

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 regarding the reconstruction support work of the Hong Kong Special Administrative Region (HKSAR) in Sichuan earthquake stricken areas.

Progress Report of the HKSAR's Reconstruction Support Work

2. We have undertaken to submit regular report to the Legislative Council (LegCo) on the latest progress of the HKSAR's reconstruction support work in Sichuan earthquake stricken areas. To this end, we submitted four progress reports to the Panel on Development at its meetings on 3 February 2009, 18 June 2009, 24 November 2009 and 22 June 2010 respectively. We have now prepared the fifth progress report (see **Annex 1** and **Annex 2**), which covers the latest progress of the HKSAR's 151 reconstruction projects in three stages, the 33 reconstruction projects of Non-Government Organisations (NGOs) and the 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 a total amount of \$9 billion for injection 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 support work in the first, second and the third stages. Adding commitment of \$1 billion from the HKJC and public donation, a total of \$10 billion is committed by the HKSAR for the reconstruction support work in Sichuan.

4. There are 184 reconstruction projects (exclusive of the seven projects of the HKJC) directly funded by the HKSAR, 151 of which are led by the HKSAR Government. These 151 reconstruction projects are scattered in 12 earthquake stricken cities (or prefectures). The latest estimated expenditure of these projects is RMB7.503 billion, which is around \$8.566 billion¹. These projects cover five main areas, including education (a total of 56 schools), medical and rehabilitation (a total of 35 hospitals / medical and health projects), infrastructure facilities (a total of two projects), the reconstruction of Wolong Nature Reserve (Wolong) (a total of 23 projects) and social welfare services (a total of 35 projects). As at end of November 2010, there are eight projects completed, 88 projects under construction, and 55 at pre-construction stage. It is anticipated that over 90% of the reconstruction projects led by the HKSAR Government can be completed by end 2011 (the progress of the three stages of the reconstruction work is set out in paragraphs 7 – 18). The expenditure of the 33 reconstruction projects of the NGOs is \$270 million in total (set out in paragraph 19), and that of the seven reconstruction projects of the HKJC is \$862 million (set out in paragraph 20).

5. Heavy rain over Sichuan province in August this year caused serious flooding in many rivers. Nine million people of 20 cities (or prefectures) in the Sichuan province were plunged into misery and over 40,000 civilian buildings were toppled down by the flooding. The rain also triggered large-scale mudslides in Yingxiu City of Wenchuan County and Qingping Village of Mianzhu City. This was another large natural disaster causing serious property loss and casualties after the earthquake in Wenchuan in 2008. The reconstruction work of the two infrastructure facilities, i.e. the Provincial Road 303 and the Mian Mao Highway, which were located at the area hit by the large-scale mudslides, was devastated. The road sub-bases, bridges, tunnels, culverts and retaining walls, which

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 30 November 2010 at HK\$100 for RMB 86.36. 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.

were completed or under construction, were destroyed or submerged/buried due to the floods and mudslides. According to the information provided by the Sichuan side, the loss caused by the destruction of the Provincial Road 303 and the Mian Mao Highway was over RMB100 million each. Representatives from the Development Bureau (DEVB) were sent to Sichuan in September to assess the damage situation of the HKSAR reconstruction projects. They conducted another assessment of the two roads in October together with relevant agents and experts in geology of the Sichuan side and held a concluding meeting to discuss the way forward with the Sichuan Government officials, the construction agents, the design agents, the work agents, and the experts of Sichuan in roads, geology, land resources and hydrology. Both sides agreed that having regard to the strategic value of the two roads and the mounting risk of natural disasters caused by the significant changes in the landform along the two roads, the design of the two roads should be reexamined with a view to ensuring their safe operation in long run by increasing their robustness against disasters. The construction period of the two roads should be reviewed thoroughly and comprehensively, and therefore the completion dates of the two roads would be delayed. The preliminary estimated completion dates of the Provincial Road 303 and the Mian Mao Highway were end 2013 and 2014 or even later respectively. It is also estimated that the construction cost of the roads would increase and the Sichuan Provincial Government indicated that they would coordinate at their end to meet the additional funding needs. To formulate the best option, the Sichuan side is now conducting landform analysis, geological surveys and risk assessments such as those related to mudslide. Representatives of DEVB will participate as observers and provide opinions on the formulation of various options. After the Sichuan side has completed the assessment, both sides will further discuss the follow up actions, including any changes on the technical aspect, construction period and funding arrangement, etc. The Sichuan side is also revising the project plan of the reconstruction of the Wolong Nature Reserve, taking into account the impact of the delay of the Provincial Road 303 project. Details of the impact of the mudslides in August are set out in **Part 1 of Annex 1**.

