

Public Private Partnership in the UK Roads Sector



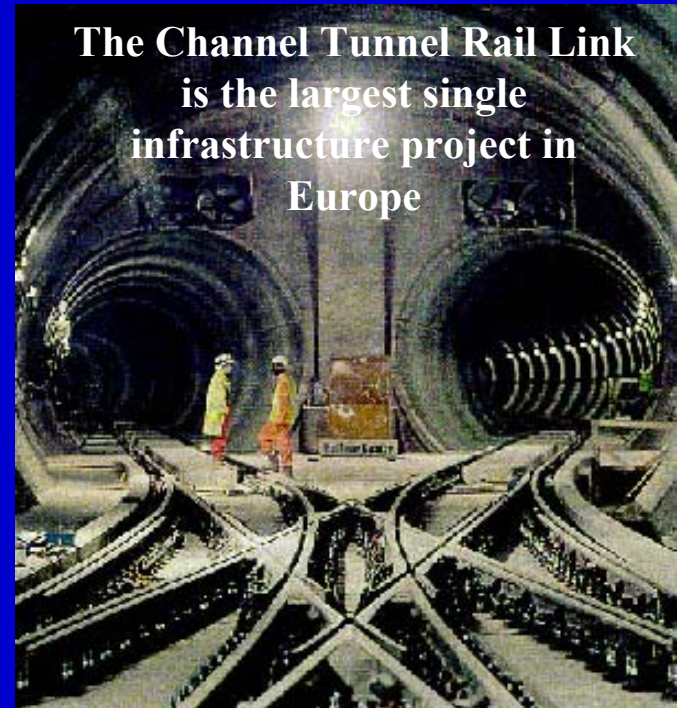
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Private Finance Initiative 1993 - 1997

- Estuarial Crossings
- Channel Tunnel
- Channel Tunnel Rail Link
- Birmingham Northern Relief Road
- Prisons, hospitals, education
- Trunk road network (parts)
DBFO –payments via shadow tolls



Issues to Consider

- **Factors Affecting/Limiting application of PPP**

- Structure and attitude of Government

- Legal impediments

- Political and bureaucratic resistance/scepticism

- Sufficient public sector facilitation funds

- Labour attitudes

- **Overcoming the difficulties**

- Legislative changes

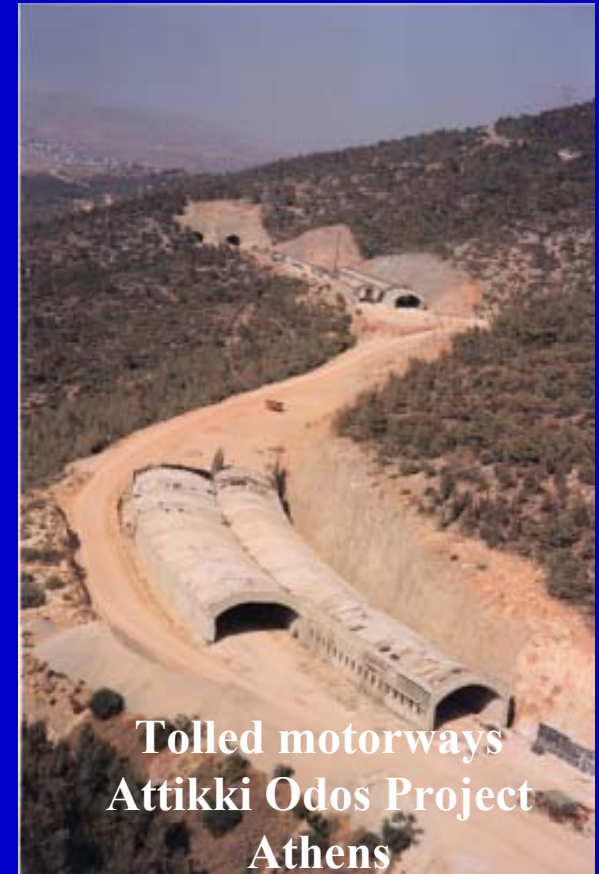
- Evidence of VfM benefits

- Public sector funding if no “user-paid” element

- Need for a champion

Design Build Finance and Operate (DBFO) Contracts

- 11 contracts awarded
- £1.5bn of new construction
- 350km of new & 950km of existing trunk roads since 1994
- Negotiated 30 year contracts
- Public roads, Govt. remains the Highway Authority



