

The Increased Significance of Public Private Partnerships (PPP) for Urban Development in Germany

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Key words: Business Improvement District, Economic Performance, Lifecycle Approach, Public Building Construction, Procurement Process, School Redevelopment, Urban Renewal

SUMMARY

Over the past years a marked increase in cooperation between the public and private sectors for the development and operation of public services and infrastructure has been observed in Germany. Such Public Private Partnerships (PPP) for a wide range of economic activities were driven by a shrinking economic performance in many regions. Due to the fact that the demographic and economic change influence the financial situation of the cities, almost every municipality ascertains a loss of revenues to finance local public transportation and the construction and maintenance of roads, schools, hospitals, cultural and sports facilities.

In this case, PPPs can be an important tool for urban development to increase the efficiency and effectiveness of public services. The innovative aspect of these partnerships is the introduction of a lifecycle approach which aims at the optimisation of the planning, construction, running, financing and utilisation of real property.

The article describes the current PPP debate in Germany and gives a review of different German Public Private Partnership projects concerning urban development at Federal Government, Federal States and municipal level. According to the German Institute of Urban Affairs (Difu) more than 100 PPP real estate projects are in the planning and implementation phase at the present time. Compared to the United Kingdom, it is only a limited number of PPP projects, but nevertheless, they include a large variety of different building types, such as administrative buildings, sports facilities, military barracks, medical institutions and judicial buildings. The overall investment volume of all projects together amounts to more than 4 billion Euro.

The paper exemplifies the trends and expectations to establish Public Private Partnerships in Germany by addressing the questions: how PPP activities affect the economy and whether they promote sustainable urban regeneration in cities in the long term. In addition to these questions, the assets and drawbacks for PPP implementation in Germany will be specified. Furthermore the article demonstrates that also Business Improvement Districts can be regarded as PPPs between a municipality, property and business owners that develop and take forward projects and services that make a collective contribution to the improvement of their commercial district.

Finally, the article contributes to the German PPP discussion by explaining and analysing two German PPP (pilot) projects, a school redevelopment in Monheim and BIDs as a special type of PPPs in Hamburg.

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1. INTRODUCTION TO PUBLIC PRIVATE PARTNERSHIPS

1.1 Defining PPPs

Public Private Partnerships (PPPs) have become a major method of procurement for the public building sector worldwide. The demand for PPP as an increasingly attractive tool for infrastructure and urban development is evident, especially in an economic climate where fewer resources are available for public service and infrastructure needs. According to Michael Glos, Germany's Federal Minister of Economics and Technology, *'technical progress linked together with cost reductions are always driven at a faster pace within a free enterprise environment than by the administrative initiatives of the government'* (cited in Pauly 2006, p. 50).

But what exactly is a PPP? The expression PPP is widely used, but is often not clearly defined. According to the PPP Task Force Germany, Public Private Partnerships are modern and efficient forms of administration. They form part of the Federal Government's innovation drive and aim at improving the efficiency of infrastructure projects by means of long-term cooperation between public authorities and the world of private business (cf. <http://www.ppp-bund.de/en/home.htm>).

In its widest sense, a PPP can be defined as a **long-term contractual agreement between the public sector** (Federal Government, Federal State or municipal level) **and the private sector** (profit making organisations). Through this agreement, the skills, assets and risks of each sector (public and private) are shared in delivering a service or facility for the use of the general public (cf. <http://www.ncppp.org/howpart/index.html>).

1.2 PPP Characteristics

In difference to the traditional public procurement, PPPs typically involve the use of private capital to plan, finance, construct, maintain and operate a project (= so-called **lifecycle approach**) for public use for a specific time period (usually 25 – 30 years) during which a private sector company collects revenues from the public sector. The private sector partner has to provide the service and maintain the facility (such as a school) to the same standard for the whole life of the project. At the end of the contractual period the operation of the facility normally reverts to the public sector. Nevertheless, a lot of tasks, for example the identification of demand, approvals, design of competition or contract management, are not delegable to the private sector.

The majority of PPP projects are financed by banks or other financing institutions. Before agreeing to lend money to a PPP project the banks will insist on an independent confirmation

of all the technical, environmental, economic and commercial studies on the project. At the Federal State level the forfeiting pre-financing model remains the preferred option due to price and simplicity (cf. DLA 2005, p. 42). **Forfeiting** is the term generally used to denote the purchase of obligations falling due at some future date, arising from deliveries of goods and services without recourse to any previous holder of the obligation (Source: <http://www.forfaitwiss.ch/documentation/forfait.pdf>).

In general, PPP can best be viewed as a **continuum between traditional public procurement** at the one end **and privatisation** at the other (cf. table 1). It is important to realise, that there is a fundamental difference between PPP and privatisation. While privatisation is the partial or complete sale or transfer of existing enterprises, assets or rights from public ownership to the private sector (Cartlidge 2006, p. 18), PPPs constitute a way of introducing private management into public service. One example for privatisation is the deal of the City of Dresden in March 2006 to sell their entire stock of 48,000 city-owned apartments to an American private equity firm, the Fortress Investment Group, for 1.7 billion Euro. On the one hand, Dresden can wipe off its financial shortage in a single stroke, but on the other hand, it loses the public control in housing policy.



