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Tel : 2869 9220
Date : 8 March 2005
From : Clerk to the Finance Committee
To : Members of the Finance Committee

Finance Committee

Follow-up to briefing on 25 February 2005

Members may recall that when the progress of the Centre for Youth Development (CYD) Project was discussed at the captioned briefing, the Administration was requested to provide the various consultancy reports on CYD to facilitate their understanding on the background leading to the project. In this connection, the Administration has submitted the following information for members' reference –

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| Appendix I | Report of “Study on Civic Awareness and Moral Values of Youth” conducted by the Commission on Youth on 1998; |
| Appendix II | Extracts from the Chief Executive's Policy Address in 1998 regarding the project; |
| Appendix III | Report of the “Financial Viability Study of the Proposed Centre for Youth Development” conducted by Vigers Hong Kong Limited in February 2001 and its Executive Summary; |
| Appendix IV | Summary tables of income and profit projects of CYD conducted internally by the Home Affairs Bureau in mid-2003; and |
| Appendix V | Report of the consultancy study on “Review of the project scope and assessing the feasibility of constructing, financing, operating and maintaining the proposed Centre for Youth Development through a Public Private Partnership approach” conducted by IBM Business Consulting Services in September 2004 and its Executive Summary. |

2. In view of the bulk of the reports under Appendices I, III and V, only the executive summaries are attached. The full reports will be deposited at the Research and Library Services Division of the Legislative Council Secretariat. Members who are interested in obtaining a personal copy of the reports are requested to contact Mr Frankie WOO, Legislative Assistant (1)2, at telephone no. 2869 9303.

(Ms Pauline NG)
Clerk to the Finance Committee

Encl.

STUDY ON CIVIC AWARENESS & MORAL VALUES OF YOUTH

EXECUTIVE SUMMARY

In October 1997, the Chief Executive tasked the Commission on Youth to carry out a study on how our young people could take up a more active role in building up the Special Administrative Region and in voluntary work.

The study began in November 1997 and lasted through May 1998. The findings reveal that many of our young people hold positive values which are recognised and accepted by the community as such. However, there are noticeable perception and expectation gaps on the part of adults regarding young people's civic awareness and value systems. While we are encouraged that our young people are sufficiently liberal minded for new concepts and ideas and are able to differentiate right from wrong, we are concerned that they lack the motivation to accept responsibilities and take decisions. It is clear that the community would like our young people to do better in a number of areas.

Overall, we believe that our young people have the potentials to face the challenges of the new millennium and to take an active part in building up the Special Administrative Region. Our recommendations, therefore, seek to assure that they can realise their potentials as much as possible. We have suggested a three-prong approach.

First, we should reinforce the widely accepted positive values among the young people so as to equip them with the necessary social and life skills (paragraph 41). This could help bridge the perception gaps between adults and young people on the one hand and would encourage the community and the young people to work for the betterment of Hong Kong on the other. We note that such principles are enshrined in the Charter for Youth and have therefore recommended that promotion of the Charter be stepped up (paragraphs 42 to 43).

Secondly, we recommend that structured leadership training programmes be devised on a continuing basis, to meet the training needs at every stage of a youth's development. We believe, through empowerment, our young people would be more

confident and motivated to take up responsibilities on the one hand and be competitive in the region and the world on the other (paragraphs 58 to 63).

Thirdly, we call for full community ownership of the responsibility for nurturing and developing our young people, with the Government taking the lead and supported by all other stakeholders, including the family, the schools, the employers, the media, non-governmental organisations and youth groups and also young people themselves (paragraphs 44 to 57). Young people need lots of tender loving care. They need to be nurtured by a community which cares so that they would grow up to be caring and responsible individuals. We recommend developing this caring attitude in the community by promoting participation in voluntary work, particularly among young people (paragraphs 63 to 66). We further recommend that the community be encouraged to provide more opportunities for young people to realise their potentials and widen their vista. Projects could range from community related services to visits and exchange programmes to the Mainland and other countries. In the process, it would help young people build up their identity through experience (paragraphs 67 to 70). Finally, we urge that early consideration be given for the commissioning of a central facility for youth development. This facility will signal a long term commitment of the Government and the community to help our youths to realise their full potentials (paragraphs 71 to 73).

We are conscious that many similar studies before this one have been commissioned and we do not think that our study would provide answers to the many and varied problems associated with youth and youth development issues, nor do we believe that it should or would. We hope that our recommendations can address some of the problems highlighted by the Study and provide food for thoughts for individuals and organisations working for the best interests of our young people. More importantly, we hope to see action. We would not expect too much debate and discussion over our recommendations, none of which are meant to be controversial or divisive. These are reasonable recommendations based on empirical research. We think that the issues involved have been discussed long enough. It is time to act.



From Adversity to Opportunity

Address by the Chief Executive
The Honourable Tung Chee Hwa

at the Legislative Council meeting
on 7 October 1998

The Hong Kong Special Administrative Region
of the People's Republic of China

currently without a job, by bringing forward the start date for public works projects and promoting the tourism industry so as to help generate more job openings in the relevant sectors. I hope that the unemployed will not become discouraged and that they will make the best use of the training opportunities which the Government and other organisations provide, in order to equip themselves with new skills. I am sure that by doing so they will be able to find work.

Women

110. The women of Hong Kong have made great achievements in building up the family and contributing to the economy and the community as a whole. We have established the Equal Opportunities Commission, enacted the Sex Discrimination Ordinance and the Family Status Discrimination Ordinance and faithfully implemented the provisions of the Convention on the Elimination of All Forms of Discrimination against Women. These are important steps but our efforts will not stop here. We will work to ensure that women can also reach their full potential through education, training and community support.

Young People

111. The qualities, skills and sense of belonging of our young people will determine what Hong Kong will become. I look to our younger generation to search continuously for knowledge, to be creative and to play an active role in the community. I encourage our young people to take pride in their Chinese heritage, yet also to develop an international perspective, seeking not only to assert their rights as individuals, but also to meet their obligations to the wider community.

112. The Commission on Youth has completed its study on youth development and mapped out the direction for our young people to follow in order to realise their full potential. In the coming year we will work with the Commission and other organisations to reinforce and promote positive values among young people; to provide programmes on leadership and life-skills training; and to create opportunities for voluntary work and exchange

programmes with other countries. I also encourage our young people to take part in more activities which will deepen their knowledge of the Mainland. To provide a focal point for youth development activities, the Chai Wan Community Centre will be re-developed into a facility specifically for this purpose. I endorse the Commission's call for the whole community to take ownership of the challenge of developing our young people's qualities. This will require the efforts of parents, teachers and ultimately, young people themselves.

