

**Legislative Council Panel on Home Affairs**  
**Progress Report on the Centre for Youth Development Project**

**PURPOSE**

This paper informs Members of the latest progress of the Centre for Youth Development (CYD) project.

**BACKGROUND**

2. In 1997, the Chief Executive tasked the Commission on Youth (COY) to carry out a study on youth development and to map out a general direction for our young people to follow in order to realize their full potential. One of the major recommendations of the COY report was that a central facility to provide a focal point for youth development work and activities should be constructed in Hong Kong. The Chief Executive accepted this recommendation and, in his 1998 Policy Address, he announced that the site of the then Chai Wan Community Centre should be re-developed into such a facility.

3. The main purpose of the 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 the steer and support for non-governmental organizations (NGOs) involved in youth development work and for youth groups.

4. The scope of the project comprises the construction of a 12-storey CYD with a total gross floor area of about 36 900 square metres at the junction of Chai Wan Road and Wan Tsui Road in Chai Wan (adjacent to the Chai Wan MTR station). The site includes the former Chai Wan Community Centre site plus its surrounding open space. The facilities at the CYD will include: -

- (a) a youth convention centre;
- (b) an information technology centre;

- (c) a performing and visual arts centre;
- (d) a youth hostel (150 rooms);
- (e) a cafeteria and shops; and
- (f) offices/multi-function rooms.

5. The estimated capital cost of the CYD is \$750.9 million. The Board of Management of the Chinese Permanent Cemeteries agreed to donate \$200 million to help fund part of the cost of the project. In November 2001, the Finance Committee of the Legislative Council approved a sum of \$550.9 million for funding the project. The Finance Committee approved the CYD project on the understanding that no recurrent financial resources would be required as the project could operate on a self-financing basis during the initial 10-year period, and that sufficient operating profits could be accumulated for future maintenance.

## **WORKS PROGRESS**

6. The piling and basement works for the CYD were completed at the end of December 2003. Tender for the superstructure works had been invited but award of the tender has been held up pending further review of the future management and operation mode of the CYD. We have obtained the agreement of the tenderers for extension of the tender validity to 1 January 2005 and would request a further extension if necessary.

## **MODE OF MANAGEMENT AND OPERATION**

### **Original Plan – Limited Company Model**

7. The original plan was to set up a limited company, with its board of directors appointed by the Government, to manage and operate the CYD on a self-financing basis. According to a preliminary financial viability study carried out in 2000-2001, the CYD should be able to remain financially sustainable during the first 10 years of operation

without the need for the Government to incur recurrent expenditure on its day-to-day operation and maintenance.

## **Recent Changes**

8. The economic conditions in Hong Kong have gone through significant changes since 2000-2001 when the original financial assessment was made. In mid-2003, we updated the financial assessment and the assessment results indicated that the outlook was much less optimistic. Taking into account the changes in the economic environment since the approval of the project in 2001, the youth development objectives of the CYD, and the need to incur substantial staffing and other operating costs under the limited company model, it was found that the CYD could incur a shortfall of more than \$90 million in recurrent expenditure over the first 10 years of operation.

9. In view of the envisaged financial problems under the limited company model, we floated to the Steering Committee on Centre for Youth Development in August 2003 the conceptual proposal of contracting out the management and operation of all the facilities of the CYD. However, members of the Steering Committee expressed reservations about the contracting-out proposal. They were mainly concerned that this would lead to the domination of the use of the CYD for youth development activities by one single well-established organization, to the detriment of other smaller NGOs and youth associations. If so, this would go against the original objective of the CYD--supporting various NGOs and non-subvented youth groups in promoting youth development.

## **CONSULTANCY STUDY**

### **Objectives of the Study**

10. Taking into account the problems envisaged in the limited company model and the concerns regarding contracting-out arrangements, we have commissioned the IBM Business Consulting Services (the Consultant) to conduct a study to review the project scope, and to assess the feasibility of constructing, financing, operating and maintaining the

CYD through an appropriate Public Private Partnership (PPP) approach. The objective is to devise a model which could both effectively achieve the youth development objectives of the CYD, and maintain the CYD's financial sustainability.

11. The consultancy study has been completed. An Executive Summary of the consultancy report is at *Annex A*.

## **Major Findings and Recommendations of the Study**

### **A) Research into international experience**

12. The results of the Consultant's desktop research into experience elsewhere reveal that a PPP approach is increasingly being adopted in managing and operating community or youth centres the world over, on the ground that PPP helps to improve the quality of services provided and to overcome the Government's financial constraints. An operation and maintenance contract with a self-financing objective is indeed the mainstream PPP model for community or youth centres.

### **B) Assessment of User Demand and Market Interest**

13. The Consultant interviewed a representative range of organizations in both the non-profit-making and the commercial sectors. The major findings are that (a) there should be a focal theme which clearly distinguishes the CYD from other youth-related facilities; (b) the facilities and equipment inside the CYD should be flexibly designed to cater for the changing demands in the market (especially the youth market); and (c) there should be sufficient commercial interest in providing management and operation services for either a part or the whole of the CYD.

### **C) Public Sector Comparator**

14. The Consultant has worked out the Public Sector Comparator (PSC) which estimates the hypothetical cost to the Government for operating and maintaining the CYD internally. This serves as the benchmark for comparison with that of the same services to

be delivered by the private sector. A number of scenarios have been developed to analyze the cost impact of changing the levels of rental discount and uses of the facilities in the CYD. A table summarizing the financial position of each scenario is at Pages 9 and 10 of the Executive Summary at *Annex A*.

15. On the basis of the Consultant's scenario analysis, the CYD would incur an operating loss under all possible scenarios under a public sector delivery model. The shortfall could however be reduced with some changes to the mix and use of the facilities in ways which would bring about an increase in the rental income. It might also be possible to breakeven with a reduction in operating expenses, especially staffing expenses. To make the CYD financially viable, it is necessary to introduce some changes to the project scope, as well as the mode of management and operation.

