

NOTE FOR PUBLIC WORKS COMMITTEE OF FINANCE COMMITTEE

Supplementary Information on 652TH - Noise Mitigation Measures for Housing Sites Nos. 6 and 10 of West Kowloon Reclamation

Introduction

When Members considered paper PWSC(2000-01)71 on **652TH - “Noise Mitigation Measures for Housing Sites Nos. 6 and 10 at West Kowloon Reclamation”** at the Public Works Subcommittee meeting on 6 December 2000, the Administration undertook to provide information on the basis for deriving the percentage formula for calculating on-costs for works entrusted to the Mass Transit Railway Corporation Limited (MTRCL).

The Administration’s Response

2. In 1993, Government agreed with the Mass Transit Railway Corporation and the then Provisional Airport Authority that if one party intended to entrust certain works to another party, the on-costs for such services should be charged on the basis on pre-agreed percentages of the capital cost of the works. Based on experience, the on-cost for entrustment works covering design work, project management, site supervision and insurance was set at 16.5% of the capital cost of works. This formula approach is meant to be a more pragmatic and convenient alternative to seeking reimbursement on an actual cost basis. The latter would involve a lot of administrative work in agreeing actual costs and is likely to give rise to contractual disputes. Since the formula approach is meant to be applied on a reciprocal basis, the 16.5% on-cost package has been designed to be fair to all parties.

3. The 16.5% on-cost formula has been applied mostly to civil engineering works and a breakdown of the components agreed in 1993 is as follows –

<u>Service Rendered</u> (as applied to civil engineering works)	On-costs (as % of the Capital Cost of Works)
(a) Design work	4.0%
(b) Project management & site supervision	8.8%
(c) Insurance	0.7%
(d) Recurrent costs related to (a) to (c) above	3.0%
TOTAL	16.5% ====

4. The on-cost rate of 16.5% will only be applicable when the full range of services quoted above is provided. If, for instance, works entrusted to MTRCL require the provision of project management and site supervision services only, the on-cost chargeable will be capped at 8.8% plus an appropriate share of the recurrent costs attributable to the such services (e.g. 8.8% plus 1.96%, or 10.76%).

5. This formula approach to the charging of on-cost for entrustment works has been extended to apply to works beyond the scope of the Airport Core Programme, e.g. railway-related entrustments involving the Kowloon Canton Railway Corporation.

6. The Administration has recently conducted an internal review on whether the 16.5% on-cost formula should continue to be applied to various entrustment works. The review took into account on-costs for recently-completed and on-going projects designed and supervised by consultants employed by works departments. The survey indicates that, as far as civil engineering entrustments are concerned, the 16.5% charge ceiling remains appropriate. Accordingly, the proposed entrustments set out in PWSC (2000-01)71 have adhered to this formulation.

Finance Bureau
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