Models of Public Private Partnership and financial tools for the cultural heritage valorisation

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Introduction

The cultural heritage, which represents one of the classic examples of the economic category of "common good" belonging to each citizen of a certain place and very frequently constituting an identity character of a community, traditionally receives funding, primarily for the purpose of its preservation, from public sector. Different recent societal, environmental and technological factors are changing the cultural citizen needs and we are assisting at a slow paradigm shift in the addressed industry.

Indeed, the growing economic and social progress, also in developing countries, contributes to expand the cultural needs and interests among different bracket of the population with a particular increase in the demand of cultural goods and services. At the same time, the spread of technology contributes to enjoy cultural goods in a completely new and innovative way, never imagined before.

In this context, paradoxically, the top-down public policies, often too much concentrated on preservation and not very attentive to the exploitation of cultural heritage potential and the catchment the new trends, become inefficient. In a period of increasing pressure on public budgets, this activates the perverse spiral of increasingly inadequate investments because of scarce available resources in the hands of the public decision-maker that generate insufficient allocation of funds and, as a result, the growing ineffectiveness of spending in the sector. This situation in the medium term leads to the depletion of a non-trivial part of the cultural heritage, including its immaterial values, and, too often, to the use of the private hand at a late stage and with incorrect logics that brings, not infrequently, to the disposal of the cultural heritage "for sale" or to the denial of its fruition.

The Public Private Partnership (PPP) can represent a third way between the exclusively public intervention, more and more anachronistic and inefficient given the budget constraints, and the recourse to the privatization of cultural heritage that often allows making cash but not without side effects. The latter can be both of economic nature, through a "cherry picking" approach by the private sector that leaves less interesting goods in public hands, as well as of social nature, especially those linked to the inaccessibility of privatised goods or to the high costs of use, which in the medium term impoverishes the community of powerful instruments of collective memory and identity.

After more than 30 years of use of PPP in various sectors, it has been understood that this powerful tool is not the panacea that magically allows to solve the limits of public intervention, but an attractive and delicate tool, especially in cases where the public hand is the only or the main purchaser of services provided in PPP (as in the case of interventions on cultural heritage that represent cold investments that are not able to be financial free standing and that therefore require prevalent or significant public contributions).

In this perspective, this article suggests that **an hybrid approach of different actors involvement (public, private and civil), of different models (governance, business and financial) and of different innovation tools deployment in a holistic perspective aims at becoming a concrete solution for the valorisation of the cultural heritage and, more generally, of the cultural industry itself.**

The first constraints in adopting the proposed approach are linked to the twofold function public administration is obliged to accomplish, that is the physical and cultural content *preservation* and the *valorisation* of the public good. The *valorisation* stands for the dissemination of cultural good related knowledge and its public fruition, also through adaptive reuse – that sometimes can contrast with the *preservation* challenge. This dilemma, indeed, can find one or more solutions only through a holistic approach that allows to create value for all the actors involved. We can refer here to the concept of *shared value "which focuses on the connections between societal and economic progress"* [Porter & Kramer].

The economic and financial sustainability in the management process of the cultural heritage and its preservation represents another relevant constraint.

Public Private Partnerships

The increasing adoption of Public-Private Partnerships (PPPs) also in the cultural industry may contribute to increase the investments for the maintenance and valorisation of public assets with positive effects on the efficiency of cultural heritage management.

Public administrations can implement adaptive reuse projects of cultural interest through PPPs, with integral or partial but prevalent (to be compliant with Eurostat rules on the accounting of PPPs in public budgets) private financing, thus satisfying the twofold imposed function of preservation and valorisation. At the same time, public administrations can benefit from the expertise and management competences of the private sector in different phases of the process: design, implementation and management of the cultural public good.

