

## Principles to underpin infrastructure funding and finance

This short paper was produced by a task group of our national membership, which ranges from public and private sector clients of the construction industry to contractors, consultants and suppliers in the buildings and infrastructure markets. It formed part of our submission to the UK government's 2011-12 consultation on the future of PFI.

### 1. Background

Constructing Excellence is a national, regional and local movement for industry improvement by gathering and sharing the evidence for successful innovation, providing guidance, training and other business support services, and leading and influencing all stakeholders. Our core values are collaborative working and integration, and our approach is totally inclusive, pan-sector, cross supply chain, whole life cycle, interdisciplinary, and whole industry. We were grant-funded by the then-DTI until 2006/7 and are now an independent membership-governed organisation. Our core activities are action research and innovation, benchmarking, demonstration, best practice guidance and training, and sector leadership and influence.

### 2. Principles

The following principles should underpin any strategy for funding and financing infrastructure:

- Leading players in the delivery side should have and do have an interest in the drivers and constraints of the funding and finance side – and vice versa - and the two should be brought together at an earlier stage of any programme or project to improve communication and mutual understanding. In short, collaborative working.
- An integrated framework is required in which the commercial drivers of funders are aligned with those of deliverers, this will improve the likelihood of reliable returns, reduce risk, and enhance the ability to pay by reducing costs.
- Each risk must be owned by the party best able to understand and manage it – or shared between parties to align interests and incentivise collaboration. Collaborative risk management reduces the risk for all, whether short-term or long-term.
- The risk profile of short-term construction matches the appetite of banks, long-term operational risk matches the appetite of institutional investors - bank funding for capital finance, capital markets for operational provided there is an income stream.
- Project finance needs to access the public sector AAA covenants for lowest borrowing rates.
- Any regime must ensure that whole life costs and value are properly considered and budgeted for during the design process, to optimise value-for-money over the appropriate lifetime of the project. Capex and opex should not be separated – and those involved in each should be incentivised to ensure they have a positive interest in optimising the other.
- Government's role should be as the funder of last resort, as a regulator of super-profits and provider of a legislative framework which doesn't provide perverse impacts and (dis)incentives.
- An intelligent 'thin' client function is required, the key principles of which are:

- Understanding the asset need and what represents value from any new investment,
  - Understanding in broad terms of what projects should cost,
  - Clarity and understanding of programme and project risks,
  - Ability to communicate with the supply chain,
  - Ability to engage in early stage development work to develop an efficient target price - rather than entering a target price too early which includes too much uncertainty
- The application of the public sector procurement processes and interpretation of the constraints of the OJEU/Competitive Dialogue process need to be reviewed to ensure as streamlined a process as possible, to reduce wasteful tender costs and time for clients and suppliers alike.

### **3. For further information**

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