EXECUTIVE SUMMARY

Vigers Hong Kong Limited was commissioned by the Home Affairs Bureau of the Government of the Hong Kong Special Administration Region to conduct a financial viability study of a proposed Centre for Youth Development (the CYD) at the site currently occupied by the Chai Wan Community Centre. The scopes of study include the followings:

1. To conduct a location analysis of the site of CYD;
2. To conduct a market research on the supply and demand for the Facilities;
3. To recommend the market positioning and development concept of the Facilities;
4. To conduct a financial analysis of CYD for a period of 10 years;
5. To conduct sensitivity analysis on the financial projection;
6. To analyse the possible size of a notional Sinking Fund for future maintenance and repair of CYD; and
7. To advise on a Contingency Fund for coping with the possible shortage of income in the initial stage of operation of the CYD.

The conclusions drawn from the report are the results of the followings:

- A survey on the land-use and potential competitors in Chai Wan and other districts;
- A research on the prevailing office users' requirements;
- A survey on the office requirements of youth-related Non-Government Organisations;
- An analysis on the property market performance and economic data;
- An analysis of the cost data provided by the instructing party; and
- Experience in real estate research, consultancy and valuation in Hong Kong.

The Proposed Centre for Youth Development

The site is currently occupied by the Chai Wan Community Centre located at the junction of Wan Tsui Road and Chai Wan Road. The site area is about 3,900 s.m.

The proposed Centre for Youth Development (the CYD) will have a total gross floor area of 35,000 s.m. It is a mix-use complex development and major components include:

- Convention Centre (3,270 s.m. net),
- Information Technology Centre (1,015 s.m. net),
- Arts Centre (1,610 s.m. net),
- Multi-function Facility (5,500 s.m. net),
- Shopping Arcade (4,000 s.m. net),
- International Youth Hostel (3,740 s.m.net).

Land-use and Development in Chai Wan

Chai Wan is situated at the south-eastern part of the Hong Kong Island and is regarded as the eastern fringe of the metro areas on the island. Land transportation is facilitated by the MTR Island Line, the Eastern Corridor and Chai Wan Road.

Chai Wan is primarily a public housing district. While Heng Fa Chuen and New Jade Garden are the two large-scale private residential projects built atop MTR stations, the public rental and subsidized sale units collectively account for about 75% of the total housing stock. Hing Wah Estate, Yue Wan Estate, Shan Tsui Court and Yee Tsui Court are examples of the public housing developments.

Chai Wan has been one of the secondary industrial areas. The industrial blocks concentrate along Cheung Lee Street, Lee Chung Street and around the Cargo Handling Basin. Old factory and godown buildings are intermingled with few modern office-like industrial towers.

The Multi-function Facility

At the beginning of this study, it was proposed to designate a portion of CYD having a net area of about 5,500 s.m. for office uses. As it was intended to restrict most of the office premises for the uses by recognized NGOs on a “need-to-there” basis, we have conducted, in addition to a research on the prevailing requirements of the general office users, a survey on the office requirements of a number of nominated NGOs. The surveys were done by questionnaires and follow-up interviews. 32 NGOs had responded to the questionnaires. The same number of NGOs has subsequently been interviewed, although the organisations in the two surveys were not identical.

The surveys showed the followings:

- The NGOs were in need of venues for conducting youth-related activities and programmes;
- Most of the NGOs did not require an office in CYD for pure administrative purposes;
- The comments of the NGOs on suitability of the location of CYD were diverse; there were approximately equal number of NGOs for and against the proposed location;
- The size of premises preferred by most of the NGOs was in the range of 1,000 sq.ft. to 3,000 sq.ft.;
- Some non-subsidized NGOs urged for special favourable treatments by government. In term of rent, a 50% discount was mostly suggested; and
- Additional facilities suggested included adventure based facilities, rock climbing sites and plentiful of multi-purpose rooms.

In response to the surveys, we suggested that the regular office building design should be discarded. Our recommendations are “medium quality, multi-functional, flexible floor layout, flexible building design with basic but adequate building services catering for application of information technology”.

Shopping Arcade

The shopping arcade has a net area of 4,000 s.m. 700 s.m. of which would be used for cafeteria or food court while the remaining 3,300 s.m. would be available for general retail or commercial uses. It was intended to reserve not more than 50% of the shopping arcade for the training of business skills of the young people.

Research showed that there were strong competitions from other shopping facilities in the district, particularly the New Jade Shopping Centre atop of the Chai Wan MTR station. To increase the competitiveness of the shopping arcade of CYD, we have recommendations in the construction aspects and trade-mix aspect.

Construction: It is suggested to enhance the foot-bridge connection between CYD and the MTR station by taking over the management of an existing footbridge and convert it into an air-conditioned walkway possibly with small scale of commercial (stalls) or cultural activities (painting displays) conducted thereon. The possibilities of building a new foot-bridge between CYD and Wan Tsui Estate should also be explored. Section 4.4.1 of Chapter 4 referred.

To maximize the exposure to pedestrian patronage, we recommend 400 s.m. of the shopping space should be on the peripheral of the G/F and the remaining 2,900 s.m. on the 1/F with foot-bridge connections.

Trade-mix: There is a lack of theme shopping centre in the Chai Wan / Shau Kei Wan region. CYD should have a distinct image and we recommend a promotion of healthy, positive and constructive image. The premises for the business skill training should be grouped together in a designated Youth Zone. Compatible trades include mega book store, office stationery, gift shops, photo shops and travel agents etc.

Due to the uncertainties on the viability of business skill training scheme, the Youth Zone should be limited to not more than 1/3 of the shopping arcade, or 1,100 s.m. The layout of the arcade should be flexible enough for subsequent conversion between the regular shopping area and the Youth Zone.

International Youth Hostel

According to the official records of the Hong Kong Tourist Association, there are 11 existing hostels, providing a total of 1,759 rooms, scattered in the districts of Central, Mid Level, Tsim Sha Tsui, Yau Ma Tei and Hung Hom. While CYD is not located in the regular tourist districts, it has the advantage of being close to attractions like Repulse Bay, Ocean Park and Stanley Market. Also the MTR connection helps to reduce the travelling time to the core areas.

As target customers are cost-conscious, a competitive pricing strategy is essential for the success of the international youth hostel.

The viability of youth hostel is further underpinned by the recent strong recovery of the tourism industry. The average occupancy of hotel rooms in the first 10 months of year 2000 is about 83%; the occupancy rate for the whole year is expected to be higher than 83%.

In terms of room configuration, we recommend that 90% of the 150 guestrooms should be double/twin rooms and the remaining 10% be single and triple rooms. A dormitory with 8 to 12 beds is recommended for the inter-flow or exchange programme and other group activities.

The facilities to be provided in the hostel include IDD, personal safe boxes, mini-bar, tour and information counter, self-service coin laundry as well as lounge with television. Data-port connections for Internet, e-mail and fax services can be installed in some of the rooms.

Financial Analysis

We conduct the financial analysis in 2 stages; firstly we assess the normal incomes of CYD by make reference to the market data collected and the information about the convention and cultural facilities provided by the instructing party. We apply the assumed policies on the concession discount to the calculated normal incomes to arrive at the receivable discounted incomes. Growth rates of the convention and cultural facilities are estimated having regards to the trends in the consumer price indexes while those of the Multi-function Facility, Shopping Arcade and International Youth Hostel are projected relying on analysis of the market performance of the respective sectors.

