

Common Problems Holding Back the Development of PPP in Hong Kong

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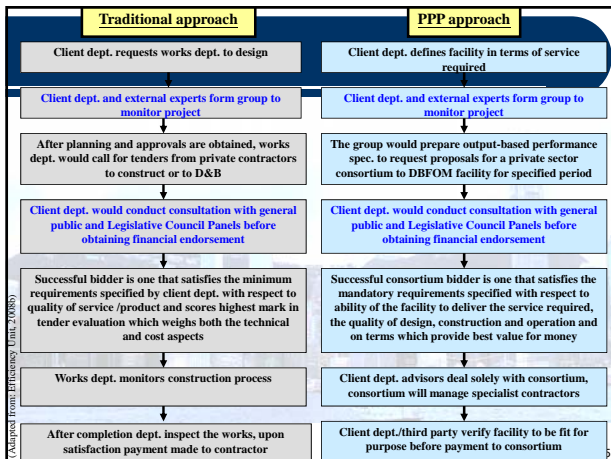
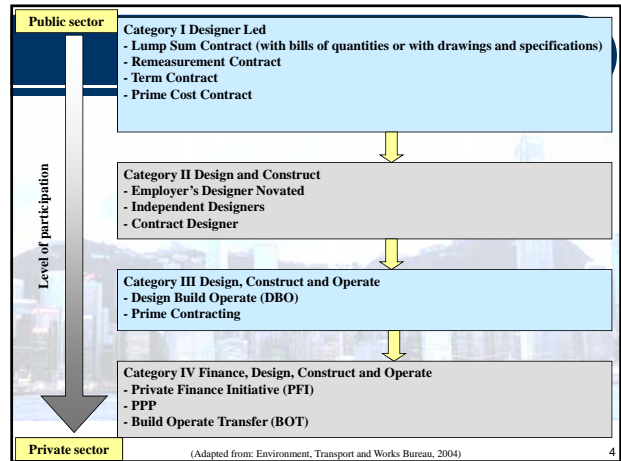
Outline of the Presentation

- Background of PPP in Hong Kong
- A Cross Border Case Study
 - The Hong Kong – Zhuhai – Macau Bridge
- Local Case Studies
 - Cross Harbour Tunnel
 - Western Harbour Tunnel
 - Asia World Expo
 - West Kowloon Cultural District
- Common Problems Observed From the Case Studies
- Conclusion – Overcoming the Problems

Background of PPP in Hong Kong

Public Private Partnership (PPP) has become an increasingly popular alternative for procuring large public works projects around the world. With the success seen from PPP leading countries such as Australia and the United Kingdom, Hong Kong has also been keen to get a taste.

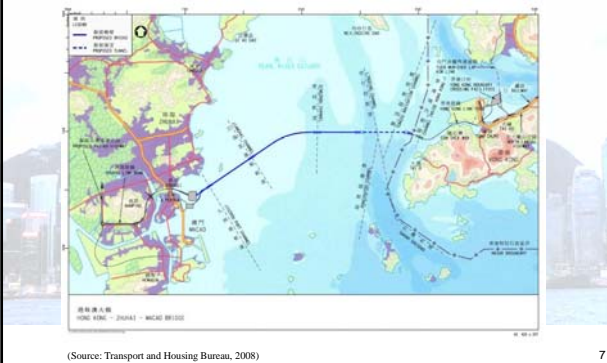
“Arrangements where the public and private sectors both bring their complementary skills to a project, with varying levels of involvement and responsibility, for the purpose of providing public services or projects.”
(Efficiency Unit, 2008a)



A Cross Border Case Study

- The Hong Kong – Zhuhai – Macau Bridge

The Hong Kong - Zhuhai - Macau Bridge



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Hong Kong - Zhuhai - Macau Bridge Continued...

