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24 May 2005

Clerk, Public Accounts Committee
(Attn: Ms Dora WAI)
Legislative Council Building
6 Jackson Road
Central
Hong KongDear *Ms Wai***The Director of Audit's Report on the
results of value for money audits (Report No. 44)****Chapter 7: The Postal Mechanisation System at the Air Mail Centre**

Thank you for your letter dated 23 May requesting me to provide certain documents to the Committee in relation to the above-captioned report.

Please find enclosed:

- (a) The Postmaster General's memo dated 25 February 1998 to the then Secretary for the Treasury; and
- (b) The then Secretary for the Treasury's reply dated 20 March 1998.

Yours sincerely,

(M M Glass)

for Secretary for Financial Services
and the Treasury

Encl

c.c. SEDL
PMG
D of Audit

MEMO

From Postmaster General
Ref. (31) in PMG PO 98/3
Tel. No. 2922 8020 Fax : 2722 5386
Date 25 February 1998

To Secretary for the Treasury
(Attn : Mr W Chiu, Tender Divison)
Your Ref. (8) in CCSB 2/9
dated 1.6.93

**Consultancy for Postal Mechanization System (PMS)
at the New Air Mail Centre at Chek Lap Kok**

I refer to the telephone conversation between you and Ms Kimmy Chee of this office on 16.2.98 and I would like to round up the case in the ensuing paragraphs.

2. We have engaged [REDACTED] since July 1993 to provide consultancy relating to the design, procurement, installation, testing and commissioning of the postal mechanization system (PMS) at the New Air Mail Centre (NAMC) at Chek Lap Kok (CLK) at a total cost of GBP 568,116.00. By that time it was based on an airport opening date of 30.6.97.

3. Since then, there have been two variations made to the consultancy value, which are elaborated as follows :

- (a) The original budget did not include the travel costs for the consultants to visit contractors' works for manufacturing inspections and to attend work tests or factory acceptance tests because it was not sure by that time who was going to be the PMS Contractor. The Consultants were employed in July 93 whereas the PMS Contract was only awarded in April 95. Hence, reimbursement of those travel costs for the Consultants to go to factories in Germany or other places for such kind of commitment was required. The amount totalled to about HK\$98,670.
- (b) According to the Consultancy Agreement, the [REDACTED] Consultant is required to supervise the PMS Contract on site and shall therefore reside in Hong Kong from the commencement of the PMS installation by the PMS contractor until its full operation, including the completion of the confidence trial for the PMS. In the Agreement, it has allowed a residency period of 14 months for such commitment.

Nevertheless, as the project progressed there were indications that the opening of the new airport might be delayed and the installation of the PMS could be deferred. Furthermore when the system specifications for the PMS contract was drawn up it was clearly specified that there should be a confidence trial of 90 days after the completion of the PMS installation, and the confidence trial could only start when the NAMC commences operation in conjunction with the new airport opening. It was then realized that the 14-month residency period might not be sufficient to cover the installation programme and the confidence trial.

Since the PMS installation began in Jan 97, the resident consultant engineer (Mr [REDACTED]) of [REDACTED] had to come and reside in Hong Kong in mid-Jan 97 due to operational requirements. The contractual residency period will therefore end by mid-March 98. However, on the previous prevailing assumption that the airport would be opened in April 98, which would be the time that the confidence trial of the PMS could start, there was a need to extend the residency period of Mr [REDACTED] for about 3.5 months (i.e. from mid-March 98 to end of June 98) to supervise the PMS contract until the end of confidence trial (the confidence trial was supposed to be from 1.4.98 to 30.6.98). Moreover, there would involve additional visits made by the project director (Mr [REDACTED]) from March to June 98 to attend co-ordination meetings, etc.

In this case, a variation involving a total cost of HK\$885,000 was required.

4. The total values for the two variations involved were HK\$983,670 which were approved within our departmental authority as it involved not more than 20% of the contracted sum.

5. However, the airport opening date has now been set at 6.7.98. This has implications on our Consultancy Agreement with [REDACTED]. According to the Agreement, the consultancy should end no later than 30.6.98. But [REDACTED] is still required to supervise the project and manage the PMS Contract for us. Moreover, the confidence trial of the PMS will only start when the new airport opens and it will last for 90 days, during which we also require the presence and technical support from [REDACTED]. In addition, at the end of the warranty period which is one year after the confidence trial, [REDACTED] is required to return to site to conduct final acceptance of the PMS. Hence, there is a need to extend the consultancy period till the end of 1999 (to allow a little more buffer).

