

Public Private Partnerships in Austria

(Approaches on PPP in City and Regional Logistics in Austria)

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I. Introduction

New Public Management approaches are increasingly opening up opportunities for private companies to provide services which were largely, if not exclusively, supplied by the public sector in the past. There is a growing share of projects which provide services through public-private cooperation.

There are two main reasons why Europe has seen strong growth in Public Private Partnerships (PPPs) in recent years. They are:

1. tightening of public budgets has resulted in growing constraints on financing, and
2. increasing acceptance of economic policy notions at the national, regional and communal levels of government; there is growing understanding that cooperation with private companies in providing hitherto public services will help to

- ❖ achieve efficiency improvements faster and
- ❖ ease the pressure on public budgets.

Following the fall of the Iron Curtain in 1989, the countries of Central and Eastern Europe were faced with an urgent need for infrastructure improvement (rail and road networks, community water engineering, telecommunications, airports) to reduce their locational disadvantage quickly. At the same time, however, the reform states with their newly emerging market economies had only a limited ability to finance their investments through debt. In this situation, PPPs provided a viable alternative. Within the EU, the steps towards economic and monetary union and the Maastricht targets have significantly restricted public investment at all levels. Here, PPPs help to tap additional funding sources and to implement planned projects more quickly outside the constraints of public budgets.

II. Different forms of private-public cooperation – definitions

Public-private cooperation is a blanket term covering many forms of cooperation between government institutions and private-sector entities. The main criterion in differentiating among the various forms is the –

1. Extent to which the cooperation is formalised

- ❖ Informal cooperation
- ❖ Cooperation on contractual basis
- ❖ Public-private joint venture company

A PPP exists whenever private and public players work together in one of these forms to achieve a given objective.

Looking beyond the PPP as such, we find that there are two general fields of public-private cooperation:

2. PPP and Contracting Out (see fig. 1).

A PPP exists if the partners in public-private cooperation have complementary objectives. Depending on whether cooperation is informal or formal, the partnership will be a **PPP in the broader sense** or a **PPP in the narrower sense**.

2.1. Main characteristics of a PPP in the narrower sense:

- ❖ Formalised cooperation in a joint venture
- ❖ The resources made available by both partners are put at the disposal and under the control of the JV company
- ❖ Coordination through the JV company hierarchy

2.2. Main characteristics of a PPP in the broader sense:

- ❖ Relationship between the partners is formalised only to some extent or not at all
- ❖ Partners retain control of the resources they provide
- ❖ Coordination through network structures

Contracting Out relationships

require formalisation by a service contract and are characterised by conflicting objectives of the public and private parties involved. The contract parties enter a customer-supplier/service provider relationship, in which the private company supplies a service for the public customer, but is not interested in the ultimate result of the provision of this service as such. Rather, the private player acts in pursuit of economic gain. Contracting out may be either simple or complex.

2.3. Main characteristics of simple Contracting Out:

- ❖ External service provision involves little risk for achievement of the organisation's objectives
- ❖ Public side is responsible for planning, ordering, supervision, coordination and evaluation of results
- ❖ Relationship is coordinated by supply and demand

All forms of Contracting Out in which at least one of these characteristics does not apply are regarded as **complex Contracting Out**. The definitions of the various forms of cooperation make clear that the concept of PPP, contrary to its use in most relevant publications, is used mainly for cooperation models. These involve joint ventures with mixed public and private ownership.

