

**For discussion on
28 April 2006**

FMAG/04/2006

**Consultative Committee on the
Core Arts and Cultural Facilities of the
West Kowloon Cultural District**

Financial Matters Advisory Group

Scope of Studies to be Conducted by a Financial Advisor

Purpose

This paper seeks Members' comments on the scope of studies by a Financial Advisor (FA), to be appointed by the Government for the development of the West Kowloon Cultural District (WKCD), insofar as the studies may be relevant to the Financial Matters Advisory Group (FMAG).

Advice Sought

2. Members are invited to comment on the proposed scope of studies that may be relevant to the FMAG (paragraphs 6 to 7). Subject to Members' comments, we aim to issue an invitation for expression of interest (EOI) to those financial consultants who have registered with the Government in the first week of May 2006.

3. Members are also invited to note the confidentiality arrangements for this paper set out in paragraph 12 below.

Background

4. The findings of the public consultation held from December 2004 to June 2005 show that the public is concerned about the financial sustainability of the arts and cultural facilities at the WKCD. The public and the Legislative Council (LegCo) have demanded that more detailed financial viability studies on the WKCD should be conducted; objective criteria should be established to determine whether the Public-Private Partnership (PPP) approach should be used; and more financial information should be disclosed to enhance transparency. These all point to the need for more detailed financial studies for the WKCD.

5. With the way forward announced by the Chief Secretary for Administration on 21 February 2006 (copied at **Annex**), we plan to appoint a FA to provide professional advice in taking forward the development of the WKCD project.

Scope of Studies by FA

6. The scope of the studies to be conducted by the FA, insofar as it may be relevant to the FMAG, is set out as

follows –

- (a) to prepare public sector comparator^{Note} (PSC) for the capital and operating costs and operating revenue of the Core Arts and Cultural Facilities (CACF) as recommended by the Performing Arts and Tourism Advisory Group (PATAG) and the Museums Advisory Group (MAG) and endorsed by the Consultative Committee on the Core Arts and Cultural Facilities of the West Kowloon Cultural District (CC);
- (b) to estimate the capital and operating, maintenance and management costs and operating revenue of the CACF as recommended by the PATAG and MAG to be included in the WKCD, assuming such facilities are to be developed and operated by the private sector or the proposed West Kowloon Cultural District Authority (WKCDA);
- (c) to construct a dynamic financial model to analyse the financial viability of the CACF taking into account the cost implication, the land value of the WKCD site to be estimated by the FA based on assumptions on development parameters to be

^{Note} The PSC is the hypothetical, risk-adjusted, cost of the Government itself delivering the project output.

provided by Government and the funding arrangements for the proposed WKCDA;

- (d) to conduct sensitivity analyses on the financial viability of the CACF by flexing the cost and revenue data and other key assumptions, taking into account the possibilities of phased development of facilities in the WKCD; and
- (e) to recommend measures to eliminate or reduce any funding gap identified in the course of analysing the financial viability of the CACF.

7. To complement Members' consideration of the financial implications of the CACF, we also intend to ask the FA to conduct a survey on different forms of PPP that may be suitable for different facilities in the WKCD. This will require the FA -

- (a) to identify, examine and analyse various forms of PPPs that may be suitable for developing and operating the WKCD as a whole or for individual facilities in the WKCD; and
- (b) to provide a detailed qualitative analysis of the PPP forms identified, covering their characteristics,

suitability to the WKCD, risks involved, attractiveness to the markets, financial implications, etc.

8. The FA shall be required to provide information and advice on and conduct analysis of financial and related matters in response to enquiries from the CC and its three Advisory Groups.

Expertise Required from FA

9. In view of the unique nature of the WKCD project, we shall stress the importance for the FA and/or its sub-consultants to possess and/or have access to international network of expertise and experience in the development and operation of large scale world class arts and cultural facilities and in Public-Private Partnership arrangements. Apart from possessing the relevant financial expertise, the FA itself or through engaging sub-consultants should possess local and overseas expertise in particular in quantity surveying, estate surveying, and engineering disciplines as they are essential to the estimation of the construction and maintenance costs of the CACF. The FA shall be required to integrate the advice and expertise from the various disciplines in conducting the studies and tendering its advice to the Government.

