

立法會
Legislative Council

Paper No. WKCD-572
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**Subcommittee on
West Kowloon Cultural District Development**

**Minutes of fifty-first meeting held on
Thursday, 5 June 2008, at 8:30 am
in the Chamber of the Legislative Council Building**

- Members present** : Hon Alan LEONG Kah-kit, SC (Chairman)
Hon James TO Kun-sun (Deputy Chairman)
Hon Margaret NG
Hon Selina CHOW LIANG Shuk-ye, GBS, JP
Hon CHAN Yuen-han, SBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon SIN Chung-kai, SBS, JP
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon CHOY So-yuk, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon LEE Wing-tat
Prof Hon Patrick LAU Sau-shing, SBS, JP
- Members absent** : Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Dr Hon LUI Ming-wah, SBS, JP
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon LEUNG Kwok-hung
Dr Hon KWOK Ka-ki
Hon CHEUNG Hok-ming, SBS, JP
Hon CHIM Pui-chung

**Public officers
attending**

: Agenda item I

Mrs Carrie YAU, JP
Permanent Secretary for Home Affairs

Ms Esther LEUNG, JP
Deputy Secretary for Home Affairs
(West Kowloon Cultural District)

Mr Danny LAU
Principal Assistant Secretary for Home Affairs
(West Kowloon Cultural District)

Mr Howard LAM
Chief Treasury Accountant
(West Kowloon Cultural District)
Home Affairs Bureau

Mr KWOK Kwok-chuen, BBS, JP
Government Economist

Miss Ophelia WONG, JP
Deputy Director of Planning/District
Planning Department

**Attendance by
Invitation**

: Agenda item I

Consultative Committee and
Financial Matters Advisory Group

Hon Ronald ARCULLI, GBS, JP
Consultative Committee, Member
Financial Matters Advisory Group, Convenor

Dr Allan ZEMAN, GBS, JP
Consultative Committee, Member
Financial Matters Advisory Group, Member

Professor Stephen CHEUNG
Financial Matters Advisory Group
Member

Ms Paddy LUI, JP
Financial Matters Advisory Group
Member

Museums Advisory Group

Ms Jane DEBEVOISE
Museums Advisory Group
Member

Mr Oscar HO
Museums Advisory Group
Member

GHK Hong Kong Ltd

Ms Fiona WATERS
Director
GHK Hong Kong Ltd

Ms Kim TSANG
Senior Consultant
GHK Hong Kong Ltd

Knight Frank Petty

Mr Alnwick C H CHAN
Executive Director

Mr Adam K H LEE
Director

Versitech Limited

Dr K C WONG

Professor K W CHAU

Dr S K WONG

Dr YUNG Ping

Clerk in attendance : Ms Anita SIT
Chief Council Secretary (1)4

Staff in attendance : Ms Pauline NG
Assistant Secretary General (Special Duties)

Mrs Constance LI
Assistant Secretary General 1

Mr Arthur CHEUNG
Senior Assistant Legal Adviser 2

Mr WONG Siu-yee
Senior Council Secretary (1)7

Mr Simon CHEUNG
Council Secretary (1)1

I Funding proposal for the West Kowloon Cultural District

Meeting with the Administration

- | | | |
|---------------------|----|---|
| (Paper No. WKCD-543 | -- | Information paper on "Upfront endowment for implementing the West Kowloon Cultural District Project" provided by the Administration |
| Paper No. WKCD-548 | -- | Information paper on "Financial assessment of the West Kowloon Cultural District project" provided by the Administration |
| Paper No. WKCD-540 | -- | Final Report of the Specialist Adviser to the Subcommittee for the Study on the Financial Aspects of the West Kowloon Cultural District project |
| Paper No. WKCD-545 | -- | Powerpoint presentation materials on "Final Report of the Specialist Adviser to the Subcommittee for the Study on the Financial Aspects of the West Kowloon Cultural District project" provided by the Specialist Adviser |
| Paper No. WKCD-547 | -- | Paper entitled "Further Recommendations: Part I" provided by the Specialist Adviser |
| Paper No. WKCD-551 | -- | Paper entitled "Further Recommendations: Part II" provided by the Specialist Adviser |

