

CHAPTER 8

Home Affairs Bureau

<h3>Youth Square</h3>

**Audit Commission
Hong Kong
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This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 58 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>.

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YOUTH SQUARE

Contents

	Paragraph
PART 1: INTRODUCTION	1.1
Background	1.2 – 1.11
Audit review	1.12 – 1.13
Overall audit recommendations	1.14
General response from the Administration	1.15
Acknowledgement	1.16
PART 2: OPERATION AND PERFORMANCE	2.1
Achievement of youth development objective	2.2 – 2.4
Audit observations and recommendations	2.5 – 2.19
Response from the Administration	2.20 – 2.21
Usage of facilities and youth patronage	2.22
Audit observations and recommendations	2.23 – 2.33
Response from the Administration	2.34
Operating results	2.35 – 2.37
Audit observations and recommendations	2.38 – 2.46
Response from the Administration	2.47 – 2.48
PART 3: PLANNING AND IMPLEMENTATION	3.1
Planning and implementation of the Youth Square project	3.2 – 3.10
Management of project risks	3.11

	Paragraph
Audit observations and recommendations	3.12 – 3.21
Response from the Administration	3.22
Project management and supervision	3.23
Audit observations and recommendation	3.24 – 3.28
Response from the Administration	3.29
Reporting of implementation progress	3.30
Audit observations and recommendation	3.31 – 3.33
Response from the Administration	3.34
 PART 4: WAY FORWARD	 4.1
Areas for improvement	4.2
Views of non-governmental organisations	4.3
Audit recommendation on the way forward	4.4
Response from the Administration	4.5
	 Page
 Appendices	
A : Chronology of key events (October 1997 to March 2010)	60 – 61
B : Rental policy	62
C : Regular rental rates and concessionary rental rates of major facilities (January 2012)	63
D : Visitor flow of the Youth Square (May 2010 to January 2012)	64
E : Operating results of the Youth Square (2010-11)	65
F : Acronyms and abbreviations	66

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

Policy on youth development

1.2 Youth development is a major policy responsibility of the **Home Affairs Bureau (HAB)**. The policy objectives of youth development are to promote positive values among young people, enhance their understanding of Chinese culture and heritage, strengthen their sense of belonging to the country and Hong Kong, encourage their participation in voluntary and community work, broaden their international perspective, and promote leadership training among them.

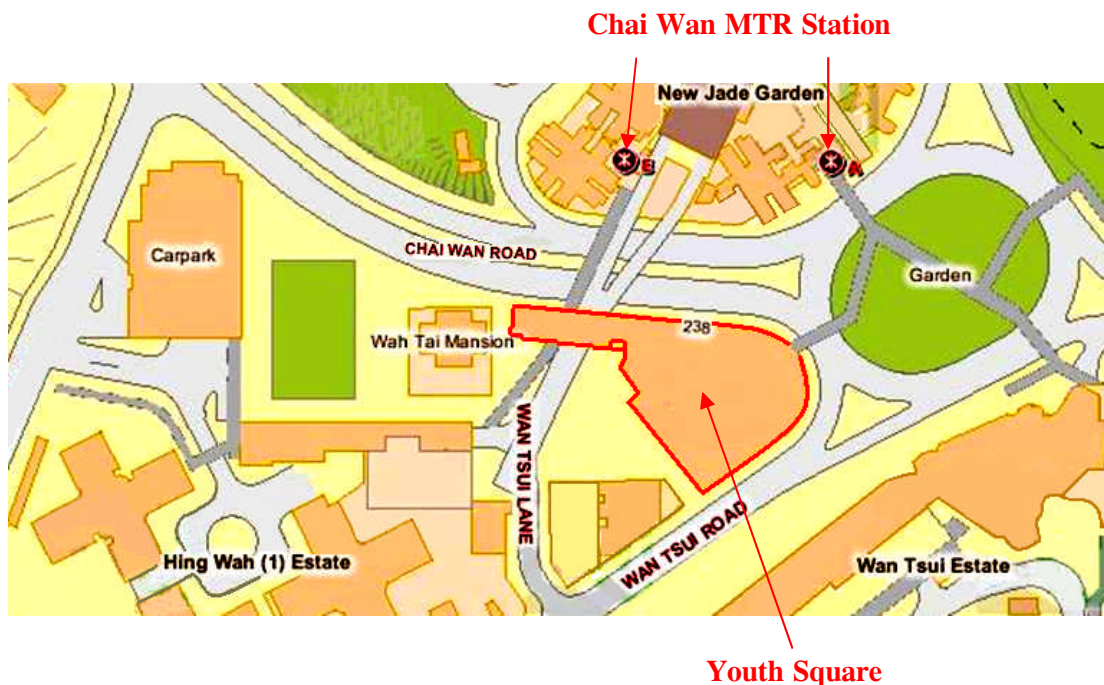
Youth Square

1.3 According to the HAB, the Youth Square is a key investment of the Government to promote youth development in Hong Kong, and the objectives of establishing the Youth Square are to:

- (a) serve as a focal point for territory-wide youth development activities in Hong Kong;
- (b) provide facilities and venues for promoting youth development and training; and
- (c) provide the steer and support for non-governmental organisations (NGOs) involved in youth development work.

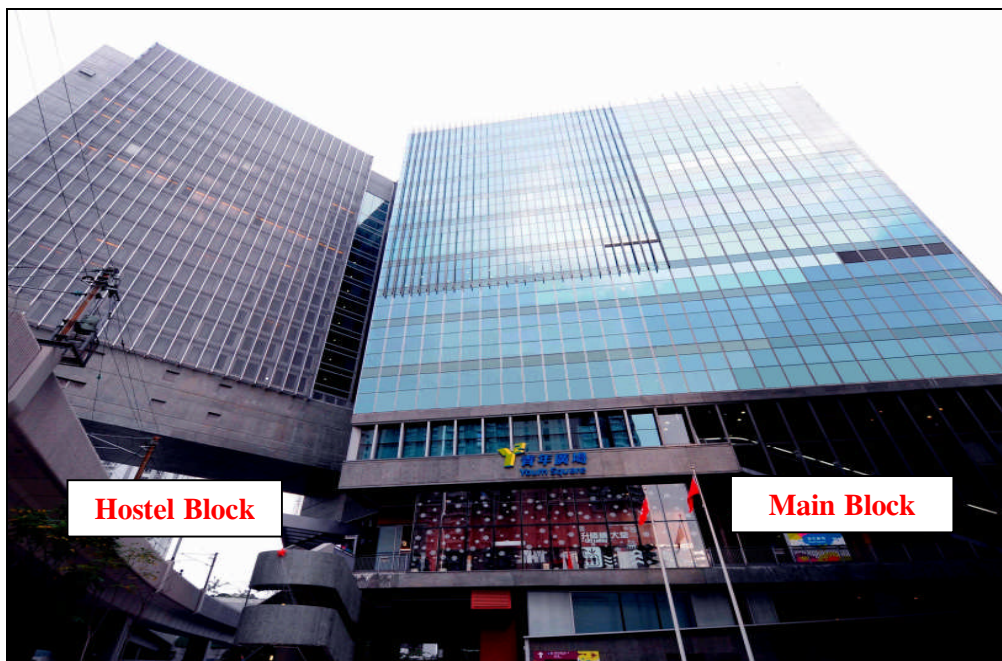
1.4 The Youth Square, with a total gross floor area of about 40,000 square metres (m²), is located at 238 Chai Wan Road, Chai Wan, Hong Kong Island (see Figure 1). It is connected to the Chai Wan MTR Station via a footbridge.

Figure 1
Location of Youth Square



Source: Lands Department records

1.5 The Youth Square (see Photograph 1), comprising a Main Block (with three lower ground floors and 13 floors above the ground floor) and a Hostel Block (with 12 storeys), had commenced operation by phases since August 2009, and was officially opened in March 2010. Its major facilities include a hostel, a theatre, a performance and exhibition platform, a studio, offices, multi-purpose/function rooms, retail shops and restaurants.

Photograph 1**Youth Square**

Source: HAB records

Development of Youth Square

1.6 ***Youth development study.*** Between November 1997 and May 1998, the Commission on Youth (COY — Note 1) conducted a study of youth development. The study focused on developing young people to contribute more to the community and participate more actively in voluntary work. One major recommendation of the study was that early consideration should be given to the commissioning of a central facility for youth development. The COY considered that the Government should organise more youth development programmes for promotion of widely accepted positive values and leadership training, encouraging voluntary participation in community affairs, and promotion of a stronger understanding of cultural heritage of Hong Kong and those of other countries. The Government accepted the COY's recommendation.

Note 1: *The COY is a non-statutory advisory body set up in 1990 to advise the Government on matters pertaining to youth development. It is chaired by a non-official member and its members comprise representatives from different community sectors, the HAB, the Education Bureau, the Labour and Welfare Bureau, the Security Bureau and the Home Affairs Department.*

1.7 **1998 Policy Address.** In his Policy Address of 1998, the Chief Executive of the Hong Kong Special Administrative Region announced that the then Chai Wan Community Centre (Note 2) at Chai Wan Road would be redeveloped into the Hong Kong Centre for Youth Development (renamed as the Youth Square in April 2009 — Note 3) to serve as a focal point for youth development activities in Hong Kong.

1.8 **Capital funding.** In July 1999, the Finance Committee (FC) of the Legislative Council (LegCo) approved funding of \$52 million for pre-contract preparatory works (including detailed design and contract preparation) of the Youth Square. In November 2001, the FC further approved funding of \$550.9 million for the construction works (including foundation and superstructure works). Together with a donation of \$200 million made by the Board of Management of the Chinese Permanent Cemeteries (the Donor) in 2007 and 2008, the total funding for the Youth Square was \$802.9 million.

1.9 **Construction works.** The Architectural Services Department (ArchSD) was responsible for the construction works of the Youth Square. The foundation works commenced in June 2002 and were completed in December 2003, and the superstructure works commenced in June 2005 and were completed in April 2008. Up to January 2012, \$747 million (\$40 million for pre-contract preparatory works and \$707 million for construction works) had been incurred. According to the ArchSD, an additional \$24 million will be incurred for some works items (such as furniture and equipment), and the \$200 million donation will be fully used to finance the project. Therefore, the total capital cost of the Youth Square project will be \$771 million.

1.10 **Management and operation.** In November 2008, the completed Youth Square was handed over to the HAB. In March 2009, through an open tender (Note 4), the HAB awarded a management and operation contract (the Contract) for the Youth Square to the only conforming tenderer (the Contractor — Note 5) for seven years from 23 April 2009 to

Note 2: *The Centre was a five-storey building built in the 1970s. It had been in operation since 1975 until its demolition in 2001.*

Note 3: *For simplicity, the Hong Kong Centre for Youth Development is also referred to as the Youth Square in this Report.*

Note 4: *Only one of the two tenders received by the HAB conformed to the tender requirements.*

Note 5: *At the time of tendering, the Contractor was a profit-making organisation. In March 2011, it amended its Memorandum and Articles of Association to become a non-profit-making organisation.*

22 April 2016 at a sum of \$371 million (Note 6). Under the Contract, the Contractor will be paid management fees on a quarterly basis, and is required to provide day-to-day management and operation services for the Youth Square, including leasing, promotion, marketing, customer services, and repairs and maintenance.

1.11 **Government responsibility.** In March 2005, the Government decided that the HAB would take up the direct responsibility of managing and operating the Youth Square and would bear all commercial risks arising therefrom. A Management Advisory Committee (MAC — Note 7) was set up in January 2009 to advise the Government on the overall strategy, objectives and the operation of the Youth Square. The recurrent operating costs, including management fees paid to the Contractor (see para. 1.10), are funded by the HAB recurrent vote under the Government General Revenue Account. The incomes of the Youth Square, mainly rentals received from the leasing of venues and hostel rooms, are also credited to the Government General Revenue Account. In February 2009, the HAB informed the LegCo Panel on Home Affairs (HA Panel) that it would strive to achieve full-cost recovery by making every effort to operate the Youth Square in a cost-effective manner. A chronology of key events of the development of the Youth Square from October 1997 to March 2010 is at Appendix A.

