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(Translation)

(By Fax : 2811 2210)

22 June 2017

Room 903 Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Attn: Hon CHU Hoi-dick)

Dear Hon Chu,

Regarding the third enquiry on Kai Tak Sports Park

Thank you for your letter dated 17 June to the Secretary for Home Affairs, the Permanent Secretary for Home Affairs and the Commissioner for Sports. Regarding the questions raised in the letter, we set out our response in the Annex for Members' reference.

Yours sincerely,

(Original signed)

(Ms Linda Law)
for Secretary for Home Affairs

c.c.: Honourable CHAN Kin-por, Chairman of the Finance Committee of the
Legislative Council

(I) Calculations based on the assumption data under the “design and build, then operate by Government” (DB→G) approach

The major assumptions made by the Operations Consultant for the project under the **DB→G** procurement approach are set out in **Appendix I** for reference.

As stated in the supplementary information submitted to the Public Works Subcommittee (PWSC) on 15 June, the private sector, with rich experience and expertise in designing and operating commercial and retail facilities, has the flexibility to adjust its strategies and increase the attractiveness of commercial facilities in response to market situation.

Under the DB→G approach, sports and commercial facilities in the Kai Tak Sports Park (Sports Park) will be operated by the Leisure and Cultural Services Department (LCSD). As a government department, the LCSD does not have commercial expertise in putting forward enhancement proposals for the design of retail and dining outlets, and also lacks experience in developing promotion and marketing strategies, as well as in tenancy planning. Lacking experience of operating retail and dining outlets, the LCSD will find it difficult to give the best layout and design to the commercial facilities in the Sports Park to maximise their commercial viability. As a result, it will have a direct impact on the attractiveness and rental value of the shopping mall. More importantly, government departments generally can only follow the established procurement policy and rules on tendering of the above commercial facilities. Government properties (e.g. shops, canteens, areas for advertising, car parks and automatic teller machines) are usually let out by the Government Property Agency for specified uses through open tendering/quotations. Price is normally the only criterion in assessing these revenue contracts. Currently, the LCSD is also required to follow the above principle when identifying contractors to run the dining and retail outlets in its recreational and sport facilities. If the LCSD wishes to add a non-price element (such as giving a higher weighting to the design, quality and technical feasibility) to the assessment criteria for bids for individual dining and retail outlets, it will take quite a long time to go through and complete the internal approval process for a breakthrough. In fact, the LCSD has had to convert the dining outlets of its individual recreational and sport facilities into other uses due to the absence of tenders after repeated tendering exercises.

Under the “Design-Build-Operate” (DBO) approach, however, the Contracted Party, with a wide spectrum of professional expertise in designing and operating commercial facilities, will be greatly motivated to enhance the design of retail and dining outlets taking the market into consideration and lease them to tenants who can provide users and spectators of the Sports Park with the most suitable services and products. In sum, commercial facilities provided under the DB→G approach will, as compared with those under the DBO approach, be less attractive to both tenants and consumers, and have less rental yields and lower tenancy rates. The Operations Consultant

estimated that the average annual income from retail and dining outlets and car parks under the DBO approach would approximately double the amount under the DB→G approach. Taking 2025 as an example, according to the estimation of the Operations Consultant, the income (before deducting the expenditure) from retail and dining outlets and car parks will be \$261 million under the DB→G approach and \$549 million under the DBO approach respectively. Under the DB→G approach, it is expected to have a substantial decrease in the income from retailing as the Government lacks the experience comparable to that of the private sector in designing and operating commercial facilities. It is therefore difficult for the Government to give the best layout and design to the commercial facilities and it will have a direct impact on the attractiveness and rental value of the shopping mall.

(II) Approach to the management of other outdoor facilities in the Sports Park

In paragraph 12(d) of the paper (LC Paper No. CB(2)855/16-17(04)) submitted to the Panel on Home Affairs in February 2017, it is stated clearly that the public open space (including a landscaped garden, a waterfront promenade, a jogging trail, children's playgrounds, fitness stations, a cycle track and outdoor courts, etc) in the Sports Park will be open to the public throughout the year. Part of the space will also be made available for hire by groups and organisations to host events on a short-term basis. The principle of making available the public open space in the Sports Park for community use will be generally the same as that currently adopted for parks under the LCSD.

