

ITEM FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE

HEAD 704 - DRAINAGE

Environmental Protection - Sewerage and sewage treatment 301DS – East Kowloon sewerage, stage II

Members are invited to recommend to Finance Committee to raise the approved project estimate for **301DS** from \$162.5 million by \$63.0 million to \$225.5 million in money-of-the-day prices.

PROBLEM

The approved project estimate (APE) for **301DS** is insufficient to cover the costs of the works under the project.

PROPOSAL

2. The Director of Drainage Services, with the support of the Secretary for the Environment and Food, proposes to increase the APE for **301DS** from \$162.5 million by \$63.0 million to \$225.5 million in money-of-the-day (MOD) prices.

PROJECT SCOPE AND NATURE

3. The scope of works for **301DS** comprises –
- (a) construction of approximately 14 kilometres of sewers with diameters ranging from 225 millimetres to 1 350 millimetres in the San Po Kong and Kwun Tong industrial areas; and

/(b)

- (b) rectification of about 220 expedient connections¹.

A layout plan of the project is at Enclosure 1. As at end March 2001, there are about 700 metres of sewers yet to be laid and two expedient connections still to be rectified.

JUSTIFICATION

4. The increase in APE of \$63.0 million is required to cover -

- (a) additional costs arising from the poor performance and voluntary liquidation of the contractor as a result of which the contract had to be forfeited (paragraphs 5 to 7), and
- (b) additional nightworks² undertaken (paragraphs 8 to 11).

Poor performance and voluntary liquidation of the contractor

5. The construction contract, awarded at a contract sum of \$144.5 million, commenced in March 1996 and was originally scheduled for completion in March 1998. However, the performance of the contractor deteriorated since the end of 1996. The contractor failed to place adequate resources on site to maintain normal progress of the works. We took all possible regulatory measures³ under the contract to urge the contractor to improve his performance and reduce the delay. The contractor did improve its performance from time to time but was not able to maintain consistency. Whilst the contractor's general performance was poor, it was not bad enough for Government to exercise its contractual right to forfeit the contract in public interest. The contractor went into voluntary liquidation on 27 November 1998 and Government re-entered the sites on 11 December 1998. Prior to liquidation, the contractor laid about 9.5 kilometres of sewers and rectified 130 expedient connections (leaving therefore about 4.5 kilometres of sewers and 90 expedient connections outstanding). Based on the Consulting Engineer's latest estimation, the total cost of works completed under the forfeited contract is about \$108.1 million. Government has paid the contractor \$103.2 million and withheld
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¹ Expedient connections are improper connections which divert foul sewage flows into storm drains. Through these connections, foul sewage can flow into the storm-water drainage system and pollute environmental waters.

² Nightworks are construction works carried out between 7 p.m. and 7 a.m. in the following day.

³ The Consulting Engineer and the Drainage Services Department (DSD) issued warning letters, including 9 adverse reports, and interviewed the contractor on various occasions. Monitoring of the contractor's performance was also stepped up through more regular reporting and progress meetings. In April 1998, the contractor was suspended from tendering for further public works on financial grounds in order for the contractor to concentrate its resources on existing contracts with the Government.

the balance of \$4.9 million in Government's deposit account to set-off the debt incurred in relation to the forfeiture of the contract.

6. Due to the poor performance and liquidation of the first contractor, the project experienced a delay of 28 months as compared with the original programme schedule. In addition, there was a further delay of five months caused by inclement weather during construction by the first contractor. While the 33-month delay had not led to additional payment to the first contractor, we needed to maintain resident site staff at an additional cost of \$29.7 million to provide supervision for the works during the 33 month period. This included \$25.3 million for supervision of works resulting from delay caused by the poor performance and liquidation of the first contractor and \$4.4 million arising from supervision of works for the delay caused by inclement weather. Legal advice indicated that, given the liquidation of the contractor, it is unlikely that there would be any monies available to satisfy Government's claim for these costs from the contractor.