Audit review

1.12 The Youth Square is a unique project that involves high project risks (see para. 3.11). It is also a key government investment to promote youth development (involving a capital cost of \$771 million — see para. 1.9). The Youth Square incurred operating deficits of \$42.9 million in 2009-10 and \$33.2 million in 2010-11 (Note 8). The Audit Commission (Audit) has recently conducted a review of the Youth Square with focus on the following areas:

Note 6: *The Contractor had to bear pre-opening costs of \$70 million for fitting-out works, design, decoration, and procurement of furniture and equipment.*

Note 7: *Members of the MAC include representatives from the Government, the COY, the Donor, the Committee on the Promotion of Civic Education, the Eastern District Council and different sectors (such as youth, business, academic and arts).*

Note 8: *The management accounts for the Youth Square are prepared on cash accounting basis. The financial year of the Youth Square ends on 30 April of each year.*

- (a) its operation and performance (PART 2);
- (b) its planning and implementation (PART 3); and
- (c) the way forward (PART 4).

1.13 As the Youth Square had been fully operated for only two years (up to March 2012), it may be too early to conclusively establish the effectiveness of its operation. Nevertheless, Audit has identified from this review areas where improvements can be made by the HAB in managing and operating the Youth Square, and in planning similar projects in future. Audit has made a number of recommendations to address the issues.

Overall audit recommendations

1.14 In February 2005, the HAB informed the FC that it would review the management and operation mode of the Youth Square after three years of operation (i.e. in 2013). **Audit has recommended that the Secretary for Home Affairs should take into account, in the 2013 review, the audit observations and recommendations in this Report and consult, where appropriate, various stakeholders, namely the COY, the MAC, the Contractor, the youth-related NGOs, and relevant government bureaux and departments involved in youth development (Note 9). In view of the fact that the youth development objective for the Youth Square might be conflicting with the full-cost-recovery objective that the HAB aims to achieve (see para. 1.11), the Secretary may wish to critically consider, in the 2013 review, how the Youth Square should be positioned to strike a proper balance between the two objectives.**

General response from the Administration

1.15 The **Secretary for Home Affairs** welcomes and accepts Audit's positive, constructive and forward-looking recommendations aiming to better facilitate the HAB's achievement of the policy objective of promoting youth development through the platform of the Youth Square. He has said that:

Note 9: *These may include, among others, the Education Bureau, the Leisure and Cultural Services Department and the Social Welfare Department.*

- (a) the FC was previously informed that the HAB would review the management and operation mode of the Youth Square after three years of operation. In the review, the HAB would take into account the audit observations and recommendations and consult various stakeholders, including the MAC, the Contractor and others. The review would cover the positioning of the Youth Square with a view to striking a right balance between achieving the youth development objective and the full-cost-recovery objective in the long term;
- (b) youth development is a long-term investment affecting the sustainable development of generations after generations. At present, various government bureaux carry out youth development initiatives under their respective policy portfolio. The benefits of youth development initiatives, including the Youth Square, and the accumulated impact that these initiatives have on the lives of the young people, far exceed the amount of investment in monetary terms; and
- (c) the comments of the Contractor and the MAC have been suitably incorporated in the HAB response.

Acknowledgement

1.16 Audit would like to acknowledge with gratitude the full cooperation of the HAB staff during the course of the audit review. Audit would also like to thank the Contractor and the five NGOs for their information and comments provided during Audit's interviews with them.

PART 2: OPERATION AND PERFORMANCE

2.1 This PART examines the operation and performance of the Youth Square, focusing on:

- (a) achievement of youth development objective (paras. 2.2 to 2.21);
- (b) usage of facilities and youth patronage (paras. 2.22 to 2.34); and
- (c) operating results (paras. 2.35 to 2.48).

Achievement of youth development objective

A focal point for youth development

2.2 In **June 1999**, in seeking funding from the FC for carrying out pre-contract preparatory works (see para. 1.8), the HAB informed the FC that the proposed Youth Square would provide:

- (a) a youth hostel with 150 rooms as residential facilities for youth exchange and leadership training programmes;
- (b) a youth convention centre with multi-purpose function rooms and exhibition halls for holding seminars, activities and functions targeted at young people;
- (c) youth development activities areas to help promote arts and culture, information technology and leadership training;
- (d) operational areas for NGOs and government departments as venues for organising activities for young people; and
- (e) a cafeteria and shops to serve the needs of local and overseas visitors to the Youth Square.

- 2.3 In addition, the FC was informed that:
- (a) **the Youth Square would act as a focal point for NGOs and youth groups to organise youth development activities. It would serve the territory-wide youth population, while also provide district-based services to young people; and**
 - (b) the Youth Square would provide the necessary facilities for youth development projects at a relatively low cost on the basis that the Government provided the capital costs.

Facilities of the Youth Square

2.4 Table 1 shows the facilities at the Youth Square as of January 2012. The public may hire these facilities at regular rates (Note 10).

Note 10: *For retail shops and offices, rentals are set with reference to rateable values as assessed by the Rating and Valuation Department. For hostel rooms, rentals are set with reference to market rates. For the Y-Theatre, Y-Platform, Y-Studio and multi-purpose/function rooms, hiring rates are mainly based on those of similar facilities of the Leisure and Cultural Services Department and NGOs.*

Table 1
Facilities at Youth Square
(January 2012)

	Facility	Operating floor area/Capacity
Floor of Main Block		
LG1/F to LG3/F	Y-Theatre	643 seats
	A shop (LG1/F)	91 m ²
G/F	Plaza	525 m ²
1/F	Y-Platform	1,000 m ²
2/F	Y-Studio	224 seats
2M/F (Note 1)	A games hall, a video recording studio and four video editing workstations	372 m ²
3/F	36 retail shops	1,036 m ²
4/F	A Chinese restaurant and an Italian restaurant	1,017 m ²
5/F	Six multi-purpose rooms, three piano rooms, an interest group room, an audio recording studio, a photographic room and an exhibition area	614 m ²
6/F	Four multi-purpose rooms, a dance room, a dance studio, a band room, a fashion and design studio, and an exhibition area	708 m ²
7/F	Civic Education Resource Centre (Note 2) and offices of the HAB and the Contractor	815 m ²
8/F and 9/F	34 offices, a multi-purpose room, a conference room and an exhibition area	1,940 m ²
12/F to 14/F (Note 3)	One multi-purpose room (12/F)	66 m ²
	Y-Loft (hostel)	52 rooms
Floor of Hostel Block		
1/F to 12/F	Y-Loft (hostel)	96 rooms

Source: HAB records

Note 1: Owing to the high ceiling of the Y-Studio on the 2/F, a mezzanine floor (2M/F) is provided between the 2/F and the 3/F.

Note 2: The Centre was set up by the Committee on the Promotion of Civic Education. The Committee comprises members from the community and government bureaux and departments.

Note 3: As some floors of the Main Block have high ceilings, the original 10/F (named as the 12/F) of the Main Block is on the same level as the 12/F of the Hostel Block. The two blocks are connected by a walkway on this floor.

With the approval of the Financial Services and the Treasury Bureau (FSTB), concessions are provided to target users (mainly youth organisations) for hiring the facilities. In March 2012, the HAB informed Audit that:

- (a) at the beginning of the opening of the Youth Square, the provision of rental concessions was a pragmatic way to attract tenants and patronage to the Youth Square. The intention was to attract tenants (irrespective of whether they were non-profit-making) which would conduct programmes, classes, activities or businesses conducive to youth development at the Youth Square; and
- (b) hence, the nature of business of a tenant was taken into account when considering the level of concessions provided, rather than whether the tenant was a non-profit-making organisation.

Details of the rental policy and rental rates are shown at Appendices B and C respectively.

Audit observations and recommendations

2.5 The following issues are addressed in relation to the achievement of youth development objective:

- (a) need to formulate qualitative and quantitative performance targets (paras. 2.6 to 2.9);
- (b) need to improve hostel usage by youth organisations (paras. 2.10 to 2.12);
- (c) need to increase the number of youth programmes (paras. 2.13 to 2.16); and
- (d) need to improve usage of facilities by youth organisations (paras. 2.17 and 2.18).

Need to formulate qualitative and quantitative performance targets

2.6 ***Performance targets.*** Under the Contract, the Contractor has to meet the following key performance targets for various types of facilities provided at the Youth Square:

Key performance targets under the Contract

- (a) Not less than 70% for occupancy of hostel
- (b) Not less than 70% for usage of retail shops, offices and youth activity areas
- (c) Not less than 65% for usage of the Y-Theatre, Y-Platform and Y-Studio
- (d) At least 12 venue promotional programmes (with over 300 youths participating in each programme) to be organised by the Contractor a year

Audit notes that, apart from the requirement in (d) above for the Contractor to organise at least 12 venue promotional programmes a year for the youths, no performance targets (such as target usage of hostel and facilities by youth organisations) are set under the Contract to measure the extent of the Youth Square in contributing to youth development. **Given that the value of the Youth Square lies in enhancing youth development, Audit considers that the HAB needs to set appropriate performance targets to measure the contribution of the Youth Square in this respect.**

2.7 ***Youth development objective.*** In December 2010, the MAC (see para. 1.11) formulated the following six objectives for the Youth Square:

- (a) consolidating the power of the youth;
- (b) encouraging innovative ideas from the youth;
- (c) cultivating leadership skills;
- (d) enhancing international horizon;
- (e) enriching life experience; and
- (f) encouraging people to become good citizens.

At an MAC meeting in December 2010, the Contractor agreed that programmes it organised at the Youth Square from May 2011 onwards should meet one or more of the above objectives.

2.8 Audit welcomes the MAC's formulation of the six objectives which has provided useful yardsticks to the Contractor to assess the relevance of programmes organised at the Youth Square. In January 2012, the HAB informed Audit that all the programmes organised by the Contractor at the Youth Square from May 2011 had achieved at least one of the six objectives.

2.9 Audit is however concerned that the youth development objective is not set in qualitative and quantitative terms. As such, the extent to which the Youth Square has contributed to youth development cannot be measured. **Audit therefore considers that in formulating performance targets as mentioned in paragraph 2.6, the HAB needs to set, as far as possible, qualitative and quantitative targets to measure the contribution of the Youth Square in enhancing youth development.** Examples of such targets may include target number of youth programmes to be organised at the Youth Square, target number of youth participants, target number of youth visitors to the Youth Square, and target satisfaction level of youths after participating in the programmes held at the Youth Square.

Need to improve hostel usage by youth organisations

2.10 The hostel of the Youth Square ("Y-Loft" — classified by some hotel agencies as a three-star hotel) was opened for public use in December 2009. It provides a total of 148 hostel rooms, comprising 96 twin rooms, 42 twin rooms (with balcony — see Photograph 2), eight triple rooms, one six-person room and one duplex room. In December 2009, the MAC and the Contractor agreed to set a **target mix of 40%** for hostel guests from youth organisations (the target users) for the Y-Loft. The Contractor reports the actual hostel guest mix in its performance reports submitted to the MAC on a quarterly basis. **As it transpired, the actual target-user mix was 18% in 2010-11 and 34% in the first nine months of 2011-12 (see Table 2), indicating that there was still scope for improvement.**

Photograph 2

A hostel room at Y-Loft



Source: HAB records

Remarks: Major facilities provided at the Y-Loft include a jogging path, a small yard, a common room, a fitness centre and a self-serviced laundry room.

Table 2
Mix of hostel guests
(May 2010 to January 2012)

Hostel guest	Target percentage	Actual percentage in 2010-11	Actual percentage in 2011-12 (May 2011 to January 2012)
(a) Target users (Note)	40%	18%	34%
(b) Non-target users (such as tourists)	60%	82%	66%
Total	100%	100%	100%

Source: *HAB records*

Note: *Target users include non-profit-making youth organisations and their members, and non-profit-making organisations holding youth programmes at the Youth Square. These users were provided with rental concessions (see Appendix B).*

2.11 In January 2012, the HAB informed Audit that:

- (a) through its stepping up of promotion efforts and the gradual establishment of the brand image of Y-Loft, the percentage of hostel rooms leased to target users had been on an upward trend; and
- (b) promotion efforts would continue to be strengthened to improve occupancy of the hostel, in particular by the target users. However, the usage by the target users might be affected by factors such as market demand and seasonal fluctuation of demand (e.g. their demand for hostel rooms tended to be higher in the summer months but lower during examination seasons).

