

For discussion on
24 July 2007

**LEGISLATIVE COUNCIL
PANEL ON PLANNING, LANDS AND WORKS**

**Construction Industry Council
Report on Progress Made and Way Forward**

Purpose

This paper reports on the progress made by the Construction Industry Council (CIC) since its formation on 1 February 2007 and the preparatory work for amalgamation of CIC and the Construction Industry Training Authority (CITA) scheduled for 1 January 2008.

Background

2. In April 2000, the Chief Executive appointed the Construction Industry Review Committee (CIRC) chaired by the Honourable Henry TANG to comprehensively review the current state of the construction industry and to recommend improvement measures. The Committee completed this task and submitted a report entitled “Construct for Excellence” to the Chief Executive in January 2001 (the Report). The Report outlined 109 improvement measures covering the whole spectrum of construction activities to uplift the quality and cost-effectiveness of the industry.

3. One of the key observations in the Report was that whilst being a main pillar of our economy, the construction industry was highly fragmented and beset with an adversarial culture which impeded long-term development. It concluded that a statutory industry co-ordinating body (ICB) encompassing all key sectors should be formed to promote the culture of self-regulation in a market-driven environment. As an umbrella organization, the ICB would be responsible for spearheading reforms and sustaining momentum to achieve continuous improvements across the construction industry. It should also provide guidance to CITA and set directions for its work. Moreover, the Report recommended that levies currently collected from the construction industry under various ordinances should be pooled together for more efficient deployment of resources and to fund daily operations of the ICB as well as other activities that would benefit the industry at large.

4. To achieve the objective of setting up an ICB, the CIC Bill was first introduced into the Legislative Council in February 2004 and was enacted as the CIC Ordinance on 24 May 2006. In order to implement CIRC's vision of CIC guiding the operation of CITA and pooling of industry levies, the CIC Ordinance has made provisions for the eventual amalgamation of CIC and CITA.

5. However, in order not to adversely affect services to the public, the establishment of CIC does not mean immediate dissolution of CITA. Instead, the amalgamation will only take place when CIC is confident that everything is ready after detailed deliberations. As such, the provisions of the CIC Ordinance were devised to be brought into operation in two phases –

- the first phase covering the formation of CIC; and
- the second phase covering the dissolution of CITA whereby CITA's rights, assets, liabilities and obligations will be vested in CIC. The existing functions of CITA in relation to training and trade testing will then be transferred to a new committee named Construction Industry Training Board (CITB) to be formed under CIC while CITA's levy collection functions will be taken over directly by CIC.

6. Regarding the first phase, a commencement notice was published in the Gazette on 1 December 2006 to bring into effect the provisions of the CIC Ordinance on the establishment of CIC on 1 February 2007. It went through negative vetting by the Legislative Council on 3 January 2007. Upon the formation of CIC, we issued a Legislative Council brief on 16 April 2007 to report on the latest situation then, including appointment of CIC chairman and members; the initial plan for amalgamating CIC and CITA; and the overall review of the progress achieved on the other CIRC recommendations. [The main text of the Legislative Council brief is at **Appendix A**. The voluminous annexes are however not included.]

7. Regarding the second phase, in the past few months, CIC has made further progress in preparing for the amalgamation to take place on 1 January 2008. We would hence now wish to brief Members on the latest position.

Present Position

(A) Progress Made by CIC Hitherto

8. CIC has been making smooth and steady progress since its formation and has held three meetings thus far. A list of priority tasks has been drawn up to pursue initiatives conducive to the long-term development of the construction industry. These tasks have been assigned to six Committees formed under CIC, namely –

- Committee on Administration and Finance;
- Committee on Construction Site Safety;
- Committee on Environment and Technology;
- Committee on Manpower Training and Development;
- Committee on Procurement; and
- Committee on Subcontracting.

----- The terms of reference of the Committees are at **Appendix B**. In addition to CIC Members who have signed up, other industry stakeholders will also be involved as co-opted members to contribute on matters relevant to their knowledge and expertise. Representatives of concerned Government bureaux and departments also attend Committee meetings to input from Government angle.

