

Construction Industry Council
3rd Progress Report of Committee on Subcontracting

Purpose

This paper outlines the main points discussed at the 2nd meeting of the Committee on Subcontracting held on 22 October 2007. The record of attendance is at Annex A.

Items Discussed

2. Members discussed the following items –
- payment of workers' wages;
 - preliminary implementation plan for Stage 2 of Voluntary Subcontractor Registration Scheme (VSRS);
 - 1st Summary Report of Informal Task Force on Administration Charges for Accident Reporting; and
 - Expansion of trade classification of VSRS

Payment of Worker's Wages

3. DEVB briefed Members on the following measures introduced in public works contracts in May 2006 for preventing arrears in payment of wages to construction workers -
- installation of computerized smart card system at site entrance/exit to establish attendance records;
 - mandatory requirement for workers on site to enter into written employment contracts with their employers;
 - arrangement for wages to be paid through designated bank accounts and submission of transaction records to the Government;
 - restriction of subcontracting to a specified number of layers for selected trades/work components;

- engagement of Labour Relation Officer (LRO) on construction sites to act as a single point of contact on employment matters and to educate workers on timely reporting of wage arrears;
- imposing contractual provisions making main contractors responsible for settling all arrears of wages for their contracts; and
- contractual provisions allowing Government to use payments due to main contractors to settle wage arrears which were reported to the Engineer for a contract within seven days of payment becoming overdue.

4. No wages arrears had been reported so far in the 68 contracts that adopted the control measures. This could be attributed to the establishment of a mechanism that encouraged workers to report wage arrears in the early stages when the amounts involved were still small thus enabling contractors to take prompt actions for settlement. DEVB aimed to roll out the measures to term contracts and would conduct several trials to assess the practicability of doing so.

5. HD indicated that similar control measures had been adopted in public housing contracts since May 2006. Workers who had concerns on disclosing their wage records were allowed to opt out but would not be entitled to the protection of the system. HKCA considered that some fine-tuning of the system would be required and would forward their views to DEVB in due course.

6. Members generally agreed that, subject to the endorsement of CIC, guidelines would be issued for promoting voluntary adoption of the control measures by the private sector. Legislation could be considered if promotion efforts were not yielding the desired results.

Preliminary Implementation Plan for Stage 2 of VSRS

7. At the 2nd meeting of the Committee on 9 August 2007, Members decided to introduce grading of subcontractors in Stage 2 of the VSRS so as to achieve the target of driving subcontractors to improve their standards. Members went through the preliminary implementation plan put forward by the Secretariat for this stage.

(A) Objective

8. The Primary Register of the VSRS launched in November 2003 was serving the following functions –

- providing a convenient source of reference for players actively engaged in subcontracting business; and
- providing a platform for launching new initiatives aimed at improving the professionalism and upgrading the training of subcontractors.

9. Stage 2 could serve to raise the standard of subcontractors through grading them on the basis of experience and capability. Members would further consider the objectives of Stage 2 so as to better define the strategic directions for its implementation.

(B) Structure

10. As envisaged in the Operational Framework for the VSRS issued for industry consultation in early 2003, a second layer (tentatively known as the Premier Register) with grading of subcontractors would be rolled out in Stage 2. However, the alternative of launching a combined register and transferring the existing registered subcontractors on the Primary Register to the entry grades would also be considered.

11. There were doubts on whether it would be appropriate to introduce grading in the VSRS given the lack of this feature in the registers of contractors established in accordance with the Buildings Ordinance. On the other hand, Members noted that grading was a common feature in the list of contractors administered by DEVB and HD.

(C) Trade classification

12. The current trade classification for the Primary Register of the VSRS consisted of 11 structural and civil trades, 11 finishing trades and 22 E&M trades. The Premier Register should adopt a compatible classification to provide a logical upgrade path.

(D) Entry requirements

13. The entry requirements of the Primary Register were accommodating. More demanding entry requirements relating to the following aspects could apply to the Premier Register –

- relevant works experience of subcontractors;
- managerial and technical staff with appropriate training, qualifications and experience;
- resources including labour and plant;
- financial capability; and
- record of satisfactory performance.

14. Members considered that the entry requirements should put more emphasis on performance and there should be suitable migration path from the Primary Register to the Premier Register so to avoid domination of the market by established players.

(E) Regulatory actions

15. Under the Rules and Procedures of the Primary Register, regulatory actions including revocation of registration, suspension of registration and written warnings could be taken against Registered Subcontractors for misconducts including conviction of senior management staff for bribery, wage convictions and convictions for failure to enroll employees in Mandatory Provident Fund (MPF) Schemes or failure to make MPF contributions. For the Premier Register, the additional grounds of consistent trend of adverse performance as well as bankruptcy, receivership or other financial difficulties could be considered.

16. HKCA put forward the suggestion of taking regulatory actions against malpractices such as refusing to execute an accepted tender. However, the Hong Kong Construction Sub-contractors Association doubted whether commercial decisions should constitute grounds for regulatory sanctions.

