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

**Meeting on 29 April 2019**

**Updated background brief on  
the financial situation of the West Kowloon Cultural District project**

**Purpose**

This paper summarizes the major views and concerns expressed by members of the Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project ("the Joint Subcommittee") on the financial situation of the West Kowloon Cultural District ("WKCD") project.

**Background**

Upfront endowment to the West Kowloon Cultural District Authority

2. On 4 July 2008, the Finance Committee ("FC") of the Legislative Council ("LegCo") approved a one-off upfront endowment of \$21.6 billion in money-of-the-day ("MOD") prices for the West Kowloon Cultural District Authority ("WKCDA") to implement the WKCD project. According to the relevant funding proposal ([FCR\(2008-09\)35](#)), the upfront endowment was intended to cover the capital costs of the WKCD project,<sup>1</sup> while the retail/dining/entertainment ("RDE") part of the WKCD development would be vested in WKCDA to provide a source of recurrent income through rental proceeds for meeting the operating costs of the arts and cultural facilities and

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<sup>1</sup> The broad breakdown of the upfront endowment was as follows: (a) design and construction of various facilities (\$15.7 billion or 73%); (b) major repair and renovation of various facilities (\$2.9 billion or 13%); (c) collection costs and related costs for M+ (\$1.7 billion or 8%); and (d) planning of WKCD and project management (\$1.3 billion or 6%).

related facilities. Other communal and government facilities and related engineering works, such as roads, drainage, fire station, etc. which were designed to support the whole WKCD development (including residential, commercial and hotel developments) would be undertaken by the Administration, and funding approval for such works would be sought separately in accordance with the development programme.<sup>2</sup>

3. In July 2013, the Administration and WKCDA advised the Joint Subcommittee that in view of the expansion in project scope and the significant escalation of construction costs, a pragmatic approach would be adopted to implement the WKCD project through, among others, rigorous cost containment of individual facilities. Furthermore, the Administration intended to fully fund the capital works of the integrated basement as general enabling works to facilitate the development of the whole WKCD project.

4. In May 2014, the Administration and WKCDA advised that the portion of the upfront endowment for the design and construction of facilities (i.e. \$15.7 billion) plus the apportioned interest income (i.e. \$2.1 billion) would only be sufficient to cover the costs of the design and construction of the Batch 1 and most of the Batch 2 facilities, while the implementation programme of the Batch 3 facilities would have to be reviewed. A table showing the batching, status and target completion dates of major WKCD facilities, and a schematic plan of these facilities are in **Appendices I and II** respectively.

#### Enhanced financial arrangement

5. According to the Administration, as a result of various unforeseeable developments and changes after the upfront endowment was granted in 2008, WKCDA has been facing critical challenges both in terms of capital and recurrent costs. To provide WKCDA with the financial capability to operate sustainably the various facilities in WKCD and continue to develop the remaining planned facilities, the Government agreed to provide an enhanced financial arrangement ("EFA") for WKCD, under which WKCDA would be

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<sup>2</sup> Funding proposals relating to WKCD development approved by FC included: (a) \$478 million for the design and site investigation of government infrastructure works for supporting Phase 1 of the WKCD project (approved in January 2013); (b) \$840.5 million for carrying out the first package of the construction of public infrastructure works in WKCD (approved in July 2015); (c) \$2,919.5 million for the first and second stages and \$3,178.4 million for the third stage of the design, site investigation and construction works of the integrated basement in WKCD (approved in July 2015 and January 2018 respectively, totalling \$6,097.9 million); and (d) \$192.0 million for carrying out the second package of the construction of public infrastructure works in WKCD (approved in April 2018).

granted the development right of the entire hotel/office/residential ("HOR") portion of WKCD. The key components of EFA for WKCD are set out below:<sup>3</sup>

