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## Small public private partnerships

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# **SMALL PUBLIC PRIVATE PARTNERSHIPS: THE ANSWER TO LOCAL PUBLIC AND PRIVATE NEEDS, YET AN UGLY DUCKLING?**

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Public Private Partnerships (PPP) are frequently mobilized as a purchasing form suitable for large infrastructure projects. And it is commonly assumed that transaction costs linked to the establishment of PPP make them prohibitive in small sizes. In a Danish context this has been safeguarded by the authorities, which recommend sizes over 13,5 million € (100 million DKr).

PPP is here understood as Design, Build, Finance and Operate projects. The paper shows, when looking at Germany, Italy and United Kingdom, that small PPP (below 13,5 million €) are widespread in two investigated countries; United Kingdom and Italy, whereas German projects are still emerging. Quantitative material on small PPP in Italy and UK shows no lower limit in size for these established PPPs. This apparent paradox is then qualitatively investigated. Only small projects are investigated, and these seem largely to be sound businesses and represent operable units for the clients and citizens. Cases are focused within education and healthcare.

The analysis suggests that another type of economy apparently is in play. It is thus characteristic within education projects in UK that the largest portion of small PPPs are of a size below 5,4 million € roughly reflecting the lower limit of obligatory tendering according to EU-law. Among these there are indeed a good portion of “real” PPPs.

**KEYWORDS: public private partnerships, SME, Italy, United Kingdom, Germany.**

## **INTRODUCTION**

Public Private Partnership proliferates around the globe and in a number of different contexts of national and regional economies and governance regimes (Grimsey & Lewis 2004). The financial crisis has however struck project finance and thereby the establishment of public private partnerships. A large number of banks and financial institutions (Lehmann Brothers being the most known) have been forced to withdraw from the market of private financing of the buildings and more elements of public services (Drapak 2009).

The aim of this paper is to examine the lower part of the PPP-area, namely the small PPPs. A number of public institutions would benefit from a built environment which is small in size.

Municipalities especially encompass a number of services, which, if they are to be maintained locally and close to the citizen, have to be small. Several types of purchasing and contracting would be able to meet these demands. Public Private Partnerships are however increasingly being promoted throughout Europe as a possible solution. It is commonly assumed that transaction costs linked to the establishment of PPP, make it prohibitive to make them too small. The Danish authorities are using as a rule of thumb a limit of 13,5 million €s (100 million Danish DKr., EBST 2005). There is at the same time a strong local interest in developing cooperation between private and public parties in building projects.

In the paper these results is discussed *vis a vis* the development of public policies. Those are however only presented in a sketchy manner maintaining the focus on the small PPP. For further discussion of governance of PPP see Buser & Koch (2006). The paper is structured in the following way: an initial section of method is followed by theoretical considerations of PPP. Then follow three case sections on United Kingdom, Italy and Germany. Finally a discussion and the conclusion.

## **METHOD**

This paper builds on a combination of quantitative and qualitative methods and data using a mixed methods approach (Bryman and Bell, 2007), with interpretive sociology as the underlying paradigm. Three countries were selected according to their degree of PPP development. The *United Kingdom case* is well described with a number of sources accessible. In generating the statistics on size and as source for examples we have extensively used the webdatabase of PartnershipsUK, [www.partnershipsuk.org.uk](http://www.partnershipsuk.org.uk). During a three day visit in January 2006 telephone interviews was carried out with public and private actors within health sector and education PPPs. The case of Victoria Dock Primary School is however collected from two major sources RICS (2005) and Heinecke (2002) supplemented with internet accessible information. In the *Italian case* the material stems from the national observatory, Osservatorio Nazionale Project Financing, accessible at the webpage [www.infopieffe.it](http://www.infopieffe.it). The observatory was established in 2002 and our data cover 2003-2006. We have chosen not to analyse data on small PPPs from the period 1999-2002, which is difficult because statistical data is organized in a different way. To make Italian data comparable with UK, we had to reorganize them according to difference contract and size classes, to enhance the focus on article 37 bis and quarter and on projects below 13,5 million € (which is our definition of small, see below). Moreover it should be emphasized that our figures represent work-in-progress and they need further validation. The qualitative part of the study of Italy encompasses 11 semistructured interviews with a series of players in November 2006. The case of a Sports facility presented is from Bougrain et al 2005, to which one of the authors contributed, in combination with desk research. The *German case* was developed in a slight different way as there are only a few PPPs in action. The data for an overview was gathered from a combination of private and public sources (Freshfield 2005, Difu (2005)). The qualitative part of the study of Germany was carried out in September 2006 and encompasses the development of PPP in Nordrhein-Westfalen (NRW) and the first DBFO PPP in NRW. This included semi structured interviews with public and private actors on the emergence of the state-led PPP policy as well as a personal interviews and a group-interview with the central actors involved in the first PPP project.

