

立法會
Legislative Council

LC Paper No. CB(1)896/17-18
(These minutes have been seen by
the Administration)

Ref : CB1/PS/2/16

Panel on Development and Panel on Home Affairs

**Joint Subcommittee to monitor the implementation of
the West Kowloon Cultural District Project**

**Minutes of meeting held on
Friday, 9 February 2018, at 8:30 am
in Conference Room 2 of the Legislative Council Complex**

Members present : Hon LAU Kwok-fan, MH (Chairman)
Hon Tanya CHAN (Deputy Chairman)
Hon Abraham SHEK Lai-him, GBS, JP
Hon Claudia MO
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, SBS, JP
Hon YIU Si-wing, BBS
Hon MA Fung-kwok, SBS, JP
Hon CHAN Chi-chuen
Dr Hon Helena WONG Pik-wan
Hon CHU Hoi-dick
Dr Hon Junius HO Kwan-yiu, JP
Hon Holden CHOW Ho-ding

Members absent : Hon Jimmy NG Wing-ka, JP
Hon CHEUNG Kwok-kwan, JP

**Public officers
attending** : **Agenda item II**
Mrs Betty FUNG CHING Suk-ye, JP
Permanent Secretary for Home Affairs

Mrs Sorais LEE KWAN Siu-kuen, JP
Project Manager (Home Affairs Bureau)

Mrs Angelina CHEUNG FUNG Wing-ping, JP
Deputy Secretary for Home Affairs (2)

Mr Eric CHENG Siu-fun
Principal Assistant Secretary for Home Affairs (West
Kowloon Cultural District)

**Attendance by
invitation** : **Agenda item II**

Mr Henry TANG Ying-yen, The Honourable GBM, GBS, JP
Chairman of the Board
West Kowloon Cultural District Authority

Mr Duncan PESCOD, GBS, JP
Chief Executive Officer
West Kowloon Cultural District Authority

Mr Richard TSE
Executive Director, Finance
West Kowloon Cultural District Authority

Clerk in attendance : Ms Doris LO
Chief Council Secretary (1)2

Staff in attendance : Ms Judy YEE
Council Secretary (1)6

Ms Christina SHIU
Legislative Assistant (1)2

Action

- I Confirmation of minutes**
(LC Paper No. CB(1)560/17-18(01) — Minutes of meeting held on
21 November 2017)

The minutes of the meeting held on 21 November 2017 were confirmed.

II Update on the financial situation of and the enhanced financial arrangement for the West Kowloon Cultural District project

(LC Paper No. CB(1)559/17-18(01) — Administration's paper on update on the financial situation of and the enhanced financial arrangement for the West Kowloon Cultural District project

LC Paper No. CB(1)559/17-18(02) — Paper on the financial situation of and the enhanced financial arrangement for the West Kowloon Cultural District project prepared by the Legislative Council Secretariat (Updated background brief))

2. The Subcommittee deliberated (index of proceedings in the **Annex**).

3. The Deputy Chairman proposed two motions on this agenda item. Due to insufficient meeting time, the Chairman decided that the two motions be dealt with at the next meeting.

(Post-meeting notes:

- Wording of the two motions proposed by the Deputy Chairman [LC Paper Nos. CB(1)609/17-18(03) and (04)] were circulated to members on 28 February 2018; and
- members were informed vide LC Paper No. CB(1)609/17-18 on 28 February 2018 that, having considered the Deputy Chairman's requests in her letters to the Chairman dated 12 February 2018 [LC Paper Nos. CB(1)609/17-18(01) and (02)], the Chairman had decided that he would allow time for continuation of the discussion on this item at the next meeting and instructed that the Administration be requested to provide a written response to the issues raised by the Deputy Chairman in the abovementioned letter No. (02).)

III Update on the development of Xiqu Centre

(LC Paper No. CB(1)559/17-18(03) — Administration's paper on update on the development of Xiqu Centre

LC Paper No. CB(1)559/17-18(04) — Paper on the development of Xiqu Centre prepared by the Legislative Council Secretariat (Updated background brief))

4. Due to insufficient meeting time, the Chairman suggested and members raised no objection that the discussion on this item be carried over to the next meeting.

IV Any other business

5. There being no other business, the meeting ended at 10:34 am.

(Post-meeting note: Members were informed vide LC Paper No. CB(1)712/17-18 that on the instruction of the Chairman, the next meeting of the Joint Subcommittee, which was originally scheduled for 30 April 2018, was rescheduled to Friday, 11 May 2018, from 9:00 am to 11:30 am.)

