

NOTE FOR FINANCE COMMITTEE

Progress Report on the Centre for Youth Development Project

PURPOSE

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 a Centre for Youth Development (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. This paper informs Members of the latest developments on the CYD project.

BACKGROUND

2. 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 realize their full potential. One of the major recommendations of the COY report was that a central facility to provide a focal point for youth development work and activities should be constructed 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.

3. The main purpose of the CYD is to serve as a focal point for territory-wide youth development activities in Hong Kong. It would provide facilities and venues for promoting youth development and training. It would also provide steer and support for non-governmental organisations (NGOs) involved in youth development work and for youth groups.

/PROJECT

PROJECT SCOPE AND BUDGET

4. As set out in the relevant Finance Committee agenda item approved on 9 November 2001, the project comprises a 12-storey CYD with a total gross floor area of about 36 900 square metres at the junction of Chai Wan Road and Wan Tsui Road in Chai Wan (adjacent to the Chai Wan MTR station). The site includes the former Chai Wan Community Centre site plus its surrounding open space. The facilities at the CYD are intended to include -

- (a) a youth convention centre;
- (b) an information technology centre;
- (c) a performing and visual arts centre;
- (d) a youth hostel (150 rooms);
- (e) a cafeteria and shops; and
- (f) offices/multi-function rooms.

5. In November 2001, Members approved a sum of \$550.9 million for funding the capital cost of the project. 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. The up-to-date estimated capital cost of the CYD should be within our original budget.

WORKS PROGRESS

6. 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 further 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.

7. 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.

/MODE

MODE OF MANAGEMENT AND OPERATION

Original Plan

8. The original plan was to set up a limited company, with its board of directors appointed by the Government, to assume responsibility for the management and operation of the CYD on a self-financing basis. The company would have to directly employ appropriate staff for the purpose of managing and operating the various facilities and equipment within the CYD on a day-to-day basis. According to a preliminary financial viability study carried out in 2000-2001, the CYD should be able to remain financially sustainable during the first ten years of operation without the need for the Government to incur recurrent expenditure on its day-to-day operation and maintenance. We also said at the Finance Committee meeting on 9 November 2001 that we planned to set up a contingency fund to safeguard against the unstable level of income for the CYD during the initial operation period. This fund could be in the form of a loan or a subsidy and we would revert to Members when a view was taken in this regard.

Recent Changes

9. The economic conditions in Hong Kong have gone through significant changes since 2000-2001 when the original financial assessment was made. In mid-2003, we updated the financial assessment and the assessment results indicated that the outlook was much less optimistic. Taking into account the changes in the economic environment since the approval of the project in 2001, the youth development objectives of the CYD, and the need to incur substantial staffing and other operating costs under the original plan, it was found that the CYD could incur a shortfall of more than \$90 million in recurrent expenditure over the first ten years of operation.

10. In view of the envisaged financial problems under the original management model, we floated to the Steering Committee on Centre for Youth Development in August 2003 a conceptual proposal of contracting out the management and operation of all the facilities of the CYD. However, members of the Steering Committee expressed reservations about the contracting-out proposal. They were mainly concerned that this would lead to the domination of the use of the CYD for youth development activities by a single well-established organisation, to the detriment of other smaller NGOs and youth associations. If so, this would go against the original objective of the CYD, i.e., supporting various NGOs and non-subsided youth groups in promoting youth development.

/Consultancy

Consultancy Study

11. Taking into account the problems envisaged in the original model and the concerns regarding contracting-out arrangements, we commissioned the IBM Business Consulting Services (the Consultant) to conduct a study to review the project scope, and to assess the feasibility of constructing, financing, operating and maintaining the CYD through an appropriate Public Private Partnership (PPP) approach. The objective was to devise a model which could both effectively achieve the youth development objectives of the CYD, and maintain the CYD's financial sustainability. The major findings and recommendations of the study are summarized at Enclosure 1.

