

政府總部
民政事務局

香港添馬添美道二號
政府總部西翼十二樓



**GOVERNMENT SECRETARIAT
HOME AFFAIRS BUREAU**

12TH FLOOR, WEST WING,
CENTRAL GOVERNMENT OFFICES,
2 TIM MEI AVENUE,
TAMAR,
HONG KONG.

Translation

本函檔號 Our Ref: L/M HAB/R&S 129(17)
來函檔號 Your Ref :

電話號碼 Tel. No.: 3509 8127
傳真號碼 Fax No.: 2519 7404

By Fax: 2509 0775

16 June 2017

Clerk to the Panel on Home Affairs
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Ms Joanne MAK)

Dear Ms MAK,

Enquiries about the Kai Tak Sports Park project

We refer to the letter dated 9 May 2017 from the Legislative Council Secretariat, referring us a letter addressed to the Chairman of the Panel on Home Affairs from Hon CHU Hoi-dick. Our response to the issues raised in the letter is in the attachment.

Yours sincerely,

(Original signed)

(Linda LAW)
for Secretary for Home Affairs

(1) Dedicated Project Team

A dedicated project team set up under the Commissioner for Sports in the Home Affairs Bureau (HAB) is responsible for the preparation and implementation of the Kai Tak Sports Park (the Sports Park) project. The team comprises 18 members from different professions and grades, namely Administrative Officer, Leisure Services Manager, Architect, Landscape Architect, Building Services Engineer, Structural Engineer and Quantity Surveyor. Engineers and architects in the project team will examine the works details submitted by the successful bidder and take appropriate follow-up action to ensure the project is delivered with quality, in budget and on time. The Leisure Services Managers are responsible for formulating operational requirements and making recommendations on how monitor operation performance.

The HAB has also engaged consultants to provide professional advice on operation, technical issues, quantity surveying, etc. and to solicit comments, through their networks, from overseas experts on the design, construction and management of an international stadium.

(2) Problem of ageing venues

At present, major events in Hong Kong are mainly held at the Hong Kong Stadium (built in 1952 and renovated in 1994), the Hong Kong Coliseum (commissioned in 1983) and the Queen Elizabeth Stadium (commissioned in 1980). The infrastructure and ancillary facilities of these venues cannot fully meet the latest standards for large-scale sports events and the expectations of international athletes and event organisers. Constrained by their size, location and environment, substantial improvement to these venues is also difficult. In general, these venues are not equipped with specially-designed media centre, doping control room, and office space for event organisers and technical staff. Temporary measures have to be implemented to satisfy the requirements of events. In addition, the seating capacity and supporting services (e.g. changing facilities) of the Hong Kong Stadium are not on a par with the requirements of major events such as the Hong Kong Rugby Sevens. Its open design also renders the Stadium susceptible to noise problems and weather conditions. As for the Hong Kong Coliseum, there is no ancillary sports hall for athletes to warm up before competitions.

(3) Bidding to Host the Asian Games

The review on Hong Kong's bid to host the Asian Games can be found to the webpage of the HAB: www.asiangames.hab.gov.hk

(4) Hong Kong Stadium

There were a total of 76 event days for football matches held in the Hong Kong Stadium in the past five years (i.e. from 2012 to 2016)¹, in which four football events were recorded a full house. According to records, the Hong Kong Football Association hired the Hong Kong Stadium to host around 10 to 20 football matches every year.

(5) Design and purpose of the Main Stadium of the KTSP

The Main Stadium of the KTSP will adopt a flexible design to allow more and different activities to be held there and attract more sports events and other major events to take place in Hong Kong for the enjoyment of the public and visitors.

The Main Stadium of the KTSP will be equipped with an acoustic retractable roof to enable events to be held under inclement weather, and a flexible turf system for various major sports events (e.g. football, rugby, equestrian and motorcycling), concerts, extreme sports performances, etc. to take place. Moreover, the Main Stadium will be designed to create vibrant events of different scales (e.g. 20 000 or 35 000 spectators) by means of stage positioning and the draping design.

When drawing up a reference business plan, the Operations Consultant has conducted an extensive consultation with the sports sector. Regarding football matches to be held in the Main Stadium in the future, local events will include the Hong Kong Premier League, the Hong Kong FA Cup and some matches of the Senior Shield; and international events will include events featuring the Hong Kong Team and matches with visiting teams.

¹ During the 2015-16 football season, as the reconstruction of the turf pitch was performed at the Hong Kong Stadium, the frequency of using the Stadium for matches of the year was lower than that of the previous football seasons.

(6) Operational forecast

The Operations Consultant has prepared a detailed financial projection on the operation of the Sports Park. Details are set out in our previous replies dated 4 May and 29 May to the Panel on Home Affairs and the Public Works Subcommittee respectively. Reference can also be made to the copies at Appendices 1 and 2.

(7) Anticipated hire charges

When the Main Stadium, the Indoor Sports Centre and the Public Sports Ground of the Sports Park are hired for sports purpose (including for the organisation of competitions and for daily hiring by the public), the charges should be set by making reference to similar facilities operated by the Leisure and Cultural Services Department (LCSD), educational institutions and other non-profit making organisations. Please visit the LCSD webpages below for the existing fees and charges of its facilities:

http://www.lcsd.gov.hk/en/leisurelink/index/ls_booking_charges_urban.html

<http://www.lcsd.gov.hk/en/facilities/facilitiesbooking/procedure/sportgroundorganisation/hireurban.html>

<http://www.lcsd.gov.hk/en/stadium/hks/hiring-charge.html>

政府總部
民政事務局

香港添馬添美道二號
政府總部西翼十二樓



**GOVERNMENT SECRETARIAT
HOME AFFAIRS BUREAU**

12TH FLOOR, WEST WING,
CENTRAL GOVERNMENT OFFICES,
2 TIM MEI AVENUE,
TAMAR,
HONG KONG.

本函檔號 Our Ref: L/M HAB/R&S 109(17)
來函檔號 Your Ref :

電話號碼 Tel. No.: 3509 8127
傳真號碼 Fax No.: 2519 7404

By Fax: 2509 0775

4 May 2017


Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Ms Joanne Mak)

Dear Ms Mak,

**Panel on Home Affairs
Supplementary Information on Kai Tak Sports Park Project**

At the Panel meeting on 27 February 2017, Members requested information on the detailed financial projection and the monitoring regime of the Kai Tak Sports Park. The relevant information is attached in Appendices 1 and 2 respectively for Members' reference.

