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**Public Works Subcommittee of the Finance Committee
of the Legislative Council**

**Minutes of the 16th meeting
held in Conference Room 1 of the Legislative Council Complex
on Saturday, 6 May 2017, at 9:00 am**

Members present:

Ir Dr Hon LO Wai-kwok, SBS, MH, JP (Chairman)
Hon Charles Peter MOK, JP (Deputy Chairman)
Hon Abraham SHEK Lai-him, GBS, JP
Hon Tommy CHEUNG Yu-yan, GBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Hon WONG Kwok-kin, SBS, JP
Hon Paul TSE Wai-chun, JP
Hon LEUNG Kwok-hung
Hon Claudia MO
Hon Michael TIEN Puk-sun, BBS, JP
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS
Hon MA Fung-kwok, SBS, JP
Hon CHAN Chi-chuen

Hon LEUNG Che-cheung, BBS, MH, JP
Hon KWOK Wai-keung
Dr Hon Fernando CHEUNG Chiu-hung
Dr Hon Helena WONG Pik-wan
Dr Hon Elizabeth QUAT, JP
Dr Hon CHIANG Lai-wan, JP
Hon Alvin YEUNG
Hon Andrew WAN Siu-kin
Hon CHU Hoi-dick
Dr Hon Junius HO Kwan-yiu, JP
Hon HO Kai-ming
Hon LAM Cheuk-ting
Hon Holden CHOW Ho-ding
Hon Wilson OR Chong-shing, MH
Hon CHAN Chun-ying
Hon Tanya CHAN
Hon CHEUNG Kwok-kwan, JP
Hon HUI Chi-fung
Hon LAU Kwok-fan, MH
Hon KWONG Chun-yu
Hon Jeremy TAM Man-ho
Hon Nathan LAW Kwun-chung
Dr Hon YIU Chung-yim
Dr Hon LAU Siu-lai

Member attending:

Hon SHIU Ka-fai

Members absent:

Hon CHAN Han-pan, JP
Hon Alice MAK Mei-kuen, BBS, JP
Dr Hon KWOK Ka-ki
Hon SHIU Ka-chun
Hon Kenneth LAU Ip-keung, MH, JP

Public officers attending:

Mr Raistlin LAU Chun, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) ³
Mr Albert LAM Kai-chung, JP	Deputy Secretary for Development (Works) ¹
Mr Michael WONG Wai-lun, JP	Permanent Secretary for Development (Planning and Lands)
Mr TSE Chin-wan, JP	Permanent Secretary for the Environment (Acting)
Ms Margaret HSIA Mai-chi	Principal Assistant Secretary for Financial Services and the Treasury (Treasury) (Works)
Prof Sophia CHAN Siu-chee, JP	Under Secretary for Food and Health
Miss Diane WONG Shuk-han	Principal Assistant Secretary for Food and Health (Food) ²
Mr HUI Fai-wing	Senior Superintendent (Public Columbaria Project Team) Food and Environmental Hygiene Department
Mr LAM Sai-hung, JP	Director of Civil Engineering and Development
Mr TSE Chun-tat	Chief Engineer (Land Works) Civil Engineering and Development Department
Mrs Betty FUNG CHING Suk-yee, JP	Permanent Secretary for Home Affairs
Mr YEUNG Tak-keung, JP	Commissioner for Sports Home Affairs Bureau
Ms Linda LAW Lai-tan	Principal Assistant Secretary for Home Affairs (Recreation and Sport) ²

Mr Felix CHENG Seng-yip	Senior Quantity Surveyor (Recreation and Sport) Home Affairs Bureau
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Clerk in attendance:

Ms Sharon CHUNG	Chief Council Secretary (1)2
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Staff in attendance:

Miss Rita YUNG	Senior Council Secretary (1)2
Mr Raymond CHOW	Senior Council Secretary (1)6
Ms Mandy LI	Council Secretary (1)2
Ms Christina SHIU	Legislative Assistant (1)2
Ms Clara LO	Legislative Assistant (1)8
Ms Haley CHEUNG	Legislative Assistant (1)9

Action

The Chairman advised that as at the last meeting, the Subcommittee had completed the scrutiny of eight items in the 2016-2017 legislative session, involving a total funding of \$18,451.7 million. There were six funding proposals on the agenda for the meeting. The Chairman reminded members that in accordance with Rule 83A of the Rules of Procedure ("RoP") of the Legislative Council ("LegCo"), they should disclose the nature of any direct or indirect pecuniary interests relating to the funding proposals under discussion at the meeting before they spoke on the proposals. He also drew members' attention to Rule 84 of RoP on voting in case of direct pecuniary interest.

Head 705 - Civil Engineering

PWSC(2016-17)45 758CL Site formation and associated infrastructural works for development of columbarium, crematorium and related facilities at Sandy Ridge Cemetery

2. The Chairman advised that the proposal, i.e. PWSC(2016-17)45, sought to upgrade part of 758CL to Category A at an estimated cost of \$2,566.4 million in money-of-the-day ("MOD") prices for the site formation and associated infrastructural works for the proposed columbarium

development at Sandy Ridge Cemetery. The Subcommittee had completed discussion on the proposal at the meeting on 20 April 2017 and proceeded to voting before Mr CHU Hoi-dick claimed a division. However, since it was time to close the meeting, the division on the funding proposal was postponed until today.

