

## **Legislative Council Panel on Development**

### **Progress Report on HKSAR's Work in Support of Reconstruction in the Sichuan Earthquake Stricken Areas**

#### **Introduction**

This paper informs Members of the latest progress regarding the reconstruction support work of the Hong Kong Special Administrative Region (HKSAR) in Sichuan earthquake stricken areas.

#### **Progress Report of HKSAR's Reconstruction Support Work**

2. We have undertaken to submit regular report to the Legislative Council (LegCo) on the latest progress of HKSAR's reconstruction support work in Sichuan earthquake stricken areas. To this end, we submitted three progress reports to the Panel on Development at its meetings on 3 February 2009, 18 June 2009 and 24 November 2009 respectively. We have now prepared the fourth progress report (see **Annex 1** and **Annex 2**), which covers the latest progress of the HKSAR's reconstruction support work in three stages, as well as details of the applications for funding from the Trust Fund in Support of Reconstruction in the Sichuan Earthquake Stricken Areas (the Trust Fund) by Non-Government Organisations (NGOs) in Hong Kong, for Members' perusal.

#### **Latest Progress of Projects**

3. The Finance Committee (FC) of the LegCo approved a total amount of \$9 billion for injection into the Trust Fund in July 2008, February and July 2009 to take forward HKSAR's reconstruction support work in the first, second and the third stages. Adding commitment of \$1

billion from the Hong Kong Jockey Club (HKJC) and public donation, the overall objective in participating in the reconstruction work is met.

4. The HKSAR Government has undertaken 151 reconstruction projects in Sichuan earthquake stricken areas. The estimated expenditure for these projects is RMB7.503 billion, which is around \$8.588 billion<sup>1</sup>. These projects cover areas of education (a total of 56 schools), medical and rehabilitation (a total of 35 hospitals / medical and health projects), infrastructure facilities (a total of two projects), the reconstruction of Wolong Nature Reserve (Wolong) (a total of 23 projects) and social welfare services (a total of 35 projects). As at May 2010, there are two projects which are completed, 83 projects have entered the construction stage where two of which are substantially completed and their completion inspection will be carried out shortly, and 66 at pre-construction stage. It is anticipated that around 90% of the HKSAR reconstruction projects can be completed by end 2011. The progress of the three stages of reconstruction works is set out in the ensuing paragraphs.

#### First Stage Projects

5. On 18 July 2008, the FC approved a sum of \$2 billion for injection into the Trust Fund to take forward the first stage of HKSAR's reconstruction support work. On 11 October 2008, the HKSAR Government and the Sichuan Provincial People's Government (Sichuan Government) signed the "Cooperation Arrangement on the Support of Restoration and Reconstruction in the Sichuan Earthquake Stricken Areas" (the Cooperation Arrangement). The Cooperation Arrangement sets out the 20 reconstruction projects supported by HKSAR in the first stage, and lays the framework for the basic principles, funding