2.12 The youth hostel is to provide accommodation for participants of youth exchange and leadership training programmes (see para. 2.2(a)). As such, the achievement of a 34% mix in 2011-12 for target users did not fully meet the youth development objective. **In Audit's view, it will be a cause for concern if the hostel is operated in the long term serving primarily tourists (non-target users). Therefore, the HAB needs to continue making vigorous efforts to improve the hostel usage by youth organisations, such as**

stepping up its promotion efforts. The HAB also needs to assess the demand for such hostel accommodation from youth organisations and set an optimal target-user mix in the long term for the Youth Square.

Need to increase the number of youth programmes

2.13 As the Youth Square aims to serve as a focal point for youth development (see para. 2.3(a)), priority is given to youth organisations and other organisations to use the facilities for conducting youth programmes. Such programmes were generally held at the Y-Theatre, Y-Platform, Y-Studio and in the multi-purpose/function rooms (see Table 1 in para. 2.4). However, Audit noted that of the 2,130 programmes held at the Youth Square from May 2009 to January 2012, only 1,109 (52%) were youth programmes (see Table 3). On the other hand, 1,021 (48%) programmes were not youth-related. Apparently, non-youth programmes were also held at the Youth Square in order to make better use of the spare capacity available. Examples of such youth and non-youth programmes held at the Youth Square are shown in paragraph 2.14.

Table 3

**Programmes held at Youth Square
(May 2009 to January 2012)**

Year	Programme (a) (No.)	Youth programme (Note) (b) (No.)	Percentage $(c) = \frac{(b)}{(a)} \times 100\%$
2009-10	172	83	48%
2010-11	879	431	49%
2011-12 (May 2011 to January 2012)	1,079	595	55%
Overall	2,130	1,109	52%

Source: HAB records

Note: According to the HAB, a programme was regarded as a youth programme when at least 70% of the programme performers or participants were aged between 10 and 29.

2.14 Examples of youth programmes and non-youth programmes held at the Youth Square included the following:

Examples of youth programmes

- Photographic appreciation
- Youth talent competition
- Video shooting for school project
- Piano self-practice
- Violin self-practice
- Religious programme for children and youth
- Boxing training
- Organic farm
- Meeting of a youth organisation

Examples of non-youth programmes

- Elderly health consultation
- Buddhist lecture
- Training on risk assessments on trees
- Building Management Press Conference
- Health care on bones for the elderly
- Graduation ceremony of an elderly organisation
- Meeting of a family foundation
- Training course on enhancing customer services
- Seminar cum exhibition on making informed decisions

2.15 In December 2004, the HAB informed the HA Panel that programmes to be organised at the Youth Square should be meaningful and substantially beneficial to young people on the one hand, and sufficiently attractive to maximise utilisation of the facilities by youths and those involved in youth development work on the other hand. **While there was an improvement in 2011-12 as the percentage of youth programmes increased to 55% for the first nine months (see Table 3), in order to enhance youth development, the HAB needs to continue making vigorous efforts to increase the number of youth programmes to be held at the Youth Square. To organise more meaningful and attractive youth programmes at the Youth Square, the HAB needs to liaise more closely with various stakeholders, including the COY, the Contractor, the youth-related NGOs, and relevant government bureaux and departments involved in youth development.**

2.16 Besides, Audit noted that many of the programmes (youth and non-youth ones) at the Youth Square were free of charge (Note 11). Moreover, programmes held during the nine months from May 2011 to January 2012 attracted some 270,000 participants.

Need to improve usage of facilities by youth organisations

2.17 Audit noted that the usage of offices and retail shops at the Youth Square did not fully meet the youth development objective, as follows:

- (a) **34 offices on 8/F and 9/F of Main Block.** As of October 2011, 33 of the 34 offices were let to 14 NGOs with rental discounts of 40% to 60% (one office at 40%, three at 50% and 29 at 60%), and one office to a commercial organisation at market rental. Rentals of the offices ranged from \$1,190 to \$6,480 a month (for office sizes ranging from 16 m² to 80 m²). Audit however noted that:
 - (i) many of the offices did not appear to be active in business during Audit visits on ten occasions to the Youth Square between September 2011 and February 2012 (see an example in Photograph 3). Table 4 shows the number of offices in operation during the visits; and

Note 11: For example, in 2010-11, 85% (309) of 363 programmes held at the Y-Theatre, Y-Platform and Y-Studio were free ones. Only 15% (54 programmes) were fee-charging ones.

Photograph 3

An office not in operation



Source: Photograph taken by Audit at 3:15 pm on 1 February 2012 (Wednesday).

Remarks: Audit noted that lights were not switched on in the office.

Table 4
Audit visits to the 34 offices
(September 2011 to February 2012)

Audit visit	Date and time of audit visit	Number and percentage of offices found in operation (Note)
<i>Office hours</i>		
1	19 September 2011 (Monday) at 2:45 pm	17 (50%)
2	12 October 2011 (Wednesday) at 12:00 noon	16 (47%)
3	28 November 2011 (Monday) at 11:30 am	15 (44%)
4	20 December 2011 (Tuesday) at 3:30 pm	20 (59%)
5	29 December 2011 (Thursday) at 3:45 pm	11 (32%)
6	1 February 2012 (Wednesday) at 3:00 pm	14 (41%)
<i>After office hours and on weekends</i>		
7	13 December 2011 (Tuesday) at 7:00 pm	9 (26%)
8	17 December 2011 (Saturday) at 2:30 pm	4 (12%)
9	4 January 2012 (Wednesday) at 7:30 pm	6 (18%)
10	8 January 2012 (Sunday) at 3:00 pm	2 (6%)

Source: Audit field inspections

Note: The offices were considered to be in operation when lights were switched on. In the ten audit visits, eight offices (24%) were found not in operation on all ten occasions and another two (6%) were not in operation on nine occasions.

- (ii) some of the NGOs renting the offices did not organise any youth programmes at the Youth Square (Note 12).

In Audit's view, the HAB needs to take actions to enhance the gainful use of the offices for the intended purposes, such as imposing appropriate tenancy requirements on office use in future. Under the current tenancy agreements, office tenants were not required to organise youth programmes at the Youth Square. To meet the youth development objective, the HAB may consider imposing such tenancy requirements in future; and

- (b) ***36 retail shops on 3/F of Main Block.*** As of October 2011, all the 36 retail shops had been let to 18 tenants with rental discounts of 50% to 80% (21 shops at 50%, one at 60%, one at 70% and 13 at 80%). Rentals of the shops ranged from \$2,430 to \$19,710 a month (for shop sizes ranging from 11.5 m² to 67 m²). Audit however noted that although all retail shops were let with rental discounts, only 4 (11%) retail shops were let to non-profit-making youth organisations (classified as "high-priority" tenants according to the HAB Leasing Guide), and 24 (67%) retail shops to profit-making organisations (classified as "low-priority" tenants). Details are shown in Table 5. **In Audit's view, leasing a high percentage of retail shops to "low-priority" tenants calls for improvement in the long term.**

Note 12: *During the period November 2009 (commencement of the tenancies) to April 2010, 8 (62%) of the 13 NGOs renting offices at the Youth Square did not organise any youth programmes there. The same happened for 3 (21%) of the 14 NGOs renting offices during the period May 2010 to October 2011.*

Table 5
Tenants of 36 retail shops on 3/F
(October 2011)

Tenant priority (per HAB Leasing Guide)	Category of tenant	Tenant (Note 1) (No.)	Shop (Note 2) (No.)
1 (Highest)	Local non-profit-making youth organisation	1	1
2	Local non-profit-making organisation with youth as the primary service group	1	3
3	Other local non-profit-making organisation (e.g. environmental agency)	4	8
4	Overseas non-profit-making youth organisation	0	0
5	Local young entrepreneur aged between 18 and 35 (e.g. education and art centre)	1	2
6 (Lowest)	Business venture and individual organisation (e.g. music organisation)	11	22
Total		18	36

} 4

} 24

Source: HAB records

Note 1: Some tenants leased more than one shop.

Note 2: Of the 36 shops, 15 provided tutorial services, 12 provided music training and the remaining 9 provided training for arts and other youth-related services.

- 2.18 In January and March 2012, the HAB informed Audit that:
- (a) NGOs made contributions to youth development even though their activities were not conducted at the Youth Square. Due regard should be given to the fact that the target visitors of the offices were usually students and working youths who were normally not able to visit the offices during the daytime. It was also normal for NGOs to rely on volunteers who might or might not have fixed service hours. Youths would usually visit the offices after school or work when there were activities for them to participate, to plan or to execute. It was quite common for youth facilities to be relatively quiet during the daytime. In addition, the intensity of youth activities was affected by seasonal factors (such as during long vacations and examination seasons). The two evening visits to the offices conducted by Audit as listed in Table 4 took place in December and January which were the examination periods, that might explain the low utilisation of the offices (Note 13); and
 - (b) the “low-priority” tenants had to provide youth-related services. According priority in shop allocation and granting rental concessions were subject to different considerations. The rental policy was so designed to give priority to non-profit-making youth organisations in allocating a retail shop over a profit-making organisation. Concessions, on the other hand, were considered on the merits of their business proposals and the nature of their business. While a non-profit-making organisation enjoyed an advantage in allocation of a retail shop, a profit-making organisation might enjoy an 80% discount based on its business proposal. Both measures aimed to attract youths.

Audit recommendations

- 2.19 **Audit has recommended that the Secretary for Home Affairs should:**

Need to formulate qualitative and quantitative performance targets

- (a) **set qualitative and quantitative performance targets, as far as possible, to measure the extent of the Youth Square in contributing to youth development;**

Note 13: *Audit staff also paid three visits during the daytime and evening in March 2012. The results were largely the same as those reported in Table 4 (18% of offices in operation at 2:30 p.m. on 17 March 2012 (Saturday), 53% of offices in operation at 4:15 p.m. on 19 March 2012 (Monday), and 29% of offices in operation at 6:00 p.m. on 19 March 2012 (Monday)).*

Need to improve hostel usage by youth organisations

- (b) continue making vigorous efforts to improve the hostel usage by youth organisations, such as stepping up promotion efforts for the Youth Square (Note 14);
- (c) assess the demand of youth organisations for hostel accommodation and set an optimal target-user mix in the long term for the Youth Square;

Need to increase the number of youth programmes

- (d) continue making vigorous efforts to organise, in close collaboration with stakeholders, more meaningful and attractive youth programmes at the Youth Square;

Need to improve usage of facilities by youth organisations

- (e) continue taking measures to enhance the gainful use of the offices at the Youth Square for the intended purposes, such as introducing appropriate tenancy requirements on office use in future;
- (f) consider imposing tenancy requirements in future for office tenants to organise youth programmes at the Youth Square; and
- (g) continue making efforts to invite more “high-priority” tenants to hire retail shops at the Youth Square as far as possible.

Response from the Administration

2.20 The Secretary for Home Affairs agrees with the audit recommendations. He has said that:

Note 14: *For example, there is scope for enhancing the rental details posted on the Youth Square website. As of December 2011, on its website, the Youth Square stated that it would charge a twin hostel room at regular rental rates of \$1,200 to \$1,500 a night. Although it was indicated that concessionary rentals would be charged for bookings from youth organisations (i.e. target users), such rental details were not stated. As a result, youth organisations might not know that the concessionary rentals could be as low as \$480 a night.*

- (a) it will be challenging to set targets aiming to measure the Youth Square's contribution to youth development. Youth development is a long-term commitment of the Government delivered through various policy areas, such as education, employment, sports, arts and culture. It is being promoted through a number of platforms at the same time and the Youth Square is only one of them;
- (b) with a gradual improvement in the overall occupancy of the hostel since December 2009, extra efforts have been made to improve the hostel occupancy by target users. The Contractor has endeavoured to increase the hostel utilisation by youth organisations, and both local and overseas universities have been approached;
- (c) the HAB will continue to work closely with the Contractor to foster cooperation with youth organisations so as to attract target users and enrich the programmes at the Youth Square; and
- (d) as agreed by the MAC and the FSTB, concessionary rates will no longer be offered to commercial shop tenants for the new contract term commencing mid-2012. Also, office and shop tenants will be required to operate during their specified opening hours in the new tenancy. Efforts have been made and will continue to be made in reviewing measures to promote the gainful use of the offices, and to promote leasing of the offices by the target users, such as NGOs focusing on youths.

