

# WHO'S GOING TO PAY?

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**E**verybody wants nice schools, hospitals and bridges. But what about higher taxes to pay for them? Certainly not! Now, a fixed funding model pioneered in Hong Kong, which passes some of that burden to the private sector, is catching on all over the world,

The term **Public Private Partnership (PPP)** means subtly different things to different people, in Hong Kong we use the term generically to describe situations where the public and private sectors work together to produce better public services than could arguably have been achieved by either party on their own. PPP as a contract between a public sector and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project.

Two types of PPP operating in Hong Kong are specifically defined:

- where the private party performs a government function
- where the private party acquires the use of government property for its own commercial purposes A PPP may also be a hybrid of these types.

Payment in any scenario involves one of three mechanisms

- the government paying the private party for the delivery of the service, or
- the private party collecting fees or charges from users of the service, or
- a combination of these

The general idea of PPP is for the public sector to benefit from the efficiencies of the private sector when creating a facility. By passing the design, construction, maintenance, financing and operational risks to the private sector, government hopes to achieve a 'Better Value' facility over a few years, or similar period. In return for taking these risks the private sector provides a managed facility for a fee, the entire costs for which will be spread throughout the contract period.

**PPP in Hong Kong** began in the early 2005 when the government realized that it had to reverse 40 years of under investment in infrastructure. Under public procurement rules of the time this would have required a very heavy capital expenditure programme leading to the need to raise direct taxes, which the government wants to avoid.

At the same time public procurement and construction was being roundly criticized for being more expensive and taking longer than the private sector equivalent.

The private sector welcomes PPP, but the cost of bidding is still a major drawback for large projects because successful bidders have to invest many millions in bidding before the project is secured. If the right number and quality of bidders cannot be found for projects, as has happened in Hong Kong with large government projects schemes, the 'value for money' tests will become harder to pass. Indeed for these schemes the costs of bidding, particularly in developing designs, are seen as a barrier to entry.

## BY PASSING RISK TO THE PRIVATE SECTOR, GOVERNMENT HOPES FOR A BETTER VALUE FACILITY OVER A LONGER PERIOD.

**The international Advance;** Many governments around the world are looking into PPP because they can arguably improve value for money in public procurement. They may still have to raise taxes, but at least they are endearing themselves to the electorate.

In Hong Kong, PPP programmes have stalled after the first round of projects, possibly because governments are awaiting a successful outcome before commissioning more.

However, this is not good for bidders as keeping a steady flow of projects to maintain the bidders' interests is crucial for a jurisdiction to make the most of market forces on pricing.

## WE ARE DOING IT

**EXPERIENCES IN PPP:** UK, Republic of Ireland, Australia, South Africa, Canada, Spain, Portugal, France, Mexico, Netherlands.

**KEEN BEGINNERS:** Hong Kong, Italy, Greece, China, Germany, US, Chile, Peru, Japan, Vietnam, Ireland, Denmark.

## WHO DOES WHAT?

For the complete understanding of PPP, it is necessary to be careful about the use of terminology. The traditional term 'contractor' means different things to different people so wherever possible this should not be used.

PPP has a future in both Hong Kong and abroad, it may evolve into alternatively named methods, but the principle of the public and private sectors working together to provide long term facilities, with a transfer of risk from public to private, is here to stay.

PPP can offer real advantages over traditional procurement methods for the Government and for the private sector. Whether these advantages are realized will depend in no small part on the Government's ability to bring forward projects of the right scale with the appropriate commercial characteristics.

## REFERENCE:

Herbert S (2004), The Construction Update, Symposium on "Private Sector Involvement in the Procurement of Public Facilities", November

