

## TRANSLATION

File Ref.: HA/COM/2/2 VII

Paper No.: HA 24/99

### **Minutes of the Open Meeting of the HONG KONG HOUSING AUTHORITY held on Thursday, 4 March 1999**

#### **PRESENT**

Dr the Hon Rosanna WONG Yick-ming, JP (**Chairman**)

Mr J A MILLER, JP (Director of Housing) (**Vice-chairman**)

Mr Victor SO Hing-woh, JP

Mr HAU Shui-pui, BBS

Hon LEUNG Chung-ying, JP

Ms HO On-nei, JP

Mr CHAN Kam-man, BBS, JP

Mr C N BROOKE, JP

Hon LEE Wing-tat

Mr Daniel LAM Chun, JP

Mr YEUNG Ka-sing, JP

Mr Anthony WONG Luen-kin, JP

Mr Joseph CHOW Ming-kuen, JP

Mr Raymond CHOW Wai-kam, JP

Ms SIU Yuen-sheung

Mr Walter CHAN Kar-lok, JP

Dr Anthony CHEUNG Bing-leung

Mr WAN Man-yee, JP

Mr CHAN Bing-woon, SBS, JP

Mr LAU Kwok-yu

Hon CHENG Kai-nam

Hon NG Leung-sing

Mr NG Shui-lai, JP

Ms Iris TAM Siu-ying

Mr WONG Kwun

Prof. Richard WONG Yue-chim

Mr Dominic WONG Shing-wah, JP

Mr R D POPE, JP

Miss Jennifer MAK Yee-ming, JP

(Secretary for Housing)

(Director of Lands)

(Director Corporate Services)

**(Secretary of the Authority)**

**ABSENT WITH APOLOGIES**

Mr Eddy FONG Ching, JP

Mr Peter WONG Hong-yuen, JP

Miss Denise YUE, JP

Secretary for the Treasury

**IN ATTENDANCE**

Mr Marco M H WU, JP

(Deputy Director/Management)

Mr R A BATES, JP

(Deputy Director/Works)

Mr T C YUEN, JP

(Business Director/Development)

Mr Vincent TONG

(Business Director/Management)(Acting)

Mr K H LAU

(Business Director/Allocation & Marketing)(Acting)

Mr Joseph K C LEE

(Business Director/Commercial and Business  
Development)(Acting)

Mr R J AVON

(Finance Director)

Ms O L TSANG

(Principal Assistant Secretary/2, Housing Bureau)(Acting)

Mr H T FUNG

(Assistant Director/Management 3)

Mr K T POON

(Assistant Director/Information and Community Relations)

Mr Joseph KONG

(Project Director/Central) (Development and Construction  
Branch)

Mr David LEE

(Assistant Director/Development)

Mr Y K CHENG

(Assistant Director/Applications and Home Ownership)

Mr Y N CHIU

(Project Director/East)(Development and Construction Branch)

Mr Simon LEE

(Assistant Director/Legal Advice)

Mr Andrew C W LAI

(Head, Corporate Strategy Unit)

Mr C P ROBERTS

(Assistant Director/Tenants Purchase Scheme)(Acting)

Mr K W LEE

(Assistant Director/Business)(Acting)

Mr S K KWOK

(Assistant Director/Management 1)(Acting)

Mr Ricardo T W WONG

(Assistant Director/Management 2)(Acting)

Mr K N CHEUNG

(Assistant Director/Operations and Redevelopment)(Acting)

Mr S H HO

(Project Director/West)(Development and Construction Branch)  
(Acting)

Mr Albert P W LI

(Principal Executive Officer/Management Enhancement Programme)

Mr S T YAU

(Chief Housing Manager/Operations)(Acting)

Ms May CHAN

(Senior Administrative Officer/Administration)

Ms Angelina KWAN

(Senior Administrative Officer/Policy)

Ms T M LAU

(Senior Business Development Manager)

Mr Lawrence CHOW

(Committees' Secretary) (**Meeting Secretary**)