7. To protect the interests of Government in the event of contractors failing to meet the standards of performance due to cashflow problems or heavy financial losses, Works Bureau has -

- (a) revised the financial requirements of contractors on the Approved Lists so as to minimise the risk of awarding contracts to contractors having financial problems; and
- (b) reviewed the guidelines and procedures pertaining to the administration and monitoring of the performance of the contractors and suppliers on the Approved Lists to further tighten the rules governing their conduct and performance e.g. contractors receiving two instead of three consecutive adverse reports on performance would be suspended from tendering for public works contracts.

These revised rules were finalized and incorporated into the Contractor Management Handbook promulgated in March 2001.

Additional nightworks

8. To minimize the disturbance caused to traffic and road users, additional funds are required under the completion contract⁴ so that more of the construction works, which involve road openings at busy streets and back alleys in
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⁴ A completion contract was awarded in June 1999 at an amount of \$99.8 million after the first contractor went into voluntary liquidation. Works commenced immediately after the awarding of the completion contract and were scheduled for completion in December 2000.

the industrial areas, can be rescheduled to the night time to reduce disruption.

9. Based on the traffic impact assessment conducted prior to the commencement of the project and experience gained while carrying out the works under the first contract, we have made provisions for nightworks under the completion contract to cover about 1.3 kilometres out of the total remaining 4.5 kilometres of sewers to be completed. However, having considered affected parties (e.g. factory operators) on our proposed temporary traffic arrangements prior to the commencement of works on particular road sections or back alleys, we consider it necessary to re-schedule construction works for another 1.9 kilometres of sewers at night time (i.e. a total of 3.2 kilometres of sewers would have to be constructed at night time, inclusion of the nightworks for the 1.3 kilometres of sewers as originally envisaged) so as not to adversely affect the delivery and loading/unloading activities of factories affected. The revised arrangement is also in line with the advice of the Transport Department to minimize the risk of traffic congestion at main roads. Appropriate measures⁵ to mitigate any noise nuisance are required during the implementation of nightworks.

10. As the additional nightworks for the 1.9 kilometres of sewers were not allowed for when the completion contract was tendered, the cost of \$20.7 million so incurred, which included \$6.3 million for direct cost and \$14.4 million for prolongation cost respectively, has to be borne by Government.

11. Since carrying out works at night is more time-consuming, we expect that the contract will be delayed by a further eight months. Together with the estimated two-month delay caused by inclement weather during the time of construction by the second contractor, we estimate that the contract would be completed in October 2001 at the earliest. Due to the delay in completion of the works, resident site staff have had to be maintained at an additional cost of \$8.8 million to provide supervision for the works during the extended 10 months. However, the increase in nightworks will benefit local industries and residents by reducing the disruption to the economic activities of the factories and reducing disruption to traffic. To ensure the early completion of works, we have undertaken measures to expedite the works, e.g. by using trenchless technology for laying sewers or by change of design to reduce the time spent on tackling problems of underground utility obstructions.

12. A summary of the proposed increase of \$63.0 million is as follows –

/(a)

⁵ The appropriate measures include the use of silenced construction plants and restricting the noisier operations to be carried out before 11 p.m. to mitigate noise nuisance during the implementation of nightworks.

Factor	\$ million	% of proposed increase
(a) Additional resident site staff cost incurred under forfeited contract arising from -	29.7	47.2
(i) project delay of 28 months due to poor performance and liquidation of the forfeited contractor	25.3	
(ii) project delay of five months due to inclement weather	4.4	
(b) Additional cost incurred under completion contract -	29.5	46.8
(i) direct costs for additional nightworks	6.3	
(ii) contractor's prolongation costs	14.4	
(iii) additional resident site staff cost arising from project delay of eight months due to additional nightworks	7.0	
(iv) additional resident site staff cost arising from project delay of two months due to inclement weather	1.8	
(c) Contingencies	3.8	6.0
Total	63.0	100.0
	(in MOD prices)	

/The

The proposed amount represents an increase of about 24% over the original estimate of \$262.0 million for the project when the project was upgraded to Category A under the Sewage Services Trading Fund (SSTF). A comparison of the cost breakdown of the APE and the revised project estimate is at Enclosure 2.

