

THE PUBLIC-PRIVATE PARTNERSHIP IN URBAN RENEWAL

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This article addresses the issue of Public–Private Partnership (PPP) as a potential tool for urban renewal, in view of budget constraints and a lack of financial resources that affect public authority. In fact, there is increasing application of PPP, driven mainly by municipalities and other local-level entities. The paper reports on two analyses. The first is a comparative study of 15 cases in Italy. The second is research on experiences in two districts of Budapest, Hungary. These analyses offer proposals to facilitate the application of PPP tools, in light of the Italian technical standard UNI/TS 11453 of 2012. This way it is possible to develop a methodology to properly assess the feasibility and financial viability of a project, ensuring transparency in the execution of European public works.

Keywords: PPP, Urban renewal, Recovery, Requalification, Bankability, Case study.

1 INTRODUCTION

An important trend in the construction sector is the transformation of the public works market. Increasingly-stringent budget constraints, such as the Stability Pact, and regulatory changes have led to the development of the so-called new public markets (i.e., Public–Private Partnership (PPP), project financing, construction and operation). Demand is changing from works demand to services demand, which blurs the boundaries between public and private capital, and between public and private management with contracts related to PPPs.

In fact, behind the label “new public markets”, there is a world of activities and strategies that are extremely heterogeneous. On one hand, the development of these markets responds to a real need for effective coordination in the construction and management of buildings and public infrastructures. On the other hand, a substantial part of the new public markets simply hides the lack of public resources. Often, in fact, the PPP and the service contract are used as mere financial substitution tools, used to bypass the Internal Stability Pact that has had the effect of freezing a considerable amount of funds held in the coffers of Public Authorities (PA).

2 PUBLIC–PRIVATE PARTNERSHIP

2.1 Historical Background

In the 1980s, Margaret Thatcher’s government in the United Kingdom, driven by the need to overcome stringent controls on spending imposed by the central government on

local bodies, permitted private funding in public infrastructure projects. After a few years, a negative economic situation prompted the government to inaugurate a PPP system under the name of Private Finance Initiative (PFI). The guiding principles were originally designed to imply a genuine transfer of risk to the private sector. The PFI was not a substitute for financing through traditional forms of government spending, but it turned out to be a useful supplement that could increase investment and infrastructural facilities in the country.

More or less coinciding with the publication of the report of the International Monetary Fund, the European Commission has shown real interest in the PPP: *cf.* a Green Paper dated April 19, 2004. In the Italian context, however, the PPP has faced obstacles. The operators involved (i.e., banks, businesses, and PA) have often found themselves in a changeable regulatory environment over time. With regards to public works, it can be said that a stable layout was obtained via Legislative Decree 152/2008 (the so-called *Terzo Decreto Correttivo*) after Legislative Decree 163/2006.

2.2 Different Types of PPP

Legislative Decree 163/06 defines PPP as contracts for one or more services such as design, construction, operation or maintenance of a public work or public utility, including in each case the total or partial financing by private individuals, with risk allocation.

The different types of PPP, best known internationally, are (Figure 1):

- **OPERATION & MAINTENANCE (OM):** The PA relies on the private sector for all management operations and maintenance of an asset with the task of maintaining, or improving, its state of preservation.
- **DESIGN & BUILD (DB):** The private sector designs and builds public works.
- **DESIGN BUILD OPERATE (DBO):** The private sector is responsible for the design, construction, operation, and maintenance of a project for a specified period prior to handling it over to the public sector.
- **BUILD LEASE TRANSFER (BLT):** The operation is set to a lease agreement, by which the leasing company/lessor, grants the availability of goods to the public entity/lessee behind the payment of a periodic fee.
- **DESIGN BUILD FINANCE OPERATE (DBFO):** The private sector is responsible for the finance, design, construction, operation, and maintenance of a project. In nearly all cases, the public sector retains full ownership over the project.
- **BUILD OPERATE TRANSFER (BOT):** The private sector is responsible for the finance, design, construction, operation, and maintenance of a project for a concession period. The asset is transferred back to the government at the end of concession period, often at no cost.
- **BUILD OWN OPERATE (BOO):** Similar to a BOT contract, but the private sector retains the ownerships of the asset in perpetuity. The government only agrees to purchase the services produced for a fixed length of time.

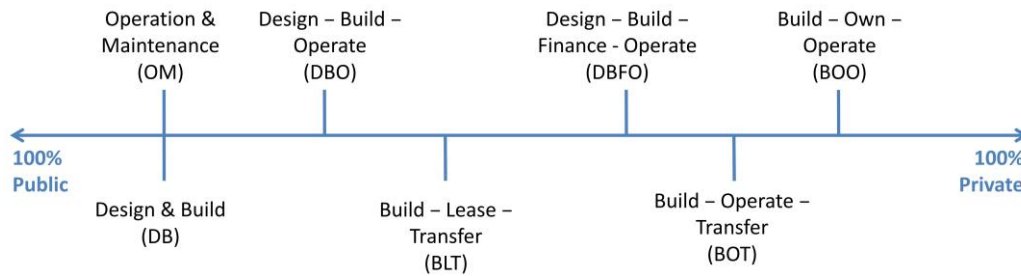


Figure 1. Development of PPP contractual formulas by Kwack et al. (2009).

