

## **ITEM FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE**

### **HEAD 708 – CAPITAL SUBVENTIONS AND MAJOR SYSTEMS AND EQUIPMENT**

#### **2QW – Revitalisation Scheme - Revitalisation of the Former Lai Chi Kok Hospital into Jao Tsung-I Academy/The Hong Kong Cultural Heritage**

Members are invited to recommend to Finance Committee to increase the approved project estimate of **2QW** by \$35 million from \$223.5 million to \$258.5 million in money-of-the-day prices.

#### **PROBLEM**

The approved project estimate (APE) of **2QW** is not sufficient to cover the additional costs of the approved works under the project.

#### **PROPOSAL**

2. The Commissioner for Heritage (C for H), with the support of the Secretary for Development, proposes to increase the APE of **2QW** by \$35 million from \$223.5 million to \$258.5 million in money-of-the-day (MOD) prices.

**/PROJECT .....**

## PROJECT SCOPE AND NATURE

3. In June 2010, the Finance Committee (FC) approved the upgrading of **2QW** to Category A at an estimated cost of \$223.5 million in MOD prices for the selected non-profit making organisation (NPO), The Hong Kong Institute for Promotion of Chinese Culture (HKIPCC), to carry out the revitalisation of the Former Lai Chi Kok Hospital (the Hospital) into a centre for the promotion of Chinese culture, namely the Jao Tsung-I Academy/The Hong Kong Cultural Heritage (the Academy), under the Revitalising Historic Buildings Through Partnership Scheme (the Revitalisation Scheme).

4. The approved scope of **2QW** comprises revitalisation of the Hospital into the Academy for accommodating the following facilities –

- (a) two exhibition halls;
- (b) a performance hall;
- (c) courtyards/covered outdoor performance stage and outdoor activities area;
- (d) a recreation centre;
- (e) two information centres and a reading room;
- (f) 20 studios/classrooms;
- (g) 89 hostel rooms;
- (h) a reception, ticketing/front desk and shop;
- (i) two cafés/restaurants;
- (j) a kitchen; and
- (k) other ancillary facilities, e.g. lifts, toilets, storage, plant rooms, etc.

———— The site plan is at Enclosure 1. A bird's eye view of the Academy after revitalisation  
———— is at Enclosure 2. The master layout plan is at Enclosure 3.

5. The Hospital compound comprises a cluster of over 20 building blocks, spreading over three zones (namely the lower, middle and upper zones). As of end March 2012, 40% of the works (covering revitalisation works for the lower zone) have been completed. The remaining 60% of works (covering revitalisation works for the upper and middle zones) are expected to be completed by December 2012. The exhibition halls (for displaying Professor Jao's art collections, his achievements and the history of the Hospital) in the lower zone will commence operation in June 2012, whereas the facilities (including the hostels, performance hall, recreation centre, etc.) in the middle and upper zones will commence operation in the first quarter of 2013. Subject to the approval of FC for increasing the APE of **2QW**, we will complete the remaining works under the project for timely commissioning.

### JUSTIFICATION

6. Upon FC's approval for upgrading the project to Category A in June 2010, HKIPCC invited tenders for the works contract in September 2010. However, tenders returned exceeded the pre-tender estimates by 17% to 78%. To safeguard public money, HKIPCC re-tendered the works contract in late November 2010 after a cost saving exercise<sup>1</sup>. The main works then commenced in late January 2011.

7. Following a review of the financial position of the project, we consider it necessary to increase the APE of **2QW** by \$35 million from \$223.5 million to \$258.5 million in MOD prices to cover the additional costs arising from the following –

- (a) unforeseen additional renovation works for the historic buildings; and
- (b) increase in provision for price adjustment.

Details are set out in paragraphs 8 to 11 below.

**/Unforeseen .....**

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<sup>1</sup> For example, HKIPCC has simplified the design of the external landscaping with a view to lowering the cost of the works.

