

For discussion on  
9 February 2018

**Legislative Council**  
**Panel on Development and Panel on Home Affairs**  
**Joint Subcommittee to Monitor the Implementation of the**  
**West Kowloon Cultural District Project**

**Update on the Financial Situation of and**  
**the Enhanced Financial Arrangement for**  
**the West Kowloon Cultural District Project**

**PURPOSE**

This paper provides an update on the financial situation of and the enhanced financial arrangement (EFA) for the West Kowloon Cultural District (WKCD) project.

**BACKGROUND**

2. In July 2008, the Finance Committee of the Legislative Council (LegCo) approved an upfront endowment of \$21.6 billion (in 2008 Net Present Value) via PWSC (2008-09)<sup>31</sup> for West Kowloon Cultural District Authority (WKCDA) to implement the WKCD project. Communal and government facilities and related engineering works (collectively known as public infrastructure works), such as roads, drainage, fire station, public pier, etc. which are designed to support the whole WKCD would be undertaken by the Government. Funding approval will be sought by the Government separately.

3. The Government and WKCDA announced in June 2013 that a pragmatic approach would be adopted to implement the WKCD project, including delivering the major facilities in three batches, rigorous cost containment and emphasis on content rather than form.

4. In July 2013, the Government announced that it was prepared, subject to funding approval by LegCo, to fully fund the capital works of the main integrated basement (IB) as general enabling works to facilitate the development of the whole WKCD

project.

5. Since 2013, WKCDA has reported to the Joint Subcommittee to Monitor the Implementation of the WKCD Project (Joint Subcommittee) on various occasions that WKCDA was facing financial challenges. It has also reported that the endowment fund and the apportioned investment income would only be sufficient to build the Batch 1 and most of Batch 2 facilities<sup>1</sup> whereas the implementation programme of the Batch 3 facilities would be reviewed.

6. To provide WKCDA with the financial capability to operate various WKCD facilities sustainably and continue to develop the remaining planned facilities, the Government announced the implementation of the EFA for the WKCD project in the Policy Address on 18 January 2017. The LegCo Brief issued on 19 January 2017 (SF(37) to HABCS CR 7/1/27/1) explained the major factors/developments contributing to WKCDA's capital funding gap and operating deficit (see summary at **Annex 1**), the strategic importance of the WKCD project in generating cultural, economic, social and other benefits for Hong Kong, and the grant of development rights of the hotel/office/residential (HOR) portion of WKCD to WKCDA for development under the Build-Operate-Transfer (BOT) model.

7. On 21 February 2017, WKCDA briefed the Joint Subcommittee on the latest developments and financial situation of the WKCD project (LC Paper No. CB(1)560/16-17(01)), as well as the major benefits of the EFA to WKCD and the key features of the BOT development packages, covering the HOR portion of WKCD and the Exhibition Hub Development Area (EHDA).

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<sup>1</sup> Batch 2 facilities originally included the Lyric Theatre, the Centre for Contemporary Performance (CCP), and Medium Theatre II (MTII). In order to advance the provision of the performing arts venues, the configuration of the Lyric Theatre was modified in early 2015 to include Medium Theatre (previously MTII) and Studio Theatre (previously a black box theatre in the CCP to form the Lyric Theatre Complex. With the reconfiguration, the development of the remaining two black box theatres in the CCP (i.e. the remaining Batch 2 facilities) will be deferred until the site being occupied by the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) is handed over to WKCDA and further reviewed.

## **LATEST DEVELOPMENTS OF THE WKCD PROJECT**

8. On 21 November 2017, WKCDA briefed the Joint Subcommittee on the progress of hardware development of WKCD, including the Hong Kong Palace Museum (HKPM) (LC Paper No. CB(1)215/17-18(04)). The next few years will see the commissioning of some important facilities in WKCD including the Xiqu Centre at the end of 2018; the Art Park in phases starting from 2018; Freespace (including a black box theatre and an outdoor stage) in 2019; and completion of M+ Building in 2019. Following the completion of the foundation works for Zone 3B of the IB and the funding approval from LegCo on 5 January 2018, the first main works contract for Zone 3B was awarded on 8 January 2018 and excavation and lateral supports works will soon commence on site. WKCDA will tender out the second main works contract of the top-side Lyric Theatre Complex (LTC) around February 2018 with completion targeted around 2022. After the signing of Collaborative Agreement with the Palace Museum and the approval of donation by The Hong Kong Jockey Club Charities Trust in June 2017, WKCDA tendered the foundation works of the HKPM in October 2017 with piling works scheduled to commence around April 2018. The latest progress and target completion dates of the major arts and cultural facilities are set out in **Annex 2**.

