

Chapter IX Conclusions and recommendations

Introduction

9.1 This Chapter sets out the views of the Select Committee on the circumstances surrounding the four incidents, who should be held responsible for the occurrence of the four incidents, and recommendations for raising the quality of public housing in the light of the problems found in the incidents.

9.2 The Select Committee acknowledges that criminality did play a significant part in the occurrence of the building problems in the four incidents in the late 1990's. However, the Select Committee finds that there were other factors which contributed to their occurrence.

Institutional background

9.3 Having examined the organizational structure and working mechanism for the planning and production of public housing, the Select Committee comes to the view that formulation of the overall public housing policy and strategy has all along been the Government's responsibility. The LTHS, first promulgated in 1987, set out the overall housing strategy and policy objectives and the estimated number of housing units to be produced to meet housing demand in the 14-year period until March 2001. The estimated housing demand was reviewed by the Government annually and was translated into the production targets of the Government. (see paragraphs 3.2 to 3.6)

9.4 HA is a statutory body vested with the function to formulate operational policies for achieving the production targets of the Government in the provision of public housing. With its statutory responsibilities defined in the Housing Ordinance, HA has autonomy in managing its financial affairs, and the main bulk of its work is carried out through its executive arm, HD. In other words, the production targets are set by the Government and the actual production work is carried out by HA, a statutory body supported by a Government department. (see paragraphs 2.4 to 2.7 and 2.27)

9.5 With an annual public housing production of not less than 25,000 units in the 1990's, HA has become the largest local property developer. As the public housing units built by the Government were historically not subject to the regulation of the BO, all HA units are exempted from the BO. Therefore HA, apart from being a developer, also assumes the role of regulator of the construction of its own buildings, i.e. rental estates as well as those HOS units which are built by HA and not by private developers under PSPS. (see paragraph 2.8 and Appendix III(2))

9.6 Prior to the mid-1990's, the dual roles of HA as developer and regulator in respect of its own housing units did not pose any obvious problems. Building problems of public housing did arise occasionally but were generally regarded as isolated incidents. Building quality of public housing became a serious concern in the late 1990's when building problems of varying magnitude as exemplified in the four incidents came to light one after another.

Unrealistic housing production target for 2000/01

9.7 Before the mid-1990's, the annual housing production of HA had never exceeded 55,000 units. Owing to the irregular supply of land by the Government to HA and the slippage of early production programmes by HA, housing production bunched towards the last two years of the 1987 LTHS, i.e. 1999/2000 and 2000/01. The September 1995 PHDP showed that the production forecasts in 1999/2000 and 2000/01 were 69,941 and 69,624 units respectively. The production forecast for 2000/01 increased in each of the PHDP update and reached a peak of 114,694 units in the June 1997 PHDP. Although the PHDP was a production forecast, the Select Committee finds that it amounted to a production target for all practical purposes. (see paragraphs 3.2 to 3.6)

9.8 The four housing projects under study by the Select Committee were included in the production targets for either 1999/2000 or 2000/01, which were around 70,000 units as reflected in the September 1995 PHDP. This figure was almost double the number of units which the staff establishment of HD could normally produce in a year. Although the bunching of production

might not be the direct cause of the building problems found in the four incidents, it did in fact place an immense strain on the adequacy and effectiveness of the system in the development of public housing. The effect of bunching exposed the weaknesses in the working mechanism for the production of public housing and magnified the risks inherent in the development process. It was against this background that these four projects were undertaken. (see paragraphs 3.5 to 3.13, 8.33, 8.34, Appendices III(1) and III(2))

9.9 The production targets which gave rise to the bunching problem were laid down by the Government. S for H, as the head of the policy bureau for formulating major housing policies and as an ex officio member of HA, failed to ensure that the production target of the Government was realistic. CHA, as the head of the agent for implementing the Government housing policy, did not give adequate regard to the capability and resources of its executive arm, HD, to meet the unrealistic production target. D of H, as the head of HD, did not sufficiently deal with the increased risks brought by the bunching of production which was beyond HD's capacity to cope. In these respects, the incumbents of the three posts during the relevant period should be held accountable. (see paragraphs 3.7 to 3.24, 8.33 and 8.34)

Onerous executive responsibilities of Building Committee

9.10 The executive responsibilities of HA in the planning and development of public housing were discharged mainly through BC. The Select Committee finds that these are onerous responsibilities for BC. For each works project, BC is responsible for approving the scheme design, control plan, project budget and the award of the works contract. BC is also responsible for monitoring the progress of all housing projects under construction. During the period studied by the Select Committee, BC fulfilled its executive responsibilities mainly at their monthly meetings, each of which lasted about half a day. The workload of BC increased with the rising housing production of HA. (see paragraphs 2.16 to 2.26)

