

立法會

Legislative Council

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Finance Committee of the Legislative Council

**Minutes of the 20th meeting
held at Conference Room 1 of the Legislative Council Complex
on Friday, 20 March 2020, from 8:48 am to 10:44 am and
from 3:15 pm to 7:21 pm**

Members present:

Hon CHAN Kin-por, GBS, JP (Chairman)
Hon CHAN Chun-ying, JP (Deputy Chairman)
Hon James TO Kun-sun
Hon LEUNG Yiu-chung
Hon Abraham SHEK Lai-him, GBS, JP
Hon Tommy CHEUNG Yu-yan, GBS, JP
Prof Hon Joseph LEE Kok-long, SBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Hon WONG Kwok-kin, SBS, JP
Hon Paul TSE Wai-chun, JP
Hon Claudia MO
Hon Michael TIEN Puk-sun, BBS, JP
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, SBS, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS
Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK, JP
Hon CHAN Chi-chuen
Hon CHAN Han-pan, BBS, JP

Hon LEUNG Che-cheung, SBS, MH, JP
Hon Kenneth LEUNG
Hon Alice MAK Mei-kuen, BBS, JP
Dr Hon KWOK Ka-ki
Hon KWOK Wai-keung, JP
Hon Dennis KWOK Wing-hang
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Dr Hon Helena WONG Pik-wan
Hon IP Kin-yuen
Hon Elizabeth QUAT, BBS, JP
Hon Martin LIAO Cheung-kong, GBS, JP
Hon POON Siu-ping, BBS, MH
Dr Hon CHIANG Lai-wan, SBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHUNG Kwok-pan
Hon Alvin YEUNG
Hon Andrew WAN Siu-kin
Hon CHU Hoi-dick
Hon Jimmy NG Wing-ka, BBS, JP
Hon HO Kai-ming
Hon LAM Cheuk-ting
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon SHIU Ka-chun
Hon Wilson OR Chong-shing, MH
Hon YUNG Hoi-yan, JP
Dr Hon Pierre CHAN
Hon Tanya CHAN
Hon CHEUNG Kwok-kwan, JP
Hon HUI Chi-fung
Hon LUK Chung-hung, JP
Hon LAU Kwok-fan, MH
Dr Hon CHENG Chung-tai
Hon KWONG Chun-yu
Hon Jeremy TAM Man-ho
Hon Vincent CHENG Wing-shun, MH, JP
Hon Tony TSE Wai-chuen, BBS
Hon CHAN Hoi-yan

Members absent:

Hon Mrs Regina IP LAU Suk-yee, GBS, JP

Dr Hon Junius HO Kwan-yiu, JP
Hon Kenneth LAU Ip-keung, BBS, MH, JP

Public officers attending:

Ms Alice LAU Yim, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Mr Raistlin LAU Chun, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 1
Mr Mike CHENG Wai-man	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Mr LAM Sai-hung, JP	Permanent Secretary for Development (Works)
Mr John KWONG Ka-sing	Principal Government Engineer (Project), Development Bureau
Mr Edward YAU Tang-wah, GBS, JP	Secretary for Commerce and Economic Development
Miss Eliza LEE Man-ching, JP	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)
Ms Betty HO Siu-ping	Deputy Secretary for Commerce and Economic Development (Commerce and Industry) ³
Mrs Cherry TSE LING Kit-ching, JP	Permanent Secretary for Home Affairs
Ms YING Fun-fong, JP	Project Manager, Home Affairs Bureau
Ms Alice PANG, JP	Project Manager (South), Civil Engineering and Development Department
Mr Edmund CHAN Ping-wa	Chief Engineer (South 2), Civil Engineering and Development Department
Mr Terrance TSANG Wing-Hung	Assistant Director of Fire Services (Headquarters)
Mr LI Wai-cheong	Acting Senior Divisional Officer (Planning Group), Fire Services Department
Ms Winnie HO Wing-yin, JP	Deputy Director of Architectural Services
Mr Chris LEE Wing-keung	Senior Project Manager 240, Architectural Services Department

Mr David NGU Chi-vi	Chief Traffic Engineer (Kowloon), Transport Department
Mr Chris YEUNG Shiu-wing	Senior Engineer (Strategic Studies)5, Transport Department

Other persons attending:

Mr Raymond LI Ling-cheung, JP	Executive Director and Chief Executive Officer, The Hong Kong Mortgage Corporation Limited
Ms Tess LEUNG Ching-han	Executive Director and Chief Executive Officer, HKMC Insurance Limited
Ms Irene Mok	Vice President (SFGS Operations), HKMC Insurance Limited
Mr Jeremy STOWE	Chief Projects Officer, West Kowloon Cultural District Authority
Mr NG Ying-chuen	General Manager, Engineering Services, West Kowloon Cultural District Authority

Clerk in attendance:

Ms Anita SIT	Assistant Secretary General 1
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Staff in attendance:

Ms Angel SHEK	Chief Council Secretary (1)1
Miss Bowie LAM	Council Secretary (1)1
Miss Queenie LAM	Senior Legislative Assistant (1)2
Mr Frankie WOO	Senior Legislative Assistant (1)3
Miss Mandy POON	Legislative Assistant (1)1
Miss Yannes HO	Legislative Assistant (1)7

Action

The Deputy Chairman reminded members of the requirements under Rule 83A and 84 of the Rules of Procedure.

2. The Deputy Chairman declared that he was an advisor of the Bank of China (Hong Kong) Limited.

**Item 1 — FCR(2019-20)7
RECOMMENDATION OF THE ESTABLISHMENT
SUBCOMMITTEE MADE ON 22 MARCH 2019**

EC(2018-19)26

**HEAD 159 — GOVERNMENT SECRETARIAT:
DEVELOPMENT BUREAU (WORKS BRANCH)**

Subhead 000 — Operational expenses

Continuation with the discussion on item FCR(2019-20)7

3. The Finance Committee ("FC") continued with the discussion on item FCR(2019-20)7.

Performance efficiency of Project Cost Management Office

4. Mr CHAN Chi-chuen recalled that at the last meeting, members had sought information from the Administration on the cost savings achieved for each of the 130 projects vetted by the Project Cost Management Office ("PCMO") from its establishment in 2016 to 2018 and for each of the projects vetted from January 2019 to present, so as to facilitate members' assessment of the performance efficiency of PCMO and their understanding of the justifications for creating the proposed directorate posts. In this connection, Mr CHAN Chi-chuen, Dr Fernando CHEUNG and Mr CHU Hoi-dick enquired about the progress of the Administration's follow-up actions in this request.

5. Permanent Secretary for Development (Works) ("PSDEV(W)") said that the Government had, before this meeting, provided supplementary information (LC Paper No. FC135/19-20(01)) on the follow-up issues raised at the last meeting. He further explained that:

- (a) between 2016 and 2018, PCMO vetted the estimated costs of 130 capital works projects. Out of them, civil engineering works projects accounted for about 60% while the others were building works projects. Since January 2019, a total of 50 capital works projects had been vetted with an aggregate estimated cost of about \$80 billion. The cost savings achieved were about \$10 billion;
- (b) PCMO carried out vetting on project cost estimates in accordance with the overriding principle of "fitness for purpose and no frills". PCMO had discussed and explored with the departments responsible for the projects to reduce

cost estimates mainly through design optimization. Where necessary, PCMO would also review whether excessive safety factors had been adopted by the design; and

- (c) given that the amount of cost savings achievable for an individual works project should not be interpreted as unsatisfactory original cost estimates being prepared by the in-charge departments, disclosure of detailed information on individual projects would stigmatize the relevant in-charge departments. In order to avoid such stigmatization, the Administration considered it inappropriate to set out the cost savings achieved by each project; instead, it provided in the supplementary information the ratio of civil engineering projects to building projects among all PCMO-vetted projects.

6. Mr Jeremy TAM, Mr SHIU Ka-chun, Ms Claudia MO, Dr Fernando CHEUNG and Mr CHU Hoi-dick were dissatisfied that the Administration had refused to give a detailed breakdown of the cost savings achieved for each capital works project. Dr Fernando CHEUNG and Mr CHU Hoi-dick further took the view that the Administration had refused to disclose detailed information on individual projects not because it aimed to avoid the so-called stigmatization. It had only served to reflect the practice of "bureaucrats shielding one another".

7. PSDEV(W) responded that the Government would, in future, consider how it might provide information to members for reference in an appropriate manner.

