

**For information
on 27 October 2006**

FMAG/08/2006

**Consultative Committee on the
Core Arts and Cultural Facilities of the
West Kowloon Cultural District**

Financial Matters Advisory Group

**Preliminary Estimate of a Public Sector Comparator for the
Core Arts and Cultural Facilities**

Purpose

This paper seeks to inform Members of the Financial Advisor (FA)'s preliminary estimate of the raw Public Sector Comparator (PSC) (the base cost) of developing and sustaining the operation of the proposed arts and cultural facilities in the West Kowloon Cultural District (WKCD).

PSC for the WKCD

2. A PSC is the hypothetical, risk-adjusted, cost of the Government itself delivering the project output. The PSC is expressed in terms of the net present cost to the Government of providing the output under a public procurement, using a discounted cashflow analysis that adjusts the future value of expected cashflow to a common reference date. In the case of

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the WKCD, a PSC is the net present cost to the Government if the current Government procurement approach is adopted in the development and operation of the proposed arts and cultural facilities. To complement the analysis, the PSC prepared by the FA also includes the communal facilities required for an integrated arts and cultural district.

Components of PSC

3. The PSC has four core components :-
- (a) raw PSC (the base cost of delivering the services specified in the project brief under the public procurement method where the underlying asset or service is owned by the public sector);
 - (b) competitive neutrality adjustment (this removes any net advantages or disadvantages that accrue to a government business by virtue of its public ownership, e.g. tax advantages);
 - (c) transferable risk (the value of those risks which the government would bear under a public procurement but is likely to transfer to the private sector); and
 - (d) the retained risk (the value of those risks that are likely to be retained by the government and are

reflected in the PSC) is added to each private sector bid.

Preliminary Estimate of the Raw PSC

4. Based on the report of the Performing Arts and Tourism Advisory Group (PATAG) and the broad indications from the Museums Advisory Group (MAG), the FA has completed a preliminary estimate of the raw PSC which will be presented to Members in the meeting. The relevant Government bureaux/departments are examining the underlying assumptions and parameters used by the FA for arriving at the preliminary estimate of the raw PSC.

5. When recommendations and further details on the proposed arts and cultural facilities from both the PATAG and MAG are available, the FA will refine the raw PSC, work out the other PSC components, and provide the final PSC.

Use and Limitation of PSC

6. It is important to note that the PSC is an estimate based on the information currently available on the arts and cultural facilities and communal facilities proposed for the WKCD project. Overseas experience indicates that a PSC cannot be calculated exactly. It may be updated to reflect any

change in assumptions. Insofar as the current practice in the United Kingdom and Australia where a PSC is drawn up, this is increasingly used as a reference tool only. It should be realized that the PSC is merely one of the assessment tools which may be used in preparing for a PPP approach to the delivery of public services but not a pass/fail test.

Advice Sought

7. Members are requested to note and comment on the FA's preliminary estimate of the raw PSC.

**Financial Matters Advisory Group Secretariat
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