

立法會
Legislative Council

Paper No. WKCD-570
(These minutes have been seen
by the Administration)

Ref : CB1/HS/2/04/1

**Subcommittee on
West Kowloon Cultural District Development**

**Minutes of forty-ninth meeting held on
Monday, 26 May 2008, at 11:30 am
in Conference Room A of the Legislative Council Building**

- Members present** : Hon Alan LEONG Kah-kit, SC (Chairman)
Hon James TO Kun-sun (Deputy Chairman)
Hon Albert HO Chun-yan
Dr Hon LUI Ming-wah, SBS, JP
Hon Margaret NG
Hon Selina CHOW LIANG Shuk-ye, GBS, JP
Hon CHAN Yuen-han, SBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon SIN Chung-kai, SBS, JP
Hon Emily LAU Wai-hing, JP
Hon CHOY So-yuk, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon LEE Wing-tat
Dr Hon KWOK Ka-ki
Hon CHIM Pui-chung
Prof Hon Patrick LAU Sau-shing, SBS, JP
- Members absent** : Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon LEUNG Kwok-hung
Hon CHEUNG Hok-ming, SBS, JP
- Public officers attending** : Ms Esther LEUNG, JP
Deputy Secretary for Home Affairs
(West Kowloon Cultural District)

Mr Danny LAU
Principal Assistant Secretary for Home Affairs
(West Kowloon Cultural District)

Mr Howard LAM
Chief Treasury Accountant
(West Kowloon Cultural District)
Home Affairs Bureau

Mr KWOK Kwok Chuen, BBS, JP
Government Economist

Mrs Marigold LAU, JP
Deputy Director of Architectural Services

Ms Fiona WATERS
Director
GHK Hong Kong Ltd

Ms Kim TSANG
Senior Consultant
GHK Hong Kong Ltd

Attendance by Invitation : **Agenda item I**

Versitech Limited

Dr K C WONG

Professor K W CHAU

Dr S K WONG

Dr YUNG Ping

Clerk in attendance : Ms Anita SIT
Chief Council Secretary (1)4

Staff in attendance : Ms Pauline NG
Assistant Secretary General (Special Duties)

Mrs Constance LI
Assistant Secretary General 1

Miss Winnie LO
Assistant Legal Adviser 7

Mr WONG Siu-yee
Senior Council Secretary (1)7

Mr Simon CHEUNG
Council Secretary (1)1

Ms Christina SHIU
Legislative Assistant (1)7

I Funding proposal for the West Kowloon Cultural District

Meeting with the Administration

(Paper No. WKCD-543 -- Information paper on "Upfront endowment for implementing the West Kowloon Cultural District Project" provided by the Administration)

The Subcommittee deliberated. (Index of proceedings attached at the **Appendix**)

2. The Administration was requested to provide a written response to the following concerns so as to facilitate further discussion at the next meeting scheduled for 30 May 2008:

- (a) The Administration might have overestimated the returns from investments and yet underestimated the annual increase in construction costs. The estimated yearly return of 6.1% from investments was unrealistically high. It would be unreasonably low to set the annual increase in construction costs at 2%.
- (b) Due care should be given to the projected returns from retail, dining and entertainment (RDE) facilities which were considered to be over-optimistic. Information concerning the layouts, projected pedestrian flow and if possible, the business plan, should be provided for discussion.
- (c) To maximize cost effectiveness, the Administration should not exclude the Guggenheim model at this stage.

- (d) More information was required for analyzing private sector involvements in the context of Options 1B and 2.

II Any other business

- 3. The meeting ended at 1:00 pm.

