

TAMAR DEVELOPMENT PROJECT

Executive Summary

1. Tamar Complex is a landmark at Central waterfront. It occupies a site of 4.2 hectares, and comprises the Central Government Complex (CGC) and the Legislative Council (LegCo) Complex (LCC) of the Hong Kong Special Administrative Region. The objectives of the Tamar Development Project were to meet the increase in demand for office space and modern-working-environment requirements of the Government and LegCo. The Project was implemented under a design-and-build arrangement. Before selecting a contractor (Contractor A) and his design for the Project, the Government had launched a two-month exhibition of the project designs proposed by four tenderers and invited members of the public to express views and comments on the four designs.

2. The Architectural Services Department (ArchSD) was responsible for administering the works contract (Contract A) of the Project and supervising the construction works. In June 2006, the Finance Committee (FC) of LegCo approved funding of \$5,168.9 million for the design and construction of the Project. In December 2009, the Approved Project Estimate of the Project was approved by the FC to increase to \$5,528.7 million. Contract A commenced in February 2008 and was largely completed on schedule in September 2011. The Audit Commission (Audit) has recently conducted a review of the Government's planning and implementation of the Project, with a view to identifying areas for improvement.

Selection of project design and contractor

3. In October 2005, the Financial Secretary set up the Special Selection Board to oversee the tendering of the Tamar Development Project. In September 2006, the ArchSD invited four prequalified applicants to submit tenders for the Project. Subsequently, the tender sums of all four tenders received exceeded the contract sum provided in the Approved Project Estimate. In June 2007, the Board decided to set up the Tender Negotiation Team to conduct negotiation with Contractor A, who had obtained the highest overall tender score, with a view to reducing the tender sum to the contract sum provided in the Approved Project

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Estimate. After several rounds of negotiation, in July 2007, Contractor A agreed, after making certain modifications to his tender, including modifying and removing certain works items originally included in the tender document, that the price of his tender be reduced to \$4,940.3 million. In January 2008, the ArchSD awarded Contract A to Contractor A at a sum of \$4,940.3 million (paras. 2.6 to 2.12).

4. ***Criteria for selecting tenderers for negotiation not stated in tender document.*** It was stated in the tender document that provisions of the Agreement on Government Procurement of the World Trade Organization would apply to the tender. According to the Agreement, a procuring entity shall ensure that, in the course of negotiations, any elimination of participants is carried out in accordance with the criteria set forth in the tender document of a tender exercise, and all modifications to the technical requirements of the tender exercise are transmitted in writing to all remaining participants in the negotiations. However, Audit notes that no criteria for selecting tenderers for negotiations were stated in the tender document, and some works items originally included in the tender document had been modified or removed during tender negotiation with Contractor A, but the other three tenderers were not informed of such modifications or removal (paras. 2.13 to 2.17).

5. ***Price ceiling not stated in tender document.*** Notwithstanding that the Special Selection Board considered it not practical or in the public interest to seek additional funding from the FC, a price ceiling of the contract sum provided in the Approved Project Estimate was not stated in the tender document. It transpired that the tender sums of all four tenders received exceeded the contract sum (paras. 2.19 and 2.20).

Implementation of contract works

6. The contract works were substantially completed on 1 September 2011, almost four months later than the original target completion date. Audit notes that one reason leading to the delay in works completion was the additional time taken in completing Footbridge A, which spans over Harcourt Road and is the main pedestrian passage for Tamar Complex (paras. 3.6 to 3.8).

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7. *Additional time taken in completing Footbridge A.* The cost of Footbridge A only accounted for 0.7% of that of the Project. However, the ArchSD had taken 18 months from contract commencement to instructing Contractor A to commence works for Footbridge A, and Contractor A had taken another 15 months from receiving the ArchSD's instruction to commencing works for Footbridge A. Extension of time of about four months was granted for the related works. Audit notes that one reason for the additional time taken in completing Footbridge A was the ArchSD's lack of experience in administering works for constructing a footbridge located in busy-traffic areas with many underground utility facilities (paras. 3.8 and 3.10 to 3.13).