Council Business Division 1
Legislative Council Secretariat
30 April 2018

Panel on Development and Panel on Home Affairs

**Proceedings of meeting of the Joint Subcommittee to Monitor
the Implementation of the West Kowloon Cultural District Project
held on Friday, 9 February 2018, at 8:30 am
in Conference Room 2 of the Legislative Council Complex**

Time marker	Speaker(s)	Subject(s)/Discussion	Action required
Agenda Item I – Confirmation of minutes			
000425-000448	Chairman	Confirmation of minutes [LC Paper No. CB(1)560/17-18]	
000449-000634	Chairman Deputy Chairman	On the suggestion of the Deputy Chairman, the Chairman agreed that he would suitably allow more time for the discussion of agenda item II (i.e. update on the financial situation of and the enhanced financial arrangement ("EFA") for the West Kowloon Cultural District ("WKCD") project), and might defer the discussion of agenda item III (i.e. update on the development of the Xiqu Centre) to the next meeting.	
Agenda Item II – Update on the financial situation of and the enhanced financial arrangement for the West Kowloon Cultural District project			
000635-002359	Chairman West Kowloon Cultural District Authority ("WKCDA")	Opening remarks of the new Chairman of the Board and the Chief Executive Officer of WKCDA [LC Paper No. CB(1)559/17-18(01)]	
002400-003220	Chairman Deputy Chairman WKCDA	<p>The Deputy Chairman proposed two motions on this agenda item. She noted with regret about WKCDA's report that the upfront endowment of \$21.6 billion approved by the Finance Committee back in 2008 and the apportioned investment income would only be sufficient for covering the Batch 1 and most of Batch 2 facilities whereas the implementation programme of the Batch 3 facilities would still need to be reviewed. She lamented about the discrepancy between the current situation and the original development plan for the arts and cultural facilities at WKCD. Expressing grave concern over the financial challenges of the WKCD project, she requested:</p> <p>(a) WKCDA to provide a detailed breakdown of how the \$17.8 billion reserved for the design and construction of WKCD facilities would be spent among the respective facilities; and</p> <p>(b) WKCDA to provide the financial position of the WKCD project (including the financial</p>	

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		<p>projections, operational income and expenditure) in a format with more detailed information similar to that set out in PWSC(2008-09)31 about the upfront endowment, based on which the Joint Subcommittee might further consider the need for engaging a specialist adviser to assist it in examining the financial aspects of WKCDA as the then Subcommittee on the WKCD Development had done in 2008.</p> <p>WKCDA advised that:</p> <p>(a) pursuant to the West Kowloon Cultural District Authority Ordinance (Cap. 601) ("WKCDAO"), the Authority had all along been committed to, among its other functions, taking forward the development of the Core Arts and Cultural Facilities ("CACF") and other related facilities at WKCD; and</p> <p>(b) the funding gap was primarily caused by the serious delay in the receipt of the retail, dining and entertainment ("RDE") facilities income, i.e. a steady recurrent income source to meet the operating deficits of CACF; the actual investment return from the upfront endowment being lower than expected (3.2% per annum from 2008-2009 to 2016-2017, rather than the assumed rate of 6.1% per annum in 2008); and the significant escalation of construction costs since 2008 (by 136% from the third quarter in 2006 to the third quarter in 2017).</p>	
003221-003927	Chairman Ms Claudia MO WKCDA	<p>Ms MO enquired:</p> <p>(a) about the justification for WKCDA's proposal to engage a financial consultant to draw up an external borrowing plan;</p> <p>(b) about the cost of engaging the financial consultant, the timetable of implementing the external borrowing plan and the total amount of funding that WKCDA sought to raise by external borrowing;</p> <p>(c) whether WKCDA would seek further funding from the Legislative Council ("LegCo") to finance the future development of WKCD; and</p> <p>(d) whether WKCDA would put a cap on the total</p>	

