Network Governance & Asset Management

Erasmus Universiteit Rotterdam
Faculteit der Sociale Wetenschappen

Dutch experiences with Public Private Partnerships (DBFMO)

Prof dr Joop Koppenjan
Department of Public Administration
23 October 2013

ERASMUS UNIVERSITEIT ROTTERDAM

Structon Initative for PPP lightrail in Groningen

Traditional

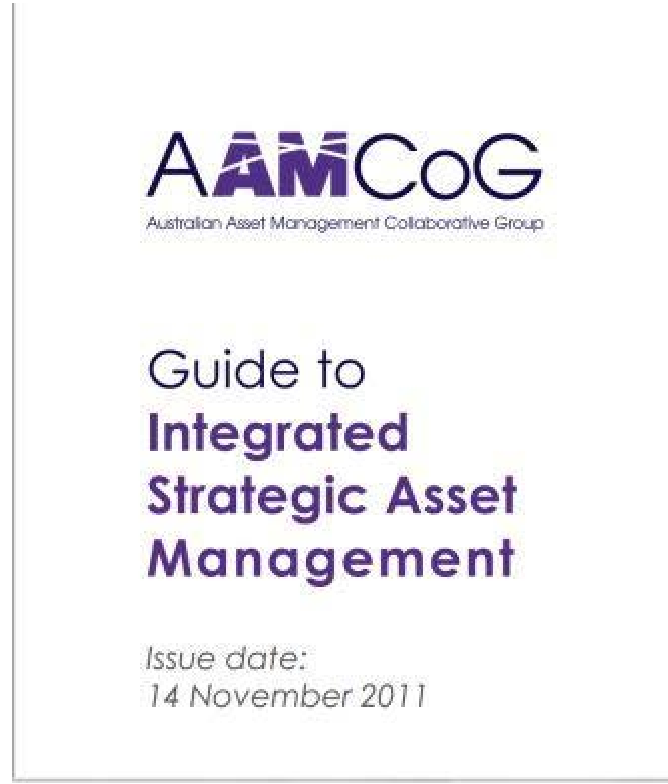
1. **Unbundelled**
2. **Government coordinates and carries risks**
3. **Financing is difficult**
4. **Budget and cost overruns; technical problems**

PPP (DBFMO)

1. **Integral approach**
2. **Private party coordinates and carries risks**
3. **Private parties take care of funding**
4. **Project under control due to financial incentives**

Asset management and PPP

- Integrated Strategic Asset Management: the blueprint
- DBFMO: the way to get integration
- Examples of DBFMO: the fragmented reality of asset management
- *Governance challenge: management needed to deal with fragmentation*


AAMCoG
Australian Asset Management Collaborative Group

Guide to **Integrated Strategic Asset Management**

Issue date:
14 November 2011

My interest: ‘ smart government’ proposal

- Research proposal for the Dutch scientific Council (750.000 euro; deadline 15 January 2014)
- With external partners co-financing 25%
- Smarting PPP: dealing with dilemmas in practice

Phases	Initiation	Tendering	Elaboration	Build	Exploitation (M&O)
Practices & Experiences	PPC&PSC ‘soft’	Competitive dialogue + performance contracts	Separate or not	Stakeholder engagement by contractor	Renego-tiations
Dilemmas	How to safeguard quality	Reduce costs + need to reduce risks	Solution to costs & cutting edges?	Cutting edges or involving	How to realize flexibility

Outline

1. Three waves of PPP
2. State of the art: Report Dutch Audit Office of 6 June 2013
3. Experiences with the High Speed Railway line
4. Conclusions

