

SPORTS COMMISSION

Progress Report on the Kai Tak Multi-purpose Sports Complex

PURPOSE

This paper updates Members on the latest progress with the planning of the Kai Tak Multi-purpose Sports Complex (MPSC).

BACKGROUND

2. In his 2013 Policy Address, the Chief Executive announced that the planning of the MPSC was a priority.

3. In January 2013, HAB issued an invitation for non-binding expressions of interest (EOI) in the development of the MPSC, in order to obtain feedback on issues such as –

- the scope of the facilities proposed for the MPSC;
- the options for the mode of delivery and financing of the project;
- the scope for public and private sector collaboration in the design, construction and operation of the MPSC; and
- ways to enhance the commercial viability of the complex.

In response to the invitation, we received 42 submissions from different sectors, including architects, construction companies, sports and entertainment companies, sports associations, banks and consulting firms. In April 2013, we engaged Price Waterhouse Coopers (PwC) to prepare financial models and assess the viability of the key options for financing the development of the MPSC. The consultancy study is supervised by a Project Steering Committee that includes representatives from the Sports Commission (SC). The consultant is now finalising the final report.

FURTHER DEVELOPMENTS

Findings of the Consultants

4. PwC has considered a number of financing options, which represent different ways of providing public and private financing for the design, construction and long-term operation of the MPSC. As well as considering the potential financial implications of the Government funding the project through the Public Works Programme (PWP), the consultants looked at options that would involve full or partial upfront financing from a private sector consortium, with the Government then making payments to the consortium over a finite operating period to cover the cost of financing and operating the complex.

5. PwC's assessment found that based on the risk-adjusted approach, the option that offered the greatest potential for reducing the overall cost of the project was the "Design-Build-Finance-Operate" (DBFO) financing option, under which a private sector consortium would be responsible in full for raising the financing for the design and construction of the project. Under this option, upon completion of the project the Government would make regular "Unitary Payments" to the consortium over a 25-year period to cover the capital, financing and operating and maintenance costs of the project.

Analysis of the DBFO and PWP options

6. Based on the risk transfer profile developed by PwC, the DBFO option offers potential financial benefits when compared to funding the project through the PWP. However, we have two major concerns with regard to this option –

- The DBFO option has not been tried in Hong Kong – it might take a considerable amount of time to find a consortium willing to take on the financing of a project of this size and to conduct the detailed contractual negotiations and external due diligence required – during the delay in procurement, inflation and increases in construction costs could potentially nullify the risk transfer benefits associated with this option; and
- Under the DBFO option, the Government would likely have less "hands-on" control over the design, construction and operation of the MPSC than under a PWP option. The MPSC will play a key role in the development of sport in Hong Kong, and it is crucial that the project should fully realise the related policy objectives.

7. In contrast, implementing the MPSC project as a PWP project would represent a “tried and tested” approach that is familiar to government works agents and to industry. Although the MPSC will be costly and large in scale, the separate components of the project are relatively straightforward items of infrastructure. The need to provide a retractable roof on the main stadium could pose a challenge, but the related technology is familiar to stadium architects.

8. In addition, implementing the project as a government-funded item of public infrastructure through the PWP would allow the Government a firmer hand in steering the MPSC through the design, construction and operation phases of the project to ensure that it fully meets our policy objectives and the wider public expectations.

9. We consider that there is scope for reducing the risks identified under the PWP financing options and therefore effectively controlling costs by exercising rigorous supervision during the design and build stage of the project and preparing a solid reference scheme when tendering the project. Government departments are used to such discipline when managing large PWP projects.

10. In conclusion, we consider that a PWP option offers greater certainty in terms of achieving our project objectives. Such an option would not necessarily incur greater risk than the private sector financing options provided that we exercise appropriate project controls.

11. To help ensure that the design of the complex meets our long-term operational needs and to encourage the contractors responsible for the design and construction to provide a cost-effective solution within a clearly defined time-frame, we plan to adopt a “Design-Build-Operate” (DBO) approach to procuring the project under the PWP. Our initial thinking is that we would engage a single consortium to be responsible for the design, construction and operation of the MPSC. The contractual arrangement should create incentives for the consortium to operate the complex as a lively and attractive venue that would allow easy public access to sports and other facilities whilst also catering for a programme of regular world-class sports and entertainment events.

WAY FORWARD

12. We will take forward the planning of the MPSC on the basis that we will implement the project as a PWP-funded project procured through a DBO approach. We will shortly consult the Kowloon City, Kwun Tong and Wong

Tai Sin District Councils on the project, and we plan to brief the Legislative Council Panel on Home Affairs on the project in January. We aim to seek in mid-2014 the Finance Committee's approval to allocate funding under the PWP for the pre-construction work for this project, with a view to preparing tender specifications and issuing formal tenders in 2015. It remains our target for the complex to be completed in financial year 2019/2020.

13. We wish to ensure that representatives of the sports community have regular input into the MPSC project as we approach the detailed planning and implementation stages. Accordingly, we propose that the Commission establish a task force to advise on and monitor progress of the project and to report back periodically to the Commission. Interested members are welcome to join this task force.

ADVICE SOUGHT

14. Members are invited to note and comment on the progress with the planning of the MPSC and to comment on the proposal to set up a task force under the Commission to advise on, monitor and report back on progress with the project.

**Sports Commission Secretariat
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