European Services Strategy Unit **Research Report** No. 6

PPP Wealth Machine

UK and Global trends in trading project ownership

Dexter Whitfield

Financialisation of public infrastructure

Market values imposed on public assets

Growth of offshore infrastructure funds

Secondary market trading

UK and Global PPP equity databases

European Services Strategy Unit
(Continuing the work of the Centre for Public Services)

European Services Strategy Unit PPP Equity Database

The database can be accessed and downloaded at

http://www.european-services-strategy.org.uk/ppp-database/ppp-equity-database/

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Table 4: Annual rate and value of UK PPP equity transactions (1998-2012)

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The **European Services Strategy Unit** is committed to social justice, through the provision of good quality public services by democratically accountable public bodies, implementing best practice management, employment, equal opportunity and sustainable development policies. The Unit continues the work of the Centre for Public Services, which began in 1973.

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Abbreviations

BSF	Building Schools for the Future
ESSU	European Services Strategy Unit
GCP	Gravis Capital Partners
HICL	HICL Infrastructure Company Limited
INPP	International Public Partnerships
JLIF	John Laing Infrastructure Fund
LIFT	Local Improvement Finance Trust
MoD	Ministry of Defence
NAO	National Audit Office
NHS	National Health Service
PAC	Public Accounts Committee
PFI	Private Finance Initiative
PLC	Public Limited Company
PPP	Public Private Partnership
PSC	Public Sector Comparator
SEC	Securities Exchange Commission (US)
SPC/SPV	Special Purpose Company or Vehicle
UK	United Kingdom
VFM	Value For Money

Executive summary

High profits and annual returns

The average annual return on the sale of equity in UK PPP project companies was 29% between 1998-2012 – **twice** the 12%-15% rate of return in PPP business cases at financial close of projects. PPP equity was sold an average of 6 years after the financial close of the project. The annual return for infrastructure investment is significantly higher than the annual return for shares, bonds and property investment.

Twelve PPP projects had an annual rate of return of over 100% and another 25 had an annual rate of return of between 50%-100%. PPP profits remain unregulated with no profit sharing with the public sector. **The excess profit could be £2.65bn, all of which benefits private sector companies.**

Unprecedented scale

Equity in 716 PFI/PPP projects (includes multiple transactions in some projects) has been sold in 281 UK transactions worth £5.8bn since 1998. Health and Education PPP projects account for over 60% PPP equity sales between 1998-2012.

The total rises to 1,515 PPPs and £12.2bn when the sale of infrastructure funds, corporate takeovers and mergers and public sector buy-outs of terminated contracts are included, The number and value of secondary market transactions was largely unaffected by the global financial crisis.

Financialisation of public infrastructure

PPPs have had a key role in accelerating and embedding financialisation in the public sector and the economy. Banks and other financial institutions finance PPP projects, form joint ventures with construction companies and many have established their own infrastructure funds. Financialisation, together with personalisation, marketisation and privatisation, comprise the main methods being used to drive the neoliberal transformation of public services and the welfare state. Privatisation has mutated to create new pathways, such as the transfer of services to arms length companies, individual choice and market mechanisms, partnerships and outsourcing, and community asset ownership.

Why ownership and control matter

The sale of PPP equity provides new opportunities for profiteering, can invalidate value for money, increases offshore tax avoidance, erodes democratic accountability, increases secrecy and trading of publicly financed assets with significant negative consequences for the future of public services and the welfare state.

Growing power of offshore infrastructure funds

Offshore infrastructure funds now account for over 75.0% of PPP equity transactions. They have grown rapidly, building portfolios of public assets with equity in 315 UK PPP projects. Five funds have 50%-100% equity ownership of 115 projects. Tax avoidance by infrastructure funds results in a significant annual loss of tax revenue.

Global transactions

The sale of PPP equity is increasing in the rest of Europe, Canada, Latin America, Australia and Asia with 146 equity transactions valued at US$103bn involving 297 PPP projects. Toll roads and highway projects account for three-quarters of projects. Although profit/loss and rate of return data is sparse, seven projects had profits between 46%-74%.

Wealth machine

The sale of PPP equity has economic impacts, not least in terms of who is funding the excessive PPP profits and who suffers the loss of tax revenue. Profits are retained by parent companies and ultimately benefit shareholders through dividend payments. It is little more than a wealth machine for construction companies and finance capital. The high cost of PPPs and equity transaction profits absorb public resources that could fund infrastructure investment or other initiatives that support sustainable economic growth.

Impact of the new UK PPP model

Private Finance 2 (PF2) is essentially a rebranding of PFI. It does nothing to address the profiteering from the sale of equity in current PFI projects. Public sector minority equity stakes in future PF2 projects is likely to have a marginal effect on windfall gains and entrap local authorities, the NHS and other public sector organisations in playing the secondary market. The measures to increase public disclosure are meagre and likely to be ineffective.

Equity sales in bailed out NHS Trusts

PPP equity was sold in five of the seven NHS Trusts, which are being bailed out by the Department of Health, plus nine other NHS trusts are reported to be in financial difficulties. The average rate of return from the sale of equity in PPP hospital projects is 25.5%, so the private sector has extracted millions in excess profits from these projects whilst NHS Trusts seek additional public money to cover their PPP financial commitments.

Construction profits

Ten major construction companies sold £1.4bn equity in 195 PPP projects between 1998-2012 making £520m profit. Six PPP companies, Interserve, Amec, John Laing, Costain, Vinci and Kier transferred PPP equity to their pension funds in lieu of cash payments.

Lack of transparency

Government monitoring of the sale of equity in PPP companies has been inadequate, infrequent and has under-estimated the scale of transactions. The high degree of obfuscation or concealment of PPP equity transactions is a travesty of transparency. The HM Treasury and National Audit Office (NAO) endorse the business creed that PPP equity transactions are a private matter, despite the fact that PPPs are ultimately entirely publicly financed.

Multiple transactions in some PPP companies

Equity in the Calderdale Royal Hospital PPP project changed ownership nine times since financial close on 31 July 1998, six direct equity transactions and three changes in corporate ownership, which transferred PPP equity ownership to a different company. This is the highest recorded number of transactions of a PPP project and illustrates the complexity of many equity transactions and the systemic failure to disclose public information.

Additional state guarantees for private sector

In 2012 the government funded a £1.5bn bailout of seven NHS Trusts in financial crisis with large PFI projects. It also introduced further state guarantees for the private sector despite PPP projects already having a high degree of security through public funding.

Recommendations

The PPP programme should be terminated and replaced by a programme of public investment and new regulatory controls on existing PPP projects. Existing PPP project contractual terms should be amended and/or legislation introduced to require profit sharing with the public sector. Improved governance, rigorous monitoring and radical changes must accompany new disclosure requirements. New financial regulations should ban the transfer of ownership of PPP infrastructure assets to offshore tax havens.

Part 1
The growth of a PPP secondary market

The prime objective of this report and the accompanying UK and Global databases is to expose the profiteering from the sale of shares in PPP project companies.

Hospitals, schools, housing projects, health centres, colleges, courts, roads, prisons and fire stations are, in effect, traded in the secondary market.

The financialisation of public infrastructure

Financial interests and markets have a more powerful role in the economy compared to thirty years ago. Financialisation has been aided by the deregulation of capital controls, the increasing assets of non-bank financial institutions (such as pension and mutual funds, insurance companies, hedge funds and sovereign wealth funds) and the securitisation of financial products becoming an important source of funds for banks.

Debt financed consumption-driven growth strategies further embedded financial values and created new opportunities for profiteering (and big losses). The finance sector accounts for an increasingly larger share of GDP and corporate profits.

Financialisation, together with personalisation, marketisation and privatisation, comprise the main methods being used to drive the neoliberal transformation of public services and the welfare state (Whitfield, 2012a). They embed commissioning and procurement in public management; ensure in-house provision is no longer the default option; promote the transfer of public services to trusts, arms length companies and social enterprises; establish financial mechanisms to enable money to follow service users or into personal budgets; and create new services and investment markets. All of which are designed to erode public provision of infrastructure and services.

Furthermore, privatisation has mutated into a multi-dimensional process to create new pathways such as individual choice and market mechanisms, partnerships and outsourcing. Increased charges for public services, on top of the debt burden for mortgages, student loans and easy credit, are, in effect, a means of financialising personal income into retirement.

Privatisation and PPPs have also changed the interface between finance capital and the state as new markets have grown in the funding of privatisation, such as the transfer of council housing to housing associations and the growth of outsourcing markets.

New pathways were needed to extend privatisation after most state owned corporations were sold. Political opposition meant that core public functions and services could not be privatised by a stock market flotation or trade sale. Market mechanisms were not in place. Political values and social attitudes had to be changed, not least the belief in ‘public services’ had to be eroded and embedded trade union and professional interests challenged (Whitfield, 2012b).

PPPs have had a key role in accelerating financialisation in the public sector and the economy. They provide banks, infrastructure, pension and private equity funds with an opportunity for long-term, low risk, inflation-linked investment. Banks and other financial institutions have a key role in project finance, joint ventures with construction companies and many have established their own infrastructure funds.

Project finance and the companies providing financial advice have a more central role in the planning and procurement process. Infrastructure is now considered as an ‘asset class’ in its own right with manageable risks and good, stable profits! The different ways in which public infrastructure is being financialised are summarised in Table 1. The trading of public infrastructure assets further embeds neoliberal ideology and helps to create new pathways to privatise public services and the welfare state, in effect privatisation by stealth.

Table 1: **How PPPs accelerate financialisation of infrastructure**

Element of PPP	Financial consequences
Project finance	Banks, infrastructure funds, private equity and pension funds provide private finance.
Securitisation	Loans to finance project may be transferred to a special purpose vehicle to capture benefits derived from lower probability of loss with a mixed pool of loan assets rather than an individual loan.
Sale of PPP equity	SPC shareholders increasingly sell equity after a few years of operation.
Secondary market	Trading in PPP equity and growth of listed infrastructure funds acquiring PPP assets.
Risks commodified	All risks identified, allocated between public and private sector and priced.
State guarantees	Government and EU provide additional financial security.
Project funding	New user charges such as toll roads.
Third party use	Income generation and increased charges for community use.
Performance and availability	Charges imposed for every move of furniture and equipment, changes in use of rooms and availability of facilities reduced to monetary value.
Transaction costs	Wider range of consultants, financial and legal advisers in procurement, sale of equity, company accounts, due diligence and contract management resulting in higher costs.

It is, therefore, essential to recognise the role of PPP share dealings in advancing privatisation. They are more significant than simply being a consequence of market forces because they deepen the role of finance capital, which has a more powerful control in the PPP sector, taking over the lead role played by construction companies.

Why it matters

Every Public Private Partnership (PPP)* contract has its own Special Purpose Vehicle (SPV) or Company (SPC) to undertake the design, construction, finance and operation of the project. It is always a company, so the latter term is used in this report.

The shareholders of the SPC are usually the construction company, bank or financial institution and the facilities management contractor. The lead bidder, usually the construction company, and the bank or financial institution, will have the largest shareholding. Large construction companies and financial institutions will have shareholdings in many SPCs. The public sector is a minority shareholder in Local Improvement Finance Trusts (LIFTCos) for primary healthcare centres and in the disbanded Building Schools for the Future programme.

The SPC signs the contract with the public authority and finances construction by borrowing, usually bank loans, that account for between 85%–90% of the required financial resources with the equity shareholding in the SPC contributing the remaining 10%–15%. The new PF2 model will increase equity finance to 20%-25%. Bond issues have financed a minority of UK projects.

This study focuses on the sale of shares and change of ownership of PPP project companies *after* the contract has been signed. It excludes the original investment in equity at financial close of the project, because this is primary transaction. Nor does it include financial gains from refinancing projects once they are operational. The PPP contract will normally impose a restriction on the sale of equity prior to the completion of the building works. PPP shareholders are required to inform the public authority within 30 days of any change of equity ownership.

Some PPP companies have a policy of retaining ownership of equity in SPCs, whilst others recycle their investments by selling equity to help finance new PPP projects.

Note: * The Private Finance Initiative (PFI) was introduced by the Conservative government in 1992 and Private Finance 2 (PF2) since December 2012 in UK, P3 in Canada and USA. PPP is used generically in this report.

The contract requires the public sector to pay a monthly unitary charge to the SPC, which reflects the cost of access or use of the building (including the cost of construction, debt repayments and maintenance), plus the cost of facilities management (such as cleaning, catering, waste disposal, grounds maintenance). Private Finance 2 projects exclude facilities management or soft services).

Buildings are usually automatically transferred back to the public sector at the end of the contract, because they have continuing useful economic life. The standard PPP contract requires the contractor to transfer all rights, title and interests in and to the assets to the public authority or for the authority to retender the provision of the service (HM Treasury, 2007 and 2012). This does not prevent the SPC advancing proposals on future use, management and control.

Ten reasons why the sale of equity matters

The sale of equity in PPP companies has major negative consequences for the future of public services and the welfare state. They are summarised below in ten key points:

Opportunity for profiteering: PPP contractors and banks are earning an annual rate of return, an average TWICE that agreed in PPP business cases. Equity is being sold an average of six years into the contract, with the expectation that further profits will be extracted over the remaining period of the contract.

Invalidates value for money: Excessive profits are a clear indication that key elements of the project, particularly risk transfer, have been exaggerated and overpriced. This invalidates the value for money assessment – the basis on which projects proceed.

Ownership matters: Majority or full private offshore ownership of assets is likely to constrain public sector interests and options at the end of the contract when future investment and management decisions must be made. Continued private management and control of public facilities will only hasten the growth of the 'whole' service approach and privatisation of 'core' public services.

Growth of a secondary market: Increased trading in PPP equity and the growth of private sector portfolios of public assets embeds market forces and the secondary market.

Offshore tax avoidance: An increasing number of PPP projects are acquired by offshore infrastructure funds. Tax avoidance increases private sector profits and reduces government revenue to fund public services.

Potential changes in management and community use: The consolidation of equity ownership, particularly in offshore infrastructure funds, may lead to changes in operational management and in charging policies for community use as they seek to 'sweat the assets'.

Erodes democratic accountability: The sale of PPP equity is not subject to democratic accountability and public bodies have no control over which PPP assets are sold, when or who acquires them.

Secrecy: There is very limited public disclosure of PPP equity transactions, with no obligation to disclose the price, profit or the purchaser, unless the project has a significant impact on a public company. PF2 does not address these basic matters of public disclosure.

Use of state guarantees: PPP payments are virtually guaranteed by government, except for performance failures, so the use of state guarantees is likely to further diminish risk transfer and increase PPP profits at taxpayer's expense.

No sharing of gains with public sector: To date there is no requirement for the private sector to share excessive gains with the public sector. The government regards this as a private matter despite PPP projects ultimately being entirely financed by the public sector and taxpayers. PF2 does not address this issue, it merely enables a public body to become a minority shareholder to join in the profiteering!

The secondary market

The buying and selling of equity in PPP project companies has created a new market in which partial or full ownership of SPCs can be acquired by other companies, banks, pension and investment funds. This market is a trading system for infrastructure assets with seven key characteristics. It is:

- A private market with commercial values and objectives to value publicly funded infrastructure assets;
- Exploits offshore tax havens to reduce tax liabilities and increase profits;
- A largely unregulated market (except for general financial services regulations);
- Democratically unaccountable;
- Secretive and operates on the basis of minimum disclosure;
- Supported by agents, advisers, brokers and lawyers who provide financial and legal advice, arrange finance and carry out due diligence.

As soon as the secondary market began to grow, joint ventures were formed between PPP construction companies, banks or pension funds to hold operational projects and listed infrastructure funds, usually offshore, and to acquire operational PPP projects to build a portfolio of assets. Little distinction is made between economic and social infrastructure, with many transactions consisting of bundles of different types of assets.

The secondary market is not a shadow market; it deals with real assets, real money and change of ownership. The response to claims that it doesn't matter who controls or operates public buildings or who delivers public services is to understand that the nature, scope, quality, governance, delivery and cost of public goods and services are being radically changed and reconfigured in the interest of private capital.

The sale of PPP equity and the growing secondary market are part of this wider process. So who controls and operates public buildings and delivers public services is of vital public interest.

Why companies sell PPP equity?

The original shareholders in SPCs sell equity to increase profits, reduce the cash contribution to their pension fund, and/or to avoid undisclosed longer-term obligations or potential problems. Subsequent sales of equity by financial institutions, PPP companies and infrastructure funds could include these reasons and the desire to rationalise their portfolio of assets.

For example, HICL acquired a 50% interest in Doncaster Schools PPP in December 2011, one of 26 assets in a £143m deal with Barclays Infrastructure Funds Management. Eleven months later, HICL sold the equity and loan note interest to the Vinci Pension Fund (which owns the remaining equity) for a *"…small profit"* to *"…optimise portfolio performance"* (HICL, 2012a and 2012b).

Risk transfer

Construction risk is a major element in all infrastructure projects. A 2002 study compared the procurement of large traditional public sector projects with PPP projects and showed that PPPs had fewer cost overruns and delays (Mott MacDonald, 2002). This 'evidence' was used by government and PPP corporate interests to promote the PPP model in the UK and globally despite the failure to compare like with like (Pollock et al, 2007).

Traditional construction contracts frequently increase in price because contractors seek to recover the loss of profits from low bids, or to increase profits, by submitting claims for additional work and blaming delays on the lack of drawings, subcontractors and/or suppliers.

Construction risk is, in effect, shunted down the supply chain. In a PPP, the contractor accepts responsibility for construction risk, but at a price. The value of construction risk as a proportion of construction cost is usually 25%-70% (Shaoul, 2004 and NAO, 2012).

In practice, **PPP cost overruns *increased*** from 22% to 35% of projects between 2003-2008 and **PPP delays *increased*** from 24% to 31% of projects (NAO, 2009). Meanwhile, cost overruns and delays in traditional public sector projects ***reduced*** in the same period to 46% and 37% of projects (ibid).

All projects have risks and infrastructure projects are no exception. There have been few fundamental changes in the nature of design, construction and operational risks in the last three decades, despite the ramping up of the importance of risk in the economy and social life (Whitfield, 2006). Yet new risks and additional public costs imposed with the PPP model, have largely been downplayed or ignored.

Risks must be identified, allocated (retained, shared or transferred) and priced. The public sector usually retains demand risk, such as the number of patients, pupils or other service users, except in PPPs funded by user charges such as public transport or toll roads. The public sector also retains responsibility for political, governance, procurement, specification and contract management risks. Inflation and interest rate and general regulatory risks are usually shared between the public sector and contractor. Design, construction, project finance, maintenance, performance and environmental impact are the key risks transferred to the SPC. However, risk transfer is often overstated and the public sector often ends up bearing the responsibility and cost.

PPP projects have higher borrowing and transaction costs than traditional public sector projects. The pricing of risks to be transferred to the private sector has a key role in determining whether the PPP option provides the best value for money. A Public Sector Comparator (PSC) is frequently used to compare the cost of a traditional public sector project with a PPP option. Because the PPP option is usually believed to be the ‘only show in town’, the retained risks in the PSC and the transferred risks in the PPP option are often ‘adjusted’ until the PPP is deemed to provide ‘Value for Money’ (VfM). The latter should be a full and rigorous assessment of the economic, social and environmental costs, benefits and impacts of the planned project, but usually focuses on financial matters.

Special Purpose Company structure

The standard UK PPP contract enables these shares to be sold once the project is operational. Some PPP models institutionalise user charging through tolls or fees and/or via third party use and income generation.

PPPs extend ownership of public infrastructure by financial institutions. Some construction companies retain PPP assets, but most seek to ‘recycle’ their investment by the sale of SPC equity to invest in new PPPs. Even the largest construction companies need to ‘recycle’ their investment to fund new PPP projects. Securitisation further extends the role of financialisation and financial control of public assets.

Two other important trends are evident. Firstly, new types of public private partnerships where renewable energy companies promote partnerships with local communities by offering a community-owned turbine to generate income and build support for local and planning approval of wind farm projects. Secondly, the scope of PPPs are changing, for example the growth of whole-service contracts that have a smaller capital expenditure, but higher service provision content compared to traditional PPP projects. It is, in effect, a merging of infrastructure provision and service outsourcing into 25-year contracts.

Global investment trends

Trading in PPP equity has also led to the sale and acquisition of secondary market infrastructure funds. The first large-scale transaction was the sale of the Secondary Market Infrastructure Fund in 2007 with equity in 79 PPPs – see Appendix 2.

Some infrastructure funds have developed a corporate risk transfer strategy to transfer PPP equity to newly established listed or unlisted infrastructure funds. For example, Macquarie Group transferred the 50% of the equity in four US toll roads to a new unlisted fund, Macquarie Infrastructure Partners, whose investors are public and private pension funds, insurance companies, endowments and foundations and *"…high-net worth clients"* (Macquarie Group, 2007). Four years later it transferred the remaining 50% of the stake in these assets to Macquarie Atlas Roads, which was demerged from Macquarie Infrastructure Group and listed on the Australian Stock Exchange. A few months later, one of its projects, the South Bay Expressway in California, filed for bankruptcy. By this stage, equity was primarily owned by investors in Macquarie managed funds rather than Macquarie. In fact, Macquarie Capital Group Limited stake had been reduced to 16.25% (Macquarie Atlas Roads, 2012).

Demerging, the transfer of certain assets to a new company or infrastructure fund, is a method of raising new capital, transferring debt to the new company, transferring risk from the parent company to new investors, and gaining a profit. For example, in 2006 Macquarie Infrastructure Group (MIG) demerged its interests in three Australian toll roads to the Sydney Roads Group (SRG). MIG received A$125m in cash and shares in SRG. SRG assumed A$275m debt associated with the assets. MIG paid Macquarie Bank Limited A$4.5m advisory fee and A$1.1m of other transaction costs to Macquarie Equity Capital Markets Limited and UBS (Macquarie Infrastructure Group, 2006).

Five months later, Transurban Group made a successful takeover bid for SRG. Transurban already owned toll roads in Sydney and argued that it was the *"natural owner"* of SRG assets and *"…only Transurban can unlock the value of an integrated network"* electronic tolling, asset optimisation, lower costs and network enhancements (Transurban Group, 2006).

The value of PPP assets contributed to a number of takeovers of construction and infrastructure companies. They reflect the growing international ownership of PPP assets. For example, Citi Infrastructure Partners (Citigroup has a 15% stake) acquired Itinere, the highway operator owned by Spanish builder Sacyr Vallehermoso for US$10.2bn in 2008 The deal reduced Sacyr's debt by €5bn. Citi immediately sold toll roads in Spain and Chile to Abertis Infraestructuras (Spain) for €621m and other toll roads in Chile and Brazil to Atlantia (Italy) for €420m (Citi Alternative Investments, 2008).

More state guarantees

Most PPP projects are virtually guaranteed financially because they receive a contractually agreed stream of payments. They vary only if there are deductions for poor performance or the public authority decides not to impose deductions in the interest of maintaining good working relationships. EU Project Bonds and the new UK state guarantee provide additional security for investors in PPP projects.

Traffic-related guarantee payments are sometimes included in toll road contracts. Ireland's National Roads Authority (NRA) agreed such payments for the M3 Clonee/Kells and Limerick Tunnel PPPs. The NRA has to pay the PPP company additional money if average traffic levels in any half-year period do not exceed the level of guaranteed traffic in the contract. A recent audit revealed significant shortfalls in traffic volumes relative to the guaranteed thresholds in 2010 and 2011 and forecast an additional payment of €6.7m for 2012. Even if traffic continues to increase at an average 2.5% per annum, the government will be paying traffic guaranteed payments for the M3 Clonee/Kells PPP until 2025 and the Limerick Tunnel until 2041! (Comptroller and Auditor General, 2012). Additional payments could exceed €140m at current prices. The beneficiaries include Ferrovial (Spain) for the M3 and Strabag AG (Austria), Meridiam Infrastructure and Allied Irish Bank for the Limerick Tunnel.

Source of profits in PPPs

Profit from the sale of PPP equity is only part of the potential profit from private investment in PPP projects. Most PFI/PPP contracts have a further 10 – 25 years to run and the full scale of profit/loss cannot be determined until the end of the contract. The termination of contracts or construction/operational problems may result in financial losses (see Appendix 4), but they are small compared to the speculative profits obtained from the sale of equity in the secondary market.

Construction contractors, banks or financial institutions, architects, consultants and lawyers and facilities management companies extract profits at different stages of the PPP process (see Table 2). PPP companies can potentially access profits from the SPC, the sale of shares in the SPC and by refinancing the projects' debt. In addition, parent companies will regularly re-value their portfolio of PPP assets in their annual report and accounts. This which may lead to financial benefits in determining the level of corporation tax and/or the company's share price (a list of and shareholding in SPC and joint venture companies is available in company annual reports).

Profit is also extracted as a result of the client requiring changes and additions not included in the original contract. Few buildings remain fit for purpose and must be adapted to take account of changes in social needs, changes in service delivery and technological advances over the contract period.

Table 2: **Source of profit in PPP projects**

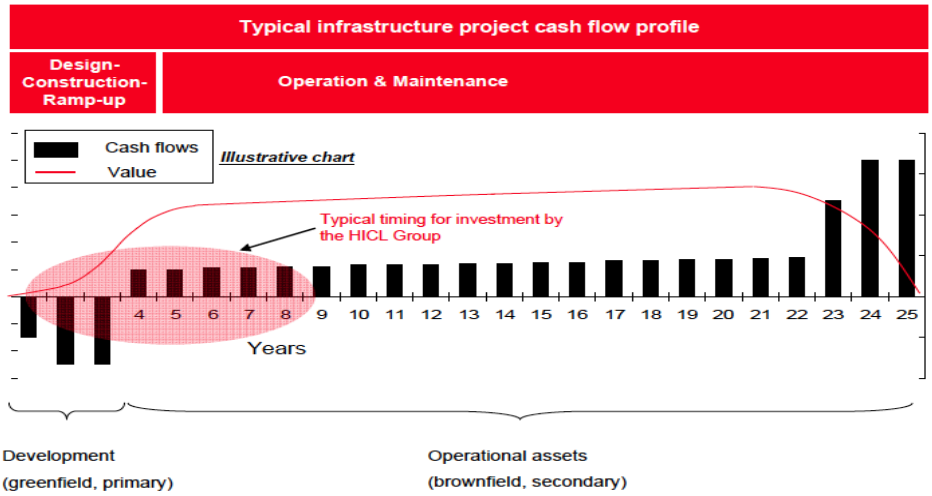
Source of profit at various stages of a PPP project
Planning
Advice in preparation of options appraisal and business case
Project management support
Procurement
Consultants provide procurement policy and strategy advice
Provision of legal advice and negotiation of contract
Provision of technical advice
Design, Build & Finance
Architectural design
Engineering, environmental and other technical advice
Landscape design
Construction (including subcontractors and suppliers)
Furniture and equipment
Bank loans or sale of bonds
Financial arrangement fees
Procurement, management and technical consultants and legal advice/due diligence
Operation and facilities management
Maintenance, utilities and renewal (hard FM)
Additional work and major changes required by the public authority
Third party income from community and commercial use of facilities
Contract variations
Consultants to undertake benchmarking and review
Facilities management support services (soft FM)
Secondary market
Legal due diligence
Financial and legal advice
Negotiating sale of equity
Arranging refinancing
Conclusion of contract or new contract
Consultants to assess options and legal advice

Source: based on Whitfield, 2010

The financing of PPP projects is complex. The HICL Infrastructure Company Limited example below illustrates cash flows over the contract period. The negative cash flows in the first three years reflect the cost of financing construction followed by positive cash flows once the project is operational. It concludes with a short period before the end of the contract with a significant increased cash flow to the SPC.

