

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,
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HONG KONG.

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

(Translation)

(By Fax: 3543 0645)

15 June 2017

Dr Hon LAU Siu-lai
Room 1009
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Dr Hon LAU,

Re: Kai Tak Sports Park

Thank you for your letter dated 13 June to the Permanent Secretary for Home Affairs. Our response to the six questions raised in the letter is set out below:

Questions 1 to 4

In the supplementary information submitted to the Public Works Subcommittee (PWSC) on 15 June 2017, we have already made a response to Questions 1 to 4 of your letter. The relevant supplementary information is attached in the Annex for your reference.

Question 5

According to the procurement approach proposed by the Government, the Contracted Party of the Kai Tak Sports Park (Sports Park) will be required to operate the entire Sports Park on a self-financing basis, i.e. to be responsible for all operating expenditure, including **daily repairs and maintenance expenses** (e.g. expenses on annual examination of lifts, maintenance of air conditioning systems, change of security CCTV surveillance cameras, etc). As for the income, the Contracted Party shall share

the total operating income of the Sports Park (i.e. income without deducting any expenditure) with the Government according to the percentage as pledged in its bid. Moreover, although depreciation of facilities is a factor to reflect the asset value in accounting, it does not mean the actual market value or does not involve the operating/cash income or expenditure of the Sports Park. As the owner of the Sports Park is the Government and not the Contracted Party, there is no need for the Contracted Party to make provision for the depreciation of facilities.

Question 6

As stated in our supplementary information submitted to the PWSC on 29 May (see LC Paper No. PWSC182/16-17(01)), provided that the funding application for the Sports Park project is approved by the Finance Committee 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.

Yours sincerely,

(Original signed)

(Linda LAW)

for Secretary for Home Affairs

c.c.: Honourable CHAN Kin-por, Chairman of the Finance Committee of the
Legislative Council

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Annex

**GOVERNMENT SECRETARIAT
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(Translation)

(By Fax : 2869 6794)

15 June 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**

We submitted additional information relating to the Kai Tak Sports Park (the Sports Park) project to the Public Works Subcommittee (PWSC) meeting on 29 May 2017, and undertook to follow up on some of the issues mentioned therein. The relevant information relating to those issues is attached in Annex for Members' reference.

Yours sincerely,

(Original signed)

(Ms Linda Law)
for Secretary for Home Affairs

Supplementary information on the Kai Tak Sports Park Project

(A) Increasing the amount of performance bond

To protect the interests of the Government and the public, we will specify in the terms and conditions of the Kai Tak Sports Park (Sports Park) contract the requirement of depositing a performance bond by the Contracted Party. As what we advised the Public Works Subcommittee (PWSC) earlier, 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. If calculated on the basic operating expenditure of the third year (i.e. 2025) of operation, the performance bond will be around \$150 million to \$200 million, an amount to be updated regularly subject to factors such as inflation.

2. Having considered Members' views, we agreed to increase the Contracted Party's commitment to the Sports Park during the operational stage. It is suggested that, apart from the deposit of a performance bond of \$200 million (i.e. equivalent to the basic operating expenditure for nine months) by the Contracted Party, its parent company is required to provide an additional amount of no less than \$700 million as a financial guarantee, with a view to ensuring that the Contracted Party will fulfil its contractual obligations to operate the Sports Park and compensate the Government for any loss in case of an early termination of the contract. In sum, the Contracted Party shall provide a performance bond and a financial guarantee totalling no less than \$900 million, equivalent to the basic operating expenditure of the Sports Park for about three years (calculated in the first five years).

(B) The weighting in tender evaluation for both the fixed payment to be paid by the Contracted Party during the operational stage and the percentage of operating income to be shared with the Government

3. Under the "Design-Build-Operate" (DBO) approach, the Contracted Party is required to operate the entire Sports Park, including community sports facilities and public open space, on a self-financing basis as well as to regularly make fixed payments to and share a percentage of its operating income (i.e. total sales) with the Government. Tenderers are required to, in accordance with the requirements set out in the tender documents, provide in their bids a price proposal including (i) the cost of design and construction; (ii) the fixed payment to be made to the Government during the operational stage; and (iii) the percentage of operating income to be shared with the Government. The Tender Assessment Panel will evaluate the bids based on a

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.

tender marking scheme and make recommendations to the Central Tender Board. Since the tender marking scheme is still under preparation and subject to the approval of the Central Tender Board, its details and the weighted score for each item are not available at this stage. With regard to a Member's suggestion that **a relatively higher weighting should be given to the fixed payment than to the income sharing arrangement (e.g. 2:1) in the marking scheme**, we will deliberate on it and **make a recommendation to the Central Tender Board**.

