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Panel on Home Affairs

**Updated Background brief prepared by the Legislative Council Secretariat
for the meeting on 6 February 2015**

The Kai Tak Multi-purpose Sports Complex Project

Purpose

This paper provides background information on the planning of the Kai Tak Multi-purpose Sports Complex ("MPSC") and summarizes the major concerns of members of the Panel on Home Affairs ("the Panel") on the subject.

Background

Planning of MPSC

2. According to the Administration's paper provided for the Panel meeting on 10 January 2014, the Government's policy for developing sport in Hong Kong has three objectives: (a) to promote sports in the community, (b) to support elite sports, and (c) to make Hong Kong a centre for major international sports events, and sports facilities are provided in accordance with the above policy objectives. Whilst the redevelopment of the Hong Kong Sports Institute at Fo Tan has considerably improved the level of facilities supporting elite sport, Hong Kong has a shortage of public sports facilities and also lacks up-to-date venues for hosting a wide range of indoor and outdoor major international sports events.

3. For East Kowloon, specifically, based on the standards of the Hong Kong Planning Standards and Guidelines and population projections for the three districts of Kowloon City, Kwun Tong and Wong Tai Sin, it is projected that there will be a shortfall of three sports centres and one standard sports ground in East Kowloon by 2021. As regards venues for staging major sports events, the existing venues have insufficient seating capacity and are lacking in appropriate supporting facilities and flexibility in operation. The development of MPSC will provide high-quality sports facilities that help alleviate Hong Kong's

shortage of public sports facilities and also provide new venues suitable for hosting major local and international sports events.

Project scope

4. According to the Administration, the planning vision for the Kai Tak Development ("KTD") is to make Kai Tak a "distinguished, vibrant, attractive and people-oriented community" fronting Victoria Harbour. The planning area of KTD is over 320 hectares comprising six main sub-areas, namely Kai Tak City Centre, Sports Hub, Metro Park, Runway Precinct, Tourism and Leisure Hub and South Apron Corner. The proposed MPSC will be developed with a view to integrating with the Metro Park.

5. According to the project plan, MPSC will provide high-quality international sports venues as well as sports facilities and open space for the community. With a mixture of sports facilities, open space, park features, office accommodation and retail and dining outlets, MPSC will be open to the public throughout the day, seven days a week. As of January 2014, the facilities proposed to be developed on the 28.2-hectare MPSC site at the North Apron of KTD included the following -

- (a) a 50 000-seat stadium with a retractable roof;
- (b) a public sports ground with permanent seating for 5 000 spectators, suitable for public jogging, athletics training and competitions, and football and rugby matches;
- (c) an indoor sports centre with a main arena with permanent seating for 4 000 spectators and a secondary arena with seating for 400 spectators to accommodate sports such as basketball, volleyball, badminton, table tennis and wushu;
- (d) office space of at least 10 000 square metres;
- (e) commercial space of at least 31 500 square metres to accommodate retail and food and beverage outlets;
- (f) park features such as children's play areas, tai chi areas, fitness stations and jogging trails;
- (g) cycling trails connecting with the wider cycling network in KTD;
- (h) a landscaped garden with covered seating;
- (i) a grass area with shade and seating; and

- (j) ancillary facilities such as lavatories, baby care rooms and store rooms.

Members' concerns

6. The Panel discussed issues relating to the development of MPSC at the meetings on 9 November 2012, 10 January and 17 February 2014. Members' major views and concerns are summarized below.

Project scope of MPSC

7. While welcoming and supporting the early development of MPSC, some members raised concerns as to whether the proposed project scope was the optimal design of the 28.2-hectare site from the perspective of land use, and whether the Administration had consulted the sports sector and the district communities on the project scope. There was a suggestion that to maximize the land use potential of the site and to achieve greater community gains, consideration should be given to developing additional venues for other sports activities and increasing the space for office and commercial use.

