



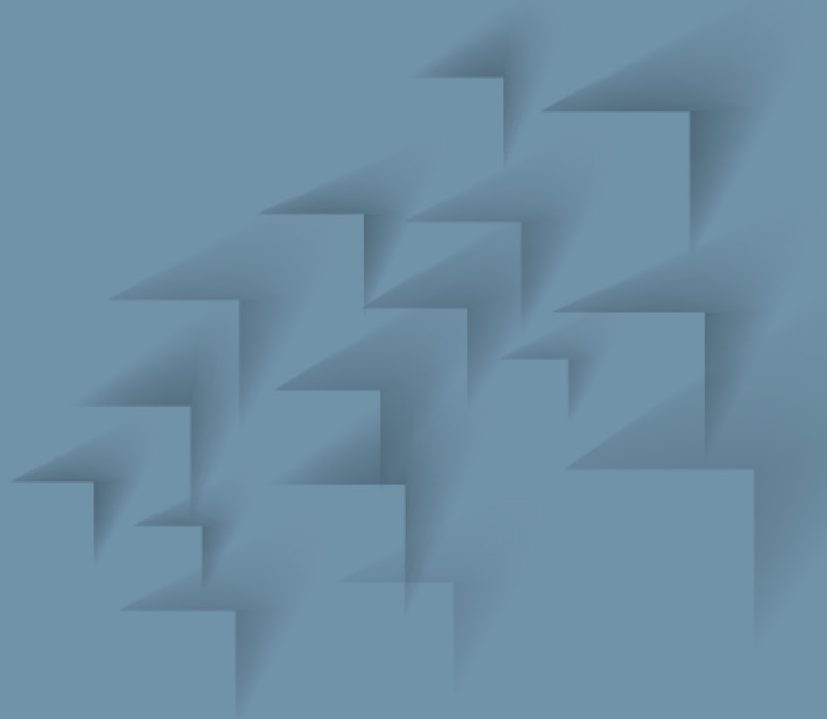
European Union

Interreg
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ForHeritage

PUBLIC-PRIVATE COOPERATION

in cultural heritage revitalisation



Document information

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1. Introduction

“Don’t you just wish? Everyone who has ever worked on a public-private partnership yearns for this sort of foolproof, one-size-fits-all solution. But there’s no fast-forward to success when it comes to PPPs. They can bring great benefits, but this outcome requires time, effort, and investment. There are many examples of bad practices that emerge from the desire to get it done quickly. What fails, inevitably, is the effort to shortcut good preparation and robust competition. There is no substitute for doing it right”¹.

Jeff Delmon, Senior PPP Specialist for the World Bank Group specialized in PPP transactions, frameworks, and financing

This tool is a result of the Interreg Central Europe project “For Heritage (4H): Excellence for integrated heritage management in central Europe”. As to promote excellence in heritage management, the project and this document capitalize on the existing knowledge gathered from the previously EU-funded projects (such as FORGET HERITAGE, RESTAURA, IFISE, CLIC) and other relevant experiences.

Within the project six tools related to heritage management have been produced:

- Good/participatory governance in cultural heritage: How to involve public
- Financial instruments and innovative financial schemes for cultural heritage
- Public-private cooperation in cultural heritage revitalisation
- Impact assessment of cultural heritage projects
- Transferable elements of cultural heritage revitalization pilot projects
- How to organise a successful training to improve management in the cultural heritage sector

The tool answers the question “Is public-private cooperation an appropriate method for ensuring heritage sustainability?” It is produced based on the documents from two projects (RESTAURA, FORGET HERITAGE²), completed

¹ Delmon, J. Money talks debunking the myth of the “quick and easy” PPP. Handshake, No. 16 (June 2015): A Public-Private Partnerships Journal, p.14.

² For further learning, we invite the reader to consult the webpages of the following EU projects, which offered precious sources of information for the purpose of this document:

RESTAURA: <https://www.interreg-central.eu/Content.Node/RESTAURA.html>

FORGET HERITAGE: <https://www.interreg-central.eu/Content.Node/Forget-heritage.html>

Central Europe Programme projects from the period 2007-2013 (ACT4PPP, SECOND CHANCE) and other sources (EIB, WORLD BANK, OECD, and many others). The goal of this tool is to present existing forms of public-private cooperation, their use and recommendations on how public and private sector could successfully cooperate in the revitalisation of cultural heritage.

European urban and rural areas are strongly shaped and characterized by its cultural heritage. Due to its unique richness and diversity, cultural heritage is an essential factor in Europe's identity and attractiveness of the continent. According to the Communication from the Commission "Towards an integrated approach to cultural heritage for Europe" (2014), cultural heritage is a shared resource and a common good. Like other such goods, it can be vulnerable to over-exploitation and under-funding, which can result in neglect, decay and, in some cases, oblivion. Cultural heritage has tremendous economic and social potential; it can help us boost employment and business in key sectors while addressing some of the most pressing societal challenges of our time.

Many cultural heritage buildings are publicly owned and maintained by public funds, but this situation is changing, and increasingly, private, and civic associations are in demand. The involvement of the private sector also offers the opportunity to develop concepts that go beyond mere conservation measures. The conversion of buildings, for example, can provide added value and relevance to citizens, creatives, and the economy. Nowadays, in many countries, the private sector, civil society institutions, and the government have started to work in partnership to help conserve the cultural heritage and develop it as a socio-economic asset. Critical to the success of the revitalisation of cultural heritage buildings is finding a viable economic use while conserving the heritage value of the building to find equilibrium between development and conservation. That requires an interdisciplinary approach with the involvement of multiple players, not only to initiate and carry out conservation but also to sustain (re-use) the place. It is also widely recognized that revitalisation needs to be embedded within social, environmental, and economic development strategies that include financial mechanisms to encourage and facilitate public-private and third-sector contributions.

While the need to preserve cultural heritage is widely recognized, the availability of the financial resources to do so is often equally deficient. The economic crisis has in many cases reduced the budgetary allocations for culture in general and heritage conservation in particular. It has also made it more difficult to mobilize private funding sources. There is thus an urgent need to use available resources as efficiently as possible, to assess ways to tap into new funding sources (e.g. private capital, foundations etc.) to find new ways of public-private cooperation. The EU has been rather successful in mainstreaming heritage, through a shift of perception on the societal and economic value of heritage and its role in sustainable development. The shift moves heritage from a costly development control measure towards an enabling force that stimulates change, which in turn, brings life to places that both suffered from economic and physical decline. One of the main challenges for heritage management has

been a slow shift from state investments to financially independent models of private (and civic) investments³.

2. Definition of the public-private cooperation

There is no consistent, international standard definition of Public-Private Partnership (PPP). The phrase “public-private partnership” has become a generic one that has been applied whenever representatives of the public and private sectors sit at the same table⁴. The expression public-private partnership is commonly used for several types of arrangements between public and private entities as public-private partnerships for innovation (smart specialization⁵, the Digitising Industry Strategy⁶, contractual public-private partnerships (cPPPs⁷)) or public-private partnerships for environment protection and other forms of public-private cooperation. Not only different institutions promoting PPPs differ in their definition of PPPs, but also countries are using their own definitions in national laws and policies. Although there are some common elements, authors do not use the same language and include the same characteristics in defining PPPs. The vast literature on PPPs reveals at least up to 25 different types of PPPs⁸.

In the last years, especially the Nordic countries emphasise the importance of citizen participation in their planning legislations and policies. At the same time, they continuously develop new models in order to make private companies more involved in planning processes through different types of public-private partnerships and cooperation modes. Typically, city administrations’ cooperation with companies on one hand and citizen participation on the other hand is discussed separately although they both are expected to influence the same planning process. The concept of Public-Private-People partnership (4P) is

³ Veldpaus, L.; Fava, F; Brodowicz, D. 2019. Mapping of current heritage re-use policies and regulations in Europe: Complex policy overview of adaptive heritage re-use. OpenHeritage.

⁴ Rypkema, D., Cheong, C. Cultural heritage and public-private partnership. 2016. In Rypkema, D. and H. Mikić. Cultural Heritage and Creative Industries: guidelines for sustainable heritage management, p. 25-35.

⁵ <https://s3platform.jrc.ec.europa.eu/-/pilot-2-on-research-and-innovation-public-private-partnerships-for-ris3-implementation-approaches-for-widening-stakeholder-engagement-and-networking-?inheritRedirect=true>.

⁶ <https://ec.europa.eu/digital-single-market/en/public-private-partnerships>.

⁷ <https://ec.europa.eu/programmes/horizon2020/en/contractual-public-private-partnerships>.

⁸ Kwame Sundaram, J.; Chowdhury, A., Sharma, K., Platz, D. 2016. "Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for purpose?," Working Papers 148, United Nations, Department of Economics and Social Affairs.

one emerging way of highlighting the need for developing the involvement of private actors and the general public in a joint process⁹.

The term PPP describes the wide range of contract types, regardless of the terminology in any specific country or jurisdiction. PPPs are described in terms of three broad parameters: first, the type of asset involved; second, what functions the private party is responsible for; and third, how the private party is paid¹⁰. Besides defining the essence and the main features of PPPs, it is also helpful to clarify what they are not. Therefore, the definition of Public-Private Cooperation (PPC) used in the Second Chance project is useful in order to make distinction between PPP and other forms of public-private relations.