(C) Procurement Approaches for the Sports Park

4. A Member suggested that the Contracted Party should shoulder part of the construction cost to best reflect private sector participation in the Sports Park development. As set out in our supplementary information submitted to the PWSC on 16 May, since the Sports Park is a social infrastructure (including community sports facilities and public open space), its investment return is unlikely to be attractive enough for the private sector. Even if we request the Contracted Party to join as an investment partner, the Government still has to bear the largest part of the construction cost. It is estimated that the investment that the Contracted Party is prepared to make will not exceed 5% of the construction cost. Under this joint venture (JV) approach, although the Government will hold a large majority stake in the project, the JV partner still has a considerable degree of control over the project as it directly operates the Sports Park. The Government, being a shareholder, will, in general, have its financial return from the dividends after deducting all operating costs.

5. For the design, build, finance and operate (DBFO) approach, as stated in the appendix to our document submitted to the PWSC on 16 May, although the Government is not required to pay the costs during the construction stage under the DBFO approach, the Government will have to pay by instalments all design and construction costs to the Contracted Party, as well as relevant interest expenses and return on capital during the operational stage. Furthermore, the Government will have to bear most of the operating cost. A government body adopting the DBFO approach indicated that the approach was not a desirable one since Government's participation during the design and construction stages was limited, making it impossible to fully achieve its policy objectives in the design and the future operation. The complexity of financing, debt and equity structure might also cause disputes among members of the Contracted Party.

6. On the contrary, under the proposed DBO option, the Government will finance the construction and have full ownership of the Sports Park, as well as having a high degree of influence and control in all aspects of its operation (such as facility charges and time slots for sports activities). For the financial return, the Government can also request the Contracted Party to make a fixed payment and share a percentage of its total income. In fact, under the DBO option, the Contracted Party will have to make an initial investment of \$300 million to \$400 million in order to start the

operation of the Sports Park, and provide a performance bond and a financial guarantee totalling \$900 million (see paragraph 2 above) to increase its total financial commitment to about \$1.2 billion or \$1.3 billion. We believe that, with these measures, the Contracted Party will be effectively motivated to maintain good performance during the contract period.

(D) What are the reasons for the income from retail and dining outlets and car parks under the "design and build, then operate by Government" (DBG) procurement approach lower than that under the DBO approach?

7. With rich experience and expertise in designing and operating commercial and retail facilities, the private sector has the flexibility to adjust its strategies and increase the attractiveness of commercial facilities in response to market situation.

8. Under the DBG approach, sports and commercial facilities in the Sports Park will be operated by the Leisure and Cultural Services Department (LCSD). As a government department, the LCSD does not have commercial expertise in putting forward enhancement proposals for the design of retail and dining outlets, and also lacks experience in developing promotion and marketing strategies, as well as in tenancy planning. More importantly, government departments generally can only follow the established procurement policy and rules on tendering of the above commercial facilities. Government properties (e.g. shops, canteens, areas for advertising, car parks and automatic teller machines) are usually let out by the Government Property Agency for specified uses through open tendering/quotations. Price is normally the only criterion in assessing these revenue contracts. Currently, the LCSD is also required to follow the above principle when identifying contractors to run the dining and retail outlets in its recreational and sport facilities. If the LCSD wishes to add a non-price element (such as giving a higher weighting to the design, quality and technical feasibility) to the assessment criteria for bids for individual dining and retail outlets, it will take quite a long time to go through and complete the internal approval process for a breakthrough. In fact, the LCSD has had to convert the dining outlets of its individual recreational and sport facilities into other uses due to the absence of tenders after repeated tendering exercises.

9. Under the DBO approach, however, the Contracted Party, with a wide spectrum of professional expertise in designing and operating commercial facilities, will be greatly motivated to enhance the design of retail and dining outlets taking the market into consideration and lease them to tenants who can provide users and spectators of the Sports Park with the most suitable services and products. In sum, commercial facilities provided under the DBG approach will, as compared with those under the DBO approach, be less attractive to both tenants and consumers, and have less rental yields and lower tenancy rates. The Operations Consultant estimated that the average annual income from retail and dining outlets and car parks under the DBO approach would approximately double the amount under the DBG approach. Taking 2025 as an example, according to the estimation of the Operations Consultant, the

income (before deducting the expenditure) from retail and dining outlets and car parks will be \$261 million under the DBG approach and \$549 million under the DBO approach respectively.

(E) The organisational structure to monitor the operation of the Sports Park

10. As mentioned in the supplementary information submitted to the Panel on Home Affairs on 4 May, the Home Affairs Bureau (HAB) and the Contracted Party will set up a **Joint Review Committee** during the operational stage. Comprising officials of the HAB and representatives from the leadership of the Contracted Party, the Committee will review the performance of the Contracted Party with a focus on the operation outcome of the Sports Park. 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. **Monitoring sub-committee(s)** will be set up under the Joint Review Committee and meet on a monthly basis. The CEO responsible for the operation of the Sports Park, together with his/her senior management team, will report to the HAB specifically on the issues of operation, event applications and arrangements, repairs and maintenance, etc.