Secondly, the operating expenses are estimated based on the past records of Town Halls and Civic Centres with similar characteristics of CYD. Allowances and adjustments have been made for some special facilities and natures of CYD.

The net profits for the 10 years starting from year 2004 are as follow:

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net Profit (\$M)	-3.58	0.61	5.06	9.77	10.06	10.36	10.67	10.99	11.32	11.66

Sensitivity analysis of the financial analysis is done by assuming changes in income and operating expenses in the optimistic and pessimistic scenarios. Results are set out in the Chapter 6.

Sinking Fund

We have also calculated the amount of a notional Sinking Fund, for the future repair and maintenance of CYD, by assuming that a portion, 3%, 5%, 10%, 15% or 20%, of the annual income was to be set aside. Assuming interests to be accrued at 3% yearly, the estimations are as follow:

Amount of annual income set aside	Sinking Fund at the end of the 10 th year, interest at 3%
3%	\$15,811,350
5%	\$26,352,250
10%	\$52,704,500
15%	\$79,056,750
20%	\$105,409,000

It is estimated that the Sinking Fund required after 10 years of completion is about \$76,230,000 which is approximately equivalent to the amount by setting aside 15% of annual income. Therefore, the optimum percentage of sinking fund is recommended to be about 15%.

Contingency Fund

We also estimate a contingency fund for the operation of the CYD for an initial period of 6 or 12 months. This contingency fund is assumed to cover the operational costs of the Convention Centre, Information Technology Centre and Arts Centre as well as the minimum management costs of the common area in the period.

Our estimation indicates that the contingency fund should be \$20,000,000 for the six months period and \$40,000,000 for the twelve months period.

10 Year Profit Projection of the Centre for Youth Development (as at October 2003)

(unit: HK\$million)

	2003	2004	2005	2006*	2007*	2008*	2009	2010	2011	2012	2013
Income											
A. Convention Centre, B. Information Technology Centre, C. Arts Centre											
Annual Inflation Rate	0.0%	0.5%	0.5%	0.5%	0.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Accumulative Growth Rate	0.0%	0.5%	1.0%	1.5%	2.0%	3.5%	5.1%	6.7%	8.3%	9.9%	11.5%
Convention Centre	7.52	0.00	0.00	2.67	6.13	7.01	7.90	8.02	8.14	8.26	8.39
Information Technology Centre	1.71	0.00	0.00	0.61	1.40	1.60	1.80	1.83	1.86	1.88	1.91
Arts Centre	5.24	0.00	0.00	1.86	4.28	4.88	5.51	5.59	5.67	5.76	5.84
Sub-total of (A,B,C)	14.47	0.00	0.00	5.14	11.81	13.49	15.21	15.44	15.67	15.90	16.14
D. Multi-function Facility											
Accumulative Growth Rate	0.0%	0.5%	1.0%	1.5%	2.0%	3.5%	5.1%	6.7%	8.3%	9.9%	11.5%
Multi-function Facility	1.81	0.00	0.00	0.64	1.48	1.69	1.90	1.93	1.96	1.99	2.02
Sub-total of (D)	1.81	0.00	0.00	0.64	1.48	1.69	1.90	1.93	1.96	1.99	2.02
E. Shopping Arcade											
Accumulative Growth Rate	0.0%	0.5%	1.0%	1.5%	2.0%	3.5%	5.1%	6.7%	8.3%	9.9%	11.5%
Shopping Arcade	8.75	0.00	0.00	3.11	7.14	8.15	9.19	9.33	9.47	9.61	9.76
Sub-total of (E)	8.75	0.00	0.00	3.11	7.14	8.15	9.19	9.33	9.47	9.61	9.76
F. International Youth Hostel											
Accumulative Growth Rate	0%	0.5%	1.0%	1.5%	2.0%	3.5%	5.1%	6.7%	8.3%	9.9%	11.5%
International Youth Hostel	3.45	0.00	0.00	1.23	2.82	3.21	3.63	3.68	3.73	3.79	3.85
Sub-total of (F)	3.45	0.00	0.00	1.23	2.82	3.21	3.63	3.68	3.73	3.79	3.85
Total Income	28.48	0.00	0.00	10.12	23.24	26.54	29.93	30.38	30.84	31.30	31.77
Operating Cost											
Accumulative Growth Rate	0%	0.5%	1.0%	1.5%	2.0%	3.5%	5.1%	6.7%	8.3%	9.9%	11.5%
Staff Cost	16.32	0.14	5.94	16.57	16.65	16.90	17.15	17.41	17.67	17.94	18.20
Utilities and Maintenance Cost	15.37	0.00	0.00	7.80	15.68	15.91	16.15	16.40	16.64	16.89	17.14
Other Operating Cost	5.00	0.13	1.36	3.22	5.10	5.18	5.25	5.33	5.41	5.49	5.58
Total Operating Cost	36.69	0.27	7.30	27.58	37.43	37.99	38.56	39.14	39.73	40.32	40.93
Net Profit (Loss)	(8.21)	(0.27)	(7.30)	(17.47)	(14.19)	(11.45)	(8.63)	(8.76)	(8.89)	(9.02)	(9.16)
% on Income	-29%	-	-	-173%	-61%	-43%	-29%	-29%	-29%	-29%	-29%
Value of Net Profit (Loss) as in 2005		(0.27)	(7.30)	(17.38)	(14.05)	(11.17)	(8.29)	(8.29)	(8.29)	(8.29)	(8.29)
Total Value of Net Profit (Loss) from 2004 - 2013 in 2005 value											(91.62)

*Discounts of income are allowed for running-up period for the 1st to 3rd Year after completion (1st year=70%. 2nd year=80% & 3rd year=90%)
 Estimated commissioning date: July 2006

Centre for Youth Development
Summary of Income Projection (as at October 2003)

