

## **NOTE FOR FINANCE COMMITTEE**

### **Estimates of Consultants' Costs for Capital Works Projects**

#### **INTRODUCTION**

In considering FCR(2002-03)43, supplemented by PWSCI(2002-03)31 on the updated multipliers for estimating consultancy fees for capital works projects at the meeting of the Finance Committee held on 6 December 2002, Members requested the Administration to –

- (a) provide information on the amount of work in consultancy contracts awarded in the past two or three years which was undertaken outside Hong Kong;
- (b) consider Members' suggestion to give higher ratings to bidders who undertook to employ local staff for the project subject to international trading rules and agreement being complied with; and
- (c) confirm whether the Government and the Housing Authority adopted the same multipliers, in particular the multiplier for "site staff supplied by the consultants", in estimating consultants' costs for capital work projects.

#### **THE ADMINISTRATION'S RESPONSE**

##### ***Amount of consultancy work undertaken outside Hong Kong***

2. Between 1 April 2000 and 30 November 2002, the Government awarded a total value of \$2.98 billion of works-related consultancies. According to

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the consultants' staffing and other information available to works departments<sup>1</sup>, about \$113 million or 3.8% of these consultancy services were undertaken outside Hong Kong. The main reason for having work undertaken outside Hong Kong is that local expertise and facilities are not available for certain specialised tasks.

***Suggestion to give higher ratings to bidders undertaking to employ local staff***

3. According higher ratings to bidders undertaking to employ local staff is neither appropriate nor necessary. For assignments requiring professional advisory or creative input, what matters more to the Government is generally the quality of the end product rather than how or where that is procured. For assignments covering project management and site supervision, on the other hand, it is already understood that the physical presence of the staff in Hong Kong is necessary. Provided the job opportunities are created in Hong Kong, the "origin" of the staff is not that relevant. Specifying local presence is not necessary and may be considered as being unfair.

4. Indeed, local experience and knowledge are often essential in the provision of consultancy services in the areas of safety, environmental protection, traffic and problem analyses unique to the situation of Hong Kong. Local professional and technical staff having the relevant experience and knowledge already have a better chance of being employed by the consultants.

***Multipliers used by Housing Authority in the estimation of consultancy fees***

5. As explained in PWSCI(2002-03)31, the Government standardised the methodology for preparing estimates for consultants' costs for capital works projects in 1996. In brief, the total estimated consultants' cost is calculated by multiplying the estimated staff cost by the relevant multiplier factors to reflect the consultants' overhead costs, and then adding to it the estimated out-of-pocket expenses –

Total estimated consultancy cost	=	Estimated man-month input	x	Relevant MPS salary point(s)	x	Relevant multiplier factor(s)	+	Estimated out-of-pocket expenses
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<sup>1</sup> Owing to advance information technology and convenient transfer of intellectual products, consultants may have undertaken certain work outside Hong Kong without reporting to works departments.

6. The Housing Authority (HA) uses a different estimation method which takes into account the prevailing fee scales of the relevant professional institutions and the fee levels of the latest consultancies it awarded in working out the consultancy fees' estimates.

7. For the estimated cost of "site staff supplied by the consultant", HA assesses a notional time to be spent by various levels of staff on the project, and multiplies the respective notional time with the staff costs set out in the HA's Staff Cost Ready Reckoner to arrive at an overall staff cost. It also includes an on-cost of 7 % to account for the consultants' overhead in the estimate. As the staff costs set out in the HA's Staff Cost Ready Reckoner include HA staff's fringe benefits and other related costs, such costs are higher than the average Master Pay Scale salary point the Government adopts. Hence, the two methods are not directly comparable.

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