

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 703 – BUILDINGS**

#### **Social Welfare and Community Buildings – Community centres and halls 173SC – Centre for Youth Development**

Members are invited to –

- (a) note that the Centre for Youth Development (CYD) would no longer be operated on a self-financing basis through a limited company, as envisaged when capital funding for its construction was sought in November 2001;
- (b) accept the financial implications of Government assuming direct overall operation and management responsibility over the CYD; and
- (c) note that Government will continue to proceed with the construction of the CYD within the scope and capital funding approved in November 2001.

### **PROBLEM**

At the Finance Committee meeting held on 9 November 2001, Members approved a funding application for \$550.9 million to be charged to the Capital Works Reserve Fund for the construction of the CYD. It was stated in the relevant Finance Committee agenda item (referenced FCR(2001-02)36) that the CYD would be operated on a self-financing basis through a limited company. We recently reviewed the management and operation mode of the CYD in the light of changes in the overall economic situation from 2001. The construction work for the CYD has been held up pending the completion of this review and a decision on the way forward. We need to decide on the future management and operation arrangements for the CYD and how to tackle the financial implications in the light of the results of this review.

**/PROPOSED .....**

**PROPOSED MANAGEMENT AND OPERATION MODE FOR THE CYD**

2. As stated in paragraph 18 of FCRI(2004-05)22, we propose to directly take up the responsibility of managing and operating the CYD by providing the necessary recurrent expenditure, instead of managing the CYD through a limited company on a self-financing basis. We propose to adopt this public sector delivery model for the CYD, on the following grounds –

- (a) As shown in the recent consultation sessions with youth and other interested organisations (convened by the Legislative Council Panel on Home Affairs on 3 January 2005, and by the Administration on 22 December 2004 and 24 January 2005), all the attending organisations, with the exception of a few, expressed their clear support for the construction of the CYD. Most of them would like the CYD to be a landmark facility for youth development work and activities in Hong Kong, which could focus on youth exchanges with both the Mainland and overseas in particular.

However, many organisations expressed considerable reservations about the previous proposal to adopt a Public Private Partnership approach in the form of a single operation and maintenance (O&M) contract for the purpose of managing and operating the CYD. They were mainly concerned that it would be difficult for the Government to exercise effective control over one single private sector O&M operator, who would strive to achieve the self-financing objective in ways that could undermine the youth development function of the CYD.

On the other hand, all the youth organisations were generally in support of adopting a public sector delivery model for the management and operation of the CYD. In this connection, they should like the Administration to continually seek their views on the objectives and contents of the youth development programmes in the CYD, as well as the use and allocation of its various facilities after it has come into operation.

- (b) The Home Affairs Panel requested the Administration to consider relaxing the restriction that the CYD should operate on a self-financing basis, so as to increase the flexibility in drawing up an appropriate management and operation arrangement for the CYD which would not undermine its youth development objective.
- (c) We consider it administratively simpler and more appropriate for the Government to assume the direct overall operation and management responsibility over the CYD and its facilities, rather than performing this role through a limited company. This would also be more conducive to ensuring that the management and operation of the CYD would be in compliance of its youth development objectives.

**ASSESSMENT OF RECURRENT FINANCIAL IMPLICATIONS ON THE GOVERNMENT**

3. Based on IBM Business Consulting Services' financial analysis under a public sector delivery model whereby a total of 75 staff would be directly employed by the limited company to manage and operate all the facilities (except the youth hostel and cafeteria) on a day-to-day basis, the CYD could incur an annual shortfall of \$10 million in recurrent expenditure.

4. Based on the financial analysis conducted by the consultant, the Home Affairs Bureau has worked out a more up-to-date financial analysis to reflect the proposed change in the management and operation arrangements for the CYD. We estimate that under the proposed mode of the Government directly taking up the responsibility of managing and operating the CYD by providing the necessary recurrent expenditure, the CYD would generate an annual total income of about \$44 million, and incur an annual total operating expenditure of about \$49 million. The net cost to Government would be about \$5 million per annum. A summary of the annual income and expenditure projection is at Enclosure.

Encl

5. The estimates have been compiled on the basis of the following working assumptions –

- (a) The key assumptions applied in the financial analysis conducted by IBM Business Consulting Services in 2004 –
  - (i) the estimated hiring fees and occupancy rates for different facilities;
  - (ii) the ratio of operating profit for the youth hostel amounts to 15% of annual income; and
  - (iii) operating expenses include utilities, cleaning and security costs, repair and maintenance costs, and publicity and promotion expenses.
- (b) The day-to-day management and operation of the CYD premises and the various facilities in it would be contracted out through one or different service contracts, and hence reducing the direct staff cost incurred.
- (c) Facilities in the Arts and IT Centres would be converted into multi-purpose facilities.

6. We have yet to draw up the actual terms and conditions for the use of the various facilities in the CYD. We would seek the views of the management advisory committee on the CYD and other relevant parties at an appropriate timing before the commissioning of the CYD. The actual financial position of the CYD would therefore vary with the magnitude and terms of the contracting-out arrangements for the CYD premises and facilities (and the consequential changes in the staffing and administrative costs for the Government), the utilisation rates of the facilities and the proportion of usable time/space reserved for the use of NGOs, as well as the level of concessions given to these organisations.

7. Assuming that construction work of the CYD would be completed by mid-2007 and that staff would be required to be in place six months before commissioning in January 2008, the estimated expenditure provision required in the year 2007-08 would be around \$37 million (\$49 million x 9/12), while the estimated income to be received in 2007-08 would be around \$11 million (\$44 million x 3/12).

8. We plan to include the estimated provision for the management and operation of the CYD in the relevant draft estimates of government expenditure for 2007-08. In the context of scrutinising the annual Appropriation Bill, Members will have a chance to vet and approve the recurrent provisions for CYD on an annual basis.

