

Public-private Partnerships in the Road Sector



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18 April 2008



International Road Federation, Geneva, Switzerland

Overview PPP session

General part:

- PPP: what are we talking about?
- Overviews of PPP activity and some examples

In depth part:

- Crash course:
How to set up a concession contract?





PPP: What are we talking about?

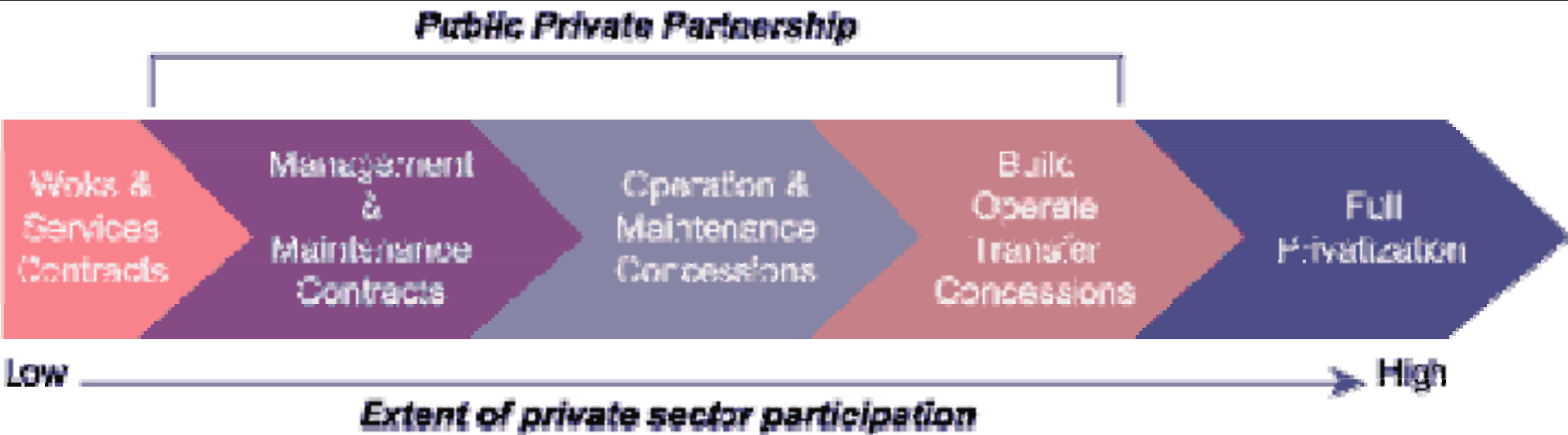


Misperceptions about PPP

- A road PPP can only be toll road
 - No, PPP covers a wide range of contract types including toll road concessions
- PPP can save unfeasible projects
 - No, projects have their own socio-economical justification, PPP is just a way to set up the contract
- The signing of the contract is the most important moment
 - No, signing the contract is only the kick off for a long term relationship