Table 1: PPP characteristics; Source (translated and modified): Weber et al: Praxishandbuch PPP (2006), p. 5

To put the partnerships in concrete terms, the following elements normally characterise PPPs (according to the *EU Green paper on public-private partnerships and community law on public contracts and concessions 2004*):

- The relatively **long duration** of the relationship, involving cooperation between the public partner and the private partner on different aspects of a planned project.
- The **method of funding** the project, in part from the private sector, sometimes by means of complex arrangements between the various players.
- The **important role of the economic operator**, who participates at different stages in the project (design, completion, implementation, funding). The public partner concen-

trates primarily on defining the objectives to be attained in terms of public interest, quality of services provided and pricing policy, and it takes responsibility for monitoring compliance with these objectives.

- The **distribution of risks** between the public partner and the private partner, to whom the risks generally borne by the public sector are transferred.

2. THE DEVELOPMENT OF PUBLIC PRIVATE PARTNERSHIPS IN GERMANY

2.1 Background: The Current Debate about PPP

To understand the PPP developments in Germany, one has to follow the circumstances in the European Union.

Although there are a number of EU statements and reviews concerning PPPs, there is no discernable **EU PPP policy** at present (cf. PwC 2004, p. 3). However, there have been recent developments concerning the Eurostat accounting treatment for PPPs and the PPP Green Paper, in which the Commission adopted the Communication on PPPs and Community Law on Public Procurement and Concessions on November 15, 2005. This Communication presents policy options with a view to ensuring effective competition for PPPs without unduly limiting the flexibility needed to design innovative and often complex projects. (http://ec.europa.eu/internal_market/publicprocurement/ppp_en.htm). In the last decade, especially the United Kingdom has revolutionised the implementation of public sector contracts with the private sector (originally known as the Private Finance Initiative – PFI).

In Germany, the interest in Public Private Partnerships for public service delivery continues to grow. For Germany alone, between now and 2010, investment of the order of 700 billion is needed for maintenance and renovation of the transport infrastructure and for municipal construction (according to the speech of Charlie McCreevy, European Commissioner for Internal Market and Services, at the PPP Global Summit – The 6th Annual Government-Industry Forum on Public Private-Partnership Copenhagen from November 17, 2005).

The motives for establishing PPPs are manifold and dependent on the special situation in the respective cities. Due to the fact that the demographic decline (especially in the Eastern parts of Germany) and the slow economic growth influence the financial situation of the cities, almost every municipality ascertains a loss of revenues to finance public sector services such as the construction and maintenance of roads, schools, hospitals, cultural and sports facilities. So, above all, budgetary constraints play a major part in encouraging many municipalities to explore PPP solutions (cf. Bertelsmann Foundation 2003, p. 24-27).

2.2 Regulatory and Institutional Framework for PPPs

For more than five years, the Federal Government has declared that it will create new forms of co-operation between the state, the private sector, the welfare organisations and other non-profit-making institutions (Federal Government 1999, p. 13).

This statement leads to the result that today, PPP projects can be implemented under current legal regulations in Germany. At the federal level, various initiatives since 2001 have been aimed at rethinking the role of the government in managing its public services, including exploring the establishment of Public Private Partnerships between the Federal Government, the

Federal States, the municipalities and the private sector. The selection of the most important steps with regard to the PPP implementation in table 2 illustrates that there is a strong political will to develop PPPs in Germany.



Table 2: Milestones of PPP development in Germany (Source, modified: PwC 2005)

The most important step concerning the development of Public Private Partnerships consists in the implementation of a **PPP network of excellence** (cf. table 3). In this network, the **steering committee**, initiated by Chancellor Schröder in 2002, is a joint body made up of representatives from the Administration (Federal Government, Federal States and municipalities), and the construction and banking industries, under the chairmanship of the Parliamentary State Secretary in the Federal Ministry of Traffic, Construction and Urban Development, A. Grossmann. Its aim is to promote improvements in the general conditions for PPPs in Germany and to promote the creation of a network of expertise in the area of PPPs in Germany (cf. <http://www.ppp-bund.de/>).

Since July 2004, The **PPP Task Force** is the central federal organisational unit in Germany for supporting the public and private sectors dealing with the preparation and establishment of PPP in the public building construction sector. The Task Force is located at the Federal Ministry of Transport, Building and Urban Affairs and deals with the following issues in particular:

- Identifying examples of successful PPP models in Germany and throughout Europe,
- Accompanying selected PPP projects at all levels (Federal Government, Federal States and municipalities),
- Establishing criteria and benchmarks for a Public Sector Comparator,
- Reducing legal and practical obstacles concerning the PPP procurement process and

- Developing and formulating recommendations, guidelines and uniform PPP standards.