Council Business Division 1
Legislative Council Secretariat
22 September 2008

**Proceedings of the forty-ninth meeting of the
Subcommittee on West Kowloon Cultural District Development
on Monday, 26 May 2008, at 11:30 am
in Conference Room A of the Legislative Council Building**

| Time marker | Speaker | Subject(s) | Action required |
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| 000000 - 000150 | Chairman | Opening remarks | |
| 000151 - 000542 | Mr James TO Chairman Ms Margaret NG Dr KWOK Ka-ki | Discussion on the sequence of presentation by the Administration and the Specialist Adviser | |
| 000543 - 001758 | Administration | Briefing by the Administration on Paper No. WKCD-543 concerning the upfront endowment for implementing the West Kowloon Cultural District (WKCD) project. | |
| 001759 - 001857 | Chairman | A vote of thanks to Specialist Adviser consultancy team for compiling their study report within a short time frame | |
| 001858 - 003339 | Specialist Adviser | Briefing by Specialist Adviser consultancy team on their major findings | |
| 003340 - 003452 | Chairman | Chairman's remark on meeting arrangements. | |
| 003453 - 004105 | Dr KWOK Ka-ki Administration | <p>Dr KWOK's expression of views that:</p> <ul style="list-style-type: none"> (a) Administration's proposal on M+ was crude and unrealistic. (b) \$1 billion was not adequate for acquiring good collections for M+. (c) Administrative costs were too high. (d) Annual growth of construction cost at 2% had been grossly underestimated. <p>Dr KWOK's enquiry on the Financial Adviser's experiences in handling world-class arts and cultural projects such as the WKCD project.</p> | |

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| | | <p>Response of Administration that:</p> <ul style="list-style-type: none"> (a) It just received the report and hence needed time to study it prior to responding in writing. (b) The financial analysis done by the Financial Adviser was detailed and reliable. (c) The projection period of 50 years was accepted internationally. (d) There should be surplus out of RDE rentals. | |
| 004106 - 004637 | Mr LEE Wing-tat Administration Financial Adviser | <p>Mr LEE's expression of views that:</p> <ul style="list-style-type: none"> (a) Democratic Party supported the WKCD project. (b) Financial sustainability of WKCD project was in doubt. (c) Financial analysis of M+ might not be reliable. (d) The Administration should take note of the surge in the prices of construction materials in 2007 and 2008. <p>Response of the Administration that M+ should not be treated as a commercial undertaking only for profit-making.</p> <p>Response of Financial Adviser that the projected annual increase of 2% in construction costs was based on figures over the past 10 years.</p> | |
| 004638 - 005230 | Mr James TO Specialist Adviser Administration | <p>Mr TO's expression of views that:</p> <ul style="list-style-type: none"> (a) He felt uncomfortable with the financial arrangements for WKCD. (b) The Administration should | |

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| | | <p>figure out the worst case scenario and plan accordingly.</p> <p>Response of Specialist Adviser that the Financial Adviser had underestimated increases in construction costs and overestimated returns from investment.</p> <p>Response of the Administration that:</p> <p>(a) The use of 10 years' figures was acceptable in projecting annual increase in construction costs.</p> <p>(b) Construction costs had gone down 5% over a 10-year period and had just shot up recently.</p> | |
| 005231 - 005812 | Ms Margaret NG Specialist adviser Administration | <p>Ms NG's expression of views that:</p> <p>(a) LegCo and the Administration had the same objective of successful implementation of the WKCD project.</p> <p>(b) It was doubtful that returns from investment and RDE facilities would be adequate to cover the operating deficits.</p> <p>(c) The Administration should provide a breakdown showing projected income and expenditure items.</p> <p>Response of Specialist Adviser that a detailed business plan was required for a good analysis on returns from RDE facilities.</p> <p>Response of the Administration that:</p> <p>(a) About 70% of the endowment fund would be used on design and construction of the WKCD project.</p> <p>(b) Net rental income from RDE facilities and operating deficits of</p> | |

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| | | <p>WKCD were projected to be \$8.4 billion (in 2008 NPV) and \$7.6 billion (in 2008 NPV) respectively over the 50-year project period.</p> | |
| 005813 - 010356 | Ms Emily LAU Administration | <p>Ms LAU's expression of views that:</p> <ul style="list-style-type: none"> (a) WKCD might become another Disneyland Hong Kong. (b) The Administration should elaborate more on the viability of M+. (c) What would be role of existing museums? (d) The Administration had to clear the worries of members about the financial sustainability of WKCD. <p>Response of the Administration that:</p> <ul style="list-style-type: none"> (a) Success of M+ lay with its new and innovative format being able to bring out a new direction. The Administration had obtained support and endorsement of overseas curators at a recent symposium. (b) Operating deficit of M+ would be about \$0.3 billion (at 2006 prices) each year, which was proportionate to the annual \$0.5 billion deficit of existing museums. (c) The Administration would not go for the Guggenheim model since it ran contrary to M+'s original ideas. The costs of adopting the Guggenheim model could be higher in long run. | |
| 010357 - 010949 | Miss CHAN Yuen-han Administration | Miss CHAN's expression of views that: | |

