



INFRASTRUCTURE FUNDING RISKS

What Auditors Need to Consider

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Te Puni Kōkiri
REALISING MĀORI POTENTIAL

Learning Objectives



- Experience
- Public Private Partnership as a vehicle for infrastructure funding
- Various forms of partnership
- Scale of public/private involvement
- Partnership Life Cycle
- Costs and Benefits
- Key risks
- What success looks like

Experience



- Private sector
 - Roading infrastructure
 - Public schooling
 - Power generation
- Public sector
 - Automotive assembly joint venture
 - Fauna and flora restoration
 - Economic development of indigenous people

Development of PPP



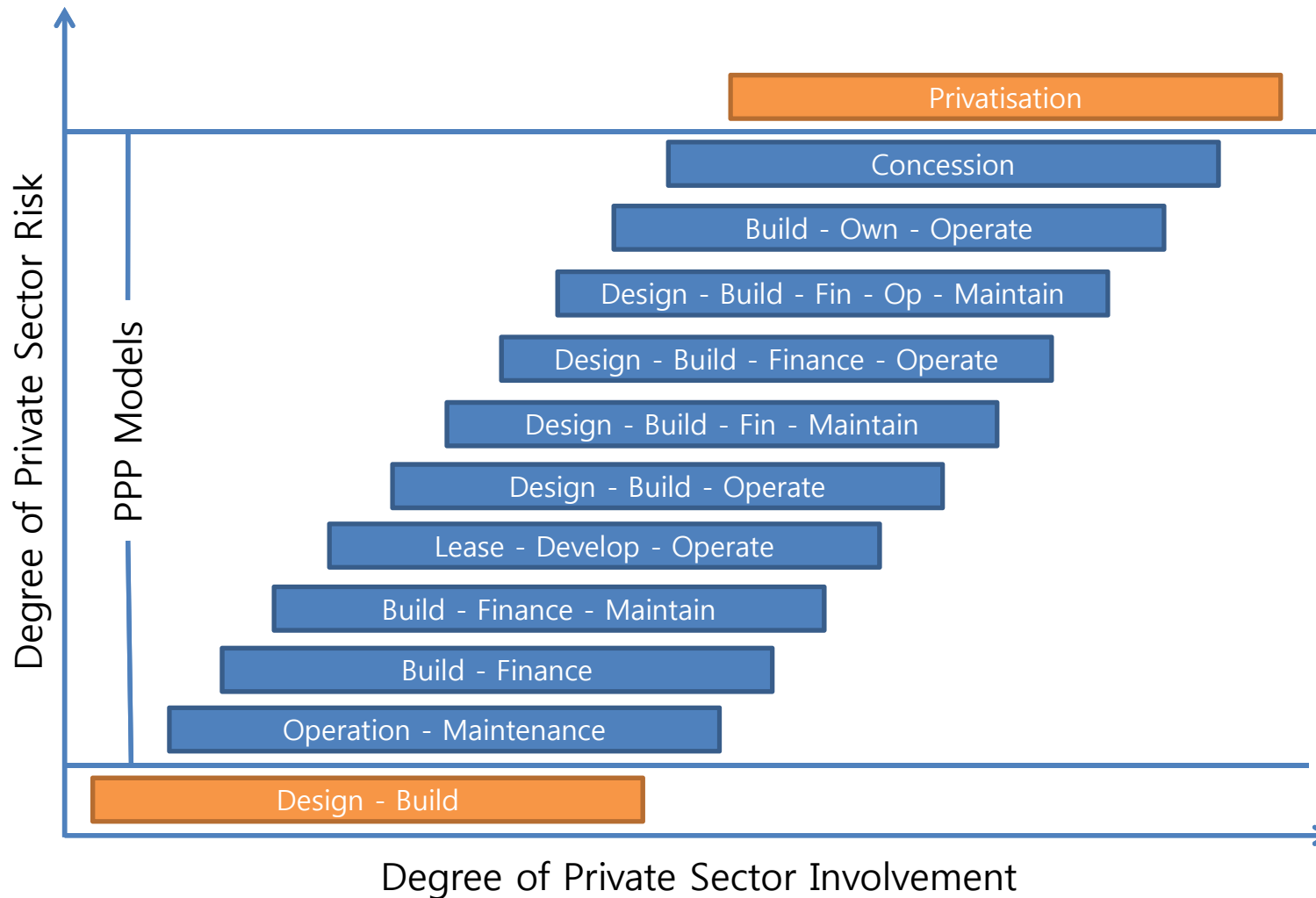
Source: The Economist Intelligence Unit, 2013

