LEGISLATIVE COUNCIL PANEL ON DEVELOPMENT

Project Cost Management Office

Follow-up Actions to Meeting on 15 March 2016

Supplementary information as required by the Panel on 15 March 2016 is provided below:

(a) Forecast annual expenditure on public works projects in the coming five years; forecast annual construction expenditure of the private sector in the coming five years; details of new large-scale projects (such as their names, descriptions, etc.) included in these forecasts.

The Government has been collaborating with the Construction Industry Council (CIC) in compiling a 10-year forecast for public sector and private sector construction expenditure. According to the latest forecast as promulgated in the CIC website, the annual construction expenditure in the coming five years will maintain at around \$205 billion to \$265 billion¹. Details are listed below for reference:

	2015-16	2016-17	2017-18	2018-19	2019-20
	(\$ billion, in September 2015 prices)				
Public Sector ²	90 ~ 100	95 ~ 110	100 ~ 120	100 ~ 125	100 - 125
Private Sector	115 ~ 135	120 ~ 140	120 ~ 145	115 – 135	115 – 140

Construction Expenditure Forecast for 2015-16 to 2019-20

2. Apart from the projects already in the construction stage, the public sector construction forecast also covers the projects in the planning and design stages. Some of these major projects are tabulated below:

Project Name	Project Description
10-year Hospital Development Plan	To meet new demand and improve existing services, the Government has worked with the Hospital Authority to devise an overall hospital development plan, and \$200 billion will be used to implement the plan in the next ten years.

¹ total sum of the expenditure in the public sector and the private sector.

 $^{^{2}}$ the public sector expenditure includes the expenditure of capital works projects and projects implemented by the Airport Authority the Housing Authority, the Hospital Authority, the MTRCL, etc.

10-year Public Housing Supply	To meet long-term housing demand, Government has set the housing supply target at 460 000 units for the 10-year period from 2015-2016 to 2024-2025. Public housing accounts for 60% of the units.	
Central Kowloon Route (CKR)	CKR is a 4.7 km long dual 3-lane trunk road in Central Kowloon linking Yau Ma Tei Interchange in West Kowloon with the road network on Kai Tak Development and Kowloon Bay in East Kowloon.	
Tseung Kwan O – Lam Tin Tunnel (TKO-LTT)	TKO-LTT is a dual-two lane highway of approximately 4.2 km long, connecting Tseung Kwan O and East Kowloon. The Tseung Kwan O – Lam Tin Tunnel, together with the Trunk Road T2 in Kai Tak Development and Central Kowloon Route, will form Route 6 in the strategic road network providing an express link between Kowloon West and Tseung Kwan O. The Route 6 will also mitigate the road traffic condition of central and eastern Kowloon.	
Tseung Kwan O Desalination Plant	The proposed seawater desalination plant using reverse osmosis at Tseung Kwan O will have a water production capacity of 135 000 m^3 per day with provision for future expansion to the ultimate water production capacity up to 270 000 m^3 per day.	
Cross Bay Link	The project will construct a 1.8 km long dual two-lane carriageway with a cycle track and a footpath across Junk Bay mainly on viaduct, with the necessary slip roads and junction improvements.	
Railway Development Strategy 2014 (RDS-2014)	The RDS-2014 aims at providing a framework for planning the future expansion of Hong Kong's railway network up to 2031. It recommends that seven railway projects be implemented. When the seven recommended projects are completed, the total length of Hong Kong's railway network would grow to over 300 km, covering areas inhabited by about 75% of the total population and about 85% of job opportunities.	

West Kowloon Cultural District	The West Kowloon Cultural District will be developed into one of the world's largest cultural quarters, blending art, education and public space.	
Three-Runway System for the Hong Kong International Airport	To meet future air traffic growth, the Airport Authority has been planning to expand Hong Kong International Airport into a three-runway system so as to maintain Hong Kong's competitiveness as a global and regional aviation hub, as well as to cater for the city's long-term economic and development needs.	
Relocate the Shatin Sewage Treatment Works to caverns	The project will relocate the existing Shatin Sewerage Treatment Works (STSTW) to caverns, as well as demolish the existing STSTW.	
Land Supply Projects	The Government will take forward various land supply projects for accommodating the growing population, enhancing living standards as well as promoting the economy.	

