

立法會
Legislative Council

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Panel on Transport

Subcommittee on Matters Relating to Railways

**Minutes of special meeting on
Friday, 17 June 2011, at 8:30am
in the Chamber of the Legislative Council Building**

- Members present** : Hon Miriam LAU Kin-ye, GBS, JP (Chairman)
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon LAU Kong-wah, JP
Hon Andrew CHENG Kar-foo
Hon Abraham SHEK Lai-him, SBS, JP
Hon LI Fung-ying, SBS, JP
Hon WONG Kwok-hing, MH
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon CHEUNG Hok-ming, GBS, JP
Hon Ronny TONG Ka-wah, SC
Hon KAM Nai-wai, MH
Hon WONG Sing-chi
Hon IP Wai-ming, MH
Hon Tanya CHAN
- Members absent** : Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Hon LEUNG Kwok-hung
Hon Albert CHAN Wai-yip

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Public Officers attending : **Agenda item I**

Ms Eva CHENG
Secretary for Transport and Housing

Ms Maisie CHENG
Deputy Secretary (Transport)1
Transport and Housing Bureau

Mr C W CHOW
Principal Assistant Secretary (Transport)7
Transport and Housing Bureau

Mr K K LAU
Director of Highways

Mr K W FUNG
Government Engineer / Railway Development 1
Highways Department

Attendance by invitation : **Agenda item I**

Mr Leonard TURK
Legal Director and Secretary
MTR Corporation Limited

Mr Steve YIU
Head of Town Planning
MTR Corporation Limited

Miss Maggie SO
Senior Manager – Projects and Property Communications
MTR Corporation Limited

Clerk in attendance : Ms Joanne MAK
Chief Council Secretary (1)2

Staff in attendance : Mr Franco KWONG
Council Secretary (1)2

Ms Emily LIU
Legislative Assistant (1)2

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- I Funding arrangements of the Kwun Tong Line Extension (KTE) and the South Island Line (East) (SIL(E)) projects**
- | | | |
|---------------------------------|-----|--|
| (No File Reference | — | Legislative Council Brief on the South Island Line (East) funding arrangement |
| No File Reference | — | Legislative Council Brief on the Kwun Tong Line Extension funding arrangement |
| LC Paper
CB(1)2431/10-11(01) | No. | Information note on funding arrangements of railway projects prepared by the Legislative Council Secretariat |
| LC Paper
CB(1)2431/10-11(02) | No. | Letter from Hon WONG Sing-chi) |

The Subcommittee deliberated (Index of proceedings attached in **Annex**).

2. Ir Dr Raymond HO declared that he was an independent non-executive director of an engineering company.
3. With the aid of Powerpoint, the MTR Corporation Limited (MTRCL) briefed members on the funding arrangements of the Kwun Tong Line Extension (KTE) and the South Island Line (East) (SIL(E)) projects. The Subcommittee noted that on 17 May 2011, the Chief Executive-in-Council decided that approval should be given to grant the MTRCL the property development rights of the ex-Wong Chuk Hang Estate and ex-Valley Road Estate Phase 1 sites as a form of financial assistance to the MTRCL to implement the SIL(E) and KTE projects respectively.

Rail-plus-property model

4. Some members opined that the MTRCL benefited a lot from the grant of such premium land as the ex-Wong Chuk Hang Estate and ex-Valley Road Estate Phase 1 sites under the current proposals. These members expressed concern about the adoption of rail-plus-property model and opined that the Administration should consider providing capital grant to the MTRCL to bridge the funding gap of the SIL(E) and KTE projects, instead of granting the property development rights as currently proposed. Some members further commented

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that the depot and above-depot developments carried out by the MTRCL had brought huge profits to the Corporation in the past. They considered that the MTRCL's profits derived from property developments should be taken into account under the "productivity factor" of the MTRCL's Fare Adjustment Mechanism (FAM). The Administration noted members' views and advised that FAM had been scheduled for review in the following year.

5. The Administration advised that in considering the financing arrangements for new railway projects, it would examine carefully whether financial support should be provided having regard to the circumstances of individual cases, and if financial support was necessary, it would adopt the most suitable mode of financing, including the grant of property development rights within the precinct of the railways or other measures, on a case-by-case basis. Under the rail-plus-property model, all the associated commercial risks arising from market fluctuations and rail operations would be borne by MTRCL.

6. The Administration further advised that to ensure that the estimated cost and revenue for the two railway projects prepared by MTRCL were reasonable, it had engaged an independent checking consultant (ICC) to check the estimated cost and revenue for the SIL(E) and KTE projects prepared by MTRCL. ICC completed the checking in April 2011 and considered that MTRCL's estimates for the two railway projects were generally in order. In addition, the ICC conducted an independent checking on the funding arrangement of granting development rights of the concerned sites to the MTRCL. Two independent surveying firms had also been engaged for each project to provide property valuation for the development.

7. Mr Andrew CHENG enquired about the reasons for the decline in the economic internal rate of return (EIRR) of the SIL(E) and KTE projects as compared with that previously reported to the Subcommittee in 2007/2008. Admin The Administration agreed to provide a response giving an account of the reasons.