FINANCIAL IMPLICATIONS

13. Subject to approval, we will phase the expenditure as follows -

Year	\$ million (Sept 2000)	Price adjustment factor	\$ million (MOD)
Up to 31 March 2001	137.0 ⁶	-	137.0
2001 – 2002	58.9	1.02550	60.4
2002 – 2003	23.8 ⁷	1.05627	25.1
2003 – 2004	2.8 ⁷	1.08795	3.0
	222.5		225.5

14. The proposed increase in the APE will not give rise to additional recurrent expenditure.

PUBLIC CONSULTATION

15. The then Wong Tai Sin and Kwun Tong District Boards were consulted on the proposed works on 19 September 1995 and 2 October 1995 respectively. Members of both Boards supported the proposed works. As there is no change in the approved project scope, we consider it unnecessary to carry out any further public consultation.

/16.

⁶ This is the estimated expenditure up to 31 March 2001.

⁷ Although works are expected to be substantially completed in October 2001, there are usually minor outstanding works (e.g. road reinstatement works) to be executed during the subsequent one-year maintenance period. In addition, there is a need to allow for funds to settle possible claims and disputes in the subsequent years.

16. We consulted Members of the Legislative Council Panel on Environmental Affairs on 19 March 2001 on our proposal to seek the Finance Committee's approval for increasing the APE of the project.

17. At the meeting, Members raised questions as to why the Government had not forfeited the first contract earlier in view of the persistently poor performance of the contractor, the policy of re-entry, statistics on the forfeiture of DSD contracts, the financial position of the project, and the use of sewage charges for providing sewage services. An information paper setting out the Administration's responses to Members' questions was circulated to Members on 2 April 2001. A copy of the paper is attached as Enclosure 3.

ENVIRONMENTAL IMPLICATIONS

18. The proposed increase in the APE does not have any environmental implications. Completion of **301DS** would ensure that projected sewage load generated in existing and planned developments would be collected for proper treatment before being discharged into environmental waters. Rectification of expedient connections would also prevent foul sewage from flowing into the storm-water drainage system and polluting environmental waters.

LAND ACQUISITION

19. The proposed increase in APE does not require any land acquisition.

URGENCY

20. Available funds under **301DS** are only sufficient to meet commitments up to early June 2001. If additional funding is not available by then, we will not be able to reschedule any further construction works at night time. Nor can we retain the resident site staff to supervise the remaining works or settle legitimate payment of claims upon the issuing of certification of payment by the Consulting Engineer.

BACKGROUND INFORMATION

21. We included the project "East Kowloon sewerage" as **96DS** in Category C in September 1988. The project aims at upgrading the sewerage system in East Kowloon to cope with existing and planned developments in the area with a view to providing a sustainable system to meet future demands.

/Stage

Stage I

22. In July 1989, we upgraded part of **96DS** to Category AB as **105DS** “East Kowloon sewerage improvements and pollution control, stage I”. In July 1991, we upgraded part of **105DS** to Category A as **135DS** “East Kowloon sewerage improvements and pollution control, stage I phase I” at an estimated cost of \$484.3 million. The stage I phase I works commenced in August 1991 and were completed in December 1995.

23. Following the setting up of the SSTF, we included the remaining works under **105DS** and **96DS** in Category B (TF) as **006SS** “East Kowloon sewerage, stage I phase II and stage II” of the SSTF in March 1994. In December 1994, we further upgraded part of **006SS** to Category A (TF) as **020SS** “East Kowloon sewerage: stage I phase II – rehabilitation of Kwun Tong Road sewers” at an estimated cost of \$80.0 million. The stage I phase II works commenced in June 1995.

24. The Finance Committee approved the creation and direct inclusion of **314DS** “East Kowloon sewerage: stage I phase II – rehabilitation of Kwun Tong Road sewers” in Category A on 27 February 1998 to cover the outstanding commitments and obligations under **020SS** at an estimated cost of \$25.4 million upon the closure of the SSTF on 31 March 1998. We expect to complete the stage I phase II works in August 2001.

