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Panel on Development

Meeting on 17 July 2017

Background brief on the Project Cost Management Office

Purpose

This paper provides background information on the Project Cost Management Office ("PCMO") and a brief account of Members' views and concerns on the responsibilities and work of the Office expressed at meetings of the Legislative Council ("LegCo"), the Panel on Development ("the Panel") and other relevant committees.

Background

2. In his 2016 Policy Address, the then Chief Executive announced that there was a need for the Government to strengthen cost control for public works projects and a dedicated office would be established to take forward the relevant work. In March 2016, the then Secretary for Development proposed that PCMO be established under the Works Branch of the Development Bureau for about three years up to 31 March 2019 to achieve better cost management for capital works projects 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. According to the Administration,¹ PCMO will pursue cost management through a three-pronged approach by: comprehensively reviewing existing works policies and requirements; closely scrutinizing project estimates; and enhancing the management of public works projects.

¹ [LC Paper No. CB\(1\)816/15-16\(01\)](#)

3. The Administration consulted the Panel in March 2016 on the funding proposal relating to the establishment of PCMO. With the endorsement of the Establishment Subcommittee and the approval of the Finance Committee ("FC") for the relevant funding proposal, PCMO was established in June 2016.

Responsibilities of the Project Cost Management Office

4. According to the Administration, PCMO will devise and promote cost management policies in respect of capital works projects, coordinate their implementation and promote such policies to the private building sector. In this respect, the major responsibilities of PCMO include, inter alia, the following:

- (a) reviewing relevant guidelines and provisions to rationalize design and contractual requirements under a "no frills" principle;
- (b) establishing realistic target unit costs for new government buildings projects;
- (c) adopting and promoting the guiding principle of "design for buildability" so as to reduce costs without compromising safety;
- (d) enhancing works departments' skills and knowledge of project management and cost estimation;
- (e) improving procurement methods to reduce tender risk premiums and the overall project costs; and
- (f) collaborating with the Construction Industry Council in promoting cost control and reduction measures to the private sector.

5. In addition, PCMO will coordinate cross-bureau efforts to use cost as one of the major drivers for project implementation instead of treating it as a necessary outcome only. On a project-by-project basis, for instance, PCMO will:

- (a) vet and review preliminary cost estimation in establishing the technical feasibility of major projects;

- (b) provide technical support for project cost control to client bureaux on capital works projects;
- (c) vet and review major increases in project estimates; and
- (d) proactively vet and review over 300 capital works projects still in the planning and design stage to achieve cost reduction for these projects.

6. PCMO will also enhance the existing procedures on project management, cost control and cost reduction and make reference to local and international best practices by commissioning support services from external experts where necessary.

Rationalizing design and contractual requirements under a "no frills" principle

7. According to the Administration, PCMO will encourage works departments to optimize the projects designs and reduce the construction costs based on the principle of "fitness for purpose and no frills" by exploring various design options and construction methods. Some Members expressed concern that the requirement of adopting the "no frills" principle would smother creativity in project designs. Disagreeing with this view, the Administration stressed that simple designs were not mutually exclusive with sense of aesthetics and creativity, and standardization did not necessarily mean dull and monotonous designs.

Accuracy of project cost estimation

8. Some Members suggested that PCMO should study new approaches and methodologies for enhancing the accuracy of project cost estimation. The Administration advised that under the existing practice, apart from making reference to the cost estimates for similar projects, the Administration had also adopted the "estimating using risk analysis" approach in the preparation of project cost estimates. The Administration assured Members that PCMO would study how to enhance the accuracy of the existing project cost estimation methodology, and would seek to improve works departments' skills and knowledge of project management.

Prevention of project cost overruns

9. PCMO will scrutinize the cost estimates of public works projects in their planning and design stages. During the construction stage, the

bureaux and works departments concerned are responsible for the routine supervision, cost estimation, procurement, etc. for the projects. Some Members suggested that PCMO should review the costs of the public works projects even though these projects had completed the planning and design stage, as well as monitor works projects under construction to prevent cost overruns. The Administration explained that the main responsibility of PCMO was to reduce the overall cost of public works projects fundamentally instead of preventing project cost overruns. PCMO would focus its efforts on new public works projects. It would also review the costs of the existing projects when the Office became aware that there would be very substantial alterations to their designs.

10. Some Members opined that one of the causes of the rising construction costs was the implementation of a large number of public works projects in recent years. They enquired whether PCMO would adjust the plan for the annual construction output of the public sector after assessing the delivery capacity of the construction industry, so as to ensure that the public works projects would be launched in an organized manner. The Administration advised that PCMO would work in collaboration with relevant government departments to determine the priority of works projects by assessing their construction costs, viability, urgency, and the delivery capacity of the construction industry.

