

## **The Court found that PPP projects are insufficiently documented and are mainly focused on budgetary neutrality**

*During the 2004-2009 legislature the Flemish Government launched a whole range of PPP projects and programmes to achieve its investment objective. The Court noticed that in PPP projects' start and further preparation stage a higher emphasis was more likely to be placed on ESA neutrality than on operational and financial added value. Although each time a project was subject to competition, the authorities did not assess the risks and cost price adequately. The lack of far-reaching standardization hampers projects' efficiency and transparency. Also, information supply to the Flemish Parliament remains incomplete, above all as far as PPP budgetary impact is concerned. Not only documentation, preparation but also information supply are thus susceptible of improvement if the Flemish Government really intends to achieve value-added effectiveness.*

### **PPP at the level of the Flemish Authorities**

Under the European Stability Pact the Flemish authorities are subject to budgetary constraints: conventional public borrowing or budget deficits are not allowed to carry out investments. Therefore to achieve its investment objectives the Flemish Government decided to call upon funding techniques that do not impact on the outstanding debt balance or, to put it in another way, would remain ESA neutral: they used the so-called alternative funding including PPP. In 2008 the Court examined the start and the preparation stage of 11 PPP projects.

### **Evidence-based documentation**

PPP projects are undertaken by the Flemish authorities to achieve societal, operational or financial added-value, according to the PPP decree. PPP is deemed to help the authorities to achieve their policy objectives in a better, faster and more efficient way. The initiating public authorities, however, have nearly never performed a *public private comparator* (PPC) value-added test. This is probably to put in relation with the Flemish authorities' requirement to draw up budgetary neutral projects, with as a consequence that alternative PPP funding arrangements were the only financing option left and that too little care would be given to other possible forms of added value.

The Court could not find any objective reasons to account for the big structural differences between the various PPP projects.

### **Preparation**

In general the scope of the projects was clearly defined, but several projects underwent some modifications in the course of the awarding procedure, what caused some delay and had an impact on the cost price. For most projects the authorities pre-analyzed the risks minimally. There were no signs that candidates were treated unequally.

The Flemish authorities calculated estimates when PPP projects were undertaken but they were often superficial. The exchange of learning experiences is made on an ad hoc basis, is informal and too little structured. Standards for among others a process course and risk breakdown are not yet sufficiently developed within the Flemish authorities. This led to high transaction costs, increased complexity and limited

transparency. The Flemish PPP Knowledge Center plays a major role in the knowledge transfer.

#### **Parliamentary authorization and control**

Each project examined, whether the initiative or related participation and guarantees are concerned, was authorized by the Flemish Parliament. Availabilities provided by the PPP decree are hardly used. PPP projects budget information available do not allow to assess to what extent payment commitments endanger future policy leeway. Flemish Government's reports are not fully complete and do not spot the project specific weak points. Also, information is not connected with budget documents.

#### **Response from the Flemish Government**

The Flemish Government is of the opinion that PPP projects are a unique investment leverage to mitigate societal needs and thus achieve societal added value. The Court's recommendations are, according to the Flemish Government, in line with the Flemish authorities' planned or taken initiatives.

#### **Financial crisis**

The Court ended its examination in August 2008. The financial crisis has also an impact on the current and planned PPP projects and alternative funding. For a range of projects securing a funding commitment against the originally estimated parameters turned out to be very difficult. As the Court, however, had focused its audit on the start and preparation of the projects and verified them in the light of international audit standards, the audit conclusions and recommendations remain relevant.