Encl. 1

LATEST DEVELOPMENTS

12. Having taken into account the findings and recommendations of the Consultant, we put forward the following proposal for consultation with the parties concerned -

- (a) **Adopt a PPP approach for the CYD in the form of the Operation and Maintenance model with a single contract (O&M contract)**

It would strike a reasonable balance between the need to ensure that the CYD operates on a self-financing basis, and the need to secure an earlier completion date of the CYD, given that the existing tender for the superstructure contract could be resumed shortly. The operator of the CYD would be selected through open tender.

- (b) **Revise the mix of facilities and equipment within the CYD**

We would seek to provide more flexibility to cater for changing demands in the market. An initial revised facilities plan which would have only minor contractual and cost implications in the current tender for the superstructure works is at Enclosure 2(a). The estimated gross floor area/capacity of facilities and a building section based on the proposed revision are at Enclosure 2(b) and Enclosure 2(c) respectively.

Encl. 2

/(c)

(c) **Draw up a framework of youth development programmes for the CYD**

We would try to set out clearly defined objectives, contents and requirements for youth development programmes in the CYD, in order to ensure that the programmes so organised would be beneficial to young people on the one hand, and sufficiently attractive to maximize utilization of the CYD facilities by youth and those involved in youth development work on the other.

13. The Steering Committee on the Centre for Youth Development, the COY and the Works and Development Committee of the Eastern District Council agreed in principle to the adoption of the above proposed PPP model in the operation and management of the CYD, provided that it would not undermine the youth development objectives of the CYD.

14. We presented the above recommendations to the Legislative Council Panel on Home Affairs on 10 December 2004. The Panel held a public hearing session on 3 January 2005 whereby youth organisations and interested parties were invited to express their views on the project. Representatives from a total of 27 organisations attended the public hearing session. This was preceded by a discussion session organised by the COY on 22 December 2004, which was attended by 53 youth organisations.

15. With the exception of a few, all the organisations attending the two consultation sessions mentioned above 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 should focus on youth exchanges with both the Mainland and overseas in particular.

16. However, views were diverse regarding the proposal to adopt a PPP approach in the form of a **single** O&M contract for the management and operation of the CYD. Some youth organisations appreciated the need to bring in the expertise and experience of the private sector to ensure achievement of the self-financing objective, and the advantages of a single O&M contract in avoiding problems of co-ordination among different contractors. On the other hand, many were 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

could undermine the youth development function of the CYD. Even if the O&M operator was a non-profit making organisation, some were worried that allowing the O&M operator to co-ordinate youth development programmes would risk making the operator a dominant player in the use and operation of the CYD. Some were also concerned that if the CYD were to be run predominantly on commercial principles, the rental charges of the various facilities would become unaffordable to them, hence adversely affecting the quality of youth development programmes.

17. Taking into account the views of the youth organisations, 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. The Panel also proposed that the Administration should revert to the Finance Committee to explain our latest thinking regarding this particular aspect of the CYD project.

PROPOSED MANAGEMENT AND OPERATION MODE

18. Having considered the views of the youth organisations and the Home Affairs Panel, we intend to make the following arrangements –

- (a) The Government would directly take up the responsibility of managing and operating the CYD by funding the necessary recurrent expenditure. In other words, the Government would bear all commercial risks arising from the operation and management of the CYD. It remains our objective to achieve full cost recovery and we would strive to achieve this by making every effort to operate the CYD in a cost-effective manner. In the event that the CYD incurs an operating deficit, we would cover the deficit through internal redeployment of resources or public donations.
- (b) In order to reduce the operating costs, we would consider contracting out the day-to-day management and operation of the CYD premises and the various facilities in it through one or different service contracts, depending on the market situation. The Government would collect all incomes generated from facilities/programmes and would be responsible for funding the recurrent expenses on the operation and maintenance of the CYD, including the fees for the management services provided by the contractor(s). The management contractor(s) would be selected through open tender. NGOs and private companies might submit bids if they are interested.

