



THE INSTITUTE OF RISK MANAGEMENT

MINUTES OF PPP/PFI SPECIAL INTEREST GROUP

HELD AT CYRIL SWEETT, GRAYS INN ROAD, LONDON

ON TUESDAY 3RD JUNE 2008

Attendees

Andrew Allen (Cyril Sweett), Jonathan Allen (Transport for London), Roger Allport (AA Ltd), Colin Appleby (Balfour Beatty Infrastructure Services), Mohammad Asif (Balfour Beatty Capital), Francesca Auch (UCL), Enna Azami (Willis), Mark Blackmore (Currie and Brown), Geoff Buckingham (CORDA), Scott Cameron (Marsh), Michael Coomber (Marsh), Fiona Davidge (London Underground), Barry Dickinson (WSP), Wilfred Djan (Cyril Sweett), Joanne Foley (Willis), Anthony Fussey (HM Courts Service), Andy Garlick (The Risk Agenda), David Geffin (Currie and Brown), Rob Halstead (Metronet Rail), Andrew Harland (Currie and Brown), Anna Kingsmill-Vellacott (HM Court Service), Brian Lewis (QBE Insurance), Henry Mgebezh (Cyril Sweett), Ian Miller (Cyril Sweett), Ian Negus (Balfour Beatty), Jayne O'Hara (Sodexo), Alex Oppong-Baffoe (Currie and Brown), Nicola Paice (Cyril Sweett), Anita Punwani (Amap), Mike Sexton (Haden Building Management), David Smith (Willis), Poh Tan (Cyril Sweett), David Townsend, Mike Walker (Chair of SIG and Metronet Rail), Stephen Ward (University of Southampton), Graham Waring (Currie and Brown)

Apologies

Sandra Elston (Willis), Robert Kemp (Tube Lines), Lynne Thorn (Heath Lambert), David West (WSP)

Items

1. Mike Walker welcomed an unusually large number of people and thanked Cyril Sweett for their hospitality and providing the presentations. He noted that the next meeting would be on 7 October 2008 and that the presentation would be by James Robertson who is Chief Economist and Director of PFI Value for Money Studies at the National Audit Office. James will be giving the view of the auditor on risk in PPP/PFI. He will cover addressing value for money risks in general, lessons from past problems and learning from successes.
2. Mike then introduced Poh Tan who welcomed us to Cyril Sweett, dealt with the domestics and, most importantly, introduced the presentations. Poh Tan explained that Henry Mzgebeh would give an overview of Cyril Sweett's approach to whole life costs, that Ian Miller would then pick out some specific issues, and that he would then come back and discuss the lessons learned.
3. Henry noted that people had been looking beyond construction costs alone of a project since the 1930s. The main points of his presentation were:
 - whole life costing is a systematic consideration of all relevant costs and revenues associated with acquisition, use, maintenance and disposal of an asset
 - because this involves predicting the future there is always risk associated with it
 - a key distinction is drawn between lifecycle activities and FM - need to avoid gaps or double counting

- Cyril Sweett have an approach which systematically identifies all the potential maintenance activities and costs them, giving totals which can be represented by NPVs, for example
 - service life data comes from many sources including professional judgement: durability assessment is not an exact science
 - a predicted lifecycle expenditure profile is obtained by spreading risks and optimising/smoothing (though it is hard to remove the 10 year M&E replacement cycle)
 - different lifecycle strategies (component specifications, newbuild vs refurbishment, energy saving options) are analysed using an 80/20 approach.
4. Ian Miller then asked what puts the lifecycle expenditure at risk (a) before Financial Close, (b) during construction and (c) during operation. His main points were:
 - accuracy is linked to the level of detail in the design
 - it is important to define the scope of the lifecycle fund (as already mentioned), to understand the payment mechanism and to model residual value / handback issues (including retained assets, if relevant)
 - during construction, the lifecycle could be affected by supply chain management, build quality (the SPV bears the risk of latent defects, a difficult issue over 20 years), design changes, among others
 - during operation a key issue is change of use (such as a normal classroom being used for computers); another is vandalism
 - the lifecycle projections should be reviewed every year, looking at key assumptions on maintenance activities and inflation, etc.
 - Ian made it very clear that the lifecycle management should be a key thread of routine management of the project overall.
 5. Poh Tan returned to note a number of lessons:
 - use measures such as cost/m² or the lifecycle/capex ration appropriately
 - commence monitoring at the earliest possible stage and maintain the lifecycle model
 - survey retained assets
 - optimise the backend/handback
 - agree the lifecycle/FM interface (again!)
 - spread replacement works where possible
 - store and update information about trends, audits, market testing etc
 - and concluded with a number of lifecycle myths, my favourite being that 'lifecycle is an estimate on a prognostication upon a guess'.
 6. A lively discussion followed the presentations. Issues which arose included:
 - whether the lifecycle fund should be controlled by the SPV or the operators - it was estimated that (right or wrong) in 70% of cases the control rests with the SPV
 - the desire of bidders for 'the number' was contrary to modern good practice of estimating and allowing for risk in a systematic way.
 7. Mike concluded the meeting by thanking all three speakers, reiterating the IRM's gratitude to Cyril Sweett for hosting the event.

These notes are my own interpretation of the presentations: you should look at the Powerpoint presentation posted on the IRM website to see what they actually said!

Andy Garlick
10 June 2008