

ICE HKA Public Voice Breakfast forum

Can public-private partnership unlock HK's infrastructure potential?

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Background

Public-Private Partnerships (PPP) procurement mechanisms for the Government to incorporate resources and expertise of the private sectors for the implementation of public infrastructure. PPP combine skills and resources from both sectors through the sharing of risks and responsibilities. By leveraging the expertise of the private sectors, the Government can focus on policy making and project planning, whilst delegating day-to-day operations and management of the project delivery to the private sector.

Infrastructure development plays an important role in the prosperity of Hong Kong, but it also requires significant capital investment from the Government. Over the past decades, Hong Kong has accumulated a wealth of knowledge and experience in the successful implementation of mega PPP infrastructure projects, including railways and road tunnels. Can PPP be the solution to supporting the upcoming mega-scale infrastructure developments?

It was our honour to invite Mr Billy Tam, President of Institution of Public Private Partnerships, to share insights on the development of PPP. Mr Tam has over 35 years' experience in planning and implementing PPP railway projects in Hong Kong, mainland China and Southeast Asia. He has worked in MTRC and formerly KCRC since the early 1980's. One of his signature projects was the Tuen Mun light rail which was his first railway Build-operate-transfer (BOT) project. Highlights of his speech and the table discussions are summarised below:

Speech from the distinguish guest

Mr Tam's presentation covered the general concepts of PPPs, project experience overseas and in mainland China, and the APMG-International PPP Certification Program.

Mr Tam explained the concept of PPP emerged in Hong Kong during 1970s and 1980s due to funding shortages and lack of expertise in public infrastructure development. He defines PPPs as long-term contracts between public and private entities for the delivery of public infrastructure. There are various models of PPP, including design-build-operate-maintain (DBOM) and private finance initiatives. According to the World Bank Group, a successful PPP includes essential elements such as design, build, finance, operate and maintain (DBFOM). In light of this contractual relationship, PPP allows for risk sharing between public and private sectors, with the private sector often taking on significant risks and responsibility for the project's success. He pointed out that

private sector involvement can ensure better designs and risk management, which benefits to future maintenance and operation, as well as reducing overall costs.

In addition, Mr Tam shared recent developments in Mainland China's approach to PPP. In the early years between 1984 and 2003, the mainland China Government introduced the external funding and BTO models for their infrastructure developments. After that, China saw a rapid expansion of the state-owned enterprises dominating the sector, leading to hidden public funding issues. In this connection, a new mechanism was introduced in China to align with the global standards, focusing on user pay models and concession-based projects. He took the Beijing Metro Line 4, covering 20 km with 24 stations, as an example of the collaboration between MTRC, Beijing Capital Group (BCG), and Beijing Infrastructure Investment Corporation (BIIC). The concession of the project spans 30 years and began after the Beijing Olympics in 2009, with an investment of 15 billion RMB. Part A of the investment, involving civil engineering costs, was funded entirely by the Beijing Municipal Government. Part B of the investment, covering E&M costs, comes from a consortium with MTRC, BCG and BIIC. In discussing the operational aspects of Beijing Metro Line 4, he outlined the roles of various stakeholders involved in the project. The Special Purpose Vehicle (SPV) for this project was managed by MTRC, which holds a 49% stake, alongside other partners such as BCG and BIIC. This collaborative approach ensures that responsibilities are shared effectively among all parties involved. He emphasised the success of the Beijing Metro Line 4 project, noting that it has become a model for other railway projects in China.

During the speech, Mr Tam also introduced the APMG PPP Certification Program as an international standard for practitioners. This program aims to equip professionals with knowledge about best practices in PPP project management. The speaker encouraged attendees to participate in online training offered by organisations such as the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and Association for Project Management Group (APMG) to enhance their understanding of PPP frameworks.

At the end of the presentation, Mr Tam advocated for the establishment of a PPP advisory centre for promotion and development of a management framework and portal for better access to PPP information. He reflected on Hong Kong's historical experience with successful BOT projects but emphasised the need for updated strategies to adapt to contemporary challenges. He discussed the upcoming infrastructure projects in the Northern Metropolis and stressed the importance of integrating lessons learned from the past projects into future planning.

Outcome of group discussions

Four discussion groups were formed to discuss whether and how PPPs could unlock Hong Kong's infrastructure potential. To guide the discussion, each group focused on a specific perspective: (1) end-user; (2) public sector; (3) advisor and consultant, and (4) financial institution. Representatives from each group presented their discussion outcomes as follows:

- A key point for PPP is addressing the financial gap between the government's offer and private developers' expectations. To close the gap between both parties, long negotiations and discussions may be necessary.
- Continuous performance of PPP contracts is important, with contractors/ operators playing a key role in maintaining and operating assets, driving efficiency, and applying continuous innovation.
- Based on the experience in the Disney development project, the quality of a project is strongly influenced by the negotiation between private and public parties. External factors, such as economic conditions, can

also impact project outcomes. In addition, it is suggested not to rushing into commitments, and lessons learnt should be taken into account.

- Government could share the risks and financial burdens with external parties through PPPs and tap into private expertise and resource for complex infrastructure projects, especially the essential services for the public, such as water supply or elderly care service. A strong top-down drive is essential for PPP success, aligning objectives between technical departments and financial bureaus.
- To leverage Hong Kong's position as a regional green finance hub and headquarters of the Belt and Road initiative, it was suggested to also incorporate ESG factors to the rating system.
- The members emphasised that a stable political regime and market regulations are crucial for honoring past decisions and reducing the risk of disputes between the contractual parties. It was suggested to ensure a strong "top-down drive" to align objectives across various departments, including the financial and technical bureaus but with comprehensive considerations of end users, unaffected by temporary shocks and stresses.
- It is suggested to engage a third party or government in the SPV can help share responsibility and risk, with a third-party monitoring progress. Stringent due diligence is needed to ensure SPVs are financially sound and can fulfill their commitments. A review mechanism should be in place during the operational period, allowing for charge review or asset buy-back
- The members also agreed that robust management of the projects by the Government is required otherwise the Government may lose control of the project as the design is driven by the counterparts/ private sectors. In addition, clear objectives and KPIs should be deemed essential to avoid disputes.

Conclusion

This discussion forum is considered fruitful. Mr Tam's speech and the subsequent discussions have enhanced the participants' awareness towards PPPs development. The participants agreed that PPP are procurement mechanisms that allow the government to incorporate resources and expertise from the private sector to implement public infrastructure projects. PPPs combine the skills and resources of both sectors through shared risks and responsibilities. By leveraging private sector expertise, the government can focus on policymaking and project planning while delegating day-to-day operations. On the other hand, a robust management and review system is necessary for the successful implementation of PPP. It is hoped that these views would be useful for the successful implementation of PPP for future infrastructure projects.