8. Dr CHENG Chung-tai noted from the Administration's earlier response that 50 capital works projects had been vetted since January 2019 involving a total cost estimate of about \$80 billion, while cost savings of about \$10 billion had been achieved. In this connection, Dr CHENG enquired whether key performance indicators ("KPIs") would be established by, for example, specifying the annual number of vetted projects or the aggregate costs estimates involved; and whether the Project Strategy and Governance Office ("PSGO") would report to the Legislative Council ("LegCo") regularly. Mr Alvin YEUNG and Mr KWONG Chun-yu also asked whether the amounts of cost savings achieved for projects or achieving "zero cost overruns" in projects would be used as KPIs.

9. In response, PSDEV(W) said that:
- (a) PCMO had all along, with limited manpower, focused on project cost management. In the vetting process, PCMO would not pre-set a target cost estimate for a particular works project;
 - (b) one of the work objectives of PCMO was to improve the cost control of projects. It was most desirable if a project could be completed within budget. However, it might not be appropriate to evaluate the performance efficiency of an office by using "zero cost overruns" as a KPI; and
 - (c) PCMO was upgraded as PSGO in April 2019. With the creation of these two proposed directorate posts, PSGO would gradually take forward the planned strategic initiatives under the leadership of the Head of PSGO ("H/PSGO"). A report on the work of PSGO would also be submitted to LegCo annually.
10. Mr KWONG Chun-yu enquired:
- (a) how the Administration would ensure that public works projects could be completed without cost overruns or delays; and
 - (b) whether examples could be cited to illustrate that a project could be completed within budget after the intervention of PCMO.
11. PSDEV(W) responded that:
- (a) due to resource constraints, PCMO could only vet the cost estimates of projects in order of priority. While its project cost control work would be enhanced more holistically in future, a Project Surveillance System ("PSS") would also be developed to assist works departments in monitoring the implementation of public works projects from design to construction stages;
 - (b) some potential factors which might lead to cost overruns might go unnoticed in the early stage of a project. By implementing a series of measures, PCMO aimed to prevent cost overruns, delays or quality discrepancies; and

- (c) as many PCMO-vetted projects were still in the construction stage, the Administration could not conclude whether these projects could be completed within budget at the present stage.

12. Mr KWONG Chun-yu requested the Administration to provide information on the capital works projects that were being vetted by PSGO at present, and the projects which, according to PSGO's post-vetting assessment, would incur a higher risk of cost overruns.

13. PSDEV(W) said that there was no currently available information which showed that certain projects being vetted would incur a higher risk of cost overruns.

The proposed directorate posts

14. Mr Jeremy TAM noted that as mentioned in the paper provided to the Establishment Subcommittee ("ESC") in January 2019, the original supernumerary Government Engineer ("GE") post (i.e. Head of PCMO) would lapse on 1 April 2019. Mr Jeremy TAM said that since PCMO could, upon the lapse of the post, operate as usual in the previous year without a departmental head, PCMO should control its cost in the first place instead of seeking to create new posts and increase its manpower. Mr Alvin YEUNG and Mr LEUNG Yiu-chung also queried the necessity of creating these two proposed directorate posts. Mr WU Chi-wai considered that the proposed posts should be created as supernumerary posts and their retention should be subject to review in future.

15. PSDEV(W) explained that the LegCo Panel on Development was consulted on the current proposal on 27 November 2018 and ESC gave its support to the proposal on 22 March 2019. Afterwards, the original supernumerary GE post lapsed on 1 April 2019. The Government, so far, had not created any temporary short-term post as replacement. Without the proposed directorate posts, and due to resource constraints, it was impossible to implement other strategic initiatives for the time being. PSDEV(W) reiterated that upon the creation of the proposed directorate posts, PSGO would be able to formulate and take forward multi-pronged strategies under the leadership of H/PSGO, including:

- (a) strengthening cost management and control from inception to construction stages;
- (b) establishing a Centre of Excellence for Major Project Leaders ("CoE") and enhancing project delivery capability;

- (c) spearheading strategic developments and exploring a variety of measures which could enhance cost effectiveness and improve the implementation of public works projects on all fronts, such as the way in which the procurement exercise was conducted, the use of New Engineering Contracts, the engagement of contractors at an early stage, promoting the application of construction technology, reviewing the prevailing building design standards, and rationalizing the workflow of the construction industry, etc.; and
- (d) enhancing communication and collaboration with international counterparts and local industry stakeholders.

16. Mr Tony TSE considered that as PSGO was an interdisciplinary office, different professional officers (such as architects, surveyors and engineers) should be considered as competent candidates for the two proposed directorate posts. The principle of meritocracy should be adopted in appointing candidates for the posts. Mr TSE said that while he did not have strong views on making permanent the original supernumerary post of GE, he did not support that only Engineer Grade officers would be appointed to fill the proposed permanent D3 post (i.e. H/PSGO).

17. PSDEV(W) responded that although PSGO had an interdisciplinary team, the successful candidate for the post of H/PSGO was required to possess extensive professional knowledge and expertise in implementing and managing capital works projects.

Functions and role of the Project Strategy and Governance Office

18. Mr LEUNG Yiu-chung, Mr SHIU Ka-chun, Dr Fernando CHEUNG and Mr Jeremy TAM were concerned whether PSGO was given real powers to require other works departments to adopt PSGO's recommendations in the event that there was disagreement between the two parties in the course of discharge of functions of PSGO.

19. In response, PSDEV(W) explained that:

- (a) each public works project costing more than \$30 million would be subject to cost reviews by PSGO in order to ensure that the cost estimation of these projects was reasonable. PSGO would also discuss with the relevant works departments on optimizing building design, use of materials and construction methods, etc., with a view to achieving cost savings;

- (b) in the event that there was disagreement between the involved parties in the course of work, PSGO would discuss and explore solutions with other departments. Only PSGO-vetted projects would be deployed internal resources, and responsible departments would then be able to continue taking forward the relevant projects (including seeking funding approval from LegCo); and
- (c) during the construction stage, PSGO could assist to monitor the performance of projects on an ongoing basis by reviewing the regular reports submitted by various works departments to the Works Branch of the Development Bureau. When problems were identified with respect to the cost or progress of a project, the responsible works department would take follow-up actions. If no rectifications were made, the department concerned was required to provide reasonable grounds for so doing. Therefore, PSGO shared the same work objectives as those of the works departments, and the specific handling approaches might be worked out through joint discussion.

20. Ms Tanya CHAN and Ms Claudia MO were concerned about the role of PSGO in the cost management and control of works projects within the West Kowloon Cultural District ("WKCD") and that of railway projects. Moreover, in view that the Administration had submitted a proposal that sought a supplementary provision from LegCo for the MTR Shatin to Central Link ("SCL") project due to cost overruns, Ms Claudia MO considered that PSGO was not empowered to deal with cost overruns, nor had PSGO put in place any penalty mechanism in this respect. Hence, she would not support the item under consideration.

21. In response, PSDEV(W) said that:

- (a) the Government was not involved in the topside property developments within WKCD. As all public works projects with an estimate exceeding \$30 million must be scrutinized by PSGO to ensure that the cost estimation of these projects was reasonable, the government-funded infrastructure projects of WKCD were subject to PSGO's scrutiny;
- (b) pursuant to the existing practice, cost reviews were conducted at the late stage of planning and design. In future, PSGO would strengthen cost management and

control from inception to construction stages. PSGO would assist individual works departments to continuously monitor project construction progress and performance through the implementation of PSS. Early alerts would be issued in the event of deviation from normality to reduce the risks of cost overruns or delays; and

- (c) one of the work objectives of PSGO was to strengthen the project delivery capability of project officers from works departments.

22. Ms Claudia MO said that according to her understanding, the cost of each transitional housing unit was about \$0.5 million on average. The construction costs of quarantine facilities recently built by the Administration varied greatly. The unit costs for the quarantine facilities in Lei Yue Mun Park and Holiday Village and in Junior Police Call Permanent Activity Centre at Pat Heung were about \$0.16 million and \$0.3 million on average respectively, while that for the quarantine facilities at Penny's Bay was as high as \$1.9 million on average. Ms Claudia MO was concerned whether cost reviews had been undertaken for the construction of quarantine facilities.

