

NOTE FOR FINANCE COMMITTEE

Capital Works Expenditure Measures to Expedite Delivery of Capital Works Projects

Purpose

This note sets out for Members' information -

- (a) the measures undertaken in recent years to expedite the implementation of Capital Works Programme (CWP) projects; and
- (b) a preliminary proposal to increase the financial ceiling of the delegated authority for Category D items from \$15 million to \$30 million.

The Administration has also submitted an information note reference **FCRI(2007-08)2** on the general process and procedures on taking forward projects for funding approval by the Finance Committee (FC).

Capital Works Expenditure

2. In the 2004-05 Budget Speech, the Financial Secretary has pledged to set aside on average \$29 billion a year for meeting expenditure on capital works projects. At the 2007-08 Budget Special FC session on 22 March 2007, Members expressed concern over the level of CWP in 2005-06 and 2006-07 and whether the Administration could make full use of the amount of resources available to expedite CWP projects so as to create more job opportunities in the construction sector. The actual CWP expenditure for the period 1996-97 to 2005-06 and the latest estimates up to 2007-08 are at Enclosure.

Encl

3. On the resumption of the Second Reading of the Appropriation Bill 2007 on 18 April 2007, the Secretary for the Environment, Transport and Works (SETW) reiterated the Administration's commitment to taking forward justified projects under the CWP to dovetail Hong Kong's future economic development, and explained the major reasons for the drop in CWP expenditure in 2005-06 and 2006-07. These include -

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- (a) fluctuation of annual CWP expenditure in accordance with the actual amount of works completed (which explained the peak expenditure of \$31.4 billion in both 2003-04 and 2004-05);
- (b) the substantial completion of a number of mega infrastructure projects between 2004 and 2006 such as Hong Kong Disneyland, Deep Bay Link, Shenzhen Western Corridor and Science Park Phase 1; and
- (c) more time is required for the preparatory work required, including public consultation, for the next batch of mega projects under planning, such as Kai Tak Development, Central Kowloon Route, Central-Wan Chai Bypass, and Wan Chai Development Phase II.

4. In addition, SETW briefly outlined some initial thoughts on possible further measures to expedite the implementation of capital works projects without adversely affecting the quality of works. These include -

- (a) commencing the comprehensive consultation process at the early stage of the project;
- (b) further streamlining the project delivery process; and
- (c) raising the financial ceiling of the authority delegated by the FC for approving Category D items to allow more relatively simple works projects to be implemented through the minor works route.

Measures Undertaken to Expedite Project Delivery

5. We last carried out a major review of the CWP project delivery process in 2001 and subsequently presented the outcome to the Public Works Subcommittee (PWSC) on 14 November 2001 vide the information note referenced **PWSC(2001-02)37**. With a view to shorten the lead time from inception to commencing construction for a typical medium-sized civil engineering or building project from six years to less than four years, we have put in place the following measures -

- (a) simplifying the preliminary technical appraisal for admitting projects into the Capital Works Programme and keeping as far as practicable the time allowed for such appraisals to four months;
- (b) allowing bureaux to submit funding bids in-year, between the annual resource allocation cycles;

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- (c) streamlining procedures for the creation of minor works items (i.e. Category D items);
- (d) allowing Controlling Officers the option to initiate works-related tendering and consultant selection procedures before funding is secured. The acceptance of any tender or bid must still be subject to funding approval and conditions attached to such;
- (e) taking parallel actions for the environmental impact assessment and gazetting; and
- (f) streamlining the tender procedures for capital works projects under \$50 million (e.g. dropping the gazettal requirement since tender notices are published on the Internet) and allowing Controlling Officers the option to approve tender awards for straightforward cases under specified circumstances.

In general, these measures, which aim to streamline and expedite the procedures on taking forward Category B projects to seek FC's funding approval, have proved to be useful in improving the project delivery process.

6. Apart from these measures, we issue technical circulars from time to time to enable the works departments to carry out individual stages of project planning and implementation more expeditiously. For example, in October 2003, to prevent unduly frequent changes to the original scope of project or user requirements from delaying the implementation programme, the Works Branch of the Environment, Transport and Works Bureau promulgated guidelines to strengthen the control mechanism. We also keep in view the statutory procedures like gazettal of road scheme and land resumption. In February 2003, the Administration introduced the Foreshore, Sea-bed and Roads (Amendment) Bill 2003 with a view to speeding up the delivery of public works projects through shortening the objection period from two months to one month, and the statutory period for resolving objections from nine months to four months. However, having regard to the concerns then expressed by the Bills Committee and some interested parties that the shortened periods would not be adequate for the public to lodge objections and for the Government to resolve objections, the Administration proposed and the House Committee agreed to hold it in abeyance.

7. In view of the lower level of CWP expenditure in 2005-06 and 2006-07, we have considered further possible measures to improve the situation. Details are provided in the ensuing paragraphs.

Public Consultation and Sorting Out of Fundamental Issues at an Early Stage

The Need for Early and Comprehensive Consultation

8. To avoid a project running into very divergent views when its planning has reached an advanced stage thus delaying implementation, we propose that comprehensive consultation be carried out at the early stage of the project to identify problematic issues. In the conceptualization and strategic planning stage, there is generally more room to accommodate different needs and aspirations. The relevant policy bureaux and departments would thus provide details and consult the public on the aim, scope, effect and timing of the project early. Active public discussion will be most welcomed. Concerted effort will however be made by all parties concerned to ensure the speedy delivery of the project when a consensus has been reached, so as to ensure that the public can enjoy the benefits of the project on a timely basis.