Voting on PWSC(2016-17)45

3. The Chairman put PWSC(2016-17)45 to vote. At the request of Mr CHU Hoi-dick, the Chairman ordered a division and the division bell was rung for five minutes. 27 members voted for and no member voted against the proposal. Three members abstained from voting. The votes of individual members were as follows:

For:

Mr Charles Peter MOK (Deputy Chairman)	Mr Abraham SHEK
Mr Tommy CHEUNG	Mr Jeffrey LAM
Ms Starry LEE	Mr CHAN Hak-kan
Dr Priscilla LEUNG	Mr Paul TSE
Mr LEUNG Kwok-hung	Mr Steven HO
Mr Frankie YICK	Mr YIU Si-wing
Mr MA Fung-kwok	Mr CHAN Chi-chuen
Mr LEUNG Che-cheung	Mr KWOK Wai-keung
Dr Elizabeth QUAT	Dr Junius HO
Mr HO Kai-ming	Mr LAM Cheuk-ting
Mr Holden CHOW	Mr Wilson OR
Mr CHAN Chun-ying	Ms Tanya CHAN
Mr CHEUNG Kwok-kwan	Mr LAU Kwok-fan
Dr LAU Siu-lai	
(27 members)	

Against:

(0 member)

Abstain:

Mr CHU Hoi-dick	Mr Nathan LAW
Dr YIU Chung-yim	
(3 members)	

4. The Chairman declared that the item was endorsed by the Subcommittee.

5. Mr CHU Hoi-dick requested that this item (i.e. PWSC(2016-17)45) be voted on separately at the relevant Finance Committee meeting.

Head 703 - Buildings**PWSC(2017-18)2 272RS Kai Tak Sports Park**

6. The Chairman advised that the proposal, i.e. PWSC(2017-18)2, sought to upgrade the remaining part of 272RS to Category A at an estimated cost of \$31,898 million in MOD prices for the construction of the Kai Tak Sports Park ("the Sports Park"). The Administration had consulted the Panel on Home Affairs on the proposal on 27 February 2017. Panel members did not object to the submission of the funding proposal to the Subcommittee for consideration. A gist of the Panel's discussion was tabled at the meeting.

Project cost

7. Mr LAU Kwok-fan said that members belonging to the Democratic Alliance for the Betterment and Progress of Hong Kong supported the proposed works in principle. Dr Junius HO also said that he supported the proposed works in principle. Mr Wilson OR and Dr CHIANG Lai-wan urged the Administration to build the Sports Park as soon as possible.

8. Dr YIU Chung-yim questioned how the Administration had worked out the cost estimate of around \$31,900 million before undertaking the detailed design of the Sports Park.

9. Commissioner for Sports, Home Affairs Bureau ("C for S/HAB"), explained that after the funding approval for the pre-construction works of the Sports Park by the Finance Committee in July 2015, the Government engaged a technical services consultant and a quantity surveying consultant to prepare the conceptual layout plan for the main works of the Sports Park and assess the project cost. The cost estimate being proposed by the Government had been examined by the Project Cost Management Office under the Development Bureau.

10. Mr WU Chi-wai enquired whether there was any room for the future Contracted Party to optimize the design of the Sports Park to enhance operation efficiency, if the Administration had already engaged the technical services consultant to commission a reference conceptual layout plan.

11. In response, C for S/HAB said that notwithstanding that the aforesaid conceptual layout plan had met the Government's requirements for the basic functions of the Sports Park, bidders might put forward alternative proposals which could achieve better results. Enhancements and innovative design

elements should also be incorporated in the project proposal in order to obtain higher scores in the tender assessment.

12. Mr LAU Kwok-fan was concerned whether the Administration was confident that there would not be cost overrun if the Sports Park project was to be taken forward under a Design-Build-and-Operate ("DBO") contract as proposed by the Administration (i.e. the responsibilities of designing, building and operating the Sports Park were undertaken by a single contractor). He also enquired if the Administration would consider imposing a cap on the construction cost of the Sports Park.

13. Permanent Secretary for Home Affairs ("PSHA") said that the project cost of the Sports Park in the sum of around \$31,900 million comprised contingencies of around \$2,300 million and provision for price adjustment of around \$8,100 million. The Government was confident that the Sports Park project would be within budget.

14. Mr CHAN Chi-chuen recalled that the Administration had previously advised that the project cost of the Sports Park would be around \$25,000 million (in September 2014 prices). He enquired about this estimate if calculated in MOD prices, and whether this would be different from the project cost (around \$31,900 million in MOD prices) set out in the discussion paper.

15. PSHA replied that based on the Government's rough estimate in 2009, the project cost of the Sports Park was around \$25,000 million (in September 2014 prices). The Government had carried out pre-construction works subsequently in order to work out a more accurate cost estimate. According to the latest cost estimate, the project cost amounted to around \$23,800 million in September 2016 prices, or around \$31,900 million in MOD prices. In other words, the latest cost estimate of the Sports Park in September 2016 prices (around \$23,800 million) was lower than the rough estimate in 2009.

16. Mr KWONG Chun-yu was concerned that the Sports Park in Hong Kong, though of a similar scale as the National Stadium of Singapore, was far more costly to build. He asked whether the construction cost of the Sports Park could be lowered.

17. C for S/HAB said that while the construction cost of the National Stadium of Singapore was around HK\$11,500 million (in 2016 prices), it was not appropriate to directly compare the construction costs in Singapore and Hong Kong. He further said that last year, the Home Affairs Bureau ("HAB") and the Project Cost Management Office had reviewed the cost estimate of the Sports Park several times, and lowered the cost estimate

through such measures as taking out the hotel and the office building, replacing the underground carpark with one above ground, and providing smaller landscaped platforms across Shing Kai Road.