(III) Level of the bid incentive

As mentioned in the supplementary information submitted to the PWSC on 16 May 2017, in view of the scale, complexity and uniqueness of the Sports Park project, the consortia participating in the tendering exercise are required to gather a team comprising a wide spectrum of professional expertise ranging from design to construction and operation of large-scale sports and commercial facilities. In the light of the market feedback on the cost of preparing a bid, the expenditure calculated by the Operations Consultant using man-day rates and the cost¹ of pre-construction consultancies incurred by the Government, we therefore estimate that the cost of

¹ A total of some \$110 million has been incurred by the Government for conducting pre-construction works for the Sports Park project, including the appointment of (a) an Operations Consultant to provide advice on procurement strategies, business plans, financial projections, operational requirements, etc.; (b) a Technical Services Consultant to provide reference designs and technical specifications; (c) a Legal Services Consultant to advise on the drafting of the operations part in the tender documents; (d) a Quantity Surveying Consultant to advise on the costing and compilation of the design and construction part in the tender documents; (e) a Traffic Impact and Environmental Impact Assessment Consultant; and (f) a Planning Consultant to assist in the submissions to the Town Planning Board. It is expected the bidding consortia will have to incur a similar, if not higher, amount in preparing their bids.

participating in the tendering exercise for the project is in the region of \$100 million to \$200 million.

A table on the tender cost estimate prepared by the Operations Consultant using man-day rates is detailed at **Appendix 2** for reference. The estimate is worked out based on the experience of the Operations Consultant. In preparing the table on cost estimate, the Operations Consultant assumed that the tender period would last for six months and tenderers would draw up their bids by engaging different people (e.g. local, overseas and internal experts, professional consultants, etc.) and using various resources. The actual tender cost incurred by each tenderer may vary, mainly depending on (a) the company and organisational structure of the tenderer; (b) the quality of the bid; (c) the level of details about the design provided in the bid; (d) the level of engagement of professional consultants in the bid; and (e) the quality of and the fee charged by consultants. Based on the estimation made by the Operations Consultant using man-day rates, a tenderer will be required to put in about \$187 million for preparing a quality bid.

(IV) Financial Information

(1) and (2) The construction mode of the three major venues in the Sports Park

There is a pressing need for the development of the Sports Park in order to increase sports facilities in Hong Kong and provide venues necessary for organising large-scale and high-level sports events. The existing large-scale venues in Hong Kong (namely the Hong Kong Stadium (HKS), the Hong Kong Coliseum and the Queen Elizabeth Stadium) were all built or redeveloped 20 to over 30 years ago and their facilities are no longer commensurate with the current requirements and standards of relevant international organisations and event organisers (for example, a lack of warm-up facilities and insufficient facilities for the media and for doping control). Both the public and the sports sector have a great demand for the various facilities in the Sports Park and they have been waiting for such a development for a long time.

As Shing Kai Road runs across the Sports Park, all three venues are required to be connected by platforms in terms of design and construction in order to provide the required and sufficient space to accommodate an access for crowd dispersal. It is therefore necessary to design and build the whole Sports Park as a single project instead of building the three venues separately.

As a matter of fact, the three venues in the Sports Park are complementary to each other, and some facilities therein are to be shared by the whole Sports Park so as to achieve the optimal planning efficiencies and cost-effectiveness. For example, in the Main Stadium, the central kitchen, facilities for temporary staff deployed for major events (e.g. security guards, cleansing workers, catering staff) to report duty, change, attend briefing and store their belongings, rooms to accommodate turf maintenance

machines and tools, main taxi stands and alighting and boarding facilities for coaches will provide support for events held in the other two venues. In addition, the Indoor Sports Centre will provide restrooms and dining facilities for public activity areas nearby, while the Public Sports Ground will provide warm-up venues for major competitions held in the Main Stadium as and when required. Generally speaking, as the facilities in the Sports Park are complementary and highly connected, the construction works of the three venues and the public open space cannot be carried out separately. It will be a pity if we prefer building those facilities requiring co-ordination and mutual support separately to constructing the Sports Park as a whole.