The higher cash flows towards the end of the contract, particularly the dividends obtainable to the shareholders of the SPC, also indicate future additional profits over and above those already obtained by the SPC, the sale of equity and by refinancing.

Figure 1: **Typical cash flow profile of a PPP project**



Source: HICL presentation, 2010.

Once a project is operational, it may be refinanced and gains must be shared on a 50%/50% basis between the public and private sectors – see Part 3.

Profits and VFM

When PPP consortia make significantly higher profits/returns than those agreed at the time of financial close, this implies that the public sector is paying an excessive cost for the project and that the value for money assessment is flawed. The source of the profit could arise from lower than expected construction, facilities management and/or borrowing costs. However, the most likely source is the cost of risk transfer, which may be significantly less than originally envisaged.

> *"Our three operational PFI hospital contracts, where we provide a broad range of non-clinical services both for the staff, patients and visitors and also for the maintenance of the facilities. We undertook additional work in service variations and projects, adding just under 10 per cent to our revenue."*
>
> Interserve plc, Annual Report, 2007

The NAO believes the secondary market is benign. It recommends that PPP planners take account of the secondary market at an early stage of the project. However, this is illusory because so little information is available on the secondary market, let alone forecasting the possible level of secondary market activity in the PSC and Value For Money (VFM) assessments, which is already fundamentally flawed. There is strong evidence that PPP consortia are making higher profits than those agreed at contract signing, meaning the project could have been delivered at a lower public sector cost.

Growth of secondary market and offshore infrastructure funds

Construction companies such as Balfour Beatty, Carillion, Costain and Interserve and PPP investor/manager John Laing, have portfolios of PPP projects they have constructed. They began to seek methods of selling PPP equity to reduce corporate debt and maintain the flow of bids for new projects.

The formation of joint ventures between PPP construction companies and banks between 2004-2007 played a key role in consolidating the UK secondary market. Two large Dutch pension funds formed joint ventures with Amey, Lend Lease and BAM between 2007 and 2011, which provided another route for construction companies seeking to recycle their PPP investments.

Combining a number of PPP assets in a portfolio is claimed to have a number of commercial advantages, such as pooled portfolio insurance arrangements and other bulk buying arrangements; acquisitions of co-shareholders' interests in existing assets; proactive business plan development, for example in stimulating third party revenues, managing service delivery and regulatory review outcomes; proactive treasury management to maximise deposit interest across the Group; capital restructuring of existing funding arrangements where appropriate, including the introduction of more competitive financing; and maintaining close working relationships with clients and supply chain contractors (HICL Prospectus, 2012c).

> *"As a consequence of the circumstances faced by the Group, an accounting loss on disposal of £15.3 million has been recorded in the Income Statement. There was however, a substantial profit of £72.9 million on the disposals when measured against the original cost of the investment."*
>
> John Laing, Annual Report & Accounts 2009

Ten PPP companies established joint ventures, usually on a 50/50 basis, with infrastructure funds, so that PPP equity would transfer to the JVC shortly after the PPP project was operational.

Joint ventures between construction companies and financial institutions include:

- John Laing and Commonwealth Bank of Australia (2004)
- Kajima Partnership (Japan) and HICL Infrastructure (2005)
- Lend Lease (Australia) and HBOS (2006)
- Serco Group and Infrastructure Investors (now wholly owned by Barclays Private Equity) (2006)
- Hochtief (Germany) and PFI Infrastructure Co., then Infrastructure Investors and then Barclays Private Equity (2007)
- Robertson Group and 3i (2010); Robertson retains 50.1% equity stake in portfolio of 16 projects.

Joint ventures between construction companies and pension funds:

- BAM (Netherlands) and Dutch Infrastructure Fund (2007)
- Amey (Ferrovial, Spain) and Dutch Infrastructure Fund (2009)
- Lend Lease (Australia) and PGGM Vermogensbeheer (Dutch pension fund) (2010) 10%/90% basis with initial £200m funding.
- Royal BAM Group (Netherlands) and PGGM Vermogensbeheer (Dutch pension fund) (2011) 50%/50% basis with target investment of €390m.

Joint ventures accounted for 9%-15% of PPPs engaged in the sale of equity between 2006-09 – see Table 7. This figure rose to 37.5% in 2010 but has since declined significantly.

> *Many diversified companies are participating in the PPP market, as it offers low-risk investment and attractive dividend yields."*
>
> Kim Redding, Chief Executive, Brookfield Investment Management, Financial Times, 28 October 2012.

Recently launched listed infrastructure Funds

Listed infrastructure funds are launched by a stock exchange listing and the sale of shares, mainly to institutional and wealthy investors, with the host company usually acquiring a 20% shareholding in the fund. The offshore location is designed to provide tax benefits for investors. It also increases the internationalisation of these funds and the ownership of PPP assets.

HICL Infrastructure Company Ltd (2006): First infrastructure fund to list on the London Stock Exchange in March 2006 with a £250m share issue. Further share offers in 2008, 2009, 2010 and 2012 raised a further £585m to acquire PPP assets.

International Public Partnerships (2006) originally listed in November 2006 as Babcock Brown International Partnerships with an initial portfolio of 23 PPP projects, followed by a further share listing raising £137m in April 2008, and a further share issue as INPP in January 2010 raising £98m.

John Laing Infrastructure Fund (JLIF) (2010) launched in November 2010 with a £290m share listing followed by a £27.4m new share placement in April 2011 and a £130.7m issue of new shares in October 2011. John Laing Group (Henderson Global Investors) had a 18.2% stake in JLIF (2012).

Bilfinger Berger Global Infrastructure Fund (BBGIF): raised £240m in December 2011 (Luxembourg). Bilfinger Berger has 19.9% share stake with the remainder being institutional investors.

These funds target a 7%-8% internal rate of return (JLIF, 2011, HICL, 2012, BBGIF, 2011).

Recently launched unlisted infrastructure funds

Equitix Ltd: Invests in new PPP projects in addition to acquiring equity in operational projects. Equitix Fund 1 launched March 2010 with £105m capital commitments and made 15 PPP investments. The Equitix Fund 2 closed in 2012 after raising £335m from 14 public/private pension funds and other investors.

Gravis Capital Partners: Formed in 2008 and operates three funds, GCP Infrastructure Investments Ltd is a listed fund and GCP Infrastructure Fund Ltd and investment company (schools, health centres and leisure facilities), and the GCP Student Accommodation Fund.

Established unlisted infrastructure funds

Semperian PPP Investment Partners – previously the Secondary Market Infrastructure Fund, Land Securities Trillium, Trillium Investment Partners – see Appendix 3.

Innisfree Limited (privately owned) – raised over £2bn for investment in 60 PFI projects with overseas institutional investors from Denmark, Sweden, USA and Canada providing 22% of funds.

Barclays Integrated Infrastructure Fund – has a shareholding in 84 UK PPP projects.

The effect of Private Finance 2

The Coalition government published its review of the Private Finance Initiative in December 2011 and set out a 'new approach', Private Finance 2 (PF2), together with a draft of the Standardisation of PF2 Contracts (HM Treasury, 2012a and 2012b).

An ESSU research report in January 2011, followed by evidence to the House of Commons Public Accounts Committee and the Treasury Committee, first provided concrete evidence of profiteering in the sale of PFI equity stakes. The government has failed to address the question of profiteering. However, the sale of equity in over 700 current PFI projects will continue and there is no proposal to enforce the sharing of profits in existing PPP projects with the public sector.

Instead, the government has proposed the public sector should take a minority equity stake in the SPC in future PF2 projects as a means of 'profit sharing'. But taking an equity stake in future projects is a different matter altogether. It does not prevent profiteering in future projects and does nothing to address profiteering in current PFI projects. Minority shareholders in PFI projects have been just that, and played second fiddle in secondary market trading. Furthermore, public sector equity ownership introduces new problems and conflicts in the role of the state.

Equity investment in PF2 contracts will increase to 20%-25% in PF2 contracts, compared to 10%-15% in current PFI contracts, with the public sector becoming a minority equity investor on the same terms as the private sector. The objective is *"…to ensure better alignment of objectives, greater transparency and improved value for money"* (HM Treasury, 2012a).

Public sector equity investment will be arranged and managed by a new *"…commercially-focused unit located in the Treasury separate from the procuring authority".* It will be managed by *"…individuals with the appropriate professional skills to oversee the investment and make commercial decisions"* (ibid).

In other words, if a local authority, NHS or other public body invests in equity in a PF2 project, they will not have direct representation on the board of the SPC, but will be represented by a Treasury official! This raises fundamental questions about democratic accountability and ethics and is likely to result in financial and national interests dominating at the expense of wider policy concerns and local demands.

There is nothing to stop the government from selling its equity stake – in 2011 it sold its 10% equity in 48 local authority Building Schools for the Future projects in a £60m deal with the offshore infrastructure fund International Public Partnerships (see ESSU database). Cash strapped local authorities and other public sector bodies are equally likely to sell equity stakes.

The Review recognises there have been 'excessive profits' in the sale of PPP equity, but PF2 is expected to *"…curb the ability of the primary investors to generate excessive profits and consequently the potential for windfall gains on secondary market sales"* (ibid). The measures include a mechanism to share unutilised funds in the lifecycle reserve; the removal of soft services where contractors have typically included a risk premium in the pricing; the introduction of public sector equity *"…to share efficiency savings across an increased equity investment and, therefore, the return on the equity investment will be lower; and equity funding competitions to encourage long-term investment into projects"* (ibid).

The effectiveness of the measures is uncertain and rely heavily on the 'expectation' that better partnership working will be successful.

Increased transparency?

The government claims *"…transparency will be at the centre of PF2 arrangements"* (ibid).

However, the proposals are meagre with regard to the sale of PPP equity. The government will publish an annual report detailing full project and financial information on all projects where it is a shareholder and will require *"…the private sector to provide actual and forecast equity return information for publication"* (ibid). No changes are planned to require more, even basic public disclosure of PPP equity transactions when they occur. The problems experienced in the preparation of the ESSU PPP equity database will remain.

Value for money

The Review admits *"…windfall gains on projects, through the refinancing of debt and the sale of equity investment to third parties…..has led to concerns about the value for money of projects"* (ibid). Increasing equity investment in PF2 projects is likely to increase public sector costs because equity investment costs more than borrowing. Equity investors expect an annual return of 12%-15% compared to the 6%-7% annual return on lending by banks and other financial institutions.

The government argues that any increased costs will be offset by the SPC having more equity and thus being perceived to have lower risks. It also hopes that if other investors take equity stakes this will bring *"…new money into the sector and so enabling more projects to be financed in the long run"* (ibid).

This section has explained why the sale of equity in SPCs and the growth of a secondary market have important negative consequences for public services.

PF2 is essentially a rebranding of PFI. It does nothing to address the profiteering from the sale of equity in current PFI projects. Public sector minority equity stakes in future PF2 projects are likely to have a marginal effect on windfall gains and entraps local authorities, the NHS and other public sector organisations in playing the secondary market.

Part 2

The secret world of the secondary market

Rationale for government's 'hands-off' attitude

There is no UK requirement to obtain public sector consent and/or to profit sharing when PPP equity is sold, although it is required when PPP projects are refinanced. The standard PPP contract imposes a restriction on the sale of equity prior to the completion of construction and commencement of the service. Once operational, shareholders in a PPP project company can sell equity and are only required to inform the authority within 30 days of any change of ownership.

The Treasury has regarded the sale of PPP equity as a transaction solely between companies in which the government has no involvement. It claims a change in the equity ownership of the project is part of the normal takeover or merger of companies and is different from refinancing projects. The National Audit Office (NAO) position is summarised in their evidence to the House of Lords investigation into PPP projects and off-balance sheet finance:

> *"In general, the shareholders of a project company are allowed to trade their PFI shares freely, as they would any normal shares of a limited company. Only occasionally would a public authority have a say in such trades, such as a right to consent (not unreasonably withheld) in certain Defence contracts. The public authority is not a party to such trades and does not share in any proceeds. It is therefore important that the expected return to the shareholders over the course of the whole contract be carefully scrutinised during the contract tendering"* (House of Lords, 2010b).

This view is shared by Local Partnerships, the PPP support agency for local authorities:

> *"Holders of shares in Contractors will not want their ability to transfer their investment to be restricted. This is because allowing them to transfer their investments in Contractors extends the availability of capital for projects, makes the market more liquid and, as a consequence, can help improve value for money"* (Local Partnerships, 2004).

The NAO believes that the sale of PPP equity has, in theory, *"…had a positive effect on the availability and cost of equity capital in the primary market. The secondary market provides some confidence to primary market investors that they will have an exit opportunity and that they will not be tying up capital for the full length of the contract. This confidence could mean more investors and more capital in the market, which in turn drives competition and reduces the cost of equity finance"* (ibid).

The NAO recognised that the risk of the consolidation of PPP equity could lead to *"…disproportionate market power, and particular asymmetry of power over small public authorities tendering and managing single PFI contracts. We would be concerned if we started to see a few consolidated owners dictating contract and commercial terms. We do not have evidence that this is happening"* (ibid). It concedes, *"…the lack of visibility over the secondary market it is difficult to ascertain the effects that the secondary market has had to date"* (House of Lords, 2010b).

They believe that changes in the share-ownership of a SPC *"…has few direct effects on the operational aspects of the project. The contractual terms are unchanged, and the organisations and people delivering the project will rarely change. The project company will remain responsible for the delivery of the project, but will seek to pass as much of the risk associated with that delivery to sub-contractors. Consequently, the key relationships between the public authority as client and the Project Company's sub-contractors will remain unchanged"* (House of Lords, 2010b).

The NAO assumes that the growing secondary market will have little or no effect on PPP projects, services users, staff and public bodies. However, the sale of PPP equity and growth of the secondary market infrastructure funds has very significant implications (Whitfield, 2010 and 2012).

Lack of transparency

HM Treasury only began tracking changes in PPP equity ownership in 2008 and the information records the current ownership of equity and the percentage shareholding – it does not include the value, profit/loss, date of sale, reason or any other data. Earlier versions of the database recorded the percentage of equity held by each shareholder, but this is now simply recorded as a proportion of 1. There is no justification to reduce the quality of information.

Companies are required to publish Regulatory Notices, Interim and Annual Reports and Corporate Press Notices geared to satisfying market information needs. The fact that virtually all PPP projects are ultimately totally reliant on public expenditure is regarded as a commercial advantage because of risk reduction, particularly in Prospectus and Offer documents of new infrastructure funds, as this reduces risk. This is not reflected in public disclosure requirements. Most company annual reports describe their commitment to Corporate Social Responsibility, but PPP equity sales provide further proof of its limited relevance and authenticity. A radical overhaul of regulatory requirements is urgently required.

John Laing, a major PPP company, ceased to be a public limited company in January 2006 following a takeover by Henderson Global Investors. It is no longer required to make Stock Exchange announcements, hence its website 'news' section contains information only about being appointed a preferred bidder or financial close of projects, industry awards or the project completions. There is little or no information about the *disposal* of equity in PPP projects. The John Laing Annual Report bundles all the disposals and reports on the total income and profit. No information is provided on the profit/loss for separate transactions.

The John Laing Infrastructure Fund is required to issue Stock Exchange announcements and regularly reports the *acquisition* of stakes in PPP projects when these are of a material financial interest. However, the infrastructure fund is buying, not selling assets, and is not responsible for the profit/loss earned by John Laing. The end result is reduced disclosure and the release of less information about the profit/loss of transactions from 2007 onwards.

The NAO claims that *"…most of what happens in the secondary market falls outside the remit of the National Audit Office. Whilst the National Audit Office has access rights to the documentation of PFI sub-contractors (where they relate to the accounts of a body we audit), we do not have access rights to documents belonging to shareholders. Our information on the secondary market is thus restricted to data collected from public authorities and contractors, as well as our general monitoring of the sector (and) has an interest in the effect of the secondary market on the value for money of PFI contracts*" (House of Lords, 2010b).

Transparency is minimal in most PPP equity transactions. Notice of the sale of equity rarely gives the sale price, purchaser and/or profit. The sale of bundles of projects makes matters even more opaque, for although the overall price and/or profit will be stated, but not for individual projects.

There is a high degree of obfuscation or concealment of the details of PPP equity transactions. Limited additional information is sometimes available in annual reports when there is a vested interest in promoting the company's performance and financial acumen. However, the time gap can be up to twelve months before this information is available.

There are few disclosure requirements. Many publicly listed company's issue a Regulatory Notice or Stock Exchange announcement disclosing the acquisition or disposal of PPP equity, but larger companies usually consider the transaction is not of material financial interest. There is no requirement to disclose the name of the vendor, the percentage of shareholding being sold, the profit/loss or rate or return. Privately owned companies and private equity funds have no comparable disclosure requirements.

Some companies issue press releases to announce PPP equity acquisitions/disposals but most corporate media communications focus almost exclusively on contract awards, statutory notices on share dealings and changes in company directors. A company may report the details of an equity sale or acquisition in their interim or annual report, but may not indicate the price, level of profit nor to whom they sold their shareholding. There is no common practice or standard requirement.

Obtaining information about PPP equity deals in companies subject to takeover or merger is also extremely difficult, as annual reports and regulatory news announcements are often removed from corporate web sites shortly after acquisition. Companies may not wish the market to know they are selling a shareholding in case this is taken as a sign of financial instability and thus affect the company's share price. Non-profit companies or social enterprises, such as care providers, release little or no information on the sale of equity in projects, presumably because this does not fit with the image they seek to portray.

The NAO analysis of 99 equity transactions is a good example of the lack of transparency (NAO, 2012). They calculated the rate of return, but did not disclose the return for each project nor did it reveal the level profit from the transactions, despite some companies publicly disclosing this information. Some additional information was provided in three case study projects.

Similarly, the Audit Commission refused to disclose the names of local authorities and contractors in its study of 14 PPP strategic partnerships, even when contracts had been terminated? (Audit Commission, 2008 and Whitfield, 2008).

A common pattern of minimal or non-disclosure serves to protect the interests of private capital. The solution lies in regulatory changes and new comprehensive disclosure requirements. Freedom of Information should be extended to include private companies in the delivery of public infrastructure and services, but the emphasis should be on public disclosure supplemented by the right to request additional information.

Minimal public disclosure of PPP equity transactions has led to the growth of a secret market. New PF2 disclosure requirements are likely to make only marginal change.

The next section sets out the background to PPP equity research, the objectives, establishes a theoretical framework and the methodology used to compile the database.

Part 3
PFI/PPP equity research

Growth of trading in PPP project equity

The growth of the secondary market and sale of equity in PPP projects was first quantified in Global Auction of Public Assets (Whitfield, 2010). A more comprehensive study was published in January 2011 based on 240 PPP equity transactions and a 154 PPP project sample that identified the level of profit (Whitfield, 2011). A BBC Radio 4 File on Four programme highlighted these findings and the lack of information and disclosure in June 2011. A summary of the evidence was submitted to the Treasury Committee and the Public Accounts Committee investigations into PFI (House of Commons Treasury Committee, 2011 and House of Commons Public Accounts Committee, 2011). The National Audit Office later undertook an audit of equity transactions in a sample of 99 PPP projects (National Audit Office, 2012).

The financial model that underpins each PPP contract is highly complex. The determination of profit/loss in PPP contracts part way through the operational phase can only be indicative and is only one source in which profit is extracted from PPP projects. The return to the company disposing of its equity share reflects the expected known future cashflows at that particular stage of the projects lifetime and does not take into account additional profits derived from further sale or resale of equity later in the project, the refinancing of project debt, annual profits obtained by the SPC and the revaluation of PPP assets in annual reports and accounts.

Research objectives

The study has four main objectives: Firstly, to identify the scale, scope and extent of the scale of equity transactions and profits in PPPs in the UK and other countries. Secondly, to identify the organisation and structure of the secondary market, the key companies and the growth of offshore infrastructure funds with portfolios of PPP assets. Thirdly, to develop a theoretical understanding of the role financialisation and marketisation of infrastructure. Fourthly, to examine the impact of the secondary market for the public sector, service users, community organisations, staff and trade unions.

PPP equity transactions

The European Services Strategy Unit PPP Database - http://www.european-services-strategy.org.uk/ppp-database/ppp-equity-database/ - and this report focus exclusively on the sale of equity in PPP project companies.

It is also important to highlight:

- The database reports solely on profit/loss disclosures by parent companies.
- PPP equity transactions usually include the sale of subordinated debt, also referred to as loan note interest.
- Normally two or three companies are formed with each PPP project – one to undertake the construction and finance, another to operate the facility after construction is completed, plus a holding company.
- The sale of equity is only once source of profit in PPP projects.
- Profits from equity transactions may not be disclosed for up to a year later when company annual reports are published. Profit/loss may not be attributable to individual PPP projects when they are sold in a bundle.
- The database does not record internal transfers, for example, between subsidiaries with the same parent company.

At financial close of a PPP, the financial model will include a rate of return, usually 12% - 15%, but this does not limit the private sector to this return. It is an indicative return, which the preferred bidder company considers acceptable to sign the contract.

The equity in PPP special purpose companies is owned by the respective parent companies and the profit/loss from the sale of equity is retained by the parent company. A company may sell part or all of its shareholding, whilst other shareholders retain their stakes. The SPC shareholders usually have pre-emption rights, which give them the right to acquire the shares of other shareholders who want to sell their equity. The sale of equity in PPP projects usually includes the sale of debt or loan note interest.

By 2012, about 920 Public Private Partnership (PPP) and Private Finance Initiative (PFI) projects had been signed in the UK (PartnershipsUK database 2011) with about 720 operational PFI contracts (HM Treasury, 2012, records only current PFI contracts).

This research is based on *actual* profits and rates of return, not those predicted when the contract was signed.

Academic studies have examined *prospective returns* in PPP projects, based on a small number of PPP business cases (Toms et al, 2011, Cuthbert and Cuthbert, 2012). A few studies have estimated the returns of listed and unlisted infrastructure funds, but the three to four year gap between the date of the information, research and publication in academic journals limits its value in fast changing economic conditions (Newell et al, 2011, Hartigan et al, 2011).

Whilst analysis of financial models can provide useful insights into the business case economics of PPP projects, this is limited. PPPs were claimed to be the 'only option' with risk transfer and pricing being 'flexible' and open to different technical and financial interpretations. This scenario provides only limited assurance that value for money was rigorously pursued and business cases were sound.

Theoretical framework

PPP equity transactions should be considered in a financial and economic framework rather than an accounting/corporate finance approach evident in previous studies, which have been based solely on projected returns due to the lack of evidence (Hellowell and Vecchi, 2012).

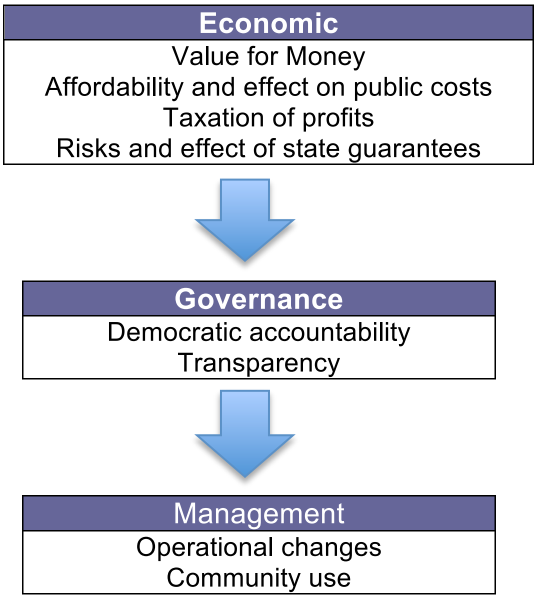
This study has developed a three-part framework consisting of economic, governance and management criteria using a cost/benefit and impact assessment approach designed to examine the wider implications of PPP equity transactions - see Figure 1.

PPP projects can only proceed if they demonstrate value for money. However, if excessive profits are obtained from the sale of PPP equity this indicates value for money was not achieved. The public sector is in effect paying a higher price for the PPP contract than it otherwise would. Affordability is a key issue; because PPP contract payments are 'protected' thus budget cuts must be imposed on frontline services.

There is evidence that risk transfer/pricing has been exaggerated and overpriced (Cuthbert and Cuthbert, 2008 and 2009, Shaoul et al, 2008).

The governance element of the framework is concerned with the transfer of majority or full ownership of PPP project companies to tax havens and accountability to public bodies and community organisations during the operational stage. It raises questions about the pre-completion of the contract period when future options will be examined. It also undermines policies that are intended to promote 'localism' – see Part 7. The equity sale process is highly secretive and the transfer of assets to tax havens makes transparency more opaque.

Figure 2: **Theoretical framework**



ESSU PPP Equity Database – the evidence base

This report is the second stage of the project, with a larger sample PPP equity sales and profit data and annual returns. The database has four parts:

1. UK PPP equity sales 1998-2012.
2. UK sale of Secondary Market Funds 2003-2012 – Appendix 3.
3. Changes in UK equity ownership as a result of public sector buyout, termination or administration of contractors – Appendix 4.
4. Appendix 5 is separate Global database of PPP equity transactions in other EU countries, US, Canada, Latin America and Australia.

The research is based exclusively on PPP equity transactions reported by construction companies, banks and financial institutions, infrastructure funds and facilities management companies. Equity transactions usually occur after construction is completed and buildings are operational. It is vital that PPPs are examined on their actual performance and not on prospective returns in financial models drawn up in very different economic and financial circumstances. This research is an important addition to the PPP evidence base.

The PPP Equity Database has been compiled to track the sale of equity in PPP projects and the sale of secondary market infrastructure funds. Each transaction leads to a change in partial or full ownership of the SPC company.

The database was compiled from the following sources:

1. Stock Exchange Announcements/Regulatory News Service, Company Notices and Press Releases.
2. Company Interim and Annual Reports & Accounts.
3. UK Companies Houses filings (and in Jersey and Guernsey).
4. Infrastructure fund share prospectuses.
5. Construction and PPP company websites.
6. Partnerships UK Database (now at Local Partnerships).
7. HM Treasury PFI database.
8. Securities & Exchange Commission 8K filings for US stock exchange companies.
9. PPP, financial, construction and infrastructure journals.

It examined over 750 company annual reports and accounts.

PPP equity transactions and the establishment of new secondary market infrastructure funds have continued virtually unchanged during the global financial crisis. The growth of the PPP equity market is further evidence that the claims that the financial crisis was going to lead to the demise of the PPP programme were unfounded.

> *"During 2012 we also expect to be in a position to double the PPP disposal gains we achieved in 2011 through the sale of some mature assets. Our goal is to deliver £40m of gains in 2012."*
>
> Balfour Beatty, Results for 2011, 8 March 2012.