Design Build Finance and Operate (DBFO) Contracts (Continued)

- **Core requirements (not negotiable)**
Commitments from Public Inquiry, statutory orders, environmental statement, safe operation of the highway, enable Secretary of State to fulfill statutory obligations
- **Illustrative requirements (negotiable pre-award)**
Specifications, design standards, maintenance standards, alignments, layouts. Set the “benchmark” post-award. ‘Equivalence’ and ‘good industry practice’ are the tests for proposed changes, post-award.
- **Hand back Requirements**
- **15% average saving against conventional procurement**

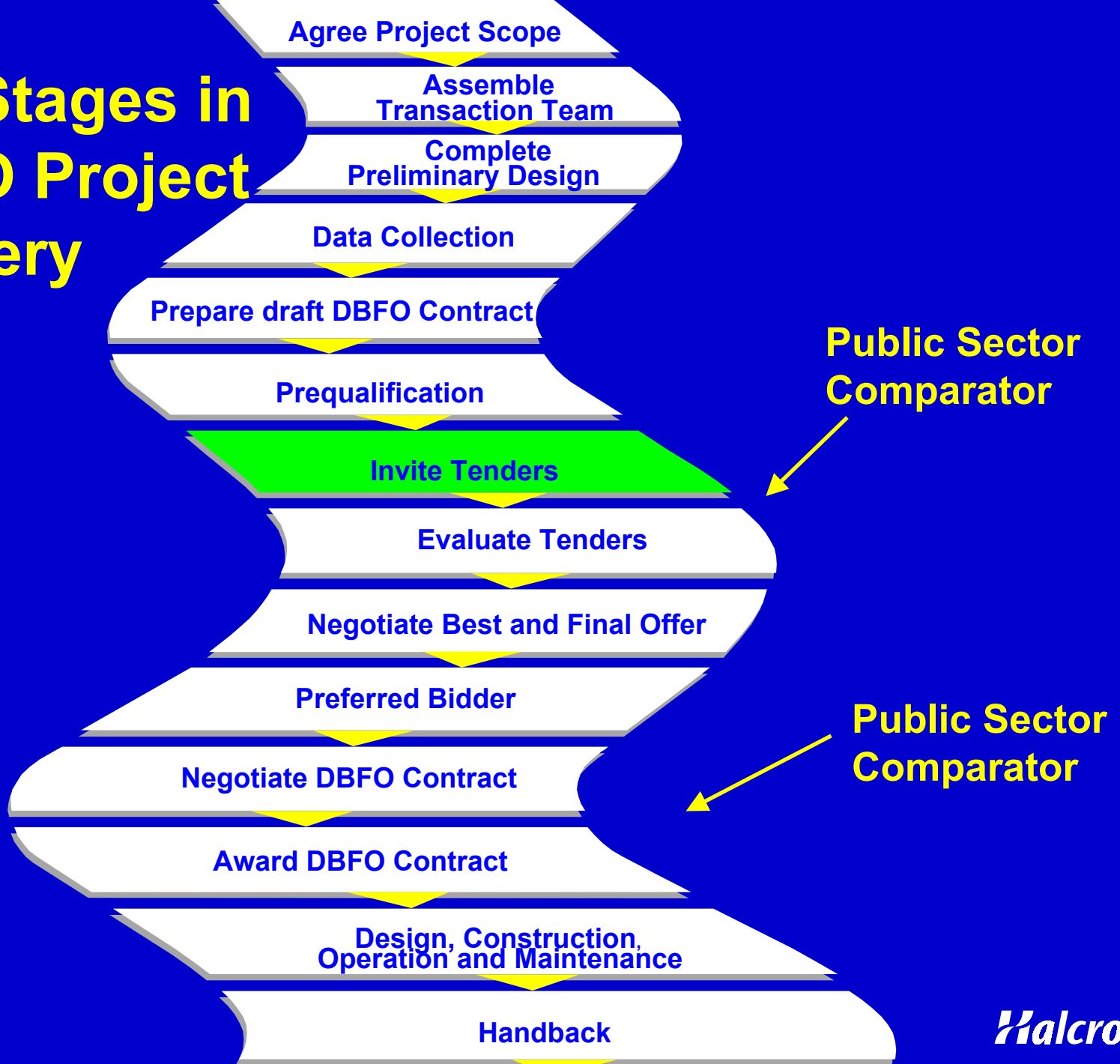
Why DBFO ?

