

ITEM FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE

HEAD 708 – CAPITAL SUBVENTIONS AND MAJOR SYSTEMS AND EQUIPMENT

Subventions – Miscellaneous

11YD – Mass Transit Railway West Island Line – funding support

Members are invited to recommend to Finance
Committee –

- (a) the upgrading of part of **11YD**, entitled “MTR
West Island Line – funding support for design
phase” to Category A, at an estimated cost of
\$400.0 million in money-of-the-day prices; and
- (b) the retention of the remainder of **11YD** in
Category B.

PROBLEM

We need to extend the Mass Transit Railway (MTR) Island Line from Sheung Wan to Kennedy Town to improve the traffic conditions in the Central and Western District and provide greater convenience to the public. The project will also help boost economic activities and improve the living environment.

/PROPOSAL.....

PROPOSAL

2. The Director of Highways, with the support of the Secretary for the Transport and Housing, proposes to upgrade part of **11YD** to Category A at an estimated cost of \$400.0 million in money-of-the-day (MOD) prices to provide funding support to the MTR Corporation Limited (MTRCL) to cover the design phase expenditure of the proposed West Island Line (WIL) project up to authorisation under the Railways Ordinance (Cap. 519).

PROJECT SCOPE AND NATURE

3. The scope for **11YD** comprises a capital grant as the Government's funding support to the MTRCL to make the WIL project financially viable.

4. The WIL is a three-kilometre long railway extension of the existing Island Line from Sheung Wan Station to Kennedy Town with two intermediate underground stations at Sai Ying Pun and the University of Hong Kong. A plan showing the proposed WIL alignment is at Enclosure 1.

5. The part of the project we now propose to upgrade to Category A is the provision of funding support to the MTRCL to cover the design phase expenditure of the WIL project up to authorisation under the Railways Ordinance (Cap. 519), including -

- (a) the detailed design of the railway works for the WIL and the associated reprovisioning of Government facilities¹ affected by the WIL;
- (b) associated site investigation;
- (c) construction planning, preparation of tender documents and assessment of tenders;
- (d) public consultation and handling of objections to the WIL railway scheme; and
- (e) associated advance works and pre-land resumption costs.

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¹ The major facilities affected include the Kennedy Town Swimming Pool and the David Trench Rehabilitation Centre where the proposed Kennedy Town Station and an entrance to the proposed Sai Ying Pun Station are located respectively.

6. The MTRCL intends to commence the construction works of WIL in early 2009 for completion in 2013/2014. Upon authorisation of the WIL under the Railways Ordinance (Cap. 519) in end 2008 tentatively, we will then seek Finance Committee's approval for the remaining sum of the Government's funding support to the MTRCL.

JUSTIFICATION

7. Adopting railways as the backbone of our transport system is our stated transport policy. The WIL project will bring significant transport and economic benefits as well as providing an environmentally friendly and efficient mass carrier for the Central and Western District.

8. Commuters travelling to and from the Central and Western District are now relying on road-based transport modes. Upon completion, the WIL will provide a fast and reliable service to the Central and Western District and will bring about substantial economic benefits to the community primarily through savings in transportation time. At present, a road journey during the rush hours for the three kilometres between Kennedy Town and Sheung Wan takes 15 to 25 minutes. In comparison, the same journey by WIL will take no more than eight minutes. We estimate that the WIL will save the public a total of 12 million hours in 2016 and the economic benefits including time savings over 40 years of operation of WIL is about \$44 billion (in 2006 prices).

9. The Central and Western District is a traditional district with much room for rejuvenation. The WIL will provide the impetus for the rejuvenation as there are likely to be more economic activities and redevelopment with the improvement in traffic conditions.

10. At the meeting of the Executive Council on 23 October 2007, the Council advised and the Chief Executive ordered that –

- (i) the MTRCL should be asked to proceed with further planning and detailed design of the proposed WIL project;
- (ii) the ex-Upper Level Police Station site at High Street should be used for the reprovisioning of the facilities of the existing David Trench Rehabilitation Centre currently located at Bonham Road;

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- (iii) the funding gap of the WIL should be bridged by a capital grant with funding from **Head 708 – Capital Subvention and Major Systems and Equipment** under the Capital Works Reserve Fund; and
- (iv) a two-stage approach should be adopted for seeking funding from the Legislative Council to cover the design phase expenditure and subsequently the funding gap arising from the construction, operation and maintenance of the WIL.

