

Youth Square

A. Introduction

The Audit Commission ("Audit") conducted a review of the Youth Square with focus on the following areas:

- operation and performance;
- planning and implementation; and
- the way forward.

2. According to paragraphs 1.7 to 1.11 of the Director of Audit's Report ("Audit Report"), in his Policy Address of 1998, the Chief Executive of the Hong Kong Special Administrative Region announced that the then Chai Wan Community Centre at Chai Wan Road would be redeveloped into the Hong Kong Centre for Youth Development (renamed as the Youth Square in April 2009) to serve as a focal point for youth development activities in Hong Kong. In March 2005, the Government decided that the Home Affairs Bureau ("HAB") would take up the direct responsibility of managing and operating the Youth Square and would bear all commercial risks arising therefrom. A Management Advisory Committee ("MAC") was set up in January 2009 to advise the Government on the overall strategy, objectives and the operation of the Youth Square. In February 2009, the HAB informed the Panel on Home Affairs ("HA Panel") of the Legislative Council ("LegCo") that it would strive to achieve full-cost recovery by making every effort to operate the Youth Square in a cost-effective manner.

3. In March 2009, through an open tender, the HAB awarded a management and operation contract ("the Contract") for the Youth Square to the only conforming tenderer ("the Contractor"), i.e. the New World Facilities Management Company Limited, for seven years from 23 April 2009 to 22 April 2016 at a sum of \$371 million.

4. **Hon Abraham SHEK** declared that he was currently an Independent Non-executive Director and a member of the Audit Committee of the NWS Holdings Limited.

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5. **Mr TSANG Tak-sing, Secretary for Home Affairs**, made an opening statement at the public hearing on 30 April 2012. The full text of his statement is in *Appendix 9*.

B. Operation and performance

Achievement of youth development objective

6. According to paragraph 2.6 of the Audit Report, the HAB had not set performance targets under the Contract to measure the extent of the Youth Square's contribution to youth development. The Committee asked how, in the absence of such performance targets, the HAB measured and ensured that the youth development objective had been achieved through the facilities and services provided at the Youth Square.

7. The **Secretary for Home Affairs** and **Mr CHENG Yan-chee, Deputy Secretary for Home Affairs**, responded that performance targets were set out in the Contract and the Contractor was required to achieve, among others, at least 70% for occupancy of the hostel, not less than 70% usage rate for the retail shops, offices and youth activity areas, and not less than 65% usage rate for the Y-Theatre, Y-Platform, Y-Studio, and organise at least 12 venue promotional programmes (with over 300 youths participating in each programme) a year.

8. The Committee further enquired whether there were any stipulations in the Contract governing the provision of facilities and services for youth organisations ("target users").

9. The **Deputy Secretary for Home Affairs** replied that:

- there was no specific stipulation in the Contract regarding the usage rates for the Youth Square venues and facilities by target users, except that in December 2009, the MAC and the Contractor agreed to set a target mix of 40% for hostel guests from youth organisations;
- to boost the occupation rate of the hostel and usage rates for the venues and facilities by target users, the MAC and the Contractor agreed to accord a higher priority to the target users and non-profit-making

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organisations in leasing the retail shops and offices at the Youth Square;
and

- the above-mentioned rental policy had been promulgated on the Youth Square website.

10. The Committee further enquired whether there had been any international exchange activities held at the Youth Square and asked the HAB to provide details of the participants in these activities.

11. The **Secretary for Home Affairs** stated in his letter of 30 April 2012 (in *Appendix 10*) that a total of nine international exchange activities were hosted at the Youth Square between July 2010 and February 2012, but the HAB did not have any information about the participants in those activities.

