

**For discussion on
21 January 2009**

Legislative Council Panel on Environmental Affairs

Supplementary Provision for the Operating Expenses of Waste Management Facilities under Environmental Protection Department

Purpose

This paper seeks Members' support for the Environmental Protection Department (EPD) to seek the approval of the Finance Committee (FC) for a supplementary provision of \$76 million in February 2009 as the approved provision for the operating expenses of waste management facilities under EPD is inadequate to meet the increased expenditure arising from inflation in 2008-09.

Justification

Operation of Waste Management Facilities by EPD

2. A provision of \$1,098.5 million has been approved under Head 44 EPD Subhead 297 Fees for operation of waste management facilities in 2008-09 for payment of the operation fees to waste management contractors appointed by the Government. The facilities include primarily landfills, refuse transfer stations (RTS) and Chemical Waste Treatment Centre (CWTC). The monthly operation fees for these facilities are adjusted in accordance with the price fluctuation adjustment provisions specified in the contracts. The adjustment mechanism makes reference to appropriate indices obtainable from the Census and Statistics Department. For RTS and CWTC, the price fluctuation adjustment is determined based on Consumer Price Index (B) (CPI(B)). On the other hand, the price fluctuation adjustment for landfills¹ is determined based on a Composite Index, which comprises 40% on construction material index, 25% on labour index and 35% on CPI(B).

3. When EPD prepared the 2008-09 Estimates for the operation fees of waste management facilities in mid-2007, the estimate of \$1,098.5 million was made according to projections on the trend of CPI(B) and Composite Index having taken into account the latest indices available at that time i.e. CPI(B) for August 2007 and Composite Index for June 2007. However, the recent unprecedented high inflation

¹ The price fluctuation adjustment for landfill operation payment includes reference to both construction materials and labour indices because there are continuous extensive civil engineering activities during the operational phase of the landfills.

rates from October 2007 to July 2008 have led to higher-than-expected price fluctuation adjustments that could not have been foreseen by EPD in mid-2007 and this has resulted in a significant increase in the operation fees payments.

4. Based on the latest spending pattern, the revised estimates for the operating expenses of waste management facilities, compared with the original estimates, are set out below:

Main Operation Fees Item	2008-09 Original Estimates (\$ million) (a)	2008-09 Revised Estimates (\$ million) (b)	2008-09 Estimated Shortfall/ (Surplus) (\$ million) (b) – (a)
Refuse transfer stations and landfills	719.7	798.6	78.9
Other waste facilities and operation expenses ²	378.8	375.9	(2.9)
Total	1,098.5	1,174.5	76.0

5. For RTS and landfills, as far as the total quantities of waste received at the RTS and the landfills are concerned, there has been a slight decrease in 2008-09 compared with the same months in 2007-08. However, due to the higher-than-expected inflation, the revised estimates for the expenditure of RTS and the landfills would be \$78.9 million higher than the original estimates³.

6. Based on the latest available indices, the November 2008 CPI(B) has increased by 5.6% over the corresponding index in August 2007. The October 2008 Composite Index has increased by 11.8% over the corresponding indices in June 2007. In particular, the October 2008 cost index of construction materials has risen by 35% over the corresponding index in June 2007. The trends of the CPI(B) and the Composite Index from April 2006 to the latest available indices are shown in Enclosures 1 and 2.

7. Although the price fluctuation indices have fallen notably in the third quarter of 2008, the accelerated increase in these indices since mid-2007 up to mid-2008 has already caused a significant increase in payment of operation fees for RTS and

² Other waste facilities and operation expenses include Chemical Waste Treatment Centre, Sha Ling Composting Plant, Low-level Radioactive Waste Storage Facility, Animal Waste Composting Plant, waste recycling & recovery programmes and operation of landfill charging scheme.

³ The additional funding requirement for RTS and landfills is due to the increase in price adjustments (\$79.4m) and a payment of one RTS operation fee for February 2008 (\$6.7m) deferred to 2008-09, partly offset by the reduction in payment due to a slight decrease in waste quantities (\$7.2m).

landfills by \$42 million for the first nine months of 2008-09 compared with the cumulative amount paid in the corresponding period of 2007-08. Moreover, as the operation fees for RTS and landfills to be paid in the remaining months in 2008-09 will be calculated based on CPI(B) up to January 2009⁴ and Composite Index up to November 2008⁴ respectively, any further reduction of price fluctuation indices in December 2008 and the first quarter of 2009 would not have any significant impact on the operation fees of RTS and landfills to be paid in the 2008-09 financial year. Moreover, EPD has already taken into account the likely impact of the recent financial turmoil and economic downturn on the price fluctuation indices and has not built in any further increase of price fluctuation adjustments in the projection of operation fees to be paid in the remaining months of 2008-09.

8. The additional requirement of \$78.9 million for the RTS and the landfills operation can be partially offset by the lower-than-expected expenditure of other waste facilities and operation expenses (\$2.9 million). A supplementary provision of \$76 million is therefore required to meet the shortfall of the original estimates.

Financial Implications

9. We propose to seek the approval of FC for a supplementary provision of \$76 million in February 2009 for the operating expenses of waste management facilities. We will monitor the spending position of the expenses and further update, if necessary, the amount of supplementary provision near the submission of our request to the Finance Committee.

Environmental Implications

10. The proposed supplementary provision does not have any environmental implication.

Advice Sought

11. Members are invited to support our proposal to apply for a supplementary provision of \$76 million from the Finance Committee in February 2009.

Environmental Protection Department January 2009

⁴ Due to the timing required for the compilation of price indices, the CPI(B) for February 2009 and price indices for labour and construction materials for December 2008 are expected to be released by the Census and Statistics Department in late March 2009 and mid-March 2009 respectively. Therefore, the last payments for RTS and landfills operation fees to be settled in 2008-09 with invoices normally issued in early March 2009 could only be adjusted with the latest price indices available at that time (i.e. CPI(B) for January 2009 and Composite Index for November 2008).