	Capacity	Hiring Fee (\$)	Unit	Multiplier to Daily Rate	Occupancy Rate	% of Time for Maintenance	Discounted Occupancy Rate	Annual Income (\$M)	Discounted Rate for NGOs	Discounted Annual Income (\$M)
A. Convention Centre										
Auditorium/Conference Hall	660 seats	10,000	/4hr	3	70%	15%	55%	6.02	25%	4.52
Exhibition Hall	1000 sq.m	10,000	/day	1	50%	10%	40%	1.46	25%	1.10
Multi-purpose Activity Rooms	500 sq.m	1,000	/hr	12	60%	2%	58%	2.54	25%	1.91
							Sub-total	10.02		7.52
B. Information Technology Centre										
Showroom/Exhibition Hall	250 sq.m	3,000	/day	1	50%	5%	45%	0.49	25%	0.37
Computer Seminar Laboratory	30 seats	130	/hr	12	50%	5%	45%	0.26	25%	0.19
Computer Laboratory	180 seats	780	/hr	12	50%	5%	45%	1.54	25%	1.15
							Sub-total	2.29		1.71
C. Arts Centre										
Theatrical Studio	250 sq.m	250	/hr	12	60%	5%	55%	0.60	25%	0.45
Dance Studios	400 sq.m	400	/hr	12	60%	5%	55%	0.96	25%	0.72
Art Gallery	200 sq.m	500	/hr	12	20%	5%	15%	0.33	25%	0.25
Art Studio	250 sq.m	600	/hr	12	20%	5%	15%	0.39	25%	0.30
Filming Studio	100 sq.m	400	/hr	12	20%	5%	15%	0.26	25%	0.20
Audio Visual Laboratory	60 sq.m	400	/hr	12	30%	5%	25%	0.44	25%	0.33
Audio Recording Studio/Audio Mixing Studio	90 sq.m	2,000	/hr	12	40%	5%	35%	3.07	25%	2.30
Piano Rooms	60 sq.m	200	/hr	12	25%	5%	20%	0.18	25%	0.13
Band Rooms	45 sq.m	300	/hr	12	50%	5%	45%	0.59	25%	0.44
Photography Studio/Dark Room	60 sq.m	250	/hr	12	20%	5%	15%	0.16	25%	0.12
							Sub-total	6.99		5.24

	Area (sq.m)	Unit Rent (\$)	Unit	Monthly Rent (\$)	Occupancy Rate	Annual Income (\$M)	Discounted Rate for NGOs	Discounted Annual Income(\$M)
D. Multi-function Facility								
Multi-function Facility	3700	96	/sq.m/mth	355,200	85%	3.62	50%	1.81
					Sub-total	3.62		1.81
E. Shopping Arcade								
Cafeteria/Food Court	540	225	/sq.m/mth	121,500	80%	1.17	0%	1.17
Retail (Private Zone)	1800	360	/sq.m/mth	648,000	80%	6.22	0%	6.22
Retail (Youth Zone)	900	180	/sq.m/mth	162,000	70%	1.36	0%	1.36
					Sub-total	8.75		8.75
F. International Youth Hostel								
	No. of Rms	Room Rate (\$)	Unit	Daily Income (\$)	Occupancy Rate	Annual Income (\$M)	Operating Profit	Discounted Annual Income(\$M)
International Youth Hostel	150	300	/rm/night	45,000	70%	11.50	30%	3.45
					Sub-total	11.50		3.45
					TOTAL	43.16		<u>28.48</u>

Notes: (compared with financial assessment conducted in 2001)

Unit Rent for item D discounted by 20% according to the rental index prepared by Ratings and Valuation Department

Unit Rent for item E discounted by 10% according to the rental index prepared by Ratings and Valuation Department

Rentable area for items D & E updated as advised by Project Consultant

Occupancy rates for item A, B and C discounted by maintenance hours

Operating profit for item F corrected to 30% according to the "Hong Kong Hotel Industry Study 2002" prepared by Hong Kong Tourism Board

Executive Summary

Introduction

1. The Home Affairs Bureau (HAB) commissioned IBM Business Consulting Services to review the project scope and study the feasibility and the extent to which a Public Private Partnership (PPP) approach could be used for constructing, financing, operating and maintaining the proposed Centre for Youth Development (CYD) in Chai Wan.
2. The study conducted by the IBM Team aimed to assess whether there should be any necessary changes to the original scope of facilities to be provided by the CYD, and to identify the most appropriate PPP approach for the construction, financing, management and maintenance, where appropriate, of the CYD in order to effectively achieve the objectives of the CYD and to ensure financial viability of the project. After concluding that a PPP approach was feasible, the study proceeded to identify the best value for money approach for adopting PPP(s), and recommended an implementation strategy that would allow HAB to take the proposal forward.
3. A PPP approach is a means of harnessing the private sector to deliver public services by bringing public and private parties together for long-term mutual benefit. Under a PPP, the public and private parties pursue the joint objectives of maximising service delivery benefits, minimising risks and reducing costs while each performing different pre-agreed roles and responsibilities in compliance with a binding purchaser-provider contractual agreement.
4. This Final Report
 - Outlines the background of the CYD project,
 - Describes the objectives and service requirements under a PPP approach,
 - Documents the lessons learnt from researching into overseas experience regarding using a PPP approach to deliver community/youth facilities and services,
 - Documents findings of the market enquiry exercise regarding service providers' interest and capability of delivering the CYD facilities and services using a PPP approach,
 - Assesses potential user demand of CYD facilities and services,
 - Proposes changes of project scope based on user demand assessment,
 - Analyses possible financial position of the CYD under a public sector operation model,

- Proposes commercial principles and preferred risk allocation mechanism under a PPP approach,
- Identifies and evaluates the possible business models under a PPP approach,
- Develops a business case for PPP, and
- Analyses implementation issues and presents a high level implementation plan for taking forward the proposed PPP approach

Centre for Youth Development

5. In October 2001, the Finance Committee (FC) approved the proposed construction of the CYD in Chai Wan and allocated \$550.9 million towards the estimated cost. The Board of Management of the Chinese Permanent Cemeteries has also agreed to donate \$200 million to help finance the capital cost of the CYD. According to a financial viability study commissioned by HAB in 2000-01, the CYD should have been able to remain financially viable throughout the initial 10-year period after its commencement of operation. The Finance Committee approved the CYD project upon the understanding that no recurrent financial resources would be necessary as the CYD was expected to operate on a self-financing basis during the initial 10-year period, and that sufficient operating profits could be accumulated for future maintenance.
6. The main objective of the proposed CYD is to serve as a focal point for territory-wide youth development activities in Hong Kong. It would provide facilities and venues for promoting youth development and training. It would also provide support to non-governmental organizations (NGOs) and youth groups involved in youth development activities at affordable levels of charges.
7. The piling and basement works of the foundation were completed at the end of 2003. Taking into account the changes in the economic environment since the approval of the project in 2001, the youth development objective of the CYD, and the need to incur substantial staffing and other operating costs under the originally proposed Limited Company model, it was projected that, based on an updated HAB estimate in October 2003, the CYD could incur a recurrent shortfall of more than \$90 million over the first 10 years of operation. The HAB was concerned that using a traditional mode of operation and management, the CYD might not be able to maximize the utilization of the facilities and generate sufficient revenues to fund the operating costs. In addition, the original project scope of the internal design of the proposed facilities might not be sufficiently flexible to allow for changing demand patterns over the life time of the CYD.

