

Use of Agencies and PPP's for efficient, effective and accountable Public Spending

Session 8: PPP's from the Public Sectors point of view

Presentation by the Secretary General to the Dutch Ministry of Transport, Public Works and Water Management, Geert van Maanen.

Excellencies, colleagues, ladies and gentlemen,

The great Chinese philosopher Confucius once said about the man who always thought things over three times before doing anything: 'Twice should be enough.' In other words: it is a good idea in life not to postpone the step from thinking to doing. Of course, Confucius did not have the discussion about Public Private Partnerships in mind. But nonetheless, his statement is surprisingly appropriate to the Dutch PPP case. I'd like to tell you a bit more about that case today, because I believe a few lessons can be learned from the Dutch PPP story that can be useful outside the Netherlands too.

That story began sometime in the middle of the 1990s. I worked at the Ministry of Finance at the time. Suddenly everyone was talking about PPP, or so it seemed. But apart from a few small-scale, isolated experiments, all this produced in those years was a great deal of paper and few results. That resulted in an increasing numbers of critical questions, both from politics and from business. Did the departments really want to do something with PPP or not?

But the will was there. And so, around the year 2000, we started a PPP Knowledge Centre at the Ministry of Finance. That centre was not only given a knowledge objective, but also a pushing function for PPP projects. The aim was to put a few limited and relatively simple projects out to tender by PPP. Our hope was that by setting good examples, other projects would follow.

Looking back, I have to admit that this too was not an immediate success, primarily because there was a lack of trust between the market and the government. We, the government, were not used to giving the market the freedom to manoeuvre and, what's more, our procedures were not geared to handle this. In turn, the market apparently could not believe that the government saw more in PPP than simply a money-making machine. And so of course they declined.

I can actually understand their point of view, since that misunderstanding still exists up to this day in certain circles, also in the Netherlands. But PPP is certainly not a money-making machine. And neither is it a universal remedy to enable projects to be started that would otherwise be put aside.

Because money has to come back in again, one way or another. As the Americans say: 'There's no such thing as a free lunch.'

What PPP can and **must** do, is provide added value to projects that have to be done. That added value can be in a number of different things:

- Projects can become **better** in terms of quality, because the market introduces creativity and innovative strength.
- PPP may enable you to implement projects **earlier**, because the financing is not solely dependent on the annual scope of the national budget.
- And projects may also become **cheaper** – with the emphasis on 'may' – because giving business a greater role may deliver efficiency profits.

So, you see, PPP for me is not synonymous with 'free money', but should lead to more value for the taxpayers' money. From the market's point of view, it is of course important that PPP is more than just a way of keeping the order book full. There have to be other attractions, like extra operational security.

Armed with these insights, we started a PPP Infrastructure Taskforce about a year and a half ago. I myself have been made chairman, but this time in my new role as Secretary General to the Dutch Ministry of Transport and Public Works. This taskforce includes not only the four ministries most involved – including the Finance department – but for the first time also contractors, banks and major engineering firms were invited. The Taskforce was given two basic questions to answer:

1. Firstly: what is now actually stopping us from using PPP in infrastructure projects on a large scale? And how do we deal with these obstacles?
2. Secondly: which projects specifically lend themselves to PPP and how should we tackle them?

The idea was to force a breakthrough and that was why we put ourselves under pressure. The taskforce had to report to the ministers within a year. And that is what we did. Civil servants in the Netherlands don't like saying 'No, Minister' any more than their counterparts elsewhere.

The answer to the first question – where are the obstacles? – turned out mainly to be related to a lack of clarity in the market. Businesspeople want to know what they are getting into and what it will cost. The problem was that there were no hard and fast PPP procedures or other standards, which meant that businesses were faced with high costs. This is changing rapidly now. In a short time, for example, we finished a procedure-handbook and agreed on a standard contract for DBFM-projects. That immediately makes a huge difference in terms of time and cost. We also agreed on a procedure that enables us to complete spatial planning procedures and tendering procedures simultaneously. That gains us time and the market can bring in its creativity at a much earlier stage. And – last but not least – we will shortly agree on a clear and uniform procedure for unsolicited proposals.

To force ourselves as a government to deal much more actively with PPP, we have introduced something else too. In the orientation stage, every infrastructure project above a certain amount of money – 112,5 million euros to be exact – will be subjected to a so called market scan. The objective is to look systematically at whether early involvement of the market can bring added value in the project. The market scan thus forces project managers to think about PPP seriously, in a stage that they traditionally were only focussed on the problem, its pre-conditions and possible solutions. If the decision is not to use PPP – which is of course possible – that decision must be well argued in the eventual plan study decision. In addition we have also developed a Public Private Comparator, which makes it clear which implementation variant will produce the most value for money, looking at the life cycle of a project.

