

## EUROPEAN PUBLIC PRIVATE PARTNERSHIPS IN A GLOBAL WORLD

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### Abstract

**Complexity is increasing in both architectural and urban design. There is a strong demand for expertise, the objects are more complex, risks are higher, and end users are more demanding. In order to answer collectively to this situation, stakeholders implement collaborative standard procedures leading to various types of partnerships, especially between upstream (customers, designers) and downstream (builders, facilities managers, end users) expertises. At the same time, facing the financial disengagement of governments, the public sector needs financial partners and looks forwards to transfer parts of its responsibilities. This contributed to the emergence of new financial stakeholders and to stronger downstream management.**

**To meet the constraints of this new environment, Public Private Partnership were created in U.K. in 1992. The EU Service Directive extended the scope of this public procurement system by redefining “public services” as “general services” that can be provided by public or private entities. Most European countries have adopted PPPs to varying degrees. In France, there is still a heated debate and some people oppose the system, particularly the designers. Yet, the whole European urban environment is slowly being privatized. Private companies use and create the urban space. Services are managed by private operators. Globalisation leads to a fierce competition between cities. Architectural and urban development projects are entering the financial and marketing sphere. They are confronted with new constraints called: profit margins, current assets, risk coverage, and stranger words like “*branding*” or “*naming*”. The merchandizing of urban design and architecture questions the role of culture, sports events, university, and their *derived products*, in Europe and in the rest of the World.**

**Keywords:** Public Private Partnership; Collaborative Design; European Union; European Cities; Globalization.

### Partnerships and Dynamic Professional Collaboration

#### *A Growing Complexity*

For several decades, project management had to meet increasingly complex challenges. Nowadays, architectural and urban design requires the participation of a growing number of stakeholders with wide ranging competences and skills. They are assigned tasks and responsibilities in a production process meandering through an increasing number of political and administrative obstacles. In addition, the objects to be designed are becoming more complex: they now include a variety of integrated services and must evolve over time, which poses additional engineering challenges and functional difficulties; their self-regulation requires the use of sophisticated technologies. The collective and individual responsibilities of the decision makers are also heavier, from an economic, social, environmental, or political point of view. Risk prevention is now part of the decision-making process. End users play an increasing role in feasibility studies, negotiations, and decision making processes. This again contributes to

the project complexity. Similarly, the need to take into account the future performances of the structure during its full life cycle requires the participation of the downstream stakeholders in the whole design process.

### *Collaborative Design and Partnership Process*

This increased complexity forces the various design participants to collaborate more efficiently. Collaborative design and negotiation facilitate the dialog between professionals working on the same project. Meeting the challenges of public policies, planning constraints, project strategies, and residents' expectations, is now a concern shared by all the stakeholders. Collaborative design has become a sustainable issue. It provides a way to find a common thread between opposing logics: between long term and short term, global and local, public and private. Furthermore, in the current competitive and global environment, urban and architectural design must feed on innovation. In other business sectors like car manufacturing, aerospace, or cultural industries, the innovation process is a collective effort. Car manufacturers are developing co-innovation strategies with their suppliers/subcontractors to increase their creative resources (Christophe Midler). Finally, risks (as mentioned above) and uncertainties threatening the projects are controlled via a negotiation process that takes place at the same time between the design professionals themselves, and also between the latter and laymen stakeholders such as politicians and users. This is why manufacturers and politicians alike use "hybrid forums" such as « *focus groups* » to dispel some of the project uncertainties (Michel Callon). A double flow of knowledge and know-how is thus created between upstream (the client/designer couple) and downstream (builders, managers, and life cycle experts). Collaborative design, co-innovation, co-experimenting bring designers, customers, companies, managers, and users closer. This translates into various types of partnerships based on local regulatory specificities, on the scale and complexity of the project, on the urgency level and risk exposure.

## **The Development of Public - Private Partnerships**

### *Reduced Government Funding*

As clients (project owners) were feeling the burden of increased responsibilities, mainly due to the strong political content of local projects, they started looking for partners to help them fund their projects and take away part of the technical and financial responsibilities that were becoming too burdensome. As public authorities were pulling back and wanted to transfer the risks to third parties, they turned to the private sector in their search for partners. Independent engineering firms do not offer the financial guarantees required in large projects of that scale. Partnership policy contributed to establish the leadership of multinational building firms looking for new markets in their national territory and in export markets. In recent years these firms were the object of a number of mergers and acquisitions in order to channel their resources back to their core business. As a consequence they outsourced non-core activities to independent service providers. They used subcontracting agreements, alliances, and partner networks to broaden their offer of services. These parallel strategies, born from the withdrawal of public authorities and the search for private financial partners, accelerated the development of partnership agreements between public authorities and private operators. As a consequence new financial players entered the market. While the financial clout was shifting from public to private sector, the private financial partners imposed their rules on a sector which had not endorsed them yet. A growing number of architecture and urban planning projects must now provide answers to issues like: profit margins, cash flow, risk coverage, and globalization.

