

For information

Legislative Council Panel on Environmental Affairs

Updated Information on Stage I of the Harbour Area Treatment Scheme

Introduction

During the meeting of the Legislative Council Panel on Environmental Affairs on 5 June 2001, Members asked the Administration to provide the following information relating to the Stage I works of the Harbour Area Treatment Scheme (HATS) -

- (a) the updated position of the arbitration on the tunnel contracts; and
- (b) the lessons learnt from the implementation of the Stage I works under HATS.

This paper aims at providing Members with the requested information.

Update on Arbitration

2. Earlier this year, we advised Members that the three arbitration hearings to determine liability in the two forfeited tunnel contracts had already been concluded. Government has been successful in relation to all the most significant issues in the dispute. Most importantly, it has been established that Government's action to re-enter the tunnel sites in December 1996 is both correct and valid. On that basis, Government would expect to be able to recover substantial costs and damages from the first contractor. The recovery of these costs and damages, if disputed by the contractor, will become the subject of further arbitration proceedings on quantum which cannot be commenced until the completion contracts have been completed and the additional costs fully certified by the Engineer. The task of certifying the completion contract costs will take some considerable time to complete.

3. The first contractor has exercised his right of appeal and issued a number of appeal notices against the awards of the last two tranches of the arbitration hearings. A hearing in the Court of First Instance has been scheduled for September 2001. Further information on the dispute resolution proceedings could not be released at this stage as we need to safeguard Government's position while the process is still ongoing.

Lessons learnt from the stage I works of HATS

4. The predominant cause of delays and cost overruns in the implementation of the HATS Stage I works is the failure of the original sewage tunnel contractor to carry out the tunnelling works with due diligence, which finally led to the forfeiture of the tunnel contracts in December 1996. The experience gained in dealing with the previous defaulting contractor has prompted Government to include additional safeguards in the tunnel completion contracts by requiring the new contractors to provide -

- (a) performance bonds amounting to 10% of the tendered sums (instead of 1% in normal contracts including the forfeited ones); and
- (b) parent company guarantees of their performance.

These measures were added to increase the commitment of both the contractors and their corporate groups with a view to reducing the chances of default.

5. Members may also wish to know that steady progress has been made in the completion works for the sewage conveyance tunnels. All sewage tunnels were excavated in November 2000 and the associated lining works in the tunnels have also been completed. The contractors are carrying out the lining works for the vertical shafts leading into the tunnels. The present schedule remains to complete the outstanding works of HATS Stage I by the end of the year.

6. The Administration agreed that there were useful lessons to be learned from the implementation of the HATS Stage I works. Works Bureau would carry out a more comprehensive review upon completion of the remaining Stage I works and finalisation of the claims in relation to the projects. This would enable us to draw on the experience gained in implementing the Stage I works in future large-scale Government projects.

**Environment and Food Bureau
Drainage Services Department
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