

## **Information Paper for Legislative Council Panel on Planning, Lands and Works**

### **Supplementary Note on River Training Works for the Upper River Indus**

#### **Introduction**

In discussing the paper on the River Training Works for the Upper River Indus for flood protection item 53CD at the LegCo Panel on Planning, Lands and Works meeting on 12 April 2002, Members raised concern on the control and management of contractors, and would like to know the improvements made in the tendering system for public works. Members also requested for a brief account of the contractor under 53CD, which was re-entered by the Government.

#### **Tightened Control on Public Works Contractors**

2 We had carried out a comprehensive review aiming at tightening up the administrative control to enhance better performance of public works contractors on the approved lists. The review recommended a series of improvements, which have been incorporated in the contractor management handbook<sup>1</sup> already promulgated in March 2001. A brief account of the improvement measures are summarized below.

3. In order to ensure that only good contractors are allowed to tender for public works, the timeframe for taking regulating actions against a poorly performed contractor has been shortened. The contractor would be suspended from tendering when he received two consecutive adverse reports on performance under the same contract instead of the previous three consecutive adverse reports.

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<sup>1</sup> The contractor management handbook consolidates and updates the existing guidelines and procedures pertaining to administration and monitoring of the performance of contractors and suppliers on the List of Approved Contractors for Public Works and the List of Approved Suppliers of Materials and Specialist Contractors for Public Works into a single handbook, and was promulgated in March 2001 under WBTC No. 5/2001. It is available for viewing and download at Works Bureau's web site <http://www.wb.gov.hk/publications/management.htm>.

4. The financial criteria for admission, retention and tendering on the approved lists have been tightened in order to further strengthen the Government's position in ensuring that the contractors are financially capable in undertaking public works contracts. Apart from raising the minimum amount of capital requirements, contractors will also be required to provide additional financial information as necessary for auditing. Regulating actions will be taken if the contractor fails to meet the financial criteria.

5. Furthermore, a profitability trend analysis has been introduced to scrutinize the financial performance of a contractor. If a contractor does not meet the laid down financial performance requirement, his tender will not be recommended for acceptance for contracts and may also be subject to regulating actions unless additional capital is injected.

### **Improvements in the Tendering System for Public Works**

6. We had also completed a review of the tendering system for public works. Following the review, we have decided to implement improvement changes to the tendering system to promote quality construction.

7. A marking scheme in tender evaluation will be introduced later this year for public works contracts, which will systematically take into account both the tender price and the quality of tender in the evaluation. It will be established that a tenderer's past performance is an important attribute in assessing the quality of tender and hence a good performer will have a better chance of winning a contract. This will provide an incentive for contractors to execute the contracts more effectively and in the long run, improve the overall quality of service and achieve better value for money in the procurement of public works.

### **Guangdong Water Conservancy and Hydro-power Engineering Development Company Limited (GWCH-PRC)**

8. GWCH-PRC was admitted onto the List of Approved Contractors for Public Works on 26 October 1981 under the categories of 'Port Works', 'Roads and Drainage', 'Site Formation' and 'Waterworks' and since then it had completed 22 public works contracts amounting to 1.4 billion dollars and the performance had been satisfactory.

9. GWCH-PRC has authorized Guangdong Water Conservancy and Hydro-power Engineering Development Company Limited (GWCH-HK) as its

agent to enter into contract with the Hong Kong Government for Contract No. FL23/99 – Main Drainage Channels for Fanling, Sheung Shui and Hinterland River Training Works for Upper River Indus. Similar authorization is also applicable to other public works contracts and is legally acceptable. GWCH-PRC has encountered its own financial difficulties in completing Contract No. FL23/99. As a consequence, we decided to re-enter this contract on 20 December 2001 in accordance with the provisions of the contract. We will take legal action to recover from GWCH-PRC the additional costs arising from such re-entry.

### **The Completion Contract**

10. In view of this incident, we have implemented a number of measures in tightening the control on public works contractors, and we have made improvements in the tendering system for public works. For the completion contract to commence in August 2002, we have built in several measures to ensure both the performance of the contractor and the quality of construction. A marking scheme will be used in selecting the contractor. As due weight is given to the tenderers' experience, past performance, resources and other technical capabilities, the tender with the lowest price may not necessarily be the winning bid. To further demonstrate his commitment and financial soundness, the successful tenderer will be required to secure the Government with a performance bond.

11. A financial breakdown of the construction works and the contingencies is at enclosure 1. The increase in APE is mainly attributable to the increase in the cost of construction works due to the compressed programme of works, additional works such as mobilization of plant and the protection of partially completed works, and the preliminaries from a prolonged construction period. The contingencies have made provisions, if necessary, for the installation of deep wells for the villagers, services diversion, additional laboratory testings, and the possible changes in excavation quantities.

12. With the built-in provisions of marking scheme and performance bond, we will select the most suitable contractor for the completion contract and to ensure that the Government will achieve good value for money in the procurement of public works.

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**Works Bureau**  
**April 2002**

## 53CD – River training works for the Upper River Indus

## Cost Breakdown

	Revised Estimate (\$million)	Expenditure Up to 31 March 2002 (\$million)	Remaining Expenditure (\$million)
(A) Construction works			
(i) Contract FL23/99	148.7	148.7	0
(ii) Contract FL26/01 (including Supplemental Agreement to Contract FL26/01)	314.5	118.5	196.0
(iii) Completion Contract (FL27/02)	<u>177.0</u>	<u>0</u>	<u>177.0</u>
Sub-total	640.2	267.2	373.0
(B) Contingencies	42.0	4.0	38.0

Note

1. Contract FL23/99 is the original contract with GWCH-PRC, which was re-entered on 20 December 2001.
2. Contract FL26/01 is the contract for the works excised from the original contract in order to upgrade certain sections of the River to withstand a rainstorm with a return period of one in ten years during the rainy season of 2002. The contract was entered into in September 2001.
3. Contract FL27/02 is the completion contract scheduled to commence in August 2002 for the remaining works.