Yours sincerely,


P.P. (Ms Linda Law)
for Secretary for Home Affairs

Appendix 1**Financial Projection for the Kai Tak Sports Park****PURPOSE**

This note provides a summary of the business financial analysis and the reference financial projections prepared by the Operations Consultant (OC) to estimate the potential financial performance of the Kai Tak Sports Park (the Sports Park) during operations. The note includes:

- (a) key findings of the OC's analysis;
- (b) reference financial projections for the initial five years of operations;
- (c) key business and financial assumptions underpinning the reference financial projections; and
- (d) sensitivity analysis of key business and financial assumptions that drive the reference financial projections of the Sports Park.

An important notice in relation to the financial projections provided in this note is at Annex 1; the general assumptions adopted by the OC are set out in Annex 2. All readers of this note are invited to read Annexes 1 and 2 prior to perusal of the financial projections.

KEY FINDINGS

2. Based on the analysis presented below, the following key findings are highlighted:

- (a) **Sustainable financial operations** – the base case reference financial projections indicate the potential to realise a positive net financial result from the Sports Park from the commencement of the operating period (see Table 1 below);

(b) **Short term risks –**

- (i) Under the proposed DBO contract structure, the Contracted Party will be responsible for managing a range of commercial and operating risks associated with the Sports Park. Given the green-field nature of the Sports Park, the highest level of risk is expected to occur during the initial five years of operations;
- (ii) Key risks impacting operating income during this period include retail demand and event demand;
- (iii) The financial analysis indicates that if **only retail demand** is 30% lower than assumed in the reference financial projections, a negative net financial result will occur in the initial operating year; with a small surplus in net financial result projected in subsequent years (see Figure 1 below);
- (iv) The financial analysis indicates that if **only event demand** is 30% lower than assumed in the reference financial projections, the Contracted Party will still potentially be able to generate a surplus net financial result during the initial five years of the operating period (see Figure 2 below); and
- (v) The financial analysis indicates that if **both event and retail demand** are 30% lower than what is assumed in the reference financial projections, the Contracted Party will experience ongoing deficits in net financial result and may experience solvency challenges (see Figure 3 below).

BASE CASE REFERENCE FINANCIAL PROJECTIONS

3. The base case reference financial projections prepared by the OC for the Sports Park over the initial five operating years¹ are presented in Table 1 below.

¹ For the purposes of this note we have presented the initial five operating years, during which the Sports Park is assumed to reach a steady state of operation. The base case reference financial projections for the remaining operating years indicate that a similar positive financial result could be achieved.

Table 1: Base case reference financial projections over the initial five years of the operating period

HK\$ ²	2022 ³	2023	2024	2025 ⁴	2026
Operating income					
Main Stadium	134	277	287	297	307
Public Sports Ground	3	7	7	7	8
Indoor Sports Centre	30	63	65	67	69
Public Open Space	8	16	16	17	17
Retail and Dining Facilities and Car Park	173	417	523	549	572
Total operating income	348	779	899	937	974
Less:					
Facility specific operating costs	(178)	(340)	(354)	(366)	(379)
Main Stadium	(87)	(168)	(174)	(180)	(186)
Public Sports Ground	(14)	(25)	(26)	(27)	(27)
Indoor Sports Centre	(22)	(35)	(36)	(38)	(39)
Public Open Space	(15)	(30)	(31)	(32)	(33)
Retail and Dining Facilities and Car Park	(40)	(82)	(87)	(90)	(93)
Precinct wide overheads⁵	(86)	(177)	(184)	(190)	(197)
Non-operating expenses⁶	(33)	(81)	(99)	(103)	(107)
Net financial result (before revenue sharing with Government)	51	181	263	278	291

4. As can be seen from Table 1 above, the key sources of operating income are Retail and Dining Facilities, Car Park, Main Stadium and Indoor Sports Centre.

² Amounts presented in money of the day figures.

³ In 2022, it is assumed that the Sports Park will be operational for the second half of the calendar year only.

⁴ 2025 is the reference year of annual financial projections that were presented in the previous Legislative Council Panel Paper on Home Affairs discussed on 27 February 2017. It should be noted that there have been minor adjustments from the financial projections presented at that time; these relate primarily to updates on estimated asset maintenance costs in some facilities.

⁵ Overheads include corporate management staff, IT and communications, sales and marketing, office administration and insurance etc

⁶ Non-operating expenses include working capital funding, taxes and capital expenditure for commercial facilities.

5. It should be noted that the base case reference financial projections presented in Table 1 above do not reflect the share of income with the Government which is an intended feature of the DBO contract between the Government and the Contracted Party. Such share of income with the Government would reduce the net financial result presented in Table 1. The actual arrangements and volume of payment to the Government will be determined in the tender process.

6. Some of the key facility highlights are as follows:

- (a) The primary driver of operating income from Retail and Dining Facilities and Car Park is lease income generated from retail tenants in the Indoor Sports Centre Building;
- (b) The main drivers of operating income from the Main Stadium are venue hire charges paid by event organisers and annual sales of corporate hospitality suites. A breakdown of projected operating income from the Main Stadium, averaged over the period 2022 to 2026, is shown at Table 2 below:

Table 2: Main Stadium operating income breakdown

Type of income	% of operating income
Venue hire by event organisers	33%
Corporate hospitality sales	29%
Commercial sales including advertising and sponsorship	16%
Recovery of event related costs	9%
Commissions from Food & Beverage sales	8%
Other income	5%

- (c) The main drivers of projected Indoor Sports Centre income are Main Arena venue hire charges paid by event organisers and community hire income. A breakdown of the projected Indoor Sports Centre operating income, averaged over the period 2022 to 2026, is shown at Table 3 below:

Table 3: Indoor Sports Centre operating income breakdown

Type of income	% of operating income
Venue hire by event organisers	54%
Community hire of courts and multi-purpose rooms	28%
Recovery of event related costs	7%
Commission from ticketing charges	5%
Other income	6%

KEY BASE CASE REFERENCE FINANCIAL PROJECTIONS ASSUMPTIONS

7. As described above, there are two major drivers of operating income for the Sports Park:

- (a) Income generated from Retail and Dining Facilities; and
- (b) Income generated from events held in the Main Stadium and the Indoor Sports Centre Main Arena.

8. The key assumptions relating to these income drivers are outlined in the following paragraphs. All financial assumptions are quoted in 2015 Hong Kong dollars and indexed in the reference financial projections. The key macro business assumptions of the reference financial projections are provided at **Annex 2**.