Stage II - design and investigations

25. We upgraded part of **006SS** to Category A (TF) as **009SS** entitled “East Kowloon sewerage improvements and pollution control, stage II - consultants’ fees and investigations” at an estimated cost of \$18.0 million for the engagement of consultants to undertake design and investigations for the stage II works in July 1994.

26. The Finance Committee approved the creation and direct inclusion of **303DS** “East Kowloon sewerage improvements and pollution control, stage II – consultants’ fees and investigations” in Category A on 27 February 1998 to cover the outstanding commitments and obligations under **009SS** at an estimated cost of \$14.2 million upon the closure of the SSTF on 31 March 1998. We completed the investigation and design work under **303DS** in June 1999.

/Stage

Stage II - works

27. We upgraded the remaining works under **006SS** to Category A (TF) in November 1995 for the implementation of the East Kowloon sewerage stage II

works at an estimated cost of \$262.0 million. We started the works under **006SS** in March 1996 for completion in March 1998. On 27 February 1998, the Finance Committee approved the creation and direct inclusion of **301DS** "East Kowloon sewerage, stage II" in Category A to cover the outstanding commitments and obligations under **006SS** at an estimated cost of \$162.5 million⁸ upon the closure of the SSTF on 31 March 1998.

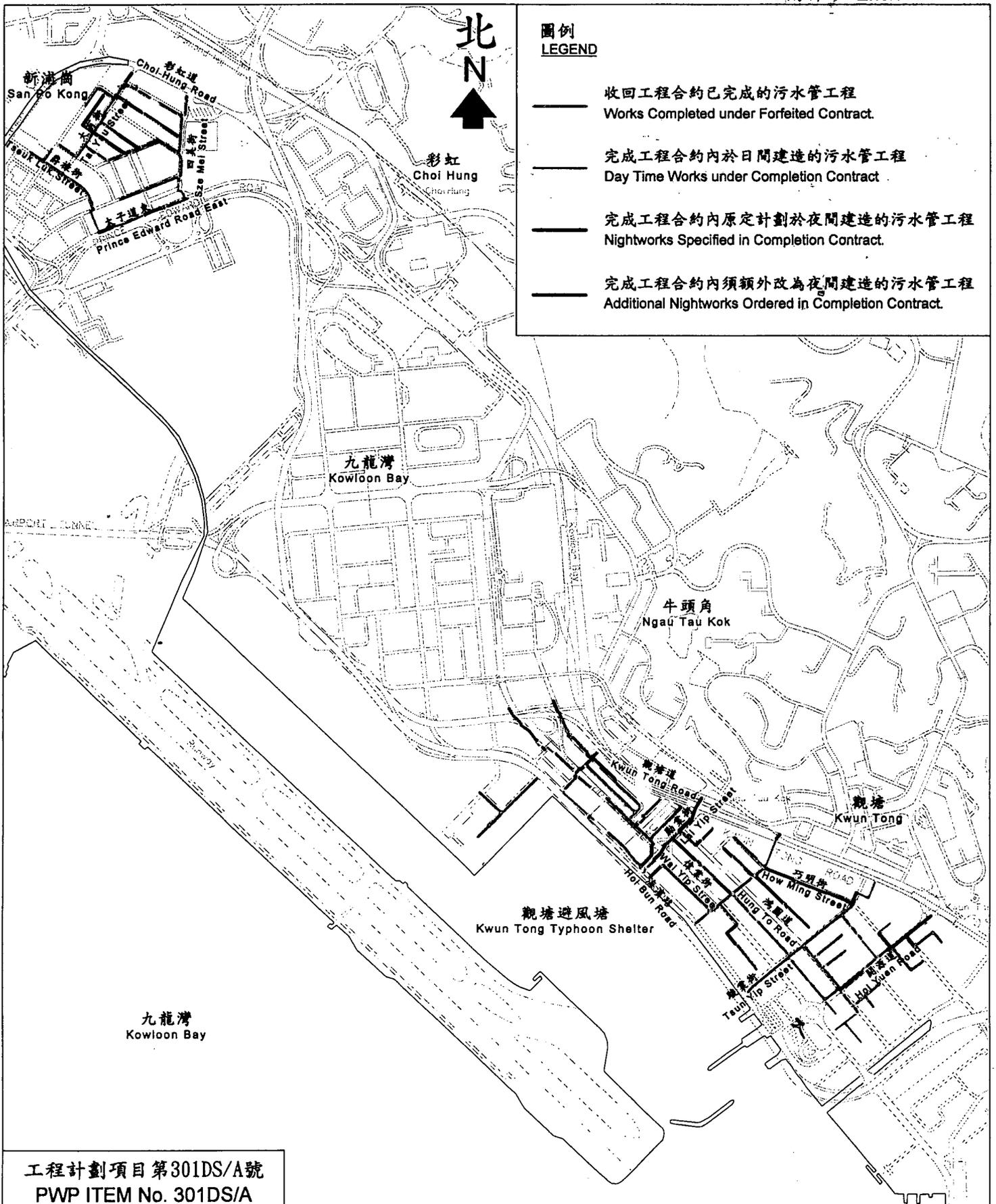
28. After the first contractor went into voluntary liquidation in November 1998, we awarded a completion contract in June 1999 at an amount of \$99.8 million. Since the estimated expenditure for the **301DS** works under the completion contract was within the APE of \$162.5 million for the **301DS** project at that time, we had not sought additional funding from the Finance Committee. We now expect to substantially complete the construction works in October 2001.