Research into the Experience of Other Jurisdictions

8. The research focussed on comparable facilities overseas which adopted a PPP approach to deliver the facilities and services. It covered community, youth, leisure and other public sector facilities in
 - Taiwan –Tainan Children Welfare Centre
 - Australia –Superdome in Sydney and County Court in Victoria
 - the United States (Las Vegas) –Durango Hills Community (Youth) Centre, Las Vegas, and
 - the United Kingdom –Dudley Health and Community Centre
9. The scope of research included scope of service and programmes under the PPP, service and performance requirements, PPP models adopted as well as reasons for adopting such models, contract term as well as perception of benefits and risks under the PPP approach.
10. The research was mainly based on desktop research on the websites of the relevant public sector authorities (i.e. the purchasers) and the private sector service providers' web-sites, supplemented by telephone interviews with selected purchaser in other jurisdictions. The Project Team examined the diversified background and objective of different centres in adopting PPP/contracting approaches, and assessed the extent to which these experiences can be applied to Hong Kong.
11. The followings are the major conclusions of the research.
 - A PPP approach to managing/operating community/youth centres is increasingly adopted across the world. PPP helps improve image and quality of services provided and overcomes government's financial constraints.
 - Operation and maintenance contracts with self-financing objective is the mainstream PPP model for community/youth centres, but service scope of such PPPs has been expanded to include design/build in recent years
 - Contract terms for PPP arrangements for community/youth centres, depending on the type of PPP model, are typically 15 to 30 years.
 - Major income sources of such community/youth centres include programme and membership fees as well as facility / hostel rentals.
 - Performance of services provided should relate to payment to provider
 - It is important to have exciting and continuously changing themes to keep the youth centre "fresh". For example, IT facilities are no longer the major attraction to youth. Flexible output specifications are necessary to enable creativity in programmes / classes.
 - Provision of multi-discipline services through a single PPP arrangement requires collaboration and common value proposition.

Service Requirements and Delivery Standards

12. Service requirements should be specified in an output or outcome focussed manner to allow the Provider to innovate in its service design and delivery approaches.
13. The core services that could potentially be provided by the private sector can be grouped into the following categories –
 - Design and construction of CYD facilities, (including the Youth Hostel), as well as financing of the capital expenditure
 - Operation and management of facilities of the CYD
 - Maintenance of assets of the CYD, which include routine and non routine maintenance
 - Rehabilitation and major refurbishments of CYD assets
 - Marketing and leasing of the CYD facilities, and lease management; as well as provision of ad hoc hiring services
 - Provision of youth development programmes and services
14. In specifying service requirements for provision of youth development programmes, it is recommended that Government should explicitly communicate to the Provider its objectives in terms of youth development, while only specifying, for pure illustrative purposes only, the preferred themes of the CYD and avoiding being too specific in terms of the types of programmes to be organised by the Operator. This would provide sufficient flexibility and encourage innovative ideas from the Operator in developing the programmes.
15. The Government might wish to include in the Service Requirements the need for the Provider to make available a certain percentage of usable time/space of specific CYD facilities every month for government use, at higher booking priority and either free of charge or at pre-agreed discounted prices.
16. The Outline of Service Requirements can be found in Annex 2.

Market Interest Assessment

17. The objective of the Market Enquiry Exercise was to obtain up-to-date information and feedback from the market on the following:
 - Availability of service providers which may be interested in providing the required services;

- An understanding of the capability of prospective service providers which have an interest in delivering the required services; and
 - Preferences of prospective service providers in terms of operational and commercial/ financial arrangements of the contractual structure.
18. From the Exercise, it is clear that there are sufficient companies who are interested in and capable of providing the required services. Of all the nine respondents, ranging from construction and engineering companies to arts & culture institutes, eight of them are currently providing services relevant to one or more component(s) of the PPP project and the remaining one is a business association, which serves as sounding board of local enterprises. Among all the potential operators, seven of them have indicated interests in participating in the PPP project either in part or as a whole.
19. In addition to supplying details of the scope and depth of involvement in community facilities, the respondents have provided useful views and comments on a range of matters including facilities and programmes, potential themes of the youth centre, respective roles and responsibilities of the parties, service specifications, payment mechanisms, and performance measures. The respondents also provided advice on perceived views of the likely benefits of private sector involvement and business model and other opportunities.

Assessment of User Demand

20. The Project Team interviewed 17 NGOs based on the list provided by HAB, with a view to understanding their potential demand of various facilities within the CYD and their expectations on the CYD. In addition to these NGOs, the Team also consulted other potential users of the CYD including schools, art/cultural groups, education and training institutions, and conducted focus groups with young people.
21. The following summarises stakeholders' views and key concerns on the originally proposed CYD facilities.
- The Government and the future operator must agree on the youth development objectives, translate these into youth programmes, which in turn define the facility requirements.
 - Facilities need to be flexibly designed to allow for various activities and for easy conversion. Multi-function rooms are among the most popular facilities.
 - Conferencing and exhibition facilities within the convention centre appear to be popular among potential users.
 - The originally proposed facilities in the Art Centre or the IT Centre are unnecessary because there are abundant supplies of similar existing facilities

throughout Hong Kong. In addition, some facilities including the audio recording room, photography/dark rooms, and computer laboratory might no longer be in need due to the fast changing technology and youth trends.

- Youth Hostel could adopt the model of “city hostels” which are quite popular in overseas cities, focussing on the market demand from backpackers or less affordable overseas young visitors who are not very demanding in terms of hotel facilities.
22. Different user groups might have very different demand of CYD facilities. To larger NGOs and schools, large performance and conference facilities for hosting large scale events are most desirable. On the other hand, smaller NGOs and uniformed groups need seminar/meeting rooms for conducting regular training, and some also prefer to have their offices located there.
23. Meanwhile, smaller, less professional art/ cultural groups need facilities for practice, rehearsal and performance. They consider the CYD could possibly provide facilities, training and resource supports for art and cultural activities, including media studies.
24. Education and training, being a key component in youth development, is compatible with the objectives of CYD. Many education and training institutions also expressed strong interest in operating additional centres within the CYD on a long term lease basis. CYD could also provide seminar rooms and hostel for residential programmes for distance learning institutions.

Review of Project Scope

25. The CYD could potentially focus on three target user groups. These include
- (1) Primary and secondary schools and their students. CYD could organise school visits and provide resource support to school projects.
 - (2) Young people proactively looking for continued education. Education/training institutions could be set up within the CYD as anchor tenants.
 - (3) Non-engaged youths. CYD could provide them with venues/opportunities to utilise their creativity, express themselves and realise their potentials through an informal education setting.
26. CYD should be visionary and offer unique themes and services which are not offered by existing NGOs or youth service providers. CYD could centre on certain special themes which meet development needs of young people especially in terms of helping them face the challenges of the 21st Century. It is proposed that CYD could focus on the following themes:
- (1) Strengthening young people's international perspective

- (2) Promoting youth's creativity
 - (3) Training in core skills and vocational skills to support employment and self employment
 - (4) Encouraging participation in community and public affairs and training future community leaders
 - (5) Empowering youth through facilitating them to participating in decision making and actions which would affect themselves
27. CYD could offer a range of programmes under these proposed themes, and CYD's facilities should be able to support these programmes.
28. Taking into consideration the proposed themes and programmes, many of the CYD facilities under the original design plans could be retained with certain modifications. The major proposed changes of project scope include:
- Converting more facilities at lower levels into retail facilities
 - Converting most of the facilities of the originally proposed Art Centre and IT Centre into multi-purpose area/multi-function rooms
29. Location of individual facilities might need to be reconsidered to fit with reconfiguration of other CYD facilities. In addition, the CYD needs to be equipped with modern IT facilities to support training courses, e-learning, conferences and international exchange.
30. It should be noted that under a PPP approach, the Provider would propose the youth development programmes based on Government's desired objectives, and the appropriate facilities for organising such programmes as well as the internal layout designs. Thus the Government should not specify in details the facility mix of CYD.

