

## **ITEM FOR FINANCE COMMITTEE**

### **CAPITAL WORKS RESERVE FUND**

**HEAD 702 – PORT AND AIRPORT DEVELOPMENT**

**HEAD 703 – BUILDINGS**

**HEAD 704 – DRAINAGE**

**HEAD 705 – CIVIL ENGINEERING**

**HEAD 706 – HIGHWAYS**

**HEAD 707 – NEW TOWNS AND URBAN AREA DEVELOPMENT**

**HEAD 708 (PART) – CAPITAL SUBVENTIONS**

**HEAD 709 – WATERWORKS**

**HEAD 711 – HOUSING**

**Delegation of Financial Powers**

Members are invited to approve the proposal to increase the financial ceiling of the delegated authority for Category D items in the Capital Works Programme.

### **PROBLEM**

The real value of the authority delegated to the Financial Secretary (FS) to create Category D items in the Capital Works Programme (CWP) has been eroded by inflation in construction cost since the current financial limit of \$15 million was last approved by the Finance Committee (FC) on 6 January 1995.

### **PROPOSAL**

2. We propose that for Heads of Expenditure 702 to 707, 708 (Part) - Capital Subventions, 709 and 711 under the Capital Works Reserve Fund (CWRF), the FC should raise the existing limit on the delegation of authority to the FS to approve the creation of Category D items in the CWP from \$15 million to \$21 million in order to maintain the real value of the delegation.

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## JUSTIFICATION

3. The practice of delegation of financial powers applicable to the CWP allows the Administration to deal with relatively minor CWP items or Category D items speedily, as well as enable Members to make better use of their time and concentrate on the more important and higher value items. These minor works items are funded by 22 block allocations under the CWRF Heads 702 to 707, 708 (Part) - Capital Subventions, 709 and 711.

4. The existing level of the delegation applicable to items costing no more than \$15 million each was approved by the FC on 6 January 1995, when it was requested to review the delegated authority established in 1985. In other words, the current ceiling has been in place for more than 12 years.

### Discussion at the FC on 1 June 2007

5. At the FC meeting on 1 June 2007, we presented a preliminary proposal to increase the financial ceiling of the delegated authority for Category D items from \$15 million to \$30 million. We then elaborated that the proposed increase from \$15 million to \$21 million was on account of inflation, while the proposed further increase from \$21 million to \$30 million was to shorten the process of delivery for projects falling within the range so as to enhance capital works expenditure to a certain extent.

6. Members then asked the Administration to review the procedures in the delivery of capital works projects, provide further justifications on the proposed increase beyond inflation adjustment, and examine whether recurrent expenses arising from minor works projects can be absorbed by the Centre.

### Follow up Action to FC's Discussion on 1 June 2007

#### *Review of Procedures*

7. We have reviewed the procedures for delivery of capital works projects, as a result of which the delivery lead time of medium size civil engineering projects can be reduced from 45 months to 40 months while that for minor works projects can be reduced from 21 months to 19 months. Details are provided in Legislative Council Panel on Development Paper No. CB(1)84/07-08(04). In that paper, apart from reporting on the review of CWP procedures, we have also taken the opportunity to review and analyse CWP

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expenditure in recent years, identify areas of improvement (including pushing ahead with ten large scale infrastructure projects within the next five years as unveiled in the 2007 Policy Address, improvement to institutional structure, commencement of public engagement at an early stage, etc.) as well as presenting the way forward. A copy of the Development Panel Paper No. CB(1)84/07-08(04) is at the Enclosure.

Encl.

### ***Review of the Proposal***

8. We have further reviewed our earlier preliminary proposal to raise the financial ceiling for Category D items on the following two grounds –

- (a) from \$15 million to \$21 million to cater for inflation; and
- (b) from \$21 million to \$30 million to enhance capital works expenditure to a certain extent.

In light of this review, we now propose to go for only (a), while (b) will not be pursued. Details are elaborated in the following paragraphs.

