



West Kowloon Cultural District: Financial Alchemy through PPP?

Revamping PPPs Symposium
The University of Hong Kong
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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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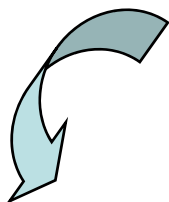
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2005, October: Government imposes new development parameters and conditions

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

2006, April: Government establishes the Consultative Committee on CACF

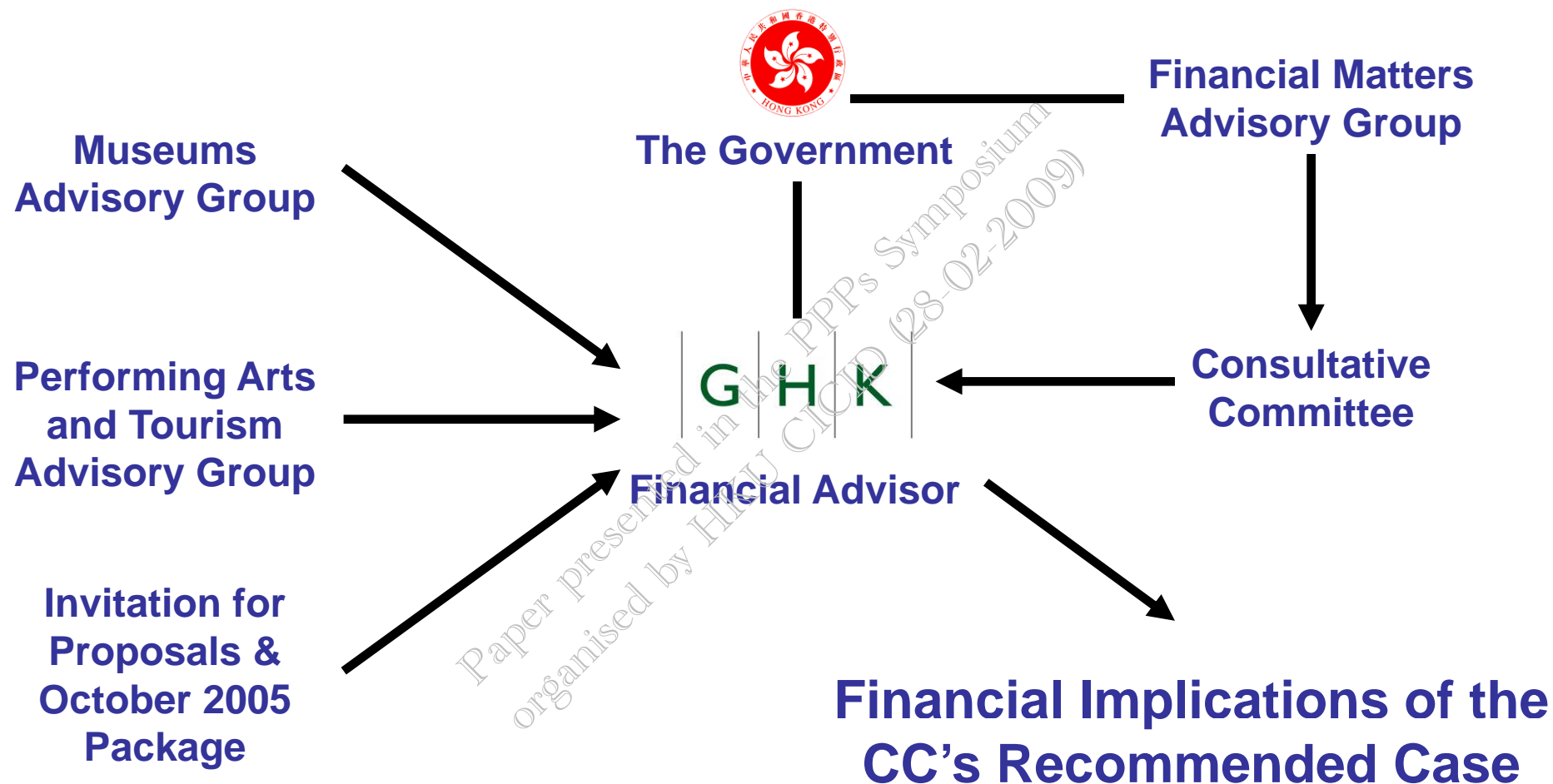
2006, August: GHK appointed as Financial Advisor to the Government