23. PSDEV(W) said that as those quarantine facilities were constructed under a relatively tight schedule, the project costs were slightly higher than other general projects. Principal Government Engineer (Project), Development Bureau ("PGE/DEV(P)) explained that the construction costs of quarantine facilities were estimated with reference to the costs of transitional housing developed by the Transport and Housing Bureau. As for the quarantine facilities (including those at Penny's Bay) mentioned by members, their average unit costs were more or less on a par. The construction cost of the quarantine facilities at Penny's Bay was higher than those of their counterparts because the project involved site formation works and construction of infrastructure facilities, in addition to the building of 100 quarantine units. Therefore, the average cost per unit could not be calculated simply on the basis of the overall construction cost of a project.

24. Mr Holden CHOW enquired whether PSGO was conferred with the high-level powers similar to those vested in the Office of The Ombudsman so that PSGO could effectively monitor the costs of projects undertaken by various works departments and could, in case of disputes, directly request the consultant or contractor of a particular project to bear certain expenses.

25. PSDEV(W) replied that:

- (a) PSGO would develop a system known as PSS to facilitate works departments to monitor the performance of individual projects, and would meet with works departments regularly to assist them in monitoring the implementation of projects;
- (b) PSGO would explore ways to streamline the construction process and optimize designs through which unnecessary costs might be reduced to achieve higher cost-effectiveness; and
- (c) to avoid disputes, the responsibilities of the two contractual parties had been effectively and clearly stipulated under the "New Engineering Contracts" adopted by the Government. Even if disputes arose, they could be resolved according to contractual terms.

26. Dr KWOK Ka-ki noted from the paper provided by the Administration to ESC that the annual construction output of the public and private sectors would increase from about \$250 billion in 2016-2017 to over \$300 billion in 2020-2021. Dr KWOK was concerned whether the creation of these two proposed directorate posts could enable PSGO to cope effectively with the workload brought by construction projects valued at several hundred billion dollars. Showing concerns about the high construction costs and the problem of aging labour force in the construction sector, Dr KWOK Ka-ki and Mr WU Chi-wai considered that the labour force in the sector could not cope with the significant rise in construction output. In this connection, Dr KWOK and Mr WU asked whether PSGO could address the problems from the policy perspective.

27. PSDEV(W) responded that:

- (a) at present, the construction costs of public works projects were about \$80 billion per year. Coupled with the construction output in the private sector, the annual construction output was about \$250 billion. The construction cost of a project was subject to a host of factors, including the supply and demand of labour and materials, government policies, social needs, etc.;
- (b) the delivery capacity of the construction sector could not be assessed simply on the basis of the amount of project costs. The nature of works projects should also be considered.

Some construction projects involved more labour-intensive processes while some relied primarily on machinery-operated processes. PSGO would assist the construction sector in enhancing its delivery capacity through various strategic initiatives (such as by using innovative construction technology); and

- (c) apart from enhancing the exercising of cost control of projects, PSGO would also strengthen the project delivery capability of project officers in various departments to reduce cost overruns and delays, thereby achieving better project quality. The Government believed that with the creation of these two proposed directorate posts and under their leadership, PSGO could collaborate with various departments in enhancing project delivery capability.

28. Dr KWOK Ka-ki was concerned whether the "Lantau Tomorrow Vision" project proposed by the Government would overburden PSGO due to a significant increase in construction output. Moreover, he also enquired whether PSGO would be used as a shield behind which the Government might implement more expensive capital works projects with a scale comparable to the then Airport Core Programme.

29. PSDEV(W) replied that:

- (a) the funding proposal on the studies related to the artificial islands in the central waters with respect to the "Lantau Tomorrow Vision" project would be submitted to FC according to established procedures and arrangements. Although according to an earlier ballpark estimate, the cost of the entire development project would exceed \$600 billion, detailed project designs and cost estimates could only proceed when results of the studies were available in future;
- (b) the current construction costs of public works projects were about \$80 billion per year, which were lower than the actual construction output of the Airport Core Programme undertaken in the 1990s. As the works requirements back then were different from those at present, it was difficult to make a direct comparison between the two simply based on project costs; and
- (c) as for the construction output that might be taken up by PSGO and various works departments, PSGO would endeavour to strengthen the project delivery capability of project leaders in various works departments.

30. Mr CHAN Chi-chuen noted that PSGO would seek to reduce project costs by means of optimizing the project design, and would develop PSS to monitor the performance of projects on an ongoing basis. In this connection, Mr CHAN enquired whether PSGO could achieve more savings in project costs by providing assistance at design stage or at construction stage.

31. PGE/DEV(P) explained that the work objective of PSGO at design stage was to reduce project costs and that at construction stage was to control spending. PSGO would develop a system known as PSS which would enable PSGO to detect, at an early stage, whether the progress of a particular project had deviated from the normal performance of general projects with reference to the cash flow trend of over 600 completed public works projects carried out in the past. If significant deviations were identified, PSGO would alert the project controlling officers concerned to take early actions in order to avoid cost overruns or delays.

32. Citing the Kai Tak Hospital development project as an example, Dr KWOK Ka-ki pointed out that the cost of a works project would continue to increase as variation orders were often issued in the course of construction. Dr KWOK was concerned whether PSGO would conduct due surveillance on the works projects undertaken by the Hospital Authority.

33. PSDEV(W) said that the cost estimate of the Kai Tak Hospital project had been reviewed by the Government. Regarding the rise in project costs as a result of the variation orders issued during the construction stage, PSGO could, with additional manpower, assist works departments to monitor and control project costs in a more holistic manner. If the issuance of variation orders for a project during the construction stage resulted in its project estimate exceeding a certain amount, the project would have to be submitted to PSGO again for vetting.

Centre of Excellence for Major Project Leaders

34. Mr Alvin YEUNG requested the Administration to provide further information on CoE, including its operating funds and operation period, course arrangement, teacher qualifications and requirements for participants.

35. In response, PSDEV(W) said that:

- (a) on the question of operating funds, the Government had set aside about \$70 million in the Budget for establishing CoE and as the operating funds of CoE from 2019 to 2022;
- (b) on the questions of course arrangement and teacher qualifications, CoE had signed a three-year contract with the University of Oxford, during which the University of Oxford would provide courses and teachers. Students would receive training both locally and at the University. The effectiveness of this arrangement would be subject to review in future; and
- (c) on the question of the requirements for participants, major project leaders at D1 or above would be recommended to enrol in the courses. It was expected that the knowledge so acquired would be applicable to the works projects under their management, and their knowledge and experience would be passed on to and shared with their colleagues in their respective departments.

36. PGE/DEV(P) supplemented that CoE would be the first institution of the same kind in Asia. Similar institutions dedicated to offering training for directorate grade officers or above had been established in the United Kingdom ("the UK") and Australia. Currently, the courses were provided by the University of Oxford. In future, academics of other universities and specialists in professional fields would also be invited to teach in various courses.

37. Regarding the Administration's response, Mr WU Chi-wai was concerned about the cost-effectiveness of CoE. Mr WU queried why the Administration did not consider sending the directorate grade officers or above to study at the University of Oxford or other overseas universities directly, but chose to spend public funds on the creation of the proposed directorate posts in PSGO and the establishment of a CoE.

38. PSDEV(W) explained that the establishment of CoE did not require a campus. The Government would make arrangements for officers to enrol in courses offered by the University. Besides establishing CoE to strengthen the project delivery capability of major project leaders from various works departments, the directorate officers of PSGO would also head an interdisciplinary team which would devise and promote strategic initiatives to enhance the performance of public works projects.

Construction industry-related policies

39. Ir Dr LO Wai-kwok said that precast units had been commonly used in the construction of public housing in recent years. Modular integrated Construction ("MiC") methods had been adopted in the recent construction of quarantine facilities. However, the precast units were not produced locally, and many processes involved were also not conducted in Hong Kong. Ir Dr LO enquired whether the Administration had any plans to formulate a policy direction for the long-term development of the local construction industry.

40. PSDEV(W) said that as noticed by the Government, it was common for contractors to produce precast units and complete the labour intensive processes in production plants outside Hong Kong. The Government was exploring whether suitable sites could be identified to attract some manufacturing processes to move back to Hong Kong.

41. Mr WU Chi-wai said that according to the example mentioned by the Administration earlier, cost savings could be achieved by appropriately relaxing building height restrictions and removing barriers. However, in many works projects undertaken in the past, increases in project costs were attributed to the Administration's refusal to relax building height restrictions. This reflected the inconsistency of the Government in doing things. Mr WU Chi-wai enquired how PSGO would, at the project design stage, deal with problems arising from policy issues (such as the building height restrictions) and transcend the relevant policy constraints in order to control project costs more effectively. Mr Tony TSE said that private developers also hoped that the Government could deal with private development projects with a mindset that aimed to remove barriers.