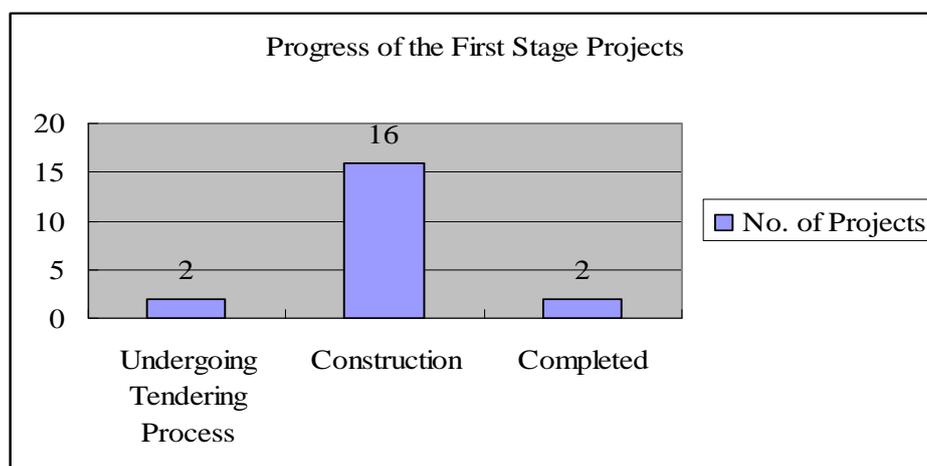
---

<sup>1</sup> The paid part was calculated on the basis of the actual exchange rate at the time of remittance, while the unpaid part was calculated on the basis of the exchange rate on 7 May 2010 at HK\$100 for RMB 86.58. Unless otherwise specified, the above exchange rate is applied across this note to facilitate comparison. The financial commitment for each project shown in Hong Kong Dollar in Annex 1 to this note may have some discrepancies with that shown in this note. Such discrepancies are due to the difference in exchange rate adopted.

management, project management, monitoring and audit arrangements, and the liaison and coordination mechanism etc, regarding the reconstruction support work undertaken by the HKSAR.

6. The 20 reconstruction projects in the first stage include five school reconstruction projects, nine medical facilities projects, four integrated social services centres, one highway project and one project on drawing up of plans in relation to Wolong. HKSAR and Sichuan have signed Project Cooperation Arrangements (PCAs) for these 20 reconstruction projects. The PCAs set out the project scope, technical standards, project milestones, funding commitment, phased funding arrangement, and details on project supervision and management etc.

7. All reconstruction projects in the first stage have entered the implementation stage, of which two projects (the “Drawing up of Plans for the Reconstruction of Wolong Nature Reserve” project and “Shuimo Secondary School in Wenchuan”) have been completed. As for the other projects, 16 are now at the construction stage with their main structures being built. One of these projects is the technically arduous transport infrastructure project, the construction of a section of 303 Provincial Road from Yingxiu to Wolong. Apart from that, two projects are undergoing tendering process after the completion of their design work (including Deyang City Integrated Social Services Centre, and the large scale and complicated “Sichuan Hong Kong Rehabilitation Technology Complex of Sichuan Peoples’ Hospital” project). The progress of the projects are shown in the following chart –



8. The estimated expenditure for the 20 projects in the first stage is \$1.874 billion (around RMB 1.645 billion). According to the funding transfer mechanism under the Cooperation Arrangement, the Trust Fund has so far transferred about \$1.612 billion<sup>2</sup> (around RMB 1.418 billion), which accounts for about 86.0% of the first stage commitment, to the “Dedicated Account for the HKSAR’s Trust Fund in Support of Reconstruction Works” (the Dedicated Account) set up under the Hong Kong and Macao Affairs Office of the Sichuan Government.

9. Details of the content and latest progress of individual reconstruction projects in the first stage are set out in **Annex 1**.