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		<p>cost of the WKCD project (excluding the Hong Kong Palace Museum which would be fully funded by Hong Kong Jockey Club).</p> <p>WKCDA replied that:</p> <p>(a) WKCDA had to bridge the funding gap to achieve financial sustainability which was essential for financing the implementation of the WKCD project as well as planning and programming of arts and cultural activities in the long term;</p> <p>(b) the financial consultant would draw up a comprehensive and affordable external borrowing plan (including the amount to be raised, the form of external borrowing) while taking into account all potential income sources, the interest risks involved and cash flow requirements;</p> <p>(c) WKCDA would seek further funding from LegCo for the remaining capital works of the integrated basement for WKCD; and</p> <p>(d) it was not feasible putting a cap on the total cost of the WKCD project at this stage.</p>	
003928-004913	Chairman Dr Helena WONG WKCDA Administration	<p>Dr WONG enquired about the details of the Build-Operate-Transfer ("BOT") arrangements (e.g. the duration of BOT, income sharing between WKCDA and private developers, and areas in WKCD to be developed in the form of BOT, etc.) for the development of the hotel, office and residential ("HOR") portion by WKCDA under EFA, as well as the related tender arrangements.</p> <p>WKCDA responded that:</p> <p>(a) the grey area (approximately 366 000 square metres in Gross Floor Area ("GFA")) on the schematic plan of major WKCD facilities (Annex 1 to the WKCDA's paper [LC Paper No. CB(1)215/17-18(04)] submitted at the last meeting) covered the HOR portion, including HOR sites that would be developed in conjunction with the Exhibition Centre (known as Exhibition Hub Development Area ("EHDA")) under BOT arrangements. The major portion of the total GFA concerned would be developed into rental offices and hotels;</p>	

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		<p>(b) an indicative BOT term would be approximately 34 years (including four years for the development) so as to be commercially attractive to potential bidders; and</p> <p>(c) WKCDA would tender out the development of EHDA and HOR through different BOT development packages and would not award the BOT agreements by single development package. While the tendering process would be open and fair, WKCDA would not make public the estimated prices of the tenders so as to ensure that the tender offers would be competitive. The tenderers would compete on, among other technical requirements, their offer of upfront payments to the Government and the rental income to be shared with WKCDA. The tenderers would also be given flexibility in deciding the mix of HOR uses as applicable under the relevant BOT agreement.</p> <p>The Administration added that:</p> <p>(a) certain terms and conditions would be imposed in the BOT tenders to protect the Government's interests under EFA :</p> <ul style="list-style-type: none"> (i) WKCDA would be required to tender out the relevant sites through different BOT development packages to increase competitiveness so that tenders would not be awarded to a single developer; (ii) the tendering process should be conducted in an open and fair manner; (iii) WKCDA would be requested to engage independent consultant(s) to conduct the pre-tender estimates of the BOT development packages based on the pre-defined terms and conditions; and (iv) WKCDA would retain the right to cancel the tender if the tender price offered by tenderers was unreasonable low; and <p>(b) the Government's representatives on the Board of WKCDA would closely monitor and give advice to the Authority on the above aspects.</p>	
004914-005425	Chairman Mr CHAN Chi-chuen WKCDA Administration	Mr CHAN expressed concerns that WKCDA's proposal to bridge the capital funding gap by securing external borrowing might in effect undermine LegCo's role in monitoring the WKCD project as the additional funding need would no longer be subject to the	

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		<p>monitoring of LegCo. He then enquired about the estimated cost of completing the remaining Batch 2 facilities and the Batch 3 facilities.</p> <p>The Administration and WKCDA replied that:</p> <p>(a) a capital funding of about \$11.7 billion (in 2016 prices) would be required for completing Batch 3 CACF, two remaining black box theatres in Batch 2 as well as the remaining RDE facilities and public open spaces (other than the Musical Theatre and the Exhibition Centre which were to be funded by private sector investment); and</p> <p>(b) WKCDA all along was subject to the monitoring of LegCo and the Administration. At present, three public officers and two LegCo Members were on the Board of WKCDA to monitor the progress of the project. Funding approval for the remaining capital works of the integrated basement from LegCo for the implementation of the WKCD project would continue to be sought.</p>	
005426 010137	Chairman Mr YIU Si-wing Administration WKCDA	<p>Mr YIU enquired about:</p> <p>(a) the Administration's current role in effectively monitoring WKCDA and ensuring that its expenditure was reasonable;</p> <p>(b) given that in WKCDA's paper, the financial projections were provided only up to 2020-2021, how the Administration would monitor the financial position of the WKCDA beyond 2020-2021; and</p> <p>(c) whether the Administration would set a timeframe (e.g. five or ten years) for the WKCD project to break even.</p> <p>The Administration replied that:</p> <p>(a) the WKCDA Board comprised three public officers from the Home Affairs Bureau, Financial Services and the Treasury Bureau and Development Bureau who would closely monitor the work of WKCDA by attending the meetings of the WKCDA Board and its various committees. Through its representatives, the Administration had closely examined WKCDA's Business Plan of 2018-2019 which would be submitted to the</p>	

