

Bachelor-Thesis

Public Private Partnerships in Denmark and Germany

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Abstract

The use and development of Public Private Partnerships (PPP) in Germany is currently in a stage of break through. The earlier years of PPP in Germany was characterised by many minor initiatives on lower administrative level, but in 2003 a task group was established on federal level. The task group is among other things working on defining and standardising PPP models. In Denmark the development has not broken through, but the debate is intense. There are especially seen in direction of Great Britain where the original concept of PPP originates from. There is a focus on certain models and procedures and it is distinguished between “right” and “wrong” methods, especially in the way of structuring the financing aspect in the project and the consequential costs.

This thesis aims to study the development of PPP in Denmark and Germany. Through a delimitation of PPP compared to the more widespread concept of public private collaborations the fundamental idea and the basic organisation and structure in PPP is investigated including frame conditions and applied models. Through a study on the use of PPP in the public building sector on municipal level and through a more thorough study of selected projects, it is investigated and assessed if experiences and methods from Germany can apply to the Danish market.

PPP is in this context defined as a far-reaching cooperation between a public and a private part over the entire life-cycle of a building project involving a linkage of the elements design, build, operate and finance. The main criteria for a successful project are an out-put based procurement, a formal mechanism of payment and dividing of risks. The out-put based procurement will enable the private part to design the project in preparation for the following operation and delivering of performances and services to a fixed quality over the entire contract period. The public part pays a monthly or yearly rate covering not only the operation cost but also the investment costs, which in traditionally procured projects are paid immediate after the completion of the building. As a part of the concept of partnership the risks associated to the project are allocated to the part best suited for handling them in a cost-efficient way. There are many of the same risks as in traditional projects, but in PPP projects the risk allocation plays a more central role.

In connection with the expanded use of PPP in Germany models are set up, hereof four with relevance in this context: Inhabermodell, Erwerbermodell, FMLeasingmodell and Vermietungsmodell. The models are here not seen as standards that can be pulled out of the drawer and applied on a specific project, but more as guidelines and information on fundamental possibilities of different types of PPP. If the public part also wants to use the facility after the contract period, for instance a school, an Inhabermodell or an Erwerbermodell is used. The Inhabermodell is by far the most used model in German PPP projects (31%) since much in this type of model stays the same as traditionally with the public part as owner of the facility according to civil law. In an Erwerbermodell the private part is owner of the facility during the contract period but a transfer is included in the contract. It is to some extent a philosophic question related to the interpretation of the PPP concept. In Denmark an Inhabermodell is not considered. If the public part is only renting the facility for a limited period of time an FMLeasingmodell or a Vermietungsmodell can be used instead. The two models differ from each other in details. Generally, the type of model is evaluated on the basis of the specific project. According to more actors on the German market, both public and private, the use of standards in the choice of model and financing variant is not necessarily good. The

standard cannot take away focus from the project content. In Germany two types of financing models are used; Project financing based on the British PFI model with full private financing and structuring of risk allocation by the financing bank through a “due diligence” and the special German model, the forfeiting model, where the private part achieves public-like financing conditions in an Inhabermodell or Erwerbermodell through the forfeiting of receivables of investment costs. In Denmark it is believed that only a full project financing gives the right structure of risks and safety in the project. In Germany the forfeiting model of financing is used in the most cases (70%). It is here stressed by some actors that the financing variant is only one part of a PPP project and not the deciding factor. A PPP project in Germany is most often procured after the negotiated procedure, where the public part has access to negotiate with the private part in several stages. The new procurement competitive dialogue, designed for special complex projects, can also be used, but there is yet only little experience with the procurement form.

In the thesis a number of barriers towards the PPP model are mentioned. More of these are of political matter and is due to a reticence towards an extensive cooperation with a private part including the transfer of risks and decision-making authority. Another big barrier is lack of experience and fear of trying new ways. In the Danish debate there is focused on the transaction costs and a consequently minimum size for a project to be suitable for PPP. The transactions costs, or wider seen the planning costs, of a PPP project can be high because of a bigger planning effort, but it is stated by a German PPP actor that some of the transaction cost could be rated as risk costs. It is also through the higher planning effort that the biggest efficiency of PPP is reached. A threshold value of the investment volume on DKK 100 million approx 14 million € is recommend by the Danish building authorities and a similar value is given in Germany (10 million €). Other values are set by the private actors based on the company profile and its expertises. Thus, a minimum value of 5 million € is set by companies primarily involved in projects on municipal level (Goldbeck). Other companies have specialised in bigger projects and sets mini-mum values of 20-30 million € (HOCHTIEF). The minimum value is linked to the content of the project. There are examples of projects where all services, including services not directly linked to the project, are provided by the private partner. In these cases the planning effort is big and the project more extensive and financial big. Such projects are though also new by the bigger actors on the German PPP market. In the Danish debate such big projects, including competitive dialogue, are discussed from the beginning. And that can be a big pill to swallow without experience on the field. The role of small and medium enterprises (SME) in PPP is also treated. Based on the German experiences it is seen possible with SME as main contractor in smaller projects (below 15 million €) and to a greater extent as sub contractors in bigger projects.

The Danish municipal reform with jointing of municipalities and counties into bigger units can give the possibility of an increased use of PPP for instance through the presence of more suited projects in each municipality or a better possibility of bundling more projects. It can also have the effect that some municipalities will gather own competence and prefer to carry out projects on their own. It is yet too soon to say which effect the reform will have, but it should here be mentioned that PPP is not a miracle cure that can be used in all types of projects. But if the focus is shifted from PPP after the British model with a certain financing method and ownership relations to the basic concept of partnership there can be a great potential in the use of PPP, also in smaller projects, as seen by the German experiences. Thereafter it can be decided in the single case which model and financing variant are most suitable based on the project scope and contents. There is also a big group of models with only some PPP-elements, the so-called PPP light models, of which the most extensive only lack the financing aspect. It can be imagined that the PPP Inhabermodell financed with the forfeiting model will be regarded as a type of PPP light in spite of the fact that the basic idea of payment in rates in the forfeiting model is the same as in PPP projects with project financing. It is, though, not important whether or not a PPP with forfeiting will be regarded as real PPP, it can in any case be a suitable model in many projects. In addition the model can be used to realize projects that can work as learning process in the fundamental concept of partnership in PPP.