

**Construction Industry Council**

**Committee on Construction Procurement**

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Meeting No. 004/18 of the Committee on Construction Procurement was held on Thursday, 6 December 2018 at 2:30pm at the Boardroom, CIC Headquarters, 38/F, COS Centre, 58 Tsun Yip Street, Kwun Tong, Kowloon.

Present	:	Stephen LAI	(SLI)	Chairperson
		Francis LEUNG	(FLG)	
		Emily CHAN	(ECN)	
		WONG Mung-wan	(MWW)	
		Rita CHUNG	(RC)	
		Raymond AU	(RA)	
		Ricky LEUNG	(RyL)	Chairperson of Task Force on Reasonable Construction Period
		Eliza WONG	(EWYL)	
		CHAN Chi-chiu	(CCC)	
		Robert LAM	(PHL)	Chairperson of Task Force on the Selection of Contractors
		Danny HUNG	(CSH)	
		CHOW Ping-wai	(CPW)	
		Dick KWOK	(DkK)	Chairperson of Task Force on RMAA Procurement
		Simon WONG	(SWhW)	
	TSE Chun-yuen	(CYT)	Chairperson of Task Force on Enhancements to Subcontractor Registration Scheme	
In Attendance	:	Albert CHENG	(CTN)	Executive Director
		Stephen HO	(SnH)	Assistant Director – Industry Development
		LEE Oi-Yen	(OYL)	Assistant Director – Registration Services
		James WONG	(JsW)	Senior Manager – Construction Productivity
		LAI Chi-wai	(CWLA)	Senior Manager – Registration Services
		Iris NG	(IN)	Government Seconded - Construction Procurement
		Parco LAU	(PLU)	Manager - Construction Procurement
		Christopher CHEUNG	(PHC)	Senior Officer - Construction Procurement

Apologies	CHAN Ka-kui	(KKCh)	CIC Chairman
	CHAN Kim-kwong	(KKCN)	
	Rocky POON	(LKP)	
	Ivan FU	(FI)	Chairperson of Working Group on Flat Inspection

MINUTES

Action

**4.1 Confirmation of the Minutes of Meeting No. 003/18**

Members took note of the Paper CIC/CPT/M/003/18 and confirmed with no further comment to the Minutes of Meeting No. 003/18.

**4.2 Matter Arising from the Last Meeting**

SLI updated Members on the following matters arising from the last meeting:

Item 3.2 – Updates on the status of research initiatives under CIC’s research fund

Members took note on the status of research initiatives under CIC’s research fund with no further comment.

**4.3 Final Report of “A Roadmap to Enhance the Subcontractor Management Mechanism in Hong Kong”**

OYL briefed Members on the Final Report of "A Roadmap to Enhance the Subcontractor Management Mechanism in Hong Kong" submitted by the University of Hong Kong (HKU) Research Team. The HKU had reviewed previous major reports regarding the construction industry and collected the views of key stakeholders in the industry, taking into account the overseas and local mechanisms, completed the final report of the research and formulated recommendations. The research team of the HKU pointed out that in the “Report of the Construction Industry Review Committee”, it was clearly stated that the elimination of non-value adding subcontractors and registered subcontractors must have met the standards and must continuously upgrade their skills and capacities through training. In the McKinsey’s Report on “Vision 2030 for the Hong Kong Construction Industry”, all stakeholders in the industry agreed to strengthen the supervision and clarification of subcontractors responsibilities and management capabilities in terms of safety, as well as monitoring the financial strength of subcontractors. In the Report on “Construction Industry 2.0”, it was indicated that subcontractors must be professional to attract young talents to join and develop in the construction industry.

Six objectives were finalised according to the three reports above mentioned, namely: improve safety performance on site, enhance professionalism and building quality, eradicate “shell companies”, create a steady working environment for construction workers, establish a pool of responsible subcontractors, and to enable sustainable development of the construction industry and the

subcontractor sector in Hong Kong.

The HKU recommends that the “Registered Specialist Trade Contractors Scheme” (the “RSTCS”) could be implemented in phases. Having considered the impact on construction, workers and structural safety and quality, it was suggested that the scheme would first be implemented as a pilot scheme in seven designated trades: Demolition, Scaffolding, Concreting Formwork, Reinforcement Bar Fixing, Concreting, Erection of Concrete Precast Component, Curtain Wall. In addition, lists of approved specialist contractors for public works were established under the Development Bureau. Therefore, it was expected that in launching the RSTCS, the CIC should gradually align the admission criteria framework of its list with those lists under Development Bureau, covering five major elements: safety, management, job experience, execution, finance. Besides, registered specialist contractors would be further divided into Group 1 and Group 2, with registration requirement for Group 2 being higher. The existing registered subcontractors of the seven designated trades might be regarded as registered under Group 1 automatically or apply for registration under Group 2.

