

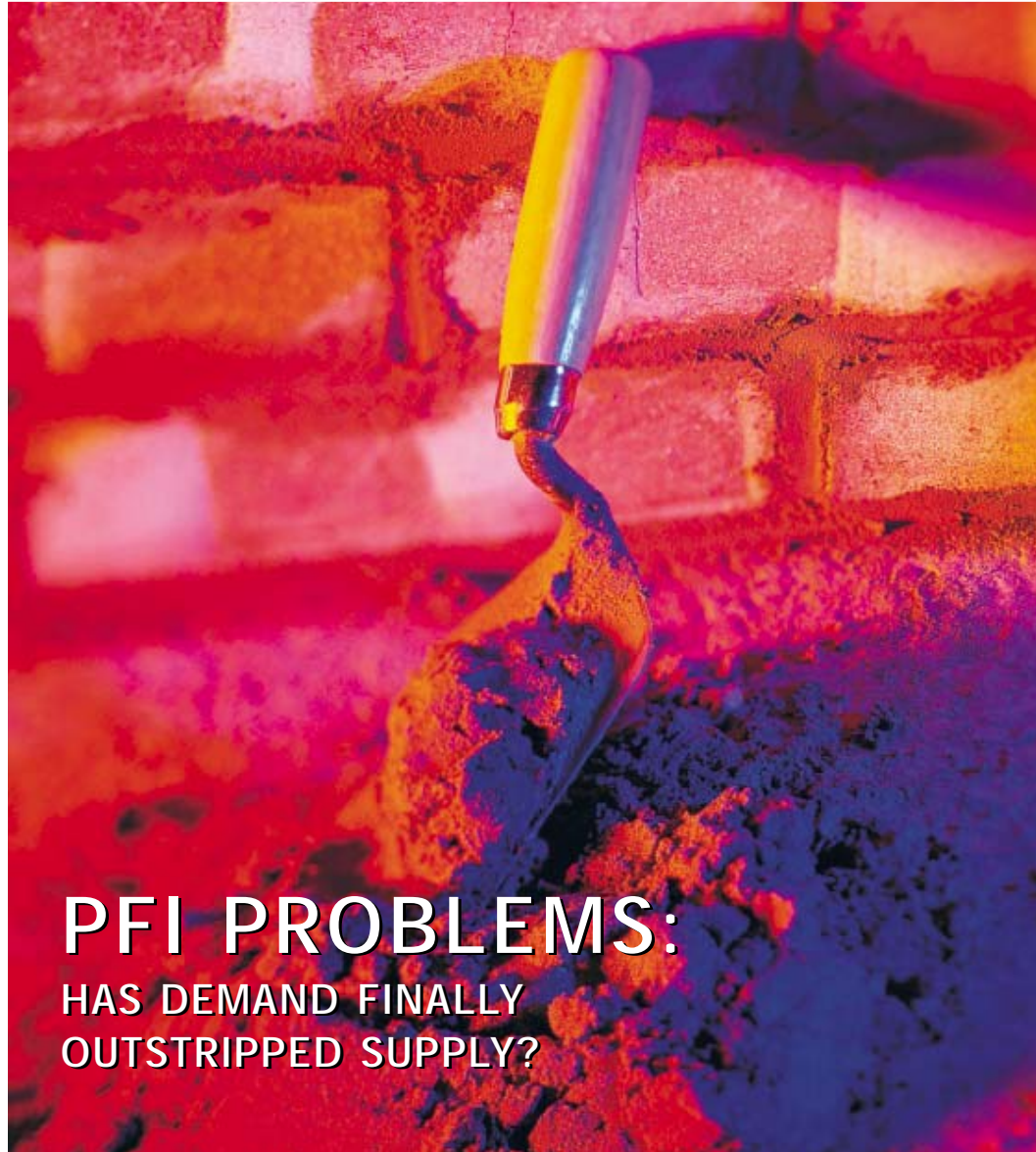


PROVIDING CONSTRUCTIVE SOLUTIONS

# BULLETIN

CURRIE & BROWN: UK EDITION

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## PFI PROBLEMS: HAS DEMAND FINALLY OUTSTRIPPED SUPPLY?

