

Public Works Subcommittee Meeting on 13 June 2012
List of issues requiring follow-up actions by the Administration
before the relevant meeting of the Finance Committee

Item PWSC(2012-13)30
439RO – Kwun Tong promenade (stage 2)

Issue

During the discussion of the proposed project “Kwun Tong promenade (stage 2)” (the project) at the Public Works Subcommittee (PWSC) meeting on 13 June, the Chairman and Hon Alan LEONG raised concern on the phased expenditure of the project proposal as set out in paragraph 8 of the Administration’s paper. The Administration was requested to provide supplementary information detailing the justifications for the high proportion of expenditure to be incurred after the completion of the project.

Response

2. The Administration’s response to the issue raised by Members is provided below.

3. The project is targeted for completion in December 2014, i.e., within 2014-15 financial year. We estimate the total project cost to be \$212.5 million at September 2011 prices (or \$250.7 million in money-of-the-day prices).

4. The anticipated expenditure after the year of completion, i.e., from 2015-16 to 2017-18 financial years is as follows -

Year	\$ million (Sept 2011)	Percentage of total project cost
2015 – 16	41.0	19.3%
2016 – 17	16.0	7.5%
2017 – 18	6.4	3.0%
	63.4	29.8%

5. The expenditure is phased in this manner to cover the following -

(a) Interim payments after works completion

6. Works under the project are expected to be completed by December 2014, and a portion of payment for the works is expected to be settled after works completion under prevailing arrangements. As per common practice, the contractor will submit, sometimes substantial, interim payment applications after

works completion, and such applications will take time to process and settle. In light of the target works completion date for this project (December 2014) and the time required for processing and settling payment applications, we expect that a portion of the interim payments will only be settled in 2015-16 financial year (beginning April 2015).

7. For this particular project, some prefabricated works and proprietary equipment, such as fitness equipment, play equipment, park furniture, etc., will be installed just before works completion in December 2014. In line with the arrangements explained above, interim payments for these equipments and installation works are expected to be settled in 2015-16 financial year.

8. It is also common practice that a portion of the works completed will only be paid for after clearance of outstanding formalities, such as as-built drawings, warranties, operation and maintenance manuals, testing and commissioning of facilities and equipment, and completion of outstanding or defective works.

9. Taking the above into consideration, we expect an amount of \$22 million will be paid in 2015-16 financial year for interim payments after works completion in December 2014.

(b) Expenditure on furniture and equipment

10. Furniture and equipment (F&E) under this project will cost about \$3.1 million. F&E items are expected to be procured around the time of completion of construction works in end 2014 and early 2015. In line with the settlement arrangements explained above, we expect that the \$3.1 million for F&E items will be expended in 2015-16 financial year.

(c) Payments during account finalization process

11. Finalisation of project account will commence after project completion in December 2014. During account finalisation which is a complicated process, variation works ordered during the course of construction and provisional items¹ will be valued / re-measured, and claims from the contractor will be verified and valued according to the contract provisions. With reference to past experience, we aim to finalise the project account within three years after works completion i.e. by 2017-18 financial year. Payment to be made during the account finalisation process (2015-16 to 2017-18 financial years) is estimated at \$28.3 million in total.

¹ Provisional items are works items which cannot be accurately defined or detailed in tender stage due to, for example, unforeseeable site conditions. We will set a provisional quantity or a provisional sum for each of such items in the contract. The actual quantities delivered by the contractor will be measured or validated after works completion.

(d) Expenditure on improvement works

12. It is common for departments responsible for the management and operation of the new facilities to propose minor improvement works after commissioning of the facilities with a view to addressing concerns of stakeholders, e.g. District Councils. We have therefore budgeted about \$10 million under project contingencies for this purpose. As the improvement works are likely to be carried out after substantial works completion in December 2014, we expect that the sum will be expended in 2015-16 to 2017-18 financial years.

13. For similar projects, expenditure after works completion usually amounts to about 20% of the total project cost. As a result of the target works completion date of this project (December 2014, which is close to the end of the financial year in March 2015), we have apportioned an additional 10% of the estimated expenditure to 2015-16 financial year following works completion in December 2014 i.e. 2014-15 financial year.