(3) and (4) Present situation and the redevelopment cost of the HKS

As mentioned in our supplementary information submitted to the PWSC on 19 May, it is difficult for the HKS to fully cater to the needs of major events due to the constraints of its existing facilities, noise level, etc. For example, the existing seating capacity and the provision of changing room facilities (no equipment provided for players to have a warm-up, a massage and a post-event recovery) cannot meet the needs of the annual Hong Kong Sevens and other major international events. Moreover, no specially-designed media centre, doping control room or dedicated office for event organisers and technical staff is provided at the venue. As a result, only temporary measures could be taken to meet the needs of events in the past.

In addition, despite the improvement already made to the quality of the turf in the HKS, activities are still prone to be affected by adverse weather conditions and noise control requirements because of its open-air design. As the HKS is surrounded by hills, it is technically very difficult to construct a retractable roof and bring a substantial increase in the seating capacity (constraints including a lack of open space for expansion, negative impact of expansion works on the structure and safety of the slopes nearby). Moreover, a traffic impact assessment is necessary to determine whether transport facilities and the road capacity in the vicinity can cope with the increased seating capacity, and views of residents in the neighbouring areas should be taken into account.

The Main Stadium of the Sports Park will be equipped with an acoustic retractable roof which can contain the noise from activities and enable events to run on rainy days. With a flexible turf system, the Main Stadium can be used to hold various major sports events (including football matches, rugby matches, equestrian events, motorcycle races), concerts, extreme sports performances, etc. Furthermore, the Main Stadium can be turned into different spectator configurations (ranging from 20 000 to 50 000 seats) by means of stage positioning, draping, etc. to cater to the needs of different activities. Located in the centre of the Kai Tak Development (KTD) Area with good accessibility, the Sports Park will be within a walking distance from Kai Tak Station or To Kwa Wan Station of the future Mass Transit Railway Shatin to Central Link. Pedestrian walkways linking the Sports Park to the existing communities of To Kwa Wan and Ma Tau Kok and the new communities in the KTD

Area will be provided in the Kai Tak Station Square. The nearby Kowloon City Ferry Pier Public Transport Interchange, the Kowloon City Ferry Pier and the future Kai Tak Public Transport Interchange will facilitate public access to and from the Sports Park by bus, minibus or ferry. There is also a plan to provide taxi stands, alighting and boarding bays and car parks in the Sports Park for public use.

In the light of the present situation and various constraints of the HKS, we consider it not feasible to redevelop the HKS to be a venue comparable to the proposed Main Stadium in terms of scale and function, and we have not made any cost estimations in this regard. Since the proposed Main Stadium and the HKS overlap partly with each other in terms of scale and function, the Government has to reconsider the role of the HKS, taking into account the relatively low utilisation rate due to its physical constraints and deficiencies, as well as the possibility that its utilisation will be further reduced upon completion of the Main Stadium of the Sports Park. We will explore ways to better utilise the HKS to support sports development in Hong Kong and facilitate the use of the venue by schools and the public. We will conduct a technical feasibility study on the redevelopment of the HKS in the coming five years.

(V) International football events bid by China

(1), (2) and (3) Planned bids for the AFC Asian Cup or the FIFA World Cup by China

We do not receive any news or plans from the Chinese Football Association to submit a bid to host the AFC Asian Cup or the FIFA World Cup. Whether the Mainland will bid for the Asian Cup or the World Cup has no relation to the decision and time to implement the Sports Park project.

The Sports Parks has been planned for years. Both the sports sector and the public support the early implementation and completion of the Sports Park project. The Government has also repeatedly expressed its hope to have the proposed Sports Park project endorsed in the current legislative session for the commencement of works in 2018 and for completion in around 2022-23.

(VI) Marking scheme for the tendering exercise (1) and (2)

As stated in our submission of supplementary information to the PWSC on 15 June, under the DBO approach, the Contracted Party of the Sports Park is required to operate the entire Sports Park, including community sports facilities and public open space, on a self-financing basis as well as to regularly make a fixed payment to and share a percentage of its operating income (i.e. total sales) with the Government. Tenderers are required to, in accordance with the requirements set out in the tender documents, provide in their bids a price proposal including (a) the cost of design and construction; (b) the fixed payment to be made to the Government during the

operational stage; and (c) the percentage of operating income to be shared with the Government. The Tender Assessment Panel will evaluate the bids based on a tender marking scheme and make recommendations to the Central Tender Board. Since the tender marking scheme is still under preparation and subject to the approval of the Central Tender Board, its details and the weighted score for each item are not available at this stage.

