

Chapter 5 – Capital Matters

Introduction

5.1 This chapter provides guidance on the general principles and procedures -

- (a) governing capital works projects wholly or partly funded by the UGC (paragraphs 5.11 - 5.53);
- (b) for handling projects funded by the UGC from the Alterations, Additions, Repairs, and Improvements (AA&I) block allocation (paragraphs 5.54 - 5.67); and
- (c) for conducting and completing space inventory (paragraphs 5.68 - 5.71).

Guiding Principles

5.2 The procedures for handling capital projects set out in this chapter basically reflect the requirements under the Government's capital subvention programme. The guiding principles are -

- (a) Capital subventions are charged to the Capital Works Reserve Fund (CWRF) and are part of the Capital Works Programme (CWP) of the Government. Institutions' projects under capital subvention are required to follow the procedures for creating and managing a capital works project under the CWP¹;
- (b) Institutions should assume full responsibility and accountability for their projects under capital subvention. They should ensure that works expenditure stays strictly within the approved project estimate (APE) in accordance with the approved project scope¹ *i.e.* the scope approved by the Finance Committee (FC) of the Legislative Council (LegCo) for capital works projects exceeding \$30 million, and the scope approved by the UGC for AA&I projects;
- (c) Institutions should ensure an appropriate system of cost control and monitoring is in place for overseeing the spending of public money having regard to economy, efficiency and effectiveness in the delivery of their projects under capital subvention and use of public funds². In

¹ As stipulated in Government's Financial Circular No. 3/2012 "Capital Works Programme".

² As stipulated in Government's Financial Circular No. 9/2004 "Guidelines on the Management and Control of Government Funding for Subvented Organisations".

particular, institutions should ensure proper procurement procedures are in place for purchases under capital subvention with reference to Government's latest rules and regulations applicable to public capital works; and

- (d) The Secretary-General of the UGC as the Controlling Officer of capital grants to the institutions has the responsibility to ensure that capital subventions are spent in a cost-effective manner on worthy projects in support of the subvented organisations' stated objectives².

Roles and Responsibilities

UGC

5.3 In principle, the UGC takes interest in all building developments of UGC-funded institutions, irrespective of how these developments are funded, to ensure that the proposed developments are in line with the master development plan of the campus, and that they are consistent with the roles and missions of the institutions as agreed with the UGC. Further, it is necessary to ensure that the building developments will not become a burden to the institution and eventually the UGC and the Government³. It is also important that with the growth in scale of self-financing programmes operated by UGC-funded institutions and in some cases on institutions' campuses, institutions should ensure that academic space and facilities for UGC-funded institutions should not be adversely affected. In this regard, institutions are therefore required to inform UGC of any wholly privately funded project before its commencement though they do not need to follow the procedures in this chapter for handling such projects. They should also observe the guidelines at **Annex 5A** on the use of publicly-funded academic space and development of privately-funded capital projects on institutions' campuses.

5.4 In considering the capital proposals of the institutions, UGC will consider the merits of the proposals from the education policy perspectives – *e.g.* whether the proposal will fulfil the campus master planning and meet space shortfall of the institutions; whether the proposed construction can meet the institutions' long-term needs and contribute to the strategic development of the higher education sector; and whether the proposal is consistent with the Government policy and the respective roles and mission of the institutions, etc. While the UGC will give advice from the macroscopic perspectives, the institutions are responsible for the detailed design and the management of the project.

³ Institutions' buildings, whether publicly or privately funded, are normally maintained using the recurrent grants from the UGC on the condition that they are used for UGC-funded activities. Student hostels, however funded, should be operated on a self-financing basis using student hostel fees.

UGC's Technical Adviser

5.5 The Director of Architectural Services is the Technical Adviser to the UGC in respect of the acceptability of all UGC-funded capital works projects for subvention purposes. The Technical Adviser will comment on the feasibility, design, scope, cost, selection of consultants/contractors and standard of the projects submitted by the UGC-funded institutions, and advise for UGC's consideration on the recommended level of public subvention with reference to other public capital projects. He will provide technical advice on the subvention level and procedures of the projects (e.g. project estimates, tendering documents and procedures) to ensure that they represent good professional practice and are in line with the principles and practices adopted in public works projects. In fulfilling his role, the Technical Adviser may communicate directly with the institutions and their consultants, and may request the institutions to supply whatever information which he deems necessary to enable him to scrutinise the project proposals in detail and to give appropriate advice to the UGC.

UGC-funded Institutions

5.6 As far as campus development is concerned, there are established criteria and policy⁴ for calculating the level of provision for publicly-funded campus space and student hostel places. Nevertheless, institutions have substantial freedom to determine the exact allocation of the provisions to best fit their circumstances.