12. The Committee was concerned that although a higher priority had been accorded to target users and non-profit-making organisations, the rental rates might not be affordable to most of the target users. To ascertain whether the HAB had addressed the need of target users in this regard, the Committee asked:

- how the rental rates and concessionary rental rates for target users were formulated, and whether the HAB had obtained information on the rentals charged by other similar facilities in the market to ensure that the level of the concessionary rental rates charged for the Youth Square venues and facilities were comparable to the prevailing market prices;
- the HAB's criteria in determining the concessionary rentals offered to target users in leasing the retail shops and offices at the Youth Square;
and
- whether the HAB had studied the affordability of target users from time to time and made reasonable and timely adjustment to the concessionary rental rates, taking into account the prevailing market prices of other venues and facilities for use by youth organisations and young entrepreneurs.

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13. The **Deputy Secretary for Home Affairs** said that:

- the HAB had determined the rentals for the Youth Square venues and facilities by making reference to the rateable values of similar facilities provided by the Rating and Valuation Department and their market prices, with appropriate concessionary rentals granted to target users. As the facilities and services provided at the Youth Square were the first of its kind in the community, the rental rates could hardly be compared to other facilities available in the neighbourhood. The Rental Vetting Committee under the MAC would determine the appropriate level of concessionary rentals for each leasing application on its own merits;
- in the initial two years of the Youth Square's operation, the HAB had decided to offer concessionary rentals to both non-profit-making organisations and profit-making organisations in order to attract patronage to the Youth Square; and
- as the critical mass of the Youth Square had taken shape and the occupation rate of the hostel and usage rates for the retail shops and offices had reached a satisfactory level, the MAC and the Financial Services and the Treasury Bureau ("FSTB") agreed that concessionary rentals would no longer be offered to tenants from profit-making organisations for the new tenancy term commencing mid-2012.

14. According to paragraph 2.17(b) and Table 5 of the Audit Report, Audit observed that 15 out of 36 retail shops were let to tenants providing tutorial services. The Committee asked how the provision of tutorial services met the six objectives formulated by the MAC in December 2010 for the Youth Square, including encouraging innovative ideas from the youth and cultivating leadership skills, as set out in paragraph 2.7 of the Audit Report.

15. The **Deputy Secretary for Home Affairs** explained that the leasing of the retail shops in the first two years of the Youth Square's operation was not as positive as the HAB had expected. To avoid leaving the facilities vacant, tenants who met the criteria laid down by the MAC had also been accepted even though the services provided by some of them might not meet the youth development objectives. The MAC would give due regard to the changing circumstances and adjust the rental policy in a timely manner. He would report the Committee's concern to the Rental Vetting Committee under the MAC for its consideration of the leasing applications for the new tenancy term commencing mid-2012.

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Usage of facilities and youth patronage

16. As revealed in paragraphs 2.24 and 2.25 of the Audit Report, the utilisation rates of facilities for audio recording, video recording and editing, photographic production, fashion and design, dancing and exhibition were less than 50%, reflecting that the facilities were not gainfully used for youth development. The Committee asked whether the HAB had studied the reasons behind the low utilisation rates of such facilities and proposed any effective measures to improve the situation, such as collaborating with youth-related organisations to host more meaningful and attractive youth programmes at the Youth Square and making arrangements to facilitate those living in remote areas to join activities held at the Youth Square during the summer vacation and weekends.

17. The **Deputy Secretary for Home Affairs** responded that:

- the overall design of and the facilities provided at the Youth Square were formulated taking into account the views and suggestions expressed by various stakeholders, including the Commission on Youth, youth organisations and youth-related non-governmental organisations ("NGOs") during the initial design stage;
- in response to the changing circumstances and needs of youths, the HAB had directed the Contractor to make efforts to promote the facilities to target users and offer rental concessions during non-prime time to attract more youth patronage; and
- the HAB had organised programmes including activities on civic education and accepted the hosting of non-youth related programmes at the Youth Square in the first two years of its operation to bring in greater visitor flow. Efforts had also been made to identify strategic partners for staging annual events such as Hong Kong Schools Speech Festivals, Hong Kong Schools Music Festivals, etc. at the Youth Square so as to boost the usage of facilities by target users.

18. The Committee noted from Table 4 in paragraph 2.17(a)(i) of the Audit Report that many of the offices at the Youth Square did not appear to be active in business during Audit visits on ten occasions between September 2011 and February 2012. To ascertain the causes of the situation, the Committee asked about the booking sessions and opening hours of the Youth Square venues and facilities.

