

政府總部
民政事務局

香港添馬添美道二號
政府總部西翼十二樓



GOVERNMENT SECRETARIAT
HOME AFFAIRS BUREAU

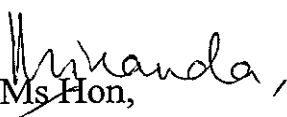
12TH FLOOR, WEST WING,
CENTRAL GOVERNMENT OFFICES,
2 TIM MEI AVENUE,
TAMAR,
HONG KONG.

本署檔號 OUR REF. : HAB CR/4-35/1/1 C
來函檔號 YOUR REF : CB(4)/PAC/R58
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18 May 2012

(Urgent by fax 2840 0716)

Ms Miranda Hon
Clerk, Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear  Ms Hon,

**The Director of Audit's Report on the
results of value for money audits (Report No. 58)**

Youth Square (Chapter 8)

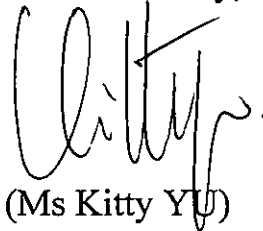
I refer to your letter of 8 May 2012 and attach at **Annex A** our replies to Questions No. 3, 4, 5, 7 and 9 set out in the Appendix of your letter.

Regarding your enquiry at paragraph 2(b) of your letter, please be advised that the Administration has not prepared any action checklist setting out the actions that have to be taken after each meeting of the Management Advisory Committee ("MAC"). This notwithstanding, close working contacts through telephone, email and discussion meetings are maintained between representatives of the Home Affairs Bureau and core management members of the Contractor to follow up on the views/suggestions made by the MAC. In

addition, a “Matters arising” section is also provided in the notes of MAC Meeting to ensure that the MAC’s views/suggestions are properly followed up.

In addition, I refer to our reply to you dated 16 May 2012. As discussed, some typo has been detected. Please find at **Annex B** pages for your replacement. My apologies for the inconvenience caused.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kitty YU', with a stylized flourish at the end.

(Ms Kitty YU)

for Secretary for Home Affairs

Encl.

c.c. Secretary for Financial Services and the Treasury (Fax no. 2147 5239)
Director of Audit (Fax no. 2583 9063)

***Note by Clerk, PAC:** *Annex 2 in Appendix 13 replaced by a corrected version.
Annex B not attached.*

(Translation)

Annex A

Information Sought for the Follow-up of the Youth Square

- 3. For the tender deemed technically non-conforming, what were the details of its non-conforming items?**
 - The tender was deemed technically non-conforming because it had failed to meet two “mandatory requirements” stated in the tender document:
 - (i) Tenderers and/or their Sub-contractors should, during the past 10 years before the tender closing date, possess at least three years of experience in managing, marketing and leasing at least an auditorium (with over 300 seats throughout the period); and
 - (ii) Tenderers and/or their Sub-contractors should, during the past 10 years before the tender closing date, have provided repair and maintenance of building services and electrical and mechanical installations for at least one multi-activities complex (of over 10,000 m² gross floor area in total throughout the period with retail shops, cafeteria and offices), or at least an auditorium (of over 300 seats throughout the period), or at least a hotel/hostel (with over 100 guest rooms throughout the period).
- 4. With only one conforming tender, what were the deliberations of the Steering Committee? Had the Steering Committee considered re-tendering the contract? If not, why? How did the decision not to re-tender was made?**
- 5. Who decided to enter the service contract with the only conforming tenderer? Had the committee responsible for handling Government tenders in the Financial Services and the Treasury Bureau discussed the matter? Please provide the relevant papers and meeting minutes.**

- Pursuant to the Government's Stores and Procurement Regulations, tender evaluation shall only be conducted by government officials. In compliance with this requirement, the Home Affairs Bureau (HAB) had formed a tender assessment panel to assess the tenders received for the management and operation services of the Youth Square.
- Two tenders were received by the closing date of the open tender exercise, with only one of them fully meeting the tender requirements.
- Having assessed the tenders for the service contract, the tender assessment panel submitted the tender report (including the recommended tender) to the Central Tender Board for approval. In considering the tender report, the Central Tender Board noticed that the tender price of the recommended tender was significantly higher than HAB's pre-tender estimate. Accordingly, the Central Tender Board requested further information from HAB to help assess whether the price of the recommended tender was reasonable, and advised HAB to negotiate with the tenderer of the recommended tender to obtain a better price. HAB subsequently replied to the Central Tender Board that after negotiating with the concerned tenderer, the tenderer agreed to lower the tender price from the original \$385 million to \$371 million. At the same time, HAB also informed the Central Tender Board that by accepting the tender price, the operating expenses would still be lower than those of other similar venues. In addition, HAB stated that it would shoulder the increase in the tender price through internal redeployment of resources and other methods. The Central Tender Board ultimately approved the tender report.

7. Had the Financial Services and the Treasury Bureau proposed additional terms to the contract granted to the only conforming tenderer? Have such terms been materialized?

- The terms and requirements of service contracts are normally determined by the procuring department having regard to the nature

of its required services, operational requirements and relevant policy needs. In addition, the terms and requirements of service contracts are normally stated in the tender document. Under normal circumstances, regardless of the number of conforming tenderers, the Administration would not alter/add or delete the contract terms and requirements stated in the tender document while granting contracts, so as to avoid unfairness to tenderers.

9. The annual management fee charged by the only conforming tenderer exceeded the Administration's estimate by more than \$30 million. Has the Administration followed up and assessed whether the huge discrepancy was reasonable? What was the management fee stated by the other technically non-conforming tenderer?

- In an enclosure to the Discussion Paper No. FCR (2004-05)50 of the Finance Committee of the Legislative Council in March 2005, it was stated that the “Management Fees for Service Contracts (except Hostel)” and the “Management Fees and Operating Expenses for Hostel” amounted to \$16,770,000. Subsequently, in an information paper ((CB(2)1870/07-08(01)) of the Panel on Home Affairs of the Legislative Council in May 2008, it was stated that “due to rising construction cost for the civil works, it is estimated that no more than \$50 million out of the \$750 million budget would remain for the fitting-out/interior design work from 3/F to 9/F of the Main Block and the procurement of Furniture and Equipment (F&E) for the hostel and 3/F to 9/F of the Main Block. We will have to identify alternatives in funding such procurement/fitting-out works should the actual remaining balance have proven to be inadequate.” As mentioned in the Audit Report, the contract fee of the management and operation services contract has already included an amount of about \$70 million for the fitting-out works/interior design for 3/F to 9/F and the procurement of F&E for the hostels and 3/F to 9/F of the Main Block.
- As the other tender did not comply with two mandatory requirements specified in the tender document, the tender assessment panel did not need to further consider the content and price of the tender concerned.

Also, given that the management fee proposed by the non-conforming tenderer was intended for tender assessment purpose only, we are asking the tenderer if he agrees to disclose his tender price for the management and operation services contract of the Youth Square. We will revert to the Public Accounts Committee once we receive the reply of the tenderer concerned.