INSIDE ■ NEWS ■ REGENERATION ■ INSOLVENCY ■ PFI



WELCOME to the first edition of the Currie & Brown Bulletin. Part of our commitment to strengthening relationships with highly valued clients, the magazine aims to keep you abreast of the latest news and developments across our core competences of project management, cost management and consulting. We trust you will find it informative, insightful and a useful source of intelligence.

At Currie & Brown we realise that in today's fast-changing world, with its uncertain economic outlook, our role is more crucial than ever in supporting our clients' strategic requirements. The news, features, profiles and commentaries in the Bulletin are intended to keep you up-to-date with the expanding range of expert services we offer and the blue chip calibre of the companies with whom we are already privileged to work, both in the UK and internationally.

Our mission is provide constructive solutions for our clients and to work in partnership to deliver positive results. We look forward to discussing your latest project with you soon.

**David Broomer**  
Chief Executive

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## Location, Location, Location

**CURRIE & BROWN** are nearing the completion of a major programme of office relocation as part of their strategy to move closer to the client base and allow scope for future expansion.

According to David Murray, group operations director of Currie & Brown, the moves will ensure that the company retains its competitive edge: "We have always been a client-focused organisation and these moves are designed to reinforce that position across our cost management, project management and consultancy services."

In the last 12 months both the London West End and City offices have moved to new premises in Bressenden Place and London Wall respectively.

The Glasgow office has relocated from its former Georgian terraced townhouse in the city's west

end to a modern development in the heart of the city commercial centre

The Redbourn office, formerly situated in the town's landmark Red House building, has been relocated to new offices at Fortuna House in Milton Keynes (right). Later this year the Falkirk and Edinburgh offices, will be merged to create greater efficiency and streamlining of the service to clients. This will create a centre of excellence covering petrochemicals, engineering banking and due diligence.

All new offices are modern facilities with open-plan layouts. Once the office relocation plan is completed Currie & Brown will have a network of 16 offices covering England, Scotland and Wales making it one of the largest consultancies of its kind in the UK.



## Justice will be done in Warwickshire by 2004

**IT WAS** a fair cop when Currie & Brown was appointed as consultant for the development of the unique Warwickshire Northern Justice Centre in Nuneaton.

The £11.2 million project will see the construction of a facility that represents a first in British judicial history: a justice centre housing all the different justice organisations in one building.

Working with main contractor HBG, the Currie & Brown team will act as cost consultants, planning supervisors and employer's agent on the 9,500 square metre development.

Allan Stevens, senior quantity surveyor at Currie & Brown's Birmingham office, said: "If this concept proves successful then it could be repeated across the whole country."

Already the client, the Warwickshire Police Authority, is considering a Southern Justice Centre in Leamington.

The three storey building comprises: an underground car-park; a police station and

custody suite on the ground floor; a magistrates' court on the first floor; and office suites for the various justice agencies on the second floor. The third floor is where the plant room is located.

Currie & Brown was also involved in developing the procurement route for the scheme alongside project managers Aedas TCN.

"We looked at various alternatives but decided that design and build was the best route in this case," said Stevens.

Work began on the site in April and is due to be completed in September 2004.



## C&B win key role in PRIME contract

**CURRIE & BROWN** are members of the consortium which has won the massive £750 million PRIME contract from the Ministry of Defence (MoD).

As a first tier supplier to the Amec Turner Consortium, Currie & Brown is responsible for all cost planning, cost reporting, financial management, risk estimating and risk management.

An intensive two year process of pre-qualification and bidding bore fruit in April when the consortium beat three rival tenders to secure the contract to handle all capital projects for the MoD facilities in Scotland. The contract also covers maintenance of the entire MOD estate north of the border with the exception of

the submarine bases at Coulport and Faslane.

Douglas Ross, project leader for Currie & Brown on the PRIME contract, said: "We are delivering a lifecycle costing strategy for the MoD to ensure that any new-build project does not become a long-running financial burden on the maintenance of the estate."

