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Subcommittee on West Kowloon Cultural District Development

**Examination of the financial implications
of the West Kowloon Cultural District project**

This paper advises members on the possible course of actions that the Subcommittee may take in order to examine the information provided by the Administration on the financial implications of the West Kowloon Cultural District (WKCD) project.

Background

2. The Consultative Committee on the Core Arts and Cultural Facilities of the West Kowloon Cultural District has recommended to adopt the following financing approach for the WKCD --

- (a) Finance the capital costs through an upfront endowment appropriated by the LegCo roughly equivalent to the estimated land revenue from the residential, hotel and office part of the commercial sites within the WKCD; and
- (b) Vest the retail/dining/entertainment part of the commercial sites with the WKCD Authority (WKCDA) to provide a steady source of recurrent income through rental proceeds to meet the operating deficits of the Core Arts and Cultural Facilities and related facilities.

3. The Administration has indicated that in line with the financing approach recommended by the Consultative Committee, and assuming the WKCDA will be set up in late 2008, it will put up the funding proposal to the Public Works Subcommittee and the Finance Committee in mid 2008 for an upfront endowment of \$21.6 billion to be given to the WKCDA upon its establishment to finance the capital costs of the facilities under the purview of the WKCDA over the project period.

4. Some members have expressed concern that whether the proposed financing approach is prudent and can ensure financial sustainability hinges very much on whether the assessment made by the Consultative Committee, with the assistance of the Financial Advisor appointed by the Administration, on the financial implications of the WKCD project is tenable, but the Administration has yet to provide a comprehensive and in-depth explanation on the assessment. In response to the request of some members, the Legislative Council (LegCo) Secretariat organised a seminar which was held on 21 January 2008 for the Administration and its Financial Advisor to explain their assessment of the financial implications of the WKCD project.

5. At the seminar, some members considered that given the complexity of the assessment involving substantial technicalities, it might be necessary for the Subcommittee to seek specialists' assistance in helping members in understanding the financial assessment. The Subcommittee's study in this regard would in turn assist the Finance Committee's scrutiny of the relevant funding proposal in mid 2008.

The way forward

6. The assistance that the Subcommittee requires may mainly focus on two aspects --

- (a) verification of some basic data used in the computation of costs and revenues; and
- (b) analyses of the assumptions adopted for the financial assessment.

7. It is anticipated that the Research and Library Services Division of the LegCo Secretariat would be able to render assistance in (a) above while an independent specialist adviser would need to be engaged to render assistance in (b) . The engagement of an independent specialist adviser will have cost implications and thus is subject to the laid down procedure of the Legislative Council for the procurement of service.

8. To follow up the matter, the LegCo Secretariat is currently undertaking a preliminary study on the relevant information provided by the Administration with a view to setting out the scope of service for the independent specialist adviser, and drawing up a complete proposal for consideration by this Subcommittee, probably at the meeting scheduled for 4 February 2008.

Advice sought

9. Members are requested to note the position of the matter set out in this paper.

Council Business Division 1
Legislative Council Secretariat
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