

NOTE FOR FINANCE COMMITTEE

Quarterly Report on Progress, Financing, Cost Estimate, Funding and Claims of the Airport Core Programme Projects (October to December 1998)

INTRODUCTION

This is the eighteenth quarterly report on the Airport Core Programme (ACP) projects for the Finance Committee. It covers the period October to December 1998. A cost summary is at Enclosure 1 and the ACP claims summary is at Enclosure 2.

2. We would be happy to give a more detailed briefing on the report and to answer questions if Members wish.

3. The 10-project ACP has been substantially completed and this is the last quarterly report on the ACP.

CURRENT SITUATION OF THE NEW AIRPORT

4. The new airport operated normally in the last quarter and passenger services continued to improve. On average the airport handled 80 000 passengers a day and had a daily cargo throughput of 5 000 tonnes. Seventy-five percent of all flights were leaving on time or within 15 minutes of schedule. Ninety percent of passengers waited no longer than 10 minutes for their bags; and ninety-eight percent of all arriving and departing passengers completed Immigration formalities within 15 minutes. This has surpassed the high standards set by the old Kai Tak Airport.

5. A power failure on 15 October 1998 disrupted the cargo services at the Hong Kong Air Cargo Terminal Ltd (HACTL)'s Super Terminal 1 (ST1). It caused some delays in the processing of air cargo, but the Express Centre and the Perishables Handling Centre were not affected. HACTL installed temporary cables to restore the power and the operations of the ST1 and cleared the cargo backlog by 22 October 1998. Since then, ST1 has been operating smoothly with a total throughput of 121 800 tonnes for December 1998, or about 4 000 tonnes per day, which represents 61% of the total ST1 cargo handling capacity. The contractors were progressing with the minor outstanding works and the rectification of defects.

COST ESTIMATES AND FUNDING POSITION OF THE ACP

6. The expected outturn cost of the ACP remains within the overall revised estimate of \$155,322 million announced in November 1997. Of this amount, the costs of government ACP works on a net basis, of the Airport Authority (AA)'s share of the new airport project and of the Airport Railway (AR) remain within the estimates of \$49,608 million, \$49,787 million and \$34,000 million respectively.

7. The Finance Committee has so far approved a net total of \$49,527 million for government ACP projects. This represents 99.8% of the project estimate. As at 31 December 1998, the Administration committed \$47,195 million, or 95% of the project estimate. Of this, we had spent \$46,364 million or 93% of the project estimate.

8. The Finance Committee has approved an equity commitment of \$36,648 million for the new airport. As at 31 December 1998, the AA had committed \$46,579 million, or 94% of the project estimate. Of this, the AA had expended \$45,787 million, or 92% of the project estimate.

9. The Finance Committee has approved an equity commitment of \$23,700 million for the Mass Transit Railway Corporation (MTRC) to construct the AR. As at 31 December 1998, the MTRC had committed \$32,956 million, or 96.9% of the project estimate. Of this, the MTRC had expended \$32,921 million, or 96.8% of the project estimate.

/CLAIMS

CLAIMS

10. As at 31 December 1998, the Government, the AA and the MTRC had received a total of 26 679 claims against 152 major ACP construction contracts. Of these, 12 793 claims at a cost of \$4,321 million had been resolved against an original claim amount of \$15,504 million. Our current assessment is that there is sufficient contingency to meet the unresolved claims.

New Airport Projects Co-ordination Office
Works Bureau
February 1999

ACP Claims Summary as at 31 December 1998

Introduction

ACP construction contracts apportion risks involved in the construction process between the Employer and the Contractor. They must therefore contain means by which contractors may submit claims for additional money (cost claim) or time (extension of time or AEOT@) or both, associated with the risks where the Employer has liability. Contractual claims are a normal and natural part of construction contracting.

2. From the inception of the ACP, the Government has aimed to set in place systems which will enable the early identification of contractual claims. Equally, we have put in place mechanisms which would allow claims to be dealt with early and to avoid, as far as possible, contractual claims turning into formal contractual disputes.

Total claims recorded against ACP

3. As shown at the Annex, the Government, the Airport Authority (AA) and the MTR Corporation (collectively referred to below as the Works Agents) had awarded a total of 152 major ACP construction contracts with a total award value of \$89,291 million as at 31 December 1998. We have not included the contract for the Western Harbour Crossing because the franchisee is responsible for all claims on the contract.

4. The Works Agents have recorded a total of 26 679 claims against the awarded contracts since inception. Of these, the Works Agents have resolved 12 793 claims either by way of settlement or withdrawal of the claims by the contractors, leaving 13 886 unresolved claims.

Settlement of claims

5. In resolving the 12 793 claims, the Works Agents have awarded \$4,321 million to the contractors. The original amount claimed was \$15,504 million.

/Unresolved

Unresolved claims

6. As at end December 1998, unresolved claims for CWRF projects totalled 1 918 and the total amount claimed was \$2,947 million. The estimated contingent liability for these unresolved claims stood at \$724 million.

7. As at 31 December 1998 the AA had a total of 49 major construction contracts; against these, 12 060 claims had been recorded and 8 121 remained unresolved. Contractors were seeking a total of \$10,421 million against such unresolved claims and the AA=s estimated contingent liability stood at \$3,323 million.

8. For the MTR Corporation, the number of awarded AR contracts remained at 31 as at end December 1998. Against these, 8 672 claims had been recorded with 4 825 of them resolved. The amount claimed by contractors in respect of the 3 847 unresolved claims was \$3,740 million. The MTR Corporation=s estimated contingent liability stood at \$1,661 million.

9. In total, of the 13 886 unresolved claims, 12 130 are claims for cost or both cost and EOT. The contractors were, as at end December, seeking recovery of \$17,108 million for these claims and the Works Agents have estimated their contingent liability against these claims at \$5,708 million.

10. Current assessment by the Works Agents indicates that there is sufficient contingency within the revised estimate for the ACP projects to settle these claims while leaving a reasonable balance to meet changes and variation orders for the remaining works.

11. EOT claims will also be given attention as any contractor=s entitlement to EOT will affect the Employer=s right to levy liquidated damages should there be delay in completing the works by the contractor.

12. In short, we are confident that sufficient allowance exists within the overall ACP budget to meet ACP claims requirements.

Situation on ACP Contractual Claims
(as at 31 December 1998)

ACP Project	Awarded major construction contracts ⁽¹⁾			Claims Notified	Claims resolved			Claims unresolved		
	Number	Award Value \$M	Works completed ⁽²⁾ \$M	Number	Number	Amount claimed originally \$M	Amount awarded \$M	Number ⁽⁴⁾	Amount Claimed \$M	Estimated contingent liability ⁽⁵⁾ \$M
CWRF Projects	72	37,393	40,165	5 947	4 029	8,184	1,399	1 918	2,947	724
AA - CLK Airport	49	34,142	36,508	12 060	3 939	3,301	1,262	8 121 ⁽³⁾	10,421	3,323
MTR Corporation - Airport Railway	31	17,756	23,678	8 672	4 825	4,019	1,660	3 847	3,740	1,661
TOTAL	152	89,291	100,351	26 679	12 793	15,504	4,321	13 886	17,108	5,708

- Notes :
- (1) Excludes non-construction contracts such as design, supply and equipment contracts.
 - (2) The value of Works completed may exceed the award value because of variations and settled supplemental agreements to contracts.
 - (3) Of the 8 121 claims unresolved there are 4 194 notified as claims which are currently being evaluated as variations.
 - (4) Includes rejected claims.
 - (5) Includes interim awards.