PPC comprises all the contractual compositions of how an administration cooperates with non-administrative stakeholders. This cooperation varies in aspects of the duration of obligations, the complexity of included tasks, the level of risk transfer and integration of a value chain. The options are¹¹:

1. Public-Private Collaboration (PPColl)

Short term agreements such as collaboration agreements, user agreements, access agreements or financial agreements. Tasks and responsibilities are often limited to a few concerns. Topics may be sponsorships, generic project funding or transfer of use. The administrative interest of PPCs is to support promising projects that contribute to revalorisation goals. There are numerous forms and types of public-private cooperation in running joint projects between the government and the private sector.

2. Public-Private Partnership (PPP)

This cooperation option provides access to integrated administrative services that may relate to planning, construction, financing, maintenance, or operation of public infrastructure—services that beforehand were granted to commercial developers and now need a transfer to bottom-up developers. Objectives for PPP are supporting the smooth, continuous operation of a site (such as urgent repairs that can be executed without shutting down the site), life-cycle oriented operation of a site (preventing degradation, value chain integration), design of processes, tasks and responsibilities, balanced responsibility-based risk transfer, goals-achievement incentives, investment of private expertise and capital, and long-term sustainable financing models and partnerships. The interest of administrative partners may concern the sustainable valorisation of infrastructure and socio-cultural-economic output.

⁹ <http://nordregio.org/nordregio-magazine/issues/people-and-cities/public-private-people-partnerships-a-new-concept-to-bring-public-and-private-actors-and-citizens-together/>.

¹⁰ <https://pppknowledgelab.org/guide/sections/6-ppp-contract-types-and-terminology>.

¹¹ Public-Private Partnership: Transnational Public-Private-Partnership Concept. SECOND CHANCE, 2011.

3. Public-Private Joint Venture (JV)

A joint-venture regulates rights and obligations between municipalities and creative-cultural partners as co-shareholders of a company or institution. The purpose is the design, building, planning, financing, maintenance, and operation of valorisation infrastructure and/or the management of socio-cultural activities. Usually, the infrastructure part is put out to tender to the public sector with conditions of becoming a shareholder in the company after contract signing. The cultural management part is usually realised by incorporating a private company as a shareholder in an existing infrastructure project company.

It is important to understand the differences between different PPC models. The term PPP is only applied to a certain type of projects, characterised by the (long-term) contract, established "special purpose vehicle" (SPV) and clear sharing of risks between the public and the private sector¹². All those forms of public-private cooperative efforts that do not meet the above conditions should not be called PPPs. In all cases of public-private cooperation, be it PPC, PPP or joint ventures, the public sector can generally control the degree of its influence on the basis of the partnership agreement.

¹²

https://www.unece.org/fileadmin/DAM/ceci/documents/2014/PPP_Materclass/Day1_Rumen_Dobrinsky.pdf.

Figure 1: Different forms of Public-Private Cooperation

PPColl	Public-Private Collaboration
	<ul style="list-style-type: none"> • Short term contractual agreements • Joint/complementary objectives concerning agreed activities • Private partner contributes to public cultural activities
PPP	Public-Private Partnership
	<ul style="list-style-type: none"> • Long term contracts • Special purpose partnership • Tasks and risks of public authorities are partially transferred to the private partner
JV	Public-Private Joint Venture
	<ul style="list-style-type: none"> • Unlimited duration • Special purpose company/institution • Risk-sharing between private and public shareholder

Public-private cooperation models are characterised by their framework conditions such as country/region or project type. Moreover, a set of organisational patterns describe the structure of the partnership and its implications for development. The most important features are the contract model, the business model, and the financing model. In real life all types of public-private cooperation exist. Development projects can be divided into three classes. Depending on their economic status and funding, they can be classified as¹³:

¹³ Framework paper. ACT4PPP, 2010.

Class A projects

These “self-developing projects” are primarily driven by private funding. The public sector ensures public interests in these urban (re-)development projects by setting the regulative framework. The private developer expects for the development activities remuneration by rental or sales payments. Example: hotel.

Class B projects

These projects are characterised by their potential for development but lack sufficient private funding. Additional funding by the public sector will allow development. These development projects lack certain characteristics for development such as not enough market interest or insufficient site properties. Example: sports facilities.

Class C projects

Projects of this kind represent developments which are of no or little interest to private funding. They are usually only realised by using public budgets. Example: public school buildings.

Each project can be structured differently in order to fulfil best and most efficiently the objectives of the project. Moreover, projects can be differently procured due to European legislation. In addition, country-specific legislation, and regulation, as well as the institutional setup, will have an effect on the decision about the most suitable public-private cooperation model. Cultural and creative activities are very often the main content of cultural heritage revitalisation projects in different Central Europe Programme projects (Forget Heritage, Second Chance, Creative Cities ...). The examples of public-private cooperation analysed in the Second Chance project (and in other projects as well) show that it is not only the private sector that is of importance for partnerships, but civil society as well. Public-private cooperation in culture could be defined as a sustainable, long-term contractual cooperation agreement between the public and the private sector, as well as other institutions of civil society, for the initiation, financing, funding or management of a cultural institution or activity, under which the partners contribute financial, material, or immaterial resources¹⁴.

Cultural management consists of three basic activities¹⁵:

1. Program management: program-related activities are often subject to public-private collaboration models.

¹⁴ http://www.secondchanceproject.si/wp-content/uploads/Trans_PPP_Concept_final1.pdf.

¹⁵ http://www.secondchanceproject.si/wp-content/uploads/Trans_PPP_Concept_final1.pdf.

2. Property management (design, build, operate): is increasingly using the public-private partnership model. Public-private partnership models mostly work as availability-based models paid for out of the public budget and are pre-financed by private partners. Some services can generate revenues and can contribute to a part of the financing of the operation of cultural activities.
3. General management: public-private joint venture structures seem to be appropriate for general cultural management activities.

Different forms of public-private cooperation are used in cultural heritage revitalisation projects with the focus on culture (and creative sector), and the form of Public-Private Collaboration prevails.

Please check the following Second Chance document: “Public-Private Partnership: Transnational Public-Private-Partnership Concept”. Second Chance, 2011.

Cooperation between public and private sector could take part in many forms, but there are few preconditions for efficient cooperation between the public and private sector, regardless of the form of PPC¹⁶:

- There must be a case for division of labour.
- Trust among partners is essential.
- Good protection of property rights.
- Well-functioning judicial system which guarantees that contracts are honoured.
- Predictable business and regulatory environment.
- Equitable and balanced relationship: none of the partners should seek to impose its own objectives; the joint objective is to reach mutually acceptable decisions.
- Needs to be a “fair game in which each party gets a benefit matching its contribution”.

¹⁶

https://www.unece.org/fileadmin/DAM/ceci/documents/2014/PPP_Materclass/Day1_Rumen_Dobrinjsky.pdf.

3. Use of the public-private collaboration approach in the cultural heritage revitalisation

There is no uniform definition of the public-private collaboration. One of the approaches is to define, what is not PPP, but includes public-private cooperation. The level of risk to which the private sector is exposed is an essential prerequisite that distinguishes PPP contracts from traditional (conventional) contracts between the public and private sectors. Cooperation between the public and private sector will not be considered as a PPP, if all risks and responsibilities are imposed on one of the parties. PPPs typically do not include service contracts or turnkey construction contracts, which are categorized as public procurement projects, or the privatization of utilities where there is a limited ongoing role for the public sector¹⁷. Based on past experience in cultural heritage revitalization projects, there are significant differences between the risks in PPP contracts and conventional contracts where we distinguish¹⁸:

Service contract

Service contract often concluded in cultural heritage revitalization projects, where public authorities involve the private sector in specific services such as equipment maintenance, conservation research, restoration of cultural heritage, etc. In such contracts, the private sector provides services that are not available within public sector capacities in a very short time frame.

Contracts relating to architectural works and construction

Contracts relating to architectural works and construction are the most common way of involving the private sector, where restoration and/or repair and/or construction work involving architectural design and construction is carried out on the subject of cultural heritage. The private sector is fully taking on the associated construction risks, while the public sector is obliged to finance such facility and fully assume the risks associated with the maintenance of this facility.

¹⁷ <https://ppp.worldbank.org/public-private-partnership/overview/what-are-public-private-partnerships>.

¹⁸ PPP in Cultural Heritage Projects: Guidelines for the planning and preparation of cultural heritage projects according to the model of public-private partnership. RESTAURA.

Leasing contracts

Leasing contracts are the only form of financing contracts for the construction or revitalization of a cultural heritage site where the property is temporarily transferred to a private partner. All project risks related to the construction and operation of such transactions are solely borne by the public sector. Therefore, such a form of cooperation cannot be called PPP, as there is no synergy between the private and public sectors in transferring and managing the risks associated with the construction and maintenance of the facility.

Besides contracts described above, there are additional important forms of contract that do not share the characteristics of PPPs¹⁹:

Management contracts

Management contracts do not share the long-term characteristic of PPPs, the significant private capital investment, and the high level of responsibility for long-term performance brought by investment in infrastructure assets. However, they typically include similar performance indicators and requirements to PPPs. Performance incentives are created primarily through payment and penalties schemes. Being performance-based, they have a role to play where the private sector is not willing to invest, or where government is not willing to make a long-term commitment.

Affermage contracts

Affermage contracts are contracts under which a government delegates management of a public service to a private company in return for a specified fee. For example, in an affermage contract in the water sector, the remuneration of the operator is a fixed amount per cubic meter of water sold, although this amount can be adjusted over the years based on inflation and the operator's performance. Affermage contracts also have no infrastructure investment by the private operator—again, they have been the solution when appetite for investment is low, or when government is able to invest and does not wish to transfer so much management responsibility to a private party.

