

FINANCIAL CIRCULAR NO. 3/2012

Capital Works Programme

(Note : Distribution of this Circular is **Scale C**. Directors of Bureaux, Controlling Officers and all officers dealing with capital works projects, resource allocation and annual Estimates under the Capital Works Reserve Fund should read it.)

This Circular updates the procedures for creating and managing a capital works project under the Capital Works Programme (CWP). Financial Circulars No. 4/95 and No. 11/2004 are hereby cancelled.

CAPITAL WORKS PROGRAMME

2. CWP comprises works projects funded by the following Heads of Expenditure of the Capital Works Reserve Fund (CWRF) –

- (a) government works projects under Heads 702 to 707, 709 and 711 (collectively, they are called the Public Works Programme); and
- (b) capital subventions projects under Head 708¹.

/DELEGATIONS

To: Directors of Bureaux
Controlling Officers

1 Head 708 funds “Capital Subventions” and “Major Systems and Equipment” projects. Only the part of Head 708 relating to capital subventions forms part of the CWP.

DELEGATIONS FROM FINANCIAL SECRETARY TO CONTROLLING OFFICERS FOR THE ADMINISTRATION OF CWRP

3. In accordance with the Legislative Council (LegCo) Resolution setting up the CWRP, the Financial Secretary (FS) may delegate his power of administration to other public officers. By virtue of the Interpretation and General Clauses Ordinance (Cap. 1), the aforesaid reference to “Financial Secretary” also means the Secretary for Financial Services and the Treasury (SFST).

4. The Controlling Officer for each Head in CWRP is specified in the Memorandum Note on CWRP in the Annual Estimates. For expenditure items under Heads 701 to 704, 706, 707 and 709, FS has designated various Heads of Departments as Controlling Officers. For expenditure items under Head 705, Head 708 (part) – Capital Subventions and Head 711, SFST has designated Permanent Secretaries as well as Heads of Departments as Controlling Officers.

CATEGORIES OF CAPITAL WORKS PROJECTS

5. There are four categories of capital works projects. While Category D projects cover pre-construction works (such as design studies and site investigations) for major projects and standalone minor works items each costing not more than the delegated financial limit, the remaining three Categories (i.e. Category C, B and A) reflect the different funding status of a project under the capital works resource allocation system. Details of the different categories are set out in the following paragraphs.

/CATEGORY

CATEGORY C

Pre-requisites for inclusion in Category C

6. A project would attain a Category C status any time of the year upon submission of a Project Definition Statement (PDS) and a Technical Feasibility Statement (TFS)² approved by the Works Branch (WB) of the Development Bureau. The requirements for the compilation of PDS and TFS are set out in Financial Circular No. 4/2012. In case the scope of works/project estimate of a Category C project has been revised and becomes substantially different from that in the approved TFS, a replacement TFS for consideration by WB and re-confirmation of the Category C status of the project by Treasury Branch of the Financial Services and the Treasury Bureau (TsyB) is required.

7. For a project in Category C, Directors of Bureaux (DoBs) may **not** incur any CWRP expenditure on any pre-construction work³ for the project, except with the prior approval from SFST.

Deletion from CWP register

8. DoBs should, in collaboration with the relevant works directors, keep a close watch on Category C projects which have not been upgraded to Category B within three years from the date of entry into Category C, and should provide justification in writing to TsyB for the retention of the project in Category C prior to the expiry of a three-year validity period. In the absence of any such written request from the relevant DoBs, TsyB will delete such projects from the CWP without advance notice after three years. Reactivation of deleted projects for inclusion in Category C should follow the normal procedures outlined in paragraph 6 above.

/CATEGORY

2 As set out in Financial Circular No. 4/2012, TFSs are generally not required for projects which are themselves studies, non-works items (e.g. purchase of property), or renovation works. In such cases, works agents may apply to WB for a waiver of the TFS requirement. Irrespective of whether a waiver will be granted, the works agent should define the scope of works and work out the project estimate with itemized cost breakdown and payment schedule.

