

For circulation

Legislative Council Panel on Development

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

PURPOSE

This paper seeks to inform Members that the Administration will make a submission to the Public Works Subcommittee (PWSC) of the Legislative Council (LegCo) on 30 May 2012 to seek an increase in the approved project estimate (APE) of **2QW** by \$35 million from \$223.5 million to \$258.5 million in money-of-the-day (MOD) prices. Subject to the endorsement of the PWSC, we will seek funding approval from the Finance Committee (FC) on 22 June 2012.

PROJECT SCOPE

2. The Former Lai Chi Kok Hospital (the Hospital) would be revitalised into a centre for the promotion of Chinese culture, namely the Jao Tsung-I Academy/The Hong Kong Cultural Heritage (the Academy) by the selected non-profit-making organisation (NPO), The Hong Kong Institute for Promotion of Chinese Culture (HKIPCC), under the Revitalising Historic Buildings Through Partnership Scheme (the Revitalisation Scheme). As provided for under the Revitalisation Scheme, Government will meet the cost of the revitalisation works via a capital subvention under the Capital Works Reserve Fund.

3. In June 2010, the 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.

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. Upon the project's upgrading to Category A in June 2010, the selected NPO invited tenders for the main works under the project in September 2010. Tenders returned exceeded our pre-tender estimates by 17% to 78%. To safeguard public money, we re-tendered the main works in late November 2010 after a cost saving exercise¹. Tender prices from the re-tender exercise were within the approved project estimate. The main works were then awarded in late January 2011 and commenced on 31 January 2011.

6. The Hospital compound comprises a cluster of over 20 building blocks of Utilitarian style, spreading over three zones (namely the lower, middle and upper zones). The original plan was to commence renovation works in October 2010. However, the construction period has been deferred due to the need for re-tender and unforeseen additional renovation works required for the historic buildings. As of end March 2012, 40 % of the works (including mainly renovation works for the lower zone) under the project have been completed. The remaining 60 % of works (including renovation works for the upper and middle zones) are expected to be completed by December 2012. The lower zone (including the exhibition halls for displaying Professor Jao's art collections, his achievements and the history of the Hospital) will commence operation in June 2012, whereas the middle and upper zones (including the hostels, performance hall, recreation centre, etc.) will commence operation in the first quarter of 2013.

JUSTIFICATION

¹ For example, we have simplified the design of the external landscaping with a view to lowering the cost of the works.

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.

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 were worse than anticipated. For example, compared to the benchmark areas surveyed in the pre-construction stage², 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) were 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. Sufficient funds were then available in the contingencies of the project to cover the additional cost. However, when similar poor conditions were also identified in the middle and upper zones with much larger areas in March 2012, the estimated total cost of the additional renovation works increased from \$4.1 million to \$23.4 million, which could not be fully absorbed within the APE (details at Enclosure 6).

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 **2WQ** 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, a provision of \$16.3 million was allowed for price adjustment in the original APE.

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

11. Construction material prices have been increasing since mid 2010. A chart showing the relevant trend of material costs is at Enclosure 4. For example, the cost indices for galvanized mild steel, hardwood, metal formwork, sand and steel reinforcement have risen by 8.3%, 42.1%, 12.4%, 10.4%, 34.4% and 10.1% respectively between June 2010 prices (when funding for **2QW** was approved) and January 2012. In the light of the increase in subsequent forecast on the trend rate of change in the prices of public sector building and construction output (the latest forecast is that there will be an increase of 5.5% per annum from 2012 to 2015) and the actual price deflators between 2010 and 2011 (the actual price deflators for 2010 and 2011 were 2.9% and 4.8% respectively)³, the CPF payment has been higher than expected. With reference to the latest cashflow for the project, we anticipate that the provision for price adjustment will have to be increased by \$15.7 million from \$16.3 million to \$32 million. Detailed cost breakdown and latest cashflow are at Enclosure 5 and paragraph 14 respectively.

Review of financial position

12. Upon a review of the financial position of the project, 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 –

	Factors	Proposed increase amount in MOD prices (\$ million)	% of the total increased amount savings
	Increase due to-		
(a)	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%
	Offset by-		
(d)	Drawdown from contingencies	4.1	
(e)	Proposed increase (e)=(c)-(d)	35	

³ 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.

13. A comparison of the cost breakdown of the APE and the latest project estimate is given at Enclosure 6. 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.

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

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

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

Year	Original project estimate (\$ million, Sept 2009) X	Original price adjustment factors (Mar 2010) Y	Approved project estimate (\$ million, MOD) Z	Provision for price adjustment (\$ million) A=Z-X
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
Total	207.2	-	223.5	16.3

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

Year	Latest PE (\$ million, Sept 2009) a	Latest PE (\$ million, Sept 2011)^{^^} b	Latest price adjustment factors # (Mar 2012) c	Latest PE (\$ million, MOD) d	Latest provision for price adjustment (\$ million) e	Net increase in provision for price adjustment (\$ million) f
Up to Mar 2012	77.0	82.7 [^]	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		
Total	226.5	243.3	-	258.5	32	15.7

Notes:

[^] \$82.7 million was the actual expenditure up to March 2012.

^{^^} 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.

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.

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

	(A) Approved Estimate (\$ million)	(B) Latest Estimate (\$ million)	(B)-(A) Difference (\$ million)
(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
Total	223.5	258.5	35.0

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.

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 expenditures required for completing the remaining works. When main contract is awarded, a sum of 9.6 million from the original \$18.8 million 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 (items 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 unexpected increase in projected payments for contract price adjustment.