3 CASE STUDIES

In order to better understand the topical interest of the PPP contracts and their meaning, it is essential to consider case studies in which they have been applied. Two important case studies will be compared: The first (Stanghellini et al. 2010) refers to 15 cases distributed throughout Italy. The second is linked to the post-socialist transformation of two central areas of the city of Budapest Ferencváros (Locsmándi 2006) and Erzsébetváros. The comparative analysis between two different realities is designed to detect specific problems related to the PPP on specific contextual conditions (political, social, economic, etc.).

3.1 Italian Experience

In Italy, the following cases were examined:

- **NAP:** *Stu Bagnolifutura* (Naples) – the environmental redevelopment of former industrial site in Bagnoli Ilva and urban renewal;
- **BAR:** *Stu Città dei Giovani e dell'Innovazione* (“city for young people and innovation” – Baronissi – Province of Salerno) – a project of local-integrated development to accommodate additional functions within a new university campus;
- **CRO:** *Stu Stazione* (“Station Area” – Crotona) – recovery and reuse of the former areas of railway facilities to host public and private services for the city.
- **BER:** *Porta Sud* (“South Gate” – Bergamo) – requalification of the railway station and the surrounding areas;
- **PAR:** *Stu Area Stazione* (“Station Area” – Parma) – reorganization of the urban structure in the area around the train station and redevelopment of a disused area in the north;
- **NOV:** *Movicentro and Stu Futura Novara* (Novara) – reorganization and requalification of the interchange area to accommodate passengers and a new technological center;
- **PER:** *Monteluca* (Perugia) – valorization of the site of Monteluca’s Polyclinic after the transfer of its assets to a new hospital;

- TER: *Corso del Popolo* (Terni) – use of project finance for the redevelopment of a suburban area adjacent to the historic center;
- ANC: *Ospedale Umberto I* (“Umberto I Hospital” – Ancona) – transformation of the former private hospital Umberto I through a recovery plan on the basis of a public initiative;
- GEN: *Nuovo Ponte Parodi* (“New Parodi bridge” – Genoa) – requalification of a former industrial area on the sea front;
- ROM: *Ex Mercati Generali* (“Ex General Markets” – Rome) – recovery and requalification of the former general market in the Ostiense district for the construction of a “city of young people”;
- MI1: *Santa Giulia Città nella città* – (“City in the city” – Milan) – requalification of disused industrial areas to create a “city within a city”;
- MI2: *Programma Garibaldi Repubblica* (Milan) – Integrated Intervention Plan to create a “Fashion City” and a new institutional center as the new headquarters of the Lombardy Region and the Municipality of Milan.
- POR: *Stu Makò* (Cordenon – Province of Pordenone) – recovery and regeneration of the disused Cantoni industrial site, an ex-cotton mill.
- TRE: *Sant’Artemio* (Treviso) – project financing for the conversion of the ex-psychiatric hospital in the new headquarters of the province of Treviso.

In most cases, there is the creation of Public–Public partnerships (PP). In 10 cases, the promoter is the local authority (abbreviated as NAP, BAR, CRO, BER, PAR, NOV, TER, MI2, GEN, ROM). In the other four, the initiative is driven by other public entities: the local regional authorities and the university for the case PER, the provincial authority for POR and TRE, and the hospital in the case of the ANC. Only MI1 is an example in which the promoter is private.

The need for partnerships involving several public bodies is dictated both by the fact that many projects are not consistent with the urban plan’s rules, which is to be revised. It is because the activities at the center of the project are owned by companies owned by the state, therefore the local authority believes it has significant decision-making power.

However, it is expected that at the beginning of the process, the PP is going to develop into later forms of PPP. In fact, the creation of a Special Purpose Vehicle for the implementation of urban renewal has been considered—especially in projects where project financing or construction and management concessions were not applied, as, for example, two projects in Milan.

3.2 Hungarian Experience

The restructuring processes occurring in the Hungarian cities, first of all in Budapest, are generally explained by the “mass privatization” of state-owned agricultural land and the sale of public housing to tenants. The main objective of the Ferencváros intervention is the improvement/rehabilitation of low-status residential areas outside the

Grand Boulevard. On the other hand, the Erzsébetváros project dates back to the early 1900s, then resumed in 1988, and has the idea to open a new road through a densely-built residential area.

