

(Revised)

**Construction Industry Council**  
**2<sup>nd</sup> Progress Report of Committee on Procurement**

**Purpose**

This paper outlines the main points discussed at the 2<sup>nd</sup> meeting of the Committee on Procurement held on 31 July 2007. The record of attendance is at Annex.

**Progress on Matters Arising from 1<sup>st</sup> Meeting on 21 May 2007**

2. Members noted the following –

Paragraph 9(a)

Co-opted members and Government Representatives had been invited to join the Committee.

Paragraph 9(b)

The discussion framework for the Committee was set out through list of priority task at Annex C of the progress report for the 1<sup>st</sup> meeting.

**Procurement Approaches of the Local Construction Industry**

3. For the purpose of the discussions of the Committee, procurement approaches adopted by the local construction industry could be classified into four categories –

- Designer Led
- Design & Construct
- Design Construct & Operate
- Finance Design Construct & Operate

4. Designer Led approach was the major approach adopted by both public and private sectors of the industry. Under this approach, a team of

consultants appointed by the client prepared the full design for use as the basis of a competitive bidding process for selecting a contractor. The lead designer was usually in control throughout all the stages of the project.

5. The advantages of the Designer Led approach included enabling clients to exercise direct control over design, materials and workmanship, availability of tried and tested standard forms of contract resulting in lower possibility of disputes and inclusion of pricing information that would facilitate valuation of variations. The main drawback was the longer project delivery cycle resulting from construction not being able to commence until the completion of detailed design and the lack of design input from contractors.

6. Under the Design & Construct approach, the client would enter into a single contract with the contractor to design and construct the project in accordance with an outline design and delivery timeframe. The main advantage was greater certainty in the final contract cost resulting from the contractor being responsible for all aspects of the design and construction. The approach would facilitate earlier start of construction by developing detailed design in parallel with construction and contribution of contractors' technical expertise in the design process. On the downside, the tendering process was more costly and would be restricted to major contractors with capability to undertake both design and construction.

7. Under the Design Construct & Operate approach, the contractor would be responsible for all stages of project delivery and subsequent operation of the completed facility. The advantages of the Design Construct & Operate approach included enabling clients to draw expertise from international companies on complex facilities, proper consideration of life cycle cost of project, certainty of cost of constructing and operating the facility as well as synergies between design, construction and operation. The main drawback was the price premium for single point of responsibility arrangements and high tendering cost.

8. The Finance Design Construct & Operate approach covered a wide range of procurement options but in general, a consortium (the project undertaker), which could consist of private developers, designers and contractors, delivers the project. The scope of service of the project undertaker might vary but was usually extended to cover both the financing and the operation of the completed project. The advantages of

the Finance Design Construct & Operate approach included reduction of capital funding requirement on the client, encouragement of project participants to co-operate to achieve common goals. The main drawback was the slow bidding process required for formulating complicated contractual framework.

9. Members considered that the four approaches were suitable for local application. However, they should not be strait-jacketed but should be used with flexibility to suit project requirements. In this regard, the local construction industry could learn from the use innovative project management techniques such as guaranteed maximum price and alliancing in the recent development projects in Macau to speed up project delivery and enhance collaboration between project participants. On the other hand, while alternative procurement approaches should be pursued, efforts should be made to improve the Designer Led approach which would remain dominant in the local construction industry.

10. Members noted that Public Private Partnership (PPP) had much wider penetration in other major economies (such as Singapore) and wished to conduct more in-depth deliberations on promoting its use in Hong Kong.

### **Procurement Approaches of MTRC**

11. MTRC made a presentation on its procurement approaches. MTRC would tailor contract packages in accordance with market conditions, place risks on the party best able to manage them and employ contractors who could manage risks in terms of performance, construction and programme. To retain overall programme and interface management, MTRC would contract directly with contractors of various disciplines (including E&M works).

12. MTRC had adopted milestone payment since the Tsuen Wan Line project which started in 1979. Under this arrangement, payment would only be made on the achievement of pre-defined milestones so as to provide incentive for contractors to make progress and avoid the disputes arising from the monthly measurement process. MTRC also targeted to complete the final account on completion date through dealing with claims and variations as they arose.

13. Members considered that MTRC's pragmatic and sensible approach to procurement could serve as useful reference in subsequent deliberation of the Committee on project management and selection of

consultants and contractors. They also noted MTRC's efforts of making incremental improvements to its procurement arrangements over time. It was also observed that the adoption of milestone payment would streamline the processing of interim payments thus improving the cash flow along the supply chain. Members agreed that the Committee could endorse good practices adopted by individual organizations to serve a benchmark for the industry.

### **Further Actions**

14. The following further actions were agreed –
  - (a) The Secretariat would arrange for discussion of the innovative project management tools used in the development projects in Macau for speeding up project delivery; and
  - (b) The Secretariat would arrange for discussion of the application of PPP in Hong Kong.

**CIC Secretariat**  
**August 2007**

**Committee on Procurement**

**2<sup>nd</sup> Meeting held at 2:30 pm on 31 July 2007  
in Conference Room 1201, Murray Building**

**Record of Attendance**

**Present**

Mr Russell Black	Chairman
Mr Francis Bong	
Dr Andrew Chan	
Ms Teresa Cheng	
Mr James Chiu	
Mr Michael Green	
Mr Thomas Ho	
Mr S S Lee	
Mr POON Man-hon	
Mr Billy Wong	
Ms Ada Fung	representing Permanent Secretary for Transport and Housing (Housing)
Mr C K Lau	Hong Kong Federation of Electrical and Mechanical Contractors
Mr CHEUNG Lung-hing	Hong Kong Construction Site Workers General Union
Mr Hugh Wu	Paul Y Construction & Engineering Co. Ltd.
Mr CHAN Nap-ming	Housing Department
Mr Ian Cocking	Minter Ellison Lawyers
Mr Colin Jesse	Evans and Pecks (HK) Ltd.
Ms. Margaret Coates	CLP Power Hong Kong Ltd.

**Absent with apologies**

Mr James Blake  
Mr T T Cheung  
Mr LAM Wo-hei  
Mr Conrad Wong

Prof. Mohan Kumaraswamy

University of Hong Kong

Mr Hugh Boyd

Hong Kong Construction Association

**In attendance**

**Government Representatives**

Mr Enoch Lam            )   Development Bureau

Mr Edward Lee         )

**Construction Industry Council Secretariat**

Mr K H Tao                                    Chief Assistant Secretary for the Environment,  
Transport and Works (Works) 1

Mr Solomon Wong                           Assistant Secretary for the Environment,  
Transport and Works (Works) Public Works  
Systems Administration 1

**For discussion of “Procurement Approaches of MTRC”**

Mr Martin Dunn

MTR Corporation