

## **THE PUBLIC PRIVATE COMPARATOR A DUTCH DECISION INSTRUMENT IN PPP-PROCUREMENT**

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**ABSTRACT.** Although it seems to be a policy transfer, not everything within the PPP-procurement process is invented in the UK. Many countries like the UK and Australia use the Public Sector Comparator (PSC) to determine 'Value for Money' (VfM) of a PPP-project. The Dutch Ministry of Transport, Public Works and Water Management (or Ministry of Transport for short) also uses another instrument, namely the Public Private Comparator (PPC) to support and justify their decision to procure assets/services under a DBFM agreement or not. The PPC seems to be, in the international field, a unique Dutch tool to define if a project will turn out to be a potential PPP-project and to determine if the project will achieve VfM in the delivery of public works and services. This paper describes the moment of use of the PPC in the procurement process and explains the aim and the content of the PPC. Next to the possibilities, the limitations of the PPC will be described too. After that there will be a focus on the Dutch experiences with the performed PPC's until 2007. At the end of this paper some conclusions about the added value of this Dutch decision tool in the procurement process will be presented. The aim of this paper is to share knowledge and experiences of this Dutch instrument with Public Authorities from other countries.

### **DBFM**

At present, national and international literature shows us that PPP covers a wide variety of types of relationship and different forms of agreement. Examples of the many shapes and forms of PPP's are BOOT (Build-Own-Operate-Transfer), franchising, joint ventures, partnering and DBMFO (Design-Build-Finance-Maintain-Operate). In The

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Netherlands the most used form of PPP for large infrastructure related projects is DBFM. By this form of PPP a private actor participate in designing, building, financing and maintaining an infrastructure project. The private consortium receives payments for their services on the basis of technical availability of infrastructure during the exploitation phase. Besides this contractform of PPP, also known as an economic partnership, there is another major form of partnership, namely a social partnership.<sup>1</sup> In The Netherlands this is performed under 'alliantie', which is in general used in metropolitan or area development areas.

### **MOMENT OF USE OF PPC IN THE PROCUREMENT PROCESS**

The Ministry of Transport uses three types of instruments at three different stages in a procurement process to examine if a project is appropriate for PPP:

- a. Market scan. The market scan is a study into the potential value of time, quality or money including the private and public sectors in a project at an early stage. It provides information about which parties should be involved and how and when this should be done. The market scan must be carried out during the preliminary phase of all projects within the scope of the National multi year programme for infrastructure projects.
- b. PPC. The Public Private Comparator is carried out prior to the procurement decision, well before the tender phase has started. The purpose is to determine whether a PPP-agreement will achieve VfM or not.
- c. PSC. The Public Sector Comparator must be carried out during the tender phase, before the execution phase has started. The PSC is used when DBFM contracts are going to be awarded and enables the comparison of costs and risks of PPP and public (i.e. traditional) projects. It is often used as maximum price for the private offers.

In this paper we focus on the PPC, because this tool is an important basis for the Dutch government in the PPP-procurement decision making process to support and justify the decision whether a contract should be drafted in a PPP or in an other contractual form, for example a DB-agreement.

In the coming years the Dutch government would like to apply for more PPP's for infrastructure projects in order to increase the dealflow and to maximise the knowledge about this subject. In 2005 the Dutch Ministry of Transport has set out this policy in a Mobility Document. Since that year a PPC is obliged for all national programmes for new infrastructure related projects with an estimated value of more than € 112.5 million. The PPC is not only typical for this kind of projects, but also used by four other Ministries,<sup>2</sup> when their estimated public investment is worth more than € 25 million. The PPC has been developed by the Dutch Ministry of Finance.

### AIM AND CONTENT OF THE PPC

The PPC can demonstrate whether a PPP has potential 'value for money' (VfM) for that specific project. A PPP has VfM when the optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service can be achieved to meet the user's requirements (HM, 2006: 7).

The PPC enables a financial comparison, costs/gains and risks, between a traditional approach like a Design-and-Build agreement (DB) and a PPP alternative such as Design-Build-Finance-and-Maintenance agreement (DBFM), during an assumed project's lifecycle. A DBF(M)O (Design-Build-Finance-Maintenance-Operate) and 'alliantie' (social partnership) are not considered in the PPC, because the operation of the roadinfrastructure also known as 'traffic management' belongs to the core business of the Ministry of Transport and it is not permitted to put out this activity to tender. For this reason it is currently not common within the Ministry of Transport to use a PPP-agreement with an 'O'-component in infrastructure related projects. An 'alliantie' is not taken into consideration in the PPC, because in The Netherlands there is not enough experience with this form of PPP in infrastructure related projects. In this sector we do not dispose of comparative material to use within the PPC.

The PPC-instrument contains four modules:

1. Module 1: Action plan. The action plan starts with a description of the scope of the project, the assumptions and the forms of agreements compared. The participants in communication and the parties involved in making the PPC, are mentioned too.

2. Module 2: Qualitative analysis. The qualitative analysis contains all the differences between the public reference (DB) and a PPP alternative (at the moment DBFM), sometimes another form of agreement (e.g. DBM) is taking into consideration. This analysis including the risk allocation and mitigation will be performed at four projectphases separately, namely 'pre procurement', 'transaction', 'realisation' and 'maintenance'. The differences between de contractual forms are overviewed by making use of a benchmark to other similar projects, literature and research, experts and a checklist. The outcome includes a '+/ 0 / -' score per difference.
3. Module 3: Quantitative analysis. The purpose of this analysis is a quantification or valuation of the differences in module 2. The quantification contains a construction of a life cycle cost estimate for the public reference per phase including the risks involved. The products needed in this first step are an investment plan and a maintenance plan, combined with the knowledge of the timing in the project. The second step in the quantitative analysis is the quantification of the differences analysed in module 2. The results are cash flows for the public reference and for the PPP alternative. Afterwards the Net Present Value will be calculated for all alternatives.
4. Module 4: Report. The report is a summary of modules 1, 2 and 3 and contains the concluding remarks. It gives an advice about which alternative to follow (the one with the lower Net Present Value). The report has to be adopted by the Project Manager and is used as important input for the procurement plan, which is an integral part of the decision-making procedure. The qualitative arguments are in the PPC at least as important as the quantitative outcome. The value for money is mentioned in absolute figures and in % of the cumulative life cycle costs of the project in the public reference case.