9. On 20 December 2017, WKCDA briefed the Joint Subcommittee on the cultural software development for WKCD (LC Paper No. CB(1)354/17-18(01)). In order to achieve the vision to develop WKCD into a world-class arts and cultural hub, WKCDA has initiated a number of pre-opening programmes to develop the capacity of our arts and cultural sector, build WKCD's audience base, and engage the community and the youth. WKCDA has also formulated the hiring policy for its performing arts venues.

## **CURRENT FINANCIAL POSITION**

10. To cope with the financial challenges, WKCDA continues to adopt a prudent financial management and investment strategy. The original endowment of \$21.6 billion approved by LegCo in 2008 would have generated an estimated accumulated return on investment of \$6.4 billion by the end of the 2017-18 financial year (representing an average annual return of about 3% on investment). Taking into account the total capital and operating expenditure incurred since the establishment of WKCDA in 2008, the balance of

the endowment is estimated to stand at \$16.8 billion by the end of the 2017-18 financial year. The updated financial position of the four main components covered by the upfront endowment is set out in the ensuing paragraphs.

### **(a) Planning, Design and Construction of Facilities**

11. Of the \$21.6 billion upfront endowment, \$15.7 billion has been reserved for the design and construction of WKCD facilities (covering arts and cultural facilities (ACF), retail, dining and entertainment (RDE) facilities). Together with the \$2.1 billion investment return allocated to the design and construction of WKCD facilities, the total budget for this component amounts to \$17.8 billion. As at 31 December 2017, the total value of committed contracts on capital projects was approximately \$11.9 billion, of which \$7.8 billion will have been incurred by the end of the 2017-18 financial year. In addition, \$300 million of project staff costs would have been capitalised by the end of 2017-18 financial year.

### **(b) Collection Costs and Related Costs for M+**

12. From the upfront endowment \$1.7 billion has been earmarked for collection acquisition and related costs of M+. As at the end of the 2017-18 financial year, approximately \$800 million will have been spent on acquisitions with a view to building up M+'s collections ahead of its opening. While M+ will continue to expand its collection until the opening of the M+ Building and beyond, the M+ Board is prudently managing the acquisition budget. Currently, around \$250 million is budgeted for the next three years on collection acquisitions. In addition, \$400 million would be spent in the next three years on exhibition development, library setup and conservation laboratory equipment.

### **(c) Major Repair and Renovation of the Facilities**

13. From the endowment \$2.9 billion has been reserved for major repair and renovation of WKCD facilities. However, since the WKCD project is still at the construction stage and the first batch of facilities will be operational in around 2018-20, it is envisaged that expenses on major repair and renovation will unlikely be incurred in the next 20 years. It may be necessary for WKCDA to deploy part of the funds reserved for this component to cover other more imminent and justifiable expenses such as the planning, design and

construction of arts and cultural facilities the planning of WKCD and project management (see paragraphs 14-16 below) when necessary in the coming years.

#### **(d) Planning of WKCD and Project Management**

14. \$1.3 billion was originally reserved in the endowment for the planning of WKCD and project management expenses (including staff and operating expenses). The lead time required for conducting three stages of public engagement exercises from 2009 to 2011, securing Chief Executive in Council's approval for the Development Plan (DP) after completing the statutory procedures in 2013, obtaining Town Planning Board's approval for minor relaxation of the development intensity of the WKCD site under Section 16 of the Town Planning Ordinance (Cap. 131) in 2014, as well as the WKCDA Board's decision to develop arts and cultural facilities by batches means that the development timeframe for the entire WKCD project has been considerably extended. It has become clear that the planning and project management stage would span over a much longer timeframe than envisaged when the endowment was approved by LegCo in 2008.

15. Furthermore, WKCDA plays an important role in the promotion of the cultural software development of Hong Kong as well as arts education. Hence, prior to the commissioning of its arts and cultural facilities, WKCDA has been organising pre-opening programmes to enhance public awareness, groom arts talents and build audiences as part of the area marketing expenses for the WKCD project. Such software development is vital to the success of the project but its expenditure has also contributed to the increase in planning cost of the WKCD project.

