

The Honourable Mrs Carrie Lam Cheng Yuet-Ngor
Chief Executive of the Hong Kong SAR
Chief Executive's Office
2 Tim Mei Avenue, Tamar
Hong Kong

14 May 2020

Dear Chief Executive,

INFRA ACTION PLAN

You will be aware of the importance of the construction sector in relation to employment and the Hong Kong economy. You will also be aware of the severe challenges the sector is currently facing.

In response, this Chamber – in an initiative led by myself and drawing on the considerable expertise and experience in the Chamber's Construction Industry Group and International Infrastructure Forum – has developed the strategy set out in the attached paper. This aims to address these challenges, both in the short and medium term, in a systematic and strategic manner. We also believe the current situation presents a vital opportunity to introduce a number of innovations in the management and procurement of major projects to improve the efficiency and sustainability of their delivery. When emerging from the current difficulties, a simple return to 'business as usual' approaches and practices will not meet the scale of the challenge.

In this, we have conferred with the Australian Chamber of Commerce - whose recent letter to you on this subject we support; and who wish to be associated with this letter.

The strategy proposes an innovative collaboration bringing together Government and private sector to produce an "Infra Action Plan" to procure and deliver major infrastructure projects quickly and efficiently. This would:

- kick-start construction activity following the current economic disruption;
- assist Hong Kong's economic recovery post-COVID-19, contributing to the recovery of employment;
- address demands for critical social, housing and other infrastructure;
- strengthen Hong Kong's broader economic and business competitiveness;
- encourage much needed innovation in the procurement and delivery of major projects.

The Infra Action Plan would bring together the best minds and strongest experience in both Hong Kong and internationally, in a 3-6 month programme to 'workshop' specifically the procurement and delivery of the projects set out in the Schedule to this letter, as well as offering valuable ad hoc assistance to Government, so as to help provide a strong economic legacy for Hong Kong.

We would welcome an early opportunity to discuss this approach with you and relevant Government colleagues.

Yours sincerely,



Peter Burnett

Chairman

The British Chamber of Commerce in Hong Kong

Cc: Mr Paul Chan Mo-po, GBM, GBS, MH, JP, Financial Secretary

Mr Michael Wong Wai-lun, JP, Secretary for Development

Mr Edward Yau Tang-wah, GBS, JP, Secretary for Commerce and Economic Development

Mrs Betty Fung Ching Suk-yeet, JP, Head of Policy Innovation and Co-ordination Office

INFRA ACTION PLAN

Background

The construction industry is of vital importance to the Hong Kong economy, in its contribution to GDP (15%) and employment (8% of the workforce). The industry is however now facing major financial stability and sustainability challenges. The Government's addressing of cash-flow issues faced by both Consultants and Contractors through the Advance Payment arrangements and the Subsidy Scheme for the Construction Sector under the Anti-Epidemic Fund are very much appreciated.

However, the relief provided by these measures is short term in nature. The industry is quite frankly starved of a sufficiently strong flow of infrastructure projects to enable it to maintain and develop its workforce, embrace innovation and develop technology and to invest in Hong Kong.

This is far from being an unfamiliar experience: after the Asian Financial Crisis in 1997 and SARS in 2003, Hong Kong did not see a surge in project procurement until after the Global Financial Crisis – and that surge has now long gone. For a significant period, approved capital spend has not reached the necessary percentage of GDP to enable sustained economic growth. We applaud the recent decision to approve the detailed planning and design of the Tung Chung Line Extension project by MTRC but it is a rare exception against a tough economic background exacerbated by the consequences of the period of social unrest, the coronavirus pandemic and now a global recession. As a Chamber committed to Hong Kong, we are concerned about the consequences for Hong Kong of continued under-procurement of major infrastructure projects.

We believe strongly that the Infra Action Plan will help Hong Kong re-imagine how to plan and deliver infrastructure projects more quickly and with greater certainty of outcome.

The Infra Action Plan

It is likely to be 6 to 9 months before normal economic activity returns. While the Government has put in place a substantial stimulus package to kick start the economy, consultancy / construction must be a key part of that plan.

For such a stimulus to be effective:

- First, there must be a portfolio of critical projects that are “shovel ready” to give an early boost to the stimulus;
- Second, there must be an industry with the capacity and capability to respond; and
- Third, there must be digital technical solutions and commercial strategies embedded that enable more sustainable and productive delivery, unlocking greater value for this investment and for society at large.

Missing any one of these three elements, or not progressing them in a coordinated way, risks undermining the impact of such a stimulus, and of course the ability of industry and Hong Kong to resume its long-term transformation journey.

We recommend therefore the establishment of a Private Sector-Government Partnership Task Force that can work together to prioritise and accelerate projects, develop ways to unlock financial arrangements to pay for these and ensure fair and value-for-money procurement. The British Chamber of Commerce would be delighted to support such an initiative through a combination of our executive team and our members who have long and established records of working to deliver infrastructure projects in Hong Kong.