Admin 8. At the request of the Subcommittee, the Administration also agreed to provide the relevant consultancy reports on the independent checking of the funding arrangement of the SIL(E) and KTE projects.

(Post-meeting note: the documents as referred to in paragraph 8 were provided to the Secretariat on 24 August 2011 and a relevant circular was issued to Subcommittee members vide LC Paper No. CB(1)2940/10-11(02) on 26 August 2011.)

Action

II Any other business

9. There being no other business, the meeting ended at 10:05 am.

Council Business Division 1
Legislative Council Secretariat
21 November 2011

Panel on Transport

Subcommittee on Matters Relating to Railways

Proceedings of the special meeting on Friday, 17 June 2011, at 8:30 am in the Chamber of the Legislative Council Building

Time marker	Speaker	Subject(s)	Action required
<i>Agenda item I – Funding arrangements of the Kwun Tong Line Extension and the South Island Line (East) projects</i>			
000010 – 000156	Chairman Ir Dr Raymond HO	Opening remarks. Ir Dr Raymond HO's declaration of interest.	
000157 – 001130	Administration MTRCL	Powerpoint presentation by MTR Corporation Limited (MTRCL) on the South Island Line (East) (SIL(E)) and Kwun Tong Line Extension (KTE) projects property developments.	
001131 – 001909	Chairman Mr WONG Sing-chi Administration	<p>Mr WONG Sing-chi's views that the depot and above-depot developments had become the principal business of the MTRCL. The Government should provide capital grant to MTRCL to bridge the funding gaps of the SIL(E) and KTE projects, instead of granting the property development rights as currently proposed.</p> <p>The Administration's responses –</p> <p>(a) in considering the financing arrangements for new railway projects, the Government would examine carefully whether financial support should be provided having regard to the circumstances of individual cases, and if so, it would adopt the most suitable mode of financing, including the grant of property development rights within the precinct of the railways or other measures, on a case-by-case basis;</p> <p>(b) the rail-plus-property model could achieve a synergy effect between the above-station developments and rail developments; and</p> <p>(c) for the SIL(E) and KTE projects, the Administration had engaged an independent checking consultant (ICC) to assess the cost and revenue of the property developments and two independent surveying firms to assist in the property valuation process.</p>	

Time marker	Speaker	Subject(s)	Action required
001910 – 002606	Chairman Ms LI Fung-ying Administration	<p>Ms LI Fung-ying's view that the MTRCL benefited a lot from the grant of such premium land as the ex-Wong Chuk Hang Estate and ex-Valley Road Estate Phase 1 sites under the rail-plus-property model. Ms LI's request that the Administration should provide supplementary information about the cost checking reports.</p> <p>The Administration's response –</p> <p>(a) different from other residential developments, the construction of above-station developments needed to tie in with the construction works of station and depot;</p> <p>(b) through the rail-plus-property model, the associated commercial risks arising from market fluctuations and rail operations were borne by the MTRCL; and</p> <p>(c) the Administration agreed to provide the cost checking reports for SIL(E) and KTE to the Subcommittee members, after removing the sensitive information about the cost figures.</p>	The Administration to provide information (para 8 of minutes)
002607 – 003225	Chairman Mr WONG Kwok-hing Administration	<p>Mr WONG Kwok-hing's views –</p> <p>(a) the MTRCL's property profit should be included in the productivity factor of the formula of fare adjustment mechanism; and</p> <p>(b) priority should be given to local first-time home buyers to buy properties in the above-station and depot developments.</p> <p>The Administration's response –</p> <p>(a) while the grant of property development rights was not a subsidy, it was used to bridge the funding gaps of railway projects and the MTRCL was required to pay the land premium;</p> <p>(b) there was an established mechanism to review the MTRCL's fare adjustment mechanism; and</p> <p>(c) it was not a government policy to give priority to local first-time home buyers to buy properties in the above-station and depot developments.</p>	

Time marker	Speaker	Subject(s)	Action required
003226 – 003950	Chairman Mr KAM Nai-wai Administration	<p>Mr KAM Nai-wai's enquiries –</p> <p>(a) why the Administration did not provide an one-off capital grant to MTRCL to bridge the funding gaps of projects; and</p> <p>(b) why the MTRCL planned to build a shopping centre in the ex-Wong Chuk Hang Estate site, notwithstanding that the Southern District Council (SDC) had actually demanded for provision of a community civic centre.</p> <p>The Administration's response –</p> <p>(a) the Government could, through the rail-plus-property model, transfer all the associated commercial risks arising from market fluctuations and rail operations to the MTRCL;</p> <p>(b) under the pessimistic scenario of the sensitivity analysis conducted by ICC, the funding gaps of \$3.4 billion and \$1.1 billion for SIL(E) and KTE projects would remain respectively, even with the funding assistance to be generated from property developments. The MTRCL had to cover the remaining funding requirements;</p> <p>(c) the current planning concept of ex-Wong Chuk Hang Estate site was supported by SDC; and</p> <p>(d) up to 1 500 m² gross floor area of ex-Wong Chuk Hang Estate site would be reserved for social enterprises or other government, institution or community (GIC) facilities; and another 2 000 m² would be reserved for GIC facilities, subject to further discussion with the Social Welfare Department.</p>	
003951 – 004636	Chairman Ir Dr Raymond HO Administration	<p>In response to Ir Dr Raymond HO's enquiry, the Administration advised that the ICC had conducted comprehensive checks on the estimated costs and revenues for the whole SIL(E) and KTE projects, so as to ensure that the MTRCL would not grossly over-estimate the costs and hence the funding support required.</p>	
004637 – 005305	Chairman Mr Andrew CHENG Administration	<p>Mr Andrew CHENG's expression of dissatisfaction with the adoption of rail-plus-property model in the SIL(E) and KTE projects. Mr CHENG pointed out that the above-station and depot developments had</p>	