Already the consortium has begun work on the building of a £100 million project to build new accommodation at Faslane (a capital project).

It is also about to begin work on a £3 million options strategy for a new search and rescue facility at RAF Kinloss. A similar options strategy, valued at £2 million, for the mountain rescue station on the same base has also been agreed in principle.



## Helping build BBC's new home

**CURRIE & BROWN** are actively involved in the BBC West One project to construct the world's largest live broadcasting centre. It will become home to BBC Radio, BBC News and the World Service. The project will provide 830,000 square feet of space including the refurbishment of the original 1930s built Broadcasting House.

Currie & Brown have been employed as cost consultant on the project since late 2000 and is currently also providing services compiling the Employers Requirements documentation for the negotiation of the design and build contract with Bovis Lendlease. At £400m this is the largest contract carried out by Bovis under this form of contract.

The BBC recently revealed in the press its method of financing the project via the bond market. Currie & Brown have been heavily

involved in the contract process leading up to financial close which is due to be achieved in July, working closely with the BBC and Landsecurities Trillium, the Developer. Construction work began on site in January and is due for completion at the end of 2008.

Commenting on the company's participation in this prestigious new development, Mike Wood, director of C&B cost management, said: "This project has been extremely interesting so far, the project itself is complex and challenging and adding the recent pressures of achieving the finance strategy has involved our teams in putting in a huge effort.

"We are now looking forward to financial close wherupon the project team's employment will transfer from the BBC to Landsecurities Trillium".

## National recognition for Currie & Brown's training team

The Royal Institute of Chartered Surveyors has highlighted Currie & Brown as a benchmark of excellence for the profession at the launch of its new lifelong learning programme of education and training. Emphasis is now placed on the development of business and management skills in order that solutions can be delivered accurately in line with clients' operational business objectives.

In their promotional material for the launch RICS focused on the success of Currie & Brown in respect of the requirement for all surveyors becoming professionally qualified with MRICS designation, after September 2004, to take a post-graduate business qualification. RICS were particularly pleased to see Currie & Brown combining this with middle manager training in order to support the company's succession planning programme.

In recognition of this, Currie & Brown have been selected as one of the 10 non-RICS guests for the new Annual Property Education Debate series, and are the sole representative from the construction sector. Currie & Brown have just recently been invited to be the UK's representative from the construction sector as part of a similar European Property Education Debate programme.

If clients require further details on Currie & Brown's training programmes, Caroline Ogle, training co-ordinator, can be contacted at [caroline.ogle@curriebrown.co.uk](mailto:caroline.ogle@curriebrown.co.uk) tel. 01582 790515. Information can also be focused on RICS education initiatives.

## Major conference on Latin American business prospects

Currie & Brown have been invited to speak at the Latin American Leadership Forum, to be held on 11 and 12, 2003 in Washington, DC. Key figures from the U.S. Administration, successful policymakers from throughout Latin America, and leaders of the business community in the Americas will participate.

The conference will be opened by President Bush. Santiago Klein, Divisional Director of Currie & Brown, will explain the company's experience on Public Private Partnerships in Latin America, with a specific focus on the Master Plan for the concession of the Peruvian Airports.

## Eastern Promise

Currie & Brown have joined forces with Widnell in China to form a joint venture company.

The new venture will handle projects for one of our international clients and seek other opportunities in the country.



■ **SCOTLAND** is facing a potential crisis in Private Finance Initiative (PFI) contracts as demand for projects outstrips the ability and willingness of contractors to deliver them. While the volume of projects in the pipeline has never been greater and the commercial market is still fairly active, the number of bidders willing to tender has fallen to the level where it threatens the viability of the market and the PFI strategy as a whole.

Already we have seen the demise of Melville Dundas while two other large Scottish players have said that they will no longer bid for any of the forthcoming PFI projects in Scotland which have an estimated value of some £2 billion.

These currently include the contracts for: the North and South Lanarkshire schools; Forensic Psychiatry Unit at Stobhill; the North and South ACADs (Ambulatory Care and Diagnostic Hospitals); The Glasgow Acute Strategy and the Royal Edinburgh Hospital. Ministry of Defence Prime programme for Scotland recently awarded to Amec Turner and including Currie and Brown Cost Management. In addition, the effect on the market of the Glasgow Housing Stock Transfer has yet to be seen.

