Approaches for PPP Risk Allocation and Management - UK

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Typical Risks and Allocation

Planning Risk	Shared
Design Risk	Usually contractor
Construction Risk	Usually contractor
Demand Risk	Contractor or Authority or Shared
Performance Risk	Usually contractor
Technology and Obsolescence Risk	Usually contractor

Typical Risks and Allocation cont..

Operating Risk	Usually contractor
Third Party Income Risk	Contractor or shared
Residual Value Risk	Usually authority, but can be contractor or shared
Regulatory Risk	Shared
Financing Risk	Usually contractor

Standardized Relief Events

- ‘Relief’ events for:
  - fire, flood, earthquakes, riot etc;
  - power/fuel/transport shortage;
  - general strikes
- Prevent performance
- Contractor bears financial risk i.e. increased costs/less revenue
- Relief from termination
- Contractor in better position to manage and instigate consequences through insurance (usually), risk management and planning

Standardized Force Majeure Events

- Limited to war/terrorism/contamination/pressure waves
- Events which have a “catastrophic effect” on ability to perform
- On occurrence parties consult to try and find a way to continue
- Parties relieved from obligations to extent affected
- Right to terminate after 6 months – SPV has limited reserves
- Authority can prevent termination by paying as if Service being provided
- Senior debt, redundancy payment and Sub-Contractor losses paid
- Shareholders:
  - equity less distributions; and
  - subordinated debt less interest paid

Risk process

- Risk identification and allocation:
  - Risk registers
  - Use of advisers
  - Use of standardization
- Risk mitigation
  - Project scope and requirements
  - Market sounding
  - Competitive Dialogue
- Risk monitoring
  - Use of a risk management plan, linked to the risk register
  - Updated over project life

Incentives

- Capital at risk to performance
- Market development
- Competition
- Step-in

Issues

- Value for Money
- Balance sheet treatment
- Liquidity versus risk allocation measures
- Project risk and project management risk
- Programme versus project benefits
- Flexibility
- Soft services
- Contract management
- Refinancing
- Insurance