9.11 To streamline the work process of BC, HD introduced in July 1996 a "straightforward paper" approval procedure under which the award of the majority of piling contracts was approved by BC without discussion. These piling contracts were mostly design-and-build. As explained in paragraphs 3.36 and 3.37, there were two types of payment methods for HA contracts, namely, lump-sum basis and re-measurement basis. HA piling contracts were nearly all lump-sum contracts from the middle to the end of the 1990's. Contractors were paid an agreed fixed amount for the works. The amount would not be varied unless otherwise agreed by the parties to the contract. Contractors of these contracts thus bore a higher commercial risk for these contracts than that for re-measurement contracts, which are subject to variations during the performance of the contracts. Such risk was further increased if the contracts were design-and-build instead of engineer's design. Instead of strengthening the approval process to deal with the increased commercial risk when piling design became the responsibility of contractors and where the contracts were of the lump-sum type, the adoption of the "straightforward papers" approval procedure, in the view of the Select Committee, weakened that process. (see paragraphs 2.23, 3.35 and 8.3)

9.12 The Select Committee considers that with the rising housing production by HA in the mid-1990's, CHA, D of H in his capacity as the Vice Chairman of HA, and the successive Chairmen of BC should have adequately reviewed the scope of responsibilities and the mode of operation of BC to enable effective discharge of its executive responsibilities. With the enormous workload of BC, it was unrealistic to expect the part-time BC members to direct adequate attention to the details of all those papers submitted for its consideration. The Select Committee considers that the responsibility to devise a working mechanism to facilitate the effective scrutiny of proposals by BC should rest jointly with CHA, the Chairman of BC and D of H. The Select Committee cannot see any apparent efforts made in that regard. (see paragraphs 8.36 and 8.37)

Inadequate performance of the role of Housing Authority as regulator of the construction of public housing

9.13 The Select Committee notes that as a result of the exemption of HA buildings from the BO, HA assumes the role of regulator of the construction of its own buildings similar to that of BA in respect of private buildings. However, it is clear from the four incidents investigated by the Select Committee that HA did not perform that role with enough rigour, but instead placed much emphasis on completion of works projects in time and within budget. (see paragraphs 3.62 and 8.19 to 8.21)

9.14 Since HA had to play the dual roles of developer and regulator in the development of its own building projects and assumed the role of designer as well in certain other projects, HA should have been conscientious in maintaining a proper balance between these two potentially conflicting roles without sacrificing the important objectives of either of these roles at the expense of the other. Rather than simply engaging in the reorganization of HD's senior management structure along business lines in April 1997, HA should not have overlooked the importance of devising effective systems of ensuring the quality of the construction works. D of H and his senior professional staff cannot be absolved of their responsibility in their failure to put in place such systems in a timely manner. (see paragraphs 2.30, 2.31, 3.62 and 8.19 to 8.21)

9.15 The Select Committee firmly believes that HA buildings should be subject to the same regulatory control as private developments. The Government should have long reviewed the appropriateness of exempting the construction of HA units from the regulation of the BO. The Select Committee regrets that the Government has failed to do so. (see paragraphs 8.29 and 8.30)

Ineffective staff management and deployment of human resources

9.16 The Select Committee finds that despite the extensive outsourcing, HD staff resources, in particular those at the front-line professional level, were highly stretched during the bunching period. One of the undesirable consequences was delegation of responsibilities to staff at the lower ranks without critically assessing whether they were capable of performing the delegated work. The Select Committee notes from a HD manual that PSE could make prior arrangement to delegate certain duties to PCOW/ACW. While PCOW/ACW might be competent in undertaking the delegated duties, the manual, however, did not ensure that further delegation by PCOW/ACW would only be made to competent persons. Such laxity in the system, coupled with the lack of supervision, could result in leaving the professional duties undertaken by junior and non-professional staff on their own. This happened in the YCK case, where some duties of the PSE were eventually carried out by the WSs. (see paragraphs 3.46, 3.47, 3.56, 5.145 to 5.146, 7.9, 8.18, 8.22 and 8.23)

9.17 In assigning work, no due regard was given by HD to the expertise and experience of the staff concerned. Ineffective deployment policy resulted in some staff being assigned work which they were not entirely competent to do. Little importance was given to providing induction and training to staff to better equip them for the job. In the case of site staff, notwithstanding the establishment of the Chief Technical Officer Unit to advise on training needs, the site staff in the four incidents were hardly given any training and were expected to simply follow works manuals and learn on the job. Some of these manuals, however, were not updated in time to reflect changes in roles and responsibilities as a result of organizational changes. (see paragraphs 5.169, 5.170, 8.14 to 8.16, 8.18 and 8.24(d))

9.18 The Select Committee considers that the management of HD should be held responsible for the ineffective staff management and poor deployment of human resources.

