



National Audit Office

**HM Treasury**

Equity investment in privately  
financed projects

Appendices Two and Three

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**FEBRUARY 2012**

# Appendix Two

1 This appendix summarises some additional findings. At the end of this appendix is a list of many of the main investors in PFI projects.

## Risks retained by the project company

2 From our 19 semi-structured interviews of key parties in four randomly selected operational projects, participants identified 16 specific risks that they considered were borne by the project company rather than by other parties in the relevant PFI project. There was variation in views across the identified risks and the types of interviewee (**Figure 1**).

**Figure 1**

Risks that may affect a project company during operations

Interviewee	Investor (out of 4)	Project company's manager (out of 4)	Contractor (out of 4)	Lender (out of 4)	Authority (out of 4)
<b>Risks retained by project company</b>					
Variance in insurance cost	3	2	3	3	3
Contractor credit and performance risk	4	4	2	2	2
Variance in life-cycle costs	2	1	2	2	3
Vandalism	3	2	2	1	1
Variance in inflation	3	2		1	
Public sector client payment risk	2	2		1	1
Variation in tax rates	1		1		
Deduction for operating performance	2	1			
Variance in interest rate on cash deposits	2	1			
Management/running costs of project company	2	1			
Bank insolvency risk	1	1			
Cost of working capital	1	1			
Change of law (non project specific)	1	1			
Variance in utility consumption (price and volume)		1			
Change in accountancy rules	1				
Contract disputes, e.g. about latent defects					1

**NOTE**

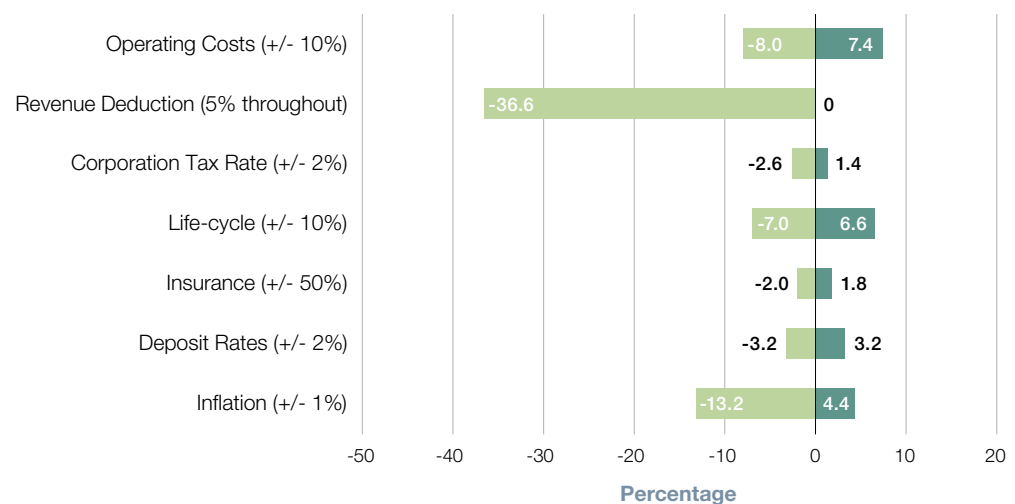
1 In one of the 19 semi-structured interviews we met both the investor and the project company's manager

Source: National Audit Office semi-structured interviews of five parties in each of four projects

3 From one published source, we also found a list of risks associated with the operational phase of the PFI project for Queen Alexandra Hospital, Portsmouth. The purpose of the list was to show the percentage change in returns associated with the specified risks. The largest negative impact was associated with performance deductions that were not recovered from the project company's contractors (**Figure 2**).

4 Only three of the parties that we interviewed considered performance deductions to be a specific risk borne by their project companies, because such deductions are usually passed down to the facilities management contractor (Figure 1). However, in the event of this contractor defaulting, the consequences would fall on the project company. While we consider the likelihood of default to be remote, there have been a small number of failed contractors. When the risk does materialise, the impact can be high.