18. Referring to the discussion paper, Mr WU Chi-wai commented that the Administration might have to seek further funding in case of a capital cost overrun in the Sports Park project not attributable to the contractor. Mr WU was concerned about the circumstances under which additional funding would be sought for the project.

19. In response, PSHA said that since DBO contract covered all capital cost, the Government believed that additional funding for the project would unlikely be sought. The circumstances described in the paper were to ensure that the Government could secure the required funding for the project in the worst scenario.

Procurement model

20. Dr Junius HO, Mr WU Chi-wai, Dr Fernando CHEUNG and Dr Helena WONG requested the Administration to provide information on (a) the procurement models that had been examined by the Administration/the Operations Consultant of the Sports Park in delivering the Sports Park project, (b) the details of those models, and (c) the reasons for adopting DOB model but not other models. Mr Jeremy TAM and Mr Nathan LAW opined that in considering the procurement model for the Sports Park project, the Administration should draw experience from other local projects that were operated under the DBO approach.

21. PSHA explained that after conducting an in-depth analysis on a number of procurement models, considering a number of factors (e.g. value for money, risk allocation) and drawing experience from the operation of local projects and major overseas venues, the Administration and the Operations Consultant of the Sports Park came to the view that the DBO approach was most appropriate for delivering the Sports Park project. She added that in local projects that were operated under the DBO approach in the past, the operators would receive a pre-determined management fee from the Government. However, the Sports Park project would be operated on a self-financing basis by the Contracted Party, who should also share its income with the Government.

(Post meeting note: The Operations Consultant of the Sports Park provided the relevant supplementary information with a powerpoint presentation at the Subcommittee meeting on 10 May 2017. The soft copy of the powerpoint presentation materials was circulated to

members vide [LC Paper No. PWSC153/16-17\(02\)](#) on 10 May 2017.)

22. Mr MA Fung-kwok supported the proposed project but pointed out that Hong Kong had not developed any sports facilities under the DBO approach before. Mr MA was concerned whether there were any companies/talents in Hong Kong possessing the relevant experience in developing such a large scale project as the Sports Park. Mr LEUNG Che-cheung enquired how the Administration would ensure that the facilities of the Sports Park were able to meet the sporting needs of local people, given that the park would very likely be developed by a company outside Hong Kong.

23. PSHA replied that the Government anticipated that local and international companies would form consortia pooling their respective expertise (including project design, construction, sports and shopping facilities operation and event management) to bid for the Sports Park project. Moreover, the Government would ensure that local people were able to enjoy the facilities of the Sports Park by requiring the Contracted Party to set the hire charges for the Public Sports Ground and the Indoor Sports Centre of the Sports Park at a level comparable to those charged by the Leisure and Cultural Services Department, education institutes and other non-profit making organizations for similar facilities. Furthermore, the charge rates were subject to HAB's approval.

"Bid incentives"

24. Mr CHAN Chun-ying supported the proposed project. Mr CHAN noted that the cost estimate of the proposed project included a "bid incentive" of \$60 million or 50% of the actual cost incurred in the preparation of the tender, whichever was lower, to each unsuccessful bidder, and the total amount of the "bid incentives" would be capped at \$180 million (\$60 million x three unsuccessful bidders). He enquired whether "bid incentives" had been provided for unsuccessful bidders in previous public works projects or other overseas projects, and about the criteria based on which the Administration had set the "bid incentives" at the aforesaid level.

25. PSHA said that the Government proposed the provision of "bid incentives" for unsuccessful bidders in view of the scale of the proposed works, the complexity of a DBO contract, the transfer of a large part of the risk to the Contracted Party during operation, and the multiple challenges and commitments involved in the submission of high-quality bids (including the bid cost up to \$100 million to \$200 million). Moreover, the proposed "bid incentives" for each unsuccessful bidder, which was capped at 50% or \$60 million, accounted for less than 0.2% of the overall cost estimate of

around \$31,900 million of the Sports Park project, a percentage comparable to that of similar incentives overseas. PSHA continued that although the "bid incentive" arrangement had not been adopted in previous public works projects, the arrangement was introduced in some public sector projects in Hong Kong and a number of overseas projects (e.g. the International Convention Centre Sydney).

26. Dr Fernando CHEUNG requested the Administration to provide supplementary information to explain in details the justifications for the proposed provision of "bid incentives" for unsuccessful bidders of the Sports Park project. He questioned why non-profit making organizations were not given any incentives in their bidding for social welfare service contracts while, on the contrary, private consortia were given "bid incentives" in their bidding for the proposed project.

(Post meeting note: The Operations Consultant of the Sports Park provided the relevant supplementary information with a powerpoint presentation at the Subcommittee meeting on 10 May 2017. The soft copy of the powerpoint presentation materials was circulated to members vide [LC Paper No. PWSC153/16-17\(02\)](#) on 10 May 2017.)

27. Mr KWONG Chun-yu expressed reservation about the tendering arrangement with "bid incentives". He requested the Administration to explain (a) how the estimated bid cost in the region of \$100 million to \$200 million was worked out, (b) how to verify that the reimbursement claims submitted by the bidders were the actual expenses incurred in tender preparation, and (c) the criteria adopted in prequalifying a maximum of four tenderers. Mr KWONG and Mr Tommy CHEUNG were concerned that the provision of "bid incentives" for unsuccessful bidders would become a precedent. Mr LEUNG Che-cheung was concerned whether the provision of "bid incentives" could attract interested companies to bid for the Sports Park project.