5.7 As set out in paragraph 5.2, institutions should assume full responsibility and accountability for their capital projects in all aspects. They should ensure that each project is within its APE and in accordance with the approved project scope. Institutions should also ensure that the consultants/contractors engaged and managed by them follow the requirements laid down by the Government. It is not appropriate for consultants to act on the institutions' behalf and approach the UGC, the Technical Adviser or the Government directly on matters related to capital subvention.

The Government

5.8 Capital proposals of the institutions that are given full support by the UGC will be put forward to the Education Bureau (EDB) for policy consideration. Projects that are supported by the EDB will be submitted to the Financial Services and the Treasury Bureau (FSTB) for fund bidding under the Government's established resource allocation mechanism. Institutions' capital proposals that are

⁴ As for campus space, the Kaiser Formulae were established in 2000 and reviewed in 2005/06 to determine the provision of publicly-funded space on campus to support academic activities. As for provision for publicly-funded hostel places, the current government policy was developed in 1996 by adopting four criteria to calculate the provision level. LU and HKIED are however subject to different calculation criteria in view of their unique circumstances.

selected can then proceed to the detailed design stage, and vetting by the relevant government bureaux/departments (*e.g.* Lands Department, Environmental Protection Department (EPD), Development Bureau (DEVB), FSTB etc.). The Government issues technical circulars from time to time to set out the good practices and requirements in respect of public capital works. Institutions are responsible for ensuring compliance with these requirements. A list of the relevant government circulars are listed at **Annex 5B**.

5.9 After completion of the detailed design and other pre-construction preparation by the institutions, EDB will seek funding approval from Public Works Subcommittee (PWSC)⁵ and FC of the LegCo.

UGC Secretariat

5.10 The Secretary-General of the UGC assumes the role of Controlling Officer for capital grants to the institutions. According to Financial Circular No. 9/2004 “Guidelines on the Management and Control of Government Funding for Subvented Organisations”, the Controlling Officer has the responsibility to assess the justification and cost-effectiveness (*e.g.* efficiency on space use) of the project. For this purpose, the Controlling Officer should seek the technical advice of relevant professional departments within the Government on issues including project feasibility, design, scope, cost and selection of consultants/contractors, etc. The UGC Secretariat should also monitor the spending of the capital grants allocated to the projects by inviting regular progress reports and returns from the institutions, and seeking clarification/explanation in case of discrepancies for meeting the reporting requirements of the Government and the LegCo as and when necessary. A list of these regular updates as required by the Government and the LegCo is at **Annex 5C**.

Capital Works Projects Costing More Than \$30 Million

General Procedures

5.11 Capital proposals costing more than \$30 million submitted by the institutions and supported by UGC will be processed under the mechanism outlined in **Annex 5D**. The key steps are highlighted below.

5.12 Project Definition Statement (PDS) and Technical Feasibility Statement (TFS) should be submitted for approval by EDB and DEVB in accordance with the requirements as set out in the relevant Financial Circular issued by the Government. The PDS serves to provide justification and define the scope of each proposed capital works project. On the other hand, the TFS, which should be compiled in accordance

⁵ Since the 2008/09 legislative session, the Chairman of the LegCo Education Panel has requested the Administration to consult the Panel on all projects submitted by the UGC-funded sector before submission to PWSC.

with the checklist issued by the Technical Adviser, serves to confirm the technical feasibility of each proposed project on a prima facie basis. As only essential information is required, the TFS is normally completed without the need for consultancy support. The format and information to be contained in the PDS and TFS should follow the relevant circulars issued by the Government.

5.13 Cost estimates in TFS submitted to the UGC's Technical Adviser should, as appropriate, include the following items of expenditure -

- (a) estimated detailed site investigation costs (paragraph 5.22);
- (b) estimated site formation and area development costs (paragraph 5.23);
- (c) estimated piling and foundation costs (paragraph 5.24)
- (d) estimated building costs and building services costs (paragraph 5.25);
- (e) construction unit cost, represented by building and building services costs divided by construction floor area, in terms of money per square metre in the constant price level;
- (f) estimated external works and drainage costs (paragraph 5.25);
- (g) estimated additional costs for energy conservation measures (paragraph 5.26);
- (h) estimated professional fees for design and preparation of tender documents, and fees including any resident site staff cost for the whole project (paragraphs 5.27 - 5.33); and
- (i) estimated furniture and equipment costs to be provided in the project (paragraph 5.34).

