

Mrs Carrie Lam Cheng Yuet-ngor, GBM, GBS

Chief Executive

Office of the Chief Executive

Tamar, Hong Kong

20 April 2022

Dear Chief Executive,

The British Chamber of Commerce in Hong Kong ("the Chamber") has long been an advocate for Public-Private-Partnerships ("PPPs") and has set up a Working Group to focus on the potential to adopt more PPPs or Public-Private-Cooperation models in Hong Kong.

We have a long and successful history of PPPs in Hong Kong which have delivered good results for Government and benefits for the public. Internationally and in the Mainland PPP structures and financing arrangements have developed rapidly and there are now a number of new techniques for project delivery and financing.

The infrastructure pipeline now proposed for Hong Kong, including the Northern Metropolis and the Lantau Tomorrow Vision, is more substantial and significant than ever before. We suggest that it would be very challenging for this pipeline to be delivered and funded solely by Government.

We therefore strongly recommend that the private sector be engaged in a material role at the *early planning stage* to provide design and delivery expertise as well as innovation in financing. This will enable the acceleration of a significant number of large construction and infrastructure projects to deliver Hong Kong's future.

We set out the benefits of getting private sector support in the attached Submission, including a number of successful local and international PPP projects for reference, and list of recommendations on how PPP models could be incorporated in future projects.

The Chamber, as always, stands ready to help with its expertise and experience as we plan for the next stage of Hong Kong's development. We are in fact hosting a half day Symposium on 28th April which will focus on infrastructure and will, as part of that, explore the considerable opportunities for PPP.

We would welcome the opportunity to discuss the attached Submission, or any particular aspects of it.

Yours Sincerely,



Peter Burnett OBE
Chairman
The British Chamber of Commerce in Hong Kong

Cc:

Mr Paul Chan Mo-po, GBM, GBS, MH, JP, Financial Secretary

Mr Christopher Hui Ching-yu, JP, Secretary for Financial Services and the Treasury

Mr Edward Yau Tang-wah, GBS, JP, Secretary for Commerce and Economic Development

Mr Michael Wong Wai-lun, JP, Secretary for Development

Ms Doris Ho Pui-ling, JP, Head of Policy Innovation and Co-ordination Office

British Chamber 2022 Public-Private-Partnership Submission

The focus of this Submission from the British Chamber of Commerce is on the potential for the greater adoption of Public-Private-Partnership in Hong Kong's future development. Our recommendations, with regard to the projects referenced in the 2021 Policy Address and 2022 Budget Speech, are set out in detail below including precedent PPP projects.

Background

The use of PPP techniques for infrastructure and construction projects accelerated in many developed countries from the 1970's onwards as a result of large government spending which had left national treasuries struggling to pay for new and important projects. Many assets were then taken off government balance sheets to place them beyond the direct responsibility of national treasuries and to require them to be run as private concerns. However, as time developed, issues arose with infrastructure delivery around the unpredictability and uncertainty of risks that the private sector had to bear. PPP models have since evolved worldwide in an aim to balance the risks and the opportunities from the public and private sector and to maximise benefits to Government.

In Hong Kong, we have seen successful PPP examples in the past e.g. Hong Kong Airport (SkyCity), Western Harbour Toll Crossing, Kwai Tsing Container Port, Cross-Harbour Tunnel, Waste to Energy projects, Kai Tak Sports Park, Ocean Park, together with various hospital and healthcare projects. In a number of recent announcements, Government has highlighted the transformational nature of major infrastructure investments, both in terms of delivering a more liveable, smarter city and in promoting our role within the GBA. Rapid and effective project delivery is critical to the medium-term financial sustainability of Hong Kong, which relies on these projects to support economic and population growth.

The Chamber believes that both financial and non-financial participation from the private sector in these large projects is vital for delivering on time and cost-efficient results, and to accelerate the delivery of these projects to the benefit of the people of Hong Kong. We see many benefits in the PPP model:

- 1) Access to non-Government finance

Most major projects in Hong Kong are funded through Government's Capital Works



Program or via equity capital funding from Hong Kong's property developers. The involvement of the private sector to finance a significant number of major projects being developed concurrently will help preserve limited Government resources which can be better deployed for other Government projects/initiatives. Given the scale of the Governments' current infrastructure development programme, new sources of private capital will be required. This approach has many merits, including:

- A reduced liability for development investment from the Government balance sheet;
- Opportunities to expand financing through involving the private sector which can reduce overall funding cost;
- Delivering a clear understanding and fair distribution of risk between the public and private sectors – to mutual benefit;
- Allowing for the adoption of optimal private sector managerial / operational practices; and
- Bringing additional private sector investment into sectors that are aligned with government Environmental Social Governance (ESG) priorities (for example Government development of renewable energy at its facilities, projects delivering social benefit, public housing, etc).

