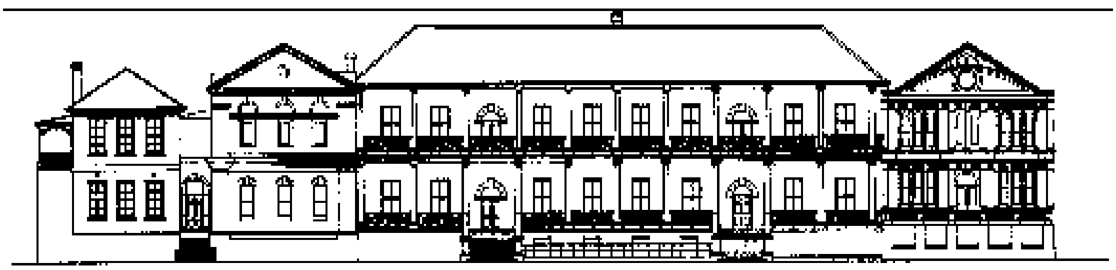
PUBLIC ACCOUNTS COMMITTEE

Case Studies and Issues in the Private Financing of Public Infrastructure and Services



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Charter of the Committee

The Public Accounts Committee has responsibilities under the *Public Finance and Audit Act 1983* to inquire into and report on activities of government that are reported in the State's Public Accounts and the accounts of the State's authorities.[1] The Committee, which was established in 1902, scrutinises the actions of the Executive Branch of Government on behalf of the Legislative Assembly.

The Committee recommends improvements to the efficiency and effectiveness of government activities. The sources of inquiries are the Auditor-General's reports to Parliament, referrals from Ministers and references initiated by the Committee. Evidence is primarily gathered through public hearings and submissions. As the Committee is an extension of the Legislative Assembly its proceedings and reports are subject to Parliamentary privilege.

Members of the Committee

The Committee comprises members of the Legislative Assembly and assumes a bi-partisan approach in carrying out its duties.

Chairman:	Joseph Tripodi MP, Member for Fairfield
Vice-Chairman:	Pam Allan MP, Member for Wentworthville
Members:	Ian Glachan MP, Member for Albury
	Katrina Hodgkinson MP, Member for Burrinjuck
	Richard Torbay MP, Member for Northern Tablelands
	Barry Collier MP, Member for Miranda

[1] See Part 4 of the Act – The Public Accounts Committee.

Committee Secretariat

Secretariat members involved in the report were:

Committee Manager:	David Monk
Committee Officers:	Stephanie Hesford and Jacqui Isles
Assistant Committee Officer:	Mohini Mehta

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Chairman's Foreword

This report covers the key findings and meeting reports from the Committee's study tour to Italy, France, Sweden, the UK, Poland and the Czech Republic from 9-30 August 2001. The Committee's delegation comprised the following people:

- Joseph Tripodi MP, Member for Fairfield;
- Katrina Hodgkinson MP, Member for Burrinjuck; and
- David Monk, Committee Manager.

The aim of the study tour was to learn from the experiences of other countries in the use of private financing for public infrastructure and services, often referred to as Public Private Partnerships (PPPs).

This area is topical in NSW currently, with the release of the Government's white papers etc. Considering the large sums of money involved in these arrangements, the Committee considered it would be worthwhile to inform the Parliament of the lessons learnt overseas on PPPs.

I would like to thank the agencies and organisations that donated their time and expertise in helping the delegation gain an understanding of such a complicated and technical area.

I would also like to thank the people and organisations who helped make the study tour such a success, in particular the PAC's Committee Officer, Stephanie Hesford, who researched and organised the trip. I would also like to thank David Monk for preparing this report and and the Department of Foreign Affairs and Trade, which assisted in arranging meetings for Warsaw and Prague.

Although this report does not discuss the conduct of PPPs in New South Wales, the Committee trusts that the information presented will help inform the debate and assist the Parliament in oversighting these arrangements.

Joe Tripodi

Joseph Tripodi MP
Chairman

Chapter One

Key Lessons

Introduction

The Committee wishes to draw out the key lessons and issues from the study tour. These points do not necessarily represent the views of the Committee. The Committee is of the view, however, that they are worthy of further consideration by NSW agencies.

Fundamentals

The Committee found these comments by Josef Konvitz from the OECD particularly constructive:

- No single model works for all nations. Government policy has to be aligned to the needs of the nation concerned. Therefore, the UK is not necessarily the guide for NSW.
- Do not let the finance drive the projects. Governments must initially work out what infrastructure they need.
- Using private finance will not solve most development problems.

Rationale for PPPs

The delegation found two main views on the rationale behind Public Private Partnerships (PPPs):

- to use new ways of delivering services to generate value for money; and
- to bring forward investment.

The first rationale was generally supported. However, some organisations argued that to use PPPs to bring forward investment was costly and inappropriate. For agencies, this acceleration is very attractive because they have limited financing options. Their income is often restricted to what they receive in the budget.

However, at the government level and for the community as a whole, PPPs can be expensive. Governments as a collective unit have more financing options. They can borrow or increase taxes to finance projects. Further, they are better credit risks than private sector companies and can borrow at cheaper rates than the financiers in a PPP.

Governments sometimes also use PPPs to divest themselves of risk and instead transfer it to the private sector. But often the private partners in these cases run into trouble. Governments, being sensitive to community expectations, renegotiate these deals at considerable expense and re-assume the risk. In these cases they would have been better off not to enter into a PPP in the first place.

Requirements for a Successful PPP

The Committee found this checklist from the UK National Audit Office to be instructive:

- Agencies should use output or outcome tendering, to give the private sector the freedom to innovate.
- The government agencies need to have the right skills to manage these complicated, technical contracts.
- The private sector partner needs to demonstrate the appropriate skills.
- Agencies need to run tenders that focus on generating competition, not just complying with process.
- The projects must be consistent with agencies' long-range plans.
- Agencies need to work out what they want from the deal and then ensure that is what the contract provides. This could include, for example, a strong financial case and a good strategy.

Legal Issues

Some countries' legal systems may have features that allow them to better manage PPPs. For example, the French concept of renegotiating contracts to develop a sense of balance makes it less likely that governments will be locked into disadvantageous, long term arrangements.

In Australian contract law, which is derived from the UK, it is much more difficult to renegotiate contracts. The expectation is that parties are aware of the implications of the contract before it is signed. Once the contract is made, parties can usually demand compliance. This rigidity may make it more difficult to manage 20-30 year deals, where circumstances can easily change over such a time period.

It was suggested to the delegation that complicated, service delivery PPPs such as for schools and hospitals were more likely to need to be renegotiated than contracts for roads.

Some jurisdictions have streamlined legal arrangements that help agencies manage PPPs. For example, in France there are standard terms for PPP contracts that are automatically included unless otherwise stated. In addition, public sector teams in France occasionally do not need a lawyer because everything is managed through standard procedures. The UK has developed a standardised contract book as well.

In many jurisdictions, there is a legal requirement for toll roads to have a free alternative road.

Benefits of PPPs in the UK

A number of benefits were reported to the delegation. It should be kept in mind that many of these issues may not apply in New South Wales.