- DBFO is the HA's term for PFI/PPP type projects
- Provide better value for money
- Foster the development of a private sector road operating industry
- Public and private sectors working in partnership
- Promote innovation in all areas including finance
- Transfer appropriate levels of risk

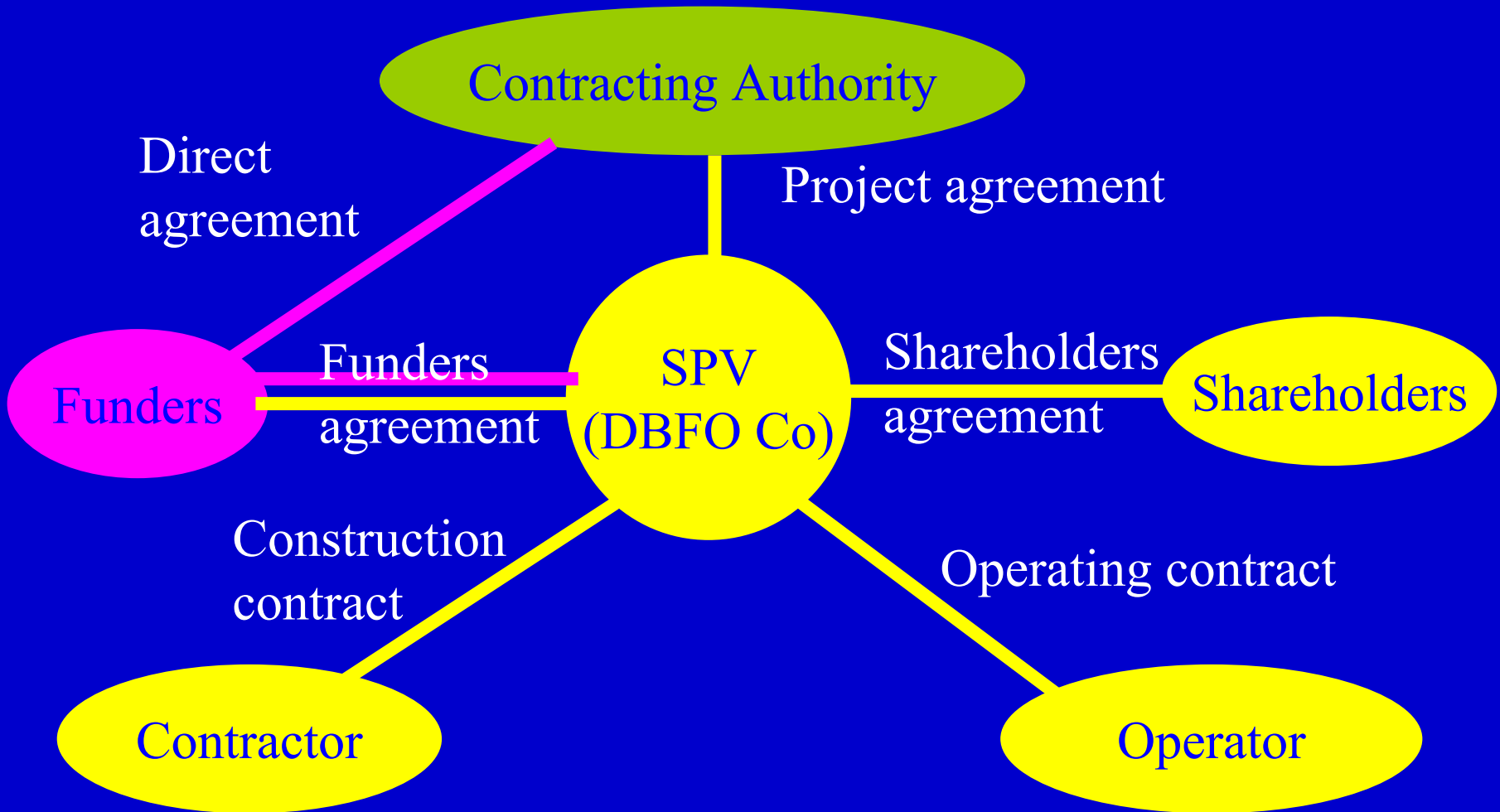
Main Benefit of the DBFO to the Agency

By transferring to the private sector responsibility for designing, constructing, financing and operating road scheme(s), the private sector will consider its obligations as a whole, over the 30-year life of the contract, taking full account of the risks inherent at each stage of the project

