

# Handbook on Public Private Partnership (PPP) in Built Heritage Revitalisation Projects

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The aim of the *Handbook on Public-Private Partnership (PPP) in Built Heritage Revitalisation Projects* is to help both public and private potential PPP stakeholders optimally prepare for and successfully implement the projects within the PPP scheme dedicated to revitalisation issues.

The Handbook has been prepared as part of the RESTAURA project scope of activities. *RESTAURA. Revitalising Historic Buildings through Public-Private Partnership Schemes (CE339)* is a project co-financed from the INTERREG Central Europe programme, dedicated to promotion and deployment of investments in revitalisation of historic buildings with the use of private financing through Public-Private Partnership (PPP) schemes. The project partners are:

- City of Nowy Dwór Mazowiecki (Lead Partner, Poland);
- Institute for Public-Private Partnership (Poland);
- Foundation for Landscape Protection (Poland);
- Institute for Development and International Relations (Croatia);
- Agency for Development of Gemer Region (Slovakia);
- Municipality of Nova Gorica (Slovenia);
- Faculty of Business Studies (Slovenia);
- Research Centre of the Slovenian Academy of Sciences and Arts (Slovenia);
- City of Buzet (Croatia).

To learn more about RESTAURA, visit the project's website:

<http://www.interreg-central.eu/restaura>



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## How to read the Handbook

The Handbook is divided into chapters and subchapters. In each chapter you can find the following symbols and references:



In the frames case studies are described.



The arrows indicate references with other Handbook chapters.



Under this symbol links to useful websites can be found.

The Guidelines If the text refers to The Guidelines, it means The European Commission's *Guidelines for Successful Public-Private Partnerships* (see Bibliography, p. 49).

*Italicized text* Quotes.



# 1. Definition of PPP

Public-private partnership (PPP) is one of the governance mechanisms available for the public authorities to perform their statutory tasks, revitalisation included.

There is no consensus about how to define PPP. There is no harmonized European Union regulation on PPP either. On the EU level, The Guidelines give a general framework for PPP as:

- ❖ A form of cooperation **between public and private sector**;
- ❖ A scheme of executing tasks or providing services **traditionally procured by the public sector**;
- ❖ An undertaking where both parties are capable to execute their tasks **more efficiently than the other party**;
- ❖ An **economically effective** formula for building infrastructure and providing public services;
- ❖ An undertaking that brings benefits to both involved parties **proportionally to their involvement**.

The European Commission has also adopted the following definition:

*PPPs are forms of cooperation between public authorities and the private sector that aim to modernise the delivery of infrastructure and strategic public services. In some cases, PPPs involve the financing, design, construction, renovation, management or maintenance of an infrastructure asset; in others, they incorporate the provision of a service traditionally delivered by public institutions. Whilst the principal focus of PPPs should be on promoting efficiency in public services through risk sharing and harnessing private sector expertise, they can also relieve the immediate pressure on public finances by providing an additional source of capital. In turn, public sector participation in a project may offer important safeguards for private investors, in particular the stability of long term cash-flows from public finances, and can incorporate important social or environmental benefits into a project.*

Source: The European Commission, *Mobilising private and public investment for recovery and long term structural change: developing Public Private Partnerships*, Brussels, 2009.



Currently, the following EU countries have adopted individual acts on PPP:

Bulgaria	Greece	Poland
Croatia	Ireland	Romania
Estonia	Latvia	Slovenia
France	Lithuania	

Other provisions can regulate and/or facilitate PPP projects implementation, e.g. regulations on public procurement/concession, etc. It is always recommended to check national regulations for PPP definition and legal framework.



**Regulations and documents on PPP: see 1.8., p. 12.**

## 1.1. Public-private cooperation: PPP versus concession

All forms of cooperation between public and private entities that involve public capital commitment are either public procurement or concession. We can call such cooperation a PPP when it involves:

- ❖ Risk allocation (division of risks) between the parties;
- ❖ Contribution of each involved party (including remuneration of the private partner from the public budget);
- ❖ Maintenance and management of the asset which is the subject of the enterprise (including change of ownership of the asset as a remuneration).

There are cases when the provisions on public procurement/concession do not apply (are legally excluded).

While implementing the PPP scheme, public entities should follow, among others, the rules on the contract notice, as well as the equal and competitive procedure of choosing a private partner (in particular, a licensee) regulated by:

- ❖ The Directive 2004/18/EC on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts, dated: 31.03.2004;
- ❖ The Treaty on the Functioning of the European Union (primary legislation of the UE), 2012/C 326/01;
- ❖ National provisions on public procurement.



## 1.2. Tasks and services performed under PPP

The public administration has a statutory obligation to provide a range of public utility tasks and services in the following sectors:

- ❖ Transport and infrastructure;
- ❖ Healthcare;
- ❖ Education;
- ❖ Defence;
- ❖ Telecommunications;
- ❖ Environment (e.g. innovative sources of energy);
- ❖ Public order and safety;
- ❖ Recreation and culture (e.g. tangible and intangible cultural heritage protection and restoration);
- ❖ General public services;
- ❖ Other.

The funding and provision of the tasks/services within these sectors can be delegated to the private entities under the PPP formula. Nevertheless, the public authority remains responsible for maintaining relevant quality of services.

## 1.3. Efficient execution of the tasks

The public measures spent on a public service cover not only the main task, but also the side tasks. Such situation neither motivates for creativity nor awards efficiency. Delegating the provision of the main task to a private entity can improve execution efficiency.

In a cultural centre financed from the public measures, only a few percent of the budget covers the cultural activities (main task). There are also infrastructure costs (building administration and maintenance, utilities: water, electricity, etc.) and/or staff costs involved (side tasks). All expenses are covered from the yearly budget.

Performing the main task as a project that has its life cycle encourages to efficiency, because benefits (e.g. collaboration in the next project cycle) are directly linked to the results of the project.



Under the PPP scheme, the task/service is the only concern of the external provider/private partner. Efficiency enhancement comes also from the technological and managing expertise the private entity brings in.

## 1.4. Economic effectiveness (value for money)

If you want to implement a project under the PPP formula, you are recommended to apply the criterion of economic effectiveness, or value for money (VfM) in the preliminary analysis. EPEC defines this term as *the structured comparison between a conventional procurement and a PPP option that is carried out by an Authority in accordance with a defined methodology*. In brief, it means that the project should bring maximum quality/quantity of goods/service or performance level with minimum possible measures over the same period (see Figure 1).

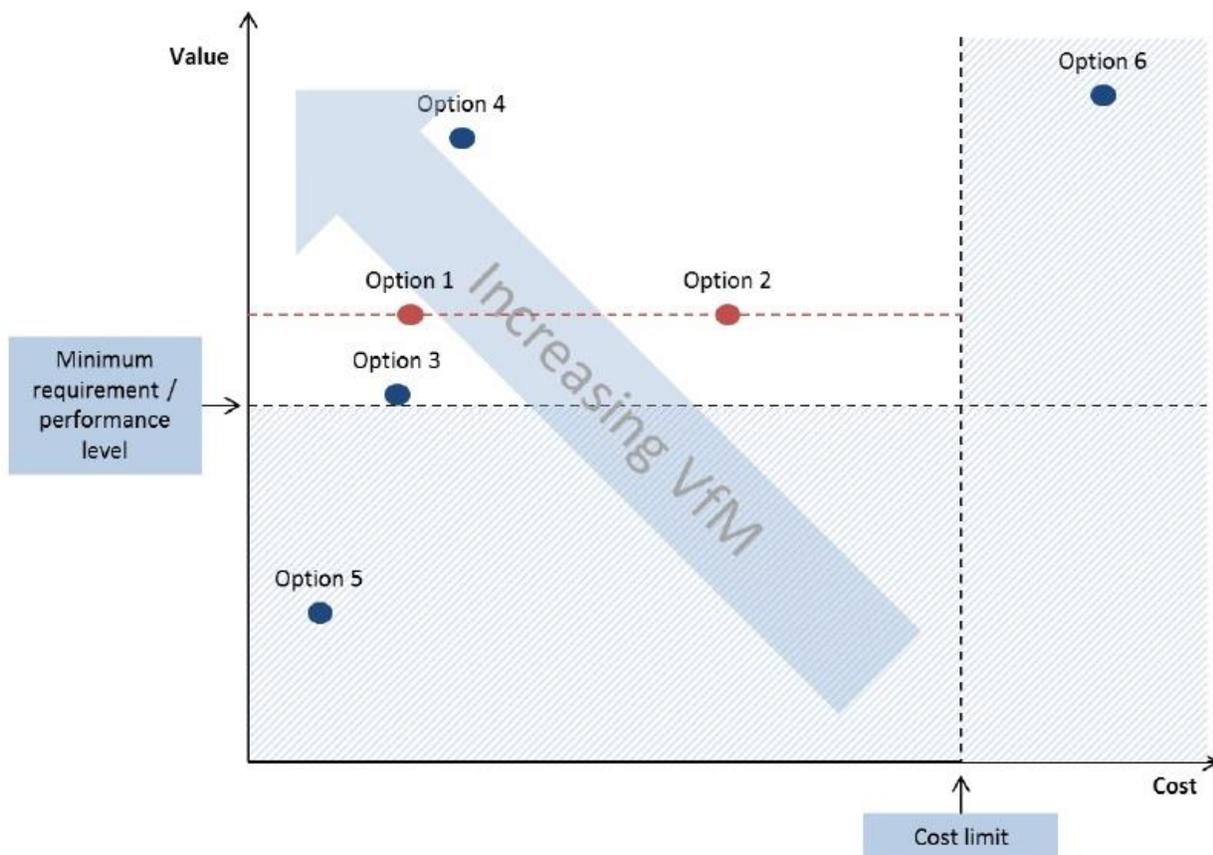


Figure 1: Value for Money explanation. Source: EPEC, *Value for Money Assessment*, March 2015.

