

**Response to the letters from Hon Christopher CHUNG,
Hon CHAN Yuen-han and Hon Gary FAN dated 16 and 20 May 2013**

Same as the public and Legislative Council (LegCo), the West Kowloon Cultural District Authority (WKCDA) attaches great importance to the financial matters of the West Kowloon Cultural District (WKCD). Following the approval of the proposed Development Plan for WKCD by the Chief Executive-in-Council in January 2013, and the announcement of the design team of the Xiqu Centre last December, the WKCDA has conducted discussions on funding issues at various levels, including the Board, Executive Committee and relevant committees etc. The WKCDA considers that analysis and discussion on the financial issues of the entire project could better be conducted after completing the M+ Design Competition and having better grasp of the costs of the first two core arts and cultural facilities in the WKCD. In light of this, the Government and the WKCDA have committed to update the LegCo on the financial situation of and funding arrangements for the WKCD project in July. Prior to that, we will not comment on any speculative reports on the overall cost of the WKCD project.

2. Looking at the financial situation of the WKCD project, apart from the escalation in construction costs, the current scope of the WKCD project has undergone various changes in response to public demands (such as constructing an integrated basement to contain vehicular traffic and loading/unloading facilities for passengers/cargo to enhance at-grade pedestrian environment, as well as adding space for education facilities in different venues) as compared with the recommendations of the Consultative Committee on the Core Arts and Cultural Facilities of the WKCD established in 2006. These changes are outside the scope of the original budget. Furthermore, the development scope of the WKCD project comprises arts and cultural facilities across different genres, a park and other ancillary facilities. The planning, design, tendering, construction and commissioning of all facilities will span nearly two decades. Past experience shows that there could be substantial changes in the magnitude and trends of the construction costs over such a long period. During the period, changes in economic conditions (e.g. investment return, inflation etc.), final designs of the facilities and other relevant factors would also affect the construction costs. Any estimated cost of the entire WKCD project at this

stage would only be a projection based on a series of assumptions, and the estimates may deviate greatly with different assumptions to be adopted.

3. The WKCDA will endeavour to exercise stringent cost control through various means without compromising the functions and quality of the WKCD facilities. In parallel, the WKCDA will continue to rigorously control non-capital expenditure. As a matter of fact, the original endowment of HK\$21.6 billion for the WKCD project approved by LegCo in 2008, less operating expenditure such as accommodation costs, staff* costs, overseas travelling and entertainment expenses etc. (see Annex 1 for details), and capital expenditure (see Annex 2 for details) incurred in the past few years, has grown to HK\$23.6 billion due to investment returns. The WKCDA will also proactively explore various funding strategies, such as innovative procurement modes, value engineering, different financing options and alternative sources of funding etc., to make best use of its existing resources.

4. The WKCDA decided to rent the office at The Gateway in Tsim Sha Tsui in 2011 mainly due to its geographical proximity to the WKCD site. Advance works of the WKCD project such as site investigation and public utilities works have already commenced, and a tree nursery is being built in preparation for the future park. In view of on-site operational needs and upcoming construction works, staff members from the Project Delivery Department of the WKCDA will gradually move to a temporary site office built on the WKCD site. Apart from considering the need for advance works, the WKCDA will also make good use of the WKCD site to conduct various arts and cultural events (e.g. West Kowloon Bamboo Theatre, Freespace Fest etc.) for public enjoyment before the commencement of major construction works. As such, the WKCDA considers that building a temporary structure on the WKCD site to accommodate all staff members at present is not a suitable arrangement.

Home Affairs Bureau
West Kowloon Cultural District Authority
June 2013

* As at the end of the financial year of 2012-13, the WKCDA employs 143 staff. Please see Annex 3 for details.

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

<u>Operating Expenditure Items</u> ¹	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
Staff costs	67,169 ²	71,866 ³	42,616	20,254	7,249
Cost of hired services through employment agencies	1,249	1,248	2,814	2,137	620
Consultancy fees ⁴	40,741	72,460	146,385 ⁵	40,627	-
M+ Collection related costs ⁶	4,660	-	-	-	-
Performing Arts Programme costs ⁷	14,333 ⁸	6,918	-	-	-
M+ Programme costs ⁹	16,818	2,967	-	-	-
Accommodation costs and management fees ¹⁰	14,941	15,042	5,435	345	-
Overseas travelling ¹¹	4,173	1,049	850	160	252
Entertainment	252	247	112	17	-
Site facilities management ¹²	7,665	961	-	-	-
Public engagement exercises ¹³	-	-	9,417	1,021	-
Advertising, promotion and public relations expenses	5,899	4,477	3,115	938	-
Legal fee	2,299 ¹⁴	330	90	250	-
Executive search and recruitment costs	3,075	1,190	9,150 ¹⁵	3,961	313
Other operating expenditure ¹⁶	8,696	8,388	5,500	3,439	790
Total (Exclude depreciation and amortisation)	191,970	187,143	225,484	73,149	9,224

¹ The above does not include capital expenditure items (see **Annex 2**).

