

Legislative Council Panel on Development

Initiatives of Development Bureau in the 2008-09 Policy Address and Policy Agenda

INTRODUCTION

The Chief Executive (CE) delivered the 2008-09 Policy Address on 15 October 2008 entitled “Embracing New Challenges”. This is supported by the Policy Agenda Booklet which lists the HKSAR Government’s new and ongoing initiatives. This paper elaborates on those initiatives under the Development Bureau (DEVB).

2. In light of Members’ concern about progress of capital works projects particularly in light of upsurge in construction cost over the past year, we are taking the earliest opportunity to report to Members those approved projects which would require an increase in their approved project estimates (APE) to meet contract price fluctuations allowed for under the contracts or to enable tendered projects to proceed to construction (paragraphs 28 to 32 refer). Subject to Members’ support, this would enable us to submit the funding applications to the first Public Works Subcommittee (PWSC) meeting on 7 November 2008, followed by Finance Committee (FC) meeting on 21 November 2008 to avoid any disruptions to or delay progress of these approved projects.

POLICY ADDRESS AND POLICY AGENDA INITIATIVES

3. The work of DEVB will mainly contribute to the two themes of “Developing the Infrastructure for Economic Growth” and “Quality City And Quality Life”. We will also strive to enhance public governance and improve services to the public. An extract of all new and ongoing initiatives under DEVB as contained in the 2008-09 Policy Agenda Booklet is at **Annex 1**. Major items are highlighted in the paragraphs below.

Infrastructure Development as a Driving Force for Hong Kong's Development

Government Expenditure on Infrastructure Projects

4. Members may recall that when we briefed this Panel on 23 October 2007, the concern was on the low level of Capital Works Programme (CWP) expenditure. We then explained that CWP expenditure started to decline from its peak of \$31.4 billion in 2004-05 because a number of planned large scale projects such as Kai Tak Development, Central-Wan Chai Bypass, and Wan Chai Development Phase II had not commenced as scheduled, as they required more time for completing the statutory procedures and for undertaking the needed preparatory work including public engagement. The actual CWP expenditure in 2007-08 was \$20.5 billion, which was the lowest in the past ten years.

5. To fulfil the CE's pledge of pressing ahead with infrastructure, various works departments under the steer of DEVB have made every effort to expedite the progress of on-going projects as well as implementation of minor works. As a result of these concerted efforts, the spending performance of CWP up to end August 2008 is satisfactory. We now project total spending for 2008-09 to reach about \$23 billion, which is \$1.2 billion more than the original estimate of \$21.8 billion in the 2008-09 Estimates, or 12% more than the spending in 2007-08. While works departments are compiling the estimated cashflow expenditure of the various projects in the coming year for the purpose of the 2009-10 Draft Estimates, we are expecting a larger magnitude in the growth of capital works expenditure in 2009-10.

Progress on Ten Major Infrastructure Projects and Other Major Projects

6. During the past year, the Administration has pressed ahead with the planning of the Ten Major Infrastructure Projects (10 Major Projects) announced by the CE in the 2007-08 Policy Address. Substantial jobs will be created in the construction sector during the construction stage. Among the 10 Major Projects, three of them, namely New Development

Areas, Lok Ma Chau Loop and Kai Tak Development are spearheaded by DEVB. We would like to update Members on these three projects –

(a) New Development Areas

7. We commissioned, in June 2008, “the North East New Territories New Development Areas (NDAs) Planning and Engineering Study”, which will formulate a development plan to guide implementation of the NDAs, namely the three-in-one covering Kwu Tung North, Fanling North and Ping Che/Ta Kwu Ling. The current target is to provide the necessary infrastructure facilities to enable the first population intake to take place in 2019. We will conduct Stage 1 Public Engagement of the Study later this year and we aim to complete the North East New Territories NDA Study by 2011.

8. As regards the other NDA at Hung Shui Kiu (HSK), it is the subject of a preliminary study on broad implications of the planned railway infrastructure under way. The study will provide input to the HSK NDA planning and engineering study, which we plan to commence in mid-2009 and complete by 2012. However, it should be noted that these NDAs are planned for population growth in the next decade and we should allow the planning work to proceed as scheduled, instead of accelerating them simply for the purpose of increasing capital works expenditure.