The above graph shows several options situated on the value cost axes. The hypothetical value for money assessment may primarily cover Options 1 and 2, as they



offer comparable value level. The particularity of the value for money criterion is that Option 3, the least expensive option fulfilling the minimum requirements, may not necessarily be the best choice due to lower performance level. For Option 4 with similar costs to Option 1, but higher value, additional benefits and maximum required performance levels should be considered under assessment. Options 5 and 6 may be excluded from the assessment because they do not fulfil the minimum performance and maximum costs requirements respectively.

The value for money can be assessed through the quantitative/qualitative analysis. The application of the PPP model is recommended only if the analysis shows it is far more profitable than traditional formulas for providing public services.

**City of Poreč, Croatia:**

For the purpose of the project which aimed at the reconstruction of public schools in the region, the Comparator of Costs for the public sector was prepared. The calculation assumed the duration of the project for 27 years, of which design and construction were planned for 1-2 years, while the payment of the maintenance fees to the private partner was scheduled from the 3rd to the 27th year of the project. The analysis showed that overall costs of the project under the PPP model for the whole period of 27 years were 13.5% lower than under the traditional public model for capital investment and maintenance of the facilities.



**The pre-implementation analysis: see 3.2., p. 24.**

## 1.5. Joint involvement of the partners

Under the PPP scheme, the private partner is usually obliged to implement the contractual provisions and cover all or partial costs incurred. The scheme varies from the regular public procurement procedure in joint involvement of the partners. That means the public authority's involvement is not limited to activities typical for regular public procurements, such as purchase of a service, delivery, or works in exchange for an agreed payment. The public entity's obligation is to cooperate with the private partner on the project's goals, in particular through a contribution and/or remuneration to the private partner.



## 1.6. Division of tasks between the partners

The partners of a PPP contract are jointly involved in its implementation, which means they share tasks encompassed in the project. Each partner performs tasks that best fit their area of competence.

### 1.6.1. Risk allocation

Risk allocation or risk transfer concerns e.g.:

- ❖ Revenue risk;
- ❖ Construction risk;
- ❖ Foreign exchange risk;
- ❖ Regulatory/contractual risk;
- ❖ Political risk;
- ❖ Environmental/archeological risk;
- ❖ Latent defect risk;
- ❖ Public acceptance risk;
- ❖ Sustainability risk.

Risk allocation is negotiated individually for each PPP contract. Both private and public sector should share contractual risks. Excessive risk imposed on the private partner can lead to failure in finding the partner for the project.

### 1.6.2. Contribution of the public partner and remuneration of the private partner

The private partner's remuneration and the contribution of the public party are agreed individually for each PPP enterprise.

The contribution is often the most important and most frequent form of the public partner's participation in the PPP enterprise. It never covers the total costs of the project. The public party can contribute by e.g.:

- ❖ Covering subsidies to the services provided by the private party;
- ❖ Contributing a property.

The private partner can be remunerated for the job performed within the PPP enterprise directly from the public party (e.g. in form of a fee) or indirectly (e.g. with profits generated from the services provided).



## 1.7. Duration of PPP contracts

Practice shows that PPP contracts are usually mid-term (about 10-30 years) or long-term ones (more than 30 years). Private entities tend to maximize the contracts duration for economic reasons, but on the other side lies fair competitiveness, fair market rules, and monopolies prevention for the public benefit.

The Guidelines give a general remark on the PPP contracts duration, relating it to the risk covered by the private partner:

As a general rule, the lower the amount of risk assumed by the private party and the lower their financial contribution, the shorter should be the concession period.

## 1.8. Regulations and documents on PPP

Laws on PPP in individual countries:

<https://ppp.worldbank.org/public-private-partnership/legislation-regulation/laws/ppp-and-concession-laws>

the majority of laws available in English; accessed 22.02.2017

Laws on PPP in RESTAURA countries. Croatia, Poland, and Slovenia have implemented acts on PPP in mid-2000s. In Slovakia, the act on public procurements rules the PPP. Below are the links to the websites where the acts are available in national languages:

### Croatia

Zakon o javno-privatnom partnerstvu od 24. listopada 2008; Izdanje NN 129/2008:

[http://narodne-novine.nn.hr/clanci/sluzbeni/2008\\_11\\_129\\_3679.html](http://narodne-novine.nn.hr/clanci/sluzbeni/2008_11_129_3679.html)

in Croatian; accessed 15.02.2017



### Poland

Ustawa o partnerstwie publiczno-prywatnym z 19 grudnia 2008 r.; Dz. U. 2015 poz. 696 (tekst jednolity):

<http://isap.sejm.gov.pl/DetailsServlet?id=WDU20150000696>

in Polish; accessed 15.02.2017

Ustawa o koncesji na roboty budowlane lub usługi z 9 stycznia 2009; Dz. U. 2009 nr 19 poz. 101:

<http://isap.sejm.gov.pl/DetailsServlet?id=WDU20090190101>

in Polish; accessed 21.02.2017

### Slovakia

Zákon o verejnom obstarávaní a o zmene a doplnení niektorých zákonov z 18. novembra 2015; 343/2015 Z. z.:

<https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2015/343/20160418.html>

in Slovak; accessed 22.02.2017

### Slovenia



Zakon o javno-zasebnem partnerstvu (ZJZP); Uradni list RS, št. 127/2006 z dne 7.12.2006:  
<https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina?urlid=2006127&stevilka=5348>  
in Slovene; accessed 15.02.2017

The European Commission's *Guidelines for Successful Public-Private Partnerships*:

[http://ec.europa.eu/regional\\_policy/sources/docgener/guides/ppp\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/guides/ppp_en.pdf)  
in English; accessed 15.02.2017

A detailed comparison between concession and public-private partnership based on Polish provisions (download the PDF file):

[http://www.paiz.gov.pl/files/?id\\_plik=16913](http://www.paiz.gov.pl/files/?id_plik=16913); in English, accessed 28.02.2017

The EPEC PPP Guide:

<http://www.eib.org/epec/g2g/index.htm>; in English, accessed 30.05.2017



## 2. PPP: benefits and fears

Properly prepared PPP projects can bring benefits to both public and private actors. Value for Money pre-implementation analysis provides information on the prospected financial outcome of a project. Non-financial (socio-economic) benefits of PPP schemes usually are not included in the Value for Money analysis, but can result greater than under conventional procurement.



**Economic effectiveness (value for money): see 1.4., p. 9.**

### 2.1. Benefits of PPP for the public entities

#### 2.1.1. Financial

Public authorities holding limited and insufficient budgets need new resources and approaches for provision of statutory public services. As the society is generally against further taxes raising and possibilities of credits are limited, the public sector needs greater efficiency in the use of public resources.

For the public sector, PPP brings:

- ❖ Additional capital for new investments;
- ❖ Cost savings can reach 17% on average, despite the private partner's profit and higher cost of credit (source: Polish Agency for Enterprise Development). The savings are produced by: transfer of several risks to the private partner, know-how, more efficient long-term cost management, and innovative approach to the subject.

#### **City of Poreč, Croatia:**

For the reconstruction of the public buildings in the City of Poreč, the Costs Comparator for the public sector was prepared. The analysis showed that overall costs of the project under the PPP model for the whole period of 27 years are 13.5% lower than under the classical model of capital investment and maintenance of the facilities. The calculation was based on 27 year project duration, of which the design and construction phase was planned for 1-2 years (2014-2015). From the third year on, the private partner started to be remunerated with a fee.



- ❖ Lower implementation costs, despite higher cost of capital for the private entities.

**Agency for Investments and Competitiveness (AiK), Croatia:**

It is most likely that the private partner uses quality materials in order to reduce maintenance costs during the contract period.

- ❖ Dedicated budgets.

### 2.1.2. Non-financial

- ❖ Transfer of risks (especially economical risk). As a rule, risk is allocated to the partner that is better prepared to manage it;
- ❖ Transfer of new, effective technologies and know-how in possession of the private partner;

**Municipality of Karczew, Poland:**

The Municipality aimed to stop heat loss and increase energy efficiency of 10 public buildings located in the city of Karczew by means of thermo-modernization works and modernisation of heating and lighting systems.

Choosing a private investor was performed under a specific public procurement procedure called “competitive dialogue”. In the final call for bids, 1 offer was presented. It declared heat savings up to 56% and energy savings up to 20.9% after completion of works.

**City of Zgierz, Poland:**

The city was planning modernisation of the public utility buildings, mainly schools. After completion of the modernization works, users will enjoy better thermal comfort and upgraded lighting. However, energy consumption must fall to a level declared by the private investor in its offer.

- ❖ Enhanced quality of public services and project management, more transparency in the documentation.

**Bina-Istra d.d., Croatia:**

The main advantage for the state from large PPP projects is that it does not have to borrow money from the bank so the credit rating will not fall down.



High quality infrastructure is obtained on time, with high quality maintenance at optimum prices. For example, Bina-Istra manages 100 km of highways and 50 km of roads with around 220 employees, while on the 170 km state motorway Rijeka-Zagreb 850 employees work.

- ❖ More competitiveness compared to traditional public procurement because of long-term perspective and multi-purpose projects;
- ❖ Quicker investment completion.

