

## **NOTE FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE**

### **PWSC Annual Reviews**

#### **Purpose**

As requested by the LegCo Panel on Planning, Lands and Works, this note provides background information on the review exercises which the Public Works Subcommittee (PWSC) had until December 1991 conducted on a regular basis. We would also highlight the key changes that have evolved over the years to the capital works delivery process.

#### **PWSC annual reviews**

2. Records suggest that PWSC had been conducting regular reviews on the public works programme since the mid 1950s. The main purpose of the PWSC annual reviews was to determine the new projects to be shown with subheads in the draft Estimates for the ensuing financial year. The PWSC, having regard to the overall five-year capital expenditure plan presented by the Administration, would decide whether to endorse those projects recommended for a start in the next financial year.

3. Unless specifically recommended by PWSC for a start and approved by Finance Committee (FC) through the annual review, departments could not incur capital funding on the list of new projects for the coming year. Separately, for each project proposed, departments would still have to invite PWSC to consider relevant project details before the project could be upgraded from Category B (for planning to proceed) to a now defunct Category AB status (for site investigation, detailed design and tender preparation to proceed) and, subject to endorsement by FC, Category A (for tendering and construction to proceed).

### **Establishment of the Capital Works Reserve Fund**

4. In the early 1980s, it was recognised that funding for capital works projects should not be voted on an annual basis because the progress of works could be influenced by many factors, not all of which could be controlled. It was also recognised that once begun, a project should be funded and completed without interruption unless in very exceptional circumstances.

5. Accordingly, on 20 January 1982, LegCo passed a resolution to establish the Capital Works Reserve Fund (CWRP). The intention was for expenditure from the Fund to be controlled, inter alia, through the approved project estimate for each project. The estimated expenditure shown in the CWRP Draft Estimates against each subhead has since become outturn forecasts rather than cash limits for the project in that year. This obviated the need for PWSC to inject new projects from time to time to take up the slack and to counter any shortfall in the estimated annual expenditure. The main objective for the PWSC annual reviews to approve a list of new projects for the purpose of earmarking provisions for the coming year was thus largely overtaken by events.

### **Changes to the public works procedures and cessation of the PWSC annual reviews**

6. After the establishment of the CWRP, the PWSC review arrangement continued but the frequency was reduced from two to three times to once per Legislative Session. Meanwhile, in August 1990, December 1993 and March 1994, we had thrice revised the public works procedures and updated the Terms of Reference of the PWSC with effect from October 1990 and April 1994 (PWSC Information Note No. 1/90, and PWSC papers referenced 1993/107 and 1994/14 refer).

7. In 1990, the AB category was abolished and detailed design would be carried out when a project is in Category B. As explained in PWSC Information Note No. 1/90, this updating was designed to ensure that projects would progress through the public works programme in a manner consistent with the priority and resource position accorded in the CWRP resource allocation exercise endorsed by the Chief Secretary's Committee, and to facilitate the then Works Branch in its optimal deployment of resources in the works departments. PWSC was no longer directly involved in the upgrading/downgrading/revision of Category AB projects, which relates primarily to the deployment of staffing resources in the works departments rather than CWRP resources.

8. In the context of the PWSC annual review conducted in December in 1991, doubts were expressed on whether these reviews remained as meaningful as they were intended to be. In January 1993, we informed Members that the annual reviews would cease. We also advised PWSC that informal consultations in the course of the budget preparation each year might be a more appropriate way to seek views on the public works programme.

9. In late 1993, following a review of the problems associated with under-spending on the Government's public works programme, it was ascertained that in the Government's annual Resource Allocation Exercises, funds had been earmarked for new projects on the basis of scanty information concerning the planning needs and feasibility of individual projects. Accordingly, the Administration proposed and the PWSC and FC subsequently agreed to create new block allocations under the CWRF to permit expenditure on project feasibility studies and minor investigations for projects in Category C (and B) of the public works programme. The respective roles of the Administration and the PWSC/FC in the project delivery process are explained in PWSC Paper No. 1993/107.

10. In early 1994, FC approved new procedures and practices to be adopted by the PWSC with effect from 1 April 1994 when the Financial Secretary ceased to be the PWSC chairman. Reference to the PWSC annual reviews was formally dropped from the PWSC terms of reference.

### **Present position**

11. The mechanism for consulting Members on views on Government's public works programme in the context of the budget consultation each year has worked well. In parallel, consultations through District Councils, advisory bodies, and LegCo Panels have become more established. For greater transparency, the Administration has also compiled regular reports for PWSC on the progress of key works items, contract award prices, progress of Category B projects shown in the Draft Estimates, projects completed within the financial year, and expenditure against various CWRF block allocations, etc. We continue to show in the CWRF estimates details on Category B projects with anticipated cash flow requirements in the coming financial year, and these can be subject to Members' scrutiny during the Special FC meetings each year. We will also prepare annual forecasts of potential items for consideration by the PWSC.

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12. The institutional arrangements and the funding mechanism for capital works projects have evolved a lot since the 90s. Whilst continuing our strive to refine the current arrangements, the Administration believes the former PWSC annual reviews have outlived their intended purposes and the practice is no longer appropriate in present day circumstances.

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Financial Services and the Treasury Bureau  
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