42. Regarding the issue of relaxing building height restrictions, PSDEV(W) explained that the cases referred to by members were isolated examples, and the relevant solutions might not be applicable to all works projects. The Administration took note of members' views. Various departments under the Development Bureau (including the Buildings Department, the Lands Department and the Planning Department) would examine ways to streamline the vetting and approval arrangement and rationalize the workflow for dealing with private development projects.

43. Dr Fernando CHEUNG enquired whether the Administration had studied the causes that led to the continued escalation of the costs of public works projects in Hong Kong. He also requested the Administration to provide information on the studies in this respect.

44. PSDEV(W) responded that:

- (a) in terms of construction costs, there were many components which were subject to market factors, such as materials, machinery, wages, etc. Moreover, the local construction industry had to face the problems of an aging labour force and low productivity of frontline construction workers; and
- (b) to address the problems relating to construction costs and human resources, both the UK and Singapore encouraged the use of off-site construction methods, which involved pre-assembly and off-site production of building parts and off-site completion of labour intensive processes in order to shorten the time required to work on construction sites, thereby increasing productivity and cost-effectiveness.

45. Mr WU Chi-wai pointed out that the Administration not only acknowledged the problems of an aging labour force and low productivity of frontline construction workers in the local construction industry, and was also aware of the global trend of using off-site construction method. Mr WU asked whether PSGO could, upon the creation of the proposed directorate posts, solve the problem of high costs currently faced by the local construction industry.

46. PSDEV(W) reiterated that besides cost control, PSGO would also take forward other strategic initiatives and study issues associated with the use of off-site construction methods. However, it would take a longer time to implement these strategic initiatives. The creation of these directorate posts could not instantly solve all problems.

Motion to adjourn discussion on item FCR(2019-20)7

47. At 10:25 am, Mr CHU Hoi-dick, when speaking on the item, moved without notice to adjourn the discussion on item FCR(2019-20)7 ("adjournment motion") in accordance with paragraph 39 of the Finance Committee Procedure ("FCP"). The Deputy Chairman proposed the question, and directed that each member might speak on the question once for not more than three minutes.

48. Mr CHU Hoi-dick spoke on his motion. Mr CHU said that the Administration had not provided to LegCo detailed information on a breakdown of the cost savings achieved for each of the projects vetted by PCMO since its establishment in order to justify the need for creating the

proposed directorate posts. Hence, Mr CHU considered that FC should not continue with the discussion of this item.

49. Mr CHAN Chi-chuen, Mr Alvin YEUNG, Dr Fernando CHEUNG, Ms Tanya CHAN, Ms Claudia MO, Mr Jeremy TAM, Mr WU Chi-wai, Dr CHENG Chung-tai and Dr KWOK Ka-ki spoke in support of the motion. They were generally dissatisfied that the Administration had not provided detailed information to LegCo pursuant to the requests of members. They took the view that such information was particularly important for members to know more about the performance efficiency of PCMO and to assess the necessity for creating the proposed directorate posts. Therefore, the discussion on this item should be adjourned so that the Administration would have sufficient time to provide the supplementary information to members.

50. Ir Dr LO Wai-kwok and Dr CHIANG Lai-wan spoke against the motion to adjourn the discussion on this item. In gist, they supported the measures put in place by the Administration to enhance the cost management of public works projects. As the scrutiny of this item and many other livelihood- and economy-related funding proposals awaiting FC's scrutiny within this session had been delayed for almost one year, they opined that all items should be examined expeditiously instead of employing every possible means to procrastinate FC's scrutiny progress.

51. At 10:44 am, the Deputy Chairman directed that the meeting be suspended, and that the meeting would resume at 3:15 pm.

52. At 3:15 pm, the meeting resumed. The Chairman took the chair. Members continued to speak on the motion moved by Mr CHU Hoi-dick to adjourn the discussion on item FCR(2019-20)7.

53. At 3:34 pm, the Chairman asked if the Administration would like to respond to the adjournment motion. PSDEV(W) said that the Administration took note of members' views. He reiterated the functions of PSGO and undertook that the Administration would provide information in an appropriate manner in future.

54. Mr CHU Hoi-dick spoke in reply. The Chairman put the adjournment motion to vote. At the request of members, the Chairman ordered a division. The motion was [negatived](#). FC continued with the discussion on item FCR(2019-20)7.

Motions proposed by members under paragraph 37A of the Finance Committee Procedure

55. At 4:22 pm, FC started to vote on whether the two motions proposed by Mr CHAN Chi-chuen and Mr Alvin YEUNG respectively under FCP 37A ("FCP 37A motions") for expressing views on the item should be proceeded with forthwith.

56. The Chairman put to vote the questions, one by one, that these FCP 37A motions should be proceeded with forthwith. At the request of members, the Chairman ordered a division for each of the proposed motions. The voting results were as follows:

Members proposing the motion	Serial numbers of motion	Motions be proceeded with forthwith
Mr CHAN Chi-chuen	0001	No
Mr Alvin YEUNG	0002	No

Voting on FCR(2019-20)7

57. The Chairman split item FCR(2019-20)7 into two parts for separate voting.

(a) Creation of one permanent Principal Government Engineer (D3) post

58. At 4:33 pm, at the request of members, the Chairman ordered a division. The division bell rang for five minutes. The Chairman declared that 31 members voted in favour of and 19 members voted against this part of the proposal, with no members abstaining from voting. The votes of individual members were as follows:

For:

Mr Abraham SHEK Lai-him	Mr Tommy CHEUNG Yu-yan
Mr WONG Ting-kwong	Ms Starry LEE Wai-king
Mr CHAN Hak-kan	Dr Priscilla LEUNG Mei-fun
Mr WONG Kwok-kin	Mr Steven HO Chun-yin
Mr Frankie YICK Chi-ming	Mr YIU Si-wing
Mr MA Fung-kwok	Mr CHAN Han-pan
Mr LEUNG Che-cheung	Ms Alice MAK Mei-kuen
Mr KWOK Wai-keung	Mr Christopher CHEUNG Wah-fung
Ms Elizabeth QUAT	Mr Martin LIAO Cheung-kong
Mr POON Siu-ping	Dr CHIANG Lai-wan

Ir Dr LO Wai-kwok	Mr Holden CHOW Ho-ding
Mr SHIU Ka-fai	Mr Wilson OR Chong-shing
Dr Pierre CHAN	Mr CHAN Chun-ying
Mr CHEUNG Kwok-kwan	Mr LUK Chung-hung
Mr LAU Kwok-fan	Mr Vincent CHENG Wing-shun
Ms CHAN Hoi-yan	
(31 members)	

Against:

Mr James TO Kun-sun	Prof Joseph LEE Kok-long
Ms Claudia MO	Mr WU Chi-wai
Mr Charles Peter MOK	Mr CHAN Chi-chuen
Dr KWOK Ka-ki	Dr Fernando CHEUNG Chiu-hung
Dr Helena WONG Pik-wan	Mr IP Kin-yuen
Mr Alvin YEUNG	Mr Andrew WAN Siu-kin
Mr CHU Hoi-dick	Mr LAM Cheuk-ting
Ms Tanya CHAN	Dr CHENG Chung-tai
Mr KWONG Chun-yu	Mr Jeremy TAM Man-ho
Mr Tony TSE Wai-chuen	
(19 members)	

59. The Chairman declared that this part of the proposal was approved.

(b) Creation of one permanent Government Engineer (D2) post

60. At 4:38 pm, at the request of members, the Chairman ordered a division. The division bell rang for five minutes. The Chairman declared that 32 members voted in favour of and 19 members voted against this part of the proposal, with no members abstaining from voting. The votes of individual members were as follows:

For:

Mr Abraham SHEK Lai-him	Mr Tommy CHEUNG Yu-yan
Mr WONG Ting-kwong	Ms Starry LEE Wai-king
Mr CHAN Hak-kan	Dr Priscilla LEUNG Mei-fun
Mr WONG Kwok-kin	Mr Steven HO Chun-yin
Mr Frankie YICK Chi-ming	Mr YIU Si-wing
Mr MA Fung-kwok	Mr CHAN Han-pan
Mr LEUNG Che-cheung	Ms Alice MAK Mei-kuen
Mr KWOK Wai-keung	Mr Christopher CHEUNG Wah-fung
Ms Elizabeth QUAT	Mr Martin LIAO Cheung-kong
Mr POON Siu-ping	Dr CHIANG Lai-wan
Ir Dr LO Wai-kwok	Mr Holden CHOW Ho-ding
Mr SHIU Ka-fai	Mr Wilson OR Chong-shing