5.14 Institutions should provide detailed justifications to the UGC's Technical Adviser regarding the price level of the estimated project costs. They are also requested to note that the cost estimates should be provided as detailed and accurate as possible to ensure that excessive funds will not be earmarked or allocated for the projects. It is however recognised that the cost estimate of a project proposal submitted at the TFS stage is a rough order of cost and will be subject to change at the detailed design stage.

5.15 Expenditure to be incurred before a project is upgraded to Category A (*i.e.* before a project obtains LegCo's funding approval), which is mainly for pre-construction works (e.g. detailed design and site investigation), will be charged to the AA&I block allocation if it does not exceed \$30 million. This should be separately identified in the TFS. If the expenditure at this stage is more than \$30

million, it will have to be separately approved by the FC. Institutions should also specify the proposed share of costs between the Government (to be met from CWRF) and individual institutions (to be met from private donations or other sources), which will be subject to the Government's agreement and FC's approval.

5.16 The deadline for submission of PDS/TFS in the context of the annual UGC Capital Programme is normally 15 September each year. They will be examined by the UGC in consultation with its Technical Adviser. Projects supported by the UGC will be processed in accordance with the Government's established resource allocation mechanism. Projects selected by the Government but not yet submitted to the LegCo for funding approval within the respective LegCo session will need to be put forward to the Government for re-selection, and there can be no guarantee that the project will be re-selected.

5.17 Institutions may seek funding for pre-construction works which can be funded from the AA&I block allocation if it is less than \$30 million. Pre-construction works exceeding \$30 million requires FC's approval. If a project has been selected in accordance with the Government's established resource allocation mechanism, and the funding for pre-construction works has been secured, an institution may then proceed to conduct detailed site investigation, prepare design submissions and prepare tender documents for the project.

5.18 On completion of the detailed design and tender documentation, institutions should obtain necessary approvals from statutory bodies and relevant authorities (*e.g.* Buildings Department, Fire Services Department, Water Supplies Department, Drainage Services Department and EPD, etc.) in order to be ready to proceed to the construction phase. Institutions should provide the above necessary approvals together with the detailed design report and detailed cost estimate to UGC's Technical Adviser for comments.

5.19 Institutions should, with the advice and assistance of the UGC Secretariat, schedule to seek PWSC's endorsement and FC's approval to upgrade a project to Category A. This should be done after the institutions have completed all necessary pre-construction preparation, including fulfilling the statutory requirements and the conduct of public consultation with the relevant stakeholders (including the relevant district council(s)). Institutions should submit the draft PWSC paper and the information as required by the Technical Adviser to the UGC Secretariat and its Technical Adviser. Institutions should also compare the unit costs of building and building services with a project of similar scope and provide justifications if there is any difference. A checklist of the required documents to be submitted by institutions is at **Annex 5E**.

5.20 The draft PWSC paper should reach the UGC five months in advance of the PWSC meeting. Where necessary, institutions are welcome to seek the assistance of the UGC Secretariat in the preparation of the papers for the LegCo. Institutions are reminded that no PWSC/FC meetings will normally be held in March

and from July to October. Institutions should also avoid submission to the LegCo at the end of the legislative session.

5.21 Institutions should not invite tenders or commit expenditure until the UGC has issued the capital allocation letters following FC's approval of funding. Institutions will have to take full responsibility for any financial consequences arising from their premature commitment. In case institutions wish to initiate works-related tendering procedures before funding is secured, prior approval from the Secretary for Education (via the UGC Secretariat) must be sought. Normally, prior approval will not be given before the project has received the PWSC's support.

Cost Estimates for Capital Projects

Site investigation costs

5.22 These are costs to be incurred by the institution for undertaking detailed site investigation for the project, including site survey, boreholes, topography survey and other associated works, which is necessary to produce the relevant site information. Detailed site investigation can be carried out only after funds have been earmarked for the project by the Government or if funds are available from the AA&I block allocation.

Site formation and area development costs

5.23 Site formation costs include only the cost for site formation works. Area development costs are the costs incurred outside the building site itself on works such as the provision of a road to the site, provision of water, electricity, and sewers to the site, off-site surface drainage, land formation, soil erosion-related works, slope protection, and any other requirement which may be necessary for the grant of land. Every attempt should be made to compile a complete list of requirements and breakdown of the estimated costs.

Piling and foundation costs

5.24 Piling costs include the costs for pilings. Foundation costs include pile caps, tie beams, strap beams, pad foundation, etc. and all the works below ground slab (except piling).

Building, building services, external works and drainage costs

5.25 The building costs and building services costs cover the costs of the building from and including ground slab. The external works and drainage costs cover the costs of external works, external services, underground drainage, roads, special access (e.g. elevated pedestrian walkways, bridges and steps, etc.) and landscaping within the boundary of the site.