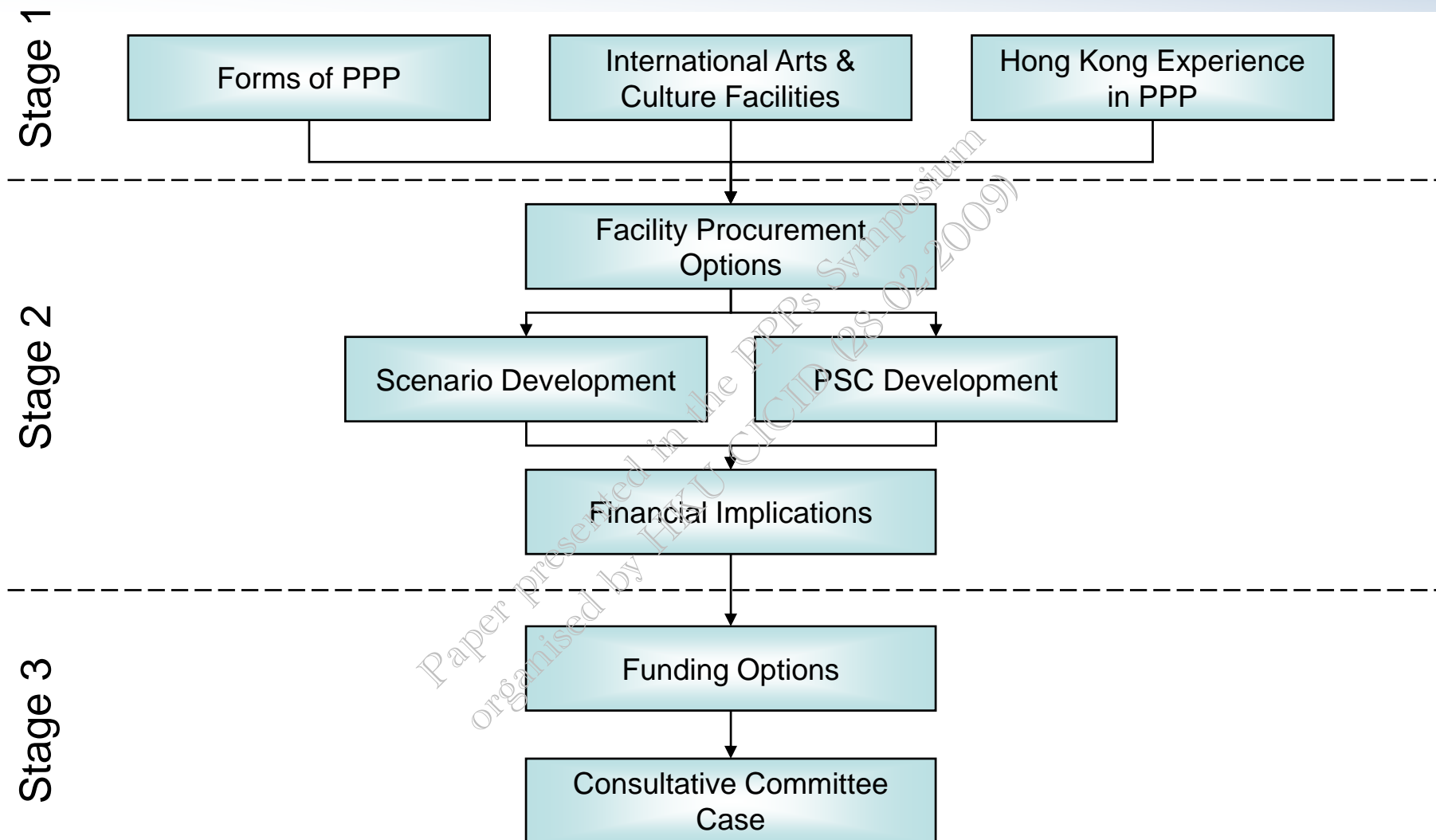
“To ensure sustainable operation of the WKCD...the Government still prefers to continue to develop the WKCD through Public Private Partnerships.”