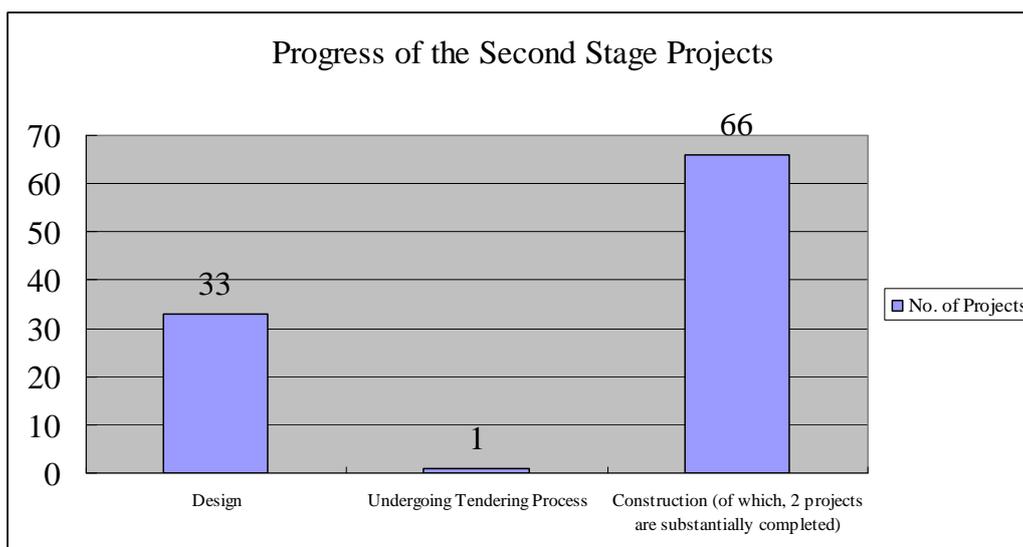
### Second Stage Projects

10. The FC agreed to further inject \$4 billion to the Trust Fund at its meeting on 20 February 2009 to take forward HKSAR’s reconstruction projects in the second stage. There are 100 projects, including 51 projects on education, 20 on medical and health services, seven on social welfare services and 22 on the reconstruction of Wolong.

11. Hong Kong and Sichuan have signed PCAs for all the 100 projects in the second stage, and the transfer of funds to Sichuan side and the implementation of projects have also been started. Of the projects in the second stage, construction of the main structures of 66 projects are in progress where two of them are substantially completed and pending for completion inspection (“Fujiang Road Primary School” and “Xigang School”). In addition, one project is pressing ahead with the tendering process, and 33 projects are at the design stage. The progress of the projects are shown in the following chart –

---

<sup>2</sup> Calculated on the basis of the actual exchange rate at the time of remittance.



12. The estimated expenditure for the 100 projects in the second stage is \$3.851 billion (around RMB 3.365 billion). According to the funding transfer mechanism under the Cooperation Arrangement, the Trust Fund has so far transferred about \$2.327 billion (around RMB 2.046 billion), which accounts for about 60.4% of the second stage commitment, to the Dedicated Account of the Sichuan Government.

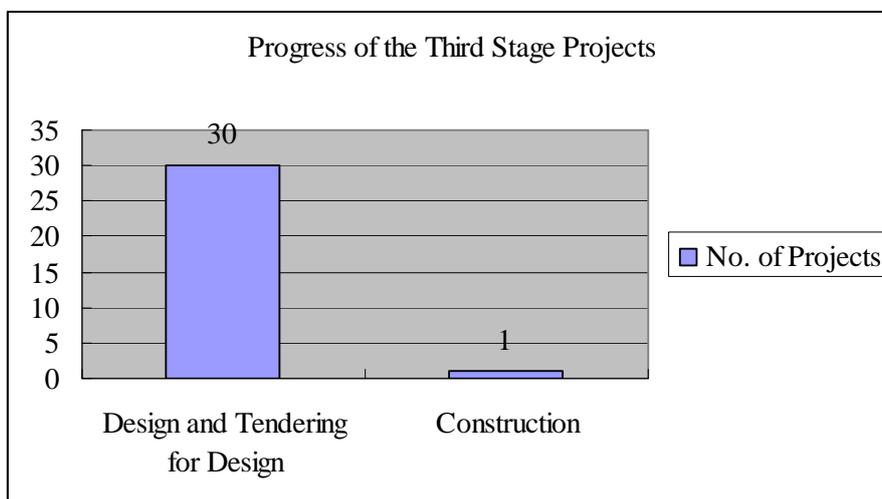
13. Details of the content and latest progress of individual projects in the second stage are set out in **Annex 1**.

### Third Stage Projects

14. The FC subsequently agreed on 3 July 2009 to increase the commitment by \$3 billion to a total of \$9 billion and inject the sum to the Trust Fund to pursue reconstruction support work in the third stage. On 6 July 2009, the Governments of the HKSAR and Sichuan signed the “Letter of Intent on HKSAR’s Third Stage of Work” and agreed on the list of the projects in the third stage.

