Managing Risks
What as they?
Can they be managed?

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Risk Management

• **Financial Risk**
  – uncertainty of annual operational costs and exit costs have impact on P&L and Balance Sheet

• **Market Risk**
  – Exposure to the market (real estate, construction,....) – the need to invest or disinvest at the “wrong” points in the cycle

• **Operational/ Business Risk**
  – Risks associated with infrastructure failure (*physical and service risk*) undermining core operational processes

*Avoidance       Reduction       Retention       Transfer*
Creating Flexibility to Manage Risk

What is the infrastructure physically capable of?

What processes / activities can the infrastructure support now and in the future?

What are the financial costs and risks of exit?
Infrastructure in 3 dimensions

**Assets**
- **Focus** on the infrastructure portfolio as a set of assets (land and buildings) and contracts
- **Interaction** with market – those that supply and own the assets
- **Decisions** related to making choices in the face of increasing diversity in forms of ownership and associated services

**Contracts & Relationships**
- **Focus** on the portfolio of contracts and individuals who manage and service the infrastructure
- **Interaction** with emerging service providers and people supplying those infrastructure plus service
- **Decisions** related to identifying outsourcing partners and specifying and managing contracts

**Operational Platform**
- **Focus** on the business processes
- **Interaction** with users, managers and other stakeholders who gain benefit from the use of the infrastructure
- **Decisions** related to understanding where value is created and how the infrastructure can support / facilitate value creation
Challenges

• **Identifying and quantifying the potential risks:**
  – What is the scope and scale?
  – What is the likelihood of these risks arising?
  – How much are you willing to pay to mitigate the risk?

• **Determining who is best placed to manage the risks:**
  – Should/could the risks be better managed by others?
  – What price to transfer the risk?
  – Is the risk ever really transferred?

• **Implications for the skill sets:**
  – What skills are required to manage the risks?
  – What skills are required to evaluate and price the risks?
  – Where should these skills reside?