- (a) *grant of development right of entire HOR portion of WKCD to WKCDA with upfront payment to the Government:* the Government will grant the development right of the entire HOR portion of WKCD (involving 366 620 square metres ("m<sup>2</sup>") gross floor area ("GFA")) to WKCDA at nominal premium so that the Authority may tender out the development packages of HOR together with the RDE embedded therein, develop these commercial developments under the Build-Operate-Transfer ("BOT") model and receive rental income. Meanwhile, upfront payment should be paid by WKCDA to the Government according to the financial arrangements to be specified in a Project Agreement to be signed between the Government and WKCDA<sup>4</sup> as well as the relevant tendering results;
- (b) *grant of development right of the Art, Commerce and Exhibitions ("ACE") development package (formerly known as the Exhibition Hub Development Area) to WKCDA without upfront payment to the Government:* the Government will grant the development right of 81 066 m<sup>2</sup> GFA of hotel and office uses (i.e. about 22% of the total GFA of the HOR sites) in the U-shaped site adjacent to the Exhibition Centre to WKCDA at nominal premium without the need for paying an upfront payment to the Government. WKCDA should tender out a BOT development package of ACE comprising the Exhibition Centre, a hotel and rental offices together with the embedded RDE facilities;
- (c) *WKCDA to raise funds to finance the development of the remaining core arts and cultural facilities ("CACF") and other arts and cultural facilities ("OACF"):* WKCDA will explore various financing options (e.g. issuing bonds or raising bank

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<sup>3</sup> Sources: [Legislative Council Brief on Enhanced Financial Arrangement for WKCD](#) and [LC Paper No. 559/17-18\(01\)](#)

<sup>4</sup> According to the Administration, the Project Agreement will set out the legal rights and responsibilities of the Government and WKCDA, including the financial arrangements on upfront payment and on the right to share income generated from the HOR and Art, Commerce and Exhibitions development packages.

loans) pursuant to the WKCDA Ordinance (Cap. 601)<sup>5</sup> by leveraging against its development right of the HOR sites and long-term income stream. WKCDA will engage a financial consultant to draw up a comprehensive and affordable external borrowing plan taking into account the interest risks involved and cash flow requirements; and

- (d) *sharing of surplus*: the Government will share the income generated from the HOR and ACE development packages, upon expiry of the term of the BOT agreements, having regard to the funding requirements and financial position of WKCDA.

#### Financial position of the West Kowloon Cultural District Authority

6. At the meetings of the Joint Subcommittee in February and May 2018, the Administration and WKCDA briefed members on the financial position of WKCDA. According to them, the original endowment of \$21.6 billion would have generated an estimated accumulated return on investment of \$6.4 billion by the end of the financial year ("FY") 2017-2018. Taking into account the total capital and operating expenditure incurred since the establishment of WKCDA in 2008, the balance of the endowment was estimated to stand at \$16.8 billion by the end of FY 2017-2018. Moreover, it was estimated that the operating deficit before depreciation of WKCDA would be around \$312 million in FY 2018-2019. Upon the commissioning of more arts and cultural facilities in WKCD, it was estimated that the operating deficit before depreciation of WKCDA would increase further to \$626 million in FY 2019-2020 and to \$771 million in FY 2020-2021.

7. WKCDA also estimated that a capital funding of about \$11.7 billion in 2016 prices would be required for completing the Batch 3 CACF, two remaining black box theatres in Batch 2 as well as the remaining OACF, RDE facilities and public open spaces (other than the Exhibition Centre and Musical Theatre which would be funded by private sector investment).

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<sup>5</sup> Section 24(1) provides that WKCDA may borrow from the Government, or otherwise raise, moneys as may be required for the performance of its functions on such terms and conditions as may be approved by the Financial Secretary ("FS"). Section 24(2) provides that subject to section 24(3), WKCDA may borrow moneys from any person other than the Government for performing its functions while section 24(3) provides that the Chief Executive may issue a direction in writing for the purposes of this section of the WKCDA Ordinance (Cap. 601) to WKCDA that it is not to borrow or raise any sum (or its equivalent in a currency other than Hong Kong dollars) which exceeds an amount specified in the direction without the prior written approval of FS.

## **Major views and concerns of members**

8. Issues relating to the financial situation of the WKCD project were discussed at meetings of the Joint Subcommittee. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

### Adequacy of the upfront endowment

9. Members expressed grave concern over the serious cost overrun of the WKCD project as well as the uncertainty about the extent of the cost overrun problem. Some members were worried whether, with the spiralling cost of the WKCD project, the Administration was planning to shelve the development of the Batch 3 facilities or cut down on the resources to be allocated for the WKCD development. Some other members, however, expressed the view that given the huge cost overrun of the WKCD project, the Administration and WKCD should critically examine the scope of the project and come to an early decision on which facilities would and would not be taken forward.

10. The Administration and WKCD explained that the increase in the capital costs of the WKCD project was attributed to a number of factors, including the significant escalation of construction costs in Hong Kong in recent years, the inclusion of an integrated basement as an integral part of the approved Development Plan ("DP") of WKCD, enhanced project scope to meet public aspirations reflected during the public engagement exercise on DP (such as adding space for education facilities in different venues), and longer time taken to complete the master planning and planning approval process for WKCD.

