

Construction Industry Council
1st Progress Report of Committee on Subcontracting

Purpose

This paper outlines main points discussed at the 1st meeting of the Committee on Subcontracting held on 17 May 2007. The record of attendance is at Annex A.

Issues Discussed

(A) Terms of reference and Membership

2. Members discussed and endorsed the membership and terms of reference for the Committee at Annex B. They noted that the third item of the terms of reference on improving the management of subcontractors would cover security of payment for the whole construction supply chain. Members agreed that co-opted members would serve as advisers to the Committee and be invited to attend Committee meetings on need basis to contribute on matters relevant to their interest and expertise. Subject to the availability of suitable candidates, the Committee would consider co-opting additional members with subcontracting background so as to strengthen the contribution of subcontractors.

(B) Priority Tasks

3. Members agreed to pursue the priority tasks at Annex C and expressed preliminary views on the way forward.

4. On the Voluntary Subcontractor Registration Scheme (VSRS), the Hong Kong Construction Sub-contractors Association would advise on the trades that should be added to the Primary Register to accommodate subcontractors who could not be fitted into the current trade classification. On the operation of the VSRS, subject to endorsement by CIC, Mr S S Lee would take over the chairmanship of the Management Committee of VSRS and Mr TSE Chun-yuen would replace Mr Peter Ayres as one of the members of the Management Committee. With the task of establishing a register of firms engaged in

subcontracting business substantially accomplished, efforts should be made to pursue the next stage involving a Premier Register with more stringent entry requirements.

5. On training and raising the standard of subcontractors, Members considered that it would be crucial for CIC to render tangible support to registered subcontractors in improving their performance. Efforts should also be made to raise subcontractors' awareness of the importance of effective management of their business operations, contractual relationship with main contractors and finance, in particular in relation to the timely application of payment for completed works and assessment of variations. In this regard, the former PCICB had organized training courses on construction-related matters such as construction site safety legislation and waste management measures. Consideration should therefore be given to introducing management-related courses such as standard forms of subcontracts and dispute resolution.

6. The discussion on security of payment would encompass the whole construction supply chain including main contracts, various types of subcontracts and sub-subcontracts and wage payment for workers. Priority should be accorded to this subject with a view to arriving at a consensus on the need for security of payment legislation.

7. On standard form of subcontracts, HKCA would publish the revised Standard Form of Domestic Sub-contract (the "Blue Form") incorporating the revisions agreed between HKCA and HKFEMC in 2006. The two associations would continue to pursue further improvements to the Blue Form including those requiring corresponding changes to the main contracts between main contractors and Government and would refer relevant issues to the Committee for advice and guidance.

8. PCICB issued the Guidelines of Standard Form of Domestic Subcontracts for Basic Trades in May 2005 to promote the use of written subcontracts incorporating equitable terms. The Committee would review the adoption of the Guidelines at an appropriate juncture and continue to promote the use of written subcontracts.

9. Members also reviewed CIC's role on standard forms of subcontracts and concluded that instead of undertaking the development and improvement of standard forms directly, CIC should concentrate on assisting concerned parties to do so and providing advice and guidance when necessary.

Any Other Business

10. The Secretariat would compile a summary of the discussions of the PCICB Working Group on Management of Subcontracting to serve as background information in pursuing the priority tasks of the Committee.

Further Actions

11. The following further actions were agreed –
- (a) Upon endorsement of the membership of the Committee by CIC, the Secretariat would issue letters inviting co-opted members and Government's representatives to join the Committee and attend future meetings;
 - (b) Subject to endorsement of CIC, Mr S S Lee would take over the chairmanship of the Management Committee and Mr Tse Chun-yuen would replace Mr Peter Ayres as member of the Management Committee;
 - (c) Hong Kong Construction Sub-contractors Association would advise on the trades to be added to the Primary Register to accommodate subcontractors who could not fit into the current trade classification; and
 - (d) The Secretariat would compile a summary of the discussions of the PCICB Working Group on Management of Subcontracting for Members' reference.

