and when renegotiation is undertaken, it would have to be based on fair and transparent justification, confined to the specific issues, no greater in scope than is necessary for addressing the issue; quantified and restricted in terms of relief; and undertaken only when other remedies are not available," the panel said. It has proposed that the finance ministry, in consultation with the plan panel, will prepare and present a discussion paper on renegotiation of contracts, taking account of international best practices and after consultation with the World Bank.

"The discussion paper will be placed before the Cabinet within three months. The draft note also stressed the need to spell out a clear and well-defined treatment of contingent liabilities, including the extent to which they can be undertaken and the process of authorising the same. The Planning Commission is of the view that PPP projects tend to create contingent liabilities that could become a charge on future budgets, which would even pre-empt Parliamentary approvals as and when such contingent liabilities arise. Hence, it has asked the finance ministry to include appropriate recommendation on the treatment of contingent liabilities in the annual financial statement in its discussion paper."[29]

Rail:

The Reliance Infrastructure Group has abandoned its PPP to operate the Delhi Airport Metro express.

The public authority, Delhi Metro Rail Corporation (DMRC), has taken over the running of the line. This was the major public transport PPP in India, but the company is now demanding huge compensation. India's five year plan calls for Metro systems in all large cities, and encourages the use of PPPs, but "the experience with Reliance Infra shows PPP agreements are making governments and public agencies vulnerable to serious financial risks at an enormous public cost." There were very familiar problems with the PPP. The passenger forecast was for 40,000 people per day, but in practice there were only 10,000. Reliance had promised to use 30 per cent equity and 70 per cent debt finance, but in practice the government auditor reported that for every one rupee that Reliance Infra raised from shareholders in 2009-10, it incurred debts of Rs 43,218, and this increased to Rs 275,205 for every rupee in 2011-12. And overall, more than half the finance for investment (54 per cent) came from government, not from the company.[30]

Healthcare:

At the 9th India Health Summit in December 2012, India's health minister Ghulam Nabi Azad launched a report by McKinsey advocating PPPs as the route for improving healthcare delivery. It argued that "the government has to make a choice between its role as a provider or a payer — whether it wants to contribute in building infrastructure and managing operations of hospitals and diagnostics or it wants to be the principal payer for healthcare with services provided by the private sector. Adopting the provider role would slow down social insurance growth and private provision in the absence of any government incentivisation. Adopting the payer role would slow down growth of public beds but that can be resolved by adopting PPP models because private provision is predicted to show strong growth, according to the report."[31]

But there are already problems with current PPPs and private provision of healthcare in India:

- The state of Chhattisgarh has halted a PPP project to outsource diagnostic services, following months of opposition. A review team from central government "found that there are many problems in implementing the plan and that outsourcing diagnostic facilities is not the best option…. The team observed that the PPP model has a possible risk of false claims, denial of services and unfair intervention… [and] also carries the possible risk prescription of unnecessary tests."[32]
- Nearly 1 million cases of TB are missed every year in India, mainly because private hospitals fail to carry out the procedures recommended by the WHO and endorsed by the Indian government. This "undermines efforts to control the disease" which causes 270,000 deaths per year in India alone.[33]
- The health minister has hailed a new anti-encephalitis vaccine developed in India as "historic and an outstanding example of public private partnership (PPP)." It was developed with drug company Bharat Biotech. But current medical research questions whether it deals with all causes of acute encephalitis; and the new vaccine costs 70 rupees as compared with a Chinese vaccine which costs 14 rupees.[34]

Education:

India has introduced a new legally enforceable universal 'Right to Education' for all children, intended to deliver universal elementary education by the end of March 2013. This requires considerable resources, and the government wants to encourage PPPs for such schools. But private schools are already refusing to comply with the new law, which requires them to reserve 25 per cent of their places for children from 'economically weaker sections of society' and face court cases brought by parents. [35]

Electricity:

The new Aam Aadmi Party (AAP: means 'common man party' in India), which campaigns primarily as an anti-corruption party, won control of Delhi in municipal elections in December 2013. The AAP launched its electoral campaign by attacking the previous administration, led by chief minister Sheila Dikshit, for corruption in relation to the electricity distribution system of Delhi. The AAP said, "After this privatisation of electricity distribution in Delhi and the creation of private monopolies in the guise of public private partnerships (PPPs)… this whole model is functioning in a manner where there are frauds, fabrications, forgeries at multiple levels which have the effect of cheating their consumers to the extent of half of the electricity bills they are paying."