As all of these projects will come to market around the same time, the potential lack of bidders will therefore cause serious problems. The public sector comparator is used as the benchmark for assessing the right cost of projects as in any commercial venture but the other determining factor is the number of bids. You need a minimum of two bids for this mechanism to be effective. When the PFI concept was first launched there would be five or six bidders per contract from which a preferred bidder and a secondary bidder would be short-listed.

The danger is that as demand outstrips supply in the PFI sector then successful bidders, in the absence of competition, are likely to inflate the price.

But why are consortia so reluctant to bid for these large Scottish projects? Conversely will the Scottish Executive be comfortable in progressing PFI projects with a single bidder bearing in mind the sensitivity of the procurement route? There are several contributory factors:

Substantial resources are already committed to a number of huge projects already in the pipeline or underway in England including Procure 21 for the National Health Service, the LIFT project in the education sector along with various major PFI projects and subsequent phases of the MOD

## The risk factor in PFI projects is increasing

Prime programme.

Then there is the risk management element. The cost of bidding for PFI projects is really high and there is no support from the government to offset costs. Given the risk of high upfront costs there is a tendency among PFI contractors to concentrate on areas where bid costs are lowest and margins are highest. There is a perception, whether justified or not, that margins in Scotland are lower than south of the border due to a combination of higher awareness among clients, a tougher negotiating environment and tougher market conditions generally. As a consequence, national contractors may be reluctant to bid for Scottish contracts.

Finally contractors have the alternative of instead pursuing major non-PFI projects such as the new Royal Bank of Scotland project at the Gogar Farm in Edinburgh and the Glasgow Harbour project, City Dock Development or Pacific Quay Developments.

This growing disaffection with PFI can be seen from the fact that there are currently five bidders for the design and build contract to replace Glasgow's Beatson specialist cancer unit, which is a directly government-funded contract, as opposed to the dearth of bidders for the ACADs project.

Cost inflation will occur in this suppliers market because the commensurate shortage of sub-contractors results in margins being increased. If major cost inflation does happen then we risk going back to the practice of confrontational contracts which benefits nobody in the industry. So what is the most likely scenario for the next round of PFI projects? If the cost inflation goes high enough in Scotland then the major European contractors might be tempted to enter the market. Other local players may be encouraged into the market by these higher margins.

It could either result in a crash or conversely that the cost to the public sector increases dramatically. If costs are pushed so high that the public sector comparators don't work then all projects would have to be centrally funded. The bottom line is that the risk factor in PFI is increasing. The result will either be inflation or a decision by the government to turn off the tap on projects with severe consequences for everyone.

DAVID BURNS, EXECUTIVE DIRECTOR  
CURRIE & BROWN GROUP

# RISING FROM THE ASHES OF RAVENSCRAIG STEEL

Brian Campbell's mission is to facilitate the building of a brand new town on one of Europe's largest brownfield sites.

**B**RIAN CAMPBELL leads the project and cost management on the current phase at the huge Ravenscraig redevelopment project. At 450 hectares, the site of the former steelworks in Lanarkshire is one of the largest in Europe. Once it is completed, the contaminated waste ground will be transformed into a new town with a population of 6,000 people.

A highly experienced project manager, Brian had a varied international career prior to joining Currie & Brown including a four-year tour of duty in Malaysia as project manager on a huge \$950 million semiconductor plant. He also served with German engineering and electronics giant Siemens, based in Munich.

He is bringing that wealth of experience to bear on the complex Ravenscraig project which takes in housing, city centre development, a business park, a light industrial zone, and retail, leisure and lifestyle facilities.

Currently Brian is working on the second release phase of the project at the southwest of the site where the old Lanarkshire Steelworks used to be situated. This is the oldest part of the site, riddled with abandoned mine-workings.

