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**Specialist Advisor to the Subcommittee on
West Kowloon Cultural District Development
for the Study on
The Financial Aspects of the WKCD Project
for
The Legislative Council Commission**

Further Recommendations: Part I

Written by

K.C.Wong, K.W.Chau, S.K.Wong, and P.Yung

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Background

On 24 May 2008, the Special Advisor briefed the Subcommittee on its Final Report. In response to the Subcommittee's requests during this briefing session, these are the Specialist Advisor's further recommendations to the Subcommittee.

Further recommendations

1 *On requesting the FA for detailed information and analyses*

To ensure that Legislators are sufficiently well informed when considering their decisions on funding, a request for the following detailed information and analyses from the FA is recommended:

- (1) Since the current information provided for WKCD's operations is clearly insufficient to justify a substantial \$2.245 billion funding request, further detailed information is needed:
 - (a) The detailed duties, ranks, salaries, and benefits of these 90 (from year 1 to 8), and 33 (from year 9 to 50) staff members.
 - (b) The detailed breakdowns of the yearly budgets of \$189.4 and \$60.3 million respectively (These figures are in decimal places and there should be detailed breakdowns).
 - (c) Detailed costs and duties of and justifications for additional outside consultants.
 - (d) Detailed information showing the division of labour between WKCD staff members and outside consultants.
 - (e) An analysis assessing whether the proposed organizational structure is cost effective.
- (2) Detailed records of the two interviews conducted on 14 March 2007¹, and/or other evidence, showing the conditions on which international operators would, or would not, be interested in operating a museum at WKCD;
- (3) Assuming M+ to be run by a reputable international museum operator, a detailed financial and economic analysis comparing the capital and operating costs, revenue, and tourism impact, to those under the FA's current assumptions.
- (4) Contingency plans for those sensitivity tests (such as a pessimistic outcome, real decrease in land premium, decrease in real discount rate...etc) which were found, in the FA's Report, to have substantial negative financial impacts on WKCD's finance.

¹ As stated on page C.8-1, of the FA's Report.

- (5) On RDE facilities, considering:
- (a) the existence of a substantial mall of a similar size currently situated right at Kowloon Station;
 - (b) the current assumptions of RDE scattering into CACF, and a considerable RDE/CACF ratio of 2:5 in GFA; and
 - (c) Potential decreases in pedestrian flows, due to the scattering of RDE, and hence, the possibility of considerably less rental income;
- A detailed business plan for RDE facilities in sufficient detail, demonstrating that the current estimated rental revenue is viable.

- (6) Means of ensuring WKCD's financial sustainability after 50 years.

2 On requesting the FA to carry out further detailed studies

Given the current status of the FA's analyses, should the information to be provided, upon the recommended request in section 1, turn out still to be insufficient for funding considerations, a follow up request for further detailed studies into the following areas is recommended. These studies should be carried out with a view to build up WKCD's long term financial strength.

- (1) The advantages and disadvantages of using the design and build method of procurement, as compared to those of the conventional approach which separates design from construction; and hence the suitability of these methods for M+ and other CACF.
- (2) Methods of reducing WKCD's costs and other on-costs; and hence the simplification of the organizational structure in order to ensure cost effectiveness in management.
- (3) The financial implications of risks in construction cost escalations, and in the volatility of the investment returns to the seed endowment fund; and hence contingency plans to deal with these in addition to other risks provided in the FA Report.
- (4) The viability of utilizing the expertise and experiences of international operators to ensure M+ a truly world class museum in both quality and cost recovery rate, a review on the optimal size of M+ in view of cost effectiveness, and hence the assessment of potential savings in capital and operating costs.
- (5) On RDE and other alternative commercial facilities:
 - (a) A detailed study of the desirable proportion between the physical agglomeration and dispersion, and hence the financial return expected of RDE facilities given this proportion;
 - (b) Comparison of the returns expected of RDE facilities to those from other commercial uses (such as offices or hotels, for instance) which may generate stable incomes to support WKCD's operations;
 - (c) Whether the proposed GFA for RDE facilities is desirable;
 - (d) And hence a revised mix for GFAs of RDE and other commercial uses, if the current GFA for RDE is found too large;

- (e) A revised business plan for the mix of commercial uses, which generates stable income for WKCD's operations; and
 - (f) Based on proven successful examples in Hong Kong, options of utilizing the private investors' expertise to maximise the stable income stream from the mix of RDE and other commercial facilities, and ensure cost effectiveness in the procurement and management of these facilities.
- (6) In view of results derived from all the above studies, methods of ensuring WKCD's financial viability within and beyond 50 years, particularly where there is no fund set aside, to allow for major renovation and re-construction costs after 50 years, under the current assumptions.

Abbreviations

CACF	Core Arts and Cultural Facilities
FA	The Financial Advisor engaged by the Government to assist the work of the Financial Matters Advisory Group
GFA	Gross floor area
RDE	Retail, Dining and Entertainment
WKCD	West Kowloon Cultural District
WKCDA	West Kowloon Cultural District Authority

End of Part I