9. Key Retail and Dining facilities assumptions are as follows:

- (a) The Contracted Party will lease retail space to tenants and charge a rental rate based on leasable floor area and an additional management fee;
- (b) There will be approximately 38,000 m² leasable space across the Sports Park, primarily located within the Indoors Sports Centre Building;
- (c) Occupancy levels for the retail facilities in the Indoor Sports Centre Building will commence at 60% in the initial operating

year and gradually rise to 85% at steady state, which is assumed to occur three years after commissioning of the Sports Park; and

- (d) Based on the retail rental levels in the neighbouring areas, rental rates for the leasable space in the Sports Park are assumed to achieve an average of HK\$840 per occupied leasable m² per month.

10. Key Main Stadium assumptions are as follows:

- (a) Main Stadium events as shown in summary at Table 4 below will be achieved on an annual basis.

Table 4: Main Stadium events calendar

Event type	Number of days
<i>Sports events</i>	
Hong Kong Rugby Sevens	3 event days
International events	8 event days
Local events	5 event days
<i>Entertainment events</i>	
International music/entertainment events	8 event days
Local music/entertainment events	3 event days
<i>Other events</i>	
Community events	3 event days

- (b) 70 corporate hospitality suites will be rented at a rate of HK\$850,000 per suite per annum.

11. Key Indoor Sports Centre Main Arena assumptions are as follows:

- (a) The number of days on which non-sports events⁷ will be held at the Indoor Sports Centre will be restricted to a maximum of one third of the calendar year (including set up and take down days). The remaining usage of the Indoor Sports Centre is assumed to be related to sports use, either hired by event organisers for sports events or hired by the community for private sports use;

⁷ For the purposes of financial analysis, non-sports events are assumed to include entertainment, concerts, etc.

- (b) Usage of the Indoor Sports Centre Main Arena as shown at Table 5 below will be achieved.

Table 5: Indoor Sports Centre Main Arena utilisation calendar

Usage type	Number of days
<i>Sports use</i>	
Sports events	17 event days
Community sports use	240 community use days
<i>Non-sports events</i>	
Music/entertainment events	32 event days

- (c) With respect to community hire of available facilities and courts, the Contracted Party will charge rates which are comparable to those charged by LCSD.

SENSITIVITY ANALYSIS

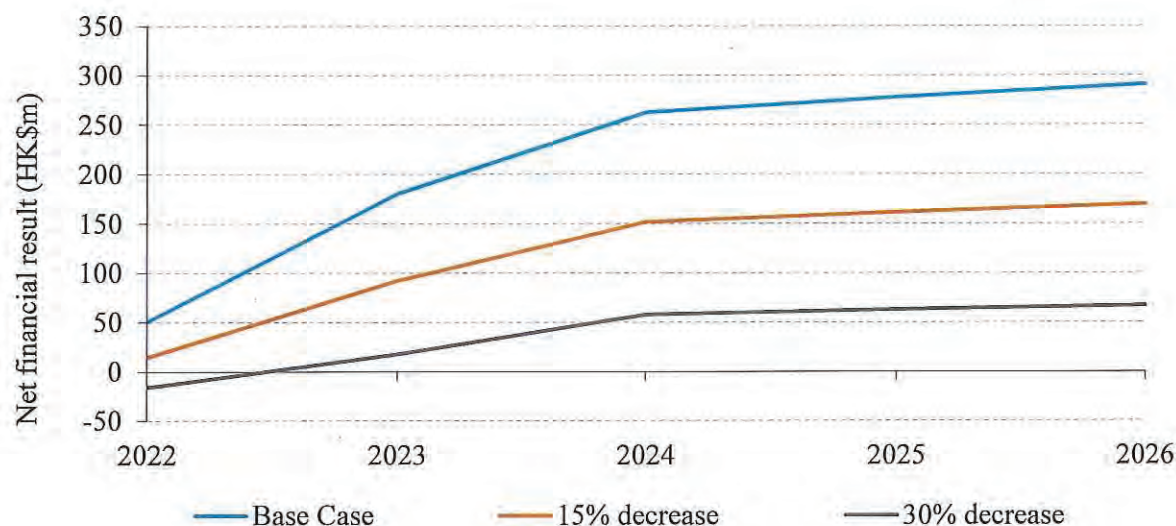
12. The initial five years of the Sports Park operations are expected to represent the highest operations risk period for the Contracted Party. As a green-field project the time required to develop the income streams of the Sports Park is uncertain. During this period, key income related operating risks to the Contracted Party are expected to include:

- (a) Retail demand – rents generated from Retail and Dining Facilities; and
- (b) Event demand – income generated from events held in the Main Stadium and the Indoor Sports Centre Main Arena.

13. To understand the financial importance of retail demand, the OC has carried out sensitivity analysis as follows:

- (a) **a 15% decrease** in Retail and Dining Facilities rental rates and occupancy levels from the base case reference financial projections across the initial 5-year operating period; and
- (b) **a 30% decrease** in Retail and Dining Facilities rental rates and occupancy levels from the base case reference financial projections across the initial 5-year operating period.

Figure 1: Net financial result sensitivity analysis: Retail and Dining Facilities rental rate and occupancy levels reduced during the initial 5-year operating period



14. Results of the sensitivity analysis illustrated in Figure 1 above show that the Sports Park is projected to generate positive net financial results (a small surplus) under each retail demand sensitivity presented, with the exception of the initial operating year under a 30% decrease in retail demand. Using the year 2025 as a reference point, with each 15% decrease in retail demand, the net financial result decreases by approximately HK\$100m, or 39% from the reference financial projections. This confirms that operating financial performance of the Sports Park is significantly dependent on the retail rental market.