- Rafael Hui, Chief Secretary for Administration, Feb 2006

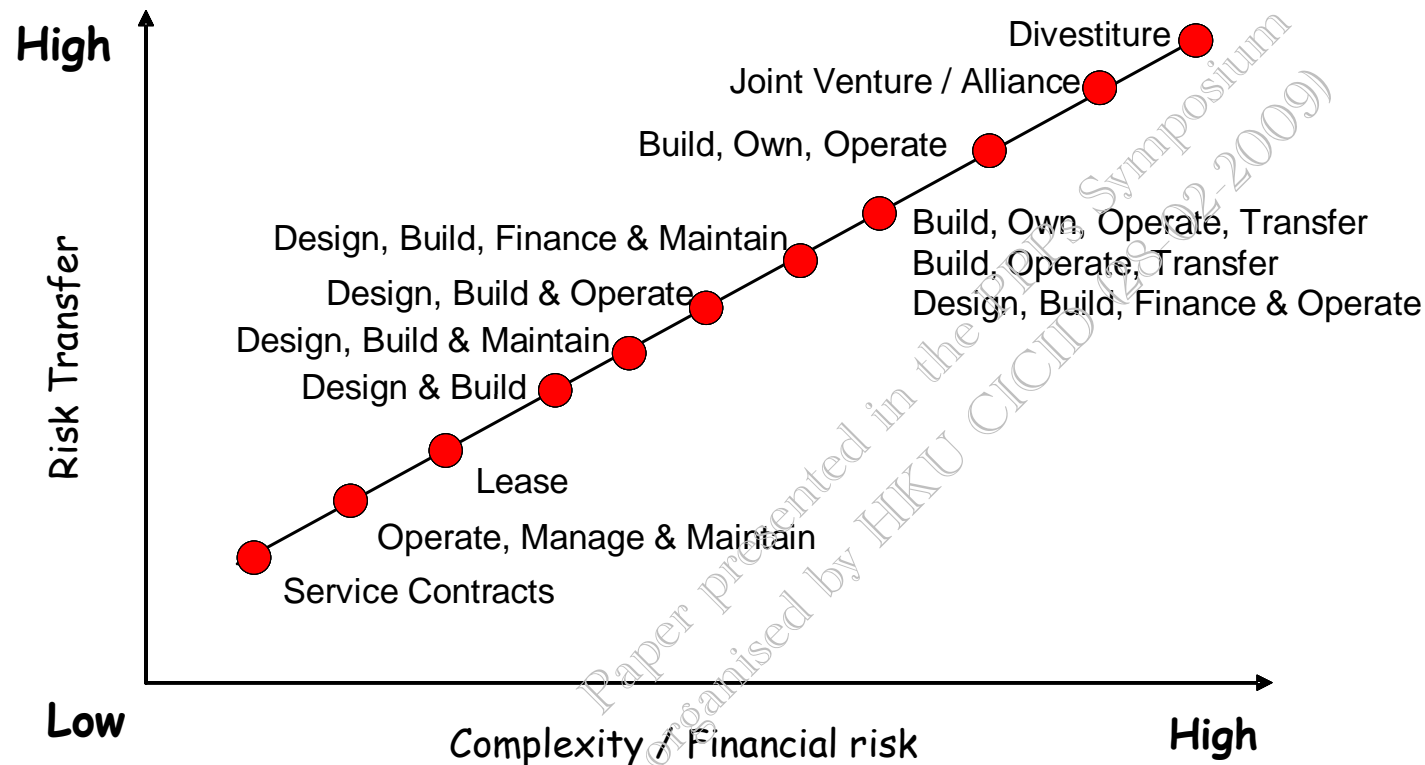
Role of Financial Advisor



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



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

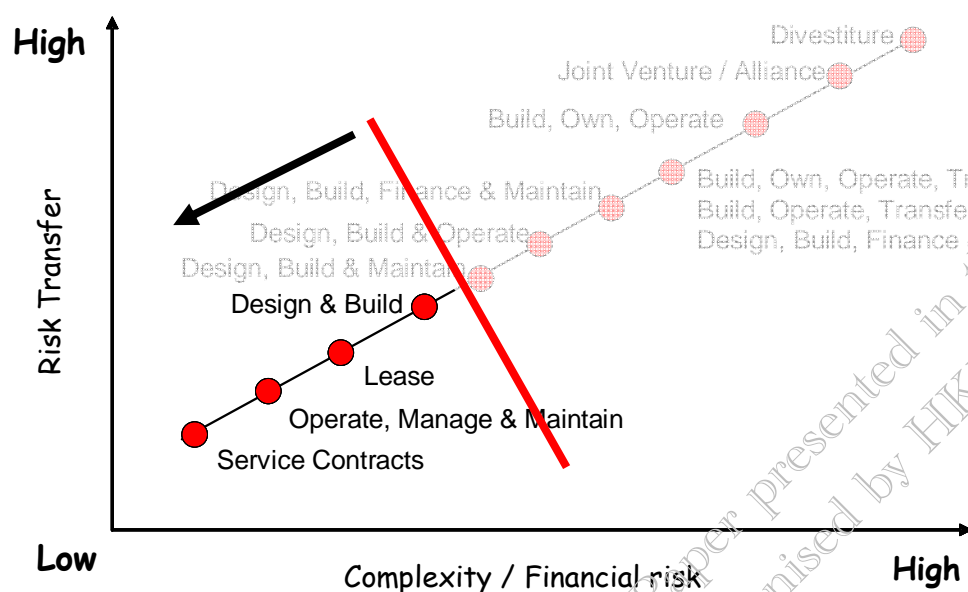


38 ha

5 PA, Exhibition and