To improve and sustain the quality of a PPC-outcome the PPP Unit at the Ministry of Transport makes high demands on completeness, consistency, the proper parties and a clear-headed advice of the PPC-outcome. In addition the process of completion of a PPC, the PPC process, is supported by two standardized documents, a manual and a checklist and by a pool of qualified PPC-coaches from the PPP Unit.

## POSSIBILITIES AND LIMITATIONS

The most important possibilities and limitations of a PPC are provided in Table 1.

**TABLE 1**  
**Important Possibilities and Limitations of a PPC**

Possibilities	Limitations
Views the potential financial added value	Potential social added value or non-financial effects for civil society are not considered
Supports the procurement process in selecting the form of partnership	Quality of PPC outcomes is based on well-substantiated assumptions otherwise many interpretations are possible
Indicates the financial aspects and risks distribution within DBFM	PPC outcomes remains a 'best guess', an estimation
Analysis are project based	Present and future circumstances on the market are not taken into consideration
Setting up a PPC compels in an early stage (before the procurement plan) to reflect on life cycle approach and performance requirements	The average period of setting up a PPC, as part of a procurement plan, is four months (time consuming)

## DUTCH EXPERIENCE WITH PPC

Before 2006 some PPC's were performed, such as the ones for the project 'A4 Delft-Schiedam' and for the two largest road infrastructure projects in the Netherlands, namely '2<sup>nd</sup> Coentunnel' and 'A15 Maasvlakte – Vaanplein'. The PPC's of these projects resulted for each project in a value for money of 5% (Hernández, 2008).

In 2006 one of the six PPC's that took place, resulted in the implementation of a DBFM. It concerned the project 'A12 Utrecht-Maarsbergen-Veenendaal'. The other five projects were 'Extra Spuicapaciteit Afsluitdijk', 'A2 Maasbracht-Geleen' (on voluntary basis, this project did not have a value higher than € 112.5 million), 'A2 Maastricht', 'A50 Ewijk-Valburg-Grijsoord' en 'A4 Steenbergen'. The PPC's of two other projects resulted in an added value for the

implementation of a DBFM, but they did not lead to a PPP construction. This was caused by a long-term period of preparation of a DBFM-contract, and the unacceptable extensive disruption of the integral maintenance approach of the Dutch road network. Other decisive factors for choosing a public approach above the implementation of a DBFM-contract were an expected small benefit, the complexity of the type of contract, and a lack of knowledge and experience in PPP by the government concerned (Min.v.Fin., 2008: 19; TK, 2007: 10, 11).

In 2007 one of the six performed PPC's has not yet been completed. The decision-making process of the other five PPC's will be finished soon. Two of the six projects show a significant added value for DBFM. It is not possible to refer to more results of these PPC's since they are still under discussion and therefore unable to go public yet.

The Ministry of Transport puts a lot of value on the result of the PPC. The Ministry applies the rule that only with solid motivation and only with the approval of the Directeur-Generaal it is allowed to deviate from the result of the PPC. In addition the Minister of Transport reports the results of PPC's to the Dutch Parliament.

As compared with some other countries the Dutch PPC seems to be an unique instrument in a PPP-procurement decision-making process. Especially the qualitative analysis is unique comparing with other countries. France for example is mainly focused on the quantitative analysis and other countries such as Belgium and Spain do not use instruments which are similar to our PPC. In comparison with the UK, the PPC is well comparable with two stages in the 3-stage VfM-assessment process for PFI projects (HM, 2006). Within the Programma Level Assessment (stage 1) and the Project Level Assessment (stage 2) procuring authorities consider whether a PFI-procurement will deliver 'value for money' (VfM). The important difference is that these business-cases are conducted on the importance and the scope of the particular project whereas the Dutch PPC compares different forms of agreements to determine whether PPP has potential VfM or not.

## CONCLUSIONS

In this paper it is shown that the potential financial added value of a PPP-project in The Netherlands will be examined by means of the PPC instrument. The PPC shows whether a partnership between the government and the market has 'added value' compared to the government carrying out the project traditionally. In spite of these possibilities, the PPC also has a number of limitations. Political and/or social arguments are not part of the financial comparisons, while public private partnership cannot only yield financial added value, but also may have added value in contents and/or in processes. If the PPC proves that PPP will yield added value as opposed to the public reference DB, a PPP will be chosen, unless this will strongly conflict with other significant features or targets of the Ministry of Transport.

The PPC is one of the milestones in the Dutch PPP-procurement decision process. It is an important item in the procurement plan, whereby the definite decision will be made whether a PPP-agreement will be used or a traditional one.

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## NOTES

1. By social partnerships we mean 'partnerships where public and private actors come together to jointly produce goods and services for a longer period of time and in doing so share risks, resources and gains' (Greve, 2008: 120).
2. Ministry of Housing, Spatial Planning and the Environment, Ministry of Health, Welfare and Sport, Ministry of Education, Culture and Science, Ministry of Defence.

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