8. The Administration advised that the project scope was based on the design for venues for staging international sports events, alongside with the intention to address the expected shortfall of three sports centres in East Kowloon by 2021. The Administration had consulted the District Councils of Kowloon City, Kwun Tong and Wong Tai Sin, various sports associations and representatives of the sports sector on the proposed scope of MPSC, and they all supported it and strongly requested for the early implementation of the project. The Administration would consider members' suggestions on the scope of MPSC, including increasing office floor area for commercial use and offices for sports-related organizations, providing an ice rink of international standard, and using the commercial space to accommodate other sports activities such as tenpin bowling.

Alignment between the sports policy and MPSC

9. There was concern as to whether the proposed project scope and facilities of MPSC could align with the Government's sports policy and objectives. Concern was also raised about how the Administration would ensure that the proposed facilities for MPSC would complement/interface with existing sports facilities in Hong Kong, addressing the needs and aspirations of both the sports sector and the community at large. There was a view that the Government should clearly state its sports policy and the criteria/considerations that had been

taken into account in determining what facilities should be provided in MPSC.

10. According to the Administration, MPSC was Hong Kong's largest ever sports project. It would be a major sports park for Hong Kong people, with a mixture of high-quality sports facilities addressing the following challenges -

- (a) shortage of public sports facilities;
- (b) reliance on existing ageing venues, such as the Hong Kong Stadium, the Hong Kong Coliseum and the Queen Elizabeth Stadium, to host major sports events; and
- (c) the lack of modern, multi-purpose venues for hosting major international sports events.

By providing new venues suitable for hosting major local and international sports events and high-quality sports facilities that would help alleviate Hong Kong's shortage of public sports facilities, MPSC would directly and significantly contribute to the realization of the Government's policy objectives for sports development.

Usage of facilities at MPSC

11. Members considered it important for the Administration to maximize the use of MPSC facilities to ensure that the project offered value for money. Some members were of the view that the Administration should make accurate projections on the financial performance of MPSC in order to justify its development. Concern was raised as to whether the Administration had estimated the future usage rate and average attendance of the key facilities and venues in MPSC, including the 50 000-seat main stadium, the 5 000-seat public sports ground and the 4 000-seat indoor sports centre. There were worries that the project might turn out to be a "white elephant" if the Government failed to maximize the use of the new venues and sports facilities provided therein.

12. The Administration advised that it would carry out detailed studies including making projections for the usage rates and attendances of the proposed facilities and venues in MPSC, before finalizing the procurement and financing model. While priority would be given to hosting sports events at the main stadium, there was scope for holding large-scale entertainment events (such as pop concerts) and exhibitions. It was the Government's intention that the public should have easy access to MPSC and that the public sports facilities therein be available for use at charges comparable to similar facilities provided by the Leisure and Cultural Services Department. The Administration expected that these public sports facilities would be well-utilized, in view of the high usage rates of sports facilities in East Kowloon and Hong Kong as a whole.

Financing and management of MPSC

13. As advised by the Administration, the Design-Build-Operate ("DBO") approach was identified as the preferred procurement option for MPSC (i.e. the construction of MPSC would be funded through the Public Works Programme ("PWP") and the private sector would be involved in the long-term operation of the complex). There was concern on whether the Government would assume a positive and firm role in steering the project through the design, construction and operation phases to ensure that MPSC could meet the Government's policy objectives as well as the wider public expectations under the PWP option. Concern was also raised about the viability of the DBO approach for mega works projects of a scale as large as MPSC, having regard to many problems associated with the approach such as the difficulty in monitoring the project cost and the high risk of cost overrun. Concern was also raised about whether the Administration had drawn up any business plan for the operation of MPSC facilities.

14. According to the Administration, the DBO approach would help ensure the most effective delivery of MPSC from the design stage through to the long-term operation. This approach would offer the greatest certainty in terms of achieving the Government's project objectives whilst also harnessing private sector innovation and synergies to realize commercial benefits from the project. Since the Government had limited experience in managing and operating sports facilities of such a scale, the presence of private finance would result in the conduct of a stringent and rigorous due diligence process, to determine the viability and profitability of MPSC.

