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Panel on Development and Panel on Home Affairs

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

Proposed extension of period of work of the Joint Subcommittee

Purpose

This paper seeks the views of members of the Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project ("the Joint Subcommittee") on the need for the Joint Subcommittee to extend the period of its work and continue to operate in the 2018-2019 session.

Background

2. The Joint Subcommittee was appointed by the Panel on Development and the Panel on Home Affairs in November 2016 to monitor the issues relating to the implementation of the West Kowloon Cultural District ("WKCD") project, including the work of the West Kowloon Cultural District Authority ("WKCDA"), the project's interface with arts and cultural development, and other related matters. According to its work plan, the Joint Subcommittee will follow up on the recommendations of the former Joint Subcommittee formed in the Fifth Legislative Council ("LegCo") and focus its work on the following areas:

- (a) the taking forward of the Development Plan for WKCD;
- (b) planning and development of the core arts and cultural facilities and other associated facilities;

- (c) strategy for the development of cultural software, such as the artistic positioning and mode of governance of and management strategy for the performing arts facilities;
- (d) financial management and procurement procedures; and
- (e) governance and work of WKCDA.

3. At the House Committee ("HC") meeting on 7 July 2017, the Joint Subcommittee was given permission by HC for continuation of its work in the 2017-2018 session.

Work of the Joint Subcommittee

4. The Joint Subcommittee has, since November 2017, held four meetings, and will hold one more meeting on 11 June 2018. The Joint Subcommittee also conducted a site visit to WKCD on 21 December 2017 to better understand the latest development of the WKCD project. Major issues studied by the Joint Subcommittee in this session include:

- (a) latest progress of the development of the core arts and cultural facilities ("CACF") of WKCD including Hong Kong Palace Museum, Xiqu Centre, Art Park and Freespace;
- (b) latest progress of the cultural software development and mode of management of the WKCD project;
- (c) update on the financial situation of and the enhanced financial arrangement ("EFA") for WKCD;
- (d) integration and connectivity of WKCD with its neighbouring district;
- (e) the Art, Commerce and Exhibitions Development Package (formerly known as the Exhibition Hub Development Area) and Artist Hostel/Residence of WKCD; and
- (f) funding proposals for Artist Square Bridge, the public infrastructure works for WKCD, relocation of supporting operational facilities of Tsim Sha Tsui Fire Station Complex, Fire Services Club and other Fire Services accommodations; and a staffing proposal relating to the WKCD project.

Need for continuation of work

Follow-up on major issues

Implementation of core arts and cultural facilities

5. According to WKCDA, a number of important facilities in WKCD will be commissioned in the coming year, including the opening of Xiqu Centre at the end of 2018, Art Park in phases starting from 2018, and Freespace (including a black box theatre and an outdoor stage) in 2019. M+ Building will also be completed in 2019 for opening a year later.

6. Furthermore, the development of other CACF is progressing in full swing. Following the completion of the foundation works for Zone 3B of the Integrated Basement ("IB") and the funding approval by the Finance Committee ("FC") on 5 January 2018, the first main works contract for Zone 3B was awarded on 8 January 2018 and excavation and lateral support works will soon commence on site. WKCDA tendered out the second main works contract of the topside Lyric Theatre Complex in February 2018 with completion targeted around 2022. Separately, 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 Hong Kong Palace Museum in October 2017 with piling works scheduled to commence around April 2018.

7. Having regard to the development progress of WKCD, the Joint Subcommittee may wish to continue to closely monitor the implementation progress of CACF and other associated facilities of WKCD. In parallel, the Joint Subcommittee may continue to oversee WKCDA's work on cultural software development and stakeholder engagement in preparation for the commissioning of the various CACF. Meanwhile, the mode of governance and management of CACF upon commissioning will as well be a key focus of the Joint Subcommittee.

Implementation of the Integrated Basement

8. IB is an integral component of the "City Park" conceptual plan forming the basis for the Development Plan for WKCD. The design enables traffic to be put underground thereby freeing up the site for cultural use and public enjoyment. Since IB had not been envisaged when the upfront endowment was granted to WKCDA in 2008, the Administration advised the former Joint Subcommittee in July 2013 that it would fully fund the capital works of the

main IB¹ as general enabling works to facilitate the development of the WKCD project, subject to FC's funding approval. IB is divided into five zones (2A, 2B, 2C, 3A and 3B).

