



Large-scale public venue development and the application of Public–Private Partnerships (PPPs)

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Abstract

Large-scale venues for exhibitions and events are important public infrastructure. Developing venues have captured much of governments' attention due to the potential benefits the industry would bring to the community. However, venue development requires considerable capital and operating costs, unique standards of design and complicated operational issues. Public–Private Partnerships were introduced by governments as innovative delivery models to bring forward venue projects. This paper presents comparative case studies of two PPP venue projects in Hong Kong Special Administrative Region and New Zealand aiming to investigate key challenges for using PPPs in venue development and propose strategies to address the problems and assist future planning and organization for venue PPPs. The research shows that for a successful venue PPP, the following are critical features: (1) sound business case development; (2) streamlined financial arrangements; (3) robust tendering; (4) effective governance structure and partnership-based consortium; and (5) realistic risk allocation.

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1. Introduction

The exhibition and event industry plays an important role in a region and country's local economy as it helps to enhance their international reputation, boost relevant industries and business sectors (e.g. tourism, hotel, restaurants, etc.), and generate new employment opportunities (CUHK, 2009). According to a report released by the Hong Kong Exhibition and Convention Industry Association, the exhibition industry accounted for 1.8% of Hong Kong's total Gross Domestic Product (LegCo Panel on Commerce and Industry, 2008). In 2006, the tax income generated from expenditures connected with the exhibition and event industry was estimated to be about US\$125 billion (LegCo Panel on Commerce and Industry, 2008).

Hosting important exhibitions and events requires large-scale venues. The provision of venue facilities and associated services therefore captures much of the attention from both the public and private sector's side (Nelson, 2004). Building venues usually involves intensive capital investment and long-term operational and management expenses. Although some venues (e.g., Singapore Expo, Brisbane Convention and Exhibition Centre) can generate an operating surplus, the economic returns from operation do not generally offset the initial investment (e.g., construction and land costs) (Liu et al., 2009). Funding and initiating venue projects seems to be of less interest for profit-seeking entities — private sector organizations, unless an anticipated level of profits can be foreseen (Liang et al., 2011). It is hence common that the majority of large-scale venues for exhibitions and events were initiated by the public sector (Horwath, 2009). Governments may proceed with a venue project due to the considerations of broader economic and social benefits that venues would bring to the region or country, regardless the insufficient operating revenues to pay back the capital costs.

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The provision of venue assets and associate services poses considerable challenges to governments. The large capital investment upfront and high on-going maintenance costs impose budgetary constraints for governments to invest in other infrastructure sectors. Venue operation is complicated and entails commercial creativity and robust facility management services, imposing high requirements on the public sector's capacity to run the venue business. Governments have looked at alternative funding mechanisms and innovative service delivery models to make the development of venue projects more affordable and efficient.

Public–Private Partnerships (PPPs) are favoured by governments for venue development due to advantages, such as relieving public budgetary constraints, increasing the quality of public services, enhancing innovation and optimizing risk transfer (Chan et al., 2009; Grimsey and Lewis, 2004). PPPs have been used for venue projects, such as the Beijing National Stadium, Stadium Australia (currently known as ANZ Stadium), and the Melbourne Convention and Exhibition Centre. Extensive research has been conducted to recommend strategies underpinning the successful application of PPPs in infrastructure sectors, such as water and wastewater (Chen, 2009), subway networks (De Jong et al., 2010) and power generation (Sobhiyah et al., 2009). However, little attention has been paid on large-scale venue projects. Issues which are specific and significant for venue development, such as tight development timeframes to meet the opening date, exposure to critical public examination, and a high risk profile to the private operator, are not sufficiently addressed in the literature.

The research described in this paper aims to evaluate the experiences of venue development using PPPs, present lessons learned and recommend strategies to increase the effectiveness of venue PPP projects. Comparative case studies were adopted as the primary research method. Two high-profile venue PPP projects based in Hong Kong Special Administrative Region (HKSAR) and New Zealand were selected to examine the key facets, identify main challenges encountered, and solicit solutions to address the challenges. The venue development was compared to the previously studied project — Sydney SuperDome (SSD) in Australia (Jefferies et al., 2002). Similarities and differences among the three cases were then analysed with respect to their individual policy context so that recommendations for future venue development using PPPs can be made. The research findings provide useful implications for both the public authorities initiating venue projects and prospective private sector investors bidding for venue PPPs.

2. Special characteristics with large-scale public venue development

The initiation and development of new venues is likely to give rise to extensive and continuous public debate. For essential infrastructure sectors, such as education, healthcare and transport, the associated services benefit general public. By contrast, for venues, only a limited number of people (e.g. conference attendees, delegates, tickets buyers, etc.) directly receive the services (Nelson, 2004). The governments therefore need to be focused on the prioritisation and maintaining a balance

between non-essential investment in culture and entertainment (e.g., venue) and investment in essential infrastructure (e.g., schools). Under a coordinated and programme approach towards infrastructure planning, a venue project will be brought forward if the proposal is justified from a wider economic and social perspective.

Large-scale venues are not only designed to accommodate exhibition, entertainment or sports events, but also regarded as icons of the cities with unique aesthetic and architectural statements (Nelson, 2004). Governments are keen on building state-of-the-art facilities which become places of interests for tourists. Much emphasis is placed on adopting advanced engineering technologies, new materials and innovative designs (Liang et al., 2011). The development of venue projects is usually subjected to tight timeframes and needs to meet higher facility and quality standards required by international events (Liang et al., 2011).

The core business of venues is organizing exhibitions and event. Although the stadiums for large sports events (e.g. Olympic Games) can be well used during events time, concern for the sponsors exists on how to effectively operate and maintain the facilities in the long run. The venue business involves expertise including marketing practices, customer relationship management, advertising, sales promotion, and submitting professional bids (Davidson and Rogers, 2006). The requirement of functionality, coupled with the complexity of the venue business gives rise to considerable costs associated with managing and operating (Liang et al., 2011). A highly specialized operator is essential for business and controlling operating costs.

3. Delivery models for venue development

3.1. A review of existing delivery models

A search of literature on public venue provision identifies two existing delivery models used for venue development: direct public funding, ownership and management and public funding, ownership and private management. Previous exhibition and event venues were primarily publicly funded and owned (Horwath, 2009). In terms of venue operation and management, there is a split between in-house and outsourced models. Examples of in-house management include Wellington Convention Centre, wholly owned and managed by the public sector and Adelaide Convention Centre, owned and managed by a body subsidiary to the Ministry of Tourism (Horwath, 2009). The operation and management of some venues are outsourced to a private sector entity, such as the Perth Convention Centre managed by Spotless Services and the Sydney Convention and Exhibition Centre outsourced to Convention Centre Management Pty Ltd (Ministry of Economic Development, 2009).

The existing delivery models for venue development face a variety of challenges. Funding the venue projects solely from the public sector leads to tighter government budgets (Liang et al., 2011). Especially under the recent global economic crisis, it is difficult to justify a venue proposal with regard to the infrastructure demands in other essential sectors. In addition to the funding gaps, venue operation creates a burden for the public sector due to the high risks and complexity involved in

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