Dr Pierre CHAN	Mr CHAN Chun-ying
Mr CHEUNG Kwok-kwan	Mr LUK Chung-hung
Mr LAU Kwok-fan	Mr Vincent CHENG Wing-shun
Mr Tony TSE Wai-chuen	Ms CHAN Hoi-yan
(32 members)	

Against:

Mr James TO Kun-sun	Prof Joseph LEE Kok-long
Ms Claudia MO	Mr WU Chi-wai
Mr Charles Peter MOK	Mr CHAN Chi-chuen
Dr KWOK Ka-ki	Dr Fernando CHEUNG Chiu-hung
Dr Helena WONG Pik-wan	Mr IP Kin-yuen
Mr Alvin YEUNG	Mr Andrew WAN Siu-kin
Mr CHU Hoi-dick	Mr LAM Cheuk-ting
Ms Tanya CHAN	Mr HUI Chi-fung
Dr CHENG Chung-tai	Mr KWONG Chun-yu
Mr Jeremy TAM Man-ho	
(19 members)	

61. The Chairman declared that this part of the proposal was approved.

Item 2 — FCR(2019-20)48

**HEAD 152 — GOVERNMENT SECRETARIAT:
COMMERCE AND ECONOMIC DEVELOPMENT
BUREAU (COMMERCE, INDUSTRY AND
TOURISM BRANCH)**

Subhead 700 — General non-recurrent

**New item — "SME Financing Guarantee Scheme – Special 100%
Guarantee Product"**

62. The Chairman advised that this item sought the approval of FC for a new loan guarantee commitment of \$20 billion with an expected maximum expenditure of \$5.625 billion under Head 152 "Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch)" Subhead 700 "General non-recurrent" for the HKMC Insurance Limited ("HKMCI") to introduce a new loan guarantee product under its SME Financing Guarantee Scheme (i.e. the Special 100% Guarantee Product). The Commerce and Economic Development Bureau consulted the Panel on Commerce and Industry on the proposal on 17 March 2020. The Panel spent about 55 minutes on deliberating the proposal.

"Employment support" effect of the Special 100% Guarantee Product

63. Mr CHU Hoi-dick enquired whether the Administration would enter into agreements with or provide incentives for loan applicants in respect of the Special 100% Guarantee Product to ensure that they would not lay off their staff within a specified period, so as to safeguard staff employment. Mr CHU suggested that the Administration should compile statistics on the loan-receiving enterprises which had reduced layoffs as a result of the Special 100% Guarantee Product.

64. Secretary for Commerce and Economic Development ("SCED") said that on the premise of "supporting enterprises and safeguarding jobs", reference would be made to the employee wages and rental costs paid by loan applicants in the past six months in the course of approving applications under the Special 100% Guarantee Product. The Government understood that amid the current economic environment, the liquidity problem faced by small and medium enterprises ("SMEs") was not confined to expenses in a particular area. If SMEs were not allowed to adjust certain costs (such as payroll costs), their liquidity problems might still be there even after they had obtained loans. Nonetheless, the Government would consider the suggestions made by members.

65. Executive Director and Chief Executive Officer, The Hong Kong Mortgage Corporation Limited ("ED&CEO/HKMC") said that it was difficult for the authorities to compile statistics on or to estimate the increase/decrease in the number of layoffs where enterprises were offered/not offered loans. As the amount of loans would be determined with reference to the total payroll costs incurred by an enterprise, loan applicants intending to obtain a greater amount of loans should endeavour to minimize layoffs during the six-month period.

66. Mr KWONG Chun-yu enquired how the Administration could ensure that the loans offered under the Special 100% Guarantee Product could assist SMEs to tide over the present crisis promptly and effectively, and how it would solve the difficulties and delays possibly met by participating lending institutions ("PLIs") in approving loans. Mr KWOK Wai-keung urged the Administration to enhance its collaboration with the banking sector to launch the scheme as soon as possible and ease the pressure on the closure of business across different sectors and trades.

67. SCED said that with a view to launching the Special 100% Guarantee Product to facilitate SMEs in obtaining loans expeditiously, the Administration consulted the Panel on Commerce and Industry on 17 March 2020 subsequent to the announcement of the relevant initiatives

by the Financial Secretary in the 2020-2021 Budget. Shortly afterwards, the financial proposal was submitted to FC for scrutiny in the hope that funding approval could be granted expeditiously. In the meantime, HKMCI and the Hong Kong Monetary Authority ("HKMA") had worked with PLIs to prepare for the launch of the scheme. It was expected that the Special 100% Guarantee Product could be launched within one month after the financial proposal was approved. In the past week, the Administration met with representatives from HKMCI, HKMA and relevant banks to discuss ways to streamline the application procedures under the scheme. The Government introduced two similar schemes in the past two years, including making various enhancements to the 80% Guarantee Product in 2018, and the launching of the 90% Guarantee Product in 2019. These two schemes were launched on the market in cooperation with lending institutions within a short time. The Government was confident that the Special 100% Guarantee Product could also be launched in a timely manner. ED&CEO/HKMC supplemented that HKMCI would inform banks of the details of the scheme as soon as possible once the financial proposal was approved.

68. Dr Fernando CHEUNG said that no specific requirements were stated in the Special 100% Guarantee Product and the \$30-billion Anti-epidemic Fund previously approved by FC to ensure that the policy objective of "supporting employment" could be achieved. He suggested that the Administration should, by making reference to the practices adopted by overseas governments, provide a 75% wage subsidy for employees directly, or allow enterprises to reduce the working hours of employees without laying them off, or provide enterprises with subsidized sick leave pay for their employees. He also suggested that successful loan applicants should be required to retain at least a certain percentage of employees.

69. SCED said that in designing the Special 100% Guarantee Product, the Administration had considered carefully how the policy objective of "supporting employment" could be achieved. Given that SMEs (in particular micro enterprises) needed more flexibility in terms of liquidity amid the current economic environment, the imposition of rigid requirements in the relevant loan terms and conditions might have impact on the operation of the enterprises. He pointed out that there were other relief measures in the Budget targeting individuals or employees. As for the suggestion of measuring the "supporting employment" effect for individual enterprises as a result of the loans, the Government considered that there were practical difficulties in doing so. The Administration would, in reviewing the relevant initiatives, consider conducting sampling surveys on enterprises to gauge the overall effect of the initiatives. The

Government had no intention to interfere with the commercial operation of enterprises (including whether their staff sizes should be trimmed) through the loan approval process carried out by PLIs.

Financial arrangements for and implications of the loan scheme

70. Mr CHAN Chun-ying declared that he was a member of the banking sector, he noted that loan applications for the Special 100% Guarantee Product would be processed by PLIs first before the loans were sold to HKMCI. Regarding the situation where a PLI chose to accumulate a number of similar loans before selling them to HKMCI in one go, he enquired whether the batch of loans would be regarded as loans offered by the PLI to its clients or as debts pending transferral to HKMCI during the period between loan drawdown by PLIs and sale of the approved loan to HKMCI.

71. ED&CEO/HKMC said that according to the mainstream intention expressed by PLIs at present, they would not accumulate the loans. Instead, they would sell the approved loans to HKMCI instantly, and the relevant loans would not stay on the accounts of PLIs.

72. Mr Tommy CHEUNG said that the Liberal Party supported the introduction of the Special 100% Guarantee Product. He asked whether PLIs were entitled to withhold the approved loans for enterprises under the scheme for repaying other debts currently owed to PLIs by loan applicants.

73. ED&CEO/HKMC said that under the scheme, PLIs were not allowed to withhold the approved loans offered to an enterprise for repaying other debts owed by the enterprise concerned.

74. Mr CHAN Chun-ying noted that under the Special 100% Guarantee Product, an interest rate of the Hong Kong Prime Rate minus 2.5% per annum would be charged by HKMCI. After deducting the cost of funding in respect of loans and other related costs incurred by HKMCI, the remaining balance of interest income would be returned to the Government. He enquired whether, in the event that there was deficit in the scheme, the deficit would be borne by HKMCI or the Government.

75. SCED said that the main difference between the Special 100% Guarantee Product and the 80% or 90% Guarantee Products was that the ultimate lending institution was not a PLI but HKMCI. The Special 100% Guarantee Product mainly sought to capitalize on the experience of PLIs in receiving and processing loan applications to facilitate the rolling out of the relevant initiatives. If there was deficit in the loan scheme (i.e. when the

cost of funding in respect of loans and other related costs exceeded the interest income), it would be borne by HKMCI in full.

