



West Kowloon Cultural District: Financial Alchemy through PPP?

Revamping PPPs Symposium
The University of Hong Kong
28 February 2009

G | H | K

The West Kowloon Cultural District



- 40ha site
- World Class Cultural District
- One of the largest in the world
- Impressive array of arts & cultural facilities
- Site remains vacant

History of West Kowloon Cultural District



1999: Study recommends arts districts in HK, including WK

2001, June: Government announces WK to become Integrated Arts, Culture & Entertainment District. Concept Plan Competition launched

2002, February: Foster + Partners win Concept Plan

2003, September: Government launches Invitation for Proposals (IFP). Closes in June 2004 with five responses

2005, October: Government imposes new development parameters and conditions

2006, February: Government discontinues the IFP but remains committed to development of WKCD

The October Package

End of single developer approach

Upfront payment for operations: HK\$30bn

Overriding Plot Ratio Limit: 1.81

Residential Development Cap: 20%

CACF as % of total GFA: 30%

Public Open Space 20ha

“The existing development framework has been revised to address public concerns. But **it has lost market attractiveness**. We must accept that there is a **significant gap between public demands and commercial reality**.”

- Rafael Hui, Chief Secretary for Administration, Feb 2006

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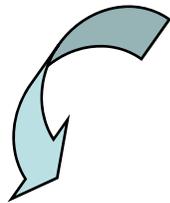
2003, September: Government launches Invitation for Proposals (IFP). Closes in June 2004 with five responses

2005, October: Government imposes new development parameters and conditions

2006, February: Government discontinues the IFP but remains committed to development of WKCD

2006, April: Government establishes the Consultative Committee on CACF

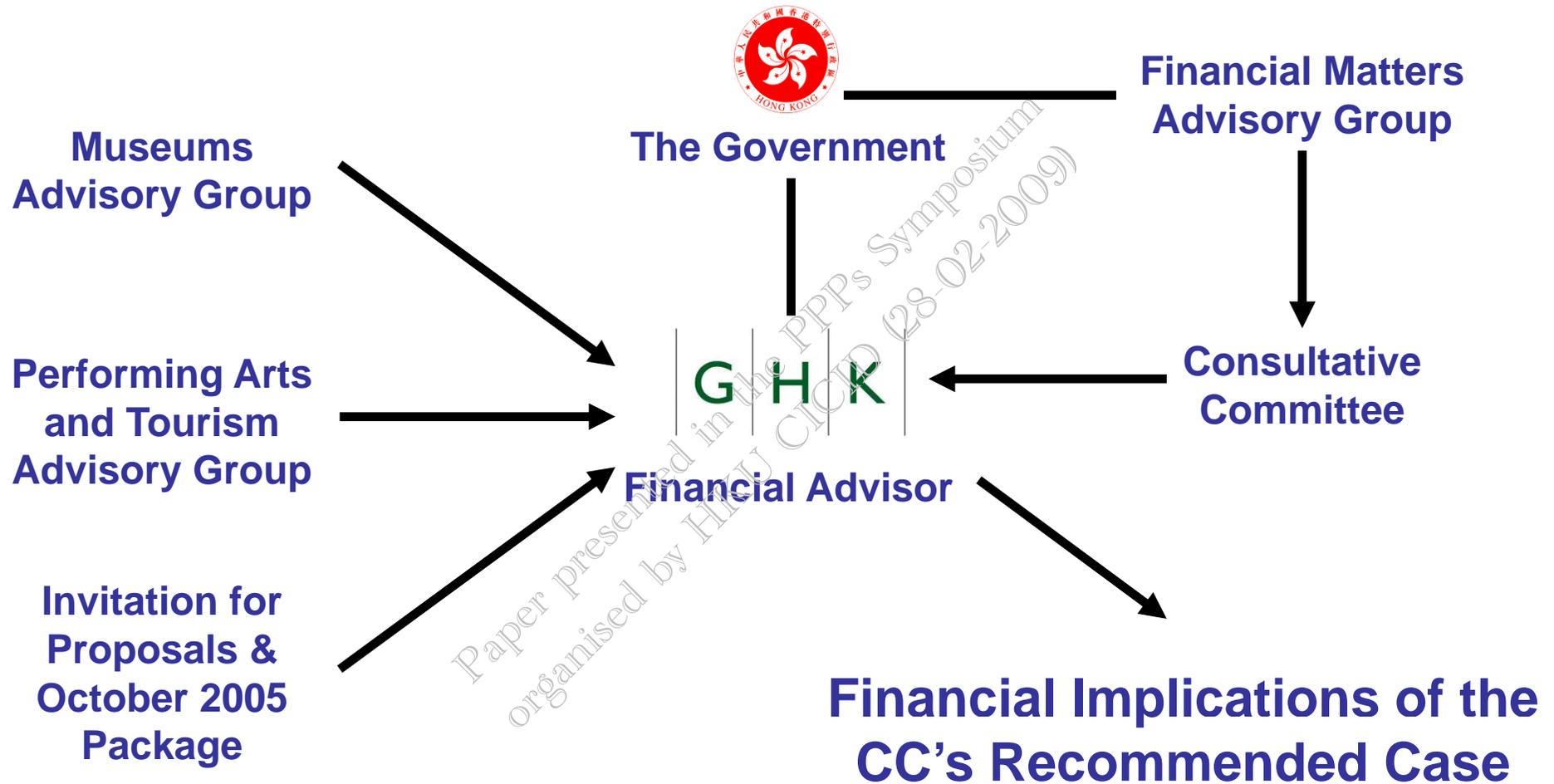
2006, August: GHK appointed as Financial Advisor to the Government