Paper No. WKCD-553 -- List of questions raised and information requested by members at the meeting on 30 May 2008 prepared by the Legislative Council Secretariat)

The Subcommittee deliberated. (Index of proceedings attached at the **Appendix**)

2. The Chairman thanked the Specialist Advisor for conducting a critical review of the Administration's financial assessment of the West Kowloon Cultural District (WKCD) project within a short period of time. He also requested the Administration to:

- (a) take note of members' views and concerns about the financial arrangements of the WKCD project in particular those relating to M+ and consider the different suggestions put forth;
- (b) look into the funding implications with regard to the procurement of "design" and "build" of the arts and cultural facilities in WKCD under independent separate contracts, given that most members were of the view that Design-and-Build might not be an appropriate approach for the construction of the "iconic" arts and cultural facilities in WKCD; and
- (c) update Legislative Council regularly on the spending of the upfront endowment to WKCD as well as the progress of the WKCD project as a whole in future.

3. There being no other business, the meeting ended at 10:45 am.

**Proceedings of the fifty-first meeting of the
Subcommittee on West Kowloon Cultural District Development
on Thursday, 5 June 2008, at 8:30 am
in the Chamber of the Legislative Council Building**

Time marker	Speaker	Subject(s)	Action required
000000 - 000242	Chairman	Opening remarks	
000243 - 001958	Administration	Presentation on M+	
001959 - 002548	Ms Emily LAU Administration	<p>Ms LAU's enquiry about how M+ could acquire adequate collections for exhibition at the early stage when it was yet to build up an international "brand name".</p> <p>Response of the Administration that:</p> <p>(a) The existing museums had over 60 000 visual art collections which could be used by M+.</p> <p>(b) M+ could borrow collections from collectors and leading museums all over the world.</p> <p>(c) M+ could attract donations of world-class collections in future.</p> <p>(d) M+ could commission artists for creative art works.</p> <p>(e) A capable Chief Executive Officer of the West Kowloon Cultural District Authority (WKCDA) could use personal networks to obtain donations and borrow exhibits from different sources.</p> <p>(f) Hong Kong as a leading city in China would be able to attract leading museums to initiate collaborative programmes with it.</p>	
002549 - 003229	Mr James TO Administration	<p>Mr TO's expression of views that:</p> <p>(a) The Administration should use</p>	

Time marker	Speaker	Subject(s)	Action required
		<p>the existing 65 000 visual art collections of the existing museums to stage a pre-M+ exhibition for the public to visualize the future M+, to build up their confidence in it and to try out its viability.</p> <p>(b) M+ would have to face keen competition from world-class museums in the Mainland in attracting donation and lending of quality collections.</p> <p>Response of the Administration that:</p> <p>(a) It would not be possible for the Administration to organize the proposed exhibition of good standard within a short period of time.</p> <p>(b) Human factors, such as personal charms and ideas of the museum director, as well as the unique geographic factors of Hong Kong would have more effects than the fame and standing of M+ in borrowing world-class exhibits from all over the world.</p>	
003230 - 003904	Mr LEE Wing-tat Administration	<p>Mr LEE's expression of views that:</p> <p>(a) To gain the public's support and to allay their worries, it would be most helpful for the Administration to display the existing visual art collections to the public.</p> <p>(b) The Administration should provide solid substances in its proposal to enhance members' confidence in M+.</p> <p>Response of the Administration that:</p> <p>(a) Hong Kong's existing museums had good track records of being</p>	