### *Heading Towards Downstream Management*

Public clients are increasingly looking for *facilities management* services as they are concerned by the future consequences of the design: maintenance, future refurbishing, and upgrades, etc. The growing attention paid to these tasks linked to use and life cycle, led to the development of various types of contracts. Despite their different legal makeup, all these contracts are based on a concession granted for a certain period of time, by a public organization to a private operator who takes full responsibility for the building, from design to construction and operating phases. Until now, these contracts were mainly used for large scale projects and were often legitimated by urgency and better risk sharing with the private partner. In fact, these procedures can be used in all the contracts awarded by public authorities. They are well suited to building and urban development projects. As they are becoming widely accepted, the resulting downstream impact on all the architecture and town planning projects will significantly change the production process and its stakeholders, the designers in particular. People in charge of facilities management and maintenance will be much more involved in the decision making process. The tasks of clients and architectural design will undergo major changes, leading them to a performance oriented approach and to a collaborative implementation of the project processes. The client / designer relation is supported by two new functions: a financial function provided by real estate professionals and financial specialists (*equity managers*), and a service function provided by the people responsible for maintaining and operating the building (*facilities managers*).

#### *A Parallel European Evolution.*

The GIS Directive (General Interest Services) initiated by the E.U. Commission promotes the replacement of the Public Service principle by the concept of General Interest Service that can be provided either by a public or a private company. It is now called "SGEI" ("Service of General Economic Interest"). The phased introduction of the Directive in E.U. countries, in spite of the criticisms voiced by some (we will forget about the ridiculous argument about the Polish plumber that made the headlines of the French media a few years ago), induced a liberalization of the public service sector and brought significant changes to many aspects of the European public culture: transport, telecoms, distribution networks for instance, are increasingly managed by private companies. For urban planning projects in France for example, public companies, which were the main vehicle used by local government agencies for land acquisition and urban development, are now competing with private real estate companies, calling into question the sometimes feudal strategies of certain local governments.

### **The emergence of Public - Private Partnerships (PPP) in Europe**

#### *The British Model*

The British PFI (Private Finances Initiative) model appeared in 1992 (at a time people were talking about: *individual partnering* or *multi-project partnering*). This type of contract covers roughly 15% of public investments in the UK. The initial objective was to find funding for public infrastructures but soon it became a deliberate attempt to change the nature of the relations with private companies in order to reduce the risks carried by the end client, and let the concession grantors cover these risks. The arguments of British authorities in favor of the PPP system are well-known: speeding up of the process with a pre-financing for the project realization, innovation which benefits the community thanks to the dynamism of the private sector, total cost of ownership approach, performance guarantee over time, and risk sharing between public and private partners, each of them covering the risks that it controls best. When the system was adopted there was a debate on the contradictions in the system between the client's search for improved profitability and the reduced competition resulting from the PFI (Graham Winch). Some claimed that companies would not be ready to align design and costs; that marketing would take over and that the lack of trained project managers and subcontractors would become problematic. The role of the project manager on the other hand would not be seen as an added-

value but as a separate mission governed only by intellectual property rights. Nevertheless, the system has been spreading in recent years and is now used in a large number of economic sectors. UK showed the way and European countries are gradually adopting the system while adjusting it to their own legal environments.

### *A Procedure That is Spreading Throughout Europe*

In 2004, the European Commission released a Green Book on PPP. Here is the definition of PPP given by the Commission: “*type of cooperation between the public authorities and the corporate world aimed at insuring the financing, construction, restoration, management, or maintenance of an infrastructure or the supply of a service*”. Most European countries copied this procedure, more or less, making adjustments to their local environments. The institutional and legal framework, the design process and even the terminology differ from country to country, as they follow the national administrative procedures and professional rules in force. It is difficult to compare one country with another, but the political and business management of these projects contributed to a progressive standardization of the procedures. Even when the definitions and the underlying business models are different, the PPP system is increasingly seen as a complex procedure focusing on the life cycle analysis. Furthermore, beyond the objectives of budgetary optimization and economic efficiency (« Best Value for Money »), the need to modernize public administration also appears everywhere. This is particularly true in Central and Eastern European countries, which joined the EU recently. They are short of funds and must clarify a legacy of ambiguous relations between public and private sectors. With the exception of the United Kingdom, which deployed PFIs in most economic sectors, the rest of Europe first used PPPs to develop transport infrastructures (railway tracks and rolling stock, airports, roads, and highways, etc). Now, a number of public facilities like hospitals and prisons are built with PPP contracts. The university renewal programs planned in several countries are also considering the use of this type of procedure in the coming years.

