THE HONG KONG HOUSING AUTHORITY

Memorandum for the Building Committee

Supplementary Provision for
Construction Expenditure Budget 1999/2000

PURPOSE

This paper seeks Members’ endorsement to a supplementary provision for Construction Expenditure for the Housing Authority (HA) projects in progress for the year ending 31 March 2000.

BACKGROUND


3. The accumulated HA Construction Expenditure has been reviewed on a monthly basis to monitor its trend against the expenditure forecast. As part of the corporate planning process, the mid-year review was submitted to the Building Committee in November 1999 vide Paper No. BC 191/99. At that time, the actual HA Construction Expenditure from 1 April 1999 to 30 September 1999 was $13,642.2 million (or about 48% of the Revised Budget), which was very close to the prediction as shown in Annex A.

4. On 31 January 2000, the actual HA Construction Expenditure reached $21,844 million (or about 84.4% of the HA Construction Expenditure in the Revised Budget), which is higher than expected. A further comprehensive review of the HA Construction Expenditure for the financial year 1999/2000 was therefore conducted with project managers.
LATEST ESTIMATION AGAINST REVISED BUDGET

5. After reviewing the progress of the projects, the estimated HA Construction Expenditure in 1999/2000 is upward adjusted to $29,910.2 million, which is $4,044.3 million above the provision in the Revised Budget. A summary is enclosed in Annex B.

6. The distribution of projects with surplus and shortfalls in budget is included in Annex C. It can be noticed that out of the total 439 projects, 253 projects are within the provisions allowed in the Revised Budget. However, there are 186 projects with insufficient provisions in the Revised Budget to meet the expenditure for 1999/2000.

REASONS OF THE VARIANCES

7. To avoid the situation of under spending experienced in previous years, the Department has, based on past experience, made a global reduction to the budgetary figures prepared by project managers. However, the construction of capital works projects is now progressing through HA’s peak production. With the continuous slack in the construction industry, it provides in general satisfactory level of labour force in HA contracts for progressing on site. As a result, there is an under estimation of about $2,900 million in the Revised Budget.

8. In addition, the following items have not been accounted for in the Revised Budget -

   (a) There are less wet days (approximately 7 days) in the later part of 1999/2000, accounting for about $600 million or 15% of the supplementary provision.

   (b) Additional expenditure for 1999/2000 included in BCT papers but not yet included in the Revised Budget after its preparation, accounting for about $400 million or 10% of the supplementary provision.

   (c) Ad hoc issues such as tests of piling system of buildings arising from the recent foundation problems, accounting for about $100 million or 2% of the supplementary provision.
9. The Department will investigate into the reasons for projects deviating significantly from the Revised Budget. To improve the accuracy of budgeting and expenditure control in future, we will further review the capital budget control and monitoring system. New capital budgeting models will be developed to provide project managers with more sophisticated tools to forecast the total project expenditure and its spread over the financial periods. New procedures will also be introduced to strengthen the accountability of project managers in expenditure control.

SUPPLEMENTARY PROVISION

10. The supplementary provision required for 1999/2000 is $4,044.3 million. There is a shortage in Cash Budget for 1999/2000 of about $1,870 million, representing estimated contractual payments to be made by 31 March 2000. The remaining portion of the supplementary provision represents estimated contractual payments for works completed before 31 March 2000 but to be settled on or after 1 April 2000.

RECOMMENDATION

11. In accordance with delegated financial authority approved vide Paper No. FC 45/99, supplementary provision at business level should be approved by the Housing Authority after endorsement by relevant committee. It is therefore recommended that Members endorse a supplementary provision of $4,044.3 million in respect of the HA Construction Expenditure for the year ending 31 March 2000.

DISCUSSION

12. At the meeting of the Building Committee to be held on 23 March 2000, Members will be asked to endorse the recommendation in paragraph 14 above.