3 Pre-construction work, which usually includes site investigation, feasibility studies, design and preparation of tender documents, ensures that a project will be ready in all respects to start works on site once funding for the construction works is approved. The costs of pre-construction work can be charged to the appropriate works-related block allocations under the CWRP subject to their expenditure ceiling. Land resumption, undertaken by the Director of Lands with funding met from block allocations under CWRP **Head 701—Land Acquisition**, is regarded as an enabling factor for the project, but not as part of the pre-construction work.

CATEGORY B

Pre-requisites for obtaining Category B status

9. DoBs may seek to upgrade a Category C project to Category B by submitting bids in the annual capital works Resource Allocation Exercise (RAE). Bids for upgrading a project to Category B must be supported by a TFS which has been approved by WB . For TFS completed three or more years ago, the information contained therein should be updated as appropriate. DoB should also comply with the requirements as set out in the annual Capital Works RAE call memo.

10. Bids approved by the Star Chamber for capital funding will attain a Category B status. TsyB will notify DoBs of the capital resources allocated for successful bids under their respective policy portfolio during the entire project period as well as the RAE planning horizon (the latter being normally a six-year span covering the current and subsequent five financial years). For exceptionally urgent projects which need to acquire a Category B status in between two annual RAEs, an in-year bid will need to be made. Please refer to paragraph 31 below for the relevant requirements.

Pre-construction work chargeable to block allocations

11. Once a project has attained a Category B status, works directors, with the support of DoBs, may undertake the necessary pre-construction work as so to render the project ready in all respects for upgrading to Category A and subsequent commencement of construction works. If funding for such pre-construction work is estimated to exceed the delegated financial limit of a Category D item and cannot therefore be charged to the relevant CWRF block allocation, part of the Category B project would need to be upgraded to Category A for funding the pre-construction work.

/Changes

Changes prior to upgrading to Category A

12. DoBs who intend to substantially vary the scope⁴, project estimate or programme of a Category B project should consult TsyB as early as possible, irrespective of whether there will be consequential capital and recurrent cost implications. The Star Chamber may need to be consulted depending on the degree of variation, particularly when the change involves an increase in project estimate and raises the issue of whether it is justifiable to pursue the project. If additional resources are required, the DoB concerned is expected to first meet these from within the total resources allocated for Category A projects under his policy portfolio. Failing that, the additional resources should be sought from the RAE.

Downgrading from Category B

13. If there is a change in policy, user requirements and/or delivery programme which necessitates a revised TFS, or if there is no longer any justification for a project (or the remainder of a partially-upgraded project) to retain its Category B status (i.e. the project may be downgraded to Category C or deleted from the CWP), the lead DoB, in consultation with the works director concerned, should notify TsyB as soon as possible so as to release the earmarked resources to the Centre for re-allocation. Where the pre-construction work of the to-be-deleted project has been outsourced to consultants, the Controlling Officer of the project should take steps to discontinue the related consultancy agreements immediately or as early as practicable. If the Controlling Officer does not consider it appropriate to do so, he should consult the relevant DoB(s), WB, TsyB and possibly the relevant consultant selection board.

/CATEGORY

4 Please refer to Environment, Transport and Works Bureau Technical Circular (Works) No. 30/2003 “Control of Client-Initiated Changes for Capital Works Projects” for details of the procedures on the control of changes in scope of works.

CATEGORY A

Upgrading to Category A

14. DoBs may schedule to seek the endorsement of the Public Works Subcommittee (PWSC) and approval of the Finance Committee (FC) to upgrade a project to Category A when all necessary pre-construction preparation has been completed or substantially completed. Statutory procedures and public consultation required for a project should have been completed before putting forth the funding proposal to PWSC and FC. Guidelines for preparing PWSC submissions are set out in Financial Circular No. 4/2010.

