

For discussion on
1 June 2020

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 (FC) of the Legislative Council (LegCo) approved an upfront endowment of \$21.6 billion (in 2008 Net Present Value) via PWSC (2008-09)³¹ for the West Kowloon Cultural District Authority (WKCDA) to implement the WKCD project. Public infrastructure works (PIWs), which are designed to support the whole WKCD, would be undertaken by the Government with funding approval separately sought by the Government.

3. The Government and WKCDA announced in June 2013 that a pragmatic approach would be adopted to implement the WKCD project, including the delivery of 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 the LegCo, to fully fund the capital works for 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 of \$21.6 billion and the apportioned investment income would only

be sufficient to build the Batch 1 and most of the Batch 2 facilities¹ and that the implementation programme of the Batch 3 facilities would be reviewed.

5. In January 2017, the Government announced the implementation of the Enhanced Financial Arrangement (EFA) for the WKCD project in the Policy Address and explained in the LegCo Brief (SF(37) to HABCS CR 7/1/27/1) that development rights over the Hotel/Office/Residential (HOR) portion of WKCD together with the Retail, Dining and Entertaining (RDE) embedded therein would be granted to WKCD for development under a Build-Operate-Transfer (BOT) model, with a view to eventually providing a steady source of income to meet WKCD's operating deficits of Core Arts and Cultural Facilities (ACF). Summary of factors/developments leading to WKCD's financial difficulties are set out in **Annex 1**.

6. WKCD has continued to face significant financial challenges in the past few years due to a combination of structural and other factors that are beyond WKCD's control.

a) In WKCD's benchmarking research, major performing arts precincts and venues worldwide, have sizable commercial operating deficits despite the considerable intangible social benefits they bring to the community. WKCD's arts and culture venues which are now in operation as well as those due to open over the next few years are facing similar problems. As more arts and cultural facilities (ACF) come into operation in WKCD, the corresponding operating and capital expenditures required for the delivery of programmes and events will increase at a faster pace than the corresponding income.

b) Due to the extended development timeframe of WKCD as a result of the deferred possession of the portion of the site occupied as construction sites/works areas for the High Speed Rail (Hong Kong Section), as well as the priority given to developing ACF, WKCD has been suffering financially as

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.

the majority of income generating facilities, notably the RDE and the HOR facilities will only be completed after completion of the IB. These factors result in a prolonged mismatch in the timing of cashflows, and thus cashflow problems for WKCDA.

- c) The global outbreak of the COVID-19 pandemic and its associated containment measures enforced by the Government, together with the social events in Hong Kong since June 2019, have seriously undermined a whole spectrum of economic activities – ranging from retail, hospitality, tourism, to international trade and commerce. As a result, at least 250 performances and programmes and more than 200 regular activities at the Xiqu Centre and Freespace have had to be rescheduled or cancelled up to April 2020. In order to comply with the Government’s precautionary measures against COVID-19, the M+ Pavilion, the theatres in the Xiqu Centre and Freespace together with other facilities had to be temporarily closed throughout most of February to April 2020. In view of the pandemic, WKCDA has also extended rental concession to RDE tenants till June 2020, thereby further reducing its RDE income in 2019-20.

LATEST DEVELOPMENTS OF THE WKCD PROJECT

7. On 25 November 2019, WKCDA updated the Joint Subcommittee on the progress of WKCD development (LC Paper No. CB(1)149/19-20(02)). Notably:

- a) The Xiqu Centre officially opened in January 2019 with great success.
- b) The Art Park has been opening in phases to the public since early 2018.
- c) Freespace came in June 2019.
- d) M+ is targeted to obtain the Occupation Permit (OP) in July 2020 with the museum to open 9 to 12 months later.
- e) The main works of the Lyric Theatre Complex (LTC) commenced in November 2018, with the target to complete building works in 2023 ahead of the opening in 2024.

- f) Construction of the superstructure of the Hong Kong Palace Museum (HKPM) commenced in April 2019, with the OP targeted to be granted in mid-2021, followed by the targeted opening in mid-2022.

The latest progress and target completion dates of WKCD's major ACF are set out in **Annex 2**.

