

Address from Jochen Dieckmann,

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North Rhine-Westphalia

to the 4th Annual Public Private Partnerships Global
Summit

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Let me use this opportunity and present the North Rhine-Westphalia Government's PPP Initiative, and talk about how PPP projects have been developing in the state.

The concept of Public Private Partnership is not new to us - especially in local government. Programmes have so far been implemented mainly in the utilities sector. However, they lack the characteristics of a partnership and in fact do not represent genuine public/private risk partnerships. Most of them are nothing more than outsourcing or pure financing schemes.

Why now have we in North Rhine-Westphalia launched a PPP initiative?

There are essentially three aspects:

- Our European counterparts have demonstrated that PPP structures can increase efficiency.
- The public sector must continue to modernise. All functions previously allocated to government ought to

be reassessed. This requires cost transparency and the application of private sector tools

- More competition and the transfer of knowledge enable - and compel - the public sector to implement traditional projects with greater efficiency.

I will not succumb to the illusion that PPP opens up new sources of money or makes the unaffordable affordable. That would be a treacherous hope. We shouldn't opt for PPP just because we have reached certain debt limits.

At the end of the day, to us it is nothing more than another means of procurement; so the first question has to be: Is the procuring government agency able to finance the project over the long-term. Is it affordable?

Only if the answer is, in principle, yes, should the issue of how to derive maximum efficiency when realising the project be considered.

Actual total costs during the project's life cycle must be taken into account. Planning and construction periods, maintenance, operating and administrative and personnel costs should be compared. This should also involve a risk assessment. A genuine public sector comparator must cover the operating costs which normally account for 70-80 per cent of a project's total outlay. Commercial viability must be shown for every individual PPP project.

First evidence from current pilot projects in North Rhine-Westphalia shows that PPP has considerable potential in this country as well.

However, it does not match figures from, say, the United Kingdom. I might mention that Britain's National Audit Office believes that on average 17% is saved in public infrastructure and transport sectors.

The political and legal framework is different in our federalised system of government.

Some things are different in the UK

- projects are on a smaller scale while political decisions take longer to make
- there is no system in place for refunding value-added tax; the additional VAT burden reduces any efficiency gains generated by PPP
- numerous co-funding schemes exist between the various tiers of government, which can only be used for capital expenses, not for annual unitary charges.

Actual efficiency gains will not be determined until there has been an evaluation of the currently operational projects - schools, government buildings and a prison. Initial results are anticipated in 2004. Experiences so far show that there is no general reluctance to implement PPP projects, and innovative ideas abound. This could, and should, be used to reassess traditional standards.

Based on the UK's Treasury Taskforce, North Rhine-Westphalia's PPP initiative is implemented by a task force set up in April 2002 within the state's Finance Ministry. Key issues addressed by the team include:

- Identifying successful PPP schemes in North Rhine-Westphalia, Germany and Europe.
 - Assessing areas of state and local government for suitability.
 - Determining criteria and benchmarks for the necessary economic viability analysis.
 - Assessing legal and practical obstacles that may have to be overcome.
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Equally, we must not seek to re-invent the wheel every time we launch a new PPP project. Accordingly the Treasury Task Force will be gathering information further to experience gained from the pilot schemes which we have started, and distributing these to all stakeholders.

The Task Force

- serves as a central point of contact
- identifies pilot projects
- looks after these projects
- maintains a special budget for consultancy services, and
- develops guidelines and standards

In this context we have developed

- a „road map“ for awarding contracts
- guidelines for organising a typical PPP project
- submitted a draft for a Public Sector Comparator
- developed Output Specification standards

A standardised process and realistic guidelines are the keys to making the complex PPP procedure manageable for both the public sector, and for small and medium-sized business. The Task Force is backed by a PPP Competence Centre, especially set up at the State's property services agency, BLB, a central institution established to commercially manage - from 1 January 2001 - the majority of state-owned buildings and properties.

At present we are running pilot projects relating to the construction and operation of a prison, municipal school and other local government buildings, as well as culture and recreational facilities. PPP projects cover more than the construction of buildings. They can also include

- road projects
- utilities

The resulting PPP projects, as we define them, should however cover not just

- construction and improvement
- building maintenance, and
- private finance

but also

- caretaker and cleaning services, the so-called 'facilities management' services
- management of third parties
- energy supply

In other words: this encompasses all areas of property management.

PPP is different from privatisation or private financing. The latter falls short because it provides only short term liquidity and merely defers the financial burden, The former goes too far and deprives government of its control options.

PPP therefore means developing new techniques: while it is true that the level of government activity is reduced to just the core functions, those responsibilities that, in my view, belong in the public sector are certainly neither neglected nor abandoned.

There is desperate need for action especially in NRW local government, in particular when it comes to improving school buildings.

On 1st January 2002 the State Governemnt introduced a flat-rate payment scheme for school projects, with the potential for broader application to other projects, and thereby removed the first obstacles to public private partnerships.

Two more projects focus on local government buildings in the city of Gladbeck and the Unna district council area.

We have launched pilot projects in the cities of Monheim, Meschede and Witten, and the Bergheim district council area.

It has become clear that medium-sized councils (40,000-100,000 residents) are particularly interested in PPP. They have already. Despite all efforts to combine projects however, the market frequently regards their size as too insignificant - which in turn opens up new opportunity for small business.

Meanwhile, larger cities in North Rhine-Westphalia have begun to develop PPP schemes. The market is very dynamic indeed.

At the State level, we are now embarking on the construction and operation of a prison facility. I believe that this is an example of our approach to successfully reducing the role of government to its core activities. In my view there is absolutely no need for

leaving it exclusively to government employees to build and operate the prison, and carry out the entire facilities management.

It has become clear that PPP is not the panacea for all ills. I am nonetheless sure that it will - if projects are carefully selected - improve public services.

Given that we are experiencing a period of limited public financial resources, it is even more important that by using our imagination and courage we try out new ways of preserving - or even enhancing - the scope of measures available to the Government which will allow it to create a more humane society.

Whilst I am not convinced that PPP is the panacea for all ills, I am nonetheless sure that it will lead to better public services.

We now urgently need to carry out field trials to find out whether or not PPP, if applied within reason, can be a means to ease the financial constraints that exist in the public sector.

Given that we are experiencing a period of limited public financial resources, it is even more important that by using our imagination and courage we preserve - or even

enhance - the scope of measures available to government
at all levels.

I am convinced that PPP is one such way.

That is why I welcome Federal plans to set up - backed by state and local government - a national PPP competence centre. We intend to provide productive support.

May this conference continue to be successful.
