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

Dipl.-Ing. Frank Friesecke
Institute of Urban Planning and Real Estate Management
University of Bonn, Germany

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**Defining PPPs**

The expression PPP is widely used, but is often not clearly defined. 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).

**DELEGABLE TASKS**

- Planning
- Construction
- Financing
- Running
- Utilisation

**Introduction**

- The demand for Public Private Partnerships (PPPs) 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.
- PPPs have become a major method of procurement for the public building sector worldwide.
  - Current debate about PPP in Germany.

**The Development of PPPs in Germany**

- In 1999, the Federal Government declared that it will create new forms of co-operation between state and the private sector.
- PPP projects can be implemented under current legal regulations in Germany.
- However, in realising PPP projects some legal restrictions still exist regarding
  - budget law,
  - public procurement law,
  - grants/subsidies and
  - tax law.

**PPP projects according to the year in which their agreement was concluded (cumulative)**

(Municipal, Land and federal level)

**Current debate about PPP in Germany.**

- Current debate about PPP in Germany.
Milestones of the German PPP Development

- 04/2001: Implementation Chancellor working group
- 10/2001: Start of PPP-Initiative North-Rhine Westphalia
- 05/2002: Chancellor Schröder announces initiative to promote PPP development in Germany
- 09/2003: Submission of the report "PPP in the public building construction sector" by the Implementation Group
- 07/2004: Foundation of the Federal PPP network of excellence
- 09/2005: Adoption of the PPP Acceleration Act ("ÖPP-Beschleunigungsgesetz")

PPPs as a Tool for Urban Development

- PPP can be an effective instrument for urban revitalisation and economic development with regard to the constraints imposed by scarce municipal resources.
- Greater efficiency in the use of public resources.
- Faster implementation because of shorter construction timeframes.
- Better risk allocation to the party best able to manage it at least cost.

PPPs as a Tool for Urban Development

Distribution of current PPP projects in the wider sense across different areas according to volume of investment (municipalities)

- Schools: 29.5%
- Sport, tourism, leisure: 14.8%
- Transport: 10.2%
- Administration: 9.3%
- Culture: 6.0%
- Other: 19.2%

PPP for Public Building Construction

Educational Institutions
- Kindergarten
- Schools
- Universities etc.

Health and Social Services
- Hospitals
- Homes for the elderly
- Sanatorium etc.

Security
- Police stations
- Correctional facilities
- Border protection etc.

Sports and Leisure
- Sports facilities
- Museum
- Theatre etc.

Defence
- Accommodation
- Place of training
- Administrative buildings etc.

Example: PPP School Redevelopment in Monheim

- Monheim could not manage to finance the modernisation and refurbishment of the 13 schools and gymnasiums at its own expense.
- The objective was to modernise the obsolete or badly deteriorated school buildings and gymhalls (incl. PCB removal) on the basis of a Public Private Partnership contract, signed 2004.
- The project, which includes a 25-year period, has a project volume of 75 million Euro.
- The municipality makes an annual payment of 3 million Euro to the private company.
Key Details of the PPP Project in Monheim

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project</td>
<td>School redevelopment</td>
</tr>
<tr>
<td>Location</td>
<td>City of Monheim (Rhein), North Rhine-Westphalia</td>
</tr>
<tr>
<td>Project description</td>
<td>Renovation, maintenance, operating and financing of 13 schools and 12 gymnasia</td>
</tr>
<tr>
<td>Investment volume</td>
<td>24 Mio. EUR</td>
</tr>
<tr>
<td>Project volume</td>
<td>75 Mio. EUR</td>
</tr>
<tr>
<td>Scope of activities</td>
<td>13 schools as well as 12 gymnasia, Gross floor area = circa 73,600 m², Gross cubic volume = circa 312,000 m³</td>
</tr>
<tr>
<td>Contract model</td>
<td>PPP owner model</td>
</tr>
<tr>
<td>Project duration</td>
<td>2004-2024</td>
</tr>
<tr>
<td>Contract term</td>
<td>25 years</td>
</tr>
<tr>
<td>Financing</td>
<td>Stadtsparkasse Düsseldorf, KfW</td>
</tr>
<tr>
<td>Efficiency gain</td>
<td>Circa 15 %</td>
</tr>
</tbody>
</table>

Conclusions and Recommendations

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

5. PPPs are not a remedy for all “urban illnesses” and urban developments in times of fiscal constraint.
Introduction of an Lifecycle Approach

Utilisation Planning
Lifecycle Approach Running Construction Financing

PPP Task Force

Steering Committee PPP in public building construction engineering
Chair: Parliamentary State Secretary (Federal Ministry of Transport, Building and Urban Development)

PPP-working group
Pilot projects
Fundamental and coordination work
Public relations and knowledge transfer

Federal-State expert committee
PPP centres of excellence EU, Federal States and municipalities
PPP centres of excellence in other sectors

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Traditional (public) procurement

Greater efficiency through private sector involvement in the public sector activities
Public sector leadership and experience
Use of incentives from the private economy
Appropriate transfer of risk to those best able to manage them
Long-term partnerships and lifecycle approach
Reduced whole life costs

PPP Characteristics

§ The relatively long duration of the relationship.
§ The method of funding the project, in part from the private sector.
§ The important role of the economic operator, who participates at different stages in the project.
§ The distribution of risks between the public partner and the private partner.

In general, PPP can best be viewed as a continuum between traditional public procurement at the one end and privatisation at the other.

PPP Characteristics

Full privatisation

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German approach for an „Efficiency Comparison“

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<tr>
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<th>Benefit PPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Comparator (PSC)</td>
<td>Public Private Partnership (PPP)</td>
</tr>
<tr>
<td>Construction costs</td>
<td>Construction costs</td>
</tr>
<tr>
<td>Operating costs</td>
<td>Operating costs</td>
</tr>
<tr>
<td>Finance costs</td>
<td>Finance costs</td>
</tr>
<tr>
<td>Risks</td>
<td>Risks</td>
</tr>
</tbody>
</table>

Germany and UK: PPPs by sector

Central Accommodation
Regional Accommodation
Health & Hospitals
Defence
Housing
Transport
Roads
Schools
Sports & Leisure
Water & Wastewater
(incl. Solid waste)
Ports
Prisons
Heavy Railway
Light Railway
Source: PwC October 2005

Distribution of current PPP projects at Federal State level (Federal Government, Federal States, municipalities)

Data source: German Institute of Urban Affairs (difu)