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23 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**

Thank you for your letter dated 14 January 2025, our reply is as follows:

During the implementation of public works projects, unforeseen circumstances may arise within the scope of the project (such as unexpected geological conditions, additional works to address local concerns etc.), these additional costs so incurred are usually covered by project contingency and savings in construction costs. Only when there is a surplus in the provision for price adjustment provision, and it is not possible to deploy other resources within the works project, can Controlling Officers use the surplus in the provision for price adjustment to cover such additional costs.

Under the existing mechanism, Controlling Officers can deploy resources to cope with unforeseen circumstances in implementing works projects, subject to the approved project estimates and in compliance with the above conditions. For cost

control and monitoring purposes, Controlling Officers must ensure proper use of funds under their control, having regard to economy, efficiency and effectiveness in the delivery of public service and the use of the public funds. We consider the current arrangement to be reasonable.

In terms of strengthening the cost monitoring of public works projects, the DEVB established the Project Cost Management Office (PCMO) in June 2016 and upgraded it to become the Project Strategy and Governance Office (PSGO) in 2019 to implement various measures in strengthening cost surveillance to enhance infrastructure projects performance. PSGO will track the development of projects from their inception to completion, including detailed design and funding application stages, by starting the project vetting process from the outset and conducting regular reviews and follow-up actions. Since 2018, public works have deployed the Project Surveillance System (PSS) to monitor the performance of projects on a continuous basis and provide predictive analyses for forecasting the costs and time performances of on-going projects. At the same time, 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.

In parallel, to strengthen cost control during the construction period, PSGO (and formerly PCMO) has since 2017 played an independent third party role to examine major variations of public works contracts involving HK\$1.4 million or above. The project team is provide explanation for the major variations and analyze their implications on the works contract, including construction costs, construction period, operating expenses etc. PSGO will review the variations based on their cost-effectiveness and provide independent advice to the Controlling Officers after such review. Controlling Officers will then decide whether to issue the variation orders by taking into account PSGO's views and the funding availability.

Yours sincerely,



(Frankie FUNG)
for Secretary for Development

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