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19. The **Deputy Secretary for Home Affairs** said that the facilities of the Youth Square opened from 8:00 am to 11:00 pm daily. In his letter of 8 May 2012 in *Appendix 11*, the **Secretary for Home Affairs** supplemented that rentals were charged on an hourly basis for the conference room, dance studio, multi-purpose and function rooms, and charged by sessions for a minimum of 4 hours for the Y-Theatre, Y-Studio, etc.

20. In response to the Committee's request, the HAB provided a copy of the standard tenancy agreements for the retail shops and offices at the Youth Square for the Committee's reference. The Committee asked whether:

- the HAB agreed that the standard tenancy agreements for the retail shops and offices were too complicated for young entrepreneurs to comprehend and some of the constraints on the use of the premises were too rigid and excessive, and the opening hours of the venues and facilities did not cater to the practical need of young people who might need to hire the facilities overnight;
- the HAB considered that the booking sessions of the facilities on an hourly basis were not flexible enough for those youth groups which really needed to hire the facilities on a daily basis; and
- the HAB had introduced a focused marketing strategy targeting at youth organisations and young entrepreneurs.

21. The **Deputy Secretary for Home Affairs** explained that:

- in the case of young entrepreneurs, the HAB and the Contractor would explain to them in detail the terms and conditions set out in the tenancy agreements before the agreements were signed. The tenancy agreements for the Youth Square's retail shops and offices were in fact the standard tenancy agreement commonly used for other government premises;
- regarding the opening hours of the facilities, he would report the Committee's concern to the MAC and the Contractor and find out if some flexible arrangements could be made without causing security problems;

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- on the booking sessions, certain flexibility could be exercised by the Contractor should the youth groups really need to hire the facilities on a daily basis; and
- the rental policy including the concessionary rental rates for target users had been promulgated on the Youth Square website. Whenever the retail shops and offices were available for leasing, notices would be posted on the Youth Square website and those individuals or organisations who had enquired about the leasing arrangements in the past would be contacted.

22. The Committee further asked about the parties which were responsible for the selection of tenants and the marketing of the Youth Square venues and facilities.

23. The **Deputy Secretary for Home Affairs** and **Ms Kitty YU Wing-lun, Principal Assistant Secretary (Civic Affairs), HAB**, replied at the public hearing, and the **Secretary for Home Affairs** stated in his letter of 27 April 2012 in *Appendix 12* that:

- the MAC, chaired by the Permanent Secretary for Home Affairs, advised the Government on the operation of the Youth Square, including the overall strategy and objectives, themes and contents of youth development programmes, and the use, allocation, rental and fees of facilities. The MAC also assessed the effectiveness of youth development programmes held at the Youth Square and monitored the performance of the Contractor. The Contractor was appointed to manage and operate the Youth Square on behalf of the Government, and was responsible for the marketing of the retail shops and offices. The Contractor was also required to report regularly to the MAC on its operation strategy and work results; and
- all applications for leasing the retail shops and offices at the Youth Square were vetted by the Rental Vetting Committee according to the leasing policy adopted by the MAC. The Rental Vetting Committee was chaired by a representative of the HAB, with members drawn from the MAC.

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24. The Committee noted that the number of visitors to the Youth Square was a meaningful quantitative indicator for assessing the extent to which the Youth Square had been a focal point of youth development activities. As revealed in paragraph 2.26 of the Audit Report, however, the existing methodology adopted by the Contractor for reporting the visitor-flow figures failed to yield the actual number of visitors to the Youth Square. In this connection, the Committee enquired about the measures that the HAB had taken to address the problem, and whether other management information and statistics, including the visitor numbers categorised by target users and non-target users, would be produced in the future.