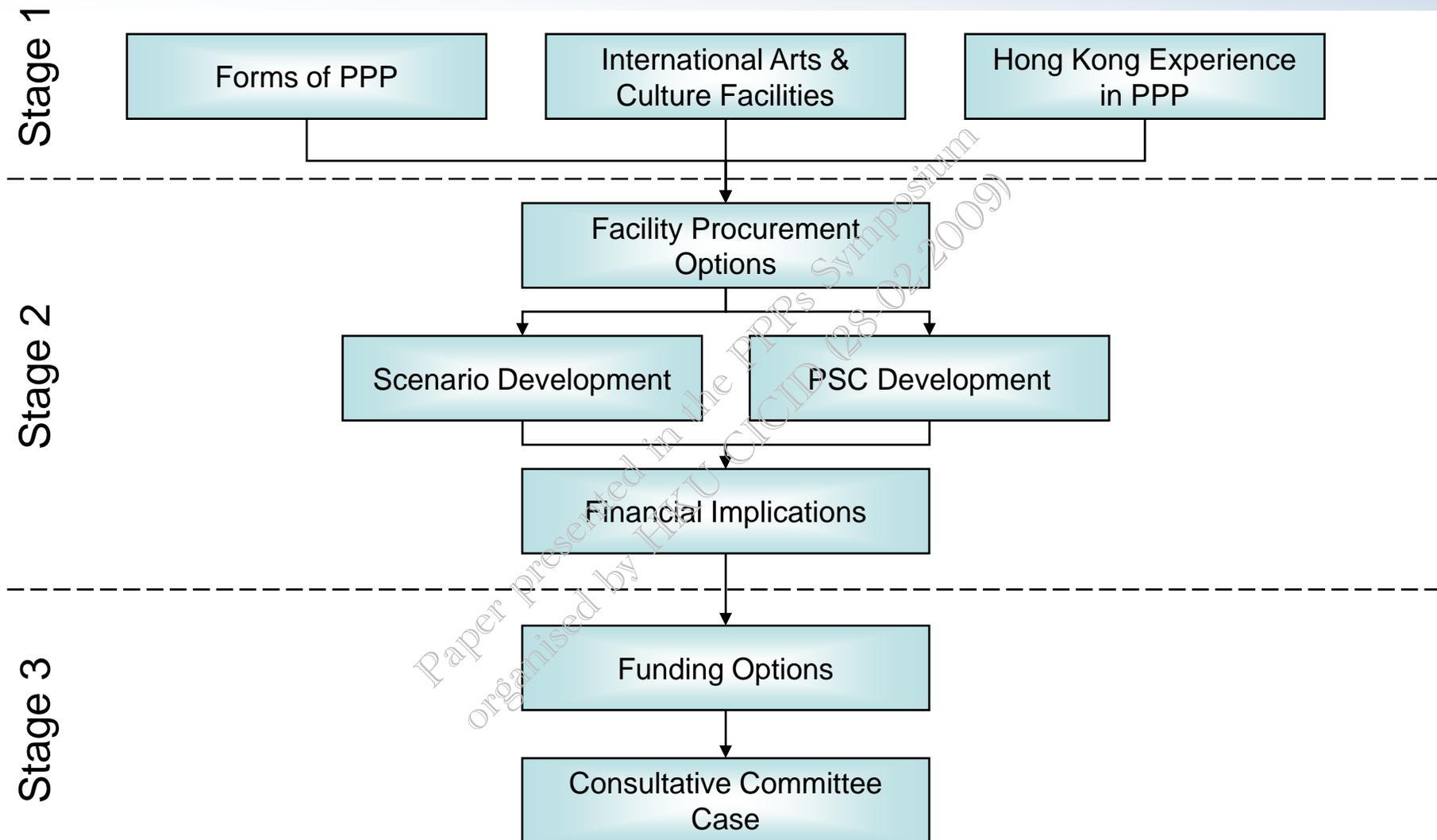
“To ensure sustainable operation of the WKCD...the Government still prefers to continue to develop the WKCD through Public Private Partnerships.”