## 2.2. Benefits of PPP for the private sector

### 2.2.1. Financial

Entrepreneurs seek profit opportunities in cooperation with the public entities under PPP scheme.

**Bina-Istra d.d., Croatia:**

The primary benefit of entering into the PPP model is contracting a job your company has been established for. Sometimes, the benefit of the PPP is charging for management services, i.e. profit sharing from charging for services for built infrastructure.

### 2.2.2. Non-financial

Brand image improvement and/or promotion are the examples.

**Bina-Istra d.d., Croatia:**

The most positive experience is that we have built 100 km of highway in Istria, despite building roads by a private investor is unpopular. Bina-Istra is perceived in public as a serious and desirable partner, which is a huge benefit for us.

## 2.3. Fears related to cooperation under PPP

Cooperation of the public and private sector under the PPP scheme raises considerable distrust and concerns from both sides. This has been confirmed by the results of the questionnaire completed within the RESTAURA project scope of activities, where e.g. strong mutual negative perception of the private and public sector preparation for the PPP was observed.



Fears and myths around PPP can obstruct popularization of PPP in many European countries, alongside insufficient knowledge or experience on the subject. Below, the most frequent concerns detected through the RESTAURA questionnaire are addressed.

### 2.3.1. Corruption and law infringements

The popular opinion is that cooperation of public and private sectors under PPP scheme is particularly corruption prone. However, source literature does not give examples to confirm this statement.

#### **The Haffner Centre in Sopot, Poland:**

The Haffner Centre - a big recreational, sales and service, and conference complex - was built in Sopot (Poland) between 2006-2009. The funding had been divided among three entities: a bank that gave the investment loan, the city municipality that brought land as a remuneration, and a company performing as the investment developer. The Polish anticorruption authority raised corruption accusations in relation to the investment, stating that land price had been underestimated. After two years the case was dismissed.

#### **Department of Public Property Management of the Ministry of Finance, Slovenia:**

The PPP model cannot open possibilities for corruption because the private partner takes risk for the implementation of the project and will not accept more risk. The public partner does not assure that the private partner obtains a profit, so the private side will act serious.

A United Nations Economic Commission for Europe (UNECE) draft standard on zero tolerance approach to corruption in PPP says the following on the subject:

*Corruption in PPPs is not a certainty. Many PPP projects are undertaken and executed with integrity and transparency and result in very positive outcomes. In fact, in some ways PPPs can be better insulated from corruption than traditional public procurement contracts. Because PPPs often involve the creation or rehabilitation of large or signature pieces of infrastructure, the project can receive a greater amount of attention and scrutiny than many routine or smaller public contracts. PPPs can also benefit from well-structured agreements that are negotiated at length and in detail, and have customized incentives to ensure a project is constructed*



*to high standards and has long term durability; thus, reducing the risk of questionable contracts being awarded, contractors cutting corners, and bribery influencing the outcomes or performance.*

Source: *UNECE PPP Standard for Zero Tolerance Approach to Corruption in PPP Procurement*, revised draft version, March 2017

Obviously, PPP is not immune to risk of corruption, law infringements, conflicts of interest, or hidden protectionism of its actors. That is why the above UNECE standard is being created. It describes in detail anti-corruption strategies to be applied on three levels of a PPP project procurement and implementation and will become a valuable reference for all involved parties.

### 2.3.2. Privatization

Fear against privatization of public property under PPP and reluctance to contacts between the private and public sector is particularly strong in the countries of former Soviet influence.

**Department of Public Property Management of the Ministry of Finance, Slovenia:**

There is no strong political will to implement PPP projects. Many politicians do not trust this model because they connect it with the process of privatization (e.g. in the healthcare sector). There is also very strong belief among some politicians that the private sector should not earn money on public infrastructure.

In fact, PPP contracts can adapt various models of cooperation between the private and public actors: from Finance Only to Buy-Conserve-Operate/Buy-Build-Operate. Some of these models are close to privatization, e.g. a private partner buys the object of the enterprise from the public entity, renovates and operates it, but the public actor regulates standards of its conservation and maintenance. The contract regulates the details of cooperation and prevents from unauthorized privatization.

**Bina-Istra d.d., Croatia:**

If the contract is well regulated, the object cannot be privatized because it is protected by the contract. In case of Bina-Istra, the highway had been registered as a state property before the project began, so it cannot be privatized because the assets remain property of the state after the project completion. The state defined the route of the highway and other details in the



spatial plan, as well as ensured the land for the project. Then, the private investor found the funds that would return the credit by charging tolls and kept responsibility for the maintenance of the roads.

Mutual trust of the parties involved in the PPP can be improved only with a quality contract.

 **PPP models: see 5.1., p. 41.**

### 2.3.3. High costs

The implementation of PPP projects is criticised as expensive. This is true that PPP projects generate:

- ❖ higher financing costs (as the private partner's borrowings will always cost more than the government's risk-free borrowing rate);
- ❖ higher transaction costs (in the form of advisors and analyses of all the parties), and
- ❖ greater preliminary planning demands.

Despite that, cost efficiency in long-term perspective is a confirmed financial benefit of the PPP scheme for the public sector due to transfer of several risks to the private partner, know-how, more efficient long-term cost management, and innovative approach to the subject.

#### **Agency for Investments and Competitiveness (AiK), Croatia:**

Public authorities must be prepared for expenses in the initial phase (usually, preparation of documents for the PPP). The public authority may select a consultant for this phase. The expenses can be later refundable as "nominated costs" and calculated into a fee that the public body pays to the private partner.

 **Financial benefits of PPP model: see 2.1.1., p. 14.**

### 2.3.4. Prolonged procedures

The duration of PPP preliminary procedures is linked with the expected project duration. It is not surprising that for long-term enterprises (30 years and more) the preparation period can be longer than for the short-term ones (up to 10 years). As with each enterprise, haste makes waste.



**City of Gdańsk, Poland:**

The potential obstacles arising in the PPP preparation phase are no different than those in other infrastructural investments done by the city:

- ❖ It takes at least 1-1.5 years to develop and prepare PPP investment documentation and coordinate all phases;
- ❖ The negotiations between potential investors take a lot of time, especially if there is a large interest in a particular project.

**Municipality of Karczew, Poland:**

The participation of the decision makers (e.g. a municipality/district mayor or vice-mayor) in the preparatory phase shortens the preliminary procedures.

### 2.3.5. Unresolved ownership

Unresolved ownership issues can get in the way of the projects of whatever type.

**City of Nitra, Slovakia:**

The PPP project that involved revitalisation of an old military station and construction of a leisure and cultural facility was cancelled because the area was owned by the clergy.

Addressing property issues is usually the first step in the preparatory stage of a project, especially if it concerns renovation of a heritage object. On the other hand, ownership rights can be a bargaining chip for the public actor.

**Industrial park in Hnúšťa, Slovakia:**

Since 2007, the city of Hnúšťa has gradually been revitalising the zone of big industry halls and buildings. In the past, these buildings were used for chemical and rubber industry. The main aim of the industrial park in Hnúšťa is to support the creation of new job possibilities in the region with the highest unemployment rate in Slovakia, and to reuse the zone.

First, the city addressed property issues and offered investors property for their businesses on the basis of the investment or rental agreements. At the



same time, the city allowed investments in revitalisation of rented land and buildings which will remain public property after the rental period.

The city benefits from creation of work possibilities for the inhabitants and rental income spent among other on maintenance of the infrastructure in the industrial park. The main benefit for the investors are favourable conditions for development of their businesses.

Sometimes, there is a possibility for the public entity to take over the object and thus be able to decide on its future.

**Bilje, Municipality of Miren-Kostanjevica, Slovenia:**

In 2013, the municipality became the owner of an abandoned 19th century brick factory building in the village of Bilje. The building is a registered cultural heritage. The intention was to restore the building and use it, in part or whole, as a cultural centre with exhibitions and complementary uses.

## 2.4. Other issues

Below, other issues raised in respect to PPP model are listed and grouped according to the way of addressing them.

### 2.4.1. Issues addressed by appropriate contractual provisions

- ❖ Loss of control on the services provided by the public entity;
- ❖ Excessive increase of contributions/fees paid to the private actor by the customers;
- ❖ Monopoly for services provided by the private actor;
- ❖ Decrease of quality of service under PPP scheme.

**Agency for Investments and Competitiveness (AiK), Croatia:**

The public partner and its statutory obligations can be protected through SPV (special purpose vehicle), a subsidiary company founded for implementation of a given project, with asset structure and legal status that makes its obligations secure even if the parent company goes bankrupt.

### 2.4.2. Issues addressed by trainings or advisory services to PPP actors

- ❖ Poor preparation for PPP implementation;



- ❖ Little experience of the private entities in management of the asset after the construction/renovation phase;
- ❖ Difficulties of the public entities to express their needs as regards scope of works, quality of service, etc.

### 2.4.3. Issues related to external causes

- ❖ Unfavourable conditions for PPP development;
- ❖ Poor legal framework;
- ❖ Political instability.

## 2.5. Supportive institutions

European PPP Expertise Centre (EPEC);

<http://www.eib.org/epec/>, accessed 19.04.2017



UNECE PPP Standard for Zero Tolerance Approach to Corruption in PPP Procurement;

<https://www2.unece.org/wiki/display/pppp/Zero+Tolerance+Approach+to+Corruption+in+PPP+Procurement>, accessed 18.04.2017



## 3. Implementing PPP projects

### 3.1. Internal preparation

The rules of PPP projects implementation by a public entity constitute an indicator for management of the investment process and provisions of the public services. The assumptions of the local policy regarding PPP should be recorded in an official document accepted by the local policymakers. It may be an independent document, but the provisions can also be a part of another strategy (policy), e.g. a development strategy of the urban or local revitalisation programme.

