

For discussion

**Legislative Council Panel
on Information Technology and Broadcasting**

**Institutional Arrangements for
Future Management of the Cyberport Project**

INTRODUCTION

We seek Members' support for the extension of two supernumerary posts of AOSGB (D3) and Chief Engineer (D1) to enable the secondment of two suitable officers from the Government to a management team set up under a private company owned by Financial Secretary Incorporated (FSI) to spearhead the Cyberport development for a period of 18 – 24 months. The full cost, including salaries and staff on-cost, of two proposed secondees will be recovered by the Government from the FSI-owned companies.

PROPOSAL

2. The Cyberport is an important information technology project. We have been reporting developments relating to this project to Members on a six-monthly basis. A background brief is at **Annex A**.

3. The first phase of the Cyberport will be completed later this year. In the next two years, the Cyberport project will still be under construction and we will continue to focus our effort on recruiting the right tenant mix for the Cyberport, putting in place necessary infrastructures, services and facilities; and setting up proper institutional arrangements to safeguard Government's interests in the project. The Cyberport project is being developed by the Government in cooperation with a private sector company which is owned by Pacific Century CyberWorks (PCCW). The Cyberport project and the intellectual property rights arising therefrom are owned by the Government (through three FSI-owned companies) and it is Hong Kong's IT flagship which supports our overall IT strategy. It is necessary for the Government to maintain a direct presence and involvement in the FSI management team to oversee the implementation of the project and day-to-day operation of the Cyberport.

4. We consider it appropriate to have a small FSI management team, bearing in mind that the project is mainly implemented through PCCW and a private sector facilities management company will be engaged to manage the facilities at the Cyberport on behalf of the FSI-owned companies. Our proposed FSI management team is illustrated in **Annex B**. We propose to recruit all of the FSI staff from the market, except for two of them (asterisked in **Annex B**) which will be required for a period of 18 – 24 months. These two Government officers are the Cyberport Coordinator (who will head the FSI management team) and the Deputy Director (Construction, Facilities Development & Management) (who will monitor the design and construction of the Cyberport project to ensure compliance with the specifications stipulated in the Project Agreement). We believe that we should extend the two existing supernumerary directorate posts in the ITBB's Cyberport Division to enable the secondment of two suitable officers from the Government to fill the posts of Cyberport Coordinator and the Deputy Director (Construction, Facilities Development & Management) to spearhead the Cyberport development.

5. The direct involvement of these two Government officials in the FSI management team will be crucial in the next two years during the development stage of the Cyberport Portion as the Government is committed to the following –

- (a) to guarantee the dovetailing of the Government infrastructural works and the Cyberport structure building and timely completion of a first-class Cyberport to be filled by suitable tenants on reasonable lease terms, and to ensure that the Cyberport will be supported by a “Cyberport Institute” (which is a “joint venture” between a university and different IT companies) and many other useful services. From the experience we have gained in the past three years, the ITBB's Cyberport Division, as a part of a Government bureau, has been capable and efficient in discharging this role. Also companies interested in exploring if they should become Cyberport tenants, even if introduced by PCCW and other sources, always insist to have direct discussions with Government officials on their business plans for the Cyberport. Consulates, overseas organisations, universities, professional organisations, which support the Cyberport as part of the Government's overall IT strategy, always prefer to liaise with our Government officials direct. The media constantly contact the Government for news

and comments on the Cyberport as they wish to know the Government's angles in this project;