(b) Written responses in respect of the submissions from The Hong Kong Institute of Architects dated 11 March 2016 (LC Paper No. CB(1)682/15-16(01)), Buildings Department Local Building Surveyors' Association dated 14 March 2016 (LC Paper No. CB(1)682/15-16(02)), and The Hong Kong Institute of Surveyors dated 14 March 2016 (LC Paper No. CB(1)688/15-16(01)).

As announced in the 2016 Policy Address and the 2016-17 Budget Speech, the Development Bureau (DEVB) will set up a multi-disciplinary office, the Project Cost Management Office (PCMO), to achieve better cost management by drawing up cost control measures and cost reduction initiatives, and to steer and monitor related work undertaken by project client bureaux and works departments. The PCMO will pursue cost management through a 3-prong approach – by comprehensively reviewing existing works policies and requirements; closely scrutinizing project estimates; and enhancing project management of public works projects.

2. The PCMO will be a multi-disciplinary office with an establishment of 15 staff. It will comprise officers from the professional grades of architect, engineer and quantity surveyor, and from technical and general grades. In view of the fact that cost control initiatives involves, inter alia, system re-engineering and multi-disciplinary design optimization, the PCMO has to be headed by a senior officer who is experienced and skilled in planning and implementing large-scale capital works projects and handling risk and cost review, and also project management. On balancing all the requirements, we consider it necessary for a Government Engineer to lead the office.

3. On project designs, we will require works departments to adopt the "no frills" principle and avoid unnecessary fancy designs. This requirement would not smother creativity, as simple designs are not mutually exclusive with sense of aesthetics and creativity. Standardisation does not necessarily mean dull and monotonous designs and on the contrary, lavishness does not necessarily result in beauty. In fact, we have all come across some modern interior designs that are simple and standard but attractive. Moreover, we will put in place an indicative cost system for some new government building types such as schools, office buildings and departmental quarters. The benchmarks will be set under the "fit for purpose" principle, making reference to the cost of similar projects in the past, the latest building standards and requirements as well as market conditions. We will require relevant works departments to make reference to the indicative costs during the design stage and outline the designs within the benchmarks. We also recognize the importance of long-term maintenance cost and would take it into account in the design process.

4. The proposal of setting up the dedicated office can help to control the construction cost of public works projects in a systematic and comprehensive manner. This will enable our public works projects in future being creative and aesthetic, practical and serving the intended functions, with a view to ensuring public funds are well-spent and benefiting the community as a whole.

5. DEVB met the representatives of HKIA and HKIS on 12 April 2016 to convey the aforesaid responses to their letters. The institutions also shared their valuable professionals' views on cost management. Both institutions expressed their support of the establishment of PCMO as well as Government's proposed initiatives to tackle the problem of high construction cost. We will continue to engage the relevant professional institutions and other stakeholders in future regarding the pursuance of the various cost management initiatives.

(c) Assessment on how the implementation of public works projects had been delayed by judicial review proceedings, and the impact of the delays on project cost.

Larger scale public works projects usually take several years or even more than ten years from project inception to construction completion. Various challenges, may also surface, including judicial reviews, legal challenges, longer than expected consultation period, etc. We note that some major projects were seriously delayed by judicial review proceedings. These delays would increase the overall cost of the project as a result of construction price escalation as well as the additional costs due to resources idling, prolongation of works and other associated costs. Examples on the assessment of the impact on project cost due to delay by judicial reviews are as below:

PWP no. / Project Title	Issues in Judicial Review	Time and Cost Implications	
5177DR – Integrated waste management facilities phase 1	Four separate applications for judicial reviews were filed in 2012 against the project, mainly challenging the decisions on issuance of the Environment Permit.	30 months delayed and additional cost of several billions incurred due to construction price escalation.	
6845TH – Hong Kong–Zhuhai– Macao Bridge Hong Kong boundary crossing facilities - reclamation and superstructures	Legality of the Environmental Impact Assessment Report and the Environmental Permit of the Hong Kong-Zhuhai-Macao Bridge project.	The commencement of the Hong Kong–Zhuhai–Macao Bridge (HZMB) related local projects was deferred by about one year when compared with the original plan, resulting in a works cost increase of about \$6.5 billion.	
5258RS – Development of a bathing beach at Lung Mei	Judicial review was filed in 2013 against the project, mainly challenging the decisions on issuance of the Environment Permit.	Works commenced on 18 June 2013, but no firm resumption date at the moment. Additional cost cannot be assessed at the moment.	

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