2.21 The **Secretary for Financial Services and the Treasury** agrees with the audit recommendations in paragraph 2.19(a) and (e) to (g). He has said that:

- (a) it is normally up to a procuring bureau/department to determine the contract terms taking into account its own policy objective and operational requirements; and
- (b) it is stipulated in the Government Stores and Procurement Regulations that, in general, departments shall devise an effective monitoring mechanism to ensure that a contractor complies with the terms of a contract. From the contract management point of view, imposing any new performance indicators in an existing contract may require a contract variation carrying extra financial implications for the Government, especially if delivery of the new performance indicators would entail additional services by the contractor (Note 15).

Note 15: *Audit considers that the HAB may explore the setting of performance targets that do not require contract variations and additional costs (such as the target-user mix of 40% for the hostel — see para. 2.10).*

Usage of facilities and youth patronage

2.22 The Contractor is required under the Contract to achieve target usage rates for the facilities provided at the Youth Square. In 2010-11 and 2011-12, the target usage rates were generally achieved (see Table 6).

Table 6

**Usage rates of facilities (Note 1)
(May 2010 to January 2012)**

Category	Facility	Target usage rate	Actual usage rate in 2010-11	Actual usage rate in 2011-12 (May 2011 to January 2012)
A	Hostel	70%	82% (Note 2)	78% (Note 2)
B	Retail shops, offices and youth activity areas	70%	69%	77%
C	Y-Theatre, Y-Platform and Y-Studio	65%	72%	72%

Source: HAB records

Note 1: For the hostel, the usage rate was based on the number of room nights let vis-a-vis the total number of room nights during the period. For other facilities, the usage rates were based on the floor area and the number of facility hours hired vis-a-vis the total floor area and the total number of facility hours available during the period. The facilities were available for public use seven days a week from 8:00 a.m. to 11:00 p.m.

Note 2: According to the Hotel Room Occupancy Report published by the Hong Kong Tourism Board, the average hotel room occupancy rate for the Eastern, Western and Southern Districts of the Hong Kong Island was 86% in 2010-11 and 88% in 2011-12 (May 2011 to January 2012).

Audit observations and recommendations

2.23 The following issues are addressed in relation to facilities at the Youth Square with low usage:

- (a) need to improve usage of facilities (paras. 2.24 and 2.25);
- (b) need to improve recording of visitors (paras. 2.26 to 2.29); and
- (c) need to ensure proper use of self-study areas (paras. 2.30 to 2.32).

Need to improve usage of facilities

2.24 In 2010-11 and 2011-12, the utilisation of some major facilities of the Youth Square achieved or exceeded the target usage rates specified in the Contract (see Table 6 in para. 2.22). For example, the hostel achieved an actual utilisation rate of 82% in 2010-11 against the target of 70%. However, Audit noted that some facilities had low utilisation rates (less than 50%). Details are shown in Table 7.

Table 7

Facilities with utilisation rates of less than 50%
(May 2010 to January 2012)

Facility	Floor area (m ²)	Utilisation rate (Note 1)
Retail area on 2M/F (Note 2)	204	0%
Audio recording studio and fashion and design studio on 5/F and 6/F	107	> 0% – 5%
Conference room on 8/F	160	
Video recording studio and editing workstations on 2M/F	168	> 5% – 10%
Three piano rooms, photographic room, band room and exhibition area on 5/F and 6/F	216	
Interest group room, dance room, dance studio and four multi-purpose rooms on 5/F and 6/F	567	> 10% – 30%
Three multi-purpose rooms on 5/F and 6/F	171	> 30% – <50%
Exhibition area on 8/F	400	
Multi-purpose room on 12/F	66	
Overall	2,059	0% – <50%

Source: HAB records

Note 1: The utilisation rate of a facility was shown as a percentage of actual hours used to available hours for booking.

Note 2: From November 2009 to August 2011, the 2M/F was allocated for use as a retail area but there was no demand for it. Since September 2011, a games hall (with free entrance) had been provided in the area.

2.25 In Audit's view, the low utilisation of the facilities as shown in Table 7 is unsatisfactory. In particular, there was low usage of facilities for audio recording, video recording and editing, photographic production, fashion and design, dancing and exhibition at the Youth Square. **The HAB needs to ascertain the reasons for the low utilisation, and take measures to improve the usage of these facilities. In the event of continued low utilisation of such facilities, the HAB needs to consider converting some of the pertinent areas into other gainful use.**

Need to improve recording of visitors

2.26 Since 2010-11, the Contractor has submitted quarterly management reports to the HAB on the visitor flow of the Youth Square (visitor-flow reports), based on data recorded at the entrances (which are also the exits) of the Youth Square (Note 16), including people staying at the youth hostel. In March 2011, the HAB informed the FC (during the examination of the draft 2011-12 Estimates) that the number of visitors to the Youth Square had reached a record high of over 113,000 in January 2011. According to the visitor-flow reports, the daily visitor flow increased from some 3,200 in 2010-11 to some 4,400 in 2011-12. Details are shown at Appendix D. Audit however has the following observations on the reported visitor-flow figures:

- (a) **Visitor numbers not reflected by visitor-flow figures.** Under the existing methodology adopted, a visitor will be counted by an infrared sensor once when he enters the Youth Square at the entrance, and counted once again when he leaves the Youth Square. Therefore, the reported visitor-flow figures in the visitor-flow reports do not reflect the actual number of visitors (the visitor-flow figures could have been 100% more than the visitor numbers — Note 17);
- (b) **Target youths visiting the Youth Square.** The total number of youths visiting the Youth Square was not available although such number would be useful to help evaluate whether the Youth Square had become a focal point for the youths; and
- (c) **Staff, workers and non-youths included as visitors.** The reported visitor-flow figures included all people entering and leaving the Youth Square, for example:

Note 16: *The Contractor mainly uses infrared sensors to measure the visitor flow. Such devices are unable to differentiate visitors by their age or purposes of visits, and cannot differentiate whether a visitor is entering or leaving the Youth Square.*

Note 17: *As informed by the HAB in March 2012, the "double counting" was not intentional but caused by the limitation of the infrared sensor which could not be improved until a more sophisticated technology was available.*

- (i) hostel guests staying in the youth hostel;
- (ii) staff and workers managing and operating the hostel, venues, offices, retail shops and restaurants of the Youth Square;
- (iii) parents and domestic helpers accompanying students to attend programmes held at the Youth Square and classes at retail shops; and
- (iv) others (such as visitors to the Civic Education Resource Centre, people attending meetings in the offices, individuals attending classes at retail shops and diners at the restaurants).

Some of these people (such as staff and workers in (ii) above) should **not** have been counted as visitors to the Youth Square. Other visitors (such as some of the hostel guests, parents and domestic helpers and restaurant customers in (i), (iii) and (iv) above) might **not** be youths.

2.27 In March 2012, the HAB informed Audit that:

- (a) people who accompanied youths to attend classes, programmes and competitions was a very tangible form of supporting youth development. Including these people in the number of people visiting the Youth Square was not in conflict with the objective of the Youth Square in promoting youth development. Without parents' accompaniment, some youths might not be able to join such activities; and
- (b) the work of staff and workers at the Youth Square also directly contributed to youth development (Note 18).

2.28 According to the HAB, the Youth Square is a central facility for the whole territory and a focal point for promoting youth development (see para. 2.3(a)). **The HAB needs to take measures to compile more meaningful statistics to assess the popularity of the Youth Square in meeting its youth development objective.** For example, the number of youths participating in youth programmes held at the Youth Square can be one of the useful statistics.

Note 18: *Audit notes the HAB's remarks, but would like to point out that stakeholders need to take into account the audit observations in paragraph 2.26 in interpreting the reported visitor-flow figures at Appendix D for the purpose of assessing the popularity of the Youth Square in meeting the youth development objective. Audit however does not suggest that the HAB should invest substantial resources to compile more accurate statistics on visitor numbers.*

2.29 The MAC has discussed the issue of low visitor flow of the Youth Square at various meetings. To improve visitor flow, self-study areas were set up (see para. 2.30). Furthermore, the COY has organised territory-wide youth activities at the Youth Square (such as youth exchange sessions, briefing sessions and youth development workshops). As of January 2012, the Contractor was developing a loyalty programme through an Internet platform to recruit and retain regular visitors to the Youth Square. In addition, hostel guests were offered discounts for dining at the restaurants on the 4/F of the Main Block. **While Audit recognises the efforts made by various parties to promote the Youth Square, the HAB needs to continue stepping up efforts to promote the Youth Square, particularly to the youths.**

Need to ensure proper use of self-study areas

2.30 Since April 2010, the HAB has allocated certain areas (such as open places and corridors) on the 5/F, 6/F and 8/F of the Main Block at the Youth Square for use as self-study areas. Certain multi-purpose rooms on the 5/F, 6/F, 9/F and 12/F have also been allocated as temporary self-study rooms. As of December 2011, the Youth Square provided some 170 self-study seats in its temporary self-study rooms and its self-study areas (see Photographs 4 and 5 and Note 19). According to the HAB:

- (a) the provision of temporary self-study rooms and installation of related furniture in common areas serve as useful tools to attract youths to the Youth Square and to invite them to participate in the programmes and activities conducted there. The HAB considers it crucial to attract and sustain a critical mass of youths to make frequent visits to the Youth Square, especially at the early stage of its operation; and
- (b) frequent visits by students would facilitate the promotion of activities conducted by the shop/office tenants and hirers of other facilities at the Youth Square, achieving a win-win-win situation among the Youth Square, the tenants/hirers and the target youths.

Note 19: *As of December 2011, the Chai Wan Public Library administered by the Leisure and Cultural Services Department, which is about a 10-minute walking distance from the Youth Square, also provided a total of 222 seats in its students' study room. Audit visits on a number of occasions revealed that the seats were not always fully occupied.*

Photograph 4

Temporary self-study room on 9/F



Source: Photograph taken by Audit at 7:15 pm on 13 December 2011 (Tuesday).

Photograph 5

Self-study area on 5/F



Source: Photograph taken by Audit at 11:07 am on 14 November 2011 (Monday).

2.31 Audit noted that users of the temporary self-study rooms were required to observe some rules such as “Please remain quiet” and “No eating” which were displayed outside the rooms. However, no rules were displayed in the self-study areas. In response to Audit’s enquiry, the HAB has informed Audit that: (a) although youths should behave themselves wherever they are, the treatment of the temporary self-study rooms and that of the self-study areas are different; and (b) as youths have to discuss in groups to prepare projects in various forms, introducing strict rules will suffocate the free ambiance of the Youth Square which accounts for the attractiveness of the Youth Square as distinct from self-study rooms at public libraries.

2.32 Audit notes the HAB’s remarks, but still considers that the laying down of certain house rules for the self-study areas (such as requirements for proper behaviour and avoiding disturbance to other people) is desirable. This ensures the proper use of the self-study areas.

Audit recommendations

2.33 **Audit has recommended that the Secretary for Home Affairs should:**

Need to improve usage of facilities

- (a) **regarding the low-usage facilities at the Youth Square for audio recording, video recording and editing, photographic production, fashion and design, dancing and exhibition:**
 - (i) **ascertain the reasons for their low utilisation;**
 - (ii) **take measures to improve their utilisation; and**
 - (iii) **in the event of continued low demand, consider converting some of the pertinent areas into other gainful use;**

Need to improve recording of visitors

- (b) **take measures to compile more meaningful statistics to assess the popularity of the Youth Square in meeting the youth development objective;**
- (c) **continue stepping up efforts to promote the Youth Square, particularly to youths; and**

Need to ensure proper use of self-study areas

- (d) **impose and display appropriate house rules to ensure the proper use of the self-study areas at the Youth Square.**

Response from the Administration

2.34 The **Secretary for Home Affairs** agrees with the audit recommendations. He has said that:

- (a) in view of the low utilisation of some multi-purpose rooms and other facilities, the Contractor has recently taken the initiative to re-configure some of them with a view to putting them into other gainful use (e.g. combining a band room and a dance room into a large band room which could accommodate up to 30 people for rehearsals, performance sharing and training); and
- (b) the HAB's efforts in promoting the Youth Square have always been focused on youths. Such efforts include direct mailing and visits to youth organisations and schools to promote the Youth Square's facilities, promoting the Y-Loft to universities and colleges overseas, and conducting activities at the Youth Square that are targeted at youths (e.g. dance days and fashion shows).

