

By post and by fax at 2905 1181

31 October 2013

Secretary for Development  
Works Branch – Development Bureau  
Government Secretariat  
2 Tim Mei Avenue  
Tamar Hong Kong

[Attn: Ir Kelvin K W LO]

Dear Ir Lo

**Proposed Procurement Approach to Enhance Price Proposal Assessment Mechanism  
for Public Works Tenders**

Thank you for inviting the Institution to put forth our views on the captioned subject.

In response to your invitation, we are pleased to provide herewith our views and suggestions on the subject for the consideration of the Bureau.

Thank you.

Yours sincerely



Ir Raymond CHAN Kin Sek  
President  
The Hong Kong Institution of Engineers

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**Enclosure**

**Views from The Hong Kong Institution of Engineers on the  
Proposed Procurement Approach to Enhance the  
Price Proposal Assessment Mechanism for Public Works Tenders**

The Hong Kong Institution of Engineers in general welcomes the Administration to identify feasible initiatives to enhance the assessment mechanism in procuring construction services for public works projects. However, it is prudent to avoid tedious initiatives that could unnecessarily prolong the assessment process. We are pleased to provide our further views as set out below for the consideration of the Bureau.

**The Price Proposal Assessment Mechanism**

PPA Criteria

2. It is thought that the proposed procurement approach might cost the consultant or the procuring department considerable time for the analysis of the priced items for Price Proposal Assessment (PPA), which would account for 10% of overall marks. In particular, in regard to the proposed PPA Criteria, we note that either of the proposed Options (i.e. Option 1 for works contracts under the purview of Water Supplies Department (WSD) and Highways Department (HyD) or Option 2 for other works contracts) of assessing "Price Reasonableness" would involve hundred of items that need to be processed. However, if the assessment is based upon the "items" which are the total for each bill in the tender, it might not help to address and resolve the erratic pricing/front loaded issues. Meanwhile, the procuring department may even focus with further comment on the pre-tender estimate (PTE) which is to be prepared by the consultants. Hence, this proposal might cause that large amount of time to be expended by the contractors and the consultants. In this connection, time extension may be required to cater for the additional analysis so proposed.

3. Also, in regard to the two cost comparison Options to suit the operational needs of individual works department on the public work contracts as illustrated, it appears that the work trades involved for WSD projects are usually limited in comparison with those for HyD and may therefore be more appropriate to be included under Option 1. Furthermore, we opine that projects implemented by Civil Engineering and Development Department (CEDD) would probably involve multi-disciplinary civil engineering works and hence would be more appropriate to be considered under Option 1.

4. As set out in paragraph 5.4 in the Consultation Document regarding the calculation of "Reference Price", we think that the purpose of limiting the reference tenders to those conforming tenders which fall within the range of 20% to 200% of the PTE is unclear and should be further elaborated. It is queried that if the tender with 0% deviation, say for example, from the PTE could be adopted in the calculation of the "Reference Price".

5. The Consultation Document states that the “Reference Price” will be derived from the PTE and the conforming tenders. It is understood that the rates in the PTE are usually obtained from some previous reference contracts. However, it appears that there is a trade norm for some preliminaries items (e.g. Contractor’s/Engineer’s accommodation, insurances, etc) to be priced high irrespective of the actual cost of the works. Under such circumstances, we are concerned that the “Reference Price” calculated under the proposed method can only reflect the relative reasonableness of the tendered price instead of the true reasonableness in comparing to the cost of the relevant works. More importantly, if a tenderer prices reasonably based on the cost of the works without any manipulation, the tenderer may probably be penalised under the proposed system due to the generally high rate priced by others (and probably be adopted for the PTE).

6. Moreover, it is concerned that for the calculation of the “Reference Price”, if the criteria for selection of the tenders are based on the total tender value (within 20% to 200% of the PTE), such tenders, though which may satisfy the criteria, may already contain erratic pricing and thus affecting the result of the analysis.

#### PPA Marking Scheme

7. From the sample PPA Marking Scheme in the Consultation Document, it seems the tenderer would suffer more for being “under-price” than “over-price”. However, it is concerned that in the market, the problem of erratic pricing with high rate against erroneous low quantities will be relatively more serious in causing financial burden to the government, as compared to under-price.

8. In regard to the scoring curve as shown in paragraph 5.9 of the Consultation Document, it is observed on the x-axis that a Differential Price Ratio (DPR) of +5% interval is not displayed, which may not clearly describe the situation. In addition, for the scoring curve in paragraph 5.10 and Annex 2, we suggest that it is necessary to clarify if there will be a negative score for DPR less than -60% and more than 100%. Otherwise, that part of the curve with score below 0 is suggested to be hidden.

9. In consideration of the “minor adjustment” proposed to be applied to the PPA mechanism for waterworks contracts as illustrated in paragraph 5.10, we are concerned on the way of the “adjustment item” to be dealt with in the analysis, such as whether the unit rate will be proportionally adjusted before the analysis.

#### **Annexes**

10. We note that in the Notes of Annex I in the Consultation Document, “error” is defined as “*arithmetic error or items with rates not inserted (except form the Preliminary bill) or items marked with non-numerical expressions like ‘-N.A./Nil/inclusive’ etc.*”. However, in accordance with Standard Method of Measurement (SMM) for Civil Engineering Works Part III Clause 3, apart from Preliminary bill, no rate shall be inserted by the tenderer for all items with unit of measurement “item” and hence this shall not be regarded as “error”.

11. It is noted that the sample marking schemes in Annex 1 show the “*Weighting/Maximum Mark*” for individual work trade which is applicable for calculation of the weighted score. However, in Annex 2, the weighting factors adopted in the working example are calculated as “*Cost of each item divided by the Total Cost*”, which is not relevant to the suggested weighting in the marking scheme as set out in Annex 1. Also, following the method of calculation in Annex 2, even if there is serious erratic pricing against an item, provided that the total value of such item is relatively insignificant (e.g. for very small quantities), it will not incur significant impact on the score. However, the cost implication due to such serious erratic pricing may still be very substantial.