

For information

Legislative Council Panel on Development

**103CD – Drainage improvement in Northern Hong Kong Island –
Hong Kong West drainage tunnel**

PURPOSE

This paper briefs Members on our proposal to increase the approved project estimate (APE) of **103CD** by \$336.6 million from \$3,044.7 million to \$3,381.3 million in money-of-the-day (MOD) prices.

PROJECT SCOPE

2. In June 2007, the Finance Committee (FC) approved the upgrading of **103CD** to Category A at an estimated cost of \$3,044.7 million in MOD prices. There is no change to the approved scope of **103CD** which comprises –

- (a) a drainage tunnel of about 11 kilometres (km) in length and of diameter varying from 6.25 metres (m) to 7.25 m from Tai Hang to Pokfulam;
- (b) eastern and western portals, and
- (c) 34 intakes, about 8 km of associated connection adits and ancillary works.

— A layout plan showing the location of the works is at **Enclosure 1**.

3. We started the construction works in November 2007 and expect to substantially complete the works in March 2012. As at end September 2011, 81% of works were completed.

JUSTIFICATION

4. Following a review of the financial position of the project, it is necessary to increase the APE of **103CD** by \$336.6 million in MOD prices to cover the additional costs arising from the increase in provision for price adjustment.

5. 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 **103CD** is subject to CPF, and the provision for price adjustment was allowed when FC's approval for the APE of **103CD** was sought in June 2007. At that time, we estimated the CPF payment on the basis of the forecast of trend rate of change in the prices of public sector building and construction output in March 2007. A provision of \$94.7 million was allowed for in the original APE for price adjustment based on the prevailing price adjustment factors and the projected cash flow.

6. There has been a steady increase in construction material prices since 2004. But from mid-2007 onwards, there was an accelerated increase and followed by a steady increase since mid-2009 onwards. A chart showing the relevant trend of material costs is at **Enclosure 2**. For example, the July 2011 cost index for steel reinforcement, galvanized mild steel and sand has risen by 33.4%, 24.8% and 49.9% respectively from the June 2007 prices when the funding for the project was approved. In the light of the sharp 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% per annum in 2011 and 5.5% per annum from 2012 to 2015) and the actual price deflators between 2007 and 2010 (the actual price deflators for 2007, 2008, 2009 and 2010 were 2.9%, 8.7%, 3.1% and 2.9% respectively), the CPF payments have been higher than expected. We anticipate that the provision for price adjustment will have to be increased by **\$336.6 million** from \$94.7 million to \$431.3 million. Details are at **Enclosure 3**.

7. A provision of \$263.0 million in the original APE as contingencies has been reduced to \$10.8 million to account for the higher-than-expected tender prices and site supervision cost. The remaining contingencies are required to cater for further variations to the works. As such, the additional CPF payment of \$336.6 million cannot be offset by the contingencies.

8. A comparison of the cost breakdown of the APE and the latest project estimate is given at **Enclosure 4**.

FINANCIAL IMPLICATIONS

9. Subject to FC's approval, we will phase the expenditure as follows –

Year	\$ million (in MOD prices)
Up to 31 March 2011	2,079.2
2011 – 2012	500.0
2012 – 2013	200.0
2013 – 2014	301.5
2014 – 2015	300.6
Total	3,381.3

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

PUBLIC CONSULTATION

11. As the proposed increase in APE does not involve any change in project scope, we consider further public consultation not required.

ENVIRONMENTAL IMPLICATIONS

12. The proposed increase in APE does not cause any environmental implication.

HERITAGE IMPLICATIONS

13. The proposed increase in APE does not affect any heritage site, i.e. all declared monuments, proposed monuments, graded historic sites/buildings, sites of archaeological interests and Government historic sites identified by the Antiquities and Monuments Office.

LAND ACQUISITION

14. The proposed increase in APE does not require any land acquisition.

BACKGROUND INFORMATION

15. In June 2007, we upgraded **103CD** to Category A at an estimated cost of \$3,044.7 million for the construction of Hong Kong West drainage tunnel.

The drainage tunnel will enhance the capacity of the existing drainage system, and alleviate the flooding risks of northern Hong Kong Island during heavy rainstorms. The construction works commenced in November 2007 for substantial completion in March 2012.

16. The proposed increase in APE will not involve any tree removal and planting proposal.

17. The proposed increase in APE will not create any new job.

WAY FORWARD

18. We plan to seek the support of Public Works Subcommittee for the increase in APE of **103CD** in December 2011 with a view to seeking funding approval from FC in January 2012.

Development Bureau
November 2011