- Rafael Hui, Chief Secretary for Administration, Feb 2006

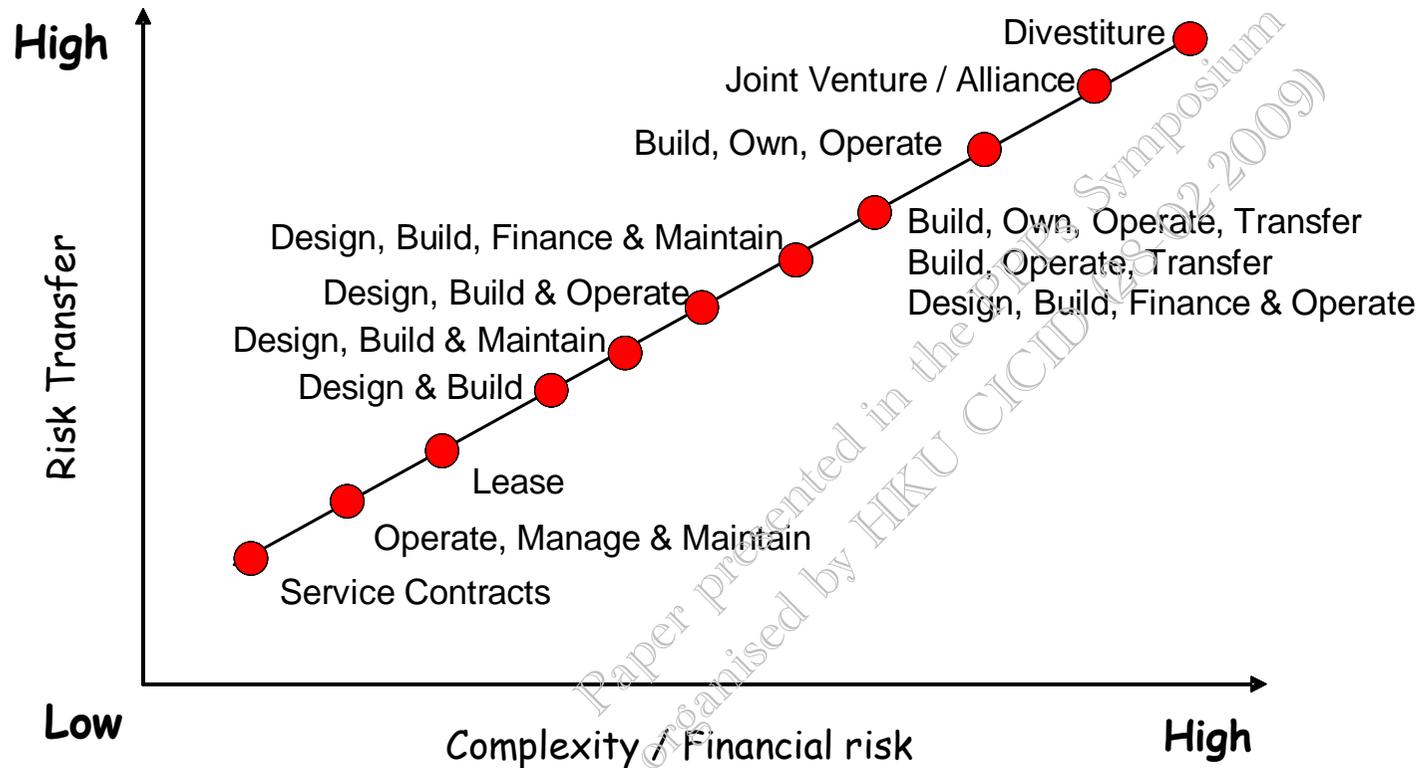
Role of Financial Advisor



Approach of the Financial Advisor



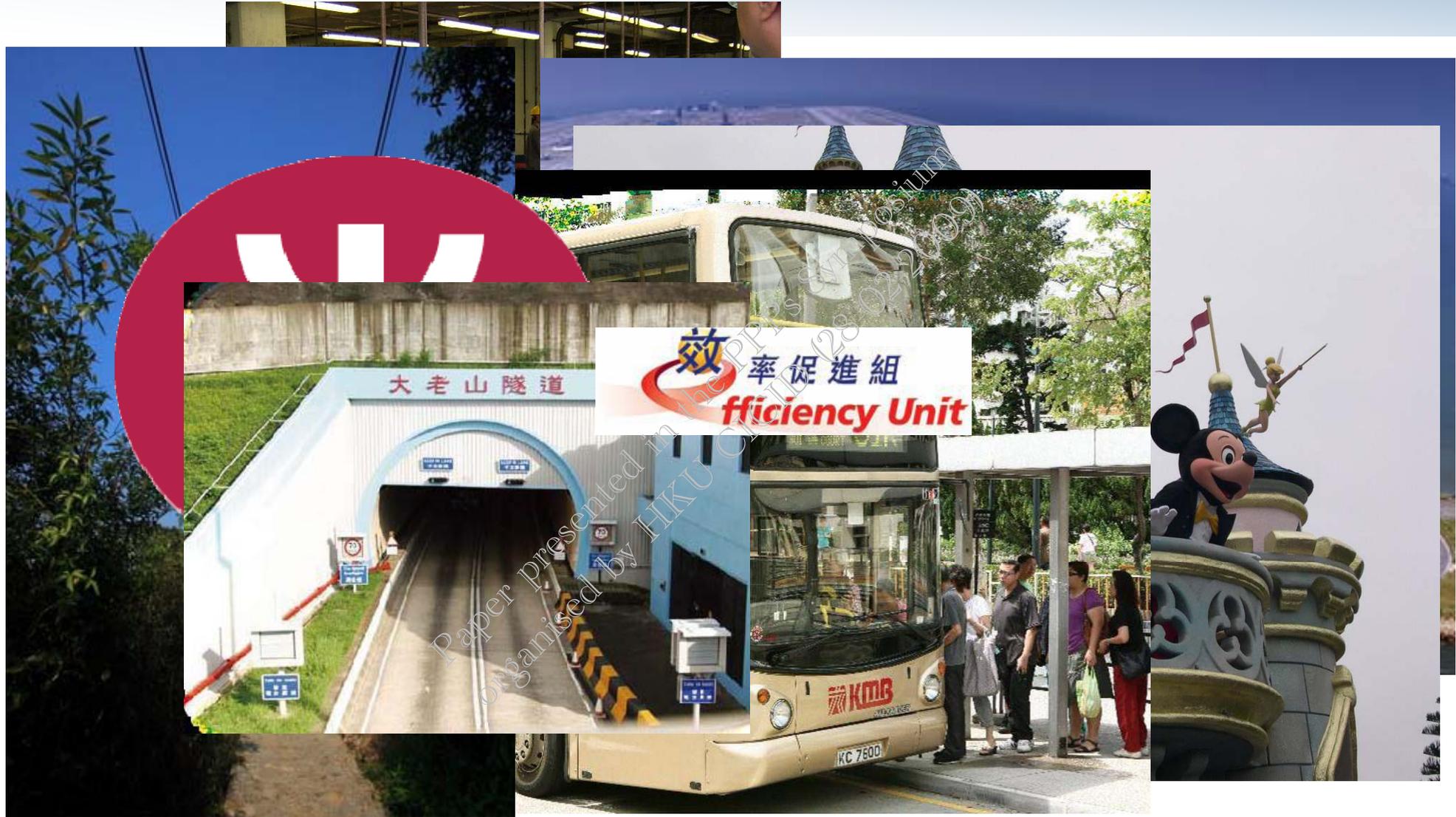
Forms of Private Sector Involvement



Characteristics of PPP

- **Contract**
- **Sharing of risk & responsibility**
- **Medium to long term timescale**
- **Incentivised by having private finance at risk**

PSI and PPP in Hong Kong



G H K

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International Arts and Culture Facilities



International Arts & Culture Facilities

		<u>Annual Visitors</u>	<u>Operational Cost Recovery?</u>
Guggenheim Bilbao		About 1 million	65%
Tate Britain		1.6 million	54%
South Bank Centre, London		700,000	43%
Esplanade, Singapore		440,000	38%