8. On 6 January 2020, WKCDA updated the Joint Subcommittee on the cultural software development for WKCD (LC Paper No. CB(1)290/19-20(01)). Despite the economic and social challenges facing Hong Kong, WKCDA continues to develop the capacity of our arts and cultural sector, build WKCD's audience base, engage the community and young people, as well as nurture artists in order to achieve the vision of developing WKCD into a world-class integrated arts and cultural hub.

9. On 20 March 2020, the LegCo's FC approved \$0.38 billion for the construction of the Artist Square Bridge (ASB) and about \$17.4723 billion for the design and construction of the core and shell of the Zone 2 IB. The ASB would serve as an essential pedestrian link to improve connectivity between WKCD and its neighbouring transportation hub and districts. The Zone 2 IB, a prerequisite of any topside developments thereon, is the largest basement section between the Xiqu Centre and the LTC supporting the remaining Batch 3 ACF in Zone 2C, as well as most of the remaining HOR and embedded RDE developments in Zones 2A and 2B.

10. Regarding the HOR development, WKCDA briefed the Joint Subcommittee on its first BOT project on 11 June 2018 with updates given on 10 June 2019 and 27 April 2020 – the Art, Commerce and Exhibitions (ACE) development package which was formerly known as the Exhibition Hub Development Area. WKCDA commenced an Expression of Interest (EOI) exercise on 12 June 2019 to identify suitable applicants to be pre-qualified to proceed to tender through a shortlisting process. The EOI closed on 26 August 2019 and WKCDA shortlisted several applicants. The tender process started on 27 April 2020. The tender is expected to be awarded in the fourth quarter of 2020, with a target to complete the ACE development package by 2025/26.

11. The next BOT package for HOR will be in respect of Parcels 31 and 34 which are adjacent to the LTC. Parcels 31 and 34 will be

developed as offices with embedded RDE facilities. WKCDA is currently preparing the tender documents and expects to invite tenders towards the end of 2020.

CURRENT FINANCIAL POSITION

12. WKCDA continues to adopt a strictly prudent financial management and investment strategy. The original endowment of \$21.6 billion approved by the LegCo's FC in 2008 generated a cumulative return on investment of \$7.5 billion by the end of the 2019-20 financial year (representing an average annual return of about 3.0%). Taking into account the total capital and operating expenditure incurred since the establishment of WKCDA in 2008, the balance of the endowment stood at \$10.2 billion by the end of the 2019-20 financial year. The updated financial position of the four main components covered by the upfront endowment is set out in the ensuing paragraphs.

Planning, Design and Construction of Facilities

13. Of the \$21.6 billion upfront endowment, \$15.7 billion was originally reserved for the design and construction of WKCD facilities (covering ACF and RDE facilities). Together with the \$5.5 billion investment return allocated to the design and construction of WKCD facilities, the total budget for this component now amounts to \$21.2 billion. As at 31 March 2020, the total value of committed contracts on capital projects to be funded by WKCDA was approximately \$19.6 billion, of which approximately \$13.6 billion have been incurred by the end of the 2019-20 financial year. In addition, \$454 million of project staff costs would have been capitalised by the end of 2019-20 financial year.

14. As reported before, WKCDA estimated that the upfront endowment and investment income will only be sufficient to cover the costs of the design and construction of Batch 1 and most of the Batch 2 facilities, whereas the implementation programme of the Batch 3 facilities would be subject to the availability of funding.

Collection Costs and Related Costs for M+

15. From the upfront endowment, \$1.7 billion has been earmarked for collection acquisition and the related costs of M+. As at the end of the 2019-20 financial year, approximately \$823

million has been spent on acquisitions with a view to building up M+'s collections ahead of its opening. This is in addition to donations to the collection valued at some \$1.4 billion. While M+ will continue to expand its collection until the opening of the museum and beyond, the M+ Board is prudently managing the acquisition budget. Currently, around \$100 million is budgeted for the next three years on collection acquisitions. In addition, \$197 million would be spent in the next three years on exhibition development, library setup and conservation laboratory equipment.

Major Repair and Renovation of the Facilities

16. 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 only started operations in 2019, 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 ACF, the planning of WKCD and project management (see paragraphs 17 to 19 below) as deemed necessary in the coming years.

