

For Information

Legislative Council Panel on Development

Progress Report on the HKSAR's Work in Support of Reconstruction in the Sichuan Earthquake Stricken Areas

Introduction

This paper informs Members of the latest progress of the Hong Kong Special Administrative Region (HKSAR)'s work in support of reconstruction in the Sichuan earthquake stricken areas.

Progress Report of HKSAR's Work in Support of Reconstruction

2. We undertook to submit regular reports to the Legislative Council (LegCo) on the latest progress of the HKSAR's work in support of reconstruction in the Sichuan earthquake stricken areas. To this end, we submitted five progress reports to the Panel on Development at its meetings on 3 February 2009, 18 June 2009, 24 November 2009, 22 June 2010 and 16 December 2010 respectively. We have now prepared the sixth report, which covers the latest progress of the HKSAR's 151 reconstruction projects in three stages, 33 Non-Governmental Organisations (NGOs) reconstruction projects and seven reconstruction projects of the Hong Kong Jockey Club (HKJC), for Members' perusal.

Latest Progress of Projects

3. The Finance Committee (FC) of the LegCo approved injection of a total of HK\$9 billion into the Trust Fund in Support of Reconstruction in the Sichuan Earthquake Stricken Areas (Trust Fund) in July 2008, February and July 2009 to take forward the HKSAR's reconstruction work in three stages. Taking into account HK\$1 billion donation by the HKJC and public donation, the HKSAR committed a total of HK\$10 billion to support reconstruction in Sichuan. The HKSAR Government is directly involved in 151 reconstruction projects, which scatter across 12 earthquake stricken cities (prefectures). According to the latest estimation, the total commitment for these

projects amounts to RMB¥7.503 billion, or around HK\$8.590 billion¹. These projects cover five categories, including 56 education, 35 medical and health, two infrastructure, and 35 social welfare services projects as well as 23 projects for reconstruction in the Wolong Nature Reserve (Wolong). As at end of May 2011, 33 projects have been completed and the remaining 118 projects are under construction, most of which are expected to be completed within this year and the next (the progress of the various stages of the reconstruction work is set out in paragraphs 6-17 below). The Trust Fund approved a total commitment of HK\$270 million to support 33 NGOs projects (see paragraph 18 below), of which 12 hardware projects have been completed. Seven reconstruction projects of the HKJC involve a total commitment of HK\$862 million (see paragraph 19 below).

4. The frequent downpours in Sichuan in July and August last year triggered massive flooding and mudslides. Two infrastructure projects of the HKSAR, i.e. the Provincial Road 303 and the Mian Mao Highway, were devastated and constructed portions were severely damaged. Construction in most sections of the two roads has been grounded to a halt.

5. As far as the Provincial Road 303 is concerned, Governments and experts of both sides conducted site inspections in October last year and agreed after discussion that given the uniqueness and complexity of the project, the design of the road must be revised with a view to increasing its resistance to natural disasters and ensuring its long term safe operation. The Development Bureau (DEVB) participated as observer in the relevant meetings to examine the revised design proposal. During the rainy season this summer, Sichuan plans to conduct a further geological survey to monitor changes along the road alignment and assess risk of mudslide and other natural disasters. This enables Sichuan to suitably refine and optimise the revised design proposal to prepare for resumption of construction this fall. As regards the Mian Mao Highway, the revised technical solution passed the expert technical assessment in January 2011 and has been submitted to the Sichuan Provincial Government. The Sichuan side is pressing ahead with preparatory works, such as site investigation and devising the blueprint.

¹ The paid part was calculated on the basis of the actual exchange rate at the time of remittance, while the unpaid part was calculated on the basis of the exchange rate on 31 May 2011 at HK\$100 for RMB ¥83.33. Unless otherwise specified, the above exchange rate is applied across this note to facilitate comparison. The financial commitment for each project shown in Hong Kong Dollar in Annex 1 to this note may have some discrepancies with that shown in this note. Such discrepancies are due to the difference in exchange rate adopted.

Construction of the Mian Mao Highway is expected to resume this fall after the flood period. The two projects are currently expected to be completed in 2015. The Sichuan Traffic Department estimated a funding shortfall of some RMB¥1.9 billion for the two projects. The Sichuan side plans to meet the funding needs by its own means and has no intention to seek additional funding support from the HKSAR Government.

First Stage Projects

6. The FC approved on 18 July 2008 a sum of HK\$2 billion for injection into the Trust Fund to take forward the first stage of the HKSAR's reconstruction work. On 11 October 2008, the HKSAR and Sichuan signed the "Cooperation Arrangement on the Support of Restoration and Reconstruction in the Sichuan Earthquake Stricken Areas" (the Cooperation Arrangement) to implement the HKSAR's 20 first stage reconstruction projects. They include five education, nine medical and health, four social welfare services, and one infrastructure (Provincial Road 303) projects, as well as one planning project for Wolong.

