

立法會  
***Legislative Council***

Paper No. WKCD-571

(These minutes have been seen  
by the Administration)

Ref : CB1/HS/2/04/1

**Subcommittee on  
West Kowloon Cultural District Development**

**Minutes of fiftieth meeting held on  
Friday, 30 May 2008, at 10:45 am  
in Conference Room A of the Legislative Council Building**

<b>Members present</b>	:	Hon Alan LEONG Kah-kit, SC (Chairman) Hon James TO Kun-sun (Deputy Chairman) Hon Albert HO Chun-yan Hon Margaret NG Hon Selina CHOW LIANG Shuk-yee, GBS, JP Hon CHAN Yuen-han, SBS, JP Hon CHAN Kam-lam, SBS, JP Hon Emily LAU Wai-hing, JP Hon CHOY So-yuk, JP Hon Abraham SHEK Lai-him, SBS, 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
<b>Member attending</b>	:	Hon Bernard CHAN, GBS, JP
<b>Members absent</b>	:	Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP Dr Hon LUI Ming-wah, SBS, JP Hon SIN Chung-kai, SBS, JP Hon Jasper TSANG Yok-sing, GBS, JP Hon Timothy FOK Tsun-ting, GBS, JP Hon LEUNG Kwok-hung Hon CHEUNG Hok-ming, SBS, JP

**Public officers  
attending**

: **Agenda item I**

Mr TSANG Tak-sing, JP  
Secretary for Home Affairs

Mrs Carrie YAU, JP  
Permanent Secretary for Home Affairs

Ms Esther LEUNG, JP  
Deputy 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

**Attendance by  
Invitation**

: **Agenda item I**

Financial Matters Advisory Group

Hon Ronald ARCULLI, GBS, JP  
Convenor

GHK Hong Kong Ltd

Ms Fiona WATERS  
Director

Ms Kim TSANG  
Senior Consultant

Versitech Limited

Professor K W CHAU

Dr K C WONG

Dr S K WONG

**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

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**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   |
| Paper No. WKCD-548  | -- Information paper provided by the Administration  |
| Paper No. WKCD-540  | -- Final Report of the Specialist Adviser to the Subcommittee for the Study on the Financial Aspects of the West Kowloon Cultural District project   |
| Paper No. WKCD-545  | -- Powerpoint presentation materials on "Final Report of the Specialist Adviser to the Subcommittee for the Study on the Financial Aspects of the West Kowloon Cultural District project" provided by the Specialist Adviser |

Paper No. WKCD-547

-- Paper entitled "Further Recommendations: Part I" provided by the Specialist Adviser)

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

2. The Administration was requested to provide written response to the following questions raised by members:

- (a) Could the Administration assure members that the West Kowloon Cultural District (WKCD) project would not end up as a failure? Could the Administration figure out the "worst case scenario" and provide an estimate on any supplement funding provision required in such a scenario?
- (b) Could the Administration conduct further analyses on the investment returns and the inflation of construction costs?
- (c) Could the Administration provide details of the retail, dining and entertainment (RDE) facilities within WKCD such as their layouts, settings, anticipated pedestrian flow, business plans and measures to enhance the viability of these facilities? The Administration should also provide the plans to strengthen WKCD's connectivity with neighbouring areas.
- (d) Could the Administration consider funding approval only for Phase I development of WKCD at this stage and conduct a thorough review to ascertain whether any adjustment in the scale of the project was required before moving on to Phase II ?
- (e) The current estimates were based on the "design and build" approach. Could the Administration consider adopting other approaches such as drawing out the detailed design first and then tender out the constructions work under a separate contract for certain facilities such as the **M+** and major performance venues? What would be the impact on the funding requirement if the latter approach was adopted?
- (f) Would the Administration give second thoughts to engaging an international operator to operate **M+**?
- (g) On what basis does the Administration consider that the provision of \$1,214 million (covering \$1 billion initial collection cost and an annual collection budget of \$20 million) is enough for acquiring collections of world standards?

- (h) Could the Administration consider the possibility of downsizing M+?
  - (i) Could the Administration make use of the existing museum facilities and collections on visual culture to demonstrate to the public on what M+ was like?
  - (j) Could the Administration explain how the costs for major renovation or reconstruction of the aged buildings in WKCD would be financed after 50 years?
3. The Specialist Adviser was requested to provide written response to the following questions raised by members -
- (a) The Specialist Adviser has expressed the view that it was possible for the WKCD project to achieve financial sustainability with the upfront endowment of \$21.6 billion, subject to certain amendments to the current plans or certain conditions. Please elaborate on the proposed amendments/conditions.
  - (b) In choosing overseas examples for comparison for M+ and the WKCD Authority, was the Specialist Adviser actually comparing like with like?