Planning of WKCD and Project Management

17. \$1.3 billion was originally reserved in the endowment for the planning for WKCD and project management expenses (including staff and operating expenses). The lead time required to conduct three stages of public engagement exercises from 2009 to 2011, securing the Chief Executive in Council's approval for the Development Plan after completing the statutory procedures in 2013, obtaining the 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 WKCDA Board's decision to develop ACF in batches means that the development timeframe for the 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 in 2008 when the endowment was approved by the FC of LegCo.

18. Furthermore, WKCDA 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 ACF, WKCDA has been organising pre-opening programmes to enhance public awareness, groom arts and culture talent and build audiences 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.

19. By the end of the 2019-20 financial year, the estimated accumulated expenditure on planning and project management was \$4.2 billion, which was covered partly by the reserved portion from the endowment and partly by the investment return generated from the endowment fund.

FINANCIAL PROJECTIONS

20. Based on the consolidated operating results for 2017-18 and 2018-19, the operating surplus before depreciation was \$104.8 million and \$32.6 million respectively, mainly due to investment income and stringent cost control. Following the commissioning of the Xiqu Centre, the Art Park (including Freespace) and the preparations for the opening of M+ and HKPM, WKCDA is starting to face a prolonged and widening structural operating deficit primarily attributable to the cost of running Batch 1 and Batch 2 ACF. The operating deficit before depreciation for 2019-20 was \$299 million. It is important to note that when compared to the budgeted deficit of \$823 million, the actual deficit has been contained at 36% of the budget due to WKCDA's constant focus on cost containment.

21. On the expenditure side, WKCDA has exercised stringent cost control over the past years. Notably, WKCDA has critically examined its staffing requirements in planning its operations. Whilst WKCDA will invariably need to create more positions as it moves into the operational phase, it will continue to exercise proper restraint over the establishment of permanent positions. In light of the uncertainties arising from the outbreak of COVID-19 pandemic, WKCDA has formed a special Task Force to review its operating expenses and implemented rigorous measures to contain the increase of operating deficits in the next few years.

22. The financial projections for the 2020-21 to 2021-22 are in **Annex 3**.

Operating Income and Expenses

23. The Xiqu Centre, Freespace and all sections of the Art Park have commenced operations, plus the preparation for the planned opening of M+ in mid-2021 and HKPM in mid-2022. In light of this, it is estimated that WKCDA's overall operating deficit before depreciation will be around \$987 million in 2020-21. The key financial highlights for the operating income and expenses projections are as follows:

Operating Income in 2020-21

- (a) Within the Xiqu Centre and Art Park, about 7 400 square metres of Gross Floor Area 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 \$10 million in 2020-21. The estimated RDE rental income takes reference from the current rental market in the nearby areas. 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 for WKCD.
- (b) After the full-year operations of the Xiqu Centre, Freespace and the Art Park, it is estimated that total venue and programme income will be around \$32 million in 2020-21. Ticket sales are based on an average attendance rate of 70% for ticketed programmes. For the Xiqu Centre, the utilisation rate is estimated to be around 75%. Each venue will achieve its unique artistic mission. WKCDA briefed the Members of the Joint Subcommittee on the hiring policy of performing arts venue on 20 December 2017. The scale of hire charges of the Xiqu Centre and Freespace is published on the WKCD website. For M+, it is estimated that operating income generated in 2020-21 (pre-opening) will be around \$3 million, which mainly comes from membership and patron income.
- (c) Sponsorship income at \$7 million in 2020-21 provides a sustainable revenue source which can be in the form of

income supporting the expenditure to the programmes, exhibitions and initiatives.

- (d) Other income is estimated at \$17 million in 2020-21, which includes commercial hire income and car park income.

Operating Expenses in 2020-21

- (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 WKCD will increase from 601 in 2019-20 to 758 in 2020-21, comprising arts and cultural personnel engaged for the performing arts and M+, as well as facilities management and district safety and security operations staff. The operating staff costs are estimated at \$436 million in 2020-21 including staff salaries, insurance, training and development, and contributions to the Mandatory Provident Fund, etc.
- (b) It is estimated that performing arts, M+ and HKPM programmes and research expenses will be \$148 million in 2020-21. The expenses cover programmes, research and planning, cultural exchange, public and education programmes and insurance.
- (c) Facilities management and park operation, covering manning, cleaning, building maintenance, security and utilities, is another major operating expense item. In 2020-21, the cost is estimated at \$238 million which takes into account the operational requirements of WKCD facilities, and the 24-hour opening of the Art Park and other public open spaces. WKCD continues to review its operations and consider more cost-effective operation models for different ACF.
- (d) In 2020-21, information and communication technology expenses, museum collections management and venue operations expenses are estimated at \$87 million, \$52 million and \$44 million respectively. Other operating expenses including administrative expenses, marketing

and customer experience, office rental, etc. are estimated at \$328 million.