Public Sector Comparator

31. The Public Sector Comparator estimates the hypothetical cost to HAB for operating CYD through an internal delivery model (adopting HAB's normal approach to such design and construction works programs) and then subsequently operating and maintaining the facilities itself. The Public Sector Comparator, once adjusted for transferred and retained risks, is thus the benchmark against which any external PPP approach should be measured to determine cost effectiveness and for assessing the value for money for HAB in considering adopting a PPP approach for managing the Centre, and its subsequent on-going operations.
32. A number of scenarios for the PSC model are developed to analyse the impact of policy and usage of the facilities. Different scenarios assume different levels of

rental discount given to NGOs, as well as conversion of certain originally proposed facilities into alternative uses. Financial analysis shows that CYD would expect an operating loss under all the scenarios under a public sector service delivery model. (See Table overleaf)

33. One of the perceived benefits of operating the CYD under a Public Private Partnership model is the ability for the private sector to operate efficiently and as a result generate cost savings, compared to a public sector mode of operation. Whilst it is possible to estimate the Public Sector Comparator, based on feedback on costs and operating model from the HAB, it would be difficult to perform a similar exercise to estimate and compare the operating costs under a PPP approach. Each private sector operator may have different cost structures, operating models, approach to generating economies of scale and efficiency.
34. The Project Team estimated potential savings in operating costs under a PPP approach would come from reduction in number of staff due to different working practice in the private sector as well as reduction of remuneration of management staff. Based on the crude estimation of potential savings of \$5.4 million per year in staff cost, (while not having taking into account potential upside in revenues under a more motivated private operation), at least 3 of the public sector scenarios (Scenarios 3,5 and 7) would likely to break even or even generate profit under a PPP approach.

CYD Public Sector Comparator		Scenario							Original baseline	HAB baseline
		1	2	3	4	5	6	7		
		50% NGO user disc (Note 1)	Reduced NGO disc (Note 2)	No NGO discount (Note 3)	Convert IT Ctr & Multi-func rooms for long lease to colleges (Note 4)	Ext long lease of Arts Ctr to colleges (Note 5)	Convert Arts Ctr for long lease to colleges (Note 6)	Convert Arts Ctr to Multi-purpose activity rooms (Note 7)	Vigers Feb 01 (Note 8)	HAB Oct 03 (Note 9)
Rental income										
Convention centre	\$'000	11,684	11,684	11,684	11,684	11,684	11,684	11,684	12,118	10,023
IT centre	\$'000	2,540	2,540	2,540	1,139	1,139	1,139	1,139	2,540	2,286
Arts centre	\$'000	7,974	7,974	7,974	7,974	11,607	2,125	8,357	8,147	6,986
Multi-function facility (office use)	\$'000	3,175	3,175	3,175	4,884	4,884	4,884	4,884	6,732	3,623
Shopping arcade	\$'000	11,372	11,372	11,372	11,372	11,372	11,372	11,372	13,824	10,109
		36,746	36,746	36,746	37,054	40,687	31,205	37,437	43,361	33,027
Less: 50% discount for NGO users:	\$'000	(8,717)	(5,550)	0	(4,915)	(5,823)	(2,921)	(2,921)	(10,915)	(7,996)
Convention, IT and Arts centres	\$'000	(5,550)	(5,550)	0	(4,915)	(5,823)	(2,921)	(2,921)	(5,701)	(4,824)
Multi-function facility (office use)	\$'000	(1,587)	0	0	0	0	0	0	(3,366)	(1,812)
Shopping arcade (Youth Zone)	\$'000	(1,580)	0	0	0	0	0	0	(1,848)	(1,361)
Rental income after discount	\$'000	28,029	31,196	36,746	32,140	34,864	28,284	34,516	32,446	25,031
Add: Hostel (share of net operating profit)	\$'000	2,300	2,300	2,300	2,300	2,300	2,300	2,300	5,749	3,449
	(A)	30,329	33,496	39,046	34,439	37,164	30,584	36,815	38,195	28,480

CYD Public Sector Comparator		Scenario							Original baseline	HAB baseline
		1	2	3	4	5	6	7		
Operating expenses										
Staff cost	\$'000	16,816	16,816	16,816	16,816	16,816	16,816	16,816	16,816	16,320
Utilities, cleaning and security	\$'000	11,893	11,893	11,893	11,893	11,893	11,893	11,893	11,893	11,700
Repairs and maintenance	\$'000	8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667	8,667
Publicity and promotion	\$'000	3,096	3,096	3,096	3,096	3,096	3,096	3,096	3,096	-
	(B)	40,471	40,471	40,471	40,471	40,471	40,471	40,471	40,471	30,000
Net income	\$'000 (A)-(B)	(10,142)	(6,975)	(1,425)	(6,032)	(3,307)	(9,887)	(3,656)		8,195
As % of income	%	-33%	-21%	-4%	-18%	-9%	-32%	-10%		21%
										-29%

Notes:

- Rental discount of 50% for NGO users for all facilities, except Hostel accommodation. In terms of usage:
 - Half of the effective sessions for Convention, IT, and Arts centres are occupied by NGO users
 - All of Multi-function facility (office) are occupied by NGO users.
 - Part of the shopping arcade is reserved for Youth Zone (1,100 sqm)
- Rental discount of 50% for NGO users of Convention, IT and Arts centres. No rental discount for Multi-function facility (office use) and Shopping arcade.
- No discount for NGO users.
- Convert IT Centre and Multi-function facility for long leases to colleges/education institutes.
- Similar to 4, plus increased lease of Arts Centre facilities to colleges/education institutes.
- Similar to 4, plus convert Arts Centre to Multi-purpose Activity rooms for long lease to colleges/education institutes.
- Similar to 4, plus convert Arts Centre to Multi-purpose Activity rooms (not for long lease to colleges/education institutes).
- Represents the original estimates by Vigers in Feb 2001. No details were provided for operating costs.
- HAB has subsequently revised the original Vigers estimates in Oct 2003.

