

Opening the door

Thomas Vestergaard, Head of Section of the PPP Competence Unit at The National Agency for Enterprise and Construction, outlines the Danish approach to PPP...

While PPP has been widely used in many countries, it is still regarded as a new concept in Denmark. It has been on the political agenda for only two years but, despite the short period of time, much has already happened.

In Denmark, PPP is regarded as one instrument among others to achieve quality, efficiency, innovation and a proper division of labour between the public and private sectors. Private financing and funding is seen as an important means of improving incentive structures, but it is not the primary aim of introducing PPP in Denmark. In other words, PPP is not an end in itself, but a way of achieving value for money.

This approach to PPP is reflected in the National Action Plan, which was launched by the Minister of Economic and Business Affairs, Bendt Bendtsen, in January 2004. The National Action Plan consists of 10 initiatives, which are listed in the box below. Most of the initiatives have been implemented.

The National Action Plan¹

Initiative 1:	National pilot projects.
Initiative 2:	Requirements in PPP evaluation within the national area.
Initiative 3:	DKK25m has been allocated for promoting regional pilot projects within the area of transportation.
Initiative 4:	DKK6m has been allocated for promoting pilot projects within the area of construction and housing.
Initiative 5:	Clear guidelines for municipalities for exemption from the rules on loan depositing.
Initiative 6:	Framework agreement with qualified PPP consultants.
Initiative 7:	PPP guidance and standard contracts.
Initiative 8:	PPP website at www.udbudsportalen.dk .
Initiative 9:	PPP sector analysis.
Initiative 10:	Set-up of a Competence Unit for PPP within the area of construction and housing.

Regarding Initiative 10, the Danish Competence Unit for PPP is situated at the National Agency for Housing and Construction. The Agency is an integrated part of the Ministry of Economic and Business Affairs.

The objective of the work of the Unit is to bring about broad acceptance of PPP as an alternative to more traditional ways of providing service and infrastructure. The National Agency for Enterprise and Construction

contributes to knowledge collection and the exchange of experience regarding PPPs, and supports pilot projects as an inspiration to others.

The unit develops tools to promote the use of PPP in Denmark. The tools are directed at government and private developers, municipalities, counties and private enterprises. The most important tools are:

- Guidelines for when and how government developers should consider whether a construction project may be completed more cost-effectively through the PPP method (April 2004);
- Financial assessment and benchmarking tools for the purpose of testing whether a construction or a major renovation task may be performed more efficiently through the PPP method (April 2004);
- A basic contract regulating legal matters for PPPs with accompanying guidelines (April 2004);
- Funds for promoting pilot projects within the area of construction and housing (April 2004);
- Network meetings to enhance the public and private sector PPP competences (forthcoming).

Denmark has chosen a sort of 'controlled trial and error' approach. The Unit seeks to learn from other countries' PPP experiences and then to try and convert the experiences into a Danish context, developing step-by-step instructions, financial assessment and benchmarking tools, and basic contracts. Acknowledging that these first version tools are theoretical desk products, they are being modified based on the experiences with the first PPP projects.

The approach is taken to help minimise the costs of being a first mover on the Danish PPP market. This is done primarily by making tools available, but also by trying to establish a flow of like-minded projects (for instance, primary schools) and making sure that the first PPP projects are not too complicated.

Potentials and barriers for PPP in Denmark

In Denmark, there is a strong tradition for a decentralised government structure. The municipalities (kommuner) and counties (amter) are running the day to day delivery of public services and are responsible for the majority of public construction and infrastructure. This is of great importance for the tools required and the process of implementing PPP in Denmark. Due to the

wide decision and tax collection powers at local and regional level, local politicians play an important role.