The Need for Better Coordination and Early Sorting Out of Fundamental Issues

9. In the delivery of mega projects, there are inevitably many intertwining issues/concerns, such as technical feasibility, environmental protection requirements, cost effectiveness of different options, heritage concern, etc. The sorting out of these issues is by no means an easy task given the large number of stakeholders concerned and that vast diversity of views is not uncommon. As such, in the proposed re-organisation of the Government Secretariat, it has been suggested that to consolidate the structure of government bodies involved in infrastructure projects so as to speed up the implementation of large-scale projects and enhance planning and implementation efficiency, with effect from 1 July, such bodies should be put under the same Director of Bureau (namely the Secretary for Development). The Director will also be in charge of development-related heritage conservation so as to enable a closer interface at the policy level between development and heritage conservation.

Continuous Effort to Streamline Delivery Procedures and to Enhance Monitoring of Implementation of Capital Works Projects

10. We will continue to review the planning and tender procedures involved in the delivery of CWP projects, and implement improvement measures to further shorten the planning lead time wherever appropriate. Moreover, we have already enhanced the monitoring of projects under planning in order to ensure their delivery be in accordance with their proposed programmes as far as possible.

/Raising

Raising the Financial Ceiling of the Delegated Authority for Approving Category D Items

11. At the Special FC session on 22 March 2007, some Members suggested that the Administration should consider compiling a list of reserve projects, which could be quickly implemented so that underspending resulting from delays in major projects can be offset/mitigated. We appreciate Members' concern. The planning and design of major projects however, involve substantial resources in various processes such as conducting feasibility studies, preliminary and detailed design, statutory procedures, public consultation, environmental impact assessment, land resumption, etc. These efforts will be rendered abortive if the projects in the "reserve list" are ultimately not implemented or require substantial modifications to cater for changing circumstances.

12. While considered difficult for major projects, the proposal is suitable for implementing relatively small scale works projects, the cost of which is less than \$15 million, i.e. Category D projects. Some typical examples are:

- (a) **Subhead 3101GX**, for minor building works, fitting out works and alternations, additions and improvement works;
- (b) **Subhead 4100DX**, for minor drainage improvement works; and
- (c) **Subhead 7016CX**, for district-based minor works projects implemented by District Councils.

13. In order to further improve the spending for minor works, we propose to increase the financial ceiling of the delegated power of approving Category D items from \$15 million, to say \$30 million, to enable more minor works projects of a larger scale in terms of cost to be carried out under the minor works route. The justifications are as follows -

- (a) The Inflation Angle

The existing level of the delegation of financial powers applicable to the works-related block votes under the Capital Works Reserve Fund was approved by FC on 5 January 1995, when it was requested to review the delegation powers established in 1985.

/Twelve

Twelve years have passed since the revised ceiling of \$15 million was established. During the period between January 1995 and January 2007, the price of civil engineering construction works has risen by about 40%¹. It is considered necessary to increase the ceiling from \$15 million by 40% to about \$21 million to maintain the value of the delegation in real terms.

(b) Shortening the Process of Delivery for Projects Falling Within the Range

The established CWP procedures have proved to be satisfactory in ensuring the cost effective delivery of public works projects. The PWSC/FC has also greatly facilitated the funding approval process and is prepared to convene more frequent meetings to handle a large number of submissions if necessary. However, it is undeniable that it will take a longer time to deliver a project through the CWP upgrading route as compared to projects implemented through the minor works route. While this is most justified in the case of bigger projects, it is for consideration whether the delegated limit of \$15 million (or increased to \$21 million to maintain the real value) should be raised to \$30 million to allow more relatively small scale projects to be delivered via the minor works route, thus expediting the delivery process and increasing expenditure.

With the improvement measures implemented since 2001, a typical medium size civil engineering project will on average require a lead time of around 45 months, while a small scale project will require around 21 months under the minor works route. Within the “difference” of 24 months, around 70% (17 months) is due to the complexity of the projects themselves, while around 30% (7 months) is due to the need to go through the various planning steps for admission/upgrading through the CWP mechanism (for instance 2 months for preparation of Project Definition Statement; 4 months for completion of Technical Feasibility Study before admission to Cat C; etc). If we can increase the ceiling of Category D item to \$30 million, the implementation timeframe for projects falling between \$15 million to \$30 million can be shorten by around 7 months.

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¹ The change in construction cost is reflected in the movements of the Civil Engineering Works Index (CEWI) published by Civil Engineering and Development Department, which has risen from 314.2 in January 1995 to 438.5 in January 2007, i.e. 40%. The Highways Department Construction Cost Index has also risen from 637 to 892 in the same period, i.e. 40%. As for building works, the Building Cost Index compiled by Architectural Services Department rises from 1328 to 1715 in the period from January 1995 to January 2007, i.e. 29% increase. Overall, CEWI is considered most relevant.

(c) Increase in Expenditure Under CWP

Should the proposal be agreed by the Legislative Council, there will likely be an increase in expenditure under CWP. We appreciate that the resulting increase may not be very significant, especially when compared with spending for mega infrastructure projects. Nevertheless, this proposal would increase the CWP spending to a certain extent and increase job opportunities accordingly. This is particularly desirable since minor works projects are frequently more labour intensive. Furthermore, it would allow the Administration to more efficiently react to the aspirations of the community and for PWSC and FC to concentrate more on the vetting of mega infrastructure projects.

Advice Sought

14. Members are requested to express their views on the proposals mentioned above.

Environment, Transport and Works Bureau
May 2007

Actual CWP Expenditure

Year	\$(Billion)
1996-97	27.0
1997-98	25.7
1998-99	27.6
1999-2000	26.1
2000-01	27.7
2001-02	26.5
2002-03	28.3
2003-04	31.4
2004-05	31.4
2005-06	26.5
2006-07*	22.1
2007-08*	20.4

* Latest Estimates