Public Private Partnerships – Opportunities and Challenges

Wider Adoption of PPP Models in Hong Kong

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Wider Adoption of PPP Models in Hong Kong

Structure of Presentation

- Hong Kong’s Experience with PPP
- Features of PPP Schemes
- Obstacles in Hong Kong against adoption of PPP
- New Approach to PPP
- Opportunities for Wider Adoption of PPP in Hong Kong
- Framework for Assessing PPP
- Conclusions
PPP Models in Hong Kong

Establishment of Franchises

- Electricity generation and supply,
- Gas production and supply,
- Telecommunication services,
- Cable & On-air television entertainment services,
- Strategic Landfills (DBO),
- Refuse Transfer Stations,
- Convention and exhibition services,
- Tradelink & DTTN Services,

- Franchised bus services,
- Franchised ferry services,
- Managed road tunnels (BOT),
- Container terminals,
- Air-freight handling,
- Kitchen facilities at CLK,
- Aircraft maintenance at CLK,
- Cableway services on Lantau,
- ESDlife electronic service delivery of public services
Wider Adoption of PPP Models in Hong Kong

PPP Models in Hong Kong

- **Sales of Existing Business** (e.g. Mass Transit Railway Corporation (MTRC) - the sales of shares in Government owned business through flotation; Kowloon Canton Railway – pending merger with MTRC; Airport Authority - pending flotation)

- **Procurement of Required Services through Allocation of Land or Development Rights** (e.g. Convention and Exhibition Centre; Cyberport, Marine Police Station, West Kowloon District, Kwun Tong Leisure and Cultural Services; Tseung Kwan O Leisure Services)

- **Partnership Companies with both Public and Private Sector Ownership** – (e.g. Disney, AsiaWorld-Exhibition)
PPP Models in Hong Kong

- **Partnership with Non Government Organisations** (e.g. Ocean Park, Hong Kong University of Science and Technology)

- **Partnership Investments** in which public sector, in part, funds (or subvents) investment by private sector parties willing to provide community services (e.g. hospitals, other healthcare facilities, schools, universities – also usually involves provision of land at no cost)

- **Outsourcing of Services to the private sector** (e.g. Management, operations and maintenance (MOM) of road tunnels; MOM of public transport interchanges; MOM of Government car parks; Maintenance of high speed roads.)
Historic Leadership in Application of PPP – Success Factors

- The relationship between improved infrastructure and the economy is taken for granted;
- Private sector presumed to be more efficient than Government in delivering infrastructure projects;
- The viability of public infrastructure projects tested in competitive private capital markets;
- Common understanding of what makes an infrastructure project suitable for private financing; and
- Competition used differently to assure value for money on large projects.

### Traditional Vs New Model for Delivering Public Services

<table>
<thead>
<tr>
<th>Government builds</th>
<th>Government procures services</th>
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<tbody>
<tr>
<td>Roads and bridges</td>
<td>A maintained highway</td>
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<tr>
<td>A prison</td>
<td>Custodial services</td>
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<tr>
<td>An ice skating rink</td>
<td>A commercially managed sports and entertainment facility</td>
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</table>
Government’s Role with PPP

Government remains responsible for the collective procurement of the services, including:

- Specifying the services to be procured;
- Defining the level of service;
- Monitoring that this level of service is provided; and
- Enforcing the level of service specified.
Factors Critical to Success of PPP Schemes

- Active sponsorship;
- Interest from the private sector;
- Clear specification of services;
- Significant and effective transfer of risk to the private sector;
- Resolution of any civil service staff redundancy issues;
- Bankability;
- Government guarantees;
- Favourable Economic Conditions;
- Available Financial Markets;
- Implementability;
- Managed performance over whole life;
- Effective private sector control – Government should not have the dominant influence in how services are delivered; and
- Performance-related rewards.
Why is PPP so Important

- Better value-for-money;
- Earlier availability if services;
- Recurrent expenditure is more certain and transparent; and
- Better incentives for service delivery with actual payments reflecting performance.
How Can PPP Exhibit Better Value-for-Money