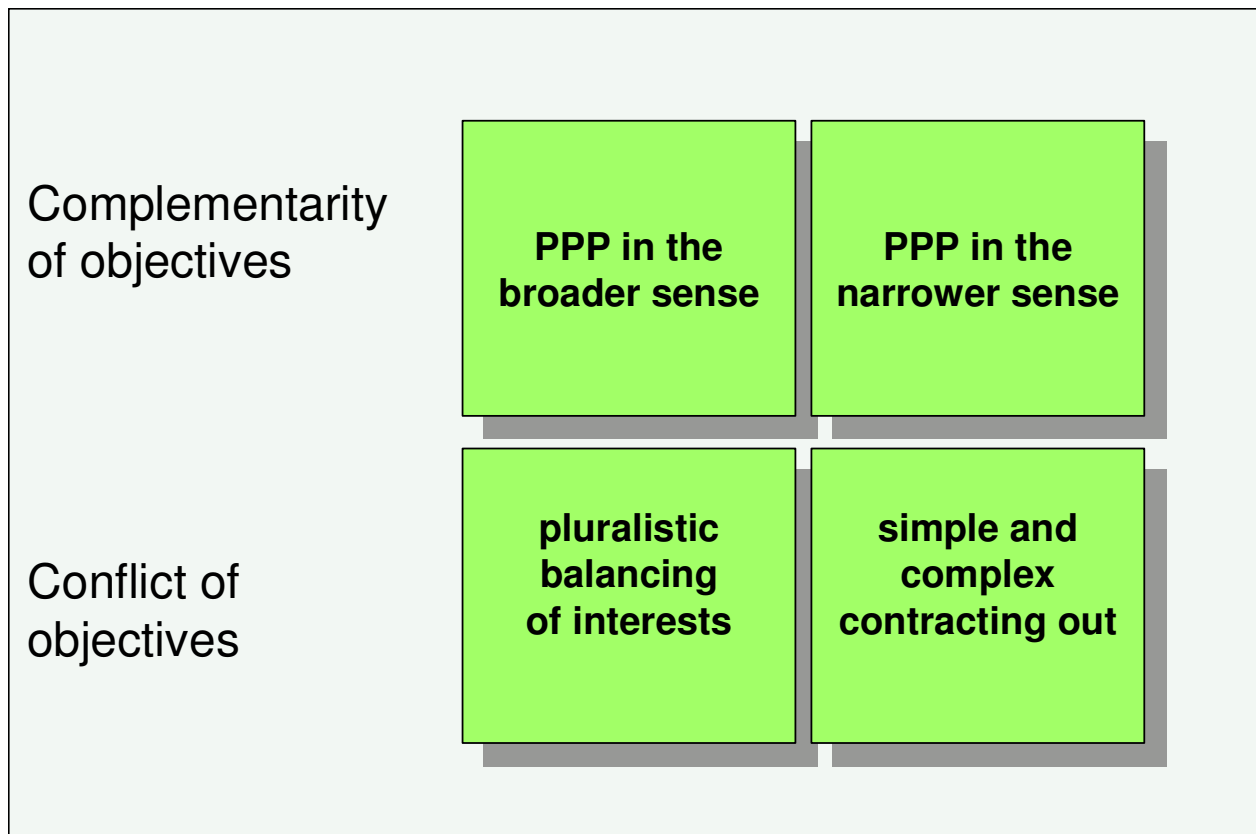


Fig. 1

III. Forms of cooperation in Europe

Experience with PPPs has been made in nearly all European countries, with the UK and France playing a pioneering role.

1. United Kingdom

In the UK, the "Private Finance Initiative" was used to develop and manage infrastructure projects (road, rail, airport, wastewater projects, event centres, health facilities) and to provide public services, including administrative services, through PPPs. At the outset of the British experience were efforts towards privatisation and outsourcing of services that were systematically pursued by the Thatcher government from 1979 onwards. In the UK, the public administration also has the task to examine

the scope for project design and the risks that are transferred to the private sector within the framework of a PPP to determine the cost effects and to ensure that the project will provide value for money. Thus, the PPP model has to be examined in terms of project financing.

Based on these requirements made by the Treasury, the tasks of public administration have somehow shifted over time, because a "**make or buy**" decision is mandatory for public bodies. This has resulted in delays in tendering procedures, higher costs for project development and preparation of bids and increased risks, causing serious complaints from the private sector.

Ideally, the UK Treasury assumes that risks are transferred to the private sector so that every risk is borne by the partner that is best able to control it. Private partners are selected in tendering procedures, i.e., through competition, except in those cases where the government supports innovative solutions. To reduce the preparation costs in the runup to a project (such as legal costs) and to facilitate competition, the government has created standard contracts. The standardisation applies to risk sharing, financing structure and a part of the project specification.