15. There are 31 projects in the third stage, including one highway project (Mian Mao Highway), six medical and health projects, and 24 county-level rehabilitation services centres for the disabled. HKSAR and Sichuan have signed PCAs for all these 31 projects. The Mian Mao

Highway is currently at the construction stage. The tendering work for design of the 24 county-level rehabilitation services centres has commenced and the six medical and health projects are at the design stage. The progress of the projects are shown in the following chart –



16. The estimated expenditure for the projects in the third stage is \$2.863 billion (around RMB 2.493 billion). The HKSAR Government has so far transferred about \$1.030 billion (around RMB 906 million), which accounts for about 36.0% of the commitment in the third stage, to the Dedicated Account.

17. Details of the content and latest progress of individual projects in the third stage are set out in **Annex 1**.

## Applications by Non-Government Organisations in Hong Kong

18. In line with the "Government-led, full community involvement" approach and to consolidate efforts by all sectors of the community, the Trust Fund has invited funding applications from NGOs in Hong Kong since mid-October 2008 for undertaking reconstruction projects in the quake-stricken areas of Sichuan. The Fund has approved 36 applications in areas of education, medical services, physical and psychological rehabilitation, social welfare, training schemes and social services facilities etc, covering both hardware construction, as well as software services over which the Hong Kong NGOs have accumulated rich expertise and experience. The amount of grant involved is about \$284 million. Subsequently, as there is one NGO which has obtained other source of funding and another one which could not identify a suitable local partner in Sichuan, these two organisations have withdrawn their applications (which are "Mianzhu City Daxi Street Primary School Post-quake Reconstruction Project" and "Stone & Timber Structure Demonstration Project in Jiashan Area, Taoping Village in Li County of Aba Prefecture" respectively). Deducting \$13.4 million previously allocated to these two projects, the total amount of grant is adjusted downward from \$284 million to around \$270 million (please refer to **Part 3 of Annex 1** for details). The unallocated fund would be reserved for contingency use. Taking into account provision for other contingency, no residual funds are available in the Trust Fund which has therefore ceased inviting new applications.

## Reconstruction Projects by the Hong Kong Jockey Club

19. The HKJC has committed \$1 billion in support of the reconstruction work in Sichuan. The HKJC and relevant Sichuan authorities have signed a letter of intent on four projects as the first stage of support work, covering facilities on medical and rehabilitation services, secondary school and sports school etc. The total commitment for these projects is capped at about \$450 million (around RMB 400 million)

(please refer to **Annex 2** for details). These four projects have entered construction stage and the construction of the main structures of one of these projects has been completed. Besides, the HKJC is going to commit \$335 million (around RMB 290 million) on two projects, covering education and training facilities on vocational as well as post-quake reconstruction and management research areas, as its second stage of work. The HKJC is discussing with the Sichuan Government on how the remaining funds should be used. New projects under consideration include education and training as well as medical and rehabilitation facilities.

### **Continue to Press Ahead the Progress of Reconstruction Support Projects**

20. HKSAR's post-quake reconstruction work in Sichuan has been proceeding smoothly; and project funds are being released in accordance with the progress of work. We will next focus our efforts on the management and monitoring of projects, so as to ensure the quality of HKSAR's reconstruction work and the proper, effective and efficient use of the HKSAR's support funds.

