

GENERAL IDEAS FOR THE OWNERSHIP TENDERS

new version: 13 January 2003

Author: G. Van Kerckhove

About PPP and ...

The general term "PPP" (Public Private Partnership) covers a wide variety of schemes for the public and private sector to carry out cooperation and co-financing of projects such as urban transport, rail transport, roads, bridges, prisons, buildings, stadiums, tunnels and many others. In the UK it is mostly called PFI (Private Finance Initiative). The UK has a vast experience in this field, so have other countries such as The Netherlands, South Africa and others.

Some of the popular forms/terms in the PPP/PFI concept are:

Build Operate Transfer (BOT); Build Transfer Operate (BTO); Build Transfer (BT); Transfer Operate Transfer (TOT); Build Operate Lease (BOL); Train Operating Companies (TOC); Design, Build, Construction, Finance and Maintenance or Operation (DBFM/O); Municipal Service Partnership (MSP); Franchise; Lease; Concession; and others.

Main principle: Public Private Partnership, with a win-win situation for both sides:

- the Municipality gets the funding it lacks or rather controls budget and/or schedule overruns
- the Municipality does not have to take care of the many complicated details in the design and construction as well as operation of the venues
- the private sector can do a good business and a good investment

Introduction

The "Ownership Tenders" were originally planned to come out in mid September through the BDPC. Once the tender documents were made available, interested parties would have had in principle two months only to come up with a suitable proposal. There would be no "pre-qualification". The intent was to designate (at least) the Owner for the National Stadium before the end of 2002.

Through the many contacts with dozens of embassies, commercial representations, foreign chambers as well as some companies I received valuable feedback that was regularly passed on to the BDPC and other competent authorities. Most comments suggested to have more time to set up a consortium and to prepare an offer.

The six original "Ownership Tenders" could earlier be considered as "DFBOT" (Design Finance Build Operate Transfer) as announced in the first official brochure from BDPC (available on request). At one stage they all became "DFBOO" (Design Finance Build Own Operate) and as such would follow existing laws regarding ownership of commercial and residential properties. The term "concession" was then dropped.

The Government identified suitable funding for the Swimming Center and decided to look for operators only.

The original tender for the "Commerce Affiliated Facilities" was removed. The real estate opportunities will be put on the market later.

Here you can also find the brochure that officially introduced the projects in this way:

The [English unofficial version of the Brochure](#) introducing the Ownership Tenders (PDF)
update: 7 October 2002

The list then became:

- National Stadium
- National Indoor Stadium (National Gymnasium)
- National Swimming Center (*operator only*)
- Olympic Village
- Meeting and Convention Center

- Wukesong Culture and Sports Center (Haidian) *
- Olympic Aquatic Park (Shunyi) *
- Beijing Country Equestrian Park (Shunyi) *

The projects marked * will later on be handled by the relevant Districts.

At the last moment, just before the Pre-qualification documents came out, new changes were introduced by some government sources. Two projects were bundled and for some the term “concession” was brought back - see details on the final list of tenders on this website:

The BDPC [Press Conference](#) of 25 October 2002. Newsflash with pictures.

See the PDF version for the content of the document (distributed to the participants) regarding the Announcement of the [Pre-qualification Tenders](#) (25 October 2002)

The “business model” we tried to follow:

1. the tender process requires the Owner to take the full responsibility for the design, finance, construction, operation and maintenance of the venue.
2. the main goal for the Beijing Municipality is to minimize its investment in the infrastructure costs for the 2008 Olympics; if the Municipality would follow the normal procedure for design and construction it would have to shoulder the full cost and risk; that would be the case if the Municipality looks for an operator after the construction of the venue;
3. the Owner is expected to have a very large autonomy in defining the post-Olympic use of the venue so he can achieve the best revenue stream during the concession period;
4. the Owner must have a fair return on his investment with a reasonable amount of “assurance for fair treatment “ (without firm financial guarantees)

There were some far-reaching implications:

- As explained earlier by the BDPC, any party who wishes to be part of the mentioned projects will have to discuss with the future Owner (Consortium) of the venue. The Owner (Consortium) will decide who will render services or deliver equipment for the Post-Olympic venue.
- Companies who want to promote their services or equipment have to keep in mind their most likely customer will NOT be BOCOG nor the BDPC, except for very specific aspects of the Games and the Olympic Overlays.
- The Owner was to be in charge of the detailed architectural and engineering design as well as the construction of the venue. Obviously the Municipality will be the “Master Coordinator” to make sure the general layout for Beijing City and the Olympic Green is respected (e.g. based on the general design from Sasaki, see relevant articles).
- The major parameters the Owner has to follow are the general specifications from IOC & BOCOG for the period of the Games. As for the Post-Olympic use, the Owner will have to make the major decisions.