2. France

In France, PPPs have traditionally been used to provide community services and in road construction. Both public administration and private enterprises in France benefit today from decades of experience with PPPs. This is particularly true at the national and community levels of administration, and in industry and the banking sector, where a number of major enterprises have emerged which specialise in the provision of public services; the latter also apply their know-how worldwide.

France's particular experience has given rise to specific characteristics:

The periodic awarding of **licences** in very diverse areas to safeguard the public interest and ensure competition to keep prices low and quality high. At the end of the licensing period, the rights granted under the licence revert to licensor. In the field of high-priority transport routes, initial planning is done by the government at its own expense. The licensee then takes on responsibility for detailed design, construction and facilities management at his own risk and expense. Rates and investment

policies are laid down in five-year contracts between the public authorities and the facilities management company. Facilities typically remain public property, with licensees only responsible for running them. In practice, transport projects sometimes receive government subsidies (e.g., 30% of total investment volume). At the community level, regional bodies support specific projects by providing credit guarantees.

Experience has shown that public bodies need project-relevant expertise beyond the scope of mere business management matters to enable them to analyse projects properly, work out appropriate project specifications, monitor project implementation, including the financial and business side, and effectively introduce improvements wherever possible.

Depending on how and when private partners are involved in design, construction, operation and maintenance, they are paid preset or negotiated utilisation rates, or receive a remuneration from the public budget based on services provided.

PPPs may be based on one of **three types of contracts (unrelated to public contracting out)**. Additionally, there are regulations concerning the transparency of tendering procedures. Licensees are selected in a two-stage process, which requires detailed project specifications, spelling out obligations and scheduled targets, in the second stage. The licensing period depends on the amortisation period of the investment.

At the community level, projects may be awarded without a tendering process, provided they are approved by the municipal council. In addition, a confirmation of legality by the regional prefect, who thus also shares the political responsibility, is required.

3. Austria

In Austria, most public-private cooperation projects have so far been carried out in the area of communal infrastructure. Four different models have been used:

3.1. Facilities management model

Facilities in public ownership are managed by a private-sector company on behalf of the public owner, for the account and at the risk of the public owner.

3.2. Development and management model

Responsibility for the designing, construction, financing (including application for and management of public subsidies) and operation of a facility is transferred to a private-sector partner on the basis of a contract. Alternatively, only specific tasks may be transferred. Compared to plain facilities management, the development-and-management model foresees a broader scope of tasks to be assumed by private enterprise, in particular where designing and construction of a facility is concerned. The model allows an overall optimisation of performance and helps to reduce coordination problems from one stage of the project to the next.

3.3. Licensing model

A private project developer acquires a government licence for the construction of an infrastructure project and does the necessary borrowing for the project. Once construction is completed, the facility (most often a transport route) is transferred to public ownership. In return for his investment expenditure, the private developer receives payments over a contractually defined period of time; the rates paid are not based on utilisation of the facility.

3.4. Cooperation model

A joint venture is established by a public institution together with a private partner. The JV, which is managed jointly by both partners, is responsible for the financing, building and operating of an infrastructure facility. In this model, the public partner retains direct influence throughout all project stages, while making use of private-sector expertise and capital.

4. Public-private cooperation in practice

Several projects are currently under way in the field of transport infrastructure, with a number of projects in the planning stage and others being currently implemented:

4.1. ASFINAG, Austria's government-owned motorway development and management company,

is planning participation of private partners in 15 projects with a total projected

investment volume of € 1.3bn. Joint ventures owned by Asfinag and private enterprises are to take on projects, including responsibility for designing, construction and facilities management. Projects will be financed from the road toll levied on lorries and from a proportionate share of the general toll imposed on passenger cars for use of the country's motorway system. Any additional financing requirements will have to be covered by public funds, in particular from the regional governments (federal provinces). Asfinag expects that improved designing and implementation processes and accelerated official procedures under this model will reduce construction cost by up to 20% and cut in half the time needed until commissioning of the roads.