Operating Deficits – 2019-20 and Beyond

24. With more ACF opening in WKCD, it is estimated that the operating deficit before depreciation of WKCDA will increase to \$1,370 million in 2021-22 and \$1,551 million in 2022-23 respectively.

25. The table below sets out the estimated income, expenses and operating deficits before depreciation of WKCDA for the coming three financial years. The estimates for 2020-21 were approved by the WKCDA Board, whereas those for 2021-22 and 2022-23 are working estimates that will be updated as part of budget preparation.

(\$ million)	2019-20 Unaudited	2020-21 estimates	2021-22 estimates	2022-23 estimates
Estimated income	442	346	364	506
Estimated expenses	(741)	(1,333)	(1,734)	(2,057)
Estimated operating deficit before depreciation	(299)	(987)	(1,370)	(1,551)

26. Taking reference from the original estimates made in April 2019, the operating deficit before depreciation decreased from \$847 million to \$299 million in 2019-20 mainly due to cost containment and some costs deferred to 2020-21. For 2020-21, the operating deficit before depreciation is forecast to decrease from \$1,107 million to \$987 million mainly due to reduction in staff costs and implementation of other cost containment measures.

HOR Development and Income

27. For the HOR development under BOT model, WKCDA is working on the design, planning and site parceling for development packages. The ACE Project is the first HOR project implemented by WKCDA and is undergoing tender exercise. It is targeted to be completed by 2025-26 and will help enhance the long-term financial sustainability of WKCDA under the BOT and income sharing arrangement. It is expected that the earliest date for WKCDA to share the HOR income will be in 2024 for Parcels 31 and 34. The IB will be completed in phases. The topside HOR

development in Zone 2A is expected to be brought online first and the expected date for the income sharing with developer will be from 2025-26. For Zone 2B topside HOR development, it is estimated that it will be completed in phases starting from 2028. Under the current development timeline, it is obvious that the sharing of HOR income can only be materialised at the later stage. WKCDA therefore lacks a steady source of income to support the operating expenses in the interim.

Capital Expenditures

28. Based on the latest estimates, the capital project costs to build Batch 1 and most of Batch 2 and related facilities including RDE facilities and Other Arts and Cultural Facilities, are estimated to increase from \$20.1 billion in money-of-the-day (MOD) prices to \$21.2 billion in 2020-21, mainly due to the creation of a Central Project Reserve.

29. WKCDA will further review, in consultation with the Government, the development of the remaining Batch 3 facilities including Music Centre, Great Theatre, Musical Theatre. Work on those facilities will be subject to the completion of the IB in Zone 2C and funding availability.

30. In March 2020, the LegCo FC approved the design and construction cost of Zone 2 IB infrastructure and the associated works. WKCDA is required to finish the basement to allow for operations, including the installation of necessary Mechanical, Electrical and Plumbing works and Architectural Builders Works and Finishes other than those for the underground road and communal areas, as well as works related to the avenue, promenade and district cooling system. The cost of these works is expected to be substantial.

LONG-TERM FINANCIAL NEEDS AND STRATEGY

31. Under the EFA, it is expected that WKCDA will become financially sustainable when the HOR developments revert to WKCDA in the long run. However, with the aforementioned extended development timeframe of HOR in Zone 2, which will contain the major portion of embedded RDE facilities as well as the HOR, the income and financial situation of WKCDA are adversely

impacted in a material way as the income-sharing arrangement with BOT developers during the BOT period will not generate enough income to cover its baseline deficits.

32. In addition to the increased operating deficit of WKCDA arising from the opening of more facilities, WKCDA needs to secure funding of the works mentioned in Paragraph 30 to complete the IB and make it fully operational. It is inevitable that some form of Government support will be required to alleviate the financial burden on WKCDA.