The main advantage appeared to be to correct for poor general procurement. Before, the private sector would find hidden risks and issues in the contract and make the government pay a premium to address them. Further, PPPs prevent agencies changing specifications after a contract is signed, which greatly increases costs. This state of affairs could be because the UK Government does not have a department of public works and many agencies don't have the necessary skills to manage these complicated deals.

The other benefits have been as follows:

- Assets constructed are properly serviced and used. For example, there may be less hospital beds but they are more efficiently used.
- Maintenance is improved because the asset has long run earnings potential.
- Flexibility in service delivery can be increased.
- The public sector can learn skills off the private sector.
- Roads and prisons appear to have generated the most savings.

Public Sector Comparators

Public sector comparators are an estimate of how much it would cost the public sector to fund and deliver a project itself. The comparator is compared against bids from the private sector as one method of determining whether a PPP would be a better way of providing the infrastructure or service. The UK National Audit Office presented a number of concerns about the calculation of comparators:

- Comparators can be manipulated easily to give a high figure. There is little knowledge currently about public sector risks, upon which comparators are calculated.
- The method of calculation is often too complicated and gives a false sense of accuracy for a long-term arrangement with a multitude of risks.
- The preferred approach would be to keep the model simple and experiment with the assumptions to determine which variables are critical.
- Comparators must give a sensible comparison against a realistic alternative. The example of the Isle of Skye Bridge given in the meeting with the UK National Audit Office is instructive.

Refinancing PPPs in the UK

Refinancing is the procedure when the private party in a PPP approaches its lender and arranges better finance (eg reduced interest rates). This has tended to occur because the PPP market has matured, reducing risk. The issue is whether the public partner in the PPP should then be able to share in the profits of the refinancing.

In the UK, it was initially Treasury policy that the private sector would keep all refinancing profits. However, the National Audit Office's report on the Fazackerly prison has challenged this approach and they will now be split 50/50. The reasoning is that the private sector doesn't bear all the risks in PPPs. If the project is a long run partnership, it is fair for the public partner to get a slice of the refinancing profits.

However, there are two points to bear in mind:

- Governments must be vigilant to ensure these profits aren't sucked out through management fees.
- This new 50/50 split may simply reduce the expected profits for the private sector, which will push up tender prices. So there may be no gain for governments in the long run.

Employment Issues in the UK

PPPs also have implications for the workforce in the public sector. Under the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE), public sector staff, when transferred to the private sector, keep their pay and conditions. This regulation is derived from an EU directive.

However, this arrangement creates a two-tiered workforce. New staff at the private facility can receive lower pay than the public sector staff who transferred in. An arrangement like TUPE raises the following issues:

- If the new staff are cheaper, should there be rules on the distribution of overtime to ensure that transferred staff also receive some overtime?
- Should public sectors be comparing themselves with their domestic private sector or with public sectors in other countries?
- Should management also look at other ways to improve performance?
- Should governments fund unions to help with these transitions?

Chapter Two

Meeting Reports

Italian Treasury, Public Debt Division

Participants

Dr Domenico Nardelli, Senior Manager International Activities, and Gianluca Colarusso, from the Public Debt Division, briefed the delegation.

Italy's Public Debt

Around 10 years ago, inflation was at 20%, so the Treasury was forced to manage the debt through short run bills. This was a stopgap measure because these bills should only be used for short run liquidity mismatches. Further, the Central Bank was providing an unlimited, interest-free overdraft to the Government at an average of $US 35 billion.

Italy's Financial Crisis

The situation worsened in 1992, with a big drop in confidence in the Italian economy. Denmark failed to ratify the Maastricht Treaty, Italian conglomerates went bankrupt, and Moodys downgraded the credit rating of the Italian Government. There was a speculative attack on the lire and interest rates were increased to above 17% to protect the currency. The Treasury estimates it spent more than $US 40 billion in support of the lire, but eventually stopped. The speculative attack forced Italy out of the European Monetary System.

At this stage, debt was controlling the Government, rather than the other way round. Two thirds of the public debt was in volatile instruments, either short run bills or with floating interest rates. Italy had a high interest expense and most trade in Italian bonds (the secondary market) occurred in London.

Treasury's Remedial Action

- It issued long run bonds with fixed rates and improved liquidity by re-opening the same security many times.
- It released a calendar of auctions of instruments to illustrate its commitment to the market.
- It issued bonds in foreign currencies (not just lire).
- The secondary market was captured.
- It stopped the unlimited overdraft from the Central Bank.
- The overdraft was replaced by the Availability Account, where the Government is forbidden to run an overdraft. If it does, the Bank of Italy stops payments on the Government's behalf.

- No monetary financing of the deficit is allowed.
- The Government created a sinking fund. Privatisation proceeds can only be used to cancel Government debt, eg by buying bonds.

Goals of Italian Debt Management

The first is to establish a good reputation in the markets. Defending a currency is more a matter of reputation than the amount of money available to purchase the currency and raise interest rates. The other goal is to stabilise their interest expense by moving to long run bonds, which are less volatile. These measures will help Italy get into the European Monetary Union. Italy had problems with financial stability and prudence, which are now being addressed.

The Results

These comparisons illustrate Italy's progress:

Indicator	1993	2001
Public debt borrowed at a fixed rate	35%	67%
Average cost of debt	10.9%	4.7%
Average life of debt instruments	3.3 years	5.7 years
Interest expense, as % of GDP	13%	6.5%

Dexia Bank, Asia, Middle East and Africa Division

Participants

The delegation met Philippe Rochefort, Head of Credit, Patrick Blanchard, Head of Project Finance, and Pascal Becker, Coordinator Asia-Australia.

Background

Although almost unheard of in Australia, Dexia is a large company. It ranks 27th in market capitalisation in EU countries (EUR 19 billion) with a total balance sheet of EUR 258 billion. It has offices in 20 countries and three main businesses:

- Public Private Partnerships (PPPs - 17% of the European market and 25% of the US market);
- retail banking; and
- investment management.

Dexia is active in the UK, EU and the US. Its main market is energy (46%) followed by telecoms (24%) and infrastructure (23%).

The Role of Public Authorities

Dexia argues that PPPs require a strong involvement by public authorities to be successful. Its reasons include:

- the type of services involved (public service facilities);
- the difficulty of achieving a full transfer of risk;
- the impact on the project of decisions from public authorities; and
- inherent structural losses in some public project (eg public transport).

Local Councils

Most of Dexia's PPP work is done with local councils. It has 45% of the French market. Dexia prefers to maintain good relationships with councils. Accordingly, the knowledge of Dexia's staff of the municipalities and their needs is just as important as their analytical skills.

Local governments tend to have high expectations of what PPPs will bring and can often be overly ambitious. Dexia has to adjust these expectations through comparisons with other jurisdictions and detailing the full implications of proposals.

PPPs in Different Sectors

In France, water and sewerage have long been delivered by PPPs. Many French companies are now world leaders in PPPs because of this experience (Vivendi, Bouygues etc).

