

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 2005 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 2005, the prices of public sector building and construction output were forecast to increase by 0.5% in 2005 and a trend increase of 0.1% per annum over the period 2006-09 (PWSCI(2004-05)25 refers). These figures have been updated in October 2005. According to the latest forecast, the prices of public sector building and construction output are envisaged to increase by 0.5% in 2005 and then to show virtually no change over the period 2006-09.

4. We will apply the latest forecasts and corresponding price adjustment factors as from October 2005 for the purpose of deriving MOD estimates for capital works projects.