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Panel on Education

**Updated background brief prepared by the Legislative Council Secretariat
for the meeting on 9 February 2009**

Capital works projects for the implementation of four-year undergraduate programmes in the University Grants Committee-funded institutions

Purpose

This paper sets out the concerns of members regarding the capital works projects for the University Grants Committee (UGC)-funded institutions to implement the new four-year undergraduate programmes under the new academic structure for higher education.

Background

2. Under the new academic structure for senior secondary and higher education to be implemented in the 2009-2010 school year, there will be three-year senior secondary education and four-year undergraduate programmes (the 334 structure). As the overall undergraduate enrolment will increase, the UGC-funded institutions will need to expand their campus facilities correspondingly. In the first consultation document entitled "*Reforming the Academic Structure for Senior Secondary Education and Higher Education*" published on 20 October 2004, the Administration estimated that about \$3.4 billion would be required for the construction of additional complexes and facilities to accommodate undergraduate students pursuing an extra year of undergraduate programmes. In the Report entitled "*The New Academic Structure for Senior Secondary Education and Higher Education - Action Plan for Investing in the Future of Hong Kong*" published in May 2005, the Administration indicated that the original estimate of \$3.4 billion for carrying out the necessary capital works projects for the UGC-funded institutions was on the low side having regard to site constraints in some institutions and complexities of large-scale campus developments. Taking into account the modification works required for some schools and some training centres of vocational training institutions, the

Administration revised the estimated capital works expenditure for the 334 structure from \$3.4 billion to \$3.5 billion.

3. In the context of the 2008-2009 Policy Briefing, the Administration advised that 12 capital works projects related to the 334 structure were needed for the UGC-funded institutions with earmarked funding of about \$6 billion. A list of the 12 projects is in **Appendix I**.

Members' concerns

4. The Panel on Education had discussed the following capital works projects for the implementation of the four-year undergraduate programmes in the UGC funded institutions -

- (a) the Baptist University Road campus development for the Hong Kong Baptist University;
- (b) development of Centennial Campus, Phases 1 and 2 by the University of Hong Kong;
- (c) phase 8 development by the Hong Kong Polytechnic University; and
- (d) development of a new academic building and the Institute of Advanced Study by the Hong Kong University of Science and Technology.

5. The Panel noted the information papers on four other projects provided by the Administration before their submission to the Public Works Subcommittee (PWSC) and the Finance Committee (FC) for funding approval. They were the projects for the extension to the Academic Building of the Hong Kong University of Science and Technology, the Student Amenity Centre of the Chinese University of Hong Kong, and the Academic Block and Student Hostel for the Lingnan University.

6. In the course of discussions on individual projects, members had raised concern relevant to all 334-related capital works projects for the UGC-funded institutions. These concerns are summarized in the following paragraphs.

Funding for the capital works projects

7. Noting the earmarked funding of about \$6 billion for the 12 projects, members were concerned whether an estimated budget had been set for each of the UGC-funded institutions for carrying out capital works projects for the implementation of the new four-year undergraduate programmes. They sought information on the original and latest estimates of the 12 projects.

8. The Administration advised that based on the latest forecast, the total estimated

cost of the 12 projects would increase from the original estimate of about \$3.4 billion in 2004-2005 prices to around \$4.9 billion in 2008 prices. The original estimated costs were made in 2004 and 2005 by the UGC-funded institutions based on the prevailing market price at the time for planning purpose. The projected costs were updated from time to time during the detailed design process of the projects, as and when updated information was available. When compared with the original estimated costs, the latest projected costs/estimates of the 12 projects had increased by about 70%. The original and latest estimated costs of the projects are in **Appendix II**.

