World Bank
Toll Road Seminar

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Activities Worldwide

- TRANSPORT
- WATER
- ENVIRONMENT
- DEVELOPMENT
- POWER

- UK & EUROPE
- CENTRAL ASIA
- MIDDLE EAST
- INDIA, BANGLADESH
- E. ASIA, ASIA PACIFIC
- AMERICAS, CARIBBEAN
- AFRICA
DBFO/PPP EXPERIENCE

- Technical Advisor for English DBFO Projects
- Technical Advisor and Department’s Agent for A55 DBFO Project in Wales
- Advising Local Authorities on DBFO/PPP
- Advising Highways Agency on PPP for maintenance
- Contracts Advisor for N4 Maputo Corridor Toll Road in S Africa and Mozambique
- Project consultant for toll road projects in Malaysia and Philippines
- DBFO Guidelines for Japanese Govt.
DBFO PROCUREMENT

Experience to date in UK
Design Build Finance and Operate (DBFO) Contracts for Highways

- 247km of new & 860km of existing trunk roads since 1994
- Negotiated 30 year contracts between Govt. & DBFO Co.
- Public roads, Govt. remains the Highway Authority
- Forms of contract have become less prescriptive
- Core requirements (not negotiable)
  Commitments from Public Inquiry, statutory Orders, environmental statement, safe operation of the highway, enable S of S to fulfil 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.
DBFO Payment Mechanisms

• Shadow tolls
  4 bands of payment, 2 classes of vehicle (5.2 m) define rate of return, risk. Trend towards decreasing car component (A13 East London). Emphasis on performance rather than traffic.

• Safety payments
  Above or below defined norm for accidents.

• Lane closures / lane availability
  Payment deducted for cost of delays.
  Deemed non-availability for poorly maintained sections (rideability, skid resistance)

• 5 year management plans
  Safety, congestion relief, environmental management, roadside facilities, encouraging transport integration.
Monitoring and Remedies

• Department’s Agent (construction)
• Department’s Representative (operation)
  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.
Allocation of risk

- Transferred to DBFO Company
  - Construction risk
  - Operation and maintenance risk
  - Delays, third party risk, traffic risk, environmental issues, latent defects, hand-back (retention)

- Retained by Client
  - Planning delays
  - Client changes
  - Change of law (discriminatory against DBFO)
  - Force Majeure (certain events)

- Shared Risks / Rewards
  - Protestors
  - User paid tolls
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
  Scheme(s) must represent good VFM
  Public Sector Comparator
  Good and improving VFM on most UK DBFO projects (15%)
Experience in UK

- High tender and negotiation costs
- High financing costs
- Generous timescale to achieve best VFM (5 month tender, 6 month negotiation)
- Lengthy learning curve for both parties
- Complex and novel form of contract, now becoming more familiar to all parties
- Pro-active management by DBFO Co.
- Liaison with third parties to build confidence
- Payment mechanism changing to reflect government transport policy
- Results: no worse and often better than traditional procurement
The Future

- Two more major DBFO projects in preparation with others being considered
- Local Highway Authorities considering projects but 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
- Performance specification for maintenance being developed
- Greater technical and financial innovation needed
- DBFO Co must be involved in the planning process
- The DBFO contract must be more flexible to change
- Bidding costs must be reduced for both parties