#### **Project Management**

21. As we have detailed in our previous progress reports submitted last year, HKSAR's reconstruction support projects are executed by the Sichuan Government in accordance with the laws and regulations in the Mainland. Seismic resistance design standards and other mandatory standards of work should meet the latest requirements in the Mainland. According to the Cooperation Arrangement and the PCAs signed for individual projects, the HKSAR's reconstruction support projects are subject to the monitoring of the Department of Supervision, the Department of Audit of the Sichuan Government, as well as independent supervision engineers appointed by project owners. Besides, representatives from relevant bureaux/departments of the HKSAR Government and independent professional consultants engaged by the

HKSAR Government will also conduct site inspections, and advise on project implementation. The Sichuan Government will also provide information on the progress and quality of projects, including reports prepared by the independent supervision engineers, to the HKSAR Government. So far, according to the observation of the relevant bureaux/departments of the HKSAR Government and the independent professional consultants, no major problems in the implementation of projects have been identified on the part of the construction agents in Sichuan. For some technical problems, they have been properly followed up and rectified through the existing liaison and coordination channels of Governments of both sides. Please refer to **Part 1 of Annex 1** for details on HKSAR's project management and supervision work, including issues on quality and safety works and the findings of the independent professional consultants..

22. The Sichuan Government attaches great importance to the monitoring of reconstruction projects and has issued a series of regulatory documents to clearly specify the mode of work, the accountability and responsibilities. The Sichuan side has also enhanced the internal accountability and supervisory structure. Coordination mechanisms at provincial, city (prefecture) and county levels have been established to clearly define the management of project implementation and supervisory responsibilities; and relevant parties have also been tasked to follow up immediately with comments raised by the HKSAR regarding the quality and safety issues of the works.

23. With reference to the current implementation progress, we anticipate that around 90% of the HKSAR reconstruction projects would be completed by end 2011. These projects would include all education projects, most of the Wolong, social welfare and medical services projects. In view of the scale, complexity and constraints of geographical locations of some of the projects, we anticipate that projects including the two highway projects, six social welfare and three hospital projects would be completed in 2012.

## Funding Management

24. According to the prevailing arrangement, HKSAR's reconstruction support work, including funding management, is undertaken on a project basis. The HKSAR Government will transfer funds from the Trust Fund to the Dedicated Account set up by the Sichuan Government for handling the funds for HKSAR's reconstruction support projects with reference to the relevant PCAs which state the anticipated project milestones and arrangement for payment of funds by instalments. The Dedicated Account is subject to monitoring and audit by the Sichuan Government. The project funds are used only for their intended purposes and are transferred directly from the Dedicated Account to the construction agents responsible for the projects at the provincial level, or transferred to the dedicated accounts set up by the governments of cities (prefectures) or counties where the projects are implemented, to effect payment to the local construction agents in accordance with the actual progress. As detailed in the first and third progress reports we submitted in January 2009 and November 2009 respectively, the first instalment is paid out in the form of advance payment and subsequent payments will be made having regard to the actual progress of individual projects. Both Sichuan and Hong Kong will also conduct annual inspection and site visits to monitor the progress of the projects.

25. Hong Kong and Sichuan conducted an annual inspection meeting on 3 February 2010. Site inspections at a number of reconstruction projects supported by the HKSAR were also carried out before the meeting with a view to monitor and progress and quality of works. At that annual inspection meeting, both sides examined the progress of individual projects and the estimated funding required. The estimated amount of fund required for 2010 was also adjusted having regard to the actual progress of the projects. The revised amount of funds released is RMB 2.596 (around \$2.955 billion), which is around 35% of the total estimated expenditure of the reconstruction projects of the three stages.

26. Regarding the supervision of the use of project funds, the Sichuan side reports to the HKSAR Government on the receipt, release and use of funds under the established liaison and coordination mechanism (as detailed in **paragraph 28 below**). For the HKSAR Government, the Trustee (i.e. Secretary for Home Affairs Incorporated) (SHAI) shall, under the Secretary for Home Affairs Incorporation Ordinance) (Cap 1044), submit a copy of the SHAI's audited statement of accounts, together with the report by the Director of Audit and a report by the corporation on the administration of the Trust Fund during the period covered by the audited statement of accounts to the LegCo not later than three months after the audited statement of accounts and the report thereon are received by the corporation from the Director of Audit. The SHAI's audited statement of accounts will incorporate the Trust Fund's audited statement of accounts. The Trust Fund's first audited statement of accounts (as at 31 March 2009) has been completed and was submitted to the LegCo according to the legal requirement above on 16 December 2009.