Local governments used to run PPPs for high schools. However, this was stopped by the central government as a corruption prevention measure. Public transport projects vary widely. Dexia provided three different examples:

- Paris lines tend to be publicly funded and operated due to the city's wealth and public expectations.
- On the other hand, Toulouse was wealthy but didn't have much confidence in its agencies. Therefore, it went for a full PPP with an option to purchase after three years' operation, which it did.
- Strasbourg set up a new corporation for new trams and tramline. It was a joint venture between the public and private sectors.

So each area has opted for its own solution on public transport, according to local circumstances.

Requirements for a Successful PPP

- *A strong project rationale*: there must be a proven economic and social need, adequate investment size and the project must use proven technology.
- *Clear and stable rules*: there must be transparency with adequate performance

measures, provisions to ensure coordination among the parties and clear provisions for early contract termination such as compensation and protection against changes in legislation.

- *Contractual flexibility*: there must be stable but not rigid rules, adjustments in the course of the contract and arbitration rules.
- *Efficient risk management*: there must be an exhaustive identification of risks, allocation of risks to the parties best able to manage them and risk mitigation/allocation mechanisms such as caps on liquidated damages.
- *Adequate involvement of the local authorities*: social and political impacts must be managed and local authorities must be financially involved to some extent.

OECD, Division of Territorial Reviews and Sustainable Development

Participants

The delegation was briefed by Josef Konvitz, Head of the Territorial Reviews and Sustainable Development Division, Territorial Development Service.

The Approach by Different Countries

Different countries have different approaches and different problems when it comes to infrastructure.

On the one hand, the OECD believes previous economic studies have under-valued infrastructure. Accordingly, many countries have under-invested in this area. Studies of long-range commuting into Paris and London have noted that Paris's system is better and allows more people to work in Paris but live in the regions. This has improved economic growth at less social cost because workers do not have to relocate to access better jobs in the capital.

However, public opinion in France is only in favour of PPPs up to a point. Freeways in the country were accepted, but people opposed paying to use tunnels in the cities. For example, locals don't pay to use a toll bridge in the Loire valley.

Japan, on the other hand, has over-invested in regional infrastructure. The Japanese PM, Koizumi, appears to be attempting to shift spending back to Japan's urban areas.

Key Points

- No single model works for all nations. Government policy has to be aligned to the needs of the nation concerned (therefore the UK's work on PPPs is not necessarily the guide for NSW).
- Don't let the finance drive the projects. You must initially work out what infrastructure you need.

- PPPs can only achieve public support through a positive message. Don't establish a light rail PPP on the premise that you are reducing car usage.
- Using private finance will not solve most development problems.

Regional Development

Mr Konvitz stated that populations are shifting towards water and lower altitudes. Further, the more towns in an area, the better its prospects.

Mr Konvitz also argued that an important step in regional development is to stop all policies that are counter-productive. For example, having uniform environmental standards across a whole nation often discriminates internally against regional areas.

List of Publications

Mr Konvitz provided the delegation with copies of the following OECD publications:

- *Information and Communication Technologies and Rural Development* (2001);
- *Integrating Transport in the City* (2000); and
- *Towards a New Role for Spatial Planning* (2001).

Matra Transport International

Participants

Bertrand Picard, Sales Vice President Asia, briefed the delegation.

Discussion

Matra is part of the Siemens group and provides transport systems. Matra provides much of the technology used to run the Paris metro, in particular the automated Meteor system that operates on the new line, number 14.

The key point from the discussion was that public transport light rail projects cannot be run wholly as PPPs. They need 50%-70% public funding in order to be profitable for the private sector.

Mr Picard recommended the delegation obtain a copy of *Financing of Major Infrastructure and Public Service Projects* (2000) by the French Ministry of Public Works, Transport and Housing.

French Ministry of Public Works, Transport and Housing

Participants

The delegation met the following:

- Rene Barlet, Head of the Construction Division;
- Catherine Aubey-Berthelot, Deputy Head of the Construction Division;
- Philippe Gratadour, Deputy Head of the International Affairs Division; and
- Bernard Moutou, Area Manager Asia-Pacific.

The French System of Government

There are four levels of government in France: the national, the departmental (100 districts, which run schools), the regional (which run universities) and local (36,000 municipalities, which run many roads). Departments and regional governments have no jurisdiction over each other.

Only the national government can borrow to finance spending. At the other levels, loans must be to finance investments. There is no accrual accounting in the French public sector.

France has been using arrangements similar to PPPs since the sixteenth century.

Re-negotiation of Contracts

This is a fundamental in French law. Contracts are handled much differently under French law than in UK-style common law that operates in Australia. Under common law, contracts cannot usually be varied once they are signed. This is sometimes known as “the sanctity of contract.” However, under French law it is considered that contracts should be “balanced.” Hence, a court will be prepared to modify a contract or allow it to be re-negotiated.

An example was given of a municipality that went into a PPP for school canteens. The municipality paid for meals for certain schools. However, the operator then used the facility to prepare meals for schools in other municipalities and made extra profits. The audit judge noted the contract lacked balance and ordered the renegotiation of the contract.

Another example is the general principle that technical improvements over the life of the contract should benefit the user. Therefore, cost reductions for the operator are recognised in the contract, so the profits from technical progress are split between the parties. If this doesn’t eventuate, then re-negotiation is possible.

The Basic Framework of PPPs in France

PPPs are seen as an alternative to complete privatisation in solving budget problems. They are also seen as a way of implementing user-pays for facilities.

The legal system is split between public and private law, which facilitates PPPs. Under the constitution, all public goods must be publicly owned. PPPs work by the Government transferring the rights to operate the facility to the private partner.

Public procurement in France has strict rules (eg tendering for a constructor). But the rules for PPPs (concessions) are more relaxed. Therefore, PPPs are often preferred by agencies. The basic rule is if the income comes from users, delegations (concessions) are possible, but if the income comes from taxpayers, then public procurement rules apply.

In many cases, the private partner in a PPP is a public company. In France, public transport revenues are 40% of costs. Therefore, the split between parties is usually to give the operator responsibility for operating costs and shared responsibility for revenues. An alternative approach is for the public sector to carry out the major earthworks etc, but then let the private sector build, operate and maintain the transport systems.

Public Sector Skills and Training

Like many other countries, France also has problems in maintaining public sector skills. For example, in a recent contract for $US 1.5 billion, the Government was able to secure a reduction of $US 200 million because the contract was not balanced.

The one agency that has the necessary skills to negotiate with the private sector is the motorways department.

Training centres have been established for the staff of local authorities to negotiate PPPs. Further, there are guidelines for municipalities to follow for negotiating and drawing up contracts. Guidance can be taken to such an extent that the public sector team sometimes doesn’t need a lawyer because everything is managed through standard procedures.

Finally, under French law, there are general rules that are included in the contracts unless stated otherwise. There are also rules on when re-negotiations are triggered.

Toll roads

80% of French motorways are operated by public companies. There are efficiency issues relating to these organisations.

Under French law, a user of a toll road must also have an alternative. The French network is so comprehensive that they do not need to build a special new alternative because the existing roads are usually adequate.

