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**Panel on Home Affairs**

**Updated background brief prepared by the Legislative Council Secretariat  
for the meeting on 22 December 2015**

**The Kai Tak Multi-purpose Sports Complex Project**

**Purpose**

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

**Background**

2. According to the Administration, 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 the Kai Tak Development ("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.

### Funding approval

3. The Administration's proposal on the creation of a supernumerary Administrative Officer Staff Grade C ("AOSGC") post in Home Affairs Bureau for a period of two years from 2014-2015 to take forward the MPSC project was endorsed by the Establishment Subcommittee on 5 March 2014 and approved by the Finance Committee ("FC") on 6 June 2014. The funding proposal on the pre-construction works for the MPSC project at an estimated cost of \$62.7 million in money-of-the-day prices was approved by the Public Works Subcommittee on 6 May 2015 and by FC on 3 July 2015.

### **Major views and concerns expressed by the Panel**

4. The Panel discussed issues relating to the MPSC project at its meetings on 9 November 2012, 10 January 2014, 17 February 2014 and 6 February 2015. Members' major views and concerns are summarized below.

### Project scope of MPSC

5. While 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.

6. 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

7. 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.

8. 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.

9. According to the Administration, 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

10. 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.

11. 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. 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. While priority would be given to hosting sports events at the main stadium, the Administration advised that there was also scope for holding large-scale entertainment events (such as pop concerts) and exhibitions.

### Financing and management of MPSC

12. 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.

13. 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 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.

14. 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.

15. After assessment of various 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 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 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. The Administration advised that the cost estimate was indicative only and a more accurate project cost estimate would be worked out. The Administration would appoint an independent quantity surveying consultant to estimate the project cost to ensure that the estimate would be priced at reasonable level.

#### Project implementation

18. 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. The Administration expected that the project would be substantially completed by 2019-2020. At the meeting on 6 February 2015, the Administration reported that there would be a delay in the anticipated completion date of the MPSC project from 2019-2020 to 2020-2021. The Administration explained that the slippage was caused by a host of internal and external factors. Internally, the Administration had a lengthy discussion on the management responsibilities for as well as the vote control of the project. It was decided that the MPSC project would be put under the vote control of HAB instead of the works departments. The Administration also had to set up a technical team to advise on the

engineering and architectural aspects of the project. The Administration informed members that it had already completed the preparation for the engagement of an operations consultant to provide expert advice on the functional requirements as well as the performance standards, business planning and financial projections of MPSC.

19. Some members suggested that in order to bring about the maximum benefits for the community at large and to best achieve the Government's vision and objectives, the Administration should take into account the needs of the sports sector and the wider community. The Administration advised that all relevant stakeholders including national sports associations, the Hong Kong Schools Sports Federation and other potential users would be engaged so that their views and needs would be taken into account in steering the project through the design, construction and operation phases.

### **Recent developments**

20. The supernumerary AOSGC post created to take forward the MPSC project will lapse by mid-2016. The Administration will consult the Panel on the proposed extension of the post at the next meeting on 22 December 2015.

### **Relevant papers**

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

## Appendix

### 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)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	10.1.2014 (Item III)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	17.2.2014 (Item IV)	<a href="#">Agenda</a> <a href="#">Minutes</a>
Establishment Subcommittee	5.3.2014 (Item No.3)	<a href="#">Agenda</a> <a href="#">Minutes</a>
Finance Committee	6.6.2014 (Item No.1)	<a href="#">Agenda</a> <a href="#">Minutes</a>
Panel on Home Affairs	6.2.2015 (Item VI)	<a href="#">Agenda</a> <a href="#">Minutes</a>
Public Works Subcommittee	15.4.2015 (Item No. 1)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	22.4.2015 (Item No. 1)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	6.5.2015 (Item No. 1)	<a href="#">Agenda</a> <a href="#">Minutes</a>
Finance Committee	3.7.2015 (Item No. 5)	<a href="#">Agenda</a>