

For discussion on
29 April 2019

Legislative Council
Panel on Development and Panel on Home Affairs
Joint Subcommittee to Monitor the Implementation of the
West Kowloon Cultural District Project

Update on the Financial Situation of
the West Kowloon Cultural District Project

PURPOSE

This paper provides an update on the financial situation of the West Kowloon Cultural District (WKCD) project.

BACKGROUND

2. In July 2008, the Finance Committee of the Legislative Council (LegCo) approved an upfront endowment of \$21.6 billion (in 2008 Net Present Value) via PWSC (2008-09)31 for West Kowloon Cultural District Authority (WKCDA) to implement the WKCD project. Communal and government facilities and related engineering works (collectively known as public infrastructure works or PIW), such as roads, drainage, fire station, public pier, etc. which are designed to support the whole WKCD would be undertaken by the Government. Funding approval will be sought by the Government separately.

3. The Government and WKCDA announced in June 2013 that a pragmatic approach would be adopted to implement the WKCD project, including delivering the major facilities in three batches, rigorous cost containment and emphasis on content rather than form. In July 2013, the Government announced that it was prepared, subject to funding approval by LegCo, to fully fund the capital works of the main integrated basement (IB) as general enabling works to facilitate the development of the whole WKCD project.

4. Since 2013, WKCDA has reported to the Joint Subcommittee to Monitor the Implementation of the WKCD Project (Joint Subcommittee) on various occasions that WKCDA was facing

financial challenges. It has also reported that the endowment fund and the apportioned investment income would only be sufficient to build the Batch 1 and most of Batch 2 facilities¹ whereas the implementation programme of the Batch 3 facilities would be reviewed.

5. To provide WKCDA with the financial capability to operate various WKCD facilities sustainably and continue to develop the remaining planned facilities, the Government announced the implementation of the enhanced financial arrangement (EFA) for the WKCD project in the Policy Address on 18 January 2017. The LegCo Brief issued on 19 January 2017 (SF(37) to HABCS CR 7/1/27/1) explained the major factors/developments contributing to WKCDA's capital funding gap and operating deficit (see summary at **Annex 1**), the strategic importance of the WKCD project in generating cultural, economic, social and other benefits for Hong Kong, and the grant of development rights of the hotel/office/residential (HOR) portion of WKCD to WKCDA for development under the Build-Operate-Transfer (BOT) model. On 21 February 2017, WKCDA briefed the Joint Subcommittee (LC Paper No. CB(1)560/16-17(01) on the major benefits and key features of the EFA .

LATEST DEVELOPMENTS OF THE WKCD PROJECT

6. On 6 November 2018, WKCDA updated the Joint Subcommittee on the progress of WKCD development (LC Paper No. CB(1)115/18-19(03)). In January 2019, the Xiqu Centre was opened with great success. The Art Park has been opening in phases since early 2018. Freespace will be in use in June 2019. The M+ Building is targeted to secure the occupation permit in Q1 2020, with opening of the Museum approximately a year later. The main works of the Lyric Theatre Complex (LTC) commenced in November 2018 with the target to secure the occupation permit in 2023. Construction of superstructure of the Hong Kong Palace Museum (HKPM) commenced in April 2019, with the occupation

¹ Batch 2 facilities originally included the Lyric Theatre, the Centre for Contemporary Performance (CCP), and Medium Theatre II (MTII). In order to advance the provision of the performing arts venues, the configuration of the Lyric Theatre was modified in early 2015 to include Medium Theatre (previously MTII) and Studio Theatre (previously a black box theatre in the CCP to form the Lyric Theatre Complex. With the reconfiguration, the development of the remaining two black box theatres in the CCP (i.e. the remaining Batch 2 facilities) will be further reviewed.

permit targeted to be granted in mid-2021, with opening one year later. The latest progress and target completion dates of the major arts and cultural facilities are set out in **Annex 2**.