### **Unforeseen additional renovation works for the historic buildings**

8. During construction, it was discovered that the condition of the Chinese roofing and the structural conditions of the historic buildings was worse than anticipated. For example, compared to the benchmark areas surveyed in the pre-construction stage<sup>2</sup>, more roof tiles were found to be defective and more parts of the wooden supporting system for the roof tiles were found to be damaged. Also, conditions of the floor slab and walls were found to be more dilapidated than expected. As a result, the amount of roofing repair works and structural strengthening works required for compliance with the heritage conservation requirements of the Antiquities and Monuments Office (AMO) and the Buildings Ordinance (Cap. 123) was greater than expected.

9. When the additional renovation works required for dealing with the worse than expected conditions in the lower zone were instructed in September 2011, the additional works were estimated to cost \$4.1 million. As sufficient funds were available in the contingencies of the project, we have drawn down a sum of \$4.1 million from the contingencies in the APE to offset the cost for such additional renovation works. However, when similar poor conditions were also identified in the middle and upper zones with much larger areas<sup>3</sup> in March 2012, the estimated total cost of the additional renovation works increased by \$19.3 million from \$4.1 million to \$23.4 million, which could not be fully absorbed within the APE (details at Enclosure 4).

### **Increase in provision for price adjustment**

10. According to existing Government practice, monthly payments to contractors for most construction contracts are adjusted to cover market fluctuation in labour and material costs, which are known as Contract Price Fluctuation (CPF) payment. The payment for the works of **2QW** is subject to CPF, and the provision for price adjustment was allowed when FC's funding approval for **2QW** was sought in June 2010. At that time, on the basis of the set of assumptions on the trend rate of change in the prices of public sector building and construction output in March 2010, as well as the anticipated project cashflow (with only 5% of expenditure expected to be incurred in 2013-14 to 2014-15), a provision of \$16.3 million was allowed for price adjustment in the original APE.

/11. ....

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<sup>2</sup> At the pre-construction stage, detailed site investigation was carried out at selected areas of the project site / historic buildings.

<sup>3</sup> The floor area of lower zone is about 7% of the total floor area of the Academy. The floor area of middle and upper zones is about 93% of the total floor area of the Academy.

11. Upon review of the latest situation, the CPF payment is expected to increase by \$15.7 million from the originally budgeted \$16.3 million to \$32 million because of the need for increased provision for price adjustment due to the net increase in construction cost by \$19.3 million in paragraph 9 above and the revised cashflow pattern with the percentage of expenditure from 2013-14 to 2014-15 to be increased to the latest 34%. Moreover, construction material prices have been increasing since mid 2010. A chart showing the relevant trend of material costs is at Enclosure 5. According to the updated forecast on the trend rate of change in the prices of public sector building and construction output, the rate of change for 2012 and beyond has been revised from 4% per annum (when funding was sought for the project in June 2010) to 5.5% per annum<sup>4</sup>. Detailed cost breakdown and latest cashflow are at Enclosure 6 and paragraph 14 respectively.

### Review of financial position

12. We consider it necessary to increase the APE for **2QW** by \$35 million from \$223.5 million to \$258.5 million in MOD prices to cover the additional costs under the project. A breakdown of the proposed increase of \$35 million is as follows –

	<b>Factors</b>	<b>Proposed increase amount in MOD prices (\$ million)</b>	<b>% of the total increased amount / savings</b>
	<b>Increase due to-</b>		
(a)	Unforeseen additional renovation works for historic buildings	23.4	60%
(b)	Increase in provision for price adjustment	15.7	40%
(c)	Total increase (c)=(a)+(b)	39.1	100%

**/Factors .....**

<sup>4</sup> The price deflator for public sector building and construction output adopted for the original funding application approved by FC in June 2010 are 3% in 2010 and 4% per annum between 2011 and 2015, as against the latest figures / assumptions of 2.9% in 2010, 4.8% in 2011 and 5.5% per annum between 2012 and 2015.