Due Process

10. The appointment of a FA is governed by relevant Government Regulations. We estimate that it will take at least ten weeks to select a FA after issuing an EOI under a fast-track process.

Timing

11. To complete the due process, we aim to appoint the FA in July 2006. The FA will be required to commence its work immediately thereafter. We shall require the FA to submit interim reports by phases starting from August 2006 and keep Members informed.

Confidentiality Arrangements

12. Having consulted the FMAG Convenor, we shall embargo this paper until the issue of the EOI to potential candidates registered with Government (see Annex C to FMAG/02/2006), now scheduled in the first week of May. This is to ensure a level-playing field for the selection of consultants. Members are requested to observe the confidentiality of this paper until it is uploaded to the project website.

FMAG Secretariat

April 2006

**Statement by the Chief Secretary for Administration
at Legislative Council's Subcommittee
on WKCD Development on 21 February 2006**

The following is a translation of the statement by the Chief Secretary for Administration, Mr Rafael Hui, at the Legislative Council (LegCo) Subcommittee on West Kowloon Cultural District Development Meeting today (February 21):

Chairman and Members,

The Administration consulted the Executive Council this morning on the way forward for the development of the West Kowloon Cultural District (WKCD), on which I would like to brief Members. I wish to reiterate that public views have all along been the most important basis for all Government's decisions. To meet public aspirations for the WKCD, the Government proposed in October last year to introduce a set of additional development parameters and conditions ("the October Package") under the current development framework for the WKCD, and to invite the three screened-in Proponents to respond by end January this year.

The three screened-in Proponents responded to the Government in late January 2006, indicating that they were

still interested in pursuing the WKCD project. They have also raised some specific questions about the proposed development parameters and conditions, including arrangements for the carving out of commercial and residential portions, use of sale proceeds from the carved-out portions, contributions towards the \$30 billion fund, etc. They have not made any firm and clear commitment that they would continue to pursue the WKCD under the current development framework.

The additional development parameters and conditions proposed by the Government in October last year are based on public views. We believe that we should not conduct any negotiation with the screened-in Proponents at this stage. To do so would be against public views.

However, as a responsible government, we should not continue to pursue the project without clear commitment by the screened-in Proponents. Therefore we have sought from the Proponents an unequivocal expression of positive commitment to accept all conditions and continue to participate in the WKCD project under the current development framework as modified by the October Package of last year. All three Proponents reverted yesterday and did not give a positive response.

As I briefed Members at the LegCo House Committee meeting on 7 October last year, the Government would review

how the WKCD should be taken forward in order to meet public aspirations if less than two Proponents gave a positive response. Although the development parameters for the WKCD have been modified to meet public aspirations, the current situation is that the additional parameters and conditions could not secure a positive response from the market. We have to accept that there is a significant gap between public demands and market reality. Therefore the Government will not pursue the WKCD under the Invitation for Proposals (IFP) process. We need to consolidate and review our past efforts, with a view to taking forward the WKCD in full speed.

Given clear public aspirations, we shall adhere to our objective of developing the WKCD into a world-class integrated arts, cultural and entertainment district which the public will be proud of and will become a must-see for tourists.

Everyone should remember that we had just weathered the SARS when the Government invited proposals for the WKCD in September 2003. At that time, unemployment rate was high, the Government facing a significant fiscal deficit, and the local economy in the doldrums. Everyone welcomed the WKCD then. LegCo Members also called for early implementation of the WKCD, in order to create jobs, bring in tourists and stimulate the economy. At the time the biggest worry was that the private

sector would not be willing to make significant investment for the WKCD given the uncertain economic situation.