15. Upgrading of projects costing \$15 million or less each to be funded under **Head 708 (part) – Capital Subventions** to Category A can be approved by TsyB under delegated authority from FC.

Money-of-the-day project estimates

16. All PWSC/FC papers should provide estimates at constant prices and their money-of-the-day (MOD) equivalents⁵. Once approved, the project estimate in MOD prices will form the approved project estimate (APE) of the project. TsyB will normally announce price adjustments factors to be used for converting constant prices into MOD prices twice a year (in March and October).

17. The relevant rules in using MOD estimates and the method in deriving MOD prices are set out in Annex A.

LegCo Panel consultation

18. DoBs should consult the relevant LegCo panels prior to submitting a funding proposal to PWSC. Prior discussion at Panel meetings enables the Administration to be alert to LegCo Members' concerns and to provide clarification and supporting information as needed in the PWSC submission. Panel papers on capital works projects should be cleared with TsyB.

/19.

5 The same requirement applies to funding proposals submitted to TsyB for approval under delegated authorities.

19. For proposals of a lesser magnitude in terms of project estimate and the likelihood of controversy, DoBs may consider circulating such proposals to the relevant Panels for Members' comments with an offer to discuss at the panel meetings before putting them to PWSC/FC for consideration.

FC approval

20. FC is the ultimate authority for approving the project estimate (which becomes APE after approval) and scope of works of a capital works project. PWSC is established for the purpose of assisting FC in examining capital works proposals. Unless FC has formally approved a funding application from the Administration, the relevant DoB or works director concerned should **not** commit funding on the project being upgraded, even if PWSC has clearly expressed support.

21. After the upgrading of a project to Category A by FC or under delegated authority, the relevant works director should follow the procedures in Financial Circular No. 2/2012 on making changes to the estimates of CWRP and apply to TsyB for the release of funds and/or creation of a subhead in the estimates for the project. To ensure timely delivery of capital works projects, DoBs should adhere to the works commencement date as specified in the PWSC funding submission in general; and where possible, strive to commence works as soon as practicable.

22. DoBs and works directors must ensure that works expenditure stays strictly within the APE for each Category A works project and in strict accordance with the scope of the project as approved by FC or under delegated authority. The Controlling Officer of a project should seek to increase the APE once he is aware that the project estimate is expected to exceed the APE. Controlling Officers should alert TsyB once an increase in APE or change in approved project scope appears to be likely. SFST may approve, under delegated authority from FC, minor changes to project scope or increase in APE which does not exceed \$15 million. **No** contractual commitments may be entered into prior to obtaining the necessary FC approval or approval under delegated authority for an increase in APE and/or change in approved project scope. Under section 32 of the Public Finance Ordinance (Cap. 2), the Controlling Officers of project votes may be subject to surcharge if they have improperly incurred expenditure. For details of the responsibilities of Controlling Officers, please refer to Financial Circular No. 1/2004.

/Deviations

Deviations from FC approval

23. Where the APE and/or the approved scope of a project in Category A require a substantial change⁶, the lead DoB should seek approval from the PWSC and FC.

Completion of projects, finalisation of accounts and deletion from CWP register

24. DoBs and their works directors should finalise project accounts as soon as possible and in any event no later than three years after commissioning of the facilities⁷. Works directors must consult TsyB when this timescale could not be met due to special circumstances. Upon settlement of all outstanding balances and the finalisation of accounts, works directors should confirm with TsyB in writing the readiness for deleting the projects from CWP. In turn, TsyB will notify the Treasury of the deletion of the project votes, and compile an annual report to PWSC listing out such projects with finalised accounts and the respective outturn expenditure.