Factors	Proposed increase amount in MOD prices (\$ million)	% of the total increased amount / savings
<b>Partly offset by-</b>		
(d) Drawdown from contingencies	4.1	100%
(e) <b>Proposed increase (e)=(c)-(d)</b>	<b>35</b>	

13. A comparison of the cost breakdown of the APE and the latest project estimate is given at Enclosure 4. We consider that the revised APE is sufficient to cover the costs of the project.

**Financial Implications**

14. Subject to FC’s approval, we will phase expenditure as follows –

Year	\$ million (Sept 2011)	Price adjustment factor	\$ million (MOD)
Up to 31 March 2012	82.7	1.00000	82.7
2012 – 13	78.8	1.05325	83.0
2013 – 14	50.3	1.11118	55.9
2014 – 15	31.5	1.17229	36.9
	—————		—————
	243.3		258.5
	—————		—————

15. The proposed increase in the APE will not give rise to any additional recurrent expenditure.

## **PUBLIC CONSULTATION**

16. As the proposed increase in the APE does not involve any change in project scope, we consider further public consultation not required. Nevertheless, we will continue to maintain close liaison with the local community during the construction and operational phases of the project. We consulted the Legislative Council (LegCo) Panel on Development on 22 May 2012 on the proposed increase in APE for **2QW**. Members have no objection to the proposal.

## **ENVIRONMENTAL IMPLICATIONS**

17. The proposed increase in the APE does not have any environmental implication.

## **LAND ACQUISITION**

18. The proposed increase in the APE does not require land acquisition.

## **HERITAGE IMPLICATIONS**

19. The proposed increase in the APE does not have any heritage implication.

## **BACKGROUND INFORMATION**

20. We upgraded **2QW** to Category B in April 2009. Part of **2QW** was upgraded to Category A in August 2009 under delegated authority at an estimated cost of \$11.81 million in MOD prices for HKIPCC to carry out the pre-contract consultancies (which included detailed architectural, heritage conservation, structural, geotechnical, building services, landscape design, quantity surveying services and tender documentation) and minor investigation for **2QW**.

21. Details of the Revitalisation Scheme were set out in LegCo Paper No. CB(2)637/07-08(03), which was discussed by the LegCo Panel on Home Affairs on 2 January 2008.

22. In June 2010, FC approved the upgrading of the remaining part of **2QW** to Category A with an APE of \$223.5 million in MOD prices for the selected NPO to carry out the revitalisation works for the project. The proposed increase in APE was discussed by the LegCo Panel on Development on 22 May 2012.

23. The proposed increase in the APE will not involve any tree removal or planting proposals.

24. The proposed increase in the APE will not create any new jobs.

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Development Bureau  
May 2012



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**Comparison between the approved project estimate (APE)  
and the latest project estimate (PE)**

	<b>(A) Approved Estimate (\$ million)</b>	<b>(B) Latest Estimate (\$ million)</b>	<b>(B)-(A) Difference (\$ million)</b>
(a) demolition and site clearance	2.4	8.2	5.8
(b) slope works and piling	7.8	7.8	0.0
(c) building	77.0	100.4	23.4
(d) building services	25.5	33.4	7.9
(e) drainage	5.0	5.0	0.0
(f) external works and landscaping	24.7	20.6	(4.1)
(g) installation of disabled access lifts and connection bridges	8.5	8.5	0.0
(h) additional energy conservation measures	1.7	1.7	0.0
(i) furniture and equipment	27.2	27.2	0.0
(j) consultants' fees	4.5	4.5	0.0
(k) remuneration of resident site staff	4.1	4.1	0.0
(l) contingencies	18.8	5.1	(13.7)
(m) provision for price adjustment	16.3	32	15.7
<b>Total</b>	<b>223.5</b>	<b>258.5</b>	<b>35.0</b>

2. As regards item 1(a) (Demolition and site clearance) and item 1(d) (Building Services), the increases of \$5.8 million and \$7.9 million respectively are due to higher-than-expected tender price for the items. The higher-than-expected tender prices were covered by a drawdown of \$9.6 million from the contingency sum and project savings of \$4.1 million arising from external works and landscaping. Please also see paragraph 5 below.