Design-build

Design-build, or turnkey contracts include similar output-based specifications; however, as shorter-term contracts that do not include maintenance or operation, they do not create the same long-term performance incentives as PPPs. For complex infrastructure, these contractual requirements in a design-build contract may not result in optimal design, allowing contractors to cut corners, leading to additional maintenance and operational costs. Design-build

¹⁹ <https://pppknowledgelab.org/guide/sections/4-what-ppp-is-not-other-types-of-private-involvement>.

contracts are short-term contracts, with no long-term responsibilities allocated to the private party. They are commonly used for simple projects, or for projects where the performance is credibly expected to keep at the same level with proper maintenance, and therefore corner-cutting is not relevant.

Privatizations

Privatizations, where the government permanently transfers public assets (and the responsibility to provide a service) to the private sector. The public actor therefore frees itself from any responsibility and ownership, and all risks are fully borne by the private owner²⁰.

One of the existing forms of Public-Private Collaboration is a rather short-term cooperation based on a collaboration agreement (i.e., sponsorship contract). The tasks and responsibilities in these contracts are often limited to certain aspects of all the cultural activities/projects. Public-Private Collaboration can take various forms such as sponsorship, donation, or patronage. That means that the private partner contributes to the cultural activities by funding them. Benefits of sponsoring include the following aspects²¹:

- Allows to approach and network with the target group(s) in non-commercial situations.
- The image of the person or group can be used for business purposes or transferred to the image of the sponsor (on the product, the brand, and the company).
- In many cases, sponsorship provides a higher quality of contact than the classic means of communication (advertising) or allows to approach target groups which otherwise could not be reached.

Private financing has historically been present in the field of culture (such as the patronage system) but has only lately been paid greater attention. In the last years, greater focus has been put on various public-private initiatives including fiscal incentives (such as various tax relieves, percentage legislation, transfer of art in lieu of tax payment, earmarked taxes, vouchers), matching funds and the involvement of private companies in the management of cultural institutions²².

Besides the financial aspect of public-private collaboration, public-private collaboration also includes various forms of joint program-related activities such as the management of cultural and artistic activities and the related technical work, marketing activities and complementary secondary activities such as

²⁰ <https://investmentpolicy.unctad.org/pages/27/what-are-ppps>.

²¹ http://www.secondchanceproject.si/wp-content/uploads/Trans_PPP_Concept_final1.pdf.

²² Jelinić, D. A. et al., Public-Private Partnership in Cultural Heritage Sector. Transylvanian Review of Administrative Sciences, Special Issue 2017, p. 74-89.

bookshops, restaurants, bars, and various other services attracting a variety of people. Tasks within these activities can be separated and then allocated to the different partners: public bodies, private companies, or institutions of civil society.

Programme and general management of the cultural heritage site is essential. There are different potential site managers (programme and/or general management): public, private for-profit and private not-for-profit. Each type of subject identified has different characteristics as it is seen from Table 1.

Table 1: Features of managing subjects

Public	Management rigidity
	Growing budget constraints
	Lack of adequate skills
Private for-profit	Managerial management logics
	Fair flexibility
	Need for adequate revenues
	High fixed costs for human resources
	Poor attention to public interests
Private not-for-profit	High flexibility
	Presence of appropriate skills
	Moderate fixed costs of management

Source: Calabrò, F., Della Spina, L. The Public-Private Partnership for the Enhancement of Unused Public Buildings: An Experimental Model of Economic Feasibility Project, 2019.

Public bodies are very often very rigid due to procedural constraints imposed by the current legislation. The private for-profit entities are normally characterized by greater operational efficiency, which, however, must be matched by an adequate return on investment, with the risk to overshadow the community's interests, which should be prominent in the case of public interest

services management; furthermore, these subjects have a cost structure characterized by high fixed expenses for human resources. The not-for-profit organizations arise from determined values shared by the members. Usually, these subjects carry out volunteer activities without economic relevance, but they also have the opportunity to manage economic activities linked to their objectives. In organizational terms, they are characterized by an intermediate level of efficiency between public entities and private for-profit²³.

In the project Forget Heritage (FH), the involvement of not-for profit private organisations in the management of publicly owned cultural heritage buildings (adaptive re-use) has been tested. The approach was based on the analysis of good practices of public-private collaborations in the central Europe area.

Please check the following Forget Heritage document: [D.T1.1.3 - Analysis of the transferable elements of the BPs.](#)

Private pilot managers have been selected on the basis of the project idea, a draft business plan and a forecast list of expenditures. The FH project financed the programme (1 year), renovation of the buildings (only the most needed parts) and purchase of the essential equipment. All other costs were covered by the local government and pilot managers. The local policy makers have to grant the financial support and the sustainability of the pilot for at least 5 years after the project end (2024). According to the Transnational evaluation report of pilot actions (D.T3.3.2) the most significant challenges were attributed to the public ownership of the buildings and related complex administrative procedures. The public-private cooperation (it was public-private collaboration approach) required for the implementation of the pilots was quite a challenge. Despite the fact that the creatives (tenants), including the pilot managers, and the public administration come from two very different cultures, good and regular communication was the key to success. An even greater challenge sometimes presents the much-needed cooperation between different departments within the local government. Running such complex projects presents a continuous learning curve for all the involved. The main factors of successful public-private collaborations are the following:

- To choose the competent pilot manager (a professional, flexible, and creative team with a very good network of stakeholders/various target groups).
- Good communication is the key.
- On the side of the public partner, an interdepartmental team is needed.

²³ Calabrò, F., Della Spina, L. The Public-Private Partnership for the Enhancement of Unused Public Buildings: An Experimental Model of Economic Feasibility Project. Sustainability, 2019, vol. 11, issue 20, p. 1-25.

- It is very helpful if pilot managers have experiences in collaboration with the public administration and knowledge of legislation and public policies and strategies.
- Every place, every city, every project has different framework conditions. What works in one city will not necessarily work in the other city. There is no “one-size-fits-all” approach. The support of policymakers is crucial for the development of public-private collaboration projects in the future. Without a strategic approach towards public-private collaboration projects, the success of larger projects is very questionable.

In cultural management, it is difficult to obtain sufficient financing and as compromises have to be taken into account, mixed approaches occur. Projects in the cultural sector are often financed by many sources such as local public budgets, revenues from ticket sales or other secondary services, donations and gifts from individuals or companies, and European funding as well²⁴.

PRACTICAL EXAMPLE

Example of a Public-Civic Collaboration project in heritage revitalization: Layerjeva hiša (Layer’s house), Slovenia

Although this case is not an example of proper public-private but rather public-civic cooperation, it deserves to be mentioned as it may be inspirational. The Layer House²⁵ was built in the 18th century and renovated at the beginning of the 19th century. Later it was used as a residential house. The three-storey house was Leopold Layer’s home (1752-1828), which was one of the most important Slovenian late Baroque painters and has created an extensive opus. The painting was his family



Photo 1. Layer’s house

²⁴ http://www.secondchanceproject.si/wp-content/uploads/Trans_PPP_Concept_final1.pdf.

²⁵ <http://www.layer.si/si/layerjeva-hisa/layerjeva-hisa>

tradition, so the Layer house has always been connected with art that is why it is also called “The house of artists”. The Layer house complex today also includes the defence tower of Škrlovec, which was part of the medieval town walls. The house has long served its residential purposes. However, in the 1990s, the Municipality of Kranj decided to renovate the house due to its bad condition. The renovation started in 2009, and it was completed in 2010. The objectives of the renovation are the following:

- *Cultural: To acquire new space for public cultural infrastructure; to create a cultural district in the old city centre.*
- *Environmental: To positively participate towards the use of natural resources and as possible, within the limitations of the old building, participate towards the effective use of energy.*
- *Economic/Social: To connect different cultural activities, to spur the cultural and creative activity and entrepreneurship, to revitalise the old city centre; to increase the number of visitors of the town, to create new employment, to improve the supply for the cultural tourism in the town and region, to raise the quality of life in Kranj.*

The Layer House is part of the development of the Kranj cultural district and presents an attempt to revitalise the old city centre. After the renovation, the municipality first chose NGO Puhart to manage the Layer house. However, neither the municipality nor the NGO had sufficient financial resources to run the House; therefore, Zavod Carnica (also NGO) took over the management of the House in 2011. The Layer House presents the first holistic art house project in Slovenia. In the diverse premises of the House, one can find a nice café with a bookshop, a souvenirs corner, a museum dedicated to the inventor of photography on glass, Janez Puhar (born in the same street), workshops and rooms for artistic activities, the Layer House gallery and the Mahlerca studio, as well as an outdoor exhibition space in the garden, called Forma Viva. The mansard attic features apartments for resident artists and tourists. The premises of the house and garden can be rented for gatherings, birthdays, parties, and weddings. The tower of Škrlovec now hosts an intimate concert hall and a pentagonal gallery. The Layer House is nowadays hosting a broad and colourful spectrum of exhibitions and art projects, evenings dedicated to music and theatre, cultural and tourist initiatives, workshops, and courses. The House also hosts festivals and events throughout the year, for example Pa Pir creative festival, FilmMixer independent film festival, Sobotna specialka urban intervention, Pleska fine arts and music festival, etc.

The form of PPC is Public-Private Collaboration. The Municipality of Kranj is the owner of the building and also partially finances the programme. The municipality also has control over the use of city property and monitors the work of the Layerjeva hiša. This ensures that the overall functioning of the House is jointly governed by both founders, while control over programming is in the hands of those who use its resources. Zavod Carnica is an NGO which operates in the field of culture and tourism. It manages the Layer house and runs the programme. Currently, Zavod Carnica can earn 75 % of the funds

needed to implement the programme, and the share is increasing in the last years from 50% in 2016 to 75% in 2018.