The AAP went on to question whether the PPP model was in public interest at all. "I think a more fundamental issue arises out of this whole thing: Is this model in public interest at all, where you have a private monopoly, a state-created private monopoly, which is supposedly regulated by a regulator. This model has created in-built incentives for corruption and this is what is happening. Consumers are being made to pay more and more because they have no choice."

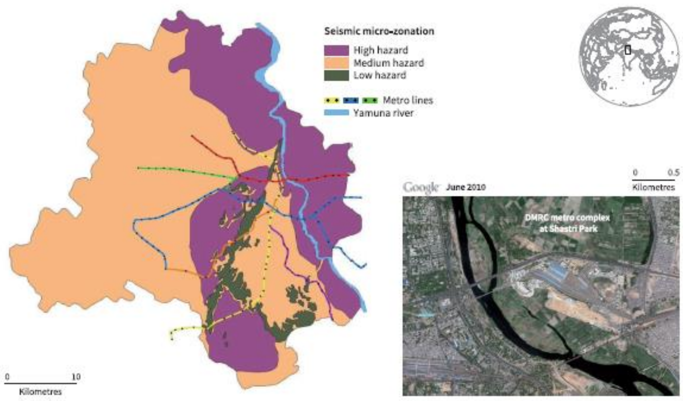
Distribution losses came down from 55 per cent to 15 per cent, but there were no price reductions – the entire gains were cornered by the electricity companies. The chief minister was so corruptly concerned with the interests of the electricity companies that she prevented the regulator from ordering a reduction in the price of electricity. Since the AAP won the election, it has ordered that the accounts of the three private companies for the entire period of privatisation should be audited by the public auditor, the CAG.[36]

Disaster risks:

The UN 2013 report on reducing risks of disasters warns that private partners in infrastructure PPPs have commercial incentives to play down risks to avoid extra costs. As a result, “these partnerships do not necessarily lead to improved disaster risk assessment and management, and may underplay disaster risks or lead to their transfer as shared costs to the public sector or to city residents.” It gives the example of the Delhi metro PPP, where more than 50 stations have been built in areas of high earthquake or flood hazard, despite the risks being well known and identified on municipal maps. The metro itself is exposed to significantly greater risks, and further commercial expansion in the area extends the risks to future residents.[37]

Disaster risks: the Delhi metro

Figure 8.4 Delhi metro lines overlaid on the seismic micro-zoning map, and location of Shastri Park metro station in flood-plains of the Yamuna riverbed



(Source: IIHS, 2012)

Agriculture:

Many Indian farmers have been stressed by declining incomes, the need to grow crops using less water, and the need for assured markets for their products. Global companies which make seeds, agrochemicals and other agricultural inputs presented a PPP as a solution to all the problems, and in 2011 Maharashtra state duly agreed such a PPP. To improve yields and water efficiency, the farmers were encouraged to buy high yield hybrid seeds together with technical assistance on water usage, from the companies in the PPP. The central and state governments provide subsidies worth Rs 18 crore [=USD $1.4 million), the farmers invested the same amount, and the companies invested only Rs 9 crore [=USD $0.7 million] – but gained Rs 60 crore [USD $9.6 million] of business. Then the companies guaranteed to find a market for the farmers’ end produce, with the prices decided by ‘mutual agreement.’ In practice this means that the companies dictate to farmers the prices they must accept.[38]

1.3. Case study: corruption and renegotiation in Chile and Colombia

In the 1990s, Chile started using PPPs for roads, ports and airports, as well as liberalising the electricity system using IPPs and privatising its regional water authorities. However, there was widespread and systematic corruption in the Ministry of Public Works (Ministerio de Obras Publicas (MOP). The PPPs programme was halted for several years.[39]

