

For information

**LegCo Panel on Financial Affairs
Management of Government investment incomes**

The Administration's response to issues on the land grant policy

This paper sets out the Administration's response to the issues relating to the land grant policy raised by Members at the meeting held on 7 March 2005.

- (a) Land and revenue generated from its sale are important sources of income for the Government. The Administration should ensure the effective use of the limited land resources and that its land grant policy is able to safeguard public interest, maximise financial gains for the community, achieve fair competition and maintain market stability.**

Administration's Response

The Administration recognises that revenue generated through the disposal of land is an important source of income for the Government. We attach great importance to the effective use of the limited land resources. On the whole, our policy is achieving this purpose.

Land is a scarce resource in Hong Kong. In order to safeguard the level of land premium, Government land is usually sold through public auction or public tender. Land is only disposed of by way of private treaty grant under certain circumstances or for special types of land use, such as educational institutions, religious institutions or public utilities, with positive policy support from the relevant policy bureaux. In these cases, the premium charged varies from nominal premium (as in the case of non-profit making schools) to concessionary premium (as in the case of stand-alone religious facilities) to full market premium (as in the case of public utility companies).

To ensure optimum use of land within the framework of development plans, lease conditions, whether drawn up for lots offered for sale by auction, tender or private treaty grant, always contain requirements which control the use and the extent of the development.

To make optimum use of the land pending long-term disposal, land will also be allocated for short-term uses, such as temporary works areas or short-term tenancies.

(b) The Administration should ensure that the land granted to public corporations is put into effective use for the development of their core business, such as the large piece of land on the Airport Island granted to AA. It is suggested that any part of the land which has not been used for the core business of AA should be returned to the Government and put up for sale through open bidding.

Administration's Response

The Airport Island, covering some 1 255 hectares, was granted to the Airport Authority (AA) in 1995 for the development of the Hong Kong International Airport (HKIA) under a legally binding land grant. The size of HKIA is relatively modest compared to many other international airports such as Singapore's Changi (1 600 hectares), the new Bangkok Airport (3 200 hectares), Seoul's Incheon (5 600 hectares) and Kuala Lumpur's Sepang (10 000 hectares).

The existing land grant to AA contains stringent controls over land use on the Airport Island. Only airport operational, airport support and airport-related developments are permitted on the Airport Island. The vast majority of the land has already been designated for the provision of airport operational facilities (such as runway, parking apron and passenger terminals) and airport support facilities (such as air cargo handling, aircraft catering and aircraft maintenance). The land will be developed and put into effective use for such designated purposes phase by phase in accordance with the development of the airport with a goal to fully exploit HKIA's ultimate capacity of 87 million passengers and nine million tones of cargo per annum.

As regards the remaining 7.1 % or 89 hectares of the Airport Island, it is earmarked for other airport-related development. Of this area, 40.4 hectares have already been developed, and AA also has to reserve suitable sites from the remaining area for future expansion of freight processing facilities and additional airport hotels. Therefore, the uncommitted area that could be open for other airport-related uses is very limited. In addition, if AA intends to develop airport-related facilities in the remaining land, it has to satisfy the Director of Lands that the development is in full compliance with the Master Layout Plan for the airport and obtain his approval for the relevant building plans.

The Administration intends that AA should continue to hold and make use of its land subject to existing planning controls and land grant restrictions. We believe the stringent controls under the land grant will ensure that the land will be put into effective use in accordance with HKIA's development strategy and plans.

Returning the land on the Airport Island to the Government would constrain AA's ability to respond to the rapidly changing needs of the aviation business and develop holistic plans for future expansion of our airport. Developing the Airport Island under a single development package is conducive to centralised planning and coordination, leading to smoother operation, economies of scale and lower costs.

(c) The policy of subsidizing commercially operated infrastructural projects in the form of land is in contravention of the Basic Law.

Administration's Response

Article 7 of the Basic Law provides that –

“The land and natural resources within the Hong Kong Special Administrative Region shall be state property. The Government of the Hong Kong Special Administrative Region shall be responsible for their management, use and development and for their lease or grant to individuals, legal persons or organisations for use or development. The revenues derived therefrom shall be exclusively at the disposal of the Government of the Region.”

The Chief Executive has delegated to, inter alia, the Director of Lands the power to lease or grant land and to execute such land grant. For a private treaty grant, subject to the proposal meeting the necessary requirements and satisfying the relevant policy bureau(x) with justifications on public interest and policy grounds, approval from the Executive Council itself or the delegated authority approved by the Executive Council, as the case may be, will be required before the land grant can be executed.

The current practice is consistent with the Basic Law.

- (d) The policy of subsidizing commercially operated infrastructural projects in the form of land, which is a remnant of the colonial era, no longer suits the present day circumstances. In particular, it is unjustified for the Government to apply the policy to MTRCL since the listing of the corporation in October 2000.**

Administration's Response

The financing arrangements for future railway projects is one of the issues to be considered in the context of the proposed merger of the two railway corporations.

- (e) The Government, in considering whether it should subsidize a commercially operated infrastructural project in the form of land, should ensure that the granting of such a subsidy would be in the interest of the public. In this connection, the Administration should set up a transparent and professional mechanism for:**
- (i) assessing the value of the land involved and the financial gains to be achieved by putting up the land for sale through open bidding; and**
 - (ii) assessing the rate of return for the Government on the assumption that such a subsidy has been granted to the project.**

Administration's Response

- (i) As land resources are scarce, the Government has put in place an

established procedure to process land grant by private treaty to ensure an optimum amount of land premium is assessed and received. The mechanism applies to railway and other development projects and has all along been effective and well known to the real estate sector and developers. It must be noted that the grant of land by private treaty has to be fully justified on grounds of public interest and in furtherance of the Government's policy objectives.

- (ii) The financial implications of the granting of land in relation to railway and other development projects are considered on a case-by-case basis. Where necessary, the Administration would enlist the assistance of financial advisors and other professional consultants in assessing the project proposal.

- (f) As pointed out by the Hong Kong Institute of Surveyors, the application of the “green field site” principle in the premium assessment for the two railway corporations imposes an important assumption (i.e. no railway development) into the valuation process and thus would have significant implications for the premium assessment. Other things being equal, the availability of railway development would normally enhance accessibility and hence land values. In other words, the application of the “green field site” principle in the premium assessment for the two railway corporations has resulted in loss of revenue. The Administration is requested to address this concern and provide the justifications for applying the principle in the premium assessment.**

Administration's Response

Under the “green field site” principle, the valuation of full market value of a site is assessed ignoring the future presence of the new railway line. This principle has been applied to property development sites of the two railway corporations relating to new railway projects in recognition of the fact that the railway development is an investment to be made by the corporation concerned and not provided by the Government.

- (g) On the land premia paid by the MTRCL and KCRC for each of the development projects set out in Appendices II and VII to the Administration's paper issued in February 2005 (LC Paper No. CB(1) 1020/04-05(07)), the Administration is requested to explain the basis for calculating the amounts of the land premia involved.**

Administration's Response

The basis for assessment of land grants to MTRCL and KCRC for property development is the open market value of the site disregarding the future presence of the new railway line.

**Financial Services and the Treasury Bureau
Housing, Planning and Lands Bureau
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