

**For discussion
on 24 April 2012**

Legislative Council Panel on Development

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

Purpose

This paper seeks Members' views on the proposal to increase the financial ceiling of delegated authority for Category D items in the Capital Works Programme (CWP) to the Financial Secretary (FS) from \$21 million to \$30 million in order to maintain the real value of the delegation.

2. Subject to Members' views, we plan to submit the proposal to the Public Works Subcommittee (PWSC) for their endorsement in May 2012 with a view to seeking approval from the Finance Committee (FC) in June 2012.

Justification

3. The practice of delegation of financial powers applicable to the CWP allows the Administration to deal with relatively minor CWP items or Category D items speedily, as well as enable 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 the Capital Works Reserve Fund Heads 702 to 707, 708 (Part) – Capital Subventions, 709 and 711.

4. 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 the 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 and its intended objectives as set out in paragraph 3 above.

The Proposal

5. 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 1047.4 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.

6. The proposed increase in financial ceiling for Category D items will

¹ Of the 21 works-related block allocations, all are subject to the financial ceiling of \$21 million except for Subhead 5001BX – Landslip preventive measures under Head 705 – Civil Engineering. For this subhead, 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.

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.

² The HyDCCI quoted in CB(1)84/07/08(05) for panel discussion on 23 October 2007 was 919.2 in June 2007. As the weighting of the elements comprising in HyDCCI has changed since July 2009, we have worked out the revised HyDCCI in 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 * 21% (average increase of CEWI (19%) and HyDCCI (23%)) +

0.55 * 64% (increase of BWTPI) = 45% (weighted increase of construction prices)

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.

7. We also propose that, as is the current practice, FS may approve increase in the approved project estimate of each new and approved Category D item, provided that the total project estimate does not thereby exceed the new limit.

Financial Implications

8. The FC approved a total allocation of \$8,019.8 million for works-related block allocations in 2012-13. 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 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 basically inflation-based, we see no need to deviate from the above practice.

Advice Sought

11. Members are invited to comment on the proposal which we plan to put to the Public Works Subcommittee for endorsement in May 2012 and Finance Committee for approval in June 2012.

Development Bureau
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