6. The construction of other HKSAR reconstruction projects (i.e. schools, hospitals, and social welfare and NGO projects) are basically not affected, as they are located outside the area of the heavy rain and the mudslides. Landslides occurred in several work sites. Among them, two reconstruction projects were slightly damaged. The damaged parts of some completed facilities in individual buildings have been repaired.

First Stage Projects

7. On 18 July 2008, the FC approved a sum of \$2 billion for injection into the Trust Fund to take forward the first stage of the HKSAR's reconstruction support work. On 11 October of the same year, the Governments of the HKSAR and Sichuan signed the "Cooperation Arrangement on the Support of Restoration and Reconstruction in the Sichuan Earthquake Stricken Areas" (the Cooperation Arrangement). The Cooperation Arrangement sets out the 20 reconstruction projects supported by the HKSAR in the first stage. The 20 reconstruction projects in the first stage include five school reconstruction projects, nine medical facilities projects, four integrated social services centres, one highway project (the Provincial Road 303) and one project on drawing up of plans in relation to Wolong.

8. All reconstruction projects in the first stage have entered the construction stage, of which four projects, including the "Drawing up of Plans for the Reconstruction of Wolong Nature Reserve" project, the Shuimo Secondary School in Wenchuan County, the First Primary School of Deyang City and the Huashan Road School, have been completed. Progress of the projects is shown in the following table –

	Pre-construction Stage		Construction Stage	Completed	Total
	Designing Stage	Tendering Process			
Infrastructure Facilities	-	-	1	-	1
Wolong	-	-	-	1	1
Education	-	-	2	3	5
Social Welfare Services	-	-	4	-	4
Medical and Rehabilitation	-	-	9	-	9
Total	-	-	16	4	20
Percentage	0%		80%	20%	

9. The estimated expenditure for the 20 projects in the first stage is \$1.874 billion (around RMB 1.645 billion). According to the funding transfer mechanism under the Cooperation Arrangement, the Trust Fund has so far transferred about \$1.612 billion² (around RMB 1.418 billion), which accounts for about 86.1% of the first stage commitment, to the “Dedicated Account for the HKSAR’s Trust Fund in Support of Reconstruction Works” (the Dedicated Account) set up under the Hong Kong and Macao Affairs Office of the Sichuan Government.

10. Details of the content and latest progress of individual reconstruction projects in the first stage are set out in **Annex 1**.

Second Stage Projects

11. The FC agreed to further inject \$4 billion to the Trust Fund at its meeting on 20 February 2009 to take forward the HKSAR’s reconstruction projects in the second stage. On 27 March of the same year, the Governments of 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", which agreed on 100 reconstruction projects, including 51 projects on education, 20 on medical and health services, seven on social welfare services and 22 on the reconstruction of Wolong.

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

12. Of the projects in the second stage, construction of four education projects is completed (inclusive of “Fujiang Road Primary School”, “Xigang School”, “Yilong Secondary School” and “Mianyang Secondary School”). Of the 70 construction-in-progress projects, six of them are pending for completion inspection. In addition, 25 projects are pressing ahead with the tendering process, and one project is at the designing stage. Progress of the projects is shown in the following table –

	Pre-construction Stage		Construction Stage	Completed	Total
	Designing Stage	Tendering Process			
Infrastructure Facilities	-	-	-	-	-
Wolong	1	14	7	-	22
Education	-	9	38	4	51
Social Welfare Services	-	-	7	-	7
Medical and Rehabilitation	-	2	18	-	20
Total	1	25	70	4	100
Percentage	26%		70%	4%	

13. The estimated expenditure for the 100 projects in the second stage is \$3.839 billion (around RMB 3.365 billion). According to the funding transfer mechanism under the Cooperation Arrangement, the Trust Fund has so far transferred about \$2.332 billion (around RMB 2.050 billion), which accounts for about 60.7% of the second stage commitment, to the Dedicated Account of the Sichuan Government.