3. **As regards items 1(c) (Building)**, the increase of \$23.4 million is due to the unforeseen additional renovation works for the Chinese roofing and structural strengthening for the historic buildings.

4. **As regards items 1(f) (External works and landscaping)**, the decrease of \$4.1 million is due to simplification of design of the external landscaping.

5. **As regards item 1(l) (Contingencies)**, \$5.1 million is retained for meeting unexpected expenditures required for completing the remaining works. When the works contract was awarded, a sum of \$9.6 million from the original \$18.8 million in contingencies, together with the \$4.1 million saving arising from external works and landscaping (item 1(f) above), have been drawn down to cover the higher-than-expected tender prices for demolition and site clearance (item 1(a) above) and building services (item 1(d) above). During construction, another \$4.1 million has been drawn down to partly offset the additional cost for building works (item 1(c) above) in lower zone as described in paragraph 9.

6. **As regards item 1(m) (Provision for price adjustment)**, the increase of \$15.7 million is due to increase in projected payments for contract price adjustment.

**Enclosure 6 to PWSC(2012-13)20**

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**Table 1- Cash flow and provision for price adjustment in PWSC(2010-11)6**

<b>Year</b>	<b>Original project estimate (\$ million, Sept 2009)</b> <b>X</b>	<b>Original price adjustment factors (Mar 2010)</b> <b>Y</b>	<b>Approved project estimate (\$ million, MOD)</b> <b>Z</b>	<b>Provision for price adjustment (\$ million)</b> <b>A=Z-X</b>
2010-11	31.0	1.02700	31.8	0.8
2011-12	98.1	1.06551	104.5	6.4
2012-13	68.1	1.10813	75.5	7.4
2013-14	5.3	1.15246	6.1	0.8
2014-15	4.7	1.19856	5.6	0.9
<b>Total</b>	<b>207.2</b>	<b>-</b>	<b>223.5</b>	<b>16.3</b>

**Table 2- Latest Cash flow and provision for price adjustment due to latest project estimate (PE) and latest price adjustment factors**

<b>Year</b>	<b>Latest PE (\$ million, Sept 2009)</b> <b>a</b>	<b>Latest PE (\$ million, Sept 2011)<sup>^^</sup></b> <b>b</b>	<b>Latest price adjustment factors # (Mar 2012)</b> <b>c</b>	<b>Latest PE (\$ million, MOD)</b> <b>d</b>	<b>Latest provision for price adjustment (\$ million)</b> <b>e</b>	<b>Net increase in provision for price adjustment (\$ million)</b> <b>f</b>
Up to Mar 2012	77.0	82.7 <sup>^</sup>	1.00000	82.7	e=d-a	f=e-A
2012-13	73.4	78.8	1.05325	83.0		
2013-14	46.8	50.3	1.11118	55.9		
2014-15	29.3	31.5	1.17229	36.9		
<b>Total</b>	<b>226.5</b>	<b>243.3</b>	<b>-</b>	<b>258.5</b>	<b>32</b>	<b>15.7</b>

Notes:

<sup>^</sup> \$82.7 million was the actual expenditure up to March 2012.

<sup>^^</sup> The latest project estimate (in September 2009 prices) was multiplied by 1.07403 for conversion to September 2011 prices. The figure of 1.07403 represented the changes in price movement for public sector building and construction output between September 2009 and September 2011.

<sup>#</sup> Price adjustment factors promulgated in March 2012 were based on the projected movement of prices for public sector building and construction output at that time, which are assumed to increase by 5.5% from 2012 to 2022.