The local authorities' policies on PPP are useful at the stage of implementing specific projects. Systematizing goals which local authorities intend to achieve thanks to PPP helps to analyse specific projects and to negotiate cooperation conditions with a private partner as well as assess offers submitted by the private sector. Public authorities, having consistent political assumptions and a dedicated team of people capable to implement the developed policy, can be an attractive eligible partner for the private party. It is important for efficient implementation of PPP projects that senior staff actively participates in developing this policy and in the implementation of specific projects. Working on the PPP policy allows contacts between the representatives of the groups interested in the revitalisation processes to be established.

Within the public authority's structure, a department or team dedicated to the PPP projects implementation can be created. Working on the analysis of particular PPP projects, the team should examine whether public services can be provided by the private partner in a more effective manner than in the traditional approach and whether the process of entrusting certain services to the private partner will be efficient. The team will consist of the representatives of key decision-makers (the mayor or his/her deputies and/or a representative of the city council). Moreover, the team will also include officials responsible for public tenders, real estate management, a treasurer and/or a representative of the budget department, the department involved in implementation of investments as well as revitalisation matters. The team may also include a representative of the organ competent for protection of cultural heritage (a restorer) or a city lawyer. If the project uses UE support, the team should also include a person responsible for obtaining and settling the funds granted. According to the needs, the team can be supported by external advisors competent in legal, economic and technical counselling, as well as by a



person hired for communication with the residents of the revitalised areas (e.g. a spokesman or a person responsible for updating revitalisation strategies).

**Municipality of Karczew, Poland:**

The municipality was planning to perform a thermo-modernisation of the public buildings (a kindergarten, elementary schools, middle schools, and a health centre) under the PPP scheme. In order to prepare the organizational and legal municipal structures for the project, a Public-Private Partnership Investment Team was created. It consisted of PPP, investments, and public procurement experts.

At the preliminary stage, the team prepared legal analyses and guidelines on the future PPP investments, as well as possible procedures and approaches on how to manage the PPP investments.

Creating a separate department to deal with PPP projects helped to manage the project for its entire duration. Creating guidelines and strategic documents before starting the PPP projects made it easier to implement them and enhanced the public partner's credibility.

### 3.2. Pre-implementation analysis: can a given project be completed within the PPP scheme?

The purpose of the pre-implementation analysis is to assess whether a project can be implemented within the public-private partnership from the legal and financial, as well as the technical, institutional and organizational perspective. Also, project market feasibility and market test should be examined to verify whether a project will be interesting for investors or profitable. A confirmed viability of the PPP model application for a project is essential for establishing proper selection criteria for the private partner's offer and negotiating the PPP contract.

It is assumed that each project can be implemented through a number of variants and models. The pre-implementation analysis should assess several project implementation variants in order to select the most beneficial technical solutions and the most realistic project scope. The organizational and legal models assuming implementation of a project by 1) binding partners of the PPP company or 2) just a PPP contract are compared. Such a comparison shows if the assumed form of cooperation between the partners is optimal or whether it is necessary to introduce relevant changes into its structure.



The results of the pre-implementation analyses must indicate why the public entity establishes cooperation with the private sector instead of performing the project on their own. The analyses should indicate the best PPP type for the public interest to be selected, in compliance with the assumed PPP policy. The scope of the pre-implementation analyses will be dictated by the project's scale and will depend on the form of the public entity's contribution and the form of remuneration of the private party. Based on the analysis, the PPP contract, partner selection criteria and assessment criteria of the efficiency of the private partner's activities during the contract implementation and at the completion phase will be shaped. Only after closing the entire cycle of the project, it will be possible to finally assess the initial assumptions of the PPP project's viability, however for the process to commence, the analyses must be performed at the beginning.

It should be taken into account that the analyses may indicate lack of possibilities or lack of profitability for implementation of the project in the PPP model. Also, some PPP types can prove inappropriate for a particular case.

### 3.2.1. Legal and organizational analysis

The purpose of the legal analysis of a project is to check admissibility of its implementation pursuant to the national (and EU) regulations and to indicate legal matters significant for the project's success. The legal analysis of the revitalisation PPP project should include:

- ❖ description of the project phases and preparatory activities of the public entity;
- ❖ determination of administrative decisions and other documents, opinions, significant matters related to the process, considering among others protection of cultural heritage;
- ❖ detailed description of the private partner selection procedure;
- ❖ management of the public assets by the private partner during the project implementation and (potentially) the principles of taking over the elements of assets after the project completion, with recommendations on securing interests of the public entity;
- ❖ public aid which may occur within the project implementation and the impact of the project on public debt;
- ❖ EU financing (optionally);
- ❖ action plan necessary for PPP implementation.

An important matter is the taxation model of the PPP project, stating whether a PPP contract or a special purpose company will be applied. It should be determined what tax burdens occur both for the private partner and for the public entity in case of e.g.



material or financial contribution, establishing of the PPP company, taking shares by partners, or in-kind contribution. The analysis should take into account the stage of operational activities of the project: division of revenue, taxation of fees for availability. With regards to the taxes, the conditions of completing the contract implementation and leaving the project by the private partner are also important.

The scope of the organizational analysis includes business models and management methods assumed within the project. It also defines participants of the PPP project, as apart from the private partner and the public entity other entities are also involved: external (legal, financial and technical) advisors, financing entities, insurers or other contractors and service providers. The main elements of the institutional analysis are:

- ❖ defining participants of the project as well as determining their mutual relations;
- ❖ establishing legal basis for the new structures, e.g. a special purpose company;
- ❖ analysis of the special purpose company establishment with mixed capital.

During the organizational analysis, the initial division of tasks is performed. This is a starting point for negotiations on entering into the PPP contract. The analysis embraces internal structures of the public entity and may indicate the necessity to strengthen them with proper specialists.

### 3.2.2. Technical analysis

The purpose of the technical analysis is to define the subject of the project. In PPP projects, it is not so much about the technological analysis as about establishing the functional purpose of the infrastructure which will be built or modernized. The analysis should concern the entire project, not only performing the public task, but also the clearly commercial activities performed by the private partner to generate concession remuneration from the project. If the project includes e.g. designing the revitalised museum buildings, the analysis should also consider the possibility to implement additional surface for services (e.g. hotel or restaurant).

At the initial stage of checking technical possibilities of the project implementation, development of technical documentation to obtain the construction permit is not recommended. Specifying the technical solutions will take place through cooperation with the private partner (or other entities participating in the proceedings aimed at selecting the partner), and the technical design will be made in accordance with the contract. The technical analysis of the project should conclude with development of a detailed technical and functional concept which will be the basis for design/redesign works conducted by the private partner. The result of the technical analyses will be



used to establish the planned costs of design and construction works, to prepare the quotation, analyses, and offers submitted by the participants of the proceedings.

The technical analysis should include:

- ❖ examining the current land development status, indicating e.g. the need to remove existing facilities or the possibility to use the existing infrastructure;
- ❖ the suggested scope of the investment: implementation of the public services and the additional commercial tasks;
- ❖ suggested land development and technological solutions as well as assessment of the technical conditions of the real estate and capacities of the public entity to manage properties for the needs of the investment.

The examinations of technical solutions of the project's variants will be used to establish optimal organizational and economical project frameworks, increasing investment performance.

### 3.2.3. Risk analysis

The risk analysis assesses project feasibility. In the Guidelines, risk is determined as any factor, event or impact which threatens the beneficial completion of the project in the context of time, costs or quality. The key PPP principle is that risk should be transferred to the party which can deal with it better, i.e. will be more effective concerning costs. An effective risk distribution has a direct financial impact on the project as it results in reduction of general costs and so enforces value towards the involved funds in comparison to the traditional methods of awarding public contracts. The division of risks between the parties of the PPP contract, probability of risks' occurrence and their impact on the implemented project are determined in the risk qualitative analysis. In practice, the division of risks between the public entity and the private partner is always determined by numerous factors, such as the nature of the project, its rank (value), location, etc.

#### **City of Gdańsk, Poland:**

In the revitalisation of Wyspa Spichrzów in Gdańsk, the pre-implementation analysis indicated that the division of risks will be as follows:

- ❖ construction risk will be incurred by the private partner;
- ❖ availability risk will also be incurred by the private partner (within the investment of the public purpose);
- ❖ demand risk will be incurred by the public entity, in the part concerning investment of the public purpose, however the private partner will incur most risk related to the design, as the economic success of the project



depends on the success in commercialization of the public purpose space (sales of apartments, lease and sales of service premises such as restaurants and hotels).

The divisions of risks on construction, service and maintenance of the infrastructure, and provision of services is often the fundamental issue negotiated under the PPP contract.

### 3.2.4. Financial and economic analysis

PPP allows use of knowledge of private partners on management and operation in public interest which translates into the possibility to limit costs of the project and provide public services more effectively.

The financial analysis should consider relevant macroeconomic assumptions justified for the project, as well as benefits, expenses and burdens resulting from project implementation. The analysis should also involve the so-called financial availability of the project, i.e. whether the public entity can incur financial burdens related to the project. Moreover, it should verify financial sustainability of the project. Simultaneously, the financial analysis should involve among others estimation of investment expenditures and expenditures incurred within the project since its commencement. Expenditures on fixed assets include all expenses necessary to produce infrastructure determined in the contract as well as expenses on PPP model preparation works. Investment expenditures cover expenses related to supervision at the construction stage and infrastructure commissioning.