CIC Secretariat
May 2007

Committee on Subcontracting

**1st Meeting held at 3:00 pm on 17 May 2007
in Conference Room 1201, Murray Building**

Record of Attendance

Present

Mr S S Lee	Chairman
Mr Russell Black	
Ms Teresa Cheng	
Mr CHEUNG Tat-tong	
Mr James Chiu	
Mr Michael Green	
Mr POON Man-hon	
Mr TSE Chun-yuen	
Mr WAN Koon-sun	
Mr Conrad Wong	
Ms Ada Fung	Representing Permanent Secretary for Housing, Planning and Lands (Housing)

Absent with Apologies

Mr. CHOI Chun-wa
Ir. Edgar Kwan

In Attendance

Ms Sonia Yung	Housing Department
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Construction Industry Council Secretariat

Ms Janet Wong	Deputy Secretary for the Environment, Transport and Works (Works) 1
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Mr Jack Chan

Principal Assistant Secretary for the
Environment, Transport and Works (Works) 1

Mr K H Tao

Chief Assistant Secretary for the Environment,
Transport and Works (Works) 1

Mr Solomon Wong

Assistant Secretary for the Environment,
Transport and Works (Works) Public Works
Systems Administration 1

Construction Industry Council
Committee on Subcontracting

Chairman - Mr S S Lee

Members

- CIC Members
 - Mr Russell Black
 - Ms Teresa Cheng
 - Mr CHEUNG Tat-tong
 - Mr James Chiu
 - Mr CHOI Chun-wa
 - Mr Michael Green
 - Mr Edgar Kwan
 - Mr POON Man-hon
 - Mr TSE Chun-yuen
 - Mr WAN Koon-sun
 - Mr Conrad Wong
 - Permanent Secretary for Housing, Planning and Lands (Housing)

- Co-opted Members
 - Mr Paul Chong - The Hong Kong Federation of Electrical and Mechanical Contractors Ltd.
 - Mr LAI Chi-hung - Hong Kong Construction Industry Employees' General Union
 - Mr HUI Man-bock, Bernard - The Hong Kong Institute of Architects
 - Mr CHEUNG Tak-hing - Hong Kong Construction Site Workers General Union
 - Mr Lawrence Ng - Hong Kong Marble and Granite Merchants Association
 - Mr YAU Hung-yuen - Association of Electrical Contractors
 - Mr LAW Wai-tai - Hsin Chong Construction Co. Ltd
 - Mr C S So - Henderson Land Development Co. Ltd.
 - Mr Joseph Ng - Hong Kong General Building Contractors Association
 - Mr Andy Ip - Contractor's Authorized Signatory Association
 - Mr LAM Siu-tong - Buildings Department

- Ms Sonia Yung - Housing Department
- Government's Representatives
 - Mr David Tong - Environment, Transport and Works Bureau
 - Mr S H Tso - Labour Department

Terms of Reference

1. To operate and develop the Voluntary Subcontractor Registration Scheme (VSRS).
2. To raise the professional standard of subcontractors through providing training courses and other value-added services under the VSRS and coordinating the training organized by other organizations.
3. To examine current arrangements for selection and management of subcontractors and recommend improvements.
4. To promote use of written subcontracts.

Committee on Subcontracting
Priority Tasks

Priority	Issue	Background	Follow Up Actions
High	1. CIRC Recommendation (R) 9 - Voluntary Subcontractor Registration Scheme (VSRS)	<p>(A) Primary Register</p> <ul style="list-style-type: none"> • The Primary Register of the VSRS was launched in November 2003 and about 3,500 applications for registration have been received by early 2007. • As PCICB was not an independent legal entity, a limited liability company, PCICB Registration Limited, was formed to operate the Primary Register. Given PCICB's lack of staff resources, the Hong Kong Construction Association (HKCA) provides administrative support for the scheme as Scheme Operator under a service agreement. • The Management Committee had been established under PCICB to oversee the operation of the Primary Register and to make decisions on applications on registration. • A questionnaire survey was conducted in mid-2006 to obtain the feedback of registered subcontractors on the Primary Register. The improvements at Annex C were recommended by the PCICB Working Group on Management of Subcontracting on the basis of the results of the survey. 	<ul style="list-style-type: none"> • To consider the changes to be made to the Primary Registration to suit the migration from PCICB to CIC including changing the membership of the Management Committee and transferring the ownership of PCICB Registration Limited to CIC. • To take forward recommended improvements at Annex D.

