

NOTE FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE

Price Adjustment Factors

PURPOSE

This note announces the adoption of a new set of price adjustment factors for converting the cost estimate of capital works projects funded by the Capital Works Reserve Fund from constant September 2004 prices to money-of-the-day (MOD) prices.

REVISED FORECAST

2. On a half-yearly basis, we update the Government's forecast of inflation for construction works and adjust the price adjustment factors used in funding requests to the Public Works Subcommittee and Finance Committee.

3. At the last update undertaken in March 2004, the prices of public sector building and construction output were forecast to fall by 2.5% in 2004, before reverting to a trend increase of 0.6% per annum for the period 2005-08. PWSCI(2003-04)42 refers. These figures have been updated in October 2004. According to the latest forecast, the prices of public sector building and construction output are now envisaged to fall by 1.0% in 2004 and to revert to a trend increase of 0.1% per annum over the period 2005-08.

4. We will apply the latest forecasts and corresponding price adjustment factors as from October 2004 for the purpose of deriving MOD estimates for capital works projects.