4.2. Combined cargo traffic centre in Werndorf near Graz

The facilities of the combined cargo traffic centre (size: 50 hectares) will include a combined traffic terminal and areas for handling of piggyback ("rollende Landstrasse", "rolling highway") traffic and wagon load traffic. The infra- and superstructure of the centre, including also tracks, customs office, warehouses plus office space and outdoor loading areas, will be made available to a private-sector company which will run the centre. The model is meant to provide economically successful management while at the same time pursuing the transport policy objectives of the province of Styria (bundling of goods traffic, shifting goods traffic from road to rail).

Specifics of the project

- ❖ Optimisation of bimodal traffic
- ❖ Different service modules are combined at one location
- ❖ State-of-the-art transport infrastructure centre provides cost-optimised connections to other business centres in Europe through block/shuttle trains
- ❖ Rail companies in the Graz area are positioned to benefit from the future advantages to be expected from the liberalisation of rail transport
- ❖ Cross-border synergies with the southeastern European economic area
- ❖ The centre will act as a catalyst for regional economic development and provide an incentive for businesses to locate in the vicinity (southern periphery of Graz)

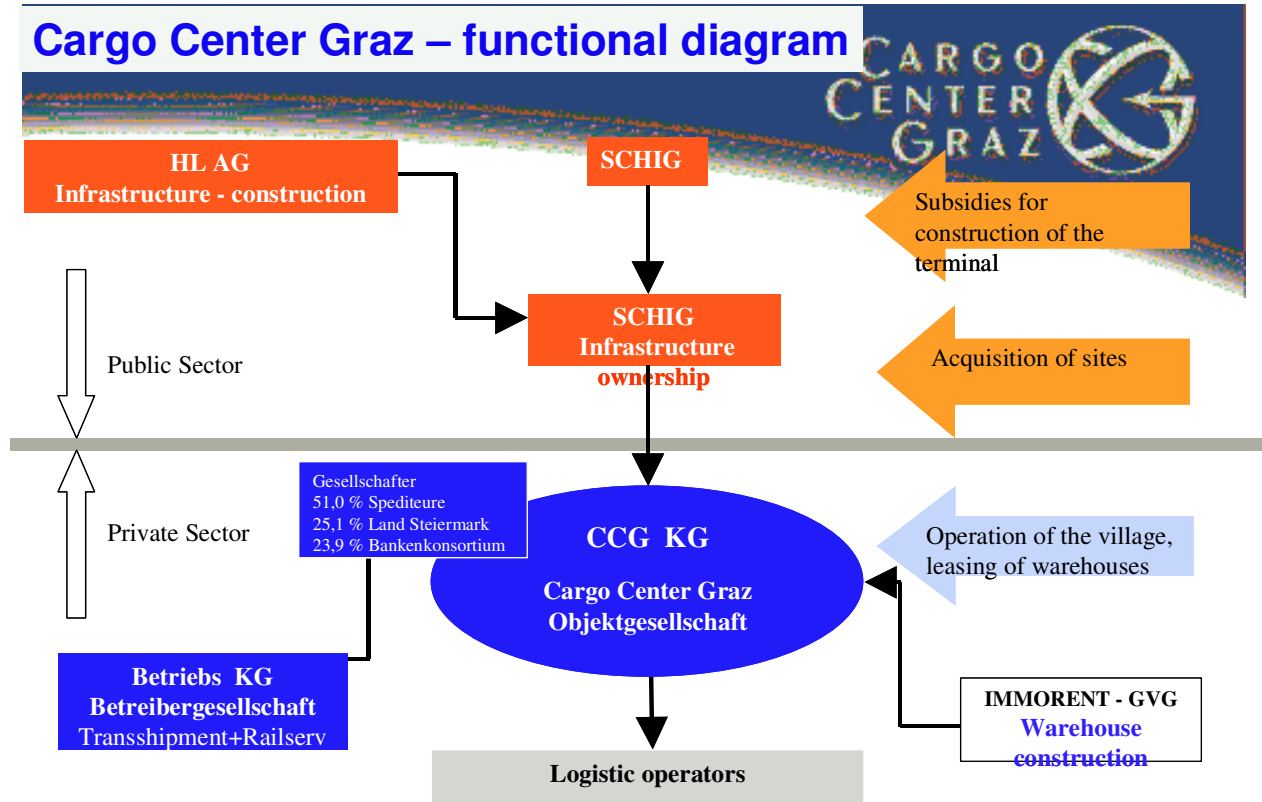
- ❖ Provision of value added services

Novel ownership structure

The PPP model for the project is a novelty in Austria's goods transport sector, bringing together private transport companies, Austrian banks and a company established by the province of Styria, as the owners of the "Cargo-Centre-Graz Betriebsgesellschaft", i.e., the facilities management company for the centre (see fig. 2). The cost of the required infrastructure investment will be covered in part (47%) by government subsidies provided by "Schig", a company owned by the federal government. Total investment volume will be approx. € 130m.

