

PPP in NRW

Update

given by

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First Assistant Secretary,

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of the German state of North Rhine-Westphalia

during the PPP conference,

at the British Embassy, Berlin, 2 December 2004

Organisers: UK Trade & Investment and *Bundes SGK*

Please let me bring you the best wishes of the Minister, Jochen Dieckmann. He is asking you to please understand that, although he had promised to attend, the current talks among Federal and State Governments require his presence there.

1.

The North Rhine-Westphalia Government is committed to public-private partnership.

The political environment and expectations of government, the role of the state, have undergone marked changes. The British, I believe, call it Enabling Government.

Government action is now rarely accepted 'lying down'. Citizens expect quality and value for money, best practice based on private sector models, and the use of modern information technologies.

Formerly clear lines between the public, private and civic sectors have become blurred. Forces are joined to achieve the best possible results.

To respond to these challenges, the public sector must react by adopting a 'holistic' approach to government reforms:

- New local government finance system;
- New Public Management;
- Introduction of - 'output oriented' - accruals budgeting and accounting by 2008, instead of traditional cash budgeting;
- Commercially-focused management of the State's property;

- State-owned corporations operating with (a degree of) commercial freedom;

Here, PPP is pivotal to achieving efficiency increases and efficiency gains during the entire life cycle of a government project. Pre-financing solutions such as leasing or hire-purchase do not go far enough.

More reasons in favour of PPP:

- ° the increasing investment backlog in the public sector,
- ° changing demography and, at the same time, shrinking room to manoeuvre for state and local government,
- ° the construction industry, in North Rhine-Westphalia and elsewhere, is in need of a boost,
- ° government must concentrate on core functions

At the end of 2001, the then Finance Minister and current Premier of North Rhine-Westphalia, Peer Steinbrück, launched the PPP project by setting up a Task Force.

The trigger had been the positive British experience. The UK has supported us right from the start. Minister Dieckmann is absolutely grateful to HM Government, Consul General Boyd McCleary, and Mr Worthington at the British Embassy.

In North Rhine-Westphalia, we have begun to trial PPP in local government construction where needs are most pressing.

Our exchange scheme with Partnerships UK, the visit to the Glasgow school project and other factfinding missions, the co-operation of the Consul General himself in the advisory council, all this made for a steep learning curve:

The success of PPP hinges on lasting political support and commitment. Which is why the special taskforce was set up in April, 2002, at the Ministry to demonstrate such political resolve.

The Taskforce

- ° is a central point of contact for both public and private sectors,
- ° initiates pilot projects and currently looks after nine NRW state and local government construction projects of various types,
- ° develops guidelines and standards for PPP procedures and processes
- ° helps develop and promote the PPP concept in North Rhine-Westphalia and throughout Germany.

Since PPP is characterised by high-complexity problem structures, standards and guidelines are needed to instil trust and confidence, and give legal certainty.

When the first pilot projects were launched, the Taskforce, with the aid of external experts, drew up a 'road map' for awarding contracts and a UK-style Public Sector Comparator.

The procedure, approved by local government watchdogs and government auditors, has now been adopted as standard by project developers and consultants.

Further guidelines can be obtained by visiting www.ppp.nrw.de.

PPP schemes in North Rhine-Westphalia could be extended to

- ° Construction or improvement of school buildings
- ° Government office buildings
- ° Prisons
- ° Hospitals and university medical centres

Current pilot projects encompass all areas of property management:

Planning, construction, finance and, in particular, the operation of facilities by one (private sector) entity.

The Taskforce helps oversee school projects in the cities of Monheim, Meschede and Witten, and the Rhein-Erft district council area.

The Monheim, Rhein-Erft and Witten projects have completed the contract awarding process. Under the spotlight of the media, contracts with the private-sector partners were signed at the beginning and in the middle of 2000.

Our school projects benefit from changes in the funding of local government in NRW, which became effective on 1 January 2002. Traditional co-financing of schoolhouse construction was replaced with a fixed-grant system.

In addition to the school projects, we are currently helping oversee the improvement, demolition or construction of office buildings. Those projects, too, have already moved to the implementation phase. Pilot projects in North Rhine-Westphalia tend to focus on construction etc of public buildings because maintenance and operating costs over the lifetime of the asset often account for more than two thirds of the overall expenses, including investment and financing costs.

It is a potential which provides private operators with an attractive scope for optimisation.

And there is more to PPP than the construction or improvement of buildings.

Road and rail projects for instance, water and energy supply, waste disposal, technology research and so forth. Remains to be seen whether North Rhine-Westphalia will become active in those areas, too.

We attach particular importance to two projects involving renowned private-sector partners, Digital Ruhr/D-NRW and Ruhr Pilot. The former aims to create an 'e-government' network of local councils, the latter is a digital traffic management system designed to improve the flow of road traffic in the Ruhr.

Interim conclusions:

1.

It is true that the political and legal framework in this country differs from that in the UK:

- Federated system and therefore multi-tiered budgetary structure

- No PFI credits
- No VAT refund on privatised services

Still, our first assessments of pilot projects in North Rhine-Westphalia are showing efficiency gains of between 5 and 19 per cent.

Up-front and transaction costs associated with these projects are high for a variety of reasons:

- ° Modelling and sensitivity analysis
- ° Public sector comparators
- ° Tendering procedures
- ° Drafting of contracts

Whilst this can easily make PPP seem more expensive than traditional contracting after all, drawbacks are outweighed by the economic benefits: faster implementation, more competition, better allocation of risks, and private-sector management skills.

This is what we have learnt from our PPP projects to date:

- the legal framework poses no obstacle to PPP;
- careful assessment of a project is needed before the PPP route is taken - PPP is not always the answer;
- the complexity of PPP procedures requires a lean decision-making structure;
- considerable legal uncertainties may have to be resolved, depending on the case (budgetary, taxation, contractual);

- qualified external advice is crucial.

Experiences are constantly evaluated and passed on by the Taskforce with a view to optimising procedures and reducing costs.

2.

PPP is transforming the public sector's role from planning, building and operating public facilities to the responsibility for contracting and controlling. Change management skills will have to be developed.

3.

We are preparing new PPP schemes for prisons and university hospitals.

We anticipate to derive efficiency gains from

- the review of standards
- process optimisation
- leaner structures
- increased transparency of costs

4.

The establishment of a Federal PPP taskforce is consistent with our policy. It will help better focus the efforts to promote PPP schemes in Germany.

North Rhine-Westphalia represents the interests of the Standing Conference of German Finance Ministers in the Federal taskforce's steering committee.

Ladies and gentlemen,

PPP cannot substitute for a lack of budgetary funds. Projects realised through PPP, too, are something the government must be able to afford in the long term. The pros and cons have to be decided before the decision for or against PPP is made. If the decision is positive, PPP should be considered as a procurement alternative because the viability of the overall project is the decisive factor.

Wisely and prudently used, PPP has the potential to provide long term relief for public budgets, leading to lasting improvement of government services and the public infrastructure.

Thank you for your attention.