

For information

Legislative Council
Panel on Development and Panel on Home Affairs
Joint Subcommittee to Monitor the Implementation of the
West Kowloon Cultural District Project
Follow-up to the meeting on 9 February 2018

Breakdown of capital expenditure for Batches 1 and 2 facilities

The project estimates, which are subject to final account of the construction works to be completed and/or the outcome of the tender result for the forthcoming works, are tabulated as follows –

Facilities	Project estimates ¹ (\$ billion)	Status
Xiqu Centre	2.7	Fit-out works in progress
M+	4.7	Main works in progress
Art Park (including Freespace & M+ Pavilion)	1.1 (including actual project cost of \$30 million for M+ Pavilion)	Art Park construction works in progress (M+ Pavilion opened in July 2016)
Other facilities ²	7.1	Construction works / tender in progress
Consultancy and others	2.2	Detailed Design
Total	17.8	

Notes:

1. As all the facilities, except M+ Pavilion, are yet to be completed, their actual project costs are not available at this stage.
2. The tendering of some facilities including the main works of Lyric Theatre Complex is in progress.

Expenditure incurred from 2008 to 31 March 2018

A summary of expenditure items incurred from 2008 to 31 March 2018 is provided at **Annex**.

As explained in Annex 1 of the “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)) submitted on 9 February 2018, the financial difficulties faced by the West Kowloon Cultural District Authority (WKCDA) 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 West Kowloon Cultural District (CC) Case in 2006. In addition, WKCDA suffers from serious delay in the receipt of retail, dining and entertainment income, which is intended to be a steady recurrent income source to meet the operating deficits of core arts and cultural facilities.

WKCDA has provided 2018-19 income and expenses projection to the Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project (Joint Subcommittee). As WKCDA is transitioning from the development stage to the operational stage, we are working on the detailed operational budget and cost estimates which will be projected in the annual budget exercise.

The need and plan for external borrowing

WKCDA has to bridge the funding gap to achieve financial sustainability which is essential for financing the planning and programming of arts and cultural activities as well as the West Kowloon Cultural District (WKCD) project in the long term. The enhanced financial arrangement (EFA) proposal had been discussed and approved by the WKCDA Board.

Under the EFA, a share of the rental income generated from the development of HOR sites in WKCD through build-operate-transfer (BOT) arrangements will provide a steady source of recurrent income to WKCDA, thereby improving WKCDA’s long-term financial capability to develop WKCD in accordance with the integrated development design concept and organic growth approach, and to operate WKCD in a sustainable manner. The successful development of WKCD will help further develop the vibrant cultural environment in Hong Kong, raise the people’s quality of life, add impetus to and diversify the economy, as well as create opportunities for young people.

External borrowing is part and parcel of the entire EFA: given the substantial recurrent cost required for operating the arts and cultural facilities, it is projected that WKCDA will continue to face a mitigated deficit in the interim until the BOT agreements gradually begin to expire and the developments concerned are reverted to WKCDA, which will bring an enhanced recurrent income stream and help achieve an operating surplus. There is a practical need to explore various financing options to tide over the interim operating deficit, which is a cashflow issue rather than a funding

issue. The EFA (including the plan to use external borrowing) was announced in January 2017.

WKCDA will engage a financial consultant in Q4 2018 to draw up a comprehensive and affordable external borrowing plan taking into account cash flow requirements and interest risks involved. It is targeted to complete the formulation of the borrowing plan in 2019. WKCDA will update the Joint Subcommittee in due course.

Subject to the recommendation to be made by the financial advisor to be engaged, WKCDA will consider various borrowing options (e.g. raising bank loans or issuing bonds), which may involve applying for a credit rating.

WKCDA plans to use external borrowing to fund the development of the Music Centre and its embedded Other Arts and Cultural Facilities and Retail/Dining/Entertainment facilities, to allow these facilities to be taken forward as early as possible, and other remaining facilities under the organic growth approach. In addition, such funding will be used to tide over the interim operating deficit.

West Kowloon Cultural District Authority
May 2018

Expenditure of the WKCDA since its establishment in 2008 (in HK\$'000)

<u>Expenditure Items</u>	<u>Total</u>	<u>Forecast</u>									
		<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
Planning, design and construction of facilities	7,919,148	3,229,794	2,166,046	1,336,331	650,529	456,864	79,584	-	-	-	-
Collection costs and related costs for M+	778,689	69,899	145,461	162,970	129,224	78,786	192,349	-	-	-	-
Major repair and renovation of the facilities	-	-	-	-	-	-	-	-	-	-	-
Planning of WKCD and project management	2,261,931	490,902	388,082	270,280	234,417	193,112	175,807	194,878	230,353	74,648	9,452
	10,959,768	3,790,595	2,699,589	1,769,581	1,014,170	728,762	447,740	194,878	230,353	74,648	9,452

Note: The upfront endowment of \$21.6 billion was approved by LegCo in 2008. Including the interest income earned of \$6.5 billion, the balance of endowment was \$17.2 billion as at 31 March 2018.