VALSTYBĖS KONTROLĖ
PUBLIC AUDIT

SERVICES PROVIDED THROUGH PUBLIC-PRIVATE PARTNERSHIPS

18 July 2024

No VAE-9

SUMMARY

Relevance of the audit

Society needs high-quality services for transport, education, health, leisure, etc. In order to meet public expectations, there is a need to expand public infrastructure, improve the quality of services and increase their accessibility. The public sector has limited financial capacity to meet these needs and therefore seeks to attract private capital investment.

Public-private partnerships are a way of leveraging private capital, knowledge, skills and expertise to deliver services that society needs. Successful implementation of these partnerships depends on proper planning, the fulfilment of the commitments made by each party to the project, and ongoing cooperation to resolve issues that arise during the project.

Objective and scope of the audit

The objective of the audit is to assess whether the services provided through public-private partnerships are in the public interest.

Key audit questions:

- ✓ Whether the planning of public-private partnership projects is conducive to their proper implementation;
- ✓ Whether it is ensured that public-private partnership projects are properly implemented;
- ✓ Whether the monitoring of public-private partnership projects ensures adequate service provision;
- ✓ Whether the state manages information on the ongoing public-private partnership projects.

Audited entities:

The Ministry of Finance because it collects, organises and stores data on the progress of implementation of public-private partnership projects, submits an annual report to the Government on the public-private partnership contracts concluded and their implementation, etc.[1];

The Central Project Management Agency because of its assistance in the preparation and implementation of public-private partnership projects[2];

Public entities implementing public-private partnership projects include the Ministry of Health, the State Service for Protected Areas, the Police Headquarters, Kaunas City and District, Klaipėda City and District, Palanga City, Raseiniai District and Zarasai District municipalities because they prepare and implement public-private partnership projects, monitor their implementation, and provide the Ministry of Finance with information on the ongoing projects.

We gathered information and cooperated with the Ministry of the Economy and Innovation and the National Public Health Centre.

The audited period was 2015-2023[3]. In order to assess trends and developments, we used data from previous years and the first half of 2024 in some cases. The list of projects selected for the evaluation is presented in Annex 4, List of public-private partnership projects selected for the evaluation (page 40).

The audit was carried out in accordance with international standards of supreme audit institutions. The scope of the audit and the methods applied are described in more detail in Annex 2, Scope and methods of the audit (page 35).

Key audit findings

Public-private partnership services are more likely to be in the public interest if: project risks are better managed, infrastructure for service provision is put in place in a timely manner, the condition of assets is periodically assessed, all planned services are provided, and project performance is monitored.

1. Planning and risk management of public-private partnership projects must be improved

- ✓ The state has limited financial resources to achieve objectives. Private finance can be mobilised through public-private partnerships to achieve them. These partnerships require long-term plans for projects that address a range of state problems or contribute to the achievement of long-term state's strategic objectives. However, public-private partnerships as an investment modality have not been adequately

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[1] Regulations of the Ministry of Finance, approved by Government Resolution No 1088 of 8 September 1998, paragraphs 8.1.11-8.1.13.

[2] Regulations of the CPMA, approved by Order No 406 of the Minister of Finance of 20 December 2002, paragraph 10.5.

[3] We assessed service quality and reporting for the period from 2019 to 2023, and in some cases also used data for the first half of 2024 to assess service quality.

included in the long-term investment planning system[4], and such plans have been prepared only in exceptional cases. Failure to plan projects in a way that maximises their contribution to the achievement of the state's objectives and/or to meeting society's needs does not sufficiently use the advantages of the public-private partnership approach (Section 1, page 12).

- ✓ Projects are exposed to a wide range of risks: political, environmental, construction, demand, etc. To achieve project objectives, it is important to identify all potential risks. In 31% (4 out of 13) of the selected projects, the political risk, which includes possible events related to changes in the legal and tax environment, was not assessed and attributed to a project party. If this risk materialises and there is no prior agreement as to which project party is responsible for its management, timely action will not be taken in response to changes in tax policy or regulation of activities (Section 1, page 12).
- ✓ In addition, in 92% (12 out of 13[5]) of the cases, no risk management plan for the risks attributed to the public entity was prepared, and in 85% (11 out of 13) of the cases, no risk register was prepared. Without a risk management plan and a risk register, it is difficult to manage risks materialising during project implementation and to deal with them promptly (Section 1, page 12).

2. All services must be guaranteed in terms of provision and quality

- ✓ In 23% (3 out of 13)[6] of the projects selected, not all the planned infrastructure was built, or it was built later than contracted. The delayed or non-existent creation of infrastructure for services prevents the public from accessing the services they need (Section 2, page 16).
- ✓ The services that society needs must be provided safely and to a high standard. In 13% (2 out of 15) of the selected projects, not all planned services are provided. The National Public Health Centre has carried out inspections in 40% (6 out of 15) of the selected project sites[7] in 2019-2024[8], of which 83% (5 out of 6) were found to be in non-compliance with hygiene standards. Not providing all planned services or providing services of poor quality does not achieve the objectives of public-private partnership projects (Section 2, page 16).

3. Insufficient monitoring of the implementation of public-private partnership projects

- ✓ The project manager is the main representative of the public entity responsible for the success of the public-private partnership project. The project manager's actions should be defined in the management manual of the project contract of this partnership.[9] In all of the selected projects, the public entities have in all cases appointed responsible persons (project managers) and entrusted them with the monitoring of the

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[4] Explanatory notes to Investment Law No VIII-1312, Articles 2, 4, 13, 156, and 158, and the Law on Amending Section 4; the Law on Amending Concession Law No i-1510, Articles 5, 14, 16, 26, 31, 60, 65, 66 and Annex 5, and the draft laws related thereto.