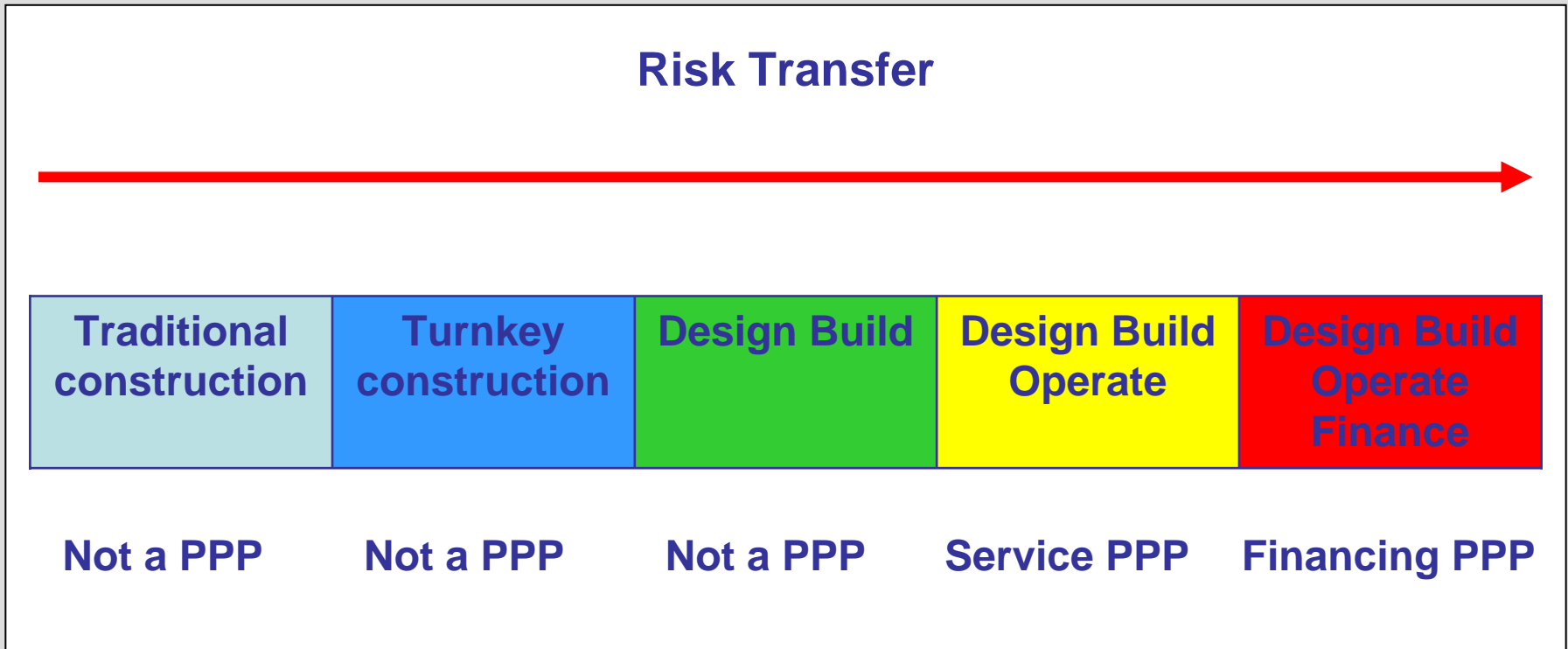
What is perceived as a PPP?



Source: World Bank, PPIAF website, Toolkit for PPP in Highways



What is perceived as a PPP?



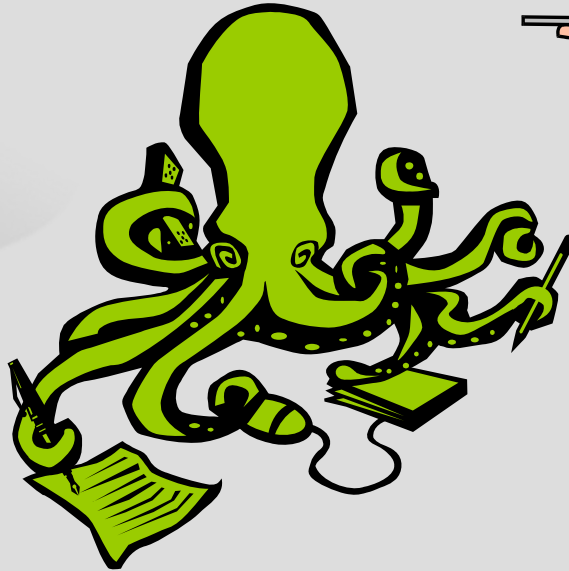
Source: PricewaterhouseCoopers



Key elements



Long
term



Global



Performance
based



Finance
component



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Long term

- Enabling life cycle approach:
 - optimising the chain of design-construct-maintain activities
 - cost efficiency for equipments and materials
- Stimulates innovation (both technical and organisational)



Global contract

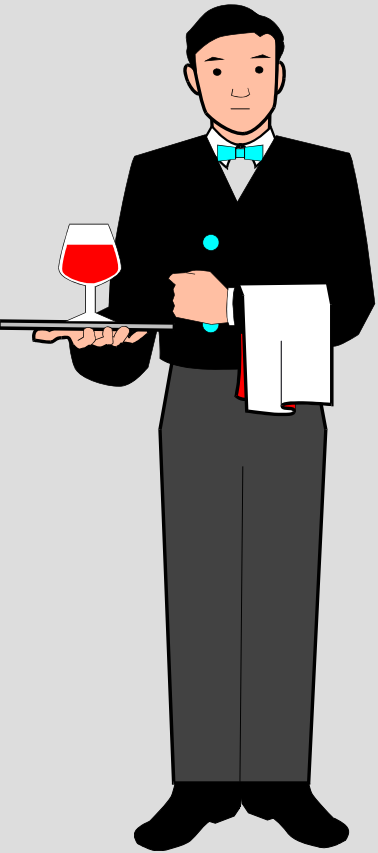


In two ways:

1. Combines different types of work:
 - Design, construct, maintain, operate
 - Pavement, border maintenance, lighting, road marking, etc.
2. Autonomy for the contractor



Performance based



- Focus on **service** level:
 - For example: lane availability
- No specifications of quantities and activities but of **quality** and **function**
- Performance monitoring

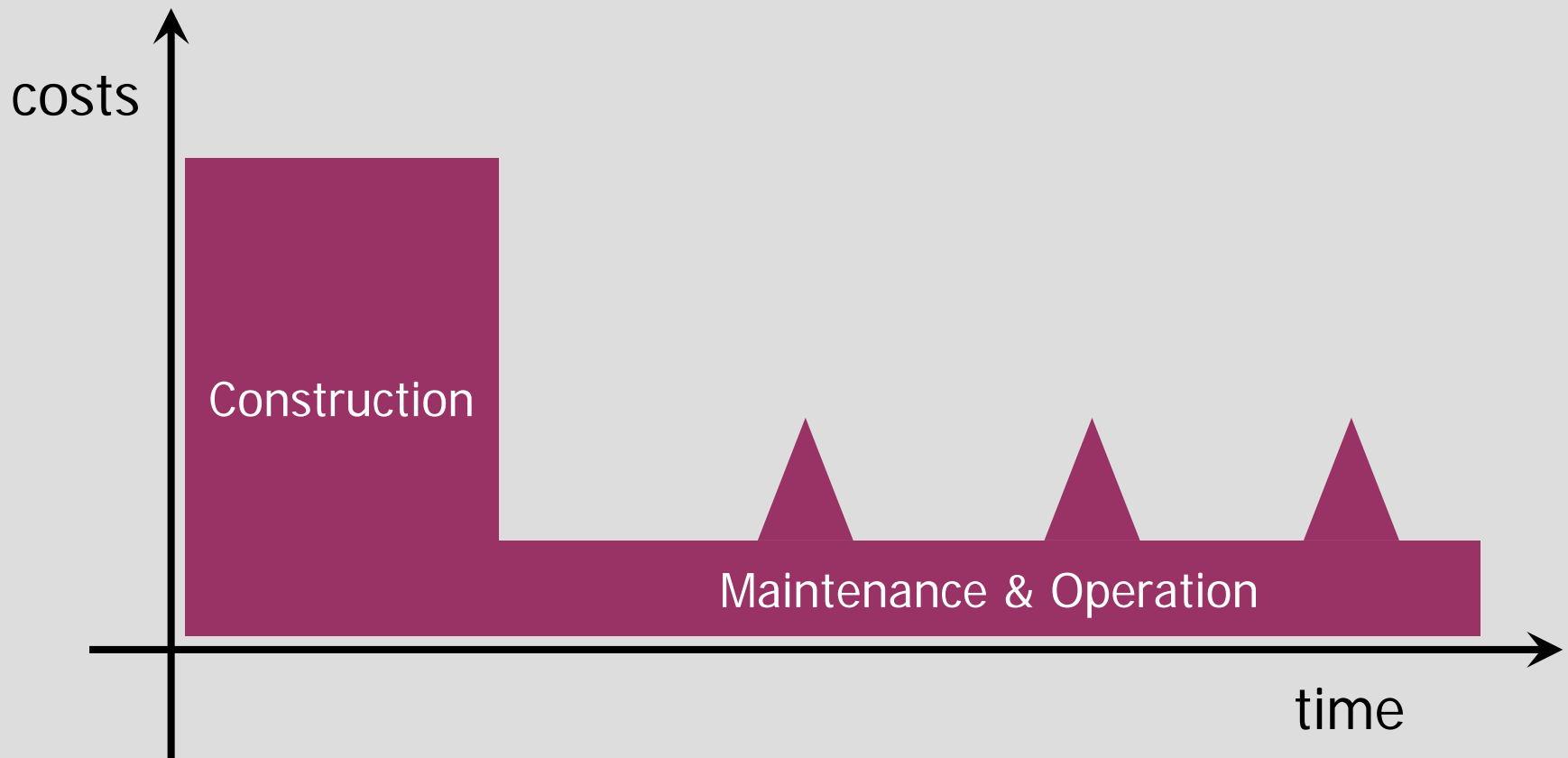


Finance component

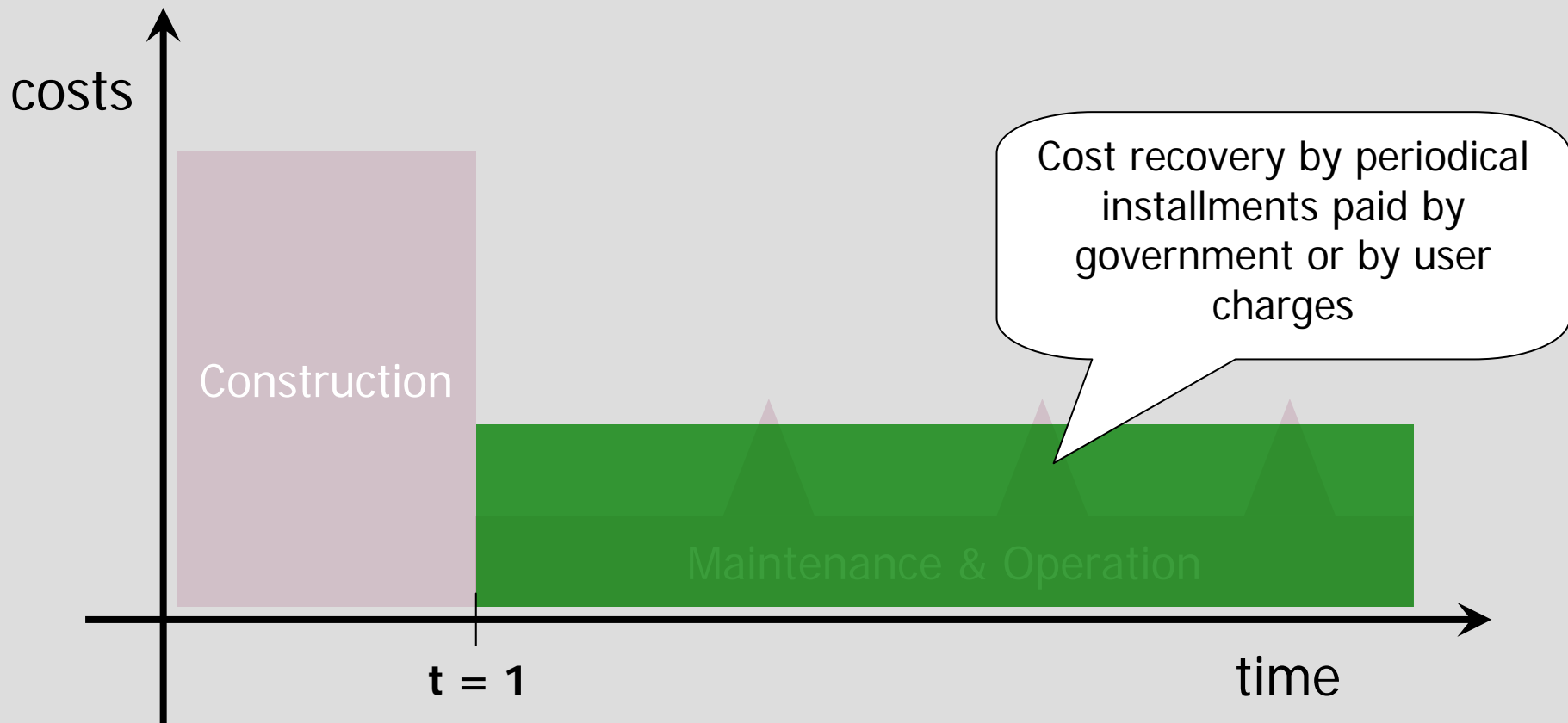
- Not necessarily very large
- Different types of cost recovery:
 - Periodical installments paid by government
 - User charges
- Introducing an extra watch dog:
the **lender**



