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

**Meeting on 3 May 2021**

**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

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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%).

proceeds for meeting the operating costs of the arts and cultural facilities and related facilities. Other communal and government facilities and related engineering works, such as roads, drainage and fire station, 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 WKCD 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 ("IB")<sup>3</sup> as general enabling works to facilitate the development of the whole WKCD project.

4. In May 2014, the Administration and WKCD 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,<sup>4</sup> 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

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<sup>2</sup> Funding proposals relating to the WKCD development, other than the integrated basement ("IB"), approved by FC included:

- (a) \$478 million for the design and site investigation of government infrastructure works in WKCD (approved in January 2013);
- (b) \$840.5 million, \$192 million and \$380 million respectively for the three packages of the construction of public infrastructure works in WKCD (approved in July 2015, April 2018 and March 2020 respectively, totalling \$1,412.5 million); and
- (c) \$981.2 million for the relocation of the supporting operational facilities of Tsim Sha Tsui Fire Station Complex, Fire Services Club and other Fire Services accommodations (approved in March 2020).

<sup>3</sup> In respect of the construction of IB for WKCD, FC approved \$2,919.5 million for the first and second stages of design, site investigation and construction works, \$3,178.4 million for the third stage of construction works and \$17,472.3 million for the remaining works in July 2015, January 2018 and March 2020 respectively, totalling \$23,570.2 million.

<sup>4</sup> In June 2020, WKCD advised that the capital costs of the Batch 1 and most of the Batch 2 facilities as well as related facilities were estimated to increase from \$20.1 billion in MOD prices to \$21.2 billion in 2020-2021, mainly due to the creation of a Central Project Reserve.

facilities, and a schematic plan of these facilities are in **Appendices I and II** respectively.

### Enhanced financial arrangement

5. 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 in January 2017 to provide an enhanced financial arrangement ("EFA") for WKCD, under which WKCDA would be 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>5</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>6</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

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<sup>5</sup> Sources: [Legislative Council Brief on Enhanced Financial Arrangement for WKCD](#) and [LC Paper No. CB\(1\)559/17-18\(01\)](#)

<sup>6</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.

BOT development package of ACE comprising the Exhibition Centre, a hotel and rental offices together with the embedded RDE facilities;<sup>7</sup>

- (c) *WKCD A to raise funds to finance the development of the remaining core arts and cultural facilities ("CACF") and other arts and cultural facilities:* WKCD A will explore various financing options (e.g. issuing bonds or raising bank loans) pursuant to the WKCD A Ordinance (Cap. 601)<sup>8</sup> by leveraging against its development right of the HOR sites and long-term income stream. WKCD A 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 WKCD A.

#### Financial position of the West Kowloon Cultural District Authority reported in June 2020

6. In June 2020, the Administration and WKCD A briefed the Joint Subcommittee on the financial position of WKCD A. Members noted that the original endowment of \$21.6 billion generated a cumulative return on

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<sup>7</sup> According to WKCD A, the Expression of Interest exercise for the ACE project started in mid-2019 at a time of strong interest, and hence WKCD A decided to commence the tender process in April 2020 on that basis. However, due to the uncertain market economic outlook amid the COVID-19 pandemic, the response to the tender was not as positive as expected. WKCD A decided to withdraw the tender in August 2020 as a prudent response to the situation and in the best interest of WKCD A and the community. WKCD A would review and assess various options, before deciding on the best way forward.

<sup>8</sup> Under the WKCD A Ordinance (Cap. 601), section 24(1) provides that WKCD A 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), WKCD A may borrow moneys from any person other than the Government for performing its functions; and section 24(3) provides that the Chief Executive may issue a direction in writing for the purposes of this section to WKCD A 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.

investment of \$7.5 billion by the end of the financial year 2019-2020, and the balance of the endowment stood at \$10.2 billion by then. The forecast/estimated income, expenses and operating deficit before depreciation of WKCD in the financial years from 2019-2020 to 2022-2023 provided by WKCD are set out below:<sup>9</sup>

| (\$ million)                                       | 2019-2020<br>unaudited | 2020-2021<br>estimates | 2021-2022<br>estimates | 2022-2023<br>estimates |
|--|------------------------|------------------------|------------------------|------------------------|
| Estimated income                                   | 442                    | 346                    | 364                    | 506                    |
| Estimated expenses                                 | 741                    | 1 333                  | 1 734                  | 2 057                  |
| Estimated operating<br>deficit before depreciation | (299)                  | (987)                  | (1 370)                | (1 551)                |

7. WKCD also advised that it would further review, in consultation with the Government, the development of the remaining Batch 3 facilities including Music Centre, Great Theatre and Musical Theatre. Work on those facilities would be subject to the completion of the IB in Zone 2C and funding availability.

