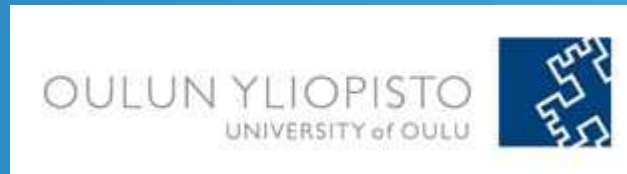


LISBOA 2010
MAY 25/28
16th World Meeting

OWNERSHIP AND MANAGEMENT MODELS FOR INFRASTRUCTURE NETWORKS



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PRESENTATION OVERVIEW

- Project Background
- Municipal & State Ownership
- Governance
- Restructuring
- Project Findings & Challenges
- Conclusions



Project Team



The Finnish Funding Agency for Technology and Innovation

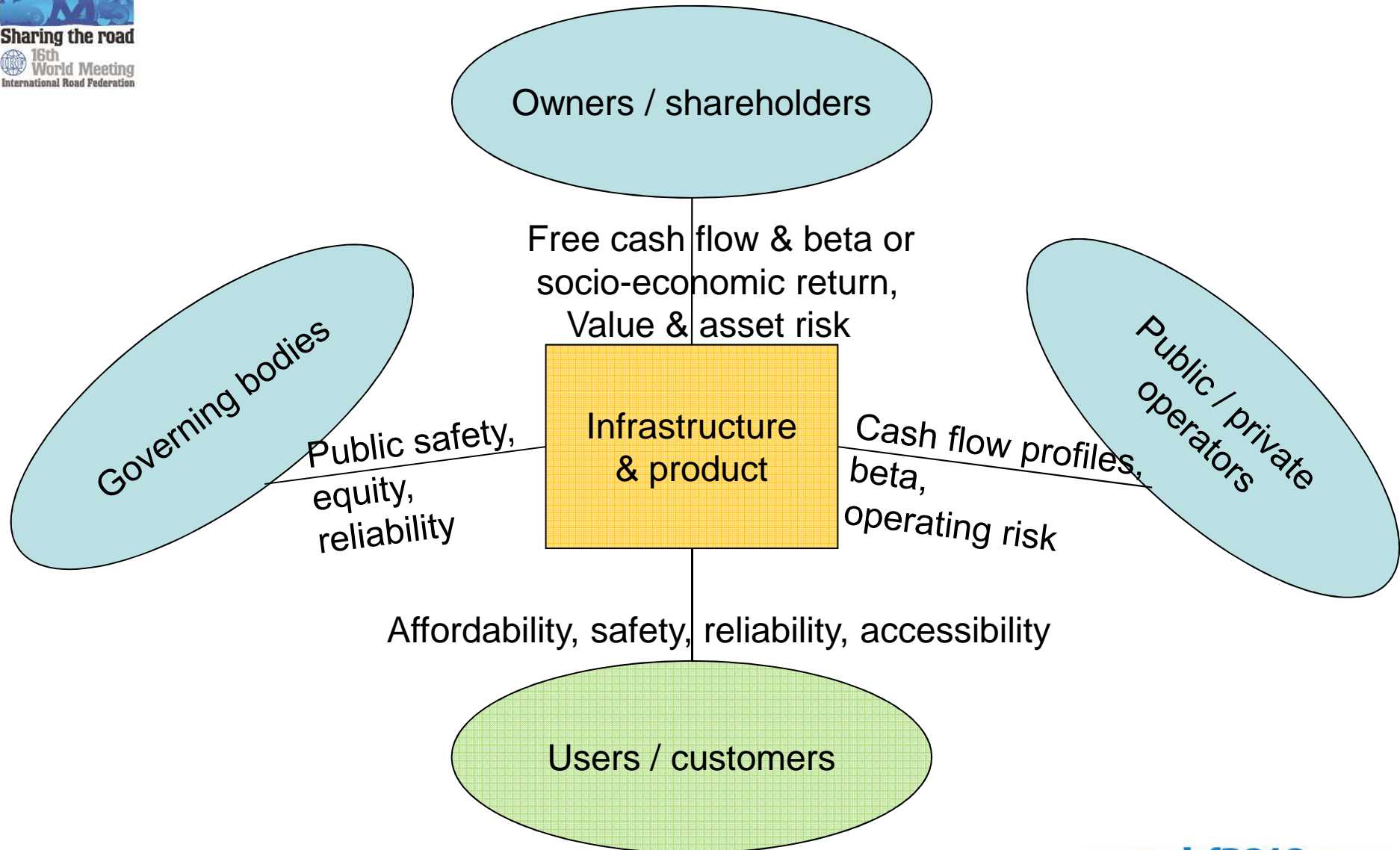


- Prof. Antti Talvitie & Pekka Pakkala – Aalto University (Roads)
- Prof. Harri Haapasalo, & Maila Herrala – Oulu University
- Pekka Leviäkangas, Marko Nokkala, & Jussi Rönty - VTT

Project Objectives

- To map ownership and governance (O&G) structure variants and models for infrastructures
- To identify business opportunities enabled by different O&G structures
- To assess the value added for different stakeholders and the strengths, weaknesses, opportunities and threats of different O&G
- To estimate business and investor risks (cash flow, asset risk) as well as socio-economic risks
- To form a coherent and more generic picture on infrastructure networks' O&G and business potential
- To point out unutilized potentials for added value
- NETWORKS
= Roads, streets, harbors, airports, water, rail & energy

C-Business Project





Finnish Road Network

Roads in Finland

Private roads

- without permanent settlement and without any aid 130.000 km
- with permanent settlement but without any aid 20.000 km
- serving only forest areas with special state aid*) 120.000 km
- with permanent settlement getting municipal aid 28.000 km
- with permanent settlement getting state*) and mun. aid 52.000 km