Their Department’s book, *Financing Of Major Infrastructure And Public Service Projects*, argues toll roads are a special case and their inherent problems mean they are not suitable for PPPs. The French Government has the power to put tolls on its own roads, if it so wishes.

Stade de France

This sports stadium was an unexpectedly successful PPP for several reasons. Firstly, good design by the operator allowed more cost-effective management. Further, the Government initially required extra activities to generate extra revenues (eg shows and concerts).

Publications

The delegation received copies of the Department's book, *Financing of Major Infrastructure and Public Service Projects* (2000).

National Board for Public Procurement (NOU), Sweden

Participants

The delegation met Michael Slavicek, Head of Legal Services.

The Role of the Board

The NOU follows the Public Procurement Act, which incorporates EU directives. Procedures are tightly controlled above the thresholds of EUR 200,000 for supplies and services, and EUR 1.8 million for construction.

PPPs in Sweden

So far, the private sector has not been as fully involved in Swedish projects as in the UK. For instance, the Government might pay to construct a facility and then let the private sector operate it. The long run projects are not solely decided on the monetary value of the bids. Rather, the Government is looking for a long-term partnership and maximising the economic benefits. However, these can be hard to measure.

Special Risk Issues in Sweden

In winter there is a risk that snow will cover the roads, so snowploughs will be needed. However, winters vary from mild (no snowploughs needed) to severe (100 needed nationwide). Snow in winter can load down trees such that they fall over and collapse power lines. These events have a higher probability in the north due to the colder climate.

The Economics and Philosophy of PPPs

The meeting considered whether the rationale of PPPs was to bring forward the construction of assets. However, there is criticism in Sweden of PPPs because they are contracts that will be "paid by our children."

The alternatives to PPPs in Sweden are also unpopular. The Swedish Prime Minister wrote a book with the theme “he who is in debt is not free.” Increased taxes are not possible because Sweden already has very high taxes.

The Board suggested the main issues are “do we really need the asset?” and “how do we pay for it?”

Legal Procedures for PPPs

The current EU and Swedish procurement rules are designed for normal tenders with two or three final bidders. However, PPPs are a different matter because the government is dealing with a holding company that can represent a number of partners (finance, operating, construction etc). The big projects can take two years to finalise the contracts. The EU is writing new procurement rules for PPPs.

The NOU also noted that concessions do not come under procurement laws. For example, if the state owns a road it can give it to the private company on the condition that the company takes all the risk. The state isn’t necessarily looking for the best bidder, but whoever is willing to take the risk.

Confederation of Swedish Enterprise

Participants

Goran Tunhammar, the Director General of the Confederation gave a presentation to the delegation. The delegation was later briefed by Lars Hallsten, Director of Infrastructure and Transport and Jonas Berggren from the Confederation’s competition policy and public procurement section.

Background on the Confederation

The Confederation is Sweden’s main employer group. It covers all industries except for banking. The two previous groups amalgamated because the old divisions (such as between geographical areas and between blue and white collar workers) are breaking down. Further, global and local issues are replacing national issues.

The Confederation has 46,000 member companies and a staff of 225, with 130 in its headquarters. They provide consultancy services to members and have a contingency fund to help members with industrial issues.

Status of Swedish PPPs

Sweden has had some private financing of public projects, but the private sector involvement has not been to the same extent as found in the UK. Examples include the Malmo bridge, a police station and the rail link to the airport. The rail link commenced as a full PPP, but a law was passed early in the project transferring ownership to the Government. This arrangement helped secure the planning approvals.

Rationale for PPPs

Sweden's public finances are in good shape, therefore there is no financial restraint that makes PPPs more attractive. Efficiency improvements would be a valid reason for Sweden to use PPPs. The first question must be to examine what infrastructure is required, rather than using financing arguments to select projects.

PPP Roads in Sweden

If PPP roads were introduced in Sweden, the Confederation expected that the most likely system of payment would be shadow tolls. Sweden would probably adopt the requirement for alternative roads, like France.

PPP Contracts

The Swedish legal system can classify certain conditions in contracts as unreasonable, which can then be changed by the courts. Further, Swedish contract law is built more on trust and negotiation than the common law in Australia.

The delegation raised the issue of whether this weakened the tender process. Tenderers could bid low, win the tender and then renegotiate the contract. The Confederation responded that governments should keep their options open and have other possible entrants available throughout the process.

The Confederation further argued that road PPPs are workable with strict contracts. However, in the case of more complex service provision such as hospitals, they argue the contracts must be more flexible.

Parliamentary Committee on Finance, Sweden

Participants

The delegation was hosted by Ingvar Mattson, the Deputy Secretary to the Finance Committee.

The Role of the Committees in the Budget

In the Swedish Parliament, there are 16 committees and each MP must sit on one, and only one, committee. This is because all the committees meet simultaneously and each committee has its own meeting room. Each committee must reflect the relative strength of the parties of the Parliament and be a miniature version of the Parliament itself.

The Parliament must approve all individual expenditures. The Government presents its proposed budget and the Parliament amends and approves the final version. The budget comprises 27 expenditure areas with individual caps. The Finance Committee, which reports to Parliament and can recommend changes to the caps, debates each expenditure area. The current system was implemented in 1996.

All but one of the 16 committees is involved in the budget process. MPs can make motions on the budget and a committee must consider all motions. However, the same motions tend to appear each year as MPs often pursue the same issues.

The Government reports twice per year on the public finances and the state of the economy. It can suggest additional appropriations at these times. After the end of the fiscal year, the Government provides a financial report on the year before.

Politics of PPPs in Sweden

At the time of the delegation's visit, the leading party in the governing coalition was making new infrastructure plans and considering the possibility of using PPPs. Line agencies are interested in PPPs because they can use them to get around their budget ceilings, but the Finance Ministry is sceptical. Sweden has cash accounting rather than accrual accounting for its public sector, so PPPs would be an effective means of off-balance sheet financing. Having paid toll roads isn't acceptable in Sweden. Only shadow tolls would be accepted.

Partnerships UK

Participants

Michael Gerrard, Head of PPPs and Chris Bunny from Partnership UK's properties section briefed the delegation.

Background

Partnerships UK (PUK) was established in June 2000. PPPs were previously handled by the Treasury Taskforce, which was split into two. The implementation area went to PUK and the policy area went to the Office of Government Commerce. PUK has a staff of 30.

PUK is a private company, 44.6% held by HM Treasury, 4.4% held by the Scottish Ministers, and the remaining 51% held by financial institutions. Its key activity is development partnerships, where it works with agencies to procure PPPs. It contributes to procurement costs and is paid by the successful bidder either through periodic payments or at the project's financial close.

PUK's other activities include assisting the Government develop PPP procedures and making small loans (eg ⊥10 million) to facilitate projects. It also plans equity investments in wider market projects. These will usually involve the commercialisation of technology developed within the public sector.

The Role of Partnerships UK and Treasury

PUK was established to turn worthwhile PPPs proposals into reality. Conversely, Treasury's traditional role is to stop bad projects. PUK does not cover all PPPs, but rather the major and more difficult ones.