9. The Works Branch of the Development Bureau (DEVB) is providing secretarial support to CIC and will cease to do so when CIC has employed its own Executive Director and other staff of its permanent secretariat (expected to be in late 2007). However, we will ensure that thereafter there will continue to be close interface between Government and CIC through the membership of three public officers and other on-going liaison mechanisms.

(B) Amalgamation with CITA

(a) Liaison between CIC and CITA

10. To facilitate smooth amalgamation, CIC has established good communication with CITA. On the CIC side, a Liaison Group comprising the Chairman of CIC and chairmen of its Committees has been formed to serve as the focal point for liaison with CITA. On the CITA side, a Task Force comprising the chairmen of relevant CITA committees has been formed to interface with the CIC Liaison Group.

11. At the working level, on behalf of CIC, the CIC Secretariat is having useful exchanges with chairmen of CITA Committees as well as CITA's senior management to acquire knowledge on CITA's operation and build up rapport. In particular, an Amalgamation Team has also been established under the CIC Secretariat to work closely with CITA management in working out the logistics for the amalgamation.

12. The CIC Liaison Group met for the first time on 11 June 2007 and drew up an amalgamation plan covering a number of key areas including –

- taking over of CITA's assets and liabilities by CIC;
- transfer of levy collection from CITA to CIC;
- formation of the Objections Committee to determine objections against levy assessment;
- formation of CITB;
- ancillary changes resulting from change of name from CITA to CIC/CITB as appropriate; and
- publicity for advising industry stakeholders and the public of the amalgamation and taking over of levy collection by CIC.

13. CIC wrote to CITA on 29 June 2007 requesting cooperation on implementation of the amalgamation plan.

(b) General Approach to be Adopted in Amalgamation

14. In order not to adversely affect the services to the public, a “minimalistic” approach will be adopted, i.e. CIC will only make changes which are essential for the amalgamation of CIC and CITA, e.g. changing the signages on properties, updating the computer systems so that levy invoices will be issued under the authority of CIC instead of CITA, taking over of accounts, changing letterheads and other stationery etc. This approach will ensure that the amalgamation will be simple and smooth.

(c) Staff Concerns

15. In any amalgamation, it is understandable that staff will be concerned about the possible impact on their job security and changes to their duties. As such, the impact of the amalgamation on CITA staff has undergone extensive deliberation in the Bills Committee on CIC Bill. The consensus reached was then enshrined in various parts of the CIC Ordinance to ensure that the amalgamation will have no adverse impact on CITA staff. In essence, the Ordinance provides that the employment of existing staff will not be terminated by reason of the dissolution of CITA and that they will become CIC staff and continue to be employed on the same terms and conditions. Furthermore, in his letter dated 21 April 2006 addressed to the Bills Committee of the CIC Bill, the then Chairman of the Provisional Construction Industry Co-ordination Board (PCICB), who is also the current Chairman of CIC, pledged that no major organizational changes or staff retrenchment would arise from budgetary reasons after the enactment of the CIC Ordinance and within two years upon the setting up of CIC (i.e. 1 February 2007). A copy of the letter is at **Appendix C**.

16. CIC is committed to honouring the pledge made by the then PCICB. Such key message has been repeatedly conveyed to CITA staff and will be conveyed again in future on appropriate occasions to allay staff concerns.

17. To establish communication between CIC and CITA staff, CIC with the help of CITA management organized a briefing session for CITA staff on 16 April 2007. A delegation led by the Chairman of CIC’s Committee on Manpower Training and Development attended the briefing and had useful exchanges with CITA staff. As CITA staff wish to be kept abreast of developments, CIC will organize a few more focus group sessions in the coming months for different groups of CITA staff

with common background and interest, such as levy and finance, training and trade testing etc. to facilitate more focused and in-depth discussions.

(d) Commencement Notice

18. To achieve the target of implementing the amalgamation on 1 January 2008, we will publish in the Gazette in October 2007 a commencement notice to bring into operation the provisions of the CIC Ordinance which are not yet in effect, including dissolution of CITA, transfer of CITA's assets and liabilities to CIC, collection of industry levy by CIC and formation of CITB i.e. the second phase as explained above.

Advice Sought

19. Members are requested to note the progress achieved by CIC since its formation on 1 February 2007 and the plan for amalgamation with CITA on 1 January 2008. Any advice will also be most welcomed.