### **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. Some members were worried whether 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 IB as an integral part of the approved

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<sup>9</sup> Source: [LC Paper No. CB\(1\)668/19-20\(01\)](#)

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. According to WKCDA's estimation in June 2020, the upfront endowment and investment income would 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 be subject to the availability of funds. To bridge the capital funding gap for delivering the remaining facilities, WKCDA was working with financial advisor on its long-term financing strategy. In parallel, WKCDA was also exploring with the Government various financing options under EFA.

#### Operating deficit faced by the West Kowloon Cultural District Authority

11. Expressing concern over the huge operating deficit faced by WKCDA, some members enquired about the measures to reduce the deficit and whether WKCDA would expedite the commercial developments in WKCD to generate income in a timely manner.

12. WKCDA advised that the deferred possession of the WKCD site for around five years due to the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link project rendered it impossible for an early development of IB, which was a pre-requisite of the topside commercial developments. With the opening of more arts and cultural facilities in WKCD in the coming years such as M+, the Hong Kong Palace Museum and the Lyric Theatre Complex, the operational expenses of WKCD would continue to increase, whilst a majority of the income generating facilities in the District would only be completed beyond 2025 after the completion of IB, hence resulting in a prolonged mismatch in the timing of cashflows and thus a deterioration in the operating deficit of WKCDA. While the income received from business activities, ticketing and sponsorships following the progressive opening of various facilities in WKCD in the coming years could help improve the short-term financial situation of WKCDA, the long-term financial situation of WKCDA would be significantly improved by the cash inflow from the ACE project and HOR developments in WKCD under the BOT arrangement. The Authority had also widened its income sources (such as launching public fundraising campaigns via the newly established WKCD Foundation Limited) and exercised stringent cost control over the years.

13. At the meeting of the Joint Subcommittee in June 2020, some members enquired when WKCDA would finish drawing up its external

borrow plan,<sup>10</sup> and whether the Administration would have to inject funds into WKCDA to support its operation.

14. WKCDA advised that Authority would work with the financial advisors and exploring with the Administration on various financing options including funding support from the Government and external borrowing, taking into account the repayment ability of WKCDA and other issues. It was originally expected that the financial advisors could complete the external borrowing plan by the end of 2019. However, in view of the impact of the social incidents in 2019 and the COVID-19 pandemic in 2020, the long-term financial projection of WKCDA had to be reviewed. The Administration could only explore the forms of support it could provide to the Authority upon completion of the long-term financial projection of WKCDA.

#### Details of the enhanced financial arrangement

15. Some members enquired about the details of the financial projections under the EFA, including the estimates on the upfront payment to be paid to the Government and the income to be shared by WKCDA, and whether the income generated for WKCDA could cover the shortfall in the funds for developing and operating the arts and cultural facilities in WKCD.

16. 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.

17. The Administration advised that under the EFA, WKCDA would 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.

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<sup>10</sup> Under EFA, WKCDA will engage a financial consultant to draw up a comprehensive and affordable external borrowing plan to raise funds to finance the development of the remaining core arts and cultural facilities and other arts and cultural facilities.

18. 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, 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 concerned that the granting of the HOR and RDE portions of WKCD to WKCDA under the EFA would amount to making WKCDA an "independent kingdom".

19. 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.

20. 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 among developers. WKCDA would also retain the right to cancel the tender if the tender price offered by tenderers was unreasonably low.

21. At the meeting of the Joint Subcommittee in June 2020, the Administration advised that a funding gap in 2022-2023 was already anticipated under the EFA. However, the relevant projects had to be reviewed under the long-term financial projection of WKCDA due to many unforeseeable factors/developments, including the termination of the employment of Hsin Chong Construction Company Limited under the M+ main works contract in 2018, the outbreak of the social incidents in 2019 and the COVID-19 pandemic in 2020, which had an impact on the financial situation of WKCDA. The way ahead could not be formulated until the exact magnitude of the funding gap had been worked out after the long-term financial projection. WKCDA added that the completion of IB in Zone 2 ("IBZ2") was a pre-requisite of the topside HOR developments. With the

funding approval by FC in March 2020, IBZ2 project was scheduled for completion in phases starting from 2025.

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

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

23. The Administration advised that three directors of bureaux or their alternates, being members of the WKCDA Board, were responsible for, among others, monitoring the financial situation of WKCDA. A mechanism would also 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**

24. At the meeting of the Joint Subcommittee to be held on 3 May 2021, the Administration and WKCDA will update members on the latest financial situation of the WKCD project.

