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**Report of the
Subcommittee on Matters Relating to Railways
for submission to the Panel on Transport**

Purpose

This report gives an account of the work of the Subcommittee on Matters Relating to Railways (the Subcommittee) during the 2007-2008 legislative session.

The Subcommittee

2. The Panel on Transport (the Panel) decided at its meeting on 12 October 2004 to form a subcommittee to oversee matters relating to railways. Since then, the Subcommittee has been in action and actively monitoring the planning, implementation and operation of railways in Hong Kong. Regular year-end reports had been submitted to the Panel during the past three legislative sessions.

3. During this legislative session, 14 members have joined the Subcommittee. Chaired by Hon Miriam LAU Kin-ye, the Subcommittee held four meetings with the Administration and the railway corporation to discuss various matters relating to railways. The membership list of the Subcommittee is at **Annex A**.

Major work

Rail merger

4. The completion of the Rail Merger on 2 December 2007 marks a new era for public transportation in Hong Kong. The Rail Merger Bill, passed by the Legislative Council in June 2007, expressly empowers Kowloon Canton Railway Corporation (KCRC) to grant service concession to MTR Corporation

Limited (MTRCL) and expands the scope of MTRCL's franchise for taking up the operation of KCRC's transport services. The franchise period has been re-set to 50 years from the merger date. Upon the merger, MTRCL has changed its Chinese name to 「香港鐵路有限公司」 while retaining its English name, and takes up the operations of the merged KCR and MTR railway networks.

5. With the completion of the rail merger, the Subcommittee has focused its work on monitoring the planning and implementation of new railway projects in Hong Kong, and whether the designs of these new railways can be fully integrated into the existing rail network and the overall public transportation system. The Subcommittee is also concerned whether the proposed funding arrangements for the projects are appropriate and representing the best interest of Hong Kong, and whether passengers can benefit from the synergies arising from the rail merger and enjoy a proper and efficient service at reasonable price.

Priority infrastructure projects

6. In his Policy Address in October 2007, the Chief Executive of Hong Kong identified a number of new rail lines as priority infrastructure projects. These includes the South Island Line (East) (SIL(East)), the Shatin to Central Link (SCL), and the Hong Kong Section of the Guangzhou – Shenzhen – Hong Kong Express Rail Link (XRL).

7. The West Island Line (WIL) was gazetted under the Railways Ordinance in October 2007, followed by the approval of the design phase expenditure of the WIL project which was essential for defining the project scope and ascertaining the project costs by the Finance Committee in December 2007.

8. In March 2008, the Chief Executive in Council decided that MTRCL should be invited to proceed with the further planning and preliminary design of the Kwun Tong Line Extension, which will serve Homantin and Whampoa.

Funding arrangements

9. Whilst supporting their implementation, the Subcommittee is mostly concerned about the form of funding support for these railway projects, and whether the proposed financing arrangements are fair and reasonable and can reflect the best interest of the community. In this regard, the Subcommittee has examined in detail the different forms of funding arrangements for different railway projects and the appropriateness of providing capital grants or property development rights to MTRCL which is a profit-oriented organization for undertaking non-government projects. In view that public funds are involved in financing various railway projects, some members of the Subcommittee are

of the view that Government should retain some form of control over the setting of railway fares in future or set up a fare stabilization fund by using part of the sale proceeds from property developments above railway stations/depots.

10. The Subcommittee notes that new railway projects can be classified into two types, namely

- (a) projects which are natural extension of MTR such as SIL (East), WIL and Kwun Tong Line Extension; and
- (b) projects which are not natural extension of MTR such as SCL and XRL.

11. For different railway projects, the Subcommittee notes that different forms of funding support are proposed by the Administration. The arrangements are as follows:

SIL (East)

- Estimated capital cost (excluding a station in Happy Valley) : \$7 billion
- Estimated funding gap : Further studies will need to be conducted on the planning parameters and scope of development at the railway station and depot sites
- Form of funding support : Granting of property development rights

Kwun Tong Line Extension

- Estimated capital cost : \$4.2 billion
- Estimated funding gap : \$2.2 billion
- Form of funding support : Granting of property development rights

WIL

- Estimated capital cost : \$8.9 billion
- Estimated funding gap : \$6 billion
- Form of funding support : Capital grant by Government

SCL

- Estimated capital cost : \$37.4 billion
- Estimated funding gap : \$24.1 billion
- Form of funding support : Concession approach whereby Government or KCRC will be responsible for providing, at its cost, the necessary railway infrastructure. Upon completion, MTRCL will be granted a service concession and pay the Government/ KCRC service concession payments for the right to operate the railway.

