

香港特別行政區政府
The Government of the Hong Kong Special Administrative Region

政府總部
環境運輸及工務局
香港花園道美利大廈



Environment, Transport
and Works Bureau
Government Secretariat
Murray Building, Garden Road,
Hong Kong

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18 May 2004

Clerk, Public Accounts Committee
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central
Hong Kong
(Attn: Ms Dora Wai)

Dear Ms Wai,

**The Director of Audit's Report on the
results of value for money audits (Report No. 42)**

Chapter 3: Harbour Area Treatment Scheme (HATS) Stage I

Thank you for your letter of 11 May 2004.

Regarding the feasibility of implementing the two proposed measures as set out in paragraph (2) of your letter, my views are as follows –

- (a) In theory, it would be feasible to reduce the Approved Project Estimate (APE) for a project when the tender price is significantly lower than the estimated sum allowed in the APE for the relevant contract. However, it is necessary to note that a lower tender price may not necessarily lead to a corresponding surplus of the same amount in the APE. For example, in the case of a multi-contract project, the lower

tender price for one contract may be off-set by the higher-than-estimated tender price for another contract. Market conditions may also change considerably within a short period of time thus requiring larger estimated sums for the remaining contracts under the project. A larger contingency sum for the project may also be necessary to cater for unfavourable ground conditions. For these reasons, reducing the APE by the same amount of the whole of the saving from the lower tender price will not be feasible. Instead, it would only be reasonable to require works departments to first review the APE after awarding a contract at a price significantly lower than the original estimated sum. Works departments should then suitably adjust the APE where there will likely be surplus funds for the whole project after such a review.

- (b) Provided that an APE is to be reduced only after a review by the works departments as proposed in paragraph (a) above, we have no difficulty with the proposed requirement that after reducing the APE, a new application should be submitted for approval by the Finance Committee (FC) for supplementary provision to increase the APE, if so required, of more than \$15 million. For cases where the required supplementary provision to increase the APE is \$15 million or below, the approval of the Financial Services and the Treasury Bureau under delegated authority will be sought.

I would also like to provide the following information as requested in paragraph (3) of your letter.

Capital and recurrent costs for providing the disinfection facility

- (a)(i) We have examined the possibility of advancing the provision of part of the permanent disinfection facilities that we propose to build under HATS Stage 2 so as to improve the water quality (in terms of E.coli) in the western harbour waters. This would involve the installation of an electro-chlorination plant to produce the disinfectant agent (sodium hypochlorite or bleach solution) and ancillary facilities for dosing the disinfectant on the effluent before the effluent is discharged via the submarine outfall at Stonecutters Island Sewage Treatment Works.

Based on our preliminary estimation, the capital cost and annual recurrent cost of the disinfection facilities required for treating the Stage 1 flow would be around \$240 million and \$60 million respectively. The recurrent expenditure cannot be met by existing resources.

We are planning to consult the public shortly on HATS Stage 2. If the public support it, we plan to commence the detailed design, environmental assessment, etc. on the part of the permanent disinfection facilities for treating the Stage 1 flow by the end of 2004, after completing the necessary administrative procedures in bidding for resources. If the above preparatory works are completed smoothly, we shall be able to start the tendering process and seek the funding approval of FC in parallel as early as 2006. Subject to the approval of FC, the construction of the disinfection facilities can start in the second half of 2006 for completion by the end of 2008 the earliest.

Possible interim measures

- (a)(ii) Regarding possible interim measures, we have explored the possibility of installing temporary facilities to enable the disinfectant solution to be delivered in bulk by barge directly to the Stonecutters Island Sewage Treatment Works. Such temporary facilities include a barge unloading facility and a number of large storage tanks to store the bleaching agent on-site. The capital cost for the temporary facilities would be about \$67 million and the recurrent cost would be about \$90 million per annum. Most of the temporary facilities would become redundant upon completion of the permanent disinfection facilities described above. Hence, it would be more cost effective to expedite the permanent installation instead of constructing the temporary facilities.