Cancellation and curtailment of projects

25. The Administration has hitherto maintained a good track record of being able to complete virtually all projects in Category A. For projects which the approved scope of works can only be partially completed (i.e. curtailment) or cannot be completed at all (i.e. cancellation), DoBs and works directors should provide detailed explanation to TsyB and WB, apply to TsyB for deletion of the projects from the CWP register, and consider informing PWSC/FC of the cancellation/curtailment with justification.

/ANNUAL

6 Substantial change includes all changes causing an increase in APE by more than \$15 million or changes which, albeit not increasing the APE by more than \$15 million, constitutes a significant deviation from the scope of the project approved by FC.

7 For a Design-Build-Operate contract (e.g. landfills), DoBs and works directors should finalise the accounts of the “Design and Build” portions of the contract as soon as possible and in any event not later than three years after the completion of the “Design and Build” portions.

ANNUAL FORECAST OF PWSC SUBMISSIONS AND EXCEPTION REPORT

26. At the request of PWSC, the Administration has undertaken to provide an annual forecast of PWSC submissions to PWSC at the beginning of each LegCo session. Our target is to issue the forecast before the first PWSC meeting every year. DoBs are reminded to ensure that the items included or explanations given in the forecast are consistent with all relevant government commitments (e.g. Policy Address, papers to LegCo). The forecast will be circulated to all relevant LegCo Panels. Furthermore, we need to provide PWSC an exception report by the end of each LegCo session to account for deviations between actual submissions and the forecast. DoBs/client departments or organisations are accountable for any slippage, be it due to changes in policies, priorities, programmes and user requirements.

CATEGORY D

27. Category D projects funded under various block allocations cover thousands of minor works items, works-related studies and site investigations, e.g. pre-construction work for Category B projects, and standalone minor works items each costing not more than \$30 million. Every year, FC approves the allocation for each block allocation on a lump-sum basis. Except for slope works under Landslip Preventive Measures (**Subhead 5001BX**) and land acquisition items (**Subheads 1004CA and 1100CA**) for which the delegated authority from FC is without limit, the expenditure ceiling per Category D item is \$30 million. For projects with estimates beyond the threshold, DoBs have to go through RAE and seek specific funding from FC for each project (by upgrading to Category A ultimately). To avoid nugatory expenditure, DoBs and works directors shall not create Category D items to fund detailed feasibility studies or advanced planning work for major projects before the major project is upgraded to Category B of the CWP, unless with the prior approval by SFST as described in paragraph 7 above. Details on the procedures for creating and managing Category D items are set out in Financial Circular No. 3/2011. For the PDS / TFS for major projects, details are set out in Financial Circular No. 4/2012.

/LAND

LAND RESUMPTION

28. Expenditure on land resumption should only be incurred for projects in Categories A and B.

29. For standalone Category D minor works items, an assessment on the overall development cost (i.e. land resumption cost and construction cost) should be conducted. If a proposed item involves disproportionately high land resumption cost (i.e. compared with construction cost), the DoB who gives the policy support, Director of Lands who controls the block allocations for land resumption, and the relevant Controlling Officer(s) of the block allocations to fund the construction cost should scrutinise the item and decide if it is worthy of implementation.

RESOURCE ALLOCATION MECHANISM

Normal RAE bid

30. The annual capital works RAE normally falls on the third quarter of the calendar year. All capital works RAE bids will be processed in one composite exercise so that the Star Chamber can have a comprehensive overview of the funding requirements for all capital works projects.

In-year RAE bid

31. Where a project proposal is found to be exceptionally urgent, the lead DoB may submit an in-year RAE bid with full justifications and a TFS approved by WB (for TFS completed three or more years ago, the information contained therein should be updated as appropriate). The lead DoB must demonstrate that the wait till the next annual RAE will compromise the project delivery programme. Unless otherwise justified, the resources required for the in-year bid would normally be met from within the total allocation for Category A projects under the lead DoB's own policy portfolio.

