

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Housing Authority

Updated Development Cost and Financial Arrangement for the Tiu Keng Leng Development

PURPOSE

With the updated scope of works for Tiu Keng Leng (TKL) Development approved by the Building Committee and the updated Development Cost ^{Note 1} endorsed by the Finance Committee, this Paper seeks the Housing Authority's (the Authority) approval of

- (a) the updated Development Cost on the Authority's previous commitment to bear the cost for land clearance, formation, servicing, associated infrastructural works as well as reprovision of community facilities related to the TKL Development; and
- (b) the financial arrangement for TKL Development reached with the Government to waive the land costs for HOS-domestic portion and the anticipated amount of Government Non-reimbursable (GNR) Item recoverable through offsetting.

BACKGROUND

2. In November 1989, the Government announced at LegCo that, in view of the heavy investments in the port, airport and the supporting new town, the Tseung Kwan O phase III development would be delayed, part of which was related to the public housing development in TKL. To meet the flat production target under the Long Term Housing Strategy (LTHS), the Authority looked into the possibility of taking on the TKL Development.

Note 1 **Development Cost for TKL Development** refers to Capital Cost ^{Note 2} plus the Project Management Cost ^{Note 3}.

Note 2 **Capital Cost for TKL Development** refers to the Cost for Land Clearance and Associated Works, Site Formation and Infrastructural Works, Construction Cost for the Community Facilities, material testing, site investigation and geotechnical studies related to the TKL Development.

Note 3 **Project Management Cost** is calculated at 12% of the Capital Cost of TKL Development which includes in-house staff costs & overheads, external consultant fees and related site staff costs (Paper No. SPC 45/2000 refers).

At the meeting on 16 November 1989, the Authority approved in principle to meet the site formation and associated infrastructural cost for the TKL Development, subject to detailed arrangement to be agreed with the Government. Papers No. HA 63/89 and HA 68/89 refer.

3. In June 1990, the Government approved the Authority's proposal to take up the TKL Development and proposed the following financial arrangements: the Authority will bear the Capital Cost of land clearance, formation, servicing, associated infrastructural works as well as reprovision of community facilities related to TKL Development. The cost borne by the Authority will not be reimbursable by the Government. The Government will be responsible for the Ex-gratia Allowance (EGA) arising from the clearance of TKL Cottage Area.

4. In September 1990, the Authority and the then Establishment and Finance Committee (EFC) endorsed the Government's proposed financial arrangement, estimated at \$921M (in 1989-90 prices). Papers No. HA 34/90, HA 45/90 and EFC 58/90 refer.

5. Location plan showing the previous TKL Cottage Area and the development sites is attached at **Annex A**. Updated Master Layout of the TKL Development is attached at **Annex B**.

UPDATED SCOPE OF WORKS

6. There was a significant delay in the clearance of the Cottage Area. Until March 1995, LegCo approved the EGA package and since then the TKL Development had been proceeding smoothly in accordance with the approved scope of works. To mitigate the delay, the Department had arranged advanced marine and reclamation works, including entrusted marine works with Territory Development Department and entrusted site formation works with Mass Transit Railways Corporation, to mitigate physical and time constraints to achieve flat production within the LTHS.

7. Besides land clearance, site formation and infrastructural works, the Authority will bear the construction cost for the reprovision of community facilities related to the TKL Development whilst Government will bear the recurrent cost. Over the years, the schedule of these Authority-funded community facilities have been amended, to meet the changes in planning requirements. The updated scope of works and agreed schedule of Authority-funded community facilities for the TKL Development, is detailed in **Annex C**.

8. In August 1999, the Building Committee approved the above updated scope of work for TKL Development. The updated Development Cost was endorsed for submission to the Finance Committee, Paper No. BC 139/99 refers.