(b) Lok Ma Chau Loop

9. We have set up a joint task force with the Shenzhen Municipal Government, namely the “Hong Kong-Shenzhen Joint Task Force on Boundary District Development” (JTF), to accelerate studies on the planning and development in respect of the areas in proximity to the boundary. At its meeting held on 18 September 2008, the JTF was briefed on the findings of the public engagement exercise undertaken separately in Hong Kong and Shenzhen in June/July 2008 to collect community views on the possible future land uses for the Lok Ma Chau Loop.

10. As indicated by the CE in the Policy Address, the possible land uses that are supported by respondents in both Hong Kong and Shenzhen are tertiary education, hi-tech R and D and creative industries. On this basis, the two governments will conduct more in-depth discussions with major stakeholders in the coming months, with a view to deciding on the specific land uses and the development model. We will be seeking funding approval from the Legislative Council (LegCo) later this year to embark on a comprehensive planning study around the middle of next year.

(c) Kai Tak Development

11. The Kai Tak Development has entered the implementation stage. Following the decision that the Government will fund the cruise terminal, we have started the preparatory work for the cruise terminal berths and the associated site formation works. We aim to start detailed design and construction of these works in early 2009 and early 2010 respectively. This will enable commissioning of the first berth for cruise vessels by mid-2013. As for the cruise terminal building, we will proceed with its design and construction in parallel to shorten the implementation timetable. We schedule to complete the full-fledged building in early 2015. We understand the Commerce and Economic Development Bureau will separately brief Members on the cruise terminal development.

12. On a separate front, we are finalising the design of the infrastructure to serve the public housing development and the Kai Tak Government Offices. We plan to start construction works on site in mid-2009 for completion in early 2013. Given the size and scale of the Kai Tak Development, DEVB is overseeing its implementation and has drawn up several works packages to ensure smooth and efficient delivery. Following LegCo approval of one works item last year, we intend to seek funding for another five works items at a total cost of some \$2.4 billion in the coming year.

Other Large Scale Projects

13. Apart from the 10 Major Projects, good progress has also been made on the planning of other large scale projects. For instance, we will

proceed jointly with the Shenzhen Government on the Liantang/Heung Yuen Wai boundary control point project, which will bring significant improvements to cross-boundary traffic upon its completion in 2018. We have set up a dedicated working group under the Hong Kong-Shenzhen Joint Task Force on Boundary District Development to oversee the implementation of this project. We will shortly seek LegCo's funding support to commence an investigation and preliminary design study. Other large scale projects under active planning include -

- (i) West Island Line;
- (ii) Harbour Area Treatment Scheme Stage 2A;
- (iii) Various campus improvement projects for the new "3+3+4" academic structure;
- (iv) Central-Wan Chai Bypass and Wan Chai Development Phase 2;
- (v) Widening of Tolo Highway/Fanling Highway between Island House Interchange and Fanling;
- (vi) Sludge Treatment Facilities;
- (vii) Central Kowloon Route;
- (viii) Cross Bay Link and Tseung Kwan O-Lam Tin Tunnel;
- (ix) Replacement and rehabilitation of watermains, stage 4; and
- (x) Expansion of Tai Po Water Treatment Works.

The commencement of these projects will bring CWP spending to higher levels in future years.

Delivery Capability of Construction Industry

14. With the advent of an era of rapidly rising CWP expenditure, we need to assure we have the required delivery capacity. This includes general labour supply in the construction industry, as well as professional and supervisory staff within the Government or supplied through consultants.

15. On labour situation in the construction industry, the unemployment rate is still 6.7% in the most recent quarter (May to July 2008). While the enlarged CWP will provide more job opportunities, we need to look ahead to examine any skills mismatch (e.g. in terms of the types of workers required for the various types of jobs) that may arise and enhance training where needed. We will also have to address other problems such as ageing in the construction work force as well as the

reluctance of the younger generation to join the industry. In this regard, the Construction Industry Council is conducting a study to assess and forecast the supply and demand of construction workers and supervisors / technicians in the coming years. DEVB has commissioned a similar study focusing on construction professionals. Both studies have included consultations with construction industry stakeholders. The results of the studies will be provided to relevant parties including the Development Panel, if necessary, with a view to devising a strategy which best meets our future needs.