16. By the end of the 2017-18 financial year, the estimated accumulated expenditure on planning and project management would be \$2.4 billion, which will be covered partly by the reserved portion from the endowment and partly by the investment return generated from the endowment fund.

17. According to the WKCDA's estimates, the upfront endowment and investment income will only be sufficient to cover the costs of the design and construction costs of Batch 1 and most of Batch 2 facilities, and WKCDA will start to incur operating deficit from 2018-19. Thereafter, WKCDA will face a prolonged and

increasing structural operating deficit for running Batches 1 and 2 arts and cultural facilities.

## **ENHANCED FINANCIAL ARRANGEMENT**

18. To address the funding gaps in both capital and operating expenditure, the EFA will provide WKCD with an additional source of recurrent income. The major considerations and key components of the EFA were reported to the Joint Subcommittee on 21 February 2017. Under the EFA, the Government will grant the development rights of the HOR portion of WKCD to WKCD, including HOR sites that will be developed in conjunction with the Exhibition Centre (EC) (known as Exhibition Hub Development Area (EHDA)). WKCD will tender out the development of EHDA and HOR through different BOT development packages and income sharing arrangements with the private sector investors/partners. WKCD does not intend to sell any of the premises in WKCD to any third parties including the private sector investors/partners during the term of the BOT agreements with a view to ensuring the development of WKCD in a holistic and comprehensive manner and maintaining its integrity in the long run. The private sector investors/partners will be required to hand back the premises to WKCD upon expiry of the BOT period. Since reporting to the Joint Subcommittee last February, WKCD has formed internal taskforces to formulate suitable development strategies for the BOT development packages. Its initial proposals are set out in paragraphs 19 and 20 below.

### **(A) *Exhibition Hub Development Area (EHDA)***

19. The EHDA includes the EC, a hotel and rental offices together with embedded RDE facilities. WKCD has reviewed the following development strategies for EHDA:

- (a) Procurement model - WKCD will develop the EHDA in the form of a BOT whereby private sector investors/ partners will be invited to tender for the right to construct and operate the facilities in the package during the BOT period.
- (b) Components of the Package - The proposed EC (gross floor area (GFA) of about 47 000 sqm) in the EHDA is a medium-sized, multi-purpose venue for exhibition, convention and performance purposes. It serves to respond to a growing demand for space from expanding convention and

exhibition events as well as new events that cannot secure slots in the existing convention and exhibition venues. Moreover, the EC aims to provide a platform to support cultural and creative industries in particular major art-themed events such as art fairs and art exhibitions which have to face keen competition with other hirers for existing exhibition spaces. Moreover, with a seating capacity of around 10 000 persons in concert mode, column-free and meeting specified acoustic standards, the main hall of the EC will also be suitable for staging various types of performances.<sup>2</sup> The hotel and rental offices (total GFA of 81 066 sqm) and the embedded RDE facilities (GFA of 6 894 sqm) in the adjacent U-shaped site will be packaged as part of the BOT development to capture the synergy in design, construction and management.

- (c) Implementation strategy - WKCDA has engaged a project consultant in July 2017 to advise on the implementation strategy and plan the development package of EHDA.
- (d) Public engagement - WKCDA will commence a new stage of public and stakeholder engagement in March 2018 to update the general public on the planning of EHDA and solicit views on the proposed EC.
- (e) Market engagement - Market engagement exercise will also be carried out to generate market interest in the project and to gather feedback from potential domestic and international market participants. Potential market participants include exhibition centre/convention centre and performance venue operators, developers, hotel owners

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<sup>2</sup> Since 2015, WKCDA has been reviewing the original proposition of developing a co-located Mega Performance Venue (MPV) at the MPV/EC site through private sector funding. In November 2015, the WKCDA Board noted the preliminary findings that providing a co-located MPV in WKCD might not be a commercially viable proposition owing to the site constraints, cost escalation, and competition from existing and planned alternative venues. In July 2016, the Government announced that it would press ahead with the Kai Tai Sports Park (KTSP) project. The KTSP will provide, among other things, a 50 000-seat Main Stadium (which can be turned into different spectator configurations such as 11 000, 20 000 and 35 000) with a retractable roof, as well as an Indoor Sports Centre which has a seating capacity of 10,000, both of which can meet the needs of large-scale entertainment events. In September 2016, having considered the commercial viability of the proposed MPV and the prospect of attracting private financing, the WKCDA Board decided to explore the development of a medium sized, multi-purpose venue for exhibition, convention and performance purposes through private sector funding.

and investors.