Operating results

2.35 In **November 2001**, the FC approved the capital cost of \$550.9 million for the construction of the Youth Square on the understanding that the Government would set up a limited company to manage and operate the Youth Square on a self-financing basis with no recurrent commitment. At that time, the HAB considered that the Youth Square should be able to remain financially viable throughout its initial 10-year period of operation.

2.36 In **February and March 2005**, the HAB informed the FC that:

- (a) the economic conditions in Hong Kong had gone through significant changes since financial year 2000-01;
- (b) the Youth Square would no longer be operated on a self-financing basis through a limited company, as envisaged when capital funding for its construction was sought in November 2001 (see para. 2.35);

- (c) under a proposed mode of the Government directly taking up the responsibility of managing and operating the Youth Square by providing the necessary recurrent expenditure, the Youth Square would generate an annual total income of about \$44 million, and incur an annual total operating expenditure of about \$49 million. **The net cost to the Government would be about \$5 million a year;** and
- (d) the HAB would strive to achieve full-cost recovery in managing and operating the Youth Square. In the event that the Youth Square incurred an operating deficit, the HAB would cover the deficit through public donations or through internal redeployment of resources.

At its meetings in February and March 2005, the FC noted that the Youth Square would no longer be operated on a self-financing basis and accepted the financial implications of the Government assuming direct overall operation and management responsibility over the Youth Square. In other words, the Government would bear all commercial risks arising from the operation and management of the Youth Square.

2.37 In **February 2009**, the HAB again reported to the HA Panel that the Government would directly take up the responsibility of managing and operating the Youth Square by funding the necessary recurrent expenditure, and that it would **strive to achieve full-cost recovery** by making every effort to operate the Youth Square in a cost-effective manner.

Audit observations and recommendations

2.38 Two issues are addressed in relation to the operating results of the Youth Square, namely:

- (a) need to review justifications for the costs incurred (paras. 2.39 to 2.42); and
- (b) need to review rental strategy (paras. 2.43 to 2.45).

Need to review justifications for the costs incurred

2.39 The Youth Square incurred operating deficits of \$42.9 million for 2009-10 (commencing operation by phases from August 2009 and in full operation from March 2010) and \$33.2 million for 2010-11 (the first year of full operation). The 2010-11 operating results differed significantly from the estimated deficit of \$5 million a year as the HAB informed the FC in March 2005 (see para. 2.36(c) and Table 8). Details are shown at Appendix E.

Table 8
Operating results of the Youth Square
(2010-11)

	Estimate made in 2005	Actual for 2010-11
	(\$'000)	(\$'000)
Income (a)	43,590	32,806 (Note 1)
Expenditure (b)	48,830	65,978 (Note 2)
Deficit (c) = (a) – (b)	(5,240)	(33,172)

Source: HAB records

Note 1: Income mainly included rentals from the hostel, Y-Theatre, Y-Studio, Y-Platform, retail shops, offices, and multi-purpose/function rooms.

Note 2: Expenditure included payment of basic management fee of \$53 million to the Contractor.

2.40 The Youth Square incurred an operating deficit in 2010-11 apparently because of the lower-than-estimate rental income and the higher-than-estimate management fee paid to the Contractor. The actual income was only 75% of the 2005 estimate whereas the management fees payable to the Contractor (\$371 million for a period of seven years — see para. 1.10 and Note 20) were 86% over the pre-tender estimate of \$200 million as specified in the relevant tender report submitted to the Central Tender Board in February 2009.

Note 20: Noting that the management fee of \$385 million originally offered by the only conforming tenderer (the Contractor) was much higher than the pre-tender estimate, the Central Tender Board requested the HAB to conduct negotiations with the tenderer for obtaining a better price. In March 2009, the HAB reverted to the Central Tender Board with a revised management fee offer of \$371 million, which was 3.6% less than the original offer of \$385 million and 86% over the pre-tender estimate.

2.41 Given that the Government was to bear all commercial risks arising from the operation and management of the Youth Square, the operating deficits of \$42.9 million for 2009-10 and \$33.2 million for 2010-11 were borne by the Government. In Audit's view, it is not unusual that the Youth Square incurred operating deficits during its initial period of operation, as the Youth Square has not become popular, some facilities have not yet been well received by the public, and substantial rental concessions have been provided in order to promote usage. In March 2012, the HAB further informed Audit that the lower-than-expected income was due to:

- (a) some facilities were not fully opened at the beginning of operation of the Youth Square. Fitting-out works for the 3/F to the 9/F of the Main Block and procurement of furniture and equipment for the hostel were carried out by the Contractor in the early months of 2009. The performance venues started operation only in August, the multi-purpose rooms in November and the hostel in December 2009; and
- (b) rent-free periods were offered to attract office and retail tenants and to facilitate their renovation works.

Nonetheless, in Audit's view, the significant variance between the estimated deficit of \$5 million a year and the actual operating deficit of \$33.2 million in 2010-11 is still a cause for concern.

2.42 Given that the value of the Youth Square lies in its contribution to youth development and the Government has to bear all the costs arising from the management and operation of the Youth Square, there is a need for the HAB to consider whether the operating costs of the Youth Square are justified by its contribution to youth development. There is also a lesson to be learnt in that the HAB needs to make more accurate financial estimates as far as possible for similar projects in future.

Need to review rental strategy

2.43 The HAB has charged rentals for the venues and facilities at the Youth Square based on rateable values and market prices, with appropriate rental concessions granted to target users, mainly youth organisations (see Appendices B and C). Audit however noted that in practice, rental concessions were also granted to non-target users. For example, a rental discount of 80% was granted to a profit-making organisation which had rented three retail shops for providing music training and which belonged to the "lowest-priority" tenant group (see Table 5 in para. 2.17 and para. 2.18(b)).

2.44 In January 2012, the HAB informed Audit that:

- (a) letting retail shops to profit-making organisations was conducive to the youth development objective, and could help achieve an appropriate balance between meeting the youth development objective and maximising income. In particular, it was important to attract patronage to the new Youth Square. Therefore concessionary rental rates were charged; and
- (b) as the critical mass of the Youth Square was taking shape and the occupancy of shops had reached a satisfactory level, the MAC and the FSTB agreed that concessionary rental rates would no longer be offered to commercial tenants in the new contract term commencing mid-2012.

2.45 On the other hand, Audit is also concerned whether the concessionary rental rates charged are affordable to the target users. For example, as of January 2012, the HAB charged a twin hostel room at a maximum concessionary room rate of \$480 a night for hostel guests from youth organisations (target users). After interviewing some local youth-related NGOs in December 2011 (see para. 4.3(c)), Audit noted that the high hostel room rate could be one of the major reasons for the lower-than-target mix of hostel guests from youth organisations (see para. 2.10). **Given the youth development objective and the full-cost-recovery objective that the HAB has strived to achieve for the Youth Square (see para. 2.36(d)), it remains a challenge to the HAB to strike a proper balance between offering the venues and facilities at affordable prices to the youths and, at the same time, achieving the full-cost-recovery objective. If a proper balance between the two cannot be achieved, the HAB needs to critically consider in its 2013 review how the Youth Square should be positioned (para. 1.14 is relevant).**

Audit recommendations

2.46 **Audit has recommended that the Secretary for Home Affairs should:**

Need to review justifications for the costs incurred

- (a) **consider whether the operating costs of the Youth Square are justified by its contribution to youth development;**
- (b) **make more accurate financial estimates as far as possible for similar projects in future;**

Need to review rental strategy

- (c) review the rental strategy, in collaboration with the FSTB, with a view to offering the venues and facilities of the Youth Square at affordable prices to the youths and, at the same time, achieving the full-cost-recovery objective as far as possible; and
- (d) if a proper balance between the two objectives in (c) above cannot be achieved, critically consider in the HAB's 2013 review how the Youth Square should be positioned.

Response from the Administration

2.47 The **Secretary for Home Affairs** agrees with the audit recommendations. He has said that:

- (a) in its review in 2013, the HAB will address the need to review the justifications for the costs incurred for the Youth Square;
- (b) the estimated income made in 2005 was too optimistic and the estimated cost too low; and
- (c) as the cost-recovery objective may conflict with the policy of offering venues and facilities at affordable prices to youths, the HAB will be happy to review the balance of the two objectives in its review in 2013.

2.48 The **Secretary for Financial Services and the Treasury** agrees with the audit recommendation in paragraph 2.46(c).

PART 3: PLANNING AND IMPLEMENTATION

3.1 This PART examines the planning and implementation of the Youth Square project, with focus on the following:

- (a) management of project risks (paras. 3.11 to 3.22);
- (b) project management and supervision (paras. 3.23 to 3.29); and
- (c) reporting of implementation progress (see paras. 3.30 to 3.34).

Planning and implementation of the Youth Square project

Steering Committee

3.2 In early 1998, a Steering Committee on the Centre for Youth Development (the Steering Committee — Note 21) was set up to oversee the development of the Youth Square project. Its terms of reference included, among others:

- (a) overseeing and monitoring the design and construction programme to ensure timely provision of the building; and
- (b) selecting the operators of the hostel and canteen through an open tender exercise.

3.3 Under the Steering Committee, four working groups were established to oversee different aspects of the Youth Square project, namely the Youth Organisation Liaison Working Group (Note 22), the Hostel Development Working Group, the Commercial Activities Working Group and the Facility Allocation Working Group. Between 1998 and 2004, the Steering Committee held 14 meetings (on average two meetings a year) providing advice to the HAB, including the size of the hostel, choices of facilities, the mode of operation and financial sustainability.

Note 21: *The Steering Committee was chaired by the Deputy Secretary for Home Affairs with members including representatives from relevant government departments, the Eastern District Council, the Donor, the COY and various youth groups.*

Note 22: *In December 1998 and January 1999, the Working Group invited views from over 150 youth groups on the management and proposed facilities of the Youth Square. The Working Group received 21 written submissions.*

Preliminary financial viability

3.4 In **October 1999**, the HAB commissioned a consultant (Consultant A) to conduct a preliminary financial viability study of the Youth Square. In **February 2001**, in its study report, Consultant A estimated that:

- (a) based on a financial analysis, the Youth Square would generate an accumulated surplus of \$77 million over the first ten years of operation; and
- (b) based on a sensitivity analysis, the financial results for the first ten years of operation would vary considerably, ranging from an accumulated surplus of \$365 million to an accumulated deficit of \$171 million.

3.5 At its meeting held in **May 2001**, with reference to Consultant A's study results, the Steering Committee accepted the HAB's recommendation of setting up a limited company (with its board of directors to be appointed by the Government) to assume responsibility for the management and operation of the Youth Square on a self-financing basis. In **July 2001**, the HAB informed the HA Panel that:

- (a) it was the HAB's intention that the Youth Square should be operated on a self-financing basis through a limited company rather than relying on recurrent subvention from public funds;
- (b) a contingency fund was required to safeguard against the unstable level of income during the initial period of operation; and
- (c) **the Youth Square was targeted for completion by the end of 2005.**

Mode of operation and financial sustainability

3.6 In **May 2003**, taking into account changes in the economic environment and the need to incur substantial staffing and operating costs under the limited company model, the HAB's reassessment found that the Youth Square would incur an operating deficit of \$90 million over the first ten years of operation (on average \$9 million a year). In **August 2003**, the HAB proposed to the Steering Committee that the management and operation of the Youth Square should be contracted out to one or more NGOs or private companies. The Steering Committee expressed reservations on the proposal on the grounds that contracting out the management and operation might lead to the domination of the use of the Youth Square by one single NGO.

3.7 In **June 2004**, in view of the Steering Committee's reservations about the contracting-out proposal, the HAB commissioned another consultant (Consultant B) to study the mode of operation and financial sustainability of the Youth Square. After the study, Consultant B found that:

- (a) based on overseas experience, contracting out the management and operation of the Youth Square was technically feasible; and
- (b) the Youth Square would incur operating deficits, ranging from \$1.4 million to \$10 million a year under seven scenarios.