16. As regards the delivery capacity of the Government itself, DEVB is assessing the situation. Our preliminary view is that difficulties or delays often happen at the pre-construction stage and there is a need to enhance strategic co-ordination at the higher level so that teething problems can be ironed out speedily and projects can be implemented in the desired time frame to meet the needs of the community. In doing so, we will first look into the possibility of redeployment of existing resources. Should additional resources be required, we will seek approval from the LegCo in accordance with the established mechanism.

Initiatives under “Quality City and Quality Life”

Harbourfront Enhancement

17. Victoria Harbour is an important natural asset shared by all the people of Hong Kong. In response to increasing public aspirations for enhancement of the Harbour for public enjoyment and growing concern over harbourfront development, we will commit additional resources to strengthen our policy on harbourfront planning and implementation of harbourfront enhancement initiatives. Specifically, we will –

- (a) set up a dedicated team in the Planning and Lands Branch to be headed by a Principal Assistant Secretary to handle harbourfront-related planning and land issues;
- (b) open up as much unoccupied government land as possible (including, where appropriate, sites now under short term tenancies) for the development of continuous promenades along the harbourfront;

- (c) identify practical temporary quick-win projects for public enjoyment of the harbourfront as early as possible;
- (d) co-ordinate inter-departmental efforts on harbourfront planning; and
- (e) strengthen engagement of District Councils, the Harbour-front Enhancement Committee and the public in identifying and implementing both long-term as well as short-term harbourfront enhancement projects where appropriate.

Heritage Conservation

18. In the coming years, heritage conservation will continue to be a priority for DEVB. Since the announcement of the new heritage conservation policy and a package of initiatives to promote heritage conservation in the 2007-08 Policy Address, the Government has established the Commissioner for Heritage's Office and made good progress on various fronts.

19. In the Government domain –

- (a) we have already implemented the Heritage Impact Assessment mechanism for all new capital works projects. This will ensure that impact on heritage sites will be avoided or minimised and mitigation measures be devised if impact is unavoidable;
- (b) we have launched the "Revitalising Historic Buildings Through Partnership Scheme". The Scheme aims to provide financial assistance to non-profit-making organisations to put selected historic buildings to adaptive re-use. There was exceptionally good response to the Scheme and 114 applications were received for the first batch of seven government-owned historic buildings. An Advisory Committee on the Revitalisation of Historic Buildings, comprising relevant professionals and experts, has been formed to assess the applications. We expect that the vetting for the first batch of buildings would be completed by the end of the year and we will approach

LegCo for funding under the sum of \$1 billion earmarked by the CE in his 2007-08 Policy Address to implement the successful projects. We are also planning to launch the second batch of buildings for the Scheme;

- (c) we have completed a review on the relationship between the monument declaration system under the Antiquities and Monuments Ordinance (Cap.53) (the Ordinance) and the grading system of the Antiquities Advisory Board (AAB) and are discussing with AAB on the way forward;
- (d) we aim to complete the comprehensive grading of some 1,440 historic buildings by the end of this year and consult the AAB on the results of the review;
- (e) we have, in the past year, declared three historic buildings (Maryknoll Convent School, King Yin Lei and the Green Island Lighthouses Compound) as monuments under the Ordinance for permanent protection. As regards the historic building at 128 Pokfulam Road (Jessville), although we have removed its proposed monument status upon its being accorded a Grade III status by AAB, we are engaging the owners on possible development cum conservation proposals; and
- (f) we have conducted studies on overseas practice in adapting building codes to facilitate adaptive re-use of historic buildings and overseas experience on revitalisation of historic buildings. We will apply this practice and experience in our heritage conservation work as appropriate.

20. In the private domain –

- (a) we have applied the policy on economic incentives to facilitate conservation of privately-owned historic buildings to the first case of King Yin Lei through a non in-situ land exchange arrangement with the owner. The matter is progressing well and subject to completion of the town planning process, the land grant will be effected. Meanwhile, restoration under the supervision of a Mainland expert is under way; and

- (b) we have launched a scheme to provide financial assistance to facilitate maintenance of privately-owned graded historic buildings. Under the scheme, owners receiving financial assistance have to open up the buildings for some public access.

