

# The winning formula

**Graham Bloomfield, at DWPF, believes that effective financial modelling is crucial in the planning and bidding process of PFI projects...**

**Q**uality financial models are crucial to all projects, whether at bid stage, Financial Close or in operation. A first class financial model is fundamental to winning PFI bids.

In addition to being the primary basis for procuring authorities to compare and award contracts, and hence a requirement for ITN submissions, the financial model provides an essential tool in evaluating the economic viability and financial robustness of the project.

Not only does the model prove the base case it also tests the impact on shareholders returns and lenders ratios in upside and downside scenarios. The model enables effective evaluation of sub contract terms, project cost inputs and payment structures. It also assists in the negotiation of funding terms and structures from financial markets, and, when finalising bids, the model will optimise tax and accounting structures. A successful PFI bid is very much dependent on the outputs and confidence in the underlying financial solution proposed.

So what are the key attributes of a good advisor and the models they produce?

**Resources:** the financial model lies on the critical path when producing a bid, so it is vital that the team has relevant sector and modelling experience. Good financial modellers do more than churn out numbers; they will ask key questions of the bid. The modeller must also understand the project constraints and priorities to enable the model to be fully optimised;

**Communication:** clear communication from an early stage means that the model is built to the exact requirements of the bid. Before any modelling begins, the format of inputs provided and the outputs required should be discussed;

**Time management:** the timetable is crucial to avoid misunderstandings and to ensure delivery of key management information for decision-making;

**Co-ordination:** the modeller must co-ordinate with all other relevant advisors (financial, accounting and tax, banks, etc.), as well as his own team to ensure that assumptions are reflected correctly;

**Standardisation:** good modelling will rely to some extent on a standard model. Previous closed transactions will have been tested and rigorously audited. However, a bespoke model needs to be created by adding project specific logic, ITN

pro-formas, and individual sponsor or funders' requirements. Irrelevant logic is removed to avoid an overcomplicated model with redundant formulae. Using a standard model allows the modeller to spend more time on added value activities, rather than re-inventing the wheel.

**Good techniques:** effective modelling teams follow strict practices. They start with the basics of left to right consistency, separating inputs/workings/outputs, clear outputs sheets for users and short/easy to understand formulas. The use of audit checks within the model, specialist Excel checking tools, sense checking of inputs and peer reviews also improve the quality of the model and reduce any last minute show-stoppers;

**Fee structure:** cost is always important in the selection of external advisors. Time-based fee structures can encourage excessive hours to be racked up on a bid. Add the fact that timescales often slip, with the difficulty of changing a modeller whose feet are under the table, and the bid team can end up with a very expensive model. The lower risk alternative is to appoint advisors based on a success-only fee. This aligns incentives between shareholders and the advisor, and reduces the expense of an unsuccessful bid.

To conclude, the importance of the financial model in the bidding process should not be underestimated. The model shapes a bid over time, calculates key information, guides the optimum project and financing structure, and gives the authority confidence (or otherwise) in the bidder's financial proposal and deliverability. The right combination of skills and experience will produce a fully optimised model that will ensure a competitive and potentially winning bid.

**Graham Bloomfield**  
Head of Financial Modelling

DWPF Ltd  
55 Grosvenor St  
London W1K 3HY

Tel: 020 7514 8637  
Fax: 020 7355 4754

[bloomfieldg@dwpf.com](mailto:bloomfieldg@dwpf.com)  
[www.dwpf.com](http://www.dwpf.com)