Time between financial close and sale of PPP equity

The sale of PPP equity reported to date is in projects that were signed from mid 1990s onwards with most signed after the year 2000. The time gap between the date of financial close and the sale of PPP equity has reduced from an average of 6.72 years in 2003-2007 to an average of 5.89 years in the 2010-2011 period, see Table 3, based on the 99 projects in the NAO analysis of sale of PFI equity (National Audit Office, 2012). In other words, PFI equity is being sold about a year earlier than in the 2003-2009 period.

Table 3: **Time between financial close and sale of PFI equity**

Date	Average time gap (years) NAO research	Average time gap (years) ESSU research
2003-2007	6.72	5.26
2008-2009	6.48	5.98
2010-2011	5.89	7.83
Average	6.44	6.03

Source: National Audit Office, 2012 and European Services Strategy Unit PPP Equity Database 2012.

The average time between financial close and the start of operation of PFI projects is 21 months (20.97 months) based on an analysis of 200 PFI projects in the North East, North West, West Midlands and South East regions in the Partnerships UK Project Database (accessed 16/02/2012). The date of completion of construction is important because construction risk constitutes a key element of the overall risk. The sale of PPP equity does not usually occur until the project is operational.

> *"We have sold 32 PPP equity investments generating proceeds of some £341.1 million and a pre-tax profit of over £128.4 million."*
>
> Carillion plc, Interim Report 2011

Differences between direct and indirect sale of PFI equity

Important distinctions exist between the direct and indirect sale of PPP equity. The sale of equity by SPC shareholders is classified as a direct equity transaction. Equity may be sold to other shareholders in the company either by agreement or through the exercise of pre-emptions rights, to other financial institutions or to secondary market funds such as infrastructure funds. In some cases equity may be sold to a joint venture established between the PPP contractor and a bank or pension fund.

When a PPP contractor sells equity to a listed infrastructure fund bearing the same company's name it is also regarded as a direct financial equity transaction. PPP companies often have a minority 19.9% stake in listed infrastructure funds where the majority of shareholders are global institutional shareholders. This is clearly a change of equity ownership.

Secondary market funds have been subject to takeover or merger on 17 occasions – see Appendix 3. In these cases, the equity in a package of PPP projects is acquired for a lump sum. The value of the equity of each project is assumed or hidden within the total price paid. There is a change in the ownership equity, but it is classified as an indirect equity transaction.

In the event of a takeover or merger, the value of PPP project shareholdings is included in the overall value of the company and cost of the takeover and is also classified as an indirect transaction. For example, the 2006 takeover of John Laing plc by Henderson Global Investors, led to a change in equity ownership in 52 PFI projects.

Takeover of John Laing plc by Henderson Global Investors in 2006 (PPP project and percentage of equity owned by Laing)
Norwich & Norfolk Hospital (20.0), Queen Elizabeth Hospital Greenwich (50.0), North Birmingham Mental Health (100.0), Newham Hospital (50.0), Kingston Hospital (60.0), Newcastle Hospitals (40.0), Barts Hospital (12.5); Schools projects - Highland (10.0), Edinburgh (20.0), Glasgow (20.0), Newham (80.0), Enfield (80.0), North Swindon (100.0) and South Lanarkshire (33.3); Greater Manchester Police (50.0), Cleveland Police HQ (42.5), Avon & Somerset courts (40.0), Cleveland Firearms (50.0), Gravesend Firearms (50.0), British Transport Police (100.0), South East London Police Stations (50.0); LIFT projects (30.0) in Sandwell, Greater Nottinghamshire, Leicester, Manchester & Salford 1 and 2, South Derbyshire and North Nottinghamshire; Severn River Crossing (35.0), M40 (50.0), A56 (50.0), A130 (100.0), M6 Scotland (19.5), Sirhowy Way (50.0); Walsall (100.0), Manchester (50.0) and Wakefield (50.0) Street Lighting; Newham Housing (50.0) and Bentilee Regeneration (50.0);

Source: John Laing Annual Report 2006.
Note: Ownership of many of these projects changed again when John Laing/Henderson established the John Laing Infrastructure Fund in which John Laing/Henderson had a 18.2% equity stake at December 2011.

A smaller number of changes in PPP equity ownership occurred following the takeover of construction companies Mowlem plc and Alfred McAlpine in 2006/07 by Carillion plc, street lighting contractor David Webster by Bouygues in 2005, and after ACS (Spain) gained majority ownership of Hochtief (Germany) in 2011.

Refinancing

Refinancing and the sale of equity in PPP projects are two separate transactions. Banks and financial companies are usually prepared to refinance projects offering better terms to reflect the lower risks following the construction phase (National Audit Office, 2002). The prime objective of refinancing is to increase the rate of return. This is usually achieved by increasing the level of debt and extending the contract period. Projects can be refinanced by replacing the bank-funded debt or by issuing bonds, which will be sold, to insurance companies, pension funds and hedge funds. The large number of bondholders and bond conditions usually make any further refinancing prohibitively costly.

Refinancing projects has resulted in significantly increased rates of return, for example, the Altcourse (Fazakerley) Prison had an annual 13% rate of return at financial close of the contract, but this increased to 39% following refinancing of the project (NAO, 2000). The Norfolk and Norwich University Hospital annual rate of return was increased from 16% to 60% after refinancing (NAO, 2005). Early PPP contracts did not contain a profit-sharing requirement and a voluntary code called for the public sector to receive 30% of the gains, later increased to 50% in the standard PPP contract.

UK refinancing rules were amended in 2008 to ensure*"…potential additional refinancing gains may be generated on projects signing in the current market, if credit margins or other terms were subsequently to move significantly towards pre-credit crunch levels"* (HM Treasury, 2008). Further changes were made in the standard contract in April 2012 (HM Treasury, 2012).

This part of the report set out the objectives, methodology and theoretical framework developed for the PPP equity research. The next part reports on the scale and scope of PPP equity transactions 1998-2012 and identifies the sellers and purchasers of equity. A case study illustrates how some SPC are engaged in multiple transactions.

Part 4
PPP equity sales 1998-2012

PPP equity transactions

The ESSU Database records 281 UK equity transactions involving 716 PPP projects between 1998-2012, including multiple changes in ownership of some projects – see Table 4. The annual rate of PPP equity transactions increased rapidly between 2000-2004 during the formative years of the secondary market. There are inevitably variations in the annual rate of the number and total value of transactions, reflecting financial markets and attitude to PPPs, the rate of completion of PPP projects, recycling decisions of PPP contractors depending on their contract win-rates and the acquisition rates of secondary market funds seeking to expand their portfolios of assets. There may be more transactions that have not been captured in the database due to the opaqueness of secondary market transactions.

The financial crisis had a short-term impact on PPP equity transactions. The number and value of equity transactions declined in 2008, but rapidly returned to earlier levels a year later. The average value of PPP equity sold ranged from £3.4m in 2004 to £15.5m in 2012.

The estimated total value of PPP equity transactions is £5,798m between 1998-2012 (based on extrapolating financial data for 171 of the 281 transactions) – see Table 4. The estimated annual totals fluctuate year to year for the reasons cited above (note data for 2012 is for only 6 months).

Table 4: **Annual rate and value of UK PPP equity transactions** (1998-2012)

Year	No. of equity trans-actions	No. of PPP projects (includes those where equity sold more once)	Value of equity sold (£m) (No of transactions)	Estimated total value based on average (£m)	Estimated average value of equity sale per each PPP project
2012*	14	23	272.8 (11)	347.2	*15.5*
2011	35	107	388.6 (30)	440.4	*4.1*
2010	21	80	639.7 (17)	790.2	*11.1*
2009	29	66	377.4 (22)	514,6	*7.8*
2008	15	47	151.3 (9)	252.2	*5.3*
2007	22	68	405.6 (15)	594.9	*9.0*
2006	35	113	811.1 (23)	1,234.3	*10.9*
2005	42	58	342.2 (19)	756.4	*13.0*
2004	32	93	162.9 (14)	372.3	*3.4*
2003	17	31	134.6 (8)	286.0	*9.0*
2002	3	3	n/a	n/a	*n/a*
2001	7	18	117.4 (4)	205.4	*10.4*
2000	7	7	n/a	n/a	*n/a*
1999	1	1	n/a	n/a	*n/a*
1998	1	1	4.6 (1)	4.6	*4.6*
Total	**281**	**716**	**3,808.2 (173)**	**5,798.5**	***8.1***

Source: European Services Strategy Unit PPP Equity Database, 2012 * To 30 June 2012

Sector differences

Health and Education PPP projects accounted for 62% of the equity sales between 1998-2012 – see Table 5. Transport, primarily roads and motorways, public transport and street lighting projects, accounted 9.6% and criminal justice (police stations, prisons, courts and remand centres) for 8.9%. Waste/water, defence, housing and fire and rescue projects each accounted for about 2.5% of changes in PPP equity ownership.

Table 5: **PPP equity sales by sector** (1998-2012)

Sector	No. of PPP projects in equity transactions (includes those where equity sold more once)	%
Education – schools & colleges	222	31.0
Health – hospitals and health centres	216	30.2
Transport – public transport, roads & street lighting	69	9.6
Criminal Justice – prisons, courts, remand centres	64	8.9
Waste/Water	19	2.7
Defence	18	2.5
Fire and Rescue	5	0.7
Housing	18	2.5
Leisure	11	1.5
Misc	74	10.4
Total	**716**	**100.0**

Source: European Services Strategy Unit PPP Equity Database, 2012

Analysis of purchasers

Infrastructure funds and construction and other PPP companies have been the main purchasers of PPP equity, accounting for 86.2% of transactions and 79.1% PPP equity purchases between 1998-2012 – see Table 6. Pension funds acquired equity in 44 projects, mainly by construction companies transferring equity to their own pension funds, or acquisitions by Dutch pension funds. Joint ventures between construction companies, banks and/or pension funds had an important role in enabling construction companies to obtain financial gains whilst retaining partial ownership of equity – see Part 3.

Table 6: **Purchasers of PPP equity**

Type of purchaser	No. of transactions	No. of PPP projects	Sale value £m (No of transactions)
Offshore infrastructure fund	50	171	1,483.3 (45)
Other infrastructure fund	117	227	1,060.9 (61)
Pension fund	15	44	154.9 (10)
Joint venture – construction company & bank or pension fund	10	67	200.8 (6)
Other financial institution	10	14	85.6 (4)
Construction or PPP company	53	105	611.9 (28)

Source: European Services Strategy Unit PPP Equity Database, 2012. Excludes transactions where information not available.

The increasingly dominant role of offshore infrastructure funds is evident when the data is compiled on an annual basis using the same six-fold classification of purchasers – see Table 7. The sudden surge in PPP equity acquisitions by offshore infrastructure funds began in 2006 with the flotation of HICL and Babcock & Brown Public Partnerships, followed by the John Laing Infrastructure Fund (2010), Bilfinger Berger Global Fund (2011) and the offshore location of Semperian in 2009.

There has been a parallel decline in the role of other infrastructure funds and acquisitions by construction and PPP companies. Joint ventures grew in importance up to 2010, but have declined since the growth of offshore funds.

Table 7: **Changing pattern in acquisition of PPP equity** (2003-2012)

Year	Percentage of PPPs in which equity sold to:					
	Offshore infrastructure fund	Other infrastructure fund	Pension fund	JVC construction co. & bank or pension fund	Other financial institution	Construction or PPP company
2003	0	22.6	3.2	0	0	74.2
2004	0	92.5	0	0	0	7.5
2005	0	70.7	0	0	10.3	19.0
2006	33.6	54.0	0.9	8.4	0	3.1
2007	11.3	62.9	6.5	9.7	4.8	4.8
2008	8.9	15.6	8.9	8.9	2.2	55.5
2009	13.4	34.3	32.8	14.9	0	4.6
2010	30.0	8.7	10.0	37.5	2.5	11.3
2011	79.8	11.5	1.9	5.8	0	1.0
2012*	75.0	8.3	8.3	4.2	4.2	0

Source: European Services Strategy Unit PPP Equity Database, 2012 * to end July 2012

Sale of secondary funds

The sale of secondary market funds with portfolios of PPP assets has been another important way in which the ownership of equity in PPP projects has transferred to new owners. Over £4.1bn equity assets in nearly 730 PPP projects were transferred to new owners via the sale of secondary market funds between 2003-2012. The figures are dominated by three sales of the Secondary Market Infrastructure Fund to Star Capital Partners, then to Land Securities Trillium, its conversion into a joint venture fund, then the sale of Trillium's stake to Telereal and subsequent rebranding as Semperian – see Appendix 3.

Total PPP transactions and changes in equity ownership

PPP equity transactions totalled £12,235.5m between 1998-2012 in the UK based on the sale of equity in PPP projects, the sale of secondary market funds, takeover and merger of construction and PPP companies and public sector buy-out or contract terminations. The bulk of changes in PPP equity ownership occur via the sale of equity by project shareholders and by the takeover of secondary market funds – see Table 8 and Appendices 3 and 4.

Table 8: **Equity sales by type of transaction** (1998-2012)

Type	No. of transactions	No. of PPP projects	Estimated sale value (£m)
Equity sale by project shareholders	281	716	5,798.5
Takeover/merger of company	5	65	*1,004.0
Sale of secondary market infrastructure funds	17	729	5,126.6
Public sector buy-out or contract termination	5	5	**306.4
Total	**308**	**1,515**	**12.235.5**

Source: European Services Strategy Unit PPP Equity Database, 2012 * based on 1 transaction ** buyout costs only.

Projects where equity sold more than once

The equity in some PPP project companies has been sold, directly or indirectly, many times, ranging from 2 to 9 occasions. Multiple transactions of the same SPC occur for a number of reasons. Firstly, there are usually two or three shareholders in the SPC and all could sell their equity, sometimes collectively, but usually individually. Secondly, shareholders sometimes sell only part of their equity and retain the remainder, or sell it at a later date. Thirdly, construction companies may sell equity to new infrastructure funds or joint ventures established with financial institutions, such as pension funds, or they may sell equity via the secondary market. Finally, equity may be resold for commercial or financial reasons connected with the parent company (for example Jarvis plc sold its equity shareholdings during its financial crisis). The number of equity transactions in a PPP company may reflect the financial performance of that project, although there is inadequate data to demonstrate a connection between the number of transactions and good or poor performance of the project.

Case study of multiple equity transactions: Calderdale Royal Hospital

Equity in the Calderdale Royal Hospital PFI project has changed ownership nine times since financial close on 31 July 1998, six direct equity transactions and three changes in corporate ownership, which transferred ownership of PPP equity to a different company – see Table 9. Although this is the highest recorded number of transactions of equity in a PPP project company, it serves to illustrate the complexity of many equity transactions and the systemic failure to disclose what should be classified as public information.

Table 9: **Sale of equity in Catalyst Healthcare (Calderdale) Holdings Limited (renamed Calderdale Hospital SPC Holdings Limited)**

Date	Seller of equity	%	Purchaser of equity	Cost (£m)	Profit £m
31 July 1998	Share ownership at financial close of project	50.0 16.67 16.67 16.67	Bovis Lend Lease (Lend Lease Corporation, Australia) Bank of Scotland RCO Holdings Societe Generale	n/a	n/a
2000	RCO Holdings	16.67	ISS Europe takeover of RCO and their shareholding	n/a	n/a
2002	Lend Lease Corporation	30.1	Quayle Munro Holdings plc (Lend Lease retains 19.9%)	n/a	9.5
2005 Nov	ISS UK Limited (RCO Support Services Limited)	16.67	Bank of Scotland	n/a	n/a
2005 Dec	Quayle Munro Holdings plc	30.1	Bank of Scotland	n/a	n/a
2006 May	Lend Lease Corporation	19.9	Catalyst Investment Holdings Ltd (50/50 joint venture between Lend Lease and Bank of Scotland)	14.7 from equalisation of equity in 11 projects	11.5 as part of 11 projects
2006 October	Societe Generale	16.67	Infrastructure Investors (joint venture Barclays Infrastructure, Societe Generale, 3i Investments and Fleming Family & Partners)	n/a	n/a
2006 October	Bank of Scotland	3.3	Infrastructure Investors (joint venture Barclays Infrastructure, Societe Generale, 3i Investments and Fleming Family & Partners)	n/a	n/a
2009 January	Societe Generale (31.7%), 3i (31.7%) and Fleming (4.9%) shareholdings in Infrastructure Investors sold	Indirect shareholding	Barclays Integrated Infrastructure Fund LP	n/a	n/a
2010 December	Lend Lease Corporation sells its 50% shareholding in Catalyst Investment Holdings Ltd (later renamed Consolidated Investment Holdings Limited)	Indirect shareholding	Lend Lease PFI/PPP Infrastructure CIHL Holdings Limited, registered in Jersey	75.0 (part of 14 project transaction)	12.0 (part of 14 project transaction)
2012	Calderdale Hospital SPC Holdings 20% - Barclays Integrated Infrastructure Fund LP (owned by number of investors) 80% - Consolidated Investment Holdings Limited (50% owned by Bank of Scotland and 50% by Lend Lease PFI/PPP Infrastructure CIHL Holdings Limited (Jersey).				

Source: European Services Strategy Unit PPP Equity Database, 2012. Company accounts. n/a - not available.

How HICL gained 100% of Barnet General Hospital PPP project

The Barnet General Hospital project is an example of how an offshore infrastructure fund gains 100% equity ownership.

HSBC Infrastructure originally had a 30% equity stake in Metier Healthcare Limited, the SPC of the Barnet General Hospital PFI project (financial close 12 February 1999). This stake was sold to HSBC Infrastructure Company Limited (now HICL) when it was floated on the London Stock Exchange in March 2006, but registered in Guernsey. Within the decade, HICL had acquired 100% shareholding by acquiring the remaining shares in four transactions for £12.3m (the profit earned by Siemens, Bouygues and London Financial Group who sold their shares was not disclosed).

- 2006: Barnet Hospital project Ltd was one of 15 PFI assets sold for £250m by HSBC to HICL, a new company listed on London Stock Exchange, but registered in Guernsey.
- 2006: Bouygues sells 11% stake to HICL (now 41%).
- 2007: London Financial Group sells 10% stake for £3.3m to HICL (now 51%).
- 2009: Siemen's sells 30% stake for £2.7m to HICL (now 81%)
- 2009: Bouygues UK and Ecovert FM sell 19% stake for £1.7m to HICL (now 100%).

Metier Healthcare recorded £10.6m pre-tax profit in the thirteen years 2000-2012. It paid just £1.3m in taxes because of tax losses, which enable it to carry forward against future profits. The company had a net debt of £26.5m at 31 March 2012 after taking account of £10.5m cash in the bank. It has paid shareholders £3.0m in dividends, largely to HICL, since 2009.

The scale of PPP equity transactions is significantly larger than previously disclosed and extends to virtually all public services. The next section details the evidence of high rates of return and profiteering.

Part 5

Profit/loss from PPP equity transactions

Shortcomings in NAO analysis of PPP returns

The National Audit Office claimed a PPP equity market might bring benefits to the public sector *"…by attracting more investors into the PFI market. As the supply of equity in PFI projects increases this should, assuming efficient markets, drive down the relative cost of equity and bring benefits to the public sector in the pricing of PFI projects.* ***The Treasury has said that it considers there is scope to reduce the returns of around 13–15 per cent which investors expect when PFI projects are bid for****"* (National Audit Office, 2006 – emphasis added).

Various sources such as a PricewaterhouseCoopers 2002 study, a Royal Institute of Chartered Surveyors 2008 report and NAO research confirm the 13%-15% average rate of return (NAO, 2012). Similarly, sixteen Building Schools for the Future PPP projects had a 13.5% average rate of return at financial close of the project (NAO, 2009).

The NAO acknowledged *"...the public sector may often be paying more than is necessary for using equity investment"* (NAO, 2012). Primary investors provided the NAO with information on whether the returns they expected to achieve on 118 projects had changed since the contract was awarded. 84 investors reported the return was equal to or exceeded the original forecast. The NAO calculated the rate of return on the sale of equity in 99 projects sold between 2003 and 2011 (NAO, 2012). Investors selling shares early *"…have typically earned annualised returns between 15 and 30 per cent. In exceptional cases, returns have been higher (up to 60 per cent) or lower (as low as 5 per cent)"* (ibid). However, this report has a number of shortcomings:

Firstly, 64.4% of PPP equity returns were higher than 15% using the contract date to calculate the rate of return (and rose to 91.3% using the cash investment date). Furthermore, over a third were higher than 30%. This evidence was shown only in graphic form (Figure 9, NAO, 2012).

Secondly, the NAO did not assess the impact of PPP equity sales on a sector basis despite having a 99-project sample. Nor did it explain whether the sample was representative or how they had selected the projects.

Thirdly, although the NAO provided only six examples of projects being terminated, it placed undue emphasis on the risks involved, a familiar practice of the PPP sector.

Fourthly, it did not reassess the use of risk to justify the PPP financial model. For example, reduced risk on completion of construction is claimed to be the sole reason why secondary market purchasers *"…are often willing to accept a lower rate of return than that originally bid by the primary investor".* The report uses one example to highlight this point (Figure 11). The example is an unnamed 28-year project that commenced in 2005.

The NAO fail to point out that shareholders have, and will continue to, benefit from reductions in corporation tax over the contract period; potential reductions in hard and soft FM costs over the remaining contract period as a result of increased efficiency/productivity and/or reduced staffing levels/changes to terms and conditions; additional work and variations; all these financial benefits are captured by the private sector. The identification and pricing of risk transfer was the main mechanism by which projects were 'adjusted' or 'recalibrated' if the financial model indicated the Public Sector Comparator provided better value for money.

Finally, the NAO failed to examine the wider and longer-term implications of PFI equity sales, assess the impact of the increased concentration of PFI assets in infrastructure funds and joint ventures, nor did it investigate the increasing use of tax havens and quantify the potential loss of government tax revenue. A subsequent Public Accounts Committee hearing did not challenge the NAO's methodology or analysis (Public Accounts Committee, 2012).

Comparative returns

Annual returns on listed infrastructure fund investment over a five-year period out-perform other types of investments. Established indices operated by financial institutions and agencies show that the annual return for listed infrastructure funds was 8.63% compared to bonds (7.10%), private real estate (3.46%), stock and shares (2.28%) and listed real estate (1.98%) as of 30 June 2011 (RREEF, 2011).

Calculating the rate of return on the sale of equity

The internal rate of return is widely used in PPP contracts as *"…a measure of the underlying return the private sector expects to achieve by investing in the project"* (HM Treasury, undated). It has an important role because it is used for the calculation of the Unitary Charge at financial close of the project. It is also used in calculating compensation in the event of default or termination, and determining refinancing gain to be shared with the public sector.

Rates of return are normally calculated for a project, representing the weighted average cost of capital for the project *"…usually calculated from all of the non-financing project cash flows, including capital costs, operating and maintenance costs, revenues and working capital adjustments"* (ibid). An equity rate of return is the return to investors after senior debt has been taken into account. A blended equity rate of return takes account of all payments received on equity and junior debt (dividends, capital repayment and interest). Rates of return must also take account of whether inflation is included in cash flows and whether tax is included or excluded from cash flows.

The Weighted Average Cost of Capital (WACC) is a benchmark that measures the cost of equity and debt and thus the overall cost of capital for a project. A few studies have examined rates of return and WACC, for example, prospective returns in ten NHS hospital PPP business cases (Hellowell and Vecchi, 2012). Nominal project rate of returns varied between 7.22% and 10.72%. The ESSU database records equity transactions in only three of the ten hospitals, one of which was part of a bundle of projects, hence it is difficult to draw any indication of what has happened in practice compared to business case forecasts.

Another financial analysis of six PPP projects (three hospitals, schools, office and college) estimated internal rates of return between 16.9% and 23.2% (Cuthbert and Cuthbert, 2008). Another study that examined the SPC accounts of PPP road projects concluded the first eight PPP projects have an average return on equity of 29.9% and an average WACC of 10.9% (Bain, 2008). However, this study did not examine the seven PPP equity transactions in these projects.

Interim calculation of rate or return

There are two common methods of calculating a return on equity. The first is 'valuation on commitment', which treats the whole commitment as if it was invested when a PPP is signed and a special purpose company begins operation (NAO, 2012). It assumes that the entire committed investment is at risk from the time the company begins operating. This is a widely used method and is used in this study.

The rate of return is obtained with the equation:

> (Return – capital) divided by capital x 100% divided by the number of years between the date of financial close and the sale of equity.

The second method of calculating a return on equity is 'valuation on cash injection'. This method of calculating the rate of return takes account of the fact that investment is phased during the construction period rather being than a lump sum at the beginning. It is a more accurate method of calculating the rate of return and requires significantly more detailed information that was not available for this study. The 'valuation on commitment' **under-**

estimates the rate of return by 5% - 7% (NAO, 2012). Hence the rate of return figures in this report understate the real level of profit and return.

The financial model that underpins each PPP contract is highly complex, hence the determination of profit/loss in PPP contracts part way through the operational phase can only be indicative, a point stressed in Part 1.

The evidence of profiteering

The database contains 226 PPP projects where the selling price and profit from the equity transaction have been identified from reliable sources, mainly regulatory news announcements and company annual reports – see Table 10.

Table 10: **PPP equity transactions with profits data available 1998-2012**

Year	Transactions	No of PPP projects	Sale price	Profit	% Profit	Average annual rate of return
2012*	2	3	55.3	**40.2**	72.7	**43.3**
2011	19	28	184.6	**66.0**	35.7	**13.5**
2010	7	29	378.4	**189.0**	49.9	**19.2**
2009	17	41	306.0	**42.9**	14.0	**23.5**
2008	4	9	83.1	**46.3**	55.7	**24.8**
2007	6	23	167.2	**87.5**	52.3	**28.4**
2006	10	36	189.3	**72.5**	38.3	**32.5**
2005	11	14	263.3	**108.5**	41.2	**26.6**
2004	7	16	68.0	**26.3**	38.7	**43.9**
2003	8	20	134.6	**87.3**	64.8	**42.3**
2002	0	0	0	**0**	0	**0**
2001	1	6	92.5	**58.5**	63.2	**63.3**
2000	0	0	0	**0**	0	**0**
1999	0	0	0	**0**	0	**0**
1998	1	1	3.4	**4.6**	0	**179.3**
Total	**93**	**226**	**1,925.7**	**829.6**	n/a	**29.0**

Source: European Services Strategy Unit PPP Equity Database 2012. * to 30 June 2012.

Very high rates of return have been obtained in some PPP equity transactions – a sample of hospital, housing, waste water, road and prison projects is illustrated in Table 11. The sale of equity in 12 PPP projects resulted in an annual rate of return of over 100% and another 25 had an annual rate of return of between 50%-100%.