XRL

- Estimated capital cost : \$39.5 billion
- Estimated funding gap : \$29.5 billion
- Form of funding support : Concession approach Government will fund under the Capital Works Reserve Fund the construction of the railway and its ancillary infrastructures, and ultimately owns the railway. Upon completion, MTRCL would be granted a service concession for the operation and the Government will receive service concession payment accordingly.

Projects which are natural extension of MTR

12. The Subcommittee notes that for railway projects which are natural MTR-extension projects, Government would continue to discuss the financial arrangement for the new project with MTRCL on the basis of the ownership approach. Whilst the rail-plus-property model will remain one of the possible options for funding support for non-viable railway projects, the Administration will also consider providing capital grant to MTRCL.

13. The Subcommittee is gravely concerned about the proposal to provide capital grants to profit-oriented organizations for undertaking non-government projects. It has examined whether the Administration can set out specific threshold indicators for determining the suitability of capital grants from Government. The Administration advises that it will take a prudent approach in considering the merits for providing capital grants for non-Government projects. The basic principles are as follows:

- (a) the capital subvention should be given for the purpose of inducing the organization in question to undertake a project which it would otherwise not undertake;

- (b) the project in question should be a major infrastructure which is expected to bring about significant social and economic benefits to the public in line with the policy objectives of the Government, but is projected to be financially not viable to the organization in question;
- (c) the Government should have given due consideration to the availability of other alternative organizations that are capable of undertaking the project without the capital subvention, as well as all other viable means for causing the project to be undertaken, and have come to the view that the capital subvention is the most appropriate means; and
- (d) requests for such capital subvention, if supported by the Government, should be approved by the Finance Committee of Legislative Council before the capital grant can be released.

14. For the WIL project, the Administration has indicated that due to the lack of suitable sites along or adjacent to the WIL alignment, alternative methods to provide the funding would have to be considered. Having regard to the significant transport and economic benefits brought about by the WIL project, the Administration proposes to provide a capital grant as financial support. The grant is intended as an upfront payment to lower the capital costs of the project in order to provide the incentive for MTRCL to embark on the project which it would otherwise not undertake at all given the financial non-viability. In order to more accurately determine the amount of Government funding that would be required, the Administration would provide the funding support in two stages. The first stage covers the design phase expenditure up to authorization under the Railways Ordinance. The design phase is also essential for defining, in more detail, the project scope and ascertaining more accurately the project cost. After MTRCL has completed the detailed design, the Highways Department and Financial Services and the Treasury Bureau will engage independent financial consultant to assess the proposed project estimate in order to determine the final figures for the funding gap. The second stage covers the remainder of the funding gap for the WIL project.

15. Given that capital grants or property development rights were provided to MTRCL for the implementation of WIL, SIL (East) and Kwun Tong Line Extension projects, some members hold the view that Government should retain some form of control over future fares. Views have also been expressed that MTRCL should use part of the profits from property developments to set up a fare stabilization fund to lower the initial fares and moderate the rate of fare increases in future. Some members consider that the Government should not grant property development rights to MTRCL, which is a listed company. Instead, Government should tender out the property

development rights and use the proceeds to finance the railway development projects.

16. The Administration advises that the granting of property development rights is a way for bridging the funding gap of new railway projects. The funding through property development rights has enabled MTRCL to meet the high capital costs of the rail infrastructures whilst keeping fares affordable.

Projects which are not natural extension of MTR

17. The Subcommittee notes that after the implementation of the rail merger, there are two approaches for implementing railway projects which are not natural MTR extensions, namely the ownership approach and the concession approach.

18. Under the ownership approach, which is essentially identical to the funding arrangement to finance the construction of the MTR railway lines, MTRCL will be responsible for the funding, design, construction, operation and maintenance of the railway, and ultimately own the railway.

19. The Subcommittee notes that taking the ownership approach, the Government does not need to bear the risks associated with the construction and operation of new railway. However, since the ownership of the new railway rests with MTRCL, the Government would not share any financial returns of this project, other than in the form of dividends distributed by MTRCL to its shareholders if the operation of the railway is profitable to MTRCL.

20. Under the concession approach, either the Government or KCRC will be responsible for providing, at its cost, the necessary railway infrastructure of the new railway. Upon completion of the railway, MTRCL will be granted a service concession and pay the Government/KCRC service concession payments for the right to operate the railway.

21. Regarding the choice between the ownership or concession approach as the funding model for railway projects, the Subcommittee has examined the selection criteria. The Administration advises that it will consider the following factors before a decision is made -

- (a) whether Government should take a longer term view on investment in railway infrastructure and would like to retain the ownership of the railway, thereby retaining the residual value of the railway;
- (b) whether Government would be prepared to input more resources, including staff and cash outlay, to implement the railway under the concession approach;

- (c) whether Government would be prepared to bear the construction risks and operating risks under the concession approach, e.g. lower revenue as a result of patronage being lower than anticipated;
- (d) the financial implications for Government;
- (e) whether the selected approach would allow MTRCL to effectively co-ordinate the planning and implementation of the railway and the above station/depot property development; and
- (f) whether the ownership of the new railway by the Government will facilitate the smooth implementation of the railway networks.