As pointed out in the Finance Committee meeting held on 17 June, we will deliberate on Member's suggestions about the marking scheme and will make recommendations to the Central Tender Board. However, it is not the usual practice of the government to let the Legislative Council conduct a pre-evaluation of the tender documents and the marking scheme in relation to public works.

(VII) The future of the Wan Chai Sports Ground

As stated in our submission of supplementary information to the PWSC on 19 May, the Chief Executive proposed in this year's Policy Address that the site at the Wan Chai Sports Ground be used for comprehensive development to provide convention and exhibition, sports, recreation and community facilities. The Hong Kong Trade Development Council will conduct a feasibility study on the proposal. The proposal is a preliminary one and the Government has not yet finalised its plan. The Government will continue to listen to stakeholders' views on the proposed comprehensive development and incorporate them into the feasibility study. The Government will consider the matter further when the outcome of the feasibility study is available.

Appendix 1

Comparison on major assumptions taken by the Operations Consultant for financial projections of the “Design-Build-Operate” (DBO) and “Design and Build first and then operate by the Government” (DB→G) approaches

	“Design-Build-Operate” (DBO)	“Design and Build first and then operate by the Government” (DB→G)
Risk allocation	<ul style="list-style-type: none"> Design and construction risk retained by the Government Operating risk transferred to the Contracted Party 	<ul style="list-style-type: none"> Design, construction and operating risk retained by the Government
Initial investment by Government	<ul style="list-style-type: none"> \$31.9 billion in construction capital costs 	<ul style="list-style-type: none"> \$31.9 billion in construction capital costs \$300 to 400 million in initial investment to start the operation
Initial investment by Consortium	<ul style="list-style-type: none"> \$300 to 400 million in initial investment to start the operation Performance bond of \$200 million and financial guarantee of not less than \$700 million from its parent company 	<ul style="list-style-type: none"> Not applicable
Main Stadium	<ul style="list-style-type: none"> 30 event days per annum 	<ul style="list-style-type: none"> As Government lacks commercial expertise and experience in promoting and procuring events, assumed 13 event days per annum, which is similar to current Hong Kong Stadium event schedule
Retail and dining facilities	<ul style="list-style-type: none"> Average \$840 per leasable square metre per month (reference made to rental rate of nearby retail areas) 	<ul style="list-style-type: none"> As Government lacks experience in operating retail and dining space and the design may not maximize income, assumed average \$360 per leasable square metre per month
Lifecycle capital expenditure	<ul style="list-style-type: none"> Contracted Party to fund lifecycle capital expenditure associated with the retail, dining and car parking facilities Government to fund lifecycle capital expenditures associated with the sports and community facilities 	<ul style="list-style-type: none"> Government will fund lifecycle capital expenditures for all facilities
Return to and cost of the Government	<ul style="list-style-type: none"> Fixed payment plus a share of gross income Government would not be required to make any financial support in the event of operating losses 	<ul style="list-style-type: none"> Government takes up all operating risk and operating expenses to be met by public money, including profit and losses Operating cost estimated to be about \$9.2 billion in money-of-the-day prices during the 20-year operation phase

Table on tender cost estimate based on man-day rates by the Operation Consultants