#### **D) Project Scope**

16. Taking into account the views from potential users of the CYD including NGOs, schools, art and cultural groups, and educational and training institutes, the Consultant considers that the facilities within the CYD should be flexibly designed to allow for easy conversion to cater for changing demands; and that the utilization rates of facilities in the Arts Centre and the Information Technology (IT) Centre would be low, since many similar facilities are available elsewhere. Specifically, the Consultant proposes that the original mix of facilities be revised to boost their utilization rates and to increase the rental income, as follows:

- (a) concentrating the retail areas at the lower levels of the building; and
- (b) converting the originally planned Arts Centre and the IT Centre into multi-purpose areas. Some of the multi-purpose areas may also be leased to colleges/education institutes as anchor tenants.

## **E) Mode of Management and Operation**

17. In the light of the research findings from overseas experience, as well as assessment of market interest and potential user demand, the Consultant recommends that a **PPP approach be adopted to deliver the CYD project**. In this connection, three possible options have been presented for consideration, and the analysis is briefly set out in the following paragraphs.

### **Option (1): Build-Own-Operate-Transfer (BOOT)**

18. A single contractor or consortium takes on full responsibility for the construction, financing, ownership, management, operation, maintenance and major refurbishment of the CYD. This model has the following features:

- (a) Both the construction and operation components are integrated into one single contract. This would ensure that the design of facilities meets the required operational and maintenance requirements, hence help to reduce both the construction and operation costs.
- (b) The Government would repay the contractor the construction cost over the contract period, which is normally 15 to 20 years, on condition that the performance targets are met. This would ensure the contractor's continual commitment in operation and maintenance, and minimize the default risk on the part of the Government.
- (c) A financier would finance the construction cost of the CYD which has to be borne by the contractor. The financier would hence have an interest in monitoring the performance of the contractor and the builder. The financier would supplement the Government's role in contract management.
- (d) The contractor would finance the operating expenses of the CYD through revenues collected from rental income of facilities and fees for programmes/training classes.

- (e) The contractor would be required to make lease payment to the Government for the right to use and generate revenue from the CYD.
- (f) The contractor would bear any commercial risk arising from the operation of the CYD.

**Option (2): Build-Operate-Maintain (BOM)**

19. A single contractor or consortium takes on full responsibility for the construction, management, operation and maintenance of the CYD. This model is similar to BOOT except that the Government would retain ownership over the CYD building, and pay the contractor the entire amount of capital cost upon completion of construction. The Government would face a higher default risk in operation than in the case of BOOT.

**Option (3): Operation and Maintenance (O&M)**

20. The Government would be responsible for the construction and major refurbishment of the CYD, while the management, operation and maintenance of the CYD as well as organization of programmes would be undertaken by the private sector. It may take one of the following two forms:

(a) A single contract

A single contractor would be responsible for lease management of facilities, property management and maintenance, and programme management. Similar to BOOT and BOM, the contractor would finance the operating expenses of the CYD through revenues collected from rental income of facilities, and fees for programmes provided in the CYD. The contractor would be required to make lease payment to the Government for the right to use and generate revenue from the CYD. The contractor would bear any commercial risks arising from the on-going operation of the CYD. A single O&M contract would normally last around

3-5 years. This would allow the service provider adequate time to recoup their investment and the Government appropriate flexibility to change the provider in case of unsatisfactory performance.

(b) Separate contracts

Separate contracts would be offered for different services, such as for lease management of facilities, property management, hostel management, and provision of youth-related programmes. The Government would collect revenues generated from facilities/programmes to finance the operation and maintenance of the CYD and pay for services provided by different contractors. The Government would bear all commercial risks arising from the operation of the CYD. As all the different programmes are to be delivered under separate contracts with all revenues going to the Government for defraying the operating expenditure, this option offers relatively less incentive for each service provider to minimize costs and maximize utilization of facilities in order to optimize income.

21. The Consultant considers all the three PPP options technically feasible and capable of achieving the self-financing objective of the CYD. Options (1) and (2) should be more effective in ensuring better performance on the part of the contractor, as well as in generating more cost savings and reducing more commercial risks for the Government. However, given that the tender for the superstructure works of the CYD had already been invited and construction works could resume within a short time, pursuing these two options would cause a greater delay to the implementation schedule of the CYD project than in the case of adopting Option (3). The reason is that the Government would need to abort the current tender for the superstructure works, and take a longer time to undergo a more complicated tendering and procurement exercise for a single contract which seeks to integrate the construction component with the operation and maintenance parts. The contract negotiation process entailed under Options (1) and (2) should also take a longer time to complete.



## GOVERNMENT'S RECOMMENDATIONS

22. Having taken into account the above findings and recommendations of the Consultant, we recommend that we should -

- (a) Adopt a PPP approach for the CYD in the form of the **Operation and Maintenance model with a single contract** (O&M contract)

It should strike a reasonable balance between the need to ensure that the CYD operates on a self-financing basis, and the need to secure an earlier completion date of the CYD, given that the existing tender for the superstructure contract could be resumed shortly. The operator of the CYD would be selected through open tender.

- (b) **Revise the mix of facilities and equipment within the CYD**

We would seek to provide more flexibility to cater for changing demands in the market. An initial revised facilities plan which would have only minor cost implications and would not exceed the extent of variations allowed in the current tender for the superstructure works is at *Annex B*.

- (c) **Draw up a solid framework of substantial and meaningful youth development programmes in the CYD**

We would seek to set out clearly defined objectives, contents and requirements for youth development programmes in the CYD, to ensure that the programmes so organized would be meaningful and substantially beneficial to young people on the one hand, and sufficiently attractive to maximize utilization of the CYD facilities by youth and those involved in youth development work on the other.

23. The Steering Committee on the Centre for Youth Development, the COY and the Works and Development Committee of the Eastern District Council agreed in principle to the adoption of the

above proposed PPP model in the operation and management of the CYD, provided that it would not undermine the youth development objectives of the CYD.