1. Three waves of PPP in The Netherlands

First wave. 1990

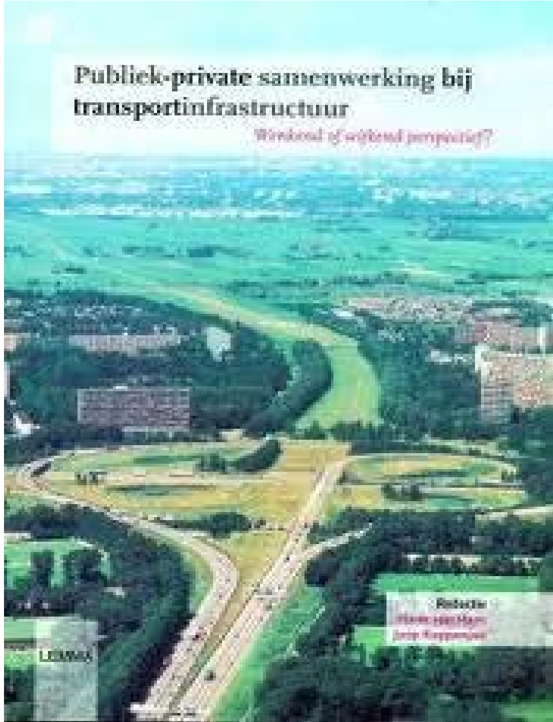
- 2 Road tunnels
- Mega-rail projects

2nd wave: 1998

- 2nd KOK-government
- Ministry of Finance: Knowledge Center PPP
- List of projects: few realized

3th wave: 2007

- Involved Ministries: Finance, VROM, V&W)
- Prinsjesdag 2007 Research Committee Private Finance (conurbanisation Randstad)
- PPP as SOP
- Series of serious projects



Erasmus Universiteit Rotterdam
Faculteit der Sociale Wetenschappen

Mixed experiences 2nd wave

1. Failure: 2 first road tunnels; High Speed Railway Line

2. Aborted PPPs: High Speed Railway Stations

3. Stagnation: South Axes Amsterdam

4. Success: Roads, e.g. A59: Water purification plant Delft; School (DFBO/M); Various area development projects (Alliances)

Explanations 2nd wave

(Koppenjan and van Ham 2005):

Failure factors:

– One size fits all approaches
– Lack of interest at the side of private parties
– Government: multi headed and untrustworthy
– Inadequate arrangements that divide
– lack of management

Success factors:

– Motivating and innovative project content
– Closeness
– Process dynamics: joint experiences and victories
– Process management

2. State of the art
(3rd and 4th wave)

- **Report Dutch Audit Office 6 june 2013**
- Contact management of DBFMO projects
- Central government: PPP=DBFMO

- Gives overview of PPP in the Netherlands
- Limited to projects of Central Government
- 6 Infrastructure & 7 buildings (8 + 7 in preparation)
- Waterprojects: decentral governement
- Local governments: revitalization city centers, new living areas, buildings, swimming pools etc.

The Audit Office report: content

- Focus on exploitation phase: M&O
- Added value is uncertain, although Ministery of Finance speaks of ‘realized added value’; PPC and PSC are soft
- Financial mechanism is good, but isn’t applied
  - Government doesn’t apply sanctions
    - Outcome indicators need to be interpretated. Debate on additional requirement or contract complience
    - Need to keep relationship good
  - Many changes, due to users, public values and new regulations *(example lock in door)*
  - Performance of consortia isn’t monitored
- Parliament is not informed about exploitation phase

Erasmus Universiteit Rotterdam
Faculteit der Sociale Wetenschappen

Recommendations Audit Office:

1. Apply sanctions. Firm contract management
2. Monitor
3. Reduce number of changes
4. Invest in contract management and learning
5. Inform parliament

Comments on Audit Office Report:

Good: recommendations on strenghtening contract management, knowledge manageemnt, monotoring and information. But:

Does Audit Office understands dependencies, uncertainties and incentive structure?

