

Special Finance Committee Meeting
Speech by the Secretary for Development
(27 March 2009 at 3:50 pm)

Chairman,

First of all, I would like to thank Legislative Council Members for their concern on the Draft Estimates of the Development Bureau. The Controlling Officers under my purview have provided replies to 127 written questions raised by Members regarding the deployment of resources in the works portfolio. At today's meeting, they will answer Members' further questions.

2. In 2009-10, the allocation for the Development Bureau for its operating expenditure on works is \$7,949.4 million, representing an increase of \$548.97 million or 7.4% as compared with that in the preceding year.

3. The Government's capital works projects have been progressing smoothly in the 2008-09 financial year. Excluding the upfront endowment of \$21.6 billion to the West Kowloon Cultural District Authority, the revised estimate of the Capital Works Programme is \$23 billion, which is \$1.2 billion higher than the original estimate of \$21.8 billion. When compared with the actual expenditure of \$20.5 billion in 2007-08, there is an increase of over 10%.

4. With various major infrastructure projects entering the implementation stage, the estimated expenditure for works projects under the Capital Works Reserve Fund will be as high as \$39.3 billion in 2009-10. Major projects expected to commence in the next financial year include Central-Wan Chai Bypass, West Island Line, Harbour Area Treatment Scheme Stage 2A, and various campus improvement projects under the new academic structure for senior secondary education and higher education. We expect that the estimated expenditure of \$39.3 billion will provide about 47 100 job opportunities, which is about 11 800 more than that in 2008-09.

5. In the meeting of the LegCo Development Panel held on 22 October last year, I mentioned that the challenges faced by the Government in taking forward infrastructure projects include the labour supply in construction industry and the rising construction costs. However, with the occurrence of the financial tsunami last year, the situation has changed. At the moment, the most important thing is to seize this economic opportunity to implement various infrastructure projects of large or small scale as soon as possible so as to help the industry to tide over the present difficulty.

6. The unemployment rate in the construction industry has increased with the rise of the overall unemployment figure, from 6.1% in October – December 2008 to 7.2% in November 2008 – January 2009. Detailed analysis shows that the main reason was the faster increase in labour force than the increase of jobs in the same period. Moreover, from the figures of the two major trades in the construction industry in November 2008 – January 2009, the unemployment rate for the decoration and building maintenance trade is 9.5%, which is higher than the 6.3% for the superstructure works trade. In view of this, while the Government is committed to taking forward various projects expeditiously so as to create more job opportunities and improve the employment situation in the construction industry, we need to roll out more minor decoration and building maintenance works.

7. The Government is actively pursuing more minor works, including environmental protection and “green” construction works, thereby promoting the energy efficiency of government buildings. For instance, we will take the lead to provide green roofs in government buildings, install energy efficient lighting systems, retrofit water-saving devices as well as incorporate energy efficient features in air-conditioning, lifts and escalators systems in the coming two years. The block allocation for minor works will increase from \$6.9 billion in 2008-09 by 25% to \$8.6 billion in 2009-10, including the extra allocation of about \$1 billion supported by the Public Works Sub-committee. To take forward these extra works, the relevant works departments will need additional manpower. In the coming year, we intend to create about 56 temporary posts in the departments under the Development Bureau. The expenditure involved in 2009-10 will be about \$19 million.

8. Regarding construction cost, although the construction cost indices published by the Census and Statistics Department in December 2008 indicate the costs for steel reinforcement, galvanised mild steel and diesel fuel have dropped by 42%, 28% and 21% respectively from their peaks in mid 2008, that for other major construction materials including sand, galvanised mild steel pipe, cement, concrete blocks, etc. have not dropped significantly. The tender price index of building works for the fourth quarter of 2008 has dropped by about 10% from its peak in the third quarter of 2008, but the cost indices of civil engineering works have only dropped by a few percent. We will continue to monitor these figures closely.

9. In order to assist contractors in resolving their cash flow problems, the Government has implemented a series of administrative measures, such as introducing interim payment arrangement in contracts which do not have such an arrangement; early release of retention money to contractors, up to a maximum of 80%; expediting the finalisation of accounts of completed works

contracts; and speeding up the processing of additional payment to contractors as a result of contract variations, etc.

10. On the other hand, the Government has been active in providing more opportunities for small and medium-sized contractors to take part in public works projects. For example, the tender limits to be imposed on small and medium-sized listed contractors to bid public works contracts are proposed to be raised by 50%, so that they can bid for more contracts and for contracts of higher values. The Government is currently consulting the industry and hopes the proposal can be implemented as soon as possible.

11. The vast majority of public works projects and consultancy contracts are undertaken by local contractors and consultants, or by companies incorporated overseas but have set up offices in Hong Kong with a long history of business in Hong Kong. Such overseas companies employ local employees including administrative staff at various levels, professionals, technical staff and workers, etc., thus providing a lot of employment opportunities for the local industry, and at the same time introducing many advanced technologies from overseas. Moreover, in the selection of contractors and consultants, the Government will suitably consider the local working experience of such companies and their employees involved in the project implementation.

12. As for heritage conservation, we have announced the selection results of the first batch of the Revitalising Historic Buildings Through Partnership Scheme in February this year. The six selected non-profit-making organisations are actively pursuing their advance work with the assistance of the Commissioner for Heritage's Office. Five of the organisations will apply for funds of about \$500 million in due course to finance the major renovation costs of this batch of historic buildings. The Financial Secretary has mentioned in his 2009-10 Budget Speech that the Government will earmark an additional sum under the Capital Works Reserve Fund to bring the total amount of uncommitted funds under the Scheme back to \$1 billion. We are actively preparing for the second batch of the Scheme, details of which are expected to be announced in the middle of this year.

13. The Government has successfully launched the Financial Assistance for Maintenance Scheme to provide financial assistance to owners of privately-owned graded historic buildings for them to carry out maintenance works. The first two applications have been approved in January and March this year (i.e. Lo Pan Temple, a Grade I historic building and Tao Fong Shan Christian Centre, a Grade II historic building). As the cost for renovating historic buildings is substantial, the maximum amount of grant for each application will be increased from \$600,000 to \$1 million from 2009-10

onwards. The annual total allocation will also be increased from \$2 million to \$5 million.

14. The Antiquities Advisory Board (AAB) has set up an expert panel to conduct detailed heritage value assessment on some 1 444 buildings. The panel has just finished its work. The assessment results have been submitted to the AAB for consideration of the grading of these historic buildings and for announcement for public information. The AAB has commenced considering the grading issue in March 2009. When the grading work is completed, it will facilitate our heritage conservation work.

15. Thank you.