/(c)

- (c) The Government would administer the management contract(s), as well as organise and co-ordinate youth development programmes in the CYD.
- (d) The Government would continue to extensively consult youth organisations and the COY on the objectives and contents of the youth development programmes in the CYD.
- (e) A management advisory committee would be set up to advise the Government on the overall strategy and objectives of the CYD, the themes and contents of youth development programmes, as well as the use and allocation, the leasing and charging arrangements of various facilities. The advisory committee would consist of representatives from Government bureaux/departments, NGOs, youth organisations and other interested parties involved in youth development work. The advisory committee would regularly meet with the COY and youth organisations to seek their views on matters relating to the CYD.

19. Based on the Consultant's financial analysis of the scenarios under a public sector delivery model at Enclosure 1, the CYD might incur an operating deficit on a year by year basis. However, the financial position of the CYD could be improved through reduction of staff cost and increase of rental income through the following means –

- (a) Contract out the management of the different facilities in the CYD; and
- (b) Convert the more restrictive and less popular facilities in the Arts and IT Centres into multi-purpose facilities, thereby increasing the utilization rates and hence the rental income.

We would explore other possible means to balance the books as far as practicable.

20. The Government would provide funding to cover the necessary expenses for the opening of CYD. The amount required in the initial year would be around \$40 million, which is the estimated annual operating expenditure under a public sector delivery model.

21. 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. We would review the management and operation mode of the CYD after three years' operation in the light of operational experience and its financial situation, with a view to considering whether the public sector delivery model is the most cost-effective and appropriate arrangement. We would not rule out the possibility of exploring other feasible options in the context of this review.

22. We would keep both the Panel on Home Affairs and COY posted regarding the progress of the CYD after it has come into operation.

WAY FORWARD

23. As the tender for the construction of superstructure works has been held up for over a year and a contractor has been appointed to maintain the site at a monthly cost of about \$200,000 pending resumption of works, it is important that construction works could resume as soon as possible. We plan to proceed with the tendering process for construction of superstructure works so that the works could resume in mid-2005 with a view to completion by mid-2007.

Home Affairs Bureau
February 2005

**Major Findings and Recommendations 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”**

(A) Research on international experience

The results of the Consultant’s desktop research on experience elsewhere has revealed that a PPP approach is increasingly being adopted in managing and operating community or youth centres the world over. This is mainly because PPP helps to improve the quality of services provided and to overcome the Government’s financial constraints. An operation and maintenance contract with a self-financing objective is in fact the mainstream PPP model for community or youth centres.

(B) Assessment of User Demand and Market Interest

2. The Consultant interviewed a representative range of organisations in both the non-profit-making and the commercial sectors. The major findings are that (a) there should be a focal theme which clearly distinguishes the Centre for Youth Development (CYD) from other youth-related facilities; (b) the facilities and equipment inside the CYD should be flexibly designed to cater for the changing demands in the market (especially the youth market); and (c) there should be sufficient commercial interest in providing management and operation services for either a part or the whole of the CYD.

(C) Public Sector Comparator

3. The Consultant has worked out the Public Sector Comparator (PSC) which estimates the hypothetical cost to the Government for operating and maintaining the CYD by itself according to the original plan. This serves as the benchmark for comparison with that of the same services to be delivered by the private sector. A number of scenarios have been developed to analyze the cost impact of changing the levels of rental discount and uses of the facilities in the CYD while keeping to the original plan. A table summarizing the financial position of each scenario is attached.

4. On the basis of the Consultant's scenario analysis, the CYD would incur an operating loss under all possible scenarios under a public sector delivery model. The shortfall could however be reduced with some changes to the mix and use of the facilities in ways which would bring about an increase in the rental income. It might also be possible to breakeven with a reduction in operating expenses, especially staffing expenses. To make the CYD financially viable, it is necessary to introduce some changes to the project scope, as well as the mode of management and operation.