Guidelines to adjust the APE

- (b)(i) As stated in paragraph 4.41 of the Audit Report, in January 2000, the then Secretary for Works expressed concern about the over-estimation of APEs in some works projects. In that connection, he issued

guidelines to the works departments to require them to improve the accuracy of the project estimates and review the system of collecting, updating and sharing of the centralised database of unit costs of construction. He also directed the works departments that APE of projects should be suitably adjusted, if necessary, when the tender price is much lower than the approved estimates.

Promulgation of the guidelines

(b)(ii) The above instruction was promulgated to all works departments in an internal memorandum on 12 January 2000.

On 27 April 2004, in response to the recommendation in paragraph 4.52(a) of the Audit Report, the Works Branch further issued a memorandum to remind all works departments to suitably adjust the APE of projects when a tender price is significantly lower than the estimated contract sum in the APE and there will likely be surplus funds under the project.

I hope you will find the above useful in answering your questions.

Yours sincerely,



(Sarah LIAO)

Secretary for the Environment, Transport and Works

c.c. Director of Drainage Services
Director of Environmental Protection
Director of Audit
Secretary for Financial Services and the Treasury (Attn: Miss Amy Tse)

MEMO

<p>From Secretary for the Environment, Transport and Works</p> <p>Ref. in ETWB(CR)(W) 1-150/4 Pt.2</p> <p>Tel. No. 2848 2708</p> <p>Fax. No. 2971 0774</p> <p>Date 27 April 2004</p>	<p>To Distribution</p> <p>(Attn.: _____)</p> <p>Your Ref. _____ in _____</p> <p>dated _____ Fax. No. _____</p> <p>Total Pages 3</p>
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Audit Review on Harbour Area Treatment Scheme Stage I Project and Contract Management

The Director of Audit tabled in LegCo on 21 April 2004 his Audit Report No. 42, which includes at Chapter 3 an audit review on the captioned project.

2. Pursuant to the D of A's recommendations in the audit review on **reducing the risk of contract forfeiture**, you are reminded in the course of PWP project delivery to –

- (a) continue to implement measures (such as the use of parent company guarantee and performance bond) to minimise the risk of contract forfeiture in future similar projects;
- (b) strictly implement the contract conditions for the provision of parent company guarantee and performance bond to ensure that the required contract instruments are submitted by contractors within the stipulated time limits; and
- (c) for large-scale works projects, critically devise the contract payment schedules to ensure that progress payments are made, as far as possible, in line with the actual progress of works.


3. Pursuant to the D of A's recommendations in the audit review on **budgetary control over public works projects**, you are reminded in the course of PWP project delivery to –

- (a) suitably adjust the APE and the RAE estimates of projects when a tender price is significantly lower than the estimated contract sum in the APE and there will likely be surplus funds under the project; and
- (b) state clearly in the submissions to the PWSC and FC of LegCo seeking an increase in the APE for works projects:
 - (i) the total cost increase and the reasons for the increase; and

(ii) whether any surplus funds in the APE have been used to meet the cost increase.

4. I should be grateful if you would remind your staff to follow the recommendations in paragraphs 2 and 3 above in improving project and contract management. Would DCE please also review the Project Administration Handbook (PAH) and amend the relevant sections of the PAH to reflect the audit recommendations as necessary.

5. In the Audit Report, the Director of Audit has also put forward other recommendations which are being studied by this Bureau. When adopted, these recommendations will be effected later through promulgation of technical circulars or issuance of memoranda.



(K K Kwok)

for Secretary for the Environment,
Transport and Works

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Director of Territory Development
Director of Water Supplies

c.c. (Relevant Bureaux and Client Departments are requested to note paragraph 3(b) when approving PWSC/FC submissions seeking an increase in the APE for works projects)

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