7. On 14 January 2019, WKCDA updated the Joint Subcommittee on the cultural software development for WKCD (LC Paper No. CB(1)418/18-19(01)). On top of programming for the opening season of the Xiqu Centre, WKCDA continues to step up the organisation of an array of programmes to develop the capacity of our arts and cultural sector, build WKCD's audience base, engage the community and the youth, as well as nurture young artists for the opening of more venues in order to achieve the vision to develop WKCD into a world-class arts and cultural hub.

CURRENT FINANCIAL POSITION

8. WKCDA continues to adopt a prudent financial management and investment strategy. The original endowment of \$21.6 billion approved by LegCo in 2008 is expected to have generated an estimated accumulated return on investment of \$7.1 billion by the end of the 2018-19 financial year (representing an average annual return of about 3% on investment). Taking into account the total capital and operating expenditure incurred since the establishment of WKCDA in 2008, the balance of the endowment is estimated to stand at \$13.6 billion by the end of the 2018-19 financial year. The updated financial position of the four main components covered by the upfront endowment is set out in the ensuing paragraphs.

(a) Planning, Design and Construction of Facilities

9. Of the \$21.6 billion upfront endowment, \$15.7 billion has been reserved for the design and construction of WKCD facilities (covering arts and cultural facilities (ACF), retail, dining and entertainment (RDE) facilities). Together with the \$4.4 billion investment return allocated to the design and construction of WKCD facilities, the total budget for this component amounts to \$20.1 billion. As at 31 March 2019, the total value of committed contracts on capital projects was approximately \$17.2 billion, of which approximately \$10.6 billion have been incurred by the end of the 2018-19 financial year. In addition, \$383 million of project staff costs would have been capitalised by the end of 2018-19 financial year.

10. According to the WKCDA's estimates, the upfront endowment and investment income will only be sufficient to cover the costs of the design and construction of Batch 1 and some of the Batch 2 facilities.

(b) Collection Costs and Related Costs for M+

11. From the upfront endowment, \$1.7 billion has been earmarked for collection acquisition and related costs of M+. As at the end of the 2018-19 financial year, approximately \$840 million has been spent on acquisitions with a view to building up M+'s collections ahead of its opening. While M+ will continue to expand its collection until the opening of the M+ Building and beyond, the M+ Board is prudently managing the acquisition budget. Currently, around \$140 million is budgeted for the next three years on collection acquisitions. In addition, \$215 million would be spent in the next three years on exhibition development, library setup and conservation laboratory equipment.

(c) Major Repair and Renovation of the Facilities

12. From the endowment, \$2.9 billion has been reserved for major repair and renovation of WKCD facilities. Since the WKCD project is still at the construction stage and the first batch of facilities has just started operation, it is envisaged that expenses on major repair and renovation will unlikely be incurred in the next 20 years. On the other hand, it may be necessary for WKCDA to deploy part of the funds reserved for this component to cover other more imminent and justifiable expenses such as the planning, design and construction of arts and cultural facilities, the planning of WKCD and project management (see paragraphs 13 to 15 below) when necessary in the coming years.

(d) Planning of WKCD and Project Management

13. \$1.3 billion was originally reserved in the endowment for the planning of WKCD and project management expenses (including staff and operating expenses). The lead time required for conducting three stages of public engagement exercises from 2009 to 2011, securing Chief Executive-in-Council's approval for the Development Plan (DP) after completing the statutory procedures in 2013, obtaining Town Planning Board's approval for minor

relaxation of the development intensity of the WKCD site under section 16 of the Town Planning Ordinance (Cap. 131) in 2014, as well as the WKCD Board's decision to develop arts and cultural facilities in batches means that the development timeframe for the entire WKCD project has been considerably extended. It has become clear that the planning and project management stage would span over a much longer timeframe than envisaged when the endowment was approved by LegCo in 2008.

14. Furthermore, WKCD plays an important role in the promotion of the cultural software development of Hong Kong as well as arts education. Hence, prior to the commissioning of its arts and cultural facilities, WKCD has been organising pre-opening programmes to enhance public awareness, groom arts talents and build audiences as part of the area marketing expenses for the WKCD project. Such software development is considered vital to the success of the project but its expenditure has also contributed to the increase in planning cost of the WKCD project.