UPDATED DEVELOPMENT COST

9. Money-of-the-day (MOD) value of the previous Approved Capital Cost estimated at \$921M (in 1989/90 prices) amounts to \$1,513.43M. Having incorporated the existing ground and slope conditions and the updated community facilities, in particular the adoption of Year 2000 standard school design, the updated Development Cost is at **\$1,984.35M**. It comprises \$1,827.52M for the updated Capital Cost which is \$314.09M (i.e. 20.8%) above the MOD value and \$156.83M for the Project Management Cost. A full breakdown of the detailed work scope and cost comparison is attached at **Annex D**.

10. In July 2000, the Finance Committee endorsed the updated Development Cost for TKL Development and the proposed financial arrangement reached with the Government for TKL Development for approval of the Authority. Paper No. FC 34/2000 refers.

FINANCIAL ARRANGEMENT WITH GOVERNMENT

11. In accordance with the 1988 financial arrangements and reconfirmed in the supplemental agreement reached between the Authority and Government in 1994, the latter will continue to provide formed land and supporting infrastructure facilities for the implementation of approved housing production targets. The method of funding for the TKL Development should thus be regarded as an exceptional arrangement.

12. Notwithstanding the Authority's agreement reached with the Government in 1990 to provide the Capital Cost for TKL Development, the Department wrote to the Government in November 1999 proposing that reimbursement should be made to the Authority of the additional expenditure arising from the delay in the TKL clearance and the adoption of the current Year 2000 standard designs for schools.

13. The Government has considered the request and accepts that the adoption of the Year 2000 standard school design reflected a conscious change in Government's policy. Thus the Government has agreed to treat part of the extra costs attributable solely and exclusively to the adoption of Year 2000 school designs (i.e. excluding extra costs caused by change in school mix or construction programme) as Government Non-reimbursable item which is deductible from HA's Commercial Operating Account.

14. Separately, the Government has also agreed to waive the HOS land cost for the TKL Development. The land development costs have been imposed by the Government on the Authority since 1988 to reflect the cost to Government of forming sites for the Authority to develop housing programmes. Since the TKL site is being formed and paid for by the Authority, the Government has accepted the Authority's argument that, on grounds of equity, the usual formula (35% of the Authority's development costs for HOS flats) should not be applicable.

COST IMPLICATION OF THE FINANCIAL ARRANGEMENT

15. Pursuant to the financial arrangements reached at paragraphs 13 and 14 -

(a) the additional cost attributable solely to the adoption of the Year 2000 standard school design, to be charged to COA, is \$208.10M. This would result in a corresponding reduction in dividend, of which the Government's share is 50%, i.e., \$104.05M; and

(a) the estimated development costs for the HOS domestic portion in TKL Development amounts to \$7,487.35M. The land costs to be waived, calculated at 35% of the development costs, would be \$2,620.57M.

16. The total estimated cost to be waived and offset amounts to **\$2,724.62M**, which is adequate to cover the updated Development Cost for TKL Development.

17. The amount of \$208.10M mentioned in paragraph 15(a) above would be charged to GNR and the site formation cost for the HOS domestic portion at \$592.52M would be charged to cost of sales in lieu of the land cost waived. The residual Development Cost of the TKL Development of \$1,183.73M which would under the current HA policies and arrangements be charged to GNR will now be charged as a special write off to the Consolidated Operating Account and not treated as GNR, i.e. to be 100% HA funded.

PUBLICITY

18. No publicity of this Paper is considered necessary.

RECOMMENDATION

19. Members are recommended to approve -
- (a) the updated Development Cost for TKL Development at **\$1,984.35M** as set out in paragraph 9 above; and
 - (b) the financial arrangements for TKL Development reached with the Government as set out in paragraphs 13 and 14 above.

PRESUMPTION

20. It is not thought that Members will object to the recommendations at paragraph 19 above. If no objection or request for discussion is received by the Committees' Secretary **by noon on 18 October 2000**, Members' approval will be presumed.

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ANNEXES

Annex A - Location Plan of TKL Development

Annex B - Master Layout Plan of TKL Development

Annex C - Updated Scope of Works for TKL Development

Annex D - Detailed breakdown of Updated Development Cost for TKL Development

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