## **DEFINITION OF PPP -A CORE AND THE VARIANTS**

It seems hardly possible to provide a single definition on public private partnerships. Akintoye et al (2003) in their discussion, departing from a UK experience, suggests that several key concepts are

mutually overlapping, such as PPP, DBFO, BOT and others (explanation follows). As a core definition we here understand Public Private Partnerships as an arrangement where the public partner contracts to purchase quality services over a long period from a private operator. We would argue that through the evolved practice there is a propensity to understand the built environment and/or the infrastructure of society as core elements in PPP. At least this is where the present contribution focuses. Given that it is the built element of a public service which is in the focus, it makes sense to characterize it by the involvement of the private partner in the design (D), the building (B), the financing (F) and the operation (O) of the built product. DBFO is thus considered as the core here. The idea of maintaining this comprehensive scope is to assume that ownership and lifecycle involvement of the private will generate a more profound commitment for long term sustainable solutions. However a number of variants PPP contradict that. As examples in a Danish context the so-called “PPP-light”, suitable for small public and private players, is characterized by no private financing and occasional omission of design and building. The variation on financing is that the public part finances fully and the design/ build is sometimes substituted with a long term operation contract and/or possibly a renovation activity. In an Italian context, the so-called article 19 b (under the Merloni law), projects, which are general contracting with design and build activities, encompasses an element of financing from the private part, but no ownership nor operation involvement. These two examples show how local contexts reshape and challenge the general basic ideas and finds fertile grounds in their countries. The differences moreover illustrate that comparing costs and other features across national settings is problematic. Neither of the two examples is in our opinion close enough to DBFO to justify comparison, and we therefore elaborate a sample of Italian projects which posses DBFO and we do not take the article 19 projects on board. In a broader perspective PPP is part of a reform process of the public sector department from classical government to mobilizing and networking with a range of partners (Buser & Koch 2006). New public management initiatives are central in this process. But another important issue is the recognizing of the increased need, due to product complexity, for exploiting complementarily amongst players, be it in networks (Hakansson & Johansson 1993) or as other new form of organization and governance between market and hierarchy (Williamsson 1975, 1990).

### **The establishment cost – is there a lower limit for accountability?**

It is broadly recognized that established PPP-s involve increased costs for the parties in the initialization phase. With reference to transactions costs it is assumed that there is a lower limit value balancing initial additional costs with cost reduction in build and operation. This assumption is usually built into the calculation of the feasibility of a PPP (for example in comparators as the British, the Dutch and Danish version). There is however quite some uncertainty in these calculations and it is therefore important to “reality check them”. In 2003 the British ministry of finance (HM Treasure) published the report “meeting the investment challenge”, critically discussing small PPPs, which here meant projects below £20 million (27 mill. €). HM treasury investigated a number of practically operating PPP (35 projects). The main findings were (HM Treasury 2003):

- Construction and operational performance were good, in line with larger projects. Over 80 % of projects were delivered on time or early, and over 90 % met client expectations.
- The procurement process for small projects was of comparable length to that of major capital schemes. This indicates that, in relation to capital investment undertaken by the schemes, procurement times are disproportionately long, and procurement costs disproportionately high.