14. Details of the content and latest progress of individual projects in the second stage are set out in **Annex 1**.

Third Stage Projects

15. The FC subsequently agreed on 3 July 2009 to increase the commitment by \$3 billion to a total of \$9 billion and inject the sum to the Trust Fund to pursue reconstruction support work in the third stage. On 6 July of the same year, the Governments of the HKSAR and Sichuan

signed the “Letter of Intent on the HKSAR’s Third Stage of Work” and agreed on the list of the projects in the third stage.

16. There are 31 projects in the third stage, including one highway project (Mian Mao Highway), six medical and health projects, and 24 county-level rehabilitation services centres for the disabled. Two projects are construction-in-progress and the remaining 29 projects are pressing ahead with the tendering process. Progress of the projects are shown in the following table –

	Pre-construction Stage		Construction Stage	Completed	Total
	Designing Stage	Tendering Process			
Infrastructure Facilities	-	-	1	-	1
Wolong	-	-	-	-	-
Education	-	-	-	-	-
Social Welfare Services	-	24	-	-	24
Medical and Rehabilitation	-	5	1	-	6
Total	-	29	2	-	31
Percentage	94%		6%	0%	

17. The estimated expenditure for the projects in the third stage is \$2.855 billion (around RMB 2.493 billion). The HKSAR Government has so far transferred about \$1.110 billion (around RMB 975 million), which accounts for about 38.9% of the commitment in the third stage, to the Dedicated Account.

18. Details of the content and latest progress of individual projects in the third stage are set out in **Annex 1**.

Applications by Non-Government Organisations in Hong Kong

19. In line with the "Government-led, full community involvement" approach and to consolidate efforts by all sectors of the community, the Trust Fund has invited funding applications from NGOs in Hong Kong since mid-October 2008 for undertaking reconstruction projects in the

quake-stricken areas of Sichuan. The Fund has approved 33³ applications in areas of education, medical services, physical and psychological rehabilitation, social welfare, training schemes and social services facilities etc, covering both hardware construction, as well as software services. The amount of grant involved is about \$270 million. (please refer to **Part 3 of Annex 1** for details). No residual funds are available in the Trust Fund which has therefore ceased inviting new applications.

Reconstruction Projects by the Hong Kong Jockey Club

20. The HKJC has undertaken seven reconstruction projects in Sichuan earthquake stricken areas, all of which have been implemented as scheduled and are in good progress (please refer to **Annex 2** for details). The HKJC has committed a total of \$1 billion (around RMB 862 million) in support of the reconstruction work in Sichuan. For the long term planning of disaster prevention and economy rebuilding, the reconstruction projects cover a wide range of area including hospitals, donation of medical and rehabilitation equipments, vocation training in medical, rehabilitation and reconstruction planning, construction of educational facilities including secondary schools, physical education schools, vocational institutes and tertiary schools, and setting up research centre of country-level disasters. The total expenditure of the signed Cooperation Arrangement is about \$862 million (around RMB 743 million). In order to facilitate work planning, monitoring and equipment assessment, the HKJC reserves \$29 million (around RMB 25 million) for hiring consultancies of works and medical rehabilitation. Of the seven confirmed reconstruction projects, the construction of a school is completed and the school is already in use, three projects are under construction. The HKJC has asked the Sichuan side to press ahead implement all construction work of and procurement of equipment for the

³ The Governments of HKSAR and Sichuan aligned the counting method of the approved NGO projects of the HKSAR at end May 2010. The three stages of the Sichuan-Hong Kong Rehabilitation Training and Development Centre taken forward by the “Standtall” project of the Chinese Speaking Orthopedic Society are counted as one single project. The medical projects under the “512 Disaster Relief” taken forward by the “Origin Charity Foundation Limited” includes two health centres at different locations and are therefore counted as two separate projects. There are 33 approved projects in total.

remaining projects as agreed as soon as possible with a view to completing all projects by end 2011. Apart from the funding reserved for works and equipment, the HKJC will further discuss with the Sichuan Government how the remaining funds, if any, should be used on optimising the reconstruction projects and researches on emergency responses to disasters.