8. *2006 Design Checklist not stated in tender document.* The Tamar Development Project was the first Government project adopting seismic-resistant measures for building structures. As stated in the tender document, the design and construction of structures should comply with the Mainland's Code for Seismic Design of Buildings issued in 2001. After contract award, based on consultancy advice, the ArchSD considered that the seismic-resistant measures should also comply with the Design Checklist for Buildings Exceeding Limits issued by the related Mainland Authority in September 2006. However, the 2006 Design Checklist was not stated in the tender document. As a result, Contractor A was successful in making a financial claim of \$150 million, of which \$24 million was related to works acceleration and disruption, additional labour, plant and resources and overtime work (paras. 3.20 to 3.27).

Changes of contract requirements

9. In May 2006, the Property Vetting Committee approved the accommodation requirements of the CGC and the LCC. For the CGC, a total Net Operating Floor Area of 62,340 square metres (m²) was provided, including a 10% area allowance for meeting the long-term requirements of the Government Secretariat. Regarding the LCC, a total of 16,090 m² of Net Operating Floor Area was provided, but without including any area allowance for future expansion. The ArchSD incorporated these area requirements into the tender document (paras. 4.2 and 4.13).

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10. *Additional area requirements made only after award of contract.* In January 2009, the LegCo Secretariat informed the Administration that additional area was needed for the LCC, mainly to meet space requirements of additional LegCo staff. In April 2010, the ArchSD and Contractor A entered into a supplementary agreement for the construction of an additional Net Operating Floor Area of 1,415 m² at the LCC at a cost of \$113 million, of which \$36 million was related to works acceleration and disruption, and additional design fee. Audit considers that, had the additional LCC area requirement been included in the tender document, the additional cost of \$36 million might have been saved or reduced (paras. 4.3, 4.15 and 4.16).

11. *Long payback periods of some energy-efficiency equipment.* According to a Joint Circular issued by the Development Bureau and the Environment Bureau in April 2009, the maximum payback period of energy-efficiency measures would normally be capped at nine years. However, Audit examination revealed that the payback periods of six items of energy-efficiency equipment installed at Tamar Complex would exceed nine years, ranging from 25 to 176.5 years (para. 4.32 and Appendix E).

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12. *Defects and outstanding works not yet rectified and completed.* Audit notes that, as of November 2011 (when the overall handover was near completion), the works of 88,960 items (some 75% of all defects and outstanding works identified) had not been completed. As of August 2013, one year after expiry of the maintenance period of the CGC and the LCC, 495 items of defects and 2,260 items of minor defects had still not been rectified (paras. 5.5 and 5.6).

13. *Fresh-water-supply system not fully sterilised before use.* According to Water Supplies Department Circular Letter No. 6/2002, newly installed fresh water mains of a building should be cleaned and sterilised before they are put into operation. However, the fresh-water-supply system of Tamar Complex had not been fully sterilised before the Complex commissioning (paras. 5.15 and 5.23).

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Audit recommendations

14. Audit recommendations are provided in the respective sections of this Audit Report. This Executive Summary only highlights the key recommendations. Audit has *recommended* that, in implementing a related works project in future, the Administration should:

Selection of project design and contractor

- (a) remind Government Bureaux and Departments of the need to state in the tender document the criteria for selecting tenderers for negotiations as far as practicable (para. 2.23);

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- (b) take measures to minimise any delay in completing an ancillary structure which will entail a knock-on effect on the timely commissioning of the main project component (para. 3.14(a));
- (c) in administering works for constructing a footbridge in busy-traffic areas with many underground utility facilities, adopt a foundation design that would not require relocation of utility services as far as possible (para. 3.14(b)(i));
- (d) include in the tender document all standards or guidelines which would affect the works requirements (para. 3.33(a));

Changes of contract requirements

- (e) in assessing the accommodation requirements of new buildings, provide an appropriate expansion factor for space requirements if there is the likelihood of an increase in space requirements in the near future (para. 4.22);
- (f) incorporate all works requirements into the tender document as far as possible, and avoid making changes to works requirements after contract award (para. 4.23);

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- (g) take measures to ensure that the payback periods of individual items of energy-efficiency equipment are capped at nine years as far as possible (para. 4.45(a));

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- (h) take measures to ensure that all defects and outstanding works are respectively rectified and completed within the maintenance period or as soon as practicable thereafter (para. 5.13(b)(i)); and
- (i) take measures to ensure that the fresh-water-supply system is fully disinfected before building commissioning (para. 5.26(a)).

Response from the Administration

15. The Administration agrees with the audit recommendations.