15. By the end of the 2018-19 financial year, the estimated accumulated expenditure on planning and project management would be \$3.2 billion, which will be covered partly by the reserved portion from the endowment and partly by the investment return generated from the endowment fund.

ENHANCED FINANCIAL ARRANGEMENT

16. The Government announced the implementation of the EFA for the WKCD project in the Policy Address on 18 January 2017. Under the EFA, the Government will grant the development rights of the HOR portion of WKCD to WKCD for development under the BOT model, including the HOR sites that will be developed in conjunction with the Exhibition Centre.

17. WKCD has established a Public Private Partnership Projects (PPP) Committee to oversee and monitor the PPP/BOT projects from planning, procurement to successful completion of the capital works and also the smooth implementation of the PPP/BOT projects.

18. The PPP Committee is responsible for the independent oversight of the procurement process, approving the expression of interest (EOI) and tender documents once approval to proceed has

been granted by the WKCDA Board. The PPP Committee is also responsible for reviewing the final EOI assessment report and tender assessment report prepared by the Tender Assessment Team and recommending the EOI shortlists and preferred tenderer to the WKCDA Board for approval.

19. To ensure that a robust governance framework and procedures are in place for the procurement of PPP Projects, WKCDA developed a set of Procurement Guidelines for Public Private Partnership Projects to establish a consistent process and governance structure for each procurement.

20. On 11 June 2018, WKCDA briefed the Joint Subcommittee on the first BOT project, Art, Commerce and Exhibitions (ACE) development package which was formerly known as the Exhibition Hub Development Area. WKCDA is currently finalising the EOI for the ACE Project. The EOI of the project is targeted for issue in Q2 2019 with the tender targeted for issue to the shortlisted tenderers in Q3/Q4 2019.

21. WKCDA will tap market interest in developing other projects, such as the artist hostel, Musical Theatre and a possible arts school within the WKCD site through various public-private partnership arrangements.

FINANCIAL PROJECTIONS

22. Based on the consolidated operating results for 2016-17 and 2017-18, the operating surplus before depreciation was \$191.6 million and \$104.8 million respectively mainly due to investment income and stringent cost control. Upon commissioning of the Xiqu Centre and phased opening of the Art Park, the revised operating deficit for 2018-19 was \$27 million due to the continued effort to contain operating costs as compared to the budgeted operating deficit before depreciation of \$272 million. Upon the commissioning of more arts and cultural facilities in WKCD, WKCDA is facing a prolonged and increasing structural operating deficit primarily attributable to the cost of running Batches 1 and 2 arts and cultural facilities.

23. WKCDA continues to explore and widen the income sources such as launching public fundraising campaigns via the newly established West Kowloon Cultural District Foundation

Limited (the Foundation). The WKCD project is a new concept with a vision to enhance the quality of arts and culture of Hong Kong. The success of WKCD will mean an increased exposure for arts and culture to a much wider audience and a growing local and international profile for all Hong Kong arts stakeholders, which will increase the potential to attract donations and sponsorship worldwide.

24. On the expenditure side, WKCDA has exercised stringent cost control over the past years. WKCDA has critically examined the staffing requirements in working out the projections. WKCDA will need to create more positions as it moves into the operation phase but will continue to exercise restraint over the creation of permanent positions.

25. The financial projections for the 2019-20 to 2020-21 are attached at **Annex 3** for Members' reference.

Operating Income and Expenses

26. After the opening of Xiqu Centre and phased opening of the Art Park including Freespace, it is estimated that WKCDA's overall operating deficit before depreciation will be around \$847 million in 2019-20. The key financial highlights for the operating income and expenses projections are as follows:

Operating Income

- (a) Within the Xiqu Centre and Art Park, about 7 400 sqm GFA for RDE facilities (or 5% of total RDE facilities in WKCD) has been provided. It is estimated that rental income generated from RDE embedded in WKCDA's facilities will be around \$15 million in 2019-20. The estimated RDE rental income is with reference to the current rental market in the nearby area. WKCDA has established commercial leasing guidelines and will continue to review the overall market positioning, trade mix split and target tenant qualities that support cultural development and create vibrancy of the District.
- (b) With the full-year operation of the Xiqu Centre and the opening of Freespace in June 2019, it is estimated that total venue and programme income will be around \$39 million in 2019-20. For the Xiqu Centre, the utilisation

rate is estimated to be around 75% after the opening season. Each venue will achieve its unique artistic mission. Members were briefed on the performing arts venue hiring policy at the Joint Subcommittee meeting on 20 December 2017, and the scale of hire charges for the Xiqu Centre effective April 2018 is published in WKCDA website. For M+, it is estimated that operating income generated in 2019-20 (pre-opening) will be around \$6 million, which mainly comes from membership income and patron income.

- (c) Further to M+ Pioneers Membership Programme, WKCDA set up a charitable Foundation, which is exempt from tax under section 88 of the Inland Revenue Ordinance. It is responsible for formulating strategies, policies and guidelines in relation to fundraising operations and related activities across all areas of WKCDA. Donations to the Foundation will be used to fund the arts and cultural activities undertaken by WKCDA.
- (d) Other income is estimated at \$46 million in 2019-20, which includes commercial hire income, car park income, programme sponsorship, etc.

Operating Expenses

- (a) The manpower requirements and associated staff cost are based on the key business objectives and in accordance with the latest estimated schedule of completion of the WKCD facilities. It is estimated that the total headcount of WKCDA will increase from 520 in 2018-19 to 821 in 2019-20, comprising arts and cultural personnel engaged for the performing arts and M+, as well as facilities management and district safety and security operation staff. The operating staff costs are estimated at \$440 million in 2019-20 including staff salaries, insurance, training and development, contributions to the Mandatory Provident Fund, etc.
- (b) It is estimated that performing arts and M+ programmes and research expenses will be \$177 million in 2019-20. The expenses cover programmes (including one-off opening programmes for Freespace), research and planning,

cultural exchange, public and education programmes and insurance.

- (c) Facilities management which covers manning, cleaning, building maintenance, security and utilities is another major operating expense item. In 2019-20, the cost is estimated at \$174 million, which takes into account the operational requirements of WKCD facilities, and 24-hour opening of the park and other public open spaces. WKCD continues to review its operation and management and consider more cost-effective operation models for different arts and cultural facilities.
- (d) In 2019-20, information and communication technology expenses, museum collections management and venue and park operation expenses are estimated at \$62 million, \$40 million and \$67 million respectively. Other operating expenses including administrative expenses, marketing and customer experience, office rental, etc. are estimated at \$299 million.

27. With more arts and cultural facilities opened in WKCD, it is estimated that the operating deficit before depreciation of WKCD will further increase to \$1,107 million in 2020-21 and \$1,186 million in 2021-22 respectively.

28. The table below sets out the estimated income, expenses and operating deficit before depreciation of WKCD for the coming three financial years for Members' reference. The estimates for 2019-20 was approved by the WKCD Board, whereas those for 2020-21 and 2021-22 are working estimates that will be updated as part of budget preparation.

(\$ million)	2018-19 forecast	2019-20 estimates	2020-21 estimates	2021-22 estimates
Estimated income	631	412	515	682
Estimated expenses	658	1 259	1 622	1 868
Estimated operating deficit before depreciation	(27)	(847)	(1 107)	(1 186)

29. Comparing the working estimates made in February 2018, the operating deficit before depreciation increased from \$626 million to \$847 million in 2019-20 mainly due to timing difference of the expected donation income. For 2020-21, the operating deficit before

depreciation increased from \$771 million to \$1,107 million mainly due to the facilities management costs (which are subject to tender price), increased staff and programmes costs to align with new venues opening.

30. For the HOR development under BOT model, WKCDA is working on the design, planning and site parceling for development packages. Through income sharing arrangement, this will provide steady source of income to WKCDA. Of course, our ability to move forward with most of this is dependent on securing LegCo's funding approval for the IB and the associated works (see paragraph 33 below).