**Development Bureau
July 2007**

LEGISLATIVE COUNCIL BRIEF

OVERALL REVIEW OF IMPLEMENTATION OF CONSTRUCTION INDUSTRY REVIEW COMMITTEE RECOMMENDATIONS

INTRODUCTION

At the meeting of the Executive Council on 27 March 2007, the Council took note of the information below.

BACKGROUND

2. In April 2000, the Chief Executive appointed the Construction Industry Review Committee (CIRC) chaired by the Honourable Henry TANG to comprehensively review the current state of the construction industry and to recommend improvement measures. The Committee completed this task and submitted a report entitled “Construct for Excellence” to the Chief Executive in January 2001. The Report outlined 109 improvement measures covering the whole spectrum of construction activities to uplift the quality and cost-effectiveness of the industry.

3. One of the key observations in the Report was that whilst being a main pillar of our economy, the construction industry was highly fragmented and beset with an adversarial culture which impeded long-term development. It concluded that a statutory industry co-ordinating body (ICB) encompassing all key sectors should be formed to promote the culture of self-regulation in a market-driven environment. As an umbrella organization, the ICB would be responsible for spearheading reforms and sustaining momentum to achieve continuous improvements across the construction industry. It should also provide guidance to the Construction Industry Training Authority (CITA) and set directions for its work. Moreover, the CIRC Report recommended that levies currently collected from the construction industry under various ordinances should be pooled together for more efficient deployment of resources and to fund daily operations of the ICB as well as other activities that would benefit the industry at large.

4. We issued on 7 June 2001 a Legislative Council Brief setting out the following strategy for taking forward CIRC recommendations -

- (a) the establishment of an ICB should be agreed in principle and pending its formation, a provisional body should be set up;
- (b) the former Works Bureau (WB) should be appointed as the lead agency within Government to co-ordinate with relevant bureaux and departments on all construction-related matters, and to co-ordinate the implementation of the CIRC recommendations; and
- (c) the remaining 107 recommendations of CIRC should be taken forward along the line as proposed in paragraphs 10 and 11 of the Brief.

5. Progress reports on actions taken to implement CIRC recommendations were issued in January and June 2002, March and November 2003, July 2004 as well as April 2005. With the passage of the CIC Ordinance on 24 May 2006 and the formation of the Construction Industry Council (CIC), i.e. the ICB, on 1 February 2007, we hereby report on the overall review of implementation of CIRC recommendations.

OVERALL PROGRESS

(A) Institutional Framework

(a) Formation of CIC

6. The Provisional Construction Industry Co-ordination Board (PCICB) was formed in September 2001 to make a quick start on the implementation of CIRC recommendations and to pave way for the early formation of the statutory ICB. Since its establishment, PCICB had forged ahead with the implementation of CIRC recommendations in close partnership with key stakeholders and had achieved considerable progress on priority items such as management of subcontracting, construction site safety, employees' compensation insurance as well as manpower training and development.

7. To achieve the objective of setting up an ICB, PCICB drew up in June 2003 a legal framework for CIC in consultation with the industry. The CIC Bill drafted on the basis of the legal framework was introduced into the Legislative Council in February 2004 but was not enacted in the second term of office of the Legislative Council and hence lapsed on 30 September 2004. The CIC (No. 2) Bill was re-introduced into the

Legislative Council in October 2004 and was enacted as the CIC Ordinance on 24 May 2006.

8. The Ordinance provides for the formation of CIC made up of persons representing various sectors of the industry including employers, professionals, academics, contractors, workers, independent persons and Government officials. The main functions of the Council are to forge consensus on long-term strategic issues, convey industry needs and aspirations to Government, as well as provide a communication channel for Government to solicit advice on all construction-related matters. In order to propagate improvements across the entire industry, CIC is empowered to formulate codes of conduct, administer registration and rating schemes, steer forward research and manpower development, facilitate adoption of construction standards, promote good practices and compile performance indicators.

9. A commencement notice was published in the Gazette on 1 December 2006 to bring into effect the provisions of the CIC Ordinance on the establishment of CIC on 1 February 2007. It went through negative vetting by the Legislative Council on 3 January 2007. The appointments of the chairman and members of CIC were made by the Secretary for the Environment, Transport and Works on 1 February 2007 having regard to the nominations made by specified bodies in Schedule 2 of the CIC Ordinance pertaining to employers, professional and consultants, trade unions of construction workers as well as contractors, subcontractors, materials suppliers or equipment suppliers. The current membership of CIC is at Annex A.