15. To understand the financial importance of event demand at the Main Stadium and the Indoor Sports Centre Main Arena, the following sensitivity analysis has been carried out:

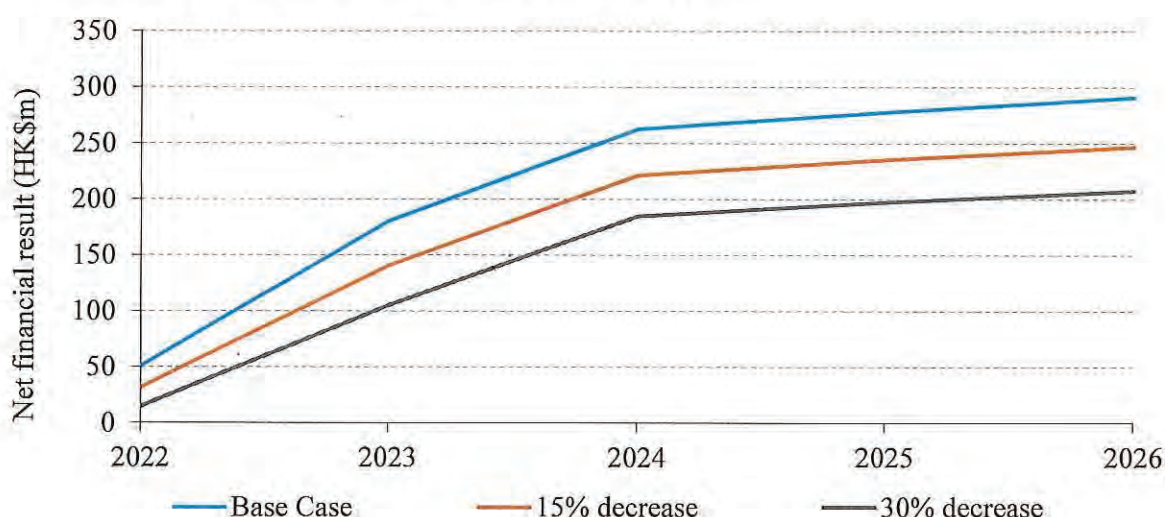
- (a) a 15% decrease in event demand⁸ at the Main Stadium and Indoor Sports Centre Main Arena from the base case reference

⁸ For our sensitivity analysis we have assumed a decrease in demand of events translates to an equivalent reduction in the number of event days at the Main Stadium and Indoor Sports Centre Main Arena, and will experience an equivalent reduction in event attendances. Additionally we have assumed there will also be a corresponding decline in commercial and corporate hospitality sales as a result of reduced demand in events. For example a 10% decrease in demand of events will reduce total events days to 27 days at the Main Stadium (a reduction of 3 event days or 10% of 30 event days), 44

financial projections across the initial 5-year operating period;
and

- (b) a 30% decrease in event demand at the Main Stadium and Indoor Sports Centre Main Arena from the base case reference financial projections across the initial 5-year operating period.

Figure 2: Net financial result sensitivity analysis: Event demand levels reduced during the initial 5-year operating period



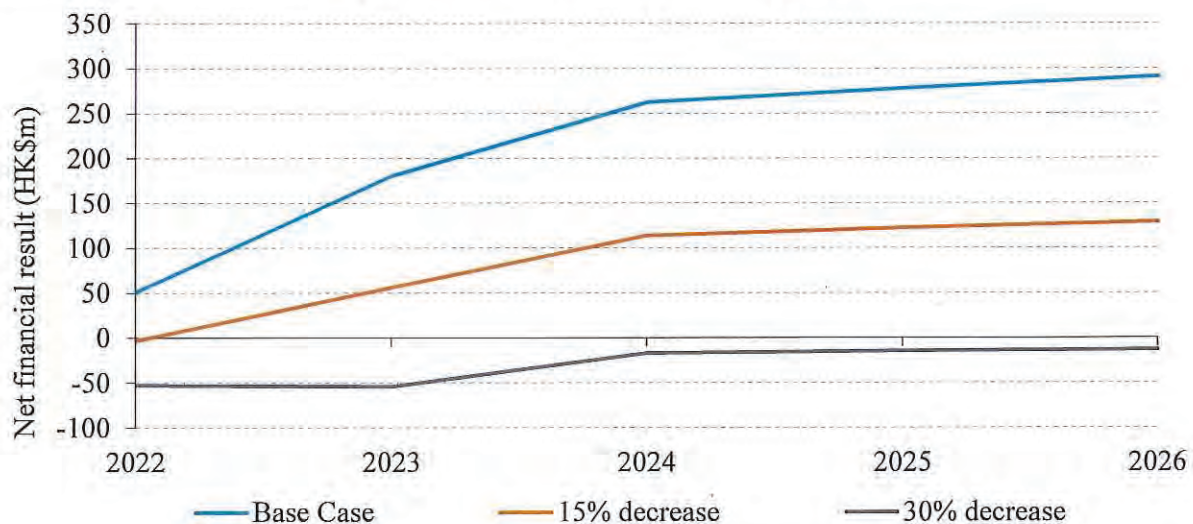
16. Results of the sensitivity analysis illustrated in Figure 2 above show that the Sports Park is projected to generate positive net financial results at each event demand sensitivity presented. Using the year 2025 as a reference point, with each 15% decrease in event demand, the net financial result decreases by approximately HK\$40m or 15% from the reference financial projections. This indicates that the financial performance of the Sports Park is dependent on event demand, albeit to a lesser extent than retail demand.

17. To understand the financial impact of both retail rental demand and event demand, the following sensitivity analysis has been carried out:

event days at the Indoor Sports Centre Main Arena (a reduction of 5 event days or 10% of 49 days) and attendees per event day at the Hong Kong Rugby Sevens event will reduce by 10%.

- (a) a 15% decrease in retail demand and event demand from the base case reference financial projections across the initial 5-year operating period; and
- (b) a 30% decrease in retail demand and event demand from the base case reference financial projections across the initial 5-year operating period.

Figure 3: Net financial result sensitivity analysis: event demand and retail demand reduced during the initial 5-year operating period



18. Results of the sensitivity analysis illustrated in Figure 3 above show that if a 15% decrease in both event and retail demand is experienced, it is projected that the Contracted Party would generate a broadly neutral net result in 2022, followed by the production of a small surplus in the years thereafter. However, under a 30% decrease in both retail and event demand, the Sports Park is projected to generate a **negative net financial result** for each of the first five years of operations. This latter sensitivity indicates the Contracted Party may experience solvency challenges if substantially lower than expected retail and event demand were to persist at these levels for a prolonged period.

19. It should be noted that the above sensitivity analysis does not include any share of income or minimum payments to the Government. This is intended to be a feature of the DBO contract between the Government and the Contracted Party, with the actual arrangements and volume of payment to the Government to be determined during the tender process. As such, any payments made by the

Contracted Party to Government would further reduce the net financial result presented in Figures 1, 2 and 3, for example, potentially turning the positive net financial gain to negative when the retail demand is 30% lower than the base case reference projections (Figure 1), or potentially exacerbating the solvency challenges in the scenario that both retail and event demand is 30% lower than the base case reference financial projections (Figure 3).