In Colombia, a new president halted the roads construction programme in 2010 because of corruption, and created a new government agency to oversee the process. He then appointed as head of this new agency Luis Fernando Andrade, the former head of McKinsey in Colombia. Under Andrade the total amount of government spending on roads will triple, and he has suggested the government borrow $23 billion by issuing bonds, because private companies are unable to raise such cheap long-term finance themselves. [40]

An analysis of road concessions in Chile, Colombia and Peru found that the great majority of these PPPs were renegotiated within the first three years, leading to cost increases of between 20 per cent and 100 per cent. The best option would have been to use public finance and improve the efficiency of the public sector operations.[41]

Table 18. The costs of renegotiation of PPPs: Chile, Colombia, Peru

		Chile	Colombia	Peru
	Number	21	25	15
	Original value (USD $ million)	$281.3	$263.2	$155.2
	Number renegotiated	18	21	11
	% of concessions renegotiated	86%	84%	73%
	Extra public cost from renegotiations (USD $ million)	$54.8	$262.5	$223.0
	Extra cost as % of original value	+19.5%	+99.7%	+143.7%

Source: Bitran et al OECD 2013 [42]

1.4. Case study: fiscal problems and PPPs in Portugal and Cyprus

1.4.1. Portugal

Portugal had signed 86 PPPs, which created new liabilities for the government of over €25 billion – 14 per cent of GDP – and annual payments of about $2 billion, or 1.24 per cent of its GDP, every year.[43] The Troika package in 2011 required Portugal to review and renegotiate existing PPPs and not to enter into any new PPPs until a new framework was introduced: "We will undertake a comprehensive review of PPPs and concessions to reduce the government's financial exposure. The PPPs have exposed the government to significant financial obligations."[44] By November 2012 the renegotiation had started, focusing on the roads PPPs which represented about 74 per cent of the total, and 'significant savings' were expected in 2013 and later years. [45]

The problems of PPPs were well-known in Portugal, but ignored. In 1996 the Hospital Amadora-Sintra was subject of a PPP with the Mello Group Health, which was finally terminated in 2008 after the company was exposed for charging the state for fictitious medical tests and treatments. The same group was nevertheless subsequently given PPPs for two other hospitals, and has already been fined for fraudulent submissions. [46]

Most criticism has been directed at the cost of the roads PPPs, but a public audit project in 2012 summarised major problems with all the healthcare PPPs, including:

- High transaction costs including consultancy fees.
- Great majority of risks are carried by the public authorities.
- PPP contracts renegotiated after signing to reduce the number of beds and level of services.
- Outsourcing work to other subsidiaries of the same groups.
- Corruption and conflicts of interest.[47]

For example, in Cascais hospital, "the private company refused to bear the cost of medicines for cancer treatments…. The number of beds was cut and the hospital is permanently overcrowded. Several health workers have brought legal cases for unpaid overtime. In addition, the hospital closed its clinical laboratory and instead contracted the work to Clinical Pathology, a private unit run by the same group as the PPP." [48]

1.4.2. Cyprus

In 2011, the IMF warned Cyprus that its PPPs were "insufficiently evaluated financial risks" to the government budget.[49] In 2013, when the Troika package was imposed as a condition of rescuing Cyprus, the conditions also identified PPPs as secret, unaccounted for government liabilities, and demanded an audit and a freeze.[50]

"The authorities will:

- "Create an inventory of PPPs including information on the objectives of current and planned PPPs and more detailed information on signed contracts, including their nature, the private partner, capital value, future service payments, size and nature of contingent liabilities, amount and terms of financing. In addition, an inventory of contingent liabilities including information on the nature, intended purpose, beneficiaries, expected duration, payments made, reimbursements, recoveries, financial claims established against beneficiaries, waivers of such claims, guarantee fees or other revenues received, indication of amount and form of allowance made in the budget for expected calls, and forecast and explanation of new contingent liabilities entered into in the budget year will be compiled….
- "Commit not to enter into any new tendering process and not to sign any new PPP contract before the implementation of [a new] legal and institutional PPP framework."