A

(b) Amalgamation with CITA

10. In order to give effect to CIRC's vision of CIC guiding the operation of CITA and pooling of industry levies, the CIC Ordinance has made provisions for the eventual amalgamation of CIC and CITA whereby CITA will be dissolved and its rights, assets, liabilities and obligations will be vested in CIC when the amalgamation takes effect. The existing functions of CITA in relation to training and trade testing will then be transferred to a new committee named as the Construction Industry Training Board to be formed under CIC while CITA's levy collection functions will be taken over directly by the Council.

11. However, the establishment of CIC does not mean immediate dissolution of CITA. Instead, CIC will take over the functions of CITA systematically in accordance with relevant provisions of the CIC Ordinance and observing the over-riding principle that services to the public will not be affected by the organizational change. To achieve this objective, CIC will draw up robust plans for the amalgamation and dissolution of CITA will be effected only when CIC is confident that everything is ready after detailed deliberations. The current target is to effect the amalgamation on 1 January 2008.

(c) Co-ordination within Government and liaison with CIC

12. For Government, the former WB took up the role as lead agency in Government on construction-related matters in June 2001. This role was taken over by the Environment, Transport and Works Bureau (ETWB) in July 2002. To facilitate effective co-ordination in the implementation of CIRC recommendations, an Industry Review Steering Committee (IRSC) was established in December 2001 to keep track of progress achieved by Government in implementing CIRC recommendations, to assess the associated policy and regulatory implications, as well as to resolve any practical problems encountered in this process. With the substantial progress achieved in implementing CIRC recommendations, IRSC will be replaced by a Works Policies Co-ordination Committee (WPCC) which will advise on works policy issues and co-ordinate regulatory requirements affecting the construction industry.

13. Furthermore, the Works Branch of ETWB had provided secretarial support to PCICB since its formation in 2001 and will render the same service to CIC until the Council is functioning smoothly and has employed its own Executive Director (expected to be in the second half of 2007). Thereafter, we will ensure that there will continue to be close interface between Government and CIC. This will be achieved through the CIC membership of three public officers, the WPCC serving as an interface between Government and CIC as well as other on-going liaison mechanisms.

(B) Other CIRC Recommendations

14. Apart from the formation of CIC and ETWB's role as lead agent within Government on construction related matters, through the joint effort of Government and the industry, substantial progress has also been achieved on the remaining 107 CIRC recommendations. This is summarized at Annex B. The overall situation is as follows –

B

- (a) **recommendations with actions substantially completed** - 48 in total and shaded in light blue at Annex B. An example is Recommendation 25 pertaining to improving contractor selection system for public works projects which has been implemented by ETWB; and
- (b) **recommendations to be further followed up** - these can be sub-classified as follows –
 - (i) recommendations already implemented by Government in the context of public works and public housing projects and to be considered by CIC for rolling out to the private sector for adoption – 29 in total shaded in yellow at Annex B. An example is Recommendation 97 asking clients

to take the lead in abating environmental nuisance during construction by various contractual provisions and tendering arrangements which have been implemented in public works and public housing projects;

- (ii) recommendations to be further followed up by CIC – 15 in total shaded in orange at Annex B. An example is Recommendation 72 on improving the co-ordination on construction research and development under which PCICB had formulated a co-ordination framework for implementation by CIC after its formation; and
- (iii) recommendations to be further followed up by Government – 19 in total shaded in pink at Annex B. An example is Recommendation 76 recommending Government to draw up codes and guidelines, whenever appropriate, to help industry better understand the intention behind legislative requirements. This recommendation is being pursued by concerned Government departments on an on-going basis.

[Note: The number of items mentioned in paragraphs 14(a) and 14(b)(i) to (iii) above adds up to 111 instead of 107 because Recommendations 11, 13, 56 and 58 have parts that fall into two different categories and are therefore “double counted”.]

C 15. Details of some significant achievements in implementing CIRC recommendations are at Annex C.

16. At the last meeting of PCICB held on 23 January 2007, Members reviewed the overall progress of implementing CIRC recommendations and agreed that CIC would follow up on the outstanding actions upon its formation.