The challenge of developing the WKCD is that, on one hand, we have to ensure that the project can meet public aspirations, which include both cultural hardware and software, low development intensity and more open spaces; and on the other hand, we have to consider ways to ensure that there will be sufficient funding for the sustainable operation of facilities and delivery of services in the Cultural District. After all cultural facilities are not profit making. Indeed most of them suffer from a deficit. To ensure the sustainable operation of the WKCD, we still prefer to continue to develop the WKCD under a Public-Private Partnership (PPP) mode. PPP will not only facilitate diversity in arts and culture. It will also allow the private sector to share the financial risks. At the same time PPP can bring in creativity and innovation from the market, encourage interaction and stimulation, and shape a vibrant WKCD with new ideas. In line with public wish, we shall also set up an independent statutory body at a suitable juncture to take forward the WKCD.

In formulating the way forward for the WKCD, we will adhere to the following five basic concepts -

First, our objective of developing a world-class integrated arts, culture and entertainment district to meet

public aspirations remains unchanged. The majority of the public supports the idea of developing a Cultural District and would like to see its early implementation. There will be a balanced mix of various arts, cultural, entertainment, commercial and residential facilities. Tourism elements will be injected into the District to attract people's flow and ensure vibrancy of the District.

Second, we should make the best use of past efforts for the WKCD. We shall take fully into account the public views and information collected. The proposed Core Arts and Cultural Facilities (CACF) will lay an important foundation for our next steps. The Government will conduct further studies on this foundation with a view to taking forward the WKCD.

Third, the Government will continue to explore PPP in taking forward the WKCD with a view to bringing in market creativity and vibrancy, facilitate diversity in arts and culture, and ensure the sustainable operation of the Cultural District.

Fourth, we will continue to designate the project area on the West Kowloon Reclamation for the development of a Cultural District. To this end, the Town Planning Board has already prepared a draft Outline Zoning Plan and laid down certain development parameters. As an integrated development, the planning of the Cultural District must be well coordinated with a unified style. Only by then would the

WKCD meet public aspirations and become a new landmark for Hong Kong.

Fifth, we will continue to uphold the cultural policy put forward by the Culture and Heritage Commission (CHC), in particular the principles of "partnership", "community driven" and "people-oriented" in developing the WKCD. We fully agree with the CHC that the WKCD is an unprecedented opportunity to develop arts and culture. We believe that the WKCD will provide new venues, resources and job opportunities for the arts and cultural sector. It will create a conducive environment and provide greater room for arts and cultural practitioners, and inject new energy for the arts, culture and tourism industry in Hong Kong.

Under the circumstances, our first and foremost task would be to, on the original planning basis for the facilities, re-examine with a view to confirming the need for the CACF in the WKCD. This is an important and essential step. To achieve this, we will establish a Consultative Committee to listen to the views of the arts and cultural sector as well as the tourism industry on this subject.

Three Advisory Groups will be set up under the Consultative Committee to examine respectively the need of various proposed CACF. The first Group will be tasked to consider the need and specifications of the various performance venues as well as tourist facilities, in particular

from the perspective of enriching performing arts and promoting tourism. The second Group will be tasked to consider the need, scale and themes of the four museums proposed. The third Group will be tasked to consider the financial implications of these CACF. The objective of the work of the three Advisory Groups is to ensure that the WKCD will meet the need of the public and the arts and cultural sector, while at the same time attract more tourists to Hong Kong.

I shall chair the Consultative Committee myself. Both the Consultative Committee and the three Advisory Groups will be appointed by the Chief Executive. Their members will be broadly based and representative of the arts, cultural, and entertainment sectors, as well as the tourism industry. We shall establish the Consultative Committee and the three Advisory Groups as soon as possible.

The Consultative Committee will endeavour to submit its findings to the Government in September this year. These findings will help the Government confirm the CACF of the WKCD as a basic consideration for formulating a new development approach for the WKCD. By that time we would also have sufficient information to consider when to establish an independent statutory body to take over the development of the WKCD from the Government at a suitable juncture.

I notice that one of the documents distributed by the Subcommittee today is a "list of issues which require response from the Administration". This list also appeared in the Chairman's letter to me. In fact, the Secretary for Housing, Planning and Lands has already responded substantively to many issues raised in these questions. Having said that, I would like to take this opportunity to respond to one question.