Public Private Partnership



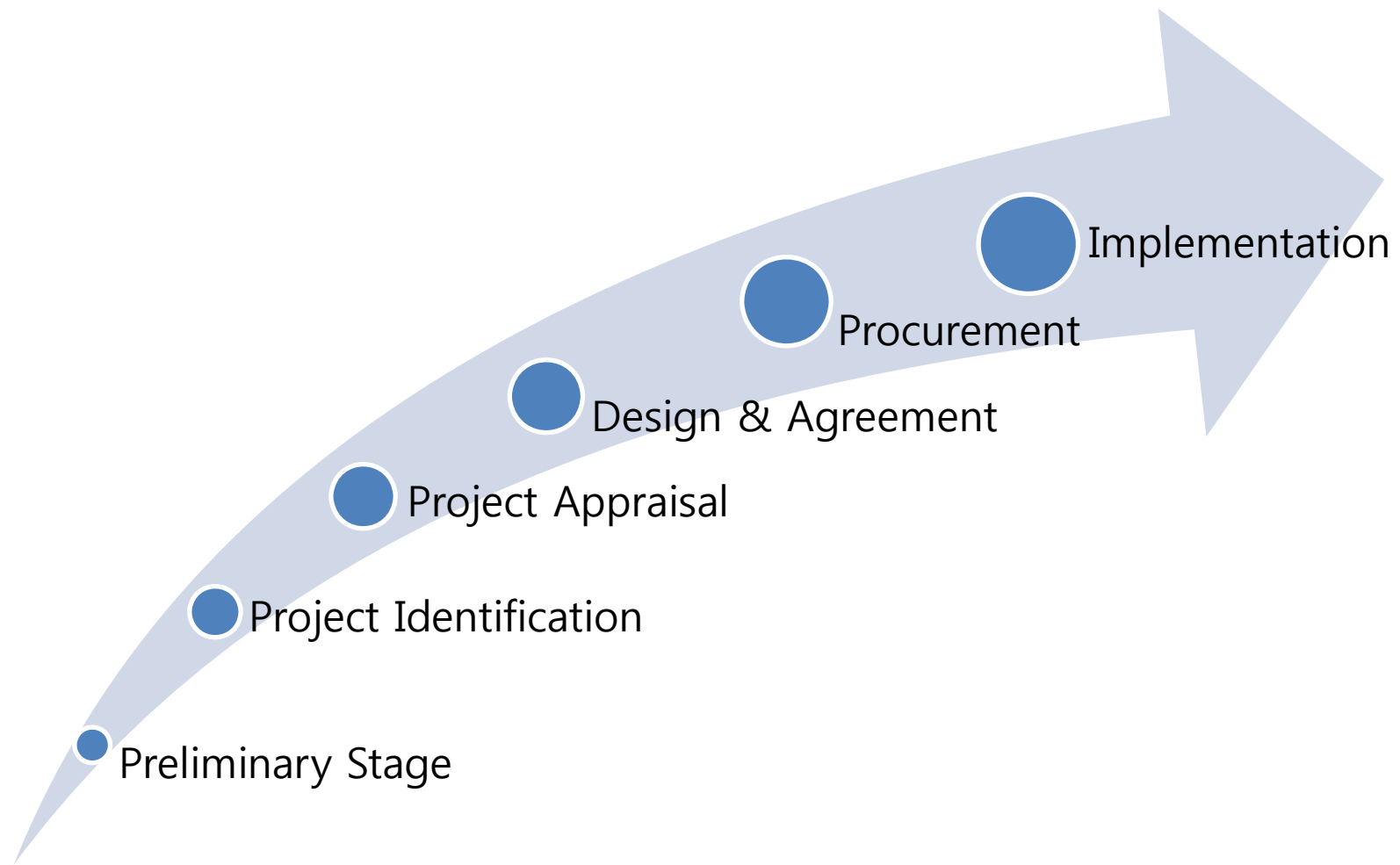
A Public-Private Partnership (PPP) is a partnering arrangement between public and private sector partners to work together for mutual benefit, usually involving private funding.

Scale of Partnerships



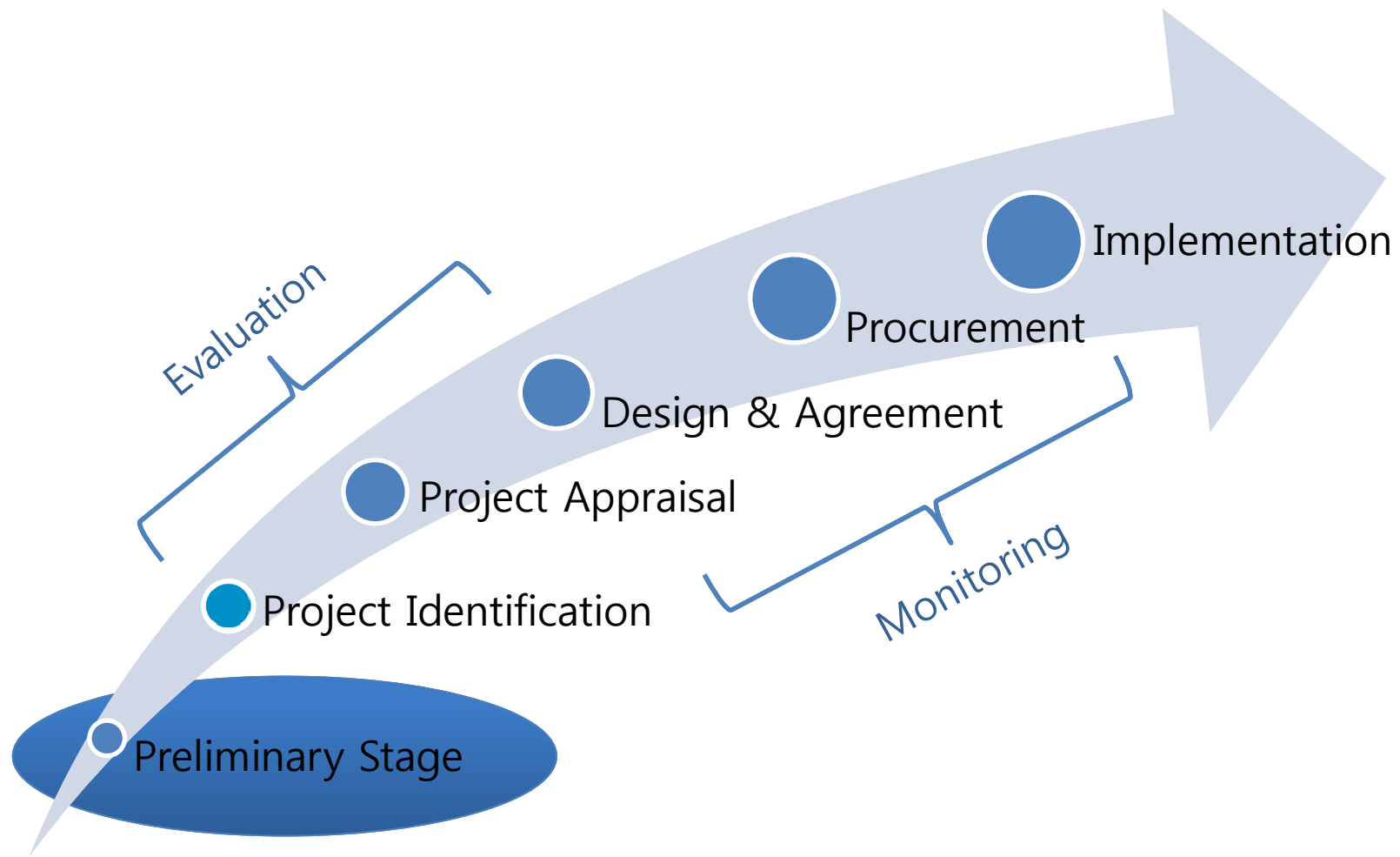
Source: The Canadian Council for Public-Private Partnerships