## **II Any other business**

3. The meeting ended at 1:10 pm.

Council Business Division 1  
Legislative Council Secretariat  
22 September 2008

**Proceedings of the fiftieth meeting of the  
Subcommittee on West Kowloon Cultural District Development  
on Friday, 30 May 2008, at 10:45 am  
in Conference Room A of the Legislative Council Building**

<b>Time marker</b>	<b>Speaker</b>	<b>Subject(s)</b>	<b>Action required</b>
000000 - 000122	Chairman	Opening remarks	
001135 - 005300	Administration Specialist Advisor	<p>Speech by Secretary for Home Affairs (SHA), briefing by Convenor of Financial Matters Advisory Group (FMAG) on its work in examining the financial implications of the WKCD project, and Administration's powerpoint presentation on its response to the Specialist Advisor's report (WKCD-549)</p> <p>Views of the Specialist Advisor that:</p> <ul style="list-style-type: none"><li>(a) Believing that the Administration should conduct a more detailed study on the cost-effectiveness of different scenarios of private sector involvements and badly in need of more information to verify FA's various assumptions and projections; they had considerable difficulties in commenting whether the approach of having an upfront endowment of \$21.6 billion for the WKCD project was proper.</li><li>(b) The Administration should have more thoughts on the proposal of engaging an international operator for M+.</li><li>(c) "Design and build" would not be a suitable model for M+ and other major arts and cultural facilities within WKCD. It might not necessarily be cheaper since contractors might include risk premiums for their design works in their bids.</li><li>(d) The Administration had yet to explain factors causing the on-costs to stay at a high level.</li></ul>	

Time marker	Speaker	Subject(s)	Action required
		<ul style="list-style-type: none"> <li>(e) The Administration should plan for the "worst case scenario" where returns from investments and rentals would not be adequate to cover the increase in expenditure due to increase in costs especially construction costs.</li> <li>(f) There was still a need to prepare for the overhaul and reconstruction of WKCD's facilities after the 50-year period.</li> <li>(g) <b>M+</b> would cost \$10.7 billion to construct and operate for 50 years. They were concerned with the financial management ideology behind <b>M+</b> and believed that special care should be given to avoiding turning this project into a long-term burden of the Administration.</li> <li>(h) The setting of the projected cost recovery rate at 18%-22% for <b>M+</b> was low and conservative.</li> <li>(i) The Administration had not provided sufficient data to support the anticipated returns from RDE facilities for analysis.</li> <li>(j) Since many capital work projects would be launched in the next few years, projection on increase of construction costs should take into account the short-term trend of construction prices. In any case, an annual increase of 2% based on the estimated inflation rate was obviously too low.</li> <li>(k) There were doubts towards the annual investment return rate of 6.1%. Taking into account the heavy cash flow requirements during the initial development period and the current market rates of low-risk/risk-free investment, an annual return rate in the range of</li> </ul>	

Time marker	Speaker	Subject(s)	Action required
		<p>3-5% was more realistic.</p> <p>(I) The setting of annual inflation at 2% was clearly too conservative.</p>	
005301 - 005034	Dr KWOK Ka-ki FA	<p>Expression of views that:</p> <ul style="list-style-type: none"> <li>(a) M+ was an "experiment" based on an under-estimate of inflation rate and construction costs and an over-estimate of returns from investments and RDE rentals. The Administration should have a contingency plan to cater for the "worst case scenarios".</li> <li>(b) \$1.2 billion for acquiring museum collections was inadequate for turning M+ into a world-class museum.</li> <li>(c) It was necessary to present to the public the financial implications of M+ before launching another round of public engagement exercise on it.</li> <li>(d) FA should reveal its track records in working on similar arts and cultural projects.</li> </ul> <p>Response of the FA that GHK was served by advisors who were internationally-recognised specialists in museums and performing arts and had worked for different cultural projects including the Louvre, National Palace Museum in Taiwan, National Museum of the Philippines, Guggenheim etc. GHK had also been involved in 106 museum assignments in over 40 countries including Sydney Opera House.</p>	
005835 - 010354	Mr LEE Wing-tat Administration	<p>Mr LEE's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) Even a highly commercial project such as Disneyland Hong Kong could end up as a failure.</li> <li>(b) In view of a lot of uncertainties,</li> </ul>	

