

DESCRIPTION: PRESIDENT FILE/CORRESPONDENCE REF: DATE 1: 1999 DATE 2: 2002



# THE HONG KONG INSTITUTE OF SURVEYORS

5<sup>th</sup> September, 2001

The Honourable Mr. Henry Tang  
The Chairman of the Construction  
Industry Review Committee  
11/F & 21/F, Murray Building  
Garden Road  
Central  
Hong Kong

Dear Mr Tang

**Construct for Excellence**  
**Report of the Construction Industry Review Committee**

We refer to the above report published in January this year. Whilst the HKIS are appreciative of the proposed many recommendations in the Report, on implementation of the proposal for some time the HKIS wish to submit our views and observations as enclosed for consideration by the Construction Industry Review Committee.

We look forward to the opportunity to further discuss with you the various points we raise with a concerted effort to enhance the competitiveness of our industry. You may contact either Mr Gordon Ng, Secretary General or Mr Richard Cheung, Chairman of the Building Surveying Divisional Council.

Yours sincerely

Stephen Liu  
President

Encl.

Enclosure

## Comments on the Report of the Construction Industry Review Committee

### 1.0 General Comments:-

We definitely need a modern, safe, innovative, efficient, environmentally responsible and client-oriented construction industry to support the further development of our economy and to provide a better living environment.

As the Report says, the successful transformation of the industry that strives for excellence depends critically on leadership and commitment from the Government and Industry in implementing the change programme. We also agree that to obtain the promised benefits, the Construction Industry must take ownership of the change programme and demonstrate commitment to its successful implementation and that the change programme should be driven by market forces as far as possible. The Report also advocates and we agree that clients play a critical role in driving the Construction Industry to improve its operations through quality-oriented procurement strategy and contractual requirements. The recommendations in the Report are generally supported and are charting the right directions for the industry to follow.

We see, however, that the Report has taken the view too optimistically to assume Client's initiatives, abilities and responsibilities in the implementation programme to drive the Industry towards excellence.

The public sector clients may be driven to take on board the recommendations through Government policies, directives and other regulatory measures. There may be a totally different scenario for private sector clients whose operations are hinged on profitability of their business and many of their decision making are market driven.

Although many private sector clients share the same view on the observations of the current state of the industry and agree to the recommendations of improvements put forward in the Report, it is sceptical that there are sufficient and solid driving forces to facilitate or encourage private sector clients to practically follow and implement each of the recommendations.

For the implementation of the recommendations, the Report emphasis very much on **initiatives** from the industry, especially from the client side. The reliance on initiatives to drive the industry towards excellence would work only in a perfect world that all parties are doing what they should be doing. The current state of the industry tells a different story. Dependence on initiatives would require a change in the industry player's mind and a shift in the industry's culture that would be undoubtedly a very lengthy process.

To implement the recommendations more effectively and efficiently, we propose the Government to seriously consider the driving forces from the following perspectives:-

- (a) Through Government policies, directives and procedures for public sector projects.
- (b) Through regulatory measures and control
- (c) Through incentives schemes for private sector projects

For (a), in fact, the Report has already identified in great detail what the public sector clients could do to lead the industry moving in the right directions. We hope that Government policies, directives and procedures for implementing the recommendations for public sector projects could be set up without further hesitation. It is vital that all these policies, directives and procedures must be made in coordination with the industry stakeholders and be transparent to the industry so that the industry in the private sector could follow.

For (b) and (c), which should be considered complimentary to each other.

Whilst we support a conducive regulatory environment, the minimum standards compatible with public interest must be maintained.

In the example of voluntary subcontractor registration scheme recommended in the Report (rec.9), we do not believe that the driving force in the industry is strong enough to enable voluntary registration. In order to have an immediate effect to raise or up keep a minimum standard of the sub-contractors, registration must be made mandatory to iron out any sub-standard sub-contractors in the long run, although reasonable time should be given to the sub-contractors to gear up for the registration. Similarly, registration of renovation contractors and decorators (rec.20) should also be mandatory in addition to the proposed mandatory supervisor registration scheme (rec.50) and the workers registration scheme (rec.52).

