

APM Risk SIG

Risk in PPP/PFI Projects
by
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Mott MacDonald Profile in PPP/PFI

- 6000 Staff, £350 Million turnover, 50% International
- Consultant Engineers and Management Consultants
- A leading PPP/PFI Technical Adviser in UK
- PFI Report - Mott MacDonald were Technical Adviser of the year 2000
- PFI Report - Lenders TA on Project Boomer the most innovative PFI Project >£10m in 2001
- Sectors include: Energy, Health, Education, Defence, Home Office, Water, Transport

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Management Services Unit

Risk Management Division

- 100 Specialists in risk & opportunity, safety, ARM, and design
- Team working across Mott MacDonald Risk Management Division, Croydon Private Finance, Buildings and Infrastructure and Energy Divisions
- Leading on Defence sector PPP/PFI Projects



Recent Defence Sector Projects

- Lenders Technical Adviser - Project Boomer
- Lenders Technical Advisor - Astute Class Trainer
- Project Co. Technical Adviser - ARMADA
- Lenders Technical Adviser - NATS Privatisation
- Authority's Technical Adviser - Colchester Garrison
- Over 50 deals closed circa £4.5 billion capital value

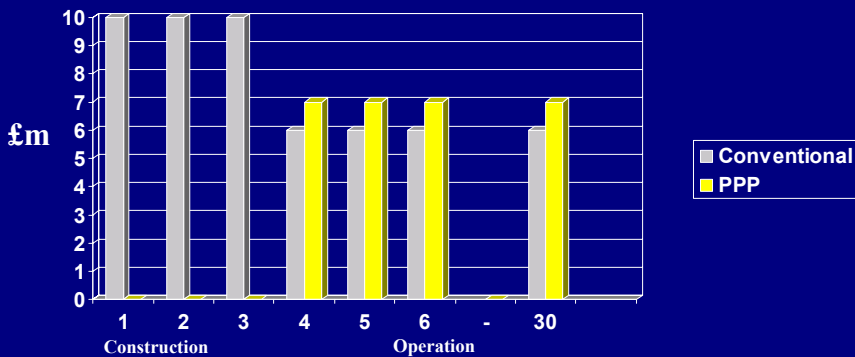


Generic PFI Structure



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Payment Profiles under Conventional and PFI Public Sector Procurement



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UK Public Spending Culture

- PFI Initiative launched in Nov. 1992
 - Genuine risk transfer to the private sector
 - VFM in public spending must be achieved
 - Private sector must have control over assets
- Legislation framework in place
- Private Sector Appetite for investment
- PPP/PFI benefits
 - Procurement Efficiency
 - Improved Accountability
 - Risk Transfer
 - Infrastructure Development

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Technical Risk Topics

- Project Co.'s Capability
- FRS 5 and Risk Allocation
- Financial Model Sensitivity Assessment
 - CAPEX Projects
 - OPEX Projects
- Payment Mechanism Calibration
- Default & Termination Liabilities

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Risk Assessment Process

"an evolutionary step"

- Client objectives clarification
- Scope of the deal - Is it bankable?
- Identify risks and opportunities
- Assess sensitivity and client's objectives
- Propose mitigation action and implement
- Convergence process to Financial Close (FC)
- Concession performance monitoring

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Common Technical Adviser Risk Issues to Financial Close

- Payment Mechanism calibration
- Project Co.'s project plans
- Project Co.'s cost forecast and the Public Sector Comparator
- High uncertainty projects - software intensive
- Demand forecast uncertainties and change control
- PPP formation and change management - TUPE
- Contractual terms & flow down and liability

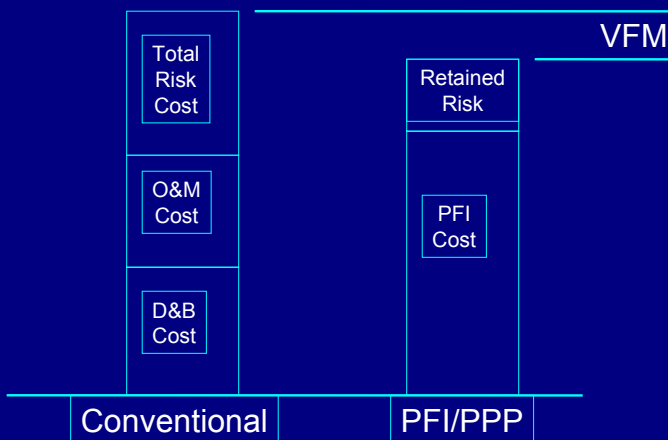
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Software Intensive Projects

- Project Co.'s Plan - Realism and Viability
- Supplier's Capability Maturity Model - SEI
- Benchmark process and control - FF & FF
- Project Technical Maturity Index - Charette
- Lifecycle Costs & Technology Refresh Programme
- Terms of loan agreement

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PPP/PFI Risk Allocation Benefit



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Summarise Key Points

- Mott MacDonald leading Technical Adviser in PPP/PFI sector
- UK PPP/PFI market growing
 - Legislative Framework in place
 - Skill base & PPP/PFI standard processes developing
- Risk assessment process is evolving
- Cross sector synergies available
- Convergence process to FC complex
- Many stakeholders involved



PPP/PFI Risk Management The Way Forward

- Create APM - PPP/PFI Risk Guidelines
- Best practice workshops
- Develop stakeholder team working
- Improved public sector Value For Money (VFM)
- Improved private sector project performance