27. The HKSAR and Sichuan Governments have signed PCAs for all the 151 reconstruction projects in three stages and have initiated the corresponding payment arrangement. The Fund has so far transferred \$4.969 billion to Sichuan's Dedicated Account, which is about 57.9% of the estimated expenditure of the reconstruction projects of the three stages. The above transfer mechanism has been operating smoothly. Both Governments will maintain close liaison and will continue to follow up in accordance with the established procedures.

#### Continue to Enhancing Communication and Liaison between the two Governments

28. As we have detailed in the progress reports we submitted last year, Sichuan and Hong Kong sides have established a three-tier coordination mechanism in enhancing communication and contacts between relevant departments of both places. Apart from the High-level meeting co-chaired by the Chief Secretary for Administration of the HKSAR Government and the Executive Vice-Governor of the Sichuan

Government, the coordination mechanism also includes Coordination Group meetings between the relevant bureaux / departments of the HKSARG and that of the Sichuan Government, as well as dedicated project groups.

29. As at 31 May 2010, under the established liaison mechanism, the HKSAR and Sichuan Governments have held two High-level Meetings, five Coordination Group meetings, 26 dedicated project group meetings and 230 meetings at other working levels. Apart from representatives from relevant bureaux/departments of the HKSAR Government, non-government officials and experts of the relevant platforms have also attended the expert group and working-level meetings as necessary. During the period, representatives of Hong Kong have taken part in 94 inspections (excluding those conducted by independent professional consultants engaged by the HKSAR Government), involving a total of some 1,085 man-days. These inspections basically covered all projects supported by the HKSAR.

30. In the past six months, we have organised two groups of officials from the Sichuan Hong Kong and Macao Affairs Office and Department of Audit, and the Sichuan Department of Supervision and Sichuan Provincial Development and Reform Commission to conduct study visits to Hong Kong. Meetings and exchanges have been arranged for them to meet with the relevant HKSAR Government bureaux and departments, as well as relevant independent agencies such as the ICAC. These visits have helped the smooth supervision and management of reconstruction support work.

### **Overall Distribution of Commitment to HKSAR's Reconstruction Support Work**

31. The total commitment of \$9 billion approved by the FC, together with \$1.996 million public donation and the accumulated interested received (as at 18 May 2010), the Trust Fund has accumulated about \$9.020 billion. As at 10 May 2010, the Trust Fund's commitment for HKSAR's reconstruction projects in the three stages is about \$8.588

billion, leaving a residual balance of about \$49 million. The breakdown of the commitment is as follows:

Areas		Estimated Expenditure (RMB billion)	Estimated Expenditure (HK\$ billion)
(a)	20 reconstruction projects in the first stage	1.645	1.874
(b)	100 reconstruction projects in the second stage	3.365	3.851
(c)	31 reconstruction projects in the third stage	2.493	2.863
(d)	34 approved NGO projects	---	0.270
(e)	Staff cost and operating expenditure (including the cost of independent professional consultants engaged by the Development Bureau)	---	0.113
(f)	Contingency	---	0.049
	Total:	---	9.020

### Next Steps

32. The HKSAR Government will maintain close communication and liaison with the Sichuan Government with a view to continue pressing ahead with the reconstruction support work and monitoring the construction works and the use of funds. We will submit regular reports to the relevant Panel of the LegCo on the latest progress of HKSAR's reconstruction support work and upload those reports to the webpage of the Constitutional and Mainland Affairs Bureau for public consumption.

Constitutional and Mainland Affairs Bureau  
Development Bureau  
May 2010