FUNDING SUPPORT

11. The estimated capital cost of the WIL is \$8.9 billion (in January 2006 prices), including the costs for design and construction of the railway works, procurement of rolling stock, and the reprovisioning of Government facilities affected by the WIL. The MTRCL has indicated that revenue derived from the WIL could only cover the operation cost and part of the capital cost resulting in an estimated funding gap² of about \$6 billion (January 2007 Net Present Value). We will, based on the advice of the independent financial consultants to be engaged by the Government, examine in detail the proposed project estimate and the final figures for the funding support. Some Essential Public Infrastructure Works (EPIW), which are to be funded by Government, have also been identified for enhancing pedestrian or vehicular flows in the vicinity of the WIL stations. The estimated capital cost for the EPIW is about \$100 million.

12. The Government has in the past mainly relied on granting property development rights as the means for providing financial support to bridge the funding gap for most of the railway projects. However, due to the lack of suitable sites along or adjacent to the WIL alignment, alternative methods to provide the funding would have to be considered. For the WIL, Government proposes to provide a capital grant as financial support. The grant is intended as an upfront payment to lower the capital costs of the project in order to provide the incentive for the MTRCL to embark on the project which it would otherwise not undertake at all given the financial non-viability.

13. The form of funding support for railway projects should be project-specific. Government will consider the most viable options for providing funding support for each railway project on a case-by-case basis, having regard to, among

/other

² A railway project is considered financially not viable if the present value of all its projected revenues net of projected expenditures falls short of the expected return on capital. This shortfall is known as the funding gap.

other things, the alignment of the railway and the need for co-ordination of above-station development. The rail-plus-property model will remain one of these options.

14. Since this is the first time such a grant is proposed to be given to a listed company operating under commercial principles, there is a need to set out the criteria for non-government projects under which capital grants can be provided to profit-oriented organisations –

- (a) the capital subvention should be given for the purpose of inducing the organisation in question to undertake a project which it would otherwise not undertake;
- (b) the project in question should be a major infrastructure which is expected to bring about significant social and economic benefits to the public in line with the policy objectives of the Government, but is projected to be financially not viable to the organisation in question;
- (c) the Government should have given due consideration to the availability of other alternative organisations that are capable of undertaking the project without the capital subvention, as well as all other viable means for causing the project to be undertaken, and have come to the view that the capital subvention is the most appropriate means; and
- (d) requests for such capital subvention, if supported by the Government, should be approved by the Finance Committee of Legislative Council before the capital grant can be released.

15. In order to more accurately determine the amount of Government funding that would be required, we propose to provide funding support in two stages. The first stage covers the design phase expenditure up to authorisation under the Railways Ordinance. The design phase is also essential for defining, in more detail, the project scope and ascertaining more accurately the project cost. After the MTRCL has completed the detailed design, the Government will engage independent financial consultants to assess the proposed project estimate in order to determine the final figures for the funding support. The second stage covers the remainder of the funding gap for the WIL project.

16. Upon receipt of the first and second stage funding support, the MTRCL will commence detailed design and construction for the WIL project respectively. The MTRCL will bear all the commercial risks associated with the
/construction

construction and operation of the railway line in future. To illustrate, should the patronage and the corresponding fare revenue arising from the WIL turn out to be substantially lower than those assumed in determining the funding gap amount, the Government has no obligation to provide any further financial support to the MTRCL.

FINANCIAL IMPLICATIONS

17. The MTRCL estimates the expenditure during the design phase of the project up to authorisation under the Railways Ordinance (Cap. 519) to be \$400.0 million in MOD prices (see paragraph 18 below), made up as follows –

	\$ million
(a) Consultants' fees for detailed design for railway works and reprovisioning works	200.0
(b) Detailed design for railway systems and specialist items	35.0
(c) Construction planning, preparation of tender documents and assessment of tenders	15.0
(d) Public consultation and handling of objections to the WIL railway scheme	5.0
(e) Project office rental and associated charges	20.0
(f) Corporate support activities	12.0
(g) Project management (design and construction planning)	39.0
(h) Site investigation	23.0
(i) Pre-land resumption costs	40.0
(j) Associated advance works	10.0

/\$ million

		\$ million	
(k)	Electrical and Mechanical Services Trading Fund (EMSTF) charges	1.0	
		Total	400.0 (in MOD prices)

The Director of Highways considers the estimates are reasonable.