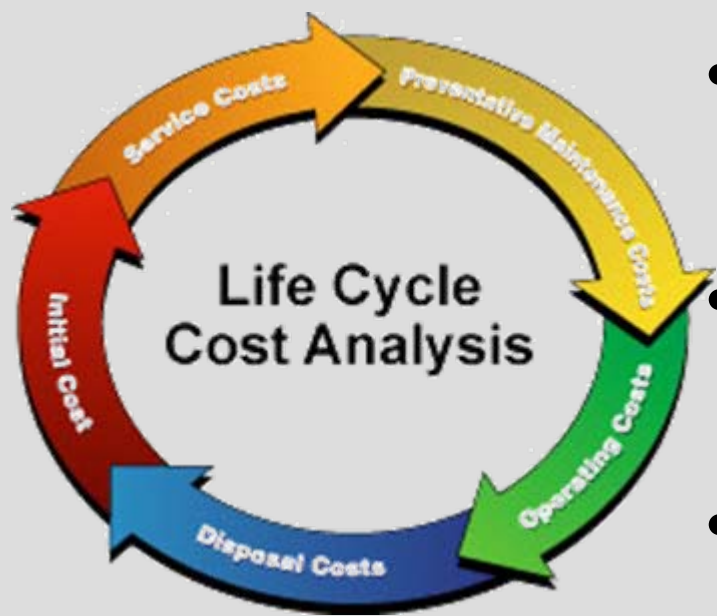
Cost profile of a road project



PPP revenue flow



Improving road sector performance




- By leaving room for a life cycle approach
- By introducing a service oriented approach
- By introducing a watch-dog with long term interest



Identifying potential projects

- Precondition: socio-economic justification for the project has been established
- Instruments available and tested:
 - Public Private Comparator (PPC)
 - PPP compared traditional contracting (estimation)
 - Public Sector Comparator (PSC)
 - PPP bid versus traditional contracting





Overviews of PPP activity and some examples



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PPP development in Europe

Member States	Central Accommodation	Airports	Defence	Housing	Health & Hospitals	IT	Ports	Prisons	Heavy Railway	Light Railway	Roads	Schools	Sports & Leisure	Water & Wastewater (incl. solid waste)
Austria	○	○			◐	○		○	◐		◐	○		○
Belgium		◐		◐					◐	○	◐	○		◐
Denmark	◐						○			○	○	◐	○	
Finland			○		○				○	○	◐	◐		○
France	◐	○	○		◐		○	◐	◐	◐ [†]	● [†]		◐	● [†]
Germany	◐	○	◐		◐	◐		◐	○	○	◐	◐	◐	◐
Greece	◐	●			○						◐	○	◐	
Ireland	○			◐	◐			○		◐	◐	◐		◐
Italy	◐	◐		◐	◐		◐	○		◐	◐		◐	◐
Luxembourg		○				◐								
Netherlands	◐		◐	○	○		○	◐	◐		◐	◐		◐
Norway (not EU)	○		○		◐			○			◐	◐	○	
Portugal	○	○		○	◐	◐	◐	○	○	◐	●	○	◐	●
Spain	◐	◐			◐		●	◐	○	◐	●	○	○	◐
Sweden			○		○				○	◐	○			
UK	●	●	●	●	●	●		●		●	●	●	●	●

Legend

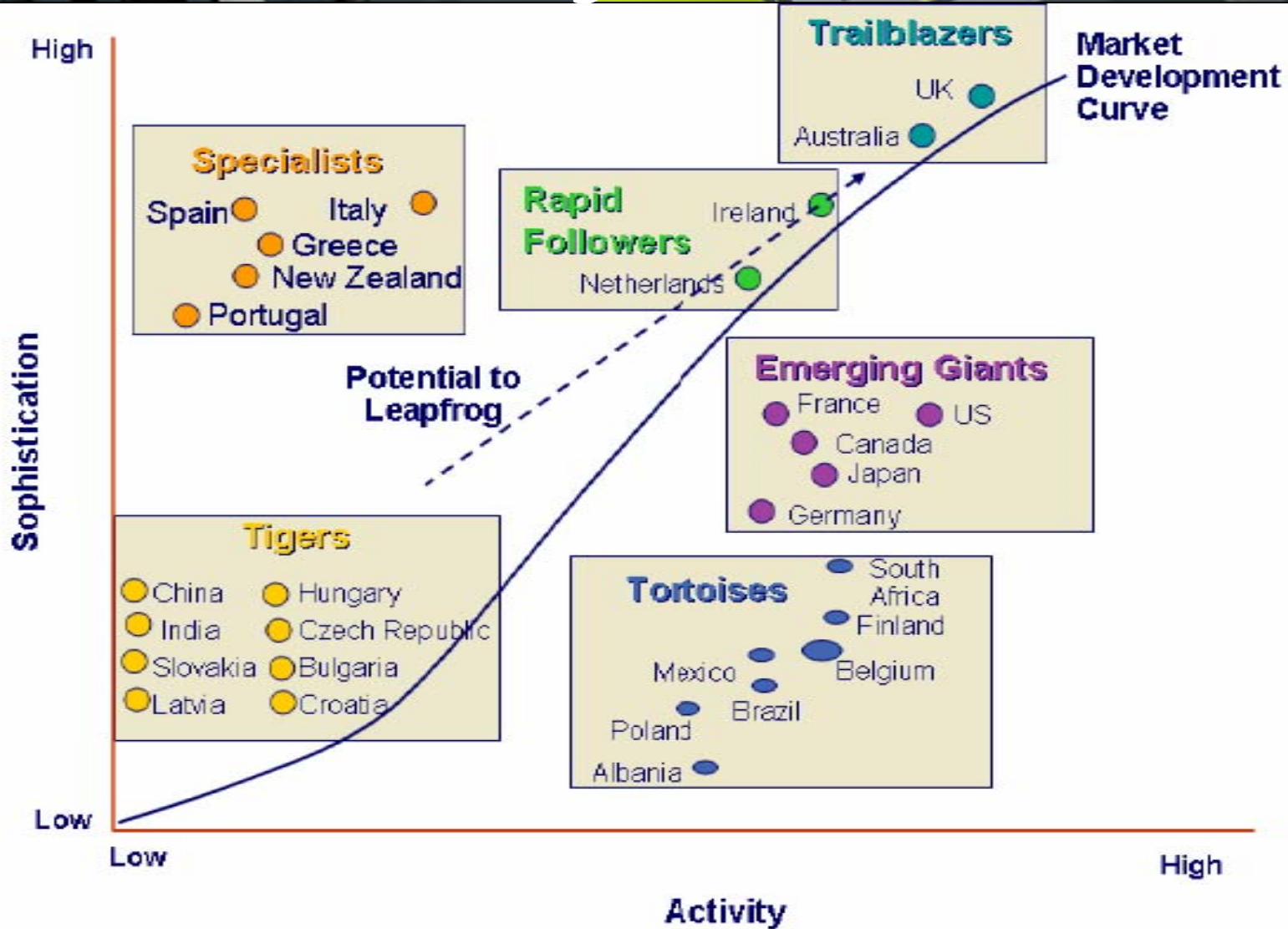
- Discussions ongoing
- ◐ Projects in procurement
- ◑ Many procured projects, some projects closed
- ◒ Substantial number of closed projects
- Substantial number of closed projects, majority of them in operation