29. The proposed increase in APE will allow about 138 posts (for 48 professional/technical staff and 90 labourers) to be retained under this project, involving some 830 man-months up to completion of the works in October 2001.

Environment and Food Bureau
April 2001

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⁸ The APE of **301DS** (\$162.5 million) was established on the basis of our estimated cumulative expenditure under **006SS** of \$99.5 million up to 31 March 1998, leaving an outstanding commitment of \$162.5 million to be funded under the Capital Works Reserve Fund. The amount actually spent under **006SS** was \$107.7 million.



工程計劃項目第301DS/A號
PWP ITEM No. 301DS/A

圖則名稱
drawing title

東九龍污水系統
改善工程第二階段
EAST KOWLOON
SEWERAGE STAGE II

繪畫
drawn by
Sil Chan C.W. CHAN
日期
date
09 - 02 - 2001

批准
approved
C.K. Hon C.K. HON
日期
date
09 - 02 - 2001

辦事處
office
策略性污水排放計劃部
SSDS DIVISION

圖號
drawing no.
DSS/2001/001

比例
scale
N.T.S.

 香港特別行政區政府渠務署
DRAINAGE SERVICES DEPARTMENT
GOVERNMENT OF THE
HONG KONG
SPECIAL ADMINISTRATIVE REGION

Enclosure 2 to PWSC(2001-02)9

301DS - East Kowloon sewerage, stage II

A comparison of the approved project estimate and revised project estimate is as follows –

	Approved Estimate for 301DS (MOD) \$ million	*Total approved estimated expenditure (MOD) \$ million	Revised Estimate for 301DS (MOD) \$ million	*Total revised estimated expenditure (MOD) \$million	Difference \$ million
(a) Construction of trunk and branch sewers	108.9	[194.6]	126.8	[212.5]	17.9
(b) Rectification of expedient connections	17.0	[17.2]	19.8	[20.0]	2.8
(c) Consultants' fees					
(i) construction of trunk and branch sewers and expedient connections	1.1	[2.0]	1.1	[2.0]	0
(ii) coordination and monitoring of expedient connections	0.6	[1.1]	0.6	[1.1]	0
(d) Resident site staff cost	14.7	[35.1]	53.2	[73.6]	38.5
(e) Contingencies	20.2	[20.2]	24.0	[24.0]	3.8
Total	<u>162.5</u>	<u>[270.2]</u>	<u>225.5</u>	<u>[333.2]</u>	<u>63.0</u>

2. As regards (a) (construction of trunk and branch sewers), the total increase of \$17.9 million includes –

- (i) \$5.4 million for the costs arising from additional nightworks; and
- (ii) \$12.5 million for the contractor's prolongation cost due to extended contract period.