PPP Life Cycle



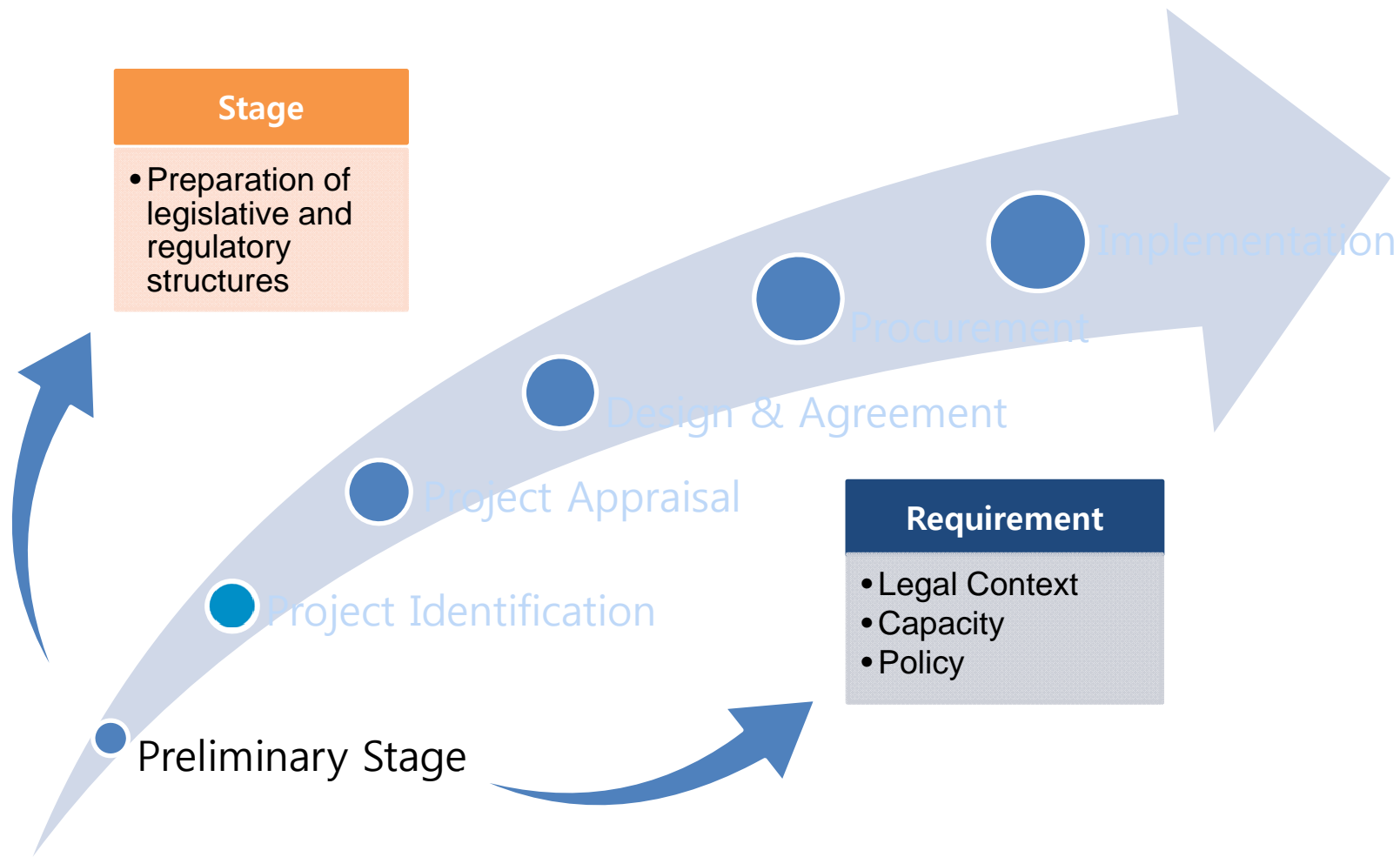
Source: Adapted from The UK Audit Commission