### **Relevant papers**

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

## Appendix I

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

| Facilities   | Status and<br>target completion date  |
|--|---|
| <b><i>Batch 1</i></b>  |   |
| Temporary Nursery Park   | Opened in July 2015   |
| M+ Pavilion<br><i>(formerly known as Arts Pavilion)</i>  | Opened in July 2016   |
| Xiqu Centre<br><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 was opened in March 2020. |
| Freespace  | Operations started in June 2019   |
| M+ Building  | Occupation Permit was obtained in December 2020, and set to open to the public at the end of 2021. <sup>1</sup>   |
| <b><i>Batch 2</i></b>  |   |
| Lyric Theatre Complex ("LTC")<br><i>(including a Lyric Theatre, a Medium Theatre and a Studio Theatre)</i> <sup>(note)</sup> | Main works in progress<br>Target to complete in 2023 for opening in 2024  |
| Centre for Contemporary Performance ("CCP")<br><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>(note)</sup>  | Incorporated into the LTC   |

<sup>1</sup> [WKCD's press release in March 2021](#)

| Facilities   | Status and target completion date  |
|--|--|
| <b><i>Batch 3</i></b>  |  |
| Music Centre<br><i>(including Concert Hall and Recital Hall)</i> | High priority, to be reviewed by WKCD  |
| Musical Theatre  | To be developed through public-private partnership subject to private sector funding   |
| Great Theatre  | To be reviewed by WKCD and delivered gradually having regard to demand in line with the organic growth approach of WKCD  |
| Medium Theatre I   |  |
| <b><i>Others</i></b>   |  |
| Art, Commerce and Exhibitions (ACE Project)                      | <p>To be developed through BOT model with a U-shaped hotel, offices and an adjacent Exhibition Centre</p> <p>The tender for the ACE Project was issued in April 2020, but was subsequently withdrawn in August 2020 as the response to the tender was not as positive as expected due to the uncertain market economic outlook amid the COVID-19 pandemic.<sup>2</sup></p> |
| Hong Kong Palace Museum  | Construction of superstructure commenced in April 2019 and will be completed at the end of 2021 with opening targeted for mid-2022. <sup>3</sup>   |

<sup>2</sup> Source: [LC Paper No. CB\(1\)403/20-21\(01\)](#), paragraph 30

<sup>3</sup> Source: [LC Paper No. CB\(1\)403/20-21\(01\)](#), paragraph 20

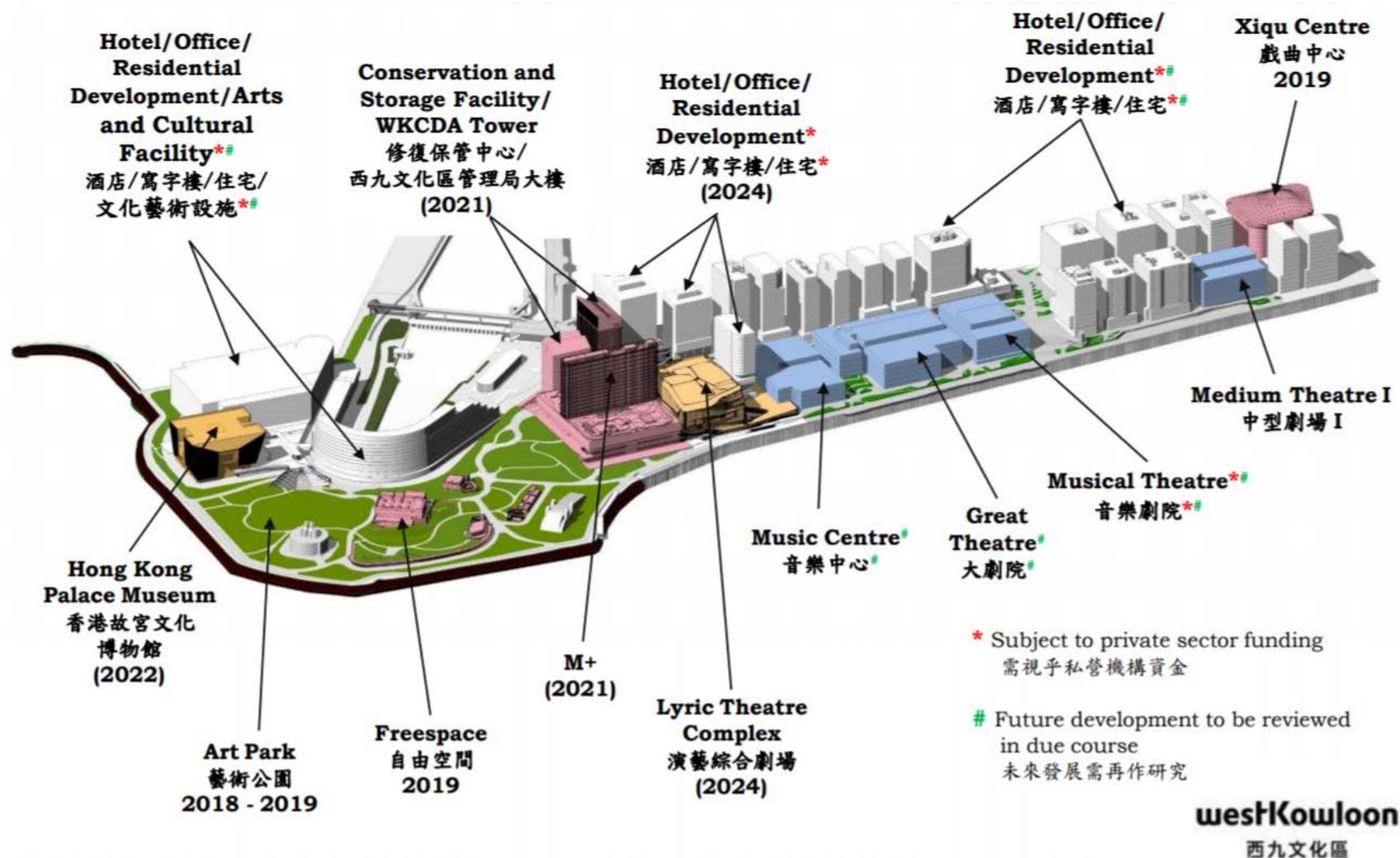
| Facilities         | Status and target completion date  |
|--------------------|--|
| M+ Phase II        | To be reviewed by WKCDA and delivered gradually having regard to demand in line with the organic growth approach of WKCD |
| Xiqu Small Theatre |  |