28. In response, PSHA said that the Government provided "bid incentives" to ensure a sufficient number of quality bids for the Sports Park project. She stressed that the provision of "bid incentives" for the Sports Park was a one-off arrangement in view of the uniqueness of the project. The Government did not intend to introduce the arrangement to other public works projects. As for the bid cost, the Administration estimated that the cost incurred by tenderers in tender preparation was between \$100 million and \$200 million, having considered the cost involved in tender preparation by different professionals as worked out by the Operations Consultant using the man-hour approach, and the cost incurred by the Government in pre-construction works (around \$110 million).

29. PSHA further explained that tenderers had to provide, to the satisfaction of the Government, evidence of the actual expenses incurred in tender preparation. The bids should also fulfill all the essential requirements and attain pass marks in all relevant evaluation criteria.

30. Mr MA Fung-kwok noted that the Administration provided a "bid incentive" for an unsuccessful bidder on the condition that the latter agreed to the use by the Administration of any of the intellectual property ("IP") rights contained in its tender submission documents. In this connection, Mr MA enquired (a) whether the bidder, instead of the Administration, should be responsible for paying the authorization fees to the IP right owners concerned in case information/designs carrying IP rights which were owned by a third party were used in the tender submission documents, (b) whether the Administration could enjoy the exclusive right to use all the IP rights contained in the tender submission documents after providing the "bid incentive", and (c) whether the Administration would consider requiring the bidder to obtain the Administration's prior authorization for using the IP rights contained in the tender submission documents in future so that the Administration could recover part of the royalty; if not, whether the provision of the "bid incentive" would amount to subsidizing the bidder by allowing it to re-use the information/designs carrying IP rights in other projects after losing the bid.

31. PSHA replied that under the "bid incentive" arrangement, the Government was allowed to use any of the IP rights contained in the tender submission documents of an unsuccessful bidder to improve the elements in the winning tender. The bidder had to pay authorization fees to the relevant IP right owners out of its own pocket. She further said that the Government did not enjoy the exclusive right to use the IP rights, and it did not intend to require bidders to obtain its prior consent and authorization for using those IP rights in future. To ensure the proper use of public money, the "bid incentives" only covered non-exclusive licences of IP rights.

Tendering arrangement

32. Dr YIU Chung-yim and Ms Claudia MO were concerned about the criteria adopted by the Administration in conducting tender assessment for the Sports Park project, and whether its assessment was solely based on the project cost. They considered that the Administration should not reject a bid due to its higher tendering price, albeit its good project design.

33. PSHA said that she appreciated the views of Dr YIU and Ms MO. However, she pointed out that the Government would consider both the quality (including the design) of the bids and the project cost.

34. Mr Michael TIEN suggested that in order to protect the interest of the Government and the public, the tender marking scheme for assessing the tenders of the Sports Park project should be adjusted by increasing the weighting of the minimum fixed payment payable by the Contracted Party to the Administration in the total scores.

35. C for S/HAB said that in assessing tenders of public works projects, the Government generally adopted a two-envelope approach with assessments on both technical and price aspects. The respective weightings for the technical and price aspects were 40% and 60%, and the two aspects would be assessed separately. However, for the purpose of encouraging tenderers of the Sports Park project to submit quality designs and business plans, the marking scheme would be adjusted such that the weighting of the technical aspect (including project design and business plan) would be 60% while that of the price aspect (including project cost, the minimum fixed payment payable by the Contracted Party to the Administration, etc.) would be 40%. In other words, project cost was not the sole assessment criterion. C for S/HAB undertook to consider Mr TIEN's views.

36. Mr CHU Hoi-dick enquired (a) about the information that had to be provided by tenderers in their bids, and whether tenderers were required to disclose in their bids the profit they expected to generate during the design and construction stages, and (b) how the Administration would deal with a situation under which the project cost submitted by tenderers all exceeded the cost estimate of around \$31,900 million. Mr MA Fung-kwok enquired whether the winning bidder could revise the contents of the bid after the tender exercise for the sake of enhancing operation efficiency.

37. C for S/HAB explained that under the DBO contract, tenderers had to provide in their bids such information as the total cost of design and construction, as well as the arrangement of income sharing with the Administration during operation, for the purpose of tender assessment by the Government. However, tenderers were not required to disclose the profit they expected to generate from the proposed project. If the proposed tender prices all exceeded the cost estimate, the Government would consider various corresponding measures including seeking additional funding or re-launching the tender exercise. C for S/HAB further said that the winning bidder should consider bearing its own cost in revising the contents of the bid for the sake of enhancing operation efficiency.

Contractual arrangements

38. Mr Michael TIEN noted that the Administration proposed a 25-year DBO contract, under which the operation period could be extended by another 10 years subject to the performance of the Contracted Party. He considered the 25-year contract period too long. In order to facilitate effective monitoring of the performance of the Contracted Party, the contract period should be "15 years + two 10-year periods", instead of the currently proposed period of "25 years + 10 years". Mr Tommy CHEUNG, Dr LAU Siu-lai and Mr Jeremy TAM raised similar suggestions.