9. Regarding the increase from \$15 million to 21 million to cater for inflation adjustment, this is necessary to maintain the real value of the delegation and its intended objective. Between January 1995 and June 2007, the price of civil engineering works as reflected in the movements of the Civil Engineering Works Index published by the Civil Engineering and Development Department has risen from 314.2 to 451.4, i.e. an increase of about 44%. The Highways Department Construction Cost Index has also risen from 637.0 to 919.2 in the same period, i.e. also an increase of around 44%. We consider that to reflect such increases, the financial ceiling on the delegation authority for creating Category D items should be increased from \$15 million by 40% to \$21 million to maintain the value of the delegation in real terms.

10. For Members' information, the Building Cost Index compiled by the Architectural Services Department rises from 1 328.2 to 1 717.1 in the period from January 1995 to May 2007, i.e. a 29% increase. However, given that in the coming years, most projects to be implemented will fall under the civil engineering and transport infrastructure categories, we consider that the Civil Engineering Works and the Highways Department Construction Cost Indices are more relevant.

11. The proposal will also benefit district-based minor works to be implemented by District Councils, which are suitable for implementation under block allocation **Subhead 7016CX – District Minor Works**, for which a proposed annual provision of \$300 million will be sought from 2008-09 onwards.

12. Other categories of projects which may be implemented faster under an increased Category D ceiling of \$21 million will include –

- (a) street beautification works in preparation for the 2009 East Asian Games (streetscape improvement, enhanced greening, etc.);
- (b) renovation of old Government buildings and community facilities;
- (c) minor waterworks, drainage and sewerage projects;
- (d) minor building works; and
- (e) minor road works.

13. It is anticipated that with the proposed increase, the CWP expenditure can be increased by \$150 million to \$200 million in 2008-09. The additional expenditure will also help create about 300 to 400 jobs in the construction industry.

14. We do not plan to seek any above-inflation adjustment to the Category D financial ceiling. Instead, we will strive to streamline procedures and enhance departmental co-ordination to speed up the delivery of capital works projects.

#### ***Recurrent Expenditure arising from Works Projects***

15. Under the existing arrangements, bureaux and departments are required to absorb any additional recurrent expenditure requirements arising from minor works items within their respective allocations. This long-standing practice has taken into account the fact that –

- (a) minor works often involve repair and re-instatement works which have no additional recurrent resource implications; and
- (b) given the modest scale of minor works projects, any extra recurrent resource requirements are unlikely to cause a burden on the overall operating expenditure of the relevant bureaux and departments.

16. Since the proposal to increase the ceiling on the delegated authority of Category D items from \$15 million to \$21 million is basically inflation-based, we see no need to deviate from the above practice.

## FINANCIAL IMPLICATIONS

17. The above proposals, if approved, will give rise to an increase in the annual expenditure under the CWRF works-related block allocations in 2008-09 by about \$150 million to \$200 million.

## PUBLIC CONSULTATION

18. On 23 October 2007, we consulted the Panel on Development on the proposed increase from \$15 million to \$21 million to cater for inflation. Members supported the proposal.

## BACKGROUND

19. Over the years, the FC has approved the establishment of block allocations under the CWRF on various types of public works projects, acquisition of land, capital subventions, and computerisation. Of the existing 25 block allocations, 22 are works-related and are subject to a financial ceiling of \$15 million in spending on each item (except for **Subhead 5001BX under Head 705 – Civil Engineering** pertaining to landslip preventive measures, in which the Controlling Officer has delegated authority of the FC to approve individual items without a financial limit, provided the spending is a proper charge to the subhead and the aggregate expenditure does not exceed the annual allocation approved by FC.) Projects exceeding such ceiling in cost are submitted to the PWSC/FC for funding approval on a project basis.

20. In accordance with the Resolution made by the Legislative Council on the establishment of the CWRF, the Fund is to be administered by the Financial Secretary, who may delegate his power of administration to other public officers.

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**For discussion  
on 23 October 2007**

## **Legislative Council Panel on Development**

### **Capital Works Programme Expenditure**

#### **Purpose**

Continuous infrastructure development is essential to maintaining Hong Kong's economic development. At the LegCo Planning, Lands and Works Panel meeting on 20 July 2007, the Secretary for Development said that one of the purposes of setting up the Development Bureau in the new term of the HKSAR Government is to speed up infrastructure construction<sup>1</sup>. The purpose of this paper is to -

- (a) review and analyse Capital Works (CWP) Expenditure in recent years; and
- (b) identify areas of improvement and present the way forward.

