

LEGISLATIVE COUNCIL BRIEF

KWU TUNG STATION FINANCIAL ARRANGEMENT

INTRODUCTION

At the meeting of the Executive Council on 5 September 2023, the Executive Council ADVISED and the Chief Executive ORDERED that approval should be given to grant the MTR Corporation Limited (MTRCL) the property development rights of Areas 20, 22 and 25 of the Kwu Tung North New Development Area (KTN NDA) (collectively referred to as “the Sites”) and deduct a fixed lump sum from the full market value (FMV) land premium of the Sites assessed on a “with-railway” basis as funding support to MTRCL for bridging the funding gap to implement the Kwu Tung (KTU) Station. The funding support would also cover the cost of the detailed planning and design and some advance works for the Northern Link (NOL) Main Line.

THE PROJECT

2. The NOL is one of the seven recommended railway schemes in the Railway Development Strategy 2014 (RDS-2014) announced in September 2014. The NOL project comprises the construction of the KTU Station and construction of a 10.7-kilometre long Main Line running between the existing Kam Sheung Road Station of Tuen Ma Line and the KTU Station. Taking into account the development programme along the NOL, the construction of the KTU Station on the existing Lok Ma Chau Spur Line (LMCSL) of East Rail Line will first commence, to be followed by that of the Main Line with three intermediate stations at San Tin, Ngau Tam Mei and Au Tau.

3. The primary function of the KTU Station is to serve the transport need of the proposed KTN NDA which, upon full development, will accommodate a total of 131 600 population and 38 700 jobs. The key design concept of KTN NDA is to promote railway-based public transport development by clustering the majority of population within 500 metres of the KTU Station. Without the KTU Station, the residents in KTN NDA would have to travel to Sheung Shui Station by road-based feeder services. The road journey from KTN NDA to Sheung Shui Station now takes about 15 minutes during rush hour. The same journey by railway is expected to be approximately 3 minutes. The KTU Station will offer an alternative transport choice to the residents in the vicinity and divert more commuters to rail-based transport, which may help relieve the congestion of existing roads, thus bringing significant transport benefits by reducing

the travelling time. The main construction works of the KTU Station will start in the third quarter of 2023 for completion in 2027. Meanwhile, MTRCL has already commenced some advance works to ensure timely commissioning of the KTU Station.

4. The KTU Station will be an ownership project under the terms of the Operating Agreement between the Government and MTRCL signed in 2007 at the time of the rail merger. Under the ownership approach, MTRCL will be responsible for the financing, design, construction, operation and maintenance of the KTU Station and will own it.

5. The railway scheme of the KTU Station was gazetted under the Railways Ordinance (Cap. 519) on 14 April 2022. All objections received had been handled according to the stipulated requirements and the scheme was authorised by the Secretary of Transport and Logistics under the Railways Ordinance on 4 November 2022.

6. In 2021, we briefed the Subcommittee on Matters Relating to Railways of the LegCo Panel on Transport that the then estimated capital cost for KTU Station was about \$3.5 billion (in December 2015 prices). The KTU Station project would not be financially viable to MTRCL by virtue of the incremental fare and non-fare revenues alone estimated to be generated by the project from the scheduled commissioning date in 2027 to the end of the franchise in 2057.

7. Upon completion of the preliminary design, MTRCL updated the estimated capital cost and other project financial estimates in January 2023. The Government commissioned an independent checking consultant (ICC) to check the estimated project costs and incremental revenues of the KTU Station prepared by MTRCL with reference to the actual expenditures of recent railway projects and prevailing market trends. Based on the checking completed by the ICC in June 2023, the capital cost of the KTU Station project was estimated to be \$9.8 billion (in July 2023 prices), which included an approximately \$3.9 billion (in July 2023 prices) for the cost of the detailed planning and design and some advance works of the NOL Main Line in order to further secure and expedite the construction programme of NOL Main Line. The economic rate of return of KTU Station was estimated to be 6.5%.

Financial Arrangement

8. Similar to the Rail-plus-Property (R+P) model adopted for the Tung Chung Line Extension project, funding support to bridge the funding gap of the KTU Station would take the form of a fixed lump sum amount to be deducted from the FMV land premium of the Sites. The fixed lump sum amount has been agreed with MTRCL to be \$15,160.39 million (in money-of-the-day prices) in total, and the FMV land premium (from which the fixed lump sum amount would be deducted) would be assessed on a “with-railway” basis nearer the time of execution of land grant initiated by

MTRCL. This provides sufficient funding support and certainty to MTRCL for taking forward the railway project.