Table 11: **Examples of high annual returns**

PPP Company	PPP project and year of transaction	% Annual Return
Interserve plc	University Hospital London, 2012	**50.3**
Kier Group plc	Aberdeen Waste Water PPP and Hinchingbrooke Hospital, 2011	**61.0**
Balfour Beatty plc	Edinburgh Royal Infirmary and Aberdeen Waste Water PPP, 2010	**59.5**
Galliford Try plc	Portsmouth, MoD housing project (148 units), 2008	**122.8**
Interserve plc	Littlemore Psychiatric Hospital, Oxford, 2006	**53.0**
John Laing	M40 Denham to Warwick, 2004 (£6.4m profit in 3 months)	**128.6**
Mowlem Construction	City Greenwich Lewisham Rail Link (Docklands Light Railway) 2003	**73.3**
Wackenhut Corrections Corporation Inc	HMP Dovegate, HMP Ashfield, HMP Lowdham Grange Prisons and Hassockfield Secure Training Centre, 2003	**66.8**

Source: European Services Strategy Unit PPP Equity Database 2012

> *"The PPP business reported a significantly higher result. That was driven by our successful capital recycling program in the UK with the sale of the Group's interest in Romford."*
>
> Lend Lease Corporation, half-year statement, February 2010

Two groups of very high and very low annual rate of returns were examined.

Fourteen transactions (37 projects) had an annual rate of return over 50.0%, with 22 projects sold between 2006-2012.

Forty three projects (11 transactions) had an annual rate of return of under 10.0%. They were grouped into two periods. Five transactions occurred between 2003-2006 with eleven projects having a financial close between 1996-2001. A second group of transactions (32 projects) took place between 2009-2011.

Projects with a high annual rate of return were sold an average 5.1 years between financial close and sale compared to 6.3 years for projects with a low annual rate of return. The average for all projects in the ESSU database was 6.03 years (Table 3). A comparison of the profile of the 43 projects with the total number of PPP projects in equity transactions (Table 5) reveals that health projects were significantly under-represented, 11.6% compared 30.4% of the total, and criminal justice, defence, housing and waste/water projects accounted for a larger proportion of the 43 projects.

Profit rates in sectors

There are significant differences in the average profit rates between sectors raging form a high of a 39.4% annual rate of return in the criminal justice sector to 25.5% in health (Table 12). This data is based solely on single or sector specific transactions and thus excludes a large number of transactions that include projects from different sectors. The sample is therefore small and the rate of return figures for each sector are only indicative.

Table 12: **Profit on sale of PPP equity in single or sector specific transactions in UK 1998-2012 (includes multiple examples)**

Sector	No. of PPP projects	Total value of equity sold (£m)	Total Profit (£m)	Average rate of return
Health	19	180.6	121.3	25.5
Education	19	103.1	44.4	25.8
Transport	15	270.5	117.3	30.5
Criminal Justice	14	113.0	64.5	39.4

Source: European Services Strategy Unit PPP Equity Database 2012

The sale of PPP equity by the major construction companies is summarised in Table 13. This Table includes only the PPP equity transactions where profit information was available and does not reflect the full performance of PPP equity investment by these companies. However, four companies – Lend Lease, WS Atkins, Kajima Partnerships and Balfour Beatty obtained higher than average rates of return with John Laing and Carillion below average.

Table 13: **Top ten sellers of PPP equity in UK between 1998-2012**

Company	No. of PPP projects	Sale value (£m)	Profit (£m)	Average rate of return
John Laing	51	479.0	154.4	12.0
Carillion plc	31	325.4	123.1	17.4
Lend Lease Corporation	30	143.6	11.5	66.3
Interserve plc	18	135.6	69.8	20.4
Costain Group plc	16	65.2	31.8	25.3
WS Atkins	13	43.1	19.0	32.9
Kajima Partnerships	10	54.6	19.1	32.1
Balfour Beatty plc	9	65.8	47.0	30.3
Kier Group plc	9	47.9	27.9	27.3
Serco Group plc	8	79.9	16.0	24.1
Total	**195**	**1,440.1**	**519.6**	

Source: European Services Strategy Unit PPP Equity Database 2012. Based on partial financial data for sale value, profit and average rate of return.

If the average 29% annual return in the ESSU sample is reflected in the total number of equity transactions in the database between 1998-2012, and the average annual return forecast in full business cases at financial close of the project was 14%, **the excess profit could be £2.65bn, all of which benefits private sector companies.**

The source of excessive profits

The exaggeration and overpricing of risk transfer is likely to be the main source of profiteering given its role in PPP business cases. The extent to which particular projects achieved construction cost and completion targets is not available so it is not possible to determine the extent to which this was a factor.

A review of construction risk and 14 studies of traditional and PPP construction in Britain, France, Norway and Australia concluded *"…there's a strong argument to suggest that lenders to well-structured PPP projects with fixed-price contracts (and adequate risk mitigation) and strong, experienced contractors in jurisdictions familiar with PPPs – and the principles of project financing – remain insulated from any material construction cost overrun risk at all"* (Bain, 2010). He notes that construction cost overruns were considerably reduced when measured from the stage of budget approval than the earlier stage of original project approval. Furthermore, a review of 66 PPP projects for a major European Bank in 2009 found that 85% were delivered within or under budget (ibid).

In addition, the secondary market may have had a role in increasing the value of PPP assets and thus the price at which equity was sold, particularly infrastructure funds building portfolios of PPP assets.

Analysis of a transaction

Carillion sold 50% of the equity in the Queen Alexandra Hospital, Portsmouth in June 2010 to the HICL infrastructure fund for £31.3m. This transaction is included in the ESSU sample of transactions with profits data and is also one of three case studies in the NAO report on equity investment in privately financed projects (NAO, 2012).

Carillion reported a profit of £16.3m in its half-year results to 30 June 2010 and in its 2010 annual report and accounts (Carillion, 2010 and 2011a). The ESSU database records the transaction, and based on 4.5 years between financial close on 15 December 2005 and the sale of equity in 30 June 2010, records a rate of return of 24.1%.

The NAO report (2012) makes no reference to Carillion's profit statement. Instead, it *"estimates the component parts of the investors return"*. This comprises:

> *"Estimated changes in the value of equity between financial close and sale, due to changes in post-sale forecast cash flows and the secondary market rate of return (£10.5m).*

Time value of money (£7.0m)

Present value of forecast presale distributions in the financial close model (-)

Estimates of the primary investors risks:

- *construction contractor default (£2.3m)*
- *Cost of failed bids (£0.9m)*

The primary investors' original investment (£7.2m)

Unexplained residuals (rounded present values at financial close (£3.4m)"

These items total £31.3m.

Other tables in the NAO study examine the estimated premium of primary investor's returns over secondary investors' returns; estimated changes in the value of equity between financial close and the sale due to changes in cash flow and movements in the secondary market; estimated increase in the value of the equity due to the passage of time; reconciliation of sale price to the secondary market valuation of equity at financial close; and residual differences that cannot be explained.

The project's rate of return at financial close in 2005 was 15.0% (NAO, 2012).

So why did the NAO not assess how Carillion made a profit of £16.3m and achieve a rate of return of 24.1%, nearly 61% higher than planned, after less than five years of the 31.5-year contract? As noted earlier, the transaction represents only part of the overall rate of return of the project. The ESSU database uses the widely used method in calculating the rate of return, a method used in the NAO report.

The NAO appears to be using smoke and mirrors to avoid the basic questions. More importantly, the NAO analysis endorses **"…the secondary markets rate of return" and market forces in determining the value of PPP equity and assets.** This is another example of the way in which hospitals, schools, prisons, public transport and roads are being financialised and marketised to create new pathways to privatisation.

Later in 2010, the Royal Bank of Scotland sold its 39.9% equity in the project in two transactions for £28.5m (no profit details available). The Queen Alexandra Hospital SPC - Hospital Company (QAH Portsmouth) Limited - is now 100% owned by the Guernsey based HICL infrastructure fund (Hospital Company, 2012).

John Laing engineered the fastest profit - £6.3m in four months, net of costs. It acquired the remaining 50% stake in the M40 road project from Carillion in June 2004 for £19.7m and in October that year sold a 50% stake to the Secondary Market Infrastructure Fund for £26.3m (John Laing, 2005).

Construction profit rates

The profits in PPP projects contrast sharply with construction operating profit rates of the same contractors. They remained low throughout the last decade. Table 14 is based primarily on UK construction profits and excludes profits from PPP joint ventures, although differences in corporate policies and accounting practices may result in a small margin of overlap.

The average operating profit for construction companies between 2003-2011 was 2.9%, reflecting recent upturn in average operating profit rates since 2009. They are a stark contrast with the 12.0% - 66.3% annual rate of return obtained by the same contractors when they sell equity in PPP projects (Table 12).

Table 14: **Construction operating profit rates of major contractors 2003-2010 (%)**

Company	2003	2004	2005	2006	2007	2008	2009	2010	2011
Balfour Beatty	3.7	2.2	1.9	2.1	2.1	2.3	2.7	3.1	3.0
Carillion	0.6	1.1	1.4	1.7	0.7	1.4	1.4	2.3	4.4
Costain	1.3	0.0	1.3	-8.7	0.3	6.9	4.6	2.9	2.9
Galliford Try	-0.1	0.8	1.7	2.1	2.1	2.0	2.4	2.4	2.4
Kier	1.0	1.1	1.3	1.5	1.6	2.3	2.6	2.6	2.7
Morgan Sindall	1.5	1.5	1.6	1.3	1.3	1.5	2.0	2.2	1.7
Skanska	0.6	-0.2	3.4	3.3	1.7	-2.9	2.5	3.0	3.3
Average	**1.2**	**0.9**	**1.8**	**1.2**	**1.7**	**2.0**	**2.4**	**2.6**	**2.9**

Source: Company Annual Reports & Accounts. Notes: Based on UK construction/building activities: Balfour Beatty – Group margin for 2010 and 2011; Carillion – 2003-06 includes international contracts whilst 2007-09 figures based on UK and Canadian building, civil engineering and development excluding Middle East Construction, 2010 and 211 UK construction only; Costain – 2009 and 2008 Infrastructure division, 2007-2004 building division, 2011, 2010 and 2003 Group; Morgan Sindall – based on construction and infrastructure services divisions; Skanska AB – based on UK construction division.

Foreign companies active in UK PPP equity sales

PPPs have facilitated a growing international presence of European and other global PPP companies in the UK construction sector (mainly by acquiring mid-sized UK construction companies). For example, ten construction companies were involved in 34 equity transactions in 89 PPP projects between 2001-2012 – see Table 15.

Table 15: **Sale of UK PPP equity by EU/global construction companies**

Company	No of transactions	No of PPP projects
Lend Lease (Australia)	7	31
BAM (Netherlands)	3	12
Kajima (Japan)	5	10
Bouygues (France)	3	5
Bilfinger Berger (Germany)	3	12
Skanska (Sweden)	3	3
Macquarie (Australia)	2	2
Societe Generale (France)	2	2
Impregilo (Italy)	2	2
Bechtel (USA)	1	3
Hochtief (Germany)	1	5
Vinci (France)	2	2

Source: European Services Strategy Unit PPP Equity Database 2012

Variable profits between economic and social infrastructure

The difference in the annual rate of return between economic and social infrastructure projects is marginal, 37.0% compared to 38.6% respectively, although the social infrastructure sample was three times larger than the economic sample – Table 16. Transactions that included a mix of economic and social projects were excluded, as were criminal justice projects. The analysis does reveal that specifically economic and social project transactions have a higher than average annual rate of return compared to the 29% average for all transactions.

Table 16: **Profit differential between economic and social infrastructure**

Economic Transport, utilities, communications and renewable energy	**No of projects in transactions**	**Average rate of return (%)**	**Social** Education, health, leisure	**No of projects in transactions**	**Average rate of return (%)**
Transactions with profits data directly attributed to project	25	37.0	Transactions with profits data directly attributed to project	83	38.6

Source: European Services Strategy Unit PPP Equity Database 2012

Regional and city analysis

Scotland, North England, London and the South East regions had marginally higher rates of PPP equity transactions compared with the regional distribution of PPP projects – see Table 17. A more accurate analysis is complicated by the increasing national bundling of projects in equity transactions with 15.4% in the 'national/more than one region or unknown' category compared to only 4.9% of PPP projects in this category in the HM Treasury database regional analysis (HM Treasury, 2012).

Table 17: **Regional analysis of PPP equity sales**

Region	HM Treasury Database		PPP Equity Database* (includes SPC and related holding companies)	
	No of PPP projects	% of total	No of PPP projects	% of total PPP equity sales
North East	48	6.9	56	7.8
North West	74	10.6	67	9.4
Yorkshire & Humber	69	9.9	46	6.4
East Midlands	40	5.7	28	3.9
West Midlands	50	7.2	41	5.7
East of England	34	4.9	23	3.2
London	100	14.4	108	15.1
South East	48	6.9	67	9.4
South West	50	7.2	47	6.6
Wales	30	4.3	20	2.8
Scotland	82	11.6	96	13.4
Northern Ireland	38	5.5	11	1.5
National/more than one region	34	4.9	106	14.8
Total	**697**	**100.0**	**716**	**100.0**

Source: European Services Strategy Unit PPP Equity Database 2012 and HM Treasury PFI Database, November 2011 Includes some multiple sales of equity. * Note: the databases are not strictly comparable. The HM Treasury database records current operational PFI projects. The PPP Equity Database records sales of equity in SPCs.

Similar changes in ownership are evident at a city-wide level. Manchester, Edinburgh and Newcastle had the highest number of PPP equity transactions outside of London – see Table 18. However, very limited price and rate of return information was available, so it was not possible to undertake a more detailed city analysis.

Table 18: **Equity sales in Cities**

City	No of equity sales	Total sale price £m (number of transactions)	Profit £m
Manchester	15	15.2 (2)	10.0 (2)
Newcastle upon Tyne	11	56.3 (4)	1.1 (1)
Sheffield	9	26.7 (4)	5.5 (2)
Edinburgh	13	32.6 (2)	n/a
Birmingham	5	34.6 (1)	n/a
Cardiff	2	1.0 (1)	n/a
Glasgow	8	n/a	n/a
Leeds	6	n/a	n/a

Source: European Services Strategy Unit PPP Equity Database 2012. n/a – not available

Equity in seven large PFI projects in Newcastle upon Tyne has been sold in the last six years (ESSU, 2011). They include schools, hospital, health centre, city library and Department of

Work and Pensions offices and account for about three-quarters of the city's operational PFI projects.

Three projects have equity owned by infrastructure funds registered in tax havens.

- Newcastle City Library: Kajima sold its 50% shareholding to HSBC Infrastructure Company (HICL) for £3.0m in 2010. HICL is registered in the Guernsey tax haven.
- Newcastle Hospitals Transformation: John Laing's 40% equity investment transferred to the ultimate ownership of Henderson Global Investors following the takeover of John Laing in 2006. Laing sold a 25% stake to the Commonwealth Bank of Australia in 2010, followed by a 15.9% stake to the John Laing Infrastructure Fund, registered in the Guernsey tax haven, in 2012.
- Newcastle City Council Building Schools for the Future 1: Robertson Capital sold 49% equity shareholding to Elgin Infrastructure Ltd, a joint venture company between Robertson and 3i Infrastructure (registered in the Jersey tax haven). The Government's shareholding was sold to International Public Partnerships, also registered in Guernsey, in 2011
- Newcastle and North Tyneside NHS LIFT: Robertson Capital sold 49% equity shareholding to Elgin Infrastructure Ltd, a joint venture company between Robertson and 3i Infrastructure.
- Newcastle City Council 'Building Schools for the Future': 20% stake owned by Parsons Brinkerhoff transferred to Balfour Beatty ownership when they acquired the US firm in 2009.
- Newcastle City Council Grouped Schools 1: Bank of Scotland's 50% shareholding transferred to joint venture, with four pension funds in 2008, immediately prior to Lloyds Bank takeover of the bank. Lend Lease (Australia) transferred its 50% shareholding to Catalyst Investment Holdings Ltd, a joint venture company between Lend Lease and the Bank of Scotland in 2006. The shareholding was transferred to the new Lend Lease Infrastructure Fund, jointly managed with the Dutch pension fund, PGGM Vermogensbeheer, in December 2010.
- Newcastle Estate Partnership - rationalisation of Department of Work and Pensions offices: Amec plc sold its 50% shareholding to the Amec Staff Pension Fund for £25m in 2006.

Portfolios of schools and hospitals

Four infrastructure funds, HICL, Innisfree, John Laing Infrastructure and International Public Partnerships collectively control 70 school and college UK PPP projects (about 175 schools), 62 hospitals and health centres, 25 transport and road projects and 34 police and court projects.

Change of equity in PPP contract terminations

PPP equity holders have suffered financial losses when PPP projects have been terminated or the construction company has gone bankrupt. However, the losses incurred in these projects are relatively small given the potential long-term profits in PPP projects.

Ten UK PPP projects have been terminated, a further five were bought out by the public sector on termination and another five projects have experienced major problems – see Appendix 4. Globally, nearly 1,000 projects with a total value of US$511.2bn had been terminated or were distressed by late 2009 (Whitfield, 2010).

The Tees, Esk and Wear Valleys Mental Health Foundation Trust used a voluntary termination clause to buy out the PFI contract for a £16m adult mental health hospital in Darlington. The project, financed over 32 years, was signed in 2003 with Norwich Union (now Aviva). The Trust had a cash balance in its 2010 accounts and paid £18m to Aviva to terminate the contract, saving about £14m over the remaining term of the contract (Tees, Esk and Wear Valleys Mental Health Foundation Trust, 2012).

Transfer of PPP equity assets to contractor's pension funds

At least six companies, Interserve, Amec, John Laing, Costain, Vinci and Kier transferred PPP equity to their pension funds in lieu of cash payments or the transfer of other assets. The fund record ownership of the asset in its accounts and receives future dividends from PPP project companies.

Vinci plc sold a 50% stake in a Cardiff road contract to its pension fund, the Vinci Pension Scheme in 2003. Interserve transferred 13 PPP projects to its pension fund in 2008. Transfer of PFI equity assets is closely tied into the performance of the company since, at least in the case of Interserve, the company retains responsibility for operational management of the facilities. Amec transferred its 50% shareholding in the Inland Revenue Newcastle Estate Partnership to its pension fund for £25m in 2006.

Pension funds invest in PPPs and infrastructure funds in three other ways. Firstly, by direct investment in infrastructure funds. For example, the London Borough of Enfield Pension fund had 14.5m shares (3.19%) stake in International Public Partnerships (formerly Babcock Brown Public Partnerships), the Guernsey based infrastructure fund (INPP Annual Report, 2009 p26). Some pension funds invest in secondary market funds, such as Henderson and Semperian. For example, Greater Manchester and Merseyside pension funds and Swedish AP3 invested in the Henderson £330m infrastructure fund launched in 2005. The London Pensions Authority, the South Yorkshire Pension Fund and the London Borough of Newham Pension Fund were among a group of pension funds to take a 50% stake in the Mill Group's £400m Investors in the Community fund in 2004 (Timmins, 2004).

Secondly, by investing in the shares of construction companies and banks listed on the Stock Exchange in the same way as they invest in other companies.

Thirdly, by investing in consortia that are established to acquire privatised assets such as Associated British Ports (Whitfield, 2010).

Pension funds could ultimately promote the continued sale of PPP equity in order to maintain or increase their returns.

Comparison of research findings on annual rate of return

The National Audit Office (NAO) and European Services Strategy Unit (ESSU) studies reveal significant differences in the rate of return in the sale of PPP equity.

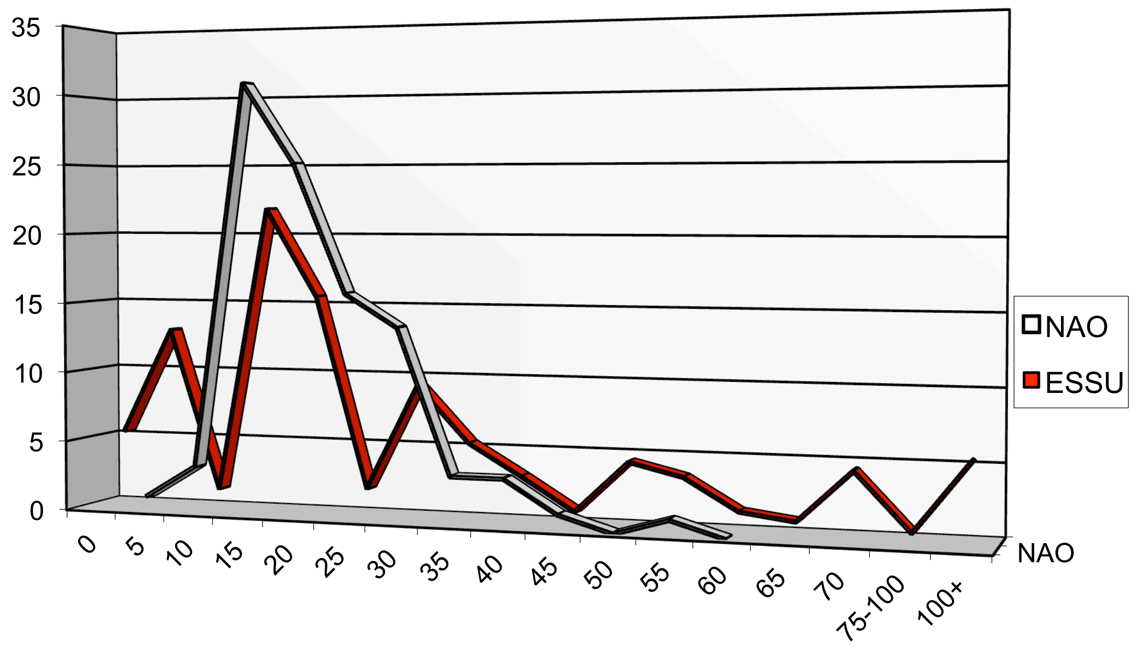
Firstly, the NAO study was based on a sample of 99 PPP projects compared to 226 projects in the ESSU sample. The NAO did not explain the basis of their sample. The ESSU sample contains all the equity transactions where profit information is publicly available.

Secondly, the NAO did not provide specific annual rate of returns for the projects in their sample and presented their findings in a broad graphic format (NAO, 2012)

Thirdly, nearly ninety per cent of the NAO project sample had a rate of return in 10%-30% range in contrast to the much wider distribution in the ESSU study. The latter cited 29 cases where the annual rate of return was over 55.0% whereas there were none in the NAO study. Similarly, there were 54 projects with an annual rate of return below 10.0% in the ESSU study compared to a smaller percentage in the NAO sample.

The differences between the ESSU and NAO findings are illustrated in Figure 3. The bulk of NAO projects are concentrated in the 10%-30% rate of return with none higher than 55%. In contrast, the rate of return in the ESSU sample is slightly flatter, but with more projects with a rate of return under 10% and a significantly higher proportion over 50%.

Figure 3: **Comparison of NAO and ESSU rate of return data**



PPP equity sold in NHS Trusts in financial crisis

In early 2012 the government agreed to a £1.5bn subsidy to seven NHS Trusts with PFI projects, which had major affordability challenges in meeting budgets (Public Finance, 2012). Twenty two NHS trusts were reported to be in financial difficulty because of PFI contract payments in early 2012 (BBC News, 2012).

PPP equity has been sold in five of the seven NHS Trusts in receipt of bail out funds - see Table 19. Profit data is available for only one transaction, but the evidence of average rate of return from the sale of equity in other PPP hospital projects (25.5%, Table 12), the private sector has extracted many millions in excess profits from these PPP projects, whilst NHS Trusts are in crisis seeking ways to meet their PPP financial commitments.

South London Healthcare NHS Trust has two large PPP projects, Queen Elizabeth Hospital, Woolwich and Princess Royal University Hospital, Bromley, and a smaller project at Queen Mary Sidcup. Equity in the Queen Elizabeth hospital has been sold four times in the last decade – see Table 20.

Annual contract payments for the two major PPP projects are about £70m and increase annually. The South London Healthcare NHS Trust is expecting the Department of Health bailout to be £21m per annum *"…based upon the difference between the costs incurred under PFI and those that would have been incurred with a Treasury funded scheme"* (Audit Commission, 2012) – a 30% cost differential.

Table 19: **Equity sales in NHS Trusts in financial crisis**

Date of sale of equity	Owner of equity	Purchaser of equity	% share stake sold	Price paid £m	Profit £m (%)	Annual Rate of Return at time of equity sale (%)
South London Healthcare NHS (Queen Elizabeth Hospital, Greenwich)						
April 2011	John Laing plc	John Laing Infra Fund	12.5	n/a	n/a	n/a
Nov 2010	John Laing plc	John Laing Infra Fund	15.0	n/a	n/a	n/a
2009	John Laing plc	Innisfree Ltd	22.5	n/a	n/a	n/a
March 2001	Macquarie Group	John Laing	50.0	12.8	n/a	n/a
Barking, Havering and Redbridge Hospitals NHS Trust (Queens Hospital, Romford)						
Nov 2009	Lend Lease Corp	HICL Infrastructure Co	50.0	23.9	n/a	n/a
Brentwood Community Hospital						
June 2011	Kajima Partnerships	HICL Infrastructure Co	75.0	4.6	n/a	n/a
Dartford and Gravesham NHS Trust (Darent Valley Hospital)						
Oct 2003	Carillion	Barclays Infrastructure Fund	50.0	5.2	1.1	4.3 - excludes £10.8m refinance profit
North Cumbria University Hospital Trust (Cumberland Infirmary)						
July 2007	Amec plc	Land Securities Trillium (now Semperian)	50	n/a	n/a	n/a
St Helens and Knowsley (St Helens Hospital)						
March 2009	Taylor Woodrow	Innisfree Ltd	30.0	n/a	n/a	n/a

Source: European Services Strategy Unit PPP Equity Database 2012

Equity in PFI projects in the Maidstone and Tunbridge Wells NHS Trust and the Peterborough & Stamford Hospitals NHS Foundation Trust has not been sold to date.

PPP equity has been sold in nine other NHS trusts that were reported to be in financial difficulties:

- Wye Valley NHS Trust (Hereford Hospital)
- Worcestershire Acute Hospitals NHS Trust
- Oxford Radcliffe Hospitals NHS Trust
- Nuffield Orthopaedic Centre, Oxford University Hospitals NHS Trust (Global Solutions)
- Barts and the London University
- Portsmouth Hospitals NHS Trust
- Buckinghamshire Healthcare NHS Trust (Stoke Mandeville)
- West Middlesex University Hospital NHS Trust
- Mid Yorkshire Hospitals NHS Trust (Pinderfields)

This section has summarised the evidence of profiteering by SPC shareholders. Part 6 reveals the dominant role of offshore infrastructure funds in acquiring PPP assets.

Part 6
The growth of offshore infrastructure funds

Offshore listed infrastructure funds now dominate the acquisition of SPC shares. This section provides evidence of the scale of portfolio building and identifies the PPP projects with 50%-100% equity ownership by these funds.

Tax haven based infrastructure funds

The launch of publicly listed infrastructure funds was discussed in Parts 1 and 4. Offshore infrastructure funds now account for over 75.0% of PPP equity transactions. They have grown rapidly, building portfolios of public assets with equity in 314 UK PPP projects (Table 20). This figure is constantly increasing as funds continue to acquire PPP assets.