- (b) to monitor the sale of the Residential Portion to safeguard the Government's interests as a landlord and vendor. The first phase of the Residential Portion will be completed by mid-2004 and the pre-sale of the first units will start at the end of 2002 at the earliest. We must work closely with PCCW to ensure that a suitable marketing and sales strategy/plan is to be put in place, and we must closely monitor the implementation of this strategy/plan. The Government will also need to directly involve in the establishment of a secured accounts structure (as envisaged in the Project Agreement) whereby an independent security trustee is engaged to apply the sale proceeds strictly in accordance with the terms stipulated in the Project Agreement; and
- (c) to promote the Cyberport project as part of the Government's overall strategy to build up Hong Kong as a leading digital city in the region. When the Cyberport Portion is progressing to phased completion in the next two years, the Government should promote it as a new international IT centre, a place to groom IT professionals and an added attraction to tourists. The presence of senior Government officials in the FSI management team will not only provide effective coordination among Government departments and other organisations in organising publicity events, but also ensure that the right messages about the Cyberport and Hong Kong as a whole are being sent to the international community. To quote an example, many international guests attending the International Telecommunication Union (ITU) Telecom Asia in Hong Kong in 2000 requested the Government to introduce the project to them and take them to the site to see how it was progressing on the ground. We expect to receive many similar requests from guests attending the ITU Telecom Asia 2002 here in December. Indeed the Government believe that we should seize the opportunity to host a side programme for the ITU Telecom Asia at the Cyberport.

The main responsibilities of the Cyberport Coordinator and Deputy Director (Construction, Facilities Development & Management) are set out in **Annexes**

C and D, respectively. Their main duties will cover, inter alia, overseeing the construction and marketing of the whole of the Cyberport Portion and the first phase of the Residential Portion; the selection of Cyberport tenants; the introduction of a “Cyberport Institute”; and the implementation of a secured accounts structure for application of sale proceeds. These aspects of the Cyberport project will remain to be matters of public interest. We therefore are firmly of the view that these two posts should be filled by officers seconded from the civil service.

6. Technically speaking our current proposal is to seek an extension of the two existing supernumerary directorate posts (at D3 and D1 levels) provided under the ITBB’s Cyberport Division to continue to spearhead the Cyberport development. We believe, however, it would make sense, from the FSI management structure point of view, to have the two Government officers to be integrated into the FSI management team. We therefore propose that two suitable officers should be seconded from the civil service to the FSI management team to assume the posts of Cyberport Coordinator and Deputy Director (Construction, Facilities Development & Management).

7. The secondment arrangement will also address Members’ concern to contain, and reduce, expenditure on civil service. By seconding two suitable officers from the civil service to the FSI management team, the Government will be able to recover from the FSI-owned companies the full costs of the two staff involved (as if the two staff were otherwise to be recruited from the market); hence the question of Government paying for the supernumerary posts would not arise. If we were not to adopt the secondment arrangement, the Cyberport Coordinator and the Deputy Director (Construction, Facilities Development & Management) will have to be recruited from the market and paid by the FSI-owned companies (to carry out the duties set out in Annexes C and D). In any case, we do not favour this recruitment route for the policy considerations as set out in paragraphs 4 - 5 above.

8. It is crucial to have the secondment arrangement in place from July this year as and when the existing supernumerary posts in the ITBB Cyberport Division will lapse until around mid-2004 when the Cyberport Portion is up and running. By that time, we believe part of the work undertaken by these two staff, such as monitoring the construction of the Cyberport Portion and recruitment of office and retail tenants, will diminish and their remaining duties could perhaps be absorbed by the other staff in the FSI management team (and a

possible structure of the FSI management team as at 2004 is illustrated in **Annex E**). The two posts may therefore no longer be needed beyond that time and hence are time-limited and transitional in nature. The “Cyberport Director”, being recruited from the market, may eventually become the head of the FSI management team, after having been given a chance to understudy his/her duties while deputising the Cyberport Coordinator for an initial period.

Advice Sought

9. Members are invited to support the proposed secondment of two civil servants to fill two of the senior but probably transitional positions in the FSI management team for a period of 18 – 24 months. The full annual average staff cost of the proposed secondment of the two civil servants, including salaries and staff on-cost, is estimated to be \$4,797,672. This will be fully recovered by the Government from the income collected by the FSI-owned companies.

Information Technology and Broadcasting Bureau
April 2002

Hong Kong Cyberport Project

Background Brief

In March 1999, the Government announced our intention to proceed with the Cyberport development in cooperation with Pacific Century Group which subsequently became a shareholder of Pacific Century CyberWorks (PCCW). In July 1999, we set up a Cyberport Division under ITBB to negotiate the terms of a detailed Project Agreement with PCCW and to spearhead the development of the Cyberport project. We informed Members then that the Cyberport Division would comprise two (2) supernumerary directorate posts [one supernumerary AOSG 'B' post designated as DS(3)/ITBB and one supernumerary Chief Engineer post designated as CE(CP)/ITBB] and five (5) non-directorate posts [one Senior Architect, one Chief Executive Officer, one Senior Executive Officer, one Personal Secretary I and one Personal Secretary II]. The 2+5 posts have been created for a period of three years until 4 July 2002. The Cyberport Division has since borrowed additional staff from other bureaux/departments to cope with its increasing workload and new requirements.