Additional costs for energy conservation measures

5.26 The Government promotes a comprehensive target-based green performance framework for new and existing government buildings. All public works projects are required to adopt energy efficient features and renewable energy technologies as well as other environmentally friendly measures where practicable. The Government also adopt comprehensive targets on various aspects of environmental performance (such as greenhouse gas reduction, water reduction and management, indoor air quality, etc.) for all government buildings. Institutions are invited to adopt the framework as far as possible.

Consultancies

5.27 Institutions are encouraged to follow the Government's procurement requirements under which consultancy agreements not exceeding \$1.43 million require a minimum of five quotations and those not exceeding \$50,000 require a minimum of two quotations. Consultancy agreements exceeding \$1.43 million should be appointed through a comparative selection system of technical and fees proposals to be submitted by consultants short-listed by the institutions. Standard tender documents for comparative selection of consultants and the handbook of Architectural and Associated Consultants Selection Board (AACSB) are available from the website of ArchSD at <http://www.archsd.gov.hk>. If privately-funded items/facilities are involved, the scope of service should be expanded to require that all subvented works and privately-funded works should be clearly delineated in the tender documents and the final accounts. Fees for privately-funded items/facilities should be funded by the institutions and priced separately in the consultancy documents if practicable.

5.28 Irrespective of contract value, only firms on the current AACSB lists should be invited to tender for the consultancies. An institution should not engage staff employed in its teaching departments for consultancies.

5.29 For consultancy agreements with contract value exceeding \$5 million, institutions should submit the draft tender document based on the Technical Adviser's standard documents and proposed list of firms to the UGC for approval, with a copy to its Technical Adviser for technical comments. Institutions should submit the tender report and recommendation to the UGC and its Technical Adviser for approval before the tender is awarded. Institutions should ensure all relevant information is available in their submission to facilitate the Technical Adviser's comments. It is expected that the tender report with recommendation would reach the Technical Adviser within 6 weeks after the closure of tendering.

5.30 Consultancy agreements should contain an audit inspection clause permitting authorised public officers to inspect records kept by consultants, and a clause allowing the institution to unilaterally suspend or determine a consultancy agreement with one month notice in writing.

5.31 Consultants are required (in consultancy agreements for all subvented projects) to submit to the UGC Secretariat all major variations within one month after issuing the variation orders.

5.32 Institutions should also assess the expenditure needed for the employment of resident site staff if required for the project. For the purpose of preliminary estimation, the total allowance for professional fees, resident site staff cost, and lithography charges should not normally exceed 10% of the total works value including built-in furniture, but excluding equipment and loose furniture. Guidelines for estimating professional fees and resident site staff are set out in **Annex 5F**. The manning scale for Resident Site Staff is set out in the Handbook of AACSB.

5.33 Institutions are required to indicate in their submissions the professional fees required for works to be carried out during the detailed design stage, and separately, the total professional fees and site supervisory staff cost required for the whole project. Institutions should submit a detailed resident site staff plan to the Technical Adviser for agreement before commencement of works.

Furniture and equipment

5.34 The UGC Secretariat assumes the vetting role for cost estimate on furniture and equipment (F&E). Following the issuance of the Financial Circular No. 3/2016 “Furniture and Equipment for Capital Works Projects Funded under the Capital Works Reserve Fund” by the Administration in January 2016, new requirements for procurement of F&E are devised at **Annex 5G** for compliance by the UGC-funded institutions. Institutions are also advised that funds cannot be transferred between the F&E budget and the construction budget without the UGC’s and the Government’s approval while the allowance for F&E in a capital works project should not normally exceed 12.5% of the building costs and the building services costs of the project.

Contingency

5.35 Unforeseen expenditure will be met from project contingency, project saving or non-Government funds. Contingencies should not be used to cover additional costs which are not recommended for support for subvention by the Technical Adviser.

Economy

5.36 Institutions should be conscious of the need to exercise economy in undertaking subvented capital works projects. They should, for example, avoid unnecessary or non-essential works items and facilities in the projects or to use materials of excessively high standard. Institutions are however encouraged to take

cognizance of possible long term savings to be achieved by, if necessary, higher initial capital cost. In this connection, institutions should conduct life cycle cost analysis in justifying the case for consideration by the Technical Adviser.

Building Procedures

General

5.37 Capital works projects funded by the UGC should normally be carried out using the established practice of procurement, *i.e.* separate detailed design and construction by consultants and contractors respectively. However, if an institution wishes to consider alternative methods of procurement, *e.g.* design and build, they may submit the proposal to the UGC for consideration. The institution must be able to demonstrate in its proposal that the alternative method suggested has advantages over the traditional method. The proposal will be considered by the UGC in consultation with its Technical Adviser.