Table 20: **PPP Infrastructure funds located in tax havens**

Company	Tax haven	No. of UK PPP assets	PPP projects
Semperian PPP Investment Partners Holdings Limited	Jersey	106	Previously known as Land Securities Trillium and Secondary Market Infrastructure Fund
HICL Infrastructure	Guernsey	67	Substantial stakes in hospitals, schools, police stations, Home Office Headquarters, London, and Dutch High Speed Rail
John Laing Infrastructure Fund	Guernsey	37	Range of schools, social housing, hospitals, courts, police stations and street lighting projects.
3i Infrastructure Fund (3i Groups owns 33.2%)	Jersey	18	Norfolk & Norwich University Hospital (36.8%), Alpha Schools, Highland (50.0), Osprey; Elgin Infrastructure Fund (joint venture with Robertson Group with 16 projects). Also 9% stake in Anglian Water owned by a private consortium.
International Public Partnerships (formerly Babcock Brown Public Partnerships)	Guernsey	53	Includes 31 health projects plus education, criminal justice and transport projects, plus others in continental Europe, Canada and Australia.
GCP Infrastructure Fund Ltd – Gravis Capital Partners	Jersey	7	Investments in Grosvenor PFI Holdings – South Essex Community Hospital, Stanley Primary Care Centre, Lanchester Road Childrens' Health Unit, Braintree Community Hospital): Investment in Leisure Infrastructure Investors Ltd in 3 PFI operational contracts.
Bilfinger Berger Global Infrastructure Fund	Luxembourg	12	Schools and health projects in UK plus a further seven projects in Germany, Canada and Australia.
Lend Lease PFI/PPP Infrastructure CIHL Holdings Limited	Jersey	14	5 hospitals, 7 school projects and 2 Treasury accommodation projects.
Total		**314**	

Source: ESSU Global PPP Equity Database 2012 and infrastructure fund websites 12 October 2012.

PPP projects in offshore portfolios

Five of the above offshore infrastructure funds have 50%-100% equity ownership of 115 UK PPP projects, plus others in continental Europe, Canada and Australia by late 2012 – see Table 21. In addition, they have smaller equity stakes in a further 200 projects.

It is significant that the five funds have a wide range of assets including health, education, transport, criminal justice and defence projects. Some funds, for example International Public Partnerships are rapidly acquiring energy projects, such as wind farms.

Table 21: **PPP projects 50%-100% owned by infrastructure funds in tax havens**

PPP projects with between 50% - 100% equity held in tax havens		
HICL Infrastructure Fund		
Barnet Hospital, London	Greater Manchester Police Authority	Queen Alexandra Hospital, Romford
Barking and Dagenham Schools	Haverstock School, Camden	Rhonnda Cynon Taf Schools
Blackburn Hospital	Health & Safety Laboratory, Buxton	Sheffield Hospital
Blackpool Primary Care Facility	Highland Schools	South Ayrshire Schools
Boldon School	Home Office Headquarters, London	South East London Police Stations
Brentwood Community Hospital	Kent Schools	Stoke Mandeville Hospital, Aylesbury
Central Middlesex Hospital	Lewisham Hospital, London	Sussex Custodial Services
Colchester Garrison	Manchester School	Swindon Police
Conwy Schools, Wales	Medway Police	Tyne and Wear Fire Stations
Croydon Schools	Metropolitan Police Training Centre	West Middlesex Hospital
Darlington Schools	Newcastle Libraries	Willesden Hospital
Derby Schools	Newport Schools	Wooldale Centre for Learning
Doncaster Schools	Newton Abbot Hospital	A249 Road
Doncaster Mental Health	North Tyneside Schools	A92 Road
Dorset Fire & Rescue	Norwich Area Schools	Prime LIFT Investments (Birmingham & Solihull and Staffordshire LIFTCos
Dorset Police	Oldham Secondary Schools	
Durham/Cleveland Police Training Ctr	Oldham Library	
Ealing Care Homes	Oxford John Ratcliffe Hospital	
Ealing Schools	Pinderfields and Pontefact Hospitals	
Exeter Crown Court	Pinnacle Schools, Fife	
John Laing Infrastructure Fund		
Camden Housing	Kingston Hospital	Roseberry Park Hospital
Canning Town Social Housing	Manchester street lighting	Sirhowy Way Road (Wales)
Bentilee Hub Community Centre	M40 Highway	Wakefield street lighting
Brockley Social Housing (Lewisham)	Newham Hospital	Walsall street lighting
Enfield Schools	Newham Schools	
Forth Valley Hospital	North East Fire and Rescue	
Highland School, Enfield	North Swindon Schools	
International Public Partnerships		
Abingdon Police Station, Thames Valley Police	Hereford & Worcester Magistrates Courts	North Wales Police Headquarters
Bootle HMRC Government Offices	Liverpool Library	St Thomas More School, W.Midlands
Calderdale Schools Partnership	Maesteg Schools, Bridgend, Wales	Strathclyde Police Training Centre,
Derbyshire Magistrates Courts	Moray Schools, Scotland	Tower Hamlets Schools
Derbyshire Schools I	Norfolk Police Headquarters	
Derbyshire Schools II	Northampton Schools	
Bilfinger Berger Infrastructure Fund		
Clackmannanshire Schools	Gloucester Royal Hospital	Stoke & Staffordshire Fire & Rescue
Bedford Schools	Kent Schools	
Coventry Schools	Lisburn Colleges	
East Down Colleges	Scottish Borders Schools	
Semperian PPP Investment Partners Holdings Limited		
Army Foundation College	East Dunbartonshire Schools	Milton Keynes Secure Training Ctr
A! Darrington-Disforth	Doncaster Mental Health	Northern General Hospital, Sheffield
Cumberland Infirmary, Carlisle	Gloucester Hospital	Princess Royal Hospital, Bromley
DLR Woolwich Extension	Leicester BSF Schools Phase 2	Sandwell Five Schools Project
DLR City Extension	M40 Denham-Warwick	Wythenshawe Hospital, Manchester

Source: ESSU PPP Equity Database, September 2012 and infrastructure fund websites 7 November 2012.

It is not within the scope of this report to examine the taxation of offshore infrastructure funds or the taxation of UK registered SPCs. However, in brief, the current offshore location of infrastructure fund companies usually provides exemption from income tax and other benefits. For example, Guernsey currently does not levy taxes on capital gains, capital inheritance, sales or turnover, and estate duties. Nor does it charge stamp duty on the issue, transfer or redemption of shares in infrastructure fund companies.

Guernsey, and similar jurisdictions, has bilateral agreements with EU Member States on the taxation of savings income (EU Savings Directive 2003). As the HICL 2012 prospectus makes clear, *"…any payments made by the Company to Shareholders will not be subject to reporting obligations pursuant to the agreements between Guernsey and EU Member States to implement the Directive in Guernsey*" (HICL, 2012).

The Tax Research Network (http://www.taxresearch.org.uk/Blog/) and Michael Meacher MP have proposed a General Anti-Tax Avoidance Principle. A Bill is before Parliament that would *"…introduce a principle that any financial arrangements made by a company or individual should not have as their primary purpose the avoidance of tax; to establish a statutory rule to apply in the assessment of such arrangements; and for connected purposes"*

(http://services.parliament.uk/bills/2012-13/generalantitaxavoidanceprinciple.html)

The European Commission published a recommendation on aggressive tax planning in December 2012 *"…address instances in which a taxpayer derives fiscal benefits through engineering its tax affairs in such a way that income is not taxed by any of the tax jurisdictions involved (double non-taxation). The persistence of such situations can lead to artificial capital flows and movements of taxpayers within the internal market and thus harm its proper functioning as well as erode Member States' tax bases"* (http://ec.europa.eu/taxation_customs/resources/documents/taxation/tax_fraud_evasion/c_2012_8806_en.pdf)

There is growing support for stringent EU and international regulations that tackle tax avoidance, tax evasion and aggressive tax planning.

The growth of offshore listed infrastructure funds is a recent trend that is consolidating ownership of PPP assets. The next part discusses the political economy of PPP equity transactions, in particular whether public interest can be protected, the erosion of accountability and the growing power of infrastructure funds.

Part 7
Global trends in the sale of PPP equity

The UK PPP secondary market is the largest globally, however, equity transactions have grown in other developed countries that have adopted the same PPP model. The Global PPP equity database is more limited in its scope and detail than its UK companion and is still under development. For example, it has limited information on profits, the date of financial close and the annual rate of return. The same qualifications and constraints described for the UK PPP equity database apply.

The global sale of PPP equity database currently contains 146 equity transactions between 1998-2012 involving 297 PPPs – see Table 22 and Appendix 5. The number of transactions increased significantly since 2009, the number of PPPs had a more gradual increase between 2004-2012. This may reflect improved access to information or increased disclosure rather than changes in the rate of equity transactions.

Table 22: **Annual rate and value of Global PPP equity transactions** (1998-2012*)

Year	No. of equity trans-actions	No. of PPP projects (includes those where equity sold more once)
2012*	30	64
2011	20	41
2010	30	54
2009	9	29
2008	10	47
2007	16	19
2006	8	15
2005	5	8
2004	9	10
2003	5	5
2002	2	2
2000	1	1
1998	1	2
Total	**146**	**297**

Source: Appendix 5, Global PPP equity transactions 2002-2012 * 11 months.

The total value of PPP equity sales is approximately US$113 billion – see Table 23. Europe (excluding the UK), Australia and Latin America accounted for 80% of PPP equity transactions, followed by Asia and Canada.

Table 23: **Summary of Global PPP equity sales** (1998-2012*)

Region or Country	No of transactions	No of PPP	Value of equity sales (m)	Estimated total value based on average (m)
Republic of Ireland	7	10	€538.0 (2)	€1,883.0
Rest of Europe (excl. UK)	43	108	€19,511.7 (26)	€32,269.3
Canada	13	16	C$5,164.1 (8)	C$8,391.7
US	7	14	US$2,248.8 (3)	US$5,247.2
Latin America	30	73	US$7,948.7 (19)	US$12,550.6
Australia	36	45	A$12,213.9 (15)	A$29,313.4
Middle East	1	1	C$77.8 (1)	C$77.8
Africa	2	2	US$15.8 (1)	US31.6
Asia	7	28	US$8,134.0 (5)	US$11,387.0
Total	**146**	**297**		**Estimate US$113bn**

Source: Appendix 5, Global PPP equity transactions 2002-2012 * 11 months.

Types of PPPs

The sale of equity in other infrastructure projects, mainly concession contracts rather than PPPs, has also been increasing, particularly in transport (airports and ports) and energy (wind farms and grids).

Toll road projects have been a feature of PPP programmes in Spain, Italy, Australia and Latin America and account for 74% of projects in which equity has been sold. Hospitals and prisons each account for 4% of equity transactions followed by schools and government offices each with 3%. Defence, airports and rail or rapid transit each account for 2% and miscellaneous group of projects accounting for the remaining 8% per cent of projects.

Sale of equity profits

It is not possible to identify profit levels and the annual rate of return, because of the lack of information. Profit information was available in only 15 transactions and the rate of return in another – see Appendix 5. However, there have been examples of high profits, although it has not been possible to identify the rates of return for these projects for the reasons cited above – see Table 24.

The profit levels in eight examples ranged from 44.3% in Skanska's Autopista Central Highway project (Chile) rising to 73.8% in Atlantia's sale of equity in Autopista Tirrenica (Italy) and 74.3% in the ACS sale of equity in I-595 Florida (US) – see Table 24. Skanska obtained an average profit of 51.6% in its four equity transactions (sources in Appendix 5).

Table 24: **Examples of high profit levels**

PPP Company	PPP project and year of equity transaction	Sale price (m)	Profit (m)
ACS	US - I-595 Florida (2012)	US$806.7	US$599.7
Atlantia	Italy – Autopista Tirrenica (2011)	€67.7	€50.0
Skanska	Chile – Autopista Central Highway (2010)	US$790.0	US$350.0
BRISA	Brazil – CCR with seven road concessions	€1,318.2	€845.5
Skanska	Norway - Orkdalsvegan E39 road (2010)	US$23.5	US$13.9
ACS	Chile – 2 toll roads	€700.0	€600.0
Skanska	Brazil – Ponte de Pedra hydroelectric (2007	US$85.0	US$45.0
Skanska	Mozambique – Maputo Harbour (2007)	US$15.8	US$10.5

Source: Appendix 5, Global PPP equity transactions 2002-2012

Equity purchasers

Infrastructure funds and other PPP companies accounted for 30% and 26% of equity purchasers respectively. Other purchasers included toll road companies (15%), pension funds (12%), PPP/bank joint ventures (5%), government's acquiring terminated contracts (5%), banks (4%) and private equity funds (2%).

Growth of secondary markets

Secondary markets are expanding in Europe, Canada, Latin America and Australia. There is a clear sequence as regions and states adopt PPP legislation and programmes and the number of PPP projects increases, equity transactions begin to occur in the first batch of projects leading to the formation of a secondary market.

It is also evident that companies who win PPP bids, such as Bilfinger and John Laing, who are connected with listed infrastructure funds, the Bilfinger Berger Global Infrastructure Fund (Luxembourg) and the John Laing Infrastructure Fund (Guernsey) respectively, will almost certainly transfer their equity to these funds soon after the projects are operational. In other words, the selection of certain bidders will largely determine the future ownership of SPC shares.

Two Australian companies, Macquarie Group (consisting of several infrastructure funds) and Babcock & Brown Limited, played a key role in the internationalisation of infrastructure finance and PPPs (Whitfield, 2010). Each had a three-tier structure with the group company holding between 8%-10% equity in subsidiary companies with long-term management and advisory agreements and debt. Both built large portfolios of assets by a combination of buying infrastructure assets and by funding and managing PPPs.

However, heavy losses forced Macquarie to sell assets and Babcock Brown went into administration in 2009. A management buyout established Amber Infrastructure and International Public Partnerships, which led to the transfer of equity in 50 PPP projects (not included in the Global database because it is the sale of a secondary market fund, similar to those in the UK – see Appendix 3).

The sale of equity in toll road PPPs has fuelled the internationalisation of secondary markets, particularly the trading of assets between Spain, Italy, US and Latin America. Part 8 examines the political economy of PPP transactions highlighting economic, public interest and accountability concerns and the growing power of offshore infrastructure funds. It concludes with a summary of the case against PPPs.

Part 8
Political economy of PPP equity transactions

This section briefly examines the key longer-term impacts of PPP equity transactions and concludes with a summary of a critical analysis of the PPP model.

Wealth machine - the economic impact of equity transactions

The sale of PPP equity has economic impacts, not least in terms of who funds the excessive PPP profits and who suffers the loss of tax revenue. Profits are retained by parent companies and ultimately benefit their shareholders through dividend payments.

It is very likely that fewer PPP projects would have been approved if the high rate of return from PPP equity transactions had been taken into account at the evaluation stage. Taxpayers finance the large profits and any tax payable on profits from the sale of PPP equity makes only a small difference to the overall cost to taxpayers. The high cost of PPPs and equity transaction profits absorb public resources that could fund infrastructure investment and/or other initiatives that support sustainable economic growth (Whitfield, 2010).

The sale of equity in PPP projects serves broader corporate interests. For example, the Lend Lease Corporation (Australia) has PPP projects in Europe, North America and Asia Pacific. The company made an A$653m loss in the year ending 30 June 2009. It was under pressure to return to profitability in the following financial year and in November 2009 sold its 50% equity in the Queens Hospital, Romford, PPP project for £23.9m to the HICL infrastructure fund. The sale featured in the company's key trading events of the year. The profit was never disclosed, but the annual report confirmed the *"… increase in profit after tax for the UK business is largely attributable to the sale of the Group's interest in the Queen's Hospital, Romford"* (Lend Lease Annual Report, 2010).

Transaction costs incurred in the sale of PPP equity benefit financial institutions and law firms. There is little public information available on the level of transaction costs. Information on two £25m-£30m transactions by Carillion reveal costs of 0.8% and 3.5%. A Serco Group equity transaction incurred costs of 2.6%. On this basis, total fees could range from £40m to £180m on equity sales of £5,123m (excludes the fees charged in the sale of secondary market funds and public sector buyouts or contract terminations – Table 7).

The growth of offshore infrastructure funds holding large portfolios of UK financed PPPs leads to a loss of tax revenue. It is not within the scope of this research to quantify this loss, but it is likely be many millions of pounds given the scale of direct and indirect equity transactions to date.

City planning and protecting the public interest

Long leases and anti-competition clauses in PPP contracts limit the scope of city planning and intervention to improve the public infrastructure and services. Competition clauses, common in toll road contracts, are designed to protect commercial interests by prohibiting any action that might adversely affect traffic on toll roads or the flow of fee paying service users. Compensation clauses similarly designed to constrain the future development of cities to protect the SPC shareholder interests and to restrict the public interest (Dannin, 2012).

PPPs increase the likelihood of increasing private sector monopoly control of the public infrastructure, for example, Transurban's strategy to consolidate ownership of Sydney's toll roads - see Part 1. Cities with PPPs covering a wider range of public infrastructure, combined with increased outsourcing of public services and/or transfer to arms length companies, are likely to face increasing conflict over the ownership and control of key infrastructure assets. The wider use of 'whole service' PPPs will deepen such conflicts. Some cities are well down the path of becoming 'contract cities' that are largely corporately operated and a far cry far the original US small town model of a contract city. The new model is likely to witness a much higher rate of PPP equity transactions than are evident in this report.

Little or no distinction is made between 'economic' and 'social' infrastructure, except when business interests wish to promote the PPP model. The continued erosion of public service principles and values in the structure and operation of PPPs has profound implications for all future of public goods and services.

Whose interest?

The House of Commons Committee of Public Accounts concluded that the public interest was not affected if *"…an efficient equity market in which investor returns can be left to find their own level"* (Public Accounts Committee, 2007).

The NAO identified two risks with the consolidation of equity in the secondary market: *"Firstly, it may provide the consolidated owners of shares with disproportionate market power, and particular asymmetry of power over small public authorities tendering and managing single PFI contracts."* Secondly, consolidated owners could *"…mean more challenge to the public authority's contract management. For instance, a consolidated owner might be in a better position to challenge a claim or to demand extra payment where the contract specification is unclear"* (House of Lords, 2010). They had no evidence that either were happening.

HM Treasury took a more strident view in its statement included in the NAO's 2012 equity report. It believed that improving value for money from equity investment *"…needs to take into account a wider range of issues that together contribute to the overall economics of a transaction, rather than merely looking at equity returns on their own…. Investors' pricing of equity is inextricably linked to other terms of a project, which together determine the overall commercial opportunities and risks of the transaction. Prices are agreed with the private sector in response to a competition – in each case where the sponsors of bids are able to bid the lowest equity returns that would enable then to offer the most competitive market pricing at the time for the services required and the risks transferred"* (NAO, 2012).

In other words, competition and market forces will protect the public interest! This is clearly evident in the successor PF2 model.

Equity and intergenerational responsibilities

The current funding crisis in many NHS hospitals has been caused in part by PPP unitary payments that account for a relatively significant proportion of Trust revenue budgets. The 'buy now, pay later' PPP model has racked up over £250bn PPP debt in the UK, which imposes financial obligations for the next 25-40 years. The inflexible nature of these projects limits the public sector's ability to renegotiate and adapt contracts to accommodate changing economic and social conditions and needs. This is a microcosm of intergenerational problems.

New democratic accountability and transparency requirements

PPPs are complex, driven by officers/civil servants and consultants and require elected members and democratic representatives to understand the key issues in the procurement process and the main requirements of the contract. Some PPPs, for example, for whole service contracts, are becoming even more complex. The level of governance is minimal once contracts are signed with occasional scrutiny reviews and inadequate contract management in many cases – for example, the London Borough of Barnet's PPP street lighting contract (Barnet UNISON, 2012).

Accountability and transparency are entirely absent from the sale of PPP equity (Whitfield, 2010 and 2011). The National Audit Office approach illustrates the problem: *"In terms of managing PFI contracts public authorities need to be aware that investors in their projects may change. The authorities should make sure they understand the business drivers of any new investors"* (House of Lords, 2010). This is disingenuous because authorities have no role whatsoever in selecting 'new investors' and can only seek to 'understand' if they are informed of a change in ownership in advance of the transaction and the identification of the purchaser.

Responsibility should be reversed – decisions to purchase PPP equity should be subject to due democratic process in which the authority determines its policy on proposed transactions. Private sector investors should be required to understand the public authorities policies and strategies *before* they embark on a transaction.

Parent companies usually oppose disclosure requirements because they are concerned that information about a transaction could send a negative signal to stock markets about their financial status and/or a change in corporate strategy, or they want to avoid public debate about the high level of profits.

The Public Accounts Committee recommended: *"If transparency is to be meaningful and comprehensive, private organisations providing public services under contract must make available all relevant public information. The Cabinet Office should set out policies and guidance for public bodies to build full information requirements into their contractual agreements, in a consistent way"* (House of Commons Public Accounts Committee, 2012).

The House of Commons Justice Committee concluded *"…that contracts provide a more practical basis for applying FOI to outsourced services than partial designation of commercial companies under section 5 of the Act, although it may be necessary to use designation powers if contract provisions are not put in place and enforced. We recommend that the Information Commissioner monitors complaints and applications for guidance in this area to him from public authorities"* (House of Commons Justice Committee, 2012).

Neither of these approaches or the transparency proposals in PF2 are likely to be effective. New disclosure regulations are required for the procurement process because information is required on a constant basis. Information and disclosure requirements must be included in PPP contracts and Freedom of Information extended to private companies delivering public services.

PPP consortia and public bodies must be required to inform the public, including service users, staff, community organisations and trade unions, with details of the sale of PPP project equity at least a month before the transaction is completed. This should include the date, the percentage shareholding being sold, price, profit, and purchaser of the equity and ultimate holding company and the location of its headquarters.

All bidders should be required to identify their role in secondary market transactions so that public bodies can assess the likelihood of the sale of equity. There are no guarantees, because a company may have a policy of retaining PPP equity, but changed economic circumstances may lead to a PPP equity sale. It requires public authorities to research and understand the secondary market and the potential implications for PPP projects.

Localism

There are important distinctions between genuine local control and decision-making and the Coalition government's localism policies (Whitfield, 2012). The PPP model and the sale of equity, in effect, undermine localism, because a degree of control is transferred from construction companies, banks and facilities to offshore infrastructure funds.

For example, Local Improvement Finance Trusts (LIFT) projects build and operate local health centres and surgeries and are important multi-service centres, yet there had been 41 instances of the sale of equity by 30 June 2012, half of which had transferred to offshore infrastructure funds. In addition, contractually committed PPP payments from revenue budgets result in a loss of flexibility in addressing local needs.

The same argument extends to governments in the global south. Global construction companies and finance capital commit to PPPs, and then exit to cash in profits by selling their shareholding to infrastructure funds.

Growing power of infrastructure funds with portfolios of PPP assets

The growing power of infrastructure funds raises key issues. For example, what is the likely growth trajectory of secondary market funds? Could they develop education and health funds that diversify into the finance and delivery of core services to groups of academies and NHS Trusts?

The PPP model and secondary market is enabling large construction companies and finance capital to not only heavily influence the public infrastructure is terms of what is built, where and when, how they are managed and operated, but also creating new financial institutions that will influence what happens at the end of the contract and future options.

They will also be able to exercise their power in the client's approach to contract monitoring and to challenge their assessment of performance, particularly if financial penalties are imposed. This poses a challenge to how public bodies and government departments corporately manage PPP assets, particularly when they have several projects, and have the capability to obtain intelligence and negotiate with secondary funds.

Theoretically PFI/PPP assets will transfer to the government or public sector at the end of the contract, but circumstances can change significantly over the next 10-25 years. Firstly, will the public sector have the capability and resources to takeover managing and operating hospitals, schools, transport systems and other infrastructure assets? Secondly, will this be a political priority if neoliberalism is further embedded? Thirdly, infrastructure funds and PPP companies are unlikely to be neutral when contracts reach the end of their term. They are more likely to propose new operational contracts or new PPPs to address the deterioration of buildings or to adapt building to new service delivery models or to accommodate changes in social needs. It is unlikely that infrastructure funds will standby and see their portfolios shrink as contracts reach the end of their term.

Trade union challenges

Trade union strategies should include early intervention in the options appraisal process and development of alternative policies. They should ensure that the preparation of a business case and the procurement process are challenged. The extensive use of consultants and advisers results in the reduction of public sector capacity and jobs. Trade unions should do more to develop targeted research and intelligence on the increasing role of PPPs and infrastructure funds.

Direct pension fund involvement in PPPs or via secondary market funds is increasing and profits from these investments and the sale of PPP equity is likely to be justified on the grounds that they are contributing to sustaining member's pensions! Pension fund investment in public infrastructure is complex and contradictory. For example, UNISON has campaigned and funded research into the effects of PPPs for many years, yet a new campaign, CapitalStewards, on pension fund investment includes a video that describes how they *"…may well invest in public private partnerships to build hospitals and schools"* (https://www.capitalstewards.org/).

The case against PPPs and privatisation

The financialisation of public infrastructure was discussed in Part 1. It reinforces the need to assess the PPP model, the sale of PPP equity and growth of the secondary market in the context of financialisation, personalisation, marketisation and privatisation (Whitfield, 2012). The sale of equity is only one manifestation of PPPs. PPP vested interests have traditionally tried to limit discussion to a project or sector basis to try to avoid examining the model as a whole. The evidence in the ESSU database and this report should be used to address the wider agenda and must not focus on identifying winners and losers in specific projects.

A critical analysis of the public costs and impacts of PPPs is summarised in Table 25. Ultimately, the negative effects of the PPP secondary market can only be solved by the termination of the PPP programme and replacement with a public investment programme with new regulatory controls on existing PPP projects.

PF2 will further embed the secondary market. The solution lies in terminating this model, not in minor amendments that serve to make it more attractive to private capital.

Table 25: **The case against PPPs and privatisation**

Public benefits			
1	Construction companies reduce delays and cost overruns	4	Construction companies proactive in introducing green building systems
2	Whole life costing to take account of maintenance and renewal.	5	Corporate-wide approach of ICT to improve access and efficiency.
3	Higher degree of price certainty.	6	National building programmes for schools, colleges and health centres.
Public costs and impacts			
1	Higher cost of private borrowing	14	Sale of PPP equity ramps up profits and rate of return
2	Does not significantly increase investment in infrastructure	15	Complexity leads to increased use of consultants with high transaction costs
3	Erodes democratic accountability	16	Full public cost and economic and social impact rarely quantified
4	Value-for-money unproven and contrived.	17	Off-sheet balance finance conceals real level of public debt
5	Risk transfer is frequently exaggerated and mispriced	18	Increases corporate welfare and PPP business influence in public policy
6	Affordability and potential financial impact on other services	19	Creates two-tier workforce and reduces terms and conditions and equalities
7	Creates opportunities to extend private provision of core services.	20	Fragments and weakens trade union representation and organisation.
8	Increase in user charges	21	Weakens in-house delivery capacity.
9	Loss of flexibility with long-term contract	22	Loss of local production/supply chains
10	Delivery on time and price exaggerated and based on flawed evidence	23	Loss or erosion of public sector principles and values.
11	Reduces public sector capability	24	Outsourcing of support services
12	Quality of service variable with high additional costs for variations	25	Commercial confidentiality limits disclosure and participation
13	Quality of design often poor	26	Widens the global infrastructure market

Source: Global Auction of Public Assets, Whitfield, 2010.