(F) Complementary measures

17. The contractual requirements introduced by public sector clients in mid-2004 mandating the engagement of Registered Subcontractors for the subcontracted works of their works contracts were highly effective in providing incentives for subcontractors to register on the Primary Register. Consideration could be given to adopting similar measures for the Premier Register.

(G) Mandatory registration

18. Members generally agreed that given the long lead time for legislation, registration on the Premier Register should be encouraged through complementary measures first. For the long term, while there was some support for legislation, HKFEMC registered its objection against a statutory system given the wide scope of subcontracting works.

(H) Implementation plan

19. The major steps for implementing Stage 2 included discussion of key issues and seeking consensus on the way forward, formulation of operational framework for Stage 2, industry consultation, finalization of operational framework and rolling out. Industry consultation was targeted to start in August 2008 while the roll out of Stage 2 was scheduled for March 2009.

(I) Way forward

20. The Secretariat would prepare papers dealing with various key issues for discussion in future meetings.

**1st Summary Report of Informal Task Force
on Administration Charges**

21. The 1st meeting of the Task Force was held on 10 October 2007 to consider the way forward on administration charges levied by main contractors on accident reporting by subcontractors. Having considered the various types of arrangements for employees' compensation (EC) insurance in subcontracts, the Task Force arrived at the consensus that, given the widely different circumstances for individual projects, it was not easy to draw any general conclusion on whether levying of administration charges was justified in principle.

22. The imposition of administration charges should be agreed by the parties to subcontracts having regard to all circumstances in particular whether subcontractors would genuinely need the service of main contractors in accident reporting and processing of EC compensation. As a matter of good practice, where administration charges were imposed, the relevant details including arrangements for levying such charges and the levy rates should be clearly set out in tender documents and subcontracts. The practice on imposing administration charges through measures such as house rules was undesirable and should be discouraged.

23. Members endorsed the consensus reached by the Task Force and requested the Task Force to develop guidelines defining the good practices on administration charges accordingly.

Expansion of Trade Classification of VSRS

24. The current trade classification for the Primary Register encompassed trades whose performance would have direct bearing on the quality of the completed works and excluded subcontractors providing supporting services (such as temporary electrical and water supply installations). While such restriction was necessary at the initial stages to make the system manageable, as the VSRS had matured, Members agreed that it was timely to expand the trade classification and endorsed the revised trade classification at Annex B incorporating a new group of trades for supporting services and eight trades under the group. One of the trades covered tower crane operations as recommended by the Informal Task Forces on Tower Cranes under the Committee on Construction Site Safety.

25. The Management Committee would be requested to revise the Rules and Procedures for the VSRS accordingly.

**CIC Secretariat
November 2007**

Committee on Subcontracting

**3rd Meeting held at 2:30 pm on 22 October 2007
in Conference Room 1201, Murray Building**

Record of Attendance

Present

Mr S S Lee	Chairman
Mr CHEUNG Tat-tong	
Mr James Chiu	
Mr Michael Green	
Ir Edgar Kwan	
Mr WAN Koon-sun	
Mr Conrad Wong	
Ms Ada Fung	Representing Permanent Secretary for Transport and Housing (Housing)
Mr Paul Chong	Hong Kong Federation of Electrical and Mechanical Contractors
Mr Bernard Hui	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 LAW Wai-tai	Hong Kong Construction Association
Mr C S So	Henderson Land Development Co. Ltd.
Mr S H Tso	Labour Department
Mr HUI Siu-wai	Buildings Department
Ms Sonia Yung	Housing Department
Mr Michael Chu	Development Bureau

Absent with Apologies

Mr Russell Black

Ms Teresa Cheng

Mr TSE Chun-yuen

Mr CHOI Chun-wa

Mr LAI Chi-hung

Hong Kong & Kowloon Painters General
Union

Mr YAU Hung-yuen

Association of Electrical Contractors

Mr Joseph Ng

Hong Kong General Building Contractors
Association

Mr Andy Ip

Contractor's Authorized Signatory
Association

Construction Industry Council Secretariat

Mr K H Tao

Chief Assistant Secretary for Development
(Works) 1

Mr Solomon Wong

Assistant Secretary for Development (Works)
Public Works Systems Administration 1

For discussion of "Payment of Workers' Wages"