5.38 Institutions may incorporate suitable clauses in tender/contract documents for liquidated ascertained damages. Depending on the circumstances surrounding each case, funds so recovered should normally be returned to the Government. If an institution considers that the damages subsequently accrued from a contract should be retained by the institution to offset a financial loss incurred by the institution, full justifications should be submitted to the UGC for consideration. The UGC will consult its Technical Adviser and the Government.

Tender Stage

5.39 An institution planning to invite tender for any works contract⁶ in a UGC-funded project exceeding \$10 million each must seek prior approval from the UGC on the advice of its Technical Adviser. An institution must not accept any tender of this value unless there is prior approval from the UGC. Unless otherwise approved by the UGC on the advice of its Technical Advisor, a minimum of 10 firms of appropriate category from the current list of Approved Contractors for Public Works or Approved Suppliers of Material and Specialist Contractors for Public Works should be invited to tender. Firms should confirm their interest in submitting tenders before including them in the proposed list of tenderers.

5.40 In line with Government's subvention policy, institutions should seek UGC's approval of the tender document and tender recommendation. Before inviting works tender of a contract value exceeding \$10 million, an institution should submit the proposed list of tenderers and the pre-tender estimate vs. the APE to the UGC and its Technical Adviser for consideration. Institutions should also provide the draft tender documents and addendum, if any, to the Technical Adviser for comments. If privately-funded items/facilities are involved, all subvented works and

⁶ Institutions should refer to the requirements in paragraph 5.34 for procurement of F&E.

privately-funded works should be clearly delineated in the tender documents. In normal circumstances, the Technical Adviser will provide its comments within three weeks from the date the documents are received, depending on the priority and complexity of the works involved in the tender. The institution's tender recommendation should be approved by the UGC with the advice of its Technical Adviser as appropriate before the tender is awarded. Institutions should ensure that all relevant information is available in their submission to facilitate the Technical Adviser's comments. The Technical Adviser may liaise and discuss with the institutions directly when commenting on these documents should the institution consider it necessary. Institutions should provide a statement on the latest financial position of the project upon award of each tender.

5.41 An institution should not accept a tender which will cause the anticipated final project expenditure to exceed the APE. If an institution wishes to do so, it must either submit a written undertaking to the effect that it will meet any shortfall from non-UGC funds or seek the approval of the UGC, which would then notify the Government and seek the necessary approval (*e.g.* FSTB or PWSC/FC, as appropriate (see paragraph 5.47)). Institutions shall be liable for all consequences of accepting tenders in excess of the APE without prior approval, including bearing all additional costs from non-UGC funds.

5.42 The Government adopts a contract price fluctuation system (CPFS) in public works tenders which allows adjustment to contract payment in accordance with movements in the cost of labour and materials in public works contracts. The objective of the CPFS is for risk sharing between Government as the employer and the contractor under capital works contracts. It is an equitable risk sharing mechanism as payments to the contractor can be adjusted either upward or downward (*i.e.* positive or negative payment) in response to changes in the material and labour costs. The Government requires all public works contracts to incorporate a CPFS provision regardless of the contract duration unless there are genuine practical problems, such as contracts involving predominate use of proprietary products/systems and the lack of relevant cost indices for price fluctuation computation. Institutions are therefore encouraged to adopt the CPFS in their capital works contracts. Relevant clauses should be incorporated in the draft tender documents where appropriate for the Technical Adviser's comment.

Construction Stage

5.43 To ensure timely delivery of capital works projects, institutions should adhere to the works commencement date as specified in the PWSC submission. Institutions are required to monitor and control the progress of the projects closely with a view to completing the projects on time and within the APEs. Institutions should adhere to the cashflow commitments for the sake of public finance management. If, at any time, an institution foresees any major slippage on the work programme of a project which may result in under-achievement of the policy targets, or significant underspending (*e.g.* over 10% of the estimated expenditure for that

year), the institution must report this to the UGC immediately. Likewise, institutions must also report immediately to the UGC if they foresee overspending. Institutions are required to give full explanation to justify the significant deviations in cashflow requirement to the Government and possibly the LegCo.

5.44 As required by DEVB, institutions are required to provide at the beginning of each financial year the projected monthly cashflow requirements in respect of capital works projects for uploading to the Government's Public Works Programme Information System (PWPIS). Institutions should provide such information to the DEVB via UGC, and inform UGC well in advance when there will be any significant deviations from their cashflow commitments.