The Subcommittee requests the Government to respond in specific terms to the various recommendations of the Subcommittee set out in its Phase I and Phase II reports. In fact, there are a number of recommendations in the reports which are based on the same objective as the Government's, that is, to best shape the WKCD. However, there is one obvious difference between the two. The Subcommittee is inclined to a more conservative approach. It suggested that the Government adopt a traditional way for developing the WKCD by tendering out the commercial and residential lots through the usual land sale procedures and using public funds to provide cultural facilities. The Subcommittee's report had failed to explain how, by going back to the old way, sufficient funding allocation could be secured every year to operate the Cultural District. As I have just mentioned, to ensure the sustainable operation of the Cultural District in the long run, the Government will continue to explore the PPP approach in

developing the WKCD. The Government would be happy to listen to and exchange views with LegCo in this regard.

What I would like to reiterate here is that we will ensure that any alternative development approach in the future will be in the public interest, and will not affect Government's authority and responsibility in land disposal as enshrined in the Basic Law.

PPP is practiced and well-tested both in Hong Kong and overseas and they may take different forms of implementation. There is no question that the Government adopts such an approach in order to by pass LegCo. In fact, if the Government adopts the PPP approach for pursuing any development projects, LegCo and various sectors of the community must be consulted and the development process must be highly transparent. Therefore public interest will be safeguarded. In fact, a lot of PPP projects have to be implemented through the enactment of legislation. LegCo will play an indispensable role in this regard.

Chairman and Members, we will continue to adopt a fair, open and transparent approach in taking forward the WKCD, and will brief LegCo on the progress of the project on a timely basis.

Register of Financial Consultants

(maintained by the Financial Services and the Treasury Bureau as at 24 April 2006)

ABN AMRO Bank N.V.

Accenture Company Limited

Anglo Chinese Corporate Finance, Limited

Asia Consulting Group Limited

Bank of America, National Association

Barclays Capital Asia Limited

BNP Paribas

BNP Paribas Peregrine Capital Limited

BOC International Holdings Limited

Business Archi-Tech Limited

CALYON

Capgemini Business Services (Asia) Ltd

Cazenove Asia Limited

Citigroup Global Markets Asia Limited

CLSA Equity Capital Markets Limited

Commerzbank AG, Hong Kong Branch

Credit Suisse (Hong Kong) Limited

Daiwa Securities SMBC Hong Kong Limited

DBS Asia Capital Limited

Deloitte Actuarial and Insurance Solutions (Hong Kong) Limited

Deloitte & Touche Enterprise Risk Services Limited

DEPFA Investment Bank Limited

Deutsche Bank AG, Hong Kong Branch

ERM – Hong Kong, Limited

Ernst & Young

First Shanghai Capital Limited

GHK (Hong Kong) Limited

Goldman Sachs (Asia) L.L.C.

Grant Thornton

Hewitt Associates L.L.C.

HLB Hodgson Impey Cheng Consultants Limited

IBM Business Consulting Services

ICEA Capital Limited

ING Bank N.V.

J.P. Morgan Securities (Asia Pacific) Limited

K K Yeung Management Consultants Limited

KPMG

Lehman Brothers Asia Limited

Macquarie (Hong Kong) Limited

Mercer Investment Consulting Limited

Merrill Lynch (Asia Pacific) Limited

Mitsubishi UFJ Securities (HK) Capital Limited

Moores Rowland Mazars

Morgan Stanley Dean Witter Asia Limited

N M Rothschild & Sons (Hong Kong) Limited

Nomura International (Hong Kong) Limited

PA Consulting Group Limited

PricewaterhouseCoopers Corporate Finance Limited

PSI Consulting (Asia) Pty Limited

Standard Chartered Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

The International Securities Consultancy Limited

The Royal Bank of Scotland Public Limited Company

Towers Perrin Forster & Crosby Inc.

UBS AG

Watson Wyatt Hong Kong Limited