With significant resources being used to fight the pandemic, it may be challenging for the Government to commit further large-scale resources to complete the diverse range of urgent infrastructure needed to deliver a better future for Hong Kong in a timely manner. The greater use of PPP would also strengthen the position of Hong Kong as a regional hub for infrastructure investments and financing. In addition, such PPP structures would allow Government to:

2) Utilise the expertise from private sector, to increase:

- speed to market – where timing matters (e.g. delivery of social/ private housing);
- innovation – where the private sector can draw upon a broader range of expertise and know-how;
- creative approaches to project design / delivery; and
- diversity of approach to create greater expertise in the Hong Kong market, and potentially that of the GBA.

3) Provide greater ability to meet ESG requirements

Newer models for private sector participation have evolved internationally to respond to complex challenges such as embracing stronger ESG protocols and KPIs. Many jurisdictions may now seek to impose stronger ESG requirements on large

scale projects which will result in new PPP designs achieving greater ESG benefits. Some leading examples include:

- Fargo-Moorhead River Diversion PPP, US – involving the country’s first green finance initiative specifically designed for climate change adaption;
- US Bank Stadium PPP, US – inclusivity KPIs were included within a commercially viable venture and resulted in 36% of construction positions on the project being held by minorities, 9% by women, and 4% by veterans; and
- Royal Adelaide Hospital PPP, Australia – the first Australian PPP to be financed by a social loan under the Social Loan Principles.

Current areas/ projects

The Government has used PPP models in various projects in the past. We highlight below examples of current areas or projects where we believe the private sector can strongly contribute to Hong Kong’s development.

1) Healthcare

We understand that the Government has previously considered the use of PPP models in primary healthcare. However, we believe that the private sector should be engaged more to drive healthcare transformation in Hong Kong: especially in the planning and development of new hospitals and the redevelopment and expansion of existing hospitals to deliver more patient beds and improve outpatient services.

2) Large infrastructure and construction projects

The proposed Northern Metropolis is an exciting example of a new smart city in which multiple large-scale projects, developments and supporting infrastructure will need to be developed with a wide variety of diverse uses. Efficient and effective delivery of these large projects on time will benefit from having the private sector participation.

Similar large-scale projects will be needed over the next few decades in other parts of Hong Kong and indeed the GBA. Many will require greater levels of technological innovation, i.e. consideration for smart mobility infrastructure to facilitate fast adoption of EV/ driverless vehicles, or site formation, reclamation and provision for public infrastructure throughout New Territories, Kowloon and Hong Kong Island including the “Reinvigorating Island South” initiative, or the reclamation in Central Waters (“Lantau Tomorrow Vision”). These projects will also require innovation in green and sustainable financing from an early stage and this is where the Chamber suggests the

private sector can add particular expertise.

Other projects in Hong Kong are needed on a much more short-term basis, such as the speedy provision of truly affordable housing (which has been deployed successfully overseas) and cultural and sporting social infrastructure i.e. stadiums, museums, multi-purpose event venues etc.

Other projects may require more creative solutions from the private sector in increasing climate change resilience, waste to energy etc.

Recommendations re: best practices

The very large scale of projects over the next 15 years or so, taken together, are likely to place a considerable burden on Government finances without the involvement of the private sector. Given the reduction in the overall capital reserves in the last few years, there is the opportunity to seek both private sector expertise and funding to ease the burden on the Government's resources and yet ensure timely and efficient delivery. We appreciate the work that the Development Bureau is already doing to learn more about overseas best practice but we also recognise that there have been cases where the PPP models chosen have not performed well despite the best efforts of Government. The Chamber would therefore like to make the following recommendations to address some of the current issues with more recent PPPs:

1) Attractive public-private partnership environment

A number of PPP research papers and guides were issued by the Efficiency Unit between 2001 and 2008 but PPP models have developed significantly since then. It is recommended that Government reviews and updates its policy and strategy for PPPs and private sector involvement to provide an improved general framework and greater clarity in respect of the Government's approach to PPPs. The policy should add transparency to PPP procurement selection and award procedures, dispute resolution mechanisms, public capacity to plan and oversee PPPs, financing techniques and other elements. We suggest refining these policies in collaboration with the private sector to embrace lessons learnt both in Hong Kong and elsewhere, whilst developing the PPP models best suited for our city.