9. Members sought information on the reasons for the increased estimated costs and the parties concerned for shouldering the additional costs. The Administration explained that the adjustments were mainly attributed to the significant increases in construction material prices and changes in market sentiments from the date of the original estimated costs in 2004 and 2005. There were steady increases in construction material prices since 2004, but the increase had accelerated from mid-2007 onwards. For example, the Architectural Services Tender Prices Index for the third quarter of 2008 had increased by almost 100% compared to the third quarter of 2004. In some cases, the project costs might need to be adjusted after site investigation data was available and with the completion of detailed design. For instance, additional site formation works including slope upgrading works, or deep foundation requiring longer piles might be required to meet the site constraints. The UGC-funded institutions would in such cases give careful consideration at the detailed design stage to ensure that the increase in projected costs was genuinely necessary and reasonable.

10. The Administration stressed that the provision of campus space for the UGC-funded institutions was calculated on the basis of student number in accordance with the prescribed accommodation standards. The funding for the capital works projects for the UGC-funded institutions was based on the provision of standard facilities as laid down in the established formula. The institutions would have to shoulder the costs for the construction of any additional/enhanced facilities.

Provision for price adjustment

11. Members noted that under the existing Government practice, monthly payments to contractors for Government civil engineering and building contracts were adjusted to cover market fluctuations in labour and material costs, which were known as contract price fluctuation (CPF) payment. The CPF payment was calculated based on the difference between the indices of costs of construction labour and materials at the time of tendering and the current values of these indices at the time of payment in accordance with a predetermined relative proportion of each cost index. Given the prevailing economic downturns, members were of the view that the costs of construction materials and labour would probably decline in the foreseeable future. They were concerned about the provision for price adjustment in the 334-related projects.

12. The Administration explained that it had agreed with the UGC-funded institutions to adopt CPF payments for their capital works projects to ensure cost-effective use of public funds in the light of the prevailing economic downturns. The CPF payment allowed for upward/downward adjustment to contract payments in accordance with movements in the cost of labour and materials in Government civil engineering and building contracts. The objective of this system was for equitable risk sharing between the Government as an employer and the contractor. However, in the event of a rapid increase in labour and material costs in future, the actual costs of the capital works projects for implementing the 334 structure might exceed the approved project estimates. In such circumstances, the Administration would propose additional provision for the institutions concerned. The institutions concerned would have to bear the additional costs should the additional provision not be approved by FC.

Monitoring of works

13. Members queried how UGC with its existing manpower resources could closely monitor the concurrent implementation of a large number of capital works projects for the UGC sector. There was a view that if UGC could not oversee these capital works projects, a third party should be appointed to closely monitor the use of public resources.

14. UGC acknowledged that it could not actively monitor the implementation of the capital works projects for the UGC sector. In its view, the responsibility rested with the institutions concerned which would appoint a project manager for each project to oversee its completion within the estimated timeframe. As at January 2009, all capital works projects for the 334 structure were almost ready for tendering. Barring unforeseen problems, these projects would be completed in time to tie in with the implementation of the 334 structure. UGC would receive quarterly reports on progress reports of individual projects and requests for payments. UGC would arrange for payment to the institutions concerned taking account of the progress of the project.

Land sites for the projects

15. Members also expressed concern about the availability of suitable land sites for the construction of additional campus buildings and facilities to support the implementation of the 334 structure and the policy commitment to develop Hong Kong into a regional education hub. As a number of the UGC-funded institutions were located in the urban areas, members urged the Administration to consider providing land sites outside the campuses of the institutions for the construction of additional buildings and student hostels.

16. The Administration assured members that it would continue to search and identify appropriate sites for the construction of buildings and hostels for use by the

higher education sector. One of the potential sites was the Lok Ma Chau Loop. At the request of the Panel, the Administration provided information on the locations of the land sites for the 12 capital works projects in **Appendix III**. Members noted that seven projects were within campus and five were located at sites outside campus.

Environmental measures for the projects

17. In considering the funding application for the project for the extension to the Academic Building of the Hong Kong University of Science and Technology at the PWSC meeting on 21 December 2007, members sought information on the environmental friendly and energy conservation measures adopted. Members in general considered that energy conservation design was worth-pursuing even at a higher capital cost given the potential benefits to the environment and the savings in energy consumption in the longer run. Members were of the view that information on the financial implications of implementing environmental friendly and energy conservation measures in capital works projects should be provided by the Administration when seeking funding approval.