### **Youth Development Programmes in the CYD**

24. To ensure that the youth development objectives of the CYD are achieved, we have been working closely with the COY on the contents and requirements of youth development programmes in the CYD. We are of the view that the CYD should serve as the central facility and focal point for providing the necessary steer and support for NGOs, youth groups and other interested parties involved in youth development work. In this connection, we consider that the CYD should assume a series of strategic roles with specific objectives in youth development work. Any programmes organized in the CYD should seek to fulfill such objectives and roles. An illustrative summary with examples of programmes is as follows:

<b>Role</b>	<b>Objectives</b>	<b>Examples of Programmes</b>
Coordinator and Facilitator	To coordinate existing projects of NGOs and youth organizations	<ul style="list-style-type: none"> <li>• Identify and promote best practices</li> <li>• Build up a local database on youth work and studies</li> <li>• Provide information on youth-related regional and international networking</li> <li>• Collaboration in organizing international youth exchange programmes</li> </ul>
Direct Service Provider	To provide services that are not normally provided by NGOs	<ul style="list-style-type: none"> <li>• Resource and support centre for the district-based youth forums under the COY</li> <li>• Hub for innovative products and services initiated by youth</li> </ul>

		<ul style="list-style-type: none"> <li>• Hub for territory-wide youth community leaders</li> <li>• Hub for Mainland and international youth arts and cultural exchanges</li> <li>• Attachment and on-the-job training making use of hostel and retail facilities in the CYD</li> </ul>
Pioneer	To identify service gaps and experiment with new projects	<ul style="list-style-type: none"> <li>• Empowerment and civic engagement programmes for young employees, young professionals, and young parents</li> <li>• Sector-specific youth collaboration</li> <li>• Inter-generational collaboration</li> </ul>
Trainer	To provide professional support to youth service providers	<ul style="list-style-type: none"> <li>• Train the trainers, youth workers and youth leaders</li> </ul>
Promoter	To promote Hong Kong's good practices and reputation in youth development	<ul style="list-style-type: none"> <li>• Organize international youth conferences on different aspects of youth development work</li> <li>• Represent (and prepare to represent) Hong Kong in international youth conferences</li> </ul>

The above proposal was drawn up with reference to a model developed by Dr T Wing LO and Dr Elaine AU of the Youth Studies Net of the City University of Hong Kong. Dr Elaine AU is a member of COY. A brief presentation of the model which is available in English, is at ***Annex C***.

25. In conjunction with COY, we are actively soliciting partner organizations who could be specifically assigned to take charge of the organization and co-ordination of programmes conducive to achieving the above strategic objectives. This is to ensure that these programmes

would be run by organizations with the relevant expertise and experience, hence ensuring that they would measure up to the quality and standard required.

26. The operator (operation and maintenance contractor) of the CYD would be required to:

- (a) designate part of the usable time and space of specific facilities in the CYD for the Government/NGOs/youth groups/partner organizations to use with higher priority and at discounted rental for organizing youth development programmes (especially those on the above themes) in the CYD;
- (b) designate a specified percentage of the annual budget for organizing or sponsoring youth development programmes (especially those on the above themes) in the CYD; and
- (c) co-operate with the specified partner organizations for the purpose of running the youth development programmes under the specified range of themes.

In this connection, the operator would also be required to ensure that his organization possesses (or is capable of sourcing) the experience and expertise in youth development work in order to effectively deliver the above programmes throughout the tenure of the contract.

27. We would continue to discuss with the COY on the detailed specifications of youth development programmes and service requirements. These would be specified as service requirements for the purpose of the open tender exercise for the single O&M contract of the CYD, if the above-proposed PPP model were to be adopted.

### **Measures to Ensure Compliance of Youth Development Objectives of the CYD**

28. If we were to proceed with the PPP model of a single O&M contract, we would consider adopting the following measures, which are

commonly applied in O&M contracts, to ensure compliance of the youth development objectives of the CYD and to monitor the performance of the operator:

**(a) *Management Advisory Committee***

A Management Advisory Committee consisting of representatives from NGOs, youth organizations and other relevant parties could be formed to advise on the strategy, objectives, management and use of facilities of the CYD. The Committee would also review at regular intervals the performance of the operator against pre-agreed service and performance standards.

**(b) *Submission of Annual Operation Plan***

The operator could be required to submit an operation plan annually, which is subject to approval by the Government. The operation plan may include the objectives, nature, contents and quantity of youth development services/programmes, partners/co-organizers in organizing the programmes, the types and number of shop tenants, pricing and rental policy, level of rental charges and programme fees, and discounts offered for NGOs.

**(c) *Submission of Annual Performance Report***

The operator could be required to submit an annual performance report showing the actual outputs of agreed performance indicators.

**(d) *Customer Awareness and Satisfaction Surveys***

The operator could be required to conduct periodic customer awareness and satisfaction surveys, and post-programme evaluation by participants.

**(e) *Prevention of Excessive Profits***

In addition to a fixed lease payment, the operator could be required to share with the Government any profits arising from the operation of the CYD, or to plough back or reinvest part of the profits into the youth development programmes of the CYD.

**(f) *Default***

The operator could be required to provide a performance bond of specified amount issued by a bank as a security for the due performance of contractual obligations. There may be terms allowing the termination of contract and providing the Government with step-in rights in case of repeated failures of the operator in complying with agreed performance standards.

**(g) *Contract Term***

The initial contract term could last for five years, structured as three plus two years, i.e. to be reviewed six months before the end of the three-year term to see whether the contract would be continued for another two years.

**WAY FORWARD**

29. Subject to Members' views on the recommendations set out in paragraph 22 above, we intend to submit the tender for the construction of superstructure works for the approval of the Central Tender Board. The construction works of the CYD could resume in early 2005 for completion by early 2007. We would also start the tendering exercise for the operation and maintenance contract after drawing up the implementation details.