Ineffective project management

9.19 Notwithstanding the voluminous works manuals providing guidance in the management of works projects, the Select Committee finds that the way in which HD staff managed works projects was far from satisfactory. Apart from placing excessive emphasis on costs and time for completion of works projects, it appears that HD staff generally failed to appreciate the spirit and the rationale behind a checking procedure or a requirement. The approach in managing projects as shown in the four incidents was to receive reports on problems, when they arose and then to react. This approach was adopted by the senior management in overseeing projects and the front-line professional staff in managing projects. The site staff adopted the same approach in inspecting works. In managing works projects, this approach did not help prevent problems. When problems were discovered, it was often too late or too difficult to rectify. The Select Committee considers that those professional staff of HD at both the senior and front-line levels who took this approach in managing works projects cannot be absolved of their responsibility notwithstanding their workload. (see paragraphs 5.128 to 5.151, 5.156, and 8.19 to 8.28)

9.20 The Select Committee is disappointed at the lack of concern among the senior management of HD about the need for effective control and monitoring of subcontracting activities in HA projects. Given the diverse trades involved in a works project, the Select Committee recognizes the need for subcontracting. However, the need to ensure the quality of works should not be overlooked. In the absence of an effective system to regulate subcontracting, it would be difficult to monitor the quality of the works. The problems arising from subcontracting in HA projects had been known for many years, but HD, as the executive arm of the largest developer, failed to devise effective measures to regulate subcontracting activities in HA projects. (see paragraphs 8.10 and 8.11)

THE THREE INCIDENTS

(1) The Yuen Chau Kok project

The Contract Team

9.21 YCK was an in-house project. Project and contract management was undertaken by HD's own professional staff. PSE/YCK was responsible for supervising the execution of the project in accordance with the contract requirements. He should provide professional guidance to the site staff in carrying out site supervision. The Select Committee appreciates that PSE/YCK's workload was heavy at the time and accepts that some degree of delegation of duties to the site staff might be necessary. However, the Select Committee is disappointed that PSE/YCK did not take adequate follow-up actions on the delegated tasks. Although PSE/YCK managed to pay 61 visits to the site, he did not use those opportunities to ensure that those tasks were carried out properly and identify the problems which should have been noticed during the course of construction. In other words, he was not able to achieve what he should have achieved through all those visits.

9.22 The Select Committee finds that at least in two areas PSE/YCK failed in his management of the project. PSE/YCK did not appreciate the seriousness of the extensive blockage of sonic tubes, which was a clear sign of problems in the piling process. Without assessing the situation carefully, he accepted the Contractor's proposal to conduct coring on only two piles in Block E and to use vibration tests to verify the concrete quality of all the piles. He also failed to take follow-up action despite the issue of 29 memoranda against concreting work beyond 7:00 pm or ensure that concreting work beyond 7:00 pm was properly supervised. The Select Committee is of the view that PSE/YCK failed to perform his duties effectively. (see paragraphs 5.95, 5.104 to 5.107, 5.142 to 5.151 and 5.168)

9.23 ACM2/YCK was responsible for supervising the work of PSE/YCK in carrying out his duties as CM's Rep in the YCK project. He was aware that PSE/YCK was relatively inexperienced with LDBP works, and as such, he should have more closely supervised PSE/YCK's work. However, he failed to

notice PSE/YCK's ineffectiveness in discharging his duties. The Select Committee finds the supervision by ACM2/YCK ineffective.

9.24 ACM2/YCK, similarly, took the extensive blockage of sonic tubes lightly and agreed with the Contractor's proposal to use vibration tests to verify the concrete quality of all the piles in Block E. While it might be a common problem that concreting work was carried out after 7:00 pm in the absence of HD site staff, this does not absolve him of his duty to bring up the issue at the monthly SSE meetings chaired by CM/YCK. In these respects, the Select Committee is of the view that ACM2/YCK was not sufficiently vigilant in discharging his duty. (see paragraphs 5.138 to 5.141)

9.25 CM/YCK was responsible for the deployment of structural engineers under his charge to works projects. He failed to assess whether PSE/YCK had sufficient practical experience to take up the YCK project. The fact that the number of projects assigned to PSE/YCK exceeded the established workload indicators aggravated the problems arising from the inappropriate staff deployment. Given the problems already identified in the private sector concerning the construction of LDBPs then, CM/YCK should have assigned a resident engineer to the project. The Select Committee finds that CM/YCK was ineffective in his deployment of staff. (see paragraphs 5.133 to 5.137 and 5.169)

9.26 The problem of the carrying out of works after 7:00 pm was known to be common in HD works sites. Given his position, CM/YCK should have taken up the issue with the Environmental Protection Department to see how far the construction sites of HD could comply with the statutory requirements and ensure supervision over essential steps of works undertaken after 7:00 pm. The Select Committee is of the view that CM/YCK failed in his duty in this respect. (see paragraphs 5.95, 5.178 and 5.179)

Business Director/Development

9.27 BD/D assumes overall responsibility and accountability for the development and construction projects of HD. At the time of the YCK project, the problems identified in the private sector concerning the construction of