10. On 17 May 2000, we informed Members that the Government, through the three FSI-owned companies, had concluded the negotiations with PCCW and signed with PCCW and PCCW's Cyber-Port Limited a detailed Project Agreement for the whole project period which would last up to around mid-2008. We also announced the main terms of the Project Agreement to assure the community that the Government's maximum interests were being safeguarded in this legally binding Project Agreement. Briefly, the Government would be responsible for providing the land while PCCW would design, develop, construct and market a cyberport (the Cyberport Portion) and an ancillary residential development (the Residential Portion) as an integrated development (and the Cyberport development plan is shown at **Enclosure**). We required PCCW to return to us the Cyberport Portion between early-2002 and end-2003 and to shoulder all construction and financial risks.

11. The Cyberport project is not just another construction project, but an infrastructure for clustering of IT and IT related companies. The Cyberport Portion will provide about 120,000m² of intelligent office space for leasing to over 100 companies, a cybercentre to accommodate more than 50 commercial tenants and an international deluxe hotel of 176 rooms. The rental income and

any other income to be generated from the Cyberport Portion belong solely to the three FSI-owned companies (not PCCW). PCCW is the marketing agent, while the Government is responsible for ensuring that the Cyberport is to be filled by the right tenants, served by the right infrastructure, facilities and services and operated as an IT flagship. PCCW would be able to share with the FSI-owned companies the proceeds to be collected from the sale of the units in the Residential Portion after deducting money to meet outstanding project expenses and to set up a Cyberport development fund, upon the satisfactory completion of the Cyberport Portion.

12. The ITBB's Cyberport Division is charged with the overall responsibility for overseeing the development of the Cyberport project. More specifically, the Cyberport Division has been –

- (a) monitoring the Cyberport development to ensure that the project is designed, built and marketed in accordance with the terms of the Project Agreement;
- (b) promoting the Cyberport as Hong Kong's IT flagship project locally and overseas, to complement the marketing effort made by PCCW;
- (c) setting up the institutional arrangements (mainly through the Committee on Admission of Cyberport Office Tenants comprising independent local and international members) for the selection of Cyberport office tenants;
- (d) spearheading the lease negotiations with prospective tenants through an independent property adviser;
- (e) lobbying support from IT groups, venture capitalists and other professional associations;
- (f) seeking the implementation for market-driven IT training programmes through partnership with the University of Hong Kong and major IT companies;