39. PSHA explained that the 25-year DBO contract covered a construction period of four to five years and an operation period of about 20 years. According to the financial analysis by the Operations Consultant, the Contracted Party would record deficits in the initial five years of the operating period if both retail and event demand were 30% lower than what was assumed in the base case reference financial projections. A shorter contract period of 15 years would leave behind an operating period of merely 10 years and consortia might not be willing to bid for the Sports Park project, having regard to the operation risk involved. C for S/HAB supplemented that a longer contract period of 25 years could allow the Contracted Party of the Sports Park to formulate business plans with long-term goals and have ample time to develop new flagship events.

40. Mr Holden CHOW opined that the contract terms for operating the Sports Park might give the Contracted Party undue favour. He suggested that the Administration should require the Contracted Party to make additional financial commitments. In response, C for S/HAB said that as shown by the operating experience of major overseas venues, the level of financial commitment made by the contractor was in proportion to its right to use the venue. Since the Government would fully finance the construction of the Sports Park, it would have the biggest say.

41. Dr YIU Chung-yim opined that the Administration should introduce incentives in the DBO contract so as to motivate the Contracted Party of the Sports Park to lower the costs of construction and future maintenance (e.g. requiring the Contracted Party to subsidize part of the construction cost with operation revenue) and encourage the sustainable and effective operation of the Sports Park, rather than focusing solely on the profit generated from the construction works. Dr Fernando CHEUNG, Mr Nathan LAW and Dr Helena WONG concurred with Dr YIU's view.

42. C for S/HAB explained that based on overseas experience, the Government would have to repay the cost plus interest to the Contracted Party during the operation period even if the latter was required to share part of the construction cost of the Sports Park. After considering a number of procurement models, the Administration concluded that it was a more appropriate arrangement for the Government to finance all the construction cost.

43. Mr Wilson OR requested the Administration to explain how it would monitor the performance of the Contracted Party. Mr Jeremy TAM and Mr LAU Kwok-fan were concerned how the Administration would follow up if the Contracted Party underperformed in future, including the possibility of imposing penalty on the Contracted Party. Mr LAU further enquired whether the Administration would have to compensate the Contracted Party in case the Administration terminated its operation on the grounds of poor performance.

44. PSHA said that as set out in Appendix 2 to the supplementary information paper provided for the Panel on Home Affairs ([LC Paper No. CB\(2\)1330/16-17\(01\)](#)), the Government planned to establish a monitoring regime on the operation of the Sports Park. For instance, a joint committee comprising representatives of HAB and the Contracted Party would be set up to monitor the latter's performance. Should the Contracted Party's performance fail to meet the key performance indicators ("KPIs"), the Government might impose penalty on the Contracted Party, including financial penalty and termination of the operation contract.

45. Mr WU Chi-wai was concerned how the Administration would follow up on the situation in case the Contracted Party of the Sports Park went bankrupt and failed to complete the contract. PSHA explained that the Contracted Party was required to pay a performance bond to the Government to ensure its fulfillment of contractual obligations. If the Contracted Party was unable to complete the contract or put out of operation, the Government would forfeit the performance bond and re-launch the tender exercise for the operation contract of the Sports Park.

46. Mr MA Fung-kwok, Mr LAU Kwok-fan and Ms Claudia MO requested the Administration to provide supplementary information on the estimated amount of performance bond to be received from the Contracted Party of the Sports Park.

(Post meeting note: The supplementary information provided by the Administration was circulated to members vide [LC Paper No. PWSC153/16-17\(01\)](#) on 10 May 2017.)

Financial projections

47. Members noted that when operating the Sports Park, the Contracted Party was required to make a minimum fixed payment to the Administration and share a percentage of the gross income with the Government. Mr Michael TIEN urged the Administration to consider raising the level of the minimum fixed payment payable by the Contracted Party. Dr Junius HO, Dr CHIANG Lai-wan and Dr Helena WONG made similar requests.

48. PSHA undertook that the Government would consider members' views and strike a balance between maintaining the attractiveness of the tender and guarding against excessive profit making by the winning bidder.

49. Mr LAU Kwok-fan enquired about the gross income sharing ratio of the Sports Park between the Administration and the Contracted Party. Mr WU Chi-wai sought clarification on whether the amount of shared income would be calculated based on the gross income of the Sports Park, whether factors such as depreciation would be taken into account, and whether the Administration would consider recovering the full capital cost of the entire Sports Park project.

50. In response, PSHA said that under the marking scheme adopted by the Government for assessing the tenders, the income sharing ratio proposed by a tenderer in its bid would be one of the assessment criteria. She stressed that the Government did not intend to recover the full capital cost of the entire Sports Park project through the income sharing arrangement. Principal Assistant Secretary for Home Affairs (Recreation and Sport)² confirmed that the amount of shared income would be calculated based on the gross income of the Sports Park only, without deducting any operating costs and depreciation expenses.

51. Mr WU Chi-wai and Dr Helena WONG requested the Administration to provide information on the sources of operating income of the Contracted Party of the Sports Park in future. Mr WU also enquired about the land premium of the Sports Park.

52. C for S/HAB explained that in general, the Government would not make any valuations on the land premium of public works projects such as the Sports Park. As for the sources of operating income of the Contracted Party of the Sports Park, PSHA replied that relevant information was set out in Table 1 in Appendix 1 to the supplementary information paper provided for the Panel on Home Affairs ([LC Paper No. CB\(2\)1330/16-17\(01\)](#)).

