

Cost overruns and phasing – challenges and options for a way forward

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Before 2020

- Problems with higher / unpredictable prices in tenders dating from mid 2018, even before crises inducted by Covid 19 and Russian aggression on Ukraine
 - Prices variations specific per sector
 - Generally experienced price increase except in transport sector where actual contracts were usually below expected cost (also not good)
- Reasons
 - Sudden inflow of EU projects
 - Lack of capacity (partly due to the migration)

2020 - 2022

- 2020 Covid 19 → problem grows
 - Primarily in the form of bigger differences between estimated tender value and offers received (in procurement) affecting all sectors
 - Start of problem with the execution of contracts (regardless of price) due to the disruption in the supply chain
 - Dilemma: secure additional financial sources and sign the contract or re-tender
- Late 2021 and 2022 → escalation
 - Totally unpredictable public procurement process (except for services)
 - Start of requests for amendment of contracts during implementation (additional costs for the same scope of work)
- **End result: even with signed contracts we don't know the final value of the project and the implementation deadline**

Solutions

- Project modifications (exclusion of some non-crucial activities, changes in scope, distribution of funds between activities/costs, prolongation of implementation period) → good measure but not adequate for the magnitude of the problem
- Increase of co-financing → hard because additional overbooking connected to the national budget
- Phasing → good on project level but
 - Large number of potential candidates
 - „Hole” in the program implementation (financial absorption, indicators)
 - Lock out of the new program
 - (assumed) ineligibility of some projects

Solutions

- Due to the magnitude of the problem in June 2022 Government of the Republic of Croatia issued „Conclusion on mitigation of the consequences of the global disruption on the market of construction material and products”
 - Encourages public beneficiaries to enter into contract modifications
 - Includes methodology for determining difference in the costs/prices of works
- In practice still several question marks
 - The source of additional funding is unknown
 - Fear of contract modification still prevails (i.e. fear of financial corrections)
- Very limited number of contract modifications and no experience in assessing such modifications vis-a-vis public procurement rules by the MA.

Concluding remarks

- No systematic solution – on case-by-case basis
- Situation threatens to end in hugely overdue and (over)paid projects, questionable absorption despite overbooking and increase of costs of individual projects
- ECs new intervention in regulation (like FAST-CARE) potentially would mitigate part of the issue
- Potential solution is combination of the following
 - Significant modification of individual projects – reduction of scope and goals of the projects – not realistic to find additional sources (either national or EU) to cover the increase on all of the projects)
 - Phasing
- End of programming period thus cancelation of projects is not a significant option since most of the projects past initial implementation phase
- Next few years – uncertainty



Thank you for the attention!