Home Affairs Bureau  
December 2004

## **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 communicates 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)
<b>Rental income</b>											
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
Less: 50% discount for NGO users:	\$'000		36,746	36,746	36,746	37,054	40,687	31,205	37,437	43,361	33,027
			(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			
<b>Operating expenses</b>												
Staff cost	\$'000		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			11,700
Repairs and maintenance	\$'000		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			-
		(B)	40,471	40,471	40,471	40,471	40,471	40,471	40,471		30,000	36,687
<b>Net income</b>	<b>\$'000</b>	(A)-(B)	<b>(10,142)</b>	<b>(6,975)</b>	<b>(1,425)</b>	<b>(6,032)</b>	<b>(3,307)</b>	<b>(9,887)</b>	<b>(3,656)</b>		8,195	(8,207)
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

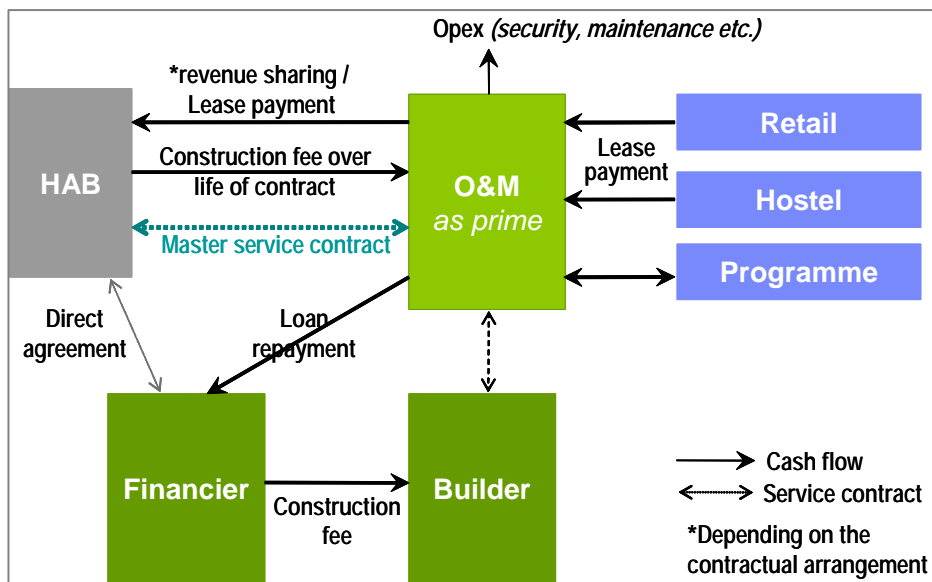
Provider should bear as much risk as practicable during construction and operation except those over which it has no control. A tentative assessment of the major risks and the proposed risk allocation has been set out in the risk allocation table in Annex 6.

### **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

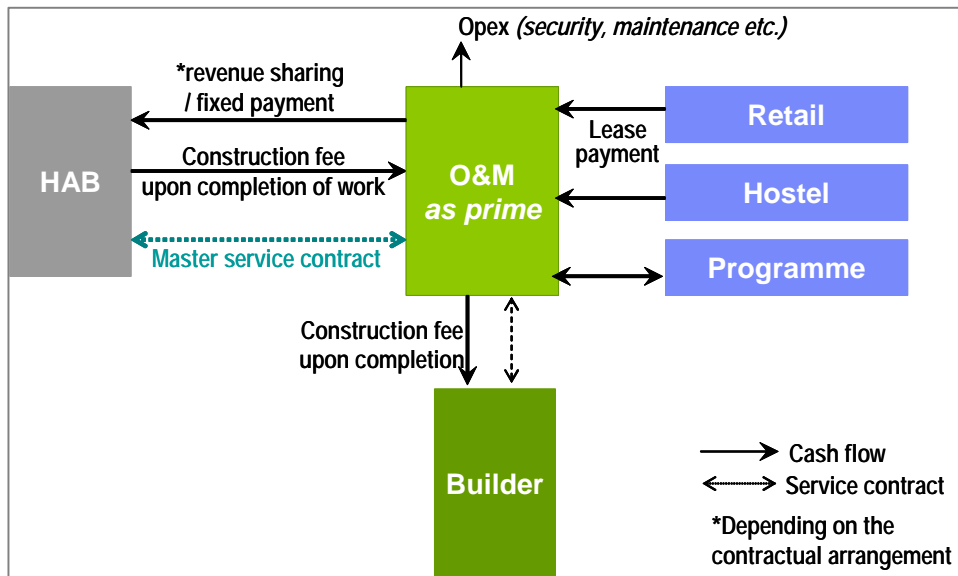
monitoring the performance of the Provider and the Builder to ensure Provider can repay the mortgage. To the Government, spreading the capital payment over the life of contract would ensure the Provider's continual commitment/ improvement and reduce the default risk.

### **BOOT Contract**



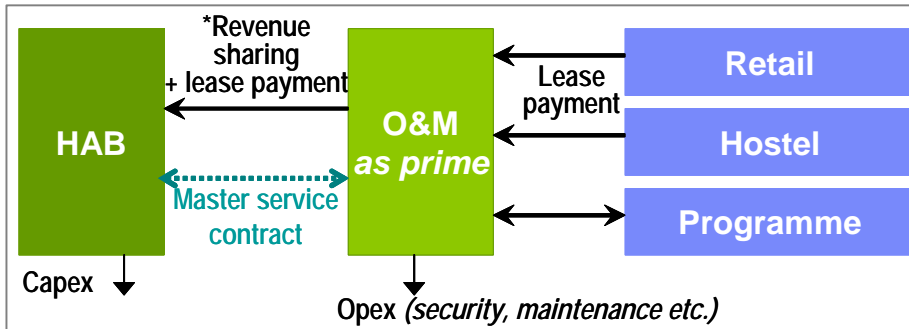
47. **Build-Operate-Maintain (BOM)** contract where the single Provider or consortium takes on full responsibility for build, fitting-out, operation, management and maintenance activities but with ownership remaining with Government. This option is fairly similar to the first one except ownership of 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