PPP Life Cycle



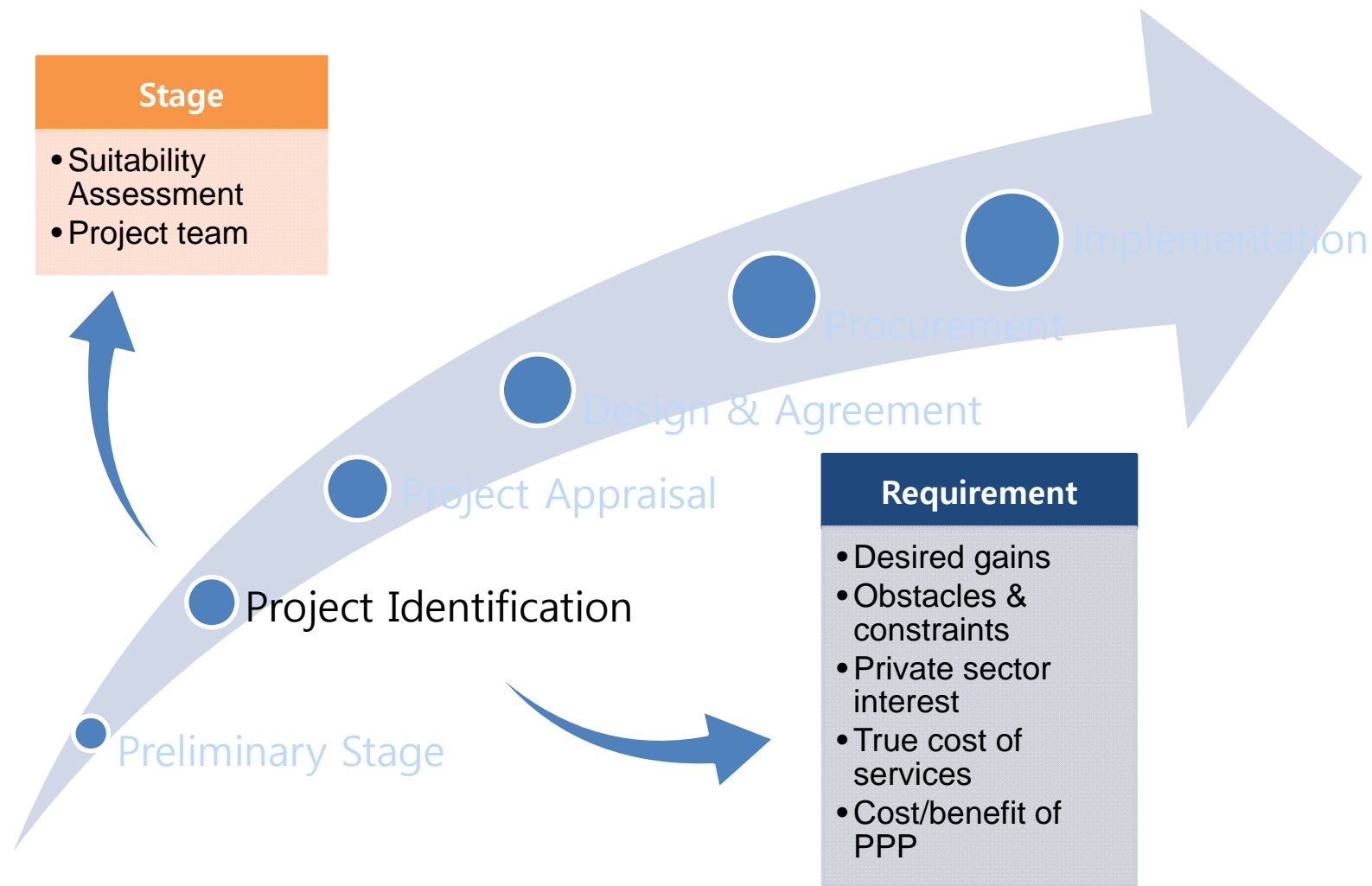
Source: Adapted from The UK Audit Commission