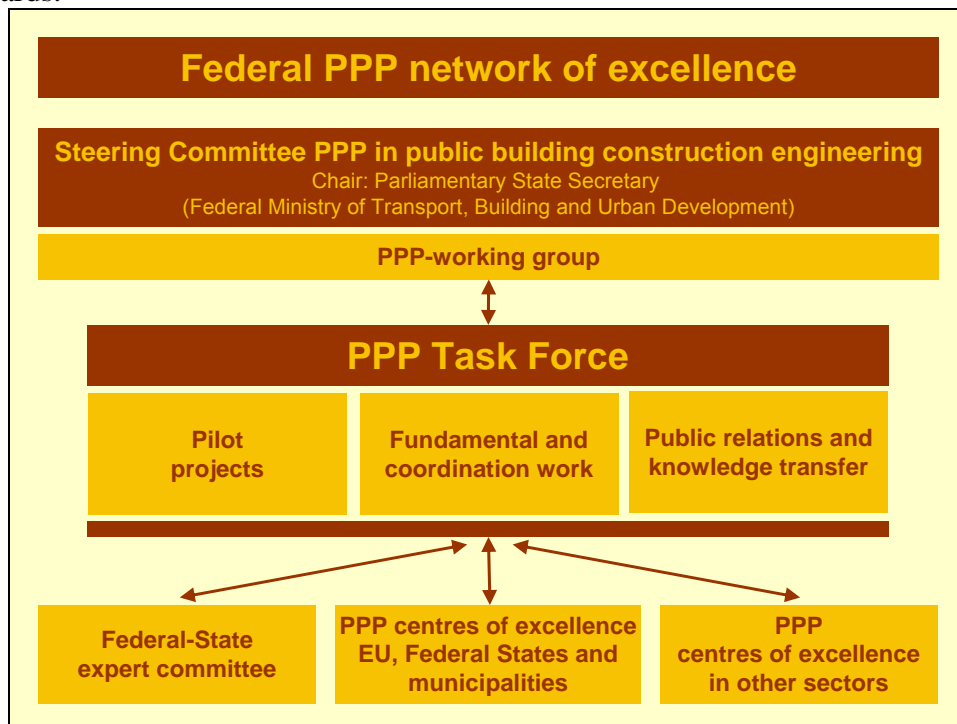


Table 3: The PPP Task Force in Germany (Source (modified): <http://www.ppp-bund.de/>)

The aim of introducing the Task Force was to achieve closer partnering between the public and private sectors at the three already mentioned levels.

Besides, there are Federal State initiatives, e.g. the Public Private Partnership initiative in North Rhine-Westphalia, which was launched with the objective to encourage private investment in State and local government infrastructure projects in North Rhine-Westphalia (cf. <http://www.ppp.nrw.de/>).

Furthermore, in addition to the described initiatives and activities, **recent legislative changes in Germany** have provided the Federal States and municipalities' new tools to foster PPP development and new opportunities for contractors and developers to participate in emerging opportunities to plan, finance, construct, maintain and/or operate a project for public use. One important example of a new framework for PPP in Germany is the PPP Acceleration Act (*ÖPP-Beschleunigungsgesetz*), which came into force on September 8, 2005. The PPP law facilitates PPP at all levels of government.

However, in realising PPP projects some legal restrictions regarding budget law, tendering law, grants/subsidies and tax law still exist. Only an elimination of these restrictions could stimulate the use of PPP as an alternative procurement route (Source: PwC et al 2003, p. 2; cf. <http://www.ppp-bund.de/download/Kurzzusammenfassung-englisch.pdf>).

3. PUBLIC PRIVATE PARTNERSHIPS AS A TOOL FOR URBAN DEVELOPMENT

3.1 PPPs in Times of Urban Decline and Urban Renewal

The following section explains why PPPs can be a reasonable instrument for urban development and urban revitalisation in German cities.

The dramatic (demographic and economic) development in the last 15 years after the German Unification led to more than one million empty apartments and houses alone in East Germany, the deterioration of innumerable industrial sites and the closing of social, leisure and cultural facilities (cf. Müller/Siedentop 2004). Thus, there is an urgent need of revitalising the abandoned and declining municipalities. The **priority objectives of urban renewal** in these cities can be specified in the following categories:

- Improving the housing and living conditions of the residents of older districts,
- Strengthening and supporting the vitality and economic functions of such districts as well as
- Renewing and preserving their building stock as well as their urban physical and social structure.

In connection with German Federal Government programs (e.g. “Urban Restructuring in East/West Germany” – *Stadtumbau Ost/West* and “Socially Integrative City” – *Soziale Stadt*), the implementation of PPPs could be an effective instrument for urban revitalisation and economic development for cities with regard to increasingly urgent redevelopment needs and the constraints imposed by scarce municipal financial resources.