Denmark is, furthermore, in the process of implementing a major Structural Reform². The purpose of the Reform is to maintain and develop a democratically governed public sector with a sound basis for continued development of the Danish Welfare State. The reform will create larger and fewer municipalities in Denmark, and will reshuffle a large number of the public tasks. This has several implications for the expectations of PPP in Denmark:

- In the short term, the municipalities are tied-up with re-organising. It can prove to be difficult to introduce PPP in this environment of change;
- On the other hand, the Reform represents a huge window of opportunity. Not only the structure but also the tasks are in play. The regions are giving up a number of tasks to the new and stronger municipalities. They do not have the same degree of ownership of the tasks and this could be an opportunity to introduce private sector competences to some of the many public sector tasks;
- In the long run, the Reform will create more PPP projects – there is no doubt about that. Going from about 270 municipalities to about 100, and from 14 to five counties, means larger unities. Although there is no causal relationship between the size of a municipality and the degree of outsourcing, the lessons so far have shown that it is important that the PPP projects have a certain volume due to the transaction costs. Larger PPP projects and bundled projects will be much more likely with the new and larger municipalities.

But what about potentials and barriers for PPP at the national level? In The National Action Plan, a number of national PPP projects are mentioned. The national projects are usually quite large, which is an advantage. On the other hand, not many National Archives or prisons are being built in Denmark. The national projects tend to be quite unique, and therefore may not prove, in the economic analyses, to deliver more value for money when set up as a PPP due to a lack of competition and the need for specialised competences in the market.

It is important to establish in which sectors the potentials and barriers for PPP projects are in Denmark. In the spring of 2005, the National Agency for Housing and Construction will be carrying out a PPP market analysis focusing on both local and State sectors.

Danish PPP projects

The National Archives will be the first PPP project at State level. During the spring of 2004, an economic analysis was carried out in order to establish whether it would be economically advantageous to carry through the National Archives as a PPP.³ The result of the analysis shows that the estimated economic advantage of completing the project as a PPP, as opposed to a traditional tender, could save the taxpayers between 3-8%

in current value. The National Archives are expected to be tendered out in about a year. The estimated current value of the entire project is DKK549m.

At the local level, the municipality of Trehoeje is preparing to build a primary school. The National Agency for Housing and Construction has co-financed the expenses to carry out the economic analysis to test whether it would be economically advantageous to design, build, maintain, operate and finance the school as a PPP.⁴ The economic analysis estimates the economic advantage of completing the project as a PPP to be around 10%. The estimated current value of the entire project is DKK116m and the school is expected to be tendered out in the spring of 2005.

Finally, there is the E45 freeway in the southern part of Denmark. The Ministry of Transport co-financed the economic analysis. The results of the PPP evaluation show that the estimated economic advantage of completing the project as a PPP constitutes DKK28m in current value, of which DKK14m is related to an anticipated earlier realisation of the project.⁵ The estimated current value of the entire project is DKK900m.

On the horizon, more PPP projects are emerging. A number of municipalities are close to defining some projects, and at the national level, a prison is about to be tested as to whether it is economically advantageous to build it as a PPP. Furthermore, a number of road projects are starting to take form.

Conclusion

Although PPP has been on the political agenda for only two years, much has already happened in Denmark. The tools are in place, the PPP competences of the public and private sectors are being developed, and the first Danish PPP projects are about to be tendered out. In many ways, PPP is not something you just talk about in Denmark anymore – it is something that you do.

It can be debated whether or not the 'controlled trial and error' approach, and the extensive pre-economic evaluations to ensure that value for money is more than a theoretical argument, is the right way forward. It might not bring about numerous PPP projects in the first two or three years. But it is very important to make sure that the first Danish PPP projects are successful, both politically and economically, to bring about broad acceptance of PPP as an alternative to more traditional ways of providing service and infrastructure. This, together with the focus on simple projects and establishing a flow of like-minded projects, are the keys to opening the doors to the emerging Danish PPP market.

¹ Available at <http://www.oem.dk/Publikationer/html/OPP/hele.pdf>.

² Available at www.im.dk/publikationer/agreement/index.html.

³ Available at http://www.ebst.dk/file/2473/Rapport_om_OPP.pdf.

⁴ Available at www.ramboll.dk/dan/sites/other+sites/pressecenter/pressemeddelelser/ny+rappport+om+opp.htm.

⁵ Available at <http://www.vejtilals.sja.dk/>.

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