Time marker	Speaker	Subject(s)	Action required
		<p>able to borrow world-class exhibits from leading museums.</p> <p>(b) Many countries had indicated a wish to sign a Memorandum of Understanding on cultural collaboration programmes with Hong Kong.</p>	
003905 - 003941	Miss CHOY So-yuk	Miss CHOY's concerns about the financial sustainability of M+	
003942 - 004345	Mrs Selina CHOW Administration	<p>Mrs CHOW's enquiry about the uniqueness of M+ and the difference between a self-run M+ and inviting an international operator to run M+. She believed that in financial assessment, it was necessary for the Administration and the Specialist Advisor to "compare like with like".</p> <p>Response from the Administration that:</p> <p>(a) In proposing M+, the Administration had drawn reference from similar museums with "best practices" in the world. It was a case of "comparing like with like".</p> <p>(b) Yet, in order to succeed, M+ had to uphold its uniqueness focusing on Hong Kong, the Mainland and Asia, and this was what other museums could not do due to the absence of a relevant perspective and sensitivity towards the local culture.</p> <p>(c) With well-known artists of its own and as an international leader in artistic photography and film-making, Hong Kong was never a "cultural desert". Members should have a positive assessment on the richness of Hong Kong's own culture.</p>	

Time marker	Speaker	Subject(s)	Action required
004346 - 005105	Ms Emily LAU Mr James TO Administration	<p>Ms LAU's expression of views that:</p> <ul style="list-style-type: none">(a) Leading museums would take years to build up their fame and standing. The road ahead for M+ would be difficult as it had to start from scratch.(b) The Administration had declined members' proposal to scale down M+. She was very disappointed with the attitude of the Administration that everything had been fixed and nothing could hence be changed. <p>Mr TO's expression of views that:</p> <ul style="list-style-type: none">(a) He agreed with the vastness and richness of Hong Kong's own culture.(b) He saw no reason why the Administration should refrain from staging a "mock-up" show, if necessary of a lesser scale, to demonstrate to the Hong Kong people the worth of M+. If necessary, support and participation from local and overseas artists and museum operators should be rallied. <p>Response from the Administration that:</p> <ul style="list-style-type: none">(a) The existing museums had an annual patronage exceeding 5 million which compared favourably with most countries. These museums had been able to attract donation of world-class collections over the years. Hong Kong's museums had a lot of collections with peculiar cultural flavours of Hong Kong and Asia.(b) A pre-M+ exhibition as	

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		<p>proposed by Mr TO would take a long time and a lot of resources to prepare.</p> <p>(c) Hong Kong had its strengths to attract visitors and world-class exhibits to the future M+.</p>	
005106 - 011513	Administration	<p>The Administration's presentation of views that:</p> <p>(a) Members' concerns on the financial viability of the RDE facilities as a major source of income to support the operation of WKCD were noted.</p> <p>(b) The setting of the RDE rentals at \$30 per square foot was prudent and conservative, having taken all factors such as geographic location and accessibility into consideration.</p> <p>(c) As a major tourist spot occupying a strategic location, WKCD would be connected to the rest of the city through different means such as railway lines, pedestrian foot-bridges and subways. Members should note that the terminal of the new Hong Kong-Shenzhen-Guangzhou Express Rail Link would be located near WKCD.</p> <p>(d) Projected increase of construction costs was set at 2% per year. This was in line with the inflation trend in the past 20 years. Members should note that a risk premium up to 29% had been included in the financial assessment to cater for price hike.</p> <p>(e) If the indirect cost and the risk premium were reduced to 15%, the one-off upfront endowment</p>	

Time marker	Speaker	Subject(s)	Action required
		<p>of \$21.6 billion should be able to accommodate an annual increase of construction costs up to 3.4% for 8 years.</p> <p>(f) Provision had been made for regular overhaul and annual maintenance during the 50-year period.</p> <p>(g) Based on the historical returns of low-risk investment instruments and the investment returns of the Exchange Fund, the projected annual investment return of WKCDA at 6.1% should be achievable.</p>	
011514 - 012309	Miss CHAN Yuen-han Administration	<p>Miss CHAN's expression of views that:</p> <p>(a) She was concerned with the returns of RDE facilities because of the geographic segregation of WKCD and the need to scatter these facilities to integrate with the arts and cultural facilities within WKCD.</p> <p>(b) Inadequate pedestrian flow was her other concern.</p> <p>Response of the Administration that:</p> <p>(a) As a prominent landmark of the city, iconic buildings would be built in WKCD which would then become major attractions to visitors. It followed that first-class operators would be attracted to operate their business in the RDE facilities.</p> <p>(b) The estimated rental of \$30 per square foot was indeed a conservative estimate.</p>	
012310 - 013147	Ms Emily LAU Administration	Ms LAU's enquiries on whether:	