22. In connection with the granting of service concession to MTRCL for the operation of SCL and XRL, the Subcommittee has enquired about the amounts of concession payments which the Government can receive. In determining the proportion of sharing, the Administration advises that the parties concerned have taken into consideration factors such as the rate of return for the Government in funding the railway projects and an appropriate commercial rate of return for MTRCL as a commercial entity. The service concession payment will be about 90% of the present value of the net profit from the respective railway project (i.e. the present value of operating revenues minus the present value of the operating expenses and asset replacement costs incurred by MTRCL). The remaining 10% will be retained by MTRCL. Therefore, the total concession payment for individual project will be dependent on the fare levels, actual patronage and non-fare revenues after the railway has come into operation. The current estimates of the service concession payments for SCL and XRL are about \$91.8 billion and about \$28.1 billion respectively. Besides the concession payment to be made to the Government, XRL would bring enormous benefits to the overall economy of Hong Kong.

Railway designs

23. The Subcommittee has reviewed the station designs and choice of alignments and depots for various railway projects and made suggestions to the Administration to enhance the connectivity of railways. The Subcommittee is also concerned about the impacts of railway projects on the operations of other public transport modes and has urged the Administration to keep in view the operations of other public transport modes to ensure their viability.

SCL

24. The Subcommittee fully appreciates the request of the Sha Tin District Council and the local community for the Hin Keng Station which could

facilitate the residents in the vicinity to get on the SCL trains without having to go to Tai Wai Station. This could also help alleviate the congestion at Tai Wai Station. The Subcommittee therefore sees the benefits of providing a Hin Keng Station at the same time with the SCL project, which include avoiding the possible increase in the station construction cost due to inflation and the possible inconvenience caused to passengers during the construction of the station when the SCL is in operation.

25. The Subcommittee is also gravely concerned about the deferral of the construction of the Central South Station and the deletion of Tsz Wan Shan Station and Causeway Bay North Station under the SCL project. The Subcommittee recognizes the genuine demand of Tsz Wan Shan residents for better transport services and has urged the Administration to enhance the pedestrian facilities and public transport services to improve the traffic condition in the district and to provide adequate transport connections between Tsz Wan Shan areas and the rail corridors. The Subcommittee also considers that the construction of the Causeway Bay North Station under Victoria Park and the Central South Station will improve the overall railway network connections and facilitate passengers to travel direct to these two districts without having the need to interchange at Admiralty Station.

SIL (East)

26. Another issue of concern of the Subcommittee is whether a MTR station should be provided in Happy Valley under the SIL (East) project. The Subcommittee notes that four possible locations are identified during the planning and design stage, namely (i) near Fung Fai Terrace, (ii) at the Happy Valley Tram Terminus, (iii) within the Racecourse and (iv) adjacent to the Grandstand of the Hong Kong Jockey Club.

27. The implications of these options for the SIL (East) project in terms of cost and programme are as follows:-

Option	Additional cost over original proposal	Additional length of tunnel section	Additional time for completion
(i) near Fung Fai Terrace	HK\$ 1.6 billion	1.5 km	10 months
(ii) at Happy Valley Tram Terminus	HK\$ 2.4 billion	2.4 km	23 months
(iii) within the Racecourse	HK\$ 2.8 billion	2.5 km	11 months
(iv) adjacent to the Grandstand of the	HK\$ 2.1 billion	1.5 km	31 months

Hong Kong Jockey Club			
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28. The Administration advises that it would continue to discuss with parties concerned whether a station in Happy Valley should be provided in the light of the above findings. Consideration would also be given to providing a pedestrian subway linking the Racecourse with MTR Causeway Bay Station.

XRL

29. The Subcommittee welcomes the Administration's decision to adopt the Dedicated Corridor Option for the Hong Kong section of XRL. The terminus of XRL will be located in West Kowloon, which together with the Kowloon Southern Link, will become a major rail hub.

30. In taking forward new railway projects, the Subcommittee urges the Administration and MTRCL to take into account the transport needs of persons with disabilities and provide the necessary facilities as appropriate. The Subcommittee also considers that public toilets and automatic platform screen doors should be provided at railway stations, and that radio reception facilities be installed to facilitate passengers to receive latest information from radios. The Subcommittee also urges the Administration to consult the local communities and speed up the related works with a view to satisfying the transport needs of the traveling public. Consideration should also be given to minimizing the environmental impacts associated with the implementation of railway projects on near-by residents.