LDBPs were known to HD. BD/D ought to have been more alert to the possibility of similar problems occurring in HA's works projects and to take preventive measures. However, he was too complacent and allowed the system of relying heavily on staff to report problems upwards to continue. Owing to his passive attitude, he did not put in place a system to enable the management to be alert to signs of problems in the YCK project in a timely manner. The Select Committee is of the view that BD/D should be held responsible for his failure in this respect. (see paragraphs 5.128 to 5.129, 5.178 and 5.179)

The site staff

9.28 The deployment of site staff in YCK was not entirely satisfactory. PCOW/YCK had to look after two projects concurrently at that time and had to delegate most of the inspection duties to ACW1/YCK. ACW1/YCK, who worked full time on the site, however, delegated his inspection duties almost entirely to the two successive inexperienced WSs, who had received only one week's coaching from him. Records indicate that ACW1/YCK, irrespective of whether he was at the rank of ACW or after promotion to the rank of PCOW, rarely undertook inspection work on site. As there was no resident engineer for the YCK project, the inspection work of the LDBP foundation project, which cost \$63.267 million, was in the hands of the two inexperienced WSs. The Select Committee is of the view that PCOW/YCK failed in his duty and ACW1/YCK was remiss in his. (see paragraphs 5.145 to 5.157)

The Contractor

9.29 Zen was responsible for carrying out the works in accordance with the contract requirements. Its involvement in the construction works, however, was minimal. Zen undertook a small part of the project management work, with the bulk of the construction works subcontracted to Hui Hon. Throughout the inquiry, the Select Committee cannot find any evidence that Zen carried out its Contractor's role in a responsible manner. The Select Committee regrets that Zen adopted such an irresponsible approach in carrying out the works. (see paragraphs 5.123 to 5.127 and 5.184)

The Subcontractor

9.30 The Select Committee is appalled at the extent of malpractices and irregularities that existed in the YCK project, which were nothing short of criminal. The Select Committee strongly condemns the perpetrators of these acts for their blatant disregard for people's lives, which would have been put at risk if the consequences of their activities had not been detected in time. The Select Committee notes that two directors of Hui Hon and the Site Agent have been convicted of conspiracy to defraud and sentenced under the law with regard to the project. The Select Committee deplores the criminal acts. The Site Agent should be condemned for engaging in such acts. The Select Committee notes that the two directors of Hui Hon have appealed against both conviction and sentence. If their convictions are upheld, they should also be condemned for engaging in the criminal acts. (see paragraphs 5.49, 5.54, 5.62, 5.70, 5.78, 5.84, 5.96, 5.102, 5.111 and 5.117)

9.31 Based on evidence, the Select Committee believes that the Site Foreman of Hui Hon had a good knowledge of the existence of those malpractices and irregularities. He should be responsible for not bringing those malpractices and irregularities to the attention of the concerned parties.

9.32 QCE/YCK claimed that he was QCE only in name for the YCK project for the purpose of meeting the relevant requirement in the Contract. He should be condemned for acting so irresponsibly. (see paragraph 5.124)

(2) The Shek Yam project

The Consultant

9.33 The SY project was an outsourced project. DLN, the Consultant, was responsible for supervising the execution of the works by the Contractor in accordance with the contract requirements. The fact that the cladding could have been installed in the absence of approved samples and shop drawings without the knowledge of DLN reflected DLN's lax attitude both in monitoring the installation of the cladding and in scrutinizing the relevant Payment

Applications. The Select Committee is of the view that DLN did not fully discharge its responsibilities. (see paragraphs 6.21, 6.22 and 6.39)

The Contractor

9.34 CSCEC, the Contractor, was responsible for carrying out the works in accordance with the contract requirements. It was over-reliant on its subcontractors to provide construction materials in compliance with the contract. CSCEC failed to check the compliance or otherwise of the stainless steel cladding before installation. For the purpose of expediency and possibly cost saving, it advanced the installation of the cladding before the samples and the shop drawings were approved. The Select Committee is of the view that as far as the stainless steel cladding work is concerned, CSCEC did not monitor the execution of the work and the use of materials by its Subcontractor in accordance with the provisions of the Contract. (see paragraphs 6.18, 6.21, 6.25, 6.29, 6.30 and 6.34)

The Subcontractor

9.35 Hung Fung was the Subcontractor for the stainless steel cladding work. Although the construction timetable might be tight and sourcing of complying material might be difficult, there was no excuse to use non-conforming cladding. The Select Committee considers that Hung Fung should be responsible for the use of non-conforming materials and lax supervision of its staff. The former Assistant General Manager and the former Assistant Project Manager of Hung Fung should be condemned for falsifying documents concerning the thickness of the stainless steel cladding. (see paragraphs 6.2, 6.24, 6.25, and 6.31)

Site staff

9.36 PCOW/SY and ACW/SY were responsible for site inspection. They were aware of the installation of the stainless steel cladding before the sample and the shop drawings were approved. Although they claimed that they had drawn the matter to the attention of DLN and had issued a site direction, the Select Committee cannot find any documentary evidence to

substantiate their claims. Despite the requirement for them to inspect the cladding work at least once, they did not check the material used or the work done at all on the grounds that the approved shop drawings were not available. (see paragraphs 6.23, 6.24 and 6.40)