Annex 1

Important notice

This note and the information contained herein is for reference only. It is based upon information provided by the Operations Consultant for the Government. The assumptions, analyses and statements given herein should not be taken as complete, accurate or adequate, or a representation as to the commercial or financial feasibility of the Sports Park. Any persons including those who may respond to the Government's invitation to pre-qualification or tender for any works relating to the Sports Park are required to conduct their own investigations and analyses by reference to the pre-qualification or tender documents for the Sports Park, which are still under preparation, and all other relevant information and obtain independent advice from appropriate sources.

Annex 2

General business assumptions and approach

The general assumptions and approach adopted in the OC's business and financial analysis of the Sports Park include:

- All analysis is from the perspective of the Contracted Party;
- Financial projections are based on calendar years;
- The Sports Park will commence operations by 1 July 2022, such that in Year 1 the project will only be operational for half of the calendar year;
- Indexation rates have been sourced from the Treasury Branch of the Financial Services and the Treasury Bureau;
- The majority of planned developments forming part of the Kai Tak Development including residential, retail, commercial and public services will be completed at or around the time of commencement of operations of the Sports Park;
- All supporting infrastructure for the Sports Park such as water, sewage, power, gas, district cooling and telecommunications will be supplied/generated at a consistent and reliable level during operations;
- The transportation system to, from and within Kai Tak and East Kowloon will be improved significantly from current available networks and maintained regularly to meet the accessibility requirements of the Sports Park, and the relevant infrastructure will be operational prior to the commencement of operations for the Sports Park. This includes completion of the Kai Tak and To Kwa Wan MTR stations and a public transportation solution allowing members of the general public to move freely in and around the Kai Tak Development area;
- There will be covered pedestrian access to and from the Kai Tak MTR station to the Sports Park and that this access will be maintained to a high standard for the duration of the operating period;
- The Sports Park facilities will be well designed and maintained regularly in a manner that will allow the projected event, community and commercial utilisation levels to be delivered;

- The existing Hong Kong Stadium will not directly compete with the Sports Park in hosting events;
- Event schedule for the Public Open Space assumes that, in the long term, the Central Harbourfront Event Space will be redeveloped such that some of the existing events held at the Central Harbourfront Event Space may move to the Public Open Space of the Sports Park;
- The Government will be responsible for funding the lifecycle replacement costs for pre-identified sports and community facilities of Sports Park and the Contracted Party will be responsible for funding the lifecycle replacement costs for all other facilities including retail and the car park;
- The Contracted Party will comprise experienced international and local organisations and personnel with capability to manage effectively the day to day operations of the Sports Park;
- The economies of the major trading, investor and tourist generating countries to Hong Kong will not experience significant and sustained economic downturns in the near future;
- There will be no political, terror, health, social or natural events that will significantly impact general business confidence in Hong Kong to the detriment of commercial activity, tourist arrivals and domestic travel; and
- In line with the Government's preferred procurement model, all cash flow (revenue and operating costs) risks will be transferred to the Contracted Party and these risks (and any associated cash flow returns) will not be passed to any sub-contractors or partner entities. This assumes the management and operations of all facilities will be either undertaken by the Contracted Party legal entity itself, or under management agreements with third parties in which these cash flow risks will be retained by the Contracted Party. In practice, the Contracted Party may elect to adopt alternative structures within their organisation and with third party partner groups.

Monitoring Regime on Operation of Kai Tak Sports Park

During the operation phase of the Kai Tak Sports Park (the Sports Park), the Home Affairs Bureau (HAB) plans to set up a monitoring team to oversee the performance of the party which has been awarded the contract to Design-Build-and-Operate (DBO) the Sports Park (the Contracted Party). The Contracted Party will be required to manage facilities of the Sports Park in accordance with a set of Operating Requirements. The performance of the Contracted Party will be measured periodically against a set of Key Performance Indicators (KPIs) and failure to perform will result in penalties. A joint committee of HAB and the Contracted Party will be set up to provide regular forums for reporting, discussing and reviewing. The details are set out in the ensuing sections.

A. Operating Requirements

2. A non-exclusive overview of items included in the proposed set of Operating Requirements is as follows:

Venue management	
Venue scheduling	<p>Implement and deliver a growth strategy for events, functions and activities in the Sports Park, including:</p> <ul style="list-style-type: none"> ● Main Stadium (MS) to host at least 10 football event days per year. ● At least 2/3 of available court hours of the Indoor Sports Centre (ISC) to be used for sports events, activities or community hiring. ● Public Sports Ground (PSG) to be used primarily for sports events, activities or

	community hiring.
Community and Government access	<ul style="list-style-type: none"> ● Provide access for the Hong Kong community for sports participation at all reasonable times when relevant sports facilities in the Sports Park are not being utilised for events. ● Ensure access arrangements¹ of the ISC and PSG are no less favourable to those of similar Leisure and Cultural Services Department (LCSD) venues. ● Community hiring charges for sporting facilities in ISC and PSG are comparable to those charged by LCSD, education institutes and other non-profit making organizations for similar facilities. ● The Government may make use of each of the MS, ISC, PSG and Public Open Space up to 7 days per year without venue hiring charges.
Sports facilities and programmes for community booking and enrolment	<ul style="list-style-type: none"> ● Ensure that a user friendly online platform is available to the community to book and pay for sports facilities and programmes provided in the Sports Park. ● Schedule and deliver a range of programmes, including training, competitions and group activities for community enrolment.
Precinct activation	Deliver a highly patronized Sports Park by optimizing the number and quality of non-event day functions and activities.
Communications and marketing services	Design and deliver all necessary marketing and communications to promote the usage and identity of the Sports Park.

¹ Access arrangements include physical access to facilities, booking arrangement, balloting arrangement (if any), distribution of court hours between hiring by individuals and event use, etc.