18. Subject to approval, we will phase the expenditure as follows–

Year	\$ million (Sep 2007)	Price Adjustment Factor	\$ million (MOD)
2007 – 2008	400.0	1.00000	400.0

19. The proposed funding support to the MTRCL to cover the design phase expenditure of the WIL will not give rise to any annual recurrent expenditure.

PUBLIC CONSULTATION

20. We have been in close liaison with the Central and Western District Council (C&WDC) on the progress of the WIL project. The Members of the C&WDC have all along been asking for the early implementation of the project.

21. Representatives of the Transport and Housing Bureau, Highways Department and Transport Department have attended a series of public forums organized by the DC members and various political parties with participation by the local community.

22. We consulted the Subcommittee of Matters relating to Railways of the Legislative Council Panel on Transport on 9 November 2007. Members agreed that the project could be submitted to the Public Works Subcommittee for consideration.

ENVIRONMENTAL IMPLICATIONS

23. The WIL project is a designated project under Schedule 2 of the Environmental Impact Assessment (EIA) Ordinance (Cap. 499) and an environmental permit is required for the construction and operation of the project. The MTRCL will submit the EIA report to the Director of Environmental Protection for approval under the EIA Ordinance, including making the EIA report available for comments by the public and the Advisory Council on the Environment.

24. The proposed scope of works for the design phase of the project will not give rise to any adverse environmental impacts. The proposed site investigation works and advance works will only generate very little construction waste. We will require the MTRCL to fully consider measures to minimise the generation of construction waste and to reuse/recycle construction waste as much as possible in the future implementation of the construction projects.

HERITAGE IMPLICATIONS

25. The WIL will involve the use of the ex-Upper Level Police Station (ULPS) at High Street for the reprovisioning of the David Trench Rehabilitation Centre which will be vacated for the establishment of an entrance/exit for the Sai Ying Pun Station. The ex-ULPS building is a Grade III historical building. The proposed usage will not affect the historical value of the building. On the contrary, the funding sought for the design phase expenditure will cover the carrying out of the heritage impact assessment to the satisfaction of the Antiquities and Monuments Office (AMO) and the design work for the restoration and adaptive re-use of the ex-ULPS. We will liaise closely with the AMO on the proposed restoration works.

LAND ACQUISITION

26. The proposed first-stage payment of the funding support for the design phase does not require any land acquisition.

BACKGROUND INFORMATION

27. In August 2006, the MTRCL completed the preliminary design and submitted to Government the Revised Project Proposal for WIL containing the scheme intended for gazetting under the Railways Ordinance (Cap. 519).

28. We upgraded **11YD** to Category B in October 2007.

29. We gazetted the WIL scheme under the Railways Ordinance (Cap. 519) on 26 October 2007.

30. We estimate that the works in paragraph 5 will create about 450 jobs (50 for labourers and another 400 for professional/technical staff) providing a total employment of 4 000 man-months.

Transport and Housing Bureau
November 2007



維多利亞港
VICTORIA HARBOUR

附件一
ENCLOSURE 1

擬建西港島線
PROPOSED WEST ISLAND LINE

現有港島線
EXISTING ISLAND LINE

石塘咀
SHEK TONG TSUI

上環
SHEUNG WAN

堅尼地城
KENNEDY TOWN

擬建在西營盤的
鐵路車站
PROPOSED
RAILWAY STATION
AT SAI YING PUN

現有上環站
EXISTING
SHEUNG WAN
STATION

擬建在香港大學附近的
鐵路車站
PROPOSED RAILWAY STATION
NEAR THE UNIVERSITY OF HONG KONG

擬建在堅尼地城的
鐵路車站
PROPOSED RAILWAY STATION
AT KENNEDY TOWN

0 250 500 750 m
比例尺 1 : 15 000 SCALE BAR

圖則名稱 drawing title

基本工程計劃項目第11YD號 - 地鐵西港島線 - 財務資助
CWP ITEM NO. 11YD - MASS TRANSIT RAILWAY WEST ISLAND LINE -
FUNDING SUPPORT

設計 designed

H. L. Lam 12/11/2007

繪圖 drawn

S. CHUNG 12/11/2007

核對 checked

S. Y. FUNG 12/11/2007

核准 approved

Y. K. WONG 12/11/2007

圖號 drawing no.

HRWWIL003-LP0003

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鐵路拓展處 RAILWAY DEVELOPMENT OFFICE



路政署
HIGHWAYS DEPARTMENT