Part 9
Conclusion

This report and the European Services Strategy Unit PPP Equity Database provide detailed evidence of profiteering in the sale of PPP equity.

PPP equity transactions are shrouded in secrecy and a damming indictment on government transparency policies. New disclosure proposals under the new PFI model, Private Finance 2, do not address the basic issues of public disclosure in the expenditure of billions of public expenditure.

The sale of equity in over 700 current PFI projects will continue and there is no proposal to enforce the sharing of profits in existing PPP projects with the public sector.

Public sector minority equity stakes in future PF2 projects is likely to have a marginal effect on windfall gains and entrap local authorities, the NHS and other public sector organisations in playing the secondary market. Furthermore, public sector equity ownership introduces new problems and conflicts in the role of the state.

Recommendations

The PPP programme should be terminated and replaced by a programme of public investment and new regulatory controls on existing PPP projects.

Contractual terms and/or legislation should require profit sharing with the public sector and be accompanied by improved governance, rigorous monitoring and radical changes to disclosure requirements.

Value for money methodology should be radically amended to take account of the significantly higher average rates of return and full economic and social cost benefit analysis.

New financial regulations should ban the transfer of ownership of PPP infrastructure assets to offshore tax havens.

Appendix 1

Methodology and design of the database

1. Information sources:

- Stock Exchange Announcements/Regulatory News Service, Company Notices and Press Releases.
- Company Interim and Annual Reports & Accounts.
- UK Companies Houses filings (including Jersey and Guernsey).
- Infrastructure fund share prospectuses.
- Construction and PPP company websites.
- Partnerships UK database (now at Local Partnerships).
- HM Treasury PFI current projects.
- Securities & Exchange Commission 8K filings for US stock exchange companies.
- PPP, financial, construction and infrastructure journals.

Over 750 company annual reports and accounts were examined. Each transaction in the database had to be compiled from several sources.

2. There are sometimes differences in figures between those in an RNS announcement of a sale of equity and the sale price and profit later recorded in the Annual Report and Accounts. The database records the latter figure.

3. Where PPP projects were sold in a bundle of two or more projects, the time between financial close and the sale of equity is calculated for each project using Table 26 and an average time calculated for the entire bundle of projects. When the date of sale of equity is not known, a mid-year point, 1 July, is used. It was not possible to take account of the relative value of each project or the profit attributed to each project because this information was not publicly available. The averaging process is not ideal, for example, the rate of return in transactions where a large bundle of PPP projects is sold with significant variation in financial close dates may not be precise. However, it is unlikely to affect the overall figures, which are based on 93 transactions and 226 PPP projects.

4. The time between the projects date of financial closure (HM Treasury, Partnerships UK and company accounts) and the sale of equity used the month/percentage in Table 26 to calculate the total time.

Table 26: **Percentage of year used in rate of return calculations**

Number of months	Percentage
1	0.08
2	0.17
3	0.25
4	0.33
5	0.42
6	0.50
7	0.58
8	0.67
9	0.75
10	0.83
11	0.92
12	1.00

5. There is sometimes a delay between the formal announcement of the sale of equity and the actual sale itself. The database uses the announcement date by vendor and/or purchaser.

6. Information gaps meant that the total value of equity sales and the average price paid for each transaction were calculated using the number and value of projects for which data was available to arrive at an annual value for all transactions. The same approach was used to estimate the total value of the sale of secondary market funds and the total value of the global sale of PPP equity.

7. Name of Special Purpose Vehicle or Company – the specific name of each company can be obtained from:

HM Treasury PPP current projects list
http://www.hm-treasury.gov.uk/infrastructure_data_pfi.htm

PartnershipsUK database - http://www.partnershipsuk.org.uk/index.aspx

8. Changes in company ownership and names:

HICL: HSBC Infrastructure became HSBC Infrastructure Company Limited (HICL) when it floated on the London Stock Exchange in March 2006 and changed its name to HICL Infrastructure Company Limited (HICL) on 7 March 2011. The database uses the HSBC up to 29 March 2006 and the HICL abbreviation from that date.

John Laing: Between 2001-2003 the construction, housing and property development divisions of Laing were sold off and John Laing plc became a developer, investor and manager of infrastructure assets. Henderson Global Finance acquired John Laing in December 2006. The John Laing Infrastructure Fund (JLIF) was established in November 2010 as a Guernsey registered company, listed on the London Stock Exchange, to acquire operational PPP projects.

Babcock Brown Public Partnerships (BBPP), listed on the London Stock Exchange in 2006, changed its name to International Public Partnerships in 2009.

Secondary Market Infrastructure Fund (SMIF) became Trillium and then Semperian PPP Investment Partners in 2009

Sample

9. Transactions in red constitute the sample of equity transactions where profit and rate of return information is available. It is based on 93 UK transactions and 226 PPP projects between 1998 and 30 June 2012.

10. References to 'see above' in the Price, Profit, Average time between financial close and sale of equity and Annual rate of return columns refer to the total provided on the first line of the transaction. Figures for individual projects were not available.

11. Abbreviations used in databases

AR	Annual Report and Accounts
RNS	Regulatory Notice to Stock Exchange
Press	Press release issued by company
Interim	Interim Report or Results
SEC 8K	US Securities & Exchange Commission 8K Filing
n/a	not available

Appendix 2

PPP equity sales with profits data in UK (1998-2012)

Vendor	PPP project	No. of PPP	Purchaser of equity	% share holding sold	Price £m	Profit/ loss £m	Annual Rate of Return at time of equity sale
1998							
Serco Ltd	Defence Helicopter Flying School (FBS Limited, operational contract – 47 helicopters and site services)	1	FR Aviation Ltd and Bristow Helicopter Group	33.0	3.4 plus net liabilities	4.6	179.3
2001							
Western Power Distribution	Hyder Investments plc - A55 road	6	John Laing plc	Various stakes	92.5	58.5	63.3
	A130 road						
	M40 road project						
	Dockland Light Railway						
	London Underground Connect project						
	Ministry of Defence headquarters						
2003							
Amey plc	M6, Scotland	8	John Laing plc	19.5	42.9	25.9	45.2
	A19 road			50.0			
	Birmingham & Solihull Mental Health Foundation Trust (Erdington & Winson Green)						
	MoD Main Building						
	British Transport Police London Underground						
	Glasgow schools-Project 2002			25.5			
	Edinburgh schools			30.0			
	Walsall street lighting			50.0			
Mowlem Construction	City Greenwich Lewisham Rail Link (Docklands Light Railway)	1	Infrastructure Investors	40.0	19.4	16.0	73.3
John Laing plc	National Physical Laboratory	1	Serco Group plc	50.0	0.8	0.4	21.1
Wackenhut Corrections Corporation Inc	Premier Custodial Group: HMP Dovegate Prison	4	Serco Group plc	50.0 - now has 100%	48.6	35.0	66.8
	HMP Ashfield Prison						
	HMP Lowdham Grange Prison						
	Hassockfield Secure Training Centre						
John Laing plc	A19 road Dishforth to Tyne Tunnel	1	PFI Investors Ltd	50.0	3.4	No profit or loss	0.0
Vinci plc	Lloyd George Avenue and Callaghan Square City Link Road, Cardiff	1	Vinci Pension Scheme	50.0	1.0	nil	0.0
Carillion plc	Darent Valley Hospital	1	Barclays Infrastructure Fund	50.0	5.2	1.1	4.3
WS Atkins plc	Connect Roads - A50/A564 Stoke-Derby	3	Balfour Beatty plc	32.1	13.3	8.9	39.4
	A30/A35 Exeter-Bere Regis						
	M77 Scotland						
2004							
Anglian Water Group	Tay Wastewater Project, Scotland (Acquired stake in takeover of Morrison Construction in 2000)	1	Henderson Private Capital	33.3	12.0	8.0	47.1
Carillion plc	M40 Denham to Warwick	1	John Laing plc	50.0	19.0	7.7	16.1

Carillion plc	A249 Stockbury to Sheerness, Kent	1	John Laing plc	50.0	1.2		
Quayle Munro Holdings PFI Fund	Aberdeenshire Schools PPP1	10	PFI Infrastructure Company (listing on Alternative Investment Market)	20.0	4.4	2.1	39.2
	Ingleby Barwick Campus, Stockton			20.0			
	Falkirk Schools PPP1			3.0			
	Edinburgh Schools PPP1			10.0			
	Chester-le-Street Hospital			20.0			
	Tiverton Community Hospital			40.0			
	Forfar & Kirriemuir Resource Centre, NHS Tayside			40.0			
	Mid Argyll Community Hospital, Lochigilphead, Scotland			40.0			
	Salisbury Hospital			40.0			
	Staffordshire street lighting.			40.0			
John Laing plc	M40 Denham to Warwick	1	Secondary Market Infrastructure Fund	50.0	26.3	6.4 (in 3 mths)	128.6
PFI Infrastructure Company	Falkirk Schools Partnership PPP1	1	Secondary Market Infrastructure Fund	2.7	0.8	0.24	85.7
Interserve plc	Neath Port Talbot Hospital, Wales	1		25.5	4.3	1.9	17.3
2005							
Kier Group plc	Neath Port Talbot Hospital, Wales	1	Secondary Market Infrastructure Fund	24.0	5.0	2.5	21.4
WS Atkins plc	Hereford Hospital - Mercia Healthcare (Holdings) Ltd	1	Secondary Market Infrastructure Fund	25.0	5.6	3.7	33.9
Alfred McAlpine plc	Hereford Hospital - Mercia Healthcare (Holdings) Ltd	1	Secondary Market Infrastructure Fund	25.0	5.6	2.9	18.7
Jarvis plc	London Underground PPP: Deep Tube Lines (Jubilee, Northern & Piccadilly) Jarvis shareholding in Tube Lines (Holdings) Ltd and Secondment Business of Jarvis LUL Limited	1	Amey plc	33.3	146.8	52.9	27.1
HSBC	Hereford Hospital - Mercia Healthcare (Holdings) Ltd	1	Secondary Market Infrastructure Fund	25.0	5.6	2.9	18.7
WS Atkins plc	Penweddig Secondary School, Aberystwyth	1	Innisfree Ltd	42.5	1.4	0.7	17.4
Autostrade S.p.A	M6 Toll Road (Midland Express Limited)	1	Macquarie Midland Holdings Limited	25.0	49.0	12.0	6.8
John Laing plc	Joint Services Command & Staff College, Swindon, Defence Management (Holdings) Ltd	1	Serco Group plc	50.0	5.9 plus liabilities	7.9	56.7
Alfred McAlpine plc	Wythenshaw Hospital, University Hospital of South Manchester NHS Foundation Trust	1	Secondary Market Infrastructure Fund	25.0	7.5	4.3	18.1
WS Atkins plc	Wythenshaw Hospital, University Hospital of South Manchester NHS Foundation Trust	1	Secondary Market Infrastructure Fund	25.0	7.8	5.7	36.6
John Laing plc	Metropolitan Police Specialist Training Centre Gravesend	4	Allianz PFI Holdings (Jersey) Ltd, subsidiary of Allianz AG	50.0	23.1	13.0	29.4
	Cleveland & Durham Firearms Training Centre						
	South East London Police Stations						
	Greater Manchester Police Authority Police Stations						
2006							
PFI Infrastructure Company PLC	Aberdeenshire Schools PPP1	3	Infrastructure Investors	28.6	3.2	1.1 since July 2004	36.9
	Chester-le-Street Hospital						
	Ingleby Barwick Community Campus, Stockton						
Interserve plc	Littlemore Psychiatric Hospital, Oxford	1	Secondary Market Infrastructure Fund	33.3	1.6	1.3	53.0
Lend Lease Corporation &	Calderdale Royal Hospital	10	Lend Lease joint venture with Bank of	50/50 equalisa	14.7 Lend	11.5	74.9
	Worcester Hospital						

Bank of Scotland	Hexham Hospital Phase 1 and 2		Scotland (includes 1 project in Republic of Ireland)	tion of equity in projects	Lease received (A$25m) from HBOS re higher equity share		
	Burnley Hospital						
	Leeds Hospital;						
	Newcastle Grouped Schools 1						
	Lincolnshire Grouped Schools,						
	Lillian Baylis school						
	Treasury Accommodation 1						
	Treasury Accommodation 2						
John Laing plc	Edinburgh Grouped Schools and	2	Secondary Market Infrastructure Fund	14.2	14.6	3.4	5.8
	Glasgow Schools Project 2002			21.4			
Balfour Beatty plc	Connect Roads – A50 Stoke-Derby	3	Infrastructure Investors	15.0	13.5	6.0	10.4
	A30/A35 Exeter-Bere Regis						
	M77 Scotland						
Skanska UK	HMP Parc Prison, Bridgend, Wales	1	Innisfree Ltd	9.0	3.8	2.7	23.4
Carillion plc	HM Altcourse Prison,	8	Secondary Market Infrastructure Fund and Infrastructure Investors	n/a	46.7	25.6	17.2
	HMP Rye Hill Prison						
	Rainsbrook (Onley) Secure Training Centre						
	Medway Secure Training Centre						
	East Anglia Courts						
	Manchester Courts			33.3			
	Humberside Courts						
	Leeds Grouped Schools I						
Skanska UK	Kings College Hospital, London	1	Infrastructure Investors	33.0	13.7	9.1	29.3
Serco Group plc	HMP Ashfield Prison	6	Infrastructure Investors (forms investment partnership, SERCO retained FM contracts)	59.0 (Serco retains 41% of JVC)	76.5	11.4	2.4
	HMP Dovegate Prison						
	HMP Lowdham Grange Prison						
	Hassockfield Secure Training Centre,						
	Joint Services Command and Staff College,						
	National Traffic Control Centre						
John Laing plc	Cleveland & Durham Firearms Training Centre	1	n/a	50.0	1.0	0.4	10.8
2007							
Allianz PFI Holdings (Jersey) Ltd, subsidiary of Allianz AG	Metropolitan Police Specialist Training Centre, Gravesend	4	HICL Infrastructure	50.0	36.5	13.4	33.1
	Cleveland & Durham Firearms Training Centre						
	South East London Police Stations						
	Greater Manchester Police Authority Police Stations						
Kajima Partnerships	North Tyneside Grouped Schools,	6	HICL Infrastructure joint venture with Kajima	50.0	30.2	18.0	34.1
	Ealing Grouped Schools Project 1						
	Darlington Education Village						
	Haverstock School, Camden, London						
	Wooldale Centre for Learning, Northants						
	Health & Safety Executive HQ, Merseyside						
Alfred McAlpine plc	A1(M) Alconbury to Peterborough,	6	Infrastructure Investors	n/a	52.2	24.9	14.6
	A417/419 Swindon to Gloucester						
	A1 Darrington to Dishforth						
	East Leake Schools						
	Addenbrookes Elective Care Centre						
	Three Shires Mental Health						
Carillion plc	Great Western Hospital, Swindon	3	Land Securities Trillium	33.3	21.5	23.6	38.7
	North Staffordshire Acute Psychiatric Unit (Harplands Hospital, Stoke-on-Trent)						
	Southern General Hospital						

	Geriatric Medicine & Assessment Facility, NHS Glasgow						
Costain Group plc	Parc Prison, Bridgend, Wales	2	John Laing (Henderson Global Investors)	50.0	8.4	2.7	28.4
Costain Group plc	Sirhowy Enterprise Way, Wales		John Laing (Henderson Global Investors)	50.0		3.0	
MJ Gleeson Group plc	Sheffield Schools Phase 2	2	n/a	30.0	4.0	1.9	28.2
	Salisbury District Hospital Redevelopment			40.0			
2008							
Kier Group	Hairmyres Hospital, NHS Lanarkshire, East Kilbride, Scotland	1	Innisfree Ltd	50.0	13.8	8.0	13.9
Carillion plc	University Hospital Lewisham, , and	5	Innisfree Ltd, Land Securities Trillium, Barclays European Infrastructure Fund and Robertson Capital Projects	n/a	41.9	35.6	30.1
	James Cook University hospital, Middlesbrough						
	Barnsley schools						
	Redcar & Cleveland schools						
	n/a						
Carillion plc	Oxford John Radcliffe Hospital (The Hospital Company (Oxford John Radcliffe) Holdings Limited)	1	HICL Infrastructure Company	50.0	18.0		
Costain Group plc	Ealing Group Schools 2 (Seafort Holdings Ltd)	2	Equitix Ltd and Infrastructure Investors	45.0	9.4	2.7	14.4
	Kent Schools Partnership (Kent Education Partnership Ltd)			30.0			
2009							
Galliford Try plc	Portsmouth, Ministry of Defence housing project (148 units) (Tricomm Housing Portsmouth Ltd)	1	DIF Infrastructure Fund, Holland	50.0	5.2	4.2	122.8
Interserve plc	Sheffield Schools PPP (6 schools)	1	Innisfree Ltd	50.0	7.2	3.4	10.0
Carillion plc	Renfrewshire Schools: 10 primary & secondary – (RSP (Holdings) Limited)	1	HSBC Infrastructure Company	30.0	6.8	1.2	0.26
Carillion plc	Exeter Schools	1	Innisfree Ltd PFI Secondary Fund	50.0	7.0		
Carillion plc	Allenby Connaught PPP project and	2	Innisfree Ltd PFI Secondary Fund	32.5	86.9		
	New Accommodation Project, Cheltenham			20.0			
Galliford Try plc	Highland Schools 2 (Alpha Schools Highland (Holdings) Limited)	1	HICL Infrastructure Company	50.0	16.5	4.4	10.9
Parkwood Holdings plc	Bexley Leisure	5	Equitix Ltd		6.5	5.6	112.5
	Penwith DC Recreation West Leisure						
	Sefton – Crosby Leisure Centre			50.0			
	Solihull Leisure Options Project						
	Breckland Making Connections Leisure Project			100.0			
Interserve plc	Dudley NHS Trust	13	Interserve plc Pension Scheme	Various	61.5	33.2	16.4
	St Genevieve's School Belfast						
	Southampton Schools						
	Hattersley (Tameside) Schools,						
	Tyrone-Omagh College						
	Tyrone-Dungannon College						
	Cornwall Grouped Schools II						
	Telford & Wrekin Schools						
	Defence Sixth Form College						
	Armada-Devonport Fleet Accommodation Centre						
	Cornwall Fire Stations						
	Portsmouth Social Services						

	Health & Safety Laboratories, Buxton						
John Laing	M6, Scotland	1	Innisfree Ltd	8.5	4.8	-15.3 (Laing accts fair value 109.1 - sale price of 96.0 and 15.3 loss)	-1.7
John Laing	Edinburgh Schools PPP1 and	2	John Laing Pension Fund	10.0	5.9		
	Glasgow Schools Project 2002						
John Laing	Cleveland & Durham Firearms Training Centre	3	HICL Infrastructure Company	22.9	8.0		
	Metropolitan Police Training Centre			22.9			
	Greater Manchester Police projects			22.9	77.3		
John Laing	Norfolk & Norwich Hospital	1		50.0			
John Laing	Queen Elizabeth Hospital Greenwich, London	1	Innisfree Ltd	22.5			
John Laing	South Lanarkshire Schools	3	Innisfree Ltd	18.3,			
	East Dunbartonshire Schools			33.3			
	Ministry of Defence Main Building			24.0			
John Laing	Barts & London NHS Trust, Redevelopment of Royal Hospital of St Barthomolomew and the Royal London Hospital	1	Innisfree Ltd	12.5			
Kier Group plc	Waltham Forest Schools, London	2	Innisfree Ltd PFI Secondary Fund	50.0	7.3	4.2	19.7
	Essex County Council, Tendring Schools						
Costain Group plc	Shropshire County Council – Quality in Community Services Project	2	Equitix Ltd	50.0	5.1	2.0	12.1
	Westview and Victoria House Integrated Care Centres, Kent County Council						
2010							
Balfour Beatty plc	Edinburgh Royal Infirmary	2	Barclays Integrated Infrastructure Fund. Waste project to Kelda Water Services	23.9	24.3	21.0	59.5
	Aberdeen Waste Water PPP			50.0			
Kajima Partnerships	Newcastle City Library (Kajima Newcastle Library Holdings Limited)	1	HICL Infrastructure Company	50.0 (retains 50%)	2.8	1.1	22.9
				50.0			
Carillion plc	Queen Alexandra Hospital, Portsmouth Hospitals NHS Trust	1	HICL Infrastructure Company	50.0	31.3	16.3	24.1
Shanks Group plc	East London Waste Authority (ELWA)	2	John Laing (Henderson Global Investors)	80.0	24.6	3.7	2.6
	Dumfries & Galloway Waste PFI						
Costain Group plc	Kingston Hospital NHS Trust,	6	Costain Pension Scheme	40.0	22.0	11.2	27.3
	Derbyshire Mental Health			50.0			
	Leicester Adult Learning Disability Centre			50.0			
	South Holland Community Hospital			50.0			
	2 Schools and Buttershaw Business & Enterprise College Bradford			29.0			
	Lewisham Schools (Catford and Sedgehill)			40.0			
John Laing (Henderson Global Investors)	Brockley Social Housing, Lewisham	16 (UK)	John Laing Infrastructure Fund –John Laing plc acquires 23.1% interest	100.0	258.9 (include 3 over-seas assets)	135.2 (incl 3 over-seas asset)	13.9
	Greater Manchester Police Stations			27.1			
	Met Police Training Centre Gravesend			27.1			
	Glasgow Schools			10.0			
	South Lanarkshire Schools			15.0			
	Manchester Street Lighting			50.0			
	Wakefield Street Lighting			50.0			
	Walsall Street Lighting			100.0			
	M40 Denham to Warwick			50.0			
	Sirhowy Way Road, Wales			100.0			
	Newham Hospital			50.0			

	Queen Elizabeth Hospital Greenwich			15.0			
	Kingston Hospital			60.0			
	MoD Main Building			26.0			
	Avon & Somerset Courts			40.0			
	Canning Town Social Housing			100.0			
Carillion	Allenby Connaught PPP (Aspire Defence Holdings Ltd)	1	Innisfree	5.0	14.5	0.5	0.8
2011							
Kier Group plc	Norwich Area Schools	2	Joint venture between HICL Infrastructure (75%) and Kajima Partnerships (25%)	75.0	3.8	4.3	14.4
	Oldham Secondary Schools			75.0	5.4		
Kier Group plc	Sheffield Schools Phase 3 (Academy Services (Sheffield) Holdings Ltd	1	Kier Group Pension Scheme	50.0	4.5	2.1	14.2
Balfour Beatty plc	Connect Roads Ltd joint venture which has 100% of Connect A50 Ltd	1	John Laing (Henderson Global Investors)	60.0	16.0	14.0	46.4
Carillion plc	South Ayrshire Schools	2	HICL Infrastructure Company and Equitix Ltd respectively	48.0	14.8	6.1	16.2
	Three Shires Hospitals (Derbyshire, Leicester and Lincolnshire)			50.0			
Cyril Sweett Group	South Ayrshire Schools	1	HICL Infrastructure Company	5.0	0.8	0.45	27.5
MJ Gleeson Group plc	Social housing PFI projects: AdvantAge (Cheshire) Holdings Ltd.	3	n/a	33.0	7.5	0.34	0.9
	Chrysalis (Stanhope) Holdings Ltd, Ashford, Kent,			33.0			
	Grove Village Holdings Ltd - Manchester			49.0			
Balfour Beatty plc	Royal Blackburn Hospital (Consort Healthcare Blackburn (Holdings) Ltd)	1	HICL Infrastructure Company	50.0	12.0	6.0	12.0
John Laing	North Swindon Schools	1	John Laing Infrastructure Fund	100.0	10.6	19.1 (47.4 based on origin. cost)	2.6
John Laing	Newham Schools, London	2	John Laing Infrastructure Fund	80.0	6.1		
	Enfield Schools, London						
John Laing	North East Fire & Rescue	1	John Laing Infrastructure Fund	80.1	4.7		
John Laing	M6 motorway in Scotland	2	John Laing Infrastructure Fund	11.0	48.6		
	London Underground Connect (CityLink)			29.5			
John Laing and John Laing Pension Trust Ltd	Edinburgh Schools 1	2	John Laing Infrastructure Fund	20.0	18.2		
John Laing	Highland School, Enfield, London			100.0			
John Laing	Cleveland Police Headquarters	1	John Laing Infrastructure Fund	42.5	0.9		
John Laing	Bentilee Community Centre, Stoke-on-Trent	2	John Laing Infrastructure Fund	100.0	9.0		
	Queen Elizabeth Hospital Greenwich.			12.5			
Skanska Infrastructure	Midlothian Primary Schools - PPP2 Project	1	Barclays Integrated Infrastructure Fund	50.0	3.0	1.4	16.1
Kier Group plc	West Berkshire Hospital, Newbury	1	Innisfree	50.0	5.0	6.8	61.0
Kier Group plc	Hinchingbrooke Hospital	1	Kier Group Pension Scheme	50.0	3.1		
Carillion plc	A249 Stockbury to Sheerness, Kent	1	Barclays European Infrastructure	50.0	10.6	5.4	14.4
2012							
Costain Group plc	Bradford BSF Schools (Integrated Bradford Holdco Two Ltd)	2	Costain Pension Scheme	29.0	20.3	10.2	39.8
	Lewisham BSF (Lewisham Schools For the Future Holdings			40.0			

	2 Ltd)						
Interserve plc	University College London Hospital	1	CFIG Unicorn Holdings managed by Credit Suisse's Customised Fund Investment Group	16.7	35.0	30.0	50.3
Total		226					