University Facilities

Direct public funding and
land sales

Private Sector Involvement in Arts and Culture Facilities

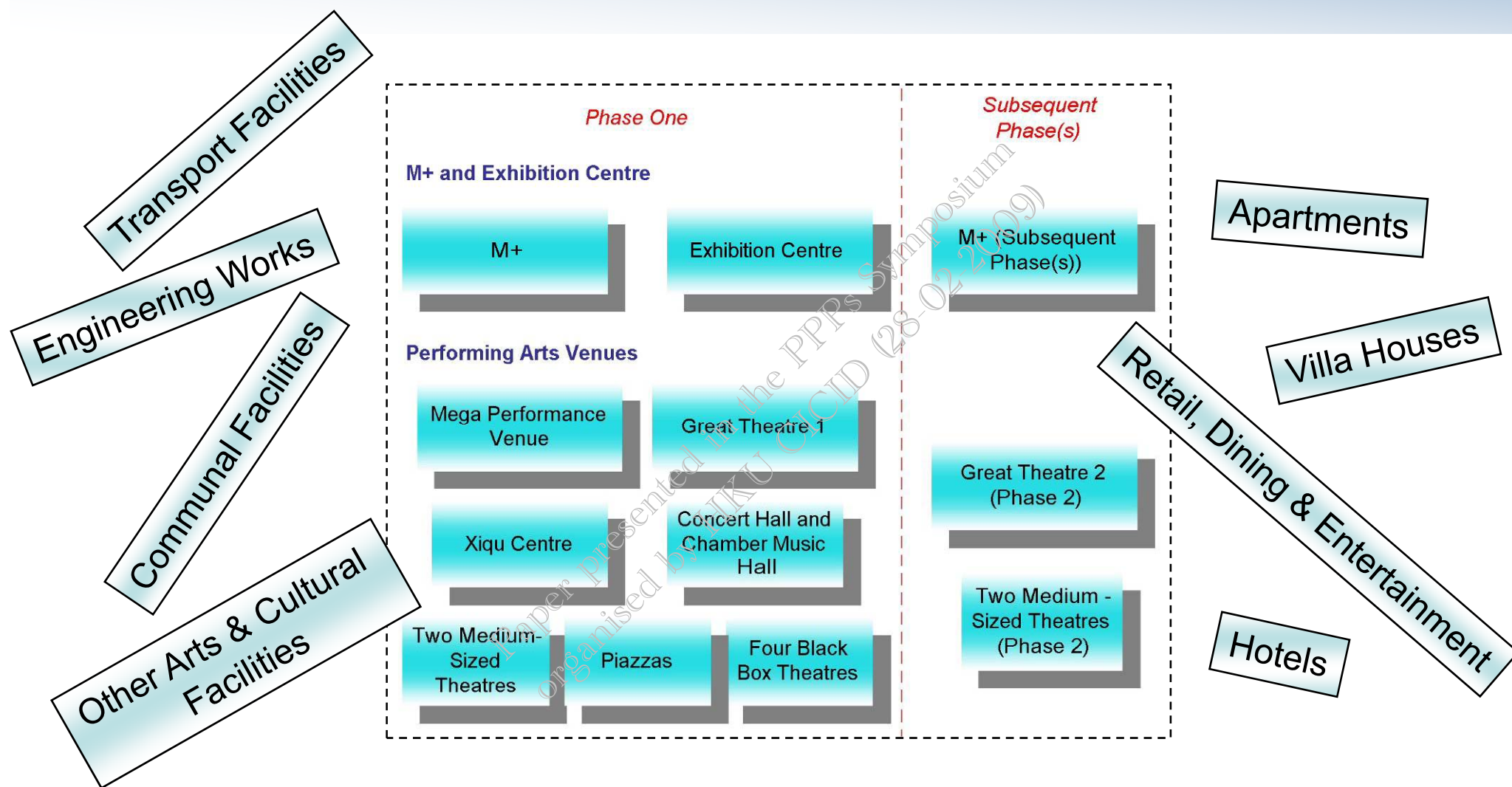


- Few Examples of Lifecycle Approach
- Private Finance Not at Risk
- Public Sector Initiated
- Planning Gain/ Packaging
- Area Based Approaches and Agencies