[†] Procurement activity in these sectors relates to traditional style concession contracts



PPP Maturity internationally

Source: Deloitte., Closing the infrastructure gap, 2006



Starting out small... in the Netherlands



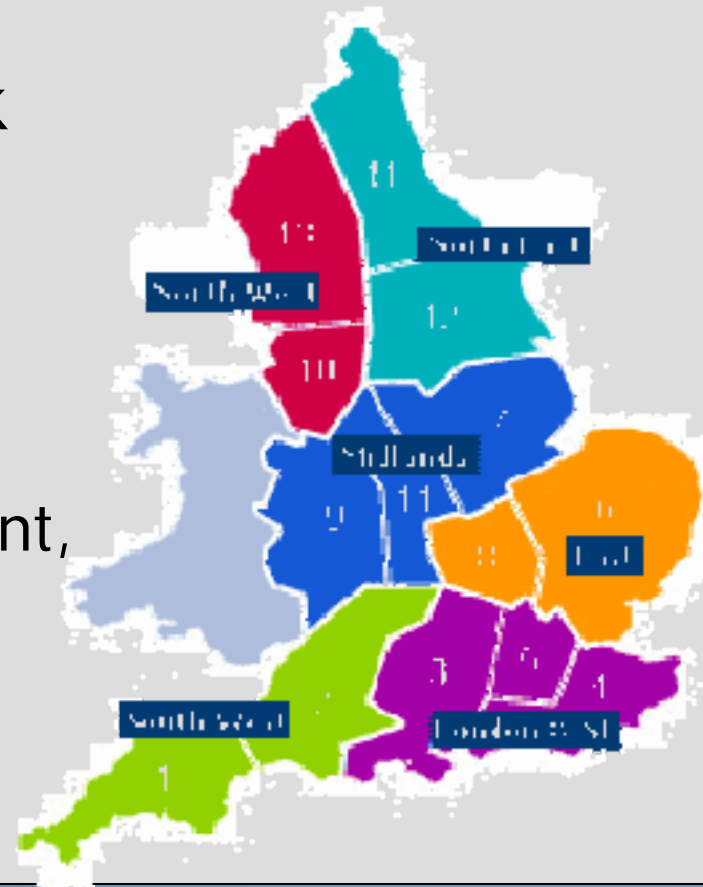
- Performance based maintenance contracts:
 - 5 year contracts
 - Tasks including patrolling, quick small repairs, clean borders and rest areas