5.45 Approved funds for the projects will be released to the institutions on a monthly basis upon request of the institutions and completion of the monthly statement and claim form at **Annex 5H**. Favourable balances held by the institution should not normally exceed about three weeks' expenditure, assuming equal expenditure over the year. Government funds should be used to meet project expenditure only after all non-Government funds/private contributions have been expended. The amount of non-Government funds expended will not be reimbursed in case the project is cancelled/curtailed.

Major Variations of Contract

5.46 As stated in paragraph 5.31 above, consultants are required (in consultancy agreements for all subvented projects) to submit to the UGC Secretariat all major variations within one month after issuing the variation orders, provided that the total project cost including the variations will not exceed the APE. The submission should include sufficient details and supporting information for UGC Secretariat to seek ArchSD's advice suitably. A major variation in this context is defined to be the variation ordered in accordance with the works contract which may commit the institution to additional expenditure of a value estimated to exceed \$300,000, in line with the current government practice. For major variations in AA&I projects, the supporting information shall be provided in the form of a checklist (**Annex 5I**) and the supporting documents will only be required upon request. Institutions shall be required to state in their submissions of the existing monthly financial statements to the UGC Secretariat for both capital and AA&I projects (i.e. **Annexes 5H** and **5M**) if any major variation was ordered in the relevant month. Nil return will be assumed if no variation order was mentioned in your monthly submissions. If the APE is to be exceeded due to any variations, institutions should notify the UGC Secretariat promptly. Unless the institution undertakes to meet the extra expenditures above the APE with non-Government funds, the variations should not be committed. Institutions should refer to paragraph 5.47 below if adjustment of APE is necessary.

Adjustment of Approved Project Estimate

5.47 Institutions will be responsible for ensuring that works expenditure stays strictly within the APE and in strict accordance with the scope of the project as approved by FC. In exceptional circumstances and with sufficient justification, the UGC may agree to seek additional funds to meet additional expenditure. The UGC and its Technical Adviser will comment on the revised estimate of the project submitted by the institution, taking into consideration any previous and future project savings before adjusting the project estimate. The institution shall not commit further expenditure until the revised project estimate has been approved by the Government and, where necessary, FC.

5.48 To avoid locking up resources unnecessarily, the Government will internally “freeze” all savings arising from contracts awarded at prices substantially lower than the provision earmarked for these contracts in the APE. Institutions should not spend against the savings. For the purpose of monitoring project spending, the updated requirement for the project (*i.e.* the reduced project estimate) will be the “administrative cap” on the project expenditure. Should the institutions wish to increase the estimated project expenditure, they may apply to the UGC with justifications. The UGC will seek FSTB’s agreement to raise the administrative cap as appropriate.

Change in Project Scope

5.49 The institutions must keep to the original project scope approved by the UGC and FC. They should inform the UGC, which would then notify the Government, of any planned changes in project scope at any stage, whether or not such changes would lead to reduced or additional funding requirements. The institutions must not implement any planned changes prior to obtaining the approval of the UGC and, where necessary, the FSTB, where necessary, the PWSC/FC. They shall be liable for all the consequences of implementing any changes without prior approval, including bearing all the additional costs with non-Government funds.

Completion of Project

5.50 Upon completion of a project, the institution should prepare a statement of final accounts as soon as practicable by completing the proforma at **Annex 5J** which should be duly certified at Vice-President level or above. If privately-funded items/facilities are involved, all subvented works and privately-funded works should be clearly delineated in the final accounts. A separate assurance engagement should be carried out by an external auditor engaged by the institutions. The external auditor should conduct the engagement in accordance with Hong Kong Standard on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and should express a conclusion as to i) whether the institution has, in all material respects, accounted for the income and expenditure in respect of the funds received for the project in the statement of final accounts; and ii) whether there is any

material exception including fraud, errors, use of funds not in accordance with the purposes as approved by the LegCo or non-compliance of the guidelines and other relevant documents/comments issued by the UGC or its Technical Adviser. Institutions are not required to submit full supporting documents to the UGC and its Technical Adviser for comments since the institutions assume full responsibility and accountability of the expenditure incurred. The relevant supporting documents (*e.g.* tender documents, purchase orders, contracts, contractor claims and payment receipts, etc.) will need to be submitted only upon request by the UGC or its Technical Adviser for random checks. Institutions are required to maintain and keep the supporting documents for at least seven years from the date of submission of final accounts for checking and audit purposes.

5.51 It should be noted that the final project accounts should be finalized as soon as possible and in any event not later than three years after commissioning of the facilities. Institutions should inform UGC if they anticipate that the timescale cannot be met due to special circumstances. They should be aware that the examination outcome of the UGC and its Technical Adviser may affect the amount of Government subvention to the project, but the UGC will have no contractual liabilities towards the institutions or their contractors. Expenditure on unapproved works or expenditure above the APE has to be funded from non-Government sources. Advance payment to the institution above the final approved expenditure has to be returned to the Government.