The Olympic Overlays

“Olympic Overlays”: anything (equipment, services) that is exclusively used during the Olympic Games and has no other purpose once the Games are over.

Aspects related to the Olympic Overlay will need continuous fine-tuning. BOCOG will certainly be involved, at least in part, in the deliveries related to the Olympic Overlay; aspects of “sponsorship” and “preferred supplier” are its responsibility. A strong suggestion, based on previous Olympic Games, is that all costs related to the Olympic Overlays will be covered by BOCOG (or related), including remodeling, removal of temporary structures and fixtures. Normally the Owner should also be reimbursed for the right of use of the facilities and any maintenance & operation costs during the Games. As such the Owner should mostly concentrate on the aspects of the facilities for the Post-Olympic operation.

The challenge

The "Ownership Tenders" represent a unique initiative in its size and goals when looking back at previous Olympic Games. The Municipal Government is aware of the challenge and is sparing no effort to make the initiative a success. Beijing is striving to have a win-win situation for all and an internationally recognized success for the Beijing 2008 Olympics.

The "Owners" (Consortium) will have ample room to seek a solution that best fits their goal of profitability and their specific experience.

Several teams worked intensively to review the internal studies, the Master Plan and the tender documents. Foreign consultants were appointed by the BDPC and closely worked with the Chinese side:

Financial Consultants:

- China Development Bank with PricewaterhouseCoopers
- The Hongkong and Shanghai Banking Corporation

Legal Consultants

- Jingtian & Gongcheng Attorneys At Law
- Allen & Overy

The consultants mentioned here were appointed after an international tender in early July 2002. Earlier on, and after a tender, PricewaterhouseCoopers was also appointed by the Beijing Municipality to oversee BOCOG's RMB¥ 10 billion budget as an accounting consulting partner. At the end of December 2002 BDPC also appointed Mr. Maurice Louvet as a consultant.

General suggestions and comments given to interested parties

Interested parties - potential future "Owners" - were advised to prepare the setup of their "consortium". The following gives an overview of the suggested main components for the consortium:

1. a "financial team" funding and overall financial management as well as legal matters;
2. a "technical team" that will deal with the detailed design of the venue, all technical consulting services, engineering, construction and procurement;
3. the "operator" of the venue who will have the particular skills to generate revenues.

The consortium can include Chinese partners as well as partners from different countries and regions.

The consortium will have to demonstrate it has the management skills to deal with the overall coordination of all aspects as described above. Credibility and track record in the different disciplines will be most important.

The following "ideas" on

- how to structure the process for Ownership Tenders
- how to define the "business model", how to see the work inside the "Consortium"
- how to possibly define the "evaluation criteria"

are in part the result of feedback, comments and suggestions collected from the various foreign entities as well as Chinese authorities in the period July to October 2002.

All comments were promptly reported to BDPC

We contacted dozens of embassies, chambers of commerce, companies and other commercial services. I also made many presentations with extensive Q&A to any party who requested so.

Interested parties were recommended to use the "feedback form" to express their opinion. Unfortunately, only few had the courage to do so!

The need for a consortium

Interested parties - the potential "Owners" - were expected to start looking into the setup of their "consortium". The term consortium is not to be considered here as a legal definition. (The Tender Documents give clear details on how the "Owner" will have to set up the company.)

Main components:

1. a "financial team" capable of coming up with the funding and overall financial management; banks and other financial institutions are expected to be part of this group, along with investors; experience in risk management and insurance will play an important role as the risk factor will have financial implications; legal specialists will also be part;
2. a "technical team" that will deal with the detailed design of the venue, all technical consulting services, engineering and construction as well as most procurement; design and construction companies could be part of this group; the team should have solid experience in the type of venue and will have to incorporate the Post-Olympic features in its design as to minimize the cost of the Olympic Overlay; the team will also have the capacity (e.g. through special consultants) to carefully respect and understand the complex requirements from the IOC, BOCOG and the individual sports associations;
3. the "operator" of the venue who will have the particular skills to generate revenue during the time of operation; he will have the confidence of the investors; the first customer will be BOCOG; the operator will have the international expertise and network to attract customers for the venture (stadium, real estate, conventions,...); the operator will need to make his own assessment of the market potential based on his experience and show the necessary creativity. The operator will also influence the detailed design as well as the total cost of the venue through his requirements on how to modify the venue for the Post-Olympic use.