Managing Agent Contractor

England, issued by Highways Agency

- 14 regions in the road network
- 5 to 7 year contracts
- Contractor responsible for:
 - all maintenance below a certain capital value, including winter maintenance, road side equipment, emergency response



Dutch projects (since 2000)

Source: presentation Jan van Schoonhoven, PPP Unit, MoT

Projects	Contract value (millions €)
HSL Zuid Infra Provider (rail)	1300
Hoogheemraadschap Delfland (waste water treatment plant)	360
A59 (road)	220
N31 (road)	110
Montaigne Lyceum (school)	25
Ministry of Finance (accommodation)	177
2 ^e Coentunnel (tunnel) – tender stage	500 appr.
A15 - MaVa (road) – prep stage	1300 appr.



Private Finance Initiative

England

- First road projects under DBFO regime awarded in 1996
- Annual installments paid by government related to usage (shadow tolls)
- Evolving payment mechanism – mixture of availability payments, long vehicle shadow tolls and safety payments



Value for money overview

Project	Public Sector Comparator (See Note 1)(£m)	Winning DBFO Bid(£m)	Value for Money(£m)	Percentage Saving
M1-A1	344	232	112	32.6%
A1(M)	204	154	50	24.5%
A419/A417	123	112	11	8.9
A69	57	62	(-5)	+8.7%
M40	276	182	94	34.1%
A19	177	136	41	23.3%
A50/A564	77	67	10	13.0%
A30/A35	149	148	1	0.7%
A1DD	245	203	42	17.14%
A249	98	100	(-2)	+2.04%
Total	1750	1396	354	20.23%

Source: www.highways.gov.uk/roads



Concessions

- Also known as: toll motorway, BOT, turnpike, DBFO, etc etc.
- Private company responsible for design, construction, maintenance and operation of road
- Right to levy user charges (tolls)
- Well known toll countries: France, Italy, Portugal, Brazil, Malaysia, US, South Africa





Attica Tollway, Greece

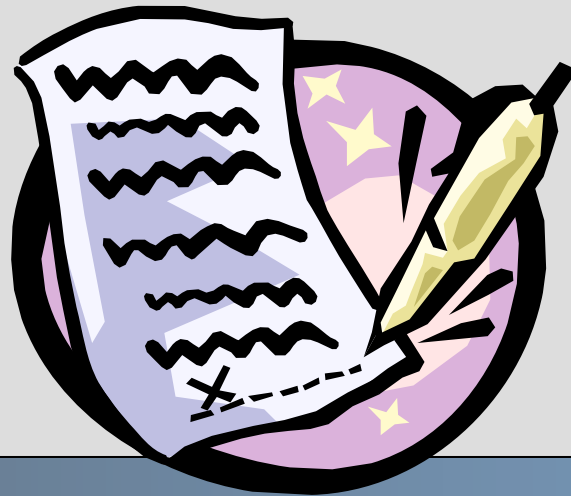


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In depth: concessions

Crash course:

How to set up a concession contract?