(D) Project Scope

5. Taking into account the views from potential users of the CYD including NGOs, schools, art and cultural groups, and educational and training institutes, the Consultant considers that the facilities within the CYD should be flexibly designed to allow for easy conversion to cater for changing demands; and that the utilization rates of facilities in the Arts Centre and the Information Technology (IT) Centre would be low, since many similar facilities are available elsewhere. Specifically, the Consultant proposes that the original mix of facilities be revised to boost their utilization rates and to increase the rental income, as follows –

- (a) concentrating the retail areas at the lower levels of the building; and
- (b) converting the originally planned Arts Centre and the IT Centre into multi-purpose areas. Some of the multi-purpose areas may also be leased to colleges/education institutes as anchor tenants.

(E) Mode of Management and Operation

6. In the light of the research findings from overseas experience, as well as assessment of market interest and potential user demand, the Consultant recommends that a **PPP approach be adopted to deliver the CYD project**. In this connection, three possible options have been presented for consideration, and the analysis is briefly set out in the following paragraphs.

Option (1): Build-Own-Operate-Transfer (BOOT)

7. A single contractor or consortium takes on full responsibility for the construction, financing, ownership, management, operation, maintenance and major refurbishment of the CYD. This model has the following features –

- (a) Both the construction and operation components are integrated into a single contract. This would ensure that the design of facilities meets the required operational and maintenance requirements, hence help to reduce both the construction and operation costs.
- (b) The Government would repay the contractor the construction cost over the contract period, which is normally 15 to 20 years, on condition that the performance targets are met. This would ensure the contractor's continual commitment in operation and maintenance, and minimize the default risk on the part of the Government.
- (c) A financier would finance the construction cost of the CYD which has to be borne by the contractor. The financier would hence have an interest in monitoring the performance of the contractor and the builder. The financier would supplement the Government's role in contract management.
- (d) The contractor would finance the operating expenses of the CYD through revenues collected from rental income of facilities and fees for programmes/training classes.
- (e) The contractor would be required to make lease payment to the Government for the right to use and generate revenue from the CYD.
- (f) The contractor would bear any commercial risk arising from the operation of the CYD.

Option (2): Build-Operate-Maintain (BOM)

8. A single contractor or consortium takes on full responsibility for the construction, management, operation and maintenance of the CYD. This model is similar to BOOT except that the Government would retain ownership over the CYD building, and pay the contractor the entire amount of capital cost upon completion of construction. The Government would face a higher default risk in operation than in the case of BOOT.

Option (3): Operation and Maintenance (O&M)

9. The Government would be responsible for the construction and major refurbishment of the CYD, while the management, operation and maintenance of the CYD as well as organisation of programmes would be undertaken by the private sector. It may take one of the following two forms –

(a) A single contract

A single contractor would be responsible for lease management of facilities, property management and maintenance, and programme management. Similar to BOOT and BOM, the contractor would finance the operating expenses of the CYD through revenues collected from rental income of facilities, and fees for programmes provided in the CYD. The contractor would be required to make lease payment to the Government for the right to use and generate revenue from the CYD. The contractor would bear any commercial risks arising from the on-going operation of the CYD. A single O&M contract would normally last around 3-5 years. This would allow the service provider adequate time to recoup their investment and the Government appropriate flexibility to change the provider in case of unsatisfactory performance.

(b) Separate contracts

Separate contracts would be offered for different services, such as for lease management of facilities, property management, hostel management, and provision of youth-related programmes. The Government would collect all incomes generated from facilities/programmes to finance the operation and maintenance of the CYD and pay for services provided by different contractors. The Government would bear all commercial risks arising from the operation of the CYD. As all the different programmes are to be delivered under separate contracts with all incomes going to the Government which would be responsible for funding the operating expenditure, this option offers relatively less incentive for each service provider to minimize costs and maximize utilization of facilities in order to optimize income.