- **PPP to Private Sector Involvement**

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 ?

Space ?

Transport ?

Toilets ?

Car parks ?

Demand ?

Phasing ?

Detailed Estimates/Assumptions



Height Restrictions?

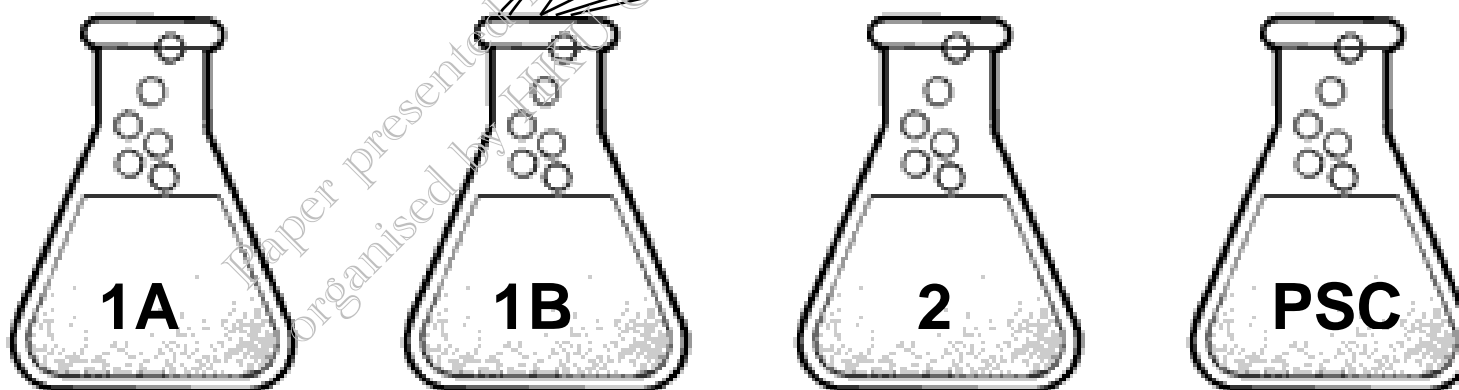
Building Scenarios: Combining Facilities