21. With the Commissioner for Heritage's Office serving as a focal point, we have stepped up efforts on public engagement and discussions on various heritage projects. We have launched a publicity and public awareness campaign from January to May 2008 and activities organised included exhibitions, seminars, photo competition, etc. We have also set up a dedicated heritage website (www.heritage.gov.hk) and published a bimonthly newsletter “活化@Heritage” to enhance effective communication with the public at large.

22. In the coming year, we will take forward the following major heritage conservation and revitalisation projects –

- (a) Central School (in the Former Hollywood Road Police Married Quarters Site)

In the past year, we have conducted various studies on the site including its historical significance, development potential and constraints and the ambience of the area. We have launched a public engagement exercise from February to May 2008 and received valuable views on how to put the site to best use. In his Policy Address, the CE has announced that we will remove the site from commercial sale once and for all and will involve the public in finding the best approach to revitalise the site for education and creative industries uses while recognising its historical significance. We intend to launch an expression of interest exercise/open design competition next year to invite private organisations, professionals and prospective operations to submit creative proposals on how best to revitalise the site;

- (b) Central Police Station Compound

Following a six-month public engagement exercise from October 2007 to April 2008 conducted by the Hong Kong Jockey Club (HKJC), the Administration has entered into a

partnership with HKJC to take forward the conservation and revitalisation of the Central Police Station Compound project based on a number of parameters. HKJC is now working with its architects to come up with a revised conceptual design of the proposed new structure which will address the various concerns raised during the public engagement process. The project will need to go through statutory procedures, including those under the Town Planning Ordinance and the Environmental Impact Assessment Ordinance and the public will have opportunities to express their views; and

(c) Commercial usage of historic buildings

We will also explore various options of making best use of historic buildings considered to have good commercial potential. In particular, we are planning to invite Expression of Interest by private operators for the adaptive re-use of Haw Par Mansion. A possibility is to make use of the Mansion for wine-related facilities to help promote the development of wine industry in Hong Kong.

Sustainable Built Environment

23. We are committed to addressing public concerns over building bulk and height on one hand and the benefits of having green and sustainable building features, building design and building standard on the other. The Government departments concerned have reviewed in detail the present arrangements for the provision of green building features as well as the need for a cap on the gross floor area (GFA) concessions granted under the Buildings Ordinance. We have conducted a number of surveys and studies to assess the effectiveness of the existing GFA concessions and to gauge public views on policies on green features. We have also commissioned a consultancy study to advise on sustainable building design features that would enhance the urban living space environment. As the subjects are complex and have wide ranging implications on Hong Kong's built environment, we consider it necessary to engage the public before introducing any changes. We plan to collaborate with the Sustainable Development Council to conduct this public engagement process to identify the preferred options.

Public Open Space in Private Developments

24. In view of recent concerns over the provision, management and operation of public facilities in private developments, particularly open spaces, DEVB is reviewing the policy and examining the implementation issues in the light of public views received. We intend to explore a mechanism under which the location, layout, design and landscaping of public open space would be able to meet the public's aspirations as much as possible, and means for ensuring that the owners' obligations in terms of managing and maintaining such facilities and opening them for public use are fairly and effectively discharged.

25. Meanwhile, to enhance transparency and public accessibility to these public facilities in private developments, DEVB has released a second list of private developments which are required under a land lease or a deed of dedication to provide and manage various public facilities. We will publish updated lists covering earlier or new developments as and when ready.

INCREASES IN APPROVED PROJECTS ESTIMATES

Upsurge in Construction Costs

26. We have witnessed a steady increase in construction material prices since mid-2007. A chart showing the trend of material costs increases is at **Annex 2**. For example, the July 2008 cost index for steel reinforcement has risen 48%, 90% and 150% over the corresponding indices in January 2008, July 2007 and January 2007 respectively (i.e. over the period of ½ year, 1 year and 1½ years).

27. These price increases and general labour cost rises are reflected in tender prices. The tender price index¹ for government building works compiled by the Architectural Services Department for Quarter 2 in 2008 has risen by 14% over the last quarter and 48% over the past 12 months. More or less similar increases are also reflected in the tender price index compiled by the Housing Authority (Quarter 2 in 2008 has risen by 11%

¹ The tender price index is a quarterly index compiled by the Architectural Services Department based on data from accepted tenders.

over the last quarter and 42% over the past 12 months). The trend of increases in tender price index is illustrated at Annex 3.