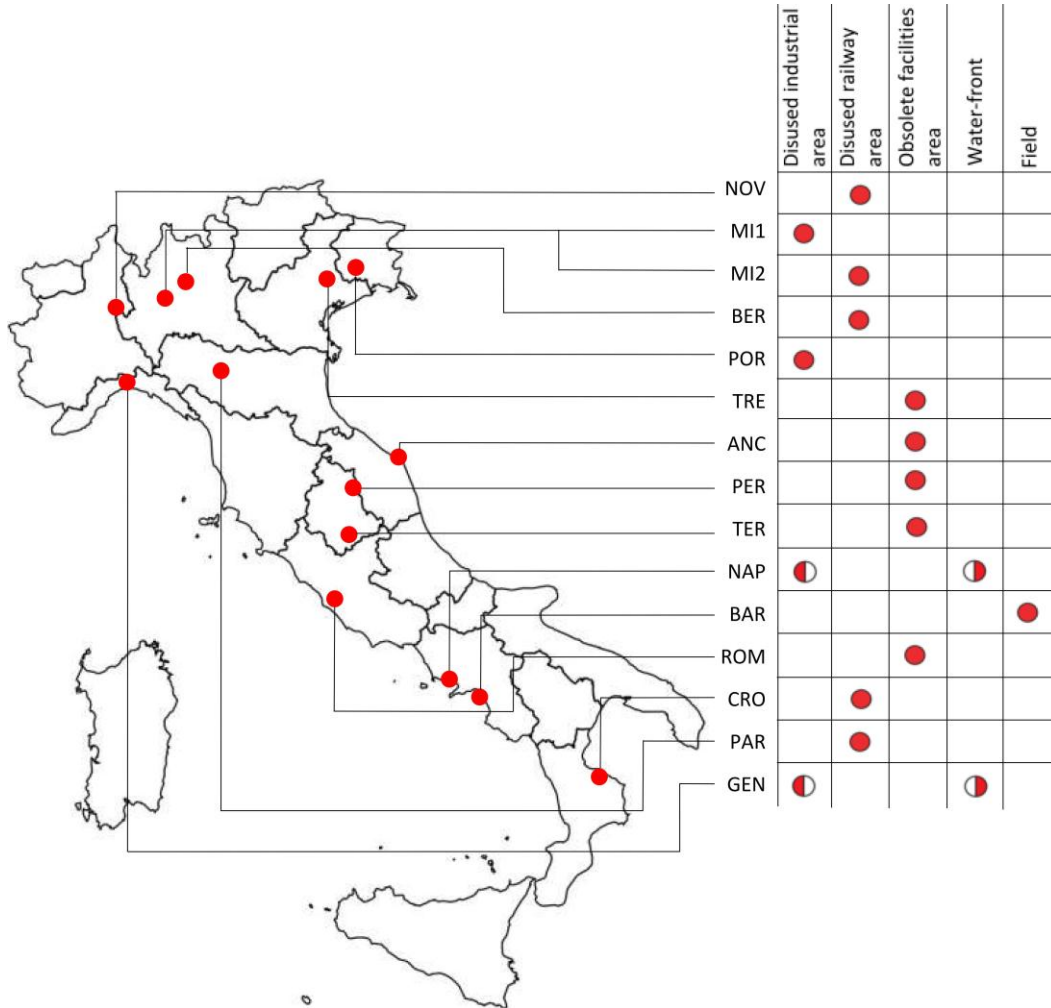


Figure 2. Case studies’ territorial distribution by R. Della Longa (2011).

For the Ferencváros intervention, a society of PPP was created based on a French model of SEM IX Ltd. The Erzsébetváros experience is different because no society was founded, so the requalification was managed by leaders and members of the Council, and the staff of the Office of the District Government, on the basis of regulatory plans and other local bylaws.

In the first case, a PPP between local authorities and commercial companies (i.e., banks and construction companies) was possible because the initiative happened prior to the privatization of the buildings confiscated by the state. Therefore, there is the presence of a large number of tenants. The buildings were later put back on the market according to well-defined market rules. A few years later, in Erzsébetváros,

privatization had already taken place, and the tenants were then replaced with small holders, who had their own interests, needs, and other income, making it impossible to create a PPP.

4 CONCLUSIONS

Comparing the Italian case studies, it was possible to notice the close connection between the PPP and urban renewal, despite all the weaknesses, frailties, and contradictions inherent to this formula. A further result is the definition of the relationship between PP (Public–Partnership) and PPP.

On the other hand, the analysis of the experience of Budapest has highlighted a different interpretation in systems where you pass from the state–as–owner to a rapid privatization. The search for a PPP based on a private entity that is still weak or non–existent seems to offer new opportunities for the creation of forms of partnership between the public and private sectors, where there are no actors (particularly private actors) even if foreign capital is available.

In conclusion, it is desirable to try to stop difficulties and problems facing PPP contracts. To this end, the Italian standard UNI/TS 11453 tries to provide technical solutions. It defines a set of criteria and objective parameters during the construction process, providing the right financing warranties to the banks. The Standard also highlights the importance of the Feasibility Study in order to find the identification and comparison, where possible, of more alternatives that would capture different ways of realization. The purpose of the rule is dual. The first is to ensure the success of the PPP project by increasing the planning capacity (i.e., the Bankability Project), and the subsequent monitoring of implementation and management of the work within certain costs and time. The second is to apply the principle of quality in the technical–economic–financial aspects of a project.

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