Ms Patti HO

(Assistant Committees' Secretary/3)

**(Assistant Meeting Secretary)**

**PRESENT BY INVITATION**

Mr Nigel KNIGHT (Partner, PricewaterhouseCoopers Management Consulting Services)

**AGENDA Confirmation of the Minutes of the Previous Meeting Held on  
Item 1 28 January 1999**

(Paper No. HA 13/99)

2. **Dr Anthony CHEUNG Bing-leung** pointed out that Mr AVON responded in paragraph 27 of the minutes that the five-year operating deficit was not based on the assumption that rent freeze would continue while the Chairman said 'the operating deficit would be \$14.9 billion if rent freeze was to continue throughout the forecast period'. He requested Mr AVON to clarify this figure. In response, **Mr AVON** said that the budget was prepared in accordance with the prevailing policy. It was not assumed that rent freeze would continue at that time because rent freeze was effected only after the budget had been prepared. Nevertheless, the Department would submit financial outturns to the Finance Committee and the Business Committees concerned during the financial year 1999/2000. He continued to say that the operating deficit of \$14.9 billion was based on the scenario that the rent freeze would continue during the whole forecast period. Meanwhile, the Department's deficit in the budget was estimated to be \$6.2 billion only.

3. Referring to paragraph 26 of the minutes which stated that the Chairman said the Business Committees concerned would have to follow on whether the 'revenue accruing to (the HA) from its estates' as stipulated in section 4 of the Housing Ordinance comprised the revenue from commercial premises, **Mr LAU Kwok-yu** hoped that the Department would specify which Committee was to follow up this issue. **The Chairman** said that the matter would be followed up by the Finance Committee.

4. The minutes of the open meeting held on 28 January 1999 were **confirmed** and signed.

**AGENDA Matters Arising From the Minutes of the Meeting Held on  
Item 2 28 January 1999**

(Paper No. HA 14/99)

5. Members noted the report from the Department.

**AGENDA Buy-or-Rent Option  
Item 3**

(Paper No. HA 16/99)

6. **Mr Andrew LAI** briefed Members on the paper.

7. **Mr LAU Kwok-yu** supported the Buy-or-Rent Option (BRO) which was fair and provided an additional affordable option for prospective tenants who were free to choose to join the scheme. He asked if the flat prices of the BRO was fixed on a cost recovery basis. He also noted that it was proposed in paragraph 26 of the paper that the arrangement under which 'the amount of subsidies paid to BRO owners should not be recovered' would also be applied to Mortgage Subsidy Scheme (MSS). He asked if this proposal would also be approved upon the endorsement of the paper by Members. He also suggested that the Department should announce a more detailed BRO forward programme at the meeting of Home Ownership Committee to be held in May so as to provide more information for the prospective tenants. However, he cautioned that social stratification might probably be created because tenants who chose to buy would be offered new flats while the others might be allocated renovated flats.

8. **Mr Andrew LAI** pointed out that based on the initial pricing proposals under the new scheme, the total cost of the flats, including construction cost, mortgage subsidy and the 35% land development cost paid to the Government, could be recovered. The Department would submit a detailed financial analysis to HOC in due course. He did not think that the BRO would cause social stratification because the flats put up for sale only constituted 6% of the total new Harmony PRH production in 1999/2000 and the rest would remain as rental. He continued that the main responsibility of HA was to provide affordable accommodation for those families in need. He added that flats to be allocated include new and renovated flats. Both were of good quality and prospective tenants should not just choose new flats. He said that the Department would also submit a paper on the way forward of BRO to HOC for discussion.

9. **Mr CHENG Kai-nam** supported the concept of the scheme. However, he noted that some PRH tenants could neither join MSS nor Tenants Purchase Scheme (TPS). If these tenants were not eligible for BRO, it would be unfair to them. He asked if the sitting tenants were excluded from BRO out of the demand and supply consideration or for administrative reason. **Dr Anthony CHEUNG** also held that the sitting tenants had the aspiration and ability to buy their home. Allowing only prospective tenants to join the BRO might cause queue jumping, which was not fair to the sitting tenants.

