

Performance Based Contracts

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- **Business Process – Successive Task Development**
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Business Process – Successive Task Development

Business Process (simplified):

- Road Network Monitoring
- Planning (where – when – roughly what)
- Design (what in detail – how)
- Road works execution

Result of the task:

Temporary or permanent improvement of the road network

Distribution of the costs:

- | | |
|----------------------------|-------------|
| 1. Road works execution | Main part |
| 2. Road network monitoring | Quite a lot |
| 3. Design | Not so much |
| 4. Planning | Small costs |

Goals and Means of the Task

Goals:

**Road Works Effectiveness
(best Benefits / Costs)**

Means:

**Competition using incentives leading to
low costs through smart solutions**

3 alternatives for road works execution:

- **In-house resources**
- **Buying job**
- **Buying product**

What are prerequisites for competition?

Business Process – what should be contracted?

Business Process (simplified):

- Road Network Monitoring
- Planning (where – when – roughly what)
- Design (what in detail – how)
- Road works execution

Where can the contracting start?

Planning: low cost – high impact on results

Execution: high cost – low impact on results

Design: relatively low cost – medium impact

Different steps require different competence.

Competition Prerequisites

Competition requires plurality of competitors.

During the time, some contractors leave the market.

New ones should be attracted.

An active management of the “market” is necessary.

How to do it?

- Try to keep the contractors in the market through just, transparent and objective works control.
- Split the tasks if necessary.
- Support establishment of new contractors (from abroad, co-operatives etc.)
- **Have reserve solutions for “vanishing” markets.**

World Bank Resource Guide for Performance-based Contracting

(source: Andreas Schliessler)

- **Sample Bidding Document for OPRC**
- **Sample TOR for preparation of OPRC projects and support to bidding process**
- **Sample TOR for Supervision**
- **Sample TOR for Facilitator / Trainer**
- **Sample Technical Specifications**
- **WB Technical Note No. 27 on PBC**
- **Actual Contracts from around the World**
- **Resource People**

Performance Based Contracts - Why

Primarily

- To better respond to a new approach to Road Network Management.
- To achieve better roads for the same money, or ...
- ... to use less money for assuring the same Level of Service
- To reduce the administrative effort for the Road Agency (fewer contracts)

and also

- To ensure more stable funding for Road Maintenance.
- To make Road Maintenance a more attractive business for contractors
- To create incentives for technical innovation and higher efficiency
- To satisfy the needs of Road Users
- To support local communities

Cost savings reported by Road Agencies

- **Norway: 20–40%**
- **Sweden: +/- 30%**
- **Finland: 30-35%**
- **Holland: 30-40%**
- **Britain: 10% minimum**
- **Australia: 10-40%**
- **New Zealand: 20-30%**
- **USA: 10-15%**
- **Ontario, Cda: +/- 10%**
- **Alberta, Cda.: +/- 20%**
- **British Columbia, Cda: +/- 10%**