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Panel on Home Affairs

**Updated background brief prepared by the Legislative Council Secretariat
for the meeting on 27 February 2017**

Kai Tak Sports Park Project

Purpose

This paper provides background information on the Kai Tak Sports Park ("KTSP") project¹ and summarizes the major views and concerns of members of the Panel on Home Affairs ("the Panel") on the project.

Background

2. According to the Administration, KTSP is the most important investment of the Government in the sports infrastructure in recent decades. Occupying more than 28 hectares of land in Kai Tak, KTSP will be the largest sports park in Hong Kong. As informed by the Administration, KTSP will contribute to the attainment of the Government's sport development policy which is to (a) promote sport in the community, (b) support the development of elite sport, and (c) establish Hong Kong as a sports events capital in Asia. Specifically, KTSP will enable Hong Kong to attract a broad image of major sports events, increase the provision of quality sports facilities for school and community use, and provide athletes with more opportunities to compete in the home ground.

3. As of November 2016, the facilities proposed to be developed at KTSP included the following:

- (a) a 50 000-seat multi-purpose main stadium with a retractable roof;
- (b) a 5 000-seat public sports ground;
- (c) an indoor sports centre with a main arena that can accommodate

¹ The KTSP project was formerly known as the Kai Tak Multi-purpose Sports Complex project.

7 000 to 10 000 spectators (depending on the event modes) and an ancillary sports hall;

- (d) around nine hectares of public open space; and
- (e) ancillary facilities including general retail, food and beverage outlets, sports health and wellness centre, car parking facilities, etc.

4. The construction works are tentatively scheduled to commence in 2018 for completion in 2022. The funding proposal on the pre-construction works for the KTSP project at an estimated cost of \$62.7 million in money-of-the-day prices was approved by the Finance Committee ("FC") on 3 July 2015.

5. At the policy briefing cum meeting of the Panel on 20 January 2017, the Administration informed members that the pre-construction works for the KTSP project were nearly completed. The Home Affairs Bureau planned to consult the Panel and the Public Works Subcommittee in the first quarter of 2017 and seek funding approval from FC for the main works.

Major views and concerns expressed by the Panel

6. The Panel discussed issues relating to the KTSP project at its meetings on 9 November 2012, 10 January 2014, 17 February 2014, 6 February 2015 and 22 December 2015. Members' major views and concerns on the KTSP project are summarized below.

Project scope of KTSP

7. While supporting the early development of KTSP, some members raised concerns as to whether the proposed project scope was the optimal design of the 28.2-hectare site from the perspective of land use, and whether the Administration had consulted the sports sector and the district communities on the project scope. There was a suggestion that to maximize the land use potential of the site and to achieve greater community gains, consideration should be given to developing additional venues for other sports activities and increasing the space for office and commercial use.

8. The Administration advised that the project scope was based on the design for venues for staging international sports events, alongside with the intention to address the expected shortfall of three sports centres in East Kowloon by 2021. The Administration had consulted the District Councils of Kowloon City, Kwun Tong and Wong Tai Sin, various sports associations and representatives of the sports sector on the proposed scope of KTSP, and they all supported it and

strongly requested for the early implementation of the project. The Administration would consider members' suggestions on the scope of KTSP, including increasing office floor area for commercial use and offices for sports-related organizations, providing an ice rink of international standard, and using the commercial space to accommodate other sports activities such as tenpin bowling.

Alignment between the sports policy and KTSP

9. There was concern as to whether the proposed project scope and facilities of KTSP could align with the Government's sports policy and objectives. Concern was also raised about how the Administration would ensure that the proposed facilities for KTSP would complement/interface with existing sports facilities in Hong Kong, addressing the needs and aspirations of both the sports sector and the community at large. There was a view that the Government should clearly state its sports policy and the criteria/considerations that had been taken into account in determining what facilities should be provided in KTSP.

10. According to the Administration, KTSP was Hong Kong's largest ever sports project. It would be a major sports park for Hong Kong people, with a mixture of high-quality sports facilities addressing the following challenges:

- (a) shortage of public sports facilities;
- (b) reliance on existing ageing venues, such as the Hong Kong Stadium, the Hong Kong Coliseum and the Queen Elizabeth Stadium, to host major sports events; and
- (c) the lack of modern, multi-purpose venues for hosting major international sports events.