9.37 The Select Committee notes the conflicting and unconvincing evidence provided by PCOW/SY at the hearing and in writing thereafter and finds his evidence not entirely credible. PCOW/SY, as the leader of the site staff, was negligent in the inspection of the installation of stainless steel cladding. ACW/SY was remiss in his duty to assist PCOW/SY. (see paragraph 6.40)

(3) The Tung Chung project

Building Committee

9.38 BC was responsible, among other functions, for approving the award of works contracts. BC approved the award of the TC project to CKFC with the full knowledge that CKFC had received seven adverse reports on two ongoing HA projects in the preceding 13 months. The Select Committee accepts that the receipt of adverse reports should not on its own deprive the contractor concerned of the opportunity for being awarded a new works project. However, the past performance of a contractor, as reflected by the adverse reports, should not be treated lightly when BC considers the appropriateness of awarding a works contract to a particular contractor. Given the number of adverse reports received by CKFC, BC should have examined the reasons for the various adverse reports and should have critically assessed the capability of CKFC to deliver quality works. The minutes of the relevant BC meeting did not record that BC had gone through such a scrutiny process before accepting the recommendation of HD to award the works contract to CKFC. If BC had considered in detail the adverse reports on CKFC, as claimed by the then BC Chairman, the Select Committee is surprised that the relevant discussion of BC was not duly minuted. (see paragraphs 7.6, 7.7, 7.34 to 7.37)

Housing Department

9.39 Steel reinforcement is an important structural element of a building. The Select Committee is surprised that notwithstanding the voluminous manuals compiled by HD, some important steps concerning the handling of steel bars were omitted. These included segregation of steel bars of different testing status, control over the spraying of colour on steel bars according to sample test results and supervision of the removal of non-complying steel bars from site. The Select Committee is of the view that HD should be held responsible for not rectifying the omissions in the DEI manual. (see paragraphs 7.16, 7.19, 7.31 and 8.24(b))

Site staff

9.40 The site staff, led by PCOW/TC, were the specified action officers in the relevant works manual for carrying out a number of checks in relation to steel bars. PCOW/TC noticed on one occasion the cutting of bars before the test result on specimens was known. Although PCOW/TC had issued a site memo to the Contractor warning against such act, he did not follow up the matter to ensure that the bars would not be used prematurely. He did not take any steps to ensure that the steel bars which failed the sampling tests on the specimens were properly removed from site. The Select Committee is of the view that PCOW/TC was not vigilant in supervising the handling of steel bars. (see paragraphs 7.28, 7.39 to 7.41)

The Contractor

9.41 CKFC was responsible for executing the works in accordance with the contract requirements. The cutting of bars before the test result on specimens was known and the removal from site of bars which were not of the relevant batches reflected ineffective control of CKFC over activities going on at site. The appointment of a QCE who had no such experience indicated that CKFC attached little importance to the post and its duties, namely, to ensure quality. The Select Committee is of the view that CKFC did not adequately discharge its responsibilities as a contractor. (see paragraphs 7.27 to 7.31, 7.42 and 7.43)

9.42 QCE/TC, who was appointed by CKFC, was inappropriate for the job. He lacked the relevant experience. Contrary to the duties of a QCE to ensure the quality of work, he falsified documents concerning the removal of steel bars which had failed the sampling tests. He should be condemned for engaging in such an act. (see paragraphs 7.29, 7.30 and 7.43)

9.43 Although the Construction Manager denied knowledge of the use of substandard bars and involvement in their removal from the site, he was convicted of conspiracy to defraud by the court. The Select Committee notes that the matter is subject to further appeal. If the conviction is upheld, the Construction Manager should be condemned for engaging in fraudulent acts. (see paragraphs 7.27, 7.29 and 7.33)

RECOMMENDATIONS

9.44 Hong Kong is known for its excellent infrastructure and the high quality of buildings which have won numerous international awards and brought tremendous pride to every Hong Kong citizen. This is attributed to the efforts and hard work of professionals and workers in the construction industry over the past decades.

9.45 The construction industry has been one of the economic pillars of Hong Kong. The Select Committee firmly believes that even today, the majority of those in the industry are striving for excellence in their work and are continuing to contribute to making Hong Kong a better place to live in. However, with the spate of building problems in public housing projects discovered in the late 1990's, it is clear that if the potential risks involved in the construction of buildings were ignored, the prestige and reputation which the construction industry has all along enjoyed might be seriously impaired. It is therefore important for the Government, being the provider of all subsidized housing, and the construction industry to be alert to any decline in work ethics and in quality of work. With this objective in mind, the Select Committee explores measures which hopefully will provide an impetus for discussion by the various sectors of the community which share the common mission of producing quality buildings in Hong Kong.