International Arts and Culture Districts

Harbourfront Centre,
Toronto



4 ha

6 and Exhibition
Facilities

Sale of commercial
development sites

South Bank
Corporation,
Brisbane



125 ha

8 PA, Exhibition,
Libraries and
University Facilities

A&C by direct Gov funding.
Area management by
leasing commercial

Bilbao Ria 2000

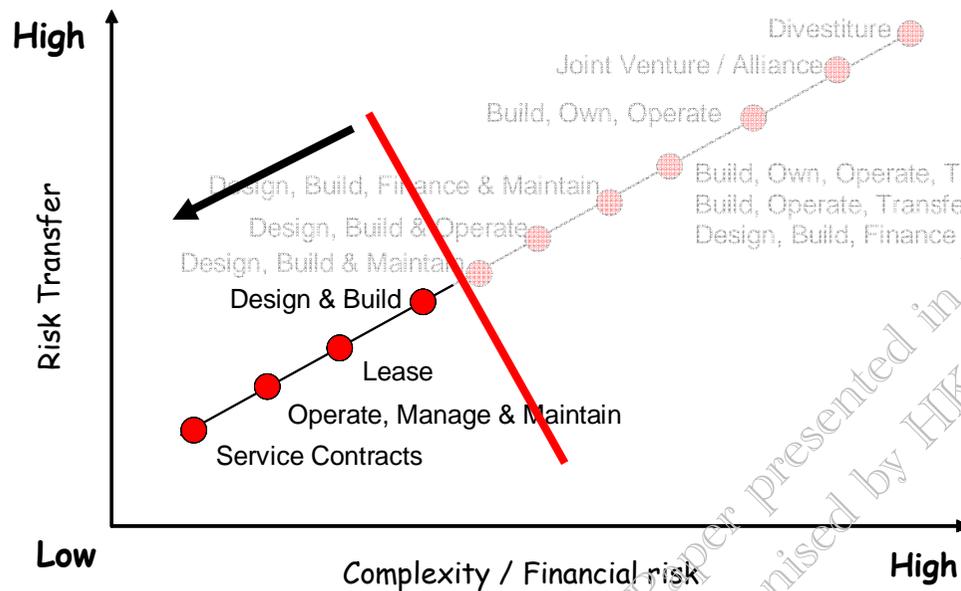


38 ha

5 PA, Exhibition and
University Facilities

Direct public funding and
land sales

Private Sector Involvement in Arts and Culture Facilities

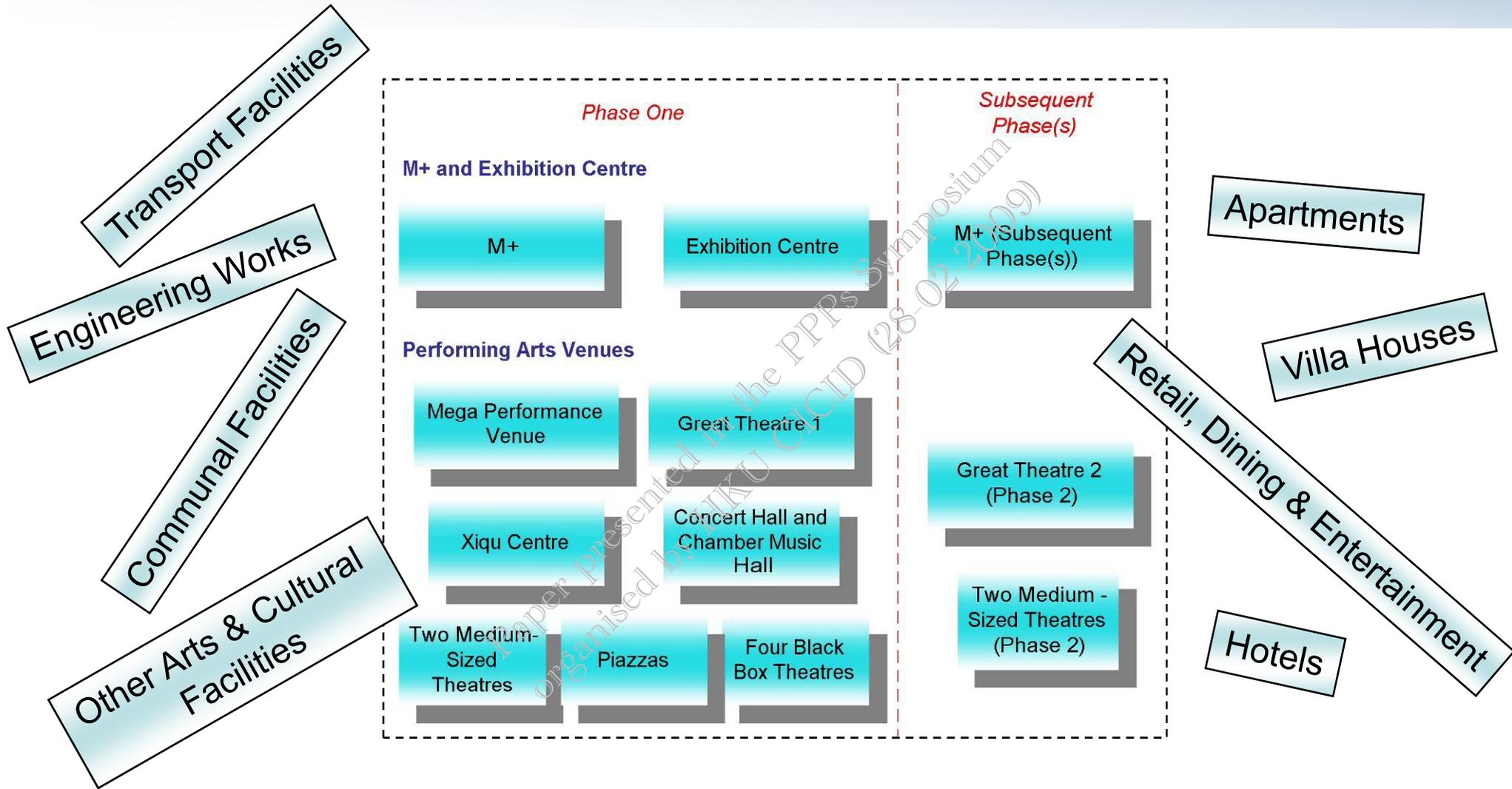


- Few Examples of Lifecycle Approach
- Private Finance Not at Risk
- Public Sector Initiated
- Planning Gain/ Packaging
- Area Based Approaches and Agencies
- **PPP to Private Sector Involvement**