4. Use of the public-private partnership approach in the cultural heritage revitalisation

Public sector officials face the challenge of preserving and protecting cultural heritage objects over a long period of time but with limited financial resources. While the use of traditional forms of funding depends heavily on the availability of public authority budgetary capacities, the implementation of the Public-Private Partnership (PPP) model, which includes the private sector, can be a solution.

Generally, there is a low level of understanding of the public-private partnership term. A number of definitions exist, and none is widely accepted, despite the substantial knowledge collected on the topic, existing national regulations, and international guidelines²⁶. There is no consensus about how to define the Public-Private Partnership (PPP). There is no harmonised European Union regulation on PPP either. The Organisation for Economic Co-operation and Development (OECD) defines Public-Private Partnership as “long term contractual arrangements between the government and a private partner whereby the latter delivers and funds public services using a capital asset, sharing the associated risks”²⁷. PPP can be designed to achieve a wide array of objectives in various sectors, such as transport, social housing, and healthcare, and can be structured under different approaches. Most PPP have been implemented in the field of transport, which in 2016 accounted for one-third of the entire year’s investment, ahead of healthcare and education²⁸. Certain sectors are more naturally suited for private involvement than others (for example, energy versus education)²⁹. The following elements usually characterise PPP³⁰:

- The relatively long duration of the relationship, involving cooperation between the public partner and the private partner on different aspects of a planned project.

26 Jelinčić, D. A. et al., Public-Private Partnership in Cultural Heritage Sector. *Transylvanian Review of Administrative Sciences*, Special Issue 2017, p. 74-89.

27 OECD (2012). *Principles of Public Governance of Public-Private Partnerships*.

28 European Court of Auditors, “Public Private Partnerships in the EU: Widespread Shortcomings and Limited Benefits,” September 2018.

29 <https://blogs.worldbank.org/ppps/when-and-when-not-use-ppps>.

30 Kavaš, D. (2012). *Possible PPP models for cooperation in the Municipality of Ljubljana*. Ljubljana: Institute for Economic Research.

- The method of funding the project, in part from the private sector, sometimes using complex arrangements between the various players. Nonetheless, public funds - in some cases rather substantial - may be added to the private funds.
- The important role of the private partner, who participates at different stages in the project (design, completion, implementation, funding). The public partner concentrates primarily on defining the objectives to be attained in terms of public interest, quality of services provided and pricing policy, and it takes responsibility for monitoring compliance with these objectives.
- The distribution of risks between the public partner and the private partner, to whom the risks generally borne by the public sector are transferred. However, a PPP does not necessarily mean that the private partner assumes all the risks, or even the major share of the risks linked to the project. The precise distribution of risk is determined case by case, according to the respective ability of the parties concerned to assess, control and cope with this risk.

Despite different legal frameworks in the EU Member States, two basic forms of PPP can be recognised within EU countries³¹:

Contractual Public-Private Partnership

It is the most common model for implementing PPP projects. Mutual rights and obligations between contracting partners are based either on a concession model or an availability-based model. The contract prescribes all the essential elements of the business relationship, such as the term, method of service delivery, equipment standards or infrastructure and service as well as the fee-paying mechanism. By this form of relationship between public and private partners, partners maintain their own identity and responsibility. Often, the private sector assumes the responsibilities and risks associated with construction and accessibility and/or demand, while the public sector frequently does not participate in these obligations and risks, but it fulfils a regulatory or supervisory function in the provision of public services.

The public-private partnership statute (Institutionalized PPP)

It implies the establishment of an entity held jointly by the public partner and the private partner. The joint entity thus has the responsibility of ensuring the

³¹ PPP in Cultural Heritage Projects: Guidelines for the planning and preparation of cultural heritage projects according to the model of public-private partnership. RESTAURA.

delivery of a work or service for the benefit of the public³². It is based on a public-private relationship in which all rights, duties and risks are shared equally between partners. This model is used where the public sector is directly involved in the provision of public services and also takes on all the obligations and risks associated with the construction and maintenance of infrastructure availability.

The motivation for using PPP models is the assumption that private companies are more efficient than public bodies. The ultimate purpose of the cooperation between the public and private sector is added value: a qualitatively better product for the same money or the same quality for less money. In some cases, better accountability and the promotion of innovation are also mentioned as strategic objectives³³. PPPs are described in terms of three broad parameters³⁴:

1. The type of asset involved:
 - a. Many PPPs involve new **assets**, often called greenfield projects.
 - b. PPPs can also be used to transfer responsibility for upgrading and managing existing assets to a private company or brownfield projects.
2. What functions the private party is responsible for. Typical functions include:
 - a. **Design** (also called *engineering work*) - involves developing the project from initial concept and output requirements to construction-ready design specifications.
 - b. **Build, or Rehabilitate** - when PPPs are used for new infrastructure assets, they typically require the private party to construct the asset and install all equipment. Where PPPs involve existing assets, the private party may be responsible for rehabilitating or extending the asset.
 - c. **Finance** - when a PPP includes building or rehabilitating the asset, the private party is typically also required to finance all or part of the necessary capital expenditure, as described further in How PPPs Are Financed.
 - d. **Maintain** - PPPs assign responsibility to the private party for maintaining an infrastructure asset to a specified standard over the life of the contract. This is a fundamental feature of PPP contracts.

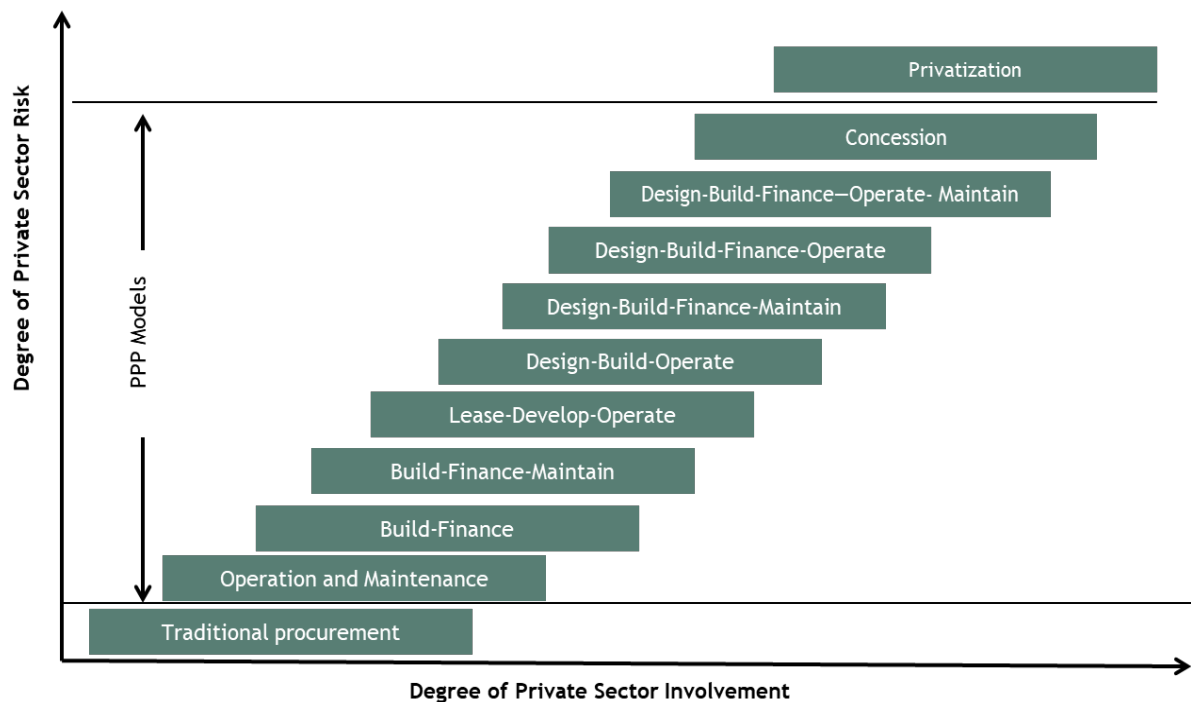
³² <http://regulationbodyofknowledge.org/faq/private-public-partnerships-contracts-and-risks/what-are-the-different-types-of-ppp-arrangements/>.

³³ Kavaš, D. (2012). Possible PPP models for cooperation in the Municipality of Ljubljana. Ljubljana: Institute for Economic Research.

³⁴ <https://pppknowledgelab.org/guide/sections/6-ppp-contract-types-and-terminology>.

- e. **Operate** - the operating responsibilities of the private party to a PPP can vary widely, depending on the nature of the underlying asset and associated service.
3. How the private party is paid according to its performance. The private party can be paid by:
- a. collecting fees from service users (*user-pays* PPPs),
 - b. the government (*government-pays* PPPs),
 - c. a combination of the two.

Figure 2: Scale of Public-Private Partnerships



Source: PPP in Cultural Heritage Projects: Guidelines for the planning and preparation of cultural heritage projects according to the model of public-private partnership. RESTAURA.

Public-private partnerships can be categorized based on the extent of public and private sector involvement and the degree of risk allocation. A spectrum of public-private partnership models is presented above.

One of the principal benefits of implementing projects under PPP arrangements is the ability to allocate risks to the party that can best mitigate them (Table 2).

