

**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 –

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

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.

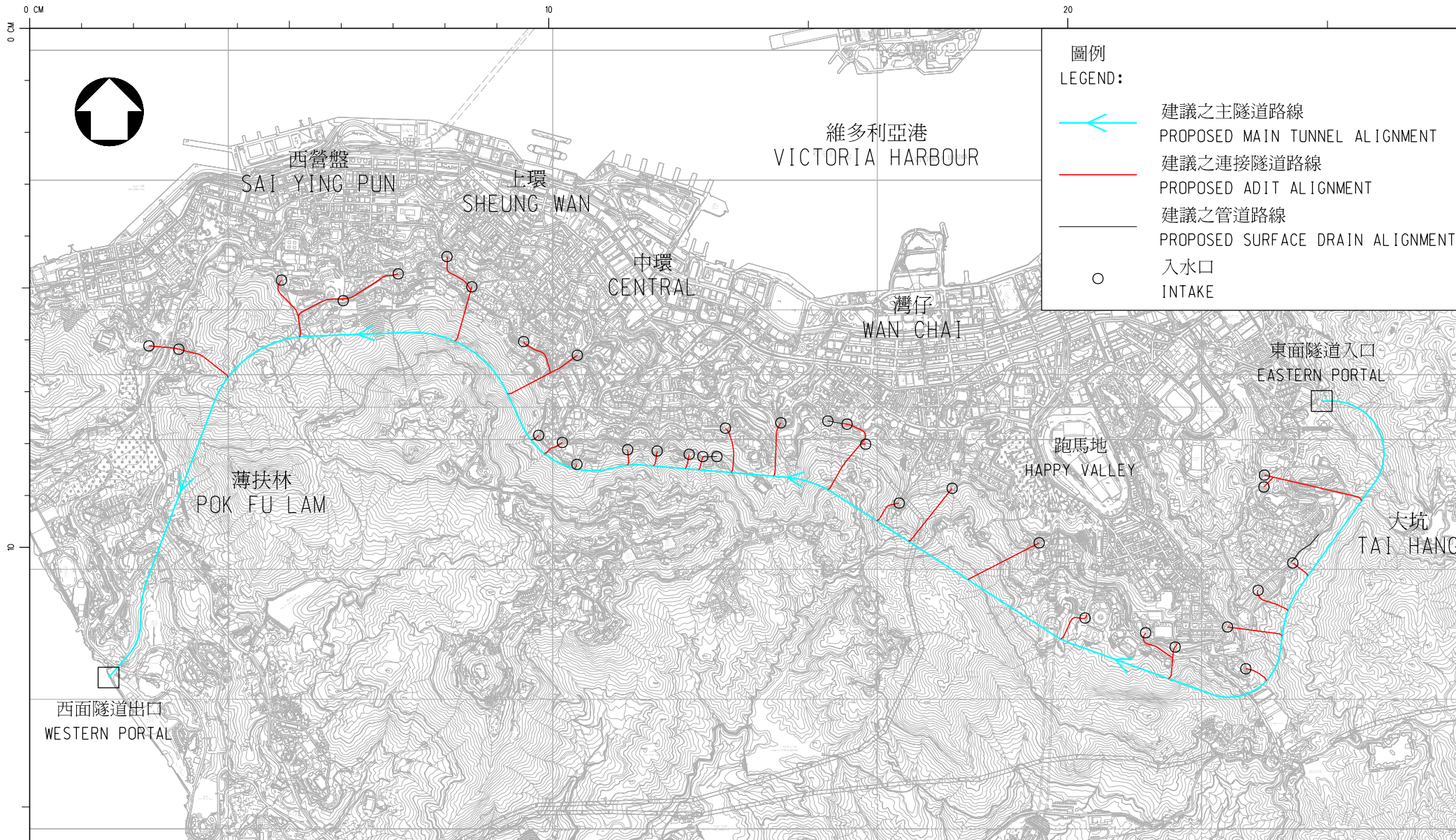
17. The proposed increase in APE will not create any new job.