Time marker	Speaker	Subject(s)	Action required
		<p>(a) it was possible to organize a design competition to attract first-class designs for the arts and cultural facilities in WKCD;</p> <p>(b) it would be more expensive to design and build separately; and</p> <p>(c) the RDE operators would have to face a "cut-throat" competition from operators outside WKCD.</p> <p>Response from the Administration that:</p> <p>(a) The Administration had not precluded options other than the Design-and-Build approach. WKCD would have freedom to decide whether it should go for the Design-and-Build approach or otherwise.</p> <p>(b) Even if the design and build stages were carried out separately, FA's estimated construction costs had included a considerable amount of indirect costs and risk premium to accommodate increase of costs due to various factors. The Administration had not done any projection on the difference in costs for carrying out the design and build stages separately.</p> <p>(c) If WKCD became a tourist attraction with top-class iconic buildings and facilities, it would attract a unique group of operators into it. "Cut-throat" competition would not occur to RDE operators.</p>	
013148 - 013927	Mrs Selina CHOW Specialist Advisor Administration	<p>Mrs CHOW's enquiries on:</p> <p>(a) whether a 22% saving could be</p>	

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		<p>achieved through engaging an international operator to operate M+; and</p> <p>(b) whether comparing the operation of M+ by WKCDA with an international operator was a case of "comparing like with like".</p> <p>Response of Specialist Advisor that:</p> <p>(a) Their study was based on the Administration's financial assessment and that they had only attempted to find out how the financial viability of the WKCD could be further enhanced.</p> <p>(b) In mentioning the engagement of an international operator for M+, they only attempted to illustrate the financial implication of an alternative option for the operation of M+.</p> <p>Response of the Administration that:</p> <p>(a) Engaging an international operator for M+ meant the loss of control over the operation and curatorial work of M+. It might restrict cooperation between M+ and other world-class museums.</p> <p>(b) The cost of commissioning an international operator could be higher than expected in the long run.</p>	
013928 - 014925	Mr LEE Wing-tat Administration	<p>Mr LEE's expression of views that:</p> <p>(a) It was disappointing that the Administration did not accept the likelihood of a "worst case scenario" and declined to work out a contingency plan on it.</p>	

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		<p>(b) The Administration should consider reducing the scale of M+ and conducting a very serious review after Phase I of the WKCD project in 2015. Phase II should be called off if funding was found to be inadequate.</p> <p>(c) WKCDA should be prudent and stringent with its financial management. It should not be given an impression that supplementary provisions were forthcoming.</p> <p>(d) It was doubtful whether M+ would be able to make an operational cost recovery rate at 18% in initial years.</p> <p>Response of the Administration that:</p> <p>(a) The financial management of WKCDA would be placed under close monitoring through different mechanisms. If necessary, the Legislative Council might invite the WKCDA management to respond to queries raised.</p> <p>(b) FA's financial assessment had undergone a professional and stringent process. Its conclusion was that it was a sustainable approach to provide a one-off upfront endowment of \$21.6 billion (in 2008 NPV) to finance the WKCD's capital costs. Further to that, rental proceeds arising from the RDE facilities would be provided to finance the operating costs of WKCD's arts and cultural facilities. The Administration was hence confident as it now stood, no additional funding provision would be required.</p>	