Table 2: Typical primary risk allocations in a PPP arrangement

Risk	Risk Description	(Typical) Primary Allocation
Land Availability	Land required for the project is not available or has not been acquired; or There is uncertainty over the cost and time needed to acquire land.	Public
Legal & Regulatory	The terms and conditions of the PPP contract regarding the private operator's capacity to collect revenues and to seek reasonable tariff increases in accordance with the contract's price escalation formula are not fulfilled; or New laws or regulations are passed which increase the costs or reduce the revenue of the PPP contractor without fair compensation.	Public
Design	The design of the facilities is unable to meet the project's needs.	Private
Procurement & Construction	Budget, timing, and performance are not in accordance with the contract	Private
Transfer (End of Contract)	The condition of the project's assets at the end of the contract term (when they are transferred back to Government) is not in compliance with the PPP contract's maintenance & performance standards.	Private
Political/ Sovereign	The Government nationalises the project.	Public
Exchange Rate	The local currency depreciates in value relative to the hard currencies in which the project's loans and equity investments are denominated.	Public

Source: Nathan Associates. Public-Private Partnerships: A Basic Introduction for Non-Specialists: Topic Guide, 2017.

If too great a risk remains with the public sector, the benefit of the PPP arrangement diminishes; if too great a risk falls on the private sector, or if the cost of managing certain risks is too high, the project may achieve better outcomes via traditional procurement. There is no predetermined formula for risk allocation and projects must be assessed on a case-by-case basis.

Although there is no universal form of a PPP model at the EU level, each Member State regulates this area in accordance with its legislation.

Please check the following Restaura documents:

- [“Country report on the legal framework on Public-Private Partnership \(PPP\): SLOVENIA”](#)
- [“Country report on the legal framework on Public-Private Partnership \(PPP\): POLAND”](#)
- [“Country report on the legal framework on Public-Private Partnership \(PPP\): CROATIA”](#)
- [“Country report on the legal framework on Public-Private Partnership \(PPP\): SLOVAKIA”](#)

PPPs are specific types of collaborations, and even though they have a great potential to deliver value for money and innovation, PPPs are not a miracle solution, and their applicability must be assessed on a case-by-case basis. A balance between the aims and needs of the PPP partners needs to be ensured. Public entities, which do not have purely commercial goals, have their focus on fulfilling the obligation to deliver public policies, which often are not economically profitable. On the other hand, the gaining of profit is a crucial interest for the private partners. Establishing and running a successful PPP between these two sectors is a challenging venture and will often face certain legal challenges³⁵. PPP projects are often more expensive than public financed and operated projects. This is simply due to private sector's higher cost of capital, high transaction costs and private profits, because private companies that engage in PPP projects expect a return on investment after the completion of the project³⁶. Hence, it is important to look beyond the simple financing costs to understand why PPPs often provide more value for the money. And another way of thinking about value is to think about what the desired outcomes of the project are³⁷.

³⁵ Andrecka, M. (2015). Legal Framework for the Procurement of Public-Private Partnerships - an Australian Perspective in the European Union Context. In *Scandinavian Studies in Law: Comparative Law* (pp. 385-409). Stockholm: Stockholm Institute for Scandinavian Law. *Scandinavian Studies in Law*, Vol. 61.

³⁶ https://en.wikipedia.org/wiki/Public-private_partnership.

³⁷ <https://www.europeaninstitute.org/index.php/ei-umd-articles/2255-designing-public-private-partnerships-that-work>.

It is not possible to be absolutely definite about when the PPP is the most appropriate solution for delivery of public services from the point of view of the public sector. Best practice suggests that this should be determined on a case-by-case basis. But it is possible to identify a number of factors which make a PPP more, rather than less likely to be suitable³⁸:

- The amount of the transaction is a factor, given the relative complexity of, and time needed for, the procurement of a PPP. In the UK, for example, where the average time for a PPP procurement exceeds two years (data for 2007), PPPs are not to generally be used for schemes with a total value of less than 20 million (c. €30 million). Many governments define a minimum size for PPP projects implemented under the PPP framework. Small PPP projects may not make sense because of the relatively high transaction costs - although there is evidence of a few cases, in which small PPPs have been successful. In Singapore, PPPs are only pursued for projects with an estimated capital value of over \$50 million³⁹. The costs of evaluating, executing, and monitoring infrastructure projects are always high, therefore, the ratio of such costs to the returns that can be earned, is simply not very attractive to lenders. As the size of the project increases, transaction costs, as a percentage of the total capital cost, of the project decline. Since transaction costs do not increase proportionally with the capital value of the project, transaction costs for smaller projects are usually higher than for larger projects⁴⁰.
- Free standing and partly free-standing PPPs, where there is income directly from user charges, are obvious candidates, though governments need to ensure, that in the case of schemes in the cultural and sporting sector, the business plans for them are sound, to avoid the risk that the municipality may involuntarily have to take over the service provision directly. It is therefore no accident that PPPs in many countries have started in the transport sector. For public service PPP, relevant indicators include relative ease and precision of specification of service requirements, ease of measurement of performance and services for which the technology is well established and well understood.
- Another key requirement is the extent to which the service needs are likely to change materially over the length of a long PPP contract time.
- The sustainability of risk transfer is also important in determining the suitability of a service for PPP, because the valuation of risks transferred in

³⁸ Burnett, M. Public-private partnerships (PPP): a decision maker's guide. European Institute of Public Administration, 2007.

³⁹ <https://pppknowledgelab.org/guide/sections/23-ppp-program-scope>.

⁴⁰ Wouter, T., De Moor, L. (2017). Constraints related to developing small-scale PPPs and how to reduce them. International Journal of Managing Projects in Business 10(1), p. 109-120.

a PPP from the public authority to the private sector partner is a key element in assessing the suitability of the PPP model.

Implementing successful PPP projects requires considerable administrative capability that can be ensured only through suitable institutional and legal frameworks and long-lasting experience in the implementation of PPP projects⁴¹. PPPs are arrangements that require significant input from both the public and private sectors. Although the private sector may construct and own an infrastructure asset, the public sector still has a large role to play throughout the process of a PPP project, particularly in the project preparation phases. The various responsibilities typically undertaken by the public and private sectors during a PPP arrangement are outlined below⁴².

Public sector role

- Establish project objectives.
- Accountability to citizens.
- Project identification, assessment, and prioritisation.
- Project preparation (including feasibility studies, value for money analyses and the review of unsolicited proposals).
- Pursue a market-oriented approach (consult stakeholders during all stages of PPP cycle).
- Project tendering and selection (including the hiring of advisors, drafting the contract, selecting the winning bidder, ensuring that proper financing and insurance have been obtained).
- Project monitoring (monitoring contract compliance).

Private sector role:

- Ensure financial and technical capacity throughout all phases of the project (project preparation, selection, monitoring).
- Compete in bidding process fairly and offer the government an optimal value for money
- Ensure services provided comply with the contract and remain in line with the quality expected by users.

⁴¹ European Court of Auditors, “Public Private Partnerships in the EU: Widespread Shortcomings and Limited Benefits,” September 2018.

⁴² Nathan Associates. Public-Private Partnerships: A Basic Introduction for Non-Specialists: Topic Guide. EPS PEAKS, 2017.

- Sharing expertise and know-how with the public sector to build wider institutional capacity.
- In certain roles, the private sector may also act as a transaction advisor and advise the public sector on how to tender and structure a project.

The use of the PPP approach can by no means be seen as a solution for all projects, it is just one form of procurement, suitable for projects of the right risk, scale, and operational profile. PPP is not immune to planning and legal delays and it is not a special category of infrastructure or free money or a panacea⁴³. PPP has many advantages and disadvantages.

⁴³ <https://www.oecd.org/gov/budgeting/D2-AM%20-%2056%20-%20Annette%20CONNOLLY%20-%20Ireland.pdf>.

Table 3: Advantages and Disadvantages of Public-Private Partnership

PPP ADVANTAGES	PPP DISADVANTAGES
Ensure the necessary investments into the public sector and more effective public resources management;	Infrastructure or services delivered could be more expensive comparing to the traditional public procurement approach;
Ensure higher quality and timely provision of public services;	PPP project public sector payments obligations postponed for the later periods can negatively reflect future public sector fiscal indicators;
In most cases investment projects are implemented in due terms and do not impose unforeseen public sectors extra expenditures;	PPP service procurement procedure is longer and more costly in comparison with traditional public procurement;
A private entity is granted the opportunity to obtain a long-term remuneration;	PPP project agreements are long-term, complicated, and comparatively inflexible because of impossibility to envisage and evaluate all particular events that could influence the future activity.
Private sector expertise and experience are utilized in PPP projects implementation;	
Appropriate PPP project risks allocation enables to reduce the risk management expenditures;	
In many cases, assets designed under PPP agreements could be classified off the public sector balance sheet (statistical treatment of PPPs).	

Source: Ministry of Finance of the Republic of Lithuania.

Please check the following Restaura document: [“Handbook on Public Private Partnership \(PPP\) in Built Heritage Revitalisation Projects”](#).

PPP arrangements are more complex than conventional public procurement. They require detailed project preparation and planning, proper management of the procurement phase to incentivise competition among bidders. They also require careful contract design to set service standards, allocate risks and reach an acceptable balance between commercial risks and returns. One of the most important elements of any PPP is clear allocation of responsibilities and accountability between all parties involved. In other words, any PPP arrangement must clearly establish the allocation of rights, obligations, and responsibilities between the private and public sectors. These features require skills in the public sector which are not typically called for in conventional procurement.