25. The **Deputy Secretary for Home Affairs** responded that:

- the existing methodology adopted by the Contractor for reporting the visitor-flow figures were commonly used by property management agencies for keeping track of the popularity of a facility. The statistics were useful for the MAC in monitoring the popularity of the Youth Square facilities and, in particular, the trend of the change over time; and
- the HAB had undertaken to conduct a review on the management and operation mode of the Youth Square in 2013 and would engage various stakeholders in the review. The HAB would work out with the Contractor in the review as to how to compile more useful management information and statistics, such as the number and profile of participants of various programmes held at the Youth Square, in an effective manner and at minimal costs.

26. The Committee wondered why, despite that the Youth Square was under the HAB's on-going monitoring and supervision, the above problems and deficiencies in the operation of the Youth Square only surfaced at the time Audit conducted the review but had not been identified and addressed by the HAB earlier. It appeared to the Committee that the HAB had overly relied on the Contractor for managing and promoting the Youth Square. As such, the Committee asked:

- about the level of manpower support deployed by the HAB to the management of the Youth Square project, and whether the HAB considered it an appropriate level given the current operating results; and

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- whether the HAB had established a mechanism to ensure that the views and suggestions given at the MAC meetings were properly followed up.

27. In response, the **Secretary for Home Affairs** and the **Deputy Secretary for Home Affairs** explained that:

- as the Youth Square had only operated for two years, it was difficult to achieve the youth development objective and the full-cost-recovery objective as it took time for the image of the Youth Square to be built up and the facilities thereof to be well-received by youth groups and young people. Through the stepping up of measures by the Contractor, the HAB had seen improvements in the utilisation rates of some of the facilities recently;
- as regards the manpower issue, the Permanent Secretary for Home Affairs was the chairman of the MAC. Although no checklist of follow-up actions was separately compiled after each meeting of the MAC, the Deputy Secretary for Home Affairs and the Principal Assistant Secretary (Civic Affairs) who attended the MAC meetings were responsible for taking forward the valuable views and suggestions made by MAC members. They also worked closely with the Contractor to ensure that those recommendations were properly followed up. Besides, for day-to-day operational matters, a team of HAB staff were stationed at the Youth Square and they worked with the Contractor on a daily basis to promptly tackle any issues and matters arising from the operation of the Youth Square; and
- since March 2010, an item of "Matters Arising" was included in the agenda of MAC meetings for reporting the follow-up actions taken on matters arising from the previous meetings.

C. Planning and implementation

Consultation with stakeholders

28. As revealed in paragraph 3.27 of the Audit Report, although the Steering Committee and the MAC included members who had rich experience in youth development work or strong connection with youth groups, the Steering Committee became inactive after September 2004 and the MAC was not set up until January 2009. The Committee queried whether the HAB had, during the period

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2005 to 2008, obtained adequate input from various stakeholders in deciding the terms and conditions of the Contract, including the appropriate performance targets to be set.

29. In response to the Committee's query, the **Secretary for Home Affairs** stated in his letter of 16 May 2012 (in *Appendix 13*) that as the Steering Committee had not convened further meetings after September 2004, no records of the Steering Committee's discussions on the tendering exercise (including the setting of performance targets) were available.

30. The Committee referred to the membership list of the MAC (in *Appendix 12*) and noted that the ex-officio members included a representative from the Eastern District Council and a representative from the Board of Management of the Chinese Permanent Cemeteries. The Committee asked why those representatives were appointed and whether they belonged to any youth-related organisations.

31. The **Deputy Secretary for Home Affairs** replied that:

- during the initial planning stage, the Youth Square was planned to serve the youths from across the territory and neighbouring residents in the Eastern District, hence the HAB considered it appropriate to appoint a representative from the Eastern District Council as an ex-officio member; and
- the Board of Management of the Chinese Permanent Cemeteries made a donation of \$200 million to sponsor the construction of the Youth Square. Therefore, the HAB appointed its representative to sit on the MAC in recognition of their support to the Youth Square project.

Provisions for penalties and incentive management fee

32. To ascertain whether the HAB had included terms and conditions in the Contract that were conducive to encouraging satisfactory performance on the part of the Contractor, the Committee asked whether:

- there were any provisions in the Contract which empowered the HAB to impose penalties under prescribed conditions, such as when the Contractor failed to meet the agreed performance targets; and

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- the HAB had imposed penalties on the Contractor so far and if it had, the level of the penalties and the reasons thereof.