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

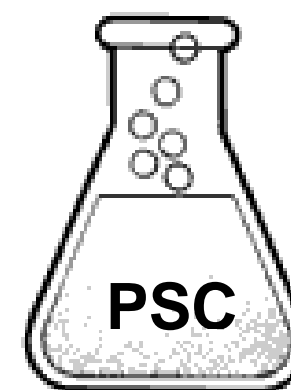
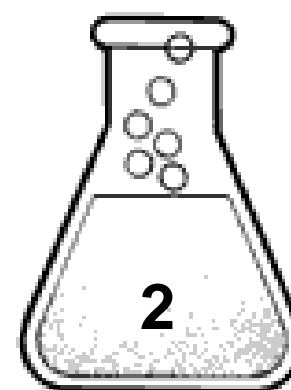
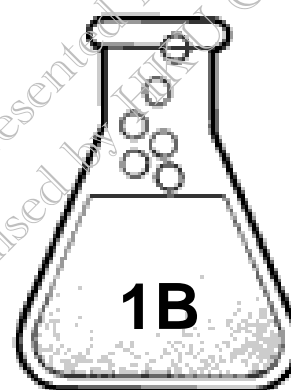
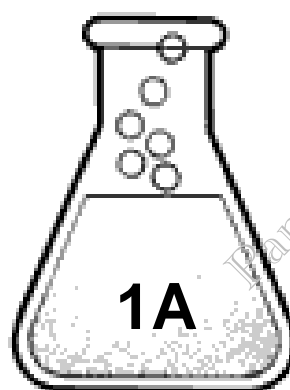
PS1 1B

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

PSC

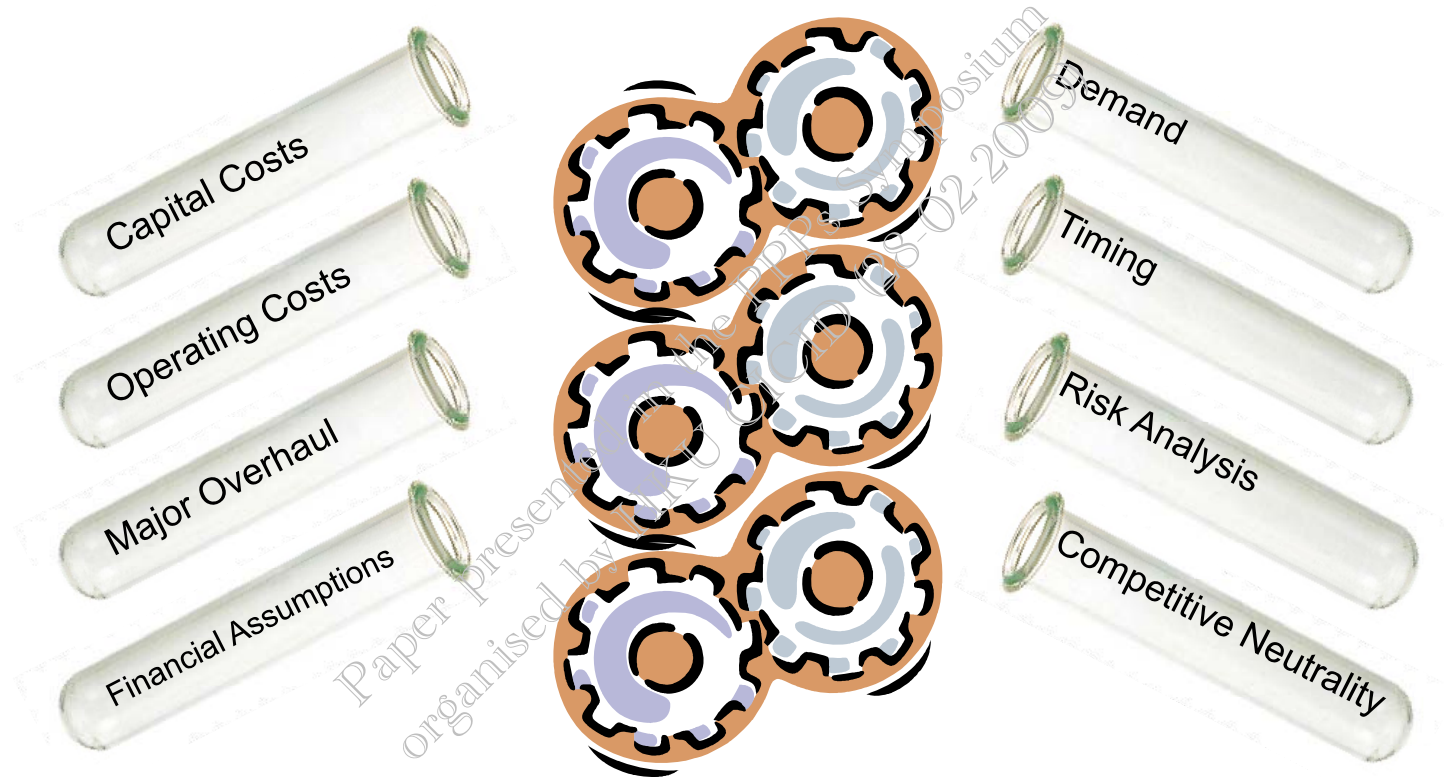
Risk-adjusted public sector provision
Assumes usual Govt. practice
Construction contracts to private sector
Govt. departments run facilities, including OMM

