THE HONG KONG HOUSING AUTHORITY

Memorandum for the Building Committee

June 2000 Construction Cost Yardsticks

PURPOSE

To seek Members’ approval to the proposed June 2000 Construction Cost Yardsticks for capital works projects.

BACKGROUND

2. Proposed changes to capital budget procedures were endorsed by both the Building Committee and the Establishment and Finance Committee in April 1991 (Paper Nos. BC 49/91 & EFC 11/91 refers). The endorsements included, inter alia, proposals to update the cost yardsticks at June each year for calculation of the project development budgets and annual capital expenditure budgets and five-year forecast. An allowance for tender price inflation to these yardsticks was also endorsed to be applied to the various contracts for the period between the June cost yardsticks and the proposed dates of tender.

INFORMATION

3. New construction cost yardsticks at June 2000 tender price level are now due to be established for adoption during the year 2000/01.

4. In considering the changes from June 1999 to June 2000 cost yardsticks, the following price movements are noted—
(a) The price trends reflected by tender prices indices of public sector: the Architectural Services Department (ASD) and Housing Department (HD) and that of the private sector: Davis, Langdon and Seah (DLS) and Levett & Bailey (L&B) are at Appendix E. The percentage decrease revealed from these price indices from June 1999 to December 1999 are set out below –

<table>
<thead>
<tr>
<th>Index Type</th>
<th>Percentage Decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HD Tender Price Index</td>
<td>(-) 2%</td>
</tr>
<tr>
<td>ASD Tender Price Index</td>
<td>(-) 4%</td>
</tr>
<tr>
<td>DLS Tender Price Index</td>
<td>(-) 3%</td>
</tr>
<tr>
<td>L&amp;B Tender Price Index</td>
<td>(-) 2%</td>
</tr>
</tbody>
</table>

(b) Based on recent tenders returned up to April 2000, a general tender price decrease of about 4% to 6% since June 1999 was recorded. In light of the continued weak construction market and comparatively fewer contracts let out by the Authority in future, downward price trend for the rest of year 2000 is expected. For Members’ information, the number of piling and building contracts with tender out date fall within 2000/01 are 19 and 23 respectively.

(c) Taking into account of the tender price decrease mentioned in paragraph 4(b) above, the 2% to 3% price decrease in building services costs and the 3% increase in fluctuation allowance stated in paragraphs 7(b) and (c) below, the proposed June 2000 cost yardsticks are generally set at about 6% to 8% below the June 1999 cost yardsticks.

**PROPOSED COST YARDSTICKS**

5. The proposed cost yardsticks at June 2000 tender price level for calculation of revised capital budget 2000/01, 2001/02 and forecasts to 2004/05 and individual project development cost ceilings/budgets where applicable are set out in the following appendices –
Appendix A  Schedule of June 2000 Construction Cost Yardsticks for Projects in Planning Stage

Appendix B  Schedule of June 2000 Preliminary Construction Cost Yardsticks for Projects in Planning Stage

6. For Members’ information, a break-down of the June 2000 Construction Cost Yardsticks into elemental unit costs for various domestic and non-domestic buildings is at Appendix C.

7. For specific standard domestic block types, the total decrease on account of the price changes stated in paragraph 4 above and the design changes made to individual block types is about 8% for the New Harmony, 9% for the New Cruciform and Concord Blocks and 6% for the Vertical Interim Housing Blocks as compared to the corresponding June 1999 cost yardsticks. It has been noted that as reflected from the recent New Harmony and New Cruciform Block tenders, such price decrease is mainly due to a general drop in tender price levels in particular for prices of formwork, steel reinforcement and precast concrete facades.