11. According to the Administration, by providing new venues suitable for hosting major local and international sports events and high-quality sports facilities that would help alleviate Hong Kong's shortage of public sports facilities, KTSP would directly and significantly contribute to the realization of the Government's policy objectives for sports development.

Usage of facilities and transport links at KTSP

12. Members considered it important for the Administration to maximize the use of KTSP facilities to ensure that the project offered value for money. Some members were of the view that the Administration should make accurate projections on the financial performance of KTSP in order to justify its

development. Concern was raised as to whether the Administration had estimated the future usage rate and average attendance of the key facilities and venues in KTSP. There were worries that the project might turn out to be a "white elephant" if the Government failed to maximize the use of the new venues and sports facilities provided therein.

13. The Administration advised that it would carry out detailed studies including making projections for the usage rates and attendances of the proposed facilities and venues in KTSP, before finalizing the procurement and financing model. It was the Government's intention that the public should have easy access to KTSP and that the public sports facilities therein be available for use at charges comparable to similar facilities provided by the Leisure and Cultural Services Department. The Administration expected that these public sports facilities would be well-utilized, in view of the high usage rates of sports facilities in East Kowloon and Hong Kong as a whole. While priority would be given to hosting sports events at the main stadium, the Administration advised that there was also scope for holding large-scale entertainment events (such as pop concerts) and exhibitions.

14. Concerns were raised about the transport links in the vicinity and how to ensure a high utilization rate of the sports venues at KTSP. The Administration considered that KTSP would be conveniently accessible as it was located near to the future Kai Tak and To Kwa Wan MTR stations of the Shatin to Central Link. Furthermore, the Administration had engaged an operations consultant in July 2015 to map out, among other things, the user requirements and the business plan of KTSP by engaging stakeholders to ensure that the users' views on the design and operation of KTSP were thoroughly considered at the planning stage.

Financing and management of KTSP

15. As advised by the Administration, the Design-Build-Operate ("DBO") approach was identified as the preferred procurement option for KTSP (i.e. the construction of KTSP would be funded through the Public Works Programme ("PWP") and the private sector would be involved in the long-term operation of the complex). There was concern on whether the Government would assume a positive and firm role in steering the project through the design, construction and operation phases to ensure that KTSP could meet the Government's policy objectives as well as the wider public expectations under the PWP option. Concern was also raised about the viability of the DBO approach for mega works projects of a scale as large as KTSP, having regard to many problems associated with the approach such as the difficulty in monitoring the project cost and the high risk of cost overrun. Concern was also raised about whether the Administration had drawn up any business plan for the operation of KTSP facilities.

16. According to the Administration, the DBO approach would help ensure the most effective delivery of KTSP from the design stage through to the long-term operation. This approach would offer the greatest certainty in terms of achieving the Government's project objectives whilst harnessing private sector innovation and synergies to realize commercial benefits from the project. Since the Government had limited experience in managing and operating sports facilities of such a scale, the presence of private finance would result in the conduct of a stringent and rigorous due diligence process, to determine the viability and profitability of KTSP.

17. The Administration further advised that in order to gain a clearer picture of stakeholders' views, the Administration had invited non-binding expressions of interest in the project. A total of 42 submissions had been received. While respondents all welcomed the proposed development of KTSP, some of them suggested that there might be private sector interest in a modest level of investment and they generally considered that the project would require the Government to provide most or all of the capital cost for the project to be viable. Against this background, the Administration had commissioned a consultant to conduct studies on potential procurement and financing options for KTSP so as to assess the possible advantages of inviting private sector investment. The consultancy studies had identified various forms of options (including Full Commercial Financing, Joint Venture Financing, Partial Private Finance, PWP (Management Contract), PWP (Revenue Contract) and Design-Build-Finance-Operate ("DBFO")) and assessed their suitability under different scenarios. DBFO and Partial Private Funding-Private Sector Equity models were initially identified as the preferred procurement options for KTSP, and these two options might take the following sources of finance:

- (a) pure private funding;
- (b) a combination of private and government funding; and
- (c) pure government funding.

