

**Meeting of the LegCo Joint Subcommittee to Monitor the Implementation of  
the West Kowloon Cultural District on 26 August 2011**

**Opening Remarks by the Chief Executive Officer  
of the West Kowloon Cultural District Authority on the  
Financial Strategy for the Implementation of the  
West Kowloon Cultural District Project**

- I am very conscious of this Committee's desire to have greater certainty on the overall cost of the whole of the West Kowloon Cultural District Project and of the public interest in this issue as evidenced by some of the press reports this week.
- The financial assessment put up in the recommendation report of the Consultative Committee on Core Arts and Cultural Facilities of the West Kowloon Cultural District (CC case) was made in 2006 based on some long term assumptions and resulted in the approval of an endowment of \$21.6B in 2008.
- Since then, there have been significant short-term fluctuations (in terms of construction cost escalation, investment return and inflation rate) including a major global financial crisis. My colleague, our Executive Director, Finance, Dr Eva Lam, will talk to you in greater detail on this. As you noted from the newspapers, inflation ran at 5.8% in July in Hong Kong with ongoing uncertainty about the future.
- Comparing with the CC case, additional facilities/features are proposed in response to public demand in previous PE exercises (e.g. education facilities), sustainability measures across the whole site and from the design of the chosen Conceptual Plan (e.g. integrated basement structure). They have a significant bearing on the project costs and were not included in the original costing. I have been tasked to ensure that WKCD is a project of international standing and quality in construction and design.
- It is important to note that the Foster Masterplan was chosen in March this year after the PE2 exercise which showed public preference for his plan. It is important to recognize that the choice of the Foster Plan has a very important underlying principle. The creation of basements and roads and facilities underground was a distinctive feature of their plan and, if carried through, gives

great benefits in terms of public use, environmental friendliness and safe public space, while at the same time keeping the 40 hectares for public and cultural use. However, it is recognized that the underground features bring up the construction costs substantially and we will conduct detailed analysis on the demarcation and phasing of public infrastructure works to be implemented and funded by the Government. A separate funding request will be put up by the Government on infrastructure costs.

- Sustainability is high on our agenda but sustainability features do come at a cost. We hope Members and the community will support us to invest in this worthy cause for our future generations. We are working on a significant piece of work on the costing of sustainability features.
- Given the various improvements we have proposed to the CC case, there are inevitably increases in costs. Digressing from costs for a while, I note that the upfront endowment is roughly equivalent to the estimated land revenue from the residential, hotel and office part of the commercial sites within WKCD in 2006. While we do not have the latest estimate at hand, no doubt that the land value should have increased rather substantively since then.
- The WKCD project spans decades and WKCDA may fine-tune the project development in the light of changing circumstances to best meet the evolving needs and aspiration of the arts and cultural sector and the community.
- Furthermore, the projected capital costs of the WKCD development at the present stage are highly volatile and subject to further changes due to the following uncertainties, in particular –
  - (a) the Development Plan and the phasing of core arts and cultural facilities have yet to be finalized
  - (b) the capital costs of individual arts and cultural facilities will depend very much on (i) the outcome of design competition and (ii) the standard and specifications to be adopted in the detailed design, both of which have yet to commence; and
  - (c) the financial position of WKCDA is vulnerable to the macro economic climate in the coming years, let alone the future fluctuations in construction costs, inflation rate and investment returns.

- WKCDA is committed to adopting a prudent financial strategy in the implementation of the WKCD project, and will make every effort to ensure the capital costs are used efficiently through suitable phasing, innovative procurement modes, value engineering, alternative revenue sources such as sponsorship, philanthropy, naming right etc. and cost-effective design, and strong project management from the WKCDA team.
- We can kick start the project in any case because unlike other similar cultural projects (with the exception of a few) in the rest of the world where fund has to be raised to get them off the ground, we are fortunate to have been given an endowment for the project which gives us extraordinary flexibility in managing our resources and the capacity to get investment return for the project.
- Our approach at this stage is to develop an initial cluster of facilities that could largely meet aspirations of stakeholders; that are conducive to arts and culture development here and create vibrancy in the district. Our proposals will be ready when we launch PE3 later in September
- We will have a more realistic capital cost for the project after tendering the initial phase of facilities and we shall report to the Sub-committee over the course of the coming two years on the way forward.
- The first project to go to tender will be the Xiqu Theatre and construction will start some time in 2013 after our Development Plan is approved by the Town Planning Board. The design competition for some of the facilities will start this year and we will get much closer to some indicative cost position after detailed design and cost planning has taken place.
- It needs to be remembered that to this date we are still in the planning stage based on initial demands of the arts organisations and the input from the public engagement exercises over the last two years. We will not reach certainty on the construction cost until we have chosen the individual architects and put their designs out to the construction market which may not be happening in the case of some buildings in the coming few years.

ENDS