To get a comprehensive overview about the current situation of PPP projects in Germany, the German Institute of Urban Affairs (Difu) carried out a study by order of the PPP Task Force at the Federal Ministry of Transport, Building and Urban Affairs in 2005 (cf. Grabow 2005). According to the Institute more than 100 PPP real estate projects at Federal Government, Federal States (‘Land’) and municipal level were in the planning and implementation phase at this time. Figure 4 illustrates that the number of PPP projects has heavily increased in the last five years. By 2005, 143 *sensu stricto* PPP projects (those encompassing several lifecycle phases such as described in section 1.2) had been contractually agreed, and a further 57 are currently in various stages of preparation.

The overall investment volume of all projects together amounted to more than 4 billion Euro in 2005. Expectations are that in the field of school, administrative buildings and hospitals alone, the volume of PPP projects put out to tender by 2010 will amount to about 20 to 30 billion Euro (Hochtief 2006, p. 3). Looking ahead, the German PPP market has a huge potential in the forthcoming years.

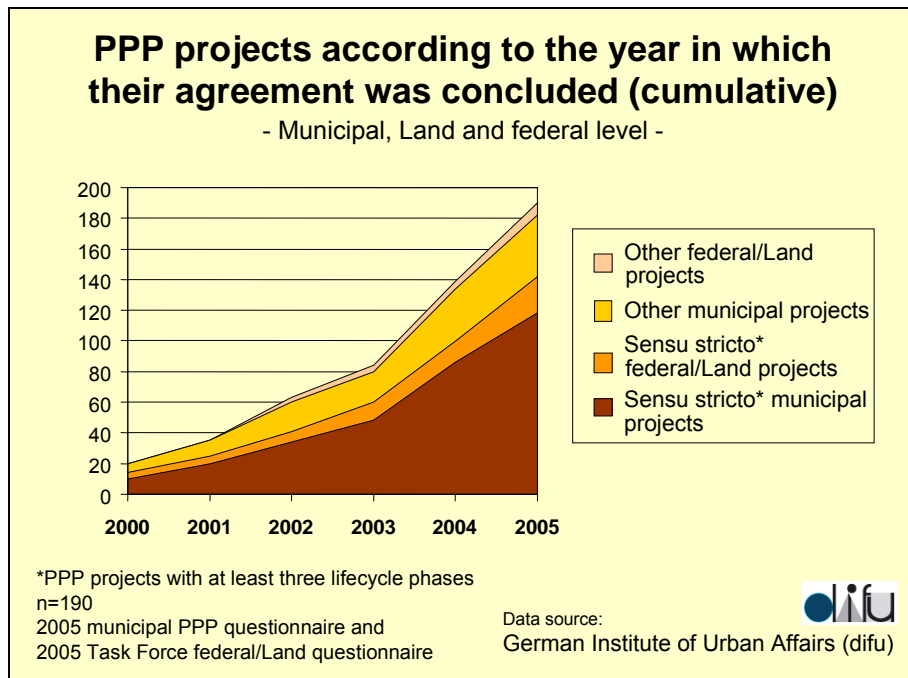


Table 4: Increase of PPP projects in Germany

Compared to the United Kingdom, it was only a limited number of PPP projects, but nevertheless, meanwhile, they include a large variety of different building types, such as schools, sport and administrative offices (for municipalities) and transport, administrative buildings and the judiciary (at Federal Government and Federal State level). Further important sectors include culture, childcare, urban development, the environment and supply services (municipalities) and health, public safety and e-government (cf. Grabow 2005 and table 5).

