

For discussion
on 30 May 2012

PWSC(2012-13)19

ITEM FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE

CAPITAL WORKS RESERVE FUND

HEAD 702 – PORT AND AIRPORT DEVELOPMENT

HEAD 703 – BUILDINGS

HEAD 704 – DRAINAGE

HEAD 705 – CIVIL ENGINEERING

HEAD 706 – HIGHWAYS

HEAD 707 – NEW TOWNS AND URBAN AREA DEVELOPMENT

HEAD 708 (PART) – CAPITAL SUBVENTIONS

HEAD 709 – WATERWORKS

HEAD 711 – HOUSING

**Proposal to Increase the Financial Ceiling of Delegated Authority for
Category D Items in the Capital Works Programme**

Members are invited to recommend to Finance Committee the approval of the proposed increase in the financial ceiling of the delegated authority for Category D items in the Capital Works Programme.

PROBLEM

The real value of the authority delegated to the Financial Secretary (FS) to create Category D items in the Capital Works Programme (CWP) has been eroded by inflation in construction cost since the current financial limit of \$21 million was last approved by the Finance Committee (FC) on 2 November 2007.

/PROPOSAL

PROPOSAL

2. We propose that for Heads of Expenditure 702 to 707, 708 (Part) – Capital Subventions, 709 and 711 under the Capital Works Reserve Fund (CWRF), the existing limit on the delegation of authority to FS to approve the creation of Category D items in CWP be raised from \$21 million to \$30 million in order to maintain the real value of the delegation.

3. Subject to FC's approval of the proposal in paragraph 2 above, as is the current practice, FS may approve increase in the approved project estimate of new or approved Category D items, provided that the total project estimate does not thereby exceed the new limit of \$30 million.

JUSTIFICATION

4. The practice of delegation of financial powers applicable to CWP allows the Administration to deal with relatively minor CWP items or Category D items speedily, as well as enables Members to make better use of their time and concentrate on the more important and higher value items. These minor works items are funded by 21 block allocations under CWRF Heads 702 to 707, 708 (Part) – Capital Subventions, 709 and 711.

5. FC approved on 2 November 2007 the proposal to raise the financial ceiling for Category D items from \$15 million to \$21 million to cater for inflation¹. In view of the sharp increase in the price of construction works in the past five years, the real value of the authority delegated to FS to create Category D items has been eroded. It is necessary to increase the financial ceiling for Category D items to maintain the real value of the delegation, achieving its intended objectives as set out in paragraph 4 above.

/6.

¹ In the 2007 review, in anticipation that most projects to be implemented would fall under the civil engineering and transport infrastructure categories, only indexes related to civil engineering works and transport infrastructure works had been adopted as the basis for computing the price increases.

6. Since June 2007, the price of civil engineering works as reflected in the movements of the Civil Engineering Works Index (CEWI) published by the Civil Engineering and Development Department has increased from 451.4 to 538.0 in December 2011 (i.e. an increase of 19%). The Highways Department Construction Cost Index (HyDCCI) has also risen from 848.6² to 1 047.4 in the same period (i.e. an increase of 23%). The price of building works, as reflected in the movements of the Building Works Tender Price Index (BWTPI) compiled by Architectural Services Department, has also risen from 859 in the second quarter of 2007 to 1 408 in the fourth quarter of 2011 (i.e. an increase of 64%). Taking into account the spending of buildings and non-buildings related block allocation subheads since the last review, which stands at around 55% (buildings) to 45% (non-buildings), the weighted average increase of the price of construction works is about 45%³. To reflect such increase, we propose to raise the financial ceiling of delegated authority for creating Category D items from \$21 million to \$30 million to maintain the value of the delegation in real terms.

7. The proposed increase in financial ceiling for Category D items will enable works departments to carry out more standalone minor improvement items of a smaller scale or at district level (e.g. minor building works for schools and public facilities, local roadworks and drainage improvements) in a more efficient manner.

FINANCIAL IMPLICATIONS

8. On 6 January 2012, FC approved a total allocation of \$8,019.8 million for works-related block allocations for 2012-13 (vide FCR(2011-12)63). The proposal to increase the financial ceiling for Category D items to \$30 million, if approved, will not give rise to any additional funding requirements for 2012-13.

/Recurrent

² The HyDCCI quoted in CB(1)84/07/08(05) for discussion by the Panel on Development on 23 October 2007 was 919.2 in June 2007. As the weighting of the elements making up the HyDCCI has changed since July 2009, we have worked out the revised HyDCCI for June 2007 to be 848.6 to facilitate direct comparison with the HyDCCI of the present day.

³ Reference has been made to the past spending of subheads from 2007-08 to 2011-12 and the provision for 2012-13 –
 $0.45 \times 21\%$ (average increase of CEWI (19%) and HyDCCI (23%)) +
 $0.55 \times 64\%$ (increase of BWTPI) = 45% (weighted average increase of construction prices)

Recurrent Expenses of Works Projects

9. Under the existing arrangements, bureaux and departments are required to absorb any additional recurrent expenditure requirements arising from minor works items within their respective allocations. This long-standing practice has taken into account the fact that –

- (a) minor works often involve repair and re-instatement works which have no additional recurrent resource implications; and
- (b) given the modest scale of minor works projects, any extra recurrent resource requirements are unlikely to cause a burden on the overall operating expenditure of the relevant bureaux and departments.

10. Since the proposal to increase the ceiling of delegated authority of Category D items from \$21 million to \$30 million is essentially inflation-based, we see no need to deviate from the above practice.

PUBLIC CONSULTATION

11. On 24 April 2012, we consulted the Panel on Development on the proposed increase from \$21 million to \$30 million to cater for inflation. Members supported the proposal.

BACKGROUND INFORMATION

12. In accordance with the Resolution made by the Legislative Council on the establishment of CWRF, the Fund is to be administered by FS, who may delegate his power of administration to other public officers.

13. Over the years, FC has approved the establishment of block allocations under CWRP on various types of public works projects, acquisition of land, capital subventions and computerisation projects. At present, there are a total of 24 block allocations under CWRP, of which 21 are works-related and are subject to the financial ceiling of \$21 million in spending on each item (except for **Subhead 5001BX – Landslip preventive measures** under **Head 705 – Civil Engineering**, in which FC has delegated the authority to the Controlling Officer to approve individual items without a financial limit, provided that the aggregate expenditure does not exceed the annual allocation approved by FC). Projects exceeding such ceiling in cost are submitted to Public Works Subcommittee/FC for funding approval on a project basis.

Development Bureau
May 2012