Table 4: Differences between PPP and traditional public procurement

	UNDER A PUBLIC-PRIVATE PARTNERSHIP	UNDER TRADITIONAL PUBLIC PROCUREMENT
Project Development Costs	Project development costs under a PPP are usually higher than with traditional government procurement because PPPs require detailed analysis in the form of Value for Money/Cost Benefit Analysis, Pre-Feasibility and Feasibility Studies. These studies require analysis carried out by outside advisors and these costs are paid by the public sector.	Project development costs under traditional government procurement are typically much lower than with a PPP.
Construction Costs	The private party is responsible for the construction costs and, therefore, is incentivised to construct the asset on-time and within budget. Any overspend in construction has a direct effect on the private sector's profit. However, PPPs require more stringent regulatory control to ensure that the private party meets all contracted elements and delivers expected value for money.	The public sector pays the costs of construction, which requires a large amount of capital during the initial stages of the project. Additionally, contractors are subject to government procurement laws which are often inflexible; they limit innovation and can prolong the process.
Financing Costs	Financing (the cost of interest) from the private sector is more expensive than financing a project with public sector money.	Financing (the cost of interest) is cheaper than it would be with the private sector.
Planning Time	The Planning Phase (including Project Identification and Project Preparation) usually takes about 9-12 months. During this phase, the government will conduct various analyses such as value for money and feasibility analysis.	A short turnaround may be a priority for certain projects and therefore traditional government procurement may be attractive, however, without detailed feasibility analysis it is probable that the project could suffer in the future due to low traffic levels or higher construction costs.

Procurement Period	<p>Tendering and Bid Selection for PPP is much longer than traditional government procurement, typically lasting 6-12 months, due to the required competitive bidding process. The bid process would usually involve both an EOI and Proposal stage both of which involve additional market sounding, stakeholder consultations and coordination of multiple parties.</p>	<p>With typical government procurement, the period between tendering and bid selection is usually much shorter than with a PPP arrangement.</p>
Project Contract	<p>In PPP, some, or all of the phases under the project contract can be awarded to one bidder. By allowing one contractor control over the whole life cycle of a project, it allows for greater innovation in planning as well as lower construction and operational costs as the performance of each subcontractor will affect the overall profits for the contractor. In addition, there are clear advantages of having continuity and consistency between the different PPP process phases as well as a “project manager” responsible for pushing the project forward.</p>	<p>Each phase of the project can be contracted out to different bidders thus removing the contractor’s incentives to efficiently manage and coordinate any subcontractors to finish on time and within budget. However, having separate advisors in charge of the preparation phase and the procurement phase of the PPP process can bring the advantage of independent and unbiased feasibility and project appraisal.</p>
Retained Risk	<p>The party that is best positioned to manage a risk will assume the risk. This allows for an equal share of risk and reward between the public and private sector.</p>	<p>The public sector carries all the risk, even risks relating to construction and design of the project.</p>

Source: Nathan Associates. Public-Private Partnerships: A Basic Introduction for Non-Specialists: Topic Guide, 2017.

The PPP projects are developed and implemented in line with the project cycle. It is the series of steps that is followed by a typical PPP project from the time that the project scope is initially defined, through to its completion and delivery of the related services. The project cycle is divided into four phases, with each phase divided into two stages (Table 5).

Table 5: PPP project cycle

PHASES	STAGES	STEPS
1. Project Identification	1.1 Project selection and definition	Identification
		Output specifications
	1.2 Assessment of the PPP option	Affordability
		Risk allocation
		Eurostat treatment
		Bankability
2. Detailed Preparation	2.1 Getting organised	Project team
		Advisory team
		Plan and timetable
	2.2 Before launching the tender	Further studies
		Detailed PPP design
		Procurement method
3. Procurement	3.1 Bidding process	Bid evaluation criteria
		Draft PPP contract
		Notice and prequalification
		Invitation to tender
		Interaction with bidders
		Contract award

	Final PPP contract
3.2 PPP contract and financial close	Financing agreements
	Financial close
4. Project Implementation	Management responsibilities
	Monitoring service outputs
	4.1 Contract management
	Changes to the PPP contract
	Dispute resolution
	PPP contract termination
4.2 Ex post evaluation	Institutional framework
	Analytical framework

Source: The Guide to Guidance: How to Prepare, Procure and Deliver PPP Projects, 2011.

The PPP project cycle can be complex and time consuming, taking between one and three years to reach contract signing before a project begins construction and operations⁴⁴. There is no fast-forward to success when it comes to PPPs. They can bring great benefits, but this outcome requires time, effort, and investment.

Due to the limited financial resources, the implementation of the Public-Private Partnership (PPP) model, which includes the private sector, can be a good solution in the revitalisation of the cultural heritage. In Europe, the government has been seen as the primary guardian of the nation's heritage, but with the growing pressure to fulfil other public demands and insufficient resources (money and management skills). Most governments faced significant challenges in their efforts to conserve and manage their cultural heritage assets⁴⁵, therefore, especially in the UK, USA, and Australia the use of PPPs has slowly expanded to the conservation and management of a range of heritage places, including archeological sites, buildings, landscapes, urban areas, collections,

⁴⁴ Nathan Associates. Public-Private Partnerships: A Basic Introduction for Non-Specialists: Topic Guide. EPS PEAKS, 2017.

⁴⁵ Macdonald, S. 'Leveraging Heritage: Public-Private, and Third Sector, Partnerships for the Conservation of the Historic Urban Environment', ICOMOS 17th General Assembly, Paris, France, 2011.

and natural areas of heritage significance⁴⁶. In the UK, USA and Australia for many (but not all) heritage PPP, the public partner is local government. Public-private partnerships (PPP) in heritage protection are not common in most of EU countries. They are used in countries (for example in Italy), where the Carabinieri Department for the Protection of Cultural Heritage recognizes donations (“erogazioni liberalior mecenatismo culturale”), based on tax exception or reduction, and sponsorships, which promote conservation and the enhancement of cultural heritage. The sponsor’s endeavour is rewarded through the positive association between the project and the sponsors name, image, or brand. Most heritage protection funding relates to national state budgets. There are hardly any examples of private bodies, apart from listed property owners, who are responsible for keeping cultural heritage sites in good technical condition, especially in Eastern Europe countries⁴⁷.

Most heritage PPPs, especially those within more developed economies, are “white elephant” buildings. Those buildings are difficult to reuse, therefore the private sector, by itself, rarely takes the lead. Heritage PPPs usually involve finding creative new uses for an existing structure, known as “adaptive reuse”, turning long underutilized structures into museums, community centres, or converting them for commercial use. In some cases, heritage PPPs turn previously defunct or abandoned historic buildings into hotels, as seen with Spain’s Paradores, or “castle-hotels”, which have transformed heritage sites into luxury accommodations. In many heritage PPPs, non-governmental organizations also play a prominent role in the success of the project. Often referred to as the “third sector”, local residents may also be represented in this group, which serves to represent the social interests within the community⁴⁸.

The use of PPPs in cultural sectors is relatively recent and rather limited. A key barrier is represented by the poor profitability of cultural assets that are included in the category of so-called “cold investments”, unable to generate adequate cash flow without a public intervention. The latter is essential to the viability of the PPP: the economic activity financed shall be economically and financially sustainable to assure profits able to allow the coverage of costs, the reimbursement of the debt and, at the same time, the profitable management of the activity, according to the rules of private entrepreneurship⁴⁹.

⁴⁶ Macdonald, S. and Cheong, C., ‘The Role of Public-Private Partnerships and the Third Sector in Conserving Heritage Buildings, Sites, and Historic Urban Areas’, Los Angeles: The Getty Conservation Institute, 2014.

⁴⁷ Veldpaus, L.; Fava, F; Brodowicz, D. (2019). Mapping of current heritage re-use policies and regulations in Europe: Complex policy overview of adaptive heritage re-use. OpenHeritage.

⁴⁸ <https://pppknowledgelab.org/sectors/heritage-sites>.

⁴⁹ Allegro, I., Lupu, A. Models of Public Private Partnership and financial tools for the cultural heritage valorisation. Urbanistica Informazioni. Special Issue 2018, p. 1-5.

For public-private partnerships to be effective, there must be clearly defined roles for each of the partners⁵⁰.

- **Public partner:** In many parts of the world the heritage building is already owned by a level of government. In other circumstances it may be a necessary role of the public partner to acquire the property from the current owner for reconveyance into the partnership entity. The issue of (in)adequate infrastructure is essential. Often in conjunction with improving infrastructure the public partner will designate the neighbourhood around the heritage PPP as a targeted redevelopment area to encourage other private and public sector investment surrounding the property. Finally, the public partners in heritage PPPs may need to rethink their overall public policies and adjust them to further increase the likelihood of success. This might mean reviewing and changing such policies as land use ordinances, zoning, parking requirements, vendor permits, etc.
- **Private partner:** The private sector partner nearly always would be expected to bring financial capital, real-estate development and construction expertise. Depending on the specifics of the transaction, the private partner role might involve long-term ownership or long-term possession of the property with or without occupancy of the private partner. Unless the transaction was solely for improving the heritage building for the long-term occupancy of the public sector, the management of the property over the term of the agreement would be the private partner's responsibility as well as marketing of the space within the building. It is worth considering that the private sector in a PPP can be represented by not-for-profit organisations (e.g. associations), which re-invest their income for the realisation of their statutory goals and not just for sharing profits among shareholders⁵¹.
- **Third parties (i.e., NGOs):** Identify critical heritage buildings that might be appropriate for redevelopment through a public-private partnership, advocate for putting public and political pressure on the government to act and rally public and political support for the project moving forward. During the revitalisation, third party organisations provide ongoing oversight to assure quality rehabilitation and serve as the public face for the project; assist public partner in marketing the project to potential private partners.