The Government therefore signalled that they in the future would consult on an appropriate minimum level of capital expenditure below which alternative means of procurement should be preferred (HM Treasury, 2003:77). HM treasury describes the problem of initialization costs like this (HM treasury 2003 p53):

“All PFI schemes face the cost of using third-party finance and small schemes typically face the same level of legal and technical documentation, complex due diligence requirements and financial modelling that lenders require for much larger projects. As result, the costs of private finance are relatively higher for small schemes”.

In 2005, The Scottish Further Education Funding Council (SFEFC) suggested that PFI should be abandoned for projects less than £30m, following a catalogue of problems with PFI for further education projects in Scotland. The Auditor General for Scotland warned of the financial problems facing three small PPPs Inverness, Lews Castle and West Lothian Colleges in a report to a Parliamentary Audit Committee in 2005. The Danish EBST (2005) study carried out by KPMG adopts the 100 million DKr limit in its market survey and thus contributes to enforcing this limit.

## UNITED KINGDOM

However it turns out that small PPPs are rather common. In the Partnerships UK (2006) database 700 Private Financing projects are listed. Out of those 261 projects are below 10 million £. Moreover a possible lower threshold value does not seem to be visible:

<b>Budgetsize (£), small PPP</b>	Projects	Operational
8-10 mill.	38	21
6-8 mill.	31	23
4-6 mill.	34	28
2-4 mill.	76	66
0-2 mill.	82	68
Total	261	206
under 4 mill.	158	

Table 1: Small PPPs in UK ordered in size classes below 10 mio. £.

“Operational” means that the PPP has reached the operation phase, whereas “project” means that the PPP is established, but still in the design build phase. Source PartnershipsUK accessed in 2006.

This table shows that there is not a clear limit value such as 13,5 million € or lower. If these figures show any limit, then it is related to European tendering law, which makes tendering obligatory for public players around 4 mill £. The change in government politics in 2003 had profound consequences for small PPPs however. Very few projects have been announced since then.

According to Partnerships UK database, 2005 and 2006 have had no such small projects. Simultaneously the tendering of bulk-PPPs, bundled schools for example, have developed. Over 40 bundled projects are by 2006 registered in the Partnerships UK-database.

### **UK Single case: Victoria Dock Primary School**

The Private Finance Initiative (PFI) was established in 1992. The Victoria Dock Primary School realization began in 1996. The school is a primary school in Kingston Upon Hull in eastern England. A new city development, in a previous industrial area was established without a school, to the discontent of the new citizens. The local municipality consented to the opinion of the citizens and administration began preparing a "business case" and the comparator calculations (Public Sector Comparator, PSC). In the first tendering several bidders competed, but it was Sewell, a small local company, which was selected as preferred bidder. Where the first calculations of the PSC gave a discomfoting result, the municipality chose to emphasize local employment, which was not included in the PSC. Moreover the public part of the financing was increasing.

Sewell is a medium sized family owned company operating within construction and maintenance. Sewell had previous to its PFI engagement a yearly turnover around £10 mill. The company at that time had app.120 employees within construction and facilities management, while sales of gasoline employed 80 persons. Sewell had before the Victoria Dock-project failed on a hospital-PFI, where they not deliver a qualified bid, after which they realised the need for additional external expertise.

The Victoria Dock-project posed in the beginning some difficulties, and during the contract negotiations even the external experts were in doubt on how to describe the conditions for an education project. Especially the risk distribution caused problems, which made Sewell's bank connection abandon the project. The project includes financing, design, construction as well as operation. The financing of the first part was shared between the private and the public part, as the state supported the municipality with 20% of the finance of £200.000. This was necessary to establish a satisfactory economy, according to calculations based on the comparator. On the private side, Sewell themselves entered the project with £250.000, while the remaining part of the total investment (£1 mill.) was financed by a bank loan.

