

政府總部
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3 June 2014

Clerk to Public Works Subcommittee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
(Attn.: Ms Sharon CHUNG)

By E-mail

Dear Ms CHUNG,

**Legislative Council
Public Works Subcommittee**

Follow-up to meeting on 27 May 2014

At the captioned meeting on 27 May 2014, member raised the following issue:

| Item | Issue |
|------|--|
| - | 1. At the request of Hon Albert CHAN, the Administration would provide a comparison of the actual expenditures on public works projects of the past year and the year before, with a breakdown by Heads of expenditure under the Capital Works Reserve Fund; and an analysis on whether the rising construction costs have an impact on the costs of such projects. |

Response

The information with respect to Issue no. 1 is provided below.

- (a) The expenditure on capital works projects under the Capital Works Reserve Fund in the past two years was as follows:-

| Heads of Expenditure | Financial Year | |
|--|-------------------------|-------------------------|
| | 2012-13 (\$ million) | 2013-14 (\$ million) |
| 702 – Port and Airport Development | 3.3 | 2.0 |
| 703 – Buildings | 10,417.0 | 7,546.2 |
| 704 – Drainage | 5,901.6 | 6,076.8 |
| 705 – Civil Engineering | 4,439.9 | 3,856.6 |
| 706 – Highways | 26,682.4 | 37,521.5 |
| 707 – New Towns and Urban Area Development | 2,597.1 | 2,606.8 |
| 708 (part) – Capital Subventions | 8,447.2 | 7,590.1 |
| 709 – Waterworks | 3,354.5 | 4,306.4 |
| 711 – Housing | 529.1 | 523.3 |
| Total | 62,372.1 | 70,029.7 |

- (b) The escalation in construction costs in the past few years has inevitably impacted on the payments for capital works projects. For those projects already in the construction stage, under the existing contract mechanism of risk sharing, payments to contractors are adjusted to account for changes in labour wages and material prices. Where there are limited remaining fund contingencies, increases in contractual payment for price fluctuation could potentially lead to an increase in the Approved Project Estimate (APE) to be sought from the Public Works Sub-committee/Finance Committee. In the recent 5 legislative sessions, the Public Works Sub-committee has endorsed and the Finance Committee has approved 22 applications for increase in

APEs with a total amount of \$21 billion all of which involved more-than-expected contract price adjustment being one of the reasons for increase. Comparing to the total original APE of \$374 billion for submissions approved in the same period, the increase is 5.6% of the original APE.

Details of the projects with increases in APE in the recent 5 legislative sessions are shown in the table below.

| LegCo Session | Projects with Increase in APE | Increase in APE¹ (\$ million) |
|----------------------|--|---|
| 2009-10 | Tamar Development Project | 359.8 |
| 2009-10 | Secondary school at Aberdeen Reservoir Road, Aberdeen | 27.3 |
| 2009-10 | North District sewerage, stage 1 phase 2B | 55.0 |
| 2009-10 | Outlying Islands sewerage, stage 1 phase 2 – Sok Kwu Wan sewage collection, treatment and disposal facilities | 97.3 |
| 2009-10 | Outlying Islands sewerage, stage 1 phase 1 part 2 – Yung Shue Wan sewerage, sewage treatment works and outfall | 59.2 |
| 2009-10 | Improvement to Hong Kong Central mid-level and high level areas water supply – remaining works | 100.5 |
| 2009-10 | Upgrading of Pillar Point sewage treatment works | 559.6 |
| 2010-11 | Sai Sha Road widening between Kam Ying Road and future Trunk Road T7 junction | 8.9 |
| 2010-11 | District Cooling System at the Kai Tak Development | 190.8 |
| 2010-11 | Redevelopment of Caritas Medical Centre, Phase 2 | 501.5 |

¹ One of the main reasons for increase in APE is increase in price adjustment to cover escalation in construction costs.

| LegCo Session | Projects with Increase in APE | Increase in APE¹ (\$ million) |
|----------------------|--|---|
| 2011-12 | Drainage improvement in Northern Hong Kong Island –Hong Kong West drainage tunnel | 336.6 |
| 2011-12 | Drainage improvement in Tsuen Wan, Kwai Chung and Tsing Yi – Tsuen Wan drainage tunnel | 226.5 |
| 2011-12 | Drainage improvement works in Ping Kong, Kau Lung Hang, Yuen Leng, Nam Wa Po and Tai Hang areas | 97.9 |
| 2011-12 | Drainage improvement works in upper Lam Tsuen River, She Shan River, upper Tai Po River, Ping Long and Kwun Hang | 141.9 |
| 2011-12 | Hong Kong–Zhuhai–Macao Bridge—Hong Kong Link Road | 8,857.3 |
| 2011-12 | Revitalisation Scheme - Revitalisation of the Former Lai Chi Kok Hospital into Jao Tsung-I Academy/The Hong Kong Cultural Heritage | 35.00 |
| 2012-13 | Sewerage at Clear Water Bay Road, Pik Shui Sun Tsuen and west of Sai Kung town | 68.4 |
| 2012-13 | Traffic Improvements to Tuen Mun Road Town Centre Section | 153.5 |
| 2012-13 | Bus-bus interchanges on Tuen Mun Road | 43.0 |
| 2012-13 | District Cooling System at the Kai Tak Development | 1,284.1 |
| 2013-14 | Central–Wan Chai Bypass and Island Eastern Corridor Link | 7,934.3 |
| 2013-14 | Redevelopment of Ying Wa Girls' School at Robinson Road, Hong Kong | 220.7 |

For projects still in the planning and design stage, the works departments have in place established systems for reviewing and updating the project estimates based on the latest market rates and other information such as available tender price indices. As an indication, since 2009, the Building

Works Tender Price Index compiled by the Architectural Services Department has increased by about 62%. Such a trend would again inevitably lead to increases in the project estimates when funding is sought from the Public Works Sub-committee/Finance Committee for upgrading the projects to Category A for construction.

I would be grateful if you could distribute this letter to all members of the Public Works Subcommittee for their reference.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'John Kwong', written over a horizontal line.

(John Kwong)
for Secretary for Development

cc . Secretary for Financial Services and the Treasury
(Attn.: Ms Jasmine Choi)