

Challenges to Delivery of the Capital Works Programme

Introduction

When considering Paper No. **CB(1)925/13-14(03)** on the challenges to delivery of the Capital Works Programme at the Panel on Development Meeting held on 25 February 2014, Members requested additional information about (a) Given that the 60% increase in the construction unit cost of government offices from 2009 to 2013 (as shown in page 28 of the Administration's powerpoint presentation (LC Paper No. CB(1)1001/13-14(01)) was only an average rate, the relevant details about the increase of such cost during the said period etc.; (b) Details about the claims submitted to the Administration by contractors of public works projects for losses caused by shortage of construction manpower (such as the number/names of the projects involved, the amounts claimed and settled etc.); and (c) More information about the "New Engineering Contract" form, including the background for introducing the form, the arrangements for sharing and management of risks, whether and how the form could reduce project costs, and how it would help achieve better collaboration between the contracting parties. The Administration is pleased to provide the requested information below.

(a) Relevant Details about the Increase in Construction Unit Cost of Government Offices

2. The Legislative Council has approved 1 and 5 capital works items of government offices category in 2009 and 2013 respectively. To assess the increase in construction unit cost of the government offices from 2009 to 2013, we have made reference to the construction costs per unit Construction Floor Area (based on the building and building services costs) of these 6 items, and estimated that there was an average of 60% increase in the construction unit cost of government offices from 2009 to 2013. Details of the 6 items and the associated construction unit costs are shown in the following table:

Year	Project Title	Construction Floor Area (CFA) (m²)	Construction Unit Cost per CFA (\$/m²)
2009	Tamar Development Project	204,585	17,520
2013	Construction of a new ambulance depot at Choi Shun Street, Sheung Shui	3,558	29,511
2013	Relocation of Department of Justice to the Former Central Government Offices (Main and East Wings)	24,420	20,045
2013	Relocation of the Court of Final Appeal and the Development Office of the Judiciary to No. 8 Jackson Road	8,080	34,109
2013	Relocation of the printing workshop of Government Logistics Department	12,951	19,002
2013	Reprovisioning of Yau Ma Tei Police Station	15,680	38,080

3. It should be noted that according to the information released regularly by the professional quantity surveying firms, the increase in the construction unit cost of standard private offices during the same period is about 40% to 70%, which is comparable to that of the average increase of the government offices.

(b) Details about the claims submitted to the Administration by contractors of public works projects for losses caused by shortage of construction manpower

4. As from the records provided by the works departments, amongst the ongoing public works contracts, there are 4 contractors' claims for extension of time and monetary compensation due to shortage of construction manpower. As assessment of the claims is still in progress, we cannot disclose their details at the moment.

(c) More information about the "New Engineering Contract" form

5. Since 2009, the Development Bureau has adopted the New Engineering Contract ("NEC") form in some public works contracts which emphasizes co-operation, mutual trust and collaborative risk management between contracting parties to enhance contract management efficiency. The NEC form has been used in Britain since 1993. It has also been used for many years in more than 15 other countries, including New Zealand, South Africa, etc.

6. The NEC form is applicable to different types of engineering contracts, including construction contracts, maintenance contracts and consultancy contracts. It also provides various payment options that suit different needs, such as priced contracts, target contracts and cost reimbursement contracts, etc. One of its merits is to allocate the respective contractual risk to the party best able to manage it. Moreover, it provides a collaborative risk management mechanism, including the elements of early warning notification and risk reduction meeting. The contracting parties shall act together to deal with the risks including avoiding the risk or mitigating its effect if the risk is materialised, such as increase in the total construction cost and/or delayed contract completion, etc.

7. Further, the target contract option under the NEC form provides a mechanism to pain share/gain share of the construction cost. The employer and the contractor share the difference between the actual construction cost and the final target cost. It drives the contracting parties to a common goal of completing the works at reduced cost and in shorter construction period. To limit its financial liability, the employer could stipulate that he would only share the overspending up to a certain percentage above the final target cost.

8. As at February 2014, there are 10 public works projects with construction contracts using NEC form. They cover different types of contracts and works categories. They also cover different payment options of the NEC form.