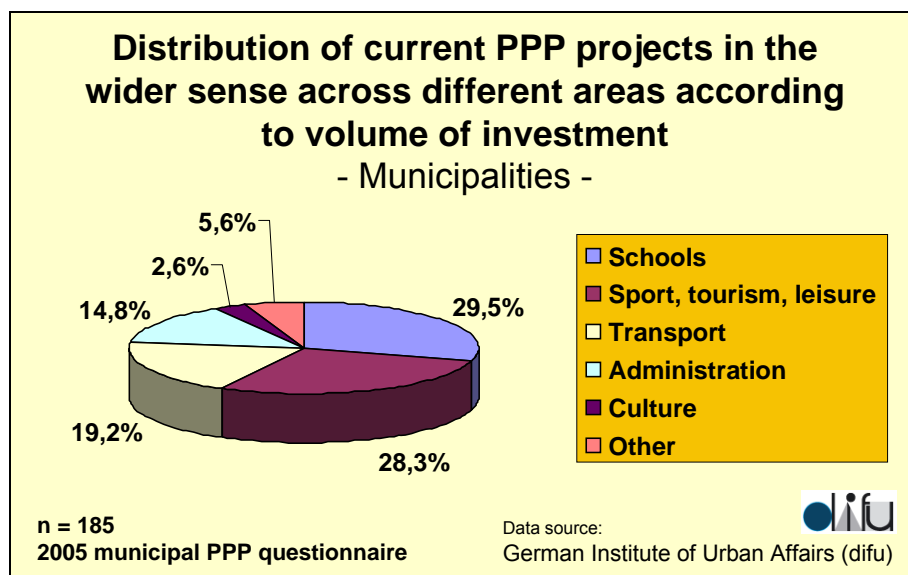


Table 5: Distribution of current PPP projects by sector and volume of investment

One example for the vast opportunities of such a PPP is the German armed forces, which made efforts to convert unused barracks into economically attractive areas for urban development. Therefore, the Federal PPP Task Force developed a specific PPP model and the German armed forces could be regarded as the binding element between private economy and the municipalities (DLA 2005, p. 43). The Fürst Wrede Barracks in Munich is an internationally known example for an urban development project dealing with conversion.

At the municipal level in particular, PPP projects have been discussed and, in part, also implemented for many years now (cf. example in section 4.1).

Consequently, due to the increase of PPP projects in Germany, there must be several reasons for the current interest in creating PPPs for buildings and infrastructure. One of them is **greater efficiency in the use of public resources**. Experience has shown that many public sector activities can be undertaken more cost effectively with the application of private sector management disciplines. Besides the advantages already mentioned in table 1, there are a lot more benefits that can give reasons for the Federal Government, the Federal States or municipalities to think about the establishment of Public Private Partnerships, e.g.:

- Acceleration of infrastructure provision as well as faster implementation because of shorter construction timeframes (Heinz 2005),
- Enhanced new public management (Winkel 2003) and
- Better allocation of risk to the party best able to manage it at least cost (cf. EC 2003).

Nevertheless, primarily the public sector must recognise the **disadvantages of PPPs** if it adopts a PPP approach, e.g.:

- PPPs imply a loss of management control by the public sector resulting from the transfer of responsibility to the private partner (PwC 2005, p. 29).
- Concerning the long-term nature of the PPP contracts, the public sector suffers the consequences for many years to come.

With regard to the private sector, the finance costs are higher. The private sector's weighted cost of finance, both debt and equity, is typically between 1 % and 3 % higher than the public sector's cost of debt on a non risk-adjusted basis (PwC 2005, p. 30).

Perhaps as a result of these drawbacks, over three-quarters of municipalities have no intention of planning a PPP project. This especially rings true for smaller municipalities (Grabow 2005).

3.2 Business Improvement Districts for Urban Revitalisation

In form of a **Business Improvement District (abbr.: BID)**, there exists another instrument which can be regarded as a Public Private Partnership with the objective of urban revitalisation and economic development.

Business Improvement Districts are a partnership between a municipality, property and business owners that develop and take forward projects and services that make a collective contribution to the stabilisation and improvement of their commercial district. The BID services provided are supplementary to those provided by the municipality and usually include

security, maintenance of public spaces, removal of litter and graffiti, economic development, public parking improvements, special events and social services.

In Germany, there are different legislative approaches for the purpose of creating Business Improvement Districts. In some of the 16 Federal States, the authorisation for BIDs is provided by Federal State laws, but there exists also another possibility: Municipal BID laws instead of state regulations. Furthermore in a number of Federal States, where you can find no legal foundation (or BID legislation is still under construction), property owner initiatives and BID-like models exist. Chapter 4.2 explains the BID-model in Hamburg, which is based on a partnership of property/business owners in a defined district authorised by Federal State law.

Meanwhile, the idea for BID has attracted many municipalities in Germany, so that by now they play an important role in the urban development process and city centre revitalisation (for more information cf. Friesecke 2006).

4. EXAMPLES OF PUBLIC PRIVATE PARTNERSHIPS

4.1 PPP School Redevelopment in Monheim (Rhine)

The best way to assess the reality of PPP effectiveness is by looking at how actual PPP projects have performed. Therefore, the article explains in the following parts the first PPP project in Germany in the area of public school buildings.

The project was realised in the City of Monheim (Rhine), North Rhine-Westphalia, and the city was in the same situation as a lot of municipalities in Germany. It had a little financial scope and could not manage to finance the **modernisation and refurbishment of the 13 schools and gymnasiums** at its own expense. The buildings (8 primary, 1 middle, 1 secondary modern, 1 comprehensive, 1 special, 1 grammar school) are 25 to 45 years old and, moreover, some of the school facilities are polluted with the health damaging polychlorinated biphenyl (PCB).

The objective was to modernise the obsolete or badly deteriorated school buildings and gymnasiums (incl. PCB removal) on the basis of a Public Private Partnership contract. The contract between the municipality and a specially founded private project company was signed in January 12, 2004, and refurbishment and other operations have since been up and running. The contract details of the PPP deal are as follows (cf. <http://www.ppp-bund.de/>):

- Property to remain in public ownership
- Pieces of land are made available to private party free of charge as part of a contract in personam
- Private planning, financing, construction/redevelopment and facility management
- Caretaker, office and floor cleaning services to remain in public sector
- Partial forfeiting with non-recourse
- Payment of contractually defined instalments by the public sector
- Agreed remuneration adjustment conditions

The project, which includes a 25-year operating period, has a project volume of 75 million Euro. The municipality makes an annual payment of circa 3 million Euro to the private company who provides the building and associated services.