The second question that the PPP Taskforce had to answer – where would it be possible and how? – has resulted in a list of 12 projects. The first of these – the second Coen Tunnel near Amsterdam – will be tendered this year as a DBFM contract. But the list also contains complex projects combining infrastructure and area development. The best example, I think, is the extension of the motorway A4 from Rotterdam to Antwerp. A new road to link two international ports offers plenty of opportunities for developing homes and commercial property. The latter means that we will have to adept our PPP market scope. Traditionally, of course, we focused mainly on contractors and banks. But for complex projects like this we need new coalitions with project developers, property managers, housing corporations and major investors.

Ladies and gentlemen, the results of the PPP Taskforce are not only very promising, they are also tangible. The first results are coming in. At the same time, we certainly haven't finished yet. Changes to procedures and instruments only work if they are accompanied by cultural changes. Construction companies have to change from traditional contractors to designers and project developers. But to be honest, I think that the greatest turnaround will have to take place in my Ministry. For over two hundred years, highly expert government engineers have been creating detailed plans that were then put onto the market. Our new strategy, however, is: 'the market unless', or in other words, we shouldn't be doing everything ourselves, and certainly not the things that others can do just as well or even better. This cultural change will not happen overnight and will have far-reaching consequences for the organisation and for individual employees. But it has to happen.

It is also very important, in my opinion, to emphasize and strengthen the third 'P', the one that stands for Partnership. But how to do this? I'll give you two examples from the Netherlands. Firstly we hold informative meetings with our market partners from the PPP Taskforce to bring the procedural agreements and instruments I just mentioned to the attention of municipal councils, individual businesses and other interested parties. In doing this, we present a single message to the outside world. A second example is that we will start experiments in Alliancing for specific projects. Alliances are combined project organisations of the commissioning authority and the contractor or developer.

Government and market share risks and benefits and feel the same incentive. The idea is that this will encourage parties to optimise the project.

And then a final area in which we have to seize another opportunity. In my Ministry, I have noticed that we lack the people who are able to combine contract expertise with legal expertise and from that, take a bird's eye view to shape PPP. Furthermore, there is a lack of specific financial and economic knowledge. This is, of course, a question of time, because PPP is learning by doing. But we have to keep hold on what we learn and make it available to other projects. That is why I start with a knowledge pool on these specific items, together with the Ministry of Finance. I think that, as a government, we should have the courage to look beyond the boundaries of our own departments far more than we do in the moment. We simply have to find new ways to bring all the available expertise together.

Ladies and Gentlemen,

After a long start-up phase, I'm convinced that the Dutch PPP story will have a happy ending after all. My past experience at the Ministry of Finance and my current position at the Ministry of Transport and Public Works has shown me that the Dutch case produces three lessons that have more general implications:

1. The first is: don't stay too long in the conditional stage. You have to organise knowledge, make test models and set financial boundaries! But parallel to this, you also have to select projects, develop instruments and – simply – put projects out to tender via PPP. Because the proof of the pudding is in the eating. In the Netherlands, PPP has perhaps been a subject that for too long has been the exclusive province of the Ministry of Finance, while the market was dealing with other Ministries. With this remark, I am certainly not advocating that the Finance department should play a role at a distance. Quite the opposite. What I am advocating is that a number of Ministries take the joint responsibility for PPP in practice. And Finance will also have to 'make dirty hands', if I can put it in those terms.
2. Secondly: both the market and government will have to abandon their traditional roles of contractor and commissioning authority. The 'P' for Partnership deserves much more attention.
3. Thirdly: the cultural change that is needed to make PPP a success is the responsibility of the top management. That has to be the driving force. Changes in the organisation will be of course inevitable. 'Doing less ourselves' means, for example, in my department that 2,000 out of 15,000 employees will be redundant. But it is perhaps even more important that as a manager you compel people to work differently. For example, right at the start of the plans for linking Rotterdam and Antwerp, we asked the market to contribute ideas for possible solutions and alternatives. Imagine what this means for civil servants that have always directed things themselves. But the moment this creates internal opposition is exactly the moment when top management has to give full support to the new approach.

Ladies and gentlemen, a personal note to finish on. You can only give direction if you believe in what you are doing. As far as that goes, I personally have the advantage of being able to look at PPP from the point of view of Finance and of Public Works. And since I became chairman of the Taskforce other viewpoints have been added. The result is that, on this subject, I now feel less the Secretary General to Finance or to Public Works, but Secretary General to PPP. And, putting aside my personal role, I think that that is the crux of the matter. If everyone only does his own part of the work, PPP will remain vulnerable. But if there is a joint vision and a joint goal, it will become much more than the sum of its parts. That is PPP.

Thank you.