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| | | <p>(a) The estimate of increase in construction costs should be based on a longer duration than 10 years.</p> <p>(b) The Administration should provide a business plan on the running of RDE facilities. She was concerned whether these facilities would be able to survive given that WKCD was segregated from surrounding areas.</p> <p>Response of the Administration that the layout and planning of its facilities as well the preparation of a business plan would be one of the first major tasks of the WKCD Authority.</p> | |
| 010950 - 011511 | Mr CHAN Kam-lam Specialist Adviser | <p>Mr CHAN's expression of views that:</p> <p>(a) Inflation was likely to be serious in the next 10 years. Construction costs were likely to escalate at a higher rate than 2%.</p> <p>(b) Consideration should be given to scaling down M+.</p> <p>(c) It was necessary to adjust the admission fees for different arts and cultural facilities in WKCD.</p> <p>(d) If \$1 billion was too small an amount for acquisition of collection, what would be a more appropriate amount?</p> <p>Response of Specialist Adviser that:</p> <p>(a) Leading museums of the world took a long time to build up their collections and brand-name.</p> <p>(b) Agreed that it would be difficult for M+ to acquire a collection of sufficient appeal with only \$1 billion.</p> | |

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| | | (c) WKCD had to be prudent with its financial management. | |
| 011512 - 011947 | Mr SIN Chung-kai Specialist Adviser Administration | <p>Mr SIN's concern about the weak foundation for M+ and doubt about its ability to attract donation and lending of quality collections for exhibition</p> <p>Mr SIN's enquiry about the source of the highest risks</p> <p>Response of Specialist Adviser that financial problems would pose the highest risks to the operation of WKCD.</p> <p>Response of Administration that every innovative project had to have a start and M+ was no exception. M+ would not only operate on good collections, it would also commission art works and operate interactive programmes. The financial assessment for WKCD had incorporated a prudent level of risk premium for individual facilities to cater for increase in construction costs and other costs.</p> | |
| 011948 - 012455 | Prof Patrick LAU Administration Financial Adviser | <p>Prof LAU's expression of views:</p> <p>(a) The estimated unit construction cost of M+ was on the low side when compared to similar facilities overseas.</p> <p>(b) The "design and build" mode did not suit WKCD. There should be design competitions to obtain the best designs.</p> <p>Response of the Administration:</p> <p>(a) While it was extremely hard to compare the building costs of different museums, the Financial Adviser had taken into account a number of relevant factors in estimating the construction cost of M+.</p> | |

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| | | <p>(b) Adoption of the "design and build" mode or other modes would not have much effect on the overall capital costs of WKCD.</p> <p>Response of Financial Adviser that the quoted unit construction costs of different museums were meant for reference only and it was prudent to choose a figure at the middle of the range for planning purposes.</p> | |
| 012456 - 013016 | Chairman | <p>Concluding remarks of the Chairman that:</p> <p>(a) There were obvious concerns among members that for the WKCD project, the Administration might have overestimated the returns and underestimated the costs.</p> <p>(b) One of the major concerns would be rental returns from the RDE facilities.</p> <p>(c) The estimated 6.1% annual return on investment was unrealistically high and difficult to achieve.</p> <p>(d) Increase in construction costs was another major issue.</p> <p>(e) To enhance its viability, the Administration should further consider other operation approaches for M+.</p> <p>(f) The financial assessment of various private sector involvement scenarios was inadequate to provide a sound basis for the proposed financing approach.</p> <p>The Administration undertook to provide at the meeting on 30 May</p> | <p>The Administration to provide written response</p> |

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| | | 2008 a written response to the concerns raised by members and the Specialist Adviser. | |
| 013017 - 013028 | Mr James TO | Mr TO's expression of view that since more discussion was required, additional meetings should be lined up for next week. | |
| 013029 - 013034 | Chairman | The meeting ended at 1:00 pm. | |

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