An important element of the financial analysis is determining sources of financing for the project.

To assess performance of project implementation within the PPP model, relevant comparators are used. Comparators are analytical tools that optimize PPP model selection process, determination of its financial and economic profitability and comparison of PPP variant(s) with a traditional model. There are no commonly acknowledged comparator methodologies in the EU.

- ❖ PPS (Public Private Scan) allows to assess possibilities of project implementation based on the PPP formula. Financial performance and capitals involved in a given project are examined. If the results obtained within calculation of performance indicators are unsatisfactory, the examined model should be rejected.



- ❖ PPC (Public Private Comparator) is a tool aimed at comparative analysis of a hypothetical PPP model with the traditional model. Within the comparison, financial values directly related to the project are compared. The final comparison allows to assess the value of funds necessary to guarantee the investment and operational sustainability of the implemented project. Due to change of value for money over time, such funds are discounted which allows quantification of performance indicators of the capital invested in the project by the public entity and allows the optimal model to be selected.

When the results achieved by the PPP model are worse than results achieved within the traditional model, the PPP model should be rejected, except when the PPP model opposed to the traditional model does not cause that budget indicators (debt) of the public entity are exceeded. Also, despite worse performance indicators of the PPP model within the analysis, the PPP model should be recommended if it does not exceed budget limitations of a given public entity. The final decision concerning project implementation belongs to the public entity.

- ❖ PSC (Public Sector Comparator) compares the actual PPP model based on the selected offer submitted in tender proceedings with the traditional model.

### 3.2.5. Market feasibility research

Implementation of a PPP project does not only depend on the public entity's will. Some revitalisation projects focused on protection of cultural heritage and tourism may not be interesting for investors, so it is necessary to gain interest of the private sector or financial funding institutions. The pre-implementation analysis is a basis for the public entity to create an investment memorandum which is the basic initial document to conduct a market test aimed at finding the private partner. The investment memorandum determines expectations of the public entity towards potential private partners in a specific project. The memorandum is a description of the PPP project in the form selected by the public entity, but also an investment offer addressed at a private partner as an entity oriented to profit from their activities. The market test is supposed to show whether the project assumptions correspond to market reality (i.e. expectations of investors and their banks) and consequently if there is a real chance to find a private partner. The analysis is focused on the offered remuneration and the value of contribution into the project suggested by the public entity. It is important that the investment memorandum is forwarded to the largest possible number of potential private partners.

While deciding on the most suitable procedure to select the private partner, public authorities should consider the following circumstances: purpose and nature of the



implemented project, scale of the planned risk transfers, experience that can be the basis for implementing the task and the role played by third parties that finance the project activities. Within complex PPP projects, the key issue is proper distribution of the project-related risk reflected in the tender proceedings.

The above actions are a condition for receiving reliable answers. However, even a correctly performed market test does not guarantee that a private partner will be found.

**City of Gdańsk, Poland:**

The most common method of finding a proper project partner is a market test. It is done by sending to potential investors a memorandum with main assumptions of the project, as well as a questionnaire about forms of co-financing the project. Preparing for the investment in such way helps to rule out any undesirable elements or solutions.

Here are the main methods of choosing a project partner:

- ❖ own catalogue of private investors – created by the public entity;
- ❖ own research – based on similar investments finished across the country;
- ❖ arranged pre-investment meeting (workshops or presentations) with possible investors;
- ❖ help from external agents and advisors.

### 3.3. Establishing the partnership

Before commencing the negotiations on the PPP contract, the members of the negotiation team involved in establishment of terms and conditions of the tender and the contract are selected. During the negotiation meetings, a design (outline) of the contract and a plan (schedule) of forwarding tasks to the private partner are created. The recalled tasks should be approved by an organ of the public entity (in accordance with the applicable law and the local law). The process is completed after technical, economic and legal negotiations with preparation of the final version of the contract and an offer form to submit a cooperation offer. The most beneficial offer is accepted and the PPP contract is entered into. The matters negotiated with the private sector are those embraced in the pre-implementation analyses. If none of the offers is compliant with the assumptions of the feasibility analysis performed at the second



stage of the project implementation, no private partner is selected, and the project may be a subject to another analysis or the public entity resigns from its implementation under the PPP model.

### 3.4. Negotiations

According to the economic model of the planned cooperation, in particular the private partner's remuneration model (allocation of economic risk), negotiations are held similarly to the procedures applied within the traditional public procurement (competitive dialogue model) or the concession model (negotiations corresponding to the concession model).

The public-private partnership is always a contract related to awarding public services. It concerns both contracts where the model of economic risk allocation justifies application of the provisions of the Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement:



<http://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX:32014L0024>  
accessed 24.05.2017, EU Member States language versions available

Each EU Member State has certain freedom in regulating the principles of selecting the private partner and the concessionaire. However, such principles are always subject to assessment concerning competitiveness and transparency of procedural principles allowing equal share in the public procurement market for all entrepreneurs. The guarantor of observing the principles of the common market is the European Commission which underlines in The Guidelines that the results of pre-implementation analyses should be reflected in the draft as well as final PPP contract to take them into account in the tender procedure. Moreover, if the project design assumes use of subsidies from EU sources, requirements for obtaining such aid (both material and formal) should be incorporated into the provisions of the prepared contract. In such case, it is important that a draft PPP contract of a significant value is presented for approval to the Commission before implementation of the process aimed at selecting the private partner. The Commission will decide about granting or refusing to grant EU funding. This procedure is regulated by the Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013:



<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1303>  
accessed 24.05.2017, EU Member States language versions available



Constant consultations with the Commission are necessary to ensure compliance of the project with the conditions on which funding (subsidies) can be granted, but also due to the need to control observance of principles determined in the directives concerning procurement as well as free and fair competition within the project.

 **PPP models: see 5.1., p. 41.**

### 3.5. Managing the PPP contract

Signing the contract is just the beginning of the PPP project. After the private partner selection proceedings and negotiations cooperation principles, mutual relations between the public and private partner enter the phase of the contract provisions implementation.

In order to implement the public policy on PPP, the authorities have to acquire the entire range of skills that will allow them to transform from a direct service (product) provider to a manager focused on correct organization of the process of services provision by other entities (a private partner). At this phase, the significance of communication with the private partner increases, meaning thorough understanding of information provided to the authorities by the private party and the public authority's capability to forward their own expectations concerning activities related to the PPP contract execution. The public entity as a party in the PPP contract is formally obliged to regularly monitor activities of the private partner concerning their compliance with established standards.

After entering into the contract, the team working on its implementation should select a smaller group or one manager responsible for the contract management. The role of a contract manager involves constant monitoring of the private partner's activities, securing a relevant, regular and formalized reporting mechanisms, analysing information obtained from external sources to follow progress of the contract execution as well as maintaining relations with the residents who are the consumers of the services provided under PPP.

The contract management process involves formation of procedures and organizational structures allowing the project to be efficiently conducted through all the phases. The contract management embarks the entire contract duration, ensuring the assumed value for money level as well as monitoring ongoing activities, solving crisis situations, supervising the payments made from the budget and collected from the users of the services provided within PPP. For the public interest, monitoring of the standards of the provided services and ongoing assessment of the cooperation



quality correspondence to the purposes and principles determined in the contract are essential. The division of tasks and risks related to these obligations must be supervised constantly. If the activities of the private partner are not compliant with the standards assumed in the contract, a reduction of remuneration or a payment of established penalties should follow.

According to the Guidelines, performance monitoring includes implementation of numerous significant tasks reflected in the provisions of the PPP contract, among others:

- ❖ Review and analysis of relevant indicators to be fulfilled by the private partner in accordance with the cooperation conditions;
- ❖ Review of the mechanisms of control and providing appropriate quality of services to ensure that the entire process is compliant with the assumptions, and the supervision of the established standards is effective;
- ❖ Creating mechanisms to verify if the public entity's ongoing monitoring is efficient and fulfils its role;
- ❖ Guaranteeing the appropriate technical standards for devices used for the project activities.

Regardless of the reports on quality of services provided within PPP by the private partner, the public party should conduct frequent one-sided inspections of the private partner's activities.

**City of Gdańsk, Poland:**

In spring 2015, as a result of proceedings for a project named Development of the northern headland of Wyspa Spichrzów in Gdańsk, a contract between the City of Gdańsk and a consortium of private partners was entered into. The purpose of cooperation is a complex revitalisation and development of the real estate on the northern foreland of the Island in the historical centre of Gdańsk, in accordance with the local spatial development plan. The project assumes improvement of this architectural and functional showpiece of Gdańsk with simultaneous reconstruction of road and network infrastructure, building numerous public facilities (among others, a public footbridge and a bridge connecting the revitalised area with the old city centre), as well as incorporation of historical facilities into new development and protection of the heritage monuments and care for historical heritage. All these activities are aimed at making the place a functioning part of the city again.



The funds for the investment cover an amount not lower than about 90 million EUR. An important element of mutual settlements is ownership transfer of these unique real estates to the private partner in exchange for implementation of the public infrastructure necessary to conduct revitalisation activities. The value of the real estate will be determined through a valuation survey. After designing, financing and constructing the infrastructure, the public facilities specified in the contract will be transferred to the private partner for maintenance and management with residential, service and commercial functions. The project is of a concession type, as the private partner incurs full economic risk within their remuneration and is responsible for provision of the public infrastructure.

