Dealing with Construction Permits Success Through Administrative Reforms

Submitted by: Hong Kong Polytechnic University (PolyU)
Dealing With Construction Permits
Success Through Administrative Reforms
Doing Business – World Bank

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Presentation Outline

• Introduction – Doing Business

• Dealing with Construction Permits: The Case of Hong Kong
  – Methodology of Survey
  – Comparison of Economies
  – Key Reforms Implemented

• Recommendations
Introduction

- World Bank has published a series of annual reports on *Doing Business* investigating the regulations that enhance business activity and those that constrain it.

- The Doing Business project...
  - provides objective measures of business regulations and their enforcement across 183 economies and selected cities at the sub-national and regional level.

Hong Kong’s Ranking

- Population: 6,977,700
- GNI per capita (US$): 31,422
- Number of economies compared in 2010: 183

<table>
<thead>
<tr>
<th>Ease of...</th>
<th>Doing Business 2010 rank</th>
<th>Doing Business 2009 rank</th>
<th>Change in rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing Business</td>
<td>3</td>
<td>3</td>
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<tr>
<td>Starting a Business</td>
<td>18</td>
<td>16</td>
<td>-2</td>
</tr>
<tr>
<td><strong>Dealing with Construction Permits</strong></td>
<td><strong>1</strong></td>
<td><strong>20</strong></td>
<td><strong>+19</strong></td>
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<tr>
<td>Employing Workers</td>
<td>6</td>
<td>7</td>
<td>+1</td>
</tr>
<tr>
<td>Registering Property</td>
<td>75</td>
<td>75</td>
<td>0</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>4</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>2</td>
<td>2</td>
<td>0</td>
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<tr>
<td>Enforcing Contracts</td>
<td>3</td>
<td>5</td>
<td>+2</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>13</td>
<td>13</td>
<td>0</td>
</tr>
</tbody>
</table>
Dealing with Construction Permits: Building a Warehouse

Source: Doing Business Reports
Issued by World Bank
WWW.DOINGBUSINESS.ORG

The World Bank Team
Our Role – Local Partner

- Provide up-to-date information on dealing with construction permits in Hong Kong
- Inform the details of licensing regime and construction regulation reforms

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Dealing with Construction Permits

- Dilemma

Compliance with:
- Ordinances
- Health and Safety Regulations

End User’s Expectation:
- Efficient
- Cost Effective

The Challenge:
How could we ensure compliance with rules and regulations at least cost and disturbance to various stakeholders?
Dealing with Construction Permits

– Methodology

• The indicator on dealing with construction permits records all procedures officially required for an entrepreneur in the construction industry to build a standardised warehouse.

• These include submitting project documents (building plans, site maps) to the authorities, obtaining all necessary licenses and permits, completing all required notifications and receiving all necessary inspections. They also include procedures for obtaining utility connections.

• The time and cost to complete each procedure under normal circumstances are calculated. All official fees associated with legally completing the procedures are included.

• The survey assumes that the entrepreneur is aware of all existing regulations and does not use an intermediary to complete the procedures unless required to do so by law.

Dealing with Construction Permits

– Survey Case Study

The company, BuildCo:

• is a small to medium-size limited liability company
• is located in the largest business city
• is domestically owned and operated, in the construction business
• has 20 qualified employees

The land plot owned by BuildCo:

• Is 929 m² (10,000ft²)
• 100% owned by BuildCo, and is registered in the cadastre and land registry
• Has road-access and is located in the peri-urban area
• Is not located in a special economic or industrial zone, but the zoning requirements for warehouses are met
Dealing with Construction Permits

– Survey Case Study (cont’d)

The warehouse to be built:

- is a new construction (there was no previous construction on the land)
- has complete architectural and technical plans prepared by a licensed architect
- will be connected to electricity, water, sewerage (sewage system, septic tank or their equivalent) and one land phone line.
- will be used for general storage, such as of books or stationery.
- will not be used for any goods requiring special conditions, such as food, chemicals or pharmaceuticals.
- will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

Dealing with Construction Permits

– Calculation of Ranking

Procedure is completed when final document is received, construction permits, inspections and utility connections included.