"Risk management was the most sensitive aspect of our role," says Brian. "It is very hard to define what was likely to be in ground which has been contaminated for 100 years. They've been sinking boreholes for a century with the site being contaminated with various heavy metals and other elements. We had to assess this, estimate the costs and plan the contingencies."

The work on this release is taking place in two stages over a period of years and the total

investment is £14 million for the second release programme. Currie & Brown also acted as cost managers for the first release programme worth £10.4 million.

All invitations to tender for the work are out to consultants and engineers through OJEU, the Official Journal of the European Union. Currie & Brown won the project management consultancy through a competitive tender process and have since expanded their role. The client is Ravenscraig Limited, a joint venture comprising Scottish Enterprise Lanarkshire (SEL), the local economic development agency; Wilson Bowden, the property development group; and Corus, previously known as British Steel, which owns

Ravenscraig.

"Our role is to specify the best procurement policy so that risks are mitigated and don't lie solely with the client," explains Brian.

"From a risk management point of view we have laid down contingencies to protect the client. We then coordinated the whole tender process, managed the application for European Regional Development Funds and devised the procurement strategy to best manage the works."

Currie & Brown's role continues to expand with recent developments on the overall Ravenscraig Masterplan. It continues to work closely with Scottish Enterprise Lanarkshire to ensure that the full scheme comes to fruition.



CAMPBELL'S KINGDOM: Brian at the Ravenscraig site

Opportunities in the international Public Private Partnership arena have never been greater as the world copies the UK model

# A WORLD IN MOTION

**C**URRIE & BROWN have established themselves as the leading technical advisers to the PFI market in the UK, providing advice to funders, insurers, public and private sector clients. They have used this sound base as a springboard into the International PPP arena, typically providing advice to funders and the public sector.

Many countries are developing infrastructure programmes and the majority have taken notice of the UK model for PPP/PFI and there are core issues common to all of them. Australia and the Republic of Ireland are probably the most advanced countries outside of the UK although activity has declined recently in Ireland. Other countries, such as the Netherlands and Italy, appear to have faltered in terms of progress made although Italy may be becoming more active. Currie & Brown are also heavily involved in the Latin American market, proactively working with the governments of Chile, Peru and Mexico and seeking to establish long term partnerships with other governments in this region.

In Argentina, the Government has introduced a new concession law based on the British PFI

model in order to improve private sector participation in the development of the country's infrastructure. In Chile BOT structures have been successfully used over the past 10 years to develop major roads and the infrastructure has improved dramatically. Recently, more sophisticated PPP models have been used for the development of airports, ports, prisons and water companies, based on the UK's PFI model.

In Peru, where the government has recognised the need for a new airport infrastructure to meet increasing tourism demands, Currie & Brown have been appointed to provide advice in relation to the country's master concession plan for new

## Expectations outside the UK are high

CLAIRE HIRD



airports. This is again based on the UK model.

The lack of government finance in Mexico has resulted in significant reductions in infrastructure investment with the government currently exploring alternative investment schemes to attract efficient capital. It is anticipated this will be pursued through PFI/PPP schemes. Several Mexican missions have visited the UK in order to gain experience in different types of PPP. Currie & Brown have been involved in these missions, sharing their knowledge of the market and how it might be applied in Mexico.

Canada is preparing to implement its first major PFI/PPP healthcare project, known there as a P3 Project. Currie & Brown have been appointed as technical advisers to the lenders for the William Osler Healthcare Centre (WOHC), based on their predominance in the UK market. This project will be watched closely by other procuring bodies in Canada where infrastructure projects in sectors from healthcare to transport are planned and will commence once the principles of P3 have been established. The timetable adopted by the procuring body of the WOHC has, to date, been aggressive, by any standards. Despite the relative infancy of P3 in Canada, the award of preferred bidder status to the consortium came only six months after the original release of the Request for Proposals, referred to more generally in the UK as the Invitation to Negotiate. With a planned Financial Close imminently approaching, the entire timetable can only be admired.