"Schig" stands for "SchieneninfrastrukturfinanzierungsgesmbH" (i.e., "Rail Infrastructure Financing Company"); established by the federal government, Schig will be in charge of collection of the rail toll and financing the rail infrastructure.

"HL AG" stands for Hochleistungsstrecken AG ("High-Priority Routes Company"), a federally owned company which, under Cabinet orders, will be responsible for building the rail infrastructure of the cargo traffic centre.



4.3. The Ebelsberg bypass in Linz

Ebelsberg, a southern part of the city of Linz, has come under increasingly severe pressure from through traffic, as housing construction in other suburban areas has grown, resulting in commuter traffic flows of approx. 33,000 vehicles daily to the city centre and the industrial zone of Linz.

Plans for a bypass road were prepared, with groundwork financed by the city of Linz, and had been sufficiently developed by the early 1990s for a building permit to be granted. The tendering process started in early 1997 with invitations to submit bids including detailed design, construction, financing and management of the road. Eventually, the entire project – project volume: € 100m – was awarded to "Umfahrungsstraße Ebelsberg ErrichtungsgesmbH" (UEB). UEB is owned by a leasing subsidiary of a local bank, and the contract partners in the project are UEB, a construction company and the city of Linz.

In cooperation with Linz university, a macroeconomic ROI model for the project was worked out. Factoring in tax effects, improved living quality, environmental impact, locational effects and vehicle wear, the calculations showed an amortisation period of 46 months for the project.

