

For discussion
on 23 October 2007

Legislative Council Panel on Development

Capital Works Programme Expenditure

Purpose

Continuous infrastructure development is essential to maintaining Hong Kong's economic development. At the LegCo Planning, Lands and Works Panel meeting on 20 July 2007, the Secretary for Development said that one of the purposes of setting up the Development Bureau in the new term of the HKSAR Government is to speed up infrastructure construction¹. The purpose of this paper is to -

- (a) review and analyse Capital Works (CWP) Expenditure in recent years; and
- (b) identify areas of improvement and present the way forward.

Analysis of CWP Expenditure

2. The Capital Works Programme (CWP) comprises the Public Works Programme (PWP) (under Heads 702 to 707, Head 709 and Head 711) and capital subvention works projects under Head 708 (Capital Subventions). The latter include school buildings for the aided sector and private schools, university teaching and research facilities, public hospitals, and other works projects of subvented organisations.

3. The total CWP expenditure from 1991-92 to 2007-08 is shown at the Annex. This is analysed as follows -

- (a) From 1991-92 to 1998-99

This is generally known as the Airport Core Programme (ACP) era. The CWP expenditure was only \$13.5 billion in 1991-92. However

¹ The Government has committed to earmarking on average \$29 billion a year on projects under the Capital Works Programme (CWP). The actual expenditure under CWP since 2005-06 has been lower than \$29 billion especially in 2007-08.

the expenditure built up quickly with the commencement of ACP projects in 1991-92. At the peak construction period of ACP projects, about \$10 billion was incurred each year on these projects between 1993-94 to 1995-96, thus boosting the total CWP spending to \$30.4 billion and \$29.1 billion in 1993-94 and 1995-96 respectively. The bulk of works were completed in 1998-99 but due to the lead time in spending (settlement of accounts, etc.), expenditure on ACP projects lasted till around 2001-02.

(b) From 1999-2000 to 2004-05

With the substantial completion of the ACP projects in around 1998-99, there came another wave of seven large scale projects with individual project costs ranging from \$2.7 billion to \$18.4 billion. As a result, the CWP expenditure was maintained at a high level with CWP expenditure reaching \$31.4 billion in both 2003-04 and 2004-05. These large scale projects include -

– Route 8 – Sha Tin to Tsing Yi	\$18.4 billion
– Penny’s Bay Development	\$13.2 billion
– Shenzhen Western Corridor, Deep Bay Link and Boundary Crossing Facilities	\$10.5 billion
– School Improvement Programme – Final Phase	\$8.6 billion
– Widening of Castle Peak Road	\$4.9 billion
– Central Reclamation Phase III	\$3.6 billion
– Container Terminal No. 9	\$2.7 billion
	Total \$61.9 billion

(c) From 2005-06 to 2006-07

Many of the large-scale projects mentioned in (b) above were substantially completed by 2005-06. The CWP expenditure started to decline starting from 2005-06 because the next wave of planned large scale projects such as Kai Tak Development, Central-Wan Chai Bypass, and Wan Chai Development Phase II did not commence as scheduled, as they require more time for completing the statutory procedures and for undertaking the needed preparatory work including public engagement.

4. The above illustrates that in general it is necessary to maintain a cluster of large scale capital works projects in the CWP in order to sustain a high level of CWP expenditure.

Expenditure Situation for 2007-08

5. In his 2007 Policy Address, the Chief Executive said that in promoting infrastructure development, our efforts over the past decade did not match expectations and overall expenditure on infrastructure for this year may well be the lowest in recent years. As explained above, many of the projects in the last batch of large scale projects were substantially completed in 2005-06, and projects in the next batch have not commenced as scheduled due to various reasons. As a result of this, the CWP expenditure started to decline in 2005-06 and the Estimate for 2007-08 is only \$20.4 billion.

6. To fill the expenditure gap, the Administration has made much effort to monitor the spending situation and implement measures to boost spending. For projects under the Public Works Programme (PWP), the works agents have implemented as many minor works projects as possible and expedited the progress of on-going projects, claim settlement and account finalisation. The spending situation for PWP projects up to end September 2007 is also satisfactory, with expenditure of 53.4% against time elapse of 50%.

