

# **Public Private Partnership as an urban regeneration tool for the inner city, large-scale public space projects in Poland**

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## **1 ABSTRACT**

Regeneration of inner city areas in conjunction with the development of public open spaces is a complex enterprise in Poland in terms of the managerial, financial and legal aspects of this process. Public spaces are not of prime importance for private sector actors. Due to limited funding available, Polish municipal governments are often unable to finance large public space projects on their own. One of the available tools, enabling them to implement regeneration projects is the Public Private Partnership Act of 28th June 2005. In the context of public space design PPP can be considered a hybrid between the public tasks and private capital that operates in the domain traditionally associated with public sector. Therefore in the Polish context PPP can be considered an excellent development mechanism for difficult inner city regeneration projects.

The paper focuses on two recent case studies presenting the use of PPP in inner city regeneration projects in Poland. Projects in Sopot and Bielsko-Biala will illustrate the benefits and drawbacks associated with use of this tool. The paper will also focus on differences between the Polish PPP's more normative character as opposed to the more functional approaches defined by other definitions (European Commission, EBI, Standard & Poor, etc).

## **2 THE REGENERATION OF PUBLIC SPACE BY USING THE PPP MODEL**

### **2.1 Regeneration of the inner city, large-scale public space in Poland**

Problems connected with regeneration of public spaces in Poland based on Public Private Partnership are an important research problem. Polish cities lacking funds for public investment, and contemporary urban planning in Poland is full of spatial, economical and social problems when preparing the projects of regeneration of the inner city, large-scale public space.

### **2.2 The PPP model in Polish perspective**

Within the context of public space design, Public Private Partnership can be considered a hybrid between the public tasks and private capital that operates in the domain traditionally associated with public sector. Therefore within the Polish context, PPP can be considered an excellent developmental mechanism for difficult inner city regeneration projects.

#### **2.2.1 Public Private Partnership Act of 28th June 2005 in relation to other definitions**

One of the available tools, enabling the implementation of regeneration projects in Poland is the Public Private Partnership Act of 28th June 2005. This Polish PPP Act is based on an agreement of cooperation between the public and private sectors that leads to achievement of a public task. The matter of agreement is the fully paid realization of a specific investment by a private actor for the benefit of a public partner. The private actor is obliged to bear the costs as a whole or in part. Public Private Partnership, in the understanding of the Act, essentially leads to more predominant benefits for the public sector than other possibilities for realization of the investment. The particular benefits for the public sector are savings in the public actor's expenses, as well as raising the standard of services and lowering the negative impact of the surroundings that need investment.

The meaning of public private partnership can be defined in different ways. According to EBI (European Investment Bank), PPP means using capital and experience of the private sector in order to afford public tasks. The European Commission's definition emphasizes the variety of formal cooperation between two partners (public and private) that results in an enlargement of public sector services. However, according to Standard & Poor, PPP is first of all a long-term agreement between two partners that share the risk and benefits adequate for abilities, financial potential and experience. All the above mentioned definitions have got a functional character while the Polish definition has got a normative character, stating the required conditions for use of the PPP model.

The Polish definition is a written legal record and can be seen as evidence of the different cultures of law and economy in Poland and a lower level of trust for market development and privatization of public tasks. It also speaks to the lack of readiness of the Polish society and politicians to accept the privatization of processes in the realization of public tasks. Unfortunately, without the Polish Act, using the PPP model in Poland would be very difficult.

### 2.2.2 Benefits and risks of the PPP model

Differences between the traditional model and the public private partnership model in the realization of investment are highlighted in the table below:

TRADITIONAL MODEL	PUBLIC PRIVATE PARTNERSHIP MODEL
Concentration on the single step	Concentration on the whole cycle of the project
Public actor is assuring the financial needs	Private actor is assuring the financial needs partly or as a whole
Constant financial encumbrance	Financial encumbrance for the public actor grows in different forms. The mechanism depends on the level of efficiency and quality of investment
All risks are on the public sector side	Investment risk is shared between public and private actors

Tab. 1: Comparison of the traditional model and the PPP model in the realisation of investment. Source: PPP as a realization's method of the public tasks, Ministerstwo Gospodarki i Pracy, Warsaw 2005

When applying the Public Private Partnership model there are risks as well as specific benefits. The main risk of the PPP model is related to the higher cost of capital gained on the market and difficulties in the preparation and financing of the projects. Deprivation of opportunity in direct project management and the lengthiness and thus political sensitivity of the deals should also be considered as potential areas of risk.

