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CB(1) 776/08-09(01)

11 February 2009

LegoCo Secretariat
LegCo Panel on Environmental Affairs
3/F, Citibank Tower
Garden Road, Hong Kong
(Attn: Miss Becky YU)

Dear Miss YU,

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

At the Panel on Environmental Affairs meeting on 21 January 2009,
the Administration was asked to provide -

- (a) a breakdown on the operating expenses of the waste management facilities under the Environmental Protection Department for 2008-09; and
 - (b) the contractual arrangements for adjustment of operation fees according to the price indices.
2. We provide our response in the Information Notes **A** and **B** attached.

Yours sincerely,

(Ms Connie Ho)

for Director of Environmental Protection

Encl.

Information Note A

Operating expenses of various waste management facilities

Up to the end of January 2009, the operating expenses of various waste management facilities are as follow:

Facilities	2008-09 Original Estimates (\$ million) (a)	2008-09 Revised Estimates (\$ million) (b)	Expenditure from Apr 2008- to Jan 2009 (including commitments passed for payments) (\$ million) (c)	Applicable price index for adjustment of operation fees [changes compared with the index adopted in the preparation of 2008-09 Original Estimates]	Estimated expenditure from Feb 2009 to Mar 2009 (\$ million) (b) - (c)	2008-09 Estimated Surplus / (Shortfall) (\$ million) (a) - (b)
Refuse transfer stations	322.1	351.2	280.3	CPI(B) [Index for Nov 08 increased by 5.6% over Aug 07]	70.9	(29.1)
Landfills	397.6	441.7	371.3	Composite Index [Index for Oct 08 increased by 11.8% over Jun 07]	70.4	(44.1)
Chemical Waste Treatment Centre	345.0	345.0	289.0	CPI(B) [Index for Nov 08 increased by 5.6% over Aug 07]	56.0	-
Other waste facilities (Note 1)	33.8	30.6	25.0	-	5.6	3.2
Total	1,098.5	1,168.5	965.6		202.9	(70.0)

(88% of Original Estimates)

Note 1: Other waste facilities include Sha Ling Composting Plant, Low-level Radioactive Waste Storage Facility, Animal Waste Composting Plant, waste recycling & recovery programmes and operation of landfill charging scheme.

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Information Note B

Contractual arrangements for adjustment of operation fee according to fluctuation in price indices

Contract provision

As a general provision under both landfill and refuse transfer station (RTS) contracts, the monthly operation fees for these waste facilities need to be adjusted in accordance with fluctuation of the price fluctuation index specified under the contract.

RTS

The adjustment shall be made with reference to fluctuation of the Consumer Price Index (B) published by the Census and Statistics Department. A sample of calculation formula according to which the charge rate per tonne are increased or decreased is provided below:

$$R2 = R1 \times B/A$$

Where:

R2 is the increased or decreased charge rate per tonne

R1 is the charge rate per tonne as given in the Schedule of Charges, i.e. the rate tendered by the Contractor

B is the current index published by Census and Statistics Dept. from time to time

A is the base index at the time of tendering

If the current index (B) is greater than the base index (A), there will be a positive adjustment and vice versa.

Landfills

The adjustment shall be made with reference to fluctuation of Composite Index which is the combination of a number of indices [i.e. materials index (40%), labour index (25%) and CPI(B) (35%)] published by the Census and Statistics Department. A sample of calculation formula according to which the operation fee is increased or decreased is provided below:

$$OF2 = OF1 \times B/A$$

Where:

OF2 is the increased or decreased Operation Fee

OF1 is the amount of Operation Fee calculated according to the tendered rate submitted by the Contractor at the time of tendering

B is the current index published by Census and Statistics Dept. from time to time

A is the base index at the time of tendering

If the current net index (B) is greater than the base index (A), there will be a positive adjustment and vice versa.

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