Contractor's Claims and Related Matters

5.52 Institutions may receive from contractor claims in relation to the contracts under the project, such as claims for loss and expense, prolongation of the contract period, etc., which may or may not be dealt with under the terms of the contract. Institutions, being the works agent and project manager of the project, should make assessment and refer these claims to the UGC and its Technical Adviser for advice before an offer is made to the contractor.

5.53 In principle, commercial settlement between institutions and contractors in capital works projects is discouraged. If, in exceptional circumstances, an institution considers it necessary to negotiate a commercial settlement with a contractor, the institution should consult the UGC and its Technical Adviser and submit proposal prior to any discussion with the contractor. The use of credit accruing from the settlement, if any, will be subject to the advice of the UGC and the Government.

Alterations, Additions, Repairs and Improvements Block Allocation

Ambit of the Allocation

5.54 The allocation is for -

- (a) AA&I, including slope inspections and minor slope improvement works, to the campuses of the UGC-funded institutions requiring a subsidy of not more than \$30 million each; and
- (b) studies for capital works projects selected in accordance with the Government's established resource allocation mechanism, including consultants' design fees and charges, preparation of tender documents, site investigation costs and major in-house investigations, costing up to \$30 million for each project.

5.55 AA&I block allocation covers a wide range of projects including building works related to, for instance, site development, geotechnical works, significant renovation exercise, information technology (IT) infrastructure (excluding computer equipment), landscaping, minor slope works and improvement items of a less recurrent nature. The projects may also cover "green solutions". Institutions should not divide a major capital project exceeding \$30 million into several phases and submit bids under this block allocation.

5.56 The recurrent block grants to institutions are intended to cover many aspects of maintenance and repair of premises, and purchase of equipment. Institutions are expected to utilize a percentage of the block grants for these purposes – for example, to reinvest in existing buildings/premises in terms of regular maintenance/refurbishment/renovation. Moreover, proposals purely on purchase of F&E and the proposed consultancy study, feasibility study or advanced planning work of capital projects before they have been selected in accordance with the Government's established resource allocation mechanism are not fundable under the AA&I allocation.

5.57 Minor works projects costing less than \$2 million each should normally be paid for from the institutions' recurrent block grants. They should not be referred to the UGC for capital funding and are not subject to the detailed scrutiny of the UGC and its Technical Adviser. Nevertheless, institutions undertaking these projects are reminded that these projects should be carried out in a cost effective manner, according to the institutions' own procurement procedures, and in line with the same principles as set out in this Chapter.

Procedures

5.58 AA&I proposals are considered by the UGC on an annual basis. The procedures for processing AA&I proposals from the UGC-funded institutions are outlined at **Annex 5K**.

5.59 Institutions should submit AA&I proposals with order of priority accorded to each proposal by completing the form at **Annex 5L**. The submission should be endorsed and signed off at Vice-President level or above. The UGC may limit the number of new proposals to be submitted by institutions. PDS and TFS are not required for AA&I proposals.

5.60 Provision of consultants' fees and F&E can be included in the project estimates for AA&I projects. Site supervision should normally be performed by institutions' in-house staff. Only under very special circumstance will the site supervision cost (i.e. cost of resident site staff) be supported under the AA&I block grant.

Implementation and Subsequent Monitoring

5.61 AA&I projects, by their very nature, are relatively minor as compared with major projects under the annual capital programme and should be implemented and completed within a maximum timeframe of three years starting from the date of AA&I funding approval to institutions. The approved provision from the Government is given on an annual basis. Any sum unspent is not allowed to carry over to the next financial year. Any slippage will therefore lock up resources available in the next financial year, and hence adversely affect all institutions. Underspending by an institution reflects its inability to implement the projects as planned, and will be taken into account by the UGC in considering future project proposals from the institution concerned.

5.62 The APE for each project will be budget-capped. Requests for supplementary provision will not be approved. Contracts for the works should, as far as possible, be awarded on a fixed price basis in order to contain costs within the project budget ceiling. Before accepting a tender, the institution concerned should ensure that the APE will not be exceeded unless it undertakes to meet any shortfall in the final project expenditure with non-Government funds. If the approved project scope needs to be revised in order to contain the budget within the APE, the institution concerned should submit the proposal to the UGC and its Technical Advisor for prior agreement.