Design and construction was handled by Sewell, who used its expertise from former school projects and designed the school aiming for long-term operation, energy savings and prevention of vandalism. An operation company was established, taking care of maintenance of buildings and site, security, window cleaning and delivery of IT-hardware. A kitchen was built on the school, but the municipality wanted to produce the food elsewhere, and did not keep this function. The first stage, which included 60 pupils and a child-care class for 26 pupils, two classrooms, a playground, sports facilities and administration, was ready for use on January 1999. After this, two later stages (until 2003) have extended the school to 240 pupils. The operation company rents the site from the municipality on a 40-year basis, but with the clause that the buildings can be used for other purposes after 25 years. Sewell assessed that they could obtain 10-15% interest p.a. of the operation company, compared to 5% p.a. by a traditional bank deposit, making the operation company deliver a long-term stable money-stream. The school has been well-functioning and has experiences an increased demand, also outside the original target area of the new neighbourhood. Sewell has incorporated a "community dividend" in the contract, implying that the school receives a share of the surplus from the operation, which in 1999 amounted to £5.000 and in 2000 £35.000.

The operation company has taken over all traditional risks related to building operation, but there are clauses on the development in education- and health-law where the municipality carries the risk. The contract is based on access of space and performance. Therefore insurance has been signed, covering the company against illness amongst the staff (which influences on the performance of the company), vandalism and other risks. The financing of the insurance is part of the operation budget. In the programming- and design-phase some expenses grew drastically, which the company has to carry, and in general the project is more expensive and problematic than normal public building projects in the initial phases. The larger expenses on this stage therefore must be collected by benefits in the long-term operation of the buildings.

In 2005 Sewell expanded its portfolio to another and far bigger PFI-school project in the York area. Sewell underlines its position in the area, and extends its competences. Here, Sewell has employed local staff, and as this company is located in short distance to the Victoria Dock School, the possibilities for offering good maintenance service are better. Such benefits are not included in the mandatory comparator calculation (RICS, 2005). The school at Victoria Dock has almost become an icon of PFI and is counted as one of the first PFI-projects within education.

## **ITALY**

The Italian PPP was established in 1994 under the so-called Merloni laws (Bougrain et al 2005) Project financing is an instrument for financing a public service project while generating cash flow so that the financial (private) party obtains revenue of the investment. The legal form of PPPs used in project financing are under the articles 37 bis and 37 quarter of the Merloni laws with subsequent revisions (four of them in total). Within this model, the concession licensee undertakes to build, finance, manage and hand over the facility to the employer once expired the concession period which is typically around 20 years (however some projects, parking facilities use concessions up to 80 years (ONPF 2005). The first crucial point is the definition of an economic-financial plan showing the project capacity to generate reasonably certain cash flows in order to refund providers of both loan and venture capital. This implies the ability of defining and evaluating the components of operating cash flows: building costs, running operating costs, and operating revenues. The project financing (PF) procedure has two main phases, where the first is usually a proposal phase where private developers can describe and submit projects on developing public services, on the basis of the announced three year plans from the various public authorities. A project company is established by the project developers, with the sole purpose of carrying out and managing the project. All rights and obligations relating to the investment pertain to it. All actors involved, whose number can change depending on the interests involved, the size of the project and of its complexity, revolve around the project company. Apart from the design, build, finance and operate the project finance initiative also encompass other forms, design built contracts and concessions.

The focus here is on the 436 projects in phase 2 in 2003-2005. According to the quarterly reports from these three years the following are below 13,5 million €. In 2003, 51 project contracts were signed of either article 37 bis or articles 37 quarter. In 2004 the same figure was 61 and in 2005 it was 162, a total from these three years of 274 below 13,5 million €, compared to the total of 436 project in the same period, which is more than half of the projects.

Amongst these parking facilities, graveyards and sports facilities are the most widespread. It should be noted that these three types also are realized in a large number of general contractor/ design build- projects (art 19 bis). In the area of public parking, for example, at least ten firms have

specialised in” building and management of parking facilities”, making a strategic reorientation of their business. However some small players and companies only enter the area occasionally. The large specialised companies use standardisation of the process to reduce the costs of establishment.