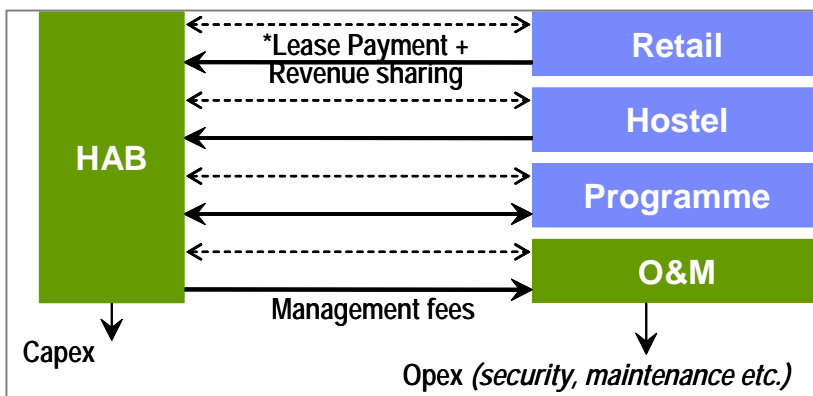
49. **Operation and Maintenance (O&M)** contracts transfer responsibility for the operation, maintenance and programme provision of Government-owned CYD to the private sector where Government retains the responsibilities of construction, rehabilitation and refurbishment. Different from option 1 and 2, 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.

### Proposed Revision of Project Scope of the CYD

<b>Floor</b>	<b>Original Facilities</b>	<b>Proposed Revision</b>
G	Auditorium	No change
1 <sup>st</sup>	Exhibition Platform	No change
2 <sup>nd</sup>	Multi-purpose Hall	No change
2M	Retail Area	No change
	Video Production Studio and Video Editing Studio	Convert to Retail Area
3 <sup>rd</sup>	Retail Area	No change
4 <sup>th</sup>	Cafeteria	No change
	Dance Studios	Convert to Cafeteria
5 <sup>th</sup>	Arts Gallery/Painting Studio/Pottery Workshop	Convert to Multi-purpose Area
	IT Exhibition Area/Computer Laboratories/IT Office/Printer Room	
	Retail Area	
6 <sup>th</sup>	Photography Studio/Dark Room/Audio Recording Rooms/Band Rooms/Piano Rooms	Convert to Multi-purpose Area
	Computer Laboratories/Printer Room	
	Retail Area/IT Café	
7 <sup>th</sup> – 9 <sup>th</sup>	Office/Multi-function Area	No change
10 <sup>th</sup>	Hostel Rooms/Lounge/Reception/Fitness Room	No change
11 <sup>th</sup> – 12 <sup>th</sup>	Hostel Rooms	No change
Hostel Block	Hostel Rooms	No change



# **A Proposal for Centre for Youth Development**

**Dr. T. Wing Lo, Founding Director**

**Dr. Elaine Au, Director**

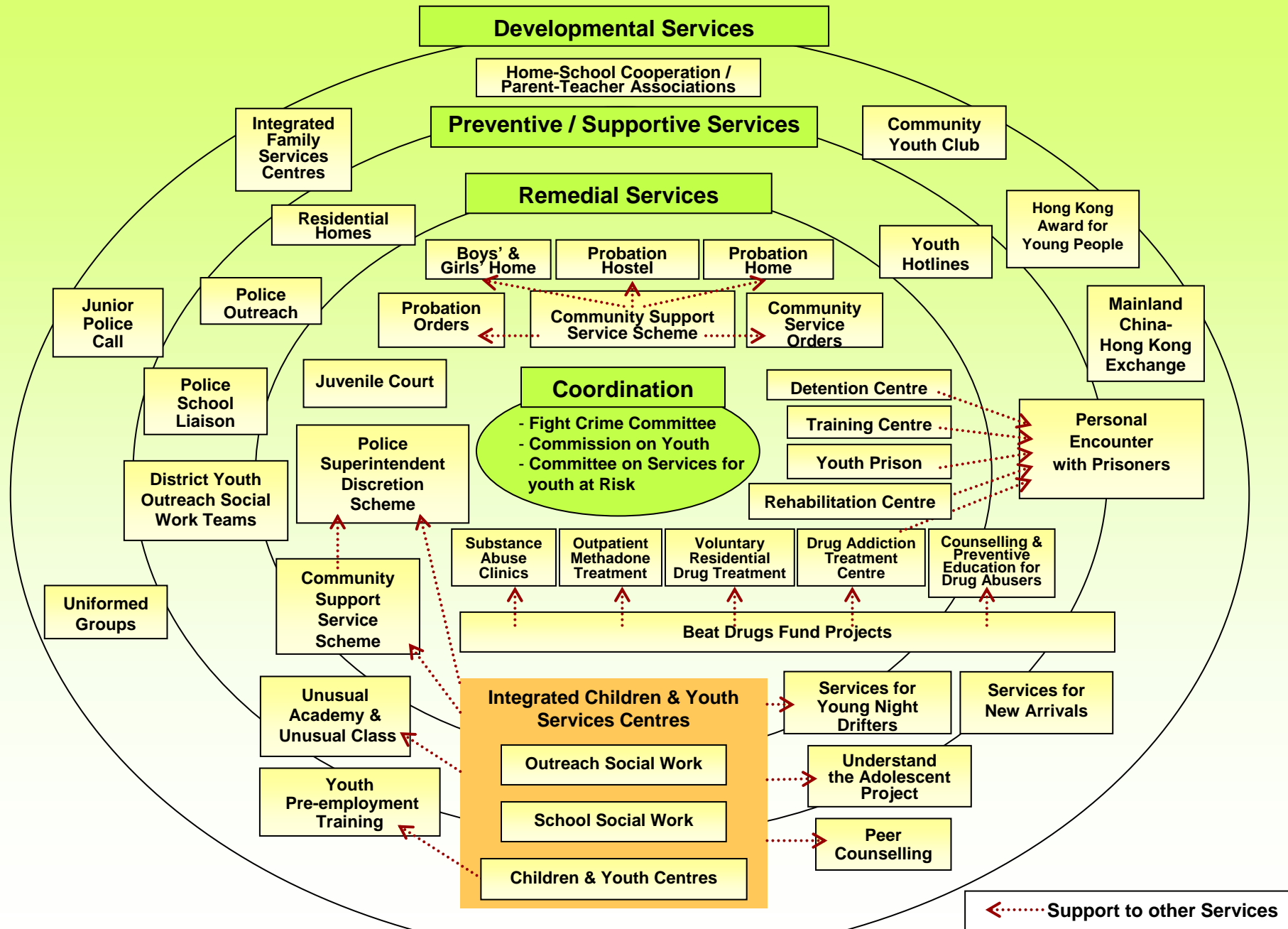
Youth Studies Net, City University of Hong Kong