53. Mr CHAN Chi-chuen enquired about the hire charges of the Main Stadium of the Sports Park. Mr Nathan LAW was concerned that as the Contracted Party would operate the Sports Park on a self-financing basis, the hire charges of the Main Stadium might be unaffordable to the local sports sector. Mr LAU Kwok-fan enquired about the measures put in place by the Administration and the Contracted Party to encourage the local sports sector to hire the Main Stadium.

54. In response, C for S/HAB said that the Contracted Party of the Sports Park was free to determine the level of hire charges of the Main Stadium, except that the charge rates must be set at a competitive level to attract patronage of the local sports sector. PSHA supplemented that the hire charges of the Main Stadium were expected to comprise two components, i.e. basic charges and a given percentage of the gross ticket proceeds. The Operations Consultant estimated that venue hire charges would account for only 33% of the operating income of the Main Stadium, while the remaining 67% would be generated from corporate hospitality sales, advertising and sponsorship, etc.

55. Mr WU Chi-wai requested the Administration to provide information on the estimated cost to be borne by the Government for operating the Main Stadium, the Indoor Sports Centre and the Public Sports Ground should they be managed by the Government directly.

(Post meeting note: The supplementary information provided by the Administration was circulated to members vide [LC Paper No. PWSC153/16-17\(01\)](#) on 10 May 2017.)

56. Mr Tommy CHEUNG, Dr Junius HO and Dr CHIANG Lai-wan pointed out that under the DBO approach, both the costs of design and construction were borne by the Government. Moreover, unsuccessful bidders could receive a "bid incentive", while the winning bidder (i.e. the Contracted Party of the Sports Park) was not required to pay the land premium and the lifecycle replacement costs of the project. They were concerned about the financial commitments and risks to be undertaken by the bidders (including the winning bidder) in the Sports Park project.

57. PSHA explained that bidders had to bear the cost incurred in tender preparation. The winning bidder had to bear the risks of increased construction cost, etc. during construction, and operating the Sports Park on a self-financing basis during operation period (including making capital investment on dining outlets, etc. in the park). C for S/HAB supplemented that since the Sports Park was a Government asset, the Government would bear the capital cost of lifecycle replacement for pre-identified sports and

community facilities (once every 15 to 20 years in most cases). The Contracted Party was responsible for the cost of day-to-day maintenance of the Sports Park.

Need to develop the Sports Park and the projected utilization rate

58. Mr LAU Kwok-fan was concerned how the Administration would avoid under-utilization of the Main Stadium of the Sports Park, as in the case of the Hong Kong Stadium.

59. Mr LEUNG Kwok-hung objected to building the Main Stadium of the Sports Park, and questioned if there were enough sports events in Hong Kong to justify the need of a main stadium with 50 000 seats. Mr CHAN Chi-chuen raised similar queries and asked the Administration to explain the implications of not proceeding with the mega performance venue in the West Kowloon Cultural District on the utilization rate of the Main Stadium of the Sports Park.

60. In response, PSHA said that the Hong Kong Stadium was under-utilized because it was a natural turf pitch which required regular repair and maintenance. Furthermore, as it was not provided with an enclosed cover, many events could not be held there due to noise issues. On the contrary, the Main Stadium of the Sports Park would be equipped with an acoustic, retractable roof and a flexible turf system, and could provide various flexible venue configurations (including variable spectator configurations with 20 000 to 50 000 seats) to cater for different activities.

61. Dr LAU Siu-lai was concerned how the Administration would prevent the Contracted Party from hosting more concerts and major international sports events than local sports events in order to guarantee the utilization rate of the Main Stadium.

62. C for S/HAB replied that a lot of major international sports event organizers had indicated their intention to stage events in Hong Kong. Upon the completion of the Main Stadium of the Sports Park, more major international sports events were expected to be held in Hong Kong. The Government also planned to enhance the facilities of a number of public sports grounds in Hong Kong. These public sports grounds coupled with the three venues in the Sports Park allowed the local sports sector to hold various types of sports events.

63. Mr CHAN Chi-chuen requested the Administration to provide supplementary information on examples whereby concerts had to be held in neighbouring regions other than Hong Kong in recent years because

international singers/artistes were unable to stage such events in Hong Kong due to the lack of sizable local venues, noise control of the Hong Kong Stadium and difficulties in securing slots in the Hong Kong Coliseum.

(Post meeting note: The supplementary information provided by the Administration was circulated to members vide [LC Paper No. PWSC153/16-17\(01\)](#) on 10 May 2017.)

64. Mr WU Chi-wai enquired whether the Administration would require the Contracted Party of the Sports Park to provide a guarantee on the number of sports events and recreational and cultural activities to be held each year in the Main Stadium and the multi-purpose main arena in the Indoor Sports Centre.

65. PSHA explained that the Government would stipulate the respective event scheduling requirements for the Main Stadium and the multi-purpose main arena in the Indoor Sports Centre of the Sports Park. For instance, the operation contract would require that at least 10 football event days be hosted in the Main Stadium per year, while the Contracted Party could host events of other types on the remaining days.

66. Regarding the estimation by the Operations Consultant that local sports events would take up five days in the event calendar of the Main Stadium each year, Mr Nathan LAW requested the Administration to explain how the estimation was worked out and the details of the sports events. Mr Alvin YEUNG enquired about the large-scale community activities that could be held in the Main Stadium of the Sports Park, and how interested groups could apply for organizing these activities.

67. PSHA replied that as stipulated in the operation contract, the Government might make use of the Main Stadium of the Sports Park up to seven days per year without venue hire charges. Non-profit making organizations might apply to the Government for holding large-scale community activities in the venue (such as rallies of uniformed groups).