### **Italian Case: Cividale del friuli**

Cividale del Friuli, a small municipality in the vicinity of Udine in North-eastern Italy wanted to establish improved sport facilities. The municipality is small with 11.200 inhabitants. The sport facility in the main town of the municipality is an early example on the 1998-projects. It consists of three buildings, the first and largest is a sports hall on 4.600 sqm., for 3.000 spectators. The other two buildings contain other sport facilities, including a handicap centre, support functions, a discotheque and a bar. The initial contact between municipality, contractor and designer was established in November 1998. The municipality was originally interested in further development of its sport facilities, as a neighbouring municipality had taken the same steps with the same contractor and designer. The municipality wanted to use the possibilities for PF-financing, as they were not able to finance the facilities on their own. In the first project proposal, the expenses for the plant were estimated to 5,96 mill. € with an annual operation budget on 361.000 €. At this stage the finance was prepared in collaboration with a bank, but no other consultants were used. The private main partner, SACAIM, a middle-sized contractor with 400 employees, operates mainly regionally in Northeast Italy. SACAIM used the PF-model as they contended they had good chances of winning the contract. At the same time, they assessed that the costs for preparation were approximately the same as for a traditional building project. SACAIM had established collaboration with an architect company, to assist them. After the development of a project proposal and completing the public tender, the municipality found out that the common operation company would be able to take over parts of the administration related to collaboration with sporting associations and others, who were going to rent parts of the facilities. The architect realised that the reference to projects in the neighbour municipality would mean less problems with the quality of the design in the process. At the same time, the combination of design and operation over 32 years in the contract gave possibilities of using other materials in the design that would traditionally have been suggested. Finally SACAIM were right in their assumption about competitive advantages, as no other bidder reacted on the public procurement (this is accepted in the Italian PF-law from 1994). During the construction phase the partners agreed to modify the contract, increasing costs to 6,37 mill. € and the operation budget to 384.000 €. There were especially difficulties of rentals of the large sports hall. Therefore the partnership was extended with more sports facilities, to secure more rentals. Construction finished in 2003, and the 30-year operation phase started.

This PPP includes financing, design, construction and operation. The financing is shared equally between the private and the public part, and the public part is split equally between the region and the municipality. Design and construction was carried out by the architect and the contractor. Already during the construction phase, the operation company was established, contracting with sporting associations, restaurant keeper and others. The operation company administrates the sports hall within the framework of an “administration package” of 500 hours annually, containing cleaning, tickets sale, admission control and others. The contract settles rentals for the facilities and prices for the operation costs (heating, payments and others), and these can be re-negotiated each year. The municipality pays a so-called rent guarantee, which is a contribution to the rentals (75.000 € per year) and is committed not to create competition to the sport facilities through its other sport facilities. The private part must find its surplus from the administration contribution, fixed at 177.000 € per year, and / or on the operation of the discotheque, bar and restaurant. The latter is in

practice limited to a square meter-based rent for the operation company. The two large expenses for the operation company are paying for the loan (207.000 €) and to accomplish the administration package. The public and the private part agree that the risks of the project are mainly carried by the private part. The risk distribution during operation implies that the operation company's risk is limited by the rental guarantee and the agreement on no competition from the municipality's other sport facilities. Also, there are no limitations on the use of discotheque, bar and restaurant.

The public part assesses that the chosen project finance has delivered clearly less preparatory work, compared to traditional procurement. The assessment of the bid from SACIAM was more thorough than normally, but the balance between advantages and disadvantages are expected to clearly improve, when it becomes an integrated part of the administration. SACIAM estimates that the bidding preparation expenses were 30-60% higher compared to traditional procurement. This is outbalanced by the strategic advantages entering the area, and enabling a learning process.