The EPEC PPP Project Preparation Tool can be helpful in assessing *the preparation status of a given PPP project by reference to a typical good-practice PPP project development process*:



[www.eib.org/epec/resources/publications/PPP Project Preparation Tool EPEC.xlsm](http://www.eib.org/epec/resources/publications/PPP%20Project%20Preparation%20Tool%20EPEC.xlsm), accessed 30.05.2017

The RESTAURA Helpdesk gives rapid responses to questions on PPP in revitalisation from both public and private stakeholders:

<http://www.interreg-central.eu/Content.Node/RESTAURA.html#HELPDESK>, accessed 30.05.2017



## 4. Cooperation with a built heritage protection institution / conservation inspector and integrated revitalisation

An important challenge to be addressed through the public private partnership mechanism is revitalisation of historical buildings or built cultural heritage. There are some good practices in Central Europe, e.g. the revitalisation of the Varaždin County Palace (Croatia).

### **City of Varaždin, Croatia:**

In 2006, after securing sufficient financial resources through public private partnership, the revitalisation of the Varaždin County Palace dating back to 1768 took place. The partnership involved the Varaždin County, which remains the owner of the palace, and a private company, which performed renovation works in a relatively short period of time. The private partner is obliged to maintain the palace for a period of 20 years in return for a monthly fee paid by the County.

### 4.1. Cooperation with heritage monuments protection authorities

Public private partnership projects in the field of revitalisation of historical buildings or cultural heritage sites should be conducted in accordance with the principle of good collaboration with institutions which are in charge of protection of tangible cultural heritage. These institutions have to safeguard the values of cultural heritage. According to the recent studies, only good communication and collaboration can assure a successful revitalisation. It is often the case that the investors' plans are not in accordance with the protection measures and requirements of the built heritage protection institution/conservation inspector. For this reason, a pre-determined scope of eligible changes on a cultural heritage is recommended. The institutions in charge of protection of cultural heritage should be involved in project planning from the very preliminary phase.



An example of good collaboration between the monuments protection inspector and the investors comes from revitalisation of the Old Town in Szydłowiec (Mazovia, Poland):

**City of Szydłowiec, Poland:**

The meticulously prepared project and the adequate budget, as well as due diligence in following the inspector for monuments' requirements, made it possible to regain the splendour of the Old Town. The cooperation between the investor and the inspector for monuments was exemplary. In the project's budget, the resources for promotion of the renovated Old Town had been safeguarded, which is a good practice for the revitalisation projects.

## 4.2. Integrated approach to revitalisation and participatory governance

For a successful revitalisation, an **integrated approach** is of key importance. Integrated revitalisation plans are a new governance framework the importance of which has been stressed by international organisations' policy recommendation documents. The integrated approach to revitalisation includes **participatory governance** that, among other things, ensures participation of the civil society in the processes of decision making and management, i.e. **public management of heritage** that covers horizontal and vertical integration, and **gradual integration of sustainable aspects** into the heritage management.

Cultural heritage has valuable **development potentials** for a number of domains (cultural, economic, social, etc.). As a consequence, it impacts various stakeholder groups. Local inhabitants represent one and perhaps the most important stakeholder group, as they are the practitioners and bearers of cultural heritage. One of the most important tasks in any revitalisation effort has to be to overcome the **gap between the locals' and the experts' recognition of cultural heritage values**. A successful participatory approach is open to different opinions, discussions, etc. Workshops, consultations, interviews, etc. in the decision-making process are therefore of key importance.

Past protection and restoration projects have made use of various **useful tools** to encourage the inclusion of civil society. Here are a few examples:

In Croatia, the »Vicko Andrić Award« is bestowed on persons and organizations for special achievements in the field in question. In 2015, the Society of Friends



of Dubrovnik Antiques was awarded for the involvement of civil society organization in the protection and restoration of cultural heritage.

Another good practice comes from Croatia, more precisely from the Roman City of Siscia (the present-day town of Sisak):

The Management Plan of the Archaeological Site Siscia was developed in 2014. Different stakeholders were involved in making of this document through three organized workshops, pertaining to three main phases of the Management Plan production.

The first workshop referred to mapping of values, as well as the SWOT analyses of the site. The second phase referred to the strategic framework for the heritage management: the vision, goals, activities, and governance structure. The third workshop was envisioned as a panel discussion, during which the interested stakeholders gave their comments and suggestions to the key segments of the management plan's draft. Accompanying the workshops, individual consultancy meetings were held with the key stakeholders: the Ministry of Culture of the Republic of Croatia and the National Coordinator of the Ljubljana Process.

The stated approach allowed to collect views, experiences and needs of different actors in the process. Furthermore, through the workshops and the Toolkit, development of the Management Plan created room for a dialogue on the future of Siscia. Above all, it was used as an incentive for learning and understanding of the management plan production methodology.

### 4.3. Involvement of various actors

**Active involvement of a local community** in revitalisation provides socio-economic and ecological sustainability of a cultural heritage site. Participation of the community ensures that traditions and lifestyles are respected, local employment is supported and local economy is invigorated. Therefore, local inhabitants should be actively involved in the social, economic, cultural and political processes that influence their lives. Planners and policymakers should endeavour to **balance the basic character of a local community and the physical development** of cultural heritage sites. In the planning and implementation processes, local community should be included,



otherwise resentment and lack of cooperation or even hostility can arise. A case from Slovenia gives an insight into the described challenges:

**Village of Štanjel, Karst region, Slovenia:**

The old part of the village of Štanjel is listed as a national monument and its preservation is supervised by the Institute for the Protection of Cultural Heritage of Slovenia. According to the protection regulations, the renovation of local inhabitants' homes has to be done in accordance with the guidelines prescribed by the Institute, adding costs to renovation efforts. This is compounded by a number of other reasons, resulting in a situation when life in the old part of the village is difficult and not comfortable, so only few people choose to do so.

For this reason, the Slovenian state and the European Union have tried to revitalise the old village of Štanjel through a wide range of programs providing financial/professional support, in order to develop Štanjel as an economic, cultural, and tourist destination of the region. The development efforts have been directed towards the preservation of the historical buildings, while the content and the living infrastructure have failed to be addressed.

Today, the results of different plans remain on paper only. During different revitalisation projects conducted between 1960 and 2012, the experts did not encourage greater participation of the local inhabitants. Although the executors of the projects had organised public presentations of their findings, only a small number of local residents were present. The methodology of the discussed projects did not include individual meetings with the locals, such as interviews, opinion surveys, etc., that would have drawn a greater number of residents into the revitalisation process. The experts attended daily or weekly workshops, but did not spend time familiarizing with the needs and wishes of the local community. To this day, the local inhabitants are very passive and do not seem to care very much about the development of their village neither recognise its development potentials.

It is recommended to implement any future revitalisation efforts through a good cooperation between local inhabitants, planners and actors and with a permanent participation of a group of experts. Ethnologists and historians could facilitate proper renovation and revitalisation of the village, stimulating changes in the social and spatial structures, while adapting traditions of the village to modern values and a modern way of life.



Experience shows that top-down, financially driven approach without socially inclusive policies cannot be successful in the long-term. An active involvement of local inhabitants/civil society should not be seen as an “instrument of consensus making”; it should rather be “an intrinsic component of a sensible development policy”. Moreover, a socially inclusive approach can encourage local inhabitants to **develop their own self-organization capacities and initiatives**. Micro-mechanisms of producing **economic and social added value** are linked to active participation of local inhabitants, collective learning processes and capability building.

Sometimes, private investments are seen as a form of **corporate social responsibility**. On the other hand, there is a problem of **negative attitude towards public private partnership** considered to be a form of hidden privatisation. In such cases, educational programmes (trainings, workshops, study visits, conferences, etc.) are needed to overcome the stereotypes. The last problem is connected with misunderstandings about the mechanism of public private partnership in underdeveloped areas.



**Fears against PPP: see 2.3., p. 16.**

The revitalisation of a cultural heritage site should take into account the **Quintuple Helix model** that represents the collaboration of research and development institutions, entrepreneurship, authorities, civil societies and natural environments of society. In this framework, the necessity of the inclusion of a wide range of experts in the revitalisation process has to be underlined, not only inspectors for monuments and architects, but also experts from the regional development agencies, cultural or research institutions, universities, etc. The role of different experts is to research and evaluate different practices, but also to support local inhabitants to achieve better living conditions, and recognize and valorise different development potentials of a cultural heritage site. Moreover, the importance of basic research work connected with history, ethnology, history of art, archaeology etc. of a historical building or site has to be stressed, because scientific findings can ensure high-quality valorisation of tangible cultural heritage.



## 5. Financial models and funding opportunities

Since contemporary governments lack necessary funding, people and skills, they face significant challenges in their efforts to preserve and manage cultural heritage assets, especially because of increasing pressure to fulfil other public demands. Therefore, private involvement and community commitments are required in order to retain cultural assets for future generations, an issue that has traditionally been achieved by the governments.

Nowadays, it is generally accepted that conservation of cultural heritage requires an interdisciplinary approach with involvement of public, private, and non-governmental sector. All three sectors have to work together to help conserve cultural heritage and develop it as a socio-economic asset. The public sector includes one or all levels of administration, the private sector includes business and investor organizations, and the third sector includes non-governmental, community-based institutions. Also, people living near a heritage site can be involved, as their acceptance can be decisive.