Notwithstanding some critics due to the distortive potential of PPP models, in the present economic context it becomes a strategic lever for the public administrations to satisfy the needs of qualitative infrastructures, goods and services addressing different sectors – health, welfare, education etc. – as well as cultural industry. Eurostat decision (2004), which classifies off balance "cold" PPP interventions under certain conditions, and the stringent requirements of public finance equilibrium make PPPs a "tactic" convenience for the public authorities.

PPPs, if implemented with correct logics and approaches, ensure a better risk sharing among different actors with higher efficiency in project implementation, greater mobilisation of private funds without worsening public finances, higher probability of success of the project etc. Moreover, in PPPs we expect a perfect alignment of public and private interests in deploying the *best value for money (VfM)*.

Opposite to the undoubted advantages of PPPs linked to the convergence of interests between public and private sectors that should lead to the implementation of a higher quality project, there are several weaknesses to be considered when executing PPPs.

Information asymmetries between public and private may enable phenomena of moral hazard and adverse selection in perfect coherence with the "contract theory" [Akerlof. G. 1970]. The Bank of Italy's analysis of 2010 ("Risk allocation and incentives for the private contractor: an analysis of project financing agreements in Italy") highlights information asymmetries with respect to some contractual clauses analysed regarding risk sharing among parties, which resulted rather different from those theoretically foreseen.

In addition, it is possible to assist at a public administration short term distorted perspective derived from the activation of "cherry picking" selection processes where private sector select the projects with higher returns on investments. The result of these phenomena will reflect in an impoverishment of the public sector and in potential public administration financial tensions in near future due to the management of the remaining "poor" cultural heritage projects portfolio.

Knowledge gaps are also some of the main weaknesses when implementing PPPs: programming misaligned with respect to the effective needs of the public administration and the societal ones, shortcomings in the governance capacity of the public authority, partnership misaligned regarding risks sharing between public and private, difficulty in selecting the best projects, specific knowledge and competences lack.

From the private perspective, because of the "public" features of cultural heritage, the private sector may overestimate the returns of the investments and underestimate the related costs building projects that are "mission impossible" that need heroes and not entrepreneurs.

Thus, 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. However, at the same time, PPPs, if managed with more competences, innovation and transparency can be even more productive and sustainable for the valorisation of cultural heritage and industry especially in an era of scarce public resources and significant skills and management gaps on the part of the public sector. If properly designed, PPPs can provide considerable operating flexibility: for the public sector to be compliant with its own regulations and resources, for the private sector, to bring to the project different management models, know-how, financial and technical/technological inputs.

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 entrepreneurship. Therefore, in the presence of a public intervention, great attention must be paid to the performance that the private sector must ensure during the management phase in order to avoid that instead of generating a class of entrepreneurs, the PPP generates a class of exploiters of public resources.

In this perspective, many *lessons learnt* from the use of PPPs in more "traditional" fields (i.e. health, infrastructures, education etc.) can be transferred to the cultural industry with innovative *sector-specific adjustments* in a holistic perspective, that may regard active involvement of citizenship, creation of shared value for all actors, use of innovative business models and impact financing etc. The *hybridisation* through the *adjustment* of a strategic instrument such as PPP will contribute to achieve the final goal of cultural sustainability with relevant impact not only for the economic development of a nation/geographic zone but also for the social inclusiveness and enhancement of the communities.

Public Value vs Private Value vs Cultural Shared Value

Recalling the public administration twofold function mentioned above, the realisation of PPP models in the cultural heritage field can contrast with private management because of the constitutional necessity (in particular, in the Italian context but non only) to preserve the cultural heritage and its nature of “common good”. Thus, the private management can be limited only to the valorisation of the cultural good. In this case, can be useful to reflect on *value creation* issues.

The potential of value creation in the domain of cultural heritage goes beyond the simple touristic exploitation of cultural goods [Sacco & Teti]. The spill over effects are of macroeconomic type with impacts in different segments: economic growth (e.g. enhancement of new entrepreneurship and start-up ecosystem), social cohesion (e.g. inclusiveness of different kind of population), wellbeing of citizen (e.g. elderly) etc. In the medium-long term, these impacts can contribute to major efficiency and efficacy of the public spending and to the overall enhancement of the competitiveness of a nation [Sacco & Teti].