Source: European Services Strategy Unit PPP Equity Database

Appendix 3

Sale of Secondary Market Investment Funds 2003-12

Owner	Asset	No of PPP	Sold to	% share stake	Price paid £m	Source
2011						
Barclays Infrastructure Funds Management Ltd	A249 Stockbury to Sheerness, Kent, A92 Claymore Roads, Barking & Dagenham Schools, Boldon School, Croydon School, Derby Schools, Doncaster Schools, Manchester School, Newport Schools, Rhondda Cynon Taf Schools, Doncaster Mental Health, Ealing Care Homes, Glasgow ACAD, Lewisham Hospital, Newton Abbot Hospital, Nuffield Hospital, Oxford Churchill Oncology, Willesden Hospital, Dorset Fire & Rescue, Dorset Police, Medway Police, Swindon Police, Tyne & Wear Fire Stations, Oldham Library, plus Rish Grouped Schools and Cork School of Music	26	HICL Infrastructure Company	25.0 to 100.0	143.4	HICL RNS 20/12/2011
2009						
3i Group plc	3i Infrastructure Fund – 77m shares sold reducing 3i holding to 33.3%	n/a	Placed in market	9.5	60.8	3i Press 19/2/2009
Babcock Brown	Babcock Brown Public Partnerships	50	Amber Infrastructure and International Public Partnerships	100.0	n/a	Project Finance June 2009
Telereal	Sells 10% equity stake in Trillium – renamed Semperian	108	Victorian Funds Management Corporation (Australia) and Transport for London Pension Fund (now has 25.8% stake)	10.0	n/a	Property Week 30/1/2009
Land Securities	Trillium - including 108 PPP projects	108	Telereal	100.0	750.0	Land Securities RN 8/1/2009
Infrastructure Investors LP - Barclays acquire Societe Generale (31.7%), 3i (31.7%) and Fleming Family & Partners (4.9%) stakes	84 PPP projects	84	Barclay Integrated Infrastructure Fund	68.3	558.6	Barclays Capital Press 9/1/2009, Financial News 13/1/2009 3i Infrastructure plc AR 2009 p7 and 8. Private Equity News 12/1/2009.
Macquarie Communications Infrastructure Group	Airwave (50.0%) – national police and emergency communications, plus other assets Arqiva (48%) and Broadcast Australia (100%)	1	Canada Pension Plan Investment Board	100.0	733.0	CPPIB Press 30/3/2009
2008						
Land Securities plc	Land Securities launches Trillium Investment Partners, a PPP Joint Venture in March 2008 with £1.1bn capital - equity partners HBOS (Uberior Infrastructure), Victorian Funds Management Corporation (Australia), Bank	100 est	Trillium Investment Partners (Land Securities retains 10%)	n/a	n/a	Land Securities Press 18/3/2008

	of Ireland, Transport for London Pension Fund, Lloyds TSB, London Pension Fund Authority and Daily Mail					
Halifax Bank of Scotland	PFI projects and one infrastructure fund investment. Includes schools in Newcastle, Edinburgh, Aberdeenshire, Lancashire, Fife: housing in Leeds, Camden & Islington; Various hospitals, health centres and police stations, plus a 20.0% stake in Trillium PPP Investment Partners Limited with portfolio of over 80 projects.	47	Pension funds of 4 'well known UK companies'	49.9 (HBOS retains 50.1)	217.1 Fund valued at 434.3	McGrigors Law Press 10/12/2008, Times 7/12/2008 Investing in Infrastructure, PEI,p223-230
2007						
Mill Group	Investors in the Community Ltd (formed by Mill Group and Land Securities in 2005 to bid for BSF) £650m portfolio of 17 primary and secondary schools & 22 local authority and community health facilities.	16	Trillium (Land Securities)	50% (50% when joint venture formed in 2005)	7.4	Land Securities Press 1/3/2007
PFI Infrastructure Company	Eat Ayrshire Schools (20.0), Midlothian Primary Schools (50.0), Argyll & Bute Schools (50.0), Stobhill & Victoria Hospitals, Glasgow (25.0)	22	Infrastructure Investors LP (Barclays, Societe Generale and 3i)	100.0	156.0 (May) valued at 104.0 at end of 2006	Quayle Munro Holdings plc had 1.2m shares in PFI Co at cost of £2m and received £3.7m from Infrastructure Investors (QM Press 2006)
Star Capital Partners, Halifax Bank of Scotland, AMP Capital Investors	Secondary Market Infrastructure Fund PPP projects	79	Land Securities Group plc	100.0	927.0 (527.0m cash & 400.m net debt)	STAR Capital Partners (www.star-capital.com accessed 20/8/2008)
2006						
HSBC Infrastructure Ltd and HSBC Infrastructure Fund	Barnet, Bishop Auckland, Central Middlesex and West Middlesex & Blackburn Hospitals; Fife Schools; Colchester Garrison; Health & Safety Labs, Buxton; Defence Sixth Form College; Sussex Custodial Centre; MoD Helicopter Training Centre; Home Office Headquarters; Dutch High Speed Rail Line.	15	HSBC Infrastructure Company (HICL). PFI assets transferred to new company listed on London Stock Exchange, registered in Guernsey. £250m share issue.	100.0	250.0	HICL Press 31/3/2006 HICL AR 2007 p36 and 42
2005						
Infrastructure Investors LP (Barclays, Societe Generale and 3i)	Equity shareholding	31	3i Group	33.3	150.0	3i Group Press 21/6/2005 3i Group AR 2006 p28 Times 21/6/2005
2004						
Quayle Munro PFI Fund Limited Partnership and Bank of Scotland	MoD Bannockburn Family Quarters (98%), James Watt College, North Ayrshire (90%), Larkfield Hospital, Argyll (90%), Staffordshire Street Lighting (40%), Castle Hill Centre, Bolton (80%), Sailsbury Hospital (40%), Edinburgh Schools (10%), Forfar Community Hospital (40%) Lochgilphead Community Hospital (40%), Aberdeenshire Schools (20%)	14	PFI Infrastructure Company	100.0	21.7	PFI Infrastructure Company Interim Statement 2004 Quale Munro AR 2004

	Falkirk Schools, Tiverton Community Hospital (40%), Chester-le-Street Community Hospital (20%) Ingleby Barwick Schools, Stockton (20%					
2003						
Grosvenor House Group plc	Noble PFI Equity Fund	5 est	n/a	12.5	4.0	Dundas & Wilson, News January 2003
Babcock Brown and Abbey National	Secondary Market Infrastructure Fund formed in 2001 with 23 projects valued at £120m	23	Star Capital Partners, Bank of Scotland and AMP Capital Investors	100.0	120.0	Star Capital Partners News 18 December 2003, Financial News, 5/5/2003, Public Private Finance, July 2006
Total 17		**729**			**5,126.6 (**estimate based on data for 12 transactions)	

Sources: Company Announcements to the London Stock Exchange and Press Releases, PPP In-Depth No. 6, 2006, PPP Bulletin, The Second Age of PFI, Collins Stewart, May 2004, Infrastructure and Secondary Market Fund websites,

Appendix 4

Terminated UK PPP projects

Date	Project and companies	Buy-out of contract	Buyout cost £m	Capital cost of project £m
Buy-out of failed PFI projects				
1995-2004	**Skye Bridge, Scotland** Miller Civil Engineering Ltd, Dyckerhoff, Widmann AG (known as Miller-Dywidag) & BankAmerica International Finance Corporation	Closed ferry service when bridge opened in 1995 followed by vociferous community campaign against high toll fees. Tolls frozen at 1999 prices for remainder and abandoned in 2004 and concession terminated with £27m payment by Scottish Executive. www.scottish.parliament.uk/s3/committees/finance/inquiries/capInvest	27.0	39.0
1999-	**Inverness Air Terminal Ltd.** Highland-Inverness Airport: Infrastructure Investors (Barclays Bank)	Scottish Executive funded buy-out by Highland & Islands Airports Ltd. Structure of contract considered disincentive to growth of new services. www.scottish.parliament.uk/s3/committees/finance/inquiries/capInvest/adviser_buyouts.pdf	27.5	9.5
1999-2006	**West Lothian College** HBG (Royal BAM Group)	Scottish Funding Council, supported by Scottish Executive, bought-out contract – based on assumptions of student growth that did not materialize leaving £11m funding gap over 20 years. Change in funding policy and college faced financial crisis in funding PFI project. www.scottish.parliament.uk/s3/committees/finance/inquiries/capInvest	27.5	18.0
2003-2010	**London Underground Tube Lines** (Holdings) Ltd Amey UK plc and Bechtel Corporation	Transport for London acquires Tube Lines after failure of PPP contract. Amey reported £1.7m profit on sale (Annual Report 2010 p 47) Bechtel Corporation Press 7/5/2010	206.4	5,526.0
2003-2011	**Tees, Esk and Wear Valleys Mental Health Foundation Trust**	NHS Trust paid £18.0m in 2011 to buy-out West Park Hospital, Darlington, contract with Aviva, aided by a surplus in its 2010 accounts. Trust will save £14m over remainder of the contract. http://www.tewv.nhs.uk/Trust-News/News/Buying-West-Park-Hospital-/	18.0	16.0
Terminated PFI projects				
1998-2004	**National Physical Laboratory** John Laing plc	Terminated in 2004 after long construction delays and failure to meet specification. "Original private sector design of the new buildings was deficient" (NAO). John Laing plc lost £67m, subcontractors £12m, banks lost £18m and Laing's and Serco £4m in dividends. DTI invested £122m (including termination compensation, procurement costs, upfront payments and unitary payments) and left with £85m assets. Private sector failed to meet high quality specification required for the laboratory. http://www.nao.org.uk/publications/0506/the_termination_of_the_pfi_con.aspx	n/a	89.0
1999-2000	**Energy Centre, Mayday University Hospital Trust, Croydon** Miller Construction	Did not perform as required and terminated in 2000. Trust retendered and modifications and new control system in 2003 cost £0.3m. http://www.publications.parliament.uk/pa/cm200506/cmselect/cmpubacc/694/5111614.htm http://www.vitalenergi.co.uk/casestudy_mayday_.html	n/a	n/a
2000-	**Ministry of Defence, Defence Animal Centre** Parkwood Holdings plc	Defence Animal Centre (Realm Services (DAC) Ltd – early termination of contract - £2.7m loss in 2009 accounts (Parkwood Holdings AR 2009 p2 and 61)	n/a	11.0

2003-2007	**Transport for London, Metronet,** Sub Surface Lines (SSL) - District, Circle, Metropolitan, East London & Hammersmith & City	Metronet had two 30 year PPP contracts for maintenance and renewal of the Bakerloo, Central, Victoria and Waterloo & City TUBE Lines and another for the "sub-surface lines": the Circle, District, Hammersmith & City, Metropolitan and East London Lines. PPPs had £992m overspend by July 2007, projected to be £1.8bn by 2010. Transport for London took over work. Shareholders lost £350m equity (NAO, 2012). Loss to public sector was £170m-£410m (Public Accounts Committee, March, 2010 http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpubacc/390/390.pdf	n/a	6,687.0
1996 - 1999	**Royal Armouries Museum,** Leeds	Achieved only a third of 1.3m visitors forecast and plummeted to fewer than 200,000 within 2 years. Consortia refinanced deal twice but cumulative losses soared to £10m in 1999 and the Bank of Scotland refused further lending, forcing renegotiation of contract, ceased to be a PPP. Returned to public sector.(http://www.nao.org.uk/publications/0001/royal_armouries_museum_in_leed.aspx)	n/a	43.0
2012	**Transport for London** UK Power Networks Services Ltd (80%) ABB UK (10%) and Balfour Beatty (10%).	London Underground Power Supply PFI contract terminated at half-way break clause to make "significant savings" and "avoiding expensive financing costs" (TfL press release 16 August 2012). Termination payments will be made to shareholders. 30-year contract signed 13 August 1998.	n/a	133.0
2001-2008	**Cornwall Grouped Schools 1** Mowlem and WS Atkins (New Schools Cornwall)	25-year PFI contract signed 2001 to refurbish and maintain 28 schools. Council had to step in to carry out £10m essential remedial repairs following years of teacher complaints. Shareholders (Innisfree 100% from March 2004) lost £4.8m on termination of contract in 2008 (NAO, 2012).	n/a	36.0
1998-2010	**Transport for London Oyster Card** TranSys (Electronic Data Systems and Cubic Transportation Systems)	17-year contract but Transport for London used break clause to cancel following two major technical failures in 2008. New contract agreed in November 2008 to run from 2010-13 for two of the original consortium shareholders to run the system with TfL gaining ownership of Oyster brand.	n/a	100.0
2000-2003	**Croydon Tramlink** Bombardier, Sir Robert McAlpine, Amey plc	Contract signed November 1996. Financial losses of £18.3m between 2000-03.	n/a	205.0
2002-2005	**Crymlyn Burrows waste treatment plant, Swansea, Wales.** HLC Environmental Projects (HLC, Portugal utilities company), financed by Bank of Scotland.	Terminated by Neath Port Talbot Council in 2005 because it was incapable of handling the daily tonnage of contracted waste. Since operated by local authority. Long legal dispute over the right to the assets - bank wanted open market sale but Council gained High Court approval to purchase and operate the assets http://www.letsrecycle.com/do/ecco.py/view_item?listid=37&listcatid=234&listitemid=7881	n/a	40.0
PFI/PPP projects with major problems				
2012	**London Fire & Rescue Authority** **Lincolnshire Fires & Rescue Authority** AssetCo	AssetCo London Limited (financial close November 2000), AssetC Lincoln Limited, AssetCo Engineering Limited and AssetCo Solutions Limited sold for £2 (two pounds) to AB & A Investments Limited after £16.5m loss in six-month period to 31 March 2012. http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail.html?announcementId=11299293	0.0	118.0
1999-2008	**Dalmuir Sewerage Treatment Works**: Barr Construction, Taylor Woodrow, SAUR, Halcrow	Contract signed March 1999. In 2008 the Scottish Water board was told that the PFI plants were a "reputational risk". Dalmuir had significant pollution breaches, inadequate works, bad smells, weak penalty regime. Dalmuir plant was said to suffer from "the combination of an inherent compliance problem due to the inadequacy of the works from a size and process perspective, an operator which is losing £1 million per annum and a weak contractual penalty regime" (Edwards). In order to try and combat Dalmuir's problems, Scottish Water has been granted an extra	n/a	50.0

		£30 million by the Water Industry Commissioner for Scotland. http://www.robedwards.com/2011/03/exposed-the-pfi-sewage-scandal.html		
2002-	**Brighton & Hove Council** Jarvis plc	Terminated 3-school FM contract (signed March 2002) after Council reported quality of service a 'significant concern'. Jarvis demanded increased payments.	n/a	25.0
2004-2005	**Dudley Group of Hospitals** Sir Robert McAlpine	Summit Healthcare (Sir Robert McAlpine, Interserve FM and Bank of Scotland) to redevelop and expand Acute Hospital. Additional refurbishment work required led to McAlpine suffering £100m losses. Firm sued NHS Trust for damages and received £23.2m in 2007.	n/a	139.0
2002-2004	**East Lothian Schools** – Ballast Wiltshire	Ballast UK went into administration in refurbishing 6 schools and community centre. Parent company withdrew funding. Unpaid subcontractors into liquidation. Replacement contractor but long delay. Ballast had 50% of project equity.	n/a	45.0

Source: European Services Strategy Unit PPP Database 2012: n/a - Not applicable

Details of failure of contract terminations, cost overruns and delays in PPP information and communications technology contracts 1998-2007 are available in ***Cost Overruns, Delays and Terminations in 105 Outsourced Public Sector ICT Contracts***, ESSU Research Report No. 3 by Dexter Whitfield.

http://www.european-services-strategy.org.uk/publications/essu-research-reports/essu-research-report-no-3-cost-overruns-delays/essu-research-paper-3.pdf

Appendix 5

Global PPP equity transactions 1998-2012*

Owner	Asset	No of PPP	Sold to	% share stake sold	Price paid	Profit /loss m	Source
Republic of Ireland							
2010					**€m**		
National Toll Roads Limited (NTR plc)	East Link Toll Bridge, Dublin	2	Dutch Infrastructure Fund II	n/a	50.0	n/a	NTR Press 30/09/2010
	Dundalk Western bypass			n/a			
National Toll Roads Limited (NTR plc)	North-Link (Dundalk), South-Link (Waterford) Mid-Link (Portlaoise)	3	Egis Projects (France)	n/a	n/a	n/a	NTR Press 30/09/2010
2007							
1/2007 Hochtief PPP Schools Capital Ltd	Cork School of Music	1	Hochtief joint venture with PFI Infrastructure Company	49.0	n/a	n/a	Hochtief AR 2007 p31 PFI Infrastructure Co. RNS 18/01/2007 PFI Infrastructure Co. Interim 07/03/2007
National Toll Roads (NTR plc)	West-Link Toll	1	Government's National Roads Authority	100.0	488.0	n/a	NTR Press 06/06/2007
2006							
Jarvis plc	Grouped Schools Pilot PPP Project	1	Secondary Market Infrastructure Fund and Barclays Bank	n/a	n/a	n/a	SMIF.com accessed 08/06/2006
2/5/2006 Lend Lease Corporation & Bank of Scotland	Cork Maritime College	1	Lend Lease joint venture with Bank of Scotland	50/50 equalisation of equity in project	n/a	n/a	Lend Lease Corporation Press 04/05/2006 Lend Lease Corporation AR 2006 p26
n/a	5 schools	1	Hochtief PPP Solutions	50.0	n/a	n/a	Hochtief AR 2006 p24
Continental Europe							
2012					**€m**		
Skanska	**Finland:** E18 highway – Muuria to Lohjanharju	1	50%/50% between Skanska pension fund: Trean Allmanna Pensionsstiftelse and Skanska Norway pension trust	n/a	19.0	n/a	Skanska Press 30/11/2012
John Laing	**Netherlands:** Kromhout Barracks	1	John Laing Infrastructure Fund	40.0	24.2	n/a	JLIF Press 11/10/2012
ACS Group	**Spain:** M-511 and M-502 in Madrid region (Ruta de los Pantanos)	1	GlobalVia	33.3 (now has 100.0)	n/a	n/a	GlobalVia Press 30/10/2012
Atlantia	**Italy:** Autostrada Torino-Savona	1	Sias Group	99.98	223.0	n/a	INFRAPPP 01/10/2012 Atlantia Press 28/09/2012
Skanska	**Norway:** Soreide School, Bergen	1	Oslo Pensjonsforsikring AS	100.0	29.7	n/a	Skanska Press 21/09/2012
Sacyr Vallehermoso	**Spain:** Autovia del Arlanzon, A-! Motorway	1	Marguerite Fund	45.0	24.5	n/a	INFRAPPP 04/07/2012 Infrastructure Investor 04/07/2012
Burgers Ergon	**Netherlands:** Dutch Ministry of Finance	1	DIF	Inc stake	n/a	n/a	Infrastructure Investor

	project			to 94.0			27/04/2012
Bilfinger Berger	**Germany:** Unna Administration Centre	1	Bilfinger Berger Infrastructure Fund	90.0	n/a	n/a	Bilfinger Berger RNS 3299A, 29 March 2012
Bilfinger Berger	**Germany**: Burg Prison	1	Bilfinger Berger Infrastructure Fund	90.0	n/a	n/a	Bilfinger Berger RNS 3877N, 28/09/2012
Plexy Ltd	**Russia:** M10 Moscow-Saint Petersburg toll highway – North-West Concession Company (Vinci has remaining 50.0%)	1	Mostotrest (Marc O'Polo Investments (38.6%) Transfingroup Asset Management (27.1%)	50.0	193.0	n/a	INFRAPPP 15/11/2012 CEE Bankwatch 2011 (see references)
2011							
n/a	**Netherlands:** HSL Zuid – High Speed Rail PPP project.	1	HICL Infrastructure Company	5.5	11.6	n/a	HICL RNS 15/03/2011
Atlantia S.p.A.	**Italy:** Strada dei Parchi S.p.A – A24 Rome–Teramo and A25 Torano-Pecara	1	Toto S.p.A.	60.0	89.0	n/a	Atlantia Press 03/01/2011 & 30/05/2011
EIFFAGE	**France:** Prisons in Roanne, Lyon, Nancy and Beziers,	4	DG Infra Yield (GMIV and Dexia)	80.1	n/a	n/a	DG Infra News 13/12/2011
Ballast Nedham	**Netherlands:** Kromhout Barracks, Utrecht	3	Benelux Secondary PPP Fund 1 (DG Infra Yield 80% and Ballast Nedham 20%)	n/a	n/a	n/a	DG Infra Yield News12/09/2011
	DUO2 offices for Information management						Ballast Nedham News 12/09/2011
	Dutch Tax Administration, Groningen and buildings for several government departments						
Struckton (Oranjewoud N.V.)	**Netherlands** Kromhout Barracks in Utrecht	6	Dutch Infrastructure Fund (transfer of 80% of Struckton's holdings)	30.0	n/a	n/a	Struckton News 27/10/2011
	Regional Tax Office in Groningen			30.0			
	Montaigne Lyceum in The Hague			44.9			
	Ministry of Finance office, The Hague			5.0			DIF News 12/12/2011
	Harnaschpolder-Houtrust wastewater purification system in Den Hoom and Scheveningen			5.0			
	Maasvlakte-Vaanplein section of A15 motorway			24.0			
Municipalities of Padua and Vicenza	**Italy:** Autostrada Brescia Verona Vicenza Padova SpA	1	Fondi Italiani per le infrastrutte (F2i)	7.4	64.8	n/a	F2i News 17/11/2011
BAM	No details of 3 projects (EU)	3	PGGM/BAM joint venture 80/20 interest	€45.0	10.0	n/a	BAM/PGGM Press 08/12/2011
Atlantia S.p.A.	**Italy:** Autostrada Tirrenica	1	Banca Monte Paschi di Siena, Holcoa SpA, Vianco SpA & Autostrada Ligure Toscana SpA	69.1	67.7	50.0	Atlantia Press 28/11/2011
2010							
Atlantia S.p.A.	**Portgual:** A8 Autoestradas do Oeste SA	1	Lena SGPS and Lena Engehharia e Costrucoes SA	25.0	26.1	n/a	Atlantia Press 28/02/2010
Skanska	**Norway**: Orkdalsvegen E39 PPP road,	1	Skanska Tean Allman Pensionsstiftelse	50.0	18.1	10.7	Project Finance, March 2010 Skanska Press 25/02/2010
Banesto bank	**Spain:** Soller Tunnel, Palma-Soller, Majorca	1	Globalvia	32.7	n/a	n/a	Globalvia Press 16/09/2011
Funds managed	**France:** Autoroutes	1	Effiage and	13.7	854.0	n/a	Infrastructure

by Eliot Management Corp & Sandell Asset Management	Paris-Rhin-Rhone (APPR)		Macquarie Atlas Roads JVC				Investor 17/06/2010
Cintra (Spain)	**Spain**: Autopista Trados 45, M-45 highway, Madrid	1	Albertis and Finavias (AXA Private Equity)	50.0	67.0	n/a	Cintra Press 21/07/2010
Global Via, Caja Navarra and nEC	**Spain:** Autovia del Camino	1	RREEF (Deutsche Bank)	80.0	n/a	n/a	Infrastructure Investor 21/07/2010
Sacyr Vallehermoso	**Spain:** 2 shadow toll roads & 2 interchanges Autovia del Noroeste (Aunor)	4	Eiser Infrastructure fund	49.0	61.0	n/a	Sacyr RNS 13/05/2010
	Autovia del Turia			49.0			
	Moncloa (Itemosa)			n/a			Infra News 18/05/2010
	Plaza Eliptica			n/a			
BAM Deutschland AG	**Germany**: Pforzheim Schools PPP	1	International Public Partnerships	97.0 (now has 98%)	1.0	n/a	INPP RNS 14/05/2010
John Laing Group	**Finland**: E18 road	1	John Laing Infrastructure Fund	100.0	19.1	n/a	JLIF News 21/12/2010
2009							
Bovis Lend Lease Corporation	**Italy:** Brescia Hospital	1	International Public Partnerships	13.0 (now 37%)	1.0	n/a	INPP RNS 31/07/2009
Babcock Brown	**Belgium**: Diabolo rail project, Brussels,	1	International Public Partnerships	10.0 (now 75.0)	3.0	n/a	INPP RNS 13/10/2009
Citi Infrastructure	**Spain**: Toll road AP-68 Zaragoza-Bilbao	1	Albertis Infraestructuras SA	50.0	n/a	n/a	Albertis Press 26/06/2009
Citi infrastructure	**Portugal:** Autoestradas do Atlantico (A-8 Sur, A-8 Norte, A-15)	4	Atlantia S.p.A.	n/a	n/a	n/a	Sacyr Press 01/12/2008
	Via Litoral (ER-101)						
	Puente Vasco do Gama						
	Puente 25 de Abril						
Itinere Infraestructuras SA	**Spain**: Autopista Madrid Levante (AP-36	9	Sacyr Vallehermoso (part of sale agreement with Citi Infrastructure)	40.0	478.3	n/a	Sacyr Press 01/12/2008
	Autopista Madrid Sur (R-4)			35.0			
	Madrid access (R-3) and R-5)			25.0			
	Madrid access (R-5)			25.0			
	Aunor (C-415)			100.0			
	Viastor (AS-2)			70.0			
	Pamasa (C-715)			35.0			
	Turia (CV-35)			89.0			
	Eresma (CL-601)			73.0			
2008							
Sacyr Vallehermoso	Itinere Infraestructuras SA. Includes projects in Spain, Portugal, Ireland, Chile and Brazil	30	Citi Infrastructure	51.7	7,887.0	n/a	Citi Alt Invest 01/12/2008
							Sacyr Press 01/12/2008
							Itinere AR 2009 p7-10
Macquarie Infrastructure Group	**Portugal**: Lusoponte, two toll bridges in Lisbon	1	Mota-Engil Concessoes de Transporte (Mota) and Vinci	30.6	112.0	(15% IRR)	Macquarie RNS 30/09/2008
Acciona Infrastructure	**Spain:** Concesiones de Madrid SA, M45 bypass	5	Globalvia (FCC Construccion and Corporacion and Bankia joint venture	33.3	101.3	n/a	Acciona Press 02/09/2008
	Ruta de ls Pantanos SA toll road Brunete-M40			25.0			
	Transportes Ferroviarios de Madrid			12.18			

	Metro line 9 Vicalvaro-Arganda						
	Tranvia de Paria light rail, Madrid			42.5			
	Tunel D'Envalira, Spain-Andorra			40.0			
Atlantia S.p.A	**Italy:** A22 Brenner-Modena	2	Compagnia di Investimenti e Sviluppo SpA	5.51	80.0	18.3	Atlantia Press 2008 Financial Statement
	Autovie Venete - A4 Venice-Trieste, A23 Palmanova-Udine South, and A28 Portogruaro-Pordenone-Conegliano			4.29			
Babcock & Brown	**Italy:** Bresica Hospital	2	Babcock & Brown Public Partnerships	24.0	n/a	n/a	BBPP RNS 2530T 28/04/2008
	Belgium: Diabolo Rail Link			27.5			
2007							
Atlantia S.p.A	**Italy:** Brescia-Milan: Autostrade Lombarde	2	Intesa Sanpaolo S.p.A.	35.5	41.0	4.6	Atlantia Press 02/04/2007
	Societa di Prgetto Bre.Be.Mi. S.p.A.			1.0			
2006							
HSBC	**Netherlands:** HSL Zuid high speed rail link	1	HSBC Infrastructure Company Limited (HICL) flotation	24.5	n/a	n/a	HICL Prospectus 2006 HICL AR 2007
2005							
Groupo Santander	**Spain:** Autopistas del Atlantico (Audasa)	4	Itinere	20.0	n/a	n/a	http://www.grupoitinere.com (accessed 20/10/2012)
	Autopista Astur Leonesa (Aucalsa)						
	Autoestradas de Galicia						
	Autopistas de Navarra (Audenasa)						
2004							
Skanska and Intertoll	**Poland**: A1 Motorway	1	John Laing plc	30.0	11.5	n/a	Laing News 03/12/2004
2003							
Mowlem Construction (7%)	**Sweden:** Arlanda Express	1	Macquarie Infrastructure Group	7.0	n/a	2.8 loss	Mowlem AR 2003
Vattenfall (20%) , Alstom (29%), NCC (44%)	**Sweden**: Arlanda Express	1	Macquarie Infrastructure Group	93.0	n/a	n/a	Sward 2008 (see references)
Canada							
2012					**C$m**		
Bilfinger Berger Project Infrastructure	Golden Ears Bridge	3	Bilfinger Berger Global Infrastructure	50.0	48.7	n/a	Bilfinger Berger Global Infra RNS 9947W 08/02/2012
	Kicking Horse Canyon Highway			50.0			
	North West Anthony Henday Drive, Alberta			50.0			Bilfinger Berger Global Infra RNS 3299A, 29/03/2012
2011							
John Laing	Abbotsford Regional Hospital, British Columbia	1	John Laing Infrastructure Fund	20.0 (now 100.0)	n/a	n/a	JLIF News 11/11/2011
2010							
Macquaries Essential Assets Partnership	Sea-to-Sky Highway Improvement Project	2	Fiera Axium Infrastructure, Regime de rentes du Mouvement Desjardins and Nova Scotia Pension Agency	100.0	n/a	n/a	Fiera Axium Press 02/12/2010
	Anthony Henday Drive Southeast Leg Ring Road						
Bilfinger Berger	North West Anthony Henday Drive, Alberta	1	HICL Infrastructure Company	50.0	n/a	n/a	HICL RNS 11/11/2010
Intoll (Macquarie Group)	407 ETR Concession, Toronto expressway and Intoll Group,	1	Canada Pension Plan Investment Board	30.0 and 100.0	3,438.0	n/a	Intoll Scheme 14/10/2010 Intoll ASX Release