Key Stages in DBFO Project Delivery



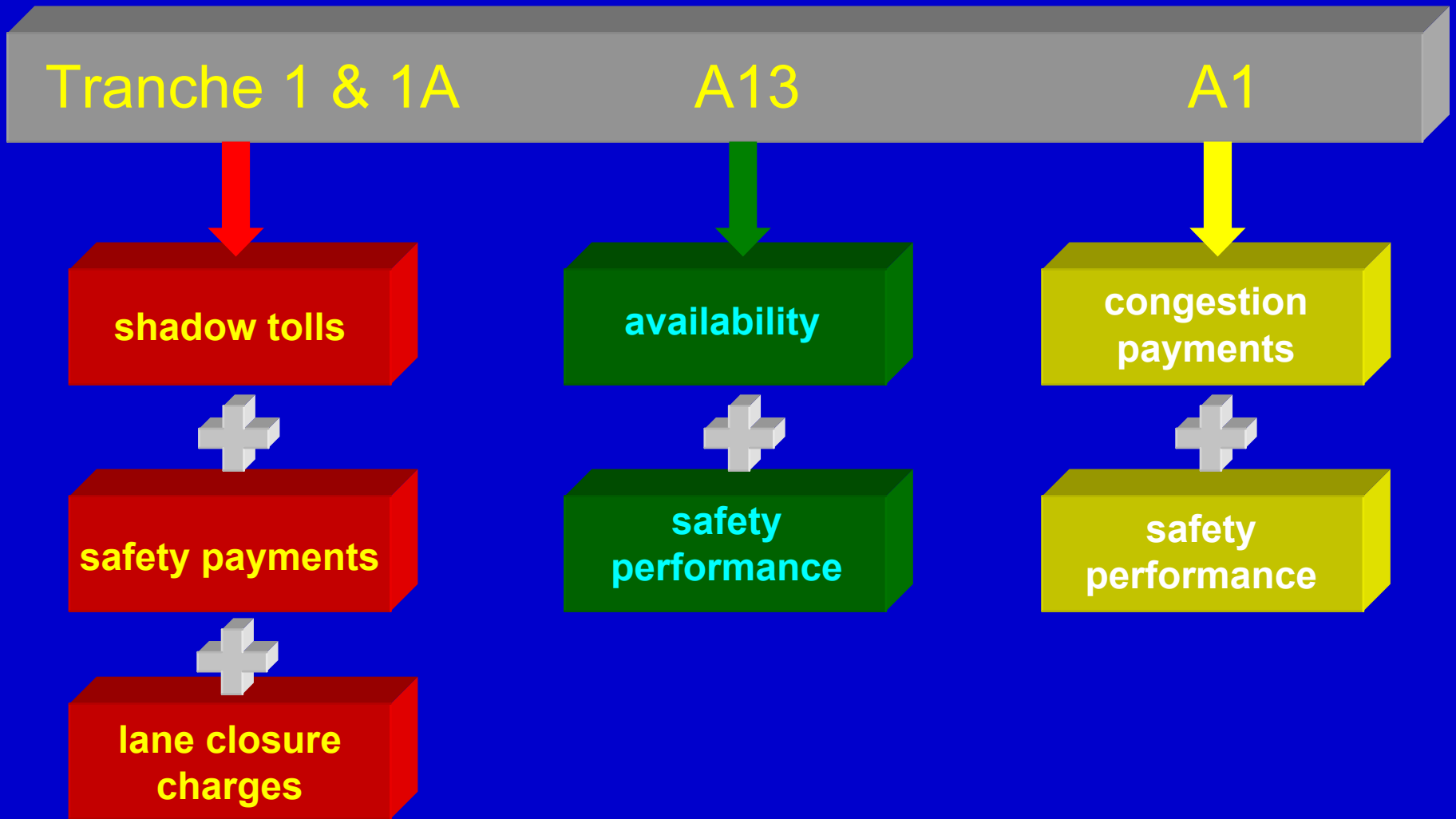
Contract Arrangements



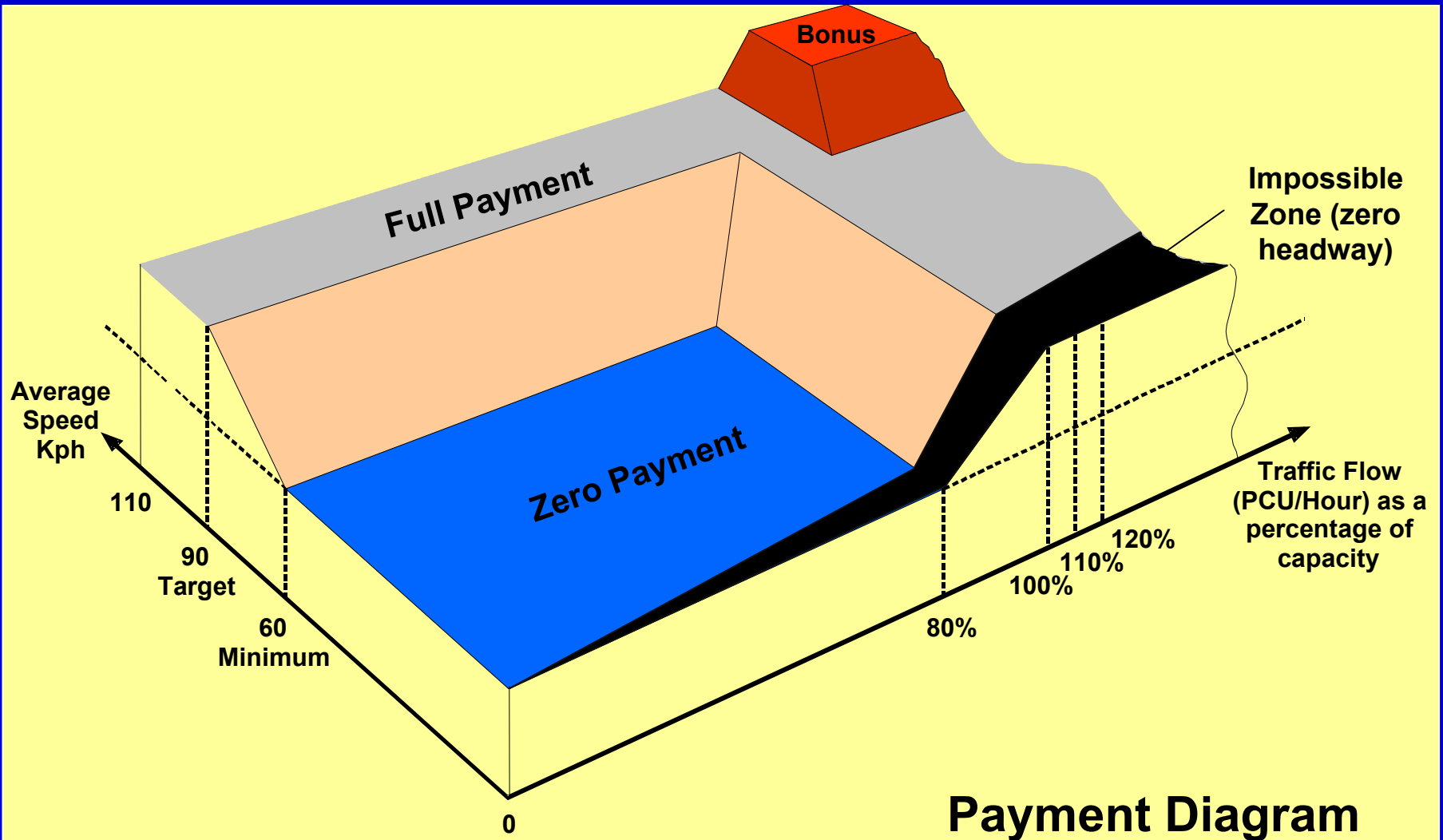
Risk Allocation

- **Transferred to DBFOCo (a SPV Company)**
 - Types of risk include construction, operation, maintenance, delays, third party, traffic, environmental, latent defects and hand back retention
- **Retained by Client (Government)**
 - Risks include planning delays, client charges, change of law, 'Force Majeure'
- **Shared Risks / Rewards**
 - Protestor action
- **Rewards**
 - User paid tolls

Development of Payment Mechanisms



A1 Darrington to Dishforth



Payment Diagram

Monitoring and Remedies

- **Department's Agent (construction)**
 - Works for government
- **Department's Representative (operation)**
 - Works for government, Monitoring & audit role, 'hand's off' approach
- **Remedies**