* Figures inside brackets indicate total estimated expenditure for East Kowloon sewerage stage II including \$107.7 million already incurred under the SSTF prior to the creation of the item **301DS**.

3. **As regards (b) (rectification of expedient connections), the total increase of \$2.8 million includes –**

- (i) \$0.9 million for the costs arising from additional nightworks; and
- (ii) \$1.9 million for the contractor's prolongation cost due to extended contract period.

4. **As regards (d) (resident site staff cost), the total increase of \$38.5 million includes –**

- (i) \$37.8 million to cover additional site staff cost due to the extended contract period of the project; and
- (ii) \$0.7 million due to salary revisions of the resident site staff in line with the increase of civil service salaries.

5. **As regards (e) (contingencies), we retain \$24.0 million as the contingencies for other minor future additional works and for resolution of possible claims from the contractor.**

For information

**Legislative Council
Panel on Environmental Affairs**

301DS – East Kowloon sewerage, stage 2

Purpose

On 19 March 2001, the Administration sought the Panel's views on its proposal to invite Public Works Subcommittee to recommend to Finance Committee to increase the approved project estimate (APE) of Public Works Programme Item 301DS, namely "East Kowloon sewerage, stage 2", from \$162.5 million to \$225.5 million. The increase is to cover additional costs arising from the poor performance by the forfeited contractor and voluntary liquidation, as well as additional nightworks to be undertaken. During the meeting, Members requested the Administration to provide further details on why the Government did not forfeit the first contract earlier in view of the persistently poor performance of the contractor, the policy of re-entry, statistics on the forfeiture of Drainage Services Department (DSD) contracts, financial position of the project, and the use of sewage charges for providing sewage services. This paper aims to provide Members with the said information.

**Performance of the First Contractor and Actions Taken by Government
Against the Contractor**

2. Since the first contract commenced in March 1996, the contractor's performance had generally been poor. The main concern was that the contractor was unable to maintain continuously a reasonable rate of works progress. As soon as DSD and its Consulting Engineer were aware of the problem in end 1996, they undertook a series of contractual and administrative measures to urge the contractor to improve its performance as soon as possible and to mitigate delays. The contractor responded by improving his performance every time actions were taken by DSD. However, the contractor could not sustain the momentum of improvements and performance would again deteriorate shortly afterwards. DSD maintained pressure on the contractor for improvements until the end of 1998 when the contractor finally went into voluntary liquidation.

3. DSD understood from the contractor that he was suffering from cashflow and financial difficulties. This led to insufficient resources being deployed by the contractor and resulted in poor work progress. In view of the poor performance, DSD considered the appropriateness of re-entry action but did not take this step for the following reasons:

- (a) As a general policy, Government only forfeits a contract as a last resort if there is no other better alternative. This is because Government would incur substantial additional costs after expulsion of a contractor and re-entry of sites. There would also be a long period of delay in arranging for re-tendering the remaining works and mobilising a new completion contractor to re-commence the works. In the interim period, there would be additional expenses for taking care of and maintaining the sites. Moreover, the costs of completing the remaining works would usually be higher under a completion contract. If the defaulting contractor is in a poor financial situation, the possibility of claiming damages from the contractor for the additional expenditure is usually limited. Re-entry action is therefore only considered when there is no other better alternative to ensure the earliest completion of the works at the lowest cost.
- (b) The contractor's performance was assessed regularly in every reporting period (initially this was quarterly but assessment was stepped up to six-weekly for closer monitoring when the performance of the contractor was found to be consistently poor). Assessment of whether progress was satisfactory in a reporting period was done by measuring the amount of works actually completed against the amount which was planned to be completed in accordance with the works programme. Although the overall progress of the contract had been unsatisfactory, the contractor was able to achieve at least around 50% of the programmed works during most of the reporting periods. On a few occasions, he even managed to achieve progress better than what was required under the works programme. A summary of the percentage of programmed works completed during various reporting periods from September 96 to October 98 is given below:

Reporting Periods	% of Programmed works completed
1.9.96 – 30.11.96	25%
1.12.96 – 28.2.97	54%
(1.3.97 – 15.4.97*)	Over 100%
(16.4.97 – 31.5.97*)	100%
1.6.97 – 31.8.97	46%
1.9.97 – 30.11.97*	52%
(1.12.97 – 15.1.98*)	Over 100%
16.1.98 – 28.2.98*	52%
1.3.98 – 15.4.98*	78%
(16.4.98 – 31.5.98*)	Over 100%
1.6.98 – 15.7.98*	65%
16.7.98 – 30.8.98*	62%
(1.9.98 – 15.10.98*)	Over 100%

(Reporting periods shown in brackets indicate that the contractor had managed to achieve good progress in these periods.)

Before the contractor went into voluntary liquidation, he had completed a total of 9.5 kilometres of sewers and rectified 130 expedient connections. These represented 68% and 59% respectively of the works required in the contract. In order to tighten control over the contractor, the Consulting Engineer had held weekly progress review meetings with him since December 1996 (instead of the usual practice of monthly meetings). DSD and the Consulting Engineer also held frequent ad-hoc meetings with the contractor to urge him to improve his performance. To allow the Government to step up monitoring on the performance of the contractor, the Consulting Engineer was instructed to submit weekly reports on the lengths of pipe laid and labour resources since July 1998. Even in the reporting period immediately before the contractor went into liquidation, i.e. from early September to mid October 1998, there was a marked recovery in the performance and work progress of the contractor. After carefully reviewing the contractor's performance in each period, it was considered that there were insufficient grounds to exercise the drastic contractual action of forfeiting his contract and re-entering the sites at any time before the contractor went into voluntary liquidation.

* To enhance monitoring of the contractor's performance, DSD had stepped up the reporting period from quarterly to six-weekly.

- (c) In response to DSD's continuous pressure for improvements to his performance, the contractor had made constructive proposals to expedite works progress, for example by using trenchless technology in laying sewers and by deploying additional resources. Some of these proposals did result in periods of good progress.
- (d) In early 1998, there were signs that the contractor was suffering from very serious financial problems which apparently were not being resolved. DSD did consider taking re-entry action and a warning letter to that effect was issued in March 1998. On that occasion, the contractor had successfully brought in a major investor to inject funds and there were signs that the new financial support would be able to revive the company and hence effect substantial improvement to progress. Indeed this was followed by a period of marked improvement in progress.

Financial Position

4. The project commenced in March 1996 and was originally funded under the Sewage Services Trading Fund (SSTF) at an estimated cost of \$262.0 million. The SSTF was wound up on 31 March 1998 before the project was completed. A total amount of \$107.7 million was spent under the SSTF before its closure. The Finance Committee approved the creation and direct inclusion of 301DS "East Kowloon sewerage, stage 2" in Category A on 27 February 1998 for completing the remaining works upon closure of the SSTF. The approved project estimate (APE) for 301DS at the time was \$162.5 million

5. The contract sum of the first contract was \$144.5 million. The first contractor went into liquidation on 27 November 1998 and Government re-entered the sites on 11 December 1998. A total sum of \$103.2 million had been paid to the contractor, with \$83.4 million funded by the SSTF (prior to its closure on 31 March 1998) and \$19.8 million funded under 301DS (paid before the voluntary liquidation of the contractor).

6. The remaining works upon forfeiture were included in a completion contract which was re-tendered and finally awarded in June 1999. The awarded contract sum of the completion contract was \$99.8 million but the part of the works funded by 301DS was estimated to cost \$86.5 million.