Mr Y C Chan

Development Bureau

Trade Classification

Group	Trade	Specialty	
1. Structural and civil	1.1 Demolition	1.1.1 General demolition 1.1.2 Asbestos removal	
	1.2 Foundation and Piling	1.2.1 Sheet piles 1.2.2 Bored piles 1.2.3 Driven piles 1.2.4 Diaphragm walls 1.2.5 Micro piles 1.2.6 Hand-dug caisson	
	1.3 Concreting Formwork	1.3.1 Timber formwork 1.3.2 Large panel formwork 1.3.3 Metal/system formwork	
	1.4 Reinforcement Bar Fixing		
	1.5 Concreting		
	1.6 Concrete Precast Component	1.6.1 Fabrication 1.6.2 Erection	
	1.7 Scaffolding	1.7.1 Bamboo scaffolding 1.7.2 Metal scaffolding	
	1.8 Structural Steelwork		
	1.9 General Civil Works	1.9.1 Earthwork 1.9.2 Roadworks 1.9.3 Road drainage and sewer 1.9.4 Geotechnical works 1.9.5 Marine works 1.9.6 Ground investigation	
	1.10 Other Structural and Civil Trades	1.10.1 Pre-stressing system 1.10.2 Expansion joints 1.10.3 Heavy lifting 1.10.4 Surveying and setting out 1.10.5 Concrete repair	
	1.11 Building Maintenance		
	2. Finishing	2.1 Finishing Wet Trades	2.1.1 Brick/block work 2.1.2 Plastering and tiling 2.1.3 Spray plaster 2.1.4 Screeding
		2.2 Marble, Granite and Stone Work	2.2.1 Marble/granite work 2.2.2 Stone mason
		2.3 Joinery and carpentry	2.3.1 Cabinetry 2.3.2 Wooden flooring 2.3.3 Partition walls 2.3.4 Work/counter top
2.4 Window Fabrication and Installation		2.4.1 Aluminium window/louvers 2.4.2 Steel windows/louvers 2.4.3 Curtain wall/glass wall 2.4.4 Other window system (such as mild steel and PVC)	

Group	Trade	Specialty
	2.5 Shutters/Doors Fabrication and Installation	2.5.1 Timber doors
		2.5.2 Metal doors
		2.5.3 Automatic sliding door
		2.5.4 Stainless steel door
		2.5.5 Roller and folding security shutter
		2.5.6 Fire rated door
		2.5.7 Fire shutter
	2.6 Tanking and Waterproofing	
	2.7 Painting	2.7.1 Brush painting
		2.7.2 Spray painting
	2.8 Metal Work	2.8.1 Metal work
		2.8.2 Stainless steel work
2.8.3 Metal roof/skylight/cladding/ space frame		
2.9 Landscaping	2.9.1 Soft landscaping	
	2.9.2 Hard landscaping	
2.10 Other Finishing Trades and Components	2.10.1 Glazier work	
	2.10.2 Ironmongery	
	2.10.3 Artificial rocks	
	2.10.4 Sports and playground equipment/surface	
	2.10.5 Raised floor	
	2.10.6 False ceiling	
	2.10.7 Toilet and shower cubicle system	
	2.10.8 Dry wall system	
	2.10.9 Signage and graphics	
	2.10.10 Acoustic	
	2.10.11 Fibre reinforced plastic panels	
	2.10.12 Miscellaneous work	
2.11 Renovation and Fitting-out		
3. E & M	3.1 Broadcast Reception Installation	
	3.2 Burglar Alarm and Security	
	3.3 Diesel Generator Installation	
	3.4 Electrical	3.4.1 Electrical wiring
		3.4.2 General electrical installation
		3.4.3 Electrical control and power panel assembly
	3.5 Electrical and Mechanical Installation for Sewage Treatment	
	3.6 Fire Services Installation	3.6.1 Fire services pipe work
		3.6.2 Fire services electrical fittings
3.7 Fountain installation		
3.8 Heating, Ventilation, and Air-conditioning	3.8.1 HVAC pipe work	
	3.8.2 HVAC mechanical fitting	
	3.8.3 HVAC control	
	3.8.4 Sheet metal and ducting	
	3.8.5 Insulation	

Group	Trade	Specialty
	3.9 Industrial Type Electrical Installation	
	3.10 Lift and Escalators	3.10.1 Escalators and moving walkways mechanized fittings 3.10.2 Lifts mechanical fitting
	3.11 Liquefied Petroleum Gas Installation	
	3.12 Low Voltage Cubicle Switchboard	
	3.13 Mechanical Handling and Lifting	
	3.14 Mechanical Plant and Equipment	
	3.15 Plumbing	3.15.1 Plumbing 3.15.2 Building drainage and sewers
	3.16 Steam and Compressed Air Installation	
	3.17 Supply and Installation of Pumpsets and Associated Equipment	
	3.18 Supply and Installation of Water Treatment Plant	
	3.19 Swimming Pool Water Treatment Installation	
	3.20 Uninterruptible Power Supply	
	3.21 Other E&M Trades	3.21.1 Security and communication system 3.21.2 Building automation system 3.21.3 General mechanical fitting 3.21.4 Signage 3.21.5 Welding 3.21.6 Gas installation 3.21.7 Building maintenance unit
	3.22 Audio and Video Electronic Equipment	
4. Supporting Services	4.1 Tower Crane	4.1.1 Erection, dismantling and climbing
	4.2 Pipeline Network for mixed Concrete	
	4.3 Site Lifting Operations	4.3.1 Material hoists 4.3.2 Derricks 4.3.3 Deck winching 4.3.4 Mobile cranes
	4.4 Hoarding	
	4.5 Temporary Water Supply Installations	
	4.6 Temporary Electricity Installations	
	4.7 Temporary Protective and Safety Measures	4.7.1 Temporary fences for unfenced edges

Group	Trade	Specialty
4.8	Miscellaneous Cleaning Services	4.8.1 Cleaning of Completed Buildings Before Handing Over