

# Delivering through Public Private Partnerships

Lessons learnt  
from transport projects

**Steve Allen**  
Managing Director, Finance  
Transport for London

# The role of Transport for London (TfL)



- formed in July 2000
- functional body of the Greater London Authority
- implements the Mayor's Transport Strategy
- responsible for transport services and facilities across Greater London: Tube, buses, Overground, DLR, trams, Congestion Charging, taxis, Oyster, major roads
- c. 10 million public transport journeys a day



# TfL's main PFI / PPP projects



- Prestige Ticketing PFI (£1.3bn)
- Power PFI (£133m)
- Connect Communications PFI (£475m)
- Tubelines PPP (£5.5bn)
- Metronet PPP BCV (£5.4bn)
- Metronet PPP SSL (£6.7bn)



- Lewisham Extension (£142m)
- City Airport Extension (£147m)
- Woolwich Arsenal Extension (£177m)



- A13 DBFM (£229m)
- Thames Gateway Bridge (planned, £478m)



- Croydon Tramlink (£205m)



# Case studies

- DLR extension to City Airport
- Metronet BCV & SSL
- Prestige



# DLR extension to City Airport

- Docklands Light Railway (DLR) – Driverless, segregated system in East London connecting Canary Wharf to the City. Over 50 million passengers a year, expected to grow to over 100 million in 5-6 years.
- Project: Extension of DLR service from Canning Town to City Airport
- Key facts: Cost £147m; Length 4.4 km
- Financing approach: 30-year concession. On-balance sheet 'Design, Build, Finance, Maintain'
- Result: Opened on-time (Dec. 2005) and on-budget
- Follow-up extension to Woolwich under construction



# Metronet BCV & SSL

- Project: Upgrades and maintenance of LU lines and stations
- Key facts: 9 LU lines including rolling stock in two 30-year contracts with value over £12bn
- Financing approach: On-balance sheet; 95% debt guaranteed by TfL; 7.5 year re-pricing; Arbiter.
- Result: Metronet passed work to its consortium members only. Failed to deliver to schedule or budget. Now in administration. TfL bidding to take contracts out of administration.



# Prestige

- Project: Design, installation and maintenance of smartcard ticketing system.
- Key facts: £1.3bn over 17 years, let in 1998
- Financing approach: 17 year 'Design, build, operate, maintain' contract; off-balance sheet; fully debt-financed
- Result: System delivered late due to technological problems. Contract proved to be inflexible and expensive to amend.
- Reaching contract break option in near future. Looking to develop to support new technology options.



# Evaluating PFI / PPP projects - criteria

- Value for money and affordability
- Risk transfer
- External expertise and innovation
- Quality and customer issues
- Delivery



# Evaluation of DLR extension to City Airport

<b>Evaluation Criteria</b>	<b>RAG Status</b>	<b>Comments</b>
1. Value for money & affordability		Project bid competitively. Project came on-balance sheet on transfer to TfL.
2. Risk transfer		Construction and maintenance risks managed effectively.
3. Expertise & innovation		High level of expertise. Little requirement for innovation.
4. Quality & customer issues		High quality driven by clear output specifications. Construction had minor impact on existing services to customer.
5. Delivery		Delivered on-time and to budget.



# Evaluation of Metronet

Evaluation Criteria	RAG Status	Comments
1. Value for money & affordability	Red	Project very expensive to establish; competition constrained. Ability to re-open pricing creates affordability issues.
2. Risk transfer	Red	Little risk transfer in practice as shareholders were able to walk away.
3. Expertise & innovation	Orange	Little innovation. Limited new skills.
4. Quality & customer issues	Orange	Overruns on upgrade work frequently affected transport service for customers. Customer information around upgrade work provided by TfL.
5. Delivery	Orange	Delivery well behind schedule.



# Evaluation of Prestige

Evaluation Criteria	RAG Status	Project evaluation
1. Value for money & affordability	Orange	Initial costs managed but monopoly pricing of variations.
2. Risk transfer	Orange	Technological obsolescence during contract life. Some risk transfer proved inefficient.
3. Expertise & innovation	Green	Specialist knowledge / innovative technology.
4. Quality & customer issues	Orange	No incentive to market / promote. Success of promotion of Oyster depended on TfL intervention (particularly fare incentives).
5. Delivery	Orange	System delivered but required rephasing of delivery timetable.



# Summary of projects vs. criteria

<b>Evaluation Criteria</b>	<b>City airport</b>	<b>Metronet</b>	<b>Prestige</b>
1. Value for money & affordability	Orange	Red	Orange
2. Risk transfer	Green	Red	Orange
3. Expertise & innovation	Green	Orange	Green
4. Quality & customer issues	Green	Orange	Orange
5. Delivery	Green	Orange	Orange



# General conclusions

<b>Evaluation Criteria</b>	<b>Determinants of success</b>
1. Value for money & affordability	<ul style="list-style-type: none"><li>• Competition (contract &amp; finance)</li><li>• Contract size &amp; complexity</li><li>• Changes in accounting standards</li></ul>
2. Risk transfer	<ul style="list-style-type: none"><li>• Clear specification of outputs</li><li>• Correct incentives</li></ul>
3. Expertise & innovation	<ul style="list-style-type: none"><li>• A clear market for the skills</li><li>• Ability to incentivise innovation</li></ul>
4. Quality & customer issues	<ul style="list-style-type: none"><li>• Low impact on customer / day to day operations as this requires less flexibility to be retained</li></ul>
5. Delivery	<ul style="list-style-type: none"><li>• Clear, strong performance regime</li><li>• Right to information</li></ul>

*PPPs require intensive financial management throughout procurement, construction and operation*



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