Schedule for implementing the projects

18. Given the implementation of the four-year undergraduate programmes in the 2012-2013 academic year, members urged the Administration to expedite the funding approval process of the 334-related projects. Members pointed out that early commencement of the projects would create employment opportunities and their early completion would allow the institutions sufficient time to make preparation. They enquired about the feasibility of setting a deadline for the submission of the remaining 334-related capital works projects to the Panel for consideration.

19. The Administration advised that the capital works projects would be submitted to the Panel, PWSC and FC for funding approval at the earliest possible dates. To expedite the commencement of these projects, the institutions concerned might apply to the Secretary for Education for approval to start the works-related tendering and selection of consultant procedures after endorsement of the projects by PWSC but before obtaining funding approval by FC. This would expedite the tendering process by four to five weeks. The Administration had been working closely with UGC and relevant departments to expedite the submission of proposals to the Panel for consideration. As there were other aspects of consideration such as preservation of heritage and rare species of trees that needed to be tackled before submission of a proposal, the Administration considered it inappropriate to set a deadline for the submission of the funding proposals for the 334-related projects.

Matching grants for private donations for campus developments

20. In discussing the Second Matching Grant Scheme for the UGC-funded institutions at the Panel meeting on 20 June 2005, members noted that donations for the construction of buildings on campus could be matched provided that the matching

grants were used on activities within the ambit of UGC recurrent grants or scholarships. Members were concerned whether the relaxation was intended to supplement the need for additional buildings and facilities for the implementation of four-year undergraduate programmes.

21. According to the Administration, the relaxation aimed to facilitate campus development of the institutions, having regard to their long-term plans which might go beyond the basic requirements in support of the new academic structure for higher education.

Relevant papers

22. A list of the relevant papers on the Legislative Council website is in **Appendix IV**.

Council Business Division 2
Legislative Council Secretariat
5 February 2009

List of the 334-related capital works projects for the UGC-funded institutions

Institution	Project name
CityU	Academic and Administration Building
HKBU	Baptist University Road Campus Development, Phase I
LU	New Academic Block
	New Student Hostel
PolyU	Phase 8 Development
CUHK	An Integrated Teaching Building
	Centralized General Research Lab Complex (Block 1) at Area 39
	Extension to the existing University Library
	Student Amenity Centre
HKUST	New Academic Building
	Extension to the existing Academic Building
HKU	Centennial Campus Phase I

Abbreviation

- CityU - City University of Hong Kong
 HKBU - The Hong Kong Baptist University
 LU - Lingnan University
 PolyU - The Hong Kong Polytechnic University
 CUHK - The Chinese University of Hong Kong
 HKUST - The Hong Kong University of Science and Technology
 HKU - The University of Hong Kong

Source : Extracted from LC Paper No. CB(2)434/08-09(01) provided by the Education Bureau on 5 December 2008.

Original and latest estimated costs of the 334-related capital works projects for the UGC-funded institutions

(\$ million)

Institution	Project name	Original Estimated Cost	Projected Cost ^a	Latest Project Estimate ^b	
		(in Sept. 2004 or 2005 prices ^c)	(in Sept. 2008 prices)	(in Sept.2008 prices)	(in MOD prices) ^b
CityU	Academic and Administration Building	571.0 ^d	978.9	-	-
HKBU	Baptist University Road Campus Development, Phase I	239.7	-	380.9 ^e	425.5 ^e
LU	New Academic Block	72.7	-	132.5	142.6
	New Student Hostel	49.3 ^d	-	91.4	98.4
PolyU	Phase 8 Development	760.4 ^d	1,303.6	-	-
CUHK	An Integrated Teaching Building	114.5	199.4	-	-
	Centralized General Research Lab Complex (Block 1) at Area 39	255.6	445.2	-	-
	Extension to the existing University Library	161.6	281.5	-	-
	Student Amenity Centre	107.7	-	188.9	206.5
HKUST	New Academic Building	384.2	669.2	-	-
	Extension to the existing Academic Building	80.4	-	110.7	116.1
HKU	Centennial Campus Phase I	630.0	1,097.4	-	-
Total ^f		3,427.0	4,975.2	904.4	989.1