- (f) Tendering - After considering and assessing the views/suggestions received from the engagement exercises, WKCDA will prepare the tender document of the EHDA BOT for issue in late 2018. Tenderers will compete on, among other technical requirements, their offer of share with WKCDA the income generated from the operation of the BOT development package. As mentioned in LC Paper No. CB(1)560/16-17(01), upfront payment to the Government is not required for the EHDA package. WKCDA will retain the right to cancel the tender if the income to be shared with WKCDA offered by tenderers is unreasonably low (i.e. lower than the pre-tender estimate). Subject to the tender returns and assessment, it is estimated that the tender will be awarded in 2019 with the operation of the EHDA to commence in 2023.

**(B) HOR Development Packages**

20. WKCDA has reviewed the following development strategies for HOR:

- (a) Procurement model – for the HOR GFA (about 285 000 sqm in total), WKCDA plans to develop the major portion into rental offices and only a small portion into rental residential units together with the embedded RDE facilities in phases under the BOT model where private sector investors/partners will be invited to tender for the right to construct and operate the facilities during the BOT period. WKCDA will share rental income from the development packages with private sector investors/partners.
- (b) Tendering - WKCDA expects to tender out the HOR in several packages in different phases subject to the construction programme of IB in Zone 2 and Zone 3B. The tenderers will be required to compete on, among other technical requirements, their offer of upfront payments to the Government given the tender conditions set by WKCDA (including the income sharing ratio with WKCDA).
- (c) Development programme - The development programmes of the rental offices/residential units will depend largely on the site availability and the timing of securing LegCo's



approval for the capital costs of IB and associated works. Following recent LegCo approval of the funding for Zone 3B IB on 5 January 2018, WKCDA plans to develop the HOR on top of Zone 3B as part of the Artist Square Development Area first, with the target of tendering out this BOT development package in 2020. As for the HOR in Zone 2, WKCDA is carrying out preliminary design for Zone 2 and expects that the preliminary report will be ready by end 2018. WKCDA plans to report back to the Joint Subcommittee on the development programme for Zone 2 in early 2019.

## **FINANCIAL PROJECTIONS**

21. WKCDA has prepared the financial projections for operating income and expenses for 2018-19. It has demonstrated a commitment to exercise stringent cost control and its plans to actively pursue fundraising. On the latter, the WKCD project is a new concept with a vision to enhance the quality of arts and culture of Hong Kong. The success of WKCD will mean an increased exposure for arts and culture to a much wider audience and a growing local and international profile for all Hong Kong arts stakeholders, which will increase the potential to attract donations and sponsorship worldwide. WKCDA has established a donation and sponsorship policy to govern fund raising activities and a development department to spearhead fundraising campaigns. Furthermore, M+ has launched a pilot membership programme.

22. On the expenditure side, WKCDA has critically examined the staffing requirements in working out the projections, and will continue to exercise restraint over the creation of permanent positions. Nevertheless, it is inevitable that WKCDA will need to create more positions as it moves into the operation phase.

23. The forecast operating income and expenses for the 2017-18 and the projections for the 2018-19 are attached in **Annex 3**.

### **Operating Income and Expenses**

24. With the opening of Xiqu Centre and Art Park in 2018, it is estimated that WKCDA's overall operating deficit before depreciation will be around \$312 million in 2018-19. The key

financial highlights for the operating income and expenses projections for 2018-19 are as follows:

### ***Operating Income***

- (a) The planned RDE facilities (total GFA of 138 360 sqm) was intended to be a steady recurrent income source to meet the operating deficits of Core Arts and Cultural Facilities (CACF). Owing to the extended development timeframe of WKCD, the priority given to developing CACF and the fact that most of the RDE GFA is located in Zone 2 of WKCD (which has been occupied by MTRCL as XRL works areas), a major portion of the RDE facilities will only be completed at a much later stage. With the opening of Xiqu Centre and Art Park in 2018, about 7 400 sqm GFA for RDE facilities (or 5% of total RDE facilities in WKCD) will be provided. It is estimated that rental income generated from RDE embedded in WKCD's facilities will be around \$7 million in 2018-19.
  