The French concession system



Viaduct de Millau in the south of France, concessionair company: Eiffage



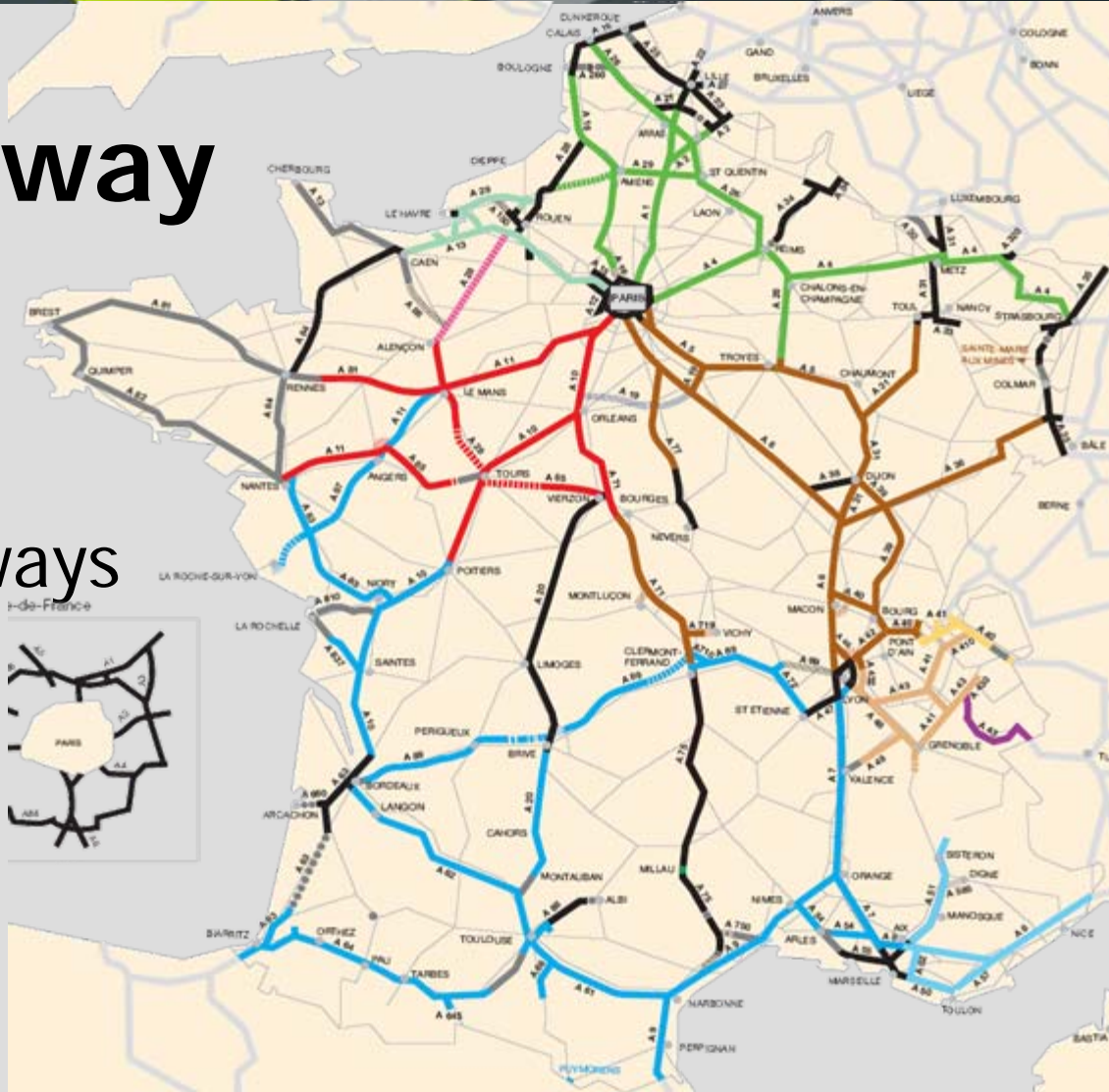
French concession practice

- Highly standardised contracts
- Well known by private sector
- National government as a professional client
- Many risks transferred to private sector:
 - Economic and financial risks, construction risks, operational risks, commercial risks (toll tariffs and traffic volume)
- Few points for negotiation during tendering



French motorway network

In color:
concession motorways
(8174 km)



Definition

A concession is a contract under public law wherein:

- A public authority
- Delegates
- The management of a public service for which it bears the responsibility
- To a public or private entity
- Which is being reimbursed related to the operation of the service.



Tendering a concession contract

- Framework: EU procurement regulations
 - Basic principles: transparency and non-discrimination
- Negotiated procedure:
 - Public announcement
 - Pre-selection (list of approved bidders)
 - Request to submit bids based on draft contract
 - Bid analysis
 - Negotiations with a single candidate
 - Signature
 - Contract publication



Group Assignment:

1. What items should be covered in a concession contract?
 - List 10 items
2. What items should be negotiable? Why?



Set up of a concession contract

- “Convention de concession”
= basic agreement (2 pages)
- Terms of Reference (performance based requirements)
= the actual contract (35 pages)
- Annexes
= detailed specifications (technical and in terms of function)



In detail: Terms of Reference

Title I: Object, nature and characteristics of the concession

Title II: Construction of the motorway

Title III: Operation of the motorway

Title IV: Financial dispositions

Title V: General dispositions

Title VI: Penalties – Contract termination

Title VII: Miscellaneous



Items to be negotiated

- Toll tariffs and their development over time
- Planning of works and delivery date
- Conditions for contract termination
- Public subsidy if applicable

In general: not a lot of points to negotiate



Important issues in the contract

- Size of the concession
- Delivery date
- Involvement of Small and Medium sized Enterprises
- Conditions for contract termination
- Modifications



Important issues in the contract

- Contract management and monitoring
- Chosen tolling system
- Financial model underlying the concession:
 - Duration of the concession
 - Toll tariffs and their development over time
 - Public funding (subsidy) or not
 - Profit sharing dispositions





Thank you for your attention

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