7. Six first stage projects have been completed and the remaining 14 are under construction. Progress of the projects is tabulated below –

	Under Construction	Completed	Total
Infrastructure	1	-	1
Wolong	-	1	1
Education	2	3	5
Social Welfare Services	4	-	4
Medical and Health	7	2	9
Total	14	6	20
Percentage	70%	30%	100%

8. The commitment by the HKSAR for the 20 first stage projects is HK\$1.872 billion (around RMB¥1.645 billion). Through the funding management mechanism under the Cooperation Arrangement, the Trust

Fund has transferred some HK\$1.713 billion ² (around RMB¥1.507 billion), or 92% of the first stage commitment, to the Dedicated Account for the HKSAR Reconstruction Projects (Dedicated Account) set up under the Sichuan Hong Kong and Macao Affairs Office.

9. Details and progress of the first stage projects are set out in **Annex 1** (in Chinese only).

Second Stage Projects

10. The FC agreed on 20 February 2009 to further inject \$4 billion into the Trust Fund to take forward the HKSAR's second stage reconstruction projects. On 27 March 2009, the HKSAR and Sichuan signed the "Letter of Intent on the HKSAR's Second Stage Work in Support of Restoration and Reconstruction in the Sichuan Earthquake Stricken Areas" to implement 100 second stage reconstruction projects, including 51 education, 20 medical and health, seven social welfare services and 22 Wolong projects.

11. 27 of the second stage projects have been completed and the remaining 73 have entered construction phase. Progress of the projects is tabulated below –

	Under Construction	Completed	Total
Infrastructure	-	-	-
Wolong	22	-	22
Education	32	19	51
Social Welfare Services	3	4	7
Medical and Health	16	4	20
Total	73	27	100
Percentage	73%	27%	100%

12. The HKSAR's commitment for the 100 second stage projects is about HK\$3.840 billion (around RMB¥3.365 billion). Through the funding management mechanism under the Cooperation Arrangement, the

² Calculated on the basis of the actual exchange rate at the time of remittance.

Trust Fund has transferred about HK\$2.893 billion (around RMB¥2.539 billion) to the Sichuan Dedicated Account, representing 75% of the second stage commitment.

13. Details and progress of the second stage projects are set out in **Annex 1**.

Third Stage Projects

14. The FC agreed on 3 July 2009 to top up the Trust Fund by HK\$3 billion to implement third stage reconstruction projects, totaling the Trust Fund to HK\$9 billion. On 6 July 2009, the HKSAR and Sichuan signed the “Letter of Intent on the HKSAR’s Third Stage of Work in Support of Restoration and Reconstruction in Sichuan” to implement third stage reconstruction projects.

15. There are 31 projects in the third stage, including one infrastructure (Mian Mao Highway), six medical and health and 24 social welfare services projects (rehabilitation centres for the disabled). All 31 projects have entered construction phase. Progress of the projects is tabulated below –

	Under Construction	Completed	Total
Infrastructure	1	-	1
Wolong	-	-	-
Education	-	-	-
Social Welfare Services	24	-	24
Medical and Health	6	-	6
Total	31	-	31
Percentage	100%	0%	100%

16. The HKSAR’s commitment for the third stage projects is about HK\$2.878 billion (around RMB¥2.493 billion). The Trust Fund has transferred about HK\$1.296 billion (around RMB¥1.137 billion) to the Dedicated Account, which accounts for about 45% of the third stage commitment.

17. Details and progress of projects in the third stage are set out in **Annex 1**.

Participation of NGOs in the Reconstruction Projects

18. In line with the “Government-led, full community involvement” approach and to marshal support from all strata of the society, the Trust Fund started to invite funding application from NGOs in Hong Kong in mid-October 2008 to participate in reconstruction in the quake-stricken areas of Sichuan. The Trust Fund has approved 33 applications in areas of education, medical services, physiological and psychological rehabilitation, social welfare, training schemes and public facilities etc, comprising both hardware construction and software service provision. The total commitment by the Trust Fund in this regard is about HK\$270 million (see **Part 3 of Annex 1** for details). As at end of this May, 12 hardware projects have been completed. The Trust Fund has ceased inviting new application.