To make this regulatory measures control work and welcome by the industry players, we propose that incentive schemes should run in parallel. The Government could consider incentives like tax rebates (say initially for a few years) for the practitioners and workers who have been registered. Clients employing registered sub-contractors, registered workers would also be rewarded with some sort of tax relief or a discount in the construction levy.

Incentive scheme have proved to be good driving forces for change as have been demonstrated by some of the recommendations in the Report (rec.93), that it encourages green building design by exempting extra floor areas for the green feature and facilities from the calculation of gross floor area. The relevant government departments, such as the Buildings Department and Lands Department would be able to tell how successful the schemes are and how keen and swiftly the industry are responding to such measures.

If the incentives schemes are carefully considered and the benefits to the public and to the industry at large are balanced, we see no reason why this approach could not be extended to cover a wider scope of activity in the industry that require improvements.

All in all, the Report has been very informative and detailed in identifying the shortcomings of the industry and the recommendations are charting the right directions. What we need are strong driving forces to reform ourselves and industry to develop a quality culture.

\* (rec.9 = recommendation No. 9 in the Report), etc.

## 2.0 Specific Comments

### 2.1 Implementation of Recommendations rely on Initiatives

As above-described generally, the implementation of many of the recommendations rely heavily on initiatives from the industry players and these recommendations include:

1, 2, 3, 4, 7, 12, 13(a), 15, 16, 19, 29, 33, 34, 38, 39, 40, 41, 44, 46, 61, 62, 63, 67, 72, 84, 86, 97 & 103

### 2.2 Recommendation 9

Subcontractor registration scheme to be made mandatory & set up initially by the Government. A well-established registration system could then be transferred and administered by the industry.

Mandatory registration should run in parallel with incentive schemes, such as tax rebate for registered workers, etc.

### 2.3 Recommendation 13(b)

The scope of quality supervision requirements introduced by BD should relate to health and safety aspects defined in the Buildings Ordinance.

### 2.4 Recommendation 20

The registration scheme for renovation contractors and decorators should be made mandatory.

### 2.5 Recommendation 23

The method of assessment should be transparent and objective.

The performance assessment should have a heavy weighting in the assessment of tenders for consultancy, i.e. to change the 'lowest bid' policy.

2.6 Recommendation 29

This will work effectively only if the public sector clients take the lead to demonstrate to the private clients the system that works.

2.7 Recommendation 32

This will very much be dependent on the complexity of the projects. We, as a professional institution, shall distinguish the types of projects that private clients would build. A checklist type will simplify the procedure, but allowing it to be used effectively, some form of endorsement from the government is preferred. This however, will in turn affect the contract form to be used.

2.8 Recommendation 33

The suggestion of rejecting exceptionally low bids should also apply to tenders for consultancy as well. Further study is required to establish a fair, transparent and practical tendering system acceptable to all parties.

2.9 Recommendation 36

The new Standard Form of Building Contract is currently being drafted and reviewed by the representatives from HKIS, HKIA and HKCA with similar objectives in mind. There will be further discussion with all parties concerned prior to the issue of the new Standard Form of Building Contract.

2.10 Recommendation 37

In addition to adopting a proactive approach, the idea of using more structured approach of dispute avoidance/resolution is recommended prior to resorting to binding adjudication means such as arbitration and litigation.

2.11 Recommendation 38

To nurture this new culture in the construction industry, it will need tremendous effort and co-operation from all participants in the construction industry. Without changing the behaviour to achieve a common goal, the signing and implementation of a contractual partnership agreement or a non-contractual pack would not resolve the problems.

In theory, the partnering approach should not only exist between the Main Contractor and Client. It can also apply between the Main Contractor and the sub-contractors.

It would be expected that the public sector clients would first be restructured to be a more commercial oriented organisation.