PPPs bring together skills and assets of all partners to deliver a public service or good by fulfilling both interests of public and private sectors. Required skills are often complementary, where the private sector usually provides capital or fund-raising skills, technical expertise, and efficient delivery. The non-governmental sector brings local knowledge, concerns, and interests. The public sector usually provides the asset, regulatory framework, and financial incentives, such as a one-time subsidy, grant, or other significant tax incentives that help attract private investment.

### **City of Bratislava, Slovakia:**

The project “Sun to Bratislava schools” consisted in installing a photovoltaic system on the roof of a technical school in Bratislava. The project was implemented by three entities:

- ❖ a non-profit organization which gave the idea and coordinated the implementation of the enterprise and promotion of solar energy;
- ❖ an entity under municipal domain (i.e. the school where the system was installed); and
- ❖ a private energy distributor responsible for technical issues and maintenance of the panels during their lifetime (at least 25 years).



## 5.1. Public Private Partnership models

With the course of time, a wide variety of PPP models have developed. They mainly differ in ownership of capital assets, responsibility for the investment, assumption of risks, and duration of contracts. PPP models can be used for two infrastructural purposes: development of new infrastructure (e.g. greenfield projects) and works on already existing infrastructure (e.g. revitalisation of brownfield land).

PPP can be categorized by type of partnership, or transactional arrangement, into: 1) PPP of contractual nature, and 2) PPP of institutional nature. In a PPP of contractual nature, the partnership between public and private sector is based only on a contract. In this type of arrangement, the private sector assumes responsibility for designing, building, and managing the facility. The private partner also manages the project finances, sometimes with contributions from the government. In a PPP of institutional nature, cooperation between public and private sector takes place within a specific entity: a special purpose vehicle, SPV. Mutual rights and obligations are secured by the entity's statutes and by an agreement between shareholders, i.e. public and private actors. In both arrangements, management of traditional public sector obligations is delegated to the private sector, and the whole enterprise is regulated by the contract.

### **The Department of Public Property Management of the Ministry of Finance, Slovenia:**

In 2010, the Slovenian Minister of Labour, Family, and Social Affairs and the chairman of the board of the company FMR d.o.o. signed an agreement for finishing the construction of a new building of the Home for the elderly, as well as an agreement on property rights to the building. The private company had to cover the costs of finishing the construction of the building.

In 2012, the partners signed the second agreement, forming a new company. The majority part of the new company is owned by FMR d.o.o. (81%), the rest is owned by the state. The company carries out activities within the public interest, under supervision and regulations of the Ministry of Labour. In the second phase of the project the old building was demolished and a new one constructed.



Depending on the degree of public and private sector involvement in designing, construction, maintenance, finances, operation, management, and allocation of risks in public services provision and/or construction of public infrastructure, there are several different PPP models (see Figure 2).

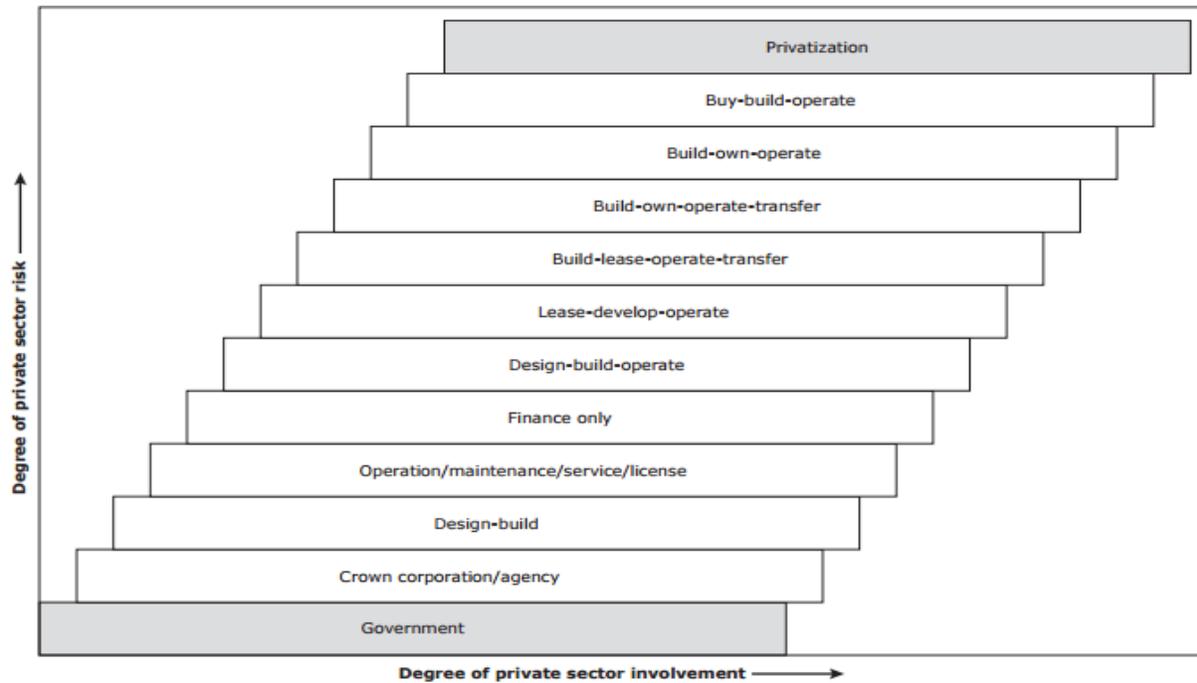


Figure 2: PPP Models. Source: Macdonald S., *Leveraging Heritage Public-Private, and Third-Sector Partnerships for the Conservation of the Historic Urban Environment*; The Getty Conservation Institute, Los Angeles, USA, 2011.

### 5.1.1. Finance Only (FO)

In the Finance Only model, a private entity, such as a financial services company, a pension fund or a bank, funds the construction of the public infrastructure directly or through mechanisms such as a long-term lease or a bond issue. The public partner bears all risks and costs of the construction and operation of the facility.

### 5.1.2. Design-Bid-Build (DBB)

In this model, the public partner defines the requirements for the project, ensures its financing and design. The procurement procedure is used to select a private bidder, responsible for the construction. The public partner is the owner of a newly constructed facility and provides its service and maintenance.



### 5.1.3. Design-Build-Maintain (DBM)

In the Design-Build-Maintain model, the private partner designs, builds, and maintains the infrastructure in accordance to the specifications and requirements of the public partner. The price is usually pre-agreed and fixed, so the risk and cost of quality assurance and maintenance of the constructed facility is on the private partner. The public entity owns and operates the assets.

### 5.1.4. Operate-Maintain (OM)

In this model, the public entity signs a contract with the private partner to provide or maintain a service through the public facility. The ownership of the asset remains with the public entity. Sometimes this model is referred to as an outsourcing contract.

### 5.1.5. Operation License (OL)

In the Operation License model, the public entity grants a license to the private entity to provide public service, usually with limited duration. This model is frequently used in IT projects.

### 5.1.6. Design-Build-Operate (DBO)

In this model, the private partner designs and builds a public property according to the requirements and specifications of the public partner and at a fixed price. The public entity bears financing and costs. Once the construction is completed, the private partner takes the property in a long-term lease to provide service.

### 5.1.7. Build-Operate-Transfer (BOT)

Under the Build-Operate-Transfer model, the private partner builds and finances the construction of the public facility and uses it to provide service under control of the public entity. The private partner uses the facility under the long-term lease/concession and upon the expiration of the lease, the facility is transferred back to the public partner.

### 5.1.8. Design-Build-Finance-Operate (DBFO)

In the Design-Build-Finance-Operate model, the private partner designs, builds, and finances a new public facility under a long-term lease. During the lease period, the private partner operates the facility and upon expiration, the facility is transferred to the public partner.



### 5.1.9. Build-Own-Operate-Transfer (BOOT)

In this model, the private partner designs, builds, finances, and operates the public facility, while retaining its ownership under the franchise given by the public entity. The private partner charges fees to the public entity and/or end users for the provided services. At the end of the franchise period, the ownership of the facility is transferred back to the public partner without compensation to the private partner.

### 5.1.10. Lease-Develop-Operate (LDO)

In case of the Lease-Develop-Operate model, the private partner leases the public facility, develops and improves it technologically and functionally, as well as operates it. The public partner retains ownership of the facility and receives payments according to the lease agreement. This model is usually used in development of airport facilities.

### 5.1.11. Build-Lease-Operate-Transfer (BLOT)

In the Build-Lease-Operate-Transfer model, the private partner builds and leases a facility, while its ownership remains with the public partner. The private partner provides services and upon expiration of the agreement, the ownership of the facility is returned to the public partner.

### 5.1.12. Buy-Own-Operate-Transfer (BUYOOT)

Under the Buy-Own-Operate-Transfer model, the private partner buys public facility, uses it for a certain period of time and provides the service. Upon expiration of the agreement, the facility is transferred to the public partner without charge.

### 5.1.13. Design-Build-Finance-Own-Operate-Transfer (DBFOOT)

In this model, the private partner designs, develops, builds, and finances the implementation of a public project. The private partner provides the services and uses the facility, which is his property, for a certain period of time. By expiration of that period, the ownership is transferred to the public partner without compensation.

### 5.1.14. Build-Own-Operate (BOO)

Under the Build-Own-Operate (BOO) model, the private partner builds and manages the public property in their ownership without obligation to transfer the assets to the public partner. The public partner regulates and controls services provided by the private partner.



### 5.1.15. Buy-Build-Operate (BBO)

In the Buy-Build-Operate model, the private partner buys the public facility under the contract that the assets are to be upgraded and operated for a specified period of time. The private partner also provides services to the public partner and/or end users. By expiration of the term, the private partner retains ownership over the public asset.