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		<p>WKCD Board for approval in March 2018;</p> <p>(b) as the Business Plans of 2019-2020 and 2020-2021 had yet to be completed, the estimates for those two years in WKCD's paper were working estimates which would be updated nearer the time; and</p> <p>(c) while the Administration could not ascertain the year by which the WKCD project would break even, it was expected that EFA would generate considerable cash inflow for WKCD, and upon expiry of the term of the BOT agreements, the Administration would be able to share the income generated from the HOR and EHDA development packages.</p>	
010138-010802	Chairman Mr Holden CHOW Administration WKCD	<p>Mr CHOW opined that the Administration should consider capping the tender costs of the BOT developments, in view of the public concerns over the high capital input in the WKCD project. He also urged WKCD, when vetting the tender submissions for the BOT development packages, to consider the merits of the tender proposals instead of focusing mainly on the income sharing offered by the tenderers.</p> <p>The Administration and WKCD advised that:</p> <p>(a) it was necessary to ensure that the HOR and EHDA development packages would be commercially attractive to the tenderers as the BOT agreements would involve many variables (e.g. BOT duration, proportion of upfront payment and income sharing); and</p> <p>(b) WKCD would consider the technical aspects in parallel with the offers of rental income sharing and upfront payments in the tender submissions.</p>	
010803-011310	Chairman WKCD Administration	<p>The Chairman enquired whether the surge in expenditure on staff, a major cause of the sudden deficit budgets, was justified while most CACF in WKCD had yet to be commissioned.</p> <p>WKCD and the Administration advised that:</p> <p>(a) the Business Plan and Corporate Plan of WKCD already projected a deficit budget for 2017-2018. However, with the income from investment and</p>	

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		<p>lower-than-expected upfront payment for the expenditure on capital projects, the deficit would only set in from 2018-2019;</p> <p>(b) WKCDA had been working closely with all its teams to ensure that all the posts created for the WKCD project were fully justified through the approval process. While the recruitment of frontline and facility management staff would not begin until closer to the opening of the various CACF, manpower for planning and programming was necessary ahead of the commissioning of the facilities. As such, WKCDA would start recruiting frontline staff for Xiqu Centre in mid-2018 when staff would be needed at the right stage; and</p> <p>(c) the WKCD project would rely on the income from RDE facilities and share of BOT income in the future to be financially sustainable.</p>	
011311-011954	Chairman Mr CHU Hoi-dick WKCDA	<p>Mr CHU enquired about:</p> <p>(a) whether the loans taken out under the external borrowing plan would be repaid with the investment return from income sharing received by WKCDA under the BOT agreements; and</p> <p>(b) how long the capital funding gap for the WKCD project would endure.</p> <p>WKCDA advised that:</p> <p>(a) external borrowing was a short-term measure to bridge the funding gap. In the long term upon the expiry of the BOT agreements, the HOR developments would be reverted to WKCDA and bring an enhanced recurrent income stream steadily for WKCDA to repay the loans; and</p> <p>(b) WKCDA expected that the sooner the funding for the construction of the integrated basement was available, the sooner WKCDA could develop the HOR/RDE facilities above the basement with a view to generating recurrent income for bridging the funding gap.</p>	

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011955-013029	Chairman Mr Abraham SHEK Dr Junius HO WKCDA	<p>Mr SHEK opined that as the WKCD project is a major initiative to meet the long-term infrastructural and development needs of Hong Kong's arts and culture, investments in the project should be forward looking and vision-driven. Hence, focus should be put on the plan for the ultimate commissioning of its CACF. He did not concur with the views of some members on capping the project costs.</p> <p>Dr HO concurred with Mr SHEK's opinion. He further requested that a master plan charting the progress of the major facilities in WKCD be provided at future meetings of the Joint Subcommittee to facilitate discussion.</p> <p>WKCDA responded that:</p> <p>(a) the status and target completion date of the major facilities in WKCD were set out in Annex 2 to WKCDA's paper; and</p> <p>(b) WKCDA would next seek funding approval from LegCo for taking forward the construction of the integrated basement, as well as the Artist Square Bridge with a revised design.</p>	
013030-013724	Chairman Deputy Chairman WKCDA	<p>The Deputy Chairman urged WKCDA to report to LegCo on the progress of its external borrowing plan if the loans were backed by Government's guarantee pursuant to section 26 of WKCDAO (Cap. 601).</p> <p>The Administration and WKCDA responded that WKCDA had yet to decide on the details of its external borrowing plan as the independent financial consultant had yet to be engaged. LegCo's approval would be sought if the Government's guarantee was required by WKCDA.</p>	
013725-014246	Chairman Ms Claudia MO WKCDA	<p>Ms MO enquired about:</p> <p>(a) the amount of funds WKCDA needed to raise by external borrowing; and</p> <p>(b) the mode of development of the Musical Theatre and Exhibition Centre.</p> <p>Chairman/WKCDA answered that:</p> <p>(a) the financial consultant would subsequently draw up a comprehensive and affordable external</p>	