3.8 In **September 2004**, with reference to Consultant B's study results, the Steering Committee accepted the HAB's recommendation that the management and operation of the Youth Square should be contracted out under one contract.

Construction and commissioning

3.9 In **March 2005**, the FC accepted the financial implications (net cost of \$5 million a year estimated by the HAB) of the Government's overall operation and management responsibility over the Youth Square. In **April 2005**, the ArchSD awarded the superstructure works contract to a construction contractor. In April 2008, the superstructure works for the Youth Square were substantially completed. In **November 2008**, the ArchSD handed over the building to the HAB. The Youth Square had commenced operation by phases since August 2009 and was officially opened in March 2010.

Management Advisory Committee

3.10 In **March 2008**, the HAB set up an ad-hoc inter-departmental working group (Note 23) to prepare for the opening and operation of the Youth Square. In **January 2009**, the MAC was set up (see para. 1.11) with the following terms of reference:

- (a) advising on the overall strategy and objectives of the Youth Square;
- (b) advising on the themes and contents of youth development programmes;

Note 23: *The working group was chaired by the Permanent Secretary for Home Affairs with members comprising representatives from the HAB, the ArchSD, the Home Affairs Department and the Leisure and Cultural Services Department.*

- (c) advising on the use, allocation, leasing and charging arrangements of various facilities;
- (d) evaluating the effectiveness on the use of the Youth Square in promoting youth development programmes; and
- (e) monitoring the performance of the contractor of the Youth Square.

Management of project risks

3.11 **The Youth Square project is a unique one involving high project risks for the following reasons:**

- (a) ***No precedent of a similar nature.*** The Youth Square project was the first of its kind, with the aim of providing a focal point for territory-wide youth development activities in Hong Kong. The HAB lacked experience in managing and operating such a central facility;
- (b) ***Uncertainty of financial viability.*** The construction of the Youth Square required a high capital outlay of \$771 million (see para. 1.9). As there was no precedent project of a similar nature, on two occasions, the HAB had to commission consultants (Consultant A and Consultant B — see paras. 3.4 and 3.7) to conduct financial assessments of the project and to advise the HAB on the model for managing and operating the Youth Square. Based on the consultants' projections, the HAB reported to LegCo at different times of different projections on the financial viability of the Youth Square, as follows:
 - (i) **2001:** the Youth Square would be operated on a **self-financing basis** with no recurrent subvention from the Government (see para. 3.5);
 - (ii) **2004:** the Youth Square would incur an operating loss and there could be a **recurrent shortfall of \$90 million** over the first ten years of operation (as reassessed by the HAB in 2003 — see para. 3.6); and
 - (iii) **2005:** the Youth Square would no longer be operated on a self-financing basis, but would generate an annual total income of about \$44 million, and incur an annual total operating expenditure of about \$49 million. **The net cost to the Government for operating the Youth Square would be about \$5 million a year** (see para. 3.9).

The Youth Square project had taken more than ten years to complete since the announcement by the Chief Executive in his 1998 Policy Address (see para. 1.7). Over the years, changes in business and economic conditions had affected the financial viability of the project. Finally, in March 2005, the FC accepted the financial implications of the Government to assume the management and operation responsibility over the Youth Square;

- (c) *Superstructure works hinged on mode of operation and financial viability.* In July 2001, the HAB informed the HA Panel that the Youth Square was targeted for completion by the end of 2005 (see para. 3.5(c)). In May 2003, the ArchSD invited tenders for the superstructure works. In August 2003, at the request of the HAB, the ArchSD extended the tender validity period because the Government had not yet decided on the mode of operation for the Youth Square. After the FC acceptance in March 2005 of the financial implications, the contract for the superstructure works was awarded in April 2005. The superstructure works were substantially completed in April 2008, with the Youth Square handed over by the ArchSD to the HAB in November 2008 and officially opened in March 2010 (see para. 3.9); and
- (d) *Involvement of many stakeholders.* The project involved many stakeholders, namely the HAB, the ArchSD, the Steering Committee (1998 to 2004), the MAC (since 2009 — see para. 3.10), the COY, some 150 youth organisations and NGOs involved in youth development.

Audit observations and recommendations

3.12 In implementing a project, the Government needs to take effective measures to address the project risks with a view to delivering the project on time and within the cost budget. **Despite the fact that the Youth Square project involves high risks (see para. 3.11), Audit found that there were inadequacies in the measures taken by the HAB in its planning and implementation to address the project risks. In essence, such inadequacies lie in three areas.** These areas include the selection of location for the central facility, the achievement of the youth development objective and the timely completion of the project. They are explained below.

Selection of location for central facility

3.13 The Youth Square is located in Chai Wan at the eastern part of the Hong Kong Island. In **November 1997**, after the Chai Wan Community Centre site was identified as the most suitable site for developing the Youth Square, the Government Property Strategy

Group (Note 24) endorsed the proposal mainly on grounds that the proposed development was acceptable from the site utilisation perspective. In **May 1999**, the HAB informed the HA Panel that the proposed site was conveniently located near the Chai Wan MTR Station and it was difficult to find any other suitable site of a large area near an MTR station. In response to some LegCo Members' reservations/enquiries about the inconvenient location of the Youth Square and the possible under-utilisation of the Youth Square facilities owing to its location, the HAB informed LegCo that there was no suitable site at that time and some other sites under planning would not be available until 2006.

3.14 In **June 1999**, the HAB further informed the FC that:

- (a) the then Chai Wan Community Centre site was the most appropriate site available at the time, because it was at the centre of Chai Wan and was connected by a footbridge to the Chai Wan MTR Station. Through the MTR network, young people from various districts would find the site at Chai Wan accessible and convenient; and
- (b) apart from serving the territory-wide youth population, the Youth Square would continue to serve the local residents of the Chai Wan District. People under the age of 34 then accounted for over 50% of the total population in Chai Wan. By 2004, half of the population in Chai Wan would be under the age of 35.

3.15 In its study report of September 2004 (see paras. 3.7 and 3.8), Consultant B said that:

- (a) most respondents to its survey (including youth-related NGOs who would be potential users of the venues and facilities) considered that the location of the Youth Square was not favourable for organising youth programmes; and
- (b) being located at the east end of the Hong Kong Island, the respondents indicated that it would be at quite a distance from the rest of the residential population for hosting territory-wide activities. Apart from the location, they believed that the environment of the Youth Square, surrounded by public housing and old buildings, would also make it hard to become a focus centre for the youths in the territory.

Note 24: *The Group is an inter-departmental forum to deal with site utilisation matters for public works projects. In 1997, Group members included representatives from the Home Affairs Department, the Planning Department, the Government Property Agency and the then Planning, Environment and Lands Bureau. The terms of reference of the Group did not include making decisions on whether a government site was most suitable for a particular public facility from the policy or operational point of view.*

Audit's interviews with five NGOs in December 2011 (see PART 4) also revealed similar concerns as the NGOs considered the location of the Youth Square inconvenient (see para. 4.3(b)). They indicated that the Youth Square was quite remote to the youth population living in the New Territories owing to the long travelling time and costly fares (Note 25). Audit considers that the Government should conduct more research on site location in planning for a similar project in future, making reference to the population age distribution among regions in Hong Kong (Note 26).

3.16 As a **central facility** for youth development, youths are expected to visit the Youth Square frequently. Owing to its location, the Youth Square cannot easily attract youths from the New Territories and new towns which have greater youth populations. This is particularly the case as the Youth Square lacks a focal theme to clearly distinguish it from other youth-related facilities (see paras. 3.17(c) and 4.3(a)). **If the Youth Square were located at a more centralised site, it might be easier for the HAB to develop the Youth Square into a central facility for the whole territory.** In Audit's view, in implementing a similar project in future, the HAB needs to critically consider the location which can affect the success or otherwise of the project.

Achievement of the youth development objective

3.17 To ensure the achievement of the youth development objective, in **December 2004**, the HAB informed the HA Panel of the following Government measures:

- (a) ***A framework of youth development programmes.*** The Government would draw up a solid framework of substantial and meaningful youth development programmes to be organised at the Youth Square. This included the setting out of clearly defined objectives, contents and requirements for youth development programmes, so as to ensure that the programmes organised would be meaningful and substantially beneficial to young people on the one hand, and sufficiently attractive to maximise utilisation of the facilities by youths and those involved in youth development work on the other hand;

Note 25: *For example, a student living, say, in Shatin needs to spend two hours and \$14 for a round trip by MTR to visit the Youth Square.*

Note 26: *According to the "Population and Household Statistics Analysed by District Council District 2010" published by the Census and Statistics Department, median age of the 18 districts in Hong Kong ranged from 37 to 43. The median age of the Eastern District was 42, indicating that Chai Wan was a district with a relatively old population. The median age of districts in the New Territories ranged from 37 to 40, indicating that they had a younger population.*

- (b) **Partner organisations.** In conjunction with the COY, the HAB would solicit partner organisations who could be specifically assigned to take charge of the organisation and co-ordination of programmes conducive to achieving the strategic objectives in youth development work (Note 27). The HAB considered that programmes would be run by organisations with the relevant expertise and experience, thereby ensuring that they would measure up to the quality and standard required;
- (c) **Focal theme.** After interviewing a number of representative organisations in both the non-profit-making and the commercial sectors, Consultant B recommended that there should be a focal theme which could clearly distinguish the Youth Square from other youth-related facilities. According to the consultant, the Youth Square should offer unique themes and services which were not offered by existing NGOs or youth service providers. It should centre on certain special themes which could meet the development needs of young people especially in terms of helping them face the challenges of the 21st Century; and
- (d) **MAC.** An MAC consisting of representatives from NGOs, youth organisations and other relevant parties could be formed to advise the Government on the strategies, objectives, management and use of facilities of the Youth Square. The MAC would also review at regular intervals the performance of the contractor against pre-agreed service and performance standards.

3.18 In **February 2005**, the HAB further informed the FC that the Government would administer the management contract(s), as well as organise and co-ordinate youth development programmes at the Youth Square. Audit however noted that the various measures mentioned had not been adequately followed through by the Government, as shown in Table 9.

Note 27: *According to the LegCo paper of December 2004, such strategic objectives might include:*

- (a) *co-ordinating existing projects of NGOs and youth organisations;*
- (b) *providing services not normally provided by NGOs;*
- (c) *identifying service gaps and experimenting with new projects;*
- (d) *providing professional support to youth service providers; and*
- (e) *promoting Hong Kong's good practices and reputation in youth development.*

Table 9

Inadequate follow-through of measures to address project risks

Government measures to be adopted	Measures not adequately followed through
(a) To draw up a framework of youth development programmes (see para. 3.17(a))	When the Youth Square started operation, the HAB had not set out a framework of youth development programmes. It would appear that if the HAB had made more forward planning, the MAC could have been set up earlier and the six objectives for youth development in paragraph 2.7 could have been formulated earlier than December 2010 (nine months after the official opening in March 2010).
(b) To solicit partner organisations to organise and co-ordinate youth development programmes (see para. 3.17(b))	<p>The HAB had not obtained the commitment of any partner organisations to organise youth development programmes under specified themes at the Youth Square before its opening. Instead, after opening of the Youth Square, the HAB requested the Contractor to approach the NGOs, youth groups and other interested parties to formulate the youth development programmes to be held at the Youth Square.</p> <p>Although the FC was informed in February 2005 that the Government would organise youth programmes at the Youth Square, of the 431 youth programmes held in 2010-11 (see Table 3 in para. 2.13), only 40 (9%) were organised by the HAB.</p>
(c) To develop a focal theme and to set up the MAC (see para. 3.17(c) and (d))	The HAB had not developed any focal theme for the Youth Square as recommended by Consultant B. The MAC was not set up until January 2009 (see para. 3.10).