9. We would strive to achieve full cost recovery in managing and operating the CYD. In the event that the CYD incurs an operating deficit, we would cover the deficit through public donations or through internal redeployment of resources.

## **BACKGROUND INFORMATION**

10. In 1997, the Chief Executive tasked the Commission on Youth (COY) to carry out a study on youth development and to map out the general direction for our young people to follow in order to realise their full potential. One of the major recommendations of the COY report was to construct a central facility to provide a focal point for youth development work and activities in Hong Kong. The Chief Executive accepted this recommendation and, in his 1998 Policy Address, he announced that the site of the then Chai Wan Community Centre should be re-developed into such a facility.

11. At the Finance Committee meeting held on 9 November 2001, Members approved a sum of \$550.9 million for funding the capital cost of the CYD. Together with a \$200 million donation from the Board of Management of the Chinese Permanent Cemeteries, the capital cost of the CYD is estimated at \$750.9 million.

12. The piling and basement works for the CYD were completed at the end of December 2003. Tender for the superstructure works had been invited but award of the tender has been held up pending a decision on the way forward following the completion of a review of the future management and operation mode of the CYD. We have obtained the agreement of the tenderers for extension of the tender validity period to 1 May 2005. In the meantime, we have been paying around \$200,000 a month since January 2004 to a contractor for the purpose of maintaining the works site in proper conditions.

13. At the briefing to the Finance Committee held on 25 February 2005, the Administration submitted to Members a progress report on the CYD project vide FCRI(2004-05)22. Members noted the Administration's latest proposal to directly take up the responsibility of managing and operating the CYD by funding the necessary recurrent expenditure, instead of setting up a limited company to manage the CYD on a self-financing basis. They requested the Administration to submit to Members for approval an assessment of the recurrent financial implications on the Government arising from the proposed changes in the management and operation arrangements for the CYD. They also requested the Administration to provide more background information on the project for Members' consideration, including the results of all the financial viability studies on the management and operation of the CYD. The following information was submitted to Members on 4 March 2005 –

- (a) Report of the "Study on Civic Awareness and Moral Values of Youth" conducted by the COY in August 1998;
- (b) Extract of the Chief Executive's Policy Address in 1998 regarding the provision of a central facility for youth development work;
- (c) Report of the "Financial Viability Study of the Proposed Centre for Youth Development at Chai Wan" conducted by Vigers Hong Kong Limited in February 2001;
- (d) Summary tables of income and profit projections of the CYD conducted internally by Home Affairs Bureau in mid-2003; and

/(e) .....

- (e) Report of the consultancy study on “Review of the project scope and assessing the feasibility of constructing, financing, operating and maintaining the proposed Centre for Youth Development through a Public Private Partnership approach” conducted by the IBM Business Consulting Services in September 2004.

-----

Home Affairs Bureau  
March 2005

**Centre for Youth Development**  
**Summary of Income and Expenditure Projection as at March 2005**

**Rental Income**

	Capacity/ Area	Hiring Fee	Unit	Occupancy Rate	Annual Income (\$M)	Estimated Annual Income (\$M)
<b>A. Convention Centre</b>						
Auditorium/Conference Hall	660 seats	\$10,000	/4hr	65%	7.12	5.34
Exhibition Hall	1000 sq.m	\$10,000	/day	49%	1.79	1.34
Multi-purpose Hall	500 sq.m	\$1,000	/hr	64%	2.80	2.10
					<b>Sub-total</b>	<b>11.71</b>
						<b>8.78</b>
<b>B. Information Technology Centre - convert to Multi-purpose Activity Rooms (Long lease)</b>						
Multi-purpose Activity Rooms	250 sq.m	\$110	/sq.m/mth	100%	0.33	0.25
Multi-purpose Activity Rooms	613 sq.m	\$110	/sq.m/mth	100%	0.81	0.61
					<b>Sub-total</b>	<b>1.14</b>
						<b>0.86</b>
<b>C. Arts Centre - convert to Multi-purpose Activity Rooms</b>						
Multi-purpose Activity Rooms	1610 sq.m	\$3,000	/hr	64%	8.41	6.31
					<b>Sub-total</b>	<b>8.41</b>
						<b>6.31</b>
<b>D. Multi-function Facility (Long lease)</b>						
Multi-function Facility	3700 sq.m	\$110	/sq.m/mth	100%	4.88	3.66
					<b>Sub-total</b>	<b>4.88</b>
						<b>3.66</b>
<b>E. Shopping Arcade</b>						
Cafeteria/Food Court	540 sq.m	\$450	/sq.m/mth	65%	1.90	1.90
Private Zone	1800 sq.m	\$450	/sq.m/mth	65%	6.32	6.32
Youth Zone	900 sq.m	\$450	/sq.m/mth	65%	3.16	1.58
					<b>Sub-total</b>	<b>11.38</b>
						<b>9.80</b>
<b>F. International Youth Hostel</b>						
	<b>No. of Rms</b>	<b>Room Rate</b>	<b>Unit</b>			
International Youth Hostel	150	\$350	/rm/night	80%	15.33	14.18
					<b>Sub-total</b>	<b>15.33</b>
						<b>14.18</b>
					<b>Total Income</b>	<b>52.85</b>
						<b>43.59</b>

**Operating expenses**

Staff Cost	5.40
Utilities, cleaning and security	11.89
Repairs and maintenance	8.67
Publicity and promotion	3.10
Management fees for service contracts (except Hostel)	3.74
Management fees and operating expenses for Hostel	13.03
Miscellaneous Expenses	3.00
	<b>Total Expenses</b>
	<b>48.83</b>
	<b>Surplus/Deficit</b>
	<b>(5.24)</b>