### *The French Situation*

France authorized public-private partnership contracts in 2004 and extended them in 2006. Preliminary experiments took place, generally in the form of concessions, with entities like « Aéroports de Paris » or for large projects like the « Stade de France ». Various procedures were used with questionable results, mainly for public procurement contracts awarded to public works companies (METP), and for “design and build” calls. The example of « Val d’Europe » in Marne la Vallée, a project born from negotiations between the French government and the Walt Disney Company, is representative of the way new relations were developed between public and private sectors, in a French public planning environment that was not particularly prepared for such alliances. Overall some 130 PPP projects could be identified in France at the end of 2007. So far, 27 of them have ended in signed contracts for a total investment amount of 500 million Euros. These contracts deal mainly with transport infrastructures, urban facilities, and buildings for the penitentiary, military, cultural, and hospital sectors (for the latter, the contract took the form of a Hospital emphyteutic lease – « BEH- Bail emphytéotique hospitalier »).

The legislative and institutional debate is not over yet in the country. The 2004 Law provides that these contracts must remain an exception to the rule and are restricted to urgent or complex projects. With the recent vote of a new Law (July 08) the government tried to extend and even generalize the practice to a large number of sectors, identified as priority sectors: universities, research, environment, transport, urban planning, construction of schools, etc. The Constitutional Council partially cancelled the Law (July 24th, 08), considering that generalizing this type of contract was against “an equal access to public contracts, the protection of public property, and the proper use of public money”. Moreover, they introduced a third criterion making it possible to

use PPPs when the benefits v/s drawbacks ratio is higher than with any other type of contract. This refers to the concept of evaluation, with all the problems linked to that approach.

### *Debate and Criticisms*

PPPs are the object of a heated debate in France and in other UE countries that resist its general adoption for a number of reasons that differ from one country to another. Certain countries object to foregoing their national standards, in particular in France where there is a tightly regulated public procurement system (Code des Marchés Publics). A number of issues are hotly debated everywhere: the lengthy negotiations with their huge costs, protection of property rights in collaborative projects, and lack of performance indicators to assess and compare completed projects. Some argue against PPPs because of the overall increase in project costs, caused mainly by the increased risk coverage of private operators. Another risk identified relates to the post-contractual period and the sustained service performance level. Conversely others lean in the favor of PPPs because they favor design processes that are less sequential and linear, but more interactive and more collaborative. They also stimulate the development of new skills, in particular in the project planning and mediation phases during the contract negotiation and design work.

A number of professionals criticized the new system. Architects were the most critical, but SMEs (Small and Medium companies) were also concerned with the burden of new procedures becoming too heavy, too long, and too expensive. Designers fear losing their responsibilities, they are no longer involved in the selection of the team members during the bidding phase. They fear losing their direct contact with the client responsible for the final decision. One of the main criticisms of PPP projects is based on the risk of producing a succession of standard projects. The PPP system itself requires the use of standard procedures, contracts, management methods, specifications, and assessments. One may wonder about the consequences of this standard approach on the quality delivered. In other words, does the concept of "Best Value for Money" kill creativity? Does the system lead to quality architecture and innovative solutions? Or does it turn architectural production into a routine activity? So far, results are not completely convincing, but it is not sure that the procedure itself is the culprit either. In many cases it seems that the briefing and the preliminary design work was not always properly carried out by the end client and this impacted the whole design. PPPs do lack flexibility. The heavy decision-making process for technical and economic issues does not facilitate later reviews of the project objectives. This may also impact the definition of the expected quality level.

It is proven that PPPs promote team co-optation, access to public procurement for large agencies that are well organized, and appear reassuring to the financial partner. They also facilitate access to public procurement agencies specialized in the object of the contract, thus limiting the risk taking, and to engineering firms with enough financial clout to undertake expensive studies without getting paid quickly. The perception of architectural quality appears to be changing. It becomes a component of the marketing presentation by the real estate operator and it must provide a financial return as well. It must appeal to both the building owner and the financier. Unfortunately they may not give the same meaning to the word « sustainability ».

## **Public - Private Partnerships and Globalization**

### *Cities are Being Privatized*

Looking beyond the PPPs, European cities are now becoming the object of privatization. Companies create and use a significant part of urban space. They are managing an increasing number of public services like water distribution, energy supply, waste collection, and most of the environment services. They are usually granted a concession to provide the service. Often they

become full scale urban partners in the management of cities and contribute to their economic development, as residents, service providers, and financial partners via the taxes they pay and the investments they make. More and more local authorities call on the financial and organizational skills of private companies for innovative and complex projects. Private companies are frequently awarded the management of urban development projects formerly entrusted to public administrations, including projects located in tough suburban districts, or for social housing projects traditionally carried out by specialized public operators (Isabelle Baraud-Serfaty). Private operators are used to boost the image of dynamism that cities want to project nationally and internationally.