28. The increases in material prices and labour costs have given rise to two problems: projects under construction which have a price fluctuation provision in the contract would not have adequate funds to meet the price adjustments while the returned tenders for projects under tendering are considerably higher than the APE. We have to tackle these immediately so that construction would not be impeded and contracts could be awarded without delay. The overall situation as of to date is as follows --

- (a) for 25 projects the construction of which has started, the original provision for price adjustment in the APE is inadequate to pay for the increased cost of labour and materials;
- (b) for 8 projects the construction of which has yet to start, the returned tender is much higher than the original estimate and the APE will need to be increased before the projects can proceed to the construction stage; and
- (c) for 2 highly time-critical projects the construction of which has yet to start, works tender will be invited in November 2008 but based on current market trend (i.e. sharp increase in tender price index), the APE will need to be increased before the projects can proceed to construction.

29. As regards 28 (a), the list of the projects is at Annex 4. Under these projects, there are contract provisions for adjustment to contract payments in accordance with movements in the cost of labour and materials in government civil engineering and building contracts. The objective of this provision is for equitable risk sharing between the Government as the employer and the contractor. The contract price fluctuation (CPF) payment is calculated based on the difference between the indices of costs of construction labour and materials at the time of tendering and the current values of these indices at the time of payment in accordance with a predetermined relative proportion for each cost index. As a result of sharp escalation of material prices, the payment for CPF has increased significantly recently. For these 25 projects, the original provision for price adjustment in the APE is inadequate to pay for the increased CPF. Increases in the APE for these 25 projects are required to make up the inadequate provision.

30. A summary of the price adjustment factors for converting project costs from constant prices to Money-of-the-day (MOD) prices as promulgated to the PWSC from March 2000 is at **Annex 5**. The price adjustment factors over the period from April 2001 to March 2004 are mainly negative and will result in negative price adjustments. The price adjustment factors adopted in subsequent periods are very modest and will not be adequate to cope with the rapid rise in the contract price fluctuation payments required. For example, the provision for price adjustment for 6711TH – Route 8 between Tsing Yi and Cheung Sha Wan was -\$123.1 million (i.e. anticipated fall in material prices at the time the project was approved). After the rapid rise in material prices, the latest estimated requirement for CPF payment is \$1.23 billion. We are now proposing an APE increase of \$600 million, and the remainder of the required additional CPF payment will be offset by contingency provision in the project. Another example is 8051MM – Prince of Wales Hospital-Extension Block, the provision for price adjustment allowed in the PWSC paper was \$124.9 million. The latest estimated requirement for CPF payment is \$413.9 million, and therefore an increase of \$288.6 million is required.

31. As regards 28 (b), a list of the projects is at **Annex 6**. There are now a total of seven building projects and one highways project that would require APE increases before the projects can proceed to the construction stage. For these projects, works departments have carefully scrutinised each project in detail, and concluded that against the prevailing market condition, a re-tendering is unlikely to attract any favourable tender that could be accommodated within the APE. Instead, re-tendering will delay the project by at least six to nine months which is highly undesirable. This is particularly so in the case of education facilities needed to meet policy needs or leisure facilities serving local residents such as the Tung Chung Swimming Pool.

32. As regards 28 (c), a list of these projects is at **Annex 7**. Foundation works for these two projects have started and tenders for construction of the main works will be invited in November 2008. Based on latest tender price index and pre-tender estimates, the APE for these two university campus development projects will need to be increased before the projects can proceed to the main construction stage. In view of the urgent need to improve the campus facilities at The University of Hong Kong and The Chinese University of Hong Kong, the Administration supports the institutions' proposal to seek increases in APE in parallel with tender invitation.

33. Subject to Members' views, we propose to submit funding applications to increase the APE for these three groups of projects to the PWSC meeting on 7 November for consideration in order to avoid further delays in the progress of these projects.

34. Looking ahead, the recent financial tsunami may have an impact on construction costs, particularly the prices of materials. We will monitor the situation closely.

CONCLUSION

35. We welcome Members' feedback and pledge to work closely with LegCo in taking forward DEVB's priorities in the coming four years. Members are also invited to comment on the proposal to increase the APEs for three groups of Category A projects. This will enable us to seek PWSC/FC's approval in a timely manner.

Development Bureau
15 October 2008