Railway operations

31. The Subcommittee has closely monitored the performance of railways after the rail merger. On 19 January 2008, a rail crack was found at a rail crossing between Kowloon Tong Station and Mong Kok East Station of the East Rail Line. Two similar incidents involving the same type of rail crossing supplied by the same manufacturer also occurred in October and November 2007. The Subcommittee has immediately requested the Administration to provide an investigation report and reviewed the remedial measures undertaken by MTRCL following the incidents. MTRCL advises that it has taken immediate actions to replace all the rail crossings of the same type supplied by the same manufacturer. Maintenance staff have also been reminded to pay special attention to these rail crossings during routine rail inspections.

32. On railway safety, the Subcommittee has reviewed the programme of the retrofitting of Automatic Platform Gates at at-grade and aboveground stations. To enhance passenger safety, the Subcommittee has urged MTRCL to speed up the related works.

33. The Subcommittee has examined the feasibility of providing radio reception facilities along all the railways (including the tunnels), so as to ensure that the public can obtain information on railway incidents and emergency arrangements more promptly. The Subcommittee has also been briefed on measures to enhance in-train dissemination of information to passengers and measures to improve the airflow at platforms of non-enclosed stations.

34. The Subcommittee has reviewed the technical difficulties of retrofitting public toilets inside railway stations. MTRCL advises that due to low capacity of the station sewage system, proximity of high voltage equipment, the need for a separate ventilation system, and the spatial requirement for passenger flow, it would be difficult, if not impossible, to retrofit public toilets inside railway stations. To follow up the related matters, the Subcommittee paid a visit to MTR Central Station to explore the feasibility of converting staff toilets inside railway stations for public use and urges MTRCL to carry out further studies on the proposal.

Conclusion

35. Railways are safe, efficient, reliable, comfortable and environmentally friendly mass carriers. They play a key role in Hong Kong's transport systems strategy and the Government gives high priority to railway development. Over the years, the Subcommittee has been monitoring the planning, implementation and operation of railway projects. With the opening of the Tseung Kwan O Line in August 2002, West Rail in December 2003, East Rail Tsim Sha Tsui Extension in October 2004, Ma On Shan Rail Link in December 2004, Disneyland Resort Line in August 2005 and Lok Ma Chau Spur Line in August 2007, the railway network in Hong Kong has been significantly improved.

36. There are two new railway projects under construction, namely, Kowloon Southern Link (KSL) and Tseung Kwan O South Station. The 3.8-kilometre long KSL is an extension of West Rail from its Nam Cheong Station to the East Rail East Tsim Sha Tsui Station and includes an intermediate station at West Kowloon. Upon its completion which is scheduled in 2009, the one million population in the Northwest New Territories will have a direct railway access to urban Kowloon areas without a need for any railway interchange. Tseung Kwan O South Station will extend the Tseung Kwan O Line with a branch from Tseung Kwan O Station to Tseung Kwan O South Station. The project is expected to be completed in 2009

37. For railway projects under planning or review, the Subcommittee has reviewed the latest progress of nearly all railway projects under planning. The Railway Development Strategy 2000 announced in May 2000 maps out a blueprint for the further expansion of Hong Kong's railway network. This involves a total investment of some \$100 billion to complete six new passenger

railway projects and a Port Rail Line subject to traffic growth and project interfaces. The six new passenger railways are: KSL, SCL, WIL, SIL, Northern Link/Hong Kong Section of XRL, and North Hong Kong Island Line.

38. With regard to the Port Rail Line, the North Hong Kong Island Line and the Northern Link, they are still under review by the Administration and MTRCL. The Subcommittee is therefore not in a position to review the related planning in this legislative session.

39. The Subcommittee has been keeping a close watch on the performance of the integrated MTR system after the rail merger to ensure its reliability, safety and efficiency. This is an on-going task, requiring continued efforts to be made by the Panel and all parties concerned.

Recommendations

40. The Panel is invited to note the work of the Subcommittee and continue to monitor the planning, implementation and operation of railways in the next term.

Council Business Division 1
Legislative Council Secretariat
24 June 2008

**Legislative Council
Panel on Transport**

Subcommittee on Matters Relating to Railways

Membership list for 2007-2008 session

Chairman	Hon Miriam LAU Kin-ye, GBS, JP
Members	Hon Albert HO Chun-yan Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP Hon LAU Kong-wah, JP Hon Andrew CHENG Kar-foo Hon Tommy CHEUNG Yu-yan, SBS, JP Hon Albert CHAN Wai-yip Hon WONG Kwok-hing, MH Hon LEE Wing-tat Hon Jeffrey LAM Kin-fung, SBS, JP Hon CHEUNG Hok-ming, SBS, JP Hon Ronny TONG Ka-wah, SC Hon TAM Heung-man (Total: 14 members)
Clerk	Mr Andy LAU
Legal Adviser	Mr Kelvin LEE
Date	9 November 2007