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		<p>consideration should be given to scaling down M+.</p> <p>Response of the Administration that:</p> <ul style="list-style-type: none"> <li>(a) WKCD was different from Disneyland Hong Kong in that financial return was not the only factor for consideration.</li> <li>(b) WKCD was a long-term cultural investment. Development of WKCD was based on lengthy deliberations, objective and scientific analysis and inputs of experts in the concerned fields.</li> </ul>	
010355 - 010906	Mr CHIM Pui-chung Administration	<p>Mr CHIM's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) Since the returns from land sales in WKCD could be as much as \$1,000 billion, the Administration should handle these public assets which belonged to the Hong Kong people with care.</li> <li>(b) The Administration should note that the economy could fluctuate from time to time.</li> <li>(c) Given that the Administration had poor track records on financial projections in major projects such as Disneyland Hong Kong and Western Harbour Crossing, how could it assure members that the WKCD project would not end up as a failure?</li> </ul> <p>Response from the Administration that:</p> <ul style="list-style-type: none"> <li>(a) Members should have faith in FA and experts sitting on the various advisory groups.</li> <li>(b) Citing the Mass Transit Railway system and Hong Kong International Airport as examples, the Administration disagreed that it was inadequate with financial</li> </ul>	

Time marker	Speaker	Subject(s)	Action required
		<p>projections.</p> <p>Ms NG's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) The Administration should provide details of the funding it would reserve for major renovation or reconstruction of the aged buildings in WKCD after 50 years.</li> <li>(b) From a financial perspective, whether the Administration agreed that it would be more economical to engage an international operator to manage <b>M+</b>.</li> </ul> <p>Response of the Administration that adequate funds would be set aside out of the \$21.6 billion for regular maintenance and overhauls. The latter alone accounted for about \$2.9 billion (in 2008 NPV). Hence, buildings should be in relatively good state of repair after 50 years.</p>	
011416 - 011955	Mrs Selina CHOW FA	<p>Mrs CHOW's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) It would not be appropriate to compare running costs of WKCDA with those of other leading museums since the former would have a far wider spectrum of functions to perform, i.e. planning, development and management, than the latter.</li> <li>(b) Given the likelihood of a substantial saving, the Administration should critically examine the option to engage an international operator for managing <b>M+</b>.</li> </ul> <p>Response of the FA that:</p> <ul style="list-style-type: none"> <li>(a) <b>M+</b> had to be a "Hong Kong product" instead of something "imported" to Hong Kong.</li> <li>(b) <b>M+</b> was for promoting visual</li> </ul>	

Time marker	Speaker	Subject(s)	Action required
		<p>culture originating from Hong Kong, the Mainland and Asia. An international operator might not have knowledge of Hong Kong and the region.</p> <p>(c) Curatorial autonomy would be lost, since the international operator would assume control of the operation of M+.</p> <p>(d) Commissioning an international operator to operate M+ might be more expensive.</p>	
011956 - 012504	Ms Emily LAU Administration	<p>Ms LAU's expression of views that:</p> <p>(a) All leading museums took time to build up their international standing. With only \$1 billion for acquiring museum collections, it was doubtful whether M+ would be able to build up a "brand-name" internationally within 15 years as suggested by the Museums Advisory Group.</p> <p>(b) The Administration should think of ways and methods to show to the Hong Kong people what M+ would be like.</p> <p>Response from the Administration that:</p> <p>(a) M+ was an innovative concept for cultural development and promotion of creativity. The Administration had cherished a high hope on it as the most important component demonstrating the uniqueness of WKCD.</p> <p>(b) Members should have confidence in Hong Kong's potential and quality for cultural development. They should note the availability of many local world-class collections and support from museums in the Mainland.</p>	