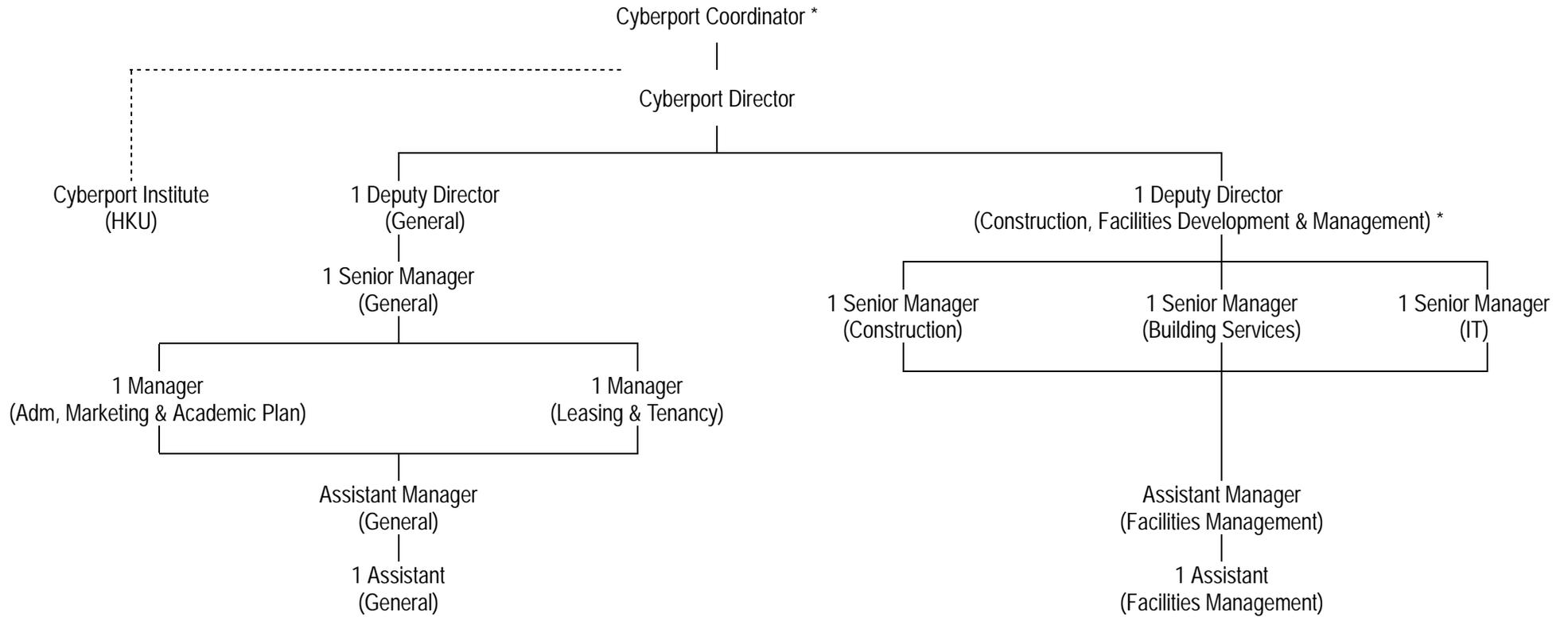
- (g) establishing the future management structure of the Cyberport;
- (h) overseeing PCCW's strategy/plan for marketing and sale of the Residential Portion; and
- (i) organising publicity events (such as exhibitions, seminars, ceremonies) on the Cyberport project.

The head of the Cyberport Division attends meetings of the Executive Council/ Legislative Council and briefings with local/international media and interested organisations/agencies. She also acts as the Government's spokesman and liaison person on the Cyberport project.

13. The Cyberport Division of ITBB, in discharging the many duties required of it, works closely with various Government departments, executives of PCCW and many contractors and service providers working on the project; multinational, overseas and local companies which may become Cyberport tenants; consulates and commercial and professional organisations interested in the project; and the local and international media which maintain an ongoing interest in the project. The Cyberport Division, when acting on behalf of the three FSI-owned companies, mainly relies on private sector expertise and is therefore supported by a number of private sector consultants and advisers, such as lawyers; insurance consultants; IT consultants; property advisers; retail leasing agents; and accountants, etc.

Information Technology and Broadcasting Bureau

Proposed Staff Structure of the FSI companies (starting from mid 2002)