1<sup>st</sup> December 2004

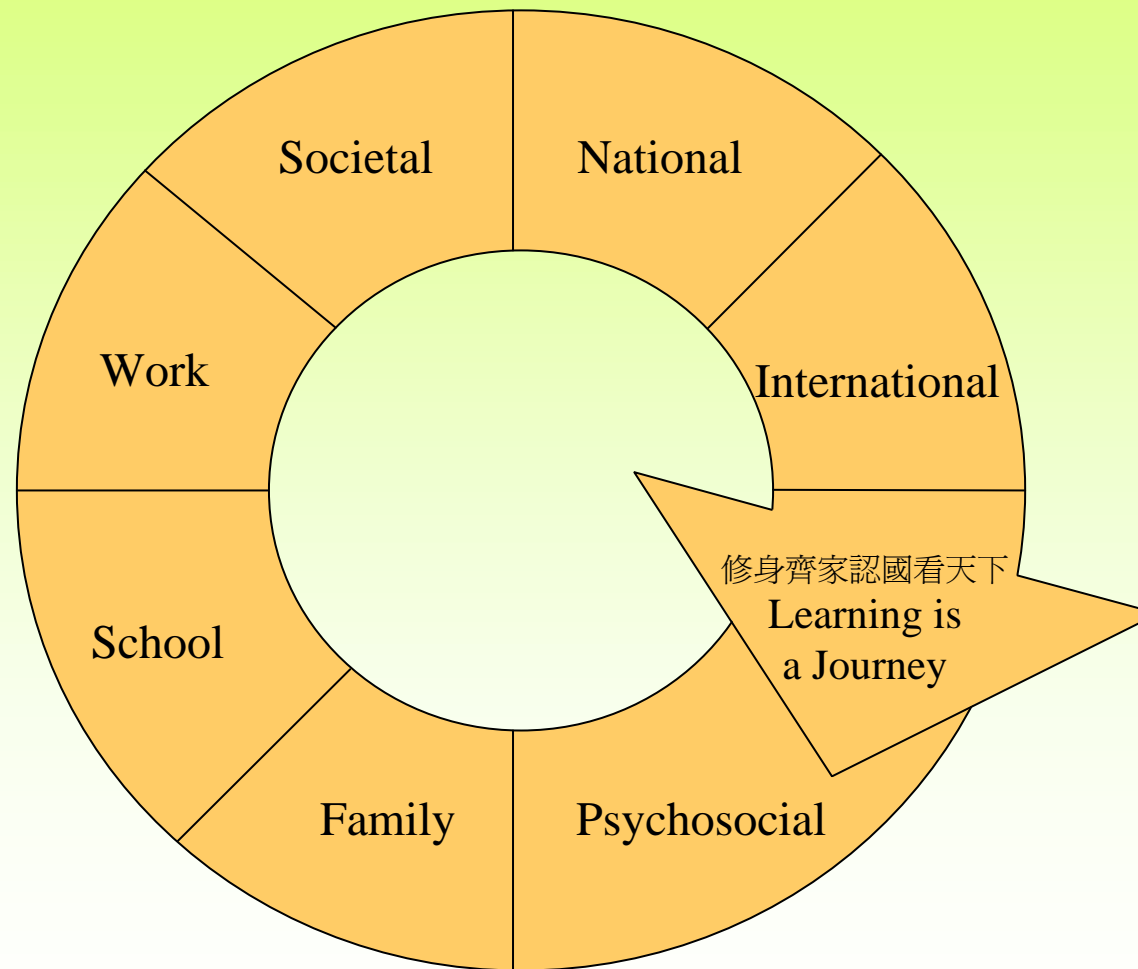
# Issues to be considered

- Location
- Modernization of current centers
- Impact of lump-sum grants
- Competition of existing services

# Services for Young People in Hong Kong (Lo et al., 2003:6)



## Youth Development Pathway



# Youth Development Pathway

## Objectives

### Globalizing Youth

- World-ready youth
- World vision and horizon

### Nationalizing Youth

- Youth with national identity
- Understand your country and culture

### Social Participation

- Socially committed youth
- Community leadership

### Social Role-taking

- Self-directed career development
- Responsible and mature youth

### Knowledge and Character Building

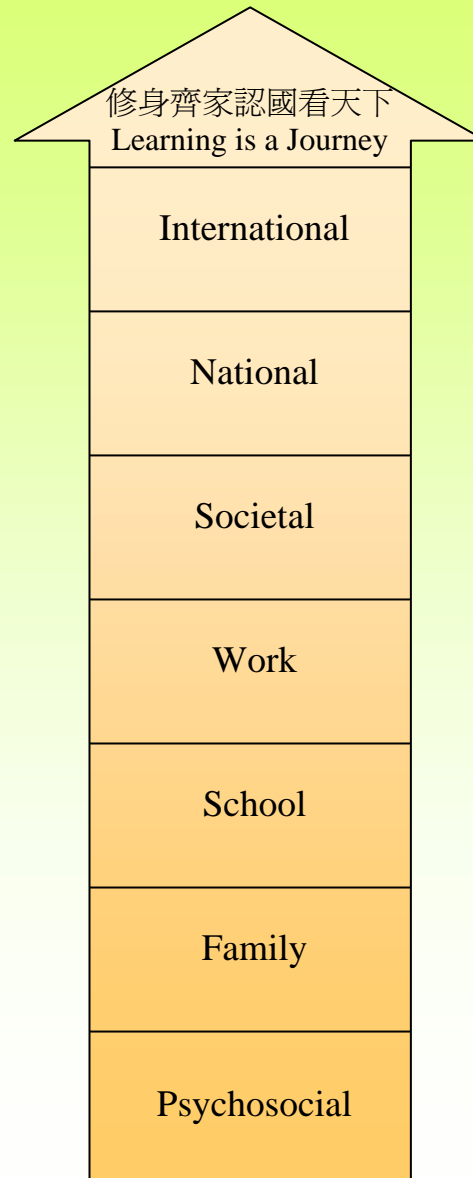
- Whole person development
- Pathway towards wisdom and truth

