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29 January 2014

To: Chairman and Members of the Public Works Subcommittee

Dear Chairman and Members,

**PWSC(2013-14)28 –
New Broadcasting House of Radio Television Hong Kong**

The Public Works Subcommittee (PWSC) discussed the New Broadcasting House (New BH) project of Radio Television Hong Kong (RTHK) at its meetings held on 18 December 2013 and 3 January 2014. At the above two meetings, the Administration submitted two papers and addressed Members' concerns in detail. In addition, we have arranged separate meetings with Members to provide further detailed explanations so that Members would have a better understanding of the New BH project and also to address Members' concerns.

The Government decided in September 2009 that RTHK would be tasked to take up the mission as the public service broadcaster in Hong Kong and should expand its scope of services. We would like to reiterate that the Government conducted a comprehensive public engagement exercise on the expanded scope of services of RTHK from October 2009 to January 2010. After confirming public support, the expanded scope of services was incorporated into the RTHK Charter. The scale of, and the facilities required for, the New BH are proposed on the basis of the operational requirements arising from the new services which received public support during the extensive public consultation mentioned above. On the basis of RTHK's new missions and expanded scope of services, we have taken forward the planning of the New

Broadcasting House project in a progressive and a step-by-step manner. During the process, we have strictly complied with the established practice to ensure that the project will be commensurate with the requirements of the above-mentioned new services and is implemented in a cost-effective manner. In 2011, taking into account RTHK's new operational requirements, the Architectural Services Department (ArchSD) completed a technical feasibility study and later invited tender for the project through a design-and-build procurement method based on the findings of the study. The current project estimate, which is based on the new requirements and after making reference to the tender results received as well as provision for price adjustments, is considered a fair market price.

We are aware that while Members generally support the construction of the New BH in principle, they raised concerns over the high project estimate and urged the Administration to reduce the project estimate. Although the cost estimate of the New BH project is considered a fair market price derived from the established tendering procedure as we explained above, the Administration has endeavored to explore different feasible options to address Members' concern in order to secure their support for the project. Having examined in detail the circumstances of the project by the relevant departments and on condition that there will not be a re-tender which will delay the project implementation, we have suitably revised the cost estimate of some items and reduced the project estimate from the original \$6,055.6 million to \$5,303.2 million (in money-of-day prices), representing a reduction of \$752.4 million (or about 12%) after detailed examination of the circumstances of the project by the relevant departments; in September 2013 prices, the project estimate has been revised from \$5,006.2 million to \$4,399.0 million, representing a reduction of \$607.2 million (or about 12%).

Without conducting a re-tender, the above reduction in project estimate is now the maximum reduction that the Administration could achieve. In the past week, we have arranged another round of meetings

with Members to explain details of the reduction in project estimate, address the concerns they had previously raised, and lobby for the passage of the project. However, a majority of the PWSC Members had clearly indicated that they would not support the funding application even with the above reduction in project estimate and urged the Administration to further reduce the scope and/or cost estimate. This is regrettable and the Administration is very disappointed with this development. Having regard to the latest voting inclination of Members and the circumstances of the project, we do not consider that the PWSC (or Finance Committee) will support the passage of the project. Therefore, we have decided not to re-submit the revised funding application to the PWSC for discussion at this stage.

During the discussion of the project, we notice that some Members still have some misunderstanding about the project and would like to take this opportunity to make further clarifications -

- (a) as explained above, the scale of, and the facilities required for, the New BH are proposed on the basis of the operational requirements arising from the new services which received public support during extensive public consultation. The cost estimate is considered a fair market price which is arrived at by making reference to the tender prices received. In addition, given the project has not yet commenced, we wish to reiterate that there is no question of any cost overrun;
- (b) for the facilities and equipment of the New BH, they are in no way close to extravagant or wasteful. These facilities and equipment are the basic requirements for meeting RTHK's operational needs to provide its existing services and implement new services. They only comply with the technical requirements under both local and international standards and are comparable to those used by other industry players. When procuring the facilities, RTHK only sets out technical requirements in its tender documents or invitations for quotations. No brands, models or suppliers will be

specified in the documents;

- (c) regarding broadcasting facilities, some Members queried why RTHK is still required to retain the analogue AM/FM channels and provide the associated radio continuity studios in the New BH after the launch of digital audio broadcasting (DAB) service. We would like to clarify that when implementing the DAB, the Administration has clearly stated that in line with international practices, the Administration has no plan for switching off analogue AM and FM services (including the analogue AM/FM channels of RTHK). In fact, the listening public in advanced overseas jurisdictions generally regards DAB as a supplement to, rather than a replacement of existing analogue AM/FM services. In other words, the retention of the analogue radio services and the associated facilities is necessary under the existing policy and should not be regarded as “wasteful”;
- (d) some Members also have misunderstanding about the number of television (TV) studios in the New BH and considered it unnecessary for RTHK to be provided with over 10 TV studios. We would like to clarify that with the commissioning of the New BH, the total number of RTHK’s TV studios is not over 10 but will just increase by one, from four to five. To meet the production requirement arising from the launch of new DTT channels, the TV production level of RTHK will substantially increase from the existing some 700 hours to over 1,300 hours. Hence, the increase of one additional TV studio to meet the production requirements already represents the minimum requirement and is considered reasonable; and
- (e) individual media and Members misunderstood that the construction unit cost of the New BH is higher than other government projects and projects in the private sector. We would like to reiterate again that, following the established practice of submitting the funding applications of government capital works projects to the Finance

Committee and Public Works Subcommittee for consideration, the construction unit cost provided in the PWSC Paper for this project is represented by two components, namely the **building cost** and **building services cost**. This is because the cost of other components including site works, piling works, drainage works and external works are directly affected by the topography, geology as well as developments and facilities in the vicinity, the relative weighting of these costs to the total costs varies considerably across different projects. Hence, the Administration will not normally include these costs when making comparisons on the basis of construction unit cost. In addition, given that the construction cost varies with time, it is necessary to adjust the unit cost to the same price level when comparing the unit cost of projects undertaken in different periods. In fact, the estimated construction unit cost of the New BH Project is about \$36,400 per m² of construction floor area in September 2013 prices. If compared with the major design and build projects undertaken by the ArchSD and office developments in the private sector in recent years, the construction unit cost of the New BH is also within reasonable level.

On the way forward, we will work with RTHK and ArchSD as soon as possible with a view to addressing Members' concern over the project. Upon examination of the circumstances, we will conduct re-tendering and re-submit the proposal to the LegCo for vetting. We hope that Members will support the project then. However, we would like to emphasise that a re-tender will result in the project being delayed for at least two years. In addition, depending on the magnitude of the increase in construction cost, the delay may lead to a further increase in project estimate after the re-tendering. We doubt whether re-tendering the project is a better way of ensuring the principle of prudent use of public money than taking forward the project with the reduced project estimate as mentioned above. We are very disappointed that while we have repeatedly explained the above to the Members, they still found it difficult to support the project. We envisage that there will be

corresponding delay in the commencement of RTHK's new services owing to the delay in the New BH project. On the other hand, there will also be resource implications because of the need for us to continue to maintain the existing facilities of RTHK at the necessary service level.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'GS', written in a cursive style.

(Greg So)

Secretary for Commerce and Economic Development

c.c. Chairman, Panel on Information Technology and Broadcasting
Clerk to Public Works Subcommittee
Secretary for Financial Services and the Treasury
Director of Broadcasting
Director of Architectural Services