Appropriate forms of PPP for Consideration at West Kowloon

- Arts and culture facilities have particular attributes
- Overall financial viability and opportunities for cost recovery
 - Commercial programme
 - Scale
 - Degree of competition
- Construction and operation undertaken by very different organisations
- No private sector experience in HK of building and operating
- Do not easily fit into traditional forms of PPP

Facilities at West Kowloon Cultural District



Generating Assumptions about the Site and Each Facility

Site Area: 40.09 ha

Plot Ratio ?

Max GFA ?

Museum

Exhibition

PA Ven ?

Open space ?

Transport ?

Toilets ?

Car parks ?

Demand ?

Phasing ?

Detailed Estimates/Assumptions



Detailed Estimates/Assumptions

Height Restrictions?

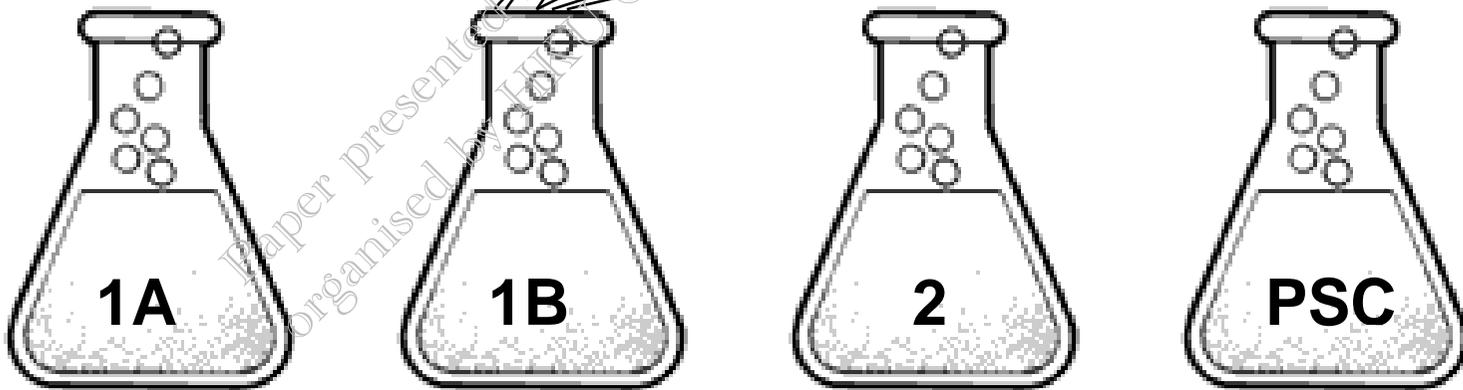
Building Scenarios: Combining Facilities

Facility: A B C D E... n = 26

Option:



Scenario:



Greater Risk Transfer →

Building Scenarios: Combining Facilities

PSI 1A

Unpackaged, least aggressive
Procurement mainly D&B
Operation mostly separate OMM contracts

PSI 2

Packaging of CACF and communal facilities with commercial & residential development

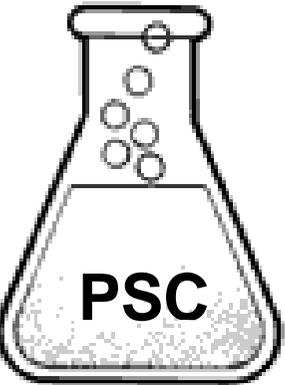
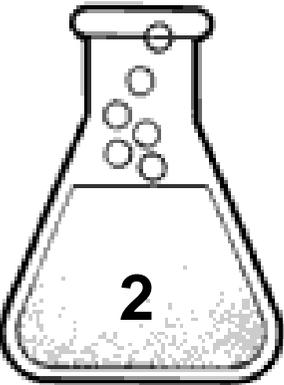
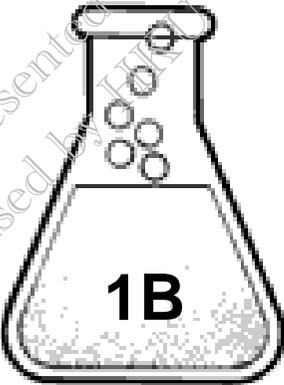
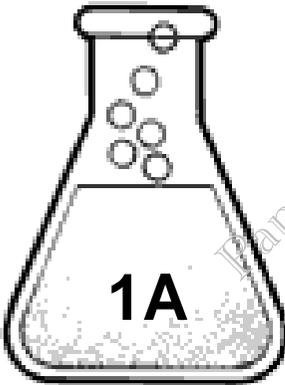
PS1 1B