OYL continued that corresponding monitory and regulatory actions would be implemented under the RSTCS. The scope of regulatory actions included convicted cases or that involved fatality, severe injuries, serious misconduct or poor performance. Regulatory actions would be monitored by the newly established Committee on Registered Specialist Trade Contractor Scheme (the “Com-RSTCS”). The Com-RSTCS would handle cases based on the sufficiency of case facts and information available. An independent appeal mechanism would also be available. OYL also briefed the meeting about the initial framework and the implementation roadmap of the Com-RSTC. Regarding the implementation roadmap, the Development Bureau would specify the adoption of registered specialist contractors in their public works contracts, the Buildings Department would assist in the promotion of RSTCS in private works projects.

CSH opined that, as the English names for the list of registered specialist contractors and that for the list of registered contractors under Buildings Department were similar, both were referred as “Register of Specialist Contractors”, the public might be confused and a conflict with the list from Buildings Department might exist. OYL responded that the category of trades under the register of specialist contractors of Buildings Department and that under the new scheme were not identical saved for the trade of demolition. Nevertheless, it was expressed that a English name of the list would

be reviewed.

CPW enquired whether the list of registered professional contractors would merge with the List of Approved Suppliers of Materials and Specialist Contractors for Public Works of the Development Bureau. FLG responded that a co-ordination between the list of registered professional contractors and the List of Approved Suppliers of Materials and Specialist Contractors for Public Works of the Development Bureau would be conducted first to facilitate a gradual alignment of the admission criteria framework of these lists.

CSH enquired if there is any difference between the list of registered professional contractors and the List of Approved Suppliers of Materials and Specialist Contractors for Public Works recognised by the Development Bureau. ECN responded that, except for safety, four of the admission criteria (management, job experience, execution, finance) for both lists were in general identical. Therefore, adjustment would first be made before launching the new list, with a long term goal hoping that the two sets of lists would be merged in future.

CYT delivered four comments regarding the monitory and regulatory actions of the new RSTCS:

- (a) it was considered inappropriate for main contractors to report on poorly performed registered subcontractors;
- (b) it was also considered inappropriate to explicitly allow contractors of any tier to file complaints against registered subcontractors;
- (c) a clarification on whether the relevant law enforcement agency which could deliver record of previous convictions was the court or not should be made. If the court was not the relevant law enforcement agency, the concerned judgment enforced might be contradictory to the court's decision;
- (d) the minimum limit of tender for Group 2 registered subcontractors would prevent them to bid on smaller projects.

CTN responded to CYT's comment as follows and suggested the HKU to revise wordings of the report:

- (a) a robust scheme should be founded on comprehensive performance report. However, it was agreed that should the contractor be required by the subcontractor to report on its performance, commercial considerations could affect the

impartiality of the report. Therefore, further discussion with subcontractors would be conducted to improve the methodology of obtaining reports and to set up an appeal mechanism. The HKU was advised that the wordings "upper-tier registered contractors would be invited to submit performance reports on the performance of registered specialist contractors" should be deleted from the report.

- (b) it was proposed that the content of the report should be revised. There would be no direct mentioning on which tier could complain about contractors to avoid abuse of the complaint mechanism. With reference to the practice of the Development Bureau, a hearing in the event of a major incident should be conducted. The newly established Committee might consider regulatory actions if necessary;
- (c) it was defined that enforcement agency referred to agency which might exercise enforcement powers conferred by the laws of Hong Kong. It was suggested to make reference to the practice of contractor supervision in public works;
- (d) if larger scale subcontractors would be allowed to bid for smaller scale projects, it could hinder the development of smaller subcontractors. To achieve a level playing field, there is sufficient overlapping of tender amount between the two groups to ensure business opportunities;
- (e) the admission criteria on specific figures for designated trades under RSTCS mentioned in the report was just a preliminary proposal. Further discussion with stakeholders would be carried out before finalising the figures.

RC enquired whether the list of RSTCS would be able to further subcontract to subordinate subcontractors who were not registered on the list. CTN remarked that under the Development Bureau's contract for public works, it was indicated that the main contractor could only subcontract their works down two tiers. Therefore, the new scheme should recognise the two tiers of subcontractors according to this contract requirement. CYT expressed concern on the short term impact of this practice because some subordinate subcontractors were reluctant to register. CTN mentioned that the new scheme would offer a three-year grace period for subcontractors of the old scheme to adapt to the new admission criteria. CCC added that, under the contract for public works, subordinate subcontractors were also required to register. Therefore, in the early stage of launching the new scheme, only those subordinate subcontractors who engaged in private and maintenance works would likely be affected. It was therefore considered that those subordinate subcontractors responsible for

government and public works projects should first be regulated in the early stage, and those responsible for private works or small construction projects would then be regulated as an extension of the scheme in the later stage. The approach in a progressive manner might be more feasible.