The basic elements determining PPP projects success are projects suitability to PPPs proper evaluation and selection of correct PPP form on case-by-case basis. Prior to engaging in PPPs, the public authority needs to assess and with a relief of economic calculations to justify the benefit, efficiency, and possible treats

⁵⁰ Rypkema, D., Cheong, C. Cultural heritage and public-private partnership. 2016. In Rypkema, D. and H. Mikić. Cultural Heritage and Creative Industries: guidelines for sustainable heritage management, p. 25-35.

⁵¹ https://resources.riches-project.eu/wp-content/uploads/2016/04/rch_thinkpapers_07.pdf.

of foreseeable PPP form⁵². A considerable amount of literature exists on PPPs in general, but the literature on their use in achieving the conservation of cultural heritage is limited⁵³. The basic concept of PPP in cultural heritage projects is based on the so-called Decision to rent or buy, well known in corporate finance sector. The public sector will enter into a long-term contractual relationship with a private sector entity in which this private partner performs all or part of the commitment instead of the public partner. In such a relationship, the public sector retains only a supervisory and/or regulatory role, prescribing the conditions that the private sector must meet and it is not involved in. In the case of a contract implemented in this manner, the private sector receives benefits from end-users and/or the public sector⁵⁴.

Criteria for the successful implementation of the PPP model in cultural heritage projects are the following⁵⁵:

- Identifying the public need for projects to revitalise cultural heritage;
- Analysis of the payment capacity of the public sector;
- Setting up a project team to implement the project;
- Comprehensive project design preparation;
- Implementation of "open door" - market testing.

Please check the following Restaura document: ["PPP in Cultural Heritage Projects: Guidelines for the planning and preparation of cultural heritage projects according to the model of public-private partnership"](#).

⁵² <https://finmin.lrv.lt/en/competence-areas/public-and-private-partnership-ppp/ppp-advantages-and-disadvantages>.

⁵³ Macdonald, S. and Cheong, C., 'The Role of Public-Private Partnerships and the Third Sector in Conserving Heritage Buildings, Sites, and Historic Urban Areas', Los Angeles: The Getty Conservation Institute, 2014.

⁵⁴ PPP in Cultural Heritage Projects: Guidelines for the planning and preparation of cultural heritage projects according to the model of public-private partnership. RESTAURA.

⁵⁵ PPP in Cultural Heritage Projects: Guidelines for the planning and preparation of cultural heritage projects according to the model of public-private partnership. RESTAURA.

PRACTICAL EXAMPLE

Example of a Public-Private Partnership project in heritage revitalization: the case of Varaždin County Palace, Croatia

Revitalization of the Varaždin County Palace is the first and only example of Public Private Partnership Investment in revitalization of cultural heritage in Croatia. The Palace is on the list of protected cultural goods of the Republic of Croatia from 1974 (Register of cultural goods of the Republic of Croatia / Z-897). It was built in the Rococo style in 1768 by the master builder Jacobus Erber for the conditions and needs of the City of Varaždin and destroyed in the fire of 1776. Over the years it gradually dwindled in significance, and this resulted in its being neglected and inappropriately used and furnished.



Photo 2. View of the main facade of Varaždin County Palace (present condition)

Source: Varaždin Tourist Board, <http://www.tourism-varazdin.hr/en/the-historic-core/>

Renovation of the Palace began in the 1990s. It was a slow process due to the lack of funding. The greatest amount of renovation took place in 2006, when sufficient funding was assured through a public/private partnership. This allowed the Palace to be renovated in a relatively short period of time.

Main information:

- *Public partner: Varaždin County.*
- *Private investor: Meteor-Privatno Partnerstvo d.o.o.*
- *Expected duration of contract: 20 years.*
- *Contract subject: Private investor finances the construction and maintenance of the Palace owned by the County for a period of 20 years,*

while the County pays a monthly rental fee to private partner covering the cost of financing investment and maintenance of the Palace.

- *The estimated capital value: 1.197.000 EUR (excluding VAT).*
 - *After the adoption of the Public-Private Partnership Act (OG 129/08) in 2008, the Varaždin County Palace project has been submitted and registered to the national Register of PPP contracts managed by the Agency for Investment and Competitiveness (AIK).*
 - *A great restoration and conservation project has returned the Palace to its original condition, and now it once again houses the Varaždin County Headquarters - its original purpose for which it was built.*
-

5. How and when to test the appropriateness of Public-Private Cooperation approaches for the revitalisation of cultural heritage buildings

Cultural heritage assets come in many different shapes and sizes, and the way in which they have been used in regeneration/revitalisation projects varies enormously, from large area-based initiatives to single-asset projects. In the process of the revitalization of CH buildings it is crucial to find a viable economic use of the building taking into account equilibrium between development and conservation. There is a cost to not endeavouring to successfully integrate heritage assets into area-based regeneration schemes and simply putting them to one side as “too difficult”. A heritage asset that does not receive sufficient care and maintenance can quickly fall into disrepair. This can lower the overall environmental quality of the area and counteract the positive effects of wider regeneration initiatives that are taking place. The cultural heritage revitalisation projects should not stop with renovation. In order to revitalise cultural heritage buildings or even regenerate a whole urban area, it is just as important to develop the content and valorise the site⁵⁶. Projects can vary significantly in their objectives, scope, and scale. Smaller projects might involve modest financial resources and last only a few months, whereas a large project might cost a few millions of Euro and last for many years. Projects could require:

- New investments (usually large projects) and/or
- (small) renovation and purchasing of new equipment and/or
- new programme/general management (new content).

Due to the limited financial resources (budget constraints) and potential shortcomings of the public sector (lack of skills, management, and content rigidity) the use of Public-Private Cooperation approaches can be a good solution in the revitalisation of the cultural heritage buildings. Testing appropriateness of Public-Private Cooperation approaches for revitalisation of cultural heritage buildings is a part of the project identification and selection system based on the project cycle. Adequate project identification and selection system is essential to prevent inappropriate and inefficient projects from getting the public support, gaining political support and momentum that make them difficult to stop at later, more advanced stages of the project cycle.

⁵⁶ Heritage Works: The use of historic buildings in regeneration: A toolkit for best practice in heritage regeneration. British Property Federation, the Royal Institution of Chartered Surveyors, Historic England, 2017.

In the text below, project cycle phases, based on pilot projects methodology and activities related to the PPC process, are presented.

At some point in the process of identifying priority public investments, or sector reform options, projects may be screened for their potential to be implemented as a PPP. The objective of this screening is to identify, based on the available information, whether the project may provide better value if implemented as a PPP. In practice, different governments do this PPP screening at different stages⁵⁷. The same is true for public-private collaboration approach, but because PPColl approach is less complex, decision when and how to use could be taken during all phases of the project cycle.

PHASE 1: PROJECT INITIATION

1.1 Form a good project team

Involve knowledgeable and experienced experts. If you do not have adequate knowledge and experience, external experts should be used.

1.2 Build a cooperative approach from the start

Informal consultations with stakeholders, including the private and third sector.

1.3 Develop the project concept and carry out an ex-ante assessment

Among other topics the following is assessed:

- Future use and project concept development: the content (the content is the key to assess potential PPC model).
- Needs related to desired future use: required improvements of the site, financial aspect.

1.4 Feasibility study

As part of the feasibility study an analysis of the possibility of public-private co-operation (PPC) (initial screen) should be carried out. Analysis of the potential forms of PPC options, among others, public-private partnership (PPP) as one of possibilities for implementing a revitalization project must be evaluated and compared with at least one of the other implementation models. The key principles in justifying the decision on the PPP option are the following (initial assessment):

⁵⁷ Public-Private Partnerships: Reference Guide Version 3. World Bank, 2017.

- Affordability.
- Risk allocation.
- Accounting treatment.
- Bankability.

The final decision on how to continue with the project to a large extent depends on the characteristics of the project: content, size (financial terms), technology, predictability, cashflow, etc.

CHARACTERISTICS OF THE PROJECT	POTENTIAL APPROACH
New investments (large project) and (small) renovation and purchasing of new equipment and new management, including new content.	Potential PPP (investment + management) or PPC (management) or traditional public investment.
New investments (small projects) and (small) renovation and purchasing of new equipment and new management, including new content.	PPC (management) or traditional public investment.
Small renovation and purchasing of new equipment and new management, including new content.	PPC (management) or traditional public investment.
New management, including new content.	PPC (management) or traditional public investment.