² The staff costs in the financial year of 2012-13 decreased as the project delivery staff costs were accounted as capital expenditure items (see **Annex 2**).

³ As the WKCD project progresses, the number of staff required by the WKCD since its establishment in 2008 has increased, resulting in a more substantial increase in the staff costs in

the financial year of 2011-12. The relevant number of staff is shown at [Annex 3](#).

⁴ Consultancy fees include fees for consultancy studies and other consultancy services.

⁵ In the financial year of 2010-11, three Conceptual Plan Consultants, viz. Foster + Partners, Rocco Design Architects Limited and Office for Metropolitan Architecture, formulated three Conceptual Plan Options for public comments during the Stage 2 Public Engagement Exercise. The WKCD also had to pay for other consultancy studies, thus resulting in higher consultancy fees in that year.

⁶ M+ Collections related costs mainly comprise the storage, management and insurance costs for the M+ Collection. The WKCD has begun acquiring its collection since 2012. Acquisition costs are accounted as the capital expenditure of the WKCD. Please see [Annex 2](#) for details.

⁷ Since the financial year of 2011-12, the WKCD has been collaborating with the arts community to organise various cultural activities and education programmes. The WKCD also obtained a short term tenancy from the Lands Department in 2012 for organising temporary events in the headland area and waterfront promenade.

⁸ Performing Arts Programme costs in the financial year of 2012-13 include the costs for conducting Freespace Fest, West Kowloon Bamboo Theatre, Advanced Cultural Leadership Programme, Cultural Leadership Summit and other related costs.

⁹ M+ Programme costs in the financial year of 2012-13 include the preparation costs for the Venice Biennale (interns and related exhibition costs included), Mobile M+: INFLATION! (docs and exhibition costs included), Song Dong: 36 Calendars exhibition, as well as the costs for other symposia and forums.

¹⁰ In view of the increase in staff, the WKCD's former office in a Government site was no longer adequate. The WKCD relocated to the current office at The Gateway in 2011, thus resulting in higher accommodation costs and management fees.

¹¹ The item on overseas travelling include the costs incurred by the Project Delivery Department, Performing Arts Department and M+ & Exhibition Centre Department to study overseas facilities, such as attending a conference on park development, visits by Performing Arts Department to overseas facilities with experts of Chinese opera, as well as trips in preparation for the Venice Biennale etc.

¹² The increase in the site facilities management fees in the financial year of 2012-13 is mainly due to the engagement of a management company to manage the WKCD site of 206 000 square metres under short-term tenancy.

¹³ This item only covers the costs in relation to the three-stage public engagement exercise in preparation for the Development Plan. The three stages of the exercise were held between October 2009 and October 2011, thus the expenditures were reflected in the financial years of 2009-10 and 2010-11.

¹⁴ As the WKCD project progresses, the WKCD needs to seek legal advice on more issues pertaining to construction works, financial matters and formulation of bylaws etc.

¹⁵ The WKCD conducted recruitment of senior executives in the financial year of 2010-11, thus resulting in higher executive search and recruitment costs.

¹⁶ Other operating expenditure includes IT expenses, staff training, stationery and periodicals and insurance etc.

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

<u>Capital Expenditure Items</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
Project delivery staff costs	31,384	-	-	-	-
Project delivery consultancy fees	31,623	-	-	-	-
M+ Collection	187,860	-	-	-	-
M+ Programme equipment costs	377	-	-	-	-
Leasehold improvements, furniture and equipment	631	6,773	3,156	110	-
Other capital expenditure [#]	3,895	962	1,713	1,389	228
Total (Exclude depreciation and amortisation)	255,770	7,735	4,869	1,499	228

[#] Other capital expenditure includes computer equipment, software, licences and systems etc.

Number of Staff of the WKCDA since its establishment in 2008

<u>Total no. of Staff at the financial year end</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
Government staff	-	-	-	7	12
Senior executives	9	9	9	-	-
Other staff	126	90	45	14	1
Hired services through employment agencies	8	7	12	11	7
Total	143	106	66	32	20