)state aid is only for repair and new construction* **Total 350.000 km

Municipal streets 26.000 km

Municipal pedestrian roads 7.500 km

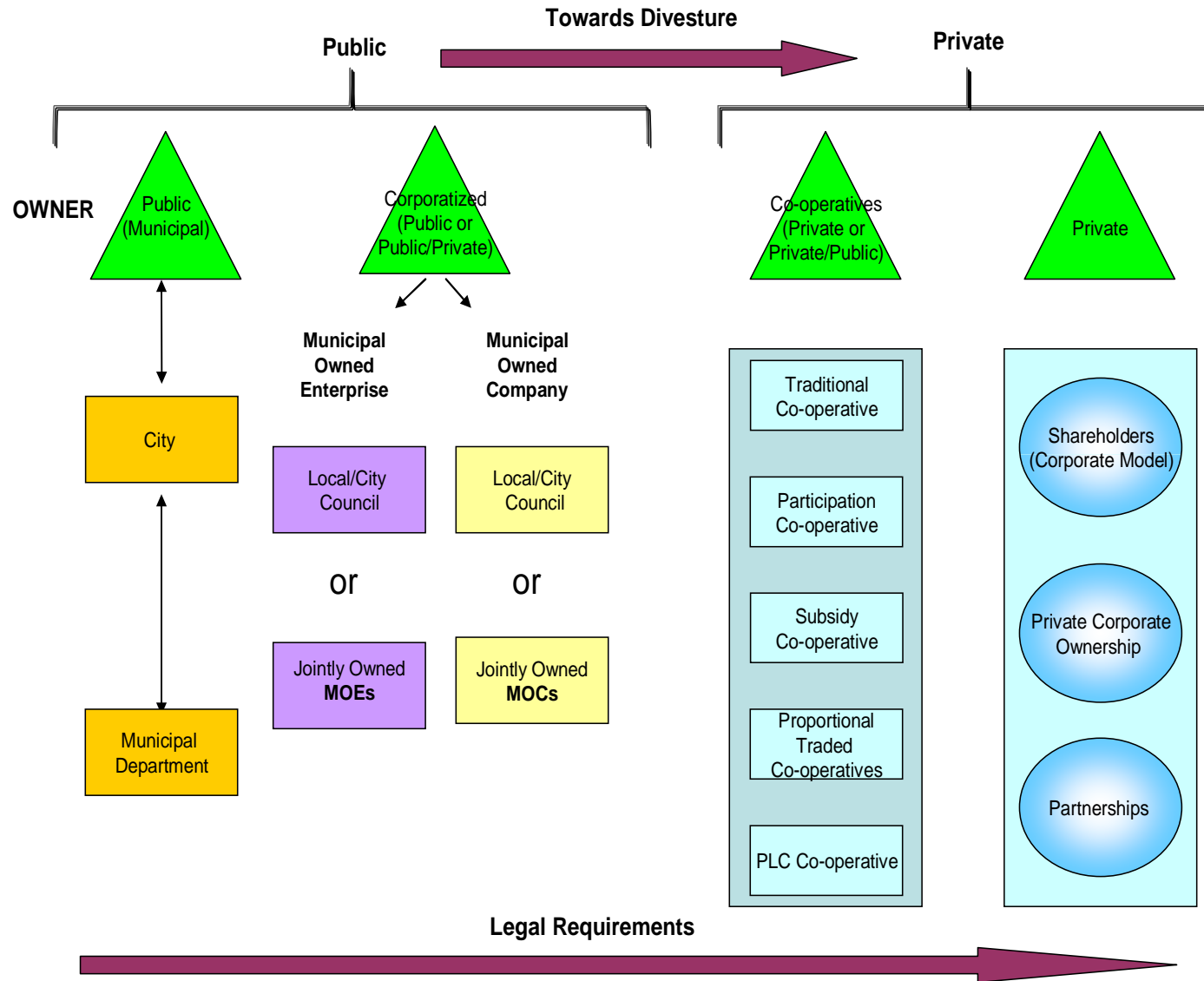
State roads 79.200 km

State pedestrian roads 4.700 km

Total 117.400 km

Grand total 467.400 km

Municipal Ownership Model & Structure



Governance Structure

Typical Governance Structure

State Governance

Parliament or State
Ownership Steering



Ministry Steering



Executive or Corporate
Board



Agency Board

Municipal Governance

City Council



Executive Board



Technical Committee or
Board of Directors



Agency Director

Phases in Restructuring Infrastructure Administrations

| Phase 1 | Phase 2 | Phase 3 | Phase 4 | Phase 5 & 6 |
|--------------------------------------|--|--|--|----------------------------|
| Public Works Department (all-in-one) | Identify Administration and Supplier Organizations | Separate Administration and Suppliers. Establish Oversight Board | Corporatize Suppliers Privatize Suppliers | Corporatize Administration |

Road Fund

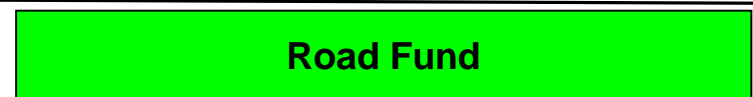
Decreasing Direct Government Involvement & Increasing Decentralization