11. In view of the above, the Administration considered it a pragmatic arrangement for WKCD to make efficient use of the endowment fund and the associated investment return to complete the Batch 1 and Batch 2 facilities for early public enjoyment. As for the Batch 3 facilities, WKCD had been working with the Administration to identify alternative approaches to take forward the development of the Exhibition Centre through BOT and the Musical Theatre through public-private partnership.

12. Some members considered that it was unreasonable to cap the funding allocation to the WKCD project at the upfront endowment of \$21.6 billion, given that additional funding had been granted to almost all major public works projects in recent years due to construction cost escalations. In view of the capital funding gap faced by WKCD, there was a suggestion on

providing loans or further funding by the Government to WKCDA to bridge the funding gap.

13. The Administration advised that it had already provided the upfront endowment for the construction of CACF whereas EFA would provide WKCDA with an additional and steady source of recurrent income. The Administration had no plan to provide further funding to WKCDA for the construction of CACF at that stage. The WKCDA Ordinance also contained a provision for WKCDA to engage in external borrowing.

#### Financial analysis for the enhanced financial arrangement

14. Some members enquired about the details of the financial projections for EFA, including the estimates on the upfront payment to be paid to the Government and the income to be shared by WKCDA, whether the income generated for WKCDA could cover the shortfall in the funds for developing and operating the arts and cultural facilities in WKCD. They also queried if a financial advisor had been engaged to examine EFA.

15. WKCDA indicated that in preparing the EFA proposal, it had engaged a financial advisor to conduct a financial assessment based on a set of assumptions and market information. As the assumptions adopted in the financial assessment involved commercially sensitive information the disclosure of which would affect relevant tendering process, the details of the financial projections could not be provided to the Joint Subcommittee at that stage.

16. The Administration advised that EFA would allow WKCDA to share the rental income from the HOR developments during the BOT period to sustain the operation of WKCD under predetermined ratios. The amount of income to be shared by WKCDA would depend on the prevailing market situation and the development parameters set by WKCDA for the individual development packages. Moreover, upon expiry of the BOT agreements when the developments concerned would be reverted to WKCDA and the income sharing requirements with private sector partners would cease, WKCDA would have considerable cash inflow as it would capture all of the net income from these developments.

17. Some members further pressed for information including the terms of the BOT agreements, the estimated land value of the HOR and RDE portions of WKCD and the return on the rentals of the HOR portion, etc. They opined that in the absence of such relevant information, it was doubtful whether it was appropriate to grant the HOR and RDE portions of WKCD to WKCDA at

nominal premium. Some members were worried that the granting of the HOR and RDE portions of WKCD to WKCDA under EFA would amount to making WKCDA an "independent kingdom".

18. The Administration clarified that it had always been the Government's plan to vest the RDE portions of WKCD in WKCDA at nominal premium to provide it with a steady source of recurrent income through rental proceeds to meet the operating deficits of CACF and related facilities. An estimation of the land sale value of the RDE facilities had been made in 2007. As for the HOR portion, the land sale value would depend on the specific tender conditions, the prevailing market situation and the GFA distribution ratio among the HOR uses which had yet to be determined. WKCDA's plan was to develop the major portion of GFA of the HOR sites into rental offices and a small portion into rental residential units together with the embedded RDE facilities in phases under the BOT model.

19. The Administration further advised that certain terms and conditions would be imposed in the BOT tenders to protect the Government's interests under EFA. For instance, WKCDA would be required to tender out the relevant sites through multiple BOT development packages to increase competition so that contracts would not be awarded to a single developer. WKCDA would also retain the right to cancel the tender if the tender price offered by tenderers was unreasonably low.

#### Monitoring the financial situation of the West Kowloon Cultural District project

20. Some members enquired how the Administration could effectively monitor the financial situation of the WKCD project under EFA. There was also a concern on whether the approach for bridging the capital funding gap by external borrowing was a means for bypassing the scrutiny of LegCo over the spending for the WKCD project.

21. The Administration advised that a mechanism would be built into EFA to give the Government the right to share with WKCDA the income generated from the developments upon expiry of the BOT agreements. The Administration would set out in the Project Agreement to be signed with WKCDA the principles for the income sharing mechanism and would formulate the detailed arrangement with WKCDA in due course. Moreover, the Administration had no intention to bypass LegCo's scrutiny over the WKCD project. The Administration would, in conjunction with WKCDA, continue to report regularly to the Joint Subcommittee the progress of the

WKCD project, including its hardware and software developments, the financial situation of WKCDA, as well as the implementation of EFA.