* To continue to be filled by government officers until end 2003/mid 2004

Post : Cyberport Coordinator

Main Duties and Responsibilities –

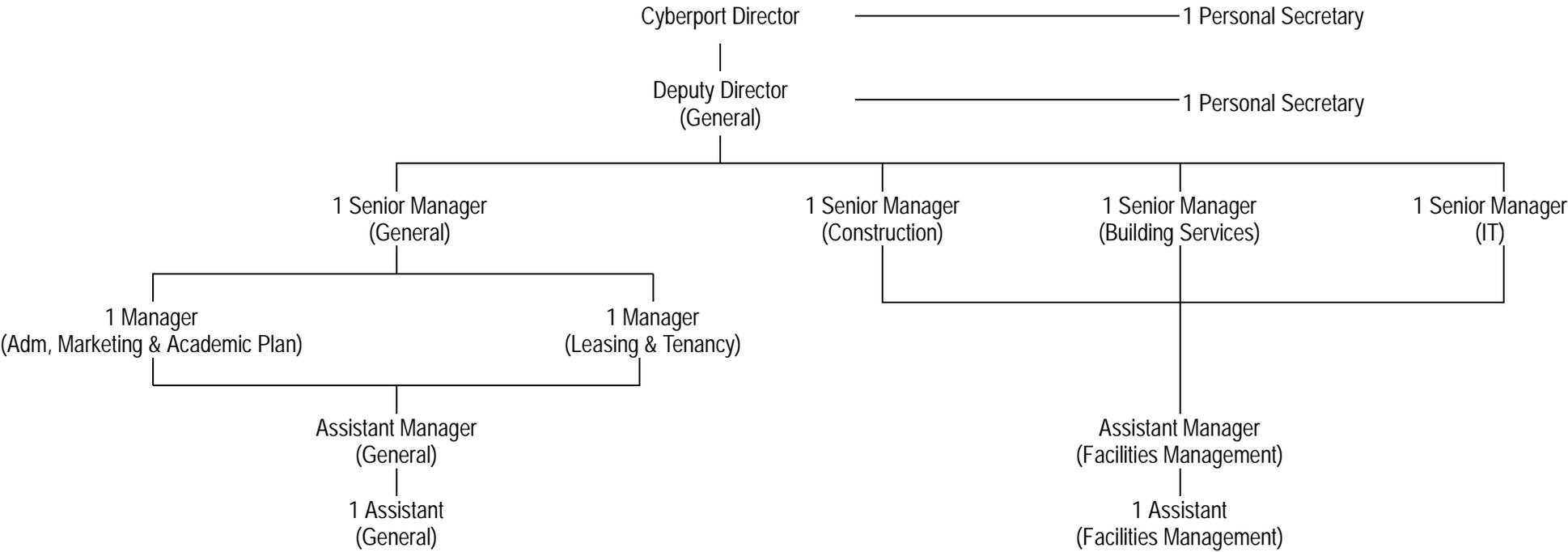
1. to direct, coordinate and supervise the work of the FSI companies;
2. to oversee the design, development, marketing and management of the Cyberport project and to ensure that it aligns with the Government's objective of creating a strategic IT cluster, as part of the Government's overall IT strategy to build up Hong Kong as a leading digital city;
3. to mastermind publicity activities to promote the Cyberport project as Hong Kong's IT flagship both locally and overseas and to lobby support from potential tenants, consulates, Government organisations, universities, IT and professional associations;
4. to service the Committee on Admission of Cyberport Office Tenants in the selection of office tenants and to supervise the property adviser in conducting detailed lease negotiations, and to coordinate publicity activities with signed-up tenants;
5. to liaise direct with the Cyberport tenants, to supervise PCCW and its agents in ensuring smooth operation of the Cyberport offices and retail facilities, and to supervise the hotel operator in accordance with the hotel agreement;
6. to facilitate the establishment of a "Cyberport Institute" by the University of Hong Kong working in partnership with major IT companies to provide market-driven training programmes to groom IT talent;
7. to work closely with PCCW in the formulation of a marketing and sale plan for the Residential Portion; monitor the sales of residential units and application of sales proceeds; and to establish a secured accounts structure for application of sales proceeds; and
8. to act as a spokesman for the Cyberport project.

Post : Deputy Director (Construction, Facilities Development & Management)