Table 6 gives some more facts about the school redevelopment project.

Project	School redevelopment
Location	City of Monheim (Rhein), North Rhine-Westphalia
Project description	Refurbishment, maintenance, operating und financing of 13 schools and 12 gymnasia
Investment volume	24 Mio. Euro
Project volume	75 Mio. Euro
Scope of activities	13 schools as well as 12 gymnasia, Gross floor area = circa 73.600 m ² Gross cubic volume = circa 312.000 m ³ Plot area = circa 172.000 m ²
Contract model	PPP owner model
Project company (lead manager)	PPP Schulen in Monheim GmbH
Facility management	Serco GmbH & Co. KG
Project duration	2004-2028
Contract term	25 years
Financing	Stadtsparkasse Düsseldorf, KfW
Contract provision	Partial forfaiting with non-recourse
Efficiency gain	Circa 15 %

Table 6: Key details of the PPP project in Monheim

In Monheim, the contract was awarded to a consortium led by *Hermann Kirchner Projektgesellschaft mbH*, with *Serco GmbH & Co. KG*, *Stadtsparkasse Düsseldorf* and *Kreditanstalt für Wiederaufbau (KfW)* as partners (cf. table 7). The private project company (in form of a limited company) will finance, refurbish and operate the school buildings.

The PPP project has been realised using a forfaiting structure with non-recourse on the public sector.

The facility management part of the PPP project will be carried out by *Serco GmbH & Co. KG*. The company will provide the technical building management such as upkeep, maintenance and energy management.

To summarise, the PPP project in Monheim enables the costs for refurbishing and running the facilities to be substantially reduced: **the City of Monheim saves approx. 15 percent compared to realisation without partnership**. According to Frank Littwin, Head of PPP Task Force North Rhine-Westphalia, however, these cost savings might not necessarily benefit

public budgets, but rather, will have to be used to achieve improvements in quality, especially in connection with building maintenance and upkeep, which have often been neglected.

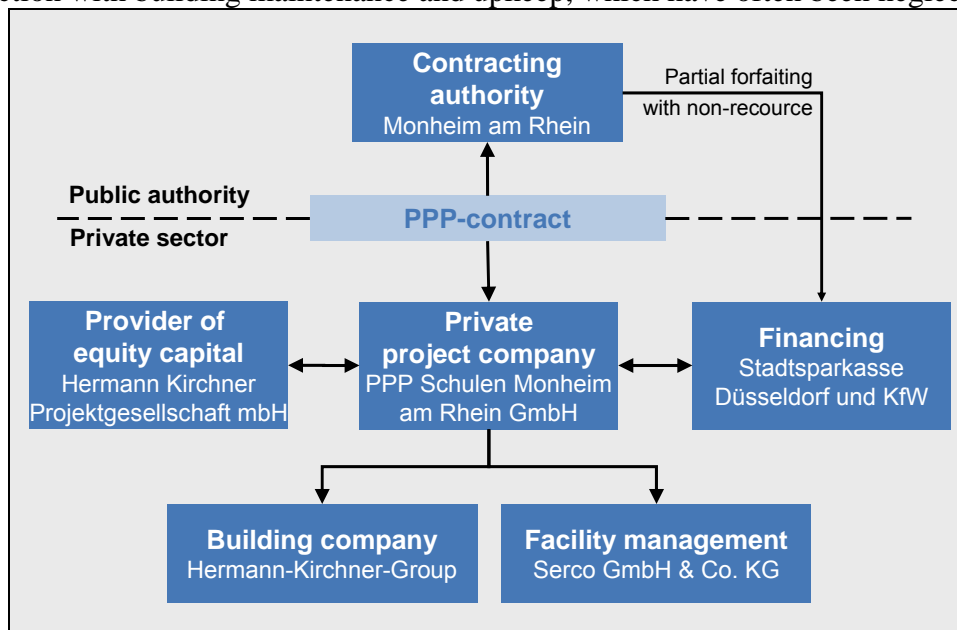


Table 7: PPP project structure for school redevelopment in Monheim (Source: Littwin/Schöne, p. 403, figure translated and modified)

In conclusion, the school project in Monheim marks a milestone in German PPP and has an important catalyst function for the establishment of further Public Private Partnerships in public building construction in Germany. Beyond Monheim, a lot of other municipalities are using PPPs to build new schools or to renovate deteriorating school facilities.