76. ED&CEO/HKMC supplemented that as PLIs were not the ultimate lending institutions, they were not required to adhere to the established credit assessment criteria. Instead, a set of substantially simplified criteria would be adopted in processing the relevant loan applications without having to be excessively concerned about default risks or the relevant guidelines issued by HKMA. It was expected that the approved loans could be transferred to the applicants promptly.

77. Mr James TO enquired whether pursuant to the agreements entered into between PLIs and the Administration, PLIs had the responsibility of having to assess the ability of enterprises in sustaining their business operation before granting loan approval. Mr Jeremy TAM asked about the follow-up actions to be taken if an enterprise could not repay the loans.

78. ED&CEO/HKMC said that under the Special 100% Guarantee Product, the loan criteria adopted by PLIs had been simplified. PLIs, acting as agents, had the responsibility to use their professional skills to verify the factual information provided by loan applicants, thereby ascertaining that the enterprises had genuine business difficulties, and that they were capable of sustaining their business operation under general epidemic-free circumstances. In the event that an enterprise became insolvent, the PLI concerned would, according to established practices, try to arrange debt restructuring for the enterprise in the first place. If debt restructuring failed, the PLI would first recover the debts from the enterprise and then from the guarantor. If the debts could not be recovered, the PLI could apply to the court for a winding-up order against the enterprise pursuant to established procedures. In response to enquiries raised by Mr James TO, ED&CEO/HKMC said that if an applicant enterprise was involved in a default claim/civil action instituted by a financial institution, or if it was making a winding-up or bankruptcy petition or undergoing a process of such, it implied that the business of the enterprise was in an acute situation, with prolonged and substantial defaulted loans.

79. Ms Tanya CHAN was concerned whether the assumed default rate of the scheme was too optimistic. SCED said that the 80% Guarantee Product was launched in 2012 and enhanced in 2018. After operating for years, the scheme had a composite default rate of 3.844%. As for the Special 100% Guarantee Product, the Administration would be well prepared for the worst as in the past. As the scheme involved the commitment of public funds, the Administration would formulate the basic

loan requirements and provisions. It was considered that setting the assumed default rate at 25% was not excessively conservative.

80. Mr YIU Si-wing suggested that an alert system should be established for the Special 100% Guarantee Product, i.e. when the total amount of approved loans was close to \$20 billion, the relevant stakeholders should be notified as early as possible.

81. ED&CEO/HKMC said that as in the case of the 80% and 90% Guarantee Products, the Administration would sign an agreement with HKMCI requiring the establishment of a monthly reporting mechanism for updating the latest position of the scheme. At the initial stage of the launch of the Special 100% Guarantee Product, HKMCI might report to the Administration more frequently and promptly.

Eligibility, loan ceiling and time required for vetting and approving loans

82. Expressing support for the Special 100% Guarantee Product, Mr SHIU Ka-fai said that the new guarantee product would provide the much needed liquidity for SMEs which had been hard hit by the social incidents and the COVID-19 epidemic under the difficult economic environment. He urged the Administration and HKMCI to simplify the relevant vetting and approval procedures and implement the new scheme as soon as possible. He noted that under the Special 100% Guarantee Product, loan applicants were required to provide proofs that they had suffered at least a 30% decline in sales turnover since February 2020 as compared to the figure in 2019. He enquired about the details of the requirement, the determination of an enterprise's eligibility criteria for loan application based on Business Registration Certificate, as well as the time required for approving a loan application.

83. ED&CEO/HKMC said that in order to ensure that the special arrangement would benefit enterprises with genuine needs, loan applicants needed to provide proofs that they had suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any quarter in 2019. Under the Special 100% Guarantee Product, the maximum amount of loan per Business Registration Certificate (i.e. per business entity) was up to the total amount of employee wages and rents for six months per enterprise, or \$2 million, whichever was the lower. For each different branch of the same business entity holding a separate Branch Registration Certificate (but not a separate Registration Certificate), the branch concerned would not be treated as an individual business entity for the purpose of loan application. HKMCI undertook

that if a loan applicant could provide all necessary information via a PLI, the relevant loan could be approved within three days.

84. Ir Dr LO Wai-kwok said that the Business and Professionals Alliance for Hong Kong supported the Special 100% Guarantee Product. He noted that if an enterprise did not have employee(s) and rented office(s), proxy was made to 50% of the highest monthly net income in 2019 multiplied by six for the purpose of calculating the maximum amount of loan. He enquired about the type(s) of enterprises in respect of which this requirement was made.

85. ED&CEO/HKMC said that there was a small number of enterprises which neither had employees nor rental proofs. These enterprises might include family business enterprises (such as small restaurants) and enterprises run by freelancers.

86. Mr YIU Si-wing enquired whether an enterprise could, if its total amount of employee wages and rents was below \$2 million, make use of other means to exhaust the remaining loan limit under the scheme. Moreover, he asked about the definition of "SMEs" under this scheme; whether an enterprise having been granted a loan under the 90% Guarantee Product could apply for the Special 100% Guarantee Product; and how HKMCI would deal with complaints which alleged that an enterprise did not use the approved loans to pay employee wages and rents.

87. Mr Tommy CHEUNG suggested that the Administration should consider including the listed companies on the Growth Enterprise Market as eligible enterprises in future. Mr Tony TSE said that he hoped that the Special 100% Guarantee Product could cover various sectors and trades, including the professional service sectors, because the modes of business operation of different professions varied, e.g. the method for calculating the business turnovers of professional services was different from that for calculating the business turnovers of the catering sector and the retail sector.

88. Noting that the income of many freelancers and groups working in the arts and cultural sector had dropped significantly due to the epidemic, Ms Tanya CHAN asked whether the Special 100% Guarantee Product could help them. Mr SHIU Ka-chun enquired whether the scheme accepted applications submitted by social enterprises.

89. ED&CEO/HKMC pointed out that the objective of the scheme was to help the enterprises with difficulties in paying employee wages and rents. If the approved loan for an enterprise was below the maximum loan

amount of \$2 million, the enterprise concerned could not make use of other means to exhaust the remaining loan limit under the scheme. The term "SMEs" was not defined under the scheme. Enterprises which were not listed companies were eligible to be considered as SMEs. No requirements were made on the number of employees hired by an enterprise. HKMCI would neither stipulate the usage of the approved loans nor conduct follow-up investigations. Upon receipt of complaints, HKMCI would handle complaints in the light of the actual circumstances of individual cases under its standing mechanism.

90. SCED supplemented that enterprises of all trades and sizes, regardless of whether they sold physical commodities or not, might apply for loans under the scheme. Under the Special 100% Guarantee Product scheme, enterprises of all business sectors, including social enterprises, were welcome to apply. Enterprises which had been offered loans under other loan guarantee products could still apply under the Special 100% Guarantee Product. In order to enable the scheme to operate with flexibility, as well as to achieve the objectives of "supporting enterprises and safeguarding jobs", the Government would not mandate the use of loans.

91. Ms Claudia MO said that given that the assumed default rate of the Special 100% Guarantee Product was as high as 25%, and the maximum amount of loan that would be offered to an enterprise was \$2 million, which was not a tremendous sum, she suggested that the Administration should provide direct subsidies for all SMEs holding Business Registration Certificates without requiring approval, or further streamline the loan approval process, e.g. granting loans to SMEs with reference to their profit tax payable in the preceding year of assessment.

92. SCED said that against the backdrop of the current economic turmoil, the \$2 million maximum loan amount under the Special 100% Guarantee Product scheme was not a meagre amount of loan for SMEs. At present, the maximum loan amount was \$15 million under the enhanced 80% Guarantee Product, and \$6 million under the 90% Guarantee Product. However, as one of the countercyclical measures, the Special 100% Guarantee Product scheme did not rely on the credit ratings of enterprises in approving loan applications, but aimed to address the urgent needs of enterprises for funds. Moreover, the annual interest rate under the Special 100% Guarantee Product scheme was lower than those offered under the above two guarantee products. Given that the loans would be fully guaranteed by the Government, and the targets of the scheme were enterprises with operating difficulties, it was envisaged that the overall default rate would inevitably be higher than those of other schemes in

general. That said, according to experience, the actual default rates would usually be lower than expected. For example, the actual default rate (3.84%) of the 80% Guarantee Product was much lower than its assumed default rate (12%). He added that other initiatives that aimed to provide direct subsidies to enterprises had been rolled out in the 2020-2021 Budget and the Anti-epidemic Fund launched earlier by the Government.