## **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.

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**Development Bureau**  
**November 2011**



圖則名稱 drawing title  
工務計劃項目第103CD號  
港島北部雨水排放系統改善工程-港島西雨水排放隧道  
PWP ITEM NO. 103CD  
DRAINAGE IMPROVEMENT IN NORTHERN HONG KONG ISLAND  
- HONG KONG WEST DRAINAGE TUNNEL

繪畫 drawn	SIGNED C.K.LAM	日期 date	01FEB07
核對 checked	SIGNED K.S.TONG	日期 date	01FEB07
批核 approved	SIGNED M.H.LEUNG	日期 date	01FEB07
部門 office	工程管理部 PROJECT MANAGEMENT DIVISION		

圖則編號 drawing no.	比例 scale
DPM/103CD0/0002	N.T.S.
保留版權 COPYRIGHT RESERVED	
香港特別行政區政府渠務署 DRAINAGE SERVICES DEPARTMENT GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION	

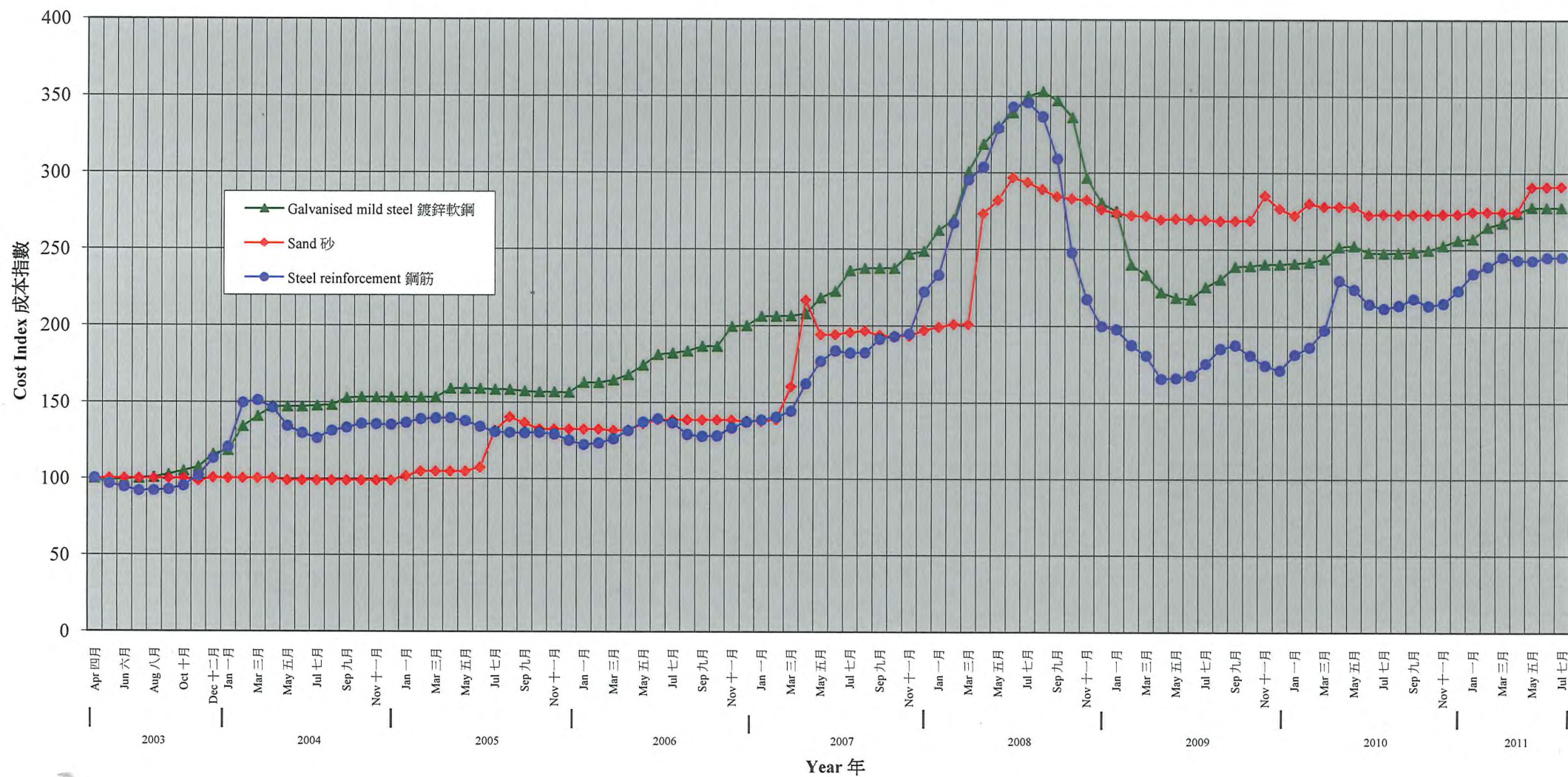


# Index Numbers of Cost of Materials used in Public Sector Construction Projects (Apr 2003 = 100)

(Apr 2003 - Jul 2011)