#### **Analysis of CWP Expenditure**

2. The Capital Works Programme (CWP) comprises the Public Works Programme (PWP) (under Heads 702 to 707, Head 709 and Head 711) and capital subvention works projects under Head 708 (Capital Subventions). The latter include school buildings for the aided sector and private schools, university teaching and research facilities, public hospitals, and other works projects of subvented organisations.

3. The total CWP expenditure from 1991-92 to 2007-08 is shown at the Annex. This is analysed as follows -

- (a) From 1991-92 to 1998-99

This is generally known as the Airport Core Programme (ACP) era. The CWP expenditure was only \$13.5 billion in 1991-92. However

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<sup>1</sup> The Government has committed to earmarking on average \$29 billion a year on projects under the Capital Works Programme (CWP). The actual expenditure under CWP since 2005-06 has been lower than \$29 billion especially in 2007-08.

the expenditure built up quickly with the commencement of ACP projects in 1991-92. At the peak construction period of ACP projects, about \$10 billion was incurred each year on these projects between 1993-94 to 1995-96, thus boosting the total CWP spending to \$30.4 billion and \$29.1 billion in 1993-94 and 1995-96 respectively. The bulk of works were completed in 1998-99 but due to the lead time in spending (settlement of accounts, etc.), expenditure on ACP projects lasted till around 2001-02.

(b) From 1999-2000 to 2004-05

With the substantial completion of the ACP projects in around 1998-99, there came another wave of seven large scale projects with individual project costs ranging from \$2.7 billion to \$18.4 billion. As a result, the CWP expenditure was maintained at a high level with CWP expenditure reaching \$31.4 billion in both 2003-04 and 2004-05. These large scale projects include -

– Route 8 – Sha Tin to Tsing Yi	\$18.4 billion
– Penny’s Bay Development	\$13.2 billion
– Shenzhen Western Corridor, Deep Bay Link and Boundary Crossing Facilities	\$10.5 billion
– School Improvement Programme – Final Phase	\$8.6 billion
– Widening of Castle Peak Road	\$4.9 billion
– Central Reclamation Phase III	\$3.6 billion
– Container Terminal No. 9	\$2.7 billion
Total	<u>\$61.9 billion</u>

(c) From 2005-06 to 2006-07

Many of the large-scale projects mentioned in (b) above were substantially completed by 2005-06. The CWP expenditure started to decline starting from 2005-06 because the next wave of planned large scale projects such as Kai Tak Development, Central-Wan Chai Bypass, and Wan Chai Development Phase II did not commence as scheduled, as they require more time for completing the statutory procedures and for undertaking the needed preparatory work including public engagement.

4. The above illustrates that in general it is necessary to maintain a cluster of large scale capital works projects in the CWP in order to sustain a high level of CWP expenditure.

## Expenditure Situation for 2007-08

5. In his 2007 Policy Address, the Chief Executive said that in promoting infrastructure development, our efforts over the past decade did not match expectations and overall expenditure on infrastructure for this year may well be the lowest in recent years. As explained above, many of the projects in the last batch of large scale projects were substantially completed in 2005-06, and projects in the next batch have not commenced as scheduled due to various reasons. As a result of this, the CWP expenditure started to decline in 2005-06 and the Estimate for 2007-08 is only \$20.4 billion.

6. To fill the expenditure gap, the Administration has made much effort to monitor the spending situation and implement measures to boost spending. For projects under the Public Works Programme (PWP), the works agents have implemented as many minor works projects as possible and expedited the progress of on-going projects, claim settlement and account finalisation. The spending situation for PWP projects up to end September 2007 is also satisfactory, with expenditure of 53.4% against time elapse of 50%.

## **Areas of Improvement and Way Forward**

### **A. Speeding up Capital Works Projects**

7. The Chief Executive has unveiled in his 2007 Policy Address Government's commitment to push ahead with the following ten large scale infrastructure projects within the next five years:

- South Island Line;
- The Sha Tin to Central Link;
- The Tuen Mun Western Bypass and Tuen Mun-Chek Lap Kok Link;
- The Guangzhou-Shenzhen-Hong Kong Express Railway Link;
- Hong Kong-Zhuhai-Macao Bridge;
- Hong Kong-Shenzhen Airport Co-operation;
- Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop;
- West Kowloon Cultural District;
- Kai Tak Development; and
- New Development Areas.