### **Latest development**

22. At the meeting of the Joint Subcommittee to be held on 29 April 2019, the Administration and WKCDA will update members on the latest financial situation of the WKCD project.

### **Relevant papers**

23. A list of the relevant papers on the LegCo website is in **Appendix III**.

Council Business Division 1  
Legislative Council Secretariat  
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## Appendix I

### Status and target completion date of major West Kowloon Cultural District facilities

Facilities	Status and target completion date
<b><i>Batch 1</i></b>	
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>	Main works in progress Target for completion in early 2018 and opening at end of 2018
Art Park	Construction works in progress Target opening in stages starting from 2018
Freespace <i>(including black box theatre and outdoor stage)</i>	Construction works in progress Target for completion in mid-2018 and opening in 2019
M+ Building	Main works in progress Target for completion in 2019 with opening a year later
<b><i>Batch 2</i></b>	
Lyric Theatre Complex ("LTC") <i>(including a Lyric Theatre, a Medium Theatre and a Studio Theatre)</i> <sup><i>(note)</i></sup>	Foundation works completed. Structure works of Zone 3B commenced in early 2018. The LTC is targeted to complete around 2022
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 <sup><i>(note)</i></sup>	Incorporated into the LTC

Facilities	Status and target completion date
<b><i>Batch 3</i></b>	
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	
<b><i>Others</i></b>	
Exhibition Centre	To be developed through BOT arrangement packaged with hotel/rental offices of the adjacent U-shaped site
Hong Kong Palace Museum	To be developed under the donation of The Hong Kong Jockey Club Charities Trust
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 Centre for Contemporary Performance were incorporated into the building of the original Lyric Theatre to form the Lyric Theatre Complex to advance their provision.

西九文化區主要設施示意圖  
Schematic plan of major West Kowloon Cultural District facilities



資料來源：[立法會 CB\(1\)115/18-19\(03\)號文件的附件](#)  
Source: Annex to [LC Paper No. CB\(1\)115/18-19\(03\)](#)

## Appendix III

### Financial situation of the West Kowloon Cultural District project

#### List of relevant papers

Committee	Date of meeting	Paper
Public Works Subcommittee	18.6.2008 Item 1	<a href="#">Agenda</a> <a href="#">Minutes</a>
Finance Committee	4.7.2008 Item 2	<a href="#">Agenda</a> <a href="#">Minutes</a>
Legislative Council	26-27.6.2013	Official Record of Proceedings <a href="#">Pages 14119-14141 (26.6.2013)</a> <a href="#">Pages 14148-14235 (27.6.2013)</a> (Motion on "Concern about the expenditure of the West Kowloon Cultural District project")
Former Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project formed in the Fifth Legislative Council	3.7.2013 Item II	<a href="#">Agenda</a> <a href="#">Minutes</a>
	24.1.2014 Item II	<a href="#">Agenda</a> <a href="#">Minutes</a>
	28.3.2014 Item II	<a href="#">Agenda</a> <a href="#">Minutes</a>
	28.5.2014 Item I	<a href="#">Agenda</a> <a href="#">Minutes</a>  <a href="#">Response of the Administration/WKCDA to members' concerns raised at the meeting</a>

Committee	Date of meeting	Paper
Former Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project formed in the Fifth Legislative Council	24.11.2014 Item II	<a href="#">Agenda</a> <a href="#">Minutes</a>
	12.1.2015 Item III	<a href="#">Agenda</a> <a href="#">Minutes</a>
	19.5.2015 Item III	<a href="#">Agenda</a> <a href="#">Minutes</a>
	7.7.2015 Item I	<a href="#">Agenda</a> <a href="#">Minutes</a>
	30.5.2016 Item I	<a href="#">Agenda</a> <a href="#">Minutes</a>
—	19.1.2017 (Issue date)	<a href="#">Legislative Council Brief on Enhanced Financial Arrangement for the West Kowloon Cultural District</a>
Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project	21.2.2017 Item II	<a href="#">Agenda</a> <a href="#">Minutes</a>  <a href="#">Response of the Administration/WKCDA to members' concerns raised at the meeting</a>
	9.2.2018 Item II	<a href="#">Agenda</a> <a href="#">Minutes</a>
	11.5.2018 Item II	<a href="#">Agenda</a> <a href="#">Minutes</a>
	14.1.2019 Item II	<a href="#">Agenda</a>