## **GERMANY**

After the German reunification in 1989, public spending in buildings and infrastructure decreased drastically. This includes federal, state and municipal levels. For instance, investments on federal level in 2005 were 59% of the investments in 1994. A similar decrease has taken place on municipal level where investments were reduced by 43% between 1992 and 2004. At the same time, the budget deficit in German cities increased (Boll, 2006). This has led to a large investment gap in buildings and infrastructure. Therefore PPP has been seen as an alternative route to these problems. There are a number of different PPP-models being used locally and on different administrative levels in Germany (Freshfields, 2005). This reflects the decentralised administrative structure in Germany, where there is no central authority to approve PPP-projects, decide on certain procedures etc. Here we want to focus on DBFO projects, but a 2005 survey concluded that about 200 projects were completed, and about 300 new projects were about to be planned or implemented (DiFU, 2005). These include projects with at a broader interpretation of PPP. According to Lohmann, (2006) until now, 31 projects using a DBFO-model has been completed, and 116 projects are in preparation. This compares approximately 15% of the total portfolio of PPP projects. Amongst those we found at least six below 13,5 mill euro, this include four school projects; Bedburg, Engelskirchen, Northeim Vocational School and Witten, one sportarena (Munster) and a parking facility (Bundeswervaltungsricht) (Fischer 2006).

### **German Case Paul-Kraemer School in Frechen.**

The Paul-Kraemer School in Frechen was the first PPP-school project to be completed in Germany. It involves planning, building, financing and operating of a special-needs school-cum-gymnasium and a three-court gym close by. It was procured by the Rhein-Erft-Kreis (county), and was also a pilot project of the North-Rhein-Westphalia PPP-Taskforce. It is financed as a PFI-project with an investment volume on app. 15 mill. € and a total project volume on 48 mill. € (including operation in 25 years). It was completed in September 2005, and has been in operation since then.

The first step was to make a comparator (psc)-calculation of the project, which was carried out by the consultant. This showed that savings between 2% and 10% should be expected, compared to traditionally procured projects. The bids that were received showed savings on 10%, which justified the assessment from the comparator-calculation. The planning and building period was only 18 months (of which 12 months was for construction), which is much faster than for similar building

projects, which increased the benefit to 12% (according to the pcs-calculator). The school was not 100% finished, as there were smaller details missing, but it was ready for use. The procurement was output oriented, i.e. based on the demands for the functions the buildings should deliver, and not the specific details (except in very specific situations). For each room an out-put description was made. Describing these demands was not a problem, but demanded a lot of work. To prepare the county and school-team for specifying outputs, a study trip was arranged to a new school. The awarding procedure began with a public tender, in April, 2003. There were 15 bidders that showed interest in the procurement, but only 5 handed in actual bids. From these, the bid from the VICO-consortium was selected. Before the awarding it was decided to weigh price by 50% and the “soft” parameters (architecture, quality etc.) by 50%, and on both points, this was the best project. “It spoke to the heart”, as the school director put it. The contract was signed in February, 2004, with Hochtief/VICO and 18 months later the school and the gym were handed over to Rhein-Erft County.

The school-board and the county are very satisfied with the result. In general the quality is higher than comparable schools, and there is more space per pupil than traditionally. This is important as there are many wheel-chair drivers in the school, for whom sufficient space is essential. In a traditional procurement the school-board would have to “fight for every square meter”, which would require many and long negotiations with the state. A main reason for the satisfaction is that the school-board was involved from the beginning of the project, and has participated in every meeting. This has developed a real ownership and a lot of identification with the project.

The operation of the school includes housekeeping, i.e. cleaning, secretary, catering and outdoor areas. Hochtief takes care of these functions, except elevator-maintenance, fire-conditions, catering and gardening. These tasks, Hochtief has contracted to local firms, which was also a political demand. According to the contract, breakdowns on the school must be fixed within 2 hours. This is often a strong incentive for the facility manager to enter with local firms, but in this case, Hochtief’s headquarter is located in Cologne, which is just a few kilometres from Frechen. Hochtief has placed a secretary and a janitor at the school, to which the users can contact for practical daily questions and reports on problems and break-downs on the building and equipment. In the contract, a detailed list of assignments is described for the hausmeister.