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		<p>brought a huge profit to the MTRCL in the past decade. However, the MTRCL still applied for fare increase. He urged the Administration to consider setting up a fare stabilization fund.</p> <p>The Administration's response that when considering the proposal to set up a public transport fare stabilization fund, the Administration had to ensure the proper use of public money and avoid providing wrong incentives that would undermine the public transport operators' efforts in cost saving.</p>	
005306 – 005822	Chairman Miss Tanya CHAN Administration	<p>Miss Tanya CHAN's enquiries –</p> <p>(a) whether financial internal rate of return would be taken into consideration in designing the SIL(E) and KTE projects; and</p> <p>(b) whether the property development rights of the projects would expire.</p> <p>The Administration's response –</p> <p>(a) in considering the SIL(E) and KTE projects, the Administration adopted the economic internal rate of return (EIRR) for assessment. EIRR measured the overall economic benefit of the projects to the community as a whole, in which the Administration looked at the economic benefit brought to the community by the projects, e.g. the saving in travelling time for the public, congestion relief to adjacent roads and job opportunities to be created; and</p> <p>(b) the property development rights would be granted through private treaty grants for a term of 50 years, starting from the completion of railway works.</p>	
005823 – 010329	Chairman Mr Jeffrey LAM Administration	<p>Mr Jeffrey LAM's view that the rail-plus-property model was effective in rail development of Hong Kong and his enquiry on details of the current proposals.</p> <p>The Administration's response that to meet market demand and satisfy the housing needs of the working population of surrounding districts, the majority of the proposed property development of WCH site of SIL(E) project would be small to medium-sized units with an average size of 76 m²</p>	

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		<p>and about 20% of the flats would be of about 50 m² in size. The relevant planning parameters of the property developments had been approved by the Town Planning Board. As for the Ho Man Tin site of KTE project, the plot ratio had been brought down from 9 as allowed under the relevant outline zoning plan to 5, and the size of flats ranged from 40 to 200 m².</p> <p>In response to Mr LAM's enquiry, the Administration advised that if there was still a funding gap after deducting the profit from property developments, the MTRCL had to meet the shortfall.</p>	
010330 – 011025	Chairman Mr LAU Kong-wah MTRCL	<p>Mr LAU Kong-wah's view that the rail-plus-property model was feasible and his enquiry on the estimated and actual revenues generated from the above-station and depot property developments over the past years.</p> <p>The MTRCL's response –</p> <p>(a) the annual reports published by the MTRCL had provided the requested information;</p> <p>(b) The Administration's remark that railway development was capital intensive and MTRCL's rate of return on asset was 6.7% only.</p>	
011026 – 011827	Chairman Mr WONG Sing-chi Administration MTRCL	<p>Mr WONG Sing-chi's queries about the adoption of the rail-plus-property model. The Administration and MTRCL's further explanation on the merits of the rail-plus-property model.</p> <p>In response to Mr WONG's enquiry, the MTRCL advised that the owners of the above-station developments were always free to choose its management company. The management service was provided by the MTRCL since the construction period until the owners' incorporation decided to terminate it.</p>	
011828 – 012404	Chairman Mr WONG Kwok-hing Administration	<p>Mr WONG Kwok-hing's reiteration that the property profit should be included in the productivity factor of the formula of MTRCL's fare adjustment mechanism.</p> <p>The Administration noted Mr WONG's views and advised that the MTRCL's fare adjustment</p>	

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		mechanism had been scheduled for review in the following year.	
012405 – 013254	Chairman Mr Andrew CHENG Administration	<p>Mr Andrew CHENG's views that the MTRCL's profit generated from property development should be included in the formula of fare adjustment mechanism and the Administration should also set up a fare stabilization fund. Mr CHENG also expressed concerns on the high on-cost payable to MTRCL and low EIRR.</p> <p>The Administration's response –</p> <p>(a) the fare adjustment mechanism would be reviewed in the following year;</p> <p>(b) the Administration noted the views on the proposal of setting up a fare stabilization fund;</p> <p>(c) The Administration agreed to provide a response to explain for the decrease in the EIRR of the two railway projects.</p>	The Administration to provide information (paras 7 and 8 of minutes)
013255 – 013521	Chairman Ms LI Fung-ying Administration	In response to Ms LI Fung-ying's enquiry, the Administration advised that if there was still a funding gap after deducting the profit from property developments, the MTRCL would have to meet the shortfall.	