It is also suggested that a working group be set up to formulate a structured approach to partnering.

#### 2.12 Recommendation 41

Milestone payment does not help to avoid tactical pricing. Interim valuation does not entail detailed measurement. Normally, interim valuation is based on the estimated percentage of work done against the priced bills of quantities as on-account payment. The time and effort required are not very substantial.

Actual experience tells that it always needs time and effort for situations such as amending descriptions of milestones to suit actual situation and changing milestones due to their non-achievement. The time and effort required for making these changes may outweigh the resources required to assess payment by conventional interim valuation method.

In summary, there are pros and cons for either conventional interim valuation or milestone payment method. The adoption of milestone payment method should consider a number of factors, such as the nature of construction project, completeness of design. Both milestone payment or stage payment and interim payment be maintained as options of payment method. However, milestone payment method may not be suitable for conventional building projects in view of their nature – numerous trades and relatively small scale of each trade.

#### 2.13 Recommendation 46

It is welcome that teaching staff of local tertiary institutions is encouraged to acquire practical experience in the industry. According to some earlier examples at the South Bank University in the UK, teaching staff would join the industry after every 5-6 years of teaching. But this requires co-operation of the stakeholders in the industry to open up appropriate positions.

#### 2.14 Recommendation 50

The proposed mandatory supervisor registration scheme is supported.

#### 2.15 Recommendation 51

If technician grades are recommended for professional institutions, it will only be effective if this applies to all professions such that equal status at different levels can be maintained. This can also help to maintain partnering spirit.

#### 2.16 Recommendation 52

The proposed construction worker registration scheme should be mandatory.

#### 2.17 Recommendation 61 to 67

Many of the proposed in relation to an efficient, innovative and productive industry are market driven, however, the process of change could be speed up by way of incentives given to the industry.

The proposed establishment of a central construction standardization body in Hong Kong is supported, however, the process has been very slow in the past and should be expedited. The industry desperately needs a central information system for sharing construction standard information and codes or standards of good practice, etc.

2.18 Recommendation 91

This task will need the mutual effort of the whole industry in order to set up the databank.

2.19 Recommendation 92

The defects liability warranty scheme for new buildings should be market driven as it relates to contract between purchasers and developers. If it sets a precedent legislature to require warranty for a product, in this case a building, the requirement of legislation for warranty of other products would be a tremendous task. In the case of motoring industry for instance, the warranty scheme runs extremely well but is self-regulatory.

2.20 Recommendation 107

It is not certain how the proposed industry coordinating body, which would be a statutory body, could be set up by the industry. The Government should take the lead in collaboration with the industry in setting up the body.

The designated powers and responsibilities of the statutory body should be carefully identified.

We have doubt in the proposed funding arrangement for the industry coordinating body, and we see no reason why the Government could not initially provide fund in setting up the coordinating body, nothing that the public clients are major players in the industry. The industry can still continue to contribute their part through construction levies.

2.21 Other comments

(a) It is agreed that our industry does not have sufficient resource input in R&D to support the development and well-being of the industry and is lack of a proper route for integration of research result into policy-making.

(b) To meet with the competence levels expected from clients and to facilitate consultants and contractors in carrying out the work competently, the following areas would have to be incorporated in the syllabus content of undergraduate or post-graduate training and/or education programme or individual course leading to recognition of a particular skill and knowledge. This would help to upgrade those who are lack of such training and yet are required to carry the job. It is therefore necessary to set up some standard requirements on the scope and level of competence expected in performing the job.

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- Risk management (recommendation 32 & 35)
- Value management (recommendation 3)
- Project management (recommendation 1)
- Technical audits (Quality control) (recommendation 16)
- Procurement (recommendation 44)
- Professional ethics (recommendation 58)
- Strategic management (recommendation 79)
- Environmental performance (recommendation 97)
- Information technology (recommendation 72)
- Site safety (recommendation 85)

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*Ref. 23<sup>rd</sup> August 2001*