6. Furthermore, the resident consultant engineer did not come to reside in Hong Kong as originally scheduled in May 96. He only came in Jan 97 (as the PMS installation only commenced by that time). However, during that interim period (i.e.

May 96 to Jan 97), the [REDACTED] Consultants still have to manage the PMS Contract and supervise the project, as well as to attend monthly co-ordination meetings. This meant additional costs because of extra resources involved. These additional project management costs, amounting to £70,250 (or HK\$878,125 at the rate of £1 = HK\$12.5) are tabled at Appendix I.

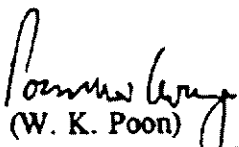
7. Apart from the variation incurred as mentioned in para 3(b) above, there is now a need to further extend the residency of the resident consultant engineer following the further slippage of the airport opening, from 1.7.98 to 6.10.98. But to allow a little buffer for rectification of the confidence trial, it is suggested to extend the residency till end of October 98. This may mean 4 months. In addition, there will be additional visits made by the project director. The costs involved will be HK\$1,111,750 (based on £1 = HK\$12.5), as detailed in Appendix II. The additional management costs (Appendix I) and extension of the residency for the resident consultant together with additional visits by the project director (Appendix II) totalled to HK\$1.99 million.

8. I am now writing to seek your approval for the additional variations to the Consultancy Agreement made between Hong Kong Post Office and [REDACTED] in

- (a) Extending the consultancy period to end of 1999. According to the Consultancy Agreement the consultancy should end no later than 30.6.98. It is therefore considered necessary to extend the consultancy to cover the requirements for [REDACTED] to complete the confidence trial and to conduct the final acceptance of the PMS which should be one year after the satisfactory completion of the confidence trial.
- (b) Increasing the budget by another HK\$1.99 million as a result of the additional costs detailed at para 6 & 7.

Thus the total contracted sum will be increased from GBP 568,116.00 (or HK\$7.10 million) to HK\$10.07 million (HK\$7.10 million + HK\$0.98 million + HK\$1.99 million).

9. For your information, we have already obtained funds from NAPCO with regard to the variations. A copy of memo from NAPCO confirming that funds are available is attached at Appendix III.


(W. K. Poon)
for Postmaster General

Appendix I

The additional number of LHR-HK-LHR airfares and necessary man weeks of consultants time claimed by ██████ under the terms of the contract are made up as follows (the visits are detailed in Annex A):

Contract Stage Phase IV - Stage I	██████ Consultant		Total Difference
	██████ (Proj Dir)	██████ (Consultant)	
Contracted No. of air fares LHR-HK-LHR prior to commencement of ██████ in HK in May 96 (contracted date)	8	4	
Actual No. of LHR-HK-LHR air fares up to commencement of ██████ in HK in January 1997	12	10	
Difference	4	6	10 airfares
Contracted No. of man weeks prior to commencement of ██████ HK in May 96 (contracted date)	HK - 8 UK - 1 Ger - 4	HK - 4 UK - 12 Ger - 8	
Actual No. of man weeks up to commencement of ██████ in HK in January 1997	HK - 12 UK - 3 Ger - 4	HK - 10 UK - 16 Ger - 8	
Difference	HK - 4 UK - 2 Ger - 0	HK - 6 UK - 4 Ger - 0	HK - 10 UK - 6 Ger - 0

The costs for the additional airfares and ██████ manpower are :

Contract Stage Phase IV - Stage I Additional Costs	Cost / unit £	No. off	Total Cost £
Airfare	2,400	10	24,000
Manpower			
██████ (PD)	2,400	6	14,400
██████ (CE)	1,950	10	19,950
HK Subsistence costs			
██████ (PD)	170	20	3,400
██████ (CE)	170	50	8,500
Total			70,250

