

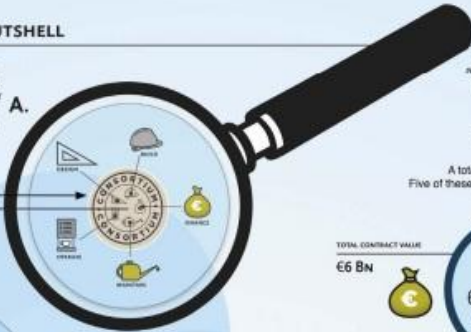
CONTRACT MANAGEMENT IN RELATION TO DBFMO PROJECTS

A handy summary of our audit into contract management in relation to DBFMO projects.

1 DBFMO IN A NUTSHELL

More and more often, whenever the government decides it would like to construct a new building or build a new road, it does so in partnership with a private-sector consortium, using a 'DBFMO' contract.

The consortium is responsible for all aspects of the project, from design to maintenance, over a long period of time.



The government and the consortium sign a long-term contract.

Regular payments follow, based on the principle of 'payment by results'. This principle is followed throughout the full term of the contract and applies to all DBFMO components.



This type of contract offers added financial value and added quality if the project in question is properly performed.

4 WHAT DID WE FIND?

WHAT WE EXPECTED

1 The principle of 'payment by results' should encourage the consortium to perform well during the entire term of the contract. Any decline in standards or performance should trigger a penalty.

WHAT WE FOUND IN PRACTICE

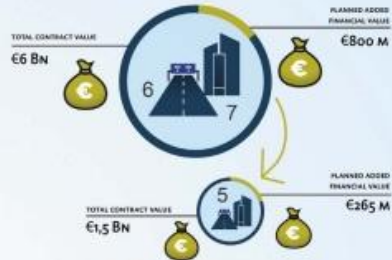
Consortia performances are not monitored as well as they ought to be.
The government is not consistent in imposing fines and discounts.
The government makes guaranteed or lump-sum payments.



2 BASIC PRINCIPLES

- a) The policy is to use DBFMO contracts as a rule. The rule may be disregarded only in exceptional situations.
- b) Added value must be created.
- c) A DBFMO contract means 'no worries' for the government body in question.

A total of 13 DBFMO projects were underway in 2012. Five of these projects were examined by a team auditors from the Court of Audit.



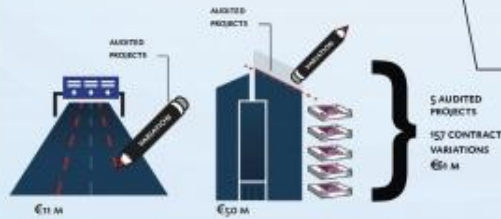
3 FOCUS

Our auditors looked at contract management and at the information supplied to the House of Representatives.



WHAT WE EXPECTED

2 Contract variations are likely to be inevitable due to the long-term nature of the contracts. DBFMO principles should still apply to contract variations. Cost transparency should discourage variations.



WHAT WE FOUND IN PRACTICE

Contract terms renegotiated with consortium.
Cost of contract variations tends to rise due to lack of competition and absence of risk mark-ups for consortium.
Project costs are higher than forecast; impact on added value is unclear.

5 MAIN CONCLUSION

* Better contract management in relation to DBFMO projects is needed to safeguard the public interest and secure added financial value.

* In order to assess the pros and cons of DBFMO, the House of Representatives needs information on the performance of DBFMO contracts.

WHY IS THIS IMPORTANT?

CONTRACT MANAGEMENT

DBFMO is about more than just agreeing on certain contract terms. It is important to adhere to contractual arrangements in order to safeguard the public interest and secure the added financial value that DBFMO contracts should generate.

INFORMATION

Although DBFMO is regarded as a 'technical' issue, the decision to opt for DBFMO is a political choice. Both large amounts of money and huge interests are at stake.
The contracts affect budgets over many years, and change the role played by the government as a contracting authority.
There are specific risks inherent to DBFMO contracts that must be monitored during the term of each contract.

IN OTHER WORDS

There needs to be a shift in emphasis away from information on contract terms to information on contract performance.

INTERESTED IN FINDING OUT MORE ABOUT THIS AUDIT AND THE AUDIT FINDINGS?

Read the report entitled "Contract management in relation to DBFMO projects"

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