



THE INSTITUTE OF RISK MANAGEMENT

MINUTES OF PPP/PFI SPECIAL INTEREST GROUP

HELD AT WILLIS, TEN TRINITY SQUARE, LONDON

ON FRIDAY 23RD FEBRUARY 2007

Expected Attendees

Mohammad Asif (Balfour Beatty Capital), Warren Beardall (JLT), Geoff Buckingham (CORDA), Matthew Crosse (Strategic Lines), Barry Dickinson (Currie and Brown), Steve Downing (Aon), Joanne Foley (Willis), Andy Garlick (The Risk Agenda), Mike George (Willis), Suzanne Harrison (CORDA), Neil Rodgers (Mansell), Brad Simpson (Waste Recycling Group), David Smith (Willis), Tom Smith (Derbyshire CC), Mike Walker (Chair of SIG and of IRM), Graham Waring (Currie and Brown), Matthew Wickham (Cyril Sweett), Richard Williams (SwissRe)

Apologies

Nigel Blore (TfL), Peter Bristow (Aon), Phil Brown (Mace), Patricia Burton (Cyril Sweett), Paul Miller (Cyril Sweett), Christian Oliver (Cyril Sweett), Phillipe Rapin (Mott MacDonald), Clive Thompson (Willis)

Items

1. David Smith of Willis welcomed us all to Ten Trinity Square and the meeting.
2. Mike Walker, the SIG Chairman, welcomed everyone to the SIG, and asked them to introduce themselves, including why they had come to this meeting. Many attendees said they looked forward to finding the answer to the question of what makes a good deal.
3. Andy Garlick introduced the presentations, saying that:
 - he had become interested in the impact that that project structure and risk pricing was having on the cost of deals
 - the title of the talk was derived from a report the NAO had done on the London Underground PPP in which the NAO had failed to answer the question definitively
 - this topic might be something for the IRM to pursue
 - and that an essential part was to look at project experience and that was why he had asked Matthew Crosse to present a survey of a number of railway deals to see what lessons could be drawn; this survey was based on a previous presentation by Matthew on the appetite of private finance for transport infrastructure projects.
4. Matthew Crosse presented an overview of five deals: the Nottingham tram, the Stockholm airport link, the London Underground PPP, the Lewisham extension of the Docklands Light Railway and the Channel Tunnel Rail Link. His conclusions were:
 - an important factor in deal success was the role of demand risk and demonstrated some important sensitivities of the cost of private capital
 - however most of the deals had been good from the point of view of both the public sector client and the private sector suppliers (including their lenders and subcontractors)
 - the biggest concerns related to the highest risk projects: the Underground PPP with high asset risk and the CTRL with high demand risk

- the main parameters which appeared to affect project success are: role clarity (eg construction vs privatisation), application (eg green vs brown field), scheme size, scheme complexity, integration issues and demand risk.
5. Questioning for Matthew focussed on whether the Underground was right to award two of the three PPP contracts to the same contractor, and how best to deal with changing client requirements, where again the Underground PPP was cited.
 6. The meeting broke for a buffet lunch, kindly provided by Willis.
 7. After lunch Andy Garlick gave a short follow-on presentation of which the main points were:
 - the review of deals had not been able to draw out the structural and pricing issues as he had hoped
 - two areas where it was reasonable to expect the risk-based approach to raise its game were demonstrating value for money in PPP/PFI deals and dealing with high risk projects
 - he provided an indication of the areas to pursue, including the suggestion that perhaps insurance could play more of a role as it had for the CTRL.
 8. In discussion it was stated that the CTRL cost overrun insurance was a very special arrangement at a time when the insurance market was soft. It was probably not likely that this would be a common arrangement in the future.
 9. Mike Walker thanked the speakers as asked for suggestions for future meetings, noting the outstanding desire to get a talk from funders:
 - Mohammad Asif said Balfour Beatty Capital would be prepared to offer facilities and it was thought a good topic would be the new UCL hospital opposite their offices at Euston Tower
 - Warren Beardall thought he might be able to arrange a session on the approach taken by funders
 - David Smith said Willis would be prepared to make a presentation covering areas in which Willis worked.
 10. It was agreed the next meeting would be in approximately three months, topic, date and location to be advised.
 11. Mike closed the meeting with thanks from the IRM to Willis for acting as hosts.

Attachments: Powerpoint presentation to follow