

**For information
on 20 November 2006**

FMAG/09/2006

**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 informs Members of the progress in preparing a Public Sector Comparator (PSC) 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

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 Financial Advisor (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 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 had completed a preliminary estimate of the raw PSC (i.e. component (a) in paragraph 3 above) which was presented to Members at the third FMAG meeting held on 27 October 2006. Taking into account Members' views and further indications by the MAG on museum facilities for the WKCD, the FA has refined the raw PSC and worked out the other three components of the PSC. The FA has now produced a preliminary estimate of the PSC which has been adjusted for competitive neutrality, transferable risk and retained risk. The FA will present the preliminary estimate of the PSC at the meeting.

5. When recommendations and further details on the proposed arts and cultural facilities from both the PATAG and MAG are available, the FA will further refine the preliminary estimate of the PSC with a view to producing a finalised PSC.

Advice Sought

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

**Financial Matters Advisory Group Secretariat
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