11. We now suggest that, in addition to the above monitoring structure formed by the HAB and the Contracted Party of the Sports Park, a **Kai Tak Sports Park Advisory Committee** would be set up about one year before the formal commencement of operation of the Sports Park to provide advice and recommendations on the strategies, business development, operation and management of the Sports Park as well as the performance of the Contracted Party. The Committee will comprise representatives from the sports sector (including the Sports Federation and Olympic Committee of Hong Kong, China, the Hong Kong Paralympic Committee and Sports Association for the Physically Disabled, and the Hong Kong Schools Sports Federation) and people from different sectors (including retired athletes, representatives from the entertainment sector, professionals experienced in management and marketing, Legislative Council Members and members of relevant District Councils). The main duties of the Committee are to give advice and suggestions on the business plans, strategic development targets, operation reports and performance of the Contracted Party. Moreover, the Contracted Party will, take into account the operational circumstances of the Sports Park and users' comments collected, put forward advice and recommendations on ways to enhance the management of facilities and the provision of services in the Sports Park.

(F) Mid-term Review

12. The Sports Park will have an operation period of about 20 years. Taking this into account, we plan to introduce a mid-term review system to further examine the

operational performance of the Contracted Party. The mid-term review will be **conducted in the tenth year** after the commencement of operation of the Sports Park, during which the development of the Sports Park and the infrastructural, residential, commercial and other developments nearby should become steady. In conducting the mid-term review, the Government will examine comprehensively the Contracted Party's overall and aggregate performance in the first ten years of the operation period based on operational requirements, key performance indicators and other terms and conditions in the contract. If the performance is not satisfactory, the Government may impose a penalty or even exercise the right to terminate the contract. The HAB will consult the **Kai Tak Sports Park Advisory Committee** on the mid-term review report.



劉小麗立法會議員辦事處

Office of Hon Lau Siu Lai Member of Legislative Council

Letter from Hon Lau
Siu-lai dated 13 June
2017 (Chinese only)

敬啟者：

有關啟德體育園

民政事務局於本月初提交 272RS 號工程計劃「啟德體育園－建造工程」的財務委員會討論文件，文件亦提供提案誘因的更新安排。「啟德體育園－建造工程」涉及近 319 億公帑，建議合約年期達 25 年，有鑑於其開支之大，時期之長，局方應在公共財政上審慎考慮各個細節。而在較早前財委會工務小組會議上，各委員多番就啟德體育園的合約年期、固定最低款額、履約保證金等和政府商討，但財委會文件上未見其更新內容，就此，當局請告知本人：

1. 營運合約會否由 25 年分拆為 15 年 及 10 年期限，並在第一階段 15 年期限屆滿後，局方向立法會民政事務委員會（或包括立法會議員在內的監察委員會）提交檢討報告予民政事務委員審批後，方可考慮續約？
2. 在 2017 年 5 月 16 日工務小組委員會補充資料 PWSC162/16-17(02)號文件中，局方初步建議承辦商需要提交的履約保證金為二億元，局方會否提高保證金金額以進一步保障政府和公眾的利益？現時具體保證金建議為何？
3. 在 2017 年 5 月 16 日工務小組委員會補充資料 PWSC162/16-17(02)號文件中，局方表示承辦商須向政府繳交的固定最低款額的金額，政府建議固定最低款額的金額佔總收入百分比為何？固定最低款額的金額佔標書的評分比例為何？
4. 在 2017 年 5 月 19 日工務小組委員會補充資料 PWSC168/16-17(03)號文件中，局方表示為體育園制定一系列的主要績效指標，並指出若承辦商未能達標，政府會施加阻嚇性罰款，文中指當時局方正就此制定具體安排，現時監察架構、主要績效指標和罰款的具體安排為何？監察委員會除包括民政事務局和承辦商外，會否加入民選立法會議員及體育業界代表？
5. 局方會否要求承辦商承擔合約期內負擔折舊及維修費用？
6. 局方會否承諾日後不向立法會申請追加撥款？

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劉小麗立法會議員辦事處

Office of Hon Lau Siu Lai Member of Legislative Council

上月政府回覆眾多細節尚在草議，但「啟德體育園－建造工程」議案現已提交財政委員會，財政委員會需要更詳細資料考量，本人要求局方在財委會審議前提交資料，以供委員分析。

盼請回覆，萬分感謝。

此致

財政委員會主席陳健波議員

民政事務局常任秘書長馮程淑儀女士

立法會議員劉小麗謹啟

二零一七年六月十三日

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