**Figure 2**  
Sensitivity of returns to risks retained during the operational stage



**NOTES**

- 1 The project financial model has been run for the cost increases or decreases shown, which are percentage points for corporation tax, deposit rates and inflation.
- 2 The revenue deduction of 5 per cent, shown above, is after any recovery from contractor(s).
- 3 For changed deposit rates, see paragraph 2.8 in the published report. Life-cycle risk is discussed in paragraph 2.11 in the published report.
- 4 Under some contracts, changes in insurance costs may be shared with the Authority.
- 5 Investors usually have part of the agreed price linked to a price index, but may not be fully protected.

Source: Reproduced with permission from HICL Infrastructure Company Limited Report to investors, 23 September 2010

5 From our web-based survey of 34 projects, most of the 85 respondents – 56 – thought that life-cycle risk was well understood during the bidding stage on their project (**Figure 3**). Figure 2 shows that for Queen Alexandra Hospital, a 10 per cent increase in life-cycle costs, which is not absorbed by reserves, would result in a loss of shareholder value of around 7 per cent.

**Figure 3**  
Understanding of life-cycle Risks

Extent to which life-cycle risk was understood during the project bidding stage

	Authority or Trust (Frequency)	Project company's board member or shareholder (Frequency)	Facilities manager (Frequency)	Lender (Frequency)	All (Frequency)
Strongly agree	1	3	2	4	10
Agree	10	15	9	13	47
Disagree	4	5	4	0	13
Strongly disagree	2	1	0	0	3
Dont' know	3	7	2	0	12
<b>Total</b>	<b>20</b>	<b>31</b>	<b>17</b>	<b>17</b>	<b>85</b>

Source: National Audit Office Survey 2011

### Investors' engagement with the project

6 Investors for 31 projects responded to our survey. Investors for 18 projects reported that they met with the relevant project company's manager or operations manager at least monthly (Figure 4). Meetings with the facilities management provider, or with the Authority, or both, were typically less frequent, although the majority of respondents to our survey reported they met at least quarterly.

**Figure 4**  
Investors' engagement with projects

Self-reported attendance of investors at project meetings

	Meetings with the manager of the project company or operations manager (Frequency)	Meetings with the facilities management or services provider (Frequency)	Meetings with the Authority or Trust (Frequency)
Monthly (or more often)	18	9	6
Quarterly (or more often)	13	19	18
Once or twice a year	0	3	6
Never	0	0	1
<b>Base</b>	<b>31</b>	<b>31</b>	<b>31</b>

**NOTE**

1 See Appendix One (Methodology) for further description of the survey.

Source: National Audit Office Survey 2011

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## Major investors who include PFI projects in their portfolios

Fund	Description and Activity	Number of projects
Innisfree	Investment group, both primary and secondary, established in 1995. A separate company provides on-going management to projects. Active in the UK, Europe and Canada.	58 (49 in UK)
Barclays Infrastructure Funds (BIF)	BIF has made primary investments in social infrastructure projects since 1996. Its most recent fund has a growing portfolio of 84 operational projects, held long term. Active in the UK and key Eurozone countries.	100+ Projects
Semperian PPP Investment Partners	Prior to 2007, Semperian PPP was part of Land Securities Trillium. The latter acquired most of its PFI assets buying the Secondary Market Infrastructure Fund (SMIF) which was the first active secondary PFI Fund.	106 PPP assets in total
Balfour Beatty Capital	Balfour Beatty Capital was established in the mid-1990s as the investment arm of Balfour Beatty plc., which operates in the UK and worldwide.	57 (38 in UK)
John Laing PLC	Specialist primary investor, operator and manager in UK and overseas in European countries, India, USA and Canada.	70 PFI/PPP projects
John Laing Infrastructure Fund	A Guernsey registered closed-ended investment company, listed on the London Stock Exchange, which invests in operational PFI/PPP projects, sourced from the John Laing Group and secondary market.	30 availability based PFI/PPP projects
Interserve	Support services and construction company, operating in the public and private sectors in the UK and internationally. Interserve is essentially a primary market investor.	21 (13 in Pension Fund)
"HICL" Infrastructure Company Ltd	Infrastructure investment company launched in 2006 and essentially a secondary market investor in the UK, Canada and the Netherlands.	40 in the UK; 43 in total 42 (PUK)
Lloyds Bank	Subsidiaries of Lloyds Bank, including managed third party funds, have invested in PFI projects in the UK and internationally for over 12 years.	51 (47 in UK)
Carillion	Support services and construction company operating in the UK and internationally. Carillion is essentially a primary market investor.	26 in total
INPP and Amber Infrastructure Group Limited <sup>1</sup>	Amber Infrastructure provides a range of project and management services to International Public Partnerships (INPP), a FTSE 250 company. INPP invests in infrastructure projects in the UK, Europe, Canada, and Australia.	77 (62 in UK)
Amey	An infrastructure support service provider and, since 2003, a subsidiary of Spanish company, Grupo Ferrovial S.A.	13 to 16
Costain Group plc	Leading UK engineering and construction group and a primary market investor through Costain Engineering & Construction Limited.	5
	Costain Pension Scheme Trustees Limited is secondary market investor.	6

