

**For information**

**Report on Significant Deviations between Accepted Tender Prices  
and Estimated Provisions in the Approved Project Estimates  
(for Capital Works Contracts Awarded in the Fourth Quarter of 2008)**

The Director of Audit published on 21 April 2004 a report<sup>1</sup> on the value-for-money audit on the Harbour Area Treatment Scheme Stage I project. Among other observations, the Audit took note of significant deviations between the accepted tender prices for some works contracts under this project and those estimated in the Approved Project Estimates (APE). The Public Accounts Committee (PAC) recommended in its June 2004 report that, in order to ensure effective monitoring on the use of funding, works departments should inform the Legislative Council (LegCo) when there is a difference of \$15 million or more between the accepted tender price and the estimated contract sum.

2. The Administration has agreed to submit quarterly reports to LegCo on significant deviations between the accepted tender prices for capital works projects and the estimated contract sums when these “equal/exceed \$15 million or 10% of the original estimated provision in the APE, whichever is the greater”<sup>2</sup>. We submitted the first report covering up to December 2004 to PAC on 4 February 2005 and were directed by the Clerk to the Finance Committee that future reports should be addressed to the Public Works Subcommittee.

3. For the quarter ending December 2008, there was one capital works contract which satisfies the stipulated criteria. The relevant details of the contract are set out at **Annex**.

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Development Bureau  
27 March 2009

<sup>1</sup> Director of Audit’s Report No. 42, Chapter 3

<sup>2</sup> Paragraph 25 of the Government’s Minute in response to Report No. 42 of the Public Accounts Committee tabled at the LegCo on 20 October 2004

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Department: Highways Department

Project Code  Contract No.	Project Title  Contract Title/ Award Date	Approved Project Estimate (APE)	(A) Sum Allowed in APE for the Contract	(B) Accepted Tender Price	(A) – (B) Difference
<b>\$ million (in MOD prices)</b>					
6746TH  HY/2007/09	<b>Reconstruction and improvement of Tuen Mun Road</b>  Reconstruction and improvement of Tuen Mun Road – Eastern Section/ 22 October 2008	4,620.500	1,877.700	2,822.500	(944.800)
<p>The higher-than-expected tender price is attributed to the accelerated increase in construction material prices and changes in market sentiments from Quarter 3 in 2007 to May 2008 when the tenders were returned, as well as the higher risk allowances made by tenderers for this contract with substantial constraints. From the construction cost indices published by the Census and Statistics Department, the cost index for steel reinforcement, galvanised mild steel, bitumen and diesel fuel as at May 2008 had risen by 72%, 39%, 19% and 31% respectively compared to those in September 2007 when the project estimate was prepared. The rapid rise in the cost of the above-mentioned raw materials, being the major elements of the project, drove up the tender price particularly. In addition, the tenders received reflected contractors' concerns over the rapidly increasing but volatile trend of construction costs at that time. Under this high inflation risk, they were expected to tender consciously with a greater allowance for the risk. A breakdown on deviation between the accepted tender price and original estimate (shown in brackets) is shown below –</p> <p>(a) Road and drains (\$35.1 million);            (b) Earthworks (\$205.1 million);            (c) Highway structures (\$78.8 million);            (d) Slope works (\$66.8 million);            (e) Noise barriers (\$178.6 million);            (f) Contract preliminaries (\$152.7 million); and            (g) Works funded under other projects (\$100 million).</p>					