Areas of Improvement and Way Forward

A. Speeding up Capital Works Projects

7. The Chief Executive has unveiled in his 2007 Policy Address Government's commitment to push ahead with the following ten large scale infrastructure projects within the next five years:

- South Island Line;
- The Sha Tin to Central Link;
- The Tuen Mun Western Bypass and Tuen Mun-Chek Lap Kok Link;
- The Guangzhou-Shenzhen-Hong Kong Express Railway 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; and
- New Development Areas.

8. Implementation of the above projects will not only expand the room for Hong Kong's further development, but will also link up our socio-cultural and business activities with more efficient transportation and other infrastructural systems. In addition, with closer and more efficient rail and transport links between Hong Kong and the neighbouring regions of Shenzhen and the Pearl River Delta, we can foster further cross boundary integration.

9. Apart from the above ten major projects the commencement of which is subject to varying lead time in the planning and preparatory work, we will press ahead with other important infrastructure contributing to making Hong Kong a quality city. Indeed, these efforts are also evident from the larger number of funding submissions approved by Finance Committee (FC) upon recommendation of the Public Works Subcommittee. To illustrate, in the 2006-07 LegCo session, a total of 99 submissions with a total project cost of \$26.2 billion were approved by the FC, as compared to 61 (total project cost at \$14.7 billion), 48 (total project cost at \$11.3 billion) and 59 (total project cost at \$22.0 billion) in 2003-04, 2004-05 and 2005-06 LegCo sessions respectively. We therefore expect the CWP expenditure will pick up in the coming years.

B. Improvement in Institutional Structure

10. The Development Bureau was established on 1 July 2007 in the re-organized Government Secretariat with the objective to speed up infrastructure development and to ensure the best possible balance be struck amongst development, environmental protection and heritage conservation. By bringing together planning and land use, works and heritage, we will be better positioned to deliver such an objective. We will also press ahead with the large scale projects through closer supervision at a high level. For example, a high level supervisory team has been set up and chaired by Secretary for Development to enhance co-ordination amongst various bureaux and departments and to sort out fundamental issues at an early stage for the Kai Tak Development project.

C. Commencement of Public Engagement at An Early Stage

11. To avoid a project running into very divergent views when its planning has reached an advanced stage thus delaying implementation, public engagement will be carried out at the early stage of the project to achieve greater community consensus. In the project conceptualization and strategic planning stage, there is generally more room to accommodate different needs and aspirations. The relevant policy bureaux and departments would thus provide details and consult the public on the aim, scope, effect and timing of the project early. Active public discussion will be useful in forging an early consensus on the way forward. For large or complicated projects, a well structured and comprehensive public engagement programme is the foundation to consensus building and is critical to the smooth progress of a project.

12. Taking heritage conservation as an example, we will implement the requirement for conducting heritage impact assessment (HIA). We propose that for all new capital works projects, we will require the project proponents and relevant works departments to consider whether their projects will affect sites or buildings of historic and archaeological significance (referred to be "heritage sites" below). If the answer is in the affirmative, then a HIA will be required. In general, it will be best to avoid affecting these heritage sites. However, if some

impact on the sites can really not be avoided, mitigation measures must be devised to the satisfaction of the Antiquities and Monuments Office (AMO). Furthermore, public engagement should be conducted (e.g. consultation with District Councils, etc.) where necessary. In the submission to LegCo PWSC and FC for funding to carry out construction works, the project proponent will also need to include a paragraph in the PWSC paper, to be cleared by AMO, stating clearly whether its project will affect any “heritage site” and if it does, what mitigation measures will be taken, their implications and whether the public is in support of these.

D. Review of Procedures in Delivery of CWP

13. We have also reviewed the procedures in the delivery of CWP projects, and implemented improvement measures to further shorten the planning lead time wherever appropriate. Currently, the planning lead time for medium size civil engineering projects involving Environmental Impact Assessment Ordinance (EIAO), statutory gazettal and land resumption will in general take 45 months. Works Departments will take measures to compress/streamline the administrative procedures with a view to shortening the lead time to no longer than 40 months. For small scale projects which do not involve the above statutory processes, we will shorten the planning lead time from 21 months to 19 months.

14. Further compression of the project delivery timeframe will not be possible in light of the following considerations -

- (a) extra time will already be required for public engagement;
- (b) the EIAO process and statutory periods of objection should not be shortened due to their importance;
- (c) planning activities are already carried out in parallel as far as possible; and
- (d) the Capital Works Programme is expected to expand in the coming years and hence probably the workload.