From our experience, expectations outside the UK within the public sector are high in terms of risk transfer to the private sector. There exists a strong desire within public bodies to negotiate transactions using the lessons learnt in the UK and to build upon the principle of risk transfer, particularly in relation to the Payment Mechanism. Currie & Brown are heavily involved, providing due diligence advice to ensure that an ability to fund remains and that parties adopting the risk transfer are those most suitable to do so.

In most instances of international involvement in the PPP arena Currie & Brown's due diligence professionals in the UK will lead the multi-disciplinary team advising on all aspects of technical due diligence. It will be supported by local offices and associated practices who provide specialist local input on planning matters as well as primary construction and facilities management costs. Currie & Brown's ability to deliver the technical due diligence, through experience of a number of prestigious healthcare and international PPP projects, is paramount. Knowledge of the intricacies of the process allows Currie & Brown to identify and assimilate areas of the transaction that are likely to cause concern to potential funders from a technical point of view. Currie & Brown may be involved on a project at any stage from the early bidding phase to, in many instances, the operational phase. The timing of our involvement is key to the amount of value we can add to the process

Claire Hird, London City office

# EMERGENCY SERVICE IS ON STAND-BY



**C**URRIE & Brown's Corporate Recovery and Insolvency team provides a specialist support service for the insolvency profession working across a wide range of industries from utilities, airports and railways to property development and facilities management. Michael Fletcher, the divisional director and head of Corporate Recovery and Insolvency, and his team are there to help with everything from administration to liquidation.

When a company goes into administration the aims of the administrators are to recover as many of the assets for the creditors as possible.

As Michael points out, it is normal for unsecured creditors to suffer remarkably badly during an administration. Often they receive absolutely nothing, while a payment received of

up to five pence in the pound is considered pretty good.

This is precisely where Currie & Brown can help. Since construction companies and those in related sectors are often technical in their debt, it is natural that insolvency practitioners – coming as they normally do from the accountancy or legal profession – have difficulties understanding the technical complexities of the issues involved. As Michael and his team have a background in construction they approach the debtors from a position of specialist technical knowledge and, as he says, “we understand and fight for it.”

The advantages for the court appointed administrator, and all other interested parties, are remarkable. “It doesn't happen all the time,” says Michael, “but we have been handling one insolvency recently where there will be at least

When creditors are baffled by the technicalities of a corporate collapse they can call on the expertise of Currie & Brown's Corporate Recovery team.

thirty pence in the pound for unsecured creditors.”

Little surprise then that the Corporate Recovery and Insolvency team has acted on behalf of a wide variety of companies, including a Middle East based contracting group, a subsidiary of Enron and an M&E contractor. Projects include waste incineration facilities, a residential care home and a variety of commercial developments.

It is perhaps easiest to illustrate the process with a few recent examples. Enron was the largest corporate failure in recent history. One of its subsidiaries was Caxios Ltd, a process engineering pipework and mechanical contractor. After the collapse of the parent company, Currie & Brown were appointed by Ernst & Young to carry out a major review which involved: assessing the progress of contracts and the value of work in progress; assisting in the assembly of an asset register; carrying out valuations and agreeing final accounts. As a result of this success, Currie & Brown was engaged subsequently as commercial consultant in building-out works on three process plant projects.

The company has a significant overseas dimension too. It helped with the corporate restructuring of a specialist fitting-out contractor in Bahrain. The firm was initially appointed to provide specialist technical assistance as part of a wider investigation into the financial viability, management structure and efficiency of a Middle Eastern-based contracting group.

Currie & Brown were later retained by the contractor's management board, not only to keep an eye on the implementation of the restructuring strategy plans across one of the Bahraini firm's mechanical and electrical engineering subsidiary, but later to identify and advise upon the disposal of all surplus resources and to advise on post-structure operations.

Closer to home again, the Bank of Scotland appointed Currie & Brown to investigate some concerns they had in connection with a residential and palliative care home in which the bank held an equity stake. It soon became apparent that there were problems with finance and licensing contracts. As a result, the developer was subsequently declared insolvent and Currie & Brown were retained to provide specialist technical support to the funder's appointed administrative receiver and his lawyers.

Going into administration is never a pleasant process, but Michael and the team can provide an incredibly valuable service when things seem at their worst.



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