Unpackaged, more aggressive
Lifecycle approach wherever possible
Procurement mainly DBFM
Operations: O&M

PSC

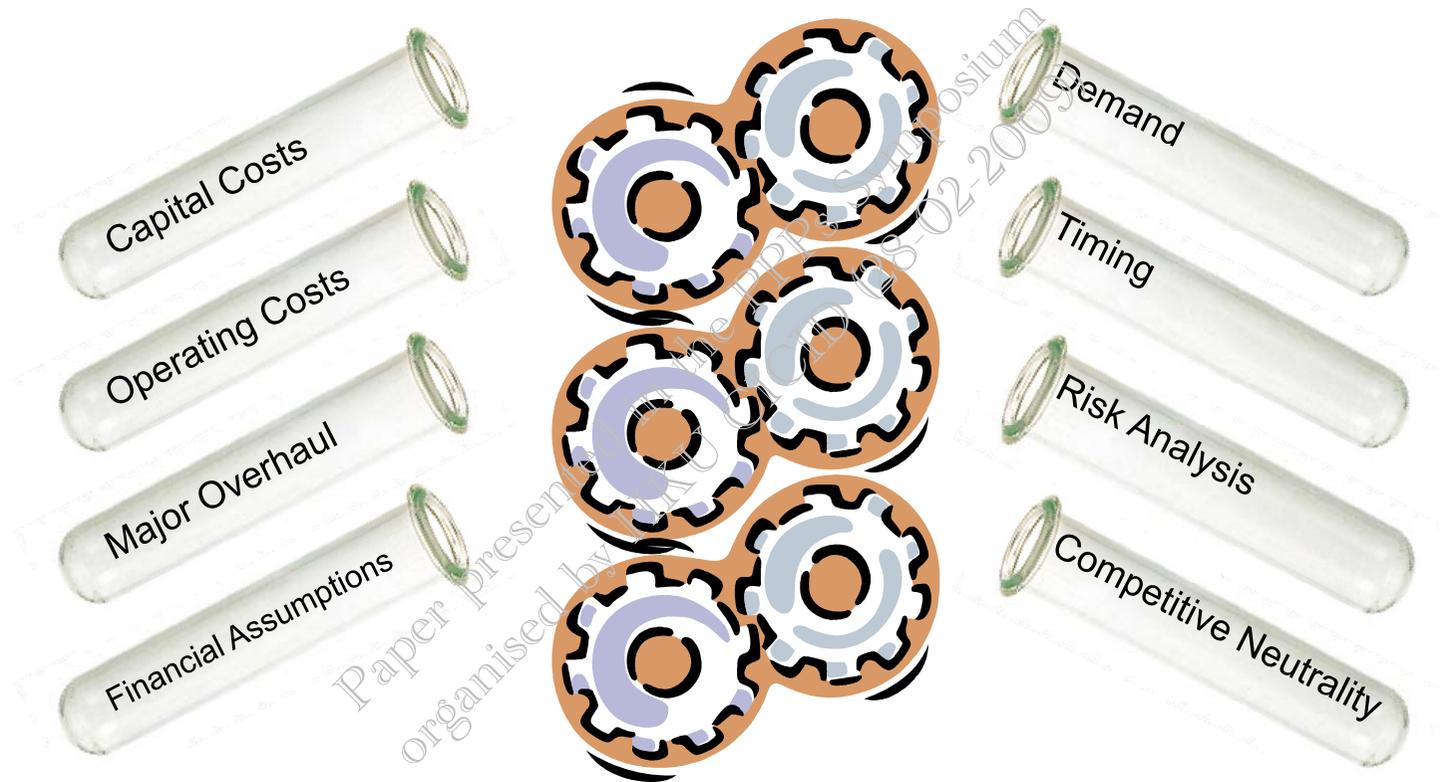
Risk-adjusted public sector provision
Assumes usual Govt. practice
Construction contracts to private sector
Govt. departments run facilities, including OMM

Scenario:



————— Greater Risk Transfer —————>

The Financial Model



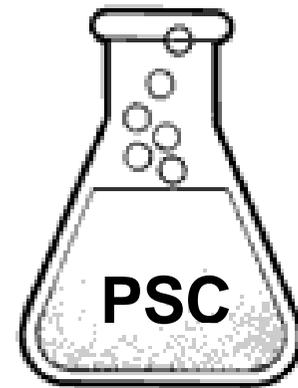
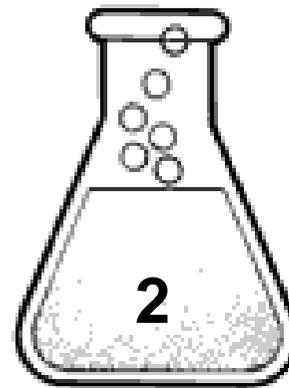
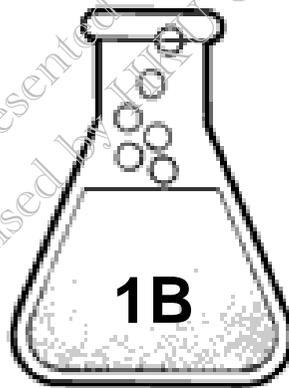
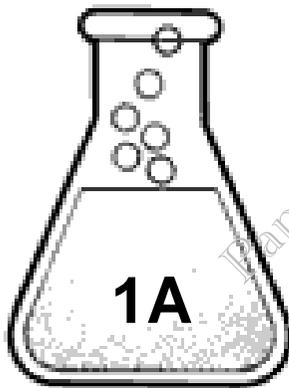
Results by Facility

- None of the CACF are independently financially viable
- All would require some form of external subsidy
- None would be built if left to market forces
- Only the Mega Performance Venue and the Exhibition Centre are operationally financially viable
- All others, even if built and overhauled using subsidy, would still require a subsidy just to keep them operating

Results by Scenario

Total Deficit	\$29.9bn	\$31.7bn	\$25.7bn	\$32.8bn
Land Sales	\$20.9bn	\$20.9bn	\$14.2bn	\$9.1bn
Funding Gap	\$9.1bn	\$10.8bn	\$11.5bn	\$11.9bn

Scenario:



Greater Risk Transfer →

Funding Options

Scenario 1A

Capital Costs	Option 1	Option 2	Option 3	Option 4
Capital Costs (Construction and Overhaul)	\$21.6	\$21.6	\$24.7#	\$21.6
Government Funding Through Land Sales	\$20.9	\$20.9	\$17.0	-
Government Funds Required for Capital	\$0.7	\$0.7	\$7.7	\$21.6
Operating Costs				
Operating Deficit	\$8.4	\$8.4	\$8.4	\$8.4
Method of Financing Operating Deficit	Seed Capital	Subventions	Rental Income	Land Sales
Government Funds Required for Operations	\$8.4	\$8.4	.*	-**
Financial Implications to Govt				
Government Funding Through Land	\$20.9	\$20.9	\$17.0	\$20.9**
Land Premium Foregone (RDE Facility)	-	-	\$3.9	-
Government Funding Through the Budget (Capital)	\$9.1	\$0.7	\$7.7	\$21.6
Government Funding Through the Budget (Recurrent)	-	\$8.4	-	-
Total	\$30.0	\$30.0	\$28.6	\$42.5**

The funding requirement varies in total, type and timing under each of the 4 options.

Preference depends on policy as there are pros and cons of each option.

Can PPP turn Lead into Gold?

- NO - for CACF and communal facilities, PPP cannot turn lead into gold
- PPP cannot remove the need for public subsidy...
- ...But it does provide opportunities for changing its scale, form and timing:
 - Efficiency gains through private sector management
 - Private capital at risk can be used but needs to be compensated
 - Pay now or pay later
- Area based approaches provide opportunities for:
 - Attracting private sector capital but not at risk
 - Combining with commercial development

46	Cu	Zn	Ga	Ge	As	52	
47	48	49	50	51	52		
78	Pd	Ag	Cd	In	Sn	Sb	82
79	80	81	82	83	84		
	Pt	Au	Hg	Tl	Pb	Bi	84
83	84	85	86	87	88		
	Gd	Tb	Dv	Ho			

Consultative Committee Recommendations and Progress to Date

- Reduce the funding gap
- Separate the land sales programme and funding of WKCD
- Provide one-off upfront capital endowment to cover capital cost (including RDE facilities)
- RDE revenue to cross-subsidise operational loss of CACF

- WKCDA Ordinance – July 2008
- WKCDA appointments – October 2008
- Concept Plan and Development Plan – request for proposals – Feb 2009
- PR and staffing consultancies – Feb 2009

Postscript: Key Challenges Ahead & Success Factors for WKCD

- Governance, Governance, Governance!
- WKCDA independence and perceived independence is critical
- WKCDA must have flexibility to accommodate to changing circumstances
 - Economic situation
 - Cultural policies
 - Competition
 - Technological change
 - Building relationships with other institutions
- Appropriate supporting policies - supporting software
- Great opportunity for Hong Kong, considerable risks
- Visionary, strong and respected leader to balance aspirations with reality

THANK YOU

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