68. Mr Tommy CHEUNG enquired (a) how the Administration came to the conclusion that the 50 000-seat Main Stadium would be able to meet local demand for hosting major competitions and events, (b) whether the Administration had considered building a larger main stadium (e.g. one with 70 000 seats), and (c) whether the 5 000-seat Public Sports Ground could accommodate major athletic events.

69. C for S/HAB said that after studying the operation of a number of overseas venues and consulting the local sports sector and entertainment

industry, the Government considered it appropriate to build a main stadium with 50 000 seats in the Sports Park. He also advised that with the planned 5 000-seat Public Sports Ground, the Sports Park could host major athletic events of Asian standards. As for international athletic events, such as the Olympic Games, athletic grounds of higher standards were required.

Supporting facilities of the Sports Park

70. Mr YIU Si-wing and Mr Wilson OR were concerned about the transport connection between the Sports Park and other tourism facilities in Kai Tak Development, such as the hotel, Kai Tak Fantasy and the cruise terminal. They urged the Administration to consider matters in a holistic approach, so as to avoid the recurrence of the problem of inadequate transport service facing Kai Tak Cruise Terminal. Mr Jeffrey LAM also enquired about the supporting public transport service, crowd dispersal and security arrangements of the Sports Park.

71. C for S/HAB said that the Civil Engineering and Development Department was conducting various studies on Kai Tak Development, including the proposed Environmentally Friendly Linkage System for Kowloon East for enhanced intra-district connectivity. As for the Sports Park, about 80% of the visitors were expected to go there by using the MTR Shatin to Central Link. Alternatively, they might make use of public transport at the public transport interchange located near the Sports Park. Improvement and building works were being/would be carried out along the surrounding roads to improve the transport connection of the Sports Park. In addition, HAB had been working closely with other government departments on matters related to supporting transport service (including public transport connection) and security arrangements of the Sports Park.

72. Mr Alvin YEUNG requested the Administration to confirm that the hotel located to the west of the Main Stadium and the office building were not included under the public works project of the Sports Park. PSHA confirmed that Mr YEUNG's understanding was correct. The facilities concerned would be developed through a land tender separately.

73. Mr Alvin YEUNG enquired whether the Administration would relax the height restriction of the aforesaid hotel. C for S/HAB replied that hotel development in the Sports Park was approved by the Town Planning Board. The height limit of the hotel was 55 metres above the Principal Datum. The Government did not intend to apply for relaxing the height restriction.

74. Mr MA Fung-kwok was concerned how the Administration would ensure that the aforesaid office building, if developed through a land tender,

would be made available for use by the local sports sector at reasonable rentals.

75. PSHA undertook that HAB would discuss with the Development Bureau on including a requirement in the land sale conditions of the office building which required the developer to allocate a certain floor area of the office building for use as offices of sports organizations.

76. Mr Alvin YEUNG enquired whether the floor area to be designated for the development of retail and dining outlets in the Sports Park had been increased against the original plan; if so, the reasons for that.

77. PSHA advised that the Government's original plan was to provide a gross floor area ("GFA") of about 57 000 square metres in the Sports Park for the development of retail and dining outlets. Upon the recommendation of the Harbourfront Commission, the development of a "dining cove" of about 3 000 square metres in GFA was added subsequently to the Sports Park project for the provision of dining service.

78. Mr Tommy CHEUNG opined that the Administration should take out the "dining cove" from the Sports Park project and have it managed by the Government instead. In so doing, the dining outlet would not be operated by the Contracted Party in the same way as a shopping mall.

79. In response, C for S/HAB said that the Government would develop a "dining cove" to the south of the Main Stadium in conjunction with the Sports Park to enhance the connectivity between the Sports Park and the waterfront. The "dining cove" would be operated by the Contracted Party. Besides, other dining outlets would be provided next to the "dining cove". The Government did not rule out the possibility of developing these dining outlets together with the aforesaid hotel and office building through a land tender.

80. Mr Tommy CHEUNG requested the Administration to provide supplementary information on the floor area to be designated for the development of dining outlets in the Sports Park and the dining options (such as takeaways and restaurants) to be provided there.

(Post meeting note: The supplementary information provided by the Administration was circulated to members vide [LC Paper No. PWSC153/16-17\(01\)](#) on 10 May 2017.)

81. Mr Jeremy TAM enquired about the Administration's stance on allowing the public to bring their pets into the Neighbourhood Park of the

Sports Park and the possibility of including a condition in the terms of tender for the Sports Park project that the public were allowed to bring pets into the Neighbourhood Park. He requested the Administration to provide a written response.

(Post meeting note: The written response provided by the Administration was circulated to members vide [LC Paper No. PWSC153/16-17\(01\)](#) on 10 May 2017.)

Achieving sports development policy objectives through developing the Sports Park

82. Mr Holden CHOW enquired whether the Administration would take the opportunities of developing the Sports Park to encourage students to participate in sports activities, and promote Hong Kong as a major sports event capital, such as increasing the number of major sports events that were accredited as "M Mark" events by the Sports Commission.

83. C for S/HAB said that the Government's policy for developing sports in Hong Kong had three broad objectives, namely to promote sports in the community, to support elite sports, and to make Hong Kong a centre for major international sports events. The development of the Sports Park helped promote sports in the community by providing more sports venues for use by the public (including students). The outdoor Sports Ground, for example, was suitable for hosting school athletic events. Various sports associations might also contribute to making Hong Kong a centre for major international sports events by hosting more major sports events in the Sports Park.