- (b) The estimated RDE rental income is with reference to the current rental market in the nearby area. WKCD has established commercial leasing guidelines and will continue to review the overall market positioning, trade mix split and target tenant qualities that support cultural development and create vibrancy of the District.
  
- (c) For the operating income generated from performing arts venues and M+, it is estimated that total venue and programme income will be around \$18 million in 2018-19. For Xiqu Centre, it is estimated that utilisation rate will be around 75% (of which 10% is in-house programme and 65% external hire) after the opening season. Members were briefed on the performing arts venue hiring policy at the Joint Subcommittee meeting on 20 December 2017. Each venue will achieve its unique artistic mission. The pricing strategy of the performing arts facilities will be determined to encourage and maximise the usage as well as to promote events with artistic merits. For M+, operating income generated in 2018-19 (pre-opening) includes membership income and patron income, etc.

- (d) Other income is estimated at \$43 million in 2018-19 which includes commercial hire income, car park income, programme sponsorship, etc.

### ***Operating Expenses***

- (a) For the staff requirement, it is estimated that the total headcount of WKCDA will increase from 400 in 2017-18 to around 650 in 2018-19 comprising mainly arts and cultural personnel engaged for the operation of Xiqu Centre, Art Park, etc. The operating staff costs are estimated at \$360 million in 2018-19 including staff salaries, insurance, training and development, contributions to the Mandatory Provident Fund, etc. WKCDA will continue to plan and critically review staff resources requirement within the arts and cultural venues and facilities entering into operation phase.
- (b) It is estimated that programmes and research expenses will be \$163 million in 2018-19. The expenses cover programmes, research and planning, cultural exchange, public and education programmes and insurance.
- (c) Facilities management which covers manning, cleaning, building maintenance, security and utilities is another major operating expense item. In 2018-19, the cost is estimated at \$88 million, which have taken into account the operational requirements of WKCD facilities, and 24-hour opening of the park and other public open spaces. WKCDA will continue to review its operation and management and consider more cost-effective operation models for different arts and cultural facilities.
- (d) In 2018-19, information and communication technology expenses and museum collections management are estimated at \$40 million and \$41 million respectively. Other operating expenses (including administrative expenses, venue operation, office rental, etc.) are estimated at \$235 million.

25. Upon the commissioning of more arts and cultural facilities in WKCD including the Art Park, Freespace and M+ from 2019 to 2020, it is expected that the operating deficit before depreciation of WKCDA will increase further, estimated at \$626

million in 2019-20 to \$771 million in 2020-21. The table below sets out the estimated income, expenses and operating surplus/(deficit) before depreciation of WKCDA for the current (2017-18) and coming three financial years (2018-19 to 2020-21) for Members' reference. The estimates for 2018-19 are subject to approval by the WKCDA Board whereas those for 2019-20 and 2020-21 are working estimates that will be updated nearer the time.

(\$ million)	2017-18	2018-19	2019-20	2020-21
Estimated income	531	615	582	626
Estimated expenses	499	927	1 208	1 397
Estimated operating surplus/(deficit) before depreciation	32	(312)	(626)	(771)

## **CAPTIAL EXPENDITURE**

26. Based on the latest estimates, the capital project costs to build Batch 1 and most of Batch 2 facilities and related facilities including RDE facilities and Other Arts and Cultural Facilities (OACF) will be around \$17.8 billion in money-of-the-day (MOD) prices. The estimated capital funding gap for completing the remaining facilities in WKCD is around \$11.7 billion (in 2016 prices)<sup>3</sup>.

27. To address the performance needs of the music community, WKCDA will give priority to the delivery of the Music Centre (a Batch 3 CACF). Initial proposed facilities include a Concert Hall for orchestral music and a Recital Hall for chamber music, jazz, piano or violin recital performance. WKCDA will discuss with the sector and stakeholders in due course, and consider the development of the Great Theatre and the remaining CACF having regard to the demand in line with the organic growth approach of WKCD.

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<sup>3</sup> WKCDA estimates 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 OACF, RDE facilities and public open spaces (other than the EC and Musical Theatre which are to be funded by private sector investment).