10. **Mr WONG Kwan** also opined that PRH tenants should be allowed to join BRO but accorded a lower priority of flat purchase. He pointed out that CRP tenants who were enjoying PRH benefit were also entitled to join the MSS. The Department therefore should not debar PRH tenants from BRO on the ground that they were already enjoying PRH benefit.

11. **Mr CHAN Kar-lok** considered that sitting tenants should not be included in BRO because PRH tenants, in comparison with WL applicants, were enjoying PRH resources and a number of home ownership options such as HOS and HPLS. He added that sitting tenants should not be included since the pricing of BRO flat was based on the income limit of WL applicants.

12. **Mr Andrew LAI** responded that BRO was basically designed for those who had not enjoyed any PRH benefit. It would go against the intention of BRO and reduce prospective tenants' chance to benefit from the Scheme if PRH tenants were allowed to participate. From the administrative point of view, if PRH tenants were to be allowed to join BRO, care should be taken to identify which estates would not be included in TPS and MSS so as to decide which PRH tenants would be allowed to participate.

13. **Ms SIU Yuen-sheung** supported the Department's proposal saying that the Scheme, with flat prices fixed at reasonable levels, would be welcomed by prospective tenants. She also agreed to engage PMAs to manage these estates. **Ms SIU** and **Ms HO On-nei** called for the Department to assist owners to form Owners' Corporations and specify a time limit for their formation. **Mr Andrew LAI** said that the Department would follow up the matter in conjunction with the Home Affairs Department and would hopefully assist owners to set up their Owners' Corporations within two years.

14. **Dr Anthony CHEUNG Bing-leung** agreed that HA should facilitate home ownership apart from the provision of rental housing. He however said that the Department should handle the pricing proposals and mortgage repayment arrangement carefully to avoid miscalculation of affordability by the prospective tenants. Commenting that the Department had assumed a triennial rent adjustment of 17.4% and an income growth of 5.5% of purchasers in analyzing tenants' affordability, he queried whether these estimates were appropriate under the current economic conditions. He also enquired whether the economic downturn had been taken into account when the Department came to such a conclusion.

15. **Mr Andrew LAI** pointed out that the income growth and inflation rate of 5.5% was in line with the assumption of the triennial rent adjustment of 17.4% and the budgetary bases of HA. He said that the MIR would only be 2% higher than what it was estimated to be if an income growth of 3.5% was assumed. The Department would remind the prospective tenants to decide whether to join the Scheme having regard to their housing needs and economic conditions.

16. **Mr CHAN Kar-lok** did not agree that BRO owners needed not repay the subsidies granted after reselling their flats in the secondary market. He understood that the Department aimed at a higher mobility of housing resources lest owners should stay away from the secondary market for fear that they would have to repay the subsidies. He however considered that the purpose of granting subsidies was to help prospective tenants buy their own home. HA should recover the subsidies from the owners since they had possibly gained a profit from the resale of flats. He also referred to paragraph 12 of the paper which stated that about 40% of the WL applicants were earning a monthly income at 70% of the WLIL or above, and requested the Department to clarify the source of information.

17. **Mr Andrew LAI** responded that the provision of mortgage subsidies up to 6 years could ease the circumstances of the owners who generally had to shoulder a heavier financial burden during the early repayment period. If subsidies were to be recovered from those who resold their flats in the secondary market within the first 6 years of purchase, owners would probably choose to resell their flats in the open market after 6 years to avoid repayment of subsidies. This would slow down the resale of flats and indirectly encourage owners to resell their flats in the open market. The number of PRH flats recovered from the secondary market would then be reduced. He also pointed out that the percentage mentioned in paragraph 12 of the paper, which was obtained with reference to the income levels of those who were allocated a flat in January to December 1998, had reflected the situation in the wake of the economic downturn.