9. The Joint Subcommittee (in the former and current terms of LegCo) has so far scrutinized proposals for implementing the first three stages of works of the development of IB, which were endorsed by PWSC and approved by FC at a total estimated cost of \$6,558 million (in money-of-the-day prices). At present, construction works for Zones 3A and 3B have commenced for substantial completion in the first quarter of 2019. To tie in with the implementation programme of the facilities and topside development of WKCD in Zones 2A, 2B and 2C, the Administration advised the Joint Subcommittee in May 2017 that funding approval would be sought for the remaining works of the construction of the essential basement structure, underground road and associated public infrastructure for these zones. The preliminary design for Zones 2A, 2B and 2C is in progress and will be completed in end-2018. Based on the preliminary design for Zone 2, the Administration is expected to provide an updated cost estimate of the whole integrated basement project in 2019 for scrutiny by the Joint Subcommittee.

Enhanced financial arrangement for the West Kowloon Cultural District

10. Since 2013, WKCDA has reported to the Joint Subcommittee from time to time that it has been facing financial challenges. The Joint Subcommittee has noted with grave concerns that the one-off upfront endowment of \$21.6 billion (in 2008 Net Present Value) approved by FC in 2008 for WKCDA to implement the WKCD project and its investment income would only be sufficient to cover the costs of the design and construction costs of Batch 1 and most of Batch 2 facilities, while the implementation of Batch 3 facilities would have to be reviewed (a schematic plan of major WKCD facilities is given in the **Appendix**). Based on the latest estimates of WKCDA reported to the Joint Subcommittee in February 2018, WKCDA would start to face operating deficit from 2018-2019 despite stringent cost control.

11. Among the means to meet the financial challenges of WKCDA, the Government/WKCDA have decided to adopt the following arrangements:

- (a) EFA — under this arrangement, the Government will grant WKCDA the development rights of the entire hotel, office and residential ("HOR") portion of WKCD (involving 366 620 square

¹ The main IB is the central portion between Xiqu Centre and M+.

metres of gross floor area), which includes the Exhibition Hub Development Area, at nominal premium, while WKCDA will pay the Government upfront payments according to the financial arrangements to be specified in the Project Agreement to be signed by both parties. WKCDA will develop the HOR facilities jointly with the private sector through open and competitive tenders and Build-Operate-Transfer ("BOT") arrangements in different BOT packages, and share rental revenue from such facilities to sustain the operation of WKCD. The tenderers will need to indicate an upfront payment that they propose to pay given the tender conditions set by WKCDA and that payment will be attributable to the Government; and

- (b) external borrowing — WKCDA will engage a financial consultant to draw up an external borrowing plan, with the options of issuing bonds and/or raising loans in several tranches in the coming years.

12. Members of the Joint Subcommittee expressed various concerns over EFA, including the details of the BOT arrangements for the HOR development, duration of BOT, income sharing between WKCDA and private developers, as well as how the Administration could ensure that tendering of the HOR development packages would be conducted in an open and competitive manner, etc. As regards the external borrowing plan of WKCDA, members were keenly concerned about the cost of engaging the financial consultant, the timetable of implementing the plan, the total amount of funding that WKCDA sought to raise, and how the loans would be repaid, etc. In view of the above concerns, the Joint Subcommittee may find it necessary to continue to follow up with the Government/WKCDA on the implementation of EFA and the external borrowing plan.

Proposed extension of period of work

13. Rule 26(c) of the House Rules provides that a subcommittee should complete its work within 12 months of its commencement and report to the relevant Panel(s). If it is necessary for a subcommittee to work beyond 12 months, it should, after obtaining the endorsement of the relevant Panel(s), report to HC and give justifications for an extension of the period of work.

14. Given the monitoring role of the Joint Subcommittee, its work ties in with the progress of the Administration and WKCDA in taking forward the implementation of the WKCD project. Having regard to the major issues

which need to be deliberated or followed up as set out in paragraphs 5 to 12 above, members may wish to consider the need for the Joint Subcommittee to continue to work in the 2018-2019 session.

Advice sought

15. Members' views are sought on whether the Joint Subcommittee should seek for an extension of its work in the 2018-2019 session. Subject to members' views, if any, and the endorsement of the Panel on Development and the Panel on Home Affairs, a report will be made to HC for seeking its approval of the proposal.

Council Business Division 1
Legislative Council Secretariat
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西九文化區主要設施示意圖
Schematic plan of major WKCD facilities