8. Implementation of the above projects will not only expand the room for Hong Kong's further development, but will also link up our socio-cultural and business activities with more efficient transportation and other infrastructural systems. In addition, with closer and more efficient rail and transport links between Hong Kong and the neighbouring regions of Shenzhen and the Pearl River Delta, we can foster further cross boundary integration.

9. Apart from the above ten major projects the commencement of which is subject to varying lead time in the planning and preparatory work, we will press ahead with other important infrastructure contributing to making Hong Kong a quality city. Indeed, these efforts are also evident from the larger number of funding submissions approved by Finance Committee (FC) upon recommendation of the Public Works Subcommittee. To illustrate, in the 2006-07 LegCo session, a total of 99 submissions with a total project cost of \$26.2 billion were approved by the FC, as compared to 61 (total project cost at \$14.7 billion), 48 (total project cost at \$11.3 billion) and 59 (total project cost at \$22.0 billion) in 2003-04, 2004-05 and 2005-06 LegCo sessions respectively. We therefore expect the CWP expenditure will pick up in the coming years.

#### B. Improvement in Institutional Structure

10. The Development Bureau was established on 1 July 2007 in the re-organized Government Secretariat with the objective to speed up infrastructure development and to ensure the best possible balance be struck amongst development, environmental protection and heritage conservation. By bringing together planning and land use, works and heritage, we will be better positioned to deliver such an objective. We will also press ahead with the large scale projects through closer supervision at a high level. For example, a high level supervisory team has been set up and chaired by Secretary for Development to enhance co-ordination amongst various bureaux and departments and to sort out fundamental issues at an early stage for the Kai Tak Development project.

#### C. Commencement of Public Engagement at An Early Stage

11. To avoid a project running into very divergent views when its planning has reached an advanced stage thus delaying implementation, public engagement will be carried out at the early stage of the project to achieve greater community consensus. In the project 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 useful in forging an early consensus on the way forward. For large or complicated projects, a well structured and comprehensive public engagement programme is the foundation to consensus building and is critical to the smooth progress of a project.

12. Taking heritage conservation as an example, we will implement the requirement for conducting heritage impact assessment (HIA). We propose that for all new capital works projects, we will require the project proponents and relevant works departments to consider whether their projects will affect sites or buildings of historic and archaeological significance (referred to be "heritage sites" below). If the answer is in the affirmative, then a HIA will be required. In general, it will be best to avoid affecting these heritage sites. However, if some

impact on the sites can really not be avoided, mitigation measures must be devised to the satisfaction of the Antiquities and Monuments Office (AMO). Furthermore, public engagement should be conducted (e.g. consultation with District Councils, etc.) where necessary. In the submission to LegCo PWSC and FC for funding to carry out construction works, the project proponent will also need to include a paragraph in the PWSC paper, to be cleared by AMO, stating clearly whether its project will affect any “heritage site” and if it does, what mitigation measures will be taken, their implications and whether the public is in support of these.

#### D. Review of Procedures in Delivery of CWP

13. We have also reviewed the procedures in the delivery of CWP projects, and implemented improvement measures to further shorten the planning lead time wherever appropriate. Currently, the planning lead time for medium size civil engineering projects involving Environmental Impact Assessment Ordinance (EIAO), statutory gazettal and land resumption will in general take 45 months. Works Departments will take measures to compress/streamline the administrative procedures with a view to shortening the lead time to no longer than 40 months. For small scale projects which do not involve the above statutory processes, we will shorten the planning lead time from 21 months to 19 months.

14. Further compression of the project delivery timeframe will not be possible in light of the following considerations -

- (a) extra time will already be required for public engagement;
- (b) the EIAO process and statutory periods of objection should not be shortened due to their importance;
- (c) planning activities are already carried out in parallel as far as possible; and
- (d) the Capital Works Programme is expected to expand in the coming years and hence probably the workload.