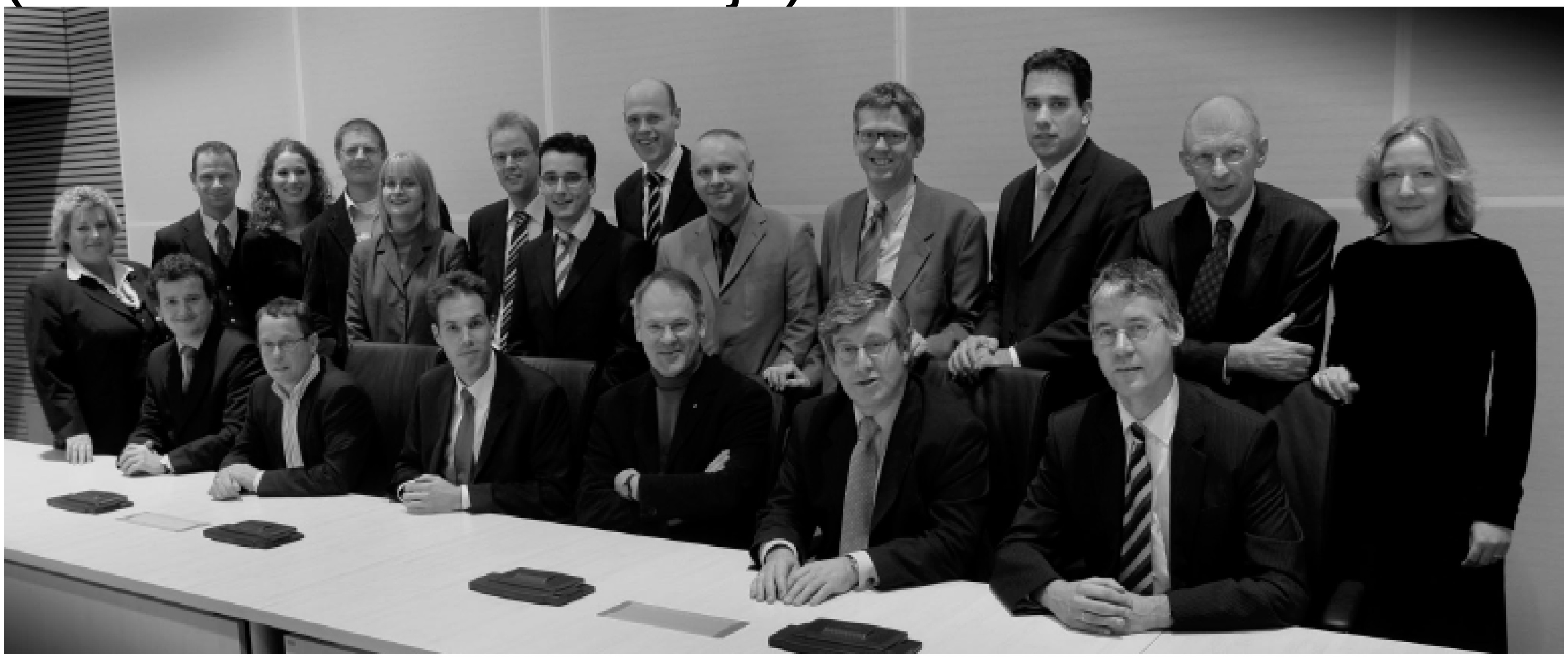
1. Need to negotatiate and keep relationships good. Different type of firm contract management needed
   - Complience and change need to be negotiated
   - Governments win too!
2. Emphazing importance of ex ante specifications and contract control: underestimation of need for flexibility: dealing with needs, public values and uncertainties

Reflection

- How to deal with changes?
- In what way should contract management be improved?
- What does this assessment say about the applicability of DBFMO in these types of cases?

3. Experiences with HSL-South

2007-2008. The Temporary Commission on Infrastructure of the Dutch parliament (Commission Duivesteijn)



Staand van links naar rechts: A. A. M. Dulk-den Slagmoolen, E. Molenaar, J. C. Konz, T. van der Zee, J. M. Rook, drs. R. A. Noordsij, drs. K. van Keulen, drs. D. Koenders RC, drs. A. Kruijt, dr. J. F. M. Koppenjan, drs. M. Leijten, prof. dr. ir. H. Priemus, B. Adema.
Zittend van links naar rechts: drs. M. J. L. M. Hermans (LPF), G. P. J. Koopmans (CDA), drs. V. M. Kool (griffier), A. T. Duivesteijn (PvdA), C. B. Aptroot (VVD), drs. A. Slob (CU).
Op de foto ontbreken drs. P. P. Witsen, prof. dr. P. 't Hart en prof. dr. mr. M. Pheijffer RA.