PPP Life Cycle



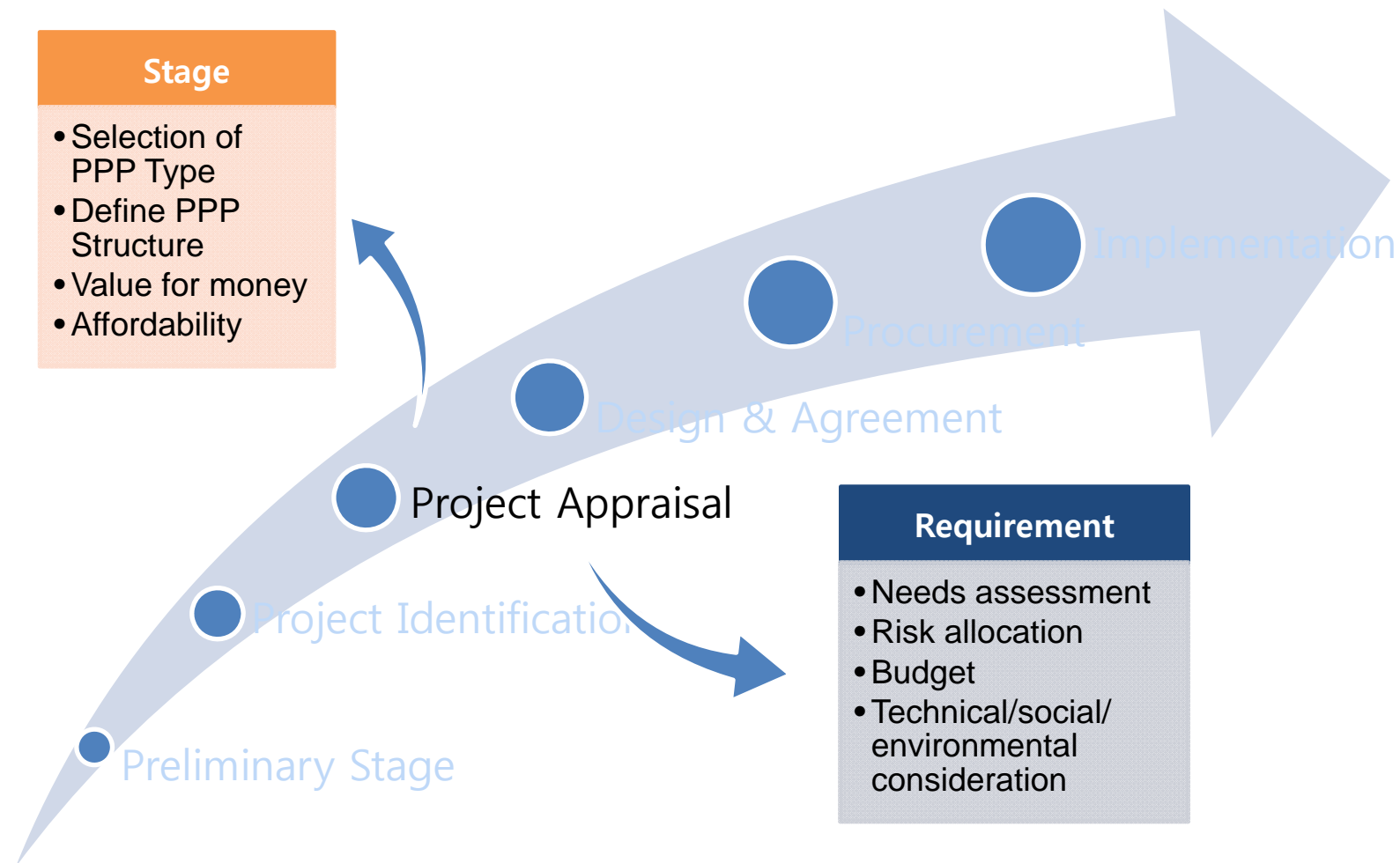
Source: Adapted from The UK Audit Commission

PPP Life Cycle



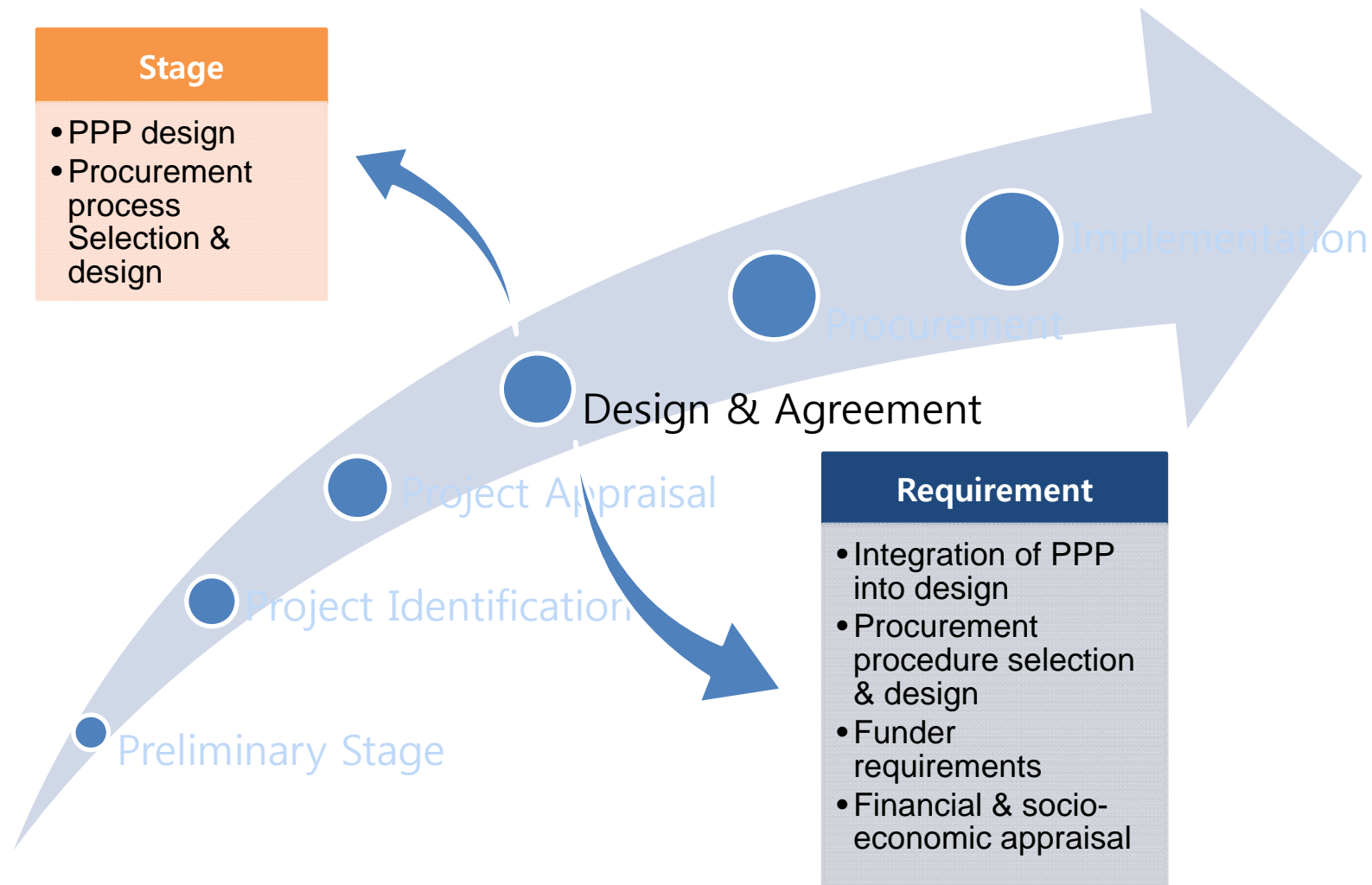
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PPP Life Cycle