#### E. Increase in Delegated Authority for Category D Items

15. We will also propose to increase the financial ceiling of delegated authority for minor works projects, i.e. Category D items funded under block allocations, from \$15 million to \$21 million, to maintain the real value of delegation. This will enhance CWP expenditure to a certain extent. Details are included in a separate Panel paper for discussion at the same meeting.

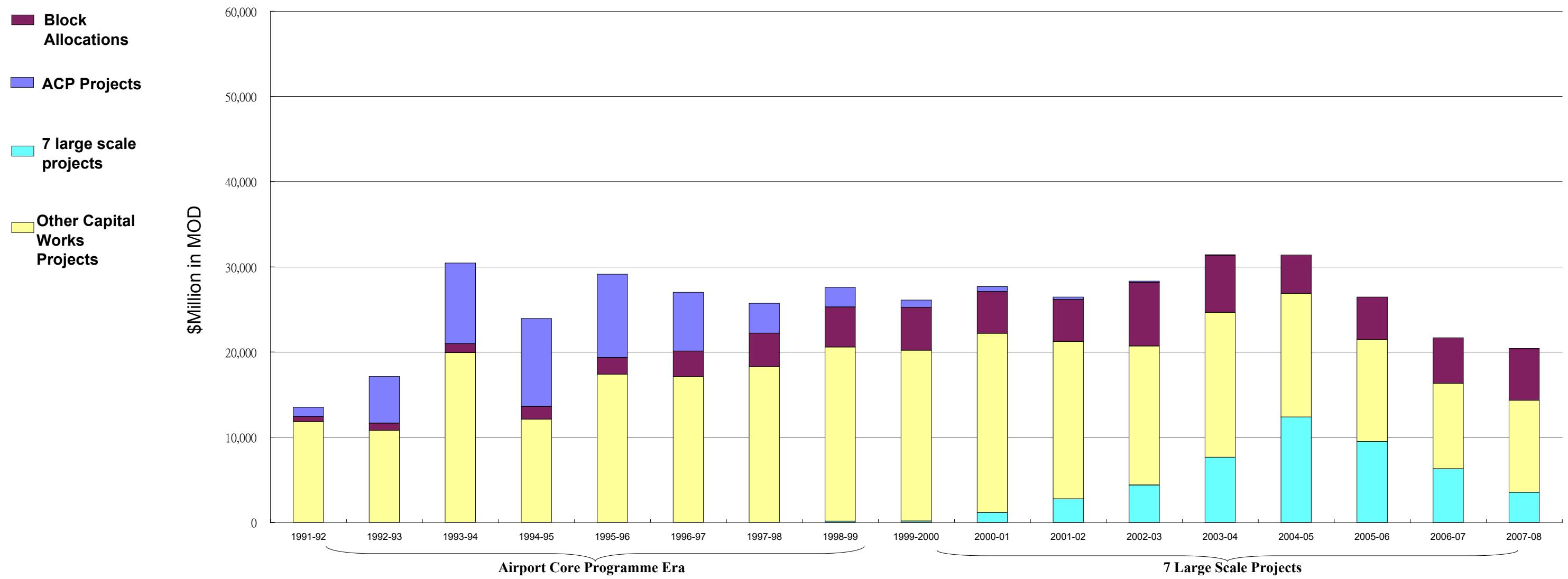
## **Advice Sought**

16. We hope that with the above measures adopted, the situation in our CWP expenditure will improve in the coming years. We welcome views and comments from Members.

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Development Bureau  
October 2007

## Expenditure of the Capital Works Programme (From 1991-92 to 2007-08)



Actual Capital Works Expenditure (\$ million)																		
Financial Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	
Capital Works Projects	12,701	16,097	29,330	22,234	27,182	24,031	21,781	22,898	21,066	22,772	21,531	20,869	24,704	26,876	21,462	16,323	14,326	
Block Allocations	822	1,025	1,117	1,520	1,950	2,991	3,938	4,692	5,033	4,906	4,924	7,449	6,724	4,517	4,994	5,361	6,090	
Grand Total for CWP	13,523	17,122	30,447	23,754	29,132	27,022	25,719	27,590	26,099	27,678	26,455	28,318	31,428	31,393	26,456	21,684	20,416 (estimate)	