公營建築工程的材料成本指數 (2003年4月=100)

(2003年4月至2011年7月)



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**Table 1 – Cash flow and provisions for price adjustment in PWSC(2007-08)17**

Year	Original project estimate (\$ million, in September 2006 prices) <b>A</b>	Original price adjustment factor (March 2007)# <b>B</b>	Approved project estimate (\$ million, in MOD prices) <b>C</b>	Provision for price adjustment (\$ million) <b>D = C – A</b>
2007 – 2008	39.0	0.99900	39.0	0.0
2008 – 2009	280.0	1.00649	281.8	1.8
2009 – 2010	830.0	1.01656	843.7	13.7
2010 – 2011	820.0	1.02672	841.9	21.9
2011 – 2012	401.0	1.03699	415.8	14.8
2012 – 2013	240.0	1.05514	253.2	13.2
2013 – 2014	180.0	1.07624	193.7	13.7
2014 – 2015	160.0	1.09777	175.6	15.6
<b>Total</b>	<b>2,950.0</b>		<b>3,044.7</b>	<b>94.7</b>

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

Year	Latest PE (\$ million, in September 2006 prices) <b>a</b>	Latest PE (\$ million, in September 2011 prices) ^^ <b>B</b>	Latest price adjustment factor (October 2011) ## <b>C</b>	Latest PE (\$ million, in MOD prices) <b>d</b>	Latest provision for price adjustment (\$ million) <b>e</b>	Net increase in provision for price adjustment (\$ million) <b>f</b>
Up to March 2011	1,962.2	2,079.2^	1.00000	2,079.2	<b>e = (d – a)</b>	<b>f = (e – D)</b>
2011 – 2012	405.7	500.0	1.00000	500.0		
2012 – 2013	154.0	189.8	1.05375	200.0		
2013 – 2014	220.1	271.2	1.11171	301.5		
2014 – 2015	208.0	256.3	1.17285	300.6		
<b>Total</b>	<b>2,950.0</b>	<b>3,296.5</b>		<b>3,381.3</b>	<b>431.3</b>	<b>336.6</b>

**Notes:**

# Price adjustment factors adopted in March 2007 were based on the projected movement of prices for public sector building and construction output at that time, which were assumed to have no change in 2007 and to be increased by 1.0% per annum over the period from 2008 to 2011 and by 2.0% per annum from 2012 onwards.

## Price adjustment factors promulgated in October 2011 are based on the latest movement of prices for public sector building and construction output, which are assumed to increase by 5.0% per annum in 2011 and by 5.5% per annum over the period from 2012 onwards.

^ \$2,079.2 million is the actual expenditure up to 31 March 2011.

^^ The latest project estimate (in September 2006 prices) is multiplied by 1.23228 for conversion to September 2011 prices. The figure of 1.23228 represents the changes in price movement for public sector building and construction output between September 2006 and September 2011.



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A comparison of the approved project estimate and the revised project estimate is as follows -

	<b>(A) Approved Project Estimate</b>	<b>(B) Revised Project Estimate<sup>1</sup></b>	<b>(C) Latest Project Estimate</b>	<b>(C) – (A) Difference</b>
	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>
(a) Construction of drainage tunnel, eastern and western portals, intakes, adits and ancillary works	2,429.2	2,663.2	2,663.2	234.0
(b) Consultant's fees for contract administration and site supervision	227.8	227.8	246.0	18.2
(c) Environmental mitigation measures	30.0	30.0	30.0	0.0
(d) Contingencies	263.0	29.0	10.8	(252.2)
(e) Provision for price adjustment	94.7	94.7	431.3	336.6
<b>Total</b>	<u>3,044.7</u>	<u>3,044.7</u>	<u>3,381.3</u>	<u>336.6</u>

2. As regards (a) **(Construction of drainage tunnel, eastern and western portals, intakes, adits and ancillary works)**, the total increase of \$234 million is due to higher-than-expected tender price.

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<sup>1</sup> Revised project estimate after contract award

3. As regards **(b) (Consultant's fees for contract administration and site supervision)**, the total increase of \$18.2 million is due to adjustment on salary pay scale and housing benefit of resident site staff.

4. As regards **(d) (Contingencies)**, the net decrease of \$252.2 million is due to setting aside provision to meet (a) and (b). We consider it necessary to retain the remaining sum of \$10.8 million as contingencies to cater for further variations and possible claims during construction and valuation of works during finalisation of project account.

5. As regards **(e) (Provision for price adjustment)**, the increase of \$336.6 million is due to unexpected increase in actual and projected provision for price adjustment.