5.63 Institutions are given more flexibility in managing the projects and in dealing with the various aspects of AA&I projects without referral to the UGC and/or its Technical Adviser, *e.g.* in tender specifications, invitations to tender, selection and award of tenders, final accounts, etc. However, institutions are required to submit details of the project estimates to the UGC and its Technical Adviser for advice on the

reasonableness of the estimated project costs, which would then be set as the APE. Institutions are also required to follow the requirements as stated in paragraphs 5.31 and 5.46 above in respect of the variations of contract. As regards the procurement of F&E, institutions are required to follow the new requirements at **Annex 5G** as stated in paragraph 5.34 above. In proposing and considering the AA&I projects, both institutions and the Technical Adviser should take into account the life cycle cost analysis, *i.e.* proposals that can generate long-term recurrent cost savings, if necessary, by higher initial capital cost may be positively considered.

5.64 Institutions may not be required to follow in full the procedures for major capital projects as outlined in paragraphs 5.11-5.53 above. However, institutions should ensure proper procurement procedures with reference to Government's latest rules and regulations applicable to public capital works.

5.65 Institutions should monitor progress of the projects and the level of expenditure against the commitment submitted in order to avoid any slippage in progress. Works⁷ of each newly approved AA&I project should start within six months from the date of funding approval. Beyond that, the approval will automatically lapse and the institution has to seek agreement from the Permanent Secretary for Education and the Secretary for Financial Services and the Treasury for extending the validity period. As required by DEVB, institutions are required to provide the projected monthly cashflow requirements of each AA&I project for uploading to the Government's PWPIS. Institutions should provide such information to DEVB via UGC, and inform UGC well in advance when there will be any significant deviations from their cashflow commitments.

5.66 Funds for the projects will be released to the institutions on a monthly basis upon request and on completion of the monthly statement and claim form at **Annex 5M**. Favourable balances held by the institution should not normally exceed about three weeks' expenditure, assuming equal expenditure over the year. Government funds should be used to meet project expenditure only after all private contributions for the project have been expended. The amount of non-Government funds expended will not be reimbursed in case the project is cancelled/curtailed.

5.67 Upon completion of the AA&I projects, institutions are required to submit a certified financial statement (**Annex 5J**) to account for the total actual expenditure of the project. The submission should be made not later than three months after the commissioning of the facilities covered by the AA&I works, and be duly certified at Vice-President level or above. In case the actual expenditure of any particular major item (*e.g.* building and building services, etc.) is 15% more or less than the related approved budget, institutions should provide justification(s) for the

⁷ The project is defined as having works started in one of the following scenarios, whenever is earlier –

- (a) commencement of design works for project with in-house design;
- (b) contractual commitment with the consultant for consultancy assignment/study;
- (c) commencement of works by the contractor for construction works; or
- (d) placing of purchase order with vendor/manufacturer, etc.

deviation. Institutions should assume full responsibility and accountability for ensuring that the expenditures are incurred in accordance with the APE and approved project scope. They are not required to submit full supporting documents to the UGC and its Technical Adviser for vetting. The relevant supporting documents (*e.g.* tender documents, purchase orders, contracts, contractor claims and payment receipts, etc.) will need to be submitted only upon request by the UGC Secretariat or its Technical Adviser for random checks. Institutions are required to maintain and keep the supporting documents for at least seven years from the date of submission of the financial statement for the checking and audit purposes.

Assessment of Space Needs

5.68 The UGC endorsed the adoption of a Room Use-based Approach (namely the Kaiser Formulae) to assess institutions' space and accommodation needs in February 2000. Given the rapid changes in the higher education sector, such as changing pedagogy and technology, and in anticipation of the extension of the normative length of undergraduate programme from three to four years, the UGC completed a review of the Kaiser Formulae in April 2006. The space planning standards are guidelines which assist both the institutions and the UGC in determining the appropriate space needs of individual institutions.

5.69 The UGC requires all institutions to update space inventories on a regular basis and provide such inventories to the UGC Secretariat every three years, *i.e.* once during each triennium, and on a need basis when necessary. Institutions are required to follow the guidelines as set out in the Space Inventory Manual in compiling the space inventories. The space inventories provide useful background information for the assessment of future capital proposals from the institutions, and facilitate the UGC in assessing the space provision using the Room Use-based Space Planning Standards.

5.70 For any change of area and usage from "UGC-funded space for UGC activities" to "UGC-funded space for non-UGC activities", institutions should seek the prior advice of UGC in order to proceed with the project. Moreover, for any change of area and usage from "UGC-funded space for UGC activities" to either "privately-funded space for UGC activities" or "privately-funded space for non-UGC activities", institutions should seek the prior approval of UGC before proceeding with the project.

5.71 Institutions should ensure that the data entered in the space inventories are accurate and updated. Institutions will be held accountable for the data accuracy and integrity of space inventories, which may be subject to audit by external party as appointed by UGC.