However, when analysing different models to be adopted including PPPs, the economic optimum usually diverge from the social optimum. Indeed, one optimum goes to the detriment of the other.

Nowadays, we can observe a shift towards the convergence of these two value – and this becomes crucial in order to have a fair PPP operation.

The intersection of the two values can be achieved by including specific mechanisms to align private incentives (therefore economic factors) with social objectives and cultural ones in this specific case (that leverage on different types of value, such as aesthetic, symbolic, spiritual, social, historic and scientific).

In PPP domain, the private sector can contribute to the convergence point of the two values through higher efficiency, innovation capacity, managerial competences, and risk management typical of the entrepreneurship. More specifically, the entrepreneurship is the key factor that creates relevant *VfM* in the PPPs for the public sector and therefore, it must be a specific element that the PPP contract should stimulate.

On the one hand, *VfM* represents the convenience for the public actor to implement interventions through PPPs. On the other hand, the *VfM* represents the benchmark for the monitoring of the outcomes linked to the critical public administration issue of performance management.

Private sector creates economic value while the social value strongly depends by the role adopted by the public sector and its capacity to stimulate private innovation. The recent experiences in PPPs have demonstrated that private actors have superior competences to implement efficient complex investments in much less time than the public sector, install sophisticated technologies and manage them, preserving the quality of infrastructures and services managed.

In the absence of specific equilibrium actions, the private party tends to limit the taken on risks. Moreover, if the private party is not stimulated to adopt an entrepreneurship approach, the PPP can create even a social disvalue linked to the *privatisation of profits* and *socialisation of losses*.

Thus, instead of distinguishing between two distinct kinds of values, the embracing of *cultural shared value* concept by both private as well as public actors can represent a way for further valorisation and wider deployment of PPP in cultural heritage by:

- partly linking the public sector's remuneration of the private partner to the broader impacts it generates through the management of cultural heritage in a logic borrowed from “social impact investments”;
- in a very advanced hybrid logic, including in the remuneration of the private partner also the contributions that may spontaneously or not come from the civil sector and citizens not as charity or philanthropy but in relation to the results achieved by the private partner.

Indeed, the public administrations can play a relevant role in the vision and mission change of for-profit enterprises – *from profit per se versus shared value for all*. The same can be applied in non-profit enterprises in the perspective of innovative hybrid enterprises. Several cases of profitable hybrid enterprise are known in social-related sectors – i.e. water, healthy food and waste. In the cultural heritage hybrid enterprises are less frequent, thus, there are new opportunities to be exploited.

The concept of *cultural shared value* within different types of organisation will focus on the creation of value at social as well as at economic level. There are no doubts, because of the constraints of the cultural heritage – *conservation vs. valorisation* – that the role of public administrations remain even more relevant in this hybrid approach affecting in a strong way the autonomy of private partner to manage investments, revenues and costs of cultural heritage initiatives.

