

LCQ5: Public works projects

Following is a question by Dr the Hon Junius Ho and a written reply by the Secretary for Development, Mr Michael Wong, in the Legislative Council today (February 24):

Question:

In recent years, a number of large-scale infrastructure projects (e.g. the Hong Kong-Zhuhai-Macao Bridge and the Shatin to Central Link projects) have experienced serious cost overruns and delays. Some members of the public have queried the capability of the Government to control the expenditure of public works projects and monitor their progress, and are worried that similar problems may arise in new works projects. In this connection, will the Government inform this Council:

(1) of the number of public works contracts awarded by the Government and the total expenditure involved in each year since the 2018-2019 financial year;

(2) of the following details of the public works projects implemented by the Development Bureau or the Transport and Housing Bureau which were upgraded to Category A as approved by the Finance Committee of this Council in the 2018-2019 legislative session or thereafter (set out by project name in a table):

(i) the numbers and names of the consultancy firms engaged,
(ii) the expenditures on consultancy fees involved, and
(iii) the specific criteria adopted for selecting consultancy firms and contractors; and

(3) regarding those public works projects that experienced serious cost overruns and delays in the past five years, whether the Government has conducted a detailed analysis on and review of the causes for the cost overruns and delays (including whether perfunctory supervision by government officials was involved), and what specific measures are in place to prevent similar problems from occurring in future works projects?

Reply:

President,

The Government has been continuously investing in capital works to improve people's quality of life, enhance Hong Kong's long-term competitiveness and promote its economic development. The annual capital works expenditure has been maintained at an average level of \$70 billion since 2017. We expect the annual capital works expenditure will continue to grow and exceed \$100 billion in coming years.

In view of the challenges of high construction cost and ageing construction work force faced by Hong Kong in recent years, the Development Bureau (DEVB) established the Project Cost Management Office (PCMO) in June 2016, and upgraded it to the Project Strategy and Governance Office (PSGO) in

April 2019 for promoting "Construction 2.0" proactively and implementing various measures to enhance the performance of public works projects.

The Government's reply to the three parts of the question raised by Dr the Hon Junius Ho is as follows:

(1) The Government has regularly submitted reports to the Public Works Subcommittee, listing out the prices of major contracts awarded (each with a contract sum exceeding \$30 million) in each quarter. The total sum and number of major contracts awarded from fiscal year 2018-19 to 2020-21 are tabled as follows:

Fiscal Year	2018-19	2019-20	2020-21 (As at the 4th quarter of 2020)
Total Contract Sum (Number of Contract)	\$79.7 billion (78)	\$64.6 billion (55)	\$64.5 billion (78)

(2) In the 2018-19 to 2020-21 Legislative Council (LegCo) sessions, the Finance Committee (FC) of LegCo approved the upgrading of 58 Public Works Programme (PWP) items under the DEVB and the Transport and Housing Bureau to Category A. The associated consultancy agreements awarded by the works departments under 44 PWP items are tabulated in Annex. For the remaining 14 items, seven of them have not awarded consultancy agreements yet and seven of them have been entrusted to other parties (e.g. the Hong Kong Housing Authority, the Airport Authority Hong Kong, etc.) for implementation.

When selecting a consultant or a contractor, the works departments will take into account the technical capability and past performance of a tenderer in addition to the tender price. Generally, a "two-envelope two-stage" approach is adopted in tendering for consultancy agreements and works contracts. Tenderers are required to submit technical proposals and price proposals separately to the Tender Assessment Panel of the works departments. The Tender Assessment Panel will evaluate the tenders in two stages, first the technical proposal and then the price proposal. Afterwards, the overall score will be calculated based on the weightings stipulated in the tender documents and only the tenderer with the highest overall score will be awarded the contract. Depending on the nature of the project, the weightings of a tender's scores on technical aspects against the overall score are 54 per cent to 72 per cent for consultancy agreements, and 40 per cent to 60 per cent for works contracts.

For those works contracts of simple nature, the Tender Assessment Panel will consider both the tender price and past performance of a tenderer in evaluating the tender. Tenderers are not required to submit technical proposals.

(3) Although some large-scale infrastructure projects have experienced delays

or have to apply for additional funding in recent years, in fact, the overall estimation and management performance of the Capital Works Programme (CWP) have remained sound. The FC approved a total of 515 Category A projects with funding amounting to about \$890 billion over the past ten years. Among these approved projects, 27 required application to the FC for additional provisions totalling about \$67 billion mainly due to unforeseen circumstances. In other words, increased estimates were deemed necessary in about 5 per cent of the approved projects and their corresponding additional provisions amounted to about 7.5 per cent of the total funding approved.

On the other hand, despite the fact that there were projects requiring additional provisions owing to individual circumstances, projects under the CWP have generally been completed within the original Approved Project Estimates (APE), and some even managed to have surplus. For example, for the 605 Category A projects with their final accounts settled in the past ten years, their final expenditure totalled about \$162.5 billion while their total original APE was about \$180 billion. Though some projects needed to apply for additional provisions from the FC, the surplus from other projects were not only able to offset the cost overruns but also managed to secure a balance of \$17.5 billion. In short, the total expenditures of these projects only accounted for about 90 per cent of their total original APEs.

As far as cost overruns in works projects are concerned, we have reviewed the major causes of cost overruns in PWP items in the past five years. The major reasons for applying for additional funding provisions include additional works due to unforeseen circumstances; higher-than-expected tender returns; increased project contingencies to cover unforeseen adverse ground/underground condition; and increased provision for price adjustments to cope with higher-than-expected increase in construction costs.

As for progress delays, the causes of serious delays in some major projects were mainly due to unforeseen circumstances, which include unforeseen site condition affecting the works progress, inclement weather, as well as delay in obtaining funding approval.

As mentioned above, the DEVB established the PCMO in June 2016, and upgraded it to the PSGO in April 2019, to enhance the performance of infrastructure projects through various measures, such as:

(i) Strengthening the cost management process

- Conduct project vetting process starting from inception stage with regular reviews and take follow-up actions to track project development from the detailed design stage to the funding application stage. Monitor the performance of projects by the Project Surveillance System on a continuous basis until project completion.

(ii) Enhancing project delivery capability

- Establish the Centre of Excellence for Major Project Leaders to provide high-level project management and leadership development programme.

(iii) Leading strategic developments to enhance cost-effectiveness

- Promote "Construction 2.0", and reform the construction industry by advocating innovation, professionalisation and revitalisation.

(iv) Enhancing collaboration with international counterparts and local industry stakeholders

- Collaborate with the Construction Industry Council and local industry stakeholders to promote cost monitoring measures to construction projects in private sector.
- Communicate with authorities in the Mainland, Australia, Singapore and the United Kingdom, and draw on relevant practice and experience when devising policies for enhancing the performance of public works projects.

Since its establishment, the PCMO/PSGO has scrutinised more than 280 public works projects (Note). These projects have commenced smoothly, and some have reached the final stage of construction. We are confident that these projects will not experience cost-overruns or serious delays. Moreover, by adopting the above strategies and collaborating with the industry to promote cost management measures, we are happy to see that the industry has given more weight to cost management culture.

Note: The total estimated project cost was \$520 billion, and \$70 billion has been saved through optimising project designs.