Over the line?

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Construction group Amey has been intimately involved in the UK's PFI initiative from the start through its project finance arm, Amey Ventures. The company has been a regular presence in bidding groups for projects large and small since the PFI programme was launched under the last Conservative government and has witnessed considerable change in the way in which deals are structured and bid for. It is now involved in what is arguably the most visible and controversial PPP deal since the scheme began ? the part-privatisation of London Underground ? and is part of the sea change in the way in which sponsors approach such projects.

Amey Ventures managing director Dougie Sutherland, who joined the company in September 2000, is a PFI veteran who has brought a wealth of experience to bear on his new role. He joined the company from Partnerships UK, where he was responsible for the development and execution of transactions in the accommodation and environment sectors and the Ministry of Defence (MOD). Prior to this he was part of the government's treasury taskforce managing corporate and project finance transactions and commercial deal structuring. Not surprisingly, he has overseen considerable changes to the bidding process over this time period ? and was part of the treasury team that streamlined the PFI bidding process in 1999.

?The introduction of standardisation of contracts has taken away a lot of the pain in negotiations,? Sutherland says, ?and it has achieved the aim of reducing the cost of bidding for these transactions.? But he emphasises that the costs of bidding for PFI contracts are still ?very significant? and believes that looking at ways in which these costs can be reduced is vital to the success of the scheme going forward.

?The private sector still has to hold massive costs [in bidding for projects] with a huge impact for those that lose,? Sutherland says. He explains that these huge costs mean that potential bidders may not focus on the deals as much as they otherwise might, simply as the costs are so prohibitive. Indeed, any company planning to bid for a sizeable PFI contract is looking at costs running into the millions and has to be sure it can bear that cost, should the bid fail. In one recent high-profile PFI project the unsuccessful shortlisted bidder had to write off costs of £10 million on the bid ? not something that many companies can lightly countenance.

Sutherland is adamant that ?it is important to have a strong, competitive industry? and therefore believes that moves should be made to address the issue of bidding costs. He therefore proposes that the government itself should underwrite some of the bidding costs by reimbursing unsuccessful shortlisted bidders some of the costs of their bid. ?Companies have to think very hard about committing to projects and the government should therefore think very hard about whether it can underwrite some of their costs,? he says, proposing, for example, that sometimes bid costs of the shortlisted bidder should be underwritten and paid when contracts are awarded. Amey itself has seen several high-profile bids fail, such as its bids to run facilities for the BBC and the Met Office, with associated tender costs running into the millions.

Such a proposal would be a red rag to a bull for the vocal anti-PFI lobby, for whom the prospect of using further taxpayer funds to compensate the private sector would be beyond the pale. The recent high-profile bailing out of privatised utilities by the taxpayer (Railtrack and NATS) has received rabid press coverage and has managed to turn the PPP concept into even more of a political hot potato than it already was. Any proposal to compensate unsuccessful bidders in PFI projects would therefore be savaged in the current political climate. But Sutherland is adamant that it should be the way forward. ?There is evidence that if companies have their bid costs, or an element of their bid costs, then they will develop their proposals in more detail. This will enhance the value of the competition and give the Authority a greater degree of confidence in the deliverability of the solution they select.?

And Amey Ventures should know, having bid for some of the most bespoke PFI projects that have been launched. The company has been very visible in the MOD sector, most notably in the £551.7 million Modus deal to refurbish the MOD's main headquarters in London. The contract was awarded in June 2000 and was the largest PFI contract ever closed. The deal incorporated a 30-year concession, valued at £1.5 billion, to refurbish and service the building. The successful consortium included Amey Ventures, Macquarie Infrastructure Projects, Hyder Investments and Innisfree Partners. The deal entails the transfer of 4,000 MOD staff to adjacent properties for the four years that it will take to refurbish the main building. Amey Ventures invested £11 million in the consortium, Modus Services, in return for a 19.9% shareholding. The deal was not Amey's first venture into MOD PFI, the company having already signed contracts with the Navy, RAF and MOD's Defence Evaluation and Research Agency (DERA).

Sutherland explains that ?MoD Projects are particularly expensive to bid because of their bespoke nature and drawn out procurement timetables. Consequently it is likely that only a few bidders will have the appetite to really, rather than superficially, invest.? Thus, the pain of a failed bid is very intense in this sector as well. But it is a sector that is ?very important? for Amey Ventures and the company focuses hard on these projects. It is currently the preferred bidder for the MOD's C Vehicles deal, a £1 billion contract to provide support (or capability ? hence the C) vehicles. Not surprisingly, the government received just two bids for the deal following its invitation to negotiate which was issued in March last year. Amey, which has bid in the ALC consortium with Lex, was selected as preferred bidder in September. It was up against a consortium known as Fastex, which comprised Brown & Root and Caterpillar. The deal involves the supply and service of equipment under a 15 year contract, covering earthmoving, construction and specialist plant and equipment for airfield damage repair. It also covers equipment for amphibious operations and explosive ordnance disposal. The MOD currently operates around 3,000 C vehicles.

Sutherland attributes much of Amey's success in winning PFI contracts to its focus on service supply rather than the asset. ?We are very service-led rather than being equipment- or construction-led,? he explains. The strategy seems to be paying off and Amey recorded a 40% jump in interim pre-tax profits in September to £12.9 million. Amey Ventures itself has been restructured along these lines with a sector focus. It has 13 sector teams in which the members focus solely on the sector in question. ?This makes us a lot more flexible,? he says. ?We can move more quickly with the requirements of the client.? The emphasis on service is something of a mantra at Amey and is used to distinguish the company from its competitors. Given the industry's high bid costs and this move towards a sectoral approach, the logical evolution of Amey's business should, therefore, be a move towards domination in a small number of sectors in which it has a large number of existing projects and a strong track record.