Days to build a warehouse

Procedures, 33.3%

Cost, 33.3%

Time, 33.3%

As % of income per capita
Steps to Building a Warehouse in HK (2010)

1. Obtain building plans approval (45d)
2. Request & receive inspection of foundation strata (1d)
3. Submit notification of project completion and relevant applications to One Stop Centre (21d)
4. Receive joint and final inspection of relevant licensing authorities coordinated by One Stop Centre (1d)
5. Request & obtain water connection (1d)
6. Request & obtain electricity connection (1d)
7. Request & obtain telephone line (1d)

*Take place simultaneously with previous procedure

Comparison of Economies

Dealing with Construction Permits – Global Rank
### Comparison of Economies (cont'd)

#### Dealing with Construction Permits

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Procedures (no.)</th>
<th>Time (days)</th>
<th>Cost (% of income per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>1</td>
<td>7</td>
<td>67</td>
<td>18.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>11</td>
<td>25</td>
<td>19.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5</td>
<td>7</td>
<td>65</td>
<td>37.3</td>
</tr>
<tr>
<td>Korea Rep.</td>
<td>23</td>
<td>13</td>
<td>34</td>
<td>135.6</td>
</tr>
<tr>
<td>United States</td>
<td>25</td>
<td>19</td>
<td>40</td>
<td>12.7</td>
</tr>
<tr>
<td>Japan</td>
<td>45</td>
<td>15</td>
<td>187</td>
<td>19.3</td>
</tr>
<tr>
<td>Taiwan</td>
<td>97</td>
<td>28</td>
<td>142</td>
<td>96.2</td>
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<tr>
<td>Malaysia</td>
<td>109</td>
<td>25</td>
<td>261</td>
<td>7.1</td>
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<tr>
<td>China</td>
<td>180</td>
<td>37</td>
<td>336</td>
<td>579.2</td>
</tr>
</tbody>
</table>

### Improvement Made by HK (2006-2010)

#### Dealing with Construction Permits

- **Rank**: 22, 22, 23, 15, 1, 7
- **Procedures (no.)**: 77, 61, 60, 119, 160, 230
- **Time (days)**: 2006 (7), 2007 (5), 2008 (10), 2009 (15), 2010 (23)
Key Reforms Implemented

- The Economic Analysis and Business Facilitation Unit (EABFU) under the Financial Secretary’s Office coordinates the Government’s effort to implement various business facilitation measures.

- In February 2007, the Hong Kong SAR Government launched the “Be the Smart Regulator” Programme (精明規管，計劃) to enhance Hong Kong’s business licensing processes and business environment.

- A total of 29 departments took part in the Programme, which would take forward improvement measures to streamline licensing processes and reduce compliance costs to business. The main focus is to improve the “Customer friendliness” “Efficiency” and “Transparency” of their business licensing services.

Key Reforms Implemented - 2008

- In 2009, HK’s ranking for the indicator of ‘Dealing with Construction Permits’ was up from 60th in the preceding year to 20th.

- This significant improvement was mainly attributable to the effort of a Working Group (WG) established in 2007 to further re-engineer and streamline the relevant licensing procedures.

- The WG comprises the EABFU, the Development Bureau and six departments (namely, the Buildings Department, Lands Department, Fire Services Department, Drainage Services Department, Highways Department and Water Supplies Department).

- The improvements were mainly achieved through
  - streamlining of workflow
  - elimination of unnecessary procedures, and
  - improvement in processing efficiency.
Key Reforms Implemented - 2009

- In 2010, HK’s ranking for the indicator of ‘Dealing with Construction Permits’ was up to the top among all examined economies.

- A One Stop Centre was set up under the administration of the Efficiency Unit for receiving all relevant building license applications to government departments and private utilities concerned and coordinating their joint inspections. This new arrangement can simplify the submission process in both the pre- and post-construction stages.

- The Buildings Department has formulated new procedures to allow for concurrent applications for building plan approval and consent for commencement of building works for projects fulfilling specified criteria. Compared with the original processing time of 81 days (i.e. 60 days to approve a building plan application and 21 days to grant building consent), this reform greatly reduces the total processing time by 36 days to 45 days.