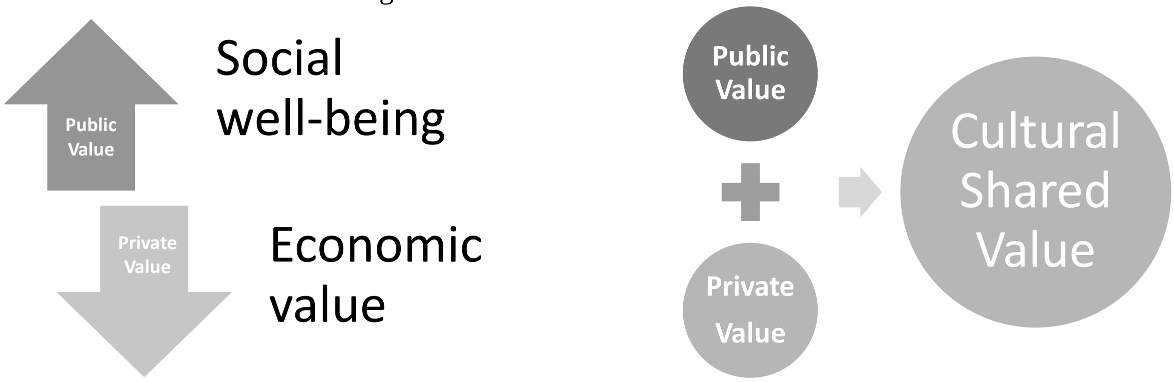

Figure 1– Public Value vs Private Value vs Cultural Shared Value

Public Administration "willingness to innovate" and measurable "cultural shared value"

The hybridisation of enterprises and approaches require the public administration to act as a catalyst characterised by transparency within the cultural heritage industry and its actors, in order to foster projects for the benefit of the society and active citizenship. A public administration willing to innovate and able to implement, has as final aim the production and distribution of the *best cultural shared value for money*.

A few decades ago, the conservation and valorisation interventions (if any) tended to cover single buildings, monuments, or sites. This process has known a change recently with more emphasis today on the economic and social impact of cultural heritage projects on the district or city as a whole dimension also in order to activate economies of scale and scope capable of generating virtuous circles consistent with the theory of "*circular cumulative causation*" [Myrdal G. 1957]. Indeed, it seems that *cross-fertilisation* represents an innovative solution and approach for the valorisation of *bundle of cultural heritage assets* with the effect of reducing "cherry-picking" phenomena. At the same time, cross-fertilisation, *synergies and cross-cutting partnerships* created for the valorisation of a set of cultural heritage assets can create cultural shared value for the same category addressed, but also for other public and/or private sectors. Thus, improving the value (also through indirect and social benefits) generated in one area gives rise to opportunities, also through spill over effects, in the others. Thus, shared value is a result of effective collaboration among all parties.

Today, especially in the European context, there is a continued need for innovations for the cultural heritage valorisation, in particular with respect to business models innovation, for building a solid and transparent pipeline of economically and socially sustainable related investment projects in order to demonstrate the attractiveness of this sector to private investors.

Public administration can introduce in the tendering processes elements for the deployment of innovative solutions for the cultural heritage valorisation. The tender proposals, also under PPPs projects, can be evaluated according innovation criteria such as organisational innovation in financial engineering (also, including impact investing, performance contracts with revenue-share formulae etc.), mobilisation of investments (bundling of different projects, different stakeholders engagement etc.).

The public administrations can have a relevant role in boosting breakthrough innovations through the demand from their side for new solutions, products and services applicable in this specific case at cultural heritage field. The deployment of instruments such as Pre-Commercial Procurement (PCP) and Public Procurement of Innovation (PPI) can fulfil specific public sector needs that cannot be satisfied by existing commercial products or services. PCPs has an incentive effect on the acquisition of R&D services for the development of new products or services. The instrument allows to public administration the demonstration and validation in a real environment alternative technological solutions or models developed by different involved players for the evaluation of costs and benefits before the procurement. This way, public administrations can both widen the participation of SMEs as well as give birth to new enterprises, also in the social field. Moreover, this process creates new markets, lower market barriers for the adoption of innovative goods and services and time-to-market.

A *systemic approach between PPPs and PCPs/PPIs* can produce interesting synergies and benefits for the development and valorisation of the cultural heritage, enhance the efficiency of the deriving welfare and have a relevant role in cultural related social impact projects. Through PCPs it is possible to develop and test innovative solutions for the public administration in order to test new models, identify economic and financial indicators and added-value. PPPs can allow the deployment, transfer and replication of the innovations developed under the PCP, the management of the Intellectual Property Rights (IPR) also through cost-saving sharing or revenue-sharing with the public administration, the possibility to reinvest in R&D activities.