10. The Consultant considers all the three PPP options technically feasible and capable of achieving the self-financing objective of the CYD. Options (1) and (2) should be more effective in ensuring better performance on the part of the contractor, as well as in generating more cost savings and reducing more commercial risks for the Government. However, given that the tender for the superstructure works of the CYD had already been invited and construction works could resume within a short time, pursuing these two options would cause a greater delay to the implementation schedule of the CYD project than in the case of adopting Option (3). The reason is that the Government would need to abort the current tender for the superstructure works, and take a longer time to undergo a more complicated tendering and procurement exercise for a single contract which seeks to integrate the construction component with the operation and maintenance parts. The contract negotiation process entailed under Options (1) and (2) should also take a longer time to complete.

CYD Public Sector Comparator		Scenario							Original baseline	HAB baseline
		1	2	3	4	5	6	7		
		50% NGO user discount (Note 1)	Reduced NGO discount (Note 2)	No NGO discount (Note 3)	Convert IT Centre & Multi-function rooms for long lease to colleges (Note 4)	Ext long lease of Arts Centre to colleges (Note 5)	Convert Arts Centre for long lease to colleges (Note 6)	Convert Arts Centre to Multi-purpose activity rooms (Note 7)	Vigers Feb 01 (Note 8)	HAB Oct 03 (Note 9)
Rental income										
Convention centre	\$'000	11,684	11,684	11,684	11,684	11,684	11,684	11,684	12,118	10,023
IT centre	\$'000	2,540	2,540	2,540	1,139	1,139	1,139	1,139	2,540	2,286
Arts centre	\$'000	7,974	7,974	7,974	7,974	11,607	2,125	8,357	8,147	6,986
Multi-function facility (office use)	\$'000	3,175	3,175	3,175	4,884	4,884	4,884	4,884	6,732	3,623
Shopping arcade	\$'000	11,372	11,372	11,372	11,372	11,372	11,372	11,372	13,824	10,109
		36,746	36,746	36,746	37,054	40,687	31,205	37,437	43,361	33,027
Less: 50% discount for NGO users:	\$'000	(8,717)	(5,550)	0	(4,915)	(5,823)	(2,921)	(2,921)	(10,915)	(7,996)
Convention, IT and Arts centres	\$'000	(5,550)	(5,550)	0	(4,915)	(5,823)	(2,921)	(2,921)	(5,701)	(4,824)

CYD Public Sector Comparator		Scenario							Original baseline	HAB baseline
		1	2	3	4	5	6	7		
Multi-function facility (office use)	\$'000	(1,587)	0	0	0	0	0	0	(3,366)	(1,812)
Shopping arcade (Youth Zone)	\$'000	(1,580)	0	0	0	0	0	0	(1,848)	(1,361)
Rental income after discount	\$'000	28,029	31,196	36,746	32,140	34,864	28,284	34,516	32,446	25,031
Add: Hostel (share of net operating profit)	\$'000	2,300	2,300	2,300	2,300	2,300	2,300	2,300	5,749	3,449
	(A)	30,329	33,496	39,046	34,439	37,164	30,584	36,815	38,195	28,480
Operating expenses										
Staff cost	\$'000	16,816	16,816	16,816	16,816	16,816	16,816	16,816		16,320
Utilities, cleaning and security	\$'000	11,893	11,893	11,893	11,893	11,893	11,893	11,893		11,700
Repairs and maintenance	\$'000	8,667	8,667	8,667	8,667	8,667	8,667	8,667		8,667
Publicity and promotion	\$'000	3,096	3,096	3,096	3,096	3,096	3,096	3,096		-
	(B)	40,471	40,471	40,471	40,471	40,471	40,471	40,471	30,000	36,687
Net income	\$'000	(10,142)	(6,975)	(1,425)	(6,032)	(3,307)	(9,887)	(3,656)	8,195	(8,207)
As % of income	%	-33%	-21%	-4%	-18%	-9%	-32%	-10%	21%	-29%