Commercial Principles and Risk Allocation

35. Decisions on the key commercial principles will drive the choice of specific business models as well as determine the terms and conditions of the Contract.
36. The business model section highlights 13 different components that the Government could outsource for service delivery of the CYD. The number of service contracts and way of bundling services will depend on the risk to the Government, economics of scale and attractiveness to market participants, interfacing issues, procurement and contract management costs, and capability of service providers. Meanwhile, setting the contract term need to consider costs of letting contracts, attractiveness to potential service providers, nature and scope of the services and risk to the Government.
37. The contract should include provisions that require the service provider to meet specified performance standards, linked to a clear output/ outcome based Statement of Service Requirements. Provided they are compatible with the scope of the core services, the Provider would be permitted and encouraged to propose value-added services that are not directly related to the specified services by making use of the excess service capacities.
38. Key performance indicators (KPI), easily quantifiable and measurable, should be included in the contract and specified for different phases of the project covering the design and construction phase, transition phase and operation and maintenance phase where appropriate. Any Contract should specify reporting requirements on the Provider and HAB's and Provider's arrangements in the monitoring of performance.
39. There would be different payment arrangements depending on the type of contract the Government enters into with the Provider. It is preferable to incorporate a performance adjustment mechanism under which the Provider will be subject to incentives or payment abatement/ deductions/ liquidated damages for exceeding or failing to perform up to the specified performance standards.
40. The Contract should establish mechanisms to handle non-compliance and default as well as appropriate arrangements for the issues associated with contract termination (both at the natural conclusion of the contract and in the case of early termination). The Contract should also clearly define asset ownership and end-of-term arrangements of assets.
41. The commercial principles advocated aim to achieve an optimum result by allocating risks to the party that can best manage the risks. In general, any

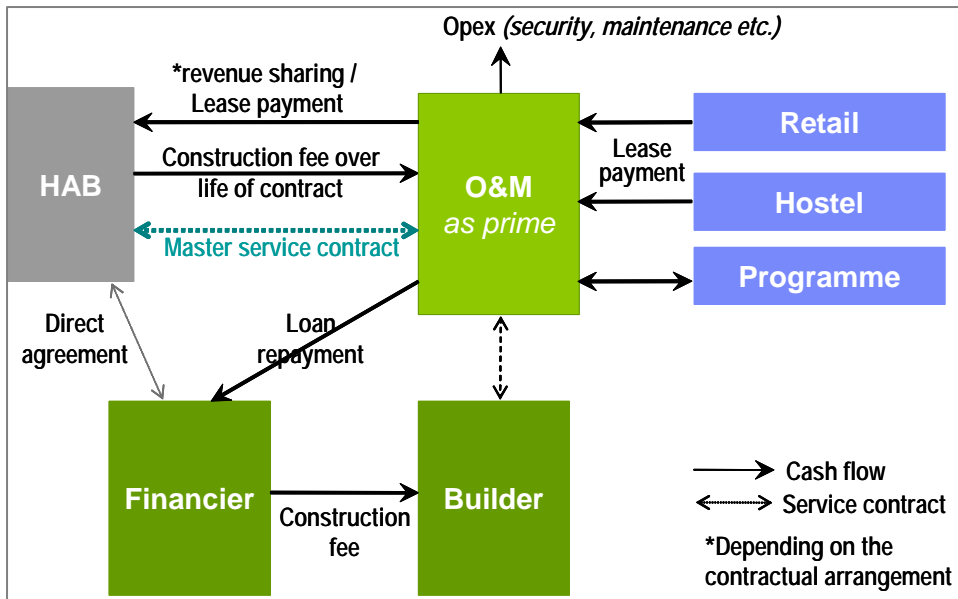
Provider should bear as much risk as practicable during construction and operation except those over which it has no control. A tentative assessment of the major risks and the proposed risk allocation has been set out in the risk allocation table in Annex 6.

Business Case for a PPP and Evaluation of Business Models

42. The adoption of a PPP approach for delivering the CYD project and subsequent operation is expected to bring a range of benefits through improved management, enhanced services and better financial outcomes. Financial benefits include potentially higher revenues as a result of higher utilisation of facilities through more flexible operational arrangement and non core services, more cost savings through introducing private sector business practice, greater transfer of risks (including commercial risks) to the service provider. PPP allows Government to access private sector expertise in provision and managing the CYD facilities and services, in particular in terms of hostel operation, which is crucial for generating revenues to subsidise CYD operating costs, as well as youth development programmes, which need to follow closely market needs as well as industry's latest trends and practices.
43. Based on interest and capability of potential market participants, analysis of the commercial principles potential applicable to this PPP and constraints of the Government, a few business models potentially applicable to this PPP have been identified. In particular, the proposed PPP options represent the strong view that the future CYD should be operated and managed by a single entity.
44. **Build Own Operate Transfer (BOOT) Contract** where the single Provider or consortium takes on full responsibility for building, financing, ownership, management, operation and maintenance activities as well as for facility rehabilitation/ refurbishment (see diagram below).
45. Integration of the construction and operation components into one contract would enable the contractor to optimise between design/construction and operation/maintenance to minimize the lifecycle costs, in particular, by balancing the costs/ risks between construction (capex) and operation (opex) of CYD.
46. In addition, the financier would supplement Government's role in the contract management role. As the Government will only start repaying the Provider the capital costs of the CYD upon completion and commissioning of the CYD (i.e. builder's obligations fulfilled), and continue paying back the capital costs over the contract period only if the Provider fulfils its obligations in programme and facility operation and maintenance, the Financier would have an interest and urgency in

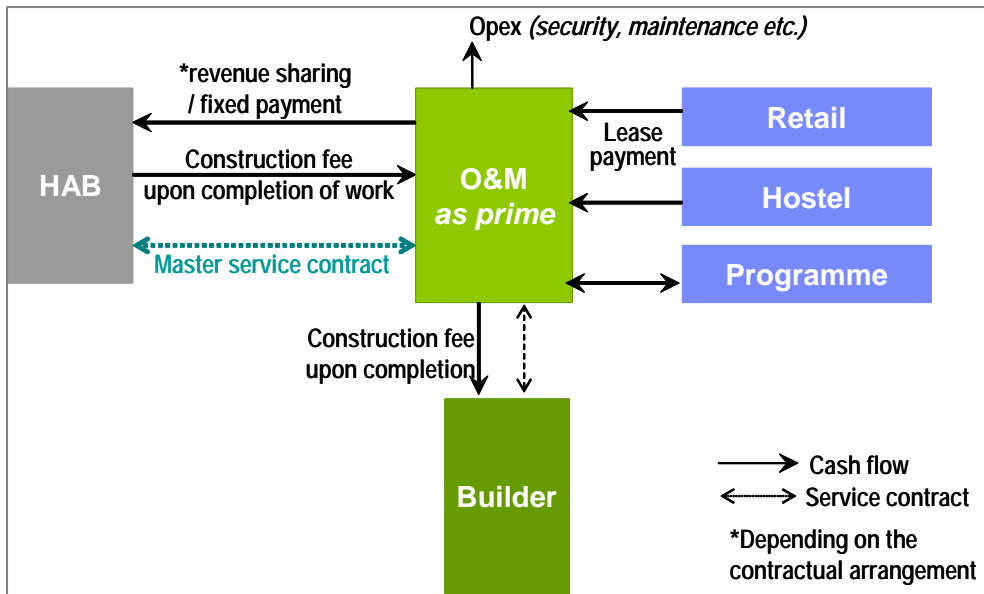
monitoring the performance of the Provider and the Builder to ensure Provider can repay the mortgage. To the Government, spreading the capital payment over the life of contract would ensure the Provider's continual commitment/ improvement and reduce the default risk.