Priority	Issue	Background	Follow Up Actions
	1. CIRC Recommendation (R) 9 - Voluntary Subcontractor Registration Scheme (VSRS) (contd.)	(B) Premier Register - PCICB had also started discussions on the implementation framework for the next stage involving a Premier Register with more stringent entry requirements and grading based on capabilities.	<ul style="list-style-type: none"> • The Committee to continue the deliberation on the strategy for the next stage of the VSRS.
High	2. CIRC R 42 and R 43 - Security of payment	<ul style="list-style-type: none"> • After reviewing overseas experience, ETWB has concluded that security of payment legislation is unnecessary under local circumstances at present. Meanwhile, PCICB had drawn up a framework for identifying measures to enhance security of payment in relation to – <ul style="list-style-type: none"> - main contracts between main contractors and employers - subcontracts between specialist subcontractors and main contractors of public sector contracts - nominated subcontracts between nominated subcontractors and main contractors of private sector contracts - subcontracts between the first-tier subcontractors in general trades and main contractors; and - subcontracts between subcontractors in general and specialist trades and sub-subcontractors in lower tiers - payment of wages to construction workers 	<ul style="list-style-type: none"> • The Committee to formulate measures for improving security of payment on four types of subcontracts based on the framework drawn up by PCICB.

Priority	Issue	Background	Follow Up Actions
Medium	3. CIRC R 10 - Provide training to enhance the skills and competence of subcontractors	<ul style="list-style-type: none"> • CITA is offering training courses designed for managerial staff and site supervisors engaged by subcontractors. Improvements to these courses will be considered in the light of the training requirements for the Premier Register. • PCICB had also organized training courses for subcontractors registered on the VSRS since 2004 on topics including prevention of corruption, construction site safety and waste management. 	<ul style="list-style-type: none"> • The Committee to consider improvements to the training of subcontractors taking into account the training requirements of the Premier Register. • The Committee to liaise with training providers so as to facilitate better co-ordination on provision of training for subcontractors.
Medium	4. CIRC R 12 - Raising the performance standards of subcontractors by providing a conducive environment	<ul style="list-style-type: none"> • PCICB issues the Guidelines on Subcontracting Practice in March 2003 to promote good subcontracting practices. 	<ul style="list-style-type: none"> • The Committee to formulate further measures for raising the standard of subcontractors.

Priority	Issue	Background	Follow Up Actions
Medium	5. To promote adoption of written subcontracts incorporating equitable terms	<ul style="list-style-type: none"> • HKCA would publish the revised Standard Form of Domestic Sub-contract incorporating the revisions agreed between HKCA and HKFEMC in 2006. The two associations would continue to pursue further improvements to the Blue Form, including those requiring corresponding changes to the main contracts between main contractors and Government. • PCICB issued the Guidelines on Standard Form of Domestic Subcontracts for Basic Trades in May 2005 to promote the use of written subcontracts incorporating equitable terms. 	<ul style="list-style-type: none"> • HKCA and HKFEMC to refer matters arising from pursuing further improvements to the Blue Form to the Committee for advice and guidance, where appropriate. • The Committee to review the adoption of the Guidelines on Standard Form of Domestic Subcontracts for Basic Trades at an appropriate juncture and continue to promote the use of written subcontracts.

Proposed Improvements to VSRS

Training

- Provide training courses tailored for subcontractors including courses on –
 - standard form of subcontracts
 - dispute resolution in subcontracts
- Award attendance certificates as recognition of efforts in attending training courses
- Co-ordinate provision of training to subcontractors by various training institutions
- Secure discounts for Registered Subcontractors in attending training courses
- Organize part of the training courses outside office hours

New Value-Added Services

- Issue regular newsletters to Registered Subcontractors to update on recent developments affecting them
- Establish resources centre to provide reference information

Other Improvements

- Discuss with Registered Subcontractors on the establishment of subcontractors associations