Notes –

1. Rental discount of 50% for NGO users for all facilities, except Hostel accommodation. In terms of usage –
 - Half of the effective sessions for Convention, IT, and Arts centres are occupied by NGO users
 - All of Multi-function facility (office) are occupied by NGO users.
 - Part of the shopping arcade is reserved for Youth Zone (1,100 sqm)
2. Rental discount of 50% for NGO users of Convention, IT and Arts centres. No rental discount for Multi-function facility (office use) and Shopping arcade.
3. No discount for NGO users.
4. Convert IT Centre and Multi-function facility for long leases to colleges/education institutes.
5. Similar to 4, plus increased lease of Arts Centre facilities to colleges/education institutes.
6. Similar to 4, plus convert Arts Centre to Multi-purpose Activity rooms for long lease to colleges/education institutes.
7. Similar to 4, plus convert Arts Centre to Multi-purpose Activity rooms (not for long lease to colleges/education institutes).
8. Represents the original estimates by Vigers in February 2001. No details were provided for operating costs.
9. HAB has subsequently revised the original Vigers estimates in October 2003.

Enclosure 2(a) to FCRI(2004-05)22

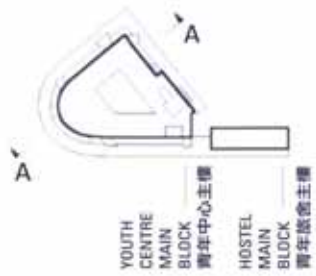
Proposed Revision of Project Scope of the CYD

Floor	Original Facilities	Proposed Revision
G	Auditorium	No change
1 st	Exhibition Platform	No change
2 nd	Multi-purpose Hall	No change
2M	Retail Area	No change
	Video Production Studio and Video Editing Studio	Convert to Retail Area
3 rd	Retail Area	No change
4 th	Cafeteria	No change
	Dance Studios	Convert to Cafeteria
5 th	Arts Gallery/Painting Studio/Pottery Workshop	Convert to Multi-purpose Area
	IT Exhibition Area/Computer Laboratories/IT Office/Printer Room	
	Retail Area	
6 th	Photography Studio/Dark Room/Audio Recording Rooms/Band Rooms/Piano Rooms	Convert to Multi-purpose Area
	Computer Laboratories/Printer Room	
	Retail Area/IT Café	
7 th – 9 th	Office/Multi-function Area	No change
10 th	Hostel Rooms/Lounge/Reception/Fitness Room	No change
11 th – 12 th	Hostel Rooms	No change
Hostel Block	Hostel Rooms	No change