CAPITAL EXPENDITURE

31. Based on the latest estimates, the capital project costs to build Batch 1 and most of Batch 2 facilities and related facilities including RDE facilities and Other Arts and Cultural Facilities (OACF) are estimated to increase from \$17.8 billion in money-of-the-day (MOD) prices to \$20.1 billion in 2019-20, mainly due to adjustments to the contingency cost provision for Xiqu Centre, M+ Museum and LTC.

32. To address the performance needs of the music community, WKCDA will give priority to the delivery of the Music Centre (a Batch 3 Core Arts and Cultural Facilities (CACF)). Initial proposed facilities include a Concert Hall for orchestral music and a Recital Hall for chamber music, jazz, piano or violin recital performance. Taking into account the feedback from the recent stakeholder engagement exercise for the increase in construction floor area and the operational requirements, the estimated capital project cost of the Music Centre will be around \$6 - 7 billion (MOD) with reference to tender price increase in the past years. Given the increase in estimated cost, WKCDA is discussing with Government how to deliver the project.

33. On 14 January 2019, the Government updated the Joint Subcommittee on the development of Zone 2 of WKCD and the estimated costs of the proposed IB infrastructure and the associated works. WKCDA is also working on the costs to finish the basement to allow for operation, including the installation of necessary Mechanical, Electrical and Plumbing works and Architectural Builders Works and Finishes.

EXTERNAL BORROWING

34. Under the EFA, it is clear that WKCDA will become financially sustainable when the HOR developments revert to WKCDA. In the interim, however, WKCDA will continue to face operating deficit as the income sharing arrangement with BOT developers during the BOT period would not generate sufficient income to meet its substantial baseline deficit.

35. Moreover, the planned RDE facilities (total GFA of 138 360 sqm) were intended to provide a steady recurrent income source to meet the operating deficits of CACF. Owing to the extended development timeframe of WKCD and the priority given to developing CACF, a major portion of the RDE facilities will only be completed at a much later stage. Indeed, the fact is that most of the RDE GFA is located in the Zone 2 HOR development packages of WKCD, which is subject to LegCo approving funding for the IB. Any further delay in securing this funding will have a substantial impact on the income and thus the financial situation of WKCDA.

36. To tide over the interim deficit and to bridge the capital funding gap for delivering the remaining facilities, WKCDA needs to explore various financing options (e.g. issuing bonds or raising bank loans) in the coming years by leveraging against its development right of HOR sites and long-term income stream.

37. WKCDA will soon commence consultancy to provide financial advisory services in Q2 2019 to review our budget and to draw up an external borrowing plan, taking into account cash flow requirements, interest risks and other issues. It is estimated that the external borrowing plan will be completed in Q3/Q4 2019. WKCDA will update the Joint Subcommittee on the progress in due course.

38. As explained in paragraphs 28 and 29, the operating deficit before depreciation of WKCDA will increase as more and more facilities are opened. While these will come with increase in RDE income, it would be far from sufficient to cover the increase in operating costs, especially with the likely delay in receipt of donation income. The termination of the employment of Hsin Chong Construction Company Limited under the M+ main works contract, resulting in the appointment of Gammon Construction

Limited as management contractor would also inevitably increase the capital cost of the M+ project. WKCDA also expects higher cost of external financing due to the rising interest rate and more prudent lending by banks. To reduce the financial burden so that WKCDA is able to continue to focus on the development of arts and culture, WKCDA is also exploring with the Government various financing options under the EFA.

39. It is estimated that upon the expiry of the BOT agreements, the HOR developments concerned will be reverted to WKCDA thus bringing an enhanced recurrent income stream and enabling WKCDA to repay the external borrowing.

40. Investment in arts and culture brings considerable intangible social benefits to Hong Kong. WKCD is playing a critical role in giving Hong Kong new opportunities in respect of artistic and cultural appreciation, enhancing community identity and expression, strengthening cultural institutions and exchange, increasing opportunities for community engagement, improving the quality of life for Hong Kong's residents, as well as providing much needed new tourism attractions and building Hong Kong's international reputation as a regional leader in arts and culture. WKCD has already created a significant number of jobs in a wide spectrum of economic sectors, including arts and culture, construction, education and tourism. The numbers will increase substantially as WKCDA moves further into the operational phase.