## 5.2. PPP models in the cultural heritage sector

In cultural heritage, PPP is mostly used for: digitisation, digital preservation and online access, managing cultural services, and conservation of immovable heritage. In the European Union, EU-funded or co-funded projects can be categorized as a form of PPP for cultural heritage. EU projects are important because they support implementation of EU policies for cultural heritage, social cohesion, and European identity.

PPP models in heritage conservation have many similarities with those applied for infrastructural development, but they have some specific differences. The details are explained below:

### 5.2.1. Buy-Build-Operate (BBO) or Buy-Conserve-Operate (BCO)

BCO is the closest to privatization. In this model, the private or third sector partner buys the heritage asset in a single transaction or gradually. There are usually strict requirements regarding e.g. easements or maintenance standards. Also, the government protects the heritage asset, regulates standards of conservation and maintenance. For example, in the UK and Australia the government sells heritage buildings under obligation of keeping conservation requirements and meeting specific conservation standards. Neighbourhood scale regeneration projects of government properties are typical for this category.

#### **The Presidio of San Francisco, USA:**

The Presidio National Park has been involved in a long-term process of privatization through a Special Purpose Vehicle. In 1996, the US Congress created the Presidio Trust to oversee and manage the park and its nearly 800 historic buildings. In 2013, the Presidio became financially self-sufficient and ceased receiving federal money. Buildings are owned by the Trust which pays for the parks' maintenance and preservation largely through revenues generated through commercial and non-commercial leases.



### 5.2.2. Build-Own-Operate-Transfer (BOOT), Build-Operate-Transfer (BOT) or Conserve-Operate-Transfer (COT), and Build-Lease-Operate-Transfer (BLOT) or Conserve-Lease-Operate-Transfer (CLOT)

In this PPP model, the private or third sector partner is responsible for conservation, operation, and management of a historic asset through a long-term lease. The public entity is highly involved in the project's development and design in order to ensure that the historic building is available to the public. The private partner is under control and regulations regarding maintenance of the building's cultural significance. All alterations must be approved by the public partner. The ownership of the historic building will be returned to the public entity when the lease expires. The example of this model is when the government provides long-term leases to third-sector organizations to maintain heritage assets open to the public.

#### **The General Post Office Hotel Monaco, Washington, DC, USA:**

The General Post Office building stood vacant for several years, until its owner, the General Services Administration (GSA), signed a contract on its renovation and lease with Kimpton Hotels and Restaurant Group.

The negotiations of the contract took two years. The renovation and adaptive reuse was held between 1999-2002 according to the US Secretary of the Interior's Standards for rehabilitation. It was covered by Kimpton (\$40 million) with the GSA's contribution (\$5 million). As a result, the main post office area was converted to the hotel lobby, the mail-sorting pavilion became a restaurant, and offices were converted to 183 hotel rooms.

Currently, Kimpton has a sixty-year lease contract for the premises. Maintenance of the building follows the US Secretary of the Interior's Standards for maintenance. Kimpton received \$8 million in tax credits. The GSA receives a percentage of hotel revenues, expected to be \$50 million over the life of the lease.

### 5.2.3. Design-Build-Finance-Operate (DBFO) or Conserve-Build-Finance-Operate (CBFO)

Within this model, the private partner is responsible for conservation of the historic buildings, construction or addition of new buildings or structures, and complete financing and operation of the project under a long-term lease. This form of partnership is particularly applicable for projects of larger scale, where it covers



groups of buildings or buildings which are in need of major renovations. The partnership may involve a Special Purpose Vehicle (SPV).

**The Quarantine Station, Australia:**

At the former Quarantine Station, the New South Wales government, Australia, entered into a long-term lease with Mawland Quarantine Station Pty Ltd, as a private partner. The private partner is responsible for reuse and conservation of the Station's cultural and natural sites. The premises have been converted into a hotel, a restaurant, a visitor center, and a museum while retaining public access to the historic buildings and finding new revenue-generating uses for buildings.

**The Varaždin County Palace, Croatia:**

The renovation of the Palace began in the 1990s, but at rather slow pace mostly due to lack of funding. The heaviest renovation works took place in 2006, when sufficient funding was assured through a public-private partnership between the Varaždin County and the private company Meteor-Privatno Partnerstvo d.o.o. This allowed the Palace to be renovated in a relatively short time. The private investor financed the reconstruction and maintenance of the Palace owned by the County for a period of 20 years, while the County pays them a monthly availability fee that covers the costs of the investment and maintenance.

#### 5.2.4. Finance Only

In the Finance Only partnerships, the project is funded directly by the private partner or through long-term leases or bonds. For example in Italy, one of the ways of funding private and government conservation projects is a special bank scheme. A bank can finance a conservation project of a listed building, monument, or artwork in return for tax breaks, reduced tax exposure, publicity, or statutory requirements. Other arrangements include straightforward funding of conservation projects, where the organization provides not only funding, but also expertise or other kinds of technical capabilities.

**Banca Monte dei Paschi di Siena, Italy:**

The Banca Monte dei Paschi di Siena is required to donate a certain percentage of its profits to philanthropic initiatives which include conservation projects.



### 5.2.5. Operational License

The Operational License model is when the private or third sector partner provides a service under the contract or license to the heritage asset for a fixed term. The public entity keeps the ownership over the heritage site.

#### **The Sečovlje Salina Landscape Park, Slovenia:**

The Sečovlje Salina Landscape Park is a state-designated protected area for which management responsibility has been given to a private company Soline, created for the purpose and owned by the country's largest mobile phone company, Telecom. A government decree specifies the conditions under which Soline must operate the concession, including preparation of an annual management and financial plan requiring government approval. The ownership of the protected area remains with the government, including responsibility for all investments in the park's infrastructure made during the 20 year period of the concession. The government contributes about 20% of the protected areas annual operating cost. Soline and Telecom also contribute, while income generated by the park itself in form of the entrance fees, sale of salt and related products will be a further source of funds.

For the government, this arrangement has the advantage of low management costs. The park has increased local employment opportunities: the number of employees in the company alone grew from fewer than 15 to 86 during 2002-2011. The arrangement allows the company to project a positive image of environmental responsibility. Although problems exist (e.g. ownership issues), there is a continuing dialogue between the government and the company in order to address them.

## 5.3. EU funding opportunities - hybrid funds

PPPs combined with EU funding are termed hybrid. Such approach allows for implementation of projects of public interest which are economically justified, but unable to meet the total costs solely with revenues from end-users or fees. This encourages private investors and financial institutions to invest in projects for which revenues are not expected to cover the construction and operational costs. EU financing can help mobilise for PPPs.

#### **City of Sopot, Poland:**



The city of Sopot was planning to revitalise the buildings of the railway station and their surroundings. Having no sufficient funds for such a wide-scale project, the municipal officers sought for an optimal solution. Finally, a hybrid PPP agreement was concluded, which consisted in obtaining two funding sources: a low-interest loan within the JESSICA EU mechanism, and the private partner's own funds in form of an investment loan, shared 60/40 respectively. The private partner was remunerated with partial land ownership.

The most convenient financial instruments for combining EU funds and PPP are presented below.

### 5.3.1. Regular EU funds

Information on sources of co-funding of revitalisation projects can be found here:

- ❖ The European Structural Investment Funds (ESIF), in particular the European Regional Development Fund (which covers e.g. regeneration of brownfield sites) and the Cohesion Fund:



<https://www.fi-compass.eu/esif/european-structural-and-investment-funds-esif>

accessed 03.04.2017

- ❖ The browser for regional policies within the Regional Operational Programmes (ROP) per country:

[http://ec.europa.eu/regional\\_policy/en/atlas/](http://ec.europa.eu/regional_policy/en/atlas/), accessed 03.04.2017

The ROPs are financed from the ESIF.

- ❖ The EPEC's guidance note for the programming period 2017-2020:

<http://www.eib.org/epec/resources/blending-ue-structural-investment-fund-ppp>

accessed 08.05.2017

### 5.3.2. JASPERS: advisory programme

JASPERS (Joint Assistance to Support Projects in European Regions) assists EU member states with project preparation and capacity building support, as well as independent quality review. JASPERS' free assistance is available for the development of all categories of projects assisted by European Structural and Investment Funds (ESIF). However, JASPERS advisory and capacity building assistance priority are major projects in the current 19 beneficiary EU Member States (Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, France, Ireland, Italy, Greece, Latvia, Lithuania, Hungary,



Malta, Poland, Romania, Slovenia, Slovakia, and Spain), as well as candidate countries.

<http://www.jaspers-europa-info.org/content/what-we-offer>, accessed 29.03.2017



## 6. The Annex: successful PPP in revitalisation projects in Croatia, Poland, Slovakia and Slovenia

The Annex lists all PPP in revitalisation projects being successfully implemented in Croatia, Poland, Slovakia, and Slovenia until 30.05.2017. The projects are ordered chronologically per country.

Croatia:

- ❖ Revitalisation of the Varaždin County Palace. Implemented between 2006-2026.

Poland:

- ❖ Revitalisation of the railway station in Sopot and its surrounding. Implemented between 2013-2023.
- ❖ Development of the northern headland of Wyspa Spichrzów in Gdańsk. Implemented between 2015-2024.

Slovakia:

- ❖ No PPP in revitalisation projects implemented to date.

Slovenia:

- ❖ Preserving natural and cultural heritage of the Sečovelje Salina Natural Park. Implemented around 2002-2022.



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