

COST EFFECTIVE LOCAL INFRASTRUCTURES IN CHALLENGING ECONOMIC TIMES



The fulfilment of local economic development objectives is characterised by different interactions between local authorities, private companies, banking institutions and citizens. Our experience in Spain at the municipal level is that these actors are connected to each other through a range of different mechanisms, Government grant agreements, procurements and increasingly public-private partnerships.

The facts show that at the municipal level in Spain public-private cooperation is becoming an important counter weight for cash strapped local authorities seeking to promote investment and employment despite the local financial crisis. In Spain, Municipalities, Provinces and Autonomous Communities have significant financial autonomy. Whilst there has been a traditional approach to public services for many years, increasingly local authorities are looking to a wider range of public private arrangements that can alleviate the pressures on public budgets locally. Whilst grant contracts and concessions are the most regularly used vehicle by local municipalities for the construction and operation of local infrastructures three different options are available to municipalities throughout Spain.

Grant contract for public works

The Grant contract is now being used more regularly in Spain at the local level.. This form of intervention is increasingly helping municipalities to transfer the risk of designing, building and often operating infrastructures for public purposes whilst reducing costs to the local administration. Bringing in the knowledge and expertise of private sector partners in is essential in building the business case for the operation and maintenance of key infrastructures. Under the grant contract, the provision of infrastructure or services in return for the contractor having the right to exploit the works for a set period of time avoids the need for any local authority direct grant.

In more complicated projects the grant contract allows for the design, build and operation of the infrastructure in which the private sector developer will benefit from charging user fees over a longer period of time to recuperate his investment. In simpler business cases, local administrations have the option of paying a complementary fee as part of the grant contract although this is often less than is required to complete the investment and user charges often help investors make up the shortfall. In other cases formula based reimbursement rules are agreed where the local authority agrees to pay for the use of private sector led 'public interest' investments in the local community.

Mixed-Economy Companies

Spanish law shows that public services' management are divided into two groups: direct management and indirect management. In a direct management model the municipality/ies participate in a mixed-economy company directly. The mixed-economy company is useful in that it can attract private funds whilst maintaining a public mission through the active involvement of the municipalities. Even where public funds represent a minority holding, mixed enterprises are often managed by Assemblies that bring the different stakeholders together and operate according to public sector rules.

Public-Private Partnership contracts

The PPP contract in its different forms is relatively new in Spain and lends itself to larger and more complex developments with a variety of funding streams. Collaboration between the public and the private sectors involves the public Administration entrusting the provision and

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operation of infrastructures to a private entity for a long period of time set out in private law contract.

Payments from the public administration are based on the achievement of specific public service targets, raising revenues from other financing sources, related to the execution of the general interest. And contracts can encompass some of the following functions:

- a) The construction, the installation of public works, their maintenance, renewal, exploitation and management;
- b) Integrated management contracts for the maintenance of existing complex installations;
- c) The provision of services that are more economically advantageous than others provided by the local authority directly or are generally available in the market (i.e. renewable, energy efficiency or advanced eco innovative solutions etc)
- d) Other service provision where the service provider would be paid a price for a service contract based on the achievement of certain performance targets.

Other cases of public-private partnership

The need for IT support has grown significantly in local authorities and often these services have been outsourced in the various forms of PPP service contracts. The “ASP” contract involves the service provider giving the customer access to their information system via a catalogue of information society and hosted software product. A number of authorities have gone further in outsourcing the management of all or part of their Information Technology and Communications requirements to a private sector service provider keeping the client/service control through an outsourcing contract. Agreements are usually medium to long term and allow significant flexibility to enable them to be adapted to evolving requirements, and often contain clauses which allow the contracting authority to recover the administration and management of the information system.

Advantages and disadvantages of the different models

Under Spanish law the formula for choosing a service management contract depends on the administration. Therefore, the choice and level of public-private collaboration must be assessed as part of prior study in each case. Only after a thorough financial assessment and background study of service requirements, taking into account financing models and business planning processes including issues such as depreciation can the municipality take an informed decision. In conclusion, there is no ideal form of management. In some cases the granting of work may continue to be the best option for certain municipal services. The PPP has its role and whether you are considering a public service for a municipal swimming pool or the construction of an underground city car park, municipalities need to assess the overall advantages that a PPP will bring not only in financial terms but in a wider perspective the new skills, technological developments that might not available via a more traditional approach.