ADVICE SOUGHT

41. Members are invited to note the content of this paper.

West Kowloon Cultural District Authority
April 2019

**Summary of factors/developments leading to
WKCD's financial difficulties**

The financial difficulties faced by WKCD 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 WKCD (CC) Case in 2006 –

- (a) There has been significant escalation of construction costs since the approval of the \$21.6 billion upfront endowment in 2008 (by 127% from Q3 2006 to Q3 2018² or by average increase of 8% per annum compounded since 2006 as opposed to 2% per annum assumed in the CC Case);
- (b) For a sustained period, the global investment markets have experienced high volatility and a significant decline in investment return. The actual investment return from the endowment (3.1% per annum from 2008-09 to 2017-18) is significantly lower than the assumed rate of 6.1% per annum in the CC Case;
- (c) The prolonged planning and public engagement process (about four years including the three-stage public engagement exercise) had resulted in approval of the submission of the Development Plan by the Chief Executive in Council only in January 2013, and cost for delivering the Core Arts and Cultural Facilities (CACF) escalated significantly during this period;
- (d) The complexity involved in implementing the “City Park” design concept, which makes construction of an integrated basement a prerequisite of any topside developments, as well as the vertical integration of different uses within a building have increased construction costs and extended the delivery timeframe of CACF; and
- (e) To optimise the development potential of the WKCD site, WKCD submitted a planning application for minor relaxation of the development intensity of the WKCD site under Section 16 of the Town Planning Ordinance (Cap. 131) in March 2014. The application was approved by the Town Planning Board on 14 November 2014. The application increased the gross floor area (GFA) for arts and cultural facilities, RDE facilities and HOR developments in WKCD by 15%, with the ratio of GFA for HOR developments to the total GFA remaining unchanged at 43%. This meant additional funding would

² The estimated costs in the CC Case were prepared by the Financial Advisor in 2006. The Architectural Services Department's tender price indices for building works in the public sector has gone up from 751 in Q3 2006 to 1 708 in Q3 2018.

be required for the development of the additional GFA for arts and cultural facilities and RDE in the District.

2. WKCDA suffers from serious delay in the receipt of retail, dining and entertainment (RDE) income, which is intended to be a steady recurrent income source to meet the operating deficits of CACF. Due to the extended development timeframe of WKCD, the deferred possession of site being occupied as construction sites/works areas of the Hong Kong Express Rail Link (XRL), as well as the priority given to developing CACF, the majority of the RDE facilities will only be completed beyond 2022.

3. As the WKCD project enters into the operational phase, WKCDA needs to increase its operating budget for additional manpower and/or expenses on the following areas –

- (a) Project delivery and management: The “City Park” design concept which requires a high degree of integration of various facilities in WKCD and involves the development of an integrated basement, coupled with the encroachment of the West Kowloon Terminus of the XRL into WKCD, have made project delivery far more complex than was originally envisaged. A strong project delivery and management team staffed by experienced professionals has to be set up in WKCDA to plan and coordinate the work;
- (b) Cultural software development: In recognition that the development of cultural software is important for promoting the development of the district, strengthening connection between WKCD and the public, and building audiences for WKCD, WKCDA has taken on new missions in programme development, audience building and professional development to enhance the profile, interest and capacity of arts and culture in Hong Kong;
- (c) Commercial operations, marketing and fundraising: The need for WKCDA to ensure the financial sustainability necessitates the recruitment of staff with strong background and attributes in operation, management and leasing of commercial facilities (such as RDE), marketing and ticketing as well as solicitation and management of donation and sponsorship; and
- (d) Facilities management: As WKCD progresses from the planning phase to the operational phase, it has to review and adjust the budget for facilities management based on actual operational needs.