General Comments	This tender cost estimate is worked out based on the experience of Operations Consultant.													
	The cost per day is based on market rate. Overhead and on-cost cover expenditures such as office accommodation, allowances, insurance, MPF, etc. and is based on market norm of 40% on top of the cost per day.													
	The fees are blended rate for manpower of each area of expertise, as the services would be provided by persons of varying seniority.													
Resource schedule and fee														
Area of Expertise	Main Stadium	Indoor Sports Centre	Public Sports Ground	Dining Cove	Retail	Landscape	Precinct -wide	Total Team Size	No. of man-day	Cost per day (HK\$)	Overhead & on-cost (HK\$)	Charge per day (HK\$)	Total Cost (HK\$)	Assumptions
Consortium leadership team														
Consortium leader							1	1	120	12,500	5,000	17,500	2,100,000	Assumed to be an in-house executive with experience delivering projects of this nature. It may require international recruitment if these skills are not available in Hong Kong.
Consortium team members	2	2	1	1	1		1	8	120	5,500	2,200	7,700	7,392,000	Assumed to be all in house mid-level staff provided by the lead party or a combination of representatives from consortium parties.
Specialist Consultants														
Façade design specialist							4	4	120	5,000	2,000	7,000	3,360,000	Total cost is worked out based on a blended rate for persons of varying seniority and experience, and the duration of work and types of consultancy services provided by the members of the consortium.
Crowd management consultant							2	2	40	5,000	2,000	7,000	560,000	
Sports & facade lighting specialist							5	5	40	5,000	2,000	7,000	1,400,000	
Fire engineering specialist							1	1	40	5,000	2,000	7,000	280,000	
Catering consultant							1	1	20	5,000	2,000	7,000	140,000	
Security consultant							3	3	60	5,000	2,000	7,000	1,260,000	

Area of Expertise	Main Stadium	Indoor Sports Centre	Public Sports Ground	Dining Cove	Retail	Landscape	Precinct -wide	Total Team Size	No. of man-day	Cost rate per day (HK\$)	Overhead & on-cost (HK\$)	Charge rate per day (HK\$)	Total Cost (HK\$)	Assumptions
Universal accessibility consultant							2	2	20	5,000	2,000	7,000	280,000	Total cost is worked out based on a blended rate for persons of varying seniority and experience, and the duration of work and types of consultancy services provided by the members of the consortium.
Signage and wayfinding consultant							2	2	40	5,000	2,000	7,000	560,000	
Specialists (Information & Communication Technology (ICT), Acoustics etc.)	2	1	1				1	5	100	5,000	2,000	7,000	3,500,000	
Sustainability consultant							2	2	80	5,000	2,000	7,000	1,120,000	
Planning consultant							2	2	60	5,000	2,000	7,000	840,000	
Turf specialist							2	2	120	6,250	2,500	8,750	2,100,000	
Furniture and Equipment (F&E) specialist							1	1	60	5,500	2,200	7,700	462,000	
Architecture team														
Architect	3	3	3	2	3	4	3	21	120	5,000	2,000	7,000	17,640,000	Services provided by relevant local and international architectural firms - this could be provided by a consortium member or as an independent service. Fee is worked out based on a blended rate for persons of varying seniority and experience.
Sports venue architect	5	2	2					9	120	5,000	2,000	7,000	7,560,000	
Technical support staff							10	10	120	3,500	1,400	4,900	5,880,000	Supporting staff to the specialists mentioned above.
Engineering team														
Structural, civil and geotechnical engineer	5	3	3	2	1		3	17	120	5,000	2,000	7,000	14,280,000	Fee for consultant engineer services is based on a blended rate.
Retractable roof engineer	3							3	80	5,000	2,000	7,000	1,680,000	

Area of Expertise	Main Stadium	Indoor Sports Centre	Public Sports Ground	Dining Cove	Retail	Landscape	Precinct -wide	Total Team Size	No. of man-day	Cost rate per day (HK\$)	Overhead & on-cost (HK\$)	Charge rate per day (HK\$)	Total Cost (HK\$)	Assumptions
Engineers for studies/ researches on environment/traffic/noise etc.							2	2	60	5,000	2,000	7,000	840,000	Fee for consultant engineer services is based on a blended rate.
Mechanical electrical plumbing engineer	5	5	2	1	1		3	17	120	5,000	2,000	7,000	14,280,000	
Technical support staff							10	10	120	3,500	1,400	4,900	5,880,000	Supporting staff to the specialists mentioned above.
Operations team														
Facilities management team	1				1		2	4	80	6,500	2,600	9,100	2,912,000	Services provided by relevant local and international firms - this could be provided by a consortium member or as an independent service. Fee is worked out based on a blended rate for persons of varying seniority and experience.
Sports operations consultant (international)	1						2	3	120	6,500	2,600	9,100	3,276,000	
Sports operations consultant (local)		1	1					2	80	3,500	1,400	4,900	784,000	
Retail operations consultant (including carpark and F&B)				1	3			4	80	6,500	2,600	9,100	2,912,000	
Sports marketing agency - content, events, ticketing and sponsorship	2	1					2	5	80	6,500	2,600	9,100	3,640,000	Fee for the advisory service is based on a blended rate for persons of varying seniority and experience.
Construction team														
Construction director							1	1	120	9,000	3,600	12,600	1,512,000	Services provided by the contracting party within the consortium. Fee is worked out based on a blended rate for persons of varying seniority and experience.
Senior construction manager	1	1	1	1	1	1		6	120	8,000	3,200	11,200	8,064,000	
Construction planning engineer							2	2	120	5,500	2,200	7,700	1,848,000	
Site E&M coordination senior engineers/engineer	2	1	1				2	6	120	5,500	2,200	7,700	5,544,000	
Site Civil coordination senior engineers/engineer	2	1	1				2	6	120	5,500	2,200	7,700	5,544,000	