Source: *Audit analysis of HAB records*

3.19 As a result of the above inadequacies, in Audit's view:

- (a) there was no assurance whether all the programmes organised at the Youth Square were meaningful and substantially beneficial to young people and, at the same time, sufficiently attractive to maximise the utilisation of the facilities by the youths and those involved in youth development work (see para. 2.15). It also transpired that 48% of the programmes held at the Youth Square were not youth-related (see para. 2.13);
- (b) in the absence of any focal theme at the opening of the Youth Square to clearly distinguish it from other youth-related facilities (see para. 3.17(c)), it would be difficult to develop the Youth Square into a focal point for territory-wide youth development in Hong Kong (see also para. 4.3(a)); and
- (c) the Contract did not set any performance targets on youth development. As mentioned in paragraph 2.6, performance targets were only set for occupancy of the hostel and for usage of the Youth Square venues and facilities (with incentive payments for over-performance and fee deductions for under-performance). No performance target was however set on usage of the venues and facilities by the youths, other than a requirement for the Contractor to organise at least 12 venue promotional programmes a year with over 300 youths participating in each programme.

Timely completion of project

3.20 The construction works of the Youth Square were completed in April 2008, 28 months after the original scheduled completion date of the end of 2005. The delay had arisen mainly because of the time taken by the Government to decide on the mode of operation and on the financial viability of the Youth Square. The relevant decision was not made until March 2005 (see para. 3.11(c)). The delay in the completion of the construction works was undesirable because:

- (a) it had deferred the operation of the Youth Square which could not come into full operation until March 2010; and
- (b) during the 16 months from January 2004 (after the completion of the foundation works in December 2003) to April 2005 (the time of award of the superstructure works contract — see para. 3.11(c)), the ArchSD had incurred \$3.1 million for hiring a contractor to maintain the works site which remained idle awaiting the Government's decision on the mode of operation of the Youth Square.

In March 2005, the HAB informed the FC of the construction delay and the cost of maintaining the works site in proper conditions before commencement of construction works. Audit considers that the HAB needs to, in implementing a similar project in future, endeavour to complete the project by the target completion date as far as possible.

Audit recommendations

3.21 Audit has recommended that the Secretary for Home Affairs should, in implementing a similar project in future:

- (a) **take effective measures to minimise the project risks during the planning and implementation stages;**
- (b) **critically consider the location which may affect the success or otherwise of the project; and**
- (c) **endeavour to complete the project by the target completion date as far as possible.**

Response from the Administration

3.22 The Secretary for Home Affairs agrees with the audit recommendations. He has said that:

- (a) the HAB has an established framework of youth development objectives in place, which are pursued through various platforms such as the COY, the youth uniformed groups, the District Youth Programme Committees, the Youth Square and other channels. The Youth Square operates within this framework, and the formulation of the six objectives for the Youth Square in December 2010 served to echo the HAB's promulgated set of youth development objectives;
- (b) the HAB has been collaborating and will continue to collaborate with the COY and other stakeholders in the youth sector to organise youth development programmes at the Youth Square. Also, the HAB will explore with the Contractor, and in consultation with the MAC, measures to build partnership with youth organisations and attract them to stage their youth activities at the Youth Square; and

- (c) the Youth Square is an all-embracing platform for youth development programmes of different natures and varieties. The HAB will consult the MAC on the formulation of regular focal themes for the Youth Square which may vary from time to time to suit the changing needs of the youths.

Project management and supervision

3.23 For a project with high risks, there should be a proper framework of management, supervision and accountability with a clear focus on delivering the project on time and achieving its objectives.

Audit observations and recommendation

3.24 Audit noted the following deficiencies in the management and supervision of the Youth Square project.

3.25 *Steering Committee.* As mentioned in paragraph 3.2, the Steering Committee was set up to oversee the development of the Youth Square project to ensure the timely provision of the building and the selection of contractor for operating the Youth Square. In September 2004, the Steering Committee accepted the HAB recommendation that the management and operation of the Youth Square be contracted out under one contract. Although the HAB then informed the Committee members that they would be consulted of tender details for selecting the contractor, no further Committee meeting was convened after the 2004 meeting. As a result, proper advice could not be obtained from the Steering Committee on the development and management of the project.

3.26 *MAC.* After the hand-over by the ArchSD of the Youth Square in November 2008, the HAB set up the MAC in January 2009 to advise on the operation of the Youth Square (see para. 3.10). Due to the diversity of the facilities and services provided by the Youth Square, the HAB appointed the Chairman of the COY, the Donor, the Chairman of the Committee on the Promotion of Civic Education, a representative of the Eastern District Council, as well as persons from different sectors, such as youth, business, academic and arts, as members of the MAC. Up to December 2011, the MAC had held 13 meetings (once every three months).

3.27 Both the Steering Committee and the MAC included members who had rich experience in youth development work or strong connections with youth groups. However, the Steering Committee became inactive after September 2004, and the MAC was not set up until January 2009. **Therefore, there was a “vacuum” period of four years (2005 to 2008 inclusive) during which the HAB could not obtain adequate input from major stakeholders (such as youth-related NGOs and youth groups) to assist it in planning and overseeing the implementation of the project.** Audit noted that during the period:

Tender for management and operation of Youth Square

- (a) the tender for the management and operation of the Youth Square was issued in December 2008 (at that time the MAC had not been set up). The Contract terms had been finalised by the time the MAC was set up (with the Contract awarded in March 2009, two months after the MAC was set up). As mentioned in paragraphs 2.6 and 2.9, no performance target was set in the Contract for measuring the extent to which the Youth Square had contributed to youth development;

Consultation with stakeholders

- (b) in the four years from 2005 to 2008, regular and formal consultation was not held with NGOs and youth groups to collect their views on the facilities to be provided and on the management and operation of the Youth Square, although during the period, the HAB had raised issues relating to the Youth Square for discussions with the COY members at the COY meetings; and
- (c) it was not until early 2009 that some 30 youth groups/NGOs were consulted during the course of pre-opening site visits. Between May 2009 and April 2011, the Contractor also conducted a series of consultation sessions with focus groups to gauge the views of facility hirers and potential users. The inadequate consultation at the project planning stage is less than satisfactory (Note 28). As a result of inadequate consultation from 2005 to 2008, the HAB did not obtain adequate input from NGOs and youth groups to assist its planning work.

Note 28: *Audit in particular noted that at a consultation session in December 2004, some youth groups and NGOs asked for more consultations to be conducted due to many changes made to the plan for operating the Youth Square. Besides, the Chairman of the COY also indicated clearly at a consultation session in January 2005 that more consultations relating to the Youth Square’s mission and implementation targets would be held in the coming year.*

Audit recommendation

3.28 **Audit has recommended that the Secretary for Home Affairs should, in implementing a similar project in future, ensure that a proper management and supervision structure is in place, including the oversight by a steering committee and close collaboration with major stakeholders from time to time.**

Response from the Administration

3.29 **The Secretary for Home Affairs agrees with the audit recommendation.**

Reporting of implementation progress

3.30 **In implementing a project with high project risks, the Government should always keep LegCo informed of the project progress and of significant project changes. This helps enhance public accountability.**

Audit observations and recommendation

3.31 **At the HA Panel meeting in February 2009, the HAB informed the Panel that the onus was with the HAB to report back to LegCo of the monitoring of issues relating to the Youth Square. However, up to March 2012, for some three years, the HAB had not reported to LegCo of the operating results of the Youth Square. Table 10 shows the opportune times that the Government could have reported the operating results to LegCo.**

Table 10

Opportune times to report operating results to LegCo

Time of reporting	Event
(a) First half of 2009	Towards the end of February 2009, the HAB became aware that the management fees payable to the Contractor under the Contract would be much higher than the pre-tender estimate of \$200 million (see para. 2.40). On 17 March 2009, the HAB informed the Central Tender Board that it would absorb the overall increase in the tender price through internal resources redeployment and public donations as it had earlier informed LegCo. It also informed the Board that the operating cost per m ² of some similar venues was higher than that of the Youth Square. However, the HAB did not inform LegCo of the under-estimation of the management fee which had significantly increased the recurrent cost for operating the Youth Square (see paras. 2.39 and 2.40).
(b) Second half of 2010	After the preparation of the 2009-10 accounts, the HAB noted that the Youth Square had incurred an operating deficit of \$42.9 million for 2009-10 (see paras. 1.12 and 2.39).
(c) Second half of 2011	After the preparation of the 2010-11 accounts, the HAB noted that the Youth Square had incurred an operating deficit of \$33.2 million for 2010-11 (see paras. 1.12 and 2.39).

Source: *Audit analysis of HAB records*

3.32 Audit noted that on various occasions, the HAB had informed LegCo of the operation of the Youth Square (e.g. in response to LegCo Members' questions raised during the FC examination of the Annual Estimates). However, no regular reporting mechanism on the performance of the Youth Square is in place. In particular, LegCo had so far **not** been informed of the operating results of the Youth Square. **For public accountability, the HAB needs to publish at regular intervals (say, yearly) the up-to-date operating results of the Youth Square. This includes reporting the financial results and the extent to which the Youth Square has contributed to youth development.**

Audit recommendation

3.33 Audit has *recommended* that the Secretary for Home Affairs should publish at regular intervals the operating results of the Youth Square, including the financial results and achievement of the objective of youth development.

Response from the Administration

3.34 The Secretary for Home Affairs accepts the audit recommendation. He has said that:

- (a) the HAB has so far not made a full report to LegCo because it has committed to conducting a review in 2013; and
- (b) it is the HAB's intention that it will regularly publish the updated situation of the Youth Square after the review in 2013.

PART 4: WAY FORWARD

4.1 This PART summarises the areas for improvement and the way forward for the development of the Youth Square.

Areas for improvement

4.2 The Youth Square is a key investment of the Government to promote youth development in Hong Kong. It aims to serve as a focal point for territory-wide youth development activities. In this review, Audit has identified the following areas that call for improvement:

PART 2: Operation and performance

For the Youth Square

- need to formulate qualitative and quantitative performance targets to measure the extent of the Youth Square in contributing to youth development (paras. 2.6, 2.9 and 2.19(a))
- need to improve hostel usage by youth organisations (paras. 2.10 and 2.19(b) and (c))
- need to increase the number of youth programmes (paras. 2.13, 2.15 and 2.19(d))
- need to improve usage of facilities by youth organisations (paras. 2.17 and 2.19(e) to (g))
- need to improve usage of facilities (paras. 2.24 and 2.33(a))
- need to improve recording of visitors (paras. 2.26 and 2.33(b))
- need to continue stepping up efforts to promote the Youth Square, particularly to youths (paras. 2.29 and 2.33(c))
- need to ensure the proper use of self-study areas (paras. 2.31 and 2.33(d))
- need to review justifications for the costs incurred (paras. 2.39, 2.41, 2.42 and 2.46(a) and (b))

- need to review the rental strategy to strike a proper balance between offering the Youth Square venues and facilities at affordable prices to the youths and, at the same time, achieving the full-cost-recovery objective (paras. 2.45 and 2.46(c) and (d))

PART 3: Planning and implementation

For a similar project in future

- need to take effective measures to minimise the project risks in planning and implementing the project (paras. 3.12 to 3.20 and 3.21(a))
- need to critically consider its location (paras. 3.13 to 3.16 and 3.21(b))
- need to endeavour to complete the project by the target completion date as far as possible (paras. 3.20 and 3.21(c))
- need to ensure a proper management and supervision structure is in place (paras. 3.27 and 3.28)

For the Youth Square

- need to publish at regular intervals the operating results, including the financial results and achievement of the objective of youth development, of the Youth Square (paras. 3.31 to 3.33)

Views of non-governmental organisations

4.3 In December 2011, Audit conducted interviews with five major NGOs (Note 29), which were major stakeholders of youth development in Hong Kong, to seek their views on ways and means to improve the management and operation of the Youth Square. Their views are summarised as follows:

Note 29: *The five NGOs received subsidies from the Government and attended many HAB consultation sessions on the development of the Youth Square. All of them had also used the facilities of the Youth Square.*

- (a) ***Positioning and theme.*** One NGO considered that there was a need to clearly define the positioning of the Youth Square in relation to the youth development objective and the full-cost-recovery objective (which the HAB had undertaken to strive to achieve). Two NGOs considered that there was a lack of a focal theme or a clear image for attracting youth population to participate in the programmes. In addition, three NGOs suggested that unique themes and services should be provided on each floor of the Youth Square, making reference to overseas experience. For example, in Taiwan, each floor at the Y17 Taipei Youth Recreation Centre was assigned a particular theme with a clear image (e.g. a skating rink on the basement floor, a bookshop on the 1/F, an exhibition gallery on the 2/F, an auditorium on the 3/F, an education centre on the 8/F, a rock climbing facility of international calibre on the 9/F and a youth dance area on the 10/F);
- (b) ***Location.*** All five NGOs considered that the Youth Square was at quite a distance for youths to travel from the rest of the residential population, especially from the New Territories;
- (c) ***Hostel rental and facility hiring charges.*** All five NGOs regarded the hostel and facility hiring charges, particularly those for the Y-Theatre and multi-purpose/function rooms, unaffordable for youth groups. One NGO considered office rentals too high for youth groups;
- (d) ***Youth programmes.*** Two NGOs considered that there was inadequate communication with schools and youth performing groups for organising regular youth programmes. Three NGOs suggested that more art fairs, book fairs, youth forums, youth concerts and exhibitions should be organised;
- (e) ***Publicity and promotion.*** Although one NGO regarded the facilities good for youth development, all five NGOs considered that there was inadequate promotion, inadequate information on the discount rental rates, and no online booking; and
- (f) ***Facility improvement.*** One NGO noted that, owing to their fixed walls, some multi-purpose/function rooms could not be merged to cater for more participants.