7. In addition to the \$19.8 million paid to the forfeited contractor and the estimated expenditure of \$86.5 million under the completion contract, other expenses were incurred under 301DS, including the cost of emergency works arising from the re-entry of sites and consultants' fees. As such, the estimated expenditure under 301DS at the time of award of the completion contract was \$160.1 million. Since the estimated expenditure under 301DS was within the APE of \$162.5 million, DSD therefore did not revert to the Legislative Council for additional funds at that time.

Policy on Re-entry

8. The poor performance of contractors does not by itself warrant a re-entry action. Government takes re-entry action only when there is a clear sign that the contractor is unable or unwilling to fulfill his contractual obligations under the contract. Re-entry is usually the last resort as it has significant adverse impact on the programme and the cost of the works; and there is always a risk that Government might not be able to fully recover its loss from the contractor should the latter declares bankruptcy. We therefore cannot solely rely on performance indicators, such as whether the contractor can achieve a certain milestone by a pre-set date or whether a certain number of adverse reports have been issued to the contractor, in making a re-entry decision. Instead, we need to rely on the judgement of the professional staff managing the contract on whether the contractor is willing to or capable of completing the works. Government can also protect its interests under the contract by claiming liquidated damages for any delays caused by the contractor.

Statistics and Reasons for Re-entry of Contracts

9. During the past three years, 4 contracts managed by DSD were forfeited out of a total of 151. A table showing information on these forfeited contracts are given below:

Contract Description	Commencement date Of contract	Original completion date	Date of forfeiture of contract	Forecast completion date	[@] Original APE (\$ million)	[@] Latest project estimate (\$ million)
East Kowloon sewerage, stage 1 phase 2	22.6.95	20.2.97	13.5.98	Aug. 01	25.4	18.8 [#]

[@] These estimates, except for the contract for drainage maintenance and construction in HK Islands and Outlying Islands, refer to the estimates of the project items under which the forfeited contracts were funded.

[#] Although additional cost was incurred by Government as a result of the contract forfeitures, the latest project estimate was still within the APE of the concerned project.

Contract Description	Commencement date Of contract	Original completion date	Date of forfeiture of contract	Forecast completion date	[@] Original APE (\$ million)	[@] Latest project estimate (\$ million)
Drainage maintenance and construction in HK Islands and Outlying Islands	27.3.96	26.3.98	19.12.98	Outstanding works order completed by other term contractors	Funded by the recurrent vote. Payment withheld is enough to set off additional costs in completing the outstanding works orders.	
East Kowloon sewerage stage 2	6.3.96	4.2.98	11.12.98	Oct. 01	162.5	225.5
Construction of sewers, sewage pumping station and rising mains in Sai Kung	14.5.97	13.5.99	8.12.98	June 01	105.0	87.0 [#]

10. The reason for the forfeiture of the 4 contracts was that the concerned contractors suffered from serious financial difficulties and most of them eventually went into liquidation within the years of 1998-99. Out of the four contracts, 3 were sewerage projects. The present project, i.e. East Kowloon sewerage stage 2, is the only one whereby a forfeiture has led to a need for an increase in APE.

Sewage Charging and SSTF

11. Since the introduction of the sewage charging scheme in 1995, all revenue collected through the scheme has contributed to only the operating and maintenance costs in providing sewage services. However, it should be noted that in 1999/2000, sewage charges recovered only about half of the annual operation and maintenance costs.

12. Before the closure of the SSTF in 1998, implementation of the capital works, viz. Stage I of the Harbour Areas Treatment Scheme (HATS) and the related Sewerage Master Plan (SMP) works, were financed by the SSTF with funds injected from the Capital Investment Fund. The capital works account was kept separate from the operating and maintenance account for the provision of sewage services under the SSTF.

13. Upon closure of the SSTF, the remaining funds under the capital works account were returned to the Capital Investment Fund. On 27 February 1998, the Finance Committee approved the creation and direct inclusion of a series of items in Category A under the Public Works Programme to complete the remaining works of Stage I of the HATS and the related SMPs.

Environment and Food Bureau
Drainage Services Department
March 2001