9. The Sites are located in vicinity to the proposed KTU Station as shown at **Annex**, with an area of about 4.7 hectares, and are within the Remaining Phase development of KTN NDA to be formed by the Civil Engineering and Development Department. The FMV land premium of the Sites will be assessed based on the prevailing market condition at the date of valuation. The fixed lump sum amount will be deducted from the FMV land premium of the Sites.

10. In addition to the ICC's assessment, independent surveying firms have been engaged via the ICC to provide estimates of the FMV land premium of the Sites. Based on the land premium valuation^[1] provided by the ICC and the independent surveying firms in June 2023^[2], the FMV land premium of the Sites would be sufficient for providing the funding support for the KTU Station, the cost of the detailed planning and design and advance works for the NOL Main Line. MTRCL is required to pay land premium (i.e. the FMV land premium less the fixed lump sum amount) to the Government for the development of the Sites. In the unlikely event that the FMV land premium is insufficient to cover the fixed lump sum amount, MTRCL will absorb the shortfall in the funding support.

11. We consider the funding support to be provided to MTRCL for constructing the KTU Station and to cover the cost of detailed planning and design and advance works for the NOL Main Line sufficient and reasonable, with the deduction of a fixed lump sum amount from the FMV land premium payable for the Sites. MTRCL has conducted its own separate assessment on the business case of developing the KTU Station with the Sites under the R+P model and is prepared to implement the KTU Station and continue the detailed planning and design and advance works for the NOL Main Line in full swing. MTRCL would bear all the associated commercial risks arising from market fluctuations and rail operations for the KTU Station.

IMPLICATIONS

12. The financial and civil service, economic, environmental, sustainability and family implications are as follows –

- (a) The funding gap of KTU would be bridged by land premium deductions through granting the property development rights of the Sites to MTRCL at FMV land premium on a “with-railway”

Note ^[1] The valuations by the ICC and the independent surveying firms were all conducted according to the Valuation Standards on Properties published by Hong Kong Institute of Surveyors and other relevant statutory regulations.

Note ^[2] The assessments were conducted based on present market conditions, as well as the alternative scenario with assumptions on projected market conditions.

basis. Additional civil service posts have been secured for the departments concerned to take forward the KTU Station;

- (b) The KTU Station will be a new station on the existing LMCSL of the East Rail Line. The LMCSL is a designated project under the Environmental Impact Assessment (EIA) Ordinance (Cap. 499), and the EIA report for the LMCSL was approved in 2002 with an environmental permit (EP) issued to MTRCL. Variation of EP was issued in 2021 under the EIA Ordinance for the construction and operation of KTU Station. MTRCL will implement all recommended mitigation measures and environmental monitoring and audit programme recommended in the approved EIA report and comply with the conditions in the EP as well as other statutory requirements for environmental protection.
- (c) The financial arrangement mentioned above would help make the KTU Station financially viable. The KTU Station, upon completion, will improve the connectivity and accessibility of the KTN NDA, thereby helping unleash the full development potential of the area. The KTU Station as part of the NOL project would also help strengthen the railway as the backbone of the public transport system in Hong Kong.
- (d) The KTU Station as part of NOL should help improve mobility and air quality in the long term through enabling more commuters to switch from road to rail transport. Suitable mitigation measures will be implemented to alleviate any environmental impacts during the construction and operation stage. The concerns and views of the public, in particular those from various stakeholders, will be handled with care.
- (e) The proposed KTU Station would facilitate residential development opportunities nearby. An increase in housing supply, generally speaking, will have positive family implications in the sense that more affordable housing may provide incentives to couples to get married and to give birth to, foster or adopt children. Without the KTU Station, the residents in KTN NDA intending to use East Rail Line are expected to travel to Sheung Shui Station by road-based feeder services. The road journey from KTN NDA to Sheung Shui Station now takes about 15 minutes during rush hour. The same journey by railway is expected to be 3 minutes approximately. The KTU Station will thus reduce the travelling time for residents of KTN NDA, thereby increasing, albeit marginally the time that family members can spend together, and enhancing families' ability to balance paid work and family life, as well as networking with the community. In addition, the provision of railway services may provide a more accessible transportation for family members

with special needs and facilitate families in taking care for them.

PUBLIC CONSULTATION

13. The Government and MTRCL have carried out consultation on the KTU Station in the past few years. Before the commencement of construction works, MTRCL will set up community liaison groups to enable direct dialogue with the local community including affected owners and residents and to handle enquiries and complaints.