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		<p>borrowing plan to advise on the amount to be raised. At present, the tendering process of the financial consultant had yet to commence; and</p> <p>(b) the Musical Theatre and Exhibition Centre would be developed by public-private partnership and BOT arrangement respectively.</p>	
014247-014810	Chairman Dr Helena WONG WKCDA Administration	<p>Dr WONG urged the Administration/WKCDA to submit the tender requirements of the BOT agreements to LegCo for examination before the tendering process commenced.</p> <p>Dr WONG noted that WKCDA only had to pay a nominal premium to the Administration for the development right of the entire HOR portion of WKCD. She enquired whether the private developers being granted the development right had to pay premium and rates at market price under the BOT agreements.</p> <p>The Administration advised that:</p> <p>(a) WKCDA was granted the development right at nominal premium, and hence the Administration would retain the land ownership;</p> <p>(b) the Government would provide sufficient but not excessive resources to WKCDA to ease its financial difficulties. A mechanism would be devised to enable the sharing of income with WKCDA having regard to its funding requirements and financial position;</p> <p>(c) WKCDA had to pay government rent and rates at market price where applicable; and</p> <p>(d) the developers had to give upfront payment to the Government and would share income with WKCDA under the BOT agreements.</p>	
014811-015235	Chairman Mr MA Fung-kwok	<p>Mr MA declared that he was a member of the WKCDA Board. He expressed regret for the delay of the development of WKCD project which was due to various factors and events overtaken. Yet, instead of lashing out at WKCDA to find out why the WKCD project went over its budget, he considered it more appropriate to be pragmatic and objective in identifying the problems and administering the right</p>	

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		<p>remedies. In his view, EFA was practicable in addressing the funding gaps. Looking ahead, he considered that the WKCD project should be taken forward under a "Four Don'ts" principle, i.e. don't delay the progress, don't downsize, don't compromise the quality, and don't be extravagant and wasteful.</p>	
015236-020116	<p>Chairman Mr CHU Hoi-dick Mr Abraham SHEK Administration</p>	<p>Mr CHU's criticized WKCDA and the Administration for the sudden shift to external borrowing as a source of income to finance the development of the WKCD project, instead of using surplus from the BOT agreements. He asked whether the loans taken out under the external borrowing plan would be backed by the potential profits from the BOT agreements.</p> <p>The Administration and WKCDA replied that:</p> <p>(a) the possibility of WKCDA engaging in external borrowing was already reported in previous papers submitted to LegCo. In the LegCo Brief [File Ref: SF(37) to HABCS CR 7/1/27/1] issued in January 2017 and the Administration's paper for the meeting of the SC in February 2017 [LC Paper No. CB(1)560/16-17(01)], it was already stated that to fund the development of the Music Centre and RDE facilities as early as possible, and to tide over an interim operating deficit, WKCDA would explore various financing options (e.g. issuing bonds or raising bank loans); and</p> <p>(b) the BOT agreements and external borrowing were different arrangements and not related.</p> <p>Given the many queries that some members had on the external borrowing and the BOT arrangements, Mr SHEK suggested the Administration/WKCDA to brief these members separately after the meeting to facilitate future discussion on similar issues.</p>	
020117-020500	<p>Chairman Mr CHAN Chi-chuen Administration</p>	<p>Mr CHAN enquired about the reasons that WKCDA did not engage a financial consultant to draw up an external borrowing plan earlier while it had projected a funding gap some years ago.</p> <p>The Administration advised that:</p> <p>(a) the BOT arrangements were designed to let private developers shoulder development risks (including construction, financing and marketing risks) of the WKCD as much as possible so that</p>	

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		<p>WKCDA could focus on delivering Batch 1 and Batch 2 facilities in WKCD; and</p> <p>(b) external borrowing sought to bridge the funding gap of WKCDA to finance the development of Batch 3 facilities, in particular the Music Centre.</p>	
Agenda Item III – Update on the development of Xiqu Centre			
020501-020642	Chairman Mr Abraham SHEK Deputy Chairman	Due to the insufficient meeting time, the Chairman advised that the discussion on this item would be carried over to the next meeting.	
Agenda Item IV – Any other business			
020643-020740	Chairman	The Chairman advised that the two motions of proposed by the Deputy Chairman on agenda item II would be dealt with at the next meeting.	