[5] In 2 out of 15 cases, all risks have been transferred to a private entity.

[6] In 2 of 15 projects, no additional investments were foreseen.

[7] Klaipėda Swimming Pool, Kaunas Swimming Pool, Kaunas District Swimming Pool and schools, Dreverna harbour, Palanga Concert Hall, Vilnius Police Headquarters.

[8] Q1 2024

[9] Guidelines for the implementation of public-private partnership projects, page 10.

implementation of the contract, but none of them have prepared a contract management manual or defined the actions that the project manager has to take in the performance of their duties. The need for monitoring actions is a matter for the project managers to decide. The absence of a definition of the actions to be carried out by the project manager in monitoring the progress of the project and the frequency with which they must be carried out does not ensure that any issues arising are dealt with promptly (Section 3, page 19).

- ✓ It is important to set requirements for the scope and/or quality of the service to be provided during project planning and to monitor the results of the projects when they are implemented. In 67% (10 out of 15) of the projects evaluated, there are targets set for the entire project period. In other cases, the requirements are either general in nature, such as ensuring the continuity of service provision, the number of staff required, etc., or the results to be achieved are set only for 1-3 years, i.e. not for the entire project period. In all cases where service delivery requirements were set, the project results were supervised. This led to the finding that in 30% (3 out of 10) of the cases, services were provided below the planned scope or did not meet the quality requirements. Without the performance targets of public-private partnership projects being set at the planning stage, it is difficult to assess their benefits and to take timely decisions to ensure the scope and quality of service provision (Section 3, page 19).
- ✓ In order to ensure that state or municipal assets are managed in a prudent manner, the public entity should periodically assess the condition of the assets transferred to a private entity for management and/or developed in the course of a public-private partnership project, and document the results of the assessment. In 67% (10 out of 15) of the projects evaluated, the public entity carried out an annual assessment of the condition of the assets, of which 60% (6 out of 10) recorded the results of the assessment in minutes, photographs etc. Without periodic condition assessments and documentation of the results, changes in the condition of the assets over a year or more, and the reasons for them, are not identified, and it is not possible to initiate the decisions needed for the maintenance of the assets (Section 3, page 19).

4. The process of managing information on the implementation of public-private projects needs improvement

- ✓ Improvement of the implementation of public-private partnership projects, making them more attractive to the public and private sectors, can only be achieved with detailed information on the projects being implemented. The Ministry of Finance is required to prepare an annual report on the public-private partnership contracts concluded and their implementation and to submit it to the Government[10]. The Ministry did not prepare a report for the period from 2020 to 2023 and did not submit it to the Government. During this period, the Central Project Management Agency prepared statistical overviews on the implementation of public-private partnership contracts, which did not provide detailed information on the implementation of the projects, the amounts of payments to the public entity, etc. The Ministry of Finance treats this statistical overview as an annual report on the public-private partnership contracts concluded and their performance, but it has not submitted the statistical overview to the Government since 2020. In addition, the overview has not been discussed by the Public-Private Partnership Projects Commission, which has as one of

[10] Rules for the Preparation and Implementation of Public-Private Partnership Projects, approved by Government Resolution No 1480 of 11 November 2009, paragraphs 39 and 40.

its functions[11] to make proposals for improving the public-private partnership process. The lack of detailed information on the projects being implemented and the lack of timely action to improve the process causes missed opportunities to address project implementation issues in a timely manner (Section 4, page 23).

Recommendations

For the Ministry of Finance

1. To improve the planning, implementation and monitoring processes of public-private partnership projects, to integrate public-private partnership projects implemented by central government into the strategic management system, and to ensure proper accountability for their implementation (Results 1, 4).

For the Central Project Management Agency

2. In order to enable proper management of project risks, to ensure timely delivery of infrastructure, periodic asset condition assessments and provision of high-quality services; to prepare a model public-private partnership project management manual to outline what the project manager should do, when and how they should do it (Key Audit Results 1, 2, 3).

For the Kaunas City, Kaunas District, Klaipėda City, Klaipėda District, Palanga City, Zarasai District municipalities, the Ministry of Health, the State Service for Protected Areas, the Police Headquarters

3. To create internal control and risk management procedures, to set their periodicity and traceability for the successful implementation of projects (Key Audit Results 1, 2, 3).

For the Kaunas District, Klaipėda City, Klaipėda District, Palanga City, Zarasai District municipalities, the State Service for Protected Areas, the Police Headquarters

4. In order to manage project risks properly, to develop and periodically update the public entity's risk management plan and record the risks and measures to manage them (Key Audit Result 1).

For the Klaipėda City, Klaipėda District, Palanga City, Zarasai District municipalities, the State Service for Protected Areas

5. In order to ensure that state and municipal assets are managed responsibly and in a prudent manner, to carry out an asset condition assessment at least once a year and ensure traceability of the results of the assessment (Key Audit Result 3).

For the Kaunas District, Klaipėda City, Klaipėda District municipalities

[11] Government Resolution No 1480 of 11 November 2009 "On Public-Private Partnerships", paragraphs 3.1.1-3.1.3.

6. In order to ensure that all planned services are continuously provided and meet quality requirements, to implement the measures set out in the risk management plan (Key Audit Result 2).

The measures and timeframes for implementing the recommendations, the expected impact of the audit and the indicators for measuring change are set out in the section "Plan for the implementation of the recommendations" (page 26) of the report. Up-to-date information on the status of the implementation of the recommendations, results and developments is published in open data on the National Audit Office's website at https://www.valstybeskontrole.lt/LT/AtviriDuomenys.