

**Press Release**

**LCQ22: Public works projects**

Wednesday, June 11, 2014

Following is a question by the Hon Charles Peter Mok and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 11):

Question:

Owing to the huge cost overrun in a number of public works projects (PWPs) in recent years, applications for additional funding need to be made to the Finance Committee (FC) of the Legislative Council. Some members of the public are therefore concerned about the expenditure control of PWPs and the fiscal affordability of the Government. In this connection, will the Government inform this Council:

(1) for each of the past 10 years, (i) of the percentage of the expenditure on capital works projects against the nominal Gross Domestic Product (GDP) and (ii) of the percentage of the total amount of increase in the Approved Project Estimates (APE) of PWPs approved by FC against the original total APE; whether it has calculated the economic benefits generated by those works projects;

(2) of the estimated expenditure on PWPs under planning and expected to be submitted to FC for funding approval in the coming five years, and whether it has made any estimation on the economic and social benefits of those projects;

(3) in view of the cost overrun in a number of PWPs, whether the authorities have put in place a mechanism to review if the various completed works projects have generated the anticipated direct and indirect economic benefits; if they have, of the details;

(4) given that the Government is studying the deceleration of the growth rate of mainland visitors coming to Hong Kong on Individual Visit Scheme and is even considering to reduce their number, whether the authorities will review if the justifications for undertaking various PWPs under planning (e.g. cross-boundary transport infrastructure projects), such as the assumptions for calculating the anticipated economic benefits, are still tenable; if they will, of the details; if not, the reasons for that;

(5) given that the Working Group on Long-Term Fiscal Planning (the Working Group) has earlier recommended the creation of a "Future Fund", and the Secretary for Financial Services and the Treasury has indicated that the Fund should only be used for covering non-recurrent expenditure items such as PWPs relating to housing and land restructuring, whether the authorities have drawn up any timetable for the creation of the Fund and the planning of its operation mode so as to ascertain as early as possible the impact of the Fund on the Government's ability to bear the expenditure incurred by PWPs; whether the Fund will be used to meet the cost overruns of PWPs or provide injections into the Capital Works Reserve Fund; if so, of the details; and

(6) given that the Working Group has pointed out in its report released earlier that "it is not sustainable to allow government expenditure to persistently grow faster than government revenue and nominal GDP", whether the authorities will re-evaluate the urgency, cost-effectiveness, economic benefits and financial viability of various PWPs in order to control the increase in the relevant expenditures; if they will, of the details; if not, the reasons for that?

Reply:

President,

(1) Figures on the percentage of the expenditure on Capital Works Programme against the nominal Gross Domestic Product (GDP) in the past ten years are set out at Annex. In the past ten legislative sessions, despite undergone various economic cycles, only about one tenth of the 600 capital works items with funding approved by the Finance Committee (FC) required an increase in the approved project estimate (APE). The amount of increase is about 3.4% of the \$620 billion total project cost.

Capital Works Programme covers various areas including transportation, environment, health, education, water supply and drainage systems, and is conducive to the development of Hong Kong and enhancement of the quality of living of our community. As not every item is directly related to economic development, statistics on the economic benefits generated by the Capital Works Programme are not available. Nonetheless, the Administration conducts appraisal on economic benefits for capital works items with significant economic value (e.g. Kai Tak cruise terminal development and West Island Line) and includes the

relevant justifications in the Public Works Subcommittee (PWSC) papers.

(2), (3) and (6) We submit to PWSC an overview of capital works items planned for seeking PWSC's approval in the legislative session on a yearly basis, but we do not have a list of the works items to be submitted to the LegCo for funding approval for the coming five years. Pursuant to our established practice, the Government will draw up the relevant plan after taking into account various factors such as works progress, justifications, urgency and cost-effectiveness of the Capital Works Programme projects as well as the Government's financial affordability. Relevant assessments and justifications for taking forward the projects will be set out in the relevant PWSC papers for the consideration of the PWSC and the FC. As regards items applying for increase in APE because of cost overrun, the justifications and the latest progress of the projects will also be set out in the relevant PWSC papers for consideration of the PWSC and FC.

(4) The HKSAR Government is looking into means to adjust the growth in visitor arrivals and the composition of visitors, and will announce the outcome as soon as possible upon liaison with the Central Government and relevant Mainland authorities. Our major premise is to ensure the stable and orderly development of the tourism industry, and at the same time minimise as far as possible the inconvenience caused by the increasing visitor arrivals to local residents, with a view to striking a balance between the impact of the tourism industry on Hong Kong's economy and the livelihood of the community. Besides, when conducting studies or reviews on future capital works projects (such as transport infrastructure), the HKSAR Government will take into account the latest relevant planning data and policies on population and land uses, including known changes in inbound and outbound travellers, so as to estimate and assess the future needs for infrastructure and possible economic benefits and returns (if applicable).

(5) The Working Group on Long-Term Fiscal Planning (the Working Group) released its report on March 3 this year with a comprehensive fiscal sustainability appraisal on our public finances. To cope with the fiscal challenges ahead, the Working Group considers that a multi-pronged approach should be taken. Apart from developing the economy and broadening the revenue base, the Working Group sees the need to contain expenditure growth stringently; separately, the idea of establishing savings scheme can be considered. The concept of the savings scheme is to set aside a portion of the fiscal reserves and surplus for investment so that the provision can be released after a designated period to help relieve the fiscal pressure in the future. The Working Group also recommends that a

pragmatic approach should be to leave the use and modus operandi of the scheme open and just focus on when the amount would be drawn. The Government will carefully examine the recommendations put forward by the Working Group and invite it to provide more detailed and concrete analyses and assessments on some of the recommendations for further consideration. In this connection, the Financial Secretary will ask the Working Group to proceed with the second stage work by further studying the implementation details of the "Future Fund" and putting up concrete proposals.

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