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**Joint Subcommittee to Monitor the Implementation of the
West Kowloon Cultural District Project**

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 27 June 2012**

**Financial arrangements for the implementation of the
West Kowloon Cultural District project**

Purpose

This paper provides background information on the financial arrangements for the implementation of the West Kowloon Cultural District ("WKCD") project and highlights the main concerns of members of the Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project ("the Joint Subcommittee").

Background

2. The one-off upfront endowment of \$21.6 billion (in 2008 Net Present Value ("NPV")) was approved by the Finance Committee ("FC") on 4 July 2008 per Consultative Committee Case¹ to cover the capital costs for implementing the WKCD project. The upfront endowment fund was used for the following purposes -

- (a) design and construction of various facilities (\$15.7 billion or 73%);
- (b) major repair and renovation of various facilities (\$2.9 billion or 13%);

¹ Consultative Committee Case refers to the recommendations of the Consultative Committee on the Core Arts and Cultural Facilities of WKCD ("Consultative Committee"), which was appointed by the Chief Executive in April 2006. The one-off upfront endowment of \$21.6 billion in 2008 NPV is the sum total of the estimated capital costs of all the various component parts of the WKCD project compiled on the basis of a detailed financial study conducted by the Financial Adviser GHK (Hong Kong) Ltd engaged by the Home Affairs Bureau to assist the Consultative Committee to assess the financial requirements for the project.

- (c) collection costs and related costs for M+ (\$1.7 billion or 8%); and
- (d) planning of WKCD and project management (\$1.3 billion or 6%).

3. According to the Administration, funding approval for other communal and Government facilities and related engineering works, such as roads, drainage, fire station, etc. which are designed to support the whole WKCD development (including residential, commercial and hotel developments) will be undertaken by the Government, and funding approval for such works will be sought separately.

4. At the meeting of the Joint Subcommittee on 26 August 2011, the West Kowloon Cultural District Authority ("WKCDA") advised members that it had adopted various financial strategies for implementing the WKCD project, including phasing of the core arts and cultural facilities ("CACF"), procurement strategy review, value engineering, expanding revenue sources and adopting innovative design that could save capital and life cycle cost, etc. Details of the strategies are set out in **Appendix I**.

Members' major concerns

5. The Joint Subcommittee has discussed the financial arrangements for implementing the WKCD project at its meetings on 26 August 2011 and 29 November 2011. Major views and concerns expressed by members of the Joint Subcommittee are summarized in the ensuing paragraphs.

Adequacy of the upfront endowment fund

6. Pointing out that the construction cost had been escalated in recent years and the potential additional revenue sources (such as naming right) might be one-off only, members expressed concern about the adequacy of the approved \$21.6 billion upfront endowment fund for implementing the entire WKCD project.

7. The Administration explained that the WKCD project would span over a decade, during which short-term changes in economic conditions might affect the construction costs and other relevant factors. The estimated project costs were subject to fluctuations for the following reasons -

- (a) external economic factors including construction cost escalation, investment returns and inflation rates;
- (b) phasing of CACF;

- (c) outcome of design processes including design competitions; and
- (d) costs of the integrated basement infrastructure and green features to be apportioned between WKCDA and the Government.

8. The Administration assured members that WKCDA was committed to adopting prudent financial management in the implementation of the project and ensuring that the existing resources were spent effectively through suitable phased development of facilities, innovative procurement modes, alternative revenue sources, cost-effective designs, etc. WKCDA was prepared to look into alternative funding sources, which might include possibly a public-private-partnership mode for the development of three venues with commercial contents (namely, the Mega Performance Venue, Exhibition Centre complex and Musical Theatre), apart from donations and sponsorships. As the WKCD project was still at its planning stage, and the designs of various buildings had yet to commence, more realistic cost estimates would only be available when the designs were in place and the tendering for Phase 1 facilities had been completed. WKCDA would continue to closely monitor the economic conditions, in particular the construction tender prices.

9. Noting that the Mega Performance Venue, Exhibition Centre and Musical Theatre of WKCD were subject to alternative funding options, members sought clarification on whether a Build-Operate-Transfer ("BOT") mode would be adopted for such facilities. Some members pointed out that the Subcommittee on West Kowloon Cultural District Development formed in the Third Legislative Council ("LegCo") had considered BOT inappropriate for the WKCD development, as WKCDA could neither exercise effective monitoring over the arts and cultural programmes in WKCD nor put in place the artistic accountability system. These members called on WKCDA to rule out the BOT option.

10. WKCDA advised that the WKCDA Board did not have any specific discussion on BOT. At the current stage, it would prefer to "rule in" rather than rule out options. WKCDA stressed that the exercise of artistic control would be its paramount consideration in its discussions about funding options.

11. There was a suggestion that WKCDA might consider scaling down the WKCD project or developing the arts and cultural facilities in phases to keep its cash flow healthy. WKCDA should also liaise with the Administration on what communal and government facilities and related engineering works, which were designed to support the WKCD development, would be undertaken by the Government. Another suggestion was made that there might be room for reducing the collection costs and related costs for M+, such as borrowing more

collections from other museums and providing more opportunities for local artists to display exhibits about the life and history of Hong Kong.

12. On members' suggestions, WKCDA responded that WKCDA was in detailed discussion with the Government on the demarcation and phasing of public infrastructure works to be funded and undertaken by the Government. WKCDA would strive to take forward the discussion as quickly as possible with a view to facilitating the WKCD development. The Administration advised that it would provide detailed information on the communal and government facilities and related engineering works to be undertaken by the Government, when seeking funding approval from LegCo.