Yet the global companies promoting PPPs were delighted with Cyprus' PPPs, in which PricewaterhouseCoopers (PWC) played a leading role. Just three months earlier, in January 2013, the project finance magazine World Finance gave its award for Best Transport Project in Europe to the 25-year PPP for running of Larnaka and Pafos airports, signed in 2006. The magazine enthused, "This deal is the first major PPP entered into by Cyprus' government, and will lead the way for future PPPs in the continuing development of the country's infrastructure…. The government was advised on the deal by PricewaterhouseCoopers (PWC), a global leader in PPP advisory."[51] This was despite one part of the deal being exposed as corrupt just a few months earlier, involving the old airport being leased under a secret deal to a Chinese company, already under scrutiny for corruption in China, as a result of which a presidential advisor was forced to resign.[52]

1.5. Case study: municipal funding agencies

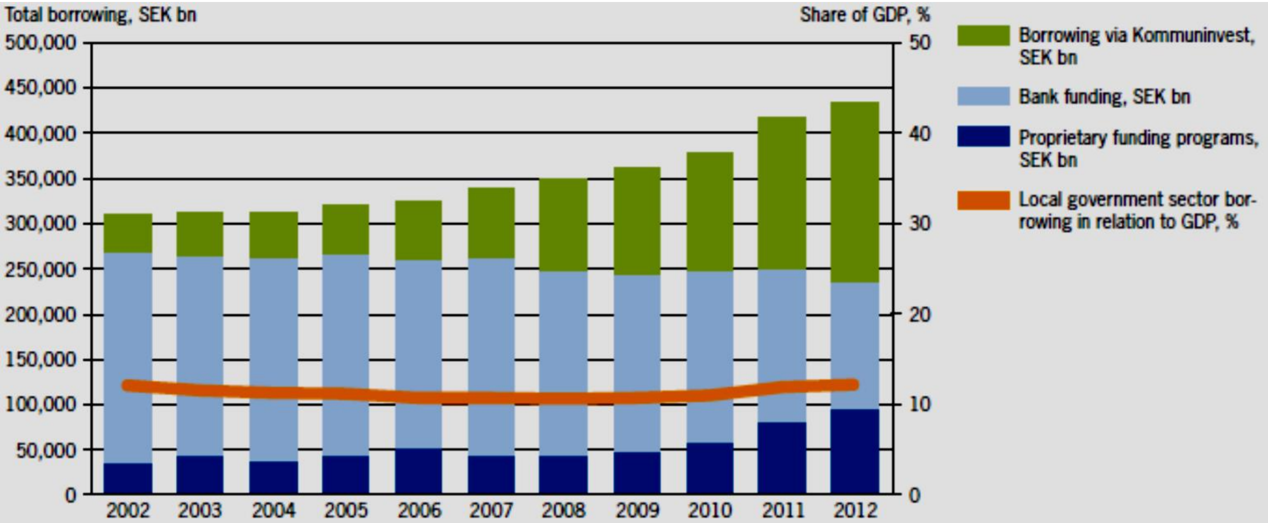
A number of countries have created, or are in the process of creating, public sector financial agencies which can raise money at very low rates and then provide low interest loans to municipalities and other public sector bodies for infrastructure and other major projects. In the USA, municipal bond banks serve this purpose.

The Nordic countries have developed Local Government Funding Agencies (LGFAs), which now finance most local infrastructure. LGFAs are formed by groups of local authorities, sometimes with central government, which raise money by issuing bonds for various maturities. These achieve high credit ratings, and so are a much cheaper source of finance than bank loans. The LGFAs then lend on this money to municipalities to finance specific projects. They operate on a non-profit basis, and exclusively for local authorities, with no lending to private sector companies. The LGFAs have lowered the cost of raising finance for all municipalities, and enabled municipalities to continue investing in infrastructure despite the financial crisis. Similar funding agencies have now been created in New Zealand (2011) and France (2012).