Continue to Press Ahead the Progress of Reconstruction Support Projects

21. The HKSAR's post-quake reconstruction work in Sichuan has been proceeding smoothly; and project funds are being released in accordance with the progress of work. We will focus our efforts more on the management and monitoring of the projects, as well as the completion inspection, so as to ensure the quality of the HKSAR's reconstruction work and the proper, effective and efficient use of the HKSAR's support funds.

Project Management

22. The HKSAR's reconstruction support projects are executed by the Sichuan Government in accordance with the laws and regulations in the Mainland. According to the Cooperation Arrangement and the Project Cooperation Agreements (PCAs) signed for individual projects, the HKSAR's reconstruction support projects are subject to the monitoring of the Department of Monitoring, the Department of Audit of the Sichuan Government, as well as independent supervision engineers appointed by project owners. Before the annual assessments and meetings held at the beginning of every year, representatives of the Governments of the HKSAR and Sichuan inspect the progress and quality of the reconstruction projects on sites. Representatives from relevant bureaux/departments of the HKSAR Government and independent professional consultants engaged by the HKSAR Government will also conduct independent site inspections, and advise on project implementation. According to the observation of the relevant bureaux/departments of the HKSAR Government and the independent

professional consultants, no major problems in the implementation of projects have been identified on the part of the construction agents in Sichuan. For some technical problems, they have been properly followed up and rectified through the existing liaison and coordination channels of Governments of both sides. Please refer to **Part 1 of Annex 1** for details on the HKSAR's project management and supervision work, including site technical audit on quality and safety aspects.

23. The Sichuan Government attaches great importance to the monitoring of reconstruction projects and has issued a series of regulatory documents and guidelines on construction works, funding and management to enhance the monitoring of the reconstruction projects and clearly specify the mode of work, the accountability and responsibilities. At the same time, the Sichuan side has also enhanced the internal mechanism on accountability and monitoring. Coordination mechanisms at provincial, city (or prefecture) and county levels have been established to clearly define the management of project implementation and supervisory responsibilities; and relevant parties have also been tasked to follow up immediately with comments raised by the HKSAR regarding the quality and safety issues of the works. The Sichuan side will also provide information on the progress and quality of projects, including reports prepared by the independent supervision engineers, to the HKSAR Government.

24. Given the forthcoming completion of the reconstruction projects, there is a need to regulate the completion inspection regarding its preparation, standards and procedures, etc. In this regard, the Sichuan side has drawn up the "Temporary Arrangement of the Completion Inspection of the Reconstruction Projects of Hong Kong and Macao" (Temporary Arrangement). The project construction agents of Sichuan will conduct completion inspection in accordance with the legal procedures and representatives of the HKSAR will also be invited to participate as observers.

25. With reference to the current implementation progress, we anticipate that around 90% of the HKSAR reconstruction projects would be completed by end 2011. Being affected by the disaster, and due to the scale, complexity and constraints of geographical locations of some of the projects, including the two infrastructure projects, two medical projects and six projects in Wolong, we anticipate these projects would be completed in 2012 or thereafter.

Funding Management

26. According to the prevailing arrangement, the HKSAR's reconstruction support work, including funding management, is undertaken on a project basis. The HKSAR Government will transfer funds from the Trust Fund to the Dedicated Account set up by the Sichuan Government for handling the funds for the HKSAR's reconstruction support projects with reference to the relevant PCAs which state the anticipated project milestones and arrangement for payment of funds by instalments. The Dedicated Account is subject to monitoring and audit by the Sichuan Government. The project funds are used only for their intended purposes and are transferred directly from the Dedicated Account to the construction agents responsible for the projects at the provincial level, or transferred to the dedicated accounts set up by the governments of cities (or prefectures) or counties where the projects are implemented, to effect payment to the local construction agents in accordance with the actual progress. As detailed in the first and third progress reports we submitted in January 2009 and November 2009 respectively, the first instalment is paid out in the form of advance payment and subsequent payments will be made having regard to the actual progress of individual projects. During annual assessment, both Sichuan and Hong Kong will adjust the schedule of milestones and amount of the required funds having regard to the works progress and latest situation of the projects. The annual assessment of 2010 will be conducted in early 2011.

