

NOTE FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE

Supplementary information on The Chinese University of Hong Kong 26EF - Science building complex, phase I

INTRODUCTION

At the Public Works Subcommittee meeting on 11 November 1998, when Members considered paper PWSC (98-99)40 on project **26EF** - Science building complex, phase I at the Chinese University of Hong Kong (CUHK), the Administration undertook to explain further the time lag between the acceptance of tenders by CUHK in early 1996 and the submission to PWSC in November 1998 for recommending to FC an increase in the project estimate by \$19.247 million. The Administration also undertook to give an account of the outcome of CUHK's efforts to identify possible savings in the course of carrying out the project.

THE ADMINISTRATION'S RESPONSE

2. **26EF** was first approved on the basis of a constant price level. For projects of this nature, institutions funded by the University Grants Committee (UGC) may apply for additional funds from Government to cover increases in expenditure owing to inflation adjustments during the time period between the approval of the project estimate and the acceptance of the main tender for the works. This arrangement is not applicable to projects approved after 1 April 1995 because the project estimates of such projects are expressed in money-of-the-day (MOD) prices where anticipated inflation has already been reflected.

3. Given the above, we expect UGC-funded institutions to apply for an increase in commitment before the award of tenders for projects approved in constant price levels, if by that time it is known that the approved project estimate

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will be exceeded. It is unfortunate, however, that, until recently, this expectation was not explicitly stated in the UGC's manual of administrative procedures, the Notes on Procedures. As a result, CUHK applied for an increase in commitment to cover the inflation adjustment of **26EF** at a point in time when the project was nearing completion, rather than before the award of the main tenders in early 1996. They did so because CUHK considered that by deferring the submission the university would be able to provide a more accurate project estimate of the net additional requirements, after taking into account possible savings that might be achieved in the course of carrying out the project.

4. CUHK has explored ways to identify savings in order to reduce the total project cost after the acceptance of the main tender for the building itself. The possibility of reducing the scope of certain building services components (not yet tendered) such as computer cabling, fume cupboards, hot water system, compressed and vacuum system in the laboratories was considered. However, since these items were essential to the proper functioning of the building, CUHK eventually decided they had to retain all of them. As a result, no savings were identified to trim down the total project cost.

5. Notwithstanding CUHK's efforts to identify savings, we acknowledge that it would have been appropriate for the university to have sought an increase in the approved project estimate prior to the award of the tenders. To avoid similar occurrences in the future, we have instituted the remedial measures set out in the following paragraphs.

REMEDIAL MEASURES

6. To eliminate possible misunderstandings on how and when UGC institutions should seek an increase in commitment in projects funded before 1 April 1995, we have already advised the UGC to amend its Notes on Procedures to make it clear that where an approved project estimate is not expressed in MOD prices, the institutions may continue to seek additional funds for increases in the cost estimate of their projects due to the movement of the tender prices from the period when the cost estimate of the project was prepared to the period the tenders for the major contract of the project are received. Where the acceptance of a tender would result in the revised project cost being greater than the approved project estimate, the institution must obtain approval for an increase in the latter before acceptance of the tender.

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7. In cases where there is a downward movement of the tender price during the period, we will reduce the approved project estimate accordingly. Increases or decreases in project costs due to inflation are determined by movements in the Tender Price Index (Building) for building construction works and the Tender Price Index (Building Services - General) for building services installations such as air-conditioning, electrical, fire services.

8. The UGC Secretariat, in recommending a change to the approved project estimate of a project, will examine the revised project estimate submitted by the institutions, taking into consideration any realised and estimated project savings. The Director of Architectural Services, as the UGC's Technical Adviser, will also be consulted.

Education and Manpower Bureau
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