93. On the suggestion of determining the amount of loans offered to enterprises with reference to the amount of profit tax payable by them, SCED said that the majority of SMEs in Hong Kong might not need to pay profit tax, and their tax returns in the past might not reflect their current business condition. Regarding the approval process, many SMEs also considered that the application procedures of the Special 100% Guarantee Product were relatively simple as compared with those of other products of the same kind. Noting that SMEs might not be able to provide formal financial statements, HKMCI would accept the management accounts or bank statements of loan applicants instead.

Annual interest rate and repayment period

94. In the context of the ongoing epidemic of COVID-19, Mr SHIU Ka-chun suggested that the Administration should, by making reference to the 80% Guarantee Product, lengthen the maximum repayment period to seven years. Expressing support for the proposed Special 100% Guarantee Product, Mr CHAN Chi-chuen suggested that the Administration should continue to implement employment support measures under which incentives were provided to encourage enterprises to retain their staff. He asked whether the scheme had put in place any mechanism to provide for repayment flexibility in case enterprises had difficulty in repaying loans, as well as whether it was possible to further lower the annual interest rate of approved loans.

95. SCED said that the "SME Financing Guarantee Scheme" offered products with a variety of maximum repayment periods to meet enterprises' financial needs of varying time frames. Under the Special 100% Guarantee Product, loan applicants were provided with an option for principal moratorium under which loan applicants would only be required to pay interest in the first six months from the first drawdown of the facility. As for the existing 80% and 90% Guarantee Products, they would continue to offer loans to eligible SMEs with a view to providing full-scale support to enterprises of varying sizes. The Administration considered it appropriate to set the maximum repayment period of the Special 100% Guarantee Product at three years.

96. ED&CEO/HKMC said that an interest rate of the Hong Kong Prime Rate minus 2.5% per annum was charged under the Special 100% Guarantee Product. Such an interest rate was widely recognized in the banking sector as extremely low. For a loan of \$2 million, the amount of interest per month would be in the region of several hundred dollars only. The authorities were worried that further lowering the interest rate would result in moral hazard risks which might lead to abuse by enterprises without genuine need for funds. SCED supplemented that the proposed three-year maximum repayment period, coupled with the annual interest rate being pitched at an extremely low level, were considered the most appropriate loan terms that were widely welcomed by enterprises.

97. Mr Holden CHOW said that given the fluctuating epidemic, he suggested that the duration of the principal moratorium should be lengthened to 9 to 12 months in order to enable enterprises to maintain a healthier cash flow.

98. ED&CEO/HKMC said that if an enterprise could not repay the loans after the expiry of the six-month principal moratorium, the PLI should seek to arrange debt restructuring for the enterprise. It was considered unnecessary to lengthen the duration of the principal moratorium for all loan applicants across the board.

Other matters

99. Mr Alvin YEUNG enquired about the success rates of applications for other guarantee products made under the "SME Financing Guarantee Scheme" as at December 2019, as well as the time required between the lodging of applications and the drawdown of the facility.

100. SCED said that the 80% Guarantee Product was launched in 2012 and enhanced in 2018. From 2018 to the end of 2019, the amount of loans approved had increased by 89%, and the total amount of newly approved loans amounted to \$13.8 billion. As for the 90% Guarantee Product launched in December 2019, HKMCI had received 310 applications and the total amount of loans approved reached \$530 million. Currently, the Government did not have information on the success rates of applications.

101. ED&CEO/HKMC added that HKMCI could approve an application within three days if all necessary information was provided by loan applicants to PLIs. However, the time required for a loan applicant to discuss its application with a PLI varied from case to case.

102. At 5:26 pm, the Chairman directed that the meeting be suspended. The meeting resumed at 5:33 pm.

103. At 6:33 pm, the Chairman directed that a quorum be called.

Motions proposed by a member under paragraph 37A of the Finance Committee Procedure

104. At 6:36 pm, FC started to vote on whether the [motion](#) proposed by Mr CHAN Chi-chuen under FCP 37A ("FCP 37A motion") should be proceeded with forthwith. The Chairman put to vote the question that the FCP 37A motion should be proceeded with forthwith. At the request of members, the Chairman ordered a division. The Chairman declared that members had [negatived](#) the question that the motion should be proceeded with forthwith.

Voting on FCR(2019-20)48

105. At 6:39 pm, the Chairman put item FCR(2019-20)48 to vote. The Chairman declared that the majority of the members present and voting were in favour of the item. The item was approved.

Item 3 — FCR(2019-20)38

**RECOMMENDATION OF THE PUBLIC WORKS
SUBCOMMITTEE MADE ON 14 MAY 2019**

PWSC(2018-19)46

HEAD 703 — BUILDINGS

Public Safety — Fire services

**175BF — Relocation of supporting operational facilities of Tsim
Sha Tsui Fire Station Complex, Fire Services Club
and other Fire Services accommodations to To Wah
Road, Kowloon**

**HEAD 707 — NEW TOWNS AND URBAN AREA
DEVELOPMENT**

Civil Engineering — Land Development

**754CL — Infrastructure Works for West Kowloon
Cultural District, phase 1**

**763CL — Integrated Basement for West Kowloon
Cultural District – remaining works**

106. The Chairman advised that this item sought the approval of FC for the recommendation of the Public Works Subcommittee ("PWSC") made on 14 May 2019 concerning PWSC(2018-19)46 with details as follows:

- (a) the upgrading of 175BF (Relocation of supporting operational facilities of Tsim Sha Tsui Fire Station Complex ("TSTFSC"), Fire Services Club and other Fire Services accommodations to To Wah Road, Kowloon) to Category A at an estimated cost of \$981.2 million in money-of-the-day ("MOD") prices;
- (b) the upgrading of part of 754CL (Infrastructure Works for WKCD, phase 1) to Category A at an estimated cost of \$380 million in MOD prices and the retention of the remainder of 754CL in Category B; and
- (c) the upgrading of 763CL (Remaining works of Integrated Basement ("IB") for WKCD) to Category A at an estimated cost of \$17,472.3 million in MOD prices.

107. Some members requested that the recommendations on the above three projects be put to vote separately at the FC meeting. The Administration did not have views on this request.

108. The Chairman declared that he was an Executive Director and the Chief Executive Officer of Well Link Insurance Group Holdings Limited.

Overall construction cost

109. Given that the paper on this item was submitted by the Administration as early as in March 2019, Mr CHAN Chi-chuen enquired whether the costs of projects under this item had changed over the past year and whether the relevant project costs had been vetted by PCMO of the Development Bureau.

110. Project Manager, Home Affairs Bureau responded that:

- (a) as tender had been invited for the first two projects under this item, project contingencies should be able to cope with slight inflation-led increases in construction costs;
- (b) for Project 763CL, while some works were at the detailed design stage, only preliminary design was completed for most parts of the projects with building plans approved by the Buildings Department. The Administration was confident that the IB project could be completed within the construction cost stated in the paper submitted last year; and

(c) all three projects under this item had been vetted by PCMO.

111. Project Manager (South), Civil Engineering and Development Department ("PM(S)/CEDD") supplemented that communication had been established with PCMO since the early design stage of the project. Taking into account the simplicity of the works involved in IB construction, PCMO agreed with the estimated construction cost of the project, with reference to the costs of similar projects.

112. Ir Dr LO Wai-kwok declared that he was a Board Member of the West Kowloon Cultural District Authority ("WKCDA"), but he did not have any pecuniary interest in the projects under discussion. Ir Dr LO expressed support for this funding proposal. As the item had been delayed for more than 10 months after it was approved by PWSC in May 2019, Ir Dr LO hoped that this item could obtain FC's approval expeditiously.

175BF—Relocation of supporting operational facilities of Tsim Sha Tsui Fire Station Complex, Fire Services Club and other Fire Services accommodations to To Wah Road, Kowloon

113. Mr CHAN Chi-chuen noted that the relocation arrangement for the operational facilities of TSTFSC was not explained in the information paper provided by the Administration. Mr CHAN enquired about the latest progress of the relocation arrangement.

114. In response, Permanent Secretary for Home Affairs ("PSHA") explained that the site selection of a fire station must ensure that fire appliances could respond to fire calls at the scene within the target response time of six minutes. Given that a suitable site for reprovisioning the existing operational facilities of TSTFSC could not be identified for the time being, the Government would continue to identify a suitable site within the district.