Scenario:



Greater Risk Transfer →

The Financial Model



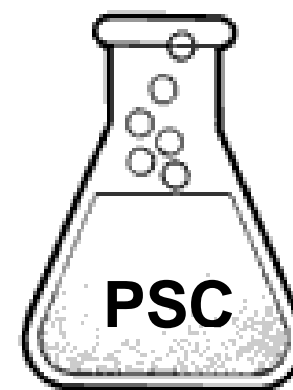
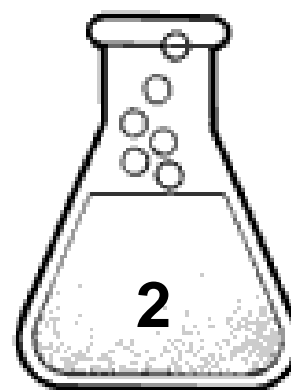
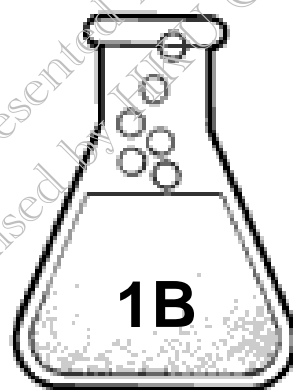
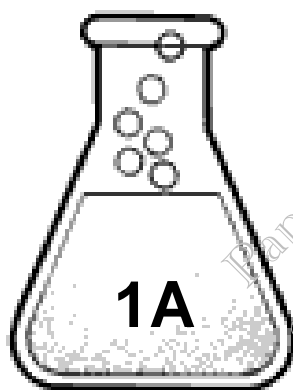
Results by Facility

- 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

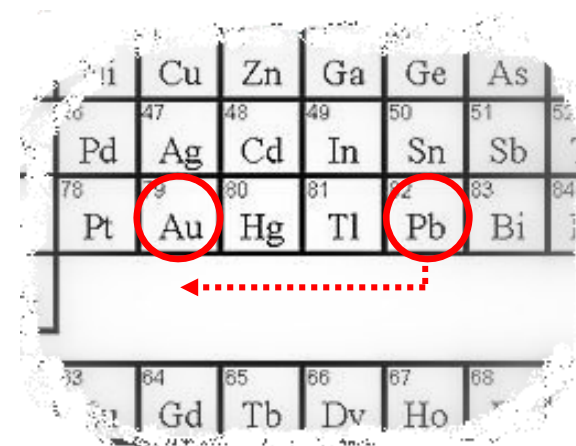
Capital Costs	Option 1	Option 2	Option 3	Option 4
Capital Costs (Construction and Overhaul)	\$21.6	\$21.6	\$24.7#	\$21.6
Government Funding Through Land Sales	\$20.9	\$20.9	\$17.0	-
Government Funds Required for Capital	\$0.7	\$0.7	\$7.7	\$21.6
Operating Costs				
Operating Deficit	\$8.4	\$8.4	\$8.4	\$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



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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