Catering	Deliver a broad and innovative range of food and beverage products for a wide variety of events and non-event day functions and activities.
Commercial retail services	Achieve the operation of vibrant and commercially minded shopping and dining facilities.
Event management	
Event delivery	Ensure events are planned, organised and delivered in an effective, efficient and safe manner.
Customer services	Implement an integrated and cohesive customer services strategy to ensure development of a quality visitor and hirer experience.
Noise management	Comply with all conditions and criteria in relation to noise control.
Facilities management	
Asset management and maintenance	Ensure the integrity and functionality of facilities of the Sports Park and ensure they are available at all reasonable times for events and activities.
Sports surfaces (including natural turf)	Provide, maintain and operate indoor and outdoor sports surfaces for a wide range of sporting use, meeting the relevant standards and requirements for hosting of competitions and events.
Horticulture maintenance	Maintain an aesthetically pleasing landscape that is functional and complementary to the environment.
Cleaning	Ensure the Sports Park is aesthetically pleasing and safe.
Waste management	Maximise recycling and minimise waste.
Asset security and	Prevent misbehaviour and protect physical assets,

protection	including providing 24-hour asset security service.
ICT and AV	Provide reliable and high quality ICT and AV services to enhance visitor and hirer experience, including high density wireless LAN connectivity throughout the Sports Park.
Utilities management	Optimise consumption of utilities and provide environmentally sustainable outcomes.

B. Key Performance Indicators (KPIs)

3. KPIs are developed to measure performance of the Contracted Party against stipulations in the Operating Requirements. A predetermined penalty regime will be included in the contract on financial consequence in the event of non-performance of KPIs. A non-exclusive overview of items covered by KPIs is as follows:

- Public access and sports use;
- Utilisation/visitation and events calendar;
- Turf system;
- Indoor multi-purpose playing surface;
- Asset maintenance;
- Noise control and management;
- Safety and security;
- Horticulture and landscape;
- Customer satisfaction; and
- Reporting

The actual indicators and targets for the individual KPIs will be formulated by HAB and set out in the contract.

C. Monitoring Team in HAB

4. The Finance Committee approved in 2014 and 2015 the creation and extension of a supernumerary Administrative Officer Staff Grade C post to lead a dedicated project team in HAB to take forward the planning of the Sports Park and to oversee project implementation and construction. The team comprises government officers with technical expertise, namely Architects, Landscape Architects, Building Services Engineers, Structural Engineers and Quantity Surveyors. HAB will continue to assume the monitoring role upon completion of the Sports Park. While the exact staff complement for the monitoring function will be worked out nearer the time and in the light of actual operational experience/needs, we envisage that expertise would be required in the operation of sports facilities, facilities management, asset maintenance, financial reporting, and contract administration to ensure the delivery of quality services.

D. Committee Structure

5. During the operation phase, a committee structure comprising representatives of HAB and the Contracted Party will be set up to review the performance of the Sports Park with a focus on quality outcomes.

6. At the top tier, the joint review committee on strategic matters will meet on a quarterly basis. The CEOs of the key members of the Contracted Party will be required to participate in the joint committee meetings. A non-exclusive list of issues to be covered by the joint committee includes:

- Business plan and strategic targets for the Sports Park
- Contractual performance and penalties against failures to meet KPIs
- Action plan against areas of under-performance
- Plan and targets for continuous improvement
- Other important contractual matters

7. Sub-committee(s) on operation, event calendar and maintenance issues will be set up under the Joint Committee and will meet on a monthly basis. The CEO(s) of the Contracted Party for operating the Sports Park together with

his/her senior management team will be required to report to HAB during these sub-committee meetings on the following non-exclusive list of issues:

- Performance in the past month
- Forward venue bookings for events received in the past month and the event calendar for the coming months
- Key operational issues in the past month including utilization of facilities and asset maintenance
- Complaints received and actions taken

Translation

本函檔號 Our Ref: L/M HAB/R&S 129(17)
來函檔號 Your Ref :

電話號碼 Tel. No.: 3509 8127
傳真號碼 Fax No.: 2519 7404

29 May 2017

Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Attn: Ms Sharon Chung)

Dear Ms Chung,

**Public Works Subcommittee
Supplementary Information on Kai Tak Sports Park Project**

At the Public Works Subcommittee meeting on 20 May 2017, some Members requested additional information relating to the Kai Tak Sports Park project. The relevant information is attached in Annex for Members' reference.

Yours sincerely,

(Original signed)

(Ms Linda Law)
for Secretary for Home Affairs

Annex

Supplementary information on the Kai Tak Sports Park Project

Follow-up item 1(a): In the light of the controversial “bid incentive” arrangement, will the Government consider putting it aside and taking the traditional tendering approach instead?

The construction of the Kai Tak Sports Park (the Sports Park) is the largest investment of the Government in promoting sports development and is crucial to the promotion and implementation of sports policies. Both the sports sector and the general public are looking forward to the early completion of the Sports Park so that they may enjoy the various facilities soon.

2. In view of the scale, complexity and uniqueness of the Sports Park project, the consortiums participating in the tendering exercise are required to gather a team comprising a wide spectrum of professional expertise ranging from design to construction and operation of large-scale sports and commercial facilities. It is estimated that \$100 million to \$200 million will be required to prepare a conforming and quality bid. The high tendering cost may dampen the interest of some companies in bidding or affect their capacity in forming a consortium.

3. After a detailed study conducted by the consultant appointed by the Home Affairs Bureau (HAB) and Government’s careful consideration, we have decided to provide an appropriate but not excessive bid incentive during the tendering exercise of the Sports Park. This is to attract more eligible tenderers to participate in the exercise and submit quality and detailed bids, with a view to increasing competition for the sake of public interest and reducing the chance of “price-gouging”.

4. We suggest that an amount of no more than 50% of the bid cost be refunded to a maximum of three unsuccessful tenderers who have submitted a bid meeting all the requirements. The ceiling on the refund for each unsuccessful bid is \$60 million, representing 0.188% of the estimated capital cost of \$31.9 billion (in money-of-the-day prices). Taking an amount of \$200 million as the cost for submitting a bid, the unsuccessful tenderer will only be able to receive a refund equivalent to 30% of the bid cost. In that case, the consortium participating in the tendering exercise is still required to bear 70% of the bid cost itself, i.e. \$140 million. Besides, tenderers who apply for the bid incentive are required to provide proof of the bid cost, and give consent for the Government to use the intellectual property rights in the tender submission.

5. In fact, a number of major projects overseas (e.g. the International Convention Centre Sydney and the new Champlain Bridge in Montreal, Canada) have also provided bid incentives to increase competition during

tendering. Each unsuccessful tenderer under the above two examples was given 0.34% and 0.126% of the estimated project cost respectively as a bid incentive, which are of a similar scale to our proposed cap of 0.188% for the Sports Park project.