/Savings

Savings and administrative cap

32. To avoid locking up resources unnecessarily, TsyB will internally “freeze” all savings arising from contracts awarded at prices substantially lower than the provision earmarked for these contracts in the APE⁸. DoBs/works directors should not spend against the savings. For RAE purpose and monitoring of project spending, the updated requirement for the project (i.e. the reduced project estimate) will be the administrative cap on the project expenditure. Should there be any subsequent increase in the estimated project expenditure, DoBs/works directors can apply to TsyB for an additional allocation of funds within the APE or an increase in the APE (increases in APE exceeding \$15 million must be approved by FC). In considering such applications, TsyB will take into account the administrative cap of the relevant projects. Any increase in project estimate (and the administrative cap) beyond the APE should normally be met by offsetting savings identified from within the administrative cap on other Category A projects. Where the cost of a project turns out to be substantially lower than the APE, DoBs/works directors should apply to SFST to reduce the APE of a project, or keep TsyB informed of the reasons for not applying for a reduction in the APE.

Recurrent cost

33. To best utilise existing resources, DoBs/project proponents should first try to absorb the recurrent consequences arising from new capital works projects through redeployment of resources within their operating expenditure envelopes. If that is not possible, DoBs/project proponents may include the request for recurrent cost in the RAE bid. The RAE bids would be considered taking into account the merits of the proposals as well as the Government’s affordability from both capital and recurrent resources angles. The detailed arrangements will be set out in the annual Capital Works RAE call memo.

/Shadow.....

8 The threshold for determining “substantially lower” contract prices is set at \$15 million. Please refer to TsyB’s memo of 18 March 2010 on “New mechanism for calculating the administrative cap of capital works projects”.

Shadow bids

34. There are times when the Government wishes to have non-government developers to fund and construct public facilities (e.g. a public open space) and surrender the facilities upon completion for management and maintenance by the Government. In such cases, policy bureaux of departments responsible for the management and maintenance of the facilities may submit a “shadow” bid (“shadow” in the sense that no capital funding by the Government is involved) for the recurrent cost required and such bid will be considered on a competitive basis as if it were a regular Capital Works RAE bid.

35. If the capital cost of the public facility concerned is \$30 million or less, project proponents are required to absorb the recurrent cost from within their existing allocations as with other minor capital works projects funded under CWRP block allocations. Bureaux and departments must not commit the Government to shoulder the management and maintenance responsibility of any such public facilities constructed and paid for by the private developer without first confirming availability of the necessary recurrent resources either from within their own envelopes, or from the Centre through RAE.

AUTHORITY FOR ENTRUSTMENT OF CAPITAL WORKS PROJECTS

36. From the procurement perspective, a request to entrust a capital works project to a non-government party such as a private developer, a utility company or a public corporation (including but not limited to the Housing Authority and the MTR Corporation Limited) is, in effect, a request for waiving the tender procedures to entrust the project to the entity concerned. Such a request requires the prior approval of TsyB, and Controlling Officers should submit detailed justifications and the entrustment details to TsyB for consideration.

RELATED FINANCIAL CIRCULARS

37. Financial Circulars relating to the CWP are set out at Annex B. For an update of the Financial Circulars in force, please refer to the Financial Circular on “Retention of Financial Circulars” issued at the beginning of each calendar year.

/ENQUIRIES

ENQUIRIES

38. Please contact 'W' Division for capital works projects procedures, resource divisions on recurrent resources for capital works projects, and Tender Division of TsyB on entrustment covered in this circular.