115. Dr Helena WONG said that at the relevant PWSC meeting, she expressed concern about the lack of barrier-free facilities at Jordon Road footbridge near Sorrento. She also requested the Administration to consider installing an accessible lift at the above location. Dr WONG asked about the progress of the Administration in following up on this matter.

116. Chief Traffic Engineer (Kowloon), Transport Department replied that the Highways Department started to carry out ground investigation works in November 2019 to examine the underground public facilities near

the Sorrento exit of the footbridge across Jordan Road in order to prepare for the installation of accessible lifts. The Highways Department planned to consult the Yau Tsim Mong District Council on the project in the second quarter of this year.

754CL—Infrastructure Works for West Kowloon Cultural District, phase 1

117. Mr Tony TSE said that he did not support the project on the proposed Artist Square Bridge ("the proposed footbridge") and requested that his stance be put on record. Mr TSE considered that the Administration should not alter the original artistic design of the proposed footbridge to an open-sided bridge deck design which emphasized simplicity in order to achieve cost savings. Noting that the completed IB would be managed by WKCD while the completed proposed footbridge would be managed by the Government, Mr TSE enquired about the reasons why different management arrangements had to be put in place.

118. Mr SHIU Ka-chun was concerned whether the proposed footbridge with an open-sided deck would be installed with barbed wires, which would run counter to the purpose of creating a fresh artistic environment and an atmosphere with vibrancy.

119. PSHA replied that the initial aim of choosing a design which emphasized simplicity was to provide flexibility in installing decorative fixings and fittings on the proposed footbridge to tie in with event promotion in WKCD.

120. PM(S)/CEDD responded that:

- (a) it could be seen from the view plans of the proposed footbridge as set out in Annex 2 to Enclosure 2 to the paper that there were no barbed wires in the existing design. It was expected that plants would be grown on both sides of the footbridge and decorative lighting would also be installed;
- (b) as the carrying out of structural maintenance and repair works on the proposed footbridge would necessitate the putting in place of temporary traffic diversion arrangements, it would be more effective if the proposed footbridge was managed by the Government; and
- (c) the Government had been working closely with WKCD. Upon the earlier completion of the pedestrian subway project, decorative fixings and promotion materials were installed in

the subway to tie in with the events held within WKCD. The Government would continue to discuss with WKCDA on the arrangement of installing decorations and promotion materials on the proposed footbridge in future.

763CL—Integrated Basement for West Kowloon Cultural District—
remaining works

121. As the information paper provided by the Administration was prepared one year ago, Mr CHAN Chi-chuen requested the Administration to update members on the latest progress of the IB project, as well as the operating expenses to be incurred by and the management arrangement for the Basement in future.

122. PSHA explained that the Government had all along been responsible for paying the costs for capital works projects that involved the construction of infrastructural facilities. Therefore, the works for IB in WKCD were also funded by the Government.

123. PM(S)/CEDD said that the foundation works for IB in Zone 2A could be launched immediately after the granting of funding approval. For Zones 2B and 2C, as their preliminary designs had been completed, detailed design would proceed as soon as funding was approved. Moreover, while the completed IB would be managed and maintained by WKCDA, as the relevant underground road was a government road, relevant government departments would be responsible for its maintenance, repair and traffic control management.

124. Dr Helena WONG expressed concern on the flooding and subsidence incident which occurred at the construction site of the basement of the Lyric Theatre Complex of WKCD last year. She asked the Administration what experience it had learnt from this incident and whether it was confident that similar incidents would not recur in future.

125. Chief Projects Officer, West Kowloon Cultural District Authority said that the incident report had been submitted to the Buildings Department. Initially, the contractor should be chiefly responsible for the incident, while WKCDA was examining the party who should ultimately be held responsible under the relevant contracts. WKCDA had reviewed carefully the technologies adopted for the works and acquired experience from the incident. Improvement measures had subsequently been adopted in carrying out works similar to those in Zone 2. The progress of the relevant works had been satisfactory since then.

126. PM(S)/CEDD supplemented that:

- (a) during the incident, water seepage was noticed in the small hours. As remedial measures had been adopted afterwards, works at the construction site of the Lyric Theatre Complex had fully resumed; and
- (b) as the incident had occurred in the small hours, one of the post-incident improvement recommendations was that the contractor was required to set up a 24-hour team to carry out grouting works in a timely manner. The relevant measures had been put in place, and the relevant terms and conditions had also been incorporated in the contracts for works in Zone 2 in order to avoid the recurrence of similar incidents.

Other concerns

127. Mr CHAN Chi-chuen said that while the Government had devoted tremendous resources in developing the hardware of WKCD, it did not provide sufficient support for cultural and arts groups and freelancers under its Anti-epidemic Fund launched amid the recent novel coronavirus epidemic.

128. PSHA replied that under the \$30-billion Anti-epidemic Fund set up by the Government, the Arts and Culture Sector Subsidy Scheme was established to assist arts groups and individual arts workers, including freelance workers. As the Hong Kong Arts Development Council ("HKADC") had information on arts groups, it was believed that subsidies could be offered to arts groups more speedily. However, as HKADC did not have any employment records on freelance workers, the time required for freelance applicants to obtain subsidies might be longer.

129. Dr Helena WONG was concerned whether political screening was exercised in the procurement or collection of exhibits for M+ in WKCD. Dr WONG requested the Administration to provide a list of exhibits procured by M+.

130. PSHA responded that:

- (a) it was an established policy that the Administration would not interfere with the curatorial freedom of WKCD. The exhibits were procured and collected by the professional staff of the Museum. Since the Government was not involved in the procurement process, it was not aware of the curatorial items

of M+ ; and

- (b) all along, M+ had been reporting regularly to its Board on procurement of exhibits. Although three Directors of Bureaux were sitting on the Board of WKCD, the Government was not in a position to, on behalf of M+, reply to members' questions on providing a list of exhibits. Having said that, the Administration would relay the request to M+ to see if a list of exhibits could be provided for members' reference.

[*Post-meeting note:* The supplementary information provided by the Administration was issued to members on 12 May 2020 vide LC Paper No. FC177/19-20(01).]

131. At 6:59 pm, the Chairman directed that the meeting be extended for 15 minutes. At 7:10 pm, the Chairman sought members' views on further extending the meeting for about 10 minutes in order to finish the discussion of and voting on this item. No member raised objection.

Voting on FCR(2019-20)38

132. At 7:15 pm, the Chairman split item FCR(2019-20)38 into three parts for separate voting.

(a) Relocation of supporting operational facilities of Tsim Sha Tsui Fire Station Complex, Fire Services Club and other Fire Services accommodations to To Wah Road, Kowloon

133. The Chairman put this part of the proposal to vote. The Chairman declared that the majority of members present and voting were in favour of this part of the proposal. This part of the proposal was approved.

(b) Infrastructure Works for West Kowloon Cultural District, phase 1

134. The Chairman put this part of the proposal to vote. The Chairman declared that the majority of members present and voting were in favour of this part of the proposal. This part of the proposal was approved.

(c) Integrated Basement for West Kowloon Cultural District – remaining works

135. At 7:16 pm, at the request of members, the Chairman ordered a division. The division bell rang for five minutes. The Chairman

declared that 20 members voted in favour of and 6 members voted against this part of the proposal, with no members abstaining from voting. The votes of individual members were as follows:

For:

Mr Abraham SHEK Lai-him	Mr Tommy CHEUNG Yu-yan
Mr WONG Ting-kwong	Mr Frankie YICK Chi-ming
Mr YIU Si-wing	Mr LEUNG Che-cheung
Ms Alice MAK Mei-kuen	Mr KWOK Wai-keung
Mr Christopher CHEUNG Wah-fung	Dr Helena WONG Pik-wan
Mr IP Kin-yuen	Mr POON Siu-ping
Ir Dr LO Wai-kwok	Mr HO Kai-ming
Mr Holden CHOW Ho-ding	Mr SHIU Ka-fai
Mr CHAN Chun-ying	Mr LUK Chung-hung
Mr Tony TSE Wai-chuen	Ms CHAN Hoi-yan
(20 members)	

Against:

Mr Charles Peter MOK	Mr CHAN Chi-chuen
Mr Dennis KWOK Wing-hang	Mr Alvin YEUNG
Mr SHIU Ka-chun	Dr CHENG Chung-tai
(6 members)	

136. The Chairman declared that this part of the proposal was approved.

137. The meeting ended at 7:21 pm.