The transparency in the implementation of all above described models and instruments is crucial for their effective diffusion, for the economic growth and, social and cultural enhancement and inclusion. The measurement of *cultural shared value* that integrate economic and financial analysis with cultural, social, governance and environmental analysis creates value for all the actors involved i.e. public, private for-profit, non-profit and, citizens.

Several key characteristics of social investing can be mutualised to the cultural heritage projects and investments:

- the intention of the investor to generate cultural, social and/or environmental impacts;
- the expected return on investment by the entrepreneur.

These characteristics evidence the need for transparency in the *ex-ante* definition of the cultural, social and environmental expected impacts from the investments, Key Performance Indicators (KPIs), the measurement methodologies and the period of measurement, the reporting of the cultural investments impact.

The measurement of impact is becoming more and more relevant in investments with social spill overs, but at the same time it is really complex because of lack of track record and historical data. Many methodologies and tools are adopted by professionals but a few frameworks have been developed with particular focus on cultural heritage investment projects. Different stakeholders may have different interests in the measurement of the impacts:

- public administrations have interest because of lack of resources and identification of the best VfM;
- non-profit organisations need to demonstrate the impacts for further funding, for creating changes and for transparency and responsibility;
- for-profit enterprises measure impacts to improve their investments, transparency, responsibility, innovation and reputation;
- investors are looking for social impact investments.

In the literature and practice, many instruments have been developed for the measurement of the impact of a project or an organisation, e.g. B-Impact Rating System, Social Return on Investment (SROI), GRI Sustainability Reporting Framework, Impact Analysis and Assessment etc. Almost all the instruments are based on two-dimension analysis: economic-financial performance and social and/or environmental impact. Because of the peculiarities and constraints of the cultural heritage sector, further steps should be taken in the development of methodologies adjusted for the addressed field. A holistic approach should be chosen also for these methodologies and instruments in order to measure the impacts and spill over effects from cross-cutting issues regarding fertilisation and synergies with other organization categories as well as sectors.

Conclusion

In the current context of budget constraints of the public sector, investments in cultural heritage are going through a difficult season. Despite the unquestionable importance that cultural heritage has not only on the economic level but also as an element of characterization, identity and memory of a community, very often the budgets dedicated to it are reduced by the increasing pressure of chapters often perceived as more urgent (i.e. health, safety, education, climate change, emergencies, etc.).

In this context, if the privatization of cultural heritage *tout court* highlights many limitations, the PPP can represent a third very attractive alternative.

The use of PPP in this field, however, seems to require the use of a hybrid approach very focused on the social impact of the action of the private partner to which relate the incentives that he perceives both from the public sector but also, more advanced, directly from the civil society. The concept of *cultural shared value* can be a guiding criterion for achieving this objective.

The *cultural shared value* and the impacts generated by the valorisation of cultural heritage in the medium-long term are part of a complex system that many researches call “cultural ecologies” rather than single markets or sectors.

Although the cultural heritage has advanced considerably in the last decades, there is still a lack of cultural-adjusted models and tools validated in real conditions and that can be replicated in other contexts.

The market seems to be ready and "hungry" of hybrid and holistic models, tools and methodologies to be deployed for cultural heritage projects. In this scenario, a variety of stakeholders expect from the public administration the right guidance in order to allow the exploitation of the full potential of cultural heritage sector through the orchestration and combination of all the above-mentioned elements and variables.
This represents a strong challenge to afford in the present scenario of public budget constraints and, therefore, a reason to continue the market-oriented and applied research by academics and practitioners.
In this perspective, PPP could be the "killer application" which, on the one hand, can generate a significant stimulus to the market and, on the other hand, can activate a growing experimentation capable of generating those KPIs with social impact and the related measurement tools essential to generate VFM from the partnership between the public and private sectors in cultural heritage field.

Notes

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