6. We have also studied carefully Members' suggestion of adopting the traditional approach (i.e. without a bid incentive) to invite bids for the Sports Park first. Should the approach fail to attract a sufficient number of bids, a bid incentive will then be provided. We consider it impracticable as interested consortiums will not submit their bids in the first round until a bid incentive is provided by the Government. The above suggestion will not only end up rendering the first tendering exercise fruitless and time-wasting, but also lead to an increase in the construction cost of the Sports Park due to a delay in tendering, as well as hindering the sports sector and the public from enjoying the long-awaited sports facilities earlier.

7. As mentioned earlier, if no incentives are provided, we estimate that it is likely that we will not be able to attract a sufficient number of conforming bids, which will result in re-tendering. If the project is delayed for 12 to 18 months, the cost of the Sports Park project will be increased by \$1.6 billion to \$2.4 billion (i.e. causing the cost to rise from \$31.9 billion to \$33.5 billion or even up to \$34.3 billion).

8. We have considered Members' suggestions carefully. However, as it is necessary to increase competition during the tendering process, we consider it necessary to provide bid incentive in the Sports Park project.

Follow-up item 1(b): Will the Government consider an increase in the amount of a performance bond by requesting the Contracted Party to submit such a sum equivalent to approximately three years of the basic operating expenditure of the Kai Tai Sports Park (the Sports Park)?

9. To ensure completion of the contract by the Contracted Party and protect the interests of both the Government and the public, we will specify in the terms and conditions of the Sports Park contract the requirement of performance bond. We initially suggest that the performance bond should be an amount equivalent to the basic operating expenditure¹ of the Sports Park for a period of six to nine months (totalling about \$150 million to \$200 million in the first five years, with the amount updated regularly taking account of inflation), with a view to compensating, if circumstances require, the Government's loss and preventing the Contracted Party from easily giving up the operation of the Sports Park. Moreover, the Contracted Party will have to make an initial investment of \$300 million to \$400 million in order to start

¹ In 2025 (i.e. the third year of operation when the business performance becomes stable), the basic operating expenditure is estimated to be about \$300 million.

operating the Sports Park. As the Contracted Party is required to provide in advance the performance bond and an investment for operation totalling \$500 million to \$600 million while the operating income and profits of the Sports Park are expected to increase during the later years of operation, the Contracted Party should be greatly motivated to complete the contract and maintain good performance during the operation phase².

10. In determining the amount of a performance bond, while we may wish to increase the costs of the Contracted Party for giving up the operation of the Sports Park, we must also bear in mind that the project will become less attractive if the required amount is too large. The costs of arranging the performance bond by the Contracted Party will also be reflected in tender price as well as the fixed payment to be made to and the percentage of the income to be shared with the Government. Nevertheless, we will seriously consider Members' views and further examine the room for **increasing the amount of performance bond and/or taking other approaches (including to request the Contracted Party and its parent company to provide a financial guarantee)** in order to increase the Contracted Party's commitment and reduce the possibility of contract default. We will reply to the Public Works Subcommittee prior to the approval of the Sports Park project by the Finance Committee (FC).

Follow-up item 1(c): Will the Government consider “capping” the construction cost of the Sports Park project?

11. Provided that the funding application for the Sports Park project is approved by the FC in the current legislative session, there is sufficient competition in the tendering process (including attracting a sufficient number of conforming bids), and the construction cost proposed by the successful Contracted Party does not exceed the approved project estimate, we are very confident that the Sports Park project can be completed within the budget of \$31.9 billion without the need to seek additional funding from the Legislative Council.

Follow-up item 1(d): Will the Government develop a set of clear standards to monitor the performance of the Contracted Party (including the possible penalties to be imposed by the Government when the performance of the

² As pointed out in the consultancy study of the Development Bureau on profit margins, with a few exceptions, the profit margins of local contractors on public works are mostly 2% to 3%. Among the capital expenditure of \$31.9 billion, it is estimated that the contract value for the Main Contracted Party is about \$27 billion. The remaining capital expenditure (e.g. the costs of appointment of consultants by the Government for contract administration, remuneration of resident site staff, contingencies, etc.) falls outside the contract scope of the Contracted Party. Based on the profit margins of 2% to 3%, the contract profit of the Contracted Party is in the region of \$500 million to \$800 million.

Contracted Party is not satisfactory)?

12. We have developed a set of operational requirements and key performance indicators (KPIs) to ensure that the Sports Park can achieve the policy objective of promoting sports development. The KPIs include the following: the quantity and quality of events held in each venue shall reach the level proposed by the Contracted Party in its tender (event level is an important criterion in tender evaluation); the opening hours, arrangements and hiring charges for community sports facilities there must be set by making reference to similar facilities operated by the Leisure and Cultural Services Department (LCSD), educational institutes and other non-profit making organisations. Regarding the charges for community and sports facilities, **the Contracted Party must obtain prior approval from the HAB**. The HAB will assess the performance of the Contracted Party based on the KPIs and **will impose fines with deterrent effect on the Contracted Party for failure to achieve the KPIs**.

Follow-up item 2: Regarding the supplementary information (Paper No. CB(2)1330/16-17(01)) submitted by the Government to the Panel on Home Affairs, the Government is required to provide additional information to further explain the Operations Consultant's financial projection for the Sports Park in the first five years of operation under the "design and build, then operate by Government"(DBG) procurement approach, and make a comparison with the financial projection in the first five years of operation under the DBO procurement approach.

13. The comparison of financial projections in the first five years (2022-2026) under the DBG and DBO procurement approaches is given in the Appendix. In a gist, the Operations Consultant expects that, under the DBO procurement approach, the Sports Park will have an annual surplus (calculated before sharing the income with the Government) in a stable market condition, with the amount growing gradually from \$51 million in the first year to \$291 million in the fifth year. However, under the DBG approach, the Sports Park will be running a deficit estimated to be \$52 million and \$32 million respectively in the first two years of operation until the third year when a small surplus (\$6 million) is recorded. It should be noted that the difference in overall surplus of the Sports Park under the two approaches is huge (taking the year 2025 as an example, the surplus produced under the DBO approach is \$248 million more than that under the DBG approach). We do not recommend operating the Sports Park under the DBG approach with the following major considerations:

- Under the DBG approach, sports and commercial facilities in the Sports Park will be operated by the LCSD. As a government department, the LCSD lacks commercial expertise in promotion and marketing strategies, tenancy planning for dining and retail space, and

commercial sponsorship. In addition, should the Sports Park be operated by the Government, we generally have to adopt the established procurement policy and rules on tendering of commercial facilities. Therefore, if the Sports Park is managed by the LCSD, it is anticipated that the number and types of events and the overall revenue of the Sports Park produced from ticketing, commercial sales, leasing of dining and retail space will be much less than the DBO approach. As such, the Sports Park will be less attractive with low visitor flow and less vibrant as a whole. As shown in the Appendix, the average annual revenue from the Main Stadium and the dining and retail outlets under the DBO approach doubles approximately the revenue under the DBG approach.