Professor K C Chan
Secretary for Financial Services and the Treasury

Converting project estimates in constant prices to money-of-the-day prices

Rules in using money-of-the-day estimates

Money-of-the-day (MOD) approved project estimates (APE) represent the total cash payments estimated for a project. We can make MOD APE the cash-limited budget for the project when seeking funding approval from the Legislative Council Finance Committee (FC). Bureaux and departments should complete all works under the approved project scope within the MOD APE. If the APE is insufficient to meet the total estimated cost of a project, bureaux and departments should carry out relevant measures to strive to remain within the APE¹, or seek approval for an increase in APE from the FC or by the Treasury Branch of the Financial Services and the Treasury Bureau (TsyB) (under delegated authority)

2. All PWSC papers should provide project estimates at constant prices and their MOD equivalents, including the calculations for deriving MOD equivalents. The MOD project estimate will form the APE of the project for approval by the FC. The following rules will apply -

- (a) **all PWSC submissions** should quote the project estimate (including the contingency sum), as endorsed in the latest Resource Allocation Exercise (RAE), subject to any changes agreed by TsyB. MOD project estimates should be derived with reference to constant price estimates and the prevailing price adjustment factors as explained in paragraphs 4 and 5 below;

¹ Finance Committee's prior approval is required for substantial change to the approved project scope, regardless of whether the change will lead to an increase in the APE of the project.

- (b) the cost breakdown for the project should include an item named “provision for price adjustment”, which is the difference between the constant price project estimate (including the contingency sum) and the MOD project estimate. The contingency sum should be shown at constant price separately from provision for price adjustment;
- (c) we should endeavour to use the provision for price adjustment only for meeting inflationary price increases during the construction period, and should refrain from using it as a secondary contingency item to pay for real increases in the cost of the project due to unforeseen works items as far as possible; and
- (d) we can award contract(s) under a project only if the cumulative total of all tender prices for the contract(s) plus allowance(s) for inflation² falls within the ceiling of the MOD APE.

3. Provision for price adjustment is designed to meet inflationary price increases and should be used primarily for this purpose. The above rules should help ensure that the costs of additional works under the project will not be met from provision for price adjustment unless it is justifiable to do so. Additional costs for unforeseen works items which are within the approved project scope should first be met from contingency and savings in construction costs. Only if there is genuine surplus in the provision for price adjustment (e.g. lower-than-expected actual contract price fluctuation payments) and no other project sum (including the contingency) can be identified to meet additional cost should the provision for price adjustment be used for meeting the additional cost for unforeseen works items. If the combined effect of higher-than-expected contract fluctuation payment and construction costs is such that the original MOD APE will be exceeded, FC’s approval should be sought.

2 Allowances for inflation mainly take the form of estimated contract price fluctuation payments.

Derivation of MOD prices

4. MOD prices are derived by –
 - (a) splitting up a project estimate in constant price into a cashflow forecast showing the estimated expenditure in each financial year; and
 - (b) multiplying the constant price forecast in a certain year by the price adjustment factor for the same financial year.

5. The Government Economist forecasts the trend rate of change in the prices of public sector building and construction output, based on which TsyB derives price adjustment factors for converting project costs at constant prices into MOD prices. Sample calculation is provided in the Enclosure to this Annex. TsyB normally announces the price adjustment factors half-yearly (in March and October).

Savings

6. To determine the amount of savings in constant prices available for funding new projects or covering increases in MOD APE, bureaux/departments should determine the difference in dollar terms between the original MOD APE and the latest forecast outturn MOD cost. Bureaux/departments should then apply deflation factors to deflate the MOD savings to the constant price base of the current RAE to determine the constant price savings that can be quoted to fund new projects or cover real cost increases of other projects.

7. In preparing proposals for increase in APE, bureaux/departments should provide TsyB the calculation of savings for vetting purpose. Sample calculation is provided in the Enclosure to this Annex.

Annual Resource Allocation Exercise

8. Although APEs approved by the FC will be in MOD prices, the annual RAE for capital works projects will continue to be on a constant price basis. During RAEs, we will update constant price estimates for projects with reference to the constant price estimates approved in the previous RAE and the prevailing price adjustment factors.

Enclosure to Annex A

Sample Calculations

The following sample calculations illustrate:

- (a) how project estimates in constant prices are converted into project estimates in MOD prices; and
- (b) how to determine the amount of savings in constant price required for supporting a proposed increase in APE in MOD prices.