The Chairperson thanked the Members for their comments and concluded that the Committee on Construction Procurement endorsed in principle the final report studied by HKU. The report would then be submitted to the Council for approval.

#### **4.4 Subcontractor Registration Scheme (SRS) Operations**

CWLA briefed Members on the paper CIC/CPT/P/010/18 and the the latest status of SRS operation.

Members took note of the report on SRS operation. As of October 2018, there were 6,031 companies registered under the SRS with an increase of around 58 Registered Subcontractors compared to that in August 2018.

The Management Committee (MC) of the SRS had conducted a hearing on 2 November 2018. Regulatory actions ranged from written warning to suspension of registration up to six months were taken against 7 Registered Subcontractors, in which 4 of them involved fatal accidents, 1 involved late payments of workers' wages, and 2 involved late payments of workers' MPF contributions. The Secretariat received a notice of appeal on 19 November 2018 from a registered subcontractor who received regulatory action for involvement of fatal accidents. This case be proceeded in accordance with established procedures.

The Secretariat successfully held the "Subcontractor Leadership Summit 2018" on 12 November 2018 at the Zero Carbon Building in Kowloon Bay. Over 150 participants joined the summit and discussed on hot topics of the industry such as adoption of collaborative contracting, Building Information Modelling, innovative technology, as well as facilitating promotion of Construction Innovation and Technology Fund and exchanging ideas on SRS.

#### **4.5 Briefing on Preliminary Proposal on improving the Time, Cost and Quality Performance of Construction Projects in Hong**

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Mr. Mark ASHTON, representative of Advisian, briefed Members on the preliminary proposal on reviewing the time, cost and quality performance of the existing construction projects in Hong Kong. The review involved investigating the factors which lead to delays in project construction, increase in cost and deterioration of construction quality. It would also review the feasibility of the eight recommendations made in the Construction Industry Vision 2030 Report by McKinsey. He added that, as the Construction Industry 2.0 initiative implemented by the Development Bureau was mainly based on construction procurement and building information modelling, five recommendations focusing on construction procurement were therefore proposed.

- (a) Enhance the buildability/ delivery strategy / programme feasibility through building information modelling and early engagement of contractors

He commented that the construction plan of public works project submitted by engineering consultant should be verified by the contractor's early engagement (for selected projects) and the building information modelling. From the experience of the private sector, it was proved that the contractor's early engagement could improve the buildability design, delivery strategy and feasibility of planning.

- (b) Develop and implement value-based procurement for design consultancy

He pointed out that to ensure sufficient resources could be allocated for professional services, the procurement of professional services, especially in design, must prioritise effectiveness and quality; whilst the increase in professional consultation fees could be compensated by profit made as a result of enhanced building design, design integrity and optimisation, such that the client could enjoy receiving better quality of deliverables and end product. In addition, clients should ensure that professional consultants would have sufficient time to provide services, and should create appropriate environments and conditions for timely delivery.

- (c) Appropriate contract selection for complex and mega projects

He also suggested that clients, upon selecting types of contracts, should improve their capability in risks identification, pilot projects and undertake legal review on existing regulations, strengthen their understanding of substituted contracts and exercise the full benefits of contracts.

(d) Enhance Construction Quality through Procurement

He explained that contractors should be more proactive in ensuring construction quality through procurement, and in implementing contractor-led quality assurance scheme such as payment made by contractors to personnel on construction site. Clients could also incorporate contractor-led trade skills training and assessment into projects to be delivered under the contract and strengthen contractual terms to improve shortcomings.

(e) Enhance tender evaluation to fully reflect value-based procurement

He also reported that, in construction projects, costs should be reduced whilst the value of deliverables should be increased and meaning of benefit-based procurement should be re-defined. Review on existing tender assessment systems for non-capital costs items, such as asset value, operational costs, validity of figures, design quality, project risk, supply chain integration, workforce improvement, health, safety and environmental protection and innovation.

**4.6 Delegations to Xiong'an New Area to observe Construction Procurement and Modular Integrated Construction**

PLU briefed Members on the paper CIC/CPT/P/011/18 and the purpose and proposed itinerary of the delegation as mentioned in the paper. It was expected that the list of participants and details of itinerary could be endorsed by the end of December.