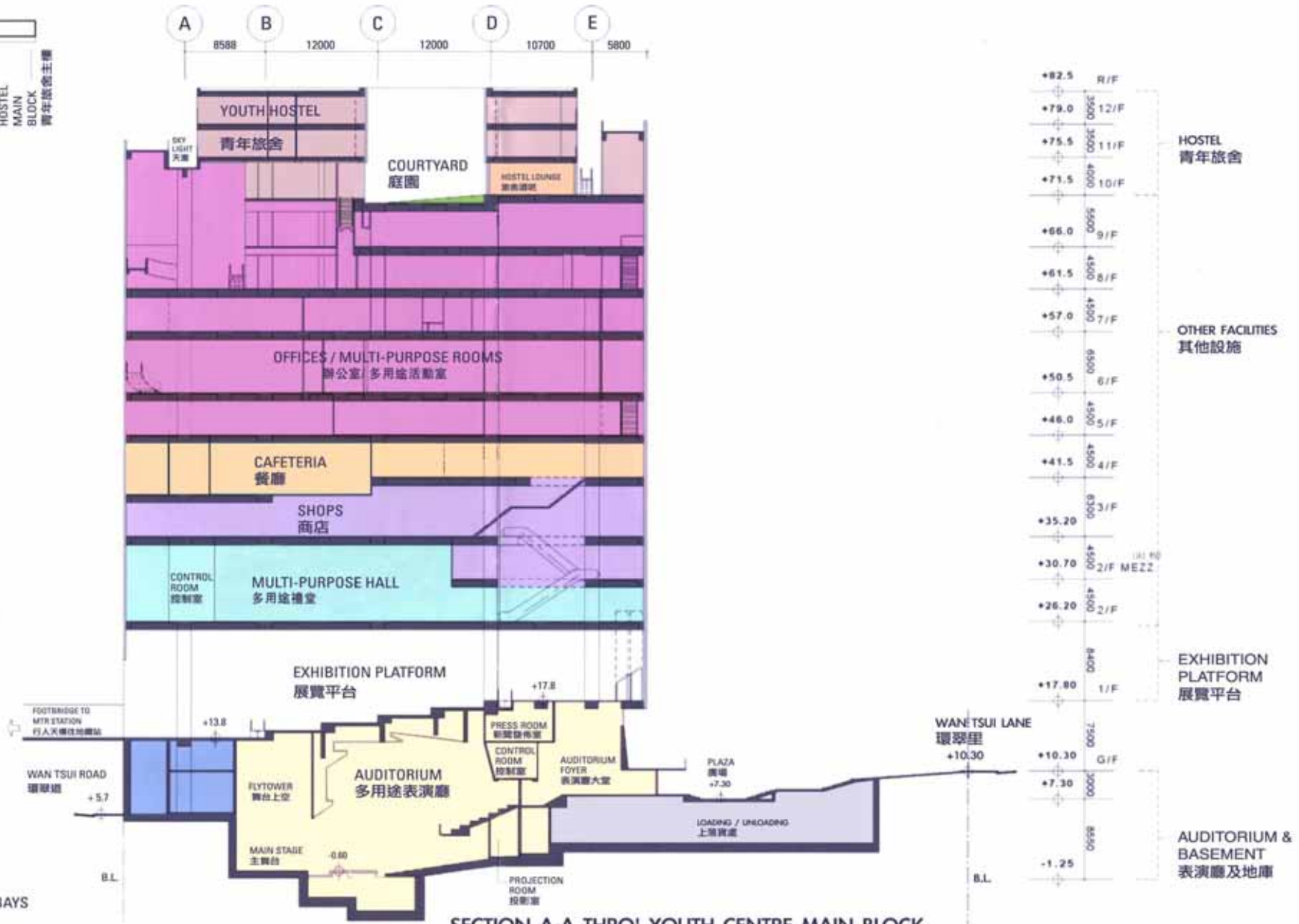
青年發展中心建議的設施組合

Proposed Facilities in the Centre for Youth Development

樓層 Floor	主要設施 Major Facilities	總樓面面積/可容納人數 Gross Floor Area/Capacity
地庫及地下 Basement & G/F	表演廳 Auditorium	660 人 660 persons
1 樓 1/F	展覽平台 Exhibition Platform	約 3 000 平方米 About 3 000 m ²
2 樓 2/F	多用途禮堂 Multi-purpose Hall	約 400 人 About 400 persons
2 樓閣樓及 3 樓 2M/F & 3/F	零售店舖 Retail Areas	約 3 400 平方米 About 3 400 m ²
4 樓 4/F	餐廳/美食廣場 Cafeteria	約 2 300 平方米 About 2 300 m ²
5 – 9 樓 5 – 9/F	辦公室/多用途場地 Offices/Multi-purpose Areas	約 11 500 平方米 About 11 500 m ²
10 – 12 樓及 旅舍大樓 10 – 12/F & Hostel Block	青年旅舍 Youth Hostel	150 間客房 150 rooms



- INTERNATIONAL YOUTH HOSTEL
國際青年旅舍
- OFFICES / MULTI-PURPOSE ROOMS
辦公室 / 多用途活動室
- CAFETERIA / LOUNGE
餐廳 / 酒吧
- SHOPS
商店
- MULTI-PURPOSE HALL
多用途禮堂
- AUDITORIUM
多用途表演廳
- E&M / BACK UP SERVICES
電機及後勤設備
- STORAGE, LOADING / UNLOADING BAYS
貯物室及上落貨處



SECTION A-A THRO' YOUTH CENTRE MAIN BLOCK
青年發展中心主樓剖面圖