IMPLICATIONS OF THE PROPOSAL

D 17. The economic, environmental, financial, civil service and sustainability implications arising from CIRC recommendations are set out at Annex D.

ENQUIRY

18. Please contact Mr K H Tao, Chief Assistant Secretary for the Environment, Transport and Works (Works)1 at 2848 2437 for enquiries on this subject.

Environment, Transport and Works Bureau
16 April 2007

Committees of Construction Industry Council

Committee on Administration and Finance

Terms of Reference

1. To advise CIC on staff matters, including recruitment, salary and other conditions of service.
2. To advise CIC on general administration matters, including accommodation and facilities.
3. To co-ordinate and prepare annual estimates of income and expenditure and programme of activities for approval of CIC.
4. To recommend appropriate investments of surplus funds.
5. To advise CIC on other financial matters.

Committee on Construction Site Safety

Terms of Reference

1. To review and monitor site safety performance of the construction industry.
2. To identify and recommend measures for improving safety performance to CIC.
3. To promote adoption of the improvement measures by the industry.

Committee on Environment and Technology

Terms of Reference

1. To make recommendations on improving the environmental friendliness of buildings and infrastructures including measures for enhancing energy efficiency, improving indoor environmental quality and minimizing loading on the environment.
2. To recommend good practices for improving the environmental performance of construction contracts including measures for abating environmental nuisances and reducing waste generation.
3. To co-ordinate and promote construction research and development and facilitate practical application of research results by the construction industry.
4. To advise on the strategy for development of construction standards.
5. To develop systems for assessing the performance of the construction industry.

Committee on Manpower Training and Development

Terms of Reference

1. To advise on matters arising from the amalgamation between CIC and CITA.
2. To advise on manpower planning and development for construction personnel at professional, supervisory and craftsman levels.
3. To foster an ethical culture

Committee on Procurement

Terms of Reference

To examine current practices on procurement in relation to project planning, tendering, contract administration and site supervision and recommend good practices to improve the quality and cost effectiveness in delivery of construction contracts.

Committee on Subcontracting

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.

臨時建造業統籌委員會

Provisional Construction Industry Co-ordination Board

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21st April, 2006

Hon KWONG Chi-kin
Chairman, Bills Committee on
Construction Industry Council (No.2) Bill
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Honourable Mr Kwong,

**Transitional Arrangement for Establishment
of the Construction Industry Council**

I am writing on behalf of the Provisional Construction Industry Co-ordination Board (PCICB) to outline some transitional arrangements for establishment of the Construction Industry Council (CIC).

First of all, let me reiterate that there is an explicit provision in the CIC (No.2) Bill stating beyond doubt that no adverse impact would be caused on serving staff of the Construction Industry Training Authority (CITA). In the collective view of PCICB, this constitutes an effective safeguard and offers ample assurance for those who have a long-term career in mind.

The industry recognizes that this important exercise must be done in a sensitive and seamless manner – it is for this reason that staff unions have played an active part throughout the planning and execution process. Although the financial outlook of CITA has improved after introduction of a voluntary exit scheme, the annual operating deficit reminds us all of our commitment to strive for enhanced productivity and open up new revenue streams by devising training courses that fit with prevailing needs.

In the interest of a smooth transition and to achieve these goals, therefore, we are prepared to pledge that no major organizational changes or staff retrenchment would arise from budgetary reasons after the Bill is enacted and within two years upon the setting up of CIC. This in turn presents a window of opportunity for us to review the development strategy and future positioning of CITA under the new institutional setup.

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Secretariat: 21/F, Murray Building, Garden Road, Central, Hong Kong

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Apart from the manpower perspective, a preparatory committee has already been formed by PCICB to deliberate on practical issues affecting the amalgamation. We will provide you with its work plan separately through the PCICB Secretariat and look forward to an early conclusion of the legislative scrutiny process.

Yours sincerely,



Keith Kerr
Chairman
Provisional Construction Industry Co-ordination Board

cc Secretary for Environment, Transport and Works
(Attn: Mr Clement Cheung)

Secretary for Education and Manpower
(Attn: Miss Vicky Cheung)

Chairman, Construction Industry Training Authority