CCC opined that the buildings visited in the tour were all completed projected, and enquired that if projects under construction could be arranged to visit. In addition, he also enquired which organisation would be responsible for the fee of the delegation.

CTN replied CCC's enquiry on the arrangement for visiting under construction projects, opining that the Secretariat might seek assistance from FI. CSH suggested arranging a visit to a project under construction in Beijing being built by CSH's company. A list of information would later be provided to the Secretariat for their reference. PLU remarked that the fee of the delegation would be paid by CIC for Members of Committee on Construction Procurement.

After much deliberation, Members approved the above mentioned proposed itinerary.

#### **4.7 Task Force on Selection of Contractors**

PHL updated Members on the latest progress.

The Reference Material on Selection of Contractors was completed. The industry considered that there was room for improvement in the uses of technical terms and English wordings of this reference material. After much discussions between the Task Force and stakeholders, it was suggested that an independent industry practitioner with surveying experience would be appointed to refine the wordings of the reference materials

After much deliberation, Members unanimously endorsed the Hong Kong Institute of Surveyors to recommend an appropriate surveyor to be appointed by the Task Force to refine the wordings of the reference materials.

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#### **4.8 Task Force on RMAA Procurement**

DkK updated Members on the latest progress.

Tender assessment was conducted on 3 December examining the detailed proposals submitted by 2 consultants. It was confirmed that Arcadis Consultancy Hong Kong Limited would be responsible for the research, albeit the consultant fees exceeded the original budget. PLU responded that it might be resolved by allocating the budget from other task forces and from the 2019 budget to settle the consultation fees. Members took note of this solution.

#### **4.9 Task Force on Reasonable Construction Period**

RL updated Members on the latest progress.

The Task Force on Reasonable Construction Period held its first meeting on 20 September and discussed the terms of reference of the Task Force. As the information obtained from internal departments of the CIC was not sufficient for research purpose, the Secretariat would send a post to the Hong Kong Construction Association (“HKCA”) requesting assistance from HKCA. The details of the research would be discussed in the next meeting.

CTN supplemented that since some topics to be discussed in Task Force on Reasonable Construction Period and in the Committee on Productivity were similar in nature, it was recommended that the

two parties might work close exchange their views with each other.

#### **4.10 Working Group on Flat Inspection**

PLU updated Members on the latest progress.

The Working Group on Flat Inspection discussed the outline and message of its promotional video on flat inspection in the meeting on 28 November. The main purpose was to promote the engagement of qualified professionals for assistance in flat inspection should there be needs from users, and to educate the public to have a basic understanding on flat inspection. PLC expected the tender process might commence on 7 December and submissions might be opened after 14 working days.

CSH reminded that no emphasis mentioning the title of “flat inspector” should be made in the video, but that users should be careful in selecting the qualified professionals on the list for flat inspection.

After much deliberation, Members unanimously agreed the suggestions above mentioned.

The Secretariat also reported that a request for proposal (RFP) for the Flat Inspection Promotional Video had been issued and relevant quotation was expected to be received within two weeks.

#### **4.11 Any Other Business**

(a) Invite Committee Members to visit "MiC Display Centre"

IN briefed Members on the guided tour to MiC Display Centre at Zero Carbon Building would be held at 4:00p.m. on 20 December and invited Members to join. Members expressed that they would reply in email should they attend the event or not.

(b) Four Objectives of the McKinsey Report

PLC reported to the Members that three of the four objectives set were completed. With regard to encouraging the private sector to adopt a new tendering and assessment system, the Secretariat would further discuss with Members about how to achieve such objective.

Regarding the implementation of the compulsory registration scheme for subcontractors, the HKU had presented the final report of its leading research on “A Roadmap to Enhance the Subcontractor Management Mechanism in Hong Kong”.

In order to enhance the proficiency of construction industry practitioners in using the "New Engineering Contract" (“NEC”), the Secretariat had organised a seminar on NEC and invited the industry and the public to join.

In order to promote the private sector to adopt the use of NEC and relevant procurement strategy, the “Subcontractor Leadership Summit” organised by the Secretariat on November 12 was successfully held to share with industry stakeholders the experience of adopting NEC in their projects in which experience of subcontracting was included.

#### **4.12 Date of Next Meeting**

The next meeting would be scheduled for Thursday, 7 March 2019 at 2:30pm at the Boardroom, CIC Headquarters, 38/F COS Centre, 56 Tsun Yip Street, Kwun Tong, Kowloon. **All to note**

There being no further business, the meeting was adjourned at 5:15 p.m.

**CIC Secretariat**  
**December 2018**