 - Penalty points, warning notices, increased monitoring, suspended payments, termination
- **Banks and Funders**
 - Self regulating role, minimizing risk to their investment from remedies

Innovation and Value for Money

- **Technical Innovation**

- Limited in first 8 contracts, now less prescriptive, Design changes, construction methods, whole life costing principles (including residual life)

- **Financial Innovation**

- Equity, subordinated debt (3rd party equity),
- Long term limited recourse debt (20 - 30 years)
- Bond issues, external funding support,
- Step-in rights for funders

- **Value for Money**

- Project(s) must represent good Value for Money
- Public Sector Comparator
- Good and improving VfM on most UK DBFO projects (12 - 17%)

Some Lessons Learned from the UK Experience

- Complex and novel form of contract, now becoming more familiar to all parties
- Generous timescale to achieve best VfM (5-6 month tender, 6 month negotiation)
- Lengthy learning curve for both parties
- High tender, negotiation and financing costs

The Future of PPP Roads in the UK

- More major DBFO projects in preparation with others being considered
- Local Highway Authorities have done few PPP projects since funds are limited and many projects not suitable
- Future procurement options for highway maintenance and management include PPP
- Payment mechanisms must reward performance rather than increased traffic volume

The Future of PPP Roads in the UK

- Performance specification for maintenance being developed - can then link payment to performance
- Greater technical and financial innovation needed
- DBFO Co SPVs must be involved in the planning process
- PPP contracts must be more flexible to change
- Bidding costs must be reduced for both parties