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<sup>1</sup> INPP and Amber Infrastructure Group Ltd was the only investor in the above list that we did not interview during the course of our investigation.

# Appendix Three

## Publicly reported sales

<b>Date</b>	<b>Seller</b>	<b>Buyer</b>	<b>Price (£)</b>
October 2003	Carillion	Barclays Infrastructure Fund	5,200,000
January 2004	WS Atkins	Balfour Beatty	13,300,000
March 2004	Anglian Water	Henderson	12,000,000
June 2004	Carillion	John Laing	19,000,000
October 2004	John Laing	SMIF	26,300,000
January 2005	Kier	SMIF	5,000,000
February 2005	Alfred McAlpine	SMIF	5,600,000
February 2005	M J Gleeson	PFI Infrastructure Company	1,100,000
February 2005	WS Atkins	SMIF	5,600,000
June 2005	WS Atkins	Innisfree	1,400,000
October 2005	John Laing	Serco	5,900,000
November 2005	Alfred McAlpine	SMIF	7,500,000
November 2005	WS Atkins	SMIF	7,800,000
December 2005	John Laing	Allianz	23,100,000

<b>Projects Sold</b>	<b>Financial Close</b>	<b>Equity Sold (£)</b>	<b>Subordinated Debt Sold (£)</b>
Darent Valley Hospital	July 1997	6,000	3,537,000
A50	May 1996	530,978	1,223,600
A30/35	July 1996	395,094	3,555,524
Tay Waste Water Scheme	December 1999	330,000	4,895,880
M40	September 1996	1,775,000	5,470,000
M40	September 1996	1,775,000	5,470,000
Neath Port Talbot Hospital	May 2000	12,500	1,102,750
Hereford Hospital	March 1999	250	2,439,500
Tiverton Community Hospital	March 2002	5	380,400
Hereford Hospital	March 1999	250	2,439,500
Penweddig Schools	September 1999	425	581,400
Shrivenham Staff College	June 1998	353,000	4,318,000
South Manchester Health	June 1998	250	1,656,750
South Manchester Health	June 1998	250	1,656,750
Gravesend Fire Arms training Centre	April 2001	125,000	1,353,500
South East London Police Stations	January 2001	12,500	3,407,000
Manchester Police Stations	August 2001	12,500	2,696,500
Durham and Cleveland Fire Arms Training Centre	April 2000	25,000	517,000

## 8 Equity investment in privately financed projects

<b>Date</b>	<b>Seller</b>	<b>Buyer</b>	<b>Price (£)</b>
March 2006	Interserve	SMIF	1,600,000
June 2006	PFI Plc	Infrastructure Investors	3,200,000
June 2006	John Laing (Equion)	SMIF	14,600,000
July 2006	Skanska	Innisfree	3,800,000
September 2006	Skanska	Infrastructure Investors	13,600,000
September 2006	Carillion	SMIF	32,700,000
December 2006	Serco	Infrastructure Investors joint venture with Serco	76,500,000
September 2007	Allianz	HICL Infrastructure	36,500,000
December 2007	Carillion	Land Securities Trillium	21,500,000