Line agencies welcome the involvement of PUK. It helps, but doesn't guarantee, projects to get through. Agencies do not mind if PUK discusses projects with Treasury, because they would rather have Treasury involved with the project. Private sector parties also take this view.

The History of PPPs in the UK

The Conservative Government in the 1990s tended to support PPPs on the basis that they promoted private sector involvement in government services. However, the UK has now learnt to be more selective and systematic in how it handles projects.

For instance, the Government used to wait for the private sector to approach it with ideas. Now, the Government looks at the services it wants to provide, works out how much the proposal will cost, and then goes to the private sector to see if it can get any better offers.

At first, most PPPs were off-balance sheet, but now more are on-balance sheet. Some that were initially off-balance sheet have become on-balance sheet. The UK National Audit Office NAO was quite strict in this regard. However, there is still some debate in the UK on whether the justification of PPPs is value for money or to bring forward capital investment by off-balance sheet financing.

Currently, 17% of capital expenditure runs through PPPs, with the maximum probably being in the 20%-25% range. Road and prison PPPs have generated the most savings. PUK does not consider any areas of government activity to be “core” and outside the scope of a PPP. For instance, parts of the UK’s defence infrastructure are PPPs.

Improvements in Service Quality

Unions are challenging the use of PPPs in the health sector on the basis that bed numbers are being reduced. However, PUK’s argument is that the beds being built can now be properly serviced and utilised. Maintenance is also being improved. Governments could traditionally let this slip as a way of saving money, but with PPPs maintenance is being incorporated into asset design.

Output contracting is gradually being introduced. For example, in building and maintenance contracts for some Glasgow schools, the private partner gets an extra 1-2% of revenue payments if the percentage of students who get at least a “C” in their O levels increases from 65% to 70%.

Another result of PPPs is to reduce resistance to change and increase flexibility in service delivery. Privately financed projects can then be a benchmark for publicly financed facilities.

The Cost and Timeliness of Construction

PPPs have improved cost control and helped keep projects on time. The private partner’s income now depends on getting the projects up and running as quickly as possible. Delays and cost blowouts were previously caused because:

- Construction contracts were sloppy. The private sector could identify unforeseen problems and negotiate more money;
- Each agency has its own public works section, instead of the government having a central public works department. Not all agencies have the necessary skills; and
- Traditionally, public sector clients tended to request changes in specification after the contract was signed. The private sector would charge a premium for these changes.

Corruption Safeguards

- The public sector comparator is the safeguard against PUK indiscriminately supporting all projects (its revenue depends on projects proceeding).
- The private sector bids must beat the comparator by 5-10%.
- Sometimes the government is an equity partner in a project, giving it an interest in promoting unfair competition. PUK claimed there were a number of checks and balances that prevented this being a problem. For example, the National Audit Office and provisions against corrupt gifts.

Publications

Mr Gerrard gave the delegation a copy PUK's Information Memorandum and a report, *Value for Money Drivers in the Private Finance Initiative* (2000) by Arthur Andersen and Enterprise LSE.

The UK PPP Forum

Participants

The delegation met Kathy McGlynn, the Director of the Forum.

Background

The Forum is the peak industry body in the UK for PPPs. It was created because public concerns were being expressed about PPPs and the industry overall had no channel through which to participate in the debate. The Forum was created in early 2001. It has 20 core PPP companies and a total of 120 members. The Forum's budget is ⊥150,000-⊥200,000 and it has three staff.

Public Opinion on PPPs

Some controversial projects have affected the public's perception of PPPs:

- Introducing a PPP usually means that service provision is changed from the public to private sectors. There is a tendency for union membership to transfer from public sector unions to private sector unions.
- Some IT projects failed. The Home Office had an immigration project that cost

five times the projections and was then abandoned. However, this was more an outsourcing deal than a PPP.

- The media has been critical of the private sector picking up windfall profits.
- Some doctors are ideologically opposed to PPPs in the health sector.
- Explaining PPPs in the media is difficult because they are such complex arrangements.
- The PPP for the Tube has been very controversial. The Government plans to implement the PPP and then give the Tube to London Council. But the Mayor, Ken Livingstone, opposes the project.

The Current State of PPPs in the UK

The Forum argued that the PPP market appears to have matured. There are now sufficient projects on the table, including overseas, for companies to maintain their expertise. The return on equity profit premium for PPPs is coming down to 3% above normal private delivery. The Government is changing procedures to allow it to get a share of refinancing profits.

In most times when the Government goes to tender, the private sector bids come in under the public sector comparator. The comparator is not publicly released.

Recent Key Reports

The Forum supports the findings of the Institute of Public Policy Research (IPPR). The Bates Report in 1998 and the Gershon Reports identified the main problems the public sector faced in PPPs, and they prompted the Treasury Taskforce Guidelines on PPPs.

Publications

The Forum provided the delegation with a copy of the IPPR's report, *Building Better Partnerships* (2001).

The UK National Audit Office

Participants

The delegation met with Jeremy Colman, the Assistant Auditor General with responsibility for PPPs.

Background

The National Audit Office (NAO) has a long track record in assessing PPPs, examining over 50 projects.

The NAO argued that using PPPs to generate value for money is a legitimate practice. Ireland approves PPPs on this sole basis. However, PPPs have also been used to bring forward investments and pay for them later. The NAO has concerns over this practice because it ignores fundamental, realistic, financial constraints.

Conditions for Value for Money

- Agencies should use output or outcome tendering, to give the private sector the freedom to innovate.
- The government agencies need to have the right skills to manage these complicated, technical contracts.
- The private sector partner needs to demonstrate the appropriate skills.
- Agencies need to run tenders that focus on generating competition, not just complying with process.
- The projects must be consistent with agencies' long-range plans.
- Agencies need to work out what they want from the deal and then ensure that is what the contract provides. This could include, for example, a strong financial case and a good strategy.

Public Sector Comparators

The NAO is very concerned about how the comparators are generated. There is a lot of guidance, which makes them too complicated. Compiling a comparator could keep a team engaged for months and months. Further, comparators are usually given as a precise figure, which gives a false impression of accuracy.

Rather, the exercise should be seen as giving a sensible comparison with a realistic alternative. For example, the Isle of Skye used to be serviced by ferries. The private sector offered to build a bridge and the comparator showed they could do it for less than if the Government ran the project. However, the Government was never considering building a bridge and was content to continue with ferries. No comparator was developed for the ferry option, which was probably cheaper. The bridge is operational and, as part of the deal, the ferries were stopped.

In over half the projects the NAO assessed, the comparators had material errors. Further, there is currently little systematic knowledge about public sector risks. It is too easy to manipulate comparators. For instance, if a team developing a comparator had a figure in mind, one way of getting it would be to examine its work for errors. If the team found some errors and the corrections resulted in the required result, the team needn't examine its work any further.

The comparators are not usually published, but the NAO reports sometimes give the figures. It is better to publish them if there is genuine competition in the market. Otherwise, the bids come in just under the comparator and nothing is gained.

Does the Accounting Treatment drive Projects?

The NAO argued that governments should make their project and financing decisions and then decide how to treat the project in the accounts. However, sometimes the treatment can drive the project.