Route	Joining Lantau Island in Hong Kong to Perola in Macau and Gongbei in Zhuhai
Length	29.6 kilometres (main body)
Vehicle speed limit	100 kilometres per hour
Journey duration	15 to 20 minutes
Toll fee	\$HK150 per vehicle
Construction cost	RMB37.4 billion
Traffic Flow	12000 – 16000 vehicles per day
Estimated Date of Construction Commencement	2010
Estimated Date of Completion	2015/ 2016

Note: 1 RMB = 0.1464 US\$ (Yahoo, 2008)

(Source: Mak, 2008; Hong Kong Special Administrative Region Government, 2008; Chen and Lee 2008; Hung, 2008; Transport and Housing Bureau, 2008)

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Is BOT the Best Financing Model to Procure Infrastructure Projects?

Scenario 1: Funded by the host governments with an investment return period equal to the bridge life of 120 years

Total Investment	RMB72.7 billion
Savings from private investor's profits	RMB4.95 billion (under the BOT model, with a private investment of RMB30 billion calculated at a 16.5% return rate)
Usage per year	292 0000 (8000 per day)
Investment return period	120 years
Estimated cost per trip (daily maintenance cost not included)	(RMB72.7 billion – RMB4.95 billion) / RMB2.92 billion / 120 years = RMB\$193

Note: 1 RMB = 0.1464 US\$ (Yahoo, 2008)

(Source: Ming Pao, 2008)

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Is BOT the Best Financing Model to Procure Infrastructure Projects?

Scenario 2: Funded by the host governments with an investment return period of 60 years

Total Investment	RMB72.7 billion
Savings from private investor's profits	RMB4.95 billion (under the BOT model, with a private investment of RMB30 billion calculated at a 16.5% return rate)
Usage per year	292 0000 (8000 per day)
Investment return period	60 years
Estimated cost per trip (daily maintenance cost not included)	(RMB72.7 billion – RMB4.95 billion) / RMB2.92 billion / 60 years = RMB\$387

Note: 1 RMB = 0.1464 US\$ (Yahoo, 2008)

(Source: Ming Pao, 2008)

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Is BOT the Best Financing Model to Procure Infrastructure Projects?

Scenario 3: Adopting the BOT model (financed, constructed and operated by private investors) with a return period of 30 years (typical BOT concession period in transportation projects)

Total Investment	RMB72.7 billion
Usage per year	292 0000 (8000 per day)
Investment return period	30 years
Estimated cost per trip (daily maintenance cost not included)	RMB72.7 billion / RMB2.92 billion / 30 years = RMB\$830

Note: 1 RMB = 0.1464 US\$ (Yahoo, 2008)

(Source: Ming Pao, 2008)

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Reasons for government financing in the Hong Kong - Zhuhai - Macau Bridge

- Avoid further delay to project – previous experiences in changing procurement methods/ already proposed 25 years ago
- Legal differences between the three jurisdictions (difficult to have agreement unifying and compromising all legal systems)
- Lack of government control over the toll prices (bad experiences in the West and East Harbour Tunnels where the private consortia have charged high tolls)

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Reasons for government financing in the Hong Kong - Zhuhai - Macau Bridge Continued...

- Private sector no longer as interested in the project as they were when the idea was first proposed due to changes and movements in industries over time
- Studies carried out by the governments showed that the business model would not be economically attractive enough for the private sector to be interested
- Avoid public perception of collusion between business and the government
- The three governments have comfortable financial reserves to deliver project

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Local Case Studies

- Cross Harbour Tunnel
- Western Harbour Tunnel
- Asia World Expo
- West Kowloon Cultural District

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Cross Harbour Tunnel



First BOT tunnel in HK, opened 1972, one of the most successful BOT projects
(Source: Kowloon Motor Bus, 30X/230X, 2008)

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Western Harbour Tunnel



Highly criticized for the increasing tolls, opened 1993
(Source: Forum Sara, 2008)

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Asia World Expo



First proper PPP project in HK, opened 2005
(Source: Asia World Expo, 2008)

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West Kowloon Cultural District



Originally PPP but now funded by government
(Source: Home Affairs Bureau, 2008)

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