PUBLICITY

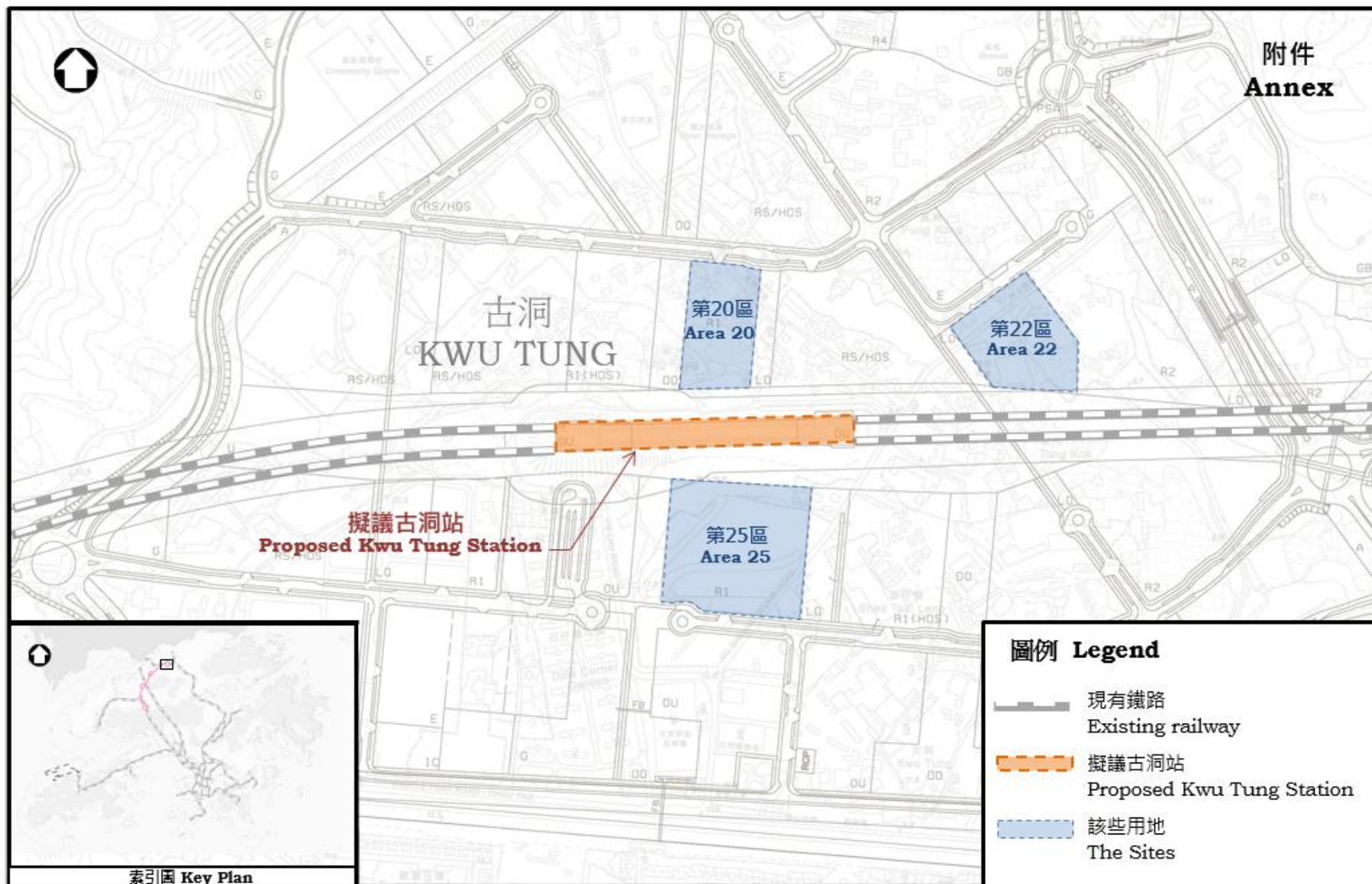
14. A press release will be issued and the Subcommittee on Matters Relating to Railways of the LegCo Panel on Transport will be briefed.

ENQUIRIES

15. For enquiries on this brief, please contact Mr. Kirk YIP, Principal Assistant Secretary for Transport and Logistics 3, at 3509 8163.

September 2023

Transport and Logistics Bureau



古洞北第20、22及25區用地位置圖
Location Plan of Areas 20, 22 and 25 of Kwu Tung North