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Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Ms Sophie Lau)

By fax and by email
(Email: ssylau@legco.gov.hk)
(Fax: 2978 7569)

Dear Ms Lau,

**Legislative Council Panel on Transport
Meeting on 16 January 2015
845TH – Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary
Crossing Facilities – Reclamation and Superstructures**

Supplementary Information

At the meeting of the Panel on Transport held on 16 January 2015, Members requested the Administration to provide supplementary information about the captioned project. Our reply is as follows:

**Hong Kong side's contribution of the Hong Kong-Zhuhai-Macao Bridge
(HZMB) Main Bridge**

The entire HZMB project consists of two parts: (i) the HZMB Main Bridge; and (ii) the link roads and boundary crossing facilities of the three sides. The works of the HZMB Main Bridge are situated in Mainland waters and are being carried out by the HZMB Authority. The three governments are responsible for their own boundary crossing

facilities and link roads.

According to the agreement of the three governments on the construction, operation, maintenance and management of the HZMB, the Mainland government will contribute RMB ¥7 billion, the HKSAR will contribute RMB ¥6.75 billion and the Macao SAR government will contribute RMB ¥1.98 billion. The total contributions from the three sides will be RMB ¥15.73 billion, whilst the remaining cost will be financed by loans. Regarding Hong Kong side's contribution, as approved by the Legislative Council, the approved project estimates (APE) of the funding support for the HZMB Main Bridge is HKD \$9.28 billion in total. As of February 2015, the capital injection from the Hong Kong side to the HZMB Main Bridge project is about HKD \$6.97 billion.

Cost on the judicial review (JR) regarding the Environmental Impact Assessment Reports of the HZMB

The Government's total expenditure in the JR regarding the Environmental Impact Assessment reports of the HZMB (including the Government's legal costs as well as the legal aid costs incurred) is about \$10.49 million. Besides, as affected by the JR, the commencement of the HZMB related local projects was deferred by about one year when compared with the original plan, resulting in a cost increase of about \$6.5 billion.

Reasons for the increase in project cost of the HZMB Hong Kong Boundary Crossing Facilities (HKBCF)

As indicated by the Secretary for Transport and Housing at the Legislative Council Panel on Transport on 16 January this year, the Joint Works Committee of the Three Governments ("JWC") jointly set up by the three governments opined that it would be very difficult for the entire HZMB project to be completed at the same time by end 2016. The JWC and the HZMB Authority will further conduct an in-depth and objective analysis on the programme with a view to coming up with a programme

target. Besides, Mr Li Chun-hong, the Director of the Guangdong Development and Reform Commission, also said at the press conference of the third session of the 12th Guangdong Provincial People's Congress held on 10 February this year that the HZMB project encountered many unforeseen difficulties and technical problems that it appeared that it would be very difficult to complete and commission the entire HZMB by end 2016.

The JWC and the HZMB Authority will continue to implement the relevant projects and to overcome the technical difficulties encountered and the pressure in meeting the programme schedule; and with safety and quality assurance as the major premises, to complete the HZMB Main Bridge as well as the related projects of the three side as early as practicable for the smooth commissioning of the HZMB project.

As for the local projects in Hong Kong, according to the current progress, coupled with the difficulties and challenges such as unstable supply of materials, shortage of labour, restriction in airport height and constraints in environmental protection requirement, the HKBCF and the HKLR projects may not be completed in time by end 2016. As for the anticipated completion date, HyD is still reviewing it. In any case, the HKBCF project would still be under a tight programme given its delay in commencement due to the JR regarding the Environmental Impact Assessment Reports in 2010 as well as the abovementioned difficulties and challenges.

Regarding the project cost of the HKBCF, as the tender prices of seven (of which six were awarded and another will be awarded shortly) out of the 10 works contracts are known, and these seven contracts amounts to about 90% of the total cost of the HKBCF project, therefore, we believe that the revised APE is relatively accurate. As indicated in the draft Public Works Subcommittee paper (hereafter referred to as “draft paper”) enclosed in our paper submitted to the Panel on Transport (Paper No: CB(4)270/14-15(06)), since the tender prices of these contracts are higher than expected, we will have to increase the APE to cover the additional costs arising from (i) the higher-than-expected costs of superstructure works; and (ii) the increase in provision for price adjustment. The government will also have to pay for the construction

cost in accordance with the contract provisions. Therefore, there is no room to adjust the amount to be sought for the increase in APE under this HKBCF project.

The comparison for each of the works item between the latest project estimate and the APE is shown in Enclosure 5 of our draft paper submitted to the Panel on Transport. The latest project estimate is higher than the approved project estimate for most items. Details are at Enclosure 5 of the draft paper.

Apart from the increase in provision for price adjustment, the total increase of the above items is about \$4,971.3 million. It is mainly due to the higher-than-expected tender prices as most HKBCF superstructure works¹ contracts were tendered after the second half of 2013. As pointed out in our draft paper, the major reasons are:

- (a) the surge in construction prices (including plant, material and labour cost) after mid-2011;
- (b) tenderers might have built in additional risk premium in their tenders; and
- (c) tenderers' perception on higher programme risks due to the tight works programme of the project.

As mentioned in paragraphs 8-12 of the draft paper, the increase in construction costs (including plant, material and labour costs) is mainly due to a number of similar projects being constructed. As a result, the demand for similar construction plant, materials and labour needed for the HKBCF superstructure works is strong. Tenderers might have envisaged that the supply of construction plant in the market would become even tighter and therefore might have included additional costs in their tender prices in order to ensure sufficient machinery and equipment for the project.

¹ The superstructure works, in general, refer to the infrastructures and facilities within the approved project scope of the "845TH - Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities – Reclamation and Superstructures" except for the reclamation works. They include, mainly, the passenger clearance building, cargo clearance facilities, passenger clearance facilities, accommodation for and facilities of government departments, transport facilities and road network, and other associated infrastructures and facilities, etc.

In addition, as elaborated in paragraph 14 of the draft paper, the Building Works Tender Price Index and Building Services Works Tender Price Index compiled by the Architectural Services Department have increased by an average of about 26% from the first half of 2011 to the first half of 2014. As the majority of the building services works will only be carried out at a later stage of the project, tenderers might have built in additional risk premium in their tenders to cater for the possible further market surge for the building services works.

Also, as mentioned in paragraph 15 of the draft paper, due to the tight construction programme, the tenderers might have envisaged that in case of any unforeseen delay, or any need to implement delay recovery measures, additional costs will be incurred. Unlike other works projects, the HKBCF project is a large scale infrastructure project. Coupled with its very tight construction programme, contractors have little room to flexibly deploy their labour and plant. In addition, with the increase in construction cost in the market, the tenderers might have reflected the cost of these higher programme risks in the tender prices.

As regards the provision for price adjustment, as stated in paragraph 18 of the draft paper, we need to increase the provision for price adjustment by \$2,213.7 million as the additional cost increase, as well as the latest cash flow of the project and the latest price adjustment factors are different from those available when we applied for funding in 2011.

Yours sincerely,

(Jessica LEE)
for Secretary for Transport and Housing

c.c.

DHy (Attn: Mr CHOW Chun-wah) (Fax: 3188 6614)