**Status and target completion date of
major WKCD facilities**

Facilities	Status and target completion date
Batch 1	
Temporary Nursery Park	Opened in July 2015
M+ Pavilion <i>(previously called Arts Pavilion)</i>	Opened in July 2016
Xiqu Centre <i>(including Tea House)</i>	Opened in January 2019
Art Park	Phase 1 of the Art Park and a section of the waterfront promenade was opened in early 2018. Phases 2A and 2B of the Art Park were opened in March 2019. The remaining Phase 3 will be opened by the end of 2019
Freespace	Construction works in progress Target to be in use in June 2019
M+ Building	Main works in progress Target to secure the occupation permit in Q1 2020, with opening of the Museum approximately a year later
Batch 2	
Lyric Theatre Complex (LTC) <i>(including a Lyric Theatre, a Medium Theatre and a Studio Theatre)</i> <i>(note)</i>	Main works in progress Target to secure the occupation Permit in 2023
Centre for Contemporary Performance (CCP) <i>(including two black box theatres)</i>	Mode of development of the remaining two black box theatres to be reviewed as one of the three black box theatres in CCP has been incorporated into the LTC
Medium Theatre II <i>(note)</i>	Incorporated into the LTC

Facilities	Status and target completion date
Batch 3	
Music Centre <i>(including Concert Hall and Recital Hall)</i>	High priority under the enhanced financial arrangement
Musical Theatre	To be developed through public-private partnership subject to private sector funding
Great Theatre	To be reviewed by WKCDA and delivered gradually having regard to demand in line with the organic growth approach of WKCD
Medium Theatre I	
Others	
Exhibition Centre	To be developed through BOT arrangement packaged with hotel/rental offices of the adjacent U-shaped site (ACE Project)
Hong Kong Palace Museum	Construction of superstructure commenced in April 2019, with the occupation permit targeted to be granted in mid-2021, with opening one year later
M+ Phase II	To be reviewed by WKCDA and delivered gradually having regard to demand in line with the organic growth approach of WKCD
Xiqu Small Theatre	

Note:

The originally proposed Medium Theatre II and one black box theatre (now called Studio Theatre) of the CCP were incorporated into the building of the original Lyric Theatre to form the Lyric Theatre Complex to advance their provision.

Income and Expenses Projections

(\$ million)	Note	2019-20	2020-21
Income			
Investment income	1	303	182
Retail, dining and entertainment income	2	15	63
Venue and programme income	3	45	69
Donation	4	3	100
Other income	5	46	101
		412	515
Expenses			
Staff costs	6	(440)	(514)
Programmes and research	7	(177)	(223)
Facilities management	8	(174)	(310)
Information and communication technology	9	(62)	(104)
Museum collections management	10	(40)	(67)
Venue and park operation	11	(67)	(91)
Other operating expenses	12	(299)	(313)
		(1,259)	(1,622)
Operating deficit before depreciation		(847)	(1,107)

Note:

- Investment income mainly includes the return on the placements with the Exchange Fund and bank interest income.
- Retail/Dining/Entertainment (RDE) income represents rental income generated from letting out the RDE facilities.
- Venue and programme income mainly includes ticket and venue hire income of the Xiqu Centre and Freespace. It also includes membership, patron, F&B and retail income from M+.
- In view of the estimated opening dates of various venues and the need to take time to build up the cultivation of major donors, major donations are assumed to come in 2020-21. The budgeted income from capital donations is spread over the likely lifetime of the facility for which naming is granted in accordance with the relevant Hong Kong Financial Reporting Standards.
- Other income includes rental income generated from commercial hire income, car park income and programme sponsorship as well as facilities management fee recovery from tenants, etc.

6. It is estimated that the total headcount will be increased to around 821 in 2019-20 mainly from arts and cultural personnel. Facilities management is outsourced and the related cost is included in the facilities management expenses.
7. Programme and research expenses represent the costs to organise performing arts programmes and museum exhibitions and curatorial programmes.
8. Facilities management expenses include manning, cleaning, building maintenance, security and utilities.
9. Information and communication technology expenses include IT supplies and support costs, application systems maintenance and infrastructure maintenance.
10. Museum collections management includes conservation and storage, shipping and handling and insurance expenses.
11. It mainly covers the venue operation costs for M+ and PA and mainly includes technical and venue consumables, casual labour, ticketing costs, venue opening costs, etc.
12. Other operating expenses represent administrative expenses, marketing and communication expenses, office rental, etc.