18. **Mr LEE Wing-tat** said that no comparison had been made between the prices of BRO flats and those of private properties in the paper. Referring to the price of \$500,000 for a Tin Sui Wai flat as suggested in the paper, he pointed out that this amount might be on the high side as it was equivalent to half of the price of a comparable flat in the private sector. He also said that according to the repayment methods proposed in the paper, notwithstanding the mortgage subsidies paid in the first 6 years, owners would find their financial burden looming large during the late repayment period. Given that the replacement cost of Harmony PRH flats was about \$300,000 and only some \$400,000 with the land development cost, if prices of BRO flats were determined on the basis of replacement cost, not only could the owners afford the initial repayments and achieve savings in interest payment, HA might also save the mortgage subsidies of \$160,000. He considered that the Department should choose a repayment method which was in the long-term interest of the owners. **Mr LEE, Mr WAN Man-yee and Dr Anthony CHEUNG Bing-leung** shared the view that the Department should provide data illustrating the impact of these two pricing methods on the owners, HA and the banks so that HA could decide how BRO flats should be priced.

19. **Mr Andrew LAI** said the Department had to consider whether the pricing proposals under BRO were consistent and compatible with other home ownership schemes. He pointed out that BRO flats were priced with reference to the HOS pricing structure while adjustments were made to reflect the affordability of target groups. This was in keeping with HA's principle in the pricing of new flats. The replacement-cost method was currently applicable to TPS flats only. He preferred mortgage subsidies to direct reduction of flat prices since owners would be given mortgage subsidies to ease their circumstances during the early repayment period whereas lower flat prices would mean a higher premium payable upon resale of flats. **Mr Marco WU** added that HA actually helped owners with mortgage repayment by granting them mortgage subsidies. On the contrary, if the replacement-cost method was adopted, with mortgage loans offered by the banks, owners would have to repay an even larger amount of money during the early repayment period. He therefore considered that the progressive repayment method was more in keeping with the affordability level of owners.

20. **Mr LEE Wing-tat** opined that in its publicity exercise, the Department should make it clear to the prospective tenants that upon purchase of BRO flats, they could not revert to their status of prospective tenants. **Mr YEUNG Ka-sing** shared the view of Mr LEE wing-tat, and said that the Department should spell out details of the scheme and let the prospective tenants take their own affordability into consideration. He expressed support for the direction of the BRO and believed that it would result in a more reasonable allocation of public housing resources because it enabled prospective tenants to become home owners directly without going through the route of PRH. In reply, **Mr Andrew LAI** pointed out that when launching the scheme, the Department would clearly explain to prospective tenants the responsibilities and rights of owners and let them make their own decisions.

21. **Mr WAN Man-ye** pointed out that it was mentioned in paragraph 27 of the Paper that besides having to pay 35% of the land development costs to the Government, the HA had also to pay Government rent for the HA retained portion. As it was necessary for the HA to pay the land premium and Government rent for the tenants, he was concerned that in case the majority of units in BRO estates were rented out rather than sold, additional financial burden would be laid on the HA. He enquired about the owners-to-tenants ratio that had to be reached in respect of an estate block before the Department could break even. **Mr Raymond CHOW Wai-kam** agreed that the Department should ensure that the costs of the scheme could be recovered. **Mr Andrew LAI** replied that financially, the scheme must be affordable by the HA, and in the first phase of the BRO, the HA could merely recover the costs. However, the HA would look closely at the long term financial implications of the BRO. Since the Department had to take both the land development cost and the Government rent into account, the BRO should be implemented in designated new housing estates so that owners would be pooled together.

22. **Mr Nicholas BROOKE** was concerned that the list prices set out in the Paper might be insufficient to recover the costs. He pointed out that for a 40 sq.m. unit, the construction costs, 35% of the land development cost and the mortgage subsidy would roughly add up to a total cost of \$600,000, which was higher than the \$520,000 list price mentioned in the Paper. Therefore, as far as the units were concerned, prospective tenants would actually be subsidised under the scheme. When declaring that the BRO was implemented on the at-cost basis, the Department should make it clear that the relevant calculations were carried out for the BRO as a whole, involving cross-subsidies for units in different areas.