### *Global Competition*

As competition between large metropolises is getting tougher, cities feel the need to enhance their force of attraction on companies and residents, by offering better services and better living conditions. Public areas, cultural facilities, transport networks, schools, recreational centers, retail shops, all contribute to the urban environment quality. The city's image as projected in international media, on the world stage, is the key to success in its attraction strategy. Buildings designed by famous architects, prestigious urban developments, renowned cultural facilities are also part of the strategy, as well as the annual events scheduled by most cities: festivals, international exhibitions, sports events, congresses. These became the object of a fierce competition between cities, leading them to fight for the services of private operators of national or international fame. Bilbao played pioneer in that field with its daring « reconquista » strategy to regain its role of regional capital, when it commissioned Frank Gehry to design the Guggenheim museum, which became the emblematic icon of its revival. In no time the project fame spilled over the borders of the Spanish Basque Country. Similarly Barcelona took a major step when it launched an incredible urban planning effort after being awarded the Summer Olympic Games in 1992. There are many examples of architectural or urban projects undertaken in Europe and in the rest of the world to boost the cities' image and attraction. Results were not always in line with expectations. The best known examples are: the ambitious projects of Seville and Lisbon for the World Fairs hosted by both cities: or the *Spina* project in Torino, centered on a high speed train railway station built for the 2006 Winter Olympic;; or Beijing's efforts to promote its Olympic Games: or Shanghai's plans for the 2010 World Fair.

### *Urban Merchandising*

Recently the Louvre Museum made headlines in France. Following in the steps of the Guggenheim museum in Bilbao and Venice, the French museum offered to build and manage, for thirty years, a museum bearing its name in the Emirate of Abhu Dhabi, at a cost of 1 billion Euros. The promoters of a major real estate leisure project located in the Saadiyat Island (it is part of a gigantic tourist center intended to redirect the whole economic development of the country) want to create a huge "cultural project" with the construction of four museums and an entertainment center which will become the island's "cultural district". The plan is aimed at boosting the international prestige of the project by calling on world famous names in the museum culture. This is what is meant by « merchandising of urban space ». The concepts of "landmark projects" and their "derivative products" are now part of the urban planning and architecture vocabulary. The agreement signed between the city of Lyons and Emirate of Dubai is another example. The Emirate wants to launch a real estate project to create a whole district inspired by Lyons' "heart and spirit" by duplicating "the best Lyons has to offer in terms of style and quality of life". The projected small town will have three thousand residences, offices, and retail stores and will be built around squares, pedestrian streets, buildings and cafés re-creating the ambiance of Lyons. How about derivative products? A cinematheque (branch of the « Institut Louis Lumière ») a hotel school managed by the « Bocuse Institute », a football training center managed by the « Olympique Lyonnais » football club, a branch of the Lyons famous fabrics

museum. The first investment round of the Lyons Dubai project amounts to 500 million Euros. "Dreams are priceless and in Dubai we make dreams come true", says the Dubai developer, Buti Saaed Al Gandhi in an interview with the French newspaper « *Le Monde* ».

The strategy is spreading. There are now countless museums, stadiums, theaters that became the "icing on the cake" of prestige urban development programs: the « Confluences » museum in Lyons, the Georges Pompidou Centre in Metz, America's Cup in Valencia in Spain. The Principality of Monaco announced "the construction of a " landmark facility with a cultural purpose" ( status still to be defined) to sell a titanic 15 hectares project built on the sea. We have to wonder about the role played by culture, major sports events, education, universities, in this competition for world preeminence, and about the role played by architecture and urban planning when they are used to promote large scale financial transactions. As a proof that we are entering a new era is the marketing terminology entered recently into the language of urban planning. Words like «naming» or «branding» are now used to identify the development practices of hypermodern cities. According to the American economist Richard Florida these practices are developed by a "new creative class" also called the "manipulators of symbols" by François Ascher.

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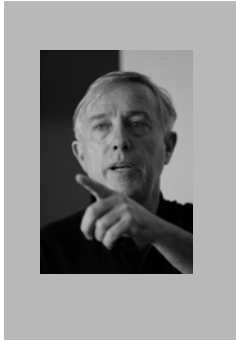
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## Author's Biography



**Jean-Jacques Terrin** graduated as an architect, and has a Phd in architecture. He has worked on numerous design projects and urban planning assignments both in France and abroad. From 1996 to 2001 he ran a major research program for the French Equipment Ministry on the development of new architectural and planning practices. He has been the French delegate to the European Community. From 1998 to 2003 he created and managed an Urban Engineering Department at the Compiègne University of Technology. He is currently professor at the Versailles School of Architecture. He has undertaken numerous research projects and has published articles and books on the changes in design practices and their new relations with technology.