28. WKCDA will tap market interest in developing other projects, such as the Musical Theatre, artist hostel and a possible arts school through public-private partnership within the WKCD site.

### **EXTERNAL BORROWING**

29. To bridge the capital funding gap for delivering the remaining facilities, and to tide over the interim operating deficit, WKCDA is expected to secure external borrowing by issuing bonds and/or raising loans in several tranches in the coming years. To this end, WKCDA will engage a financial consultant to draw up a comprehensive and affordable external borrowing plan taking into account the interest risks involved and cash flow requirements. It is estimated that upon the expiry of the BOT agreements, the HOR developments concerned will be reverted to WKCDA thus bringing an enhanced recurrent income stream and enabling WKCDA to repay the external borrowing.

### **ADVICE SOUGHT**

30. Members are invited to note the content of this paper.

**West Kowloon Cultural District Authority**  
**February 2018**

**Summary of factors/developments leading to  
WKCD's financial difficulties**

The financial difficulties faced by WKCD in terms of capital cost are the result of a combination of developments and changes since the adoption of the Consultative Committee on the Core Arts and Cultural Facilities of the WKCD (CC) Case in 2006 –

- (a) There has been significant escalation of construction costs since the approval of the \$21.6 billion upfront endowment in 2008 (by 136% from Q3 2006 to Q3 2017<sup>4</sup> or by average increase of 9% per annum compounded since 2006 as opposed to 2% per annum assumed in the CC Case);
- (b) For a sustained period, the global investment markets have experienced high volatility and a significant decline in investment return. The actual investment return from the endowment (3.2% per annum from 2008-09 to 2016-17) is significantly lower than the assumed rate of 6.1% per annum in the CC Case;
- (c) The prolonged planning and public engagement process (about four years including the three-stage public engagement exercise) had resulted in approval of the submission of the Development Plan by the Chief Executive in Council only in January 2013, and cost for delivering the Core Arts and Cultural Facilities (CACF) escalated significantly during this period;
- (d) The complexity involved in implementing the “City Park” design concept, which makes construction of an integrated basement a pre-requisite of any topside developments, as well as the vertical integration of different uses within a building have increased construction costs and extended the delivery timeframe of CACF; and
- (e) To optimise the development potential of the WKCD site, WKCD submitted a planning application for minor relaxation of the development intensity of the WKCD site under Section 16 of the Town Planning Ordinance (Cap. 131) in March 2014. The application was approved by the Town Planning Board on 14 November 2014. The application increased the gross floor area (GFA) for arts and cultural facilities, RDE facilities and HOR developments in WKCD by 15%, with the ratio of GFA for HOR developments to the total GFA remaining unchanged at 43%. This meant additional funding would be required for the development of the additional GFA for arts and cultural facilities and RDE in the District.

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<sup>4</sup> The estimated costs in the CC Case were prepared by the Financial Advisor in 2006. The Architectural Services Department's tender price indices for building works in the public sector has gone up from 751 in Q3 2006 to 1 773 in Q3 2017.

2. WKCDA suffers from serious delay in the receipt of retail, dining and entertainment (RDE) income, which is intended to be a steady recurrent income source to meet the operating deficits of CACF. Due to the extended development timeframe of WKCD, the deferred possession of site being occupied as construction sites/works areas of the XRL, as well as the priority given to developing CACF, the majority of the RDE facilities will only be completed beyond 2022.

3. As the WKCD project enters into the operational phase, WKCDA needs to increase its operating budget for additional manpower and/or expenses on the following areas –

- (a) Project delivery and management: The “City Park” design concept which requires a high degree of integration of various facilities in WKCD and involves the development of an integrated basement, coupled with the encroachment of the West Kowloon Terminus of the XRL into WKCD, have made project delivery far more complex than was originally envisaged. A strong project delivery and management team staffed by experienced professionals has to be set up in WKCDA to plan and coordinate the work;
- (b) Cultural software development: In recognition that the development of cultural software is important for promoting the development of the district, strengthening connection between WKCD and the public, and building audiences for WKCD, WKCDA has taken on new missions in programme development, audience building and professional development to enhance the profile, interest and capacity of arts and culture in Hong Kong;
- (c) Commercial operations, marketing and fundraising: The need for WKCDA to ensure the financial sustainability necessitates the recruitment of staff with strong background and attributes in operation, management and leasing of commercial facilities (such as RDE), marketing and ticketing as well as solicitation and management of donation and sponsorship; and
- (d) Facilities management: As WKCD progresses from the planning phase to the operational phase, it has to review and adjust the budget for facilities management based on actual operational needs.