9.46 Shortly after the four incidents came to light, HA has implemented 50 Quality Housing Initiatives by phases since April 2000 to address the problems identified. Office of the Ombudsman, after investigation into the management of construction projects by HA and HD, has proposed 35 recommendations to improve the delivery of public housing projects at organizational and operational levels. At the macro level, the Report on the Review of the Institutional Framework for Public Housing has made 20 recommendations on organizational changes. Industry-wide, the Construction Industry Review Committee (CIRC) has suggested 109 improvement measures for the construction industry. The Select Committee has considered the recommendations contained in the various reports and makes the following recommendations.

- (1) To review the appropriateness of conferring Housing Authority with executive responsibilities concerning the production of public housing

9.47 The Select Committee considers that with the large number of public housing units constructed annually, the executive responsibilities of HA in this respect are extensive and onerous. Given the part-time status of unofficial HA members and the present mode of operation of HA, there are practical constraints for unofficial HA members to carry out these executive responsibilities. For the purpose of enabling unofficial HA members to fulfil their roles and responsibilities effectively, the Select Committee recommends that the Government should review the need to relieve or reduce the executive functions of HA in the production of public housing.

- (2) To re-delineate the responsibilities of Building Committee to concentrate on strategic issues

9.48 The bulk of the executive responsibilities of HA, in the context of the development of public housing, falls on BC. For each works project, BC is responsible for approving not only the design and budget, but also the plans and the award of tender. The discharge of these executive responsibilities is beyond what can reasonably be performed by a committee comprising mainly part-time members who meet half a day each month. The Select Committee recommends that the present executive responsibility of BC in approving works

plans should be undertaken by an executive department. A Tender Board comprising both Government and non-Government members should be set up to take up the functions of scrutinizing tenders and awarding works contracts.

- (3) To re-define the division of responsibilities between Housing Authority, Housing Bureau and Housing Department over policy formulation and implementation

9.49 One of the recommendations in the Review of the Institutional Framework for Public Housing published in June 2002 is that HB and HD should be reorganized into one single organization to look after housing matters. The Select Committee supports this recommendation. It is obvious that HD, although a Government department, is not subject to the same administrative and financial controls as those applicable to other Government departments. The line of command between HB and HD is also not clear. Although HD reports to HA, it is practically not possible for HA members to scrutinize and oversee the work of HD in the same way as policy bureaux do. The Select Committee notes that HB and HD are to merge into a single organization with a unified chain of command. Despite these changes, the Select Committee is of the view that the participation of members of the public in the formulation and implementation of public housing programme should be maintained.

- (4) To bring the construction of public housing by Housing Authority under the ambit of the Buildings Ordinance

9.50 The Select Committee considers it inappropriate to have different regulation standards for the construction of public and private housing. This is particularly the case when some of the units built by HA are intended for sale. The Select Committee notes the functions of the Independent Checking Unit, under the Director of Housing's Office, to conduct checks on HA works similar to those conducted by the Buildings Department on private building works. Such checks, nevertheless, are not equivalent to checks by an independent third party. For the purpose of inspiring public confidence in the quality of public housing and of achieving consistency in the regulation of standards of buildings, be they public or private, the Select Committee supports the

recommendation in the various reports mentioned in paragraph 9.46 above that the BO should apply to the public housing buildings constructed by HA.

9.51 As the bringing of HA building projects within the purview of the BO takes time, the Select Committee supports, as an interim measure, the conduct of checks on HA works by the Independent Checking Unit.

- (5) To enhance enthusiasm and sense of pride in the job among participants in the construction industry

9.52 The Select Committee considers that the working attitude of service providers is pivotal to the quality of the service delivered. One of the ways to enhance the quality of construction works is to cultivate in members of the construction industry a sense of pride in and respect for the work they undertake. People who take pride in their job tend to work with enthusiasm and strive to do their best. Self-motivation is often more effective than external forces in ensuring good work. The Select Committee recommends that trade associations in the industry, such as the Hong Kong Construction Association, should actively explore ways to instil a sense of pride and respect in the workforce of the construction industry.

- (6) To tighten control over subcontracting and enhance quality of subcontracting

9.53 Subcontracting without effective control may compromise the quality of work. The Select Committee considers it necessary to regulate subcontracting and to ensure the competence of subcontractors. Tenderers should be required to provide in their tenders the proposed subcontracting activities. Upon confirmation of the award of a contract, the contractor should submit details of subcontracting to HD for consideration.

9.54 For the purpose of raising and monitoring the standard of subcontractors, the Select Committee supports the initiative of HA to establish lists of piling contractors and ground investigation contractors. In this regard, the Select Committee calls on the construction industry to implement the recommendation of CIRC to set up a registration scheme for subcontractors of

various trades. With the implementation of a registration scheme, an effective sanction system can be enforced against misconduct and negligence of subcontractors, for example, by way of suspension or removal of name from the relevant registration list. The Select Committee considers that the registration criteria should be sufficiently stringent to ensure only competent subcontractors are registered. On the other hand, the registration criteria should not be so unnecessarily harsh as to pose unreasonable obstacles to subcontractors who have the necessary technical competence.

