

Report No. 51 of the Director of Audit — Chapter 1

ADMINISTRATION OF CONSULTANCIES UNDER CASTLE PEAK ROAD IMPROVEMENT PROJECT

Summary

1. In October 1994, the Highways Department (HyD) appointed a consultant (Consultant A) to conduct a feasibility study to identify measures for upgrading an 8.3-kilometre section of Castle Peak Road (CPR) in Tsuen Wan (the CPR section). In December 1996, Consultant A completed the study and recommended widening the section from a single two-lane to a dual two-lane carriageway. The HyD accepted the recommendation. In June 1997, the HyD appointed another consultant (Consultant B) to carry out the design and supervision of the works.

2. In March 2001, the Finance Committee (FC) of the Legislative Council approved funding of \$3,761 million for the works, which were targeted for completion by June 2005. Between August 2001 and December 2005, the HyD awarded four works contracts, namely Contracts A, B, C and D for different sections of the CPR. Between March 2005 and June 2007, the works were substantially completed. The whole dual two-lane carriageway was open to traffic in phases from March 2005 to July 2007. The Audit Commission (Audit) has recently conducted a review to examine the HyD's administration of the feasibility-study consultancy and the design-and-construction consultancy under the CPR Improvement Project (the CPR project).

Slope investigation and design

3. *Need to clearly define the scope of design-and-construction consultancy.* In July 1995, Consultant A submitted a draft feasibility-study report indicating that four existing slopes along the CPR section would require stabilisation works. In October 1996, in inviting tenders for the design-and-construction consultancy, the HyD included in the tender documents the draft feasibility-study report. During the course of the consultancy, Consultant B identified that detailed design for 57 slopes would be required. As a result, Consultant B submitted claims on the grounds that the feasibility-study report had only identified 4 slopes for upgrading. In May 2003, the HyD entered into a settlement agreement with Consultant B for settling his claim. *Audit has recommended that the Director of Highways should: (a) take measures to ensure that the scope of a design-and-construction consultancy is adequately defined; and (b) in the event that the*

scope of a design-and-construction consultancy cannot be adequately defined after conducting a feasibility study, carry out a separate investigation study.

Application for environmental permits

4. *Need to take prompt action on application for environmental permits.* Under the Environmental Impact Assessment Ordinance (EIAO — Cap. 499), a person carrying out designated projects is required to conduct Environmental Impact Assessments (EIAs) and apply for environmental permits from the Environmental Protection Department (EPD). Between July 1998 and May 2000, the HyD, the Transport Department and the EPD exchanged views on whether the CPR Project should be classified as a designated project. In May 2000, the HyD noted that part of the works, i.e. the reclamation and dredging works, fell within the definition of a designated project. In April 2001, the EPD issued environmental permits for Contracts B and C. In the event, Consultant B submitted a claim for prolongation cost, partly arising from the prolonged time for applying for environmental permits. In May 2003, the claim was settled. *Audit has recommended that the Director of Highways should: (a) take early action to assess whether a project is a designated project under the EIAO; and (b) if the project is a designated project, take necessary action to apply for environmental permits as soon as possible.*

5. *Need to include all pertinent works in EIAs.* Under the CPR Project, three EIAs were completed, with EIA reports issued in December 1996, May 1998 and January 2000 respectively. The scope of the Project included reclamation and dredging works, which might be classified as a designated project. However, the May 1998 and the January 2000 EIA reports did not cover most reclamation and dredging works. As a result, additional work was required to evaluate the environmental impact of the reclamation and dredging works. *Audit has recommended that the Director of Highways should take measures to ensure that all works classified as a designated project under the EIAO are included in EIAs conducted for a project.*

Road works for an interface section

6. *Completion of works after scheduled completion date.* In 1997, the HyD planned to construct Route 10 connecting Northeast Lantau and Yuen Long South in 2002 for completion in 2007. In December 1998, the HyD noted that there would be interface problems between the southern section of the Route 10 Project and a 400-metre section (the Interface Section) of the CPR Project. In October 1999, it was agreed that the Route 10 Project Team of the HyD would be responsible for the design and supervision works for the Interface Section. In November 2003, the Administration gazetted the decision not to execute the works of the southern section of Route 10. In the event, in September 2004, the HyD entered into a supplemental agreement with Consultant B for the design and supervision of the Interface Section works. In December 2005, the HyD awarded

Contract D for the works, which were substantially completed in June 2007. The dual two-lane carriageway at the Interface Section was open to traffic in July 2007, two years after the target completion date stated in the paper submitted to the FC in March 2001 (see para. 2). *Audit has recommended that the Director of Highways should ensure that concerted efforts are made to complete a project by the scheduled completion dates stated in the submissions to the FC as far as practicable.*

Alternative designs of works

7. *Merits of inviting tenderers to propose alternative designs.* Works Bureau Technical Circular No. 2/2001 of February 2001 (and subsequently Environment, Transport and Works Bureau (ETWB) Technical Circular (Works) No. 25/2004 of August 2004) provided an option for works departments to invite tenderers to propose alternative designs in their tender submissions. During the tender exercises for Contracts A to D between April 2001 and August 2005, the HyD did not invite tenderers to submit alternative designs. As it transpired, the HyD accepted the alternative designs proposed by the four contractors during the works, with a cost saving of \$53 million. *As the arrangement to invite tenderers to submit alternative designs would enhance competitive tendering, Audit has recommended that: (a) the Director of Highways should critically consider the option of inviting tenderers of works contracts to submit alternative designs during tendering, where there is potential for better value for money; and (b) the Secretary for Development should remind works departments of the need to critically consider this option.*

8. *Need to provide justifications for not inviting tenderers to propose alternative designs.* ETWB Technical Circular (Works) No. 25/2004 does not specifically require the provision of justifications for not inviting alternative designs at the tender stage. *Audit has recommended that the Secretary for Development should consider incorporating into ETWB Technical Circular (Works) No. 25/2004 the requirement for a works department to document the justifications for not inviting tenderers to submit alternative designs.*

Response from the Administration

9. The Administration has accepted the audit recommendations.

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