Time marker	Speaker	Subject(s)	Action required
012505 - 013154	Mr James TO Administration Specialist Advisor Ms Margaret NG	<p>Mr TO's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) The Administration should make use of the existing museum collections to show to the Hong Kong people the future M+ so as to obtain their views and support.</li> <li>(b) Reliability of financial analysis on WKCD was subject to challenges in different areas. The Administration should figure out a "worst case scenario" and draw up a contingency plan.</li> </ul> <p>Response from the Administration that:</p> <ul style="list-style-type: none"> <li>(a) WKCD was extremely important to the future development of Hong Kong. It was meant to be a long-term investment to satisfy the aspirations of the public for arts and cultural facilities. There was profound support for the project in the community.</li> <li>(b) The financial analysis and the various projections of FA were prudent and reliable, e.g. the required \$21.6 billion (in 2008 NPV) would be recoverable from land sales, and the budget of \$21.6 billion (in 2008 NPV) should be adequate to cover the required expenses of WKCD.</li> </ul> <p>Response from Specialist Advisor that more information and perhaps alterations were required to establish that \$21.6 billion was right amount of endowment funding for the WKCD project.</p> <p>Response of Ms NG that the Specialist Advisor should be requested to draw up a list of factors that would enhance the viability of the \$21.6 billion endowment for WKCD.</p>	

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013155 - 013702	Miss CHAN Yuen-han Specialist Advisor Administration	<p>Miss CHAN's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) It would be helpful if the Specialist Advisor could state clearly reasons behind their reservations towards the upfront endowment of \$21.6 billion.</li> <li>(b) Returns from RDE facilities would make the life-line of WKCD. How could the Administration ensure the viability, given the geographic limitation of WKCD and its poor connectivity with neighbouring areas?</li> </ul> <p>Response of the Specialist Advisor that:</p> <ul style="list-style-type: none"> <li>(a) They were worried with the viability of the financial plan of WKCD given that some information was missing and certain assumptions were either wrong or misleading.</li> <li>(b) It would not be possible for them to re-start a new financial analysis on their own due to time constraints.</li> </ul> <p>Response of the Administration that:</p> <ul style="list-style-type: none"> <li>(a) In projecting the returns of the RDE facilities, FA had taken into account the preference of the Consultative Committee for the RDE facilities to be well integrated with the cultural facilities.</li> <li>(b) The projection for the monthly rentals of RDE facilities at \$30 per square foot GFA was pitched at a conservative level and was a prudent estimate.</li> </ul>	
013703 - 014228	Mr CHAN Kam-lam Specialist Advisor	<p>Mr CHAN's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) If the Specialist Advisor considered that the cost recovery rate at 18%-22% for M+ was too low, what would the Specialist Advisor</li> </ul>	

Time marker	Speaker	Subject(s)	Action required
		<p>consider to be a more reasonable rate?</p> <p>(b) Did the Specialist Advisor expect the Administration to prepare a 3 or 5 years' business plan prior to the setting up of WKCDA? What was the Specialist Advisor's preferred approach towards the upfront endowment? What should be a more appropriate sum instead of \$21.6 billion? What direction, in terms of financial management, should the WKCDA be heading towards?</p> <p>Response of the Specialist Advisor that:</p> <p>(a) Their study was based on FA's report and its assumptions; and given the time constraints, they had no intention to put forward a separate financial proposal.</p> <p>(b) FA's financial analysis was based on a number of assumptions. Some of these assumptions might not be correct, for instance the projected yearly return of investments at 6.1%. Besides, some information, e.g. the corporate or business plan or real life examples of private participation scenarios, was not available to facilitate further analysis.</p>	
014299 - 014746	Mr Abraham SHEK	<p>Mr SHEK's expression of views that:</p> <p>(a) It would certainly be helpful if the Administration could meet with the Specialist Advisor to exchange further on the financial analysis.</p> <p>(b) <b>M+</b> was a new and abstract concept which was difficult for the public to visualize. It would hence be necessary for the Administration to explain to the public what <b>M+</b> was about.</p>	

Time marker	Speaker	Subject(s)	Action required
014747 - 015309	Prof Patrick LAU Administration	<p>Prof LAU's expression of views that:</p> <p>(a) He disagreed to the Administration's view that the "design and build" approach would suit construction of the iconic arts and cultural facilities in WKCD.</p> <p>(b) Why was the <b>M+</b> project divided into two phases? He believed that the phasing should provide greater flexibility to the funding arrangements, and a review should be conducted before the commencement of Phase II.</p> <p>Response of the Administration that:</p> <p>(a) As a highly innovative concept geared to bring forth long-term cultural developments, <b>M+</b> would place 4 museums of different themes together. It was a major capital project that aimed to attract investments, talented people and visitors from all over the world to Hong Kong.</p> <p>(b) It was prudent with the planning of <b>M+</b> in that 30% of the total floor area had been set aside for Phase II. There would be review and adjustments before proceeding to Phase II.</p>	
015310 - 015832	Miss CHOY So-yuk Administration	<p>Miss CHOY's expression of views that:</p> <p>(a) She was worried with the funding, outcome and deliverables of the WKCD project and agreed with Mr Abraham SHEK that the Administration should discuss with the Specialist Advisor to critically re-examine the financial requirements for WKCD.</p> <p>(b) To cater for unforeseeable circumstances, the Administration should work out a contingency plan for WKCDA to tackle, for instance,</p>	