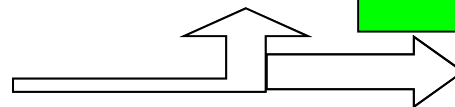
Interview Results and Phases in the Public Reform Process

| Phase 1 | Phase 2 | Phase 3 | Phase 4a | Phase 4b | Phase 4c | Phase 5 | Phase 6a | Phase 6b | Phase 7 |
|--------------------------------|----------------------|--------------------------------|-----------------------|---|--------------------------------|------------------|-------------------------------|-------------------------------------|------------|
| Seinäjoki & Haukipudas Streets | Kiiminki | Helsinki Streets | | Oulu TC Lahti TC Jyvaskyla TC | Finnish Transport Agency | Varkaus & Askola | Turku & Kerava TC | | |
| Agency & | Identify Client and | Separate Client and | Client | Client | Client | Client | Corporatized Client (MOE/SOE) | Corporatized/ Joint Stock (MOC/SOC) | Privatized |
| Production | Producer (Deliverer) | Producer | Producer under Client | Corporatize Producer (MOE/SOE) | Corporate/ Joint Stock MOC/SOC | Privatized | | | |
| | | Helsinki City Services (Stara) | | Oulu TEKLI, Jyvaskyla ALTEK & Turku TE | Destia | | | | |

Source: C-Business - VTT, Oulu & Aalto Univ.
(Revised from World Bank, TNZ & Finnra Original)