23. To reduce the financial burden of owners at the early stage of the repayment period, **Mr WAN Man-ye**e proposed that the Department should negotiate with banks for a mortgage plan in which the repayment amount would be less in the early repayment period, and more in the later period. **Mr Marco WU** pointed out that at the early stage of the repayment period, most of the repayment amount went towards interest payment, and it would be difficult for banks to make an arrangement under which the mortgage repayment would be less than the interest payment.

24. **Dr Richard WONG Yue-chim** also supported the direction of the BRO, because it provided an additional option for prospective tenants without affecting other people's options. To provide even more option for prospective tenants, he believed that all tenants of BRO estates should be allowed to buy the flats they were residing in at any time.

25. **Mr WONG Kwun** pointed out that since the prospective tenants belong to the lower income groups, flat prices should be set at such a level that the mortgage-to-income ratio would be less than 30%. Since it was mentioned in the Paper that those who failed to purchase a flat could choose to go back to the waiting list, he asked whether they would have to wait longer to be allocated rental housing units. He pointed out further that if Green Form applicants, who were ineligible for the mortgage subsidy, were offered an option of purchasing unsold flats under the BRO, a contradictory situation in which the same flat was offered for sale at different prices would arise. As regards the Department's proposal to allow both BRO purchasers and MSS tenants to purchase flats interchangeably under the two schemes, he opined that the priority of CRP households for purchasing public housing units within the same district must not be affected.

26. **Mr Andrew LAI** said the criterion that flat prices should be set at a level such that the mortgage-to-income ratio should be below 35% was by no means stringent because the relevant calculations were based on the assumption that the total family income was at 70% of the income limit for waiting list applicants. Citing the units sold under Phase I of the BRO, he said the mortgage repayment did not exceed 20% of the family income. Moreover, if a prospective tenant subsequently chose not to purchase the unit, the



Department would rehouse him in accordance with his priority in the waiting list as soon as possible.

27. **Ms Iris TAM Siu-ying** pointed out that it was mentioned in the Paper that even if the BRO was implemented, the number of PRH units available for allocation to prospective tenants would remain unchanged. She asked if the number of available PRH units would be reduced if unsold units under the BRO were offered for sale under the HOS. **Mr Andrew LAI** replied that the remaining units would only be offered for sale to Green Form applicants who would return their PRH units to the HA upon purchasing a flat. Consequently, the number of PRH units available for allocation would not be reduced. He added that there should not be too many unsold units because the number of units offered for sale would be based on the intention of prospective tenants.

28. The **Secretary for Housing** pointed out that the BRO, which enabled prospective tenants to fulfil their wish for home ownership at affordable prices, was in line with the direction set out in the Government's White Paper on Long Term Housing Strategy. He added that the BRO would broaden the range of services provided by the HA.

29. **Mr Raymond CHOW Wai-kam** pointed out that the Department had briefed the Real Estate Developers Association (REDA) on the new scheme. The REDA believed that the scheme would have no impact on the private property market since the scheme targeted at those who could still not afford a flat in the market. He also suggested that when implementing the BRO, the Department should state clearly that the Government had no intention of forcing people to purchase any property.

30. Referring to the proposal that the arrangement of not recovering the mortgage subsidy would be applicable to the MSS as well, **Mr Walter CHAN Kar-lok** and **Mr LAU Kwok-yu** asked when this arrangement would come into effect if the proposal was approved. **Mr Walter CHAN Kar-lok** also pointed out that the HOC had approved that the MSS would be introduced at the same time as HOS Phase 20A. He enquired whether the proposal would have any retrospective effect. **Mr Andrew LAI** said that the arrangement not to recover the mortgage subsidy would be applicable to the MSS simultaneously, and it was up to the HOC to decide whether the proposal would have any retrospective effect.

31. **Mr NG Leung-sing** opined that when calculating the cost of a flat, the mortgage subsidy granted by the HA to the owners should also be taken