E. Increase in Delegated Authority for Category D Items

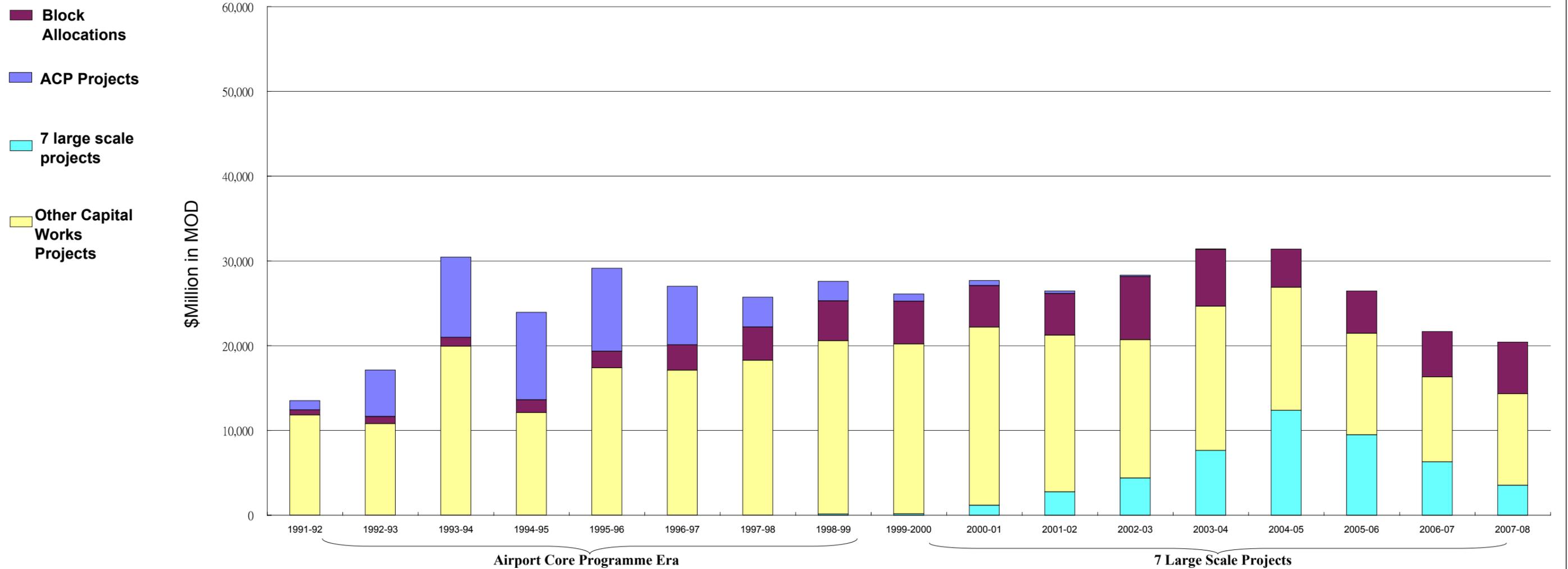
15. We will also propose to increase the financial ceiling of delegated authority for minor works projects, i.e. Category D items funded under block allocations, from \$15 million to \$21 million, to maintain the real value of delegation. This will enhance CWP expenditure to a certain extent. Details are included in a separate Panel paper for discussion at the same meeting.

Advice Sought

16. We hope that with the above measures adopted, the situation in our CWP expenditure will improve in the coming years. We welcome views and comments from Members.

Development Bureau
October 2007

Expenditure of the Capital Works Programme (From 1991-92 to 2007-08)



Actual Capital Works Expenditure (\$ million)																	
Financial Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Works Projects	12,701	16,097	29,330	22,234	27,182	24,031	21,781	22,898	21,066	22,772	21,531	20,869	24,704	26,876	21,462	16,323	14,326
Block Allocations	822	1,025	1,117	1,520	1,950	2,991	3,938	4,692	5,033	4,906	4,924	7,449	6,724	4,517	4,994	5,361	6,090
Grand Total for CWP	13,523	17,122	30,447	23,754	29,132	27,022	25,719	27,590	26,099	27,678	26,455	28,318	31,428	31,393	26,456	21,684	20,416 (estimate)