Capital Works Funding

- Today there remain up to HK\$290 billion of infrastructure works projects in the pipeline to be delivered;
- These projects can be accelerated in a way that allows a sustainable timely pipeline of work to provide steady employment and boost the economy;
- We should distinguish "business as usual" ("BAU") from "strategic" projects (those critical to the long-term economy of Hong Kong) and re-imagine the process to rapidly move through the approval, development and procurement cycle in an expedient way;
- We must move away from the "project-by-project" approval process and move to a yearly project pipeline budget approval for (1) strategic projects and (2) BAU public works department projects;
- We should analyse the approval process and the limits for LegCo funding; and
- Government should influence others e.g. the Hong Kong Jockey Club, MTRC, HKIAA and the private sector to try to bring forward works projects with possible alternative ways of financing major infrastructure projects.
- In this context we note and strongly endorse the Financial Secretary's recent comments about the suitability of bond finance for the next generation of MTR and other infrastructure projects.

Possible solutions that require stakeholder alignment

- The private sector can help by working in partnership with Government to analyse which projects have the greatest near-term benefits to the public, to the economy and those that can be accelerated by modified processes; then place projects in distinct categories:
 - Projects categories:
 - Shovel Ready – Projects where delivery and procurement strategies can be adjusted with phased works or split contracts that could allow an earlier start to construction or different tendering methods to accelerate the project into construction quickly;
 - Development ready – Projects that have been through the development cycle that can be accelerated with parallel delivery processes into the environmental approvals, design, and procurement;
 - Strategic – Projects of high importance and greatest public benefit that can be developed with parallel – not sequential – activities and processes (e.g. environmental assessment running parallel with scheme design and approval) and brought to shovel ready in less than the normal time frame. Environmental and other approval processes need to be looked at in how that can be brought forward and tied into a parallel working process. There is also a need to separate these projects from the annual budgetary cycle. These should be planned and progressed and approvals obtained independently from annual budgets.

In the attached Schedule, we have identified from the current pipeline of projects which have either achieved Finance Committee approval or PWSC approval, those projects which fit within the categories of Shovel Ready, Development Ready and Strategic.

A sustainable industry

Without intervention, there is a continued high risk that the industry will lose significant capacity and capability. The industry has been significantly impacted over the last few years of lack of continuous infrastructure development. Even with the Government's emergency response to COVID-19, jobs are being lost and businesses are at risk. There is a key role for industry to work with Government to deliver the identified accelerated development works across the portfolio. As well as providing revenue for businesses and employment, this activity will help align, de-risk and improve delivery of the critical projects.

By working together in the next 3-6 months we can streamline and accelerate projects to quickly boost the economy while creating a more timely and sustainable way of bringing infrastructure projects to the market with greater certainty of outcome.

There has never been a greater opportunity for the industry and Government to work together to get Hong Kong 'going again'. For our own part, we are ready to commit to workshop with relevant Government bureaus and agencies to develop, refine and carry forward this strategic Infra Action Plan.

SCHEDULE

1. Ready for construction
 - EPD NENT landfill Extension – Funding secured, should be ready for DBO tender
 - DSD Relocation of Sha Tin Sewage Treatment Works to caverns – pending funding approval
 - HA Expansion of United Christian Hospital & Redevelopment of Grantham Hospital, phase 1 – pending funding approval
 - Housing Authority Pokfulam Road and Victoria Road developments

2. Ready for design
 - CEDD Hung Shui Kiu/Ha Tsuen New Development Area Stage 1 &2 works—site formation and engineering infrastructure
 - MTR Tung Chung Line Extension, West Island Line Extension and Northern Line projects
 - EMSD Provision of a District Cooling System for Kwun Tung North New Development Area
 - HyD Tuen Mun Western By-Pass

3. Ready for Study
 - Planning and engineering study on Sunny Bay reclamation
 - Engineering study on Road P1 (Tai Ho–Sunny Bay Section)
 - Planning and engineering study for Lung Kwu Tan reclamation and the re-planning of Tuen Mun West Area

4. Ready for environment study
 - Strategic Environmental Assessment for Hong Kong 2030+
 - Design and construction of a pilot plant in North Lantau Transfer Station for wood waste recycling
 - Upgrading of North Lantau transfer station

5. Strategic importance for HK longer term
 - Hong Kong 2030 + : Towards a Planning Vision and Strategy Transcending 2030
 - Lantau Tomorrow – Artificial Island
 - Study on Existing Profile and Operations of Brownfield Sites in the New Territories
 - Cavern Development
 - Smart City Blueprint (e.g. town planning, smart transport, smart environment, Public-private Partnership, etc.)