

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

PURPOSE

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

BACKGROUND

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

3. The main purpose of the CYD is to serve as a focal point for territory-wide youth development activities in Hong Kong. It would provide facilities and venues for promoting youth development and training. It would also provide support to non-governmental organizations (NGOs) involved in youth development work and to youth groups.

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

- (a) a youth convention centre;

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

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

PRESENT POSITION

6. The piling and basement works for the CYD were completed at the end of December 2003. The Administration is now reviewing the future management and operation mode of the CYD, with a view to determining the implementation plan of the superstructure works.

MODE OF MANAGEMENT AND OPERATION

Original Plan – Limited Company Model

7. The original plan was to set up a limited company, with its board of directors appointed by the Government, to manage and operate the CYD on a self-financing basis. The company would also be responsible for the co-ordination and promotion of the facilities at the CYD prior to and after its completion.

8. According to a preliminary financial viability study carried out in 2000-2001, the CYD should be able to remain financially sustainable during the first 10 years of operation without the need for the Government to incur recurrent expenditure on its day-to-day operation and maintenance. The plan at the time was to ask the Finance Committee of the Legislative Council for a one-off loan or grant as a start-up fund, the purpose of which is to safeguard against unstable income during the initial operation period.

Recent Changes

9. The current economic conditions in Hong Kong have gone through significant changes since 2000-2001 when the original financial assessment was made. In fact, the economic assumptions used in our assessment in 2000-2001 are no longer applicable.

10. In mid 2003, we updated the financial assessment using the same methodology but with the latest economic indicators and statistics. The assessment results indicated that the outlook was much less optimistic. Taking into account the changes in the economic environment since the approval of the project in 2001, the youth development objective of the CYD, and the need to incur substantial staffing and other operating costs under the Limited Company model, it was found that the CYD could incur a recurrent shortfall of more than \$90 million over the first 10 years of operation. We are therefore concerned that if a traditional method of operation and management of the CYD is used, we may not be able to maximize the utilization of the facilities. The original project scope and the internal design of the proposed facilities may also not be sufficiently flexible to allow the operator to respond to changing demand patterns, including the demand for youth-related facilities over the life time of the CYD. As such, a sizeable start-up fund, plus recurrent funding in subsequent years, would be required to maintain the CYD at least for the first 10 years or so. This deviates from the Government's original assessment that the CYD would not give rise to any recurrent financial implications for the Government.

Initial feedback to a contracting out proposal

11. In view of the envisaged financial problems under the limited company model, we floated to the Steering Committee on Centre for Youth Development in August 2003 the conceptual proposal of contracting out the management and operation of all the facilities of the CYD, putting forward the following advantages for their consideration:-

- (a) the approach could reduce substantially the cost of running the project;
- (b) it would enhance efficiency by bringing in private sector management; and
- (c) it would make possible a synergy of ideas, expertise and experience amongst the Government, NGOs and the private sector.

12. Under this particular approach, NGOs and private companies would be invited to tender for the management and operation rights of all the facilities in the CYD. An NGO, a private company or a consortium could put in a bid. Tenderers would be asked to submit:

- (a) a business plan for running the CYD;
- (b) a youth development strategy based on the facilities in the CYD; and
- (c) a rental offer to the Government.

An advisory committee would be set up to monitor the management and operation of the CYD undertaken by the successful tenderer.

13. Members of the Steering Committee expressed reservations about the above contracting out arrangements. They were mainly concerned that this would lead to the domination of the use of the CYD for youth development activities by one single well-established

organization, to the detriment of other smaller NGOs and youth associations. If so, this would go against the original objective of the CYD--supporting various NGOs and non-subsided youth groups in promoting youth development.

CONSULTANCY STUDY

14. Taking into account the problems envisaged in both the Limited Company Model and the above contracting-out arrangement, the Home Affairs Bureau has decided to commission a consultancy study to review the project scope, and to assess the feasibility of constructing, financing, operating and maintaining the CYD through an appropriate Public Private Partnership (PPP) approach. The objective is to devise a model which could effectively achieve the youth development objectives of the CYD, address the various concerns about the above contracting out arrangement, and maintain the CYD's financial sustainability. The consultancy study would need to conduct a value management workshop involving all the relevant stakeholders as a means of working out a consensus amongst different interests. It would also need to take full account of the views of the Steering Committee on Centre for Youth Development, youth-related organizations and all other concerned parties in drawing up its recommendations. This study is expected to be completed in about four months' time.

THE WAY FORWARD

15. We would decide on how best to proceed with the construction, financing, management and operation of the CYD, having regard to the results of the above consultancy study. Taking into account the possible need to revise the architectural plans and the necessary tendering procedures, the superstructure works is expected to resume in 18 months' time, i.e. around November 2005.