

財經事務及庫務局



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8 January 2025

Ms Shirley CHAN  
Clerk to Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong

Dear Ms Chan,

**Public Accounts Committee**  
**Consideration of Chapter 7 of the Director of Audit's Report No. 83**  
**Tuen Mun - Chek Lap Kok Link**

We refer to your letter dated 24 December 2024 to the Development Bureau (DEVB) and the Financial Services and the Treasury Bureau, requesting for additional information regarding Chapter 1.8 Table 3 of the Audit Report. In consultation with DEVB, our consolidated reply is as follows:

Generally speaking, the cost of a public works contract mainly comprises the construction cost of works items, provision for contingency and provision for price adjustment. Provision for contingency caters for additional costs arising from unforeseen circumstances (costs of variation orders such as those incurred by worse-than-expected ground conditions, additional works to meet local concerns, etc.). As each project has its own uniqueness and faces different risks, the project team will determine the required amount of contingency for individual contract accordingly. The provision for price adjustment is to cope with fluctuations in the cost of labour and materials during the contract period, which helps eliminate uncertainties arising from fluctuations in construction price, so as to lower the risk cost in contractors' bids. The project team will also estimate the project cost for each year within the construction period, and work out the provision for price adjustment required for the contract based

on the Government Economist's forecasts on the trend rate of change in prices of public sector building and construction output for the relevant contract period. The actual expenditure on price adjustment for each year will depend on the actual annual contract payments during the construction period, and will be adjusted with reference to the index figures of the costs of labour and materials provided by the Census and Statistics Department every month.

As mentioned above, in the course of implementing public works projects, unforeseen circumstances may arise within the scope of the project, and any additional costs so incurred is generally met by project contingency and savings in construction costs. Only when there is a surplus in the provision for price adjustment, and it is not possible to deploy other resources within the works project, can Controlling Officers use such surplus in the provision for price adjustment to cover such additional costs.

The Government has been committed to optimising the cost estimation of projects and enhancing cost control measures. The Government has adopted parallel tendering since September 2020, meaning that the Government will first commence tendering exercise for a works project in order to reflect the returned tender price in its funding application, thereby providing the Legislative Council with a more accurate construction cost estimate which will reduce the risk of cost overrun. The Project Strategy and Governance Office of DEVB also examines major variation orders issued in the course of construction to ensure cost-effectiveness.

Yours sincerely,



( Kimmey HO )  
for Secretary for Financial Services  
and the Treasury

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