There are different possible actions that have different degrees of PPC:

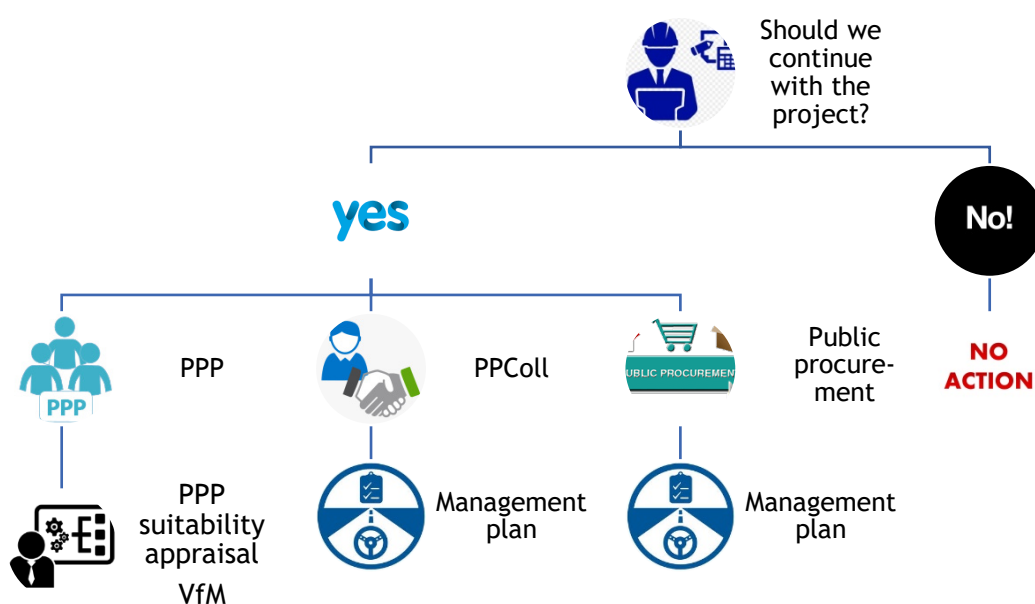
- design, construction / renovation work and management (spaces that need to be renovated and that will then be used as conference, production, exhibition, restaurant area, offices, housing, etc.);
- general management: examples and concepts of private-public management of the site;
- program management:
- management of activities: innovative ways of connecting private and public partners on program management and technical work (i.e., collaboration with private companies in stage lighting, sound etc.);

- marketing (i.e., collaboration with private companies to promote activities, to search for private partners and to identify and involve media partners in a PPP etc.);
- management of secondary activities: the interest is to include compatible activities which would fit in the global project not just in the financial sense but also content-wise: shops, bookshops, rent a desk project, restaurants, bars, other services attracting a variety of people.

After completion of the feasibility study, the next decision should be taken:

- Should we continue with the project: Yes, or No?
- If the answer is No, no further steps should be taken.
- If the answer is Yes: Is there an option to involve private partners and which form of public-private cooperation is the most appropriate? Public-private partnership or public-private collaboration.
- If the answer is No, the traditional public investment approach should be used.

Figure 3: Potential decisions taken after the completion of the feasibility study



If Public-private partnership is an option, suitability of the project as a PPP should be assessed in the next stage (PPP suitability appraisal and initial qualitative Value for Money (VfM) assessment): Assessment of a project's suitability for procurement through a PPP by examining project characteristics and framework conditions.

Please check: [PPP Project Preparation Status Tool, EPEC](#)

PHASE 2: PROJECT INITIATION

2.1 Prepare the management plan

Management plan is a strategic and implementation document for cultural heritage sites. The basic structure of the project management plan, which we use here as the generic term for the strategic and implementation document for cultural heritage sites, consists of 5 key areas:

- **Why?** Your objectives, the vision/purpose of the site operator with regard to the CH building. This refers to long-term strategic decisions.
- **With Whom?** Your stakeholders. This refers to the four basic groups of stakeholders for non-profit cultural organisations: community, academia, business, public administration.
- **What?** Your services/products. This refers to the services and products that the organisation delivers, how they are delivered, what key activities are necessary and what their costs are.
- **How?** Your revenue model. This refers to the sources that the organisation uses to capture value and attract resources. It is divided into earned income (mission-related and mission non-related) and contributed income (monetary contributions and non-monetary contributions).
- **When?** Project implementation plan.

Depending on the project specifics, some of the above-mentioned sections should be given greater/smaller attention.

PHASE 3: PROJECT IMPLEMENTATION

3.1 Pilot manager selection

In case that you will have an external private pilot manager (public-private collaboration), you should appoint one (the team) at this stage. The tender could be based on management plan and other information related to the cultural heritage site (programme financing, planned renovation of the building, planned purchase of the equipment ...). Draft business plan based on information

provided by the local government and a forecast list of expenditures should be provided by the tenderers.

In the case of the public-private partnership PPP the following phases should be carried out:

1. Project preparation (Managing and planning the process; Developing the PPP project).
2. Project procurement (Tendering process; PPP contract and financial close).

Please check the following Restaura documents:

1. [“PPP in Cultural Heritage Projects: Guidelines for the planning and preparation of cultural heritage projects according to the model of public-private partnership“](#)
2. [“Guidebook for Local Authorities on PPP in heritage revitalisation strategies”](#)

3.2 Programme management

Management of the CH building in line with the:

1. Management plan and
2. Contract: in the case of Public-private partnership or public-private collaboration: managing changes of the contract (if needed), dispute resolution.

3.3 Regular monitoring and evaluation

To be able to evaluate the progress of the project, the system of regular monitoring (each half a year or each year) needs to be established first. Monitoring provides stakeholders with relevant data and information about the progress or delays related to planned project activities, outputs, and deliverables. It enables local government to monitor and manage project delivery and service outputs.

The data, gathered in the monitoring process, provide input for (internal) mid-term and final evaluation.

6. Lessons learned

Lessons learned concerning the appropriateness of public-private cooperation (PPC) approach in cultural heritage revitalisation:

- Public budget spending for culture is steadily decreasing and public-private partnership (PPP) models are often seen as possibilities to obtain additional financial means.
- There is no consensus about how to define Public-Private Partnership (PPP). There is no universally accepted definition of PPP, as it is not a “one-size-fits-all” approach and many countries adapt the PPP model to their specific needs. There is no harmonised European Union regulation on PPP either. According to the definition used in the ACT4PPP, SECOND CHANCE and Forget Heritage project, PPP is a form of Public-Private Cooperation concept. The types of Public-Private Cooperation vary with regard to the duration of obligations, the complexity of included tasks, the level of risk transfer and integration of a value chain. The options are: Public-Private Collaboration, Public-Private Partnership (PPP), Public-Private Joint Venture. In the last years, new concepts as Public-Private-Civic Cooperation or Public-Private-People Cooperation are used.
- Donations and sponsorships heavily depend on the commercial aspects (i.e., marketing possibilities) of the project. Therefore, projects should concentrate on identifying such aspects and market them to potential donors.
- A clear vision and mission as well as the possibility of aligning the interests of various stakeholders in the respective cultural activity are of particular importance in finding partners because many cultural activities compete against each other for the attention of companies and private donors.
- Besides the financial aspect of public-private collaboration, public-private collaboration also includes various forms of joint program-related activities such as the management of cultural and artistic activities and the related technical work, marketing activities and complementary secondary activities such as bookshops, restaurants, bars, and various other services attracting a variety of people. Tasks within these activities can be separated and then allocated to different partners: public bodies, private companies, or institutions of civil society.
- It is worth considering that the private sector in a PPC can be represented by not-for-profit organisations (e.g. associations), which re-invest their income for the realisation of their statutory goals and not just for sharing profits among shareholders.
- Each project is very specific due to different project characteristics as well as relevant regulation and legal framework in the respective countries. That

is why each partnership has to be carefully developed and customised for every single case.

- PPPs have been used in a wide range of sectors to procure different kinds of assets and services. In all cases, a PPP project constitutes or contributes to the provision of public assets or services; and it involves long-life assets.
- PPP arrangements are more complex than conventional public procurement. They require detailed project preparation and planning as well as proper management of the procurement phase to incentivise competition among bidders. They also require careful contract design to set service standards, allocate risks and reach an acceptable balance between commercial risks and returns.
- PPP is not a miracle solution, and its applicability must be assessed on a case-by-case basis. A balance between the aims and needs of public and private partners needs to be ensured, because the public entities do not have purely commercial goals and private partners are primarily interested in the profit. There are several prerequisites that need to be in place, to ensure that a PPP works.
- Certain sectors are more naturally suited for private involvement than others (for example, energy versus public education).
- The PPP project cycle can be complex and time consuming, taking between one and three years to reach contract signing, before construction and operations begin. There is no fast-forward to success when it comes to PPPs. They can bring great benefits, but this outcome requires time, effort, and investment.
- Typical obstacles that come with small PPPs are relatively high transaction costs. The costs of evaluating, executing, and monitoring infrastructure projects are always high, therefore, the ratio of such costs to the potential returns, is simply not very attractive to lenders. As the size of the project increases, transaction costs, as a percentage of the total capital cost of the project, decline. Since transaction costs do not increase proportionally with the capital value of the project, transaction costs for smaller projects are usually higher than for larger projects.
- Implementing successful PPP projects requires considerable administrative capability that can be ensured only through suitable institutional and legal frameworks (national, regional level) and long-lasting experience in the implementation of PPP projects. PPP projects should be effectively managed in order to provide adequate value-for-money. Therefore, very limited number of projects of revitalisation of cultural heritage uses PPP approach, especially in the Central Europe. It is demanding, long-lasting and potentially more expensive approach compared to traditional publicly financed projects. PPPs are not necessarily a magic bullet cure for the

problems of scarce resources, mismanaged cultural heritage and the unique solution to the addressed challenge.

- The selection of a PPC option, especially PPP should be based on sound comparative analyses, otherwise the outputs and results achieved will not be in line with forecasts. It is important to look beyond the simple financing costs to understand why PPP often provides more value for the money. Another way of thinking about value is to think about what the desired outcomes of the project are.
- It has been shown that a set of different partnership, contract, financing, and business models exist, which can be used to structure an urban development/heritage project. Each project can be structured differently, in order to best and most efficiently fulfil the objectives of the project. Moreover, projects can be differently procured due to European legislation. In addition, country-specific legislation, and regulation, as well as the institutional setup, will have an effect on the decision about the most suitable partnership model for (urban) development.
- There are hardly any examples of private bodies, apart from listed property owners, who are responsible to keep cultural heritage sites in good technical condition, especially in Eastern Europe countries.