	Australia			Intoll			18/11/2010
Cintra (Ferrovial, Spain)	407 ETR Concession, Toronto expressway	1	Canada Pension Plan Investment Board	10.0	894.3	n/a	Ferrovial News 06/10/2010
2007							
Macquarie Group	Abbotsford Regional Hospital, British Columbia	1	John Laing	81.0 ABN AMRO retained 19.0	74.0	n/a	Laing Press 02/02/2007
Macquarie Group	Diamond Health Care Centre, Vancouver General hospital	1	John Laing	100.0 ABN AMRO retained 19.0	22.6	n/a	Laing Press 02/02/2007
ABN AMRO	Abbotsford Regional Hospital, British Columbia	1	John Laing	19.0	13.3	n/a	Laing Press 02/02/2007
2005							
ABN AMRO Bank NV (retained 19.0%)	Abbotsford Regional Hospital, British Columbia	1	Macquarie Group	81.0	n/a	n/a	Macquarie Bank Press, 28/12/2005
ABN AMRO Bank NV (retained 19.0%)	Diamond Health Care Centre, Vancouver General hospital	1	Macquarie Group	81.0	n/a	n/a	Macquarie Bank Press, 28/12/2005
2002							
Capital D'Amerique	Toronto 407 Express	1	Macquarie Infrastructure Group	18.4	495.0	Four times origin cost	Hrab 2004 (see references)
SNC-Lavalin	Toronto 407 Express	1	Cintra	26.0	178.2	Four times origin cost	SNC-Lavalin Press 19/03/2002
USA							
2012					**US$m**		
ACS Group	Interstate-595, Florida toll lanes, 17km	1	Teachers Insurance and Annuity Association-CREF	50.0	806.7	599.7	Project Finance, October 2011
Meridiam Infrastructure	North Tarrant Express, Dallas, Texas	2	APG Dutch pension fund	12.3	n/a	n/a	INFRA PPP 06/08/2012
	Lyndon B. Johnson Freeway, Texas			13.3			Project Finance August 2012
2010							
Macquarie Infrastructure Partners & Macquarie Infrastructure Group	South Bay Expressway – filed for bankruptcy under Chapter 11 of the Bankruptcy Code	1	Banks and Federal Govt via TIFIA loan (Transportation Infrastructure Finance and Innovation Act)	100.0	n/a	n/a	www.fhwa.dot.gov/ipd/project_profiles/ca_southbay.htm (accessed 22/10/2012
							Macquarie Atlas Road ASX Release 23/03/2010
Macquarie Infrastructure Group	Indiana Toll Road	4	Macquarie Atlas Roads demerged from Macquarie Infrastructure Group and listed on Australian Stock Exchange	25.0	n/a	A$ 226.0	Macquarie Group Press 30/10/2009
	Chicago Skyway			22.5			Macquarie Atlas Roads AR 2011
	South Bay Expressway			50.0			
	Dulles Greenway (TRIP II)			50.0			
2006							
Macquarie Infrastructure Group	Indiana Toll Road	4	Macquarie Infrastructure Partners, an unlisted infra fund – pension funds, insurance companies, foundations & wealthy individuals	25.0	824.6	n/a	MIG Management Report, half year, 31/12/2006
	Chicago Skyway			22.5			Macquarie Group Press 02/05/2007
	South Bay Expressway			50.0			
	Dulles Greenway (TRIP II)			50.0			
2005							
Shenandoah Group (86.7%) Kellogg Brown & Root (13.3%)	Dulles Greenway (TRIP II)	1	Macquarie Infrastructure Group	100.0	617.5	n/a	www.fhwa.dot.gov/ipd/project_profiles/va_dulles_greenway.htm (accessed

							22/20/2012)
2003							
Autostrade International	Dulles Greenway (TRIP II)	1	Shenandoah Group	30.0	n/a	n/a	www.fhwa.dot.gov/ipd/project_profiles/va_dulles_greenway.htm (accessed 22/20/2012)
Latin America							
2012					**US$m**		
OHL Group	**Brazil:** 9 toll roads, 3,200km, Autovias, Centrovias, Intervias, Vianorte, Autopista Fluminense, Autopista Fernao Dias, Autopista Regis Bittencourt, Autopista Litoral Sul, Sutopista Planalto Sul	9	Abertis (51%) and Brookfield Infrastructure (49%) joint venture	60.0	1,700.0	n/a	Albertis Press 4/12/2012 Brookfield Press 06/08/2012
OHL Group	**Chile:** 3 toll roads Autopista Los Andes, Autopista del Sol, Autopista Los Libertadores	3	Albertis	n/a	204.0	n/a	Albertis Press 4/12/2012
Hochtief	**Chile:** Vespucio Norte Express toll highway, Santiago	1	Brookfield Asset Management	45.45	288.0	n/a	Hochtief Press 04/10/2012
Infraestructures SDC Desarrollos Internacionales	**Costa Rica: San** Jose-Caldera mortorway **(**Autopistas del Sol S.A.)	1	GlobalVia	17.0	20.0	n/a	GlobalVia Press 02/11/2012
Atlantia S.p.A.	**Chile:** Grupo Constanera, operates Nororiente, Acceso Vial Amb, Vespucio Sur, Constanera Norte toll roads in Santiago and Litoral Central	5	Canada Pension Plan Investment Board	49.9	1,100.0	n/a	Atlantia Press 19/04/2012 CPPIB Press 19/04/2012 Project Finance April 2012
Sias	**Chile:** Autostrade Sud America – Grupo Constanera	5	Atlantia S.p.A	45.8	€565.2	n/a	Atlantia Press 28/06/2012 Project Finance April 2012
Mediobanca	**Chile:** Autostrade Sud America – Grupo Constanera	5	Atlantia S.p.A	8.5	€104.6	n/a	Atlantia Press 28/06/2012 Project Finance April 2012
Grupo Omega	**Mexico:** Barranca Larga-Ventanilla Toll Road, Oaxaca, Mexico	1	Empresas ICA	n/a	n/a	n/a	Infrastructure Investor 17/04/2012
Acciona Infrastructure	**Mexico:** Universidad Politecnica de San Luis Potosi	1	Macquarie Mexican Infrastructure Fund	100.0	46.3	n/a	Acciona Press 31/07/2012
PYCSA	**Panama:** Corredor Norte highway	1	Empresa Nacional de Autopista (ENA) Panama Government	100.0	650.0	n/a	Project Finance April 2012
2011							
Empresas ICA	**Mexico:** Queretaro-Irapuato toll road Irapuato-La Piedad toll road	2	West Highway Network (RCO) – 54.5% owned by Goldman Sachs	100.0	167.7	n/a	Empresas News 23/09/2011 Mexican Business Web 16/07/2012
Leao & Leao	**Brazil:** Trangulo do Sol, 442km Sao Paolo	1	Atlantia S.p.A.	10.0	€30.0	n/a	Atlantia Press 01/09/2011
				10.0	€30.4	n/a	Atlantia Press 14/09/2011
				10.0	€29.1	n/a	Atlantia Press 14/11/2011
Sacyr Concesiones	**Chile:** Concepcion-Cabrero highway Iquique Access highway	2	Falabella Group	49.0 49.0	231.3	n/a	Project Finance December 2011
Skanska	**Chile:** Autopistas de Antofagasta	1	Inversiones Infrasestructura Dos S.A., Las Americas,	50.0	41.5	7.5	Skanska Press 09/09/2011

			PENTA				
ACS	**Chile:** Tunel San Cristobal	2	Brookfield Infrastructure Partners (Canada)	50.0	290.8	n/a	Infrastructure Investor 26/09/2011
	Vespucio Norte			46.5			Project Finance September 2011
Acciona	**Chile:** Vespucio South Motorway (Autopista Vespucio Sur)	2	Atlantia S.p.A.	50.0	305.0	n/a	Acciona Press 18/04/2011
	Central Coastal Road Network (Red Vial Litoral Central)			50.0			Atlantia Press 30/06/2011
Skanska	**Chile:** Autopista Central Highway	1	Alberta Investment Management Corporation (Canada)	50.0	790.0	350.0	Skanska Press 29/04/2011
							InraAmericas 13/05/2011
2010							
Rpstec de Mexico	**Mexico:** 10 toll free highway stretches, Durango	1	Macquarie Mexican Infrastructure Fund	100.0	125.0	n/a	Macquarie MIF 20/12/2010
Mexican Govt (earlier taken control after long dispute with ICA)	**Mexico:** Tlaxcala-San Martin Texmelucan toll road	1	Pinfra (Promotora y Operadora de Infraestructura)	100.0	28.1	n/a	Project Finance November 2010
BRISA (Portugal)	**Brazil:** CCR toll roader operator with seven concessions	7	CCR controlling shareholders (6.0%) 10.35% privately sold via banks	16.35	1,318.2	845.5	BRISA Results 2010, 18/03/2011
							BRISA Sale of CCR equity stake 23/06/2010
Sacyr Vallehermoso	**Chile:** Vallenar-Caldera	1	Fondo de las Americas	40.0	22.0	n/a	Infra News 18/05/2010
ICA	**Panama**: Corredor Sur highway	1	Empresa Nacional de Autopista (ENA) Panama Government	100.0	420.0	n/a	Project Finance March 2010
Leao & Leao Ltda	**Brazil:** Triangulo do Sol Auto-Estradas SA, 442km toll road Sao Paolo	1	Atlantia S.p.A	10.0	n/a	n/a	Atlantia Press 11/06/2010
2009							
Cintra Spain	**Chile:** Santiago Talca (100.0%)	5	ISA Group, Columbia	60.0	300.0	n/a	Ferrovial News 29/12/2009
	Talca Chillan (67.6%)						
	Chillan Collipulli (100.%)						
	Collipulli Temuco (100.0%)						
	Temuco Rio Bueno (75.0%)						
Citi Infrastructure	**Chile:** Toll roads Vespucio Sur, Santiago	3	Atlantia SpA (Italy) (formerly Autostrade)	n/a	€420.0	n/a	Lavca 06/06/2009
	Nororiene, Santiago						
	Rio Bueno-Puerto Montt highway						
Itinere	**Chile:** Rutuas del Pacifico, North Chile Highway 5,	4	Albertis (Spain)	50.0	€605.0	n/a	Albertis Press 26/06/2009
	Autopista del Elqui – Los Vilos-La Serena			75.0			
	Rutas II and Operadora del Pacifico			50.0			
	Gestora de Autopistas SA – management of 4 toll roads			49.0			
2008							
Bancomext (Mexico)	**Chile:** SCADA toll road Santiago-Los Vilos	2	Globalvia (50/50 joint venture Fomento de Construcciones y Contratas (FCC) and Bankia.	100.0	553.0	n/a	Globalvia Press 03/06/2008
	SCADI toll road Concepcion-Chillan			100.0			

ACS Spain	**Chile:** Toll Roads – Autopista Central Rutas del Pacifico	2	Albertis (57.7%) & Santander Infrastructure Fund (42.3%)	48.0 50.0	€700.0	€600.0	ACS Press 04/01/2008 Reuters 04/01/2008
2007							
Skanska	**Brazil:** Ponte de Pedra hydroelectric power plant	1	Suez-Tractebel	50.0	85.0	45.0	Skanska Press 14/12/2007 Business Wire 14/12/2007
Impregilo	**Brazil:** Ponte de Pedra hydroelectric power plant	1	Suez-Tractebel	50.0	n/a	n/a	Skanska Press 14/12/2007 Business Wire 14/12/2007
Australia							
2012					**A$m**		
Bilfinger Berger	Victoria Prisons	1	Bilfinger Berger Global Infrastructure Fund	100.0	55.0	n/a	BBGI RNS 5729Y 02/03/2012
Bilfinger Berger	Royal Women's Hospital, Melbourne	1	Bilfinger Berger Global Infrastructure Fund	100.0	30.0	n/a	BBGI RNS 7638X 21/02/2012
Plenary Group	Living Environment Accommodation Project (Leap 2) - 3,000 accommodation units, 14 defence bases	1	Palisade Investment Partners via Australia Social Infrastructure Fund (PASIF)	49.9	n/a	n/a	Infrastructure Investor 21/08/2012
2011							
Various shareholders	Eastlink toll road, Melbourne, CoonectEast Group	1	CP2 infrastructure investment: Funded by UK Universities Superannuation Scheme, APG Netherlands, National Pension Service Korea, Leader Investment Corp, China, Teachers Insurance & Annuity US	100.0	2,200.0	n/a	ConnectEast ASX 27/09/2011 Business Spectator 22/07/2011
Various shareholders Receivers appointed	River City Motorway, Brisbane (CLEM7 Tunnel and AirportLink)	1	Pending	100.0	Not applicable	Not applicable	PPB Advisory 01/09/2011 (administrators) Project finance March 2011
2010							
Brookfield Multiplex and Babcock & Brown	Long Bay Prison and Forensic Hospital, New South Wales Royal Melbourne Showgrounds	2	International Public Partnerships (now has 100.0 of each PPP)	50.0 50.0	n/a	n/a	INPP RNS 5977Y 24/12/2010
Connector Motorways, (Leighton Holdings Ltd., Mirvac Group & Cheung Kong Infrastructure Holdings Ltd.	Lane Cove Tunnel	1	Transurban Group	100.0	630.5	n/a	Transurban ASX 9/8/2010 and 10/05/2010 Project Finance International 10/05/2010
Intoll Group (Macquarie)	Westlink M7, Sydney	1	Canada Pension Plan Investment Board	25.0 plus 100.0 Intoll	3,440.0	n/a	Intoll Scheme 14/10/2010 Intoll ASX Release 18/11/2010
FreightLink Pty Ltd	Adelaide to Darwin 1,400m railroad, concession to 2004-2054 but company went into receivership in November 2008	1	Genesee & Wyoming Inc (USA)	100.0	334.0	n/a	Genesee & Wyoming News 08/06/2010 Clayton Utz 16/03/2011
Queensland Investment Corporation (state pension fund)	Brisconnections AirportlinkM7 toll road	1	n/a	1.48	n/a	n/a	Form 604, Corporations Act 2001, QIC 23/04/2010

2009							
A$1.2bn public flotation in 2008 share price collapse, dumping and speculation	Brisconnections AirportlinkM7 toll road	1	Underwriters Macquarie Bank Deutsche Bank end up largest shareholders with Queensland Investment Corp	45.6 35.4 9.98	n/a	n/a	Whitfield 2010 p132-134 (see references)
2008							
Macquarie Infrastructure Group	Westlink M7	1	Western Sydney Road Group (50/50 joint venture MIG and Queensland Investment Corp)	50.0	805.0 (MIG received 402.5)	(25.9 return)	Macquarie RNS 01/12/2008; Transurban ASX 13/01/2009 rejects pre-emptive right to acquire MIG's stake
n/a	Equity shareholding in Transurban	1	Canada Pension Plan	10.0	659.0		Bloomberg 19/06/2008
Babcock & Brown	Orange and Associated Health Services, NSW	1	Babcock & Brown Public Partnerships	100.0	n/a	**n/a**	BBPP RNS 2530T 28/04/2008
2007							
Motor Traders Association of Australia	Airport Motorway Group - Eastern Distributor M1	1	Transurban Group	3.8	46.5	n/a	Transurban ASX 14/09/2007
Various shareholders	Sydney Roads Group: Eastern Distributor M1 (71.35%); M4 motorway; M5 motorway (50.0%)	3	Transurban Group	100.0 of SRG	1,250.0	n/a	Transurban ASX 04/05/2007; Transurban merger document & ASX 14/12/2006
CKI Lane Cove Holdings (Malaysia) Ltd	Lane Cove Tunnel, Sydney	1	Macquarie Bank	9.5	n/a	n/a	New South Wales Road Transport Authority 2007 p11 (see references)
Li Ka Shing (Overseas) Foundation	Lane Cove Tunnel, Sydney	1	Macquarie Bank	9.5	n/a	n/a	New South Wales Road Transport Authority 2007 p11
Receivers	Cross City Tunnel, Sydney	1	ABN AMRO (94%) and Leighton Holdings (6%)	100.0	590.0	n/a	TollRoads News 21/06/2007
Receivers appointed 30/11/2000	Airport Link Company, Sidney (A$600m project b Transfield and Bouygues)	1	Westpac Essential Services (49.9%) and Capital Partners (51.1%)	100.0	n/a	n/a	Westpac Press 30/03/2007
2006							
Macquarie Infrastructure Group	Eastern Distributor,; M4 motorway; M5 motorway	3	Sidney Roads Group – Demerger from Macquarie	100.0	n/a	n/a	Macquarie Infrastructure Group 20/07/2006
n/a	Westlink M7	1	Macquarie Infrastructure Group	2.5	34.3	n/a	MIG Management Report, half year, 31/12/2006
Babcock & Brown	Long Bay Prison and Forensic Hospital, NSW; Royal Melbourne Showgrounds; RiverCity Motorway	3	Babcock & Brown Public Partnerships (listing on London Stock Exchange)	50.0; 50.0; 4.86	(part of £187.0 flotation with 19 UK projects)	n/a	BBPP AR to 31/12/2006; BBPP Prospectus 2006
2005							
Various shareholders	Hills M2 motorway, Sidney	1	Transurban Group	91.9	2,070.0	n/a	Transurban Offer 15/04/2005
2004							
Various shareholders	Hills M2 motorway, Sidney	1	Transurban Group	8.1	96.0	n/a	Transurban ASX 19/04/2004
Transfield Infrastructure	Lane Cove Tunnel	1	CKI Lane Cove Holdings (Malaysia)	5.07	n/a	n/a	New South Wales Road

			Ltd (40.0%) and Li Ka Shing (Overseas) Foundation (14.9%)				Transport Authority 2007 p11 (see references)
ABM Amro	Lane Cove Tunnel	1	CKI Lane Cove Holdings (Malaysia) Ltd (40.0%) and Li Ka Shing (Overseas) Foundation (14.9%)	28.61	n/a	n/a	New South Wales Road Transport Authority 2007 p11 (see references)
AMP Life	Lane Cove Tunnel	1	CKI Lane Cove Holdings (Malaysia) Ltd (40.0%) and Li Ka Shing (Overseas) Foundation (14.9%)	12.0	n/a	n/a	New South Wales Road Transport Authority 2007 p11 (see references)
Theiss Pty Ltd (Leighton)	Lane Cove Tunnel	1	CKI Lane Cove Holdings (Malaysia) Ltd (40.0%) and Li Ka Shing (Overseas) Foundation (14.9%)	4.6	n/a	n/a	New South Wales Road Transport Authority 2007 p11 (see references)
John Holland Pty Ltd (Leighton)	Lane Cove Tunnel	1	CKI Lane Cove Holdings (Malaysia) Ltd (40.0%) and Li Ka Shing (Overseas) Foundation (14.9%)	4.6	n/a	n/a	New South Wales Road Transport Authority 2007 p11 (see references)
AMP Life	Lane Cove Tunnel	1	Equipsuper Pty Limited	0.88	n/a	n/a	New South Wales Road Transport Authority 2007 p11 (see references)
Group 4	Global Solutions Ltd (GSL) operates 2 prisons in Australia Mount Gambier, South Australia and Port Philip, Victoria	2	Englefield Capital and Electra Partners Europe	100.0	Part of £207.0 deal	n/a	Group 4 Falck RNS 26/05/2004 Group 4 Falck RNS 13/07/2004 Public Private Finance, June 2004
2003							
John Laing plc 2003	Adelaide Airport, Australia	1	Motor Trades of Australia Association Pension Fund	14.5	33.0	7.6	Laing Press 19/11/2003, Laing AR 2003 p32
John Laing plc 2003	Northern Territory Airports	1	Perpetual Investment Management	14.6	15.5	5.0	Laing Press 2003, 19/11/2003, Laing AR 2003 p32
2000							
State Wide Roads	M4 motorway	1	Macquarie Infrastructure	50.6	157.0	n/a	Macquarie M4 Toll Road Acquisition presentation 2000
1998							
n/a	Adelaide Airport Northern Territories Airport	2	John Laing plc	14.5	10.1	n/a	Laing AR 1998 p24,
Middle East							
2010							
Aecon (Canada)	**Israel:** Cross-Israel Highway, Dersch Eretz Highways	1	Israel Infrastructure Management	25.0	C$ 77.8	n/a	Infrastructure Investor 20/07/2010
Africa							
2007					**US$**		
Skanska	**Mozambique:** Maputo Harbour	1	Grindrod, South Africa	12.0	15.8	10.5	Business Wire 14/12/2007
Group 4	**South Africa:** Global Solutions Ltd (GSL) Prison	1	Englefield Capital and Electra Partners Europe	100.0	n/a	n/a	Group 4 Falck RNS 26/05/2004 Group 4 Falck RNS 13/07/2004

							Public Private Finance, June 2004
Asia					**US$**		
2012							
Supreme Infrastructure India	**India:** 4 tolls roads	4	3i India Infrastructure Fund	49.0	61.0	n/a	Infrastructure Investor 31/01/2012 Project Finance January 2012
Ramky Infrastructure Ltd	**India:** Gwalior Bypass BOT Road Project, Madhya Pradesh	1	Era Infra Engineering Ltd	25.0	n/a	n/a	INFRA PPP 17/08/2012
Ashoka Buildcon	**India:** Toll roads – Jaora Nayagaon, Pimpalgaon Gonde, Belgaum Dharwad, Bhandara, Durg, Sambalpur Baragarh, Dhankuni Kharagpur	7	Ashoka Concessions - Macquarie SBI Infra Fund	n/a	150.0	n/a	Project Finance August 2012
Coastal Rod Corporation	**Philippines:** Manila-Cavite toll road	1	Thornhedge Equity Investments (US)	30.0	n/a	n/a	Philippine Daily Inquirer 18/04/2012
2011							
HCC Infrastructure Co. Ltd.	**India:** 6 road projects Nirmal BOT, Andhra Pradesh, Delhi Faridabad Elevated Expressway, Dhule-Palesner Highway, Baharampore-Farakka Highway, Farakka-Raiganj Highway, Raiganj-Dalkhola Highway	6	Xander Group	14.5	375.0	n/a	Xander Group & HCC Press 28/07/2011 Infrastructure Investor 03/10/2011 http://www.projectsmonitor.com/ROADWAY/road-sector-has-evolved-positively-in-ppp-space
Natpac Graha Arthamas	**Indonesia:** Kertosono – Mojokerto, East Java toll road	1	Astratel Nusantara	95.0	88.0	n/a	Astra International Press 06/09/2011
2010							
Plus Expressways	**Malaysia:** 8 expressways	8	State owned UEM Group (51%) and Employees Provident Fund Board, state pension fund (49%)	100.0	7,460.0	n/a	UEM Group Bhd Press Release 09/11/2010

Source: European Services Strategy Unit PPP Database, 2012. * 11months to end November 2012.

Coding

- AR – Annual Report and Accounts
- ASX – Australian Stock Exchange
- IR – Interim Report
- RN – Regulatory Notice to Stock Exchange
- SEC 8K – US Securities & Exchange Commission 8K Filing
- Press – Press release issued by company

Also see Appendix 1: Methodology and design of the database

Glossary of Terms

A comprehensive glossary of terms is available to download from www.european-services-strategy.org.uk/global-auction-of-public-assets/global-auction-of-public-assets-glossary/

Book value: the value of an asset according to its balance sheet account balance. For assets, the value is based on the original cost of the asset less any depreciation, amortization or Impairment costs made against the asset.

Due Diligence: An independent and expert assessment to ensure financial, legal, management and operational systems are in order and as stated in the project and contract documents. It is designed to ensure there are no hidden liabilities or risks. In addition, it is a means of identifying, quantifying and making recommendations as to how to mitigate key commercial and financial risks.

Financial close: The date on which the PFI/PPP contract was signed.

Infrastructure fund: Listed infrastructure fund shares are publicly traded on a stock exchange. The fund will have a portfolio of infrastructure assets. Unlisted infrastructure funds depend on companies, pension funds and wealthy individuals investing lump sums which are used to finance projects and acquire assets.

Institutional investors: Banks, pension funds, insurance companies, private equity funds and hedge funds who will often invest via nominee companies to hide their identity.

Joint Venture Company: A company in which public sector organisations and private companies both have a stake, or may a operated by two or more private sector companies or financial institutions.

PPP Equity: The capital contributed by the shareholders of a project company. The value of the equity is the value of a company or project after all liabilities have been allowed for. The equity is owned by the shareholders. Also commonly called a stock, as in the stock market.

Profit: Difference between the cost of investment and the selling price of equity.

Rate of Return: the ratio of money gained or lost on an investment relative to the amount of money invested and the period covered.

Secondary Market: A market in which an investor purchases a security from another investor rather than the issuer, subsequent to the original issuance in the primary market. In the PFI market this tends to take the form of the sale of equity by investors in the project company in many cases to secondary funds that wish to build a portfolio of PFI assets. There is also a secondary market in debt (the syndicated debt market) usually between banks but also to other types of investors.

Secondary market fund: an infrastructure fund that acquires equity stakes in PFI/PPP projects, primarily once they are operational.

Share capital: the portion of a company's equity obtained by selling shares to a shareholder.

Special Purpose Company (SPC) or Vehicle (SPV): A company especially established by the PPP consortia to design, build, finance and operate the project.

Subordinated debt: Debt over which senior debt takes priority. In the event of bankruptcy, subordinated debt lenders receive payment only after senior debt is repaid in full. A form of mezzanine finance is a term used to describe debt that is unsecured or has a lesser priority than other debt claims on the same asset. If the party that issued the debt defaults on repayments, people holding subordinated debt get paid after the holders of the senior debt. A subordinated debt carries more risk than a normal debt, and earns a higher expected rate of return than senior debt due to the greater inherent risk.

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