33. The **Secretary for Home Affairs** informed the Committee in his letter of 4 June 2012 (in *Appendix 14*) that:

- according to Clause 50 of Part II "Conditions of Contract" of the Contract (in *Appendix 11*), when the Contractor failed to achieve 90% of the agreed minimum performance targets of any one of the Key Performance Indicators ("KPI") set out in Clause 21.3 of Part VI "Service Specifications", the Government had the right to deduct the annual basic management fee according to the following formula:

Level of performance target achieved under each KPI	Extent of deduction for each KPI (% of the annual management fee for the year)
(a) More than 80% but less than 90% of the agreed minimum performance target	0.3%
(b) Less than 80% of the agreed minimum performance target	0.5%

- in 2009-2010, the Contractor failed to meet the following two performance targets:
 - (a) for the usage rate of retail shops, studios and youth activity areas where the agreed minimum performance target was 70%, the Contractor could only achieve a usage rate of 49.1% (i.e. less than 80% of the agreed minimum performance level); and
 - (b) for the usage rate of auditorium and exhibition platform where the agreed minimum performance target was 65%, the Contractor could only achieve a usage rate of 56.2% (i.e. more than 80% but less than 90% of the agreed minimum performance level); and

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- as a result of the above and given that the annual basic management fee for 2009-2010 was \$53 million, a total of \$424,000 (i.e. an aggregate of 0.8%) had been deducted.

34. The Committee also noted that Clauses 49.6 to 49.8 of Part II "Conditions of Contract" of the Contract (in *Appendix 11*) provided for an incentive management fee payable to the Contractor. It appeared to the Committee that the relevant clauses were too generous as the HAB would pay an additional 4% of the basic management fee to the Contractor if it was able to achieve just over and above all performance targets, which was a very low threshold. The Committee therefore asked whether the incentive management fee provision was a standard provision in similar government contracts.

35. In his letter of 4 June 2012 in *Appendix 14*, the **Secretary for Home Affairs** stated that the payment of an incentive management fee to a government contractor under certain conditions was not unique to the Contract for the Youth Square.

Tender assessment

36. As revealed in paragraph 2.40 of the Audit Report, the management fees (\$371 million for a period of seven years) payable to the Contractor, who was the only conforming tenderer, were 86% over the pre-tender estimate of \$200 million as specified in the relevant tender report submitted to the Central Tender Board in February 2009. The Committee asked about details of the tenders received, whether the Central Tender Board had been consulted and whether the HAB had considered any other options, such as re-tendering, when it knew that the management fee collected by the only conforming tenderer was significantly higher than the original estimate.

37. **Miss Cathy CHU, Deputy Secretary for Financial Services and the Treasury (Treasury), FSTB**, said at the public hearing and the **Secretary for Home Affairs** explained in his letters of 18 May 2012 (in *Appendix 15*) and 25 May 2012 (in *Appendix 16*) that:

- two tenders had been received for the management and operation services of the Youth Square. Regarding the tender assessment, the HAB had formed a tender assessment panel to assess the tenders

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received. Having assessed the tenders for the service contract, the tender assessment panel found that only one tender fully met the tender requirements, and the panel submitted the tender report (including the recommended tender) to the Central Tender Board for approval; and

- in considering the tender report, the Central Tender Board noticed that the tender price of the recommended tender was significantly higher than the HAB's pre-tender estimate. The Central Tender Board therefore requested further information from the HAB to help assess whether the price of the recommended tender was reasonable, and advised the HAB to negotiate with the tenderer of the recommended tender to obtain a better price. The 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, the 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 facilities. In addition, the 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 with the revised tender price.