The consortium can include Chinese partners as well as partners from different countries and regions. A Chinese partner could be an interesting asset for the consortium:

- to raise part of the funds on the Chinese market as most of the investment will be RMB based; it will spread the foreign exchange risk; a lot of capital is available on the domestic market and there are interesting case studies in Shanghai and in Beijing on how Chinese Groups raised money for infrastructure projects;
- to have a local construction company that has all necessary licenses to carry out construction and design work in Beijing;
- to facilitate local operations through a better understanding between the Chinese side and foreign side;
- to help forge local alliances whenever needed (e.g. in sourcing local services and material);
- if the Chinese partner is directly under the Beijing Municipality it would show the commitment of the Municipality to make the venture a success (e.g. by making sure it gets a fair amount of events)

The Municipality is expected to set up a company that will be the local partner to bring funding in local currency and represent the Municipality's commitment without undue interference in the day to day management. (note: the Municipality has already done this!)

The consortium should possess the management skills to deal with the overall coordination of all aspects as described above. Credibility and track record will be most important, in particular for the prequalification: the consortium will have to prove it has all capabilities in place for the three components as explained above.

The successful setup of a consortium needs time because different companies with different management styles and interest have to agree on how to work together and share risks, investment and profits. With the former time table of the Tenders, time was mostly considered as much too short to set up a good consortium. The prequalification/call for expression of interest will give more time for foreign parties to understand the Chinese requirement and to set up the consortium.

The choice of the operator is extremely important - it will define the success of the venue later. According to others, the investors must first feel interest in the projects. If they decide to invest they "will sure be able to find the right operator".

Most hoped the Beijing Municipality would clearly explain why the investors should be attracted to the "Ownership Tenders" as they realized many of the venues look unprofitable and carry a high risk. It was suggested the Municipality could give a better indication on how to make the investment profitable but without putting too many limitations.

Most foreign parties preferred to look at the venues on a one-by-one basis, not by fixed bundling because of the very different types of business involved. But in some cases, bundling could be an advantage while most have very individual preferences. Bundling and ways of subsidy or compensation should be left to the consortium to suggest, the Municipality can then compare and make a decision.

For example, some Consortium might request bundling with other projects to achieve synergies: e.g. the Swimming Center plus the Olympic Village as to have a special membership in the "Health Club" for all tenants in the Village. However another Consortium might want a completely other combination...

As already explained, the Municipality finally decided to bundle the Olympic Village with the Indoor Stadium. While many foreign parties felt upset by the decision the turnout for the Prequalification for this project was very high.

How the consortium can prepare its proposal

- The bulk of "checking the figures" and doing "calculations" has to be done by the consortium, not by the Chinese side. Only the consortium can do the job right because it is its responsibility (and its money). This applies to revenue forecast, construction cost, overall investment, financing costs and profits.
- The "business model" at this stage seems relatively clear. How to put it in legal wording is not a major issue, that will be a logical consequence of the business model that fits the interest of both parties.
- The following step-by-step process further explains the "business model", e.g. for the National Stadium and National Indoor Stadium (Gymnasium) in particular.

1. The Operator receives the major parameters the Owner has to follow:

- the general specifications from IOC & BOCOG for the period of the Games
- the overall urban planning, such as utilities, public transport, etc. as well as overall layout in the area where the venue is located.
- the instructions and limiting parameters the Owner should respect regarding overall local architectural planning, in particular for post-Olympic use; it can include the land that will be available to develop next to the venue in order to add certain facilities to the venue.

2. The Operator analyses the IOC/BOCOG data

The Operator sees how he can modify and adapt the structure of the venue for optimal operation and revenue generation for post-Olympic use according to his business plan.

3. The Operator makes a full market study and revenue forecast

He will need:

- to receive and review the overall urban planning of the Beijing Municipality (e.g. to determine how many large stadiums will exist after 2008, how the real estate will develop, etc.); important data will be provided in the Tender Documents;
- to analyze the income growth and evolution of consumer purchasing power during the concession period, the impact on the prices and revenue he can expect;
- to analyze the expected consumer trends, as to define future interest in events, in entertainment, in living and working conditions;
- to analyze the impact of regulations, cultural and political conditions on what type of activities can be planned during the ownership period;
- to analyze the revenues that can be generated compared with conditions in other countries (e.g.: TV broadcast rights) and find out if applicable in Beijing;
- to define what are the risks that can affect the revenue stream;
- to define the operating costs in accordance with his business plan.

The study is very important and needs time to be carried out. In the document “China Tidbits” on this website there are some samples of data available in China to help in the study, such as indications on income, consumer trends, etc. Recent events held in Beijing (and Shanghai) show the high interest for quality performances despite the often very high ticket prices. It is the final responsibility of the operator to come with creative ideas and to check the real market situation in Beijing. The BDPC and others can provide some figures (e.g. costs, revenues) but only as a rough estimate/suggestion.