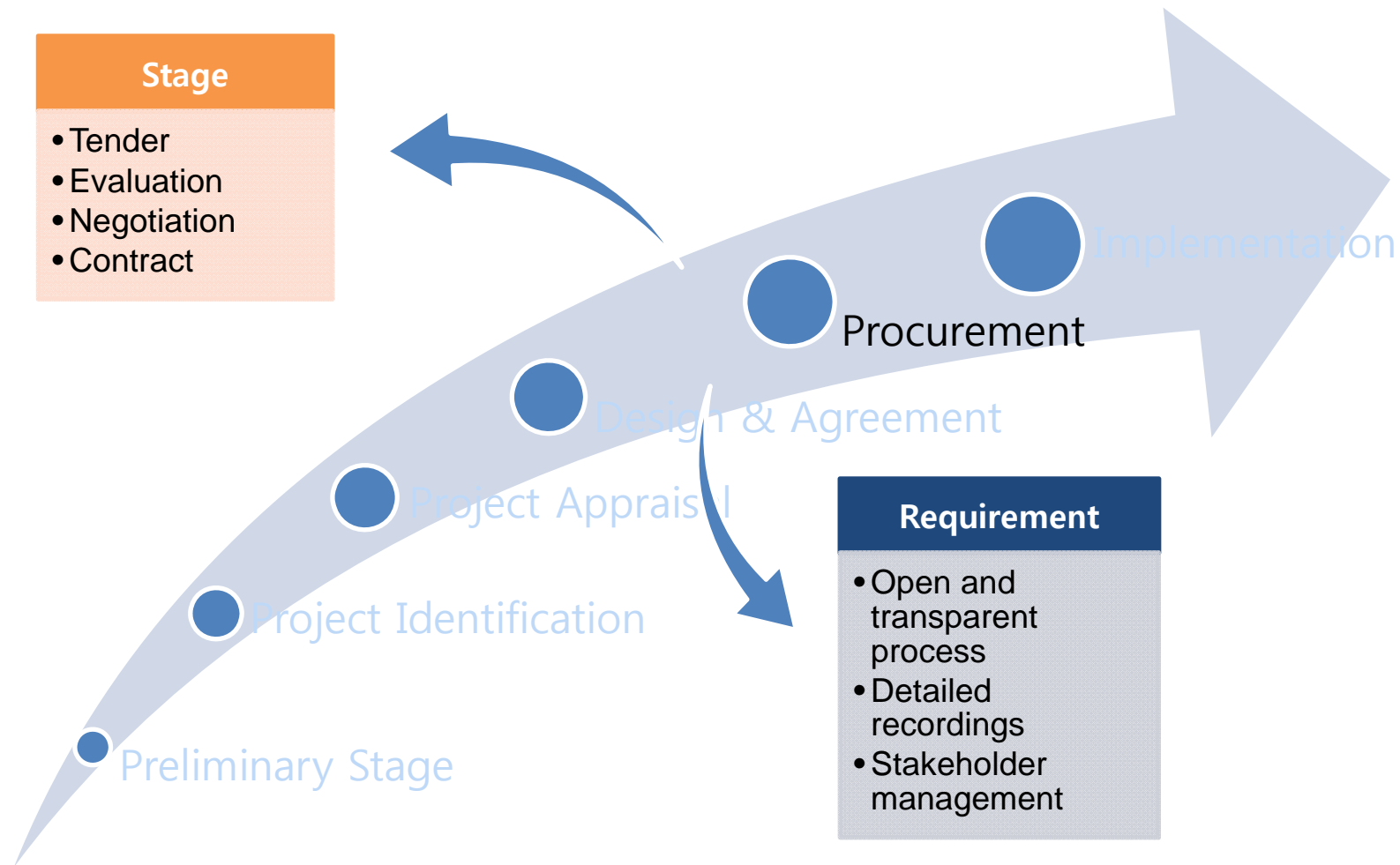
Source: Adapted from The UK Audit Commission