Audit recommendation on the way forward

4.4 As mentioned in paragraph 1.14, Audit has recommended that the Secretary for Home Affairs should take into account the audit observations and recommendations in this Report in his 2013 review of the Youth Square. In his review, the Secretary should also take into account the views of the youth-related NGOs summarised in paragraph 4.3.

Response from the Administration

4.5 The **Secretary for Home Affairs** appreciates the positive and constructive spirit carried in PARTs 2 and 3 of this Report and welcomes all the audit recommendations. He accepts the audit recommendations and will work closely with the stakeholders to take forward the recommendations in the HAB review in 2013. He has also said that actions have already been taken to address some of the concerns of the NGOs, for instance:

- (a) a 50% discount is provided for hiring multi-purpose/function rooms during non-prime-time sessions in non-peak seasons (see para. 2(d) at Appendix B);
- (b) programmes featuring handicrafts and work by local artists (including youths) have regularly been held at the Youth Square; and
- (c) signage at the Youth Square has been substantially improved since September 2011.

**Chronology of key events
(October 1997 to March 2010)**

Month/year	Key event
(a) October 1997	The Donor pledged to donate \$200 million for the construction of the Youth Square.
(b) November 1997	The Property Strategy Group endorsed the proposal of developing the Youth Square at the Chai Wan Community Centre.
(c) early 1998	The Steering Committee was set up.
(d) May 1998	The COY recommended setting up a central facility for youth development.
(e) October 1998	The Chief Executive of the Hong Kong Special Administrative Region announced in his Policy Address that the then Chai Wan Community Centre would be redeveloped into the Youth Square.
(f) July 1999	The FC approved funding of \$52 million for the pre-contract preparatory works.
(g) October 1999	The HAB commissioned Consultant A to conduct a preliminary financial viability study.
(h) July 2001	The HAB informed the HA Panel that a limited company would be set up to manage and operate the Youth Square on a self-financing basis and the target completion date of the Youth Square would be the end of 2005.
(i) November 2001	The FC approved funding of \$550.9 million for the construction works.
(j) May 2003	The HAB reassessed the financial implications and found that the Youth Square would incur a total operating deficit of \$90 million over the first ten years of operation.
(k) May 2003	The ArchSD invited tenders for the superstructure works.
(l) August 2003	At the request of the HAB, the ArchSD extended the tender validity period.
(m) December 2003	Foundation works of the Youth Square were completed.
(n) June 2004	The HAB commissioned Consultant B to study the mode of operation and financial viability of the Youth Square.

Appendix A
(Cont'd)
(para. 1.11 refers)

Month/year	Key event
(o) September 2004	Consultant B found that the Youth Square would incur operating deficits in all seven scenarios. The Steering Committee accepted the HAB's proposal of contracting out the management and operation of the Youth Square under one contract.
(p) December 2004	The HAB presented the proposal to the HA Panel.
(q) December 2004 and January 2005	The COY convened a consultation session in December 2004 for youth organisations to express their views on the HAB's proposal. Moreover, the HA Panel convened a special meeting in January 2005 for NGOs for the same purpose.
(r) March 2005	Having taken into account the comments of the HA Panel and the views of the NGOs at the special meeting, the HAB informed the FC that the Youth Square would no longer be operated on a self-financing basis through a limited company. Instead, the HAB would take up the operation and management responsibility over the Youth Square with a view to covering the deficit through internal redeployment of resources. Based on the financial analysis conducted by Consultant B at that time, the net operating cost was estimated to be about \$5 million a year.
(s) April 2005	The ArchSD awarded a contract for the superstructure works of the Youth Square.
(t) July 2005	The pre-contract preparatory works were completed.
(u) March 2008	The HAB set up an ad-hoc inter-departmental working group to prepare for the opening and operation of the Youth Square.
(v) April 2008	The superstructure works of the Youth Square were completed.
(w) November 2008	The completed Youth Square was handed over by the ArchSD to the HAB.
(x) December 2008	The HAB invited tenders for the management and operation of the Youth Square.
(y) January 2009	The MAC was set up.
(z) March 2009	The HAB awarded a management and operation contract to the Contractor.
(aa) August 2009	The Youth Square was opened in phases.
(bb) March 2010	The Youth Square was officially opened.

Source: HAB records

Rental policy

For retail shops and offices at the Youth Square, rentals were set with reference to the rateable values as assessed by the Rating and Valuation Department. For hostel rooms, rentals were set with reference to market rates. For the Y-Theatre, Y-Platform, Y-Studio and multi-purpose/function rooms, the hiring rates were mainly set based on those of similar facilities of the Leisure and Cultural Services Department and NGOs.

2. With the approval of the FSTB, as of October 2011, the following concessions were provided to target users (mainly youth organisations):

- (a) **Hostel rooms.** A discount of 20% off the regular room rates was provided to non-profit-making youth organisations and their members, and non-profit-making organisations holding youth programmes at the Youth Square. Notwithstanding increases in room rates from June 2011, target users only needed to pay rental rates not higher than the old rates;
- (b) **Retail shops.** Discounts of 20% to 50% off the regular rentals were provided to tenants providing youth development services (a discount of up to 80% off the regular rentals since February 2010 for tenants providing training in areas of arts, sports and all-person development);
- (c) **Offices.** A discount of up to 60% off the regular rentals was provided to local non-profit-making organisations; and
- (d) **Y-Theatre, Y-Platform, Y-Studio and multi-purpose/function rooms.** A discount of 20% off the regular rentals was provided to local non-profit-making organisations (with the discount increased to 44% off the regular rentals for hiring multi-purpose/function rooms from July 2010 to June 2012). In addition, a 50% discount was provided for hiring multi-purpose/function rooms during non-prime-time sessions (i.e. 9 am to 6 pm on weekdays) in non-peak seasons (i.e. from September to June).

3. In February 2012, the FSTB approved the revised rental policy for retail shops and offices. For new leases with terms commencing mid-2012, a discount of up to 50% off the regular rentals would be provided to local non-profit-making organisations. For retail shops, concessions would no longer be provided to commercial organisations or tenants providing training in areas of arts, sports and all-person development (see para. 2(b) above).

Source: *HAB records*

Appendix C
(paras. 2.4 and
2.43 refer)

**Regular rental rates and concessionary rental rates of major facilities
(January 2012)**

Facility	Unit area/ capacity	Regular rental rate	Discount rate (Note 1)	Concessionary rental rate
Y-Theatre (LG1/F to LG3/F)	643 seats	\$7,000 per 4 hours	20%	\$5,600 per 4 hours
Y-Platform (1/F)	1,000 m ²	\$15,000 per day (exhibition) or \$6,000 per 4 hours (performance)	20%	\$12,000 per day (exhibition) or \$4,800 per 4 hours (performance)
Y-Studio (2/F)	224 seats	\$4,000 per 4 hours (exhibition) or \$4,800 per 4 hours (performance)	20%	\$3,200 per 4 hours (exhibition) or \$3,840 per 4 hours (performance)
36 retail shops (3/F)	11.5 m ² — 67 m ²	\$639 — \$888 per m ² , or \$8,710 — \$42,890 per shop per month	Up to 80%	\$128 — \$444 per m ² , or \$2,430 — \$19,710 per shop per month
12 multi-purpose rooms (5/F, 6/F, 9/F and 12/F)	25.7 m ² — 100.5 m ²	\$70 — \$315 per hour	44%	\$39 — \$176 per hour
15 function rooms (2M/F, 5/F, 6/F and 8/F)	7 m ² — 160 m ²	\$35 — \$440 per hour	44%	\$20 — \$246 per hour
Dance Studio (6/F)	190 m ²	\$4,000 per 4 hours	44%	\$2,240 per 4 hours
34 offices (8/F and 9/F)	16 m ² — 80 m ²	\$165 — \$202 per m ² , or \$2,970 — \$16,180 per office per month	Up to 60%	\$66 — \$121 per m ² , or \$1,190 — \$6,480 per office per month
148 hostel rooms (Note 2)	18 m ² — 72 m ²	ceiling rate \$1,200 to \$3,000 per room	20%	ceiling rate \$480 to \$1,920 per room (Note 3)

Source: HAB records

Note 1: Other than retail shops and hostel rooms, facility concessionary rental rates were offered to local non-profit-making organisations. For retail shops, concessionary rate was offered to tenants providing youth development services and training in arts, sports and all-person development. For hostel rooms, concessionary rental rate was offered to non-profit-making youth organisations.

Note 2: There are 96 twin rooms in the Hostel Block, and 42 twin rooms (with balcony), eight triple rooms, one six-person room and one duplex room on the 12/F to 14/F of the Main Block.

Note 3: Although hostel room rates had been revised upwards since June 2011, target users were allowed to pay rental rates no higher than the old rates of \$480 to \$1,920 per room.

**Visitor flow of the Youth Square
(May 2010 to January 2012)**

Month/year	Visitor flow recorded (Note)
May 2010	62,000
June 2010	73,000
July 2010	82,000
August 2010	99,000
September 2010	95,000
October 2010	108,000
November 2010	104,000
December 2010	110,000
January 2011	113,000
February 2011	92,000
March 2011	127,000
April 2011	117,000
Total	1,182,000
Monthly average	98,500
Daily average	3,200
May 2011	119,000
June 2011	128,000
July 2011	128,000
August 2011	137,000
September 2011	148,000
October 2011	136,000
November 2011	139,000
December 2011	136,000
January 2012	145,000
Total	1,216,000
Monthly average	135,100
Daily average	4,400

Source: HAB records

Note: As mentioned in paragraph 2.26(a), the visitor numbers were not reflected in the visitor-flow reports submitted by the Contractor to the HAB. It is possible that the visitor-flow figures were 100% more than the visitor numbers.

**Operating results of the Youth Square
(2010-11)**

Particulars	Estimate made in 2005 (\$'000)	Actual for 2010-11 (\$'000)
Income		
(a) Rental from hostel	14,180	19,797
(b) Rental from performance and exhibition venues	8,780	4,510
(c) Rental from multi-purpose/function rooms	7,170	2,438
(d) Rental from retail shops and cafeteria/food court/restaurants	9,800	3,350
(e) Rental from offices	3,660	2,612
(f) Others	—	99
Total income (A)	43,590	32,806
Expenditure		
(g) Management and operating expenditure (Note)	37,160	60,597
(h) Maintenance and improvement works by the ArchSD	8,670	4,766
(i) Sundry expenditure such as stores and equipment, transportation and travelling	3,000	615
Total expenditure (B)	48,830	65,978
Deficit (C) = (A) – (B)	(5,240)	(33,172)

Source: HAB records

Note: For the 2005 estimate, management and operating expenditure included management fees payable to management contractors, HAB staff cost, and costs of publicity and promotion, utilities and other public services.

Acronyms and abbreviations

ArchSD	Architectural Services Department
Audit	Audit Commission
COY	Commission on Youth
FC	Finance Committee
FSTB	Financial Services and the Treasury Bureau
HA Panel	Panel on Home Affairs
HAB	Home Affairs Bureau
LegCo	Legislative Council
m ²	Square metres
MAC	Management Advisory Committee
NGO	Non-governmental organisation