<b>Projects Sold</b>	<b>Financial Close</b>	<b>Equity Sold (£)</b>	<b>Subordinated Debt Sold (£)</b>
Oxford Littlemore Hospital	October 1997	49,950	0
Aberdeenshire Schools	March 2001	290	551,000
Chester Le Street Community Hospital	May 2002	334	321,320
Stockton Schools	April 2002	290	347,420
Glasgow Schools	July 2000	2,846	4,767,050
Edinburgh Schools	October 2001	17,872	2,309,725
Bridgend Prison	January 1996	22,500	1,017,900
Kings College Hospital Camberwell	December 1999	49,500	3,000,360
HMP Altcourse Rainsbrook	December 1995	50	0
Secure Training Centre Medway	March 1997	50	0
HMP Rye Hill	July 1999	50	350,000
Humberstone Courts	March 2000	25,000	1,272,500
Manchester Magistrates Courts	March 2001	1,500	1,099,500
Leeds 7 Schools	October 2001	25,000	2,261,000
East Anglia Courts	October 2002	25,000	1,632,000
Lowdham Grange Prison	November 1996	200,000	1,365,000
Ashfield Prison	June 1998	200,000	2,285,000
Joint Services Command and Staff College	June 1998	5,833,000	8,478,000
Hassockfield Secure Training Centre	November 1998	200,000	1,098,000
Dovegate Prison	September 1999	200,000	9,678,000
National Traffic Control Centre	March 2001	3,624,000	6,289,000
Durham and Cleveland Fire Arms Training Centre	April 2000	25,000	517,000
South East London Police Stations	January 2001	12,500	3,407,000
Gravesend Fire Arms Training Centre	April 2001	125,000	1,353,500
Manchester Police Stations	August 2001	12,500	2,696,500
Glasgow Southern General Hospital	July 1999	£5,000	629,000
Great Western Hospital Swindon	October 1999	3,330	5,778,549
Harplands Hospital North Staffs	December 1999	10,000	1,029,500

## 10 Equity investment in privately financed projects

<b>Date</b>	<b>Seller</b>	<b>Buyer</b>	<b>Price (£)</b>
February 2008	Costain Group	John Laing	9,400,000
August 2008	Carillion	HICL Infrastructure	18,000,000
February 2009	Bouygues	HICL Infrastructure	1,700,000
February 2009	Galliford Try	DIF Infrastructure Fund	5,200,000
February 2009	Kier Group	Innisfree	8,000,000
April 2009	Lend Lease Corporation	HICL Infrastructure	23,900,000
April 2009	Interserve	Innisfree	7,200,000
June 2009	Carillion	HICL Infrastructure	6,800,000
July 2009	Galliford Try	HICL Infrastructure	16,500,000
November 2009	Parkwood Holdings	Equitix	6,500,000
November 2009	Interserve	Interserve Pension Scheme	61,500,000

<b>Projects Sold</b>	<b>Financial Close</b>	<b>Equity Sold (£)</b>	<b>Subordinated Debt Sold (£)</b>
Ealing Schools	June 2005	4,500	2,515,050
Kent Schools	October 2005	3,000	2,730,900
John Radcliffe Hospital Oxford	December 2003	25,000	6,604,000
Barnet Hospital	February 1999	190	900,600
MOD Housing Portsmouth	October 2005	200,000	1,715,000
Hairmyres Hospital	February 1998	50	4,335,000
Queen's Hospital Romford	January 2004	50	13,700,000
Sheffield Schools	May 2000	500	2,974,000
Renfrewshire Schools	March 2005	15,000	3,651,300
Highlands Schools	March 2006	50,000	5,169,000
Bexley Leisure	April 2001	352,500	1,042,000
Waterfront Leisure	September 2001	25,000	365,000
Penwith Leisure,	January 2002	160,000	381,500
Breckland Leisure	November 2005	10,000	1,701,000
Rivendell Leisure	March 2006	10,000	1,142,000
Dudley NHS Trust	May 2000	3,330	6,402,924
St Genevieve's School	August 2000	999	104,229
Cornwall Fire Stations	March 2001	2,000	550,000
Portsmouth Social Services	June 2001	500	203,000
Southampton Schools	December 2001	3,000	2,008,000
Buxton Health & Safety Labs	April 2002	10,000	1,519,200
Hattersley Tameside Schools	June 2002	3,000	1,041,000
Defence 6th Form College	June 2003	45,000	2,089,800
Tyrone Omagh College	September 2003	12,500	999,000
Tyrone Duncannon College	September 2003	12,500	947,500
Cornwall Schools	March 2004	500	3,074,000
Armada Devonport Fleet Accomodation Centre	July 2004	5,000	5,012,500
Telford and Wrekin Schools	June 2005	500	3,827,500