Alternative revenue sources

13. Members cautioned that WKCDA should exercise political sensitivity in considering the issue of naming right. There was a suggestion that WKCDA should consider the feasibility of expanding its fund-raising network, such as looking for donations from overseas philanthropists.

14. WKCDA advised that until the detailed designs and financial planning of individual arts and cultural venues in WKCD had taken place, it was almost impossible for WKCDA to ascertain the phasing of the retail, dining and entertainment ("RDE") facilities on the site. WKCDA would remain conservative about the likely returns from RDE. WKCDA further advised that naming right was a common fund-raising way in overseas countries. Noting members' views, WKCDA would keep open the option of naming right as an alternative revenue source and give due regard to its sensitivity in Hong Kong.

Transparency of cost estimates

15. Members raised grave concern about the lack of information on the financial implications of the preferred CPO and expressed worry that WKCD would become a white elephant. In view of the public's concern over the possible cost overrun of the WKCD project, they called on the Administration/WKCDA to enhance the transparency of the cost estimates of the project and particularly the financial arrangements for the arts and cultural facilities in each phase of WKCD as soon as possible.

Latest development

16. The Administration consulted the Panel on Home Affairs on its financial proposal at a project estimate of \$478 million in money-of-the-day prices for the design and site investigation of the infrastructure works to tie in with phase 1 of WKCD development in May 2012. The scope and details of the proposal is in **Appendix II**. Subject to the funding approval of FC, the Administration plans to start the aforesaid works in September 2012, and the construction works in 2014 to match the staged commissioning of phase 1 of WKCD development between 2015 and 2020.

17. The Administration and WKCDA will update the Joint Subcommittee on the financial arrangements for the WKCD project on 18 June 2012.

Relevant papers

18. A list of the relevant papers with their hyperlinks on LegCo's website is in **Appendix III**.

Council Business Division 2
Legislative Council Secretariat
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**Financial and other strategies for implementation of the
West Kowloon Cultural District Project**

a) Phasing and cash flow:

To review and develop an optimal and sustainable phasing arrangement for the core arts and cultural facilities, taking into account the need for organic growth. The Authority has conducted a series of engagement meetings to seek stakeholders' views on the priority, artistic positioning and technical requirements of core arts and cultural facilities. There is general support for developing the arts and cultural facilities in phases which would better meet the dynamic and changing needs and demand of the arts and cultural sector over a longer time span and allow better co-ordination of the software and hardware development. Developing the facilities in phases would also allow the Authority to retain a portion of the endowment for investment which will be beneficial to the cash flow and budgeting.

b) Procurement strategy review

To actively explore and adopt, where considered favourable, innovative procurement modes for the core arts and cultural facilities to achieve the most effective use of financial resources. Many factors have to be considered including the importance of architectural merits, timing, administrative and change control, cost and future maintainability. Following the initial financial studies under the CC Case, the possibility of private sector involvement in project procurement will also be further reviewed.

c) Value engineering

To exhaust all possible measures during the planning and detailed design stage in cost planning and value engineering to attain the highest cost-effectiveness without compromising the overall venue quality and provisions. This has to bear in mind that a world-class arts and cultural district is to be developed with many of the key venues having to meet best in class quality.

d) *Expand revenue sources*

To actively explore alternative sources of revenue, including sponsorship, naming right, donation, etc.

e) *Design and life cycle cost*

To encourage and adopt innovative design that can save capital and life cycle cost. Innovative and aesthetically pleasing design may also be cost effective. As the Authority is also responsible for the future major renovation, maintenance and operation of the arts and cultural facilities and related facilities, the life cycle costing and maintainability aspects of the design have to be carefully reviewed.

f) *Reduction of car park numbers*

To actively look into the possibility of reduction of car parking for venue goers and encourage the use of public transport. Connectivity to all modes of public transport is to be enhanced. Due to floor area constraint, many of the car parks if required have to be provided underground. Reduction of car parks will help lower construction and maintenance costs.

Source : Information extracted from the Administration's paper entitled "Financial Strategy for the Implementation of the West Kowloon Cultural District Project" (LC Paper No. CB(2)2530/10-11(03))

**753CL - Infrastructure Works for West Kowloon Cultural District
Phase 1 – Design and Site Investigation**

PROJECT SCOPE AND NATURE

The scope of the project comprises –

- (a) the detailed design of the following infrastructure works to support phase 1 of WKCD development –
 - (i) underground roads linking with Lin Cheung Road, Austin Road West and Nga Cheung Road;
 - (ii) at-grade roads linking with Austin Road West and Nga Cheung Road;
 - (iii) a flyover across the toll plaza of Western Harbour Tunnel linking with Austin Road West and Nga Cheung Road;
 - (iv) four pedestrian linkage systems linking with Kowloon Station, Austin Station and Kowloon Park;
 - (v) berthing/landing facilities for vessels and modification of existing seawall;
 - (vi) stormwater and sewerage systems;
 - (vii) salt and fresh water supply systems and related facilities; and
 - (viii) associated footpaths, accesses, lighting, ventilation, traffic system, landscaping and ancillary works.
- (b) impact assessments on the environment, traffic, marine, heritage and other related aspects;
- (c) associated site investigations works and supervision; and
- (d) preparation of tender documents and assessment of tenders.

Source : Information extracted from the Administration's paper entitled "753CL – Infrastructure Works for West Kowloon Cultural District Phase 1 – Design and Site Investigation" (LC Paper No. CB(2)1913/11-12(01))

**Relevant papers on
Financial arrangements for the West Kowloon Cultural District project**

Committee	Date of meeting	Paper
Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project	26.8.2011 (Item II)	Agenda Minutes
Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project	29.11.2011 (Item IV)	Agenda Minutes

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