(7) To strengthen partnering with contractors and consultants

9.55 Good co-operation among the various parties involved in the work process is a prerequisite to the production of good quality work. Hence, fostering partnership among the parties concerned facilitates delivery of work. The Select Committee notes a number of measures in the 50 QHIs implemented by HD aiming at establishing a partnering culture among contractors and consultants. This is a step in the right direction. With that aim in mind, the Select Committee makes the following two recommendations:

(a) Housing Department should share as far as possible information relevant to the works with contractors

9.56 The more information contractors have about the works to be done, the better they can plan. Sharing information about the site is particularly important, as complexity of ground conditions of a site affects the cost and the time required for completion of the works. These in turn will affect the tender price. At present, HD makes available borelog information about the site to pre-qualified tenderers. HD should consider releasing the relevant foundation advice reports to pre-qualified tenderers for reference subject to clear exclusion of liability arising from such release of information.

9.57 The Select Committee recommends that HD should also consider putting in place arrangements for facilitating contractors to have easy access to the works manuals. To have updated versions of them placed in HD's library may be an option. Such arrangement should assist members of the

construction industry to better understand HD's requirements, work practice and procedure.

(b) Housing Department should exercise flexibility in handling matters relating to cost and completion time of projects

9.58 The Select Committee notes that HD has revised the contractual arrangements to achieve more equitable risk-sharing with contractors. The extension of the respective construction periods for piling and building contracts has reduced the risk of contractors having to pay hefty liquidated damages for failure to meet tight construction timetables. The Select Committee supports HD's initiative to grant extension of time for piling contracts for unanticipated complex ground conditions. However, the Select Committee considers that extension of time should also be granted in other reasonable circumstances, such as the preservation of heritage found underneath or at the site.

9.59 The Select Committee also considers that to reduce the financial incentive for contractors to compromise quality for speed of work, the level of liquidated damages for delay of works beyond the scheduled completion date should only reflect a reasonable assessment of HA's financial losses that may be caused by delay, taking into account the value of the works contract in question.

(8) To review the policy for procurement of consultants and contractors

9.60 On the procurement of consultants and contractors, the Select Committee makes the following recommendations:

(a) To refine the two-envelope system for the procurement of consultants

9.61 HD adopts the two-envelope system for the procurement of consultants for outsourced projects. Under the current system, the weighting apportioned to technical and fee submissions is 80:20 for projects requiring extensive design. The Select Committee notes the criticism from some building professionals that fee remains the overriding factor under such a

procurement system. This is because the variance in scores on technical submissions made by consultancy firms is minimal. In the circumstances, the fee, although constituting only 20% of the total score, becomes the determining factor. The Select Committee recommends that HD should review and refine the present scoring system so that the score given for technical submission reflects distinctively past performance and design input of consultants. Flexibility should also be built into the scoring system to cater for different works projects with a view to procuring consultants who can deliver quality work at reasonable prices.

(b) To establish an objective and transparent system for the assessment of tenders for works contracts

9.62 The Select Committee calls on HD to critically review the practice of awarding works contracts to the lowest bidders. HD should put in place an objective and transparent tender assessment system under which sufficient importance is attached to the technical aspect of tenders and the past performance of tenderers. The system should however be flexible enough to provide opportunities for newcomers to the trade which do not have past performance records. Consideration should be given to incorporating the following features in the tender assessment system:

- (i) Exceptionally and unreasonably low bids should be excluded. For this purpose, reference should be made to the pre-tender estimates;
- (ii) After excluding the exceptionally and unreasonably low bids, the technical aspect of the remaining tenders and the past performance of the tenderers concerned should first be considered. In other words, price is not considered in assessing the remaining tenders at this stage. Tender price is only taken into account after the technical aspects of tenders and the past performance of tenderers have been duly considered. The plant and equipment to be used by the remaining tenderers should be one of the factors taken into account in assessing the technical aspect of tenders;

- (iii) A grading system should be developed to assess different aspects of tenders. Apart from establishing objective criteria for appraising contractors' performance, clear guidelines should be devised on how adverse performance reports on contractors are considered in the assessment of tenders;
- (iv) Tenderers should be informed of their grades and/or scores after the outcome of the tender exercise is released; and
- (v) The tender prices of both the successful and unsuccessful tenders should be made public as soon as possible.

9.63 The Select Committee notes that HD has established since April 2001 a "Premier League" of contractors whose performance is proven to be outstanding consistently. According to HD, contractors admitted to the "Premier League" will be invited to tender for certain HA works contracts exclusively. The Select Committee has reservations about this arrangement. For fair competition, the Select Committee calls on HD to conduct an overall review of such an arrangement to prevent monopoly of HA works contracts by a limited number of contractors and to ensure adherence to principles embodied in the Statement on Competition Policy promulgated by the Government in May 1998.