27. Regarding the supervision of the use of project 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 Incorporation 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 SHAI's audited statement of accounts will incorporate the Trust Fund's audited statement of accounts. The Trust Fund's first audited statement of accounts (as at 31 March 2010) has been completed and has submitted to the LegCo according to the legal requirement above on 15 December 2010.

28. As stated in the information submitted to the LegCo on 11 October 2008, the HKSAR Government has formulated guidelines on the funding application of NGOs, stipulating the audit requirements of the funding. Having regard the actual situation and to streamline the audit work, we have further explained to the funded NGOs that the Department of Audit of Sichuan will audit the part of funds transferred to the Dedicated Account of the NGOs under the Sichuan Provincial Government and the relevant expenses in accordance with the relevant laws and regulations of the Mainland. As regards the part of funds and the relevant expenses of the Dedicated Account of the NGOs in the HKSAR, the NGOs concerned should entrust independent certified public accountants in Hong Kong to audit the annual account.

29. The Governments of the HKSAR and Sichuan have signed PCAs for all the 151 reconstruction projects in three stages and have initiated the corresponding payment arrangement. The Fund has so far transferred \$5.053 billion to Sichuan's Dedicated Account, which is about 59.0% of the estimated expenditure of the reconstruction projects of the

three stages. The above transfer mechanism has been operating smoothly. Both Governments will maintain close liaison and will continue to follow up in accordance with the established procedures.

Continue to Enhancing Communication and Liaison between the two Governments

30. Sichuan and Hong Kong sides have established a three-tier coordination mechanism in enhancing communication and contacts between relevant departments of both places. Apart from the High-level meeting co-chaired by the Chief Secretary for Administration of the HKSAR Government and the Executive Vice-Governor of the Sichuan Government, the coordination mechanism also includes Coordination Group meetings between the relevant bureaux/departments of both Governments, as well as dedicated project groups.

31. As at 30 November 2010, under the established liaison mechanism, the HKSAR and Sichuan Governments have held three High-level Meetings, six Coordination Group meetings, 31 dedicated project group meetings and 435 meetings at other working levels. In July this year, the Chief Executive visited Sichuan to inspect the reconstruction projects of the HKSAR and exchange views on the relevant issues with the Sichuan Provincial Government.

32. Apart from representatives from relevant bureaux/departments of the HKSAR Government, non-government officials and experts of the relevant platforms have also attended the expert group and working-level meetings as necessary. During the period, representatives of Hong Kong have taken part in 150 inspections (excluding those conducted by independent professional consultants engaged by the HKSAR Government), involving a total of some 1,516 man-days. These inspections basically covered all projects supported by the HKSAR.

33. The Sichuan delegation led by the Executive Vice-Governor of the Sichuan Government visited Hong Kong in early December this year. During the visit, the delegation organised an interflow meeting to enhance

the mutual understanding between the relevant HKSAR Government bureaux and departments, NGOs and the public regarding their work. The delegation also paid visit to the Planning Department and ICAC. These visits have helped enhance the supervision and management of reconstruction support work.

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

34. The total commitment of \$9 billion approved by the FC, together with \$26 million public donation and the accumulated interested received (as at 30 November 2010), the Trust Fund has accumulated about \$9.026 billion. As at 30 November 2010, the Trust Fund's commitment for the HKSAR's reconstruction projects in the three stages is about \$8.566 billion, leaving a residual balance of about \$77 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	3.839
(c)	31 reconstruction projects in the third stage	2.493	2.855
(d)	34 approved NGO projects	---	0.270
(e)	Staff cost and operating expenditure (including the cost of independent professional consultants engaged by the Development Bureau)	---	0.113
(f)	Contingency	---	0.077
	Total:	---	9.026

Next Steps

35. The HKSAR Government will maintain close communication and liaison with the Sichuan Government with a view to pressing ahead continually with the reconstruction support work and monitoring the construction works and the use of funds. 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
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