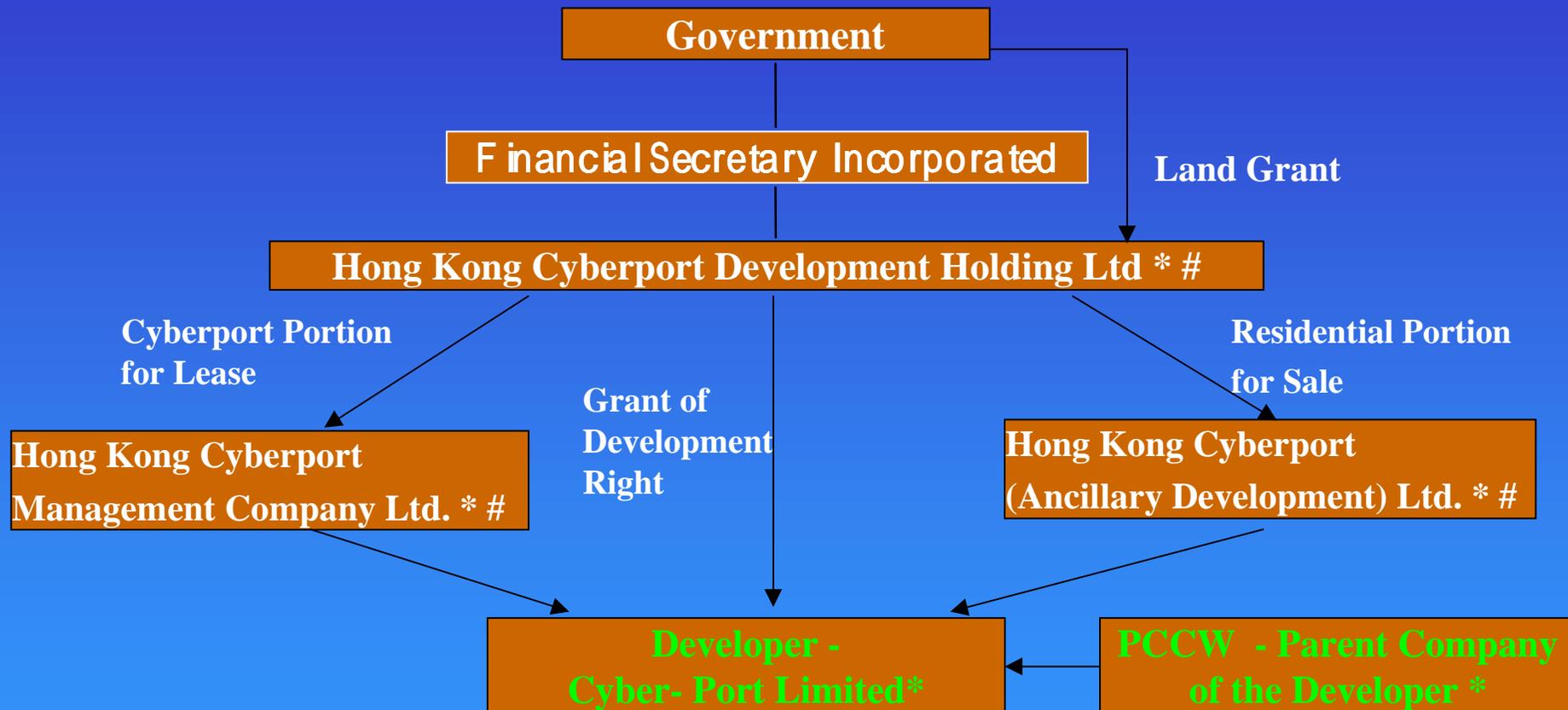
Main Duties and Responsibilities –

1. to oversee the engineering and building construction works and the information technology infrastructure works of the Cyberport development to ensure the pre-agreed standard and timetable are met;
2. to provide technical support to the Cyberport Coordinator in ensuring that the design and construction of the Cyberport meet the specifications as laid down in the Project Agreement and also the expectations of the prospective Cyberport users;
3. to monitor the overall programme of the Cyberport development, provide guidance and initiate remedial action where necessary to ensure timely completion of the development;
4. to liaise with Government departments, public utility companies and statutory authorities in order to obtain agreement and to resolve problems in connection with the project's construction such as statutory approvals and handover of Cyberport facilities (such as roads and sewage treatment plan, etc.) to the relevant Government departments;
5. to monitor and ensure cost control for all engineering, building and IT infrastructure works at the Cyberport in accordance with the terms of the Project Agreement;
7. to liaise with the PCCW and other contractors and service providers for the ongoing operation and maintenance of completed facilities; and
8. to supervise the work of a professional team in construction, building services and IT.

Proposed Staff Structure of the FSI companies (2004 onwards)
(subject to change upon review in last quarter 2003)



Cyberport Project Structure



* Parties signed the Project Agreement on 17.5.2000

Companies fully-owned by Financial Secretary Incorporated (FSI companies)