15. The Administration further advised that in order to gain a clearer picture of stakeholders' views, the Administration had invited non-binding expressions of interest in the project. A total of 42 submissions had been received. While respondents all welcomed the proposed development of MPSC, some of them suggested that there might be private sector interest in a modest level of investment and they generally considered that the project would require the Government to provide most or all of the capital cost for the project to be viable. Against this background, the Administration had commissioned a consultant to conduct studies on potential procurement and financing options for MPSC so as to assess the possible advantages of inviting private sector investment. The consultancy studies had identified various forms of options (including Full Commercial Financing, Joint Venture Financing, Partial Private Finance, PWP (Management Contract), PWP (Revenue Contract) and Design-Build-Finance-Operate ("DBFO")) and assessed their suitability under different scenarios. DBFO and Partial Private Funding-Private Sector Equity models were initially identified as the preferred procurement options for MPSC, and these two options might take the following sources of finance -

- (a) pure private funding;
- (b) a combination of private and government funding; and
- (c) pure government funding.

After assessment of each of these funding options based on the cost impact, estimated viability gap and the deliverability in the current financial market situation, the consultant concluded that "a combination of government and private funding" was the most deliverable option in today's market, given that there had been some interest in the market to provide private funding subject to the Government undertaking to provide some forms of support (e.g. subsidy) to the project.

16. According to the Administration, when engaging a private sector operator to run MPSC, it would enter into a contractual arrangement that allowed it to exercise appropriate controls on the monitoring of service quality. The arrangement should create incentives for the operator to run MPSC as a lively and attractive venue which would allow easy public access to sports and other facilities provided therein, whilst also catering for a programme of regular world-class sports and entertainment events.

Monitoring of construction works

17. Noting that the Administration estimated that the construction costs of the MPSC project would be about \$23 billion (in September 2013 prices), some members expressed concern about the huge cost overruns of some major public works projects as recently reported to the Public Works Subcommittee ("PWSC"). They hoped that the Administration would provide an accurate estimate of the construction costs of MPSC by the time it sought funding from the Finance Committee ("FC") to kick start the construction of the project. The Administration was urged to work out cost control measures for the MPSC project, taking into account other development projects in the pipeline and their impact on construction costs of MPSC as well as the overall manpower supply in the construction industry.

18. In response to members' concern about the implementation timetable at the meeting on 17 February 2014, the Administration advised that subject to funding approval, the Administration would commence the pre-construction works in 2014 for completion in 2016 and, at the same time, proceed with the detailed planning and design of the MPSC project. The Administration's intention was to invite bids for the design and construction of MPSC in 2015, take a decision on the procurement and financing plan within the next two years and kick-start

the full construction of MPSC in 2016. Given the scale of the project, the construction time required was about 42 months and the Administration expected that the project would be substantially completed by 2019-2020.

Recent developments

19. The staffing proposal relating to the establishment of a dedicated unit in HAB for taking forward the MPSC project was endorsed by the Establishment Subcommittee on 5 March 2014 and approved by FC on 6 June 2014. The Administration planned to submit the pre-construction works proposal for the MPSC project to PWSC for consideration in 2014-2015.

20. The Administration will brief the Panel on the progress of the MPSC project at its meeting on 6 February 2015.

Relevant papers

21. A list of relevant papers on the website of the Legislative Council is in the **Appendix**.

Council Business Division 2
Legislative Council Secretariat
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**Relevant papers on
The Kai Tak Multi-purpose Sports Complex Project**

Committee	Date of meeting	Paper
Panel on Home Affairs	9.11.2012 (Item V)	Agenda Minutes
	10.1.2014 (Item III)	Agenda Minutes
	17.2.2014 (Item IV)	Agenda Minutes
Establishment Subcommittee	5.3.2014 (Item No.3)	Agenda Minutes
Finance Committee	6.6.2014 (Item No.1)	Agenda Minutes