Reforms’ Outcome

- Time cut from 119 days to 67
- Procedures cut from 15 to 7

Source: Doing Business database.
**Key Reforms Implemented - Recent**

**Highways Department**
- On 24 August 2008, the Highways Department launched the Excavation Permit Management System (XPMS), which is a new system to replace the former Utility Management System for processing Excavation Permits through internet. For registered XPMS users, the time required for processing applications for excavation permit has been reduced from 20 days to 5 days.

**Fire Services Department**
- The Fire Services Department has conducted an internal review on the processing of applications for certificate of fire service installations received via the One Stop Centre in 2009 and will further shorten the processing time from 19 days to 15 days with effective from 1 January 2010.

**Lands Department**
- The Lands Department has reduced the time for the issuing of certificates of compliance for two-storey warehouses from 21 days to 20 days since 1 January 2010.

**Utilities Companies**
- To further enhance its service to applicants, the One Stop Centre’s partnership with utilities companies has been strengthened. The applicants can request and obtain water connection, electricity connection and telephone lines at the same time via the One Stop Centre with one procedure.

*With the implementation of the above reforms on 1 January 2010, the One Stop Centre can now process application for construction permits in 4 procedures and 66 days.*

**Steps to Building a Warehouse in HK (latest)**

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Requirement</th>
<th>Time (Days)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-construction Stage</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procedure 1: Wishes approved by submitting application to One Stop Centre</td>
<td></td>
<td>42</td>
</tr>
<tr>
<td>- Provis applications for building plans approved by Building Department</td>
<td></td>
<td>45</td>
</tr>
<tr>
<td>- Provis applications for building consent by Building Department</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>- Provis applications together with the person for technical audit of water supply service electricity service made by Water Supply Department</td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>- Provis applications for consent of road connections by Road Department</td>
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<td>1</td>
</tr>
<tr>
<td>- Provis applications together with the person for road connections for permission to construct by Road Department</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Procedure 2: Person and works inspection of foundation work</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td><strong>Post-construction Stage</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procedure 3: Submit notification of project completion and relevant application to One Stop Centre</td>
<td></td>
<td>39</td>
</tr>
<tr>
<td>- Provis applications together with the person for technical audit of Building Department</td>
<td></td>
<td>42</td>
</tr>
<tr>
<td>- Provis applications for completion of construction for two-storey warehouse and courtyard of water supply certificate for water supply Department</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>- Provis applications for the service installations certificate for Fire Services Department</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>- Provis applications for acceptance license i.e. certification of completion of building work by Building Department</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>- Provis applications for completion for permission to construct by Land Department</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>- Provis applications for electricity connection</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>- Provis applications for telecommunication line</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Procedure 4: Permit and certification of two-storey warehouse authorized by One Stop Centre</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Final (on critical path)</td>
<td></td>
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</tr>
</tbody>
</table>

**Legend:**
- `Critical path`
- `Non-critical path`

*For registered users of Highways Department’s Excavation Permit Management System*
Potential Improvement Areas

✓ Efficiency in Singapore

14 days to complete following 7 procedures in pre-construction stage simultaneously (vs. 45 days in HK):
1. Obtain written permission from the Urban Redevelopment Authority (1d)
2. Obtain structural plan approval and building commencement permit (1d)
3. Obtain technical clearance from the Fire Safety & Shelter Department (FSSD) of the Singapore Civil Defense force (10d)
4. Technical consultation with the Central Building Plans Unit of the Ministry of the Environment and Water Resources (1d)
5. Technical consultation with the Land Transport Authority (1d)
6. Obtain building plan approval (10d)
7. Make an online declaration of risk management implementation and notify the Commissioner for Workplace Safety and Health (1d)

• In 2009, Singapore:
  – implemented online and computer-based services to make it easier to start a business, deal with construction permits and transfer property.
  – introduced new workplace safety and health regulations that allow low-risk industries to submit documents online.

✓ Cost Effectiveness in Qatar

0.6% of income per capita to deal with all construction permits required (vs. 18.7% in HK)

Recommendation

Ease of Doing Business - Dealing with Construction Permits

- Cost-effective
- One-stop Centre for dealing construction permits
- Streamline workflow, eliminate unnecessary procedures, improve processing efficiency
- Government commitment
- Overseas Experience/Practice

APEC Seminar on the First Steps of Successful Reform in Doing Business
Dealing With Construction Permits
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~ End of Presentation ~

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