D. Conclusions and recommendations

38. The Committee:

Overall comments

- notes that:
 - (a) the Youth Square, with a capital cost of \$771 million, is a unique project that involves high project risks and is a key government investment to promote youth development;
 - (b) although the Youth Square is expected to serve as a central facility for youth development, it is located in the eastern part of the Hong Kong Island;
 - (c) the Government has taken up the direct responsibility of managing and operating the Youth Square and bears all commercial risks arising therefrom. A Management Advisory Committee ("MAC")

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was set up in January 2009 to advise the Government on the overall strategy, objectives and the operation of the Youth Square;

- (d) there was only one conforming tender received for the management and operation contract ("the Contract") for the Youth Square, and the tender report (including the recommended tender) was approved by the Central Tender Board; and
 - (e) the Youth Square was officially opened in March 2010 and has been fully operated for only two years (up to March 2012). It may be premature to conclusively establish the effectiveness of its operation;
- considers that the promotion of youth development is a meaningful policy objective and warrants the Government's subsidy, and it is the Home Affairs Bureau ("HAB")'s responsibility to ensure that the public funding allocated to the Youth Square is able to achieve the intended objective of youth development;
 - expresses grave concern that :
 - (a) there was a significant difference between the pre-tender estimated cost (\$200 million) and the tender price (\$371 million) of the Contract and the HAB had not informed the Legislative Council ("LegCo") of the difference;
 - (b) the objectives of youth development and full-cost recovery that the HAB aims to achieve for the Youth Square might be in conflict;
 - (c) the HAB has achieved neither the objective of youth development nor the objective of full-cost recovery in the first two years (up to March 2012) of the Youth Square's operation, as reflected by the low utilisation rate of the Youth Square venues and facilities by youth organisations ("target users") and the unsatisfactory operating results as identified in the Director of Audit's Report ("Audit Report");
 - (d) the HAB has failed to include in the Contract specific terms that require the Contractor, who was appointed to manage and operate the Youth Square on behalf of the Government, to target at youth organisations in providing services for the Youth Square. For instance, there are no stipulations on the target-user mix of the

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hostel, target-user usage of the venues and facilities and youth programmes held at the Youth Square;

- (e) in the absence of specific contract terms requiring the Contractor to focus on target users, the Contractor has mainly worked towards meeting the performance targets on occupation rate of hostel and usage rates for venues and facilities, and has limited incentive to make effort to boost target users' usage of the Youth Square. Neither does the HAB have the contractual right to demand the Contractor to make improvement in this regard; and
 - (f) some of the terms and conditions in the Contract may not be able to encourage satisfactory performance of the Contractor, as follows:
 - (i) the maximum level of penalty (i.e. a deduction of 0.5% of the annual basic management fee for achieving less than 80% of the agreed target of any of the key performance indicators) to be imposed on the Contractor is too lenient. As a result, only 0.5% of the management fee could be deducted in 2009-2010 when the Contractor only achieved a usage rate of 49.1% for the retail shops, studios and youth activity areas, far below the minimum performance target of 70%; and
 - (ii) the incentive management fee clause is not a standard provision in similar government contracts and too generous, as it sets too low a threshold (i.e. just over and above all performance targets) for the Contractor to achieve;
- acknowledges that:
- (a) in order to promote the popularity of the Youth Square, the HAB has accepted the hosting of non-youth programmes at the Youth Square so as to bring in greater visitor flow at the initial stage of its operation and to make better use of the spare capacity available;
 - (b) the five youth-related non-governmental organisations ("NGOs") interviewed by the Audit Commission have provided views on the ways and means to improve the management and operation of the Youth Square, including the need for developing a focal theme and a clear image for the Youth Square, the need for setting affordable hostel and facility hiring charges for youth groups, and the need for more publicity and promotion efforts; and