PPP and the HSL-South

- 1991: 2.7 billion euro; eventually 6.8
- Project decision: 1996
- Planned start: 2007
- 1999 PPP-strategy: full privatization;
- Private contribution: 830 million euro

PPP and HSL-South (2)

- **Substructure:** 9 D&C contracts + HSL tunnel
- **Superstructure/Infraprovider**: 25 year DBFM contract with availability fee
- **Contract for operation** with user fee.
- **Stations:** outside scope project; managed by Ministry of Physical Planning, not bin the Ministry of Transportation
- **Positive difference** between availability fee and user: private contribution to infrastructure

Substructure:

- **Hsl-tunnel:**
  - foreign companies participate;
  - innovative proposal; savings
- **Bids DC contracts (1999):**
  - 43% higher than budget (2.5 in stead of 1.8 billion euro)
  - No participation of foreign companies
  - No innovation
  - High riks; high interest rates

Substructure: (2)

- **Reaction Government:**
  - Bid not acceptable. No formal negotiations. Informal consulations with all bidding parties
  - No agreement – court case. Court: too early, you should have negotiated
- **Negotiations:**
  - Economizing; risks back to government
  - Unclear result: ex post risk analysis
- **Eventually:**
  - Economizing failed; costs equal to bids
  - Scope reduction and cancellation of fine in case of late delivery

HSL-South: Superstructure

DBFM-contract

- coupling construction and maintenance
- max. fee at 99%-availability rate

Public Sector Comparator (PSC)

- costs comparison between public and private realization
- value € 1.055 million (low risk premium)

First biddings: 50 to 80% higher than PSC

- Optimalizations, economizing

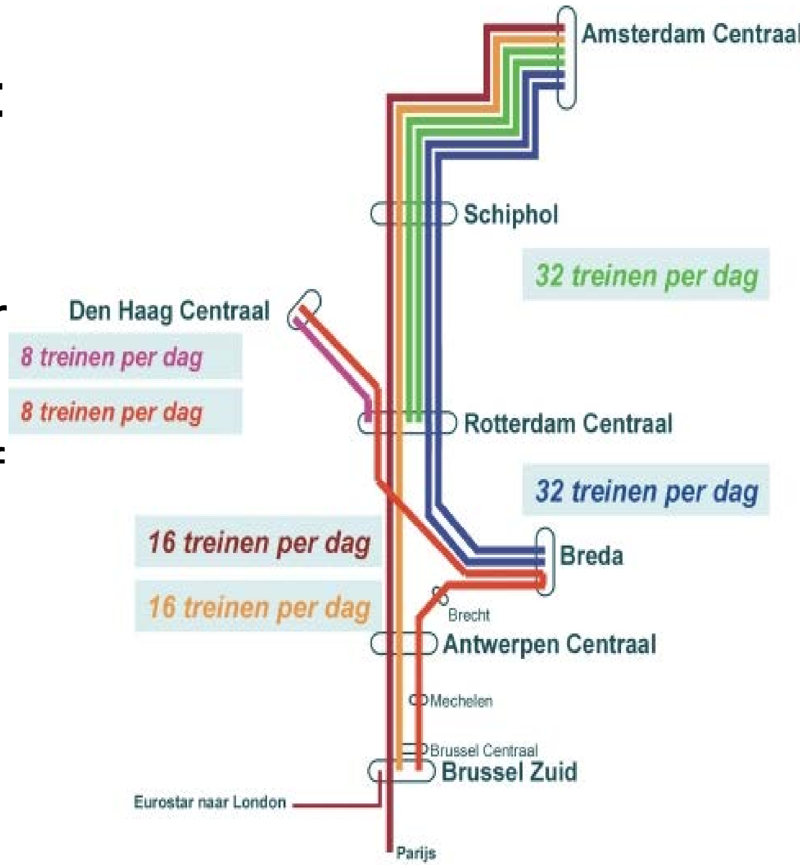
Infraspeed preferred bidder

Contract:

- Availability fee of app. 100 million yearly (total off € 1.08 billion)

HSL-South: Operation: service contract

- ***High Speed Alliance*** (with Dutch Railways and KLM) bids with 160 million user fee (others: 100)
- **Contract 2001**: 15 year exclusive right of operation; user fee of 148,4 million
- **2010-2020:** estimated income of about 450 million; together with 450 saving due to infraprovider contract: 817 million private contribution