One possibility would be to invent a risk and, on this basis, transfer the project to the private sector and remove the item from the public sector's balance sheet. An example is to implement shadow tolls on a road to put it off-balance sheet. The problem in this case would be it is a risk the private sector cannot manage because maintenance costs wouldn't be related to usage.

The PPP of the Tube

The NAO argued that the PPP of the Tube was an example of an overly complicated comparator that did not provide sufficient understanding about the project. The comparator for the Tube had 3,000 components and a Monte Carlo simulation was used to give a sense of variability. Some variables were assumed to be correlated and a coefficient of 0.7 was applied. However, the comparator did not include an analysis of varying the correlation, for example the effect of changing the correlation to 0.6.

The NAO prefers "parsimonious modelling," where as few variables are used as are needed, depending on the uncertainties. For a 30-year project such as the Tube, the uncertainties are vast, so why calculate to the last penny? The output of a model is not the number, but an understanding about how the variables interrelate. The idea is to experiment with the variables and the model to see which variables are important.

A Public Sector Approach to Risk Management

Typically, agencies try to initially load as much risk as possible on to the private sector. For example, the channel tunnel placed a lot of risk on the private firm, which suffered low demand and was in trouble. Instead of letting the company go bankrupt or be bought out, the Government renegotiated the contract and took the equity risk.

The NAO gave another example of the PPP that shifted the armoury museum from the Tower of London to Leeds. The private firm was to build and operate the building and set door prices. However, visitor numbers were low (one-third of predictions) and the company was in trouble.

The Government wished to manage community expectations and would not allow the museum to close, not even for a day. The deal was renegotiated, and the Government now runs the catering and car park and takes the patronage risk. The NAO argued, however, that the creditors were very unlikely to close the museum as it was the only source of revenue for them. ⊥10 million was paid through the renegotiation to guard against a very small risk.

These arrangements backfired and the Government wound up, in the end, taking much of the risk. One suggestion for the future would be that agencies in this position should get commercial advice in addition to legal advice. Insolvency practitioners would be especially suitable, as they have expertise in dealing with companies in trouble.

IT Projects

In theory, it should be easy to manage IT projects through output specification. However, recent public/private IT projects in the UK have been problematic. The NAO suggested two reasons:

- The projects are all equity, no debt. Therefore there are no banks or credit managers scrutinising the project, as in most PPPs.
- Also, IT companies have an different approach to business compared with other firms. Possibly, this is because they have young managers or they are a growth industry so the long run view is always positive.

A better approach might be to purchase standard software and then for agencies to change their procedures to fit the software.

In the case of the immigration project (which was eventually abandoned), the procedures were very complex. There were handwritten documents; applications were made individually, yet families had to be kept together; and many languages were involved. It was simply too difficult to develop a working computer program to cater for this complexity.

Network Infrastructure

The delegation suggested that the competition issues in network infrastructure were too serious to permit the projects to be financed through PPPs. The NAO replied it hasn't seen anything yet that suggests these risks can't be managed.

The best protection is to keep the contract period as short as possible. Twenty years for an operating contract is too long, seven years is probably too short. These competition issues must be balanced against the gains of the private partner delivering the project on time.

Refinancing PPPs

Initially, it was Treasury policy that refinancing gains were for the private sector only. The NAO then did its report on the refinancing of Fazackerly prison, which has led to the Government changing its policy and refinancing will be shared 50/50 between the public and private partners.

The main argument in favour of this approach is that the private sector hasn't borne all the risks. If this is a long run partnership, there should be some give and take in favour of the relationship. The PPP market is maturing, therefore some refinancing profits should go to the Government.

Problems in Traditional Public Sector Procurement

Traditionally, procurement in the UK goes entirely by price. Bids are very low and the profits all come from the variations. Cost increases and delays also come from the agencies changing the specifications.

PPPs have delivered significant improvements in procurement because they make it much more difficult for the parties on either side to introduce these variations.

Publications

Out of the numerous value for money reports that the NAO has completed on PPPs, Mr Colman recommended three:

- *Examining Value for Money of Deals under the Private Finance Initiative* (1999);
- *The Refinancing of the Fazackerley PFI Prison Contract (2000);* and
- *The Financial Analysis for the London Underground Public Private Partnerships* (2000).

The NAO provided copies of these reports to the delegation. These reports are also available on the NAO's website at www.nao.gov.uk.

The UK Trades Union Congress

Participants

The delegation met with Neil Cleevely, a policy officer with the Congress (TUC).

TUC's Membership

The TUC has six major members that comprise 80% of its membership. They are typically general unions because they were forced to amalgamate during the Thatcher years. They have a range of views and the TUC tends to place itself in the middle of these.

The TUC is not affiliated with the Labor Party because not all its affiliates are affiliated with the Party.

Political Background to PPPs

After the 1997 election, the public expected the new Government to scale back PPPs. However, Gordon Brown surprised everyone by continuing to proceed with them. One political advantage of PPPs is that they represent a more attractive funding source to increasing taxes, which would be unpopular.

Many PPPs involve shutting down public sector facilities and replacing them with private sector facilities. Therefore they represent a threat to union membership.

In February 2001, the Government announced 20 new hospitals as PPPs. This is the biggest hospital building program in the UK for 50 years.

The TUC's Views on PPPs

The TUC does not oppose private financing on principle, but it wants to ensure that public sector workers are not worse off. In addition, it is not convinced PPPs give value for money. “PPP” implies private funding, but the state and the community will eventually pay anyway.

PPPs usually give the private partner the roles of design, build, finance and operate (DBFO). The TUC would like to promote a DBF option, although it acknowledges the difficulty in giving staff two sets of supervisors (public and private).

Maintaining the Rights of Union Members

When public sector union members are transferred to a private firm under a PPP, they are covered by the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE), which maintains the rights workers had in the public sector. TUPE is based on EU legislation, the acquired rights directive. The Conservatives initially tried to make the situation unclear by saying it was up to employers whether it applied. The Prime Minister, Tony Blair, has clarified that TUPE applies.

However, the problem with TUPE is it creates a two-tiered workforce. The TUC argues that new employees get worse conditions than the old. This leads to other issues. For instance, will the new employees get all the overtime because they are cheaper? There is also research that states minorities are worse off in the private sector. Will being transferred to a PPP put minorities at a disadvantage?

The TUC would like a better TUPE and wishes to revive a fair wages clause, such as ILO Convention 94. The TUC stated that Margaret Thatcher discarded this resolution in 1983 and the UK is the only EU nation not to have adopted it.

Do PPPs help improve Service Delivery?

The TUC claimed this was not necessarily the case and that there are alternative means of achieving this goal:

- There are similar problems in the private sector. Investment, R&D and innovation all need improving there as well.
- The UK’s public sector shouldn’t be comparing itself with the private sector but with the public sector in other EU nations.
- The TUC wants to look at other ways of improving how people do their job. For instance, employees should be consulted more on decisions.
- The TUC is also prepared to enter into productivity bargaining.