8. All the proposed construction cost yardsticks have been set to reflect the latest designs and actual unit costs derived from recent tenders and are only catered for basic provisions under normal site conditions/constraints and platform sites. Any special provisions, site conditions/constraints or requirements may require additional allowances to these yardsticks. Particular attention is drawn to the following significant changes from the June 1999 Cost Yardsticks –

   (a) To address to the recommendations made in the consultation Paper on Quality Housing: Partnering for the Change, a number of housing quality enhancement measures had been adopted in the piling and building work contracts. At this stage, certain known quality enhancement measures i.e. the lengthening of the construction and maintenance periods, increase in limit of the retention money and discounting the liquidated damages had been implemented. In overall terms, it is not expected there will be significant impact on the tender prices for these changes. However, a 7% increase in the piling costs is allowed for some other measures on piling works i.e. the inclusion of on-demand bond, full time resident site engineers and attendance on carrying out 100% pile tests.
(b) There are significant price decreases in building services installations resulting from the decline in the private sector market driving many building services contractors to look for the public housing contracts, keener competition due to expansion of the approved building services contractors’ and suppliers’ lists, and a general price drop in materials due to weak demand resulting from the poor private sector market. These cause a general decrease of about 2% to 3% to the cost yardsticks.

(c) In line with the proposal made in paragraph 12 below, fluctuation allowances included in all yardsticks have been made based on a 6% annual rate in lieu of the 3.5% annual rate used for the June 1999 cost yardsticks. The change of the fluctuation allowance rate lumped up with further fluctuation allowance resulting from the extended construction period in the building contract causes an overall 3% increase to all cost yardsticks.

(d) The 1P and 1P/2P flat cost yardsticks of New Harmony 1 and New Harmony Annex 5 block (Item 1(a) and 1(g) respectively of Appendix A) are not changed in the similar rate as other flat cost yardsticks in the same block. This is due to minor change of flat areas as a result of fine-tuning of the layout as compared with that in the preliminary design in last year.

(e) Cost yardsticks for the Free Standing Carpark (Item 8 of Appendix A) shows a slight decrease over the last year's yardstick and with the additional provision of Firemen Lift shows an increase. This is mainly due to the increase in BS installation costs resulting from the adoption of a larger scale carpark project with more number of floors.

(f) New cost yardsticks for Carports under Podium of Domestic Blocks (Item 9 of Appendix A) based on the project model chosen from Yau Tong Phase 5 are included.

(g) Cost yardsticks for the Automated Refuse Collection System (Item 13 of Appendix A) in general show increases over last year’s yardsticks with various percentages as stated in the Appendix. This is mainly due to the use of actual tender prices for establishing June 2000 yardsticks.
instead of deriving from the estimates submitted by the suppliers as no tender was available in last year.

FINANCIAL IMPLICATIONS

9. Subject to Members’ approval of the proposed June 2000 Construction Cost Yardsticks, the financial implications will be included in the submissions to the Building and Finance Committees for the 2000/01 revised budget, the 2001/02 budget and the budget forecast 2000/01 to 2004/05.

ALLOWANCE FOR TENDER PRICE INFLATION AND FLUCTUATION TO THE COST YARDSTICKS

10. Members may recall that an allowance of 3.5% per annum for tender price inflation and fluctuations had been endorsed vide BC Paper No. BC 86/99 in approving the June 1999 cost yardsticks. This allowance is same as the price adjustment factors promulgated by the Secretary for the Treasury in March 1999 for converting costs of capital works projects at constant prices into Money-of-the-day (MOD) prices used in funding submissions.

11. The Secretary for the Treasury has issued an updated set of price adjustment factors on 27 March 2000 announcing 0% per annum for year 2000 and 6% per annum for year 2001 and onwards. A copy of the memo is at Appendix D.

12. It is proposed to set an annual rate of 0% for June 2000 to December 2000 and 6% for January 2001 onwards, same as that adopted by the Government, as allowance for future tender price inflation and provision for fluctuation in materials and labour in contracts. Subject to paragraph 13 below, this proposed annual rate will be reviewed in a year’s time.

13. Following the proposal in Paper Nos. BC 87/99 and SPC 21/99 on Review of Development Cost/Budget Preparation, the proposed annual rate for tender price inflation covering the next 12 months period commencing from June 2000 will be monitored on monthly basis and adjusted if substantial deviation is found based on actual tender returns.
RECOMMENDATIONS

14. It is recommended that approval to be given to the following –

(i) the Construction Cost Yardsticks at June 2000 tender price level as set out in Appendices A and B of this Paper; and

(ii) an allowance for tender price inflation and fluctuation as proposed in paragraph 12 above.

DISCUSSION

15. At the next meeting of the Building Committee to be held on 25 May 2000, Members will be invited to approve the recommendations in paragraph 14 above.