

NOTE FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE

Supplementary information on 52TR – Hong Kong section of Guangzhou–Shenzhen–Hong Kong Express Rail Link – design and site investigation

INTRODUCTION

At the Public Works Subcommittee meeting held on 4 June 2008, Members considered the paper PWSC(2008-09)22 on the Hong Kong section of the Guangzhou – Shenzhen – Hong Kong Express Rail Link (XRL) – design and site investigation, and requested the Administration to provide supplementary information on the following –

- (a) details on the \$156 million estimated for consultancies to assist in land administration;
- (b) whether the \$330 million provision for on-cost payable to the MTR Corporation Limited (MTRCL) would be the ceiling for the expenditure item and when the Administration could come up with a more realistic estimate as well as decide on the method for settling the on-cost, i.e. on a reimbursement basis or on the basis of a pre-determined on-cost rate; and
- (c) fare determination and adjustment mechanism for the XRL and measures for the Government to safeguard the interest of passengers in future fare determination.

LAND ADMINISTRATION COSTS

2. The alignment of the XRL runs from urban Kowloon, through the country park areas in Northern Kowloon to the New Territories before crossing the boundary. The land issues associated with the project are extensive. There will be a surge in the workload of the Lands Department (LandsD) during the implementation of the project. In order not to inflate the establishment of the LandsD, consultancy service will be employed to handle the upsurge of workload.

3. The estimated \$156 million land administration costs are made up of two parts, i.e. \$146 million for land consultancy costs and \$10 million for legal consultancy costs. The land consultancy cost is mainly made up of staff cost of \$97 million for a team of about 40 land administration executive staff. Their main duties include land search, going through registry records and documents, conducting field work and surveys, preparing clearance/resumption plans, liaising with lot owners, and dealing with site clearance and handover. The remaining part of the land consultancy costs relates to the consultant's management and overhead costs including its profit, which amounts to \$49 million. As for the legal consultancy cost, it covers legal consultancy service which provides legal advice in relation to land acquisition/clearance.

ON-COST

4. In the past, railway projects have been undertaken under the ownership approach, and hence there was no entrustment of railway projects as such. The Government did have experience entrusting to the MTRCL minor add-on works to railway projects (essential public infrastructure works such as passenger bridge, subway, road works, etc.), and the on-cost rate is set at 16.5% of the construction costs of these add-on works.

5. The above on-cost rate may not be applicable to railway projects given the vastly different scale and nature involved. It is more appropriate for the Government to establish an on-cost rate specifically for the XRL project. The Government will firstly have to examine the MTRCL's records and audited accounts of previous railway projects and apportion the actual on-cost incurred on individual projects. This will give an idea of a reasonable on-cost rate for the average railway projects. The rate will then have to be adjusted, taking into account the scale and complexity of the XRL project as compared to others. However, this cannot be done until the scope of the XRL project is more properly defined in the detailed design stage. In addition, we will need to allow time for negotiation with the MTRCL. Taking into account the time required for examination of records, analysis and negotiation, we expect that an agreement on on-cost can only be reached sometime in 2009.

6. In the light of the above, we have resorted to the on-cost rate of 16.5% used traditionally for add-on projects, arriving at the provisional figure of \$330 million, for the purpose of estimating the on-cost for the design works of the XRL. As explained in paragraph 5 above, at this point in time, there is simply not sufficient information to determine the extent to which the ultimate on-cost rate deviates from 16.5%. Hence we are not in a position to guarantee that the on-cost rate of 16.5% will be the ceiling. We will employ independent consultants to assess the cost estimates for the XRL project, including the on-cost. The amount to be paid to the MTRCL for the on-cost during the design stage will be offset against the final overall on-cost payable to the MTRCL based on the agreed on-cost rate.

FARE DETERMINATION AND ADJUSTMENT MECHANISM

7. The fare level of the XRL will be set nearer the commissioning of the railway project through co-ordination with the Mainland side. It is likely that some sort of co-operation agreement between the Hong Kong and the Mainland operators, similar to that of the current through train running on the East Rail Line, will be involved. Details of such co-operation, including the fare level, have yet to be thrashed out by the two sides. However, the fare level ultimately agreed by the two sides will naturally have to take into account factors such as market competition, public affordability and the overall economic climate. So far as market competition is concerned, it is worth noting that the cross boundary XRL services will have to compete not only with existing alternative transport modes such as cross-boundary coaches which are highly attractive in terms of their fare level and point-to-point service, but also with domestic rail services running on the Mainland section of the XRL, the fare level and frequency of which may also be very competitive. Other than the fare level, the XRL will have to compete with all these alternative transport services in terms of comfort, convenience, service level, frequency of services, reliability, safety, etc. Against this background, we believe that the fare level of the XRL will be very competitive and reasonably commensurate with the premium service it will provide.