ANNEX A

NAMC PROJECT MEETINGS DETAILS					
Comment	Meeting date	Meeting No.	Month	Venue	Attendees
	26/04/95	CM1	April	HK	
	31/05/95	CM2	May	HK	
HKPO in kz	26/06/95	CM3	June	Kz	
Video conf	26/07/95	CM4	July	Kz	
Video conf	30/08/95	CM5	August	Kz	
HKPO visit to Germany	29/09/95	CM6	September	Kz	
	25/10/95	CM7	October	HK	
	29/11/95	CM8	November	HK	
	17/01/96	CM9	January	HK	
	28/02/96	CM10	February	HK	
Video conf	27/03/96	CM11	March	Kz	
Hong Kong Visits	22/04/96	CM12	April	Kz	
	22/05/96	CM13	May	HK	
	26/06/96	CM14	June	HK	
Video	31/07/96	CM15	July	Kz	
Video (Kz, HK)	28/08/96	CM16	August	Kz/HK	
	28/09/96	CM17	September	HK	
	31/10/96	CM18	October	HK	
	05/12/96	CM19	December	HK	
resident in HK	23/01/97	CM20	January	HK	
	28/02/97	CM21	February	HK	
Video (Kz, HK)	26/03/97	CM22	March	Kz	
	30/04/97	CM23	April	Kz	
	28/05/97	CM24	May	HK	
	24/06/97	CM25	June	HK	
	30/07/97	CM26	July	HK	

Note: Shaded area shows the effective delay period which resulted in additional resource input and travel costs.

Appendix II

There are anticipated costs due to the requirement for Mr [REDACTED] to stay in Hong Kong beyond 30 June 1998 until 30 October 1998 plus additional visits by the project director Mr [REDACTED] from July to October 1998. These will be :

1.	4 additional LHR-HK-LHR airfares at cost (approx. £3,200)	=	£12,800
2.	Additional manpower :		
	4 weeks [REDACTED] @ £2,400/week	=	£9,600
	18 weeks [REDACTED] @ £1,950/week	=	£35,100
3.	Hong Kong subsistence costs : 28 days [REDACTED] @ (approx. £180/day)	=	£5,040
	4 months [REDACTED] overseas allowance @ £1,000/month	=	£4,000
	4 months [REDACTED] residency costs @ HK\$70,000/month	=	HK\$280,000
		Total :	£66,540 HK\$280,000

MEMO

From: Director, NAPCO

To: D. Arch. S.
(Attn: Mr H M Lau)

Ref: NAP/T. 3/2.J/2(1)

Tel. No: 2829 6706 FAX: 2802 8558

Your Ref: ASD 51/95100/
PMS/NAP

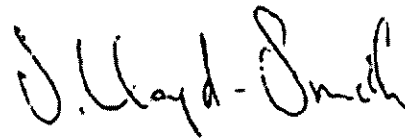
Date: 27 October 1997

dated: 22.10.97

Chek Lap Kok Government Facilities
Trend Notice CLK 712

I am pleased to inform you that approval is given to Trend No. CLK 712 - Additional sum for PMS consultancy for delayed opening to April 98 as detailed in your memo.

2. The additional amount of \$2.0 million MOD for budget item 46030 PMS consultancy shall be funded from budget item 46CAD Allowance for consultancies.



(John Lloyd-Smith)
for Director, NAPCO

c.c GPO (Ms Kimmy Chce)

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MEMO

From <u>Secretary for the Treasury</u>	To <u>Postmaster General</u>
Ref. <u>(38) in CCSB 2/93</u>	(Attn. :) <u>Mr W K Poon</u>
Tel. No. <u>2810 2518</u> Fax No. <u>2869 4519</u>	Your Ref <u>(31) in PMG PO 98/3</u>
Date <u>20 March 1998</u>	Dated <u>25.2.98</u> Fax No. <u>2722 5386</u>

**Consultancy for Postal Mechanisation System (PMS)
at the New Air Mail Centre at Chek Lap Kok**

Reference your MUR, the following approvals have been given for you to vary the agreement of the above consultancy entered into with [REDACTED] -

- (a) covering approval for you to vary the value of the agreement by an increase of \$878,125 to cover the additional costs incurred by [REDACTED] due to the delay in commencing the residency period of the consultant as a result of the slippage of the opening of the new Airport to April 1998; and
- (b) approval to further vary the value of the consultancy agreement by an increase of \$1,111,750 and to extend the consultancy period to end 1999 due to the further slippage of the opening of the new Airport, which is now scheduled for 6.7.98.

2. As you had approved variations in a total sum of \$983,670 under your delegated authority in accordance with Regulation 520(c) and Section C(IV)(b) of Appendix V(B) of the Stores and Procurement Regulations, the above approval will increase the contract value of the consultancy agreement from its original value of \$7.1 million to \$10,073,545 (\$7.1M + \$983,670 + \$878,125 + \$1,111,750).



(Wilson Chiu)
for Secretary for the Treasury

c.c. Director of Accounting Services
Director of Audit
Director of Architectural Services (Attn: H M Lau)
D/NAPCO (Attn: Eric Ho)