The TUC claimed structural changes such as PPPs need greater support. Is it fair for the Government to give large sums of money to consultants to progress their agenda and then expect the unions to work with them for nothing? It may be in the Government’s interests to keep the union movement resourced and on-side in this debate.

UK Office of Government Commerce

Participants

The delegation met Robin Morgan from the OGC's Private Finance Unit.

History of PPPs

The first PPP was in the late 1980s but it officially started in 1992. It was initially a means of bringing forward projects when there were limited funds, but the rationale now is value for money because public finances are in good shape.

There was initially a great push to do PPPs, but the Panel the Government set up to do it wasn't effective. The Government thereafter created a Treasury Taskforce, which comprised project and policy teams and had a two-year life span.

The Gershon report noted problems in Defence procurement and suggested the creation of the Office of Government Commerce (OGC), which took on the Taskforce's policy team. The 2nd Bates report noted the Government couldn't keep the project staff and so Partnerships UK was created.

When Labor won the election in 1997, they were expected to halt PPPs, but the program has continued.

Benefits of PPPs

PPPs are not strictly about better services, but improving the Government's ability to provide them. Doctors treat people, but they need good hospitals to do so. PPPs help the Government implement output tendering and improve project specification, which prevents the private sector disputing the meaning of contracts to increase profits.

In the early 90's, there was a lot of short-termism in asset maintenance. PPPs help address this too. They also help the public sector learn skills and techniques off the private sector.

One procedure that has certainly helped manage PPPs was the development of a standardised contract book.

Value for Money

The traditional way of demonstrating value for money is to use the public sector comparator. For some hospitals, the public option came out clearly cheaper. The fixed cost of capital for the Government is 6%.

Another approach is to use a funding competition. The Government had to renegotiate a contract with a winning tenderer for the refurbishment of the Treasury building. Instead of the private partner arranging finance, the Government tendered for the financing of the project to prove they were getting value for money.

Demand risk for projects normally isn't transferred.

Refinancing

Lenders are prepared to refinance because they get their money back earlier and can lend it out again. In the case of Fazackerly prison, the refinancing profits came from good management and the market maturing, thus reducing risk.

The Government is proposing to require that it receive a 50% share of the refinancing profits. There is a lot of discussion about refinancing, but not many arrangements have been made yet. The market is taking a wait-and-see approach on what the Government will do.

One issue is that profits can be removed through management fees, instead of letting them become refinancing profits. The aim is to push the refinancing upstream to shareholding companies, away from the service provision vehicle. There is also the possibility that refinancing decreases the private companies' profits, which will put up tender prices. So the Government may not gain anything in the long run.

Rates of Return

The UK is currently looking at what is normal now and then use that to influence future negotiations. Rates of 17-18% (as in some NSW examples) may seem a bit high, but the firms are also taking on plenty of risk so it is difficult to come to a precise conclusion about rates of return.

Australian Embassy in Warsaw

Participants

The delegation met David Hardy, First Secretary; Maria Tenerowicz, Research Liaison Officer; Adam Rejman, Business Development Manager and Mark Gwizdalla, Trade Commissioner.

The Polish Economy

The Embassy gave the following snapshot:

- Integration with the EU is dominating the political and economic landscape.
- Foreign direct investment is significant, but on a per capita basis, not as high as Hungary or the Czech Republic.
- One third of workers are farmers. Agriculture is focussed on dairy and pork.
- A growth industry is furniture.
- A lot of Polish/Australian trade goes through Western Europe, which the Polish statistics pick up, but not the Australian statistics. Poland estimates Australian exports to Poland at $100 million in 2000, but Australia estimates it to be

$20 million.

- Infrastructure still needs improving; only 20% of Polish roads are in good condition.

Polish Ministry of Finance

Participants

The delegation met Prof. dr. Romuald Polinski, Advisor to the Finance Minister and Agnieszka Szczepaniak, Deputy Director of the Ministry's Guarantee Department.

Road Building Program

The program calls for 2,600 km of roads to be built, but realistically only 1,600 km will be constructed. Each kilometre of highway costs US$6 million, which comes out at US$6 billion for their realistic program and US$10 billion for the preferred program.

Polish PPP System for Roads

Poland's main experiences with PPPs have been in roads. Poland initially tried Build, Own, Operate and Transfer (BOOT) schemes, but their research indicated that usage would not be high enough for the private sector to make a profit.

The one project that worked was the Cracow-Wroclaw highway. The Government built the road and then gave a concession to the private company. The Cracow-Katowice section has been built and is operational. Drivers pay tolls to use the road. Tenders have been put out for the last 200 km.

The Public Fund PPP System

Given the slow progress of the BOOT schemes, in 2000 the Government instead created a public fund for highways and put Government money into it. The tolls go into the public fund and then the fund is used to pay the operator a reasonable profit. The Ministry for Transport manages the fund.

Under this system, the operator takes the construction and maintenance risks and the public sector takes the patronage risks. The profit calculation depends on the operator meeting maintenance and other performance conditions. Payments for different projects are negotiated.

Even though the risk in this system is reduced (guaranteed profits) the Government is still trying to persuade the banks to reduce their interest rates for financing the projects. No roads have been constructed on this system to date, but plans are being made for the Torun-Gdansk motorway (150 km) and the Berlin-Moscow motorway. Providing contracts for shorter lengths of roads also appears to have helped.

Legal Framework for Road PPPs

There is a very general requirement for each private toll road to have a free alternative road. However, there does not appear to be any mechanism to enforce this requirement.

Under Polish law, the Government owns the roads. Road PPPs are always classified as a lease. If circumstances require it, the Government always has the option of taking the asset back without paying compensation.

Polish General Directorate of Public Roads

Participants

Aleksander Bacciarelli, Deputy General Director, briefed the delegation.

Initial Polish BOOT Schemes

Four years after the fall of Communism, Poland established its BOOT law. The then Government issued three concessions in its last days in power. They were for Katowice-Cracow, the A2 to Berlin (Poznan to the German border) and Gdansk-Torun.

Only the Cracow road has been successful, and this required the Government to provide a loan of EUR 60 million and then provide a guarantee for the private finance. However, at least motorists were prepared to pay for the tolls, which the Directorate took as a positive sign.

An agreement was not signed for the Poznan road and then renegotiations took 2-3 years. The private partner could not get enough finance, yet it made significant profits through stock market trading.

Australian Consulate in Prague

Participants

Petr Vodvarka, Honorary Consul and Katerina Mazurova, Business Development Manager, briefed the delegation.

Transport PPPs

The Government does not appear to have systematically examined PPPs as a financing option. There are no toll roads in Czech. The Government owns the road network and drivers pay a charge depending on the size of the engine of their vehicle.

A private Israeli company has a contract to build and maintain a road, but it is controversial because of allegations that the legal requirements for a tender were not followed. There haven't even been any public statements on how the private road will be financed, such as tolls etc.

Some parts of the rail network are privately owned, but only small parts (eg tourist lines).

Privatisation

This has been conducted in two waves, the first being businesses. To fund it, people bought coupons that were convertible into shares later on. Most of the privatisations are now over.

The Government is now returning property to people it was confiscated from (restitution). This is also complete, apart from special cases, such as when a power plant was built on confiscated land.