Benefits connected with the PPP model are the possibilities of accomplishment the projects from public sector in spite of the lack of public sector's funds. Further benefits include the division of risk between public and private partner based on each partner's abilities and possibilities of management and concentration of the whole cycle of the project. The other important reason for applying PPP is the correct assignment of appropriate tasks to appropriate partners with respect to their qualifications. The public partner is responsible for effectiveness in providing services and the private partner is responsible for the effective investment of capital.

## 2.3 PPP as an urban regeneration tool for the inner city, large-scale public space projects

The modern understanding of revitalization of degraded public space assumes its multi-dimensional understanding, in terms of its spatial, economic and social dimensions.

The projects in Sopot and Bielsko-Biala are two recent case studies where we can observe the use of PPP in Polish inner city regeneration projects. These case studies illustrate the benefits and the drawbacks associated with use of this tool.

## 3 CASE STUDIES CONCERNING THE REGENERATION OF PUBLIC SPACE IN POLAND BASED ON THE PPP MODEL

### 3.1 Regeneration of the City Centre in Bielsko-Biała

Local authorities initiated the regeneration of the city centre in Bielsko-Biała. This project named „ The regeneration programme for Bielsko-Biała City Centre“ started in 2004, and its establishments were partly included in the „Regeneration Programme of Bielsko-Biała from the year 2005.

The city centre in Bielsko-Biała is located on the hill in the city centre and its area is about 10 hectares. It consists of two integrated areas. The first one is a „medieval city“ covering an area of approx. 6 hectares and whose arrangement dates to the XIII century. Its central part is a market built with frontages facing the four directions of west, east, south and north. The second area also known as „ring“ includes housing and retail quarters, the original city walls, two sacral buildings and Sułkowski's castle. Due to its historical meaning, the city centre's building structure has been physically preserved, but the majority of buildings required a technical, functional and aesthetic improvement. 118 objects have been listed as a cataloguing result, where 71 buildings were under protection. The degradation processes of buildings has resulted from the many

years' lapse in repair that eventually led to the tenement-house building (Rynek 4-5 Street) collapse in 1998. The technical state of infrastructure was very poor due to a high level of corrosion, and the great damage to the infrastructure system led to environmental pollution. This situation ultimately affected social processes. There was a great migration of the young and educated inhabitants from the degraded areas and the city centre. Moreover, the neglected City Centre of Bielsko-Biała provided no office spaces for professionals, lawyers, doctors, or architects. Small and medium-size enterprises were not attracted to invest. Therefore, the revitalization of this part of the city was necessary.

Within the regeneration project territorial developments of the water pipe network, heat distribution network, power network, gas grid, sewer systems and teletechnical network were modernized. The condition of Celna, Piwowska, Kościelna, Cieszyńska and Rynek streets was improved. Another element of the project was the complex repair of the market's surface. The archeological exposition called „Waga Miejska“ related to the history of the Bielsko-Biała City Centre was opened to the public as well as the Neptun fountain at its historical well. A clock and watercourse were built and the Saint Jan Nepomucen figure was reconstructed. The multi-dimensional regeneration of the City Centre has resulted in the increase of its attractiveness as a place for investments and economic and entrepreneurial activity.

A complicated financing model was characteristic for the regeneration project of Bielsko-Biała city centre. At the moment of submission of the application related to co-financing of the project from ERDF (European Regional Development Fund) in 2004, there were no legal principles in Poland for PPP models and no act regulating the rules of co-operation between private and public sectors. The new Public Private Partnership Act was passed on 28th of June 2005. Therefore during the planning process and before officially submitting the ZPORR proposal, the city had made several business agreements with commercial companies, which participated in the cost of realization of the project. Companies that were responsible for modernization of the infrastructure networks became official network managers. The city also has made several arrangements between these institutions in order to solve problems that may arise during the regeneration project.

