

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Building Committee

Updating of Project Development Budgets for Capital Work Projects in Master Layout/Budget and Tender Stage

PURPOSE

To seek Members' approval to update the Project Development Budgets (PDBs) for capital work projects in Master Layout/Budget and Tender stage as required by Paper Nos. SPC 21/99 and BC 87/99.

BACKGROUND

2. In accordance with paragraph 4(f) of Paper Nos. SPC 21/99 and BC 87/99, for projects where the recommendation for award of the building tenders will be submitted to BC for approval in 12 months after the approval of the standard cost yardsticks in May of the year, their PDBs are to be updated to account for the cost effects on changes resulting from -

- (a) use of the latest approved standard cost yardsticks;
- (b) tender price inflation and fluctuation factors; and
- (c) cost apportionment method newly introduced vide Paper No. BC159/98.

3. Capital work projects with their building tenders scheduled to be submitted for consideration by Building Committee between May and August 2000 requiring the PDB updating from their original Approved Project Budgets (APBs)/PDBs to account for the cost effects on the above changes are proposed at **Annex A** of the Paper.

----- PROPOSED PROJECT DEVELOPMENT BUDGETS

4. The proposed PDBs at **Annex A** of the Paper include only the cost effects of the changes resulting from -

- (a) use of the latest approved June 1999 standard cost yardsticks approved vide Paper No. BC 86/99 to replace the June 1998 or earlier cost yardsticks from which the APBs/PDBs of these projects were prepared and any necessary updating to June 1999 price level for elements not covered in the June 1999 standard cost yardsticks; and
- (b) use of the tender price inflation and fluctuation adjustment factors at a rate of 3.5% p.a. approved vide Paper No. BC 86/99 to replace those adjustment factors used in preparing the APBs/PDBs.

5. For the PDBs proposed at **Annex A**, Members are to note the following -

- (a) The PDBs are updated from the original APBs/PDBs with the inclusion of allowances for Project Management Cost (14%), Other Project Cost (2%) and Risk Allowance and Development Contingencies (10%) in accordance with Paper No. SPC 22/99.
- (b) The PDBs do not include any cost effect on changes in development parameters nor design changes to account for project specific requirements. For projects involving such changes, separate submission to SPC/BC will be necessary.
- (c) The Secretary for the Treasury had announced a revised set of Price Adjustment Factors for determination of Money-of-the-Day (MOD) prices from Constant Prices for Capital Works Programme in their memo dated 2 November 1999 which is attached in **Annex B**. The revised figures are 2% p.a. and 5% p.a. for 1999 and 2000 onwards respectively. Based on the actual HD tender price trend since May 1999 up to current which indicates a slight decrease in comparison with the June 1999 prices, it is considered appropriate to keep the tender price inflation factor at 3.5%

p.a. instead of 5% p.a. for this batch of projects of which the latest building tender approval is scheduled in August 2000.

6. By comparison, the Site Development and Construction Costs included in the proposed PDBs show the decreases of about 7.6% to 21.5% below their original APBs/PDBs. This is mainly due to the cost effects of the changes resulting from the use of the approved parameters stated in paragraph 4(a) and 4(b) above as well as savings in demolition, site formation or foundation works due to the actual contract sums being less than their respective budgets. For those projects with PDBs updated from their original APBs, such decreases are offset by inclusion of the allowances stated in paragraph 5(a) above in the course of converting the APB to PDB.

AVAILABILITY OF FUNDS

7. Based on the proposed PDBs, the estimated annual expenditure forecasts on Site Development and Construction Costs are as follows -

Analysis of Cash Flow on Site Development and Construction Costs	Actual Exp. up to 31.03.99	Estimated Expenditure			Total
		99/2000	00/01	Post 00/01	
(a) As Previously Estimated	\$M 35.836	\$M 130.423	\$M 495.531	\$M 3,165.405	\$M 3,827.195
(b) As Now Estimated	35.836	111.165	422.363	2,698.021	3,267.385
(c) Est. Saving (a)-(b)	-	19.258	73.168	467.384	559.810

8. Members should note that the expenditure forecasts of the proposed PDBs shown above are indicative and would need to be refined upon return of the building tenders.

9. As there is an estimated overall cost saving resulting from the PDB updating, no additional fund is required. Members are informed that the above estimated expenditure forecasts will be included in the next capital budget forecast submission to the Finance Committee.

RECOMMENDATION

10. It is recommended that the updated Project Development Budgets at **Annex A** to account for the cost effects of the changes as described in paragraph 4 above be approved.

PRESUMPTION

11. As the recommendation in paragraph 10 above is based on the parameters previously approved by the Committee, it is not thought that Members will have any objection to them. If no objection or request for discussion is received by Committees' Secretary **on 31 March 2000**, Members' approval will be presumed.

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