

NOTE FOR PUBLIC WORKS SUBCOMMITTEE OF FINANCE COMMITTEE

Price Adjustment Factors

PURPOSE

This note announces the adoption of a new set of price adjustment factors for converting the cost estimate of capital works projects funded by the Capital Works Reserve Fund from constant September 2003 prices to money-of-the-day (MOD) prices.

REVISED FORECAST

2. On a half-yearly basis, we update the Government's forecast of inflation for construction works and adjust the price adjustment factors used in funding requests to the Public Works Subcommittee and Finance Committee.

3. At the last update undertaken in October 2003, the forecast rate of change in the prices of overall construction output was -5.6% for 2003 and -0.5% per annum over the period 2004 to 2007. PWSCI(2003-04)25 refers. These figures have been updated in March 2004. According to the latest forecast, the prices of public sector building and construction output are envisaged to fall by 2.5% in 2004 and revert to a slight increase averaging at 0.6% per annum over the period 2005-08, yielding a trend rate of virtually nil change for the entire medium-term period 2004-08¹.

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1 There is a technical enhancement to the coverage of construction output in the current update. To gear in with the nature of works covered by the Capital Works Reserve Fund, the price forecast is now made specifically for public sector building and construction output, instead of basing on overall construction output covering both public and private sector works as was done previously. With this change, the latest forecast is not strictly comparable to those produced earlier.

4. We will apply the latest forecasts and corresponding price adjustment factors as from April 2004 for the purpose of deriving MOD estimates for capital works projects.

Financial Services and the Treasury Bureau
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