4.2 Business Improvement Districts as a Special Form of PPPs in Hamburg

As already described in chapter 3, also Business Improvement Districts (BIDs) can be regarded as Public Private Partnerships between a municipality, property and business owners that develop and take forward projects and services that make a collective contribution to the stabilisation and improvement of their commercial district. In short, BIDs allow the private sector to provide additional and enhanced services that improve the public and business environment in the district.

As a pioneer in Germany, the city of **Hamburg** established a “**Law of Strengthening Retail Districts**” which entered into force as from January 1, 2005. Hamburg uses the legislative model, which means that the Federal State – in this case the Free and Hanseatic City of Hamburg – makes a resolution by passing a decree-law to implement a Business Improvement District. Subject to the law, a BID is a temporary organisation and lasts a pre-determined period of time - generally five years, after which time the members vote to retain the BID. The establishment of the individual BID needs the support of 15% of property owners (the positive vote of the property owners must represent more than 15% of the number of properties situated in the BID area, at the same time their area must represent at least 15% of the total BID area). The BID in Hamburg is funded by a special tax based on the commercial

space (local businesses) and the value of the properties – which is why the Hamburg pilot project will require special legislation. The tax is a product of the municipal rate fixed by the municipality and the rateable value of the property (under the terms of the German Valuation Law).

After a positive BID vote, a specially founded or even existing task manager (e.g. in form of a limited liability company or registered association) is forced to realise the defined BID services under terms of a contract between himself and the municipality. The BID levy is collected and administrated by the municipality but then turned over in its entirety to the task manager. In Hamburg, the BID task manager mostly organises physical and organisational improvements, e.g. management of the neighbourhood, waste management, parking, street lighting, coaching of shopkeepers, marketing campaigns and events.

It is advisable to establish a steering committee right from the BID planning stage, particularly with regard to participate all stakeholders affected by the budgeted BID activities. Furthermore, the committee could give advice to the task manager during the operational phase and check completion of activities within the timeline or compliance with regulations.

At the moment, two Business Improvement Districts exist in Hamburg (*Innovationsbereich Sachsentor*, Hamburg-Bergedorf, established August 16, 2005 and *BID – Neuer Wall*, Hamburg-Inner City, established October 1st, 2005). Figure 8 gives a review of the organisational structure of the BID – Neuer Wall and it shows clearly, that a BID is a publicly sanctioned, but yet privately directed organisation.

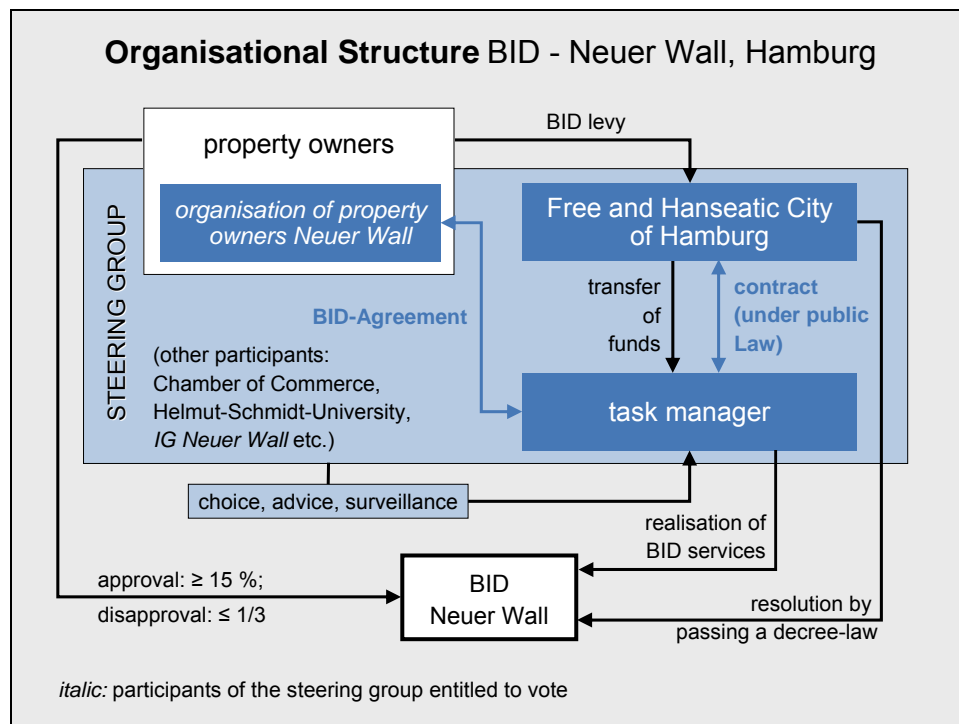


Table 8: Example of the organisational structure for a BID (legislative model)

Meanwhile, a second Federal State, Hesse, enacted a “Law of Strengthening Inner City Business Districts”, comparable to the Hamburg legislation. The coming into force was January

1st, 2006. Beyond it, there are other states reflecting on the implementation of the legislative BID model at Federal State level.