18. After assessment of various funding options based on the cost impact, estimated viability gap and the deliverability in the current financial market situation, the consultant concluded that "a combination of government and private funding" was the most deliverable option in today's market, given that there had been some interest in the market to provide private funding subject to the Government undertaking to provide some forms of support (e.g. subsidy) to the project.

19. According to the Administration, when engaging a private sector operator to run KTSP, it would enter into a contractual arrangement that allowed it to exercise appropriate controls on the monitoring of service quality. The arrangement should create incentives for the operator to run KTSP as a lively and attractive venue which would allow easy public access to sports and other facilities provided therein, whilst also catering for a programme of regular world-class sports and entertainment events.

Monitoring of construction works

20. Noting that the Administration estimated that the construction costs of the KTSP project would be about \$23 billion (in September 2013 prices), some members expressed concern about the huge cost overruns of some major public works projects as recently reported to the PWSC. They hoped that the Administration would provide an accurate estimate of the construction costs of KTSP by the time it sought funding from the FC to kick start the construction of the project. The Administration was urged to work out cost control measures for the KTSP project, taking into account other development projects in the pipeline and their impact on construction costs of KTSP as well as the overall manpower supply in the construction industry. The Administration advised that the cost estimate was indicative only and a more accurate project cost estimate would be worked out. The Administration would appoint an independent quantity surveying consultant to estimate the project cost to ensure that the estimate would be priced at reasonable level.

Project implementation

21. At the meeting on 17 February 2014, the Administration advised that subject to funding approval, the Administration would commence the pre-construction works in 2014 for completion in 2016 and, at the same time, proceed with the detailed planning and design of the KTSP project. The Administration's intention was to invite bids for the design and construction of KTSP in 2015, take a decision on the procurement and financing plan within the next two years and kick-start the full construction of KTSP in 2016. The Administration expected that the project would be substantially completed by 2019-2020. At the meeting on 6 February 2015, the Administration reported that there would be a delay in the anticipated completion date of the KTSP project from 2019-2020 to 2020-2021. The Administration explained that the slippage was caused by a host of internal and external factors. Internally, the Administration had a lengthy discussion on the management responsibilities for as well as the vote control of the project. It was decided that the KTSP project would be put under the vote control of HAB instead of the works departments. The Administration also had to set up a technical team to advise on the

engineering and architectural aspects of the project. The Administration informed members that it had already completed the preparation for the engagement of an operations consultant to provide expert advice on the functional requirements as well as the performance standards, business planning and financial projections of KTSP.

22. Some members suggested that in order to bring about the maximum benefits for the community at large and to best achieve the Government's vision and objectives, the Administration should take into account the needs of the sports sector and the wider community. The Administration advised that all relevant stakeholders including national sports associations, the Hong Kong Schools Sports Federation and other potential users would be engaged so that their views and needs would be taken into account in steering the project through the design, construction and operation phases.

Recent developments

23. The Administration will consult the Panel on the proposed main works of the KTSP project at the next meeting on 27 February 2017.

Relevant papers

24. A list of relevant papers on the website of the Legislative Council is in the **Appendix**.

Relevant papers on the Kai Tak Sports Park Project

Committee	Date of meeting	Paper
Panel on Home Affairs ("HA Panel")	9.11.2012 (Item V)	Agenda Minutes
	10.1.2014 (Item III)	Agenda Minutes
	17.2.2014 (Item IV)	Agenda Minutes
Establishment Subcommittee	5.3.2014 (Item No.3)	Agenda Minutes
Finance Committee	6.6.2014 (Item No.1)	Agenda Minutes
HA Panel	6.2.2015 (Item VI)	Agenda Minutes
Public Works Subcommittee	15.4.2015 (Item No. 1)	Agenda Minutes
	22.4.2015 (Item No. 1)	Agenda Minutes
	6.5.2015 (Item No. 1)	Agenda Minutes
Finance Committee	3.7.2015 (Item No. 5)	Agenda Minutes
HA Panel	22.12.2015 (Item V)	Agenda Minutes