(a) Converting constant price project estimates into MOD price project estimates

The following example is extracted from PWSC(2009-10)83 on “**30LJ** – Additional courtrooms and associated facilities in the High Court Building”.

“FINANCIAL IMPLICATIONS

We estimate the capital cost of the project to be \$50.9 million in MOD prices, broken down as follows –

	<i>\$ million</i>
<i>(a) Site works and demolition</i>	<i>7.5</i>
<i>(b) Building</i>	<i>17.9</i>
<i>(c) Building services</i>	<i>7.5</i>
<i>(d) Drainage</i>	<i>2.0</i>
<i>(e) External works</i>	<i>1.2</i>
<i>(f) Additional energy conservation measures</i>	<i>0.1</i>
<i>(g) Furniture and equipment</i>	<i>1.5</i>

	<i>\$ million</i>
<i>(h) Consultants' fees</i>	1.9
<i>(i) contract administration</i>	1.5
<i>(ii) management of resident site staff</i>	0.4
 <i>(i) Remuneration of resident site staff</i>	 4.6
 <i>(j) Contingencies</i>	 <u>4.3</u>
<i>Sub-total</i>	48.5 <i>(in September 2009 prices)</i>
 <i>(k) Provision for price adjustment</i>	 <u>2.4</u>
<i>Total</i>	<u>50.9</u> <i>(in MOD prices)</i>
...	

Subject to approval, we will phase the expenditure as follows –

<i>Year</i>	<i>\$ million (Sept 2009)</i>	<i>Price adjustment factor</i>	<i>\$ million (MOD)</i>
<i>2010 – 11</i>	<i>5.0</i>	<i>1.02000</i>	<i>5.1</i>
<i>2011 – 12</i>	<i>26.0</i>	<i>1.04040</i>	<i>27.1</i>
<i>2012 – 13</i>	<i>11.5</i>	<i>1.06121</i>	<i>12.2</i>
<i>2013 – 14</i>	<i>5.0</i>	<i>1.08243</i>	<i>5.4</i>
<i>2014 – 15</i>	<i>1.0</i>	<i>1.11220</i>	<i>1.1</i>
 <i>Total</i>	 <u><i>48.5</i></u>		 <u><i>50.9</i></u>

We have derived the MOD estimates on the basis of the Government's latest set of assumptions on the trend rate of change in the prices of public sector building and construction output for the period 2010 to 2015. We will award the contract on a lump-sum basis because we can clearly define the scope of the works in advance. The contract will provide for price adjustments."

(b) Example to illustrate how to determine the amount of savings in constant prices required for supporting a proposed increase in APE in MOD prices

Table I. Cashflows in MOD prices (\$ million)

		APE / admin cap	Change in APE / admin cap	Cum exp up to Mar 2010	10/11	11/12	12/13	13/14	14/15	15/16
Project X	Original project estimate	111.5 (APE & admin cap)	10.7	0	10	20.9	32.8	23	12.1	12.7
	Proposed project estimate	122.2 (APE & admin cap)		0	10	26.1	38.3	23	12.1	12.7
Project Y	Original project estimate	108.8 (APE & admin cap)	(11.2)	10	10	20.9	32.8	23	12.1	0
	Revised project estimate	108.8 (APE) 97.6 (admin cap)		10	10	20.9	27.4	17.2	12.1	0

	10/11	11/12	12/13	13/14	14/15	15/16
Price adjustment factor (as of March 2011)	1	1.04250	1.09463	1.14936	1.20682	1.27169

Table II. Cashflows in constant prices (September 2010 prices) (\$ million)