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		(c) With the presence of iconic buildings in WKCD and WKCD itself being a popular tourist spot, the RDE facilities at WKCD should be able to survive well. Besides, the estimate of a monthly rental at \$30 square foot GFA was conservatively low.	
014926 - 015711	Mr James TO Administration	<p>Mr TO's expression of views that the Administration's approach towards the "worst case scenario" was not acceptable</p> <p>Response of the Administration that:</p> <p>(a) On the assumption that no additional funding would be sought, the "worst case scenario" would possibly be postponing the implementation of Phase II.</p> <p>(b) FA had conducted sensitivity analysis on the increase in construction costs, which was believed to have the greatest financial impact. Should the annual increase of construction costs be as high as 6%, the total capital costs would be pushed up to \$25.0 billion.</p>	
015712 - 020224	Mr CHAN Kam-lam Specialist Advisor	<p>Mr CHAN's enquiry about the Specialist Advisor's response to the answers given by the Administration on the queries they raised at last Subcommittee meeting.</p> <p>Response of the Specialist Advisor that:</p> <p>(a) It was reasonable for the Administration to adjust the risk premium from 25.9% to 15%.</p> <p>(b) They did not understand how the Administration could reduce the on-cost from 20% to 15%.</p>	

Time marker	Speaker	Subject(s)	Action required
		<p>More details would be required.</p> <p>(c) The Administration's projection of the increase of the construction costs at 2% was not appropriate. The average rate between 1970 and 2008 was 6%. The use of 2% would be a case of gross underestimate.</p> <p>(d) On paper, it would be acceptable to increase the total capital cost of WKCD to \$25 billion to provide for a yearly increase of construction costs at 6%.</p>	
020225 - 020731	Prof Patrick LAU Administration Specialist Advisor	<p>Prof LAU's expression of views that:</p> <p>(a) It was necessary to have a very serious and thorough review after Phase I of the WKCD project. The review should aim to find out whether WKCD had been a successful venture, and whether Phase II should go ahead as planned.</p> <p>(b) He insisted on the separation of the design and build stages for the arts and cultural buildings in WKCD. World-class design and the availability of prominent, iconic buildings would be vital to the sustainability of WKCD.</p> <p>(c) Having seen the rentals of local comparators at Annex 3 to the Administration's paper, he was convinced that the setting of the RDE rentals at \$30 per square foot was reasonable.</p> <p>(d) It appeared that \$25 billion might be a safer and more accurate projection on the total capital costs of WKCD.</p>	

Time marker	Speaker	Subject(s)	Action required
		<p>Response of the Administration that:</p> <ul style="list-style-type: none"> (a) The decision whether to adopt the Design-and-Build approach or to separate the two would be something for WKCDA to decide. (b) The setting of the risk premium at 29% in the financial assessment should be adequate to cater for increased expenditure, if any, due to the separation of the design and build stages. <p>Response of the Specialist Advisor to the Administration that a sum of \$25 billion, which was worked out based on an annual increase of construction costs of 6% for the initial eight years, would be more reasonable for the upfront endowment. Such a view was based on the actual increase of construction cost in the past 30 years and the presence of a lot of large infrastructure capital programmes in the next few years.</p>	
020732 - 021158	Chairman Administration	<p>Summary of the Chairman that:</p> <ul style="list-style-type: none"> (a) He thanked the Specialist Advisor for their report and provision of advice to the Subcommittee. (b) The Administration should look at the financial implications arising from procuring the design and the construction works through separate contracts, which appeared to be a more preferred approach by most members. (c) The Administration was asked whether it would consider increasing the proposed funding 	

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		<p>from \$21.6 billion to \$25 billion to cater for the likely increase in construction costs.</p> <p>(d) The Administration was requested to keep the Legislative Council regularly informed of the spending of the upfront endowment and the progress of the WKCD project in future.</p> <p>Response of the Administration that:</p> <p>(a) The Administration would discuss with FA to see if a further analysis on the funding implications of procuring the design and the construction works through separate contracts was required.</p> <p>(b) The Administration did not consider it appropriate to increase the upfront endowment to \$25 billion.</p> <p>(c) The Administration would arrange for WKCDA to report to LegCo regularly on the spending of the upfront endowment as well as the progress of the WKCD project.</p>	
021159 - 021248	Chairman	Closing remarks	