**Status and target completion date of  
major WKCD facilities**

<b>Facilities</b>	<b>Status and target completion date</b>
<b>Batch 1</b>	
Temporary Nursery Park	Opened in July 2015
M+ Pavilion <i>(previously called Arts Pavilion)</i>	Opened in July 2016
Xiqu Centre <i>(including Tea House)</i>	Main works in progress Target for completion in early 2018 and opening at end of 2018
Art Park	Construction works in progress Target opening in stages starting from 2018
Freespace <i>(including black box theatre and outdoor stage)</i>	Construction works in progress Target for completion in mid-2018 and opening in 2019
M+ Building	Main works in progress Target for completion in 2019 with opening a year later
<b>Batch 2</b>	
Lyric Theatre Complex (LTC) <i>(including a Lyric Theatre, a Medium Theatre and a Studio Theatre)</i> <i>(note)</i>	Foundation works completed. Structure Works of Zone 3B commenced in early 2018. The LTC is targeted to complete around 2022
Centre for Contemporary Performance (CCP) <i>(including two black box theatres)</i>	Mode of development of the remaining two black box theatres to be reviewed as one of the three black box theatres in CCP has been incorporated into the LTC
Medium Theatre II <i>(note)</i>	Incorporated into the LTC



<b>Facilities</b>	<b>Status and target completion date</b>
<b>Batch 3</b>	
Music Centre <i>(including Concert Hall and Recital Hall)</i>	High priority under the enhanced financial arrangement
Musical Theatre	To be developed through public-private partnership subject to private sector funding
Great Theatre	To be reviewed by WKCDA and delivered gradually having regard to demand in line with the organic growth approach of WKCD
Medium Theatre I	
<b>Others</b>	
Exhibition Centre	To be developed through BOT arrangement packaged with hotel/rental offices of the adjacent U-shaped site
Hong Kong Palace Museum	To be developed under the donation of The Hong Kong Jockey Club Charities Trust
M+ Phase II	To be reviewed by WKCDA and delivered gradually having regard to demand in line with the organic growth approach of WKCD
Xiqu Small Theatre	

Note:

The originally proposed Medium Theatre II and one black box theatre (now called Studio Theatre) of the CCP were incorporated into the building of the original Lyric Theatre to form the Lyric Theatre Complex to advance their provision.

**Income and Expenses Projections**

(\$ million)	Note	2017-18	2018-19
<b>Income</b>			
Investment income	1	520	547
Retail, dining and entertainment income	2	-	7
Venue and programme income	3	1	18
Other income	4	10	43
		<b>531</b>	<b>615</b>
<b>Expenses</b>			
Staff costs	5	(213)	(360)
Programmes and research	6	(94)	(163)
Facilities management	7	(13)	(88)
Museum collections management	8	(32)	(41)
Information and communication technology	9	(17)	(40)
Other operating expenses	10	(130)	(235)
		<b>(499)</b>	<b>(927)</b>
<b>Operating surplus/(deficit) before depreciation</b>		<b>32</b>	<b>(312)</b>

## Note:

- Investment income mainly includes the return on the placements with the Exchange Fund and bank interest income.
- Retail/Dining/Entertainment (RDE) income represents rental income generated from letting out the RDE facilities.
- Venue and programme income mainly includes ticket income of the Xiqu Centre.
- Other income includes rental income generated from commercial hire income, car park income and programme sponsorship.
- It is estimated that the total headcount will be increased to around 650 in 2018-19 mainly from arts and cultural personnel. Facility management is to be outsourced and the related cost is included in the facilities management expenses.
- Programme and research expenses represent the costs to organise performing arts programmes and museum exhibitions and curatorial programmes.
- Facilities management expenses include manning, cleaning, building maintenance, security and utilities.
- Museum collections management includes conservation and storage, shipping and handling and insurance expenses.
- Information and communication technology expenses include IT supplies and support costs, application systems maintenance and infrastructure maintenance.
- Other operating expenses represent administrative expenses, venue operation, office rental, etc.