### Family Commitment

- Youth embeddedness to conventional tie
- Contribute to family harmony

### Empowering Youth

- Competent, confident and assertive youth
- Youth own the direction of self development



## Existing Services/Examples of Current Programmes

- Overseas visit, overseas exchange

- HK China Exchange, Hong Kong Playground Association project

- Volunteer project, community services

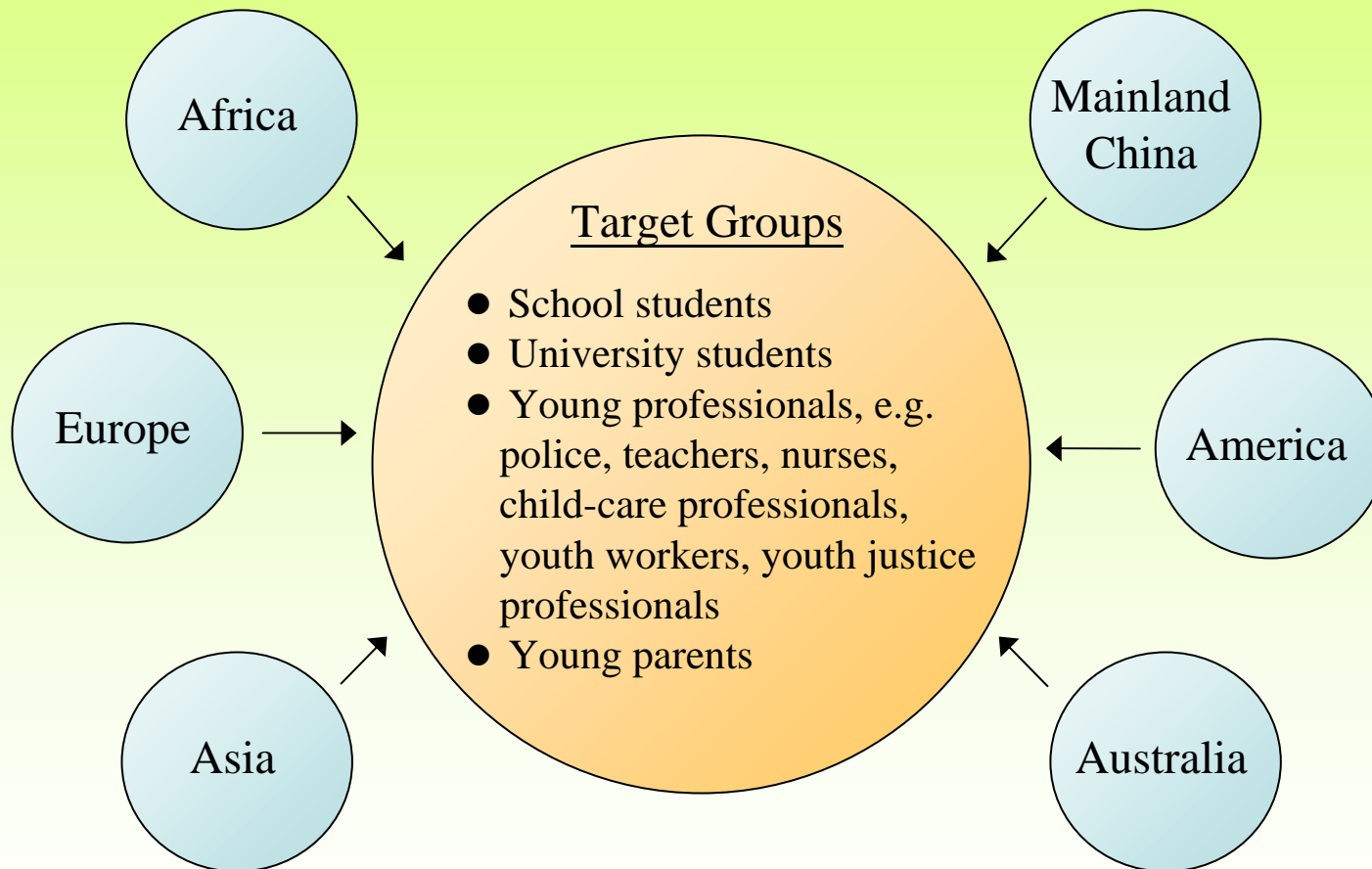
- Youth Pre-employment Training, Youth Work Experience and Training Scheme