In the Netherlands municipalities have created a similar institution, the Nederlandse Waterschapsbank (NWB Bank).[53]

- The Swedish agency, Kommuninvest, covers 274 municipalities. It has a triple-A credit rating, and is also very efficient: administration costs are only 0.08 per cent of loans. Local councils have made increasing use of the fund since the financial crisis started, and in 2012 it provided nearly half of all the finance raised by municipalities (SEK 201 billion, about USD $30 billion).[54]

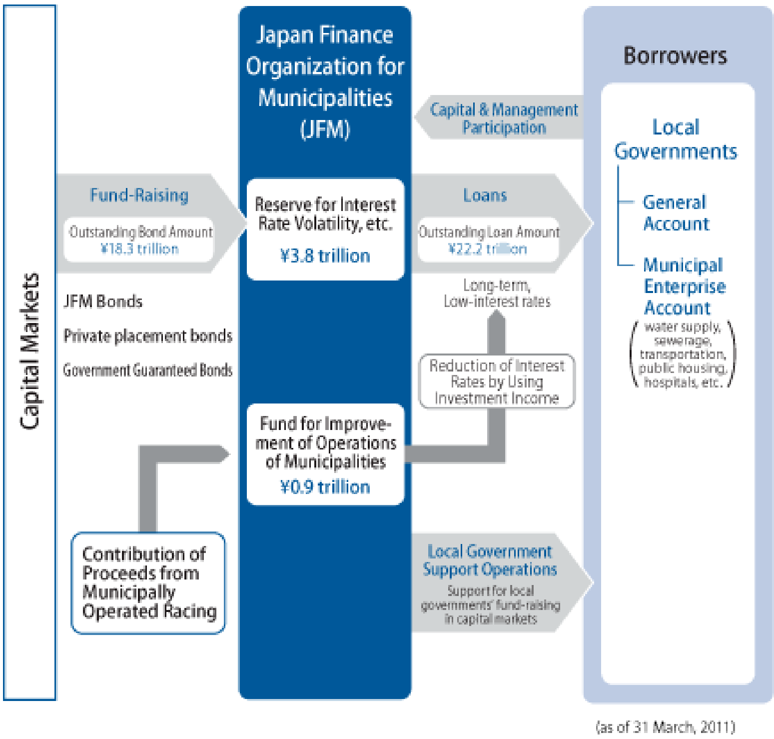
Chart A. Local government borrowing in Sweden 2002-2012, by source



Source; Kommuninvest Annual report 2012 p.10 http://www.kommuninvest.org/

- The Nederlandse Waterschapsbank (NWB Bank), founded in 1954, is owned by Dutch local and regional governments, and lends only to the Dutch public sector. It has a triple A credit rating, and raised €12 billion in 2012. Its long-term loans to Dutch public authorities total €48 billion.[55]
- The Japan Finance Organization for Municipalities (JFM) is wholly owned by Japanese local governments, and lends money only to local governments. . In the aftermath of the earthquake and tsunami, JFM lent over USD $18 billion to municipalities in 2011, and planned to lend a further USD $22 billion in 2012.[56] **In both years, these amounts invested by this single public sector institution were greater than the value of all the PPPs in Asia, Africa and the Middle East combined.[57]** It is also transferring USD $10 billion of its reserves to central government, so that it can be distributed to municipalities. Its loans to municipalities totalled Y22,387 billion (USD $225 billion) in 2012.

Chart B. Japan Finance Organization for Municipalities (JFM)



- The New Zealand agency, owned by 30 municipalities and the NZ government, raised over $1.5 billion through bonds in the first year of its existence, which was then loaned to local councils. Their cost of borrowing was reduced by up to 0.5 per cent per year, a substantial saving.[58]

Notes

[1] House of Commons Library.2012. London Underground after the PPP, 2007 Briefing Paper SN01746 http://www.parliament.uk/briefing-papers/SN01746

[2] House of Commons Transport Committee: The London Underground and the Public–Private Partnership Agreements Second Report of Session 2007–08 2007–08 HC 45 16 January 2008

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