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.

(Reference: Annex 2 to [LC Paper No. CB\(1\)668/19-20\(01\)](#))

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\(1\)403/20-21\(01\)號文件的附件一](#)  
Source: Annex 1 to [LC Paper No. CB\(1\)403/20-21\(01\)](#)

## Appendix III

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

#### List of relevant papers

| Council/Committee   | Date of meeting       | Paper   |
|---|-----------------------|---|
| Public Works Subcommittee   | 18.6.2008<br>Item 1   | <a href="#">Agenda</a><br><a href="#">Minutes</a>   |
| Finance Committee   | 4.7.2008<br>Item 2    | <a href="#">Agenda</a><br><a href="#">Minutes</a>   |
| Council meeting   | 26-27.6.2013          | Official Record of Proceedings — Motion on "Concern about the expenditure of the West Kowloon Cultural District project" ( <a href="#">p.14119-14141, 26.6.2013</a> ) and ( <a href="#">p. 14148-14235, 27.6.2013</a> ) |
| Former Joint Subcommittee to Monitor the Implementation of the West Kowloon Cultural District Project formed in the Fifth Legislative Council | 3.7.2013<br>Item II   | <a href="#">Agenda</a><br><a href="#">Minutes</a>   |
|   | 24.1.2014<br>Item II  | <a href="#">Agenda</a><br><a href="#">Minutes</a>   |
|   | 28.3.2014<br>Item II  | <a href="#">Agenda</a><br><a href="#">Minutes</a>   |
|   | 28.5.2014<br>Item I   | <a href="#">Agenda</a><br><a href="#">Minutes</a><br><br><a href="#">Response of the Administration/WKCDA to members' concerns raised at the meeting</a>  |
|   | 24.11.2014<br>Item II | <a href="#">Agenda</a><br><a href="#">Minutes</a>   |

| Council/Committee  | Date of meeting           | Paper   |
|--|---------------------------|---|
|  | 12.1.2015<br>Item III     | <a href="#">Agenda Minutes</a>  |
|  | 19.5.2015<br>Item III     | <a href="#">Agenda Minutes</a>  |
|  | 7.7.2015<br>Item I        | <a href="#">Agenda Minutes</a>  |
|  | 30.5.2016<br>Item I       | <a href="#">Agenda Minutes</a>  |
| —  | 19.1.2017<br>(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<br>Item II      | <a href="#">Agenda Minutes</a><br><br><a href="#">Response of the Administration/WKCDA to members' concerns raised at the meeting</a> |
|  | 9.2.2018<br>Item II       | <a href="#">Agenda Minutes</a>  |
|  | 11.5.2018<br>Item II      | <a href="#">Agenda Minutes</a>  |
|  | 14.1.2019<br>Item II      | <a href="#">Agenda Minutes</a>  |
|  | 29.4.2019<br>Item III     | <a href="#">Agenda Minutes</a>  |
|  | 10.6.2019<br>Item IV      | <a href="#">Agenda Minutes</a>  |
|  | 1.6.2020<br>Item III      | <a href="#">Agenda Minutes</a>  |