PPP Life Cycle



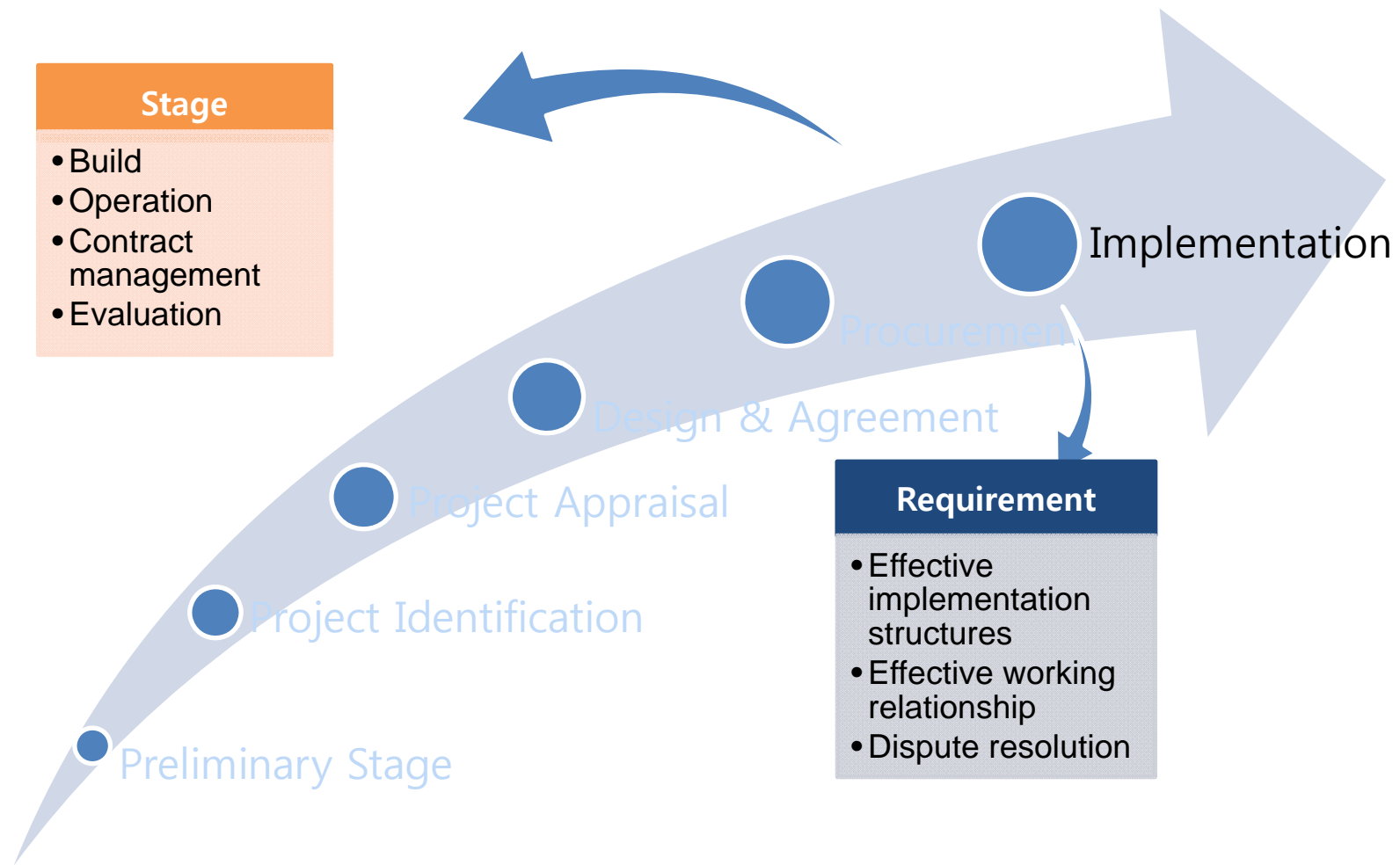
Source: Adapted from The UK Audit Commission

PPP Life Cycle



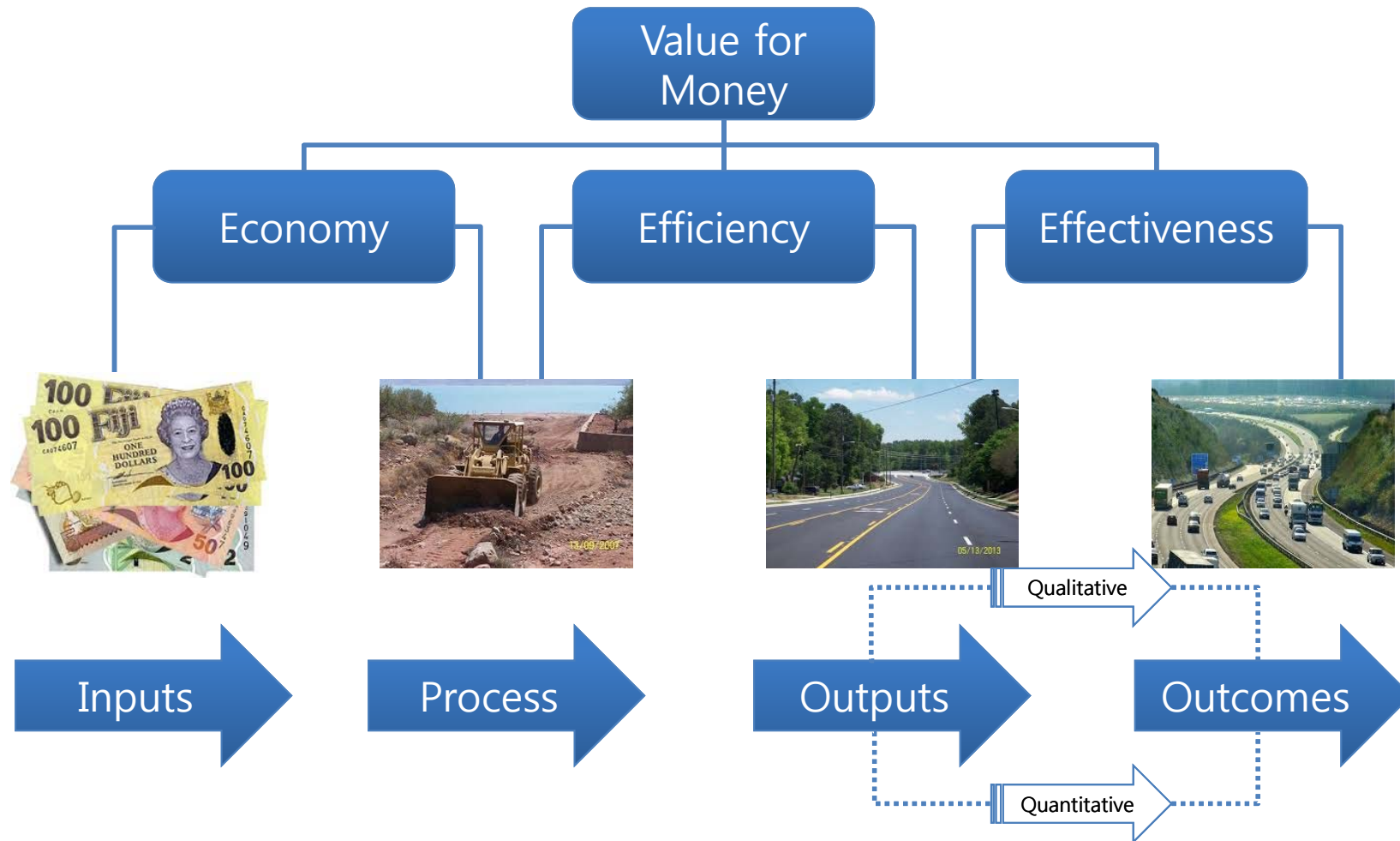
Source: Adapted from The UK Audit Commission