		Total projec t cost	Change in total earmarked funding	Cum exp up to Mar 2010	10/11	11/12	12/13	13/14	14/15	15/16
Project X	Original project estimate	100 (a)	10 A=(b)-(a)	0	10	20	30	20	10	10
	Proposed project estimate	110 (b)		0	10	25	35	20	10	10
Project Y	Original project estimate	100 (c)	(10) B=(d)-(c)	10	10	20	30	20	10	0
	Revised project estimate	90 (d)		10	10	20	25	15	10	0

Illustration

1. The original APE and administrative cap (admin cap)³ for *Project X* is \$111.5 million in MOD prices. An increase in APE of \$10.7 million in MOD prices is being sought.
2. To determine the amount of savings (at the constant price level of the current RAE)⁴ that *Project X* needs to quote from other project(s) –
 - (i) applying the price adjustment factors to deflate the original and proposed cashflows in MOD prices to September 2010 prices; and
 - (ii) determining the difference between the original and proposed project estimate in September 2010 prices i.e. \$10 million in September 2010 prices (“A” in Table II).
3. Owing to lower-than-expected tender prices, the project estimate of *Project Y* has been revised from \$108.8 million to \$97.6 million⁵ in MOD prices. To determine whether sufficient savings can be quoted from *Project Y* to cover the proposed increase in APE for *Project X* (i.e. \$10 million in September 2010 prices) –
 - (i) applying the price adjustment factors to deflate the original and revised cashflows in MOD prices; and
 - (ii) determining the difference between the original and revised project estimate in September 2010 prices i.e. \$10 million in September 2010 prices (“B” in Table II).
4. Hence, sufficient savings can be quoted from *Project Y* to cover the proposed increase in APE for *Project X*.

3 To avoid locking up resources unnecessarily, TsyB will internally “freeze” all savings arising from contracts awarded at prices substantially lower than the provision earmarked for these contracts in the APE. DoB/works directors should not spend against the savings. The updated requirement for the project (i.e. the reduced project estimate) will be the administrative cap on the project expenditure.

4 The savings required should be deflated to the constant price level of the current RAE. For the present illustration, we have assumed the constant prices at September 2010 level.

5 \$97.6 million becomes the admin cap for Project Y.

**List of Financial Circulars relating to
the Capital Works Programme Now In Force**

Financial Circular	Subject
No. 4/89	Furniture and Equipment
No. 9/90	Furniture and Equipment for Projects in the Public Works Programme
No. 4/93	Procurement of "Non-standard" Equipment Items
No. 9/96	Estimates of Consultants' Fees for Projects in the Public Works Programme and for Capital Subvention Building Projects
No. 14/97	Stores and Procurement Regulations
No. 2/99	Estimates of Consultants' Costs for Projects in the Public Works Programme, for Capital Subvention Building Projects and for Works-related Studies funded under the General Revenue Account
No. 6/2000	Powers of Write-off – Public Finance Ordinance: Section 38
No. 6/2001	Use of Trading Fund Services
No. 1/2004	Responsibility of Controlling Officers
No. 9/2004	Guidelines on the Management and Control of Government Funding for Subvented Organisations
No. 2/2005	Recurrent Consequences of Capital Project
No. 6/2006	Fees and Charges
No. 2/2008	Correctional Services Industries
No. 2/2009	Initiating Works-related Tendering and Consultant Selection Procedures Before Funding is Secured
No. 3/2009	Simplified Tendering Arrangement for Capital Works
No. 5/2009	Impact of Funding Proposals on Fees and Charges

Financial Circular	Subject
No. 4/2010	User Guide on the Finance Committee, Establishment Subcommittee and Public Works Subcommittee
No. 3/2011	Capital Works Reserve Fund Delegated authorities in respect of block allocations
No. 2/2012	Procedures for making changes to the Estimates of the Capital Works Reserve Fund
No. 3/2012	Capital Works Programme
No. 4/2012	Requirements for Project Definition Statement and Technical Feasibility Statement for Capital Works Projects
No. 5/2012	Optimisation of Site Utilisation for Capital Works Projects