Implementation of the indicative cost system

11. PCMO will put in place an indicative cost system for several major categories of new government buildings, including schools, departmental quarters and office buildings. The relevant departments (project proponents) will be required to ensure that the unit costs are below the indicative costs in order to achieve cost control during the design stage.² If the unit cost of a proposed building project exceeds the relevant benchmark, the project proponent will be required to explain the reasons for the difference. PCMO will develop the relevant cost benchmarks by making reference to the returned tender prices for the past building projects and their designs, as well as all relevant factors affecting the costs of building projects.

12. Some Members were concerned whether PCMO would have the power to request the bureau/department concerned to change the design of

² The Administration's [reply to a written question](#) raised at the LegCo meeting of 29 March 2017

a public works project for the purpose of meeting the relevant cost benchmark. The Administration advised that PCMO would coordinate cross-bureau and cross-departmental efforts to use cost as one of the major drivers for project implementation.

Public works projects reviewed by the Project Cost Management Office

13. As at 1 March 2017, PCMO has completed the review of about 60 public works projects with a total estimated value of \$170 billion and has reduced their estimates by about \$13 billion.³ The reduction was mainly achieved through the collaboration between PCMO and the bureaux/departments of the projects concerned. Members were concerned whether there were measures in place in PCMO to follow up and monitor the construction progress of these project to avoid cost overruns or delays.

14. The Administration advised that the client bureaux and works departments were responsible for the implementation, coordination and management of their own projects from initial planning, design, construction to completion. Their roles would not be supplanted by PCMO. PCMO would monitor the expenditure and progress of individual projects. In case of deviations from the planned expenditure or anticipated completion dates or major alterations to the project designs, the responsible departments would be required to make notifications as well as formulate and implement practicable measures.

Staffing of the Project Cost Management Office

15. PCMO is a multi-disciplinary office with an establishment of 15 staff. It comprises officers from the professional grades of Architect, Engineer and Quantity Surveyor, and from technical and general grades. The Head of PCMO is a Government Engineer ("GE"), ranked at the D2 level, who reports directly to the Permanent Secretary for Development (Works).

16. Taking in view that the Capital Works Programme covered a wide spectrum of projects, including not only civil engineering projects, but also building works and other projects, some Members cast doubt on the

³ The Administration's [reply to a written question](#) raised at the LegCo meeting of 1 March 2017

arrangement of assigning a GE, instead of an officer from other professional grades, to head PCMO. The Administration advised that PCMO would be staffed by officers from different professional grades including Engineer, Architect and Quantity Surveyor. Considering that cost control (such as system re-engineering and multi-disciplinary design optimization) and project management fell into the scope of work of engineers, the Administration held the view that the managerial positions of PCMO should be filled by professional staff of the Engineer grade.

17. Given that PCMO will need to review some 300 projects in its term of office of three years, some Members were concerned whether the Administration had assessed if the Office had adequate financial resources and staffing to handle its work, and had considered allocating additional resources and manpower to PCMO.

18. The Administration advised that in the interests of cost effectiveness, PCMO would optimize the use of existing resources and outsource some support services to consultants for proper implementation of cost control in public works projects. The Administration would review the workload and staffing position of PCMO from time to time and, when necessary, consider taking on additional staff.

Latest development

19. At the Panel meeting to be held on 17 July 2017, the Administration will brief the Panel on the cost management initiatives of PCMO for capital works projects.

Relevant papers

20. A list of relevant papers with their hyperlink is in the **Appendix**.

Project Cost Management Office

List of relevant papers

Council/Committee	Date of meeting	Paper
Panel on Development	15 March 2016	<p>Administration's paper on "Staffing proposal relating to the establishment of the Project Cost Management Office under the Works Branch of Development Bureau" [LC Paper No. CB(1)653/15-16(03)]</p> <p>Minutes of meeting [LC Paper No. CB(1)1035/15-16]</p> <p>Administration's follow-up paper [LC Paper No. CB(1)816/15-16(01)]</p>
Establishment Subcommittee	31 May 2016	<p>Administration's paper on "Government Secretariat: Development Bureau (Works Branch)" [EC(2016-17)4]</p> <p>Minutes of meeting [LC Paper No. ESC119/15-16]</p> <p>Administration's follow-up paper [LC Paper No. ESC114/15-16(01)]</p>
Finance Committee	28 June 2016	Minutes of meeting [LC Paper No. FC324/15-16]
Council	1 March 2017	Hansard — written question (No. 13) on "Cost estimates of infrastructure projects" (p. 4784-4791)
Council	29 March 2017	Hansard — written question (No. 20) on "Information on public works" (p. 5732-5750)