33. To tide over the interim deficit and to bridge the capital funding gap for delivering the remaining facilities, WKCDA is currently working with financial advisors on its long-term financing strategy, taking into account cash flow requirements, interest rate risks and other issues such as the uncertainties associated with global and local economy. In parallel, WKCDA is also exploring with the Government various financing options under the EFA.

34. Investment in arts and culture brings considerable intangible social benefits to the communities in which these investments take place. Internationally, London, New York and even Dubai and cities in Mainland China have all recognised the importance of such investment, which have transformed their economies. In Hong Kong, WKCD is playing a critical and indispensable role to drive new economic, social and community opportunities. These arise in many areas, including artistic and cultural appreciation, enhancing community identity and expression, strengthening cultural institutions and exchanges, 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 new jobs in a wide spectrum of economic sectors, including arts and culture, construction, education and tourism. The numbers will increase substantially as the District moves further into the operational phase. In a changing world, with growing unemployment, uncertainty over political and social issues, WKCD offers one of the few bright spots for people of all ages to work, play and thrive.

ADVICE SOUGHT

35. Members are invited to note the financial update of the WKCD project.

**West Kowloon Cultural District Authority
May 2020**

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

The financial difficulties faced by WKCD are the result of a combination of development and changes since the adoption of the Consultation Committee on the CACF of the WKCD (CC) Case in 2006, in addition to other external factors that took place throughout the development of the WKCD project in past years. Key factors and developments are summarised as follows:

Cost escalation and extended development timeframe

- a) There has been significant **escalation of construction costs** since the approval of HK\$21.6 billion upfront endowment in 2008 (by 120% from Q3 2006 to Q4 2019² or by average increase of 6% per annum compounded since 2006 as opposed to 2% assumed in the CC Case);
- b) The **almost 4-year prolonged planning and public engagement process** had resulted in approval of the Development Plan by the Chief Executive in Council only in 2013. The **cost** for delivering the CACF had **escalated** significantly during this period;
- c) The **complexity** in implementing the 'City Park' design concept, which makes construction of an integrated basement (IB) a prerequisite of any topside developments, has **increased construction costs** and **extended the delivery timeframe** of CACF;
- d) In 2013, the Government and WKCD decided to adopt a pragmatic approach to implement the WKCD project in **three batches** that the **development timeframe** has been considerably **extended**;
- e) In 2014, a planning application for minor relaxation of the development intensity was made to optimise the development potential of the WKCD site. **Additional funding is required** for the development of the **additional gross floor area (15%)** for arts and cultural facilities and RDE in the District;

Prolonged mismatch

- f) WKCD suffers from **serious delay in the receipt of recurrent income** generated from major RDE facilities to meet the operating deficits of CACF in the interim. This is the result of the prolonged mismatch in the timing of cashflows due to the **extended development timeframe**, and the **priority** given to developing **CACF**, as well as the **deferred possession (around 5 years) of the site** occupied as construction

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 1652 in Q4 2019.

site/work areas for the High Speed Rail (Hong Kong Section);

- g) **Investment return** from the endowment has significantly **declined** for a sustained period due to the high volatility of global investment markets. The actual investment return from the endowment (3.0% per annum from 2008-09 to 2019-20) is significantly lower than the assumed rate of 6.1% per annum in the CC Case;
- h) Since 2013, WKCD has reported on various occasions about the **financial challenge** ahead and, the endowment and the investment income would **only be sufficient to build the Batch 1 and Batch 2 facilities** whereas the Batch 3 facilities would be reviewed subject to funding availability;
- i) Under the EFA announced in 2017, the Government granted the long term development rights of HOR portion of WKCD to WKCD. However, the majority of **topside HOR and RDE** will only be completed in phases **beyond 2025** after the IB is finished;

More operational expenses required

- j) The WKCD project **enters into the operational phase**. The Xiqu Centre, Freespace and the Art Park have come into full operation. M+ and HKPM will open to the public in the years ahead.
- k) WKCD will require more operational expenses for additional manpower, project delivery and management, facilities management, cultural software development and programmes offering, as well as commercial operations, marketing and ticketing, etc;

