

For information

Legislative Council Panel on Development

Latest Development of the Implementation of the Capital Works Programme

Purpose

At the Panel meeting of 25 November 2014, Members expressed concerns regarding possible over-concentration of implementation of capital works projects leading to higher project costs and shortage of construction workers. Members were also concerned about the possible decrease in the construction output in the coming years due to the slow progress of funding approval of the Finance Committee (FC) and its Public Works Subcommittee (PWSC), which may affect livelihood of construction workers and the economic development of Hong Kong. This paper aims to brief Members on the latest development of the implementation of the Capital Works Programme.

Infrastructure Investment

2. In the past decades, infrastructure development had made significant contributions to every stage of urbanization of Hong Kong. Infrastructure investment also helps propel Hong Kong's economic development, creates job opportunities, improves people's quality of life, enhances Hong Kong's long-term competitiveness, and thus lays a solid foundation for our sustainable development in the future.

3. Infrastructure investment has a close relationship with Hong Kong's economy. The share of the Capital Works Programme reached 6% of the real gross domestic product (GDP) in the days of the Airport Core Projects in the 1990s. Thereafter, having gone through the Asian financial turmoil, the Dot-Com bubble burst and the subsequent SARS outbreak, the expenditure on capital works projects stayed at a low level for a long period, with its share at only slightly more than 2% in 2005. With the rolling out of the major infrastructure projects by the Government since 2007-08, capital works expenditure has gradually increased from \$20.5 billion (in money-of-the-day price) in 2007-08 to \$70 billion in 2013-14, accounting for around 3.3% of the real GDP.

4. According to the Report of the Working Group on Long-Term Fiscal Planning released in March this year, notwithstanding the economic ups and downs in Hong Kong over the past, capital works expenditure has maintained a long-term average of 3.4% of real GDP over the past three decades. Hence, the current capital works expenditure at a share of 3.3% of real GDP is only broadly at the average level.

5. In fact, while our infrastructure investment appears to have picked up pace in recent years, the total construction output and the speed in infrastructure development are only recovering to the level before the decline. The Government must maintain an appropriate infrastructure investment so as to continue to improve people's quality of living, increase employment opportunities and enhance Hong Kong's competitiveness. Currently, there is not sufficient developable land and yet it is necessary to further enhance various facilities such as medical infrastructures, transportation systems and so on. We have to continue to invest in worthwhile infrastructure projects so as to effectively promote the long-term development of Hong Kong.

6. According to the reports by the World Economic Forum, Hong Kong's performance in infrastructure was ranked first globally for the past five years. Singapore has been inching closer to Hong Kong in the ranking in recent years and challenging Hong Kong's leading position. With keen competition nowadays from various global economies, we will fall behind if we fail to make sustained progress. It is a hard-earned achievement for Hong Kong, to be outstanding in our infrastructure. Infrastructure development is a medium to long-term investment which can bring about returns to the economy in the long run. A research by the World Bank has estimated that a 10% increase in infrastructure investment would raise long-term economic growth by 1% - 5% per annum.

7. The Government has all along been adopting long-term and visionary planning for infrastructure projects and will continue to invest in worthwhile infrastructure projects in a timely manner to meet social needs and maintain Hong Kong's competitiveness. We will prioritise our Capital Works Programme with due regard to merits and urgency of individual projects, fiscal sustainability of the programme and so on, with a view to taking forward infrastructure projects in an orderly and effective manner.

8. The Medium Range Forecast of the Capital Works Reserve Fund (covering expenditure under Public Works Programme, Land Acquisition, Computerisation, Capital Subventions and Major Systems and Equipment) released last year is at

Annex 1 for Members' reference. This forecast has not yet taken into account the impact arising from the recent slower than expected funding approval progress of FC and PWSC meetings.

Overall Construction Output

9. In assessing the construction output and the delivery capacity of the construction industry in Hong Kong, we have to take into account the construction expenditure of both the public and private sectors. According to the latest forecast made by the Construction Industry Council (CIC) in collaboration with the Government, the overall construction expenditure of Hong Kong over the next few years will be at the level of about \$180 billion to \$220 billion. According to figures from the Census and Statistics Department, the overall construction expenditure of Hong Kong in 2013-14 was around \$180 billion. Using the same price level, the overall construction expenditure at the peak of the Airport Core Projects in the 1990s was around \$220 billion. In other words, the current construction expenditure is only some 80% of that of the Airport Core Projects era.

10. A table showing the overall construction expenditure forecast in Hong Kong is at **Annex 2** for Members' reference.

Outlook for the Capital Works Programme

11. Since 2007, the Government has been implementing a massive infrastructure development programme, which comprises the Ten Major Infrastructure Projects (TMIPs)¹ and other public works projects of varying scales aiming to revive Hong Kong's economy, create job opportunities, and enhance the long-term competitiveness of Hong Kong. In recent years, many of the major infrastructure projects had already commenced and with good progress.