Erasmus Universiteit Rotterdam
Faculteit der Sociale Wetenschappen

In-between balance (2008)

Government originally claimed that HSL-South was a success due to the infraprovider en service contract

- **Tunnel** was success!
- But **D&C contracten**
  - were more expensive;
  - risks were taken back; no optimizations;
- **Infraprovider contract:**
  - innovation; savings!
  - Public Sector Comparator: failure;
  - Interface problems: delivery substructure + safesystem
- **Service contract**:
  - rolling stock delayed; postponement user fees;
  - Belgium didn't agree with some services (no connection with The Hague)

Analysis

- Tendering out of control: **no management competences & preparation**
- **Quality of relationships**: Battle over budget drives out innovative designing!
- Debundling contract: unexpected interfaces! Need for **interface management**!
- First decision than tendering: not very handy (Flyvbjerg: the other way around!)
- Little attention to market! The railway was selled, but to the politicians! **A business case is needed!**

More is needed then contract design: management capabilities & governance!

The story continues: the Fyra debacle

- Due to low bid: HSA chooses **cheap V250 of AnsaldoBreda** (220 km/h, not 300)
- Delivery postponed, also due to new EU safetysystem
- 2011 (not 2007): **FYRA starts service** between A'dam & Breda with leased trains
- **2012: HSA banktrupt**
- Virgin and Arriva express interest for the concession
- 2012 Minister gives **concession to Dutch Railways** that cover part of the costs (100 bilion euro)

The Fyra debacle (2)

- **9 December 2012 V250 starts service A'dam-Brussels**
- Intercity services stopped. Direct connection The Hague-Brussels lost
- Fyra is more expensive, requires reservations, no subscriptions: many complaints of passengers
- Many disturbances; 15 January 2013 50% of trains out of service; delays
- 17 January 2013 **heavy snow:** 85% of services cancelled
- **18 January 2013 indefinite stop:** Belgium declares services unsafe

Erasmus Universiteit Rotterdam
Faculteit der Sociale Wetenschappen

The Fyra debacle (3)

- **31 May. NMBS dissolves contract based** on report Matt MacDonald; 3 June. Dutch Railways do the same
- Dutch Railways have paid already 200 milion; NSBR 35 milion. AnsaldoBreda may go bancktrupt
- **July. Dutch Railways comes up with alternative**: intercities on the HighSpeed Railtrack. Max 160 km/h
- Minister accepts this alternative. Cost are shared.
- September 2013. Newspaper: Matt MacDonalds report: V250 could have met requirements.

4. Analysis: the political reality of asset management

1. Disconnect with upfront promised quality and value
2. Government will not earn availability fee for infrastructure back
3. Monopoly of Dutch Railways: Fyra was made profitable in artificial way
4. Ministery is hold hostage by Dutch Railways
   - Is not able to end the contract with Dutch railways to engage in tendering
   - Did constantly intervene in process
   - Will not win a court case that Dutch railways might start
   - State Secretary is labour party: against privatization
5. Belgium was not commited to Fyra! Dutch project.

Erasmus Universiteit Rotterdam
Faculteit der Sociale Wetenschappen

Conclusions: the need for strengthening checks & balances and governance!

1. Splitting up: not bad. Requires **interface management**
2. Stations - money to be earned – were kept separate
3. **No business case** and **soft PSC**: strategic fights!
4. Deteriorating **quality of relationships** and low trust
5. Lack of (preparation for) **management**! ‘ Prepare & commit’ besides ‘ predict and control’
6. Tendering and collaboration needs to be **learned**
7. **Lack of competition** and market orientation. **Corporate interests** (Dutch Railways) and politics prevent this.
8. **Interests of users** and tax payers weakly safeguarded
9. **Chances for PPP** in rail?
   – New regional projects, like light rail project in Groningen
   – DBFM used by infraprovider Prorail

ERASMUS UNIVERSITEIT ROTTERDAM

Reflection: What lessons can be drawn?

- Regarding DBFMO in rail?
- Regarding DBFM in general?
- Regarding rail projects in general?
- Regarding asset management in general?

Erasmus Universiteit Rotterdam
Faculteit der Sociale Wetenschappen