The Government has largely privatised the electricity system but still keeps a part share.

European Bank for Reconstruction and Development

Participants

Zdenka Vicarova, Deputy Portfolio Manager for the Czech and Slovak Republics, briefed the delegation.

Structure of the Bank

The bank was established in 1991. It covers all the socialist countries and has a broad range of issues to pursue as some countries, such as Poland and the Czech Republic, are more advanced than others.

There are a total of 60 shareholders. They include the governments of the US, Japan, and the EU. Initially, the bank helped countries with privatisations. Now it is helping them to improve their infrastructure.

The Bank limits itself to projects the market wouldn’t fund, noting that the local banking sector is well developed and competitive. They have 35 projects currently in the Czech Republic.

Czech PPPs

The Czech Government has not been innovative in tackling its budget constraints. The bureaucracy is very rigid and has been criticised for this approach, despite a lot of seminars on PPPs in recent years.

The bank recommended a PPP program, but the Government has neither accepted nor rejected this recommendation. The only current project is a contract for the D47 highway, which has been issued to an Israeli firm. However, no payment system has yet been determined and it appears it would have been cheaper for the Government to borrow the funds instead.

There has also been discussion over the last 10 years of a light rail project to connect Prague airport. Until now, PPPs have not been on the agenda because there have been more important issues to tackle.

Privatisations

At first, the community was reluctant to sell the “top” companies when they would have sold at a premium. It would have been similare to selling the family silver. However, the businesses performed badly and are now all for sale at reduced prices.

The coupon system used in privatisations gave everyone ownership in the arrangement to reduce opposition. The risks weren’t explained and everyone believed they would get rich. After this didn’t eventuate, the unions in large industries started industrial action, especially in coal and rail, and reform in these industries has been delayed.

Bank privatisation was completed recently and most banks were sold to European banks. The sales were appropriate because the local firms had a lot of bad loans. Goldman Sachs bought one package of these assets at 7c in the dollar.

Publications

Ms Vicarova provided the delegation with copies of the Bank’s *Transition Report* (2000) and *Transition Report Update* (2001).

Czech Minister for Transport and Communications

Participants

The delegation met the Minister, Ing Jaromir Schling, his advisor, Jan Prokes and Frantisek Baroch, Government Counsellor and Director of the Roads Department.

Privatisations

- All transportation companies are privately owned.
- Czech rail is still fully owned by the Government apart from some tourist and coal lines. In these other cases, the private sector owns the land as well.
- Roads are fully owned by the Government. Regional roads will be handed over to the municipalities.
- Tolls are very unpopular in Germany and Czech at the moment, although it is something that might develop in future.
- The main air carrier is majority owned by the Government and will be gradually privatised.
- Private companies will operate airports in future.
- IT maintenance has been outsourced for three years. They think the outcome

was reasonable, but calculating internal costs depends on internal allocations.

- All the telecoms have been converted to companies with shareholders. The Government has a 51% stake in the two biggest companies and plans to sell most of these off.
- The Government is keeping full control and ownership of the electricity transmission network, but the generators have been sold off. An independent regulatory body sets the prices, including between producer and distributor.

Infrastructure Planning and Delivery

The Government has 10-year asset plans that are updated every second year, depending on the financial situation.

However, the legislature has set very high standards for environmental and heritage protection. The standards are stricter than in the EU. Environmental Impact Statements are mandatory. Any five people can create a civic association and hold up a development. Many development proposals are delayed by being taken to the environment court.

Czech Supreme Audit Office

Participants

The delegation met Vaclav Perich, the Office's Vice President and RNDr Miroslav Leixner, a senior representative from the Office.

Adapting to an Open Society

It is difficult for western governments to appreciate the changes in Eastern Europe following the collapse of Communism. Previously, everything was hidden from the public eye including "beds and flowers." Auditing used to be very difficult because the outcome primarily depended on the political situation. Even doing financial audits is new for them.

The Supreme Audit Office (SAO) does not consider that the balance sheets of agencies properly express the risks agencies face. Further, they are of the view that an anti-corruption commission is not necessary because they create jurisdictional issues and too much bureaucracy.

Tendering

Tender requirements were introduced in legislation six years ago. At first, it didn't work well, but stakeholders are now are accustomed to it, including the possibility of complaining if the procedures are not complied with. It is difficult to monitor compliance at this stage.

Budgeting and Revenues

The SAO was surprised to hear the NSW Audit Office charges for its work. They cannot calculate the cost of putting someone on a job.

It has 350 staff including 300 auditors. Their limited budget means they can only attract enthusiasts. It is also hard for them to retain good IT people. They usually have to use outsourcing.

The SAO suggested that the method of determining its budget could give it a high degree of independence. The budget must be approved by the Collegium of the SAO (similar to a board). It is then submitted to Parliament and the Ministry for Finance. If the Ministry disagrees, Parliament’s Budget Committee resolves the matter.

Audit Reports

The SAO has two types of reports. The first is the audit protocol, which is written for each body within a Ministry. It is very confidential and detailed. The protocols can be negotiated or changed following complaints or comments by the auditee. This can occur less formally at the draft stage (not common) or more formally through objecting to the Senate or Collegium of the SAO.

The second is the audit report done for the Ministry. It is more general, gives more of an audit conclusion and is made public. The Audit Sub-Committee of Parliament’s Budget Committee can follow up the audit report.

Appendix

Itinerary

Friday, 10 August 2001

- The delegation arrives in Rome.
- Meeting with the Ministry of Economy and Finances.

Monday, 13 August 2001

- The Court of Accounts was unable to attend the proposed meeting.
- The delegation arrives in Paris.

Tuesday, 14 August 2001

- Meeting with Dexia Bank.
- Meeting with the OECD.

Wednesday, 15 August 2001

- Assumption Day.
- Meeting with Matra Transport International.

Thursday, 16 August 2001

- Meeting with the Ministry of Public Works, Transport and Housing.
- The delegation travels to Stockholm.

Friday, 17 August 2001

- Meeting with the National Board for Public Procurement.
- Meeting with the Confederation of Swedish Enterprise.

Monday, 20 August 2001

- Meeting with the Parliamentary Committee on Finance.
- The delegation travels to London.

Tuesday, 21 August 2001

- Meeting with Partnerships UK.
- Meeting with the PPP Forum.

Wednesday, 22 August 2001

- Meeting with the National Audit Office.
- Meeting with the Trades Union Congress.

Thursday, 23 August 2001

- Meeting with the Office of Government Commerce.
- The delegation travels to Warsaw.

Friday, 24 August 2001

- Meeting with the Australian Embassy.
- Meeting with the Ministry of Finance.
- Meeting with the General Directorate of Public Roads.

Sunday, 26 August 2001

- The delegation travels to Prague.

Monday, 27 August 2001

- Meeting with the Australian Consulate.
- Meeting with the European Bank for Construction and Development.
- Meeting with the Minister for Transport and Communications.

Tuesday, 28 August 2001

- Meeting with the Supreme Audit Office.
- The delegation departs Prague to return to Sydney.