- Anti-bullying, Understand the Adolescent Project, civic education

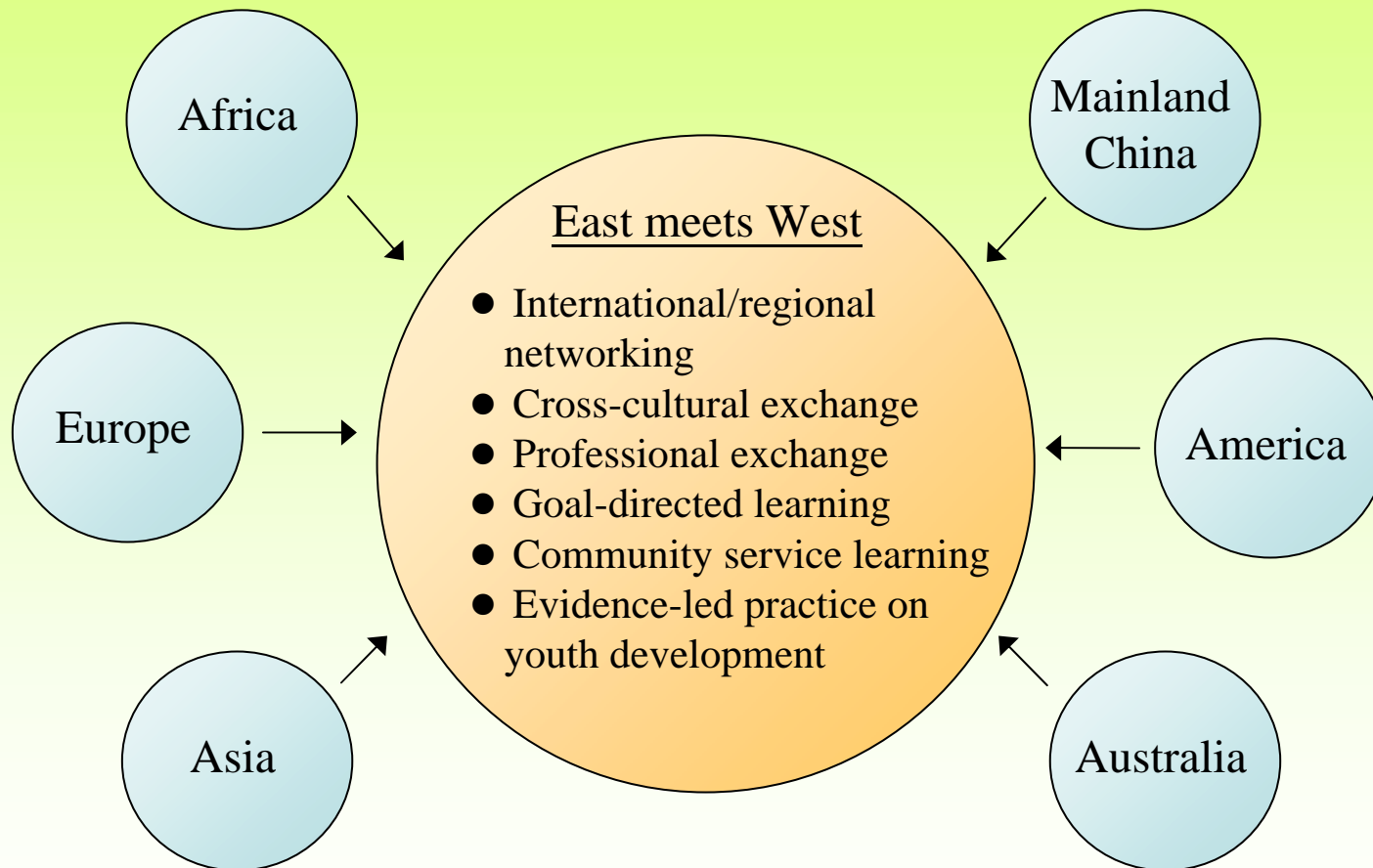
- Family life education, service provided by Integrated Family Service Centres

- 4 core programmes provided by Integrated Children and Youth Services Centres

# Youth Hub



# Youth Hub



# Role of Centre for Youth Development

## Objectives

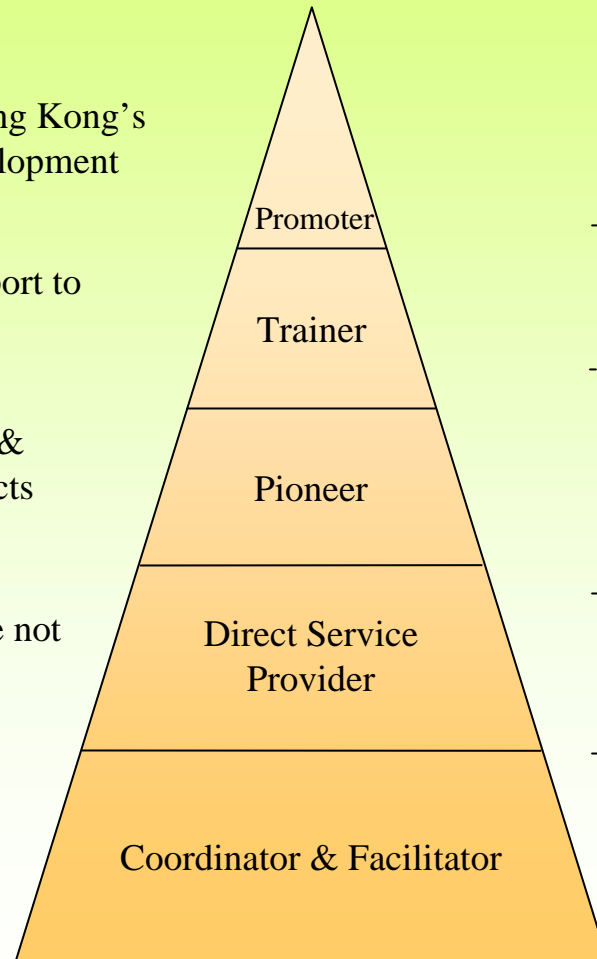
Promote internationally Hong Kong's brand name in youth development

Provide professional support to service providers

Identify service gaps & experiment new projects

Provide services that are not provided by NGOs

Coordinate existing projects of NGOs to avoid overlap



## Examples of Programmes

- Represent Hong Kong in UN or international youth conferences

- Train the trainers, youth workers and youth leaders

- Police-youth collaboration
- Mock court/legislative council
- Empowerment programmes for minority groups
- Inter-generational collaboration programmes
- Young mothers empowerment programmes

- Hub for young innovation products
- Hub for youth awardees
- Hub for Hong Kong wide youth leaders or youth council

- Identify & promote best practices
- Collect local database on youth studies
- Provide information on international network
- Collaboration in international exchange



# Developmental Pathway for Centre for Youth Development