5. CONCLUSIONS AND RECOMMENDATIONS: SETTING PRIORITIES FOR FUTURE PUBLIC PRIVATE PARTNERSHIPS

The use of Public Private Partnerships, as this paper clearly illustrates, is a growing trend throughout Germany and beyond. Today, partnerships are used not only in transportation infrastructure but also for water and wastewater systems, delivery of social services, building schools, hospitals or prisons, and a wide range of other applications.

But nevertheless, PPPs are a complex policy to introduce. Some of the conclusions that can be made include the following:

Conclusion 1:

Public Private Partnerships can be considered as various types of (contractual) arrangements formed between the private and public sector to achieve a common purpose.

According to HDR, Inc. (2005) Public Private Partnerships are a new paradigm for economic development for the 21st century. They can combine the best resources and strengths of the public and private sectors in various types of (contractual) arrangements to modernise needed public services and infrastructure.

The preferred policy options following the PPP Green Paper consultation of the European Commission (2004) are *concessions* and *Institutionalised PPPs*. A concession is a private sector arrangement where asset ownership remains in public hands but where the private operator is responsible for new investments, as well as operating and maintaining existing assets (<http://rru.worldbank.org/Toolkits/InfrastructureConcessions/>). Institutionalised PPPs are public-service undertakings held jointly by both a public and a private partner (EC 2004, p. 16).

It should be understood, however, that the PPP process is extremely dynamic and that the particulars of most arrangements are tailored to the specific circumstances involved (EC 2003, p. 16).

Conclusion 2:

PPPs attract new private investment in a wide spectrum of local activities and services.

In recent years, public sector financial constraints in Germany have given rise to a substantial reduction in public sector investment. With PPPs, the private sector aids government and municipalities to implement, design and build infrastructure or building construction projects and to provide services previously in the domain of the public sector. Often, these are new projects that would otherwise have to wait until government or municipal funds become available.

In the United Kingdom, for example, PPPs have become a common way of procurement for a long time. However, over the past years, a marked increase in cooperation between the public and private sectors has been observed in Germany. PPPs are entering new sectors like transport, public health, public safety, waste management, housing construction and water distri-

bution. Nevertheless, compared to the UK, a remarkable backlog in the utilisation of alternative procurement solutions is evident.

Conclusion 3:

PPPs offer significant benefits to both public and private sector.

When a municipality enters into a Public Private Partnership, there are many benefits to both public and private partners.

The main advantage for the *public sector* is considered to be that public authorities gain access to private sector know-how and principles, and hence access to economic thinking and entrepreneurial logic, to private management and marketing strategies, and to information on different markets and the rules that govern them (Heinz 2005, p. 7). Private sector innovation and management skills generally result in a more efficient performance of public services including e.g. faster project realisation, more competition, appropriate distribution of risks and cost savings in comparison to publicly funded projects.

The main advantage for the *private sector* is that co-operation with the public sector generally brings access to local public powers and competencies and a significant influence on local government decision-making. Another positive outcome for private participants in partnership projects is access to financial subsidies provided by other public authorities e.g. the Federal Government and the European Union (Heinz 2005, p. 7).

So in conclusion, the aim of a PPP should be a win-win scenario for both.

Conclusion 4:

A more holistic approach to the development of PPPs is needed in order to reduce costs and ensuring a more efficient PPP procurement process.

Despite a significant number of German initiatives and reports on PPPs (cf. e.g. Weber et al. 2006 or Littwin/Schöne 2006), a considerable uncertainty persists. To ensure value for money and strengthen the use of PPPs, the Federal Government has to:

- Continue improving the legal conditions in the areas of public procurement law, federal and state budget law, municipal law, fee schedule law, subsidy law as well as tax law,
- Intensify the work of the PPP Task Force concerning knowledge transfer,
- Concentrate on PPP project studies focussing on the spread of PPP projects and
- Create uniform tools and procedures for the implementation of PPP projects, e.g. developing standard guidelines for an efficiency comparison.

Furthermore, the process of contract standardisation could help to spread best practice, improving PPP procurements across the public sector, and reduces the length and cost of PPP procurement. However, the varying characteristics or unique aspects of some PPP projects may make standardisation hard to achieve.

Conclusion 5:

PPPs are not a remedy for all “urban illnesses” and urban developments in times of fiscal constraint.

Public Private Partnerships are not a solution for every municipality; they are not a panacea or a way to obtain free money. But nevertheless, due to the far-reaching processes of demographic and economic change, they can play a significant role in improving public services. PPP procurement represents one important step for future urban planning policy as a contradiction to the traditional public procurement. The flexibility of a PPP allows the Federal Government, the Federal States and the municipalities to develop their own PPP in different types, models and sectors, but they do not offer a tailor-made answer to all procurement issues.

To summarise the short analysis, there has been too little practical experience in the field of public private partnerships in Germany so far. However, the demand for project financing and other forms of partnerships is increasingly gaining attention and in near future PPP procurement may turn out to be the preferred method of public service procurement.

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