

**LEGISLATIVE COUNCIL  
PANEL ON DEVELOPMENT**

**Strengthening Cost Management and  
Uplifting Performance of Public Works Projects**

**Follow-up Actions to Meeting on 27 November 2018**

Supplementary information as required by the Panel on 27 November 2018 is provided below:

- (a) *in respect of the cost saving of \$27 billion achieved by the Project Cost Management Office after scrutinizing 130 projects:*
- (i) *the breakdown of the cost saved in terms of types of works (i.e. civil engineering works or building works) and types of/reasons for cost saved (e.g. labour cost, material cost, optimization of design or work process, etc.)*
  - (ii) *the number of projects which had been completed; whether these projects were completed within budget; and whether the cost saving was attributed to the fact that the actual expenditure on contingencies was less than the budgeted amount*

Since its establishment of the Project Cost Management Office (PCMO) in 2016, one of its tasks is to vigorously scrutinise the cost estimates of major projects under planning and design stage. While not compromising quality, functionality and safety of works, PCMO has carried out vetting on the project cost estimates in accordance with the overriding principles of “fitness-for-purpose” and “no-frills”. We have been collaborating with bureaux and departments to enhance the cost-effectiveness of projects, reduce cost estimates and minimise risks of cost overrun through design optimisation by means of exploring various design options, construction methods and procurement strategies, reviewing technical requirements, rationalising contingencies provision, etc. We also carried out benchmarking with costs of similar projects and made reference to the prevailing market conditions and so on, to ensure that the project estimates were reasonable.

- (i) PCMO has vetted 130 capital works projects since 2016. Out of them, civil engineering works projects accounted for about 60% while the others were building works projects. The project cost was mainly reduced through design optimisation. As a result of the design optimisation, the quantities of labour and materials used were also reduced thus lowering the overall project cost. Due to the inter-relation among various factors, we cannot provide the breakdown of the cost saving according to the labour cost, material cost, optimisation of design or work process.
- (ii) Some of the vetted projects have commenced construction. However, none of them has been completed. Thus, we are not able to conclude whether they can be completed within budget at this stage.

***(b) in respect of the training programme of the Centre of Excellence for Major Project Leaders, the rank/grade of officers who would be eligible for participating in the training programme; how these officers would be selected; and details of the training programme***

We target to establish the Centre of Excellence for Major Project Leaders in mid-June 2019 for providing structured, sustained and contemporary high-level project leadership training in the coming three years by batches for about 150-200 numbers of major project leaders, mainly comprising directorate officers (D2 or above). We will appoint a consultant to assist us in formulating programme requirements and conducting tender exercise for engaging eligible professional institution(s) to deliver the training programme, formulate the details and participants selection criteria of the programme. According to our preliminary proposal, the one-year CoE programme will include lectures, case studies, overseas training and exchange, on-line exercises and deliberations, etc., The participants will also be required to attend the programme during office hours.

***(c) the role of the proposed Project Strategy and Governance Office (“PSGO”) in:***

- (i) cost surveillance and project governance of construction of railway works projects entrusted to the MTR Corporation Limited***

Before the establishment of PCMO in 2016, the railway projects

entrusted to the MTR Corporation Limited under service concession agreement for project delivery, i.e. the Shatin to Central Link and Hong Kong section of Guangzhou-Shenzhen-Hong Kong Express Rail Link, had commenced implementation with a monitoring and verification mechanism in which consultants were appointed to carry out independent monitoring and verification works. Therefore, PCMO had not been involved in the cost management of these projects. For new projects adopting service concession agreement for project delivery in future, PSGO will explore with the relevant bureau and works department on how to make due arrangements on the mechanism so as to enable PSGO to strengthen cost management on these projects in order to minimise the risks of cost overrun and programme delay.

***(ii) minimizing the risk of budget overrun and the need for seeking approval for supplementary provisions for public works projects***

Currently, PCMO has been focusing on projects which are due for submission to the Legislative Council for funding approval. This snapshot approach at such late stage is effective, but the room for design optimisation is quite limited and hence less room for project cost saving, as the project design is often maturely developed for funding application.

In view of the above, PSGO will tighten up project cost management and control to capitalise on all opportunities for cost saving, step up control on project budget and expenditure to curb cost overrun and programme delay, as well as conduct the project vetting process starting from inception stage with regular reviews and follow-up actions to track the development of projects through detailed design and till funding application stage.

We will also expand the scope of cost control to projects at construction stage, and monitor the performance of the projects using a newly established system, namely Project Surveillance System (PSS)<sup>1</sup>, on a continuous basis until project completion. We have also requested all major variations orders have to be reviewed by us before they are issued.

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<sup>1</sup> The Project Surveillance System is a web-based application. It is established based upon the cashflow data of over 600 projects completed in the past 20 years, and has taken into account all the typical characteristics of the projects under the Capital Works Programme. It is a powerful tool for monitoring project progress and can provide predictive analysis for forecasting the cost and time performance of on-going projects.

*(iii) the inception stage of public works projects involving high estimated cost (such as the Lantau Tomorrow Vision) in terms of cost management and control, and whether PSGO would advise on the merits of the proposed public works projects in terms of cost effectiveness*

As depicted in Part (ii) above, PSGO will carry out the measures in enhancing cost management and control starting from the inception stage of all major capital works projects.

**Development Bureau  
December 2018**