<b>PARTICIPATING PROJECT PARTNERS</b>	<b>PARTNER CONTRIBUTION</b>	<b>PARTNER BENEFITS</b>
<b>1. AQUA S.A.</b>	Partner is financing 30% of costs connected with the water –pipe network and sewage.	Partner is forced to bear 100% investment expenditures. After the finishing the project, a partner become a network manager.
<b>2. Therma Sp. z o.o.</b>	Partner is financing 30% of the expenditures connected with the heat distribution network.	Partner is not forced to bear 100% investment expenditures. After the finishing the project, a partner become a network manager.
<b>3. Energetyka Beskidzka S.A.</b>	Partner exchanges the power network in the project's area and bears all the expenditures.	The saving on expenditures is related to the complex character of investment.
<b>4. Górnośląska Spółka Gazownictwa Sp. z o.o.</b>	Partner is making gas grid in the area and bears all the expenditures.	The saving on expenditures is related to the complex character of investment.
<b>4. Telekomunikacja Polska S.A.</b>	Partner is making the teletechnical network and bears all the expenditures.	The saving on expenditures is related to complex character of investment.

Tab.2 : The Bielsko-Biała Project: partner participation in the project, partner contribution and their benefits. Source: [www.zmp.poznan.pl](http://www.zmp.poznan.pl)

The multiple aspects of regeneration in Bielsko-Biała City Centre combined have increased the attractiveness of investment for private investors. City life has returned to the old City Centre in Bielsko-Biała and inhabitants and tourists are spending time more willingly there. Many of the private tenement-house owners have started renovation of their buildings. The city itself is helping private owners in their activities and is showing the possibilities of financing such activities.

### 3.2 Realisation of Haffner Centre in Sopot based on the PPP model

Sopot, one of the most beautiful, Polish, maritime tourist cities, together with Gdańsk and Gdynia form a tri-city agglomeration of millions of inhabitants. Sopot was first established as a health resort in 1997 and then received its county status in 1999.

One of the main goals of the city is to lengthen the seasonal periods of activity. During the year, Sopot attracts most visitors in summertime. The construction of a new Hotel & Conference Centre should help to change that. As the largest of Sopot's investments, the center is being built with huge impetus and consists of a hotel, "bathhouse", housing estate, business park and underground tunnel for cars. All the mentioned buildings are architecturally cohesive, modern and functional. The heart of new Sopot's centre is the Bathhouse.

The investment in first steps was about 70 million dollars (approx.280mln PLN) and the city budget for the year 2006 was- 200 mln PLN. It was obvious that without a private partner, the city of Sopot will not be able to finance the investment. PPP in Sopot gave an extra opportunity for periodical investment without necessity for single expenditure.

After two years of passed act, the Tender Commission gave the priority to NDI S.A. as a developer of the project. This company offered the most attractive way of realisation the regeneration of the city centre project. NDI S.A. was also responsible for choosing the cooperative companies. It was one of the main differences between PPP model and the classical one, where private developer, not local authority was responsible for choosing the cooperative company.

The city of Sopot has agreed to give the land for investment. The land was 19 760m<sup>2</sup> in size and worth 28 937 500 zł (1464,45 zł/m<sup>2</sup>). The city also declared to give the sum of 17 500 zł as an extra contribution to the project.

The City of Sopot initiated the investment in order to promote and develop the region.

According to the initial calculations of the city office, The Haffner Centre would provide employment for 400 people. Important elements of Sopot's investment are the built tunnel and general improvement of the technical infrastructure in the city centre. Although it is too early to measure the effects of the investment, the building of the Haffner Centre could improve the image of the city of Sopot in the region and could attract not only rich tourists but also conference guests during the whole year.

#### 4 CONCLUSION

Analysis of the above mentioned matters reveals that the issue of revitalisation, as a research problem, is at the initial rather than final stage of its examination. Research should be continued and intensified with special account being taken of the conditions and opportunities offered by the Public Private Partnership model for regeneration of inner city, public spaces. This is particularly important as regards Polish cities, which make up, as it were, a laboratory in which the tools of operational urban planning are being tested.

#### 5 REFERENCES

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