PPP Life Cycle



Source: Adapted from The UK Audit Commission

Costs and Benefits



Types of Risk



- Construction risk
- Availability risk
- Demand risk

Key Risk Area



- Clarity about partnership objectives
- Negotiating an appropriate partnership
- Protecting the interest of the public sector
- Monitoring the interest of the public sector
- The public sector's exposure in the event of difficulties

Clarity about objectives



Risks

- Competing objectives
- Poor leadership or no incentive to take well managed risks
- Insufficient competition for the project
- Public policy objectives vs private sector profits

Expected Controls

- Strategic plans with options to balance priorities
- Rewards linked to user satisfaction
- Assess the market at feasibility stage
- How commercial interests are considered and protected

Negotiating a partnership



Risks

- Advisers picking partners not in the public sector's best interest / unreliable partner
- Compliance with procurement rules may deter competition
- No access to intellectual property
- Guarantees and indemnities not fully priced

Expected Controls

- Set clear budgets; identify potential conflicts of interest; third party reviews / thorough appraisal of partners
- Clarity around private sector contribution and a focus on the desired outcome is clear
- These are addressed from the outset
- Contract price reflects risks borne by both parties

Protecting public sector interest



Risks

- Minority stake risks public sector interest overridden by its partner
- Public sector may lose value of investment
- Failure to evaluate implications of different levels of minority holdings

Expected Controls

- Ensure protection re structure, governance and management (“Golden Shares”)
- Close monitoring, obligations met, risk identified early
- Rights attached to minority holdings are carefully considered and legal opinion obtained before commitment

Monitoring public sector interest



Risks

- Poor management of relationship may lead to failure in exercising rights
- Performance targets vary between public and private partners leading to poor outcomes
- Disagreements over strategy and performance escalate into disputes as partnership develops

Expected Controls

- Identify skill sets; how to access and retain these skills
- Use of a portfolio of measures covering both qualitative and quantitative and are monitored
- Appropriate governance; representation on board; joint monitoring of risks; independent chair

Exposure in difficult times



Risks

- The public sector may become an involuntary administrator / owner due to failure
- Failure of the partnership may affect the public sector's reputation due to essential public service
- Danger that the public sector is unable to exit the partnership except at punitive cost

Expected Controls

- Access to best possible advice is at hand when needed
- Adequate risk analysis carried out prior to entering the partnership
- An exit strategy has been considered in the agreement or by way of contingency planning

What success looks like



- Common understanding of risks and problems
- Shared outcome/result
- Working agreement / MOU by choice not chance
- Clearly defined roles and responsibilities
- Agreed strategy and action plan
- Measures to identify progress

What success looks like



- Operating plans and procedures
- Risk management plans in place
- Report, celebrate and market achievements
- Review, adapt and improve
- Strong CEO and senior management commitment and sponsorship of the initiative

Agreements / MOU



- Aims and objectives
- Membership – status of members, termination, rotation, delegation
- Roles and responsibilities
- Meeting (frequency, quorum, chair, voting)
- Decision making processes
- Amendments
- Exit strategy / arrangement for dissolution

Further Reading



- Office of the Auditor-General, Achieving Public Sector Outcomes with Private Sector Partners (<http://oag.govt.nz/2006/public-private>)
- Scottish Government Guide (November 2008) – Guidelines on Commercial Sponsorship in the Government Sector (<http://bit.ly/1zCd9R4>)
- Treasury Board of Canada Secretariat (June 2002) – Companion Guide: The Development of Results-based Management and Accountability Frameworks for Horizontal Initiatives (<http://bit.ly/1x3NLpn>)
- Partnerships Victoria – Victorian Government PPP Policy, Australia (www.partnerships.vic.gov.au)
- Asian Development Bank – Office of the Public-Private Partnership (Partnership Handbook) (www.adb.org)
- Ministry of Public Enterprises & Public Sector Reform (Public Private Partnerships Act 2006) (www.fiji.gov.fj)

Summary



- Relationship between Infrastructure Funding and PPP
- Ten different forms of PPP
- Private sector risks vs public sector involvement in partnerships
- Various phases in a partnership
- Value for money
- What to look for in providing assurance
- Features of a successful partnership