Reconstruction Projects by the Hong Kong Jockey Club

19. The HKJC donated a total of HK\$1 billion (around RMB ¥862 million) to undertake seven reconstruction projects in the Sichuan earthquake stricken areas (see **Annex 2** (in Chinese only) for details). They cover reconstruction of hospitals and donation of medical and rehabilitation equipment; vocational training programmes in post-quake medical, rehabilitation, and reconstruction planning professionals; educational institutes ranging from secondary school, sports academy, vocational institute, to tertiary institute; as well as a nation-wide research centre on disaster management for long-term planning in prevention and relief of natural disasters and rebuild of the economy. The signed cooperation arrangement for the said projects involve a total commitment of about HK\$862 million (around RMB¥743 million). In order to facilitate works planning, monitoring and equipment procurement, the HKJC reserves some HK\$29 million (around RMB¥25 million) to engage consultants in works, and medical and rehabilitation professions. Of the seven reconstruction projects, four are expected to be completed this year. Except for one non-construction project, the remaining two projects are expected to be completed next year. To ensure effective implementation of the projects, apart from the funding reserved for works and equipment, the HKJC will discuss with Sichuan how the remaining funds, if any, should be used for optimising the reconstruction projects and research on emergency responses to natural disasters.

Continue to Press Ahead Reconstruction Projects

20. All the HKSAR reconstruction projects have entered construction phase. The project and funding management mechanisms have been operating smoothly. We will continue to step up our monitoring efforts to ensure the quality of the projects and proper, effective and efficient use of funds.

Project Management

21. According to the Cooperation Arrangement, the post-quake reconstruction work supported by the HKSAR is implemented on a project basis. Sichuan is responsible for coordinating the implementation of the HKSAR reconstruction projects, as well as day-to-day management and supervision. The technical standards should comply with relevant laws and regulations in the Mainland. Proper monitoring mechanism should be in place, including appointment of independent supervision engineers to monitor the implementation of the projects. According to the relevant Mainland laws and regulations, and the individual Project Cooperation Arrangements, the Sichuan construction quality supervision unit should be responsible for project supervision and management. The construction agents, design agents, supervision agents and works agents of the projects should be accountable to the quality of the projects. On the HKSAR side, relevant bureaux/departments organise regular or spot inspections as and when necessary, such as on-site inspections to examine progress, quality and funding use of the projects, to ensure that the projects are implemented according to relevant requirements. The HKSAR Government also engages independent professional consultants to carry out on-site technical audits having regard to the progress of projects. The scope of technical audits covers implementation progress, the use of funds, and quality management. The independent professional consultants will submit to the HKSAR Government reports on relevant observations after the inspections. If any problem is identified, we will refer the problems to the Sichuan side through the established liaison and coordination mechanism and request the latter to follow up and rectify the problems to satisfaction. Problems identified during the inspections are summarised in **Appendix of Annex 1**, all of which are properly addressed by the Sichuan side.

22. The two sides hold an Annual Review Meeting at the beginning of each year to examine the progress, quality, and use of funds of the projects in the preceding year, as well as to devise work plan and assess funding requirements for the following year. We also arrange the Hong Kong Construction Sector 5.12 Reconstruction Joint Conference, formed by the construction sector, to send professionals to Sichuan to inspect the reconstruction projects and take part in completion inspections. The arrangement enables us to obtain independent professional advice.

23. To enhance accountability and monitoring of the HKSAR reconstruction projects, Sichuan has coordination mechanisms in place at provincial, city (prefectural) and county levels to delineate the responsibilities and authorities of the coordination units, responsible units and construction units of the projects. The Sichuan Department of Monitoring and the Department of Audit also monitor and audit the HKSAR reconstruction projects according to relevant national laws and regulations. To strengthen control on the reconstruction projects, the Sichuan side has also promulgated a series of guidelines and codes of practice for various implementation units that elaborate the requirements and procedures for project and funding management. For example, Hong Kong and Sichuan jointly compiled the “Interim Management Arrangement of Change of the Reconstruction Projects of Hong Kong and Macao” and the “Interim Arrangement of the Completion Inspection of the Reconstruction Projects of Hong Kong and Macao”. On completion inspections, both sides have reached consensus on the completion standards and requirements for the HKSAR reconstruction projects. Completion inspections will be carried out according to the “Interim Arrangement of the Completion Inspection of Reconstruction Projects of Hong Kong and Macao”. Representatives of the HKSAR will participate in the completion inspections as observers. We will ensure that projects are handed-over and commenced only when safety and operation standards are met.

24. Under the current progress, it is expected that most of the HKSAR reconstruction projects will be completed within this year and the next. The Provincial Road 303 and Mian Mao Highway and some of the Wolong projects are expected to be completed after 2012, owing to their massive scale, unique nature and complexity.