84. Dr Fernando CHEUNG enquired whether the Administration would formulate a set of KPIs to assess whether the development of the Sports Park could achieve the three broad objectives of sports development policy mentioned above.

85. PSHA replied that the KPIs formulated by the Government in respect of the Sports Park covered the three broad policy objectives mentioned above.

Interfacing of the Sports Park and other sports facilities in Hong Kong

86. Referring to the supplementary information paper ([LC Paper No. CB\(2\)1330/16-17\(01\)](#)), Mr Nathan LAW pointed out that one of the assumptions adopted in the financial analysis by the Operations Consultants on the Sports Park was that the Hong Kong Stadium would not directly

compete with the Sports Park in hosting events. Mr LAW also noted that the Administration was planning to conduct a feasibility study on redeveloping the Hong Kong Stadium into a sports ground with an athletic track, and had appointed the Trade Development Council to conduct a feasibility study on redeveloping the Wan Chai Sports Ground for convention and exhibition and other uses. Mr LAW was worried whether the Administration was taking the Sports Park development project as an opportunity to redevelop the Wan Chai Sports Ground and the Hong Kong Stadium in parallel, through which the former would be demolished and converted to convention and exhibition use, while the latter would become a sports ground with an athletic track and replace the Wan Chai Sports Ground, such that the redeveloped Hong Kong Stadium would be unable to compete directly with the Sports Park.

87. Dr Junius HO opined that even if the Sports Park project would increase the overall supply of sports facilities in Hong Kong, the Administration should not use this opportunity to change the use of some existing sports facilities. Instead, it should strengthen the coordination among the three sports venues, namely the Sports Park, the Hong Kong Stadium and the Wan Chai Sports Ground, so as to meet the public demand for sports facilities.

88. PSHA stressed that the development of the Sports Park was not aimed at replacing any other sports facilities in Hong Kong. However, given the similar seating capacity and functions of the Hong Kong Stadium and the Main Stadium of the Sports Park (both venues were not equipped with athletic tracks and were mainly used for hosting major football and rugby events), the Government needed to examine the positioning of the Hong Kong Stadium through the aforesaid feasibility study. As regards of the proposed redevelopment of the Wan Chai Sports Ground, it was a separate issue for study and was not related to the redevelopment proposal of the Hong Kong Stadium and the Sports Park project.

89. Dr Junius HO disagreed with the view held by the Administration. He opined that the Administration should allow both the Main Stadium of the Sports Park and the Hong Kong Stadium to be used as venues for major football and rugby events, rather than redeveloping the Hong Kong Stadium into a sports ground with an athletic track to the effect that those events could no longer be held there. Dr LAU Siu-lai opined that the redevelopment proposal of the Wan Chai Sports Ground, if implemented, would affect the training opportunities for local track and field athletes.

90. C for S/HAB said that since the feasibility study on redeveloping the Wan Chai Sports Ground was not yet completed, it was too early to conclude at this stage that the redevelopment would affect local athletes.

91. Ms Claudia MO enquired whether the Hong Kong Rugby Sevens, which was currently held in the Hong Kong Stadium, would be moved to be held at the Main Stadium of the Sports Park after its commissioning.

92. PSHA said that given the larger seating capacity of the Main Stadium of the Sports Park and the fact that its ancillary and supporting facilities were better than those of the existing Hong Kong Stadium, the Hong Kong Rugby Union had expressed its wish to move the Hong Kong Rugby Sevens to be held at the Main Stadium after its commissioning.

93. Mr Wilson OR was concerned how the development of the Sports Park could ease the problem of insufficient sports facilities in Kowloon East. C for S/HAB replied that on non-event days, the sports facilities in the Sports Park (such as the outdoor Sports Ground and the Indoor Sports Centre) would be open for use by the public (including residents of Kowloon East).

[At 11:10 am, the Chairman announced that the meeting be suspended for 5 minutes for members to take a short break. The meeting resumed at 11:16 am.]

Motion on adjournment of further proceedings of the Subcommittee

94. At 12:22 pm, when speaking on the item, Mr LEUNG Kwok-hung moved a motion pursuant to paragraph 33 of the Public Works Subcommittee Procedure to adjourn further proceedings of the Subcommittee.

95. The Chairman said that the Subcommittee would proceed forthwith to deal with the motion proposed by Mr LEUNG Kwok-hung. Each member could speak once on the motion, and the speaking time should not be more than three minutes.

96. Mr LEUNG Kwok-hung said that he was concerned about the under-utilization of the Main Stadium of the Sports Park, which would render the project a "white elephant". He requested the Administration to take out the Main Stadium from the Sports Park project.

97. Ms Claudia MO, Dr Helena WONG, Dr Fernando CHEUNG, Dr LAU Siu-lai, Mr WU Chi-wai, Mr Nathan LAW, Mr CHAN Chi-chuen, Mr Jeremy TAM and Mr CHU Hoi-dick spoke in support of the motion

proposed by Mr LEUNG Kwok-hung. Mr Holden CHOW spoke against the motion.

98. At 12:57 pm, members who had indicated their intention to speak on the motion on adjournment had all spoken. The Chairman advised that since it was about time to close the meeting, the Subcommittee would not continue to deal with the motion on adjournment proposed by Mr LEUNG Kwok-hung.

99. The meeting ended at 12:57 pm.

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