Challenging and uncertain future

- l) In 2019 and 2020, the COVID-19 pandemic and social events in 2019 have undermined a whole spectrum of economic activities and **WKCD is gravely affected** over these challenges which are **out of its control**.
- m) The majority of WKCD programmes and activities have been rescheduled or cancelled, and most of the WKCD venues and facilities had to be temporarily closed in the past few months (refer to paragraph 6c), **stopping all the income** from ticketing and the hire of venues. **Sponsorship and fund raising** have had to be **on hold**.
- n) There is no sign of when the pandemic will be over, and the future economy will be more fragile and volatile. **The future remains uncertain** and it is foreseeable that the future development of the WKCD project will **continue to be very challenging**.

Status and target completion date of major WKCD facilities

Facilities	Status and target completion date
<i>Batch 1</i>	
Temporary Nursery Park	Opened in July 2015
M+ Pavilion <i>(previously called Arts Pavilion)</i>	Opened in July 2016
Xiqu Centre	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 was opened in March 2020
Freespace	Operations started in June 2019
M+	Main works in progress Target to secure the Occupation Permit in the July 2020, with opening of the Museum 9 to 12 months later in mid-2021
<i>Batch 2</i>	
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 complete in 2023 for the opening in 2024
Medium Theatre II <i>(note)</i>	Incorporated into the LTC

Facilities	Status and target completion date
Batch 3 <i>(requires extra funding for the development)</i>	
Music Centre <i>(including Concert Hall and Recital Hall)</i>	High priority, to be reviewed by WKCDA
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	
Art, Commerce and Exhibitions (ACE)	To be developed through BOT model with a U-shaped hotel, offices and an adjacent Exhibition Centre Tender issued in April 2020. Expected to be awarded in the fourth quarter of 2020 with a target to complete by 2025/26
Hong Kong Palace Museum	Construction of superstructure commenced in April 2019, with the Occupation Permit targeted to be granted in mid-2021 for the opening in mid-2022
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 LTC to advance their provision.

Income and Expenses Projections

(\$ million)	Note	2020- 21	2021- 22
Income			
Investment income	1	276	123
Retail, dining and entertainment income	2	10	59
Venue and programme income	3	35	95
Sponsorship income	4	7	32
Donation	5	1	5
Other income	6	17	50
		346	364
Expenses			
Staff costs	7	(436)	(515)
Programme and research	8	(148)	(205)
Facilities management, park operations and security	9	(238)	(387)
Information and communication technology	10	(87)	(121)
Museum collections management	11	(52)	(57)
Venue operations	12	(44)	(73)
Other operating expenses	13	(328)	(376)
		(1,333)	(1,734)
Operating deficit before depreciation		(987)	(1,370)

Note:

- Investment income mainly includes the return on the placements with the Exchange Fund and bank interest income.
- Retail, Dining and Entertainment (RDE) income represents rental income generated from letting out the RDE facilities, retail and food and beverage income.
- Venue and programme income mainly includes ticket and venue hire income of the Xiqu Centre and Freespace. It also includes membership and patron income from M+.
- Sponsorship income provides a sustainable revenue source which can be in the form of income supporting the expenditure to the programmes, exhibitions and initiatives.
- In view of the COVID-19 pandemic and the challenging economic environment, the appetite for donation has diminished and hence, less donation is expected.

6. Other income includes rental income generated from commercial hire income, car park income and facilities management fee recovery from tenants, etc.
7. It is estimated that the total headcount of WKCDA will increase to 758 in 2020-21 mainly from arts and cultural personnel. Facilities management is outsourced, and the related cost is included in the facilities management expenses.
8. Programme and research expenses represent the costs to organise performing arts programmes and museum exhibitions and curatorial programmes.
9. Facilities management expenses include park operations, manning, cleaning, building maintenance, security and utilities.
10. Information and communication technology expenses include IT supplies and support costs, application systems maintenance and infrastructure maintenance.
11. Museum collections management includes conservation and storage, shipping and handling and insurance expenses.
12. Venue operations mainly covers the venue operations costs for M+ and Performing Arts and mainly includes technical and venue consumables, casual labour, ticketing costs, venue opening costs, etc.
13. Other operating expenses represent administrative expenses, marketing and communication expenses, office rental, etc.