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- (c) the Secretary for Home Affairs has undertaken to review the management and operation mode of the Youth Square in 2013, and consult various stakeholders, namely the Commission on Youth, the MAC, the Contractor and the youth-related NGOs in the review;
- strongly urges the Secretary for Financial Services and the Treasury to establish a mechanism to require policy bureaux/government departments to report to the Finance Committee ("FC") or relevant Panels of LegCo, as appropriate, in case of significant difference between the estimated cost and the awarded tender price of a project for which the FC's funding approval has been obtained, even though no supplementary provision has to be sought;
- strongly urges the Secretary for Home Affairs to:
 - (a) take into account the views and recommendations of the Committee and the Audit Commission in the 2013 review, promptly define the parameters for the review, and organise focus groups to solicit the views of youth-related NGOs and young people on the Youth Square;
 - (b) critically examine in the review how to strike a fair balance between offering the Youth Square venues and facilities at affordable prices to the youth groups while achieving the full-cost-recovery objective, and how the Youth Square should be positioned in this regard; and
 - (c) in designing the contracts of the HAB's projects in future, pay due regard to the project objectives and include appropriate and relevant terms and conditions that can ensure achievement of the intended objectives and encourage satisfactory performance of the contractors;

Operation and performance

- expresses great dissatisfaction and disappointment that:
 - (a) the HAB has overly relied on the Contractor for managing and promoting the Youth Square to the extent that the HAB has failed to take the lead to timely adjust the rental strategy, work direction, etc. in the light of changing circumstances; and

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- (b) the HAB has neither designated sufficiently high-level officials to be responsible for following up the issues and concerns raised by members of the MAC, nor established a formal and effective mechanism to ensure that the views and suggestions given at the MAC meetings are properly followed up;
- finds it unacceptable that:

Achievement of youth development objective

- (a) the HAB has failed to set qualitative and quantitative performance targets to measure the extent of the Youth Square's contribution to youth development;
- (b) the actual target-user mix of the youth hostel was only 18% in 2010-2011 and 34% in the first nine months of 2011-2012, falling short of the interim target of 40% set by the MAC and the Contractor. In particular, the fact that the majority of the hostel guests are tourists does not meet the hostel's original objective of serving participants of youth exchange and leadership training programmes as the HAB had informed the LegCo in June 1999;
- (c) only 52% of the programmes held at the Youth Square from May 2009 to January 2012 were youth-related, revealing the need for organising more youth programmes to better achieve the youth development objective;
- (d) of the 36 retail shops in the Youth Square, 15 were let to tenants for providing tutorial services which may not be able to achieve the Youth Square's objectives of encouraging innovative ideas from the youth and cultivating leadership skills as formulated by the MAC;
- (e) many offices at the Youth Square were not operated regularly, indicating that the office facilities were not gainfully used for youth development;
- (f) as of October 2011, the Government had let 24 (67%) of the 36 retail shops at the Youth Square at concessionary rentals to profit-making organisations (classified as "low-priority" tenants);

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- (g) as of October 2011, only 11% of the 36 retail shops at the Youth Square were let to "high-priority" tenants (non-profit-making youth organisations);

Usage of facilities and youth patronage

- (h) the HAB has not taken youth-friendly measures to attract young entrepreneurs and young people to use the venues and facilities of the Youth Square. For example, the standard tenancy agreements for the offices and retail shops at the Youth Square are very complicated, and the booking sessions (e.g. the multi-purpose rooms are charged on an hourly basis instead of a daily basis) and opening hours (from 8:00 am to 11:00 pm) of the Youth Square venues and facilities may be too rigid to suit the practical need of young people;
- (i) the HAB has not adopted a focused marketing strategy to attract "high-priority" tenants to hire the venues and facilities of the Youth Square. Instead of taking the initiative to invite prospective "high-priority" tenants to hire the facilities, retail shops or offices, the HAB has only posted on the Youth Square website the notices on the availability of such venues and facilities for leasing, and contacted those who have enquired about the tenancy arrangements in the past. The HAB has also not promulgated adequate details of the concessionary rentals on the Youth Square website;
- (j) the utilisation rate of facilities for audio recording, video recording and editing, photographic production, fashion and design, dancing and exhibition was less than 50%, reflecting that the facilities were not gainfully used for youth development;
- (k) the reported visitor-flow figures (including both visitors entering and leaving the Youth Square) could not reflect the actual number of visitors. In fact, the visitor-flow figures could have been 100% more than the visitor numbers. Besides, the figures included staff, workers, hostel guests and others, some of whom should not have been counted as visitors and some might not be youths;
- (l) the HAB has not compiled or estimated the total number of youths visiting the Youth Square, although such number would be useful to help evaluate whether the Youth Square has become a focal point for youths;