The result of his study is given to the Financial Team (revenue stream, operating costs and risk assessment) and to the Technical Team (design specifications)

4. Review of design and cost estimate for the venue

Based on

- the general specifications from IOC and BOCOG,
- the financial arrangements regarding the Olympic Overlay,
- the general parameters imposed by the Beijing Municipality,
- the post-Olympic requirements from the Operator,

the Technical team will review the design, planning the best solution for a smooth and cost-effective transition from the Olympic Overlay to the post-Olympic specifications; the Team will examine all costs to carry out the construction and purchase of equipment and facilities as required by IOC/BOCOG and the Operator. It will also include the costs related to the dismantling of the Olympic Overlay.

The costs will include all consulting services and related such as: consulting regarding the detailed guidance on IOC rules, architects, engineering and design consultants, quality consultants, etc. It should also include the specific risk factors during construction as well as a planning for maintenance costs (normal maintenance and repairs).

It was expected that the total cost will take into account the land costs for accounting purposes but it can be assumed that the Municipality will not charge the Owner for the land for the “unprofitable venues”, as done in most foreign countries (as part of the subsidy).

The result of the total cost calculation (including time table) will be given to the Financial Team.

5. Financial Review and feasibility study

The Financial Team will review and take into account, among others:

- the overall cost of the facility;
- all capital and financial costs;
- comprehensive risk and insurance coverage;
- the income for the use of the facilities during the Games, including operation and maintenance (if required);
- the financial arrangement with BOCOG for the Olympic Overlays (installation and supply of fixtures, temporary facilities, remodeling);
- the revenue stream and operation & maintenance costs as predicted by the operator;
- expected taxes according to normal PRC tax laws;
- expected rate of return/margin.

The complex financial calculation will result in a “optimum cost structure”. It is easiest to give a very simple example, e.g. for the National Stadium:

- the study shows an overall “cost” for the venue of US\$ 400 million
- considering the revenue stream, operation and maintenance costs the break-even for a profitable investment should limit the overall cost to US\$ 250 million.
- as a result, the consortium will request from the Municipality a subsidy that amounts to US\$ 150 million; the subsidy can be in the form of direct capital contribution and/or tax breaks and/or other favorable conditions.

It is up to the Consortium to request the level of subsidy and any other ways to make the project profitable, including “bundling” as explained above.

Important: for the “profitable projects”, others than the National Stadium for example, the Consortium will have to make a proposal what the Beijing Municipality will get in return for the right to implement the project. One aspect would be the “payment for the land-use rights”. Return or profit sharing for the Beijing Municipality could also be subject to benchmarks.

How can the evaluation be done?

Some of the criteria can be used for the prequalification, as mentioned in the exchange of ideas with several parties

1. Credibility of the Consortium

The Consortium should prove it has the Financial, Technical and Operating capabilities to handle such a complex undertaking by giving detailed financial figures, references and prior experience. It should be able to give a good overall proposal and demonstrate its success factors.

2. The level of subsidy requested

The lower the subsidy requested, the better for the Municipality. For the “profitable projects”, the consortium should give the best “return” to the Municipality. The Consortium should however demonstrate its planned revenue stream is based on acceptable means of income; the Consortium cannot go back on its business plan by planning certain revenues that will not be allowed under Chinese laws or regulations. The Consortium should clarify this issue. An example: in other countries, the venue can independently negotiate TV and Broadcast rights and it results in a major revenue. The Consortium should check their assumptions are correct. Also, the comparison of “level of subsidy” must be done fairly and on a comparable basis if different ways of direct and indirect subsidies are requested.

3. Technological level

The Consortium should demonstrate which advanced technologies and design it will use that will favorably contribute to the City of Beijing, in terms of environment, energy saving, public interest, the use of new materials, image of advanced technology, etc.

4. Contribution to Beijing

The Consortium should demonstrate in how far the venue could be an added value to the City, its economy and its citizens. E.g., in the case of the National Stadium: if the Consortium will provide a very large stadium with the highest technological level that will allow to host any national and international event on a major scale and in exceptional conditions it will certainly contribute to Beijing, making it a top world class city.

In other words - the Consortium could bring “a new and famous landmark to Beijing”; in such a case the overall design will be subject to the approval by the Municipality.

5. Creative ideas

The Consortium should give a general overview of its strategy and could also suggest creative and innovative conditions for the facilities, including bundling with other projects or special compensation.

6. Final value at hand-over

For the “Concession” projects it is important to demonstrate the Municipality will receive a venue in the best possible conditions at the end of the concession period.