12. The afore-mentioned construction expenditure forecast has already included the projects in progress or under planning covering various areas, comprising land planning and development, transport infrastructure, the Universal Accessibility

¹ TMIPs include South Island Line (East), the Sha Tin to Central Link, the Tuen Mun Western Bypass and Tuen Mun-Chek Lap Kok Link, the Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge, Hong Kong-Shenzhen Airport Co-operation, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District, Kai Tak Development Plans and New Development Areas.

Programme, slope safety, heritage conservation, fresh water supply, flood prevention, sewerage and waste management, environmental protection and greening, healthcare, education, security, culture and recreation, as well as the housing supply target in the coming ten years.

13. On the other hand, we are carrying out different stages of study and planning for the medium and long-term infrastructure development which includes housing sites in Yuen Long South, developing New Territories North, Lantau-Tung Chung New Town Extension, and so on. We will timely report to and consult Members after the preparation works have completed.

14. We need to continue investing in a timely manner in worthwhile infrastructure for short, medium and long-terms to meet social needs and maintain Hong Kong's competitiveness. There are views in the community that infrastructure projects should be deferred to minimise the construction peak. However, deferring worthwhile projects may run the risk of creating a more acute construction peak in the coming years which may result in surge of project costs and more severe labour shortage, even affect the employment opportunities of workers in the non-shortage trades and delay the realization of the economic and social benefits of these projects. We shall continue to prioritise the implementation of capital works projects with due regard to merits of individual projects and the overall affordability of Hong Kong. We also need to consider whether the deferment of worthwhile projects will bring about adverse consequences, e.g. increase in project costs, failure to meet public aspirations timely and dampening of our economic growth.

Situation of Construction Workers

15. The Government and the industry have reviewed and assessed the manpower demand for construction workers from time to time. The latest report on manpower forecast for construction workers released by the CIC in October 2014 revealed that the industry needs additional skilled workers of around 10 000 to 15 000 from 2015 to 2018. This has taken into account the construction expenditure forecast (including those of the public and private sectors), number of in-service workers and their age distribution, achievement and limitation of training as well as other relevant factors. CIC will regularly update the manpower forecast and promulgate its findings.

16. In fact, we have deployed a host of measures since 2008-09 to address the manpower challenges of the construction industry. We collaborate with CIC to adopt a multi-pronged approach with an aim to addressing the demand for skilled workers in

the construction industry. Relevant measures include enhancing training and construction productivity, stepping up publicity and promotion, and improving the working environment for workers and construction site safety etc.

17. On the training front, we obtained a total of \$320 million from the Legislative Council in 2010 and 2012 to support CIC to strengthen its role in training local construction personnel and enhance promotion and publicity to attract more people, especially young people, to join the construction industry.

18. Since the launch of various training initiatives, CIC has substantially increased the number of training places over the past years. The number of registered construction workers has increased from about 240 000 at the launch of registration system in 2007 to around 340 000 currently. The average age of the newly registered construction workers in 2013 was about 38 (the average age of all registered construction workers up to end 2013 was 46), reflecting that the promotion have attained its goal to a certain extent in drawing more people, especially younger people to join the industry.

19. At present, the industry can apply for importing workers through the Supplementary Labour Scheme (SLS). Nevertheless, there are some unique operational characteristics of the construction industry which are different from other industries. For instance, the manpower demand in individual construction trades is affected by many factors. The durations of individual works processes are relatively short and are affected by the progress of the upstream work processes. As such, we have to discuss with the industry including relevant trade unions on appropriate measures to enhance the prevailing SLS having regard to the unique characteristics of the construction industry so as to fulfil the needs of the community.

Delays in Funding Approval for Infrastructure Projects

20. Since May this year, the commencement of projects has been delayed due to slow progress in the funding approval of FC and PWSC. In the 2013-14 legislative session, there were 41 new capital works projects originally planned for funding application. FC had approved 13 projects with estimates amounting to \$3.6 billion only, which was substantially less than the 39 new capital works projects with estimates of \$90 billion approved in the 2012-13 legislative session. Such decrease will bring about an adverse impact on Hong Kong's long-term development and the construction industry. Regarding the projects still pending approval by FC and PWSC since last session, there is a delay in commencement by about six months on

average. Due to the delay, the latest project estimates have increased by more than \$2.3 billion. The situation is worrying. If the slow progress of funding approval persists, there will be severe blows to Hong Kong's long-term economic growth and the livelihood of practitioners of the construction industry and other related sectors. The boom-and-burst of construction output will also inflict serious impact to the sustainable development of the construction industry, training of construction workers as well as effectiveness of attracting new entrants.

21. Due to the delays in the completion of infrastructure projects, it is inevitable that people will not be able to enjoy the benefits provided by the projects. As it is difficult to assess the progress of funding approval by FC and PWSC now, we will only be able to formulate relevant measures to mitigate the impact on the projects when the situation becomes clearer.