The structuring of recent PPPs in Hong Kong may have been perceived to favour local developers rather than international players. Local developers are better able to assess the risks associated with some of the unique features of Government tenders. They also have stronger links with local banks who also better understand how to price in



these risks and manage some of the financing restrictions which often apply to such projects.

However, international bidders would no doubt welcome a more open procurement approach and award guidelines that balance qualitative features in addition to pricing. They would expect to see a balanced contractual risk sharing approach, greater bankability (with an ability to grant more appropriate levels of security), greater investment flexibility for multiple investors / consortium involvement (including mechanisms which permit changes of control throughout the lifecycle of the project), and clearer approaches on termination rights and defaults.

2) A dedicated PPP unit

The setting up of a dedicated PPP unit should be considered to both update Government guidelines and facilitate a more detailed engagement with the private sector where “partnership” (rather than a primary / subsidiary economic interest type arrangement) could yield more favourable outcomes for multiple stakeholders. The purpose of the dedicated unit would be to coordinate the PPP process and provide timely and expert assistance to relevant departments and bureaux. A key part of the PPP unit would be a project development capability, which would have responsibility for preparing a *pipeline* of projects for PPP investment. Developing a pipeline provides time for the private sector and potential bidders to plan and mobilise resources. It provides an opportunity for them to commit resources to Hong Kong beyond one specific or ad hoc project and develop in situ expertise, further strengthening the city’s professional services cluster.

In a number of overseas cases, such a unit is given a degree of operational independence with a governing board providing overall direction and guidance. In the Hong Kong context, it could perhaps be led by a Commissioner for PPP Delivery (or equivalent senior civil servant) supported by independent external and Government expertise. Such a unit can then coordinate cross-Departmental involvement to facilitate better structuring and more timely implementation for each project.

3) Procurement skills

The procurement of public sector projects is often handled by “generalist” civil servants from the Department or Bureau overseeing the project. Capacity development is important to facilitate effective procurement of PPPs. The participation of the private sector in major projects requires the Government to set out its requirements in advance, which includes capital works, long-term service delivery, operation and



maintenance requirements, as well as financing objectives. The expectations and requirements of the relevant Department should be set out in sufficient detail in the tender documents such that the private sector can use creativity and innovation to meet or exceed the desired output of the relevant project.

Capacity development will be enhanced if specialists and experts can be recruited to facilitate the development of some projects, guide the PPP process, and build the knowledge and capacity of senior government officials. Experts with prior private sector experience are particularly beneficial in this context for guiding and enhancing the procurement of significant Government projects.

If this public sector expertise is developed successfully in Hong Kong it could also enhance the role that our city can play in cross border GBA related projects.

4) Early engagement of the private sector

As there is already a pipeline for projects to be developed, it would be beneficial for the Government to share more externally on an earlier basis to enable the private sector to plan, manage and participate before these are finalised.

This will be a “win-win” model for both the Government and the private sector since the private sector involves a wide variety of industry professionals and specialist resources which the Government consider when planning a project. Having early and thorough communication with local and international businesses, financial institutions and consultants can also facilitate a more thorough understanding of the key deliverables and costs of these projects, ensuring early alignment between the public and private sectors. Early planning for Government projects would also give the private sector and potential bidders the necessary time to form business coalitions, recruit relevant staff and acquire new technology before engaging in the relevant PPP projects.

Conclusion

The infrastructure programme for Hong Kong is considerable and ambitious and in line with Hong Kong’s reputation for cutting edge development. The delivery and financing of such a programme will, in our view, be greatly enhanced by the participation of the private sector as investors, operators, managers and financiers. Our recommendations can be summarized as follows:

- Undertake a review of current policy and strategy for PPPs to develop, introduce and

circulate internally an improved general framework for the Government's approach to private sector involvement in infrastructure projects;

- Establish a dedicated PPP Unit under a PPP Commissioner, to coordinate across Government departments and to facilitate an active and early dialogue with the private sector on prioritized projects;
- Update project procurement processes to ensure sufficient capacity for private sector involvement; and
- Establish a protocol which allows for an early engagement with the private sector to consider the prioritized projects for Government so that the private sector can offer assistance in planning, managing and participating in delivery and financing.

The British Chamber of Commerce in Hong Kong
20 April 2022