(9) To improve Housing Department's system for management of organizational changes

9.64 The experience of HD shows that organizational changes may give rise to confusion of roles and responsibilities among staff. Successive organizational changes on an extensive scale implemented within a short period of time may create adjustment and interface problems. As HD is now undergoing another major organizational change to implement the recommendation to merge HB and HD into one single organization, the Select Committee considers it important that this change be managed properly. In this regard, the Select Committee makes the following recommendations:

(a) To implement changes in a gradual and co-ordinated way

9.65 Rapid changes to the organizational and management structure should be avoided. Changes must be implemented in a co-ordinated manner and in a reasonable pace to allow sufficient time for adjustment and interface. Where possible, milestones should be set to monitor and measure the impact of changes.

(b) To keep staff at different levels fully informed of changes

9.66 Open and unobstructed channels of communication among the senior management, middle management and staff at the working level should be established to ensure that the changes are understood by all parties concerned. Any changes to the roles and responsibilities as a result of the changes to the organizational and management structure should be clearly and properly conveyed to staff. Workshops and briefings should be organized to explain major changes to staff and to enable exchange of views between the management and staff.

(c) To update manuals and guidelines timely to reflect changes

9.67 HD staff rely on manuals and guidelines for guidance in their discharge of duties. These documents must be updated timely to reflect changes to roles and responsibilities, if any. Workshops and briefing sessions should be organized to keep staff abreast of major amendments to works manuals.

(10) To improve Housing Department's system for management of human resources

9.68 Effective management and deployment of human resources is vital to the attainment of organizational goals. The Select Committee has identified several aspects in this area in which HD needs improvement. The Select Committee makes the following recommendations:

(a) To streamline multi-layered senior management in overseeing the production of public housing

9.69 Professional staff of HD up to the senior rank are involved directly in the management of works projects. Those over and above the senior rank, including chief professionals, project directors and BD/D, oversee works projects only at the macro level. The Select Committee considers that this multi-layered senior management structure should be streamlined. HD should also consider designing the management structure in such a way that professionals at the chief rank and above do not merely assume the role of an administrative manager. Their expertise and experience in works projects should continue to be utilized even after they have been promoted to the higher rank.

(b) To deploy manpower according to the workload indicator and individual expertise

9.70 HD should adjust in a timely manner its manpower resources with reference to the forecast production target. The workload of staff should largely be in line with the workload indicator even during the peak production period. Foresight and forward planning on the part of the management are required to achieve this. In deploying manpower, HD should attach sufficient importance to the expertise and experience of the staff concerned to ensure that they are competent to undertake the duties assigned.

(c) To strengthen the provision of induction and training to staff

9.71 HD should intensify its staff induction and training programmes, in particular in respect of staff at the site level and those who deal with the technical aspects of works. Induction and training programmes should be extended to staff employed by consultants on behalf of HD for outsourced projects.

(d) To explore the need for directly recruiting site staff for outsourced projects

9.72 Under the present system, the site staff for outsourced projects are employed by consultants on behalf of HD on a project basis. The Select Committee is concerned that the site staff may not have relevant experience with HD works and procedures before taking up the relevant posts. For the purpose of ensuring that the site staff employed for outsourced projects are competent for the job, the Select Committee considers that HD should examine the need to directly recruit site staff for outsourced projects. As the Chief Technical Officer Unit is responsible for ensuring consistency in the standard of site supervision, HD should consider placing the site staff for outsourced projects under its management. The feasibility of deploying in-house site staff to supervise outsourced projects should also be explored.

(11) To re-direct the focus to quality assurance in managing Housing Department's works projects

9.73 HD should revamp its over-emphasis on costs and time for completion of works in project management. To uphold the spirit underlying the ISO system, a culture should be developed among HD staff to attach the same importance to the inspection process rather than mere completion of forms.

(12) To ensure adequate site supervision over construction activities after 7:00 pm

9.74 The Select Committee notes that under the existing Noise Control Ordinance (Cap. 400), contractors shall apply for permits for undertaking activities in construction sites after 7:00 pm or during holidays. The Select Committee calls on HD to take actions to ensure compliance with the legislation in its construction sites. Where the undertaking of construction activities is necessary after 7:00 pm or during holidays, and where such activities will not generate excessive noise and cause a nuisance to the neighbouring environment, HD should ensure that the necessary permits are obtained and proper staff arrangements are made to provide adequate site supervision.

- (13) To review the need to notify the relevant professional institutions of established cases of professional negligence or misconduct of civil servants

9.75 HD essentially follows the procedures established by the Civil Service Bureau to enforce sanctions against HD staff for professional negligence or misconduct in their performance of duties. The Select Committee notes that the Government, in its capacity as an employer, is not legally obliged to report established cases of professional misconduct of HD professional staff to the respective professional institutions. To enhance professional standards, the Select Committee calls on the Government to review the need to notify the relevant professional institutions of established cases of professional negligence or misconduct of professional staff.