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Operating results

- (m) the Youth Square incurred an operating deficit of \$33.2 million for 2010-2011 (the first year of full operation), which differed significantly from the estimated deficit of \$5 million a year as reported to LegCo in March 2005; and
- (n) although the HAB would grant appropriate concessionary rentals for the Youth Square venues and facilities let to target users, the concessionary rental rates might still not be affordable to them;
- acknowledges that:
 - (a) the HAB would cease to offer concessionary rentals to profit-making organisations for the new tenancy term commencing mid-2012; and
 - (b) the Secretary for Home Affairs has agreed with the audit recommendations in paragraphs 1.14, 2.19, 2.33 and 2.46 of the Audit Report;
- strongly urges the Secretary for Home Affairs to:
 - (a) conduct periodic surveys on target users to identify their reasons for not using the venues and facilities of the Youth Square, and ascertain their needs and affordability, and take appropriate measures to improve their usage of the venues and facilities, e.g. offering appropriate concessionary rentals to them and removing any unnecessary constraints on the use of the venues and facilities;
 - (b) establish a mechanism to keep the overall strategy and work direction of the Youth Square under review so that timely adjustment can be made in the light of changing circumstances;
 - (c) designate sufficiently high-level officials to be responsible for following up the issues and concerns raised by MAC members and establish a formal and effective mechanism to follow up the views and suggestions made at the MAC meetings, with the outcomes properly documented for management review;
 - (d) make greater efforts to promote the venues and facilities of the Youth Square to target users, including reviewing the rental

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strategies, concessionary rental rates and leasing arrangements to suit the practical need of young people, and promulgate adequate details of the concessionary rentals on the Youth Square website;

- (e) improve the methodology for reporting visitor-flow figures and collect useful management information and statistics such as the visitor numbers categorised by target users and non-target users, and the number and profile of participants of various programmes held at the Youth Square; and
- (f) in collaboration with youth-related organisations, make greater efforts to stage and host more youth programmes at the Youth Square targeting at young people from across the territory, including making arrangements to facilitate those living in remote areas to join activities held at the Youth Square during the summer vacation and weekends;

Planning and implementation

- expresses grave concern that:
 - (a) although the Youth Square aims to serve as a focal point for territory-wide youth development activities, it is not an easy task for the HAB to meet this objective because of the remote location;
 - (b) the Youth Square lacks a focal theme to clearly distinguish it from other youth-related facilities and to attract youths;
 - (c) there was a delay of 28 months in completing the construction of the Youth Square, resulting in deferred provision of the facilities and an additional cost of \$3.1 million to maintain the idle works site from January 2004 to April 2005;
 - (d) the Steering Committee has become inactive after September 2004 and did not fully discharge its function to oversee the development of the Youth Square, and the MAC was not set up until January 2009. As a result, the HAB did not obtain adequate input during 2005 to 2008 from major stakeholders (youth groups and relevant NGOs) to assist it in planning and overseeing the implementation of the Youth Square project and preparing the Contract conditions;

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- (e) the existing composition of the membership of the MAC may not have sufficient representation of youth organisations; and
 - (f) the HAB has not informed LegCo of the operating results of the Youth Square, notwithstanding that its operating deficits were significantly larger than the estimated one reported to LegCo in March 2005;
- acknowledges that the Secretary for Home Affairs has agreed with the audit recommendations in paragraphs 3.21, 3.28 and 3.33 of the Audit Report;
 - strongly urges the Secretary for Home Affairs to:
 - (a) examine in the 2013 review the composition of the membership of the MAC to ensure that there is sufficient representation of youth organisations;
 - (b) improve the implementation of similar projects in future by engaging various stakeholders in drawing up the contract terms and performance standards; and
 - (c) proactively keep the LegCo informed of the operating results of the Youth Square; and

Follow-up action

- wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and the Audit Commission.