- Competition is used as a lever earlier in the delivery of the PPP when only needs, rather than solutions, are defined;

Private sector is more efficient than Government in the delivery of facilities, infrastructure and services

- Private sector can explore other opportunities to combine with the delivery of the services (enhancing its value);
- Private sector is sharply focused on successful delivery of the services for its own survival;
- Private sector can be more flexible in its deployment of its resources (particularly staff) for delivery of the services;
- Private sector can be more effective in managing risks.
What Makes PPP Attractive

TO THE COMMUNITY

- Better value-for-money (risk transfer, capped charges for services);
- Earlier availability of services;
- Delivery of more or better services that are more attractive to the community;
- Accessibility to private funding;
- Frees the provision of services from constraints imposed by the capabilities of existing agencies;
- Clear definition of services and key performance indicators;
What Makes PPP Attractive

COMMUNITY

- More effective delivery of related facilities or infrastructure (fast-tracked design, improved buildability, etc);
- Introduction of private sector expertise and innovation;
- Introduction of new and better technology;
- Lowers cost of Government (hence taxes);
- More economic delivery through lower life cycle costs (e.g. lower maintenance costs);
- Means of developing the economy (new services).
What Makes PPP Attractive

GOVERNMENT

- Can focus on what is does best – identifying the services to be procured and managing others in their provision;
- Open and competitive tendering;
- Opportunity for international competition;
- Transfer of risks to the private sector;
- Certainty as to recurrent financial obligations over lifetime of PPP, and this is established much earlier in the life of the project.
What Makes PPP Attractive

PRIVATE SECTOR

- New business opportunities;
- Opportunities in which to focus/differentiate;
- Long term opportunities that introduce stability and thereby improve sustainability of business;
- Risks are shared fairly;
- Payment mechanism is clearly defined with opportunity for adjustments.
Best PPP projects

- Community gets services it expects;
- Government gets better value-for-money;
- Private sector has means available to successfully manage the assigned risks;
- Private sector makes profit.
Some of Hong Kong’s Key Institutional Constraints

- Administration’s control over medium term capital and recurrent expenditure through its Annual Resource Allocation;
- Capital funding must be approved by the Finance Committee of the Legislative Council;
- Capital funding is approved on a project-by-project basis;
- Recurrent funding is approved on a year-on-year basis;
- Procurement must comply with WTO Guidelines;
- Public consultation now likely to be highly controversial with both Government and the community maturing in how to engage in meaningful dialogue;
- Statutory planning controls represent a substantial risk if change is required re development status;
- Basic Law - fifty-year transition period for HKSAR
Wider Adoption of PPP Models in Hong Kong

Capital Works Funding – Annual Resource Allocation

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<th>Year</th>
<th>Forecast Growth in Economy</th>
<th>Affordable Allocation to Capital Works</th>
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<td>Year 1</td>
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<td>5 Year’s GDP</td>
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Forecast Growth in Economy

Affordable Allocation to Capital Works

GDP

Fixed % for Allocation to Capital Works

Year 5’s GDP

18
Wider Adoption of PPP Models in Hong Kong

Annual Resource Allocation – New Money and New Projects

What is left after allowing for current commitment?

List of potential new projects

Money Available for New Projects

Money committed to Current Projects

Affordable

Not Affordable

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Most Major Challenges for PPP

- Administration’s reluctance to spend – regardless of whether it is capital or recurrent expenditure;
- Institutional – PPP does not fit well with current statutory and institutional arrangements;
- Financing - PPP needs to be substantially self financing (land can be given);
- Risk - PPP must present little or no risk to Government; and
- Government staff – PPP must not create significant redundancy in Civil Service.
Major Challenges for PPP

- No sponsor - reluctance of Gov’t to sponsor projects;
- New goal of “services” not “projects” – some Government agencies still focused on asset-based projects rather then service-orientated outcomes;
- Inexperience of Government in structuring PPP projects and in commercial activities;
- Effort required since each PPP needs to be custom made;
- Difficulties in defining performance requirements and related performance mechanisms;
Community Challenges for PPP