Conclusion

22. We shall continuously invest in worthwhile infrastructure in a timely manner with due regard to merits of individual projects and the overall fiscal affordability of Hong Kong. We will work closely with the relevant bureaux and departments to take forward infrastructure projects in an orderly and effective manner, striving to fulfill the aspirations of the community and promote Hong Kong's economic development.

Development Bureau
December 2014

Annex 1

Medium Range Forecast of the Capital Works Reserve Fund

	2013-14	2014-15	2015-16	2016-17	2017-18
	(\$million)				
Capital Works Reserve Fund ²	88,325	76,854	88,874	97,775	97,804

² There are 11 heads of expenditure under the Fund, covering the following—

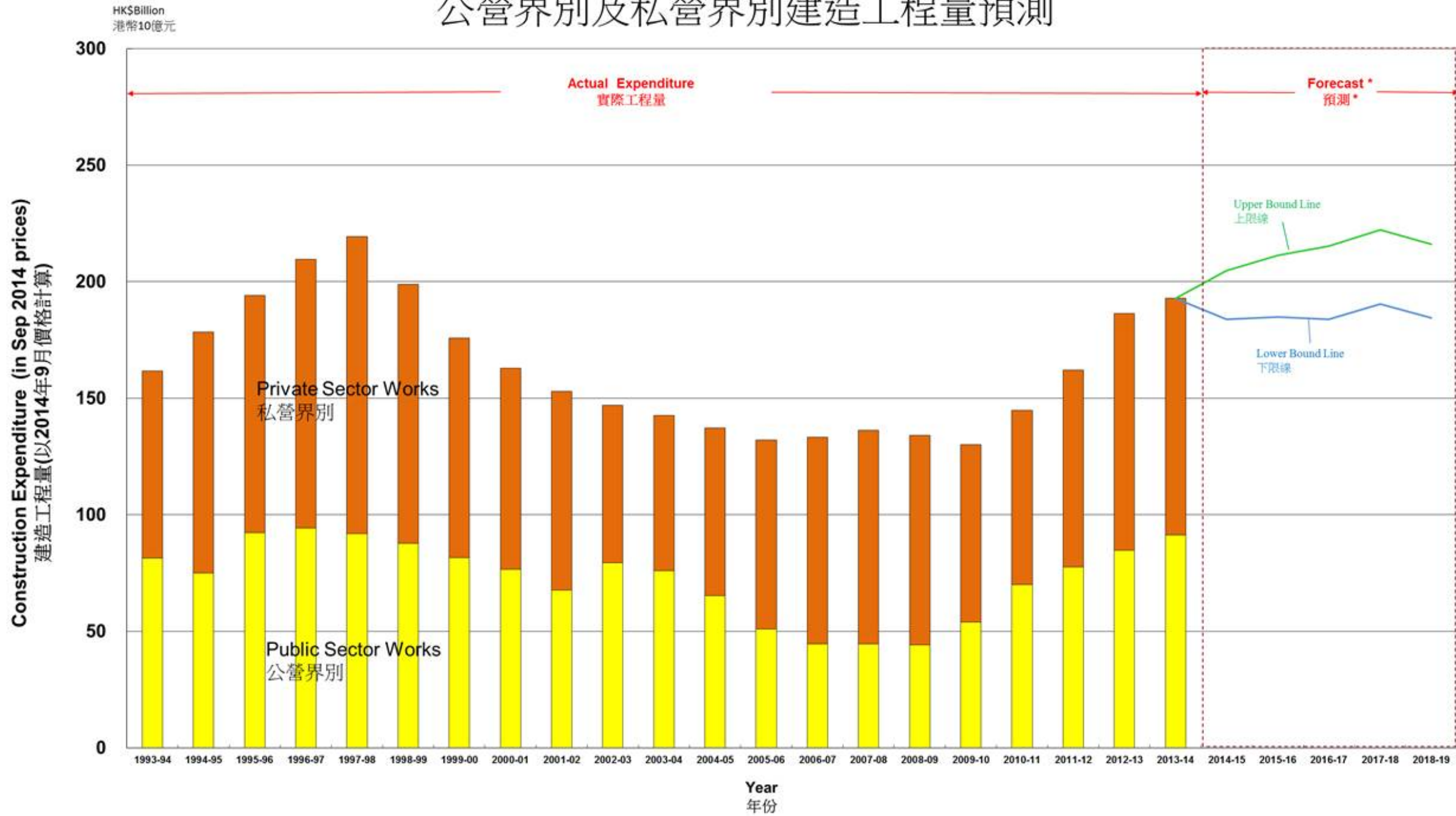
(a) Land Acquisition (Head 701);

(b) Public Works Programme (Heads 702 to 707, 709 and 711);

(c) Capital Subventions and Major Systems and Equipment (Head 708); and

(d) Computerisation (Head 710).

Construction Expenditure Forecast For Public and Private Sectors 公營界別及私營界別建造工程量預測



* Figures are extracted from Construction Industry Council's website
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