

**For discussion
on 23 October 2007**

Legislative Council Panel on Development

Proposal to Increase the Financial Ceiling of Delegated Authority for Category D Items in the Capital Works Programme

Purpose

This paper seeks Members' views on the proposal to increase the financial ceiling of delegated authority for Category D items in the Capital Works Programme (CWP) to the Financial Secretary (FS) from \$15 million to \$21 million in order to maintain the real value of the delegation.

2. Consequent to Finance Committee's approval of the proposal, the FS will revise his delegations to designated public officers accordingly.

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 via block allocations in the Capital Works Reserve Fund and the Heads of Expenditures involved are Heads 702 to 707, 708 (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 Finance Committee (FC) on 6 January 1995, when it was requested to review the delegation powers 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 submitted a paper to put forward 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; and examine whether recurrent expenses arising from minor works projects can be absorbed by the Centre.

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 a separate paper on Capital Works Programme expenditure for this Panel to be discussed at the same meeting.

Review of the Proposal

8. We have further reviewed our earlier preliminary proposal to raise 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. During the period 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 Civil Engineering and Development Department has risen from 314.2 in January 1995 to 451.4 in June 2007, i.e. an increase of 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 44%. We consider that to reflect such increases, the financial ceiling of delegation authority for 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 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 minor works at the district level, which are suitable for implementation under Block Vote 7016CX dedicated for district-based minor works projects to be implemented by District Councils, for which an allocation of \$300 million will be provided 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:

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

13. It is anticipated that with the proposed increase, 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 Expenses of Works Projects

15. Under the operating expenditure envelope system, bureaux and departments are required to absorb any additional recurrent expenditure requirements arising from minor works items within their respective allocations. This is justified having regard to 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 of 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.

Advice Sought

17. Members are invited to comment on the proposal which we plan to put to Finance Committee for approval as soon as possible.

Development Bureau
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