- Insufficient economic analysis - requests for public funding include rationale but often lack economic appraisal/cost benefit analysis of proof of value-for-money;
- No “white elephants” - services being provided under PPP must be useful and affordable to the community;
- Transparency – perception that Administration is using bundled projects to simply avoid the requirement for LegCo funding approval;
- Suspected collusion with big business- perception by some that Administration colludes with private sector;
- Excessive commercialisation – some believe PPP brings to too much commercialisation to delivery of essential services;
Private Sector Challenges for PPP

- High cost of procurement process;
- Corporate guarantees needed to ensure project is bankable;
- Greener pastures - Mainland offers opportunities with greater upside (much lower capital costs);
- Institutional hurdles – Private sector concerned about the substantial statutory, consultative and administrative hurdles now facing infrastructure projects;
- Private sector has interest in property projects but limited appetite for facility management compounded by local inexperience in delivering facility management services.
Whose to Blame? - All the Usual Suspects

- Lack of Leadership from Administration
- Lack of Proactive, Effective Solutions from LegCo
- Lack of Real Commitment across Concerned Departments
What differentiates the New Approach to PPP

New tool will enable Government to utilise private funding to resolve current financial challenges or constraints even when project is not self-financing.

Private sector provides quality public services and the new facilities or infrastructure needed to deliver these services including their design, construction, financing, operation and maintenance for up to 50 years.
New Approach to PPP

- The private sector finances construction costs and is repaid by Government for the availability of the facilities and provision of services.
- Payments do not commence until the facility or infrastructure is in use.
Opportunities for PPP in Hong Kong

- Health Care – Acute Care Hospitals, Clinics, Sanitariums, Hospice
- Leisure and Culture – Sporting Venues, Stadiums, Racetracks, Entertainment Centres, Spas, Museums, Art Galleries, Exhibition Centers
- Education – Pre-primary, Primary, Secondary, Tertiary, Vocational
- Transport Terminals – Air, Sea (including container, river trade, cruise ships, international ferries), Rail
- Local Transport – Road, Rail, Ferries
Opportunities for PPP in Hong Kong

- Trade and Industry Services – Managed facilities for logistics, managed facilities for business, managed facilities for research and technology development
- Housing – Public rental
- Security – Facilities, equipment or systems for Police, Immigration, Customs, Fire, Ambulance, Correctional Services
- Judiciary - Courts
- Social Services – Aged care
Wider Adoption of PPP Models in Hong Kong

Framework for Assessing Risks Associated with PPP

- High Complexity of Service:
  - Facilities Management
  - Airports
  - Entertainment Centre
- Low Complexity of Service:
  - Water Treatment
  - Sewage Treatment
  - Refuse Transfer
  - Power Generation
  - Rail
  - Tolled Road or Bridge
  - Container Terminal
  - Leisure Facility

Low Complexity of Market

High Complexity of Market

Least Attractive

Most Attractive
Framework for Assessing Suitability for PPP

- A New Business Opportunity for HK
- Substantially Self Funding
- Not Politically Sensitive
- Of Interest to Private Sector
- Not a Potential White Elephant
- Environmentally Attractive
- Big
- A Ready Definition of Required Services
- A Strong Economic Rationale
- An Obvious Champion
- A Strong Community Service Rationale
- Limited Civil Service Staff Redundancies

Is It Have
......?

Does It Have
......?
Exhibition Facility at Chek Lap Kok

- A New Business Opportunity for HK
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A Managed EcoPark at Tuen Mun

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Conclusions

- Likely growth in number of PPP’s is limited and clearly hampered by:
  - Institutional constraints
  - Lack of commitment from Administration
  - Lack of interest/ vested interests across Government
  - Local lack of experience;
  - Limited private sector appetite compounded by local inexperience in delivering facility management services, unless warranted by property development opportunities.
- Institutional reform will facilitate wider adoption of the PPP, and application could become more widespread with leadership and commitment from the Government and LegCo.
Thank You

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