Time marker	Speaker	Subject(s)	Action required
		<p>an under-estimate of project costs due to various reasons.</p> <p>Response of the Administration that:</p> <ul style="list-style-type: none"> <li>(a) They had responded to all queries raised by the Specialist Advisor, and were prepared to discuss further with them.</li> <li>(b) It was a safe and proper way to set the inflation rate at 2%, given that the estimate for WKCD was prepared in a highly prudent manner with the inclusion of a risk premium of 23% to 29% for CACF to guard against price hike due to the various factors.</li> </ul>	
015310 - 015832	Chairman Administration	<p>Summary of the Chairman that:</p> <ul style="list-style-type: none"> <li>(a) The Subcommittee had considerable worries that the WKCD project might end up as a failure.</li> <li>(b) The Subcommittee had doubts that the Administration might have over-estimated returns to investments and RDE rentals and under-estimated construction costs.</li> <li>(c) More information on measures to enhance the viability of the RDE facilities and WKCD's connectivity to nearby areas should be provided by the Administration.</li> <li>(d) The Specialist Advisor should work out a list of required information that would help enhance the financial analysis for the WKCD project.</li> <li>(e) The Administration should figure out the "worst case scenario" and plan accordingly for unforeseeable circumstances.</li> <li>(f) A further meeting had been lined up</li> </ul>	

Time marker	Speaker	Subject(s)	Action required
		<p>for 5 June 2008.</p> <p>Response of the Administration that:</p> <ul style="list-style-type: none"> <li>(a) The Administration had adopted a "bottom-up" approach involving a lot of experts, relevant organisations and stakeholders in planning for WKCD. Besides, a public engagement exercise had been held to objectively collect public views and aspirations.</li> <li>(b) Given that the financial analysis was done in a highly professional and prudent manner, the Administration did not see any chance that the WKCD project would fail.</li> <li>(c) The Administration would respond to the queries raised at this meeting as far as possible.</li> </ul>	
020619 - 020701	Mr LEE Wing-tat	<p>Mr LEE's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) He had considerable doubts with the Administration's projections on investment returns and construction costs. The Administration should consider seeking professional views from a third party.</li> <li>(b) Given the many uncertainties, consideration should be given to downsizing the scale of M+.</li> </ul>	
020702 - 020801	Ms Emily LAU	<p>Ms LAU's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) It was necessary to review the size of M+.</li> <li>(b) A design competition should be organized to provide good design and layout plans of the iconic buildings in WKCD.</li> <li>(c) The use of the "design and build" approach might not be appropriate. The Administration should also find</li> </ul>	

Time marker	Speaker	Subject(s)	Action required
		out the costs of separating "design" from "build".	
020802 - 021026	Mrs Selina CHOW	<p>Mrs CHOW's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) The Specialist Advisor had actually put forward a separate proposal apart from that of the Administration, e.g. the engagement of Guggenheim to manage M+. The Subcommittee had no luxury of time for a separate study. Discussion should focus on what the Administration had provided.</li> <li>(b) She had doubts on the reliability of the arguments of the Specialist Advisor since they were not comparing like with like.</li> </ul>	
021027 - 021306	Miss CHAN Yuen-han	(a) Miss CHAN's expression of view that the Administration should provide information on the layout, design, business plan as well as measures to improve pedestrian flow for RDE facilities at WKCD.	
021307 - 021433	Miss CHOY So-yuk	<p>Miss CHOY's expression of views that:</p> <ul style="list-style-type: none"> <li>(a) The Administration should reconsider the option of hiring an international operator for managing the M+.</li> <li>(b) The Administration should formulate a "set back" plan to cater for problems arising from inadequacy of funding.</li> <li>(c) There was a need to take a critical look at the construction cost projections.</li> <li>(d) The Administration might not have adequate experiences in the construction of the world-class arts and cultural facilities.</li> </ul>	
021434 - 021517	Chairman	Closing remarks	

Time marker	Speaker	Subject(s)	Action required

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22 September 2008