## **DISCUSSION**

Our quantitative and qualitative material reveals quite a vivid “subculture” of small PPPs in the investigated countries.

Sewell, the UK example of a PPP-contractor, departed from the experiences in building and operations. Sewell decided to enter as long-term financial partner with the local municipality on the basis of the 90ies crisis, as well as the project broke with many small construction companies narrow trade-focus. From the example it is also clear that the PFI-arrangement demanded a good bank connection and counselling. After the establishment of the PFI-arrangement Sewell has managed to integrate their business-areas and has been able to use this as a lift-off to achieve another school-contract. As a broader UK trend it seems that *small PPP-s was “talked away”* by HM treasury in 2003. The use of bundles in schools projects as well as the healthcare example of LIFT, does represent further initiatives to provide local and small public service infrastructure. The legal framework for PPP in *Italy* was opened with new possibilities and barriers in 1999. The PFI-option opens a new pathway for the local actors, which especially the private parties (i.e. contractors a.o.) have taken up and small PPP are central in this trend. From 2000-2005 Italy have

experienced a very remarkable growth in the proposals from the private side. In our single case Project Financing is perceived of, especially by the public part, as a simpler method of working, where work can be outsourced to the private part. The possibility of accepting only one bid, and reject an architectural competition was also important. Finally, a relaxed interpretation of the rules on re-negotiation from the public part contributed to enabling a reformulation of a more realistic project. All partners tried PF for the first time. The experiences from the operation period are still limited. It can be noted that the small local administration and the relatively small regional company largely managed the process – with support “only” from the bank and the regional authorities.

The Italian small PPPs are parking facilities, graveyards and sport facilities, thus markedly different from the UK healthcare and education dominance. The Italian case is thus showing an innovative alternative to UK both in content and in size. The two countries does share however that small PPPs can be realized by a range of different players and do not by themselves assure small local enterprises to be central. As we have pointed out, the PPPs in UK, Italy and Germany still represent a fairly new development with restricted experiences from the long operation phase. It derived from our cases as well, that public and private players have engaged in these projects – also- because learning from first examples was an attraction. It thus clearly plays a role vis a vis a more narrow economic and cost oriented understanding. And this willingness to assign broader, purposes to the first partnerships, create another balance in the costs and benefits.

A further aspect is the element of voluntary innovation. Von Hippel (2005) points out that new products and processes also come about because users (in a broad sense) actually engage in the development. And they do this in a way which does not follow private profit motivation, or collective action models. Von Hippel sees the strength in user driven innovation in its ability to mobilize hidden and informal resources in the innovation (Von Hippel 2005). Applied to PPP it means that private and public actors engage in realization of PPP without expecting or demanding a narrow reward and that this alternative economy removes barriers.

## **CONCLUSION**

This article investigated an apparent paradox of small Public Private Partnerships. On the one hand classical economics would tell us that under a certain size they are not feasible. Yet on the other hand, the two markets discussed, UK and Italy, exhibit a very large number of small PPP and our third emerging market, Germany have already got several small PPPs. In this way the players seem to overrule the economical concern. We explain this by pointing at three conditions: First there seems to be another economy, than the one suggested by transaction costs. Second, it is likely that the players protect the first experiments to enable learning, which would imply that the small would die out as we witness in UK. Third that small PPP might continue to be established as voluntary innovations, which is long term attractive for the actors. The implications of these findings is that new national communities engaging in PPP could be more focused in enabling this type of user driven innovation and thereby contribute to maintain a local structure in the European public sector. It appears that local public units endeavour in PPPs because they have local needs to be met, they are attracted by the innovation and the companies partnering with the public side seem for a large part to be willing to see the small projects as incubation process, where special conditions can be defended in order to develop competences. Neither Italy, UK nor Germany has sufficiently profound and longitudinal examples to rule out this thesis of incubation or insist in the voluntary innovation explanation. Interestingly the central governance initiatives continue to focus elsewhere making the incubation more of an ugly duckling infancy than something strived for.

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