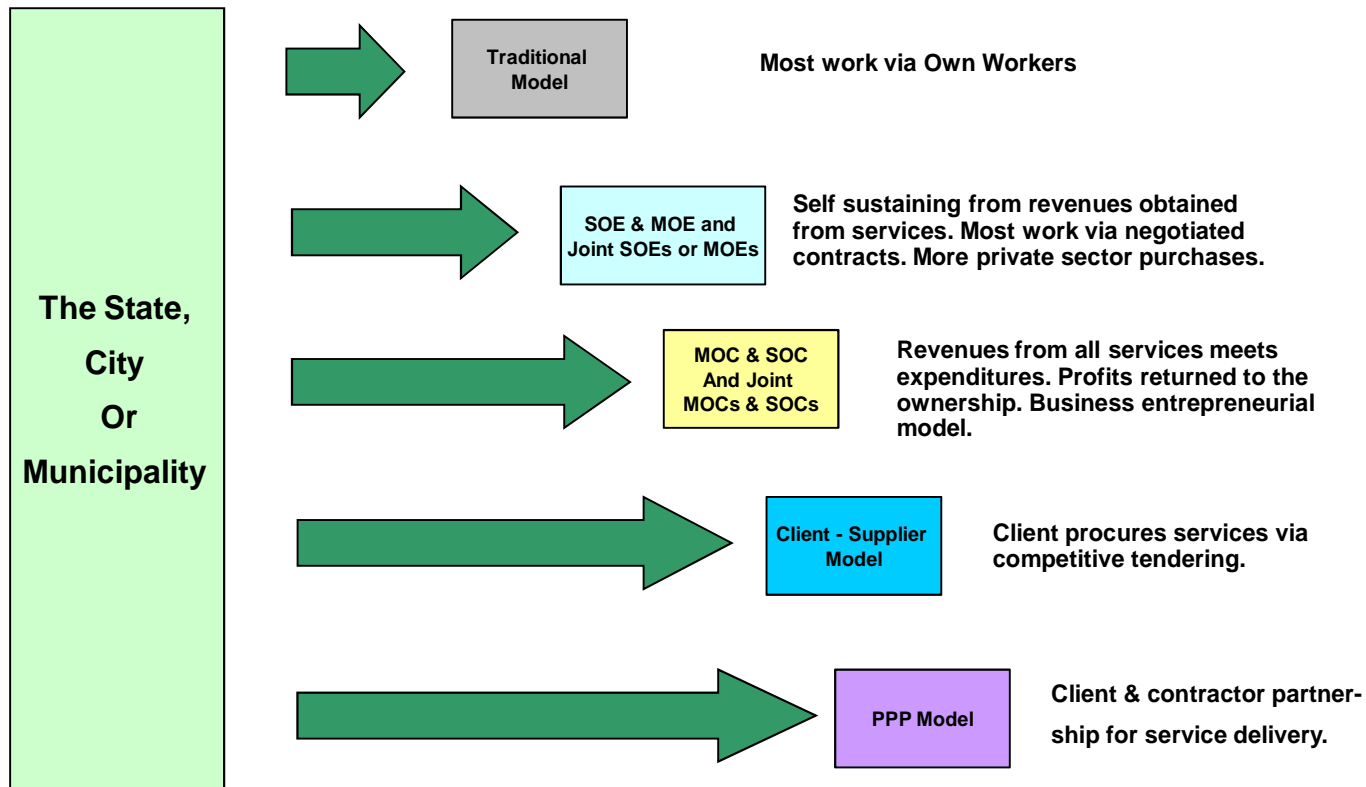


True Client-Supplier Model

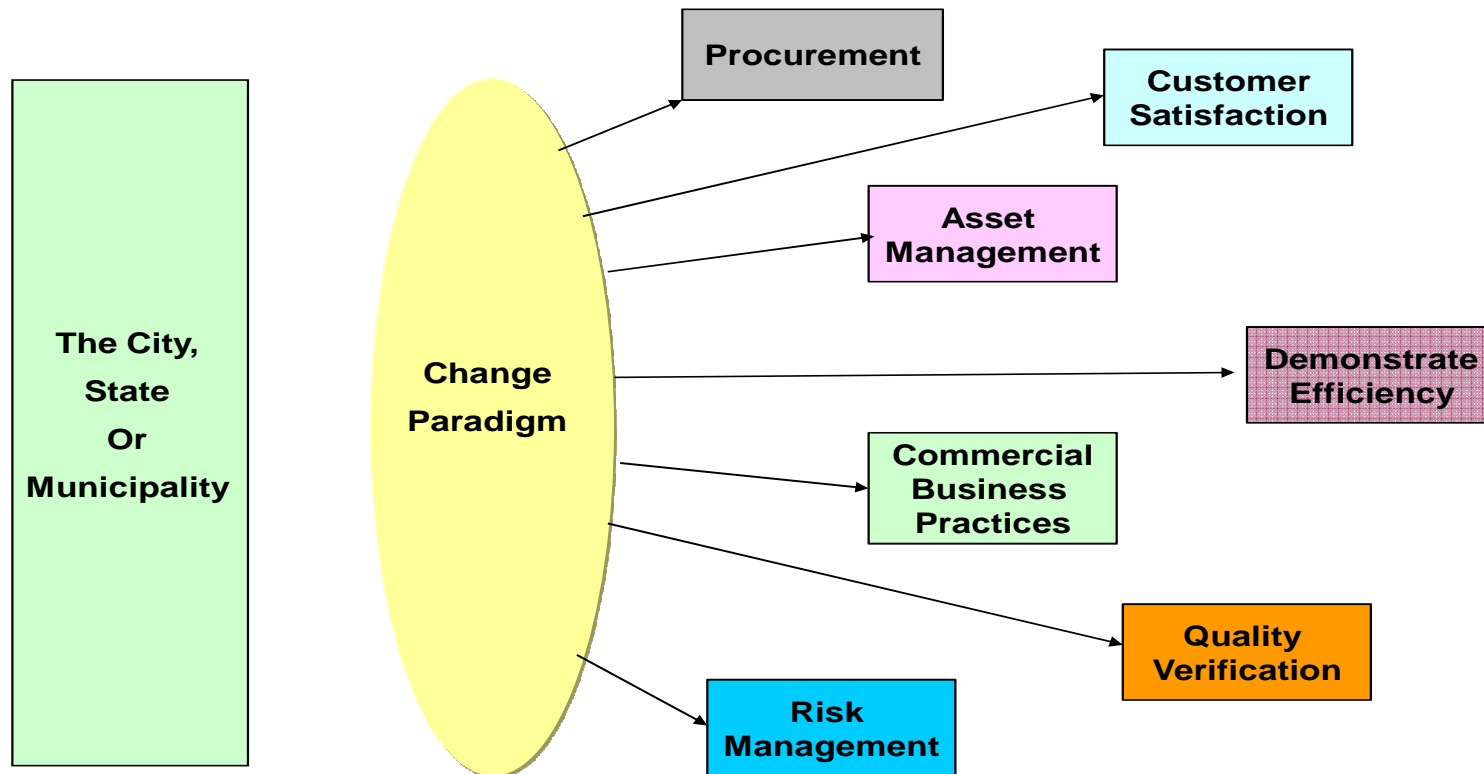


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Typical Ownership Models



Main Developments Needed When Restructuring





Benefits of Restructuring

- Clarification of the roles – being a client or a service provider
- Adoption of business and entrepreneurial practices with good financial management systems
- Efficiency
- Cost savings and knowledge of costs for the works
- More freedom from the municipal bureaucracy and hierarchy
- Utilizing Asset Management Systems & Principles
- Understanding risks
- Accountability



Challenges to Restructuring

- Approval needed at high political levels – very difficult
- Labor Unions
- Loss of direct control for works-planning, design, execution
- Job security and higher cost of “in-house” workers
- Political interference, hierarchy and bureaucracy
- Developing a functional private sector market
- Inward looking management with no drivers for change – satisfied with the status quo
- Typical Budgeted Mentality (Financial management and tax liabilities)
- Cost accountability and transparency



Conclusions

- Public Sector Continues to Own the Infra
- Decision made at Higher Levels (city council)
- Quicker Restructuring in Times of Crisis
- More Private Sector Operators & Mgmnt
- Moving Toward a Business Entrepreneurial Practice
- Changing the Status Quo & Tradition
- Resolving Labor Unions – Huge Issue
- Deliberate process to Restructuring
- Takes a Champion to Drive the Process
- Benchmarking Costs & Benefits