- The Government has to take all operational risks, including cost overruns, price adjustments, change of market demand, etc. Under the DBO approach, these risks will be borne by the Contracted Party.
- The Government is required to be responsible for the lifecycle replacement costs of retail/dining and carpark facilities, but these costs will be borne by the Contracted Party under the DBO approach³.
- Apart from the construction cost of the Sports Park, the Government is required to put in an additional capital of \$300 million to \$400 million for furniture, fixtures, consumables, and other start-up costs. The Government will also be required to continue to pay for the replacement cost of these furniture and equipment. Under the DBO approach, these expenditures will be borne by the Contracted Party.

Follow-up item 3: Please describe the organisational structure of the committee to be set up by representatives from the HAB and the Contracted Party.

14. As mentioned in the supplementary information submitted to the Panel on Home Affairs on 4 May, during the operational stage, the HAB and the Contracted Party will set up a **Joint Review Committee**, underpinned with monitoring sub-committee(s).

15. Comprising senior officials of the HAB and representatives from the Contracted Party, the Joint Review Committee will review the performance of the Contracted Party with a focus on operation outcome. This high-level committee will meet on a quarterly basis to discuss strategic issues. The Chief Executive Officer(s) (CEOs) of the head company(ies) of the Contracted Party is required to attend the meetings. The meetings will focus on the following issues:

- Business plans and strategic targets for the Sports Park

³ Under the DBO and DBG approaches, the lifecycle replacement costs of sports and community facilities are both borne by the Government.

- Contractual performance and penalties against failure to meet KPIs
- Follow-up plans against areas of under-performance
- Plans and targets for continuous improvement
- Other important contractual matters

16. **Monitoring sub-committee(s)** will be set up under the Joint Review Committee and meet on a monthly basis to discuss issues on operation, event arrangements, and repairs and maintenance. The CEO responsible for the operation of the Sports Park, together with his/her senior management team, will be required to report the following issues to the HAB at these meetings:

- Performance in the past month
- Event applications received in the past month and event calendar for the coming events
- Key operational outcome, including utilisation of facilities and asset maintenance
- Complaints received and actions taken
- Other issues raised by the HAB

17. Furthermore, **the Task Force on the Kai Tak Sports Park** (the Task Force) **under the Sports Commission** (SC) gives advice on the Sports Park. Members of the Task Force include representatives from the Sports Federation & Olympic Committee of Hong Kong, China, local national sports associations, the Hong Kong Schools Sports Federation, retired athletes and the music sector. Apart from the above-mentioned Joint Review Committee formed by the HAB and the Contracted Party to review the operation and development of the Sports Park, we would consider requiring the Contracted Party to report regularly to the SC or its Task Force and listening to their views in the future.

Follow-up item 4: The Government is required to provide supplementary information to explain the penalty to be imposed on the Contracted Party of the Sports Park when it fails to complete the project on schedule.

18. We will specify in the contract the construction period from the commencement of the contract to the completion of the construction work. If the Contracted Party of the Sports Park fails to complete the construction work on schedule as specified in the contract (or according to the extension of time for completion set down in the contract terms) and is liable for the delay, it shall pay the Government damages. The amount of the liquidated damages shall be determined in accordance with the Works Technical Circular No. 4/2003 of the Development Bureau, which will be about \$130 million per month based on the current estimated project cost.

Translation**Appendix****A comparison of financial projections of DBO and DBG procurement models over the initial five years of the operating period**

DBO model					
HK\$ million	2022	2023	2024	2025	2026
Operating income					
Main Stadium	134	277	287	297	307
Public Sports Ground	3	7	7	7	8
Indoor Sports Centre	30	63	65	67	69
Public Open Space	8	16	16	17	17
Retail and Dining Facilities and Car Park	173	417	523	549	572
Total operating income	348	779	899	937	974
Less:					
Facility specific operating costs	(178)	(340)	(354)	(366)	(379)
Main Stadium	(87)	(168)	(174)	(180)	(186)
Public Sports Ground	(14)	(25)	(26)	(27)	(27)
Indoor Sports Centre	(22)	(35)	(36)	(38)	(39)
Public Open Space	(15)	(30)	(31)	(32)	(33)
Retail and Dining Facilities and Car Park	(40)	(82)	(87)	(90)	(93)
Precinct wide overheads	(86)	(177)	(184)	(190)	(197)
Non-operating expenses¹	(33)	(81)	(99)	(103)	(107)
Net financial result (before revenue sharing with Government)	51	181	263	278	291

General assumptions under the DBO model

- Analysis is from the perspective of the Contracted Party;
- Amounts presented in Money of the Day; and
- All other general assumptions are as stated in Annex 2 of Appendix 1 of supplementary information on Kai Tak Sports Park Project to the Panel on Home Affairs on 4 May 2017.

¹ Non-operating expenses include working capital funding, taxes and capital expenditure for commercial facilities.

DBG model

HK\$ million	2022	2023	2024	2025	2026
Operating income					
Main Stadium	56	135	165	170	176
Public Sports Ground	3	6	6	6	6
Indoor Sports Centre	30	61	64	67	68
Public Open Space	8	16	16	17	17
Retail and Dining Facilities and Car Park	90	202	226	261	296
Total operating income	187	420	477	520	564
Less:					
Facility specific operating costs	(177)	(325)	(339)	(353)	(363)
Main Stadium	(85)	(152)	(159)	(165)	(171)
Public Sports Ground	(14)	(25)	(26)	(27)	(27)
Indoor Sports Centre	(22)	(35)	(36)	(39)	(39)
Public Open Space	(15)	(30)	(31)	(32)	(33)
Retail and Dining Facilities and Car Park	(41)	(83)	(87)	(90)	(93)
Precinct wide overheads	(50)	(102)	(106)	(110)	(114)
Non-operating expenses	(12)	(25)	(26)	(27)	(28)
Net financial result	(52)	(32)	6	30	59

General assumptions under the DBG model

- Analysis is from the perspective of the Government;
- Amounts presented in Money of the Day; and
- All other general assumptions are as stated in Annex 2 of Appendix 1 of supplementary information on Kai Tak Sports Park Project to the Panel on Home Affairs on 4 May 2017.