

NOTE FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE

Supplementary Information on 301DS – East Kowloon sewerage, stage II

INTRODUCTION

In considering paper PWSC(2001-02)9 on the proposal to increase the approved project estimate (APE) of **301DS** “East Kowloon sewerage, stage II” on 18 April 2001, Members requested the Administration to provide supplementary information on the four forfeited contracts managed by the Drainage Services Department during the past three years. In particular, Members noted that the latest project estimates relating to the public works items of two of the four forfeited contracts, namely **314DS** “East Kowloon sewerage, stage I phase II – rehabilitation of Kwun Tong Road sewers” and **283DS** “Port Shelter sewerage, stage I phase II and stage II phase II – Silverstrand, Tai Wan and Sha Ha sewerage” are lower than their respective APEs although additional costs have been incurred as a result of forfeiture of contracts. This note aims to provide further clarification.

THE ADMINISTRATION’S RESPONSE

2. A table setting out supplementary information on the four forfeited contracts managed by the Drainage Services Department during the past three years is at the Enclosure. Columns eight and nine set out the information requested by Members, namely -

- (a) the project estimate prior to contract forfeiture; and
- (b) additional cost incurred as a result of forfeiture of contract.

3. The APE of a project is the estimated cost of a project after allowing for -

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- (a) a contingency sum due to unforeseen works items; and
- (b) forecast changes in construction prices due to inflation/deflation during the period up to the end of construction.

4. The latest project estimates relating to **314DS** “East Kowloon sewerage, stage I phase II – rehabilitation of Kwun Tong Road sewers” and **283DS** “Port Shelter sewerage, stage I phase II and stage II phase II – Silverstrand, Tai Wan and Sha Ha sewerage” are lower than their respective APEs due to the following reasons -

- (a) **314DS** “East Kowloon sewerage, stage I phase II – rehabilitation of Kwun Tong Road sewers” under which the forfeited contract “East Kowloon sewerage, stage I phase II” was funded was originally an item under the Sewage Services Trading Fund (SSTF). The original project estimate under SSTF was \$90.7 million¹. The contingencies allowed under the project were largely uncommitted prior to forfeiture of the contract and it could therefore meet the additional costs arising from the forfeiture. We have not made further allowance for contingency in the latest project estimate. We expect the works to be completed by August 2001; and
- (b) as for **283DS** “Port Shelter sewerage, stage I phase II and stage II phase II – Silverstrand, Tai Wan and Sha Ha sewerage” under which the forfeited contract “Construction of sewers, sewage pumping station and rising mains in Sai Kung” was funded, tenders of two contracts (one of which was the forfeited contract) under the project were both at prices which were much lower than the estimated costs of works allowed in the APE, leading to savings of \$21 million. In addition, the contingencies allowed for the project were only partly committed prior to forfeiture of the contract. As a result, sufficient funds are available to meet the additional costs arising from the forfeiture. Since the project is nearing completion, we have not made further allowance for contingency in the latest project estimate.

Environment and Food Bureau
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¹ Upon closure of SSTF, the Finance Committee approved the creation and inclusion of a new project item in Category A at an APE of \$25.4 million to cover the outstanding commitments and obligations under the SSTF project item.

Table showing information on the four forfeited contracts managed by the Drainage Services Department during the past three years

Contract Description	Relevant Public Works Programme Item	Commencement date of contract	Original completion date	Date of forfeiture of contract	Forecast completion date	Provision for this contract and associated costs ² within original APE (\$ million)	Estimated expenditure prior to forfeiture (\$ million)	Additional costs incurred as a result of forfeiture of contract (\$ million)	Latest estimate (\$ million)
East Kowloon sewerage, stage I phase II	314DS - East Kowloon sewerage, stage I phase II - rehabilitation of Kwun Tong Road sewers	22 June 95	20 Feb 97	13 May 98	Aug 01	25.4	16.1	2.7	18.8
Drainage maintenance and construction in HK Islands and Outlying Islands	Funded by the recurrent vote	27 Mar 96	26 Mar 98	19 Dec 98	Outstanding works order completed by other term contractors	The additional cost incurred as a result of forfeiture of contract was \$0.36 million. Payment withheld is enough to set off additional costs in completing the outstanding works orders.			
East Kowloon sewerage, stage II	301DS - East Kowloon sewerage, stage II	6 Mar 96	4 Feb 98	11 Dec 98	Oct 01	162.5	160.3	65.2	225.5
Construction of sewers, sewage pumping station and rising mains in Sai Kung	283DS - Port Shelter sewerage, stage I phase II and stage II phase II - Silverstrand, Tai Wan and Sha Ha sewerage	14 May 97	13 May 99	8 Dec 98	June 01	105.0	81.0	6.0	87.0

² Associated costs include relevant site staff expenses, consultancy fees, etc.