BOOT Contract



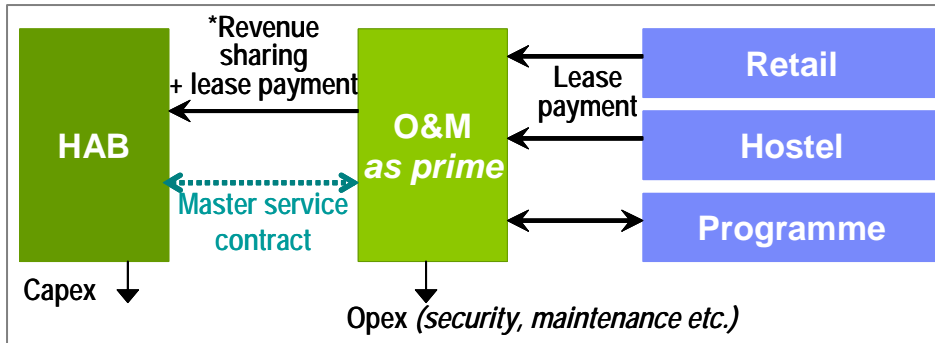
47. **Build-Operate-Maintain (BOM)** contract where the single Provider or consortium takes on full responsibility for build, fitting-out, operation, management and maintenance activities but with ownership remaining with Government. This option is fairly similar to the first one except ownership of assets and Financier role's in assisting performance monitoring over the life of the contract (see diagram below).
48. In this option, Government assumes the greater role of project management and contract compliance monitoring as a financier is not in the picture. Different from option 1, Government has an obligation to pay the Provider upon construction completion or in phases upon completion of major construction milestones. As a result, Government would retain construction risks. In addition, Government faces a higher default risk in operation than in the BOOT model as capital costs are already repaid upon completion of construction.

BOM Contract



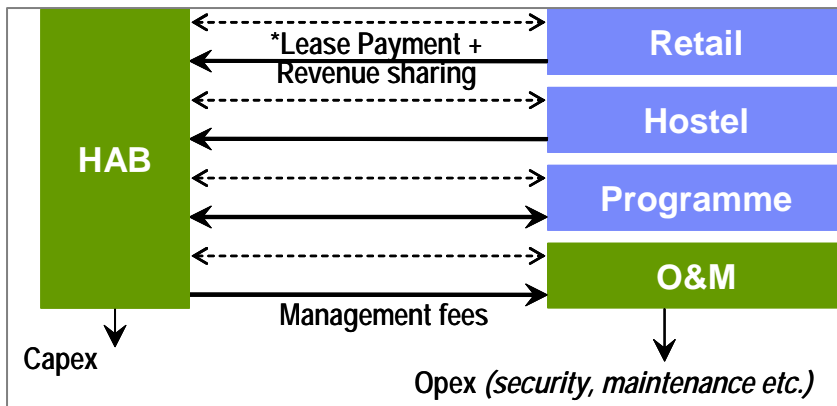
49. **Operations and Maintenance (O&M)** contracts transfer responsibility for the operation, maintenance and programme provision of Government-owned CYD to the private sector where Government retains the responsibilities of construction, rehabilitation and refurbishment. Different from option 1 and 2, the O&M operator will not be responsible for the fitting out of the CYD building.
50. However, Government could potentially involve the future O&M operator in the design of internal layout and fitting out to ensure the facilities would meet requirements of future programmes, if it tenders out and award the O&M contract early enough before the commencement of internal fit-out works.
51. O&M arrangement can be structured into one of the following two forms where Government would enter into.
52. **A single contract with the operator** which carries the responsibilities of lease management, property management and maintenance and programme provisions. The Provider will collect the revenues from different services (possibly provided by subcontractors) to finance its operating expense.
53. Same as in options 1 and 2, service provider will be responsible for the on-going financial viability of the facility by ensuring that the revenues generated from the Centre's facilities and programmes will at least meet the operating needs. As a result, Government would not be subject to any commercial risks that may arise from the on-going operation of CYD.

O&M Contract with one single prime Service Provider



54. **Separate contracts with different services provisions and operators**, including but not limited to Retail, Programme, Hostel management and Lease management and Property management. Regardless of the demand, Government will collect the lease payment/revenue generated from the different operators which will then be used to finance the operation and maintenance of the Centre, and possibly to subsidise the cost of programme provision. In effect, Government will retain the commercial risks of operating the CYD and thus this option is not recommended and should not be considered further.

O&M Contracts with multiple Service Providers



Comparison of the three business models

55. Although Option (1) and (2) could potentially generate more savings to the Government through lowering of life cycle costs, and in addition, Option (1) would better motivate service provider to perform better the operation and maintenance services, these two options might be less desirable in terms of potential delay to the overall CYD project timeframe. It would take much longer time for Government

to consult and seek support/ approvals from various relevant parties as BOOT and BOM would represent new approach to implement CYD project. It would take longer time to go through the procurement process due to more complicated documentation and potentially negotiation as more parties would be involved compared to Option (3).

56. On the other hand, if Government decides to proceed with Option (3), it can resume the construction within a shorter timeframe (as the tender procedure for superstructure contract has been completed and can be awarded subject to approval by the Central Tender Board). It can start the procurement process of the O&M operator in parallel.
57. Apart from the above options, Government might also consider discontinuing the construction work and the overall plan for CYD.

Governance

58. For any of the options (1) to (3), to effectively manage the proposed CYD facility, a Management Advisory Committee consisting of representatives from relevant NGOs, academics, stakeholders and youth services professionals should be formed to provide Government and the preferred Provider with advice on the ongoing strategy for the Centre.
59. The Committee would review at regular intervals the performance of the Provider(s) against pre-agreed service and performance objectives and review these objectives against changing social-economic environment and government policy.

Implementation and Pre-procurement Activities

60. Successful implementation of the PPP would require careful management of the stakeholder groups as well as management of the potential risks. A higher level implementation plan has been proposed, which include a list of pre-procurement activities Government needs to conduct in order to proceed with the PPP, as well as the proposed timetable.

Conclusion

61. Based on the material and findings contained in this Report, it is concluded that it is feasible and practical for HAB to adopt a PPP approach to operating CYD and that HAB is more likely to attain better value for money through a PPP compared with

the alternative delivery options. Taking into account all the facts and circumstances pertaining to the CYD, an Operation and Maintenance contract for around 5 years, under which a single service provider is responsible for operating and management of all CYD facilities and services, and bears the commercial risks through retaining all revenues from operation and bearing all operating costs, should be a more practical option as it would allow construction of CYD project to resume within a shorter timeframe, while having the benefits of a PPP approach . Government could concurrently tender out the Operation and Maintenance contract so that the future service provider could be involved in the interior layout design, to ensure CYD facilities would be compatible with future programmes to be offered in the CYD.