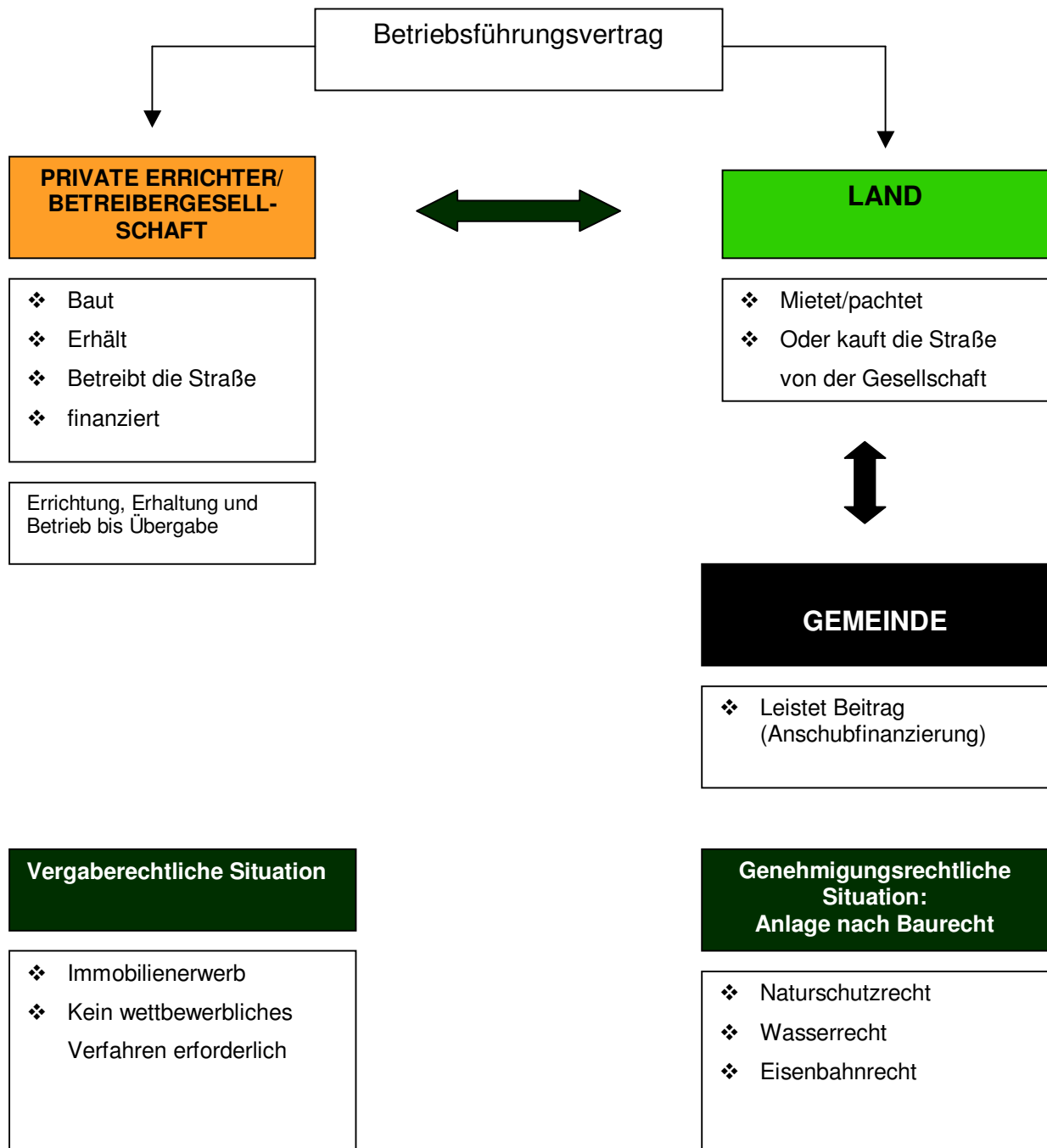
4.4. Exemplary PPP road model (bypass) in an Austrian town

Purpose and benefits:

- ❖ Significant improvement in goods and passenger transport processes within the community and in the surrounding region
- ❖ Unburdening road infrastructure in the town
- ❖ Coping with increased traffic flows from the Eastern reform states, taking up opportunities created by the emerging market economies
- ❖ Improving inhabitants' quality of life
- ❖ Creating important prerequisites to attract urgently needed innovative businesses to the area. Creation of new jobs.
- ❖ A milestone for the further development of transport structures and business in this economic corridor

As construction of the bypass is scheduled for 2010 at the earliest under the province's current development scheme, options for earlier implementation are to be developed by means of the PPP model:

ROAD MODEL "private road"



4.5. "Styrialog Logistik GmbH", a logistics platform company

This company was established by forwarders, logistics service providers and a rail company with financial support from the province of Styria. The purpose and objective of this platform is the bundling of goods by the partner companies, so that capacities are fully utilised and fewer lorries are needed, leading to overall cost reductions. The public interest in the project is to reduce the number of lorries on the roads and improve the environmental situation.

Concrete projects are being conducted involving deliveries for 15 hospitals in urban structures.

5. Conclusion

- ❖ The use of independent consultation services by the public partner is particularly important for the success of PPP projects.
- ❖ Clearly defined objectives on the part of the involved public bodies and precise definition of the different areas of responsibility of the partners are crucial.
- ❖ Selection of the right partners is difficult, since private partners are competitors in their core business – the PPP company may be affected by external problems.
- ❖ Submission of a business plan
- ❖ Check on financial standing of the private partners
- ❖ Neutral management of the PPP company
- ❖ Controlling is required throughout implementation
- ❖ Drafting of contracts by legal experts with experience in the field
- ❖ Define exit strategy in case one partner should cease to meet his obligations under the partnership.