Area of Expertise	Main Stadium	Indoor Sports Centre	Public Sports Ground	Dining Cove	Retail	Landscape	Precinct -wide	Total Team Size	No. of man-day	Cost rate per day (HK\$)	Overhead & on-cost (HK\$)	Charge rate per day (HK\$)	Total Cost (HK\$)	Assumptions
Quality assurance personnel							2	2	120	5,500	2,200	7,700	1,848,000	Services provided by the contracting party within the consortium. Fee is worked out based on a blended rate for persons of varying seniority and experience.
Site safety and environment officer	2						2	4	120	5,000	2,000	7,000	3,360,000	
Project coordinating officer	2						1	3	120	4,500	1,800	6,300	2,268,000	
Technical and site activities staff	2	1	1				2	6	120	4,500	1,800	6,300	4,536,000	
Tendering and procurement manager	2	1	1				2	6	120	4,500	1,800	6,300	4,536,000	
Other services														
Legal (external advisors) - for sports event, commercial, sub-contracting and tenancy								5	60	12,600	5,040	17,640	5,292,000	Services provided by external legal advisors. Fee is worked out based on a blended rate for persons of varying seniority and experience.
Quantity surveyor	3	3	2	1			2	11	120	5,500	2,200	7,700	10,164,000	Services provided by an external firm. Fee is worked out based on a blended rate for persons of varying seniority and experience.
Financial advisory team								5	60	12,600	5,040	17,640	5,292,000	Services provided by an accountancy firm. Fee is worked out based on a blended rate for persons of varying seniority and experience.
Internal risk management - for design, construction and operation issues													1,000,000	Multiple organisations within a consortium will require risk and legal review. This is an assumed cumulative charge for all parties of a bidding consortium.

Area of Expertise	Main Stadium	Indoor Sports Centre	Public Sports Ground	Dining Cove	Retail	Landscape	Precinct -wide	Total Team Size	No. of man-day	Cost rate per day (HK\$)	Overhead & on-cost (HK\$)	Charge rate per day (HK\$)	Total Cost (HK\$)	Assumptions
Legal (internal) - for procurement risk and contractual issues													1,000,000	Multiple organisations within a consortium will require risk and legal review. This is an assumed cumulative charge for all parties of a bidding consortium.
Systematic risk management & construction design management							2	2	40	5,000	2,000	7,000	560,000	Services provided by an external firm. Fee is worked out based on a blended rate for persons of varying seniority and experience.
Building Information Modelling (BIM) - Leader							2	2	120	5,000	2,000	7,000	1,680,000	
BIM technical support team							4	4	120	3,500	1,400	4,900	2,352,000	Supporting staff to the specialists mentioned above.
Independent Checking Engineer (ICE)/Authorised Person (AP)							4	4	60	5,000	2,000	7,000	1,680,000	Services provided by an external firm. Fee is worked out based on a blended rate for persons of varying seniority and experience.
Other expenses														
Disbursements and travelling expenses													7,000,000	Expenditures are worked out based on the fees for multiple visits to Hong Kong (flights, hotels, sustenance), relocations of staff to Hong Kong etc.
Miscellaneous costs (i.e. administrative, production, printing etc.)													5,000,000	Fee for the office space for relocated staff, administration costs, printing of documents, information technology etc.
Total													186,998,000	