Not so, says Sutherland. ?We will bid on sectors in which we do not have a huge presence,? he says. An example is the healthcare sector, where Amey is only involved in one deal so far. It has, however, appointed someone to make inroads into the sector and will continue to bid across the board for PFI projects. It also bids from the top to the bottom ? from the likes of the Modus contract to very much smaller undertakings. An example of this is street lighting. ?Street lighting is very exciting,? says Sutherland in an impressive dinner party ice-breaker. Amey has invested significantly in building up a street lighting team and is working on building up its product from straightforward provision of street lighting to the provision of the ?street scene?. But in all sectors Sutherland continues to emphasise the importance of service. ?In the early days of PFI deals were contractor-led but Amey is not like that; our solution is always driven by service.?

This may be news to some members of the travelling public in Scotland where Amey has attracted criticism of its road maintenance. The company has won maintenance contracts across Scotland and undercut the local government bidder to maintain the M8 earlier this year by nearly £200 million. But there has been much criticism in the Scottish press of the standard of maintenance and much has been made of the fact that the Scottish Executive has so far issued the company (and its partner Bear Scotland) with 34 official warnings over the standard of work

Sutherland has a sheet of A4 crammed with a list of all the PFI deals on which Amey is bidding ? this list topped 80 at the last count ? and the company is currently shortlisted for 15 projects. It is now preparing a bid for the upgrade of two army garrisons at Aldershot and Tidworth as part of the MOD's £200 million upgrade of service accommodation. Aldershot and Tidworth have been identified as having some of the worst accommodation in the country ? along with Catterick and RAF stations at Lyneham and Cottesmore. Amey is bidding for the contract ? the service element of which is valued at about £70 million a year over a 25-30 year lifetime, together with Lend Lease and Bovis. Prequalification for the deal ? valued at around £10 million but entailing a total capital expenditure of around £900 million ? is anticipated in February. Sutherland predicts that ?There will be a lot more pressure [on the MOD] from the private sector on these deals? but adds that the MOD has ?got its act together? with its project team.

In addition to its MOD focus, Amey has also built up a strong presence in the education sector. Its latest deal is for the modernisation and renewal of 18 schools in Edinburgh through the Edinburgh Schools Partnership. This is a partnership between Amey Ventures, the Miller Group and Bank of Scotland. Amey and the Miller Group were also part of the 3ED consortium which has carried out a £1.2 billion upgrade of 29 secondary schools in Glasgow. They were joined in that consortium by Halifax Project Investments. Another fruitful source of deals has been the local authority sector and the company, together with Barclays European Infrastructure, was selected as preferred bidder for a 25 year project with Somerset County Council just before Christmas. The deal is for the provision of serviced accommodation for the Avon and Somerset Magistrates Courts Committee, the Avon and Somerset Probation Service and the Avon District Coroners Court Service. The estimated value of the contract is £130 million. The contract, the design and build element of which is valued at £32 million, is for new facilites in Bristol and north Somerset. The facilities management contract is valued at around £1 million a year.

But the PPP contract that everyone is watching with bated breath is, of course, the London Underground deal. Amey is part of the Tubelines consortium which has been selected as preferred bidder for the upgrade of the Jubilee, Northern and Piccadilly line. The government's proposed £13 billion PPP scheme to upgrade London's Underground system would see £8.7 billion earmarked for service enhancements and £4.3 billion for maintenance over the next 15 years. Tubelines consists of Bechtel, Amey and Jarvis and has secured £1.6 billion bank finance for the bid. This has been committed by WestLB, EIB (which also funded the Edinburgh Schools Partnership) Bank of Scotland, Societe Generale and Dai Ichi Kangyo Bank. Tubelines has also raised a further £300 million in equity and mezzanine finance. The deal has been dogged by acrimony and controversy and despite the fact that is so close to being finalised Transport Secretary Stephen Byers has ordered an internal review to assess whether it represents value for money. Being involved in this particular project must have been extremely exasperating but Amey is remaining tight-lipped about the experience. ?There are vast amounts of speculation about what is going on,? Sutherland admits. ?But we are right at final close ? which we expect in January.?

The sums raised for the London Underground deal (the other consortium, Metronet, has raised £2.5 billion from Deutsche Bank, Royal Bank of Scotland, Abbey National and CIBC) show that there is still healthy appetite from the bank market for PPP deals ? however controversial. Amey has a strong group of relationship banks and admits that terms have been moving in the company's favour. ?It is not just bank terms that we are looking at though, it is the structure.? The company has tapped the bond market ? using a wrapped bond for its M6 ? A74 road deal in Scotland. Amey also tapped the private placement market for its refinancing of the A19 road project. Sutherland says that the company would use unwrapped products at the junior or mezzanine level but not higher. On the equity side the company has worked with equity funds (such as Innisfree on the Modus deal) but is keen to keep the lion's share of deals to itself. ?We want to minimise the number of partners involved in transactions ? we won't introduce too many people [on the equity side],? he says. But the company has looked at the senior debt provider in a project also proving equity and has done this with Bank of Scotland.

In early January reports appeared in the UK's Independent newspaper suggesting that the government is preparing to pass control of the Jubilee, Northern and Piccadilly lines to Transport for London as the Bechtel consortium's (of which Amey is a member) proposals do not provide value for money. The reports cite government sources which suggest that there is serious concern that the Tubelines proposal is too expensive and this section of the system should be handed to TfL's transport supremo Bob Kiley. London Underground received final bids from both Metronet and Tubelines on Friday January 4. Dougie Sutherland declined to comment on the accuracy of these reports.