^a Seven of the projects (at a total cost of \$4,975.2 million) are still at detailed design stage. Estimation of the projected costs has taken into account the changes in market prices and sentiments from the date of the original cost estimates in 2004 and 2005, as well as new development from the detailed design process. The estimated costs are presented in September 2008 prices such that the projects costs can be readily compared at the same price level. The cost estimates of these projects will be reviewed and updated to reflect the latest market rates before the funding submissions to the Legislative Council are finalised.

^b These five projects have been submitted to the Panel on Education or Public Works Subcommittee (PWSC), and the latest project estimates have taken into account the current economic situation and prevailing construction prices. The funding submissions to the PWSC will be converted to the money-of-the-day (MOD) prices using Government's latest forecast of trend rate of change in the prices of public sector building and construction output, which are expected to increase by 4% per annum over the period from 2008 to 2018.

^c The projects of CityU, HKBU and PolyU are shown in September 2005 prices level according to the revised proposals submitted by the institutions.

^d Apart from meeting the additional needs arising from "3+3+4" in 2012/13, the projects of CityU, LU (hostel) and PolyU also include provision for meeting their immediate shortfall and hence the project estimates are shown according to the proposals of the expanded scope.

^e The project was combined with Baptist University Road Campus Development Phase II project, which is for meeting immediate space shortfall, in October 2008. The total amount sought from Finance Committee is \$945.1 million in MOD prices.

^f The total amount also includes the funding required for meeting the immediate shortfall of CityU, LU (hostel) and PolyU. If for "3+3+4" purpose only, the original and latest projected cost is around \$2.9 billion (in 2004/2005 prices) and \$4.9 billion (in 2008 prices) respectively.

Land sites of the capital works projects

Institution	Project name	Location
CityU	Academic and Administration Building	Within campus
HKBU	Baptist University Road Campus Development, Phase I	Within campus
LU	New Academic Block	Outside campus ^
	New Student Hostel	Outside campus ^
PolyU	Phase 8 Development	Outside campus #
CUHK	An Integrated Teaching Building	Within campus
	Centralized General Research Lab Complex (Block 1) at Area 39	Outside campus *
	Extension to the existing University Library	Within campus
	Student Amenity Centre	Within campus
HKUST	New Academic Building	Within campus
	Extension to the existing Academic Building	Within campus
HKU	Centennial Campus Phase I	Outside campus @

^ The site is at Tuen Kwai Road adjacent to the University campus.

The site is at the junction of Chatham Road South and Princess Margaret Road.

* The site is at Area 39, Pak Shek Kok.

@ The site is at the western side of the campus.

Source : Extracted from LC Paper No. CB(2)434/08-09(01) provided by the Education Bureau on 5 December 2008.

**Relevant papers on capital works projects for the implementation
of four-year undergraduate programmes in the
University Grants Committee-funded institutions**

Meeting	Date of meeting	Paper
Panel on Education	20.6.2005 (Item I)	Minutes Agenda
Public Works Subcommittee	21.12.2007	Minutes Agenda [LC Paper No. PWSC44/07-08] Supplementary information on 11EL - Extension to the existing Academic Building, The Hong Kong University of Science and Technology
Finance Committee	11.1.2008	Minutes Agenda
Panel on Education	23.10.2008	Minutes Agenda
Panel on Education	10.11.2008 (Item VI)	Minutes Agenda [LC Paper No. CB(2)434/08-09(01)] Administration's paper on capital works projects for the University Grants Committee-funded institutions dated 5 December 2008
Public Works Subcommittee	15.12.2008	Agenda PWSC(2008-09)53
Panel on Education	12.1.2009 (Item IV)	Minutes Agenda

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