Funding Management

25. According to the Cooperation Arrangement, funding of the reconstruction projects is managed on a project-by-project basis. The Dedicated Account has been set up by the Sichuan HKMAO to specifically handle HKSAR's reconstruction funds. To ensure the effective use of funds, project units need to submit funding application for approval of the Sichuan HKMAO, having regard to the actual progress of works. Upon approval, the funds may then be transferred from the Dedicated Account to the concerned implementation units at different levels. As detailed in the first and third progress reports submitted in January 2009 and November 2009 respectively, the first instalment of funds was transferred to Sichuan as advance payment to meet the expenditure on pre-construction preparatory works. Subsequent payments will be made in instalments having regard to the actual progress of individual projects. At the Annual Review Meeting, Sichuan and Hong Kong will adjust the work plan and funding requirements after reviewing the progress and latest situation of the projects. The 2010 Annual Review Meeting was held in January this year. The Sichuan Government attaches great importance to the prudent use and audit of funds. In addition to strict adherence to the "Regulations on Post-Wenchuan Earthquake Restoration and Reconstruction", Sichuan also put in place measures such as social monitoring and audit tracking.

26. Regarding monitoring of the use of funds, the Sichuan side reports to the HKSAR Government on the receipt, release and use of funds under the established liaison and coordination mechanism. For the HKSAR Government, the Trustee (i.e. Secretary for Home Affairs Incorporated) (SHAI) shall, under the Secretary for Home Affairs Ordinance (Cap 1044), submit a copy of the SHAI's audited statement of accounts, together with the report by the Director of Audit and a report by the corporation on the administration of the Trust Fund during the period covered by the audited statement of accounts to the LegCo not later than three months after the audited statement of accounts and the report thereon are received by the corporation from the Director of Audit. The Trust Fund's audited annual statement of accounts (as at 31 March 2010) has been completed and was submitted to the LegCo by the Trustee on 15 December 2010.

27. As at end of May this year, the Trust Fund has transferred \$5.902 billion to the Sichuan Dedicated Account for the 151

Government-led projects, which accounts for about 69% of the total commitment. Details are tabulated below –

	HKSAR's funding commitment (HK\$ billion)	Funds released (HK\$ billion)	Percentage of funds released
First Stage	1.872	1.713	92%
Second Stage	3.840	2.893	75%
Third Stage	2.878	1.296	45%
Total	8.590	5.902	69%

Continue to Enhance Communication and Liaison between the two Governments

28. We will continue to enhance communication and liaison with Sichuan through the established three-tier coordination and liaison mechanism. Apart from the High-level meeting co-chaired by the Chief Secretary for Administration (CS) and the Executive Vice-Governor of Sichuan, the mechanism also consists of Coordination Working meetings between the relevant bureaux/departments of both Governments, as well as dedicated project groups meetings.

29. As at end of May 2011, under the above coordination and liaison mechanism, the HKSAR and Sichuan Governments have convened four High-level meetings, seven Coordination Working meetings, 39 dedicated project group meetings and 532 meetings at other working levels. Early this May, CS visited Sichuan and met with the Sichuan top provincial officials to exchange views on the latest position of the HKSAR's reconstruction projects, and to inspect the projects.

30. Apart from representatives from relevant bureaux/departments of the HKSAR Government, non-government officials and experts of the relevant platforms also attended the expert group and working-level meetings as necessary. Representatives of Hong Kong have taken part in 225 inspections (excluding those conducted by independent professional consultants engaged by the HKSAR Government), involving a total of some 1,994 man-days. The inspections basically covered all of the HKSAR reconstruction projects.

Overall Distribution of Commitment to the HKSAR's Reconstruction Support Work

31. Taking into account the total commitment of HK\$9 billion approved by the FC, public donation and the accrued interest of over HK\$40 million (as at end of May 2011), the Trust Fund has accumulated about HK\$9.04 billion. As at end of May 2011, the Trust Fund's commitment for the HKSAR's reconstruction projects in the three stages amounts to HK\$8.590 billion, with an estimated available balance of about HK\$67 million. The breakdown of the commitment is as follows-

Areas		Estimated Expenditure (RMB¥ billion)	Estimated Expenditure (HK\$ billion)
(a)	20 reconstruction projects in the first stage	1.645	1.872
(b)	100 reconstruction projects in the second stage	3.365	3.840
(c)	31 reconstruction projects in the third stage	2.493	2.878
(d)	33 NGO projects	--	0.270
(e)	Staff cost and operating expenditure (including the cost of independent professional consultants engaged by the DEVB)	--	0.113
(f)	Contingency	--	0.067
Total:		--	9.040

Next Steps

32. The HKSAR Government will maintain close communication and liaison with the Sichuan Government to press ahead with the reconstruction projects and to step up monitoring of works and use of funds of the projects. We will submit regular reports to the relevant Panel of the LegCo on the latest progress of the HKSAR's reconstruction

support work and upload those reports to the webpage of the Constitutional and Mainland Affairs Bureau for public perusal.

Constitutional and Mainland Affairs Bureau
Development Bureau
June 2011