## 12 Equity investment in privately financed projects

<b>Date</b>	<b>Seller</b>	<b>Buyer</b>	<b>Price (£)</b>
December 2009	Kier	Innisfree	7,300,000
December 2009	Carillion	Innisfree	86,900,000
April 2010	Kajima	HICL Infrastructure	3,000,000
April 2010	Balfour Beatty	Barclays Infrastructure Fund and Kelda Water Services	24,300,000
June 2010	Carillion	HICL Infrastructure	31,300,000
September 2010	Shanks	John Laing	25,000,000
November 2010	Costain Group	Costain Pension Fund	£22,000,000
March 2011	Kier Project and Dexia Credit Local	HICL Infrastructure	£17,200,000
June 2011	Kajima and Minority Shareholders	HICL Infrastructure	£4,600,000
June 2011	Carillion Lloyds Cyrill Sweett	HICL Infrastructure	£15,750,000
June 2011	Balfour Beatty	John Laing	£16,000,000
June 2011	Royal Bank Project Investments	HICL Infrastructure	£13,900,000
June 2011	Royal Bank Project Investments	HICL Infrastructure	£13,400,000
September 2011	Australian Commonwealth Bank	John Laing	£22,800,000

<b>Projects Sold</b>	<b>Financial Close</b>	<b>Equity Sold (£)</b>	<b>Subordinated Debt Sold (£)</b>
Tendring Schools	October 2001	50	2,311,000
Waltham Forest Schools	March 2004	6,500	599,500
Cheltenham New Accommodation	June 2000	22,000	9,019,200
Allenby Connaught	June 2006	18,750	44,625,000
Newcastle Libraries	January 2007	60,000	1,712,500
Fraserburgh Peterhead Persley and Nigg Waste	May 2000	3,820	705,000
Edinburgh Royal Infirmary Hospital	August 1998	11,950	3,908,845
Queen Alexandra Hospital	December 2005	25,000	11,525,000
East London Local Authority Contract	December 2002	8,424,000	20,812,000
Dumfries and Galloway	November 2004	1,000	3,607,000
Kingston Hospital	November 2004	£4,000	£1,318,800
Tong High School, Titus Salt School and Buttershaw Business and Enterprise College in Bradford	December 2006	£29,003	£2,608,260
Leicester Adult Learning Disability Centre	January 2007	£1,500	£1,385,000
South Holland Community Hospital	May 2007	£1,500	£1,385,000
Catford and Sedgemoor School Lewisham	June 2007	£4,000	£2,436,800
Three Shires Batched PFI (Derbyshire Mental Health)	October 2007	£5,000	£1,665,000
Sheffield Schools	May 2005	£100	£4,548,000
Norwich Schools	March 2006	£200,000	£3,059,000
Oldham Schools	May 2006	£300,000	£4,767,000
Community Hospital Brentwood	July 2006	£90,000	£2,102,250
South Ayrshire Schools PFI	December 2006	£86,000	£6,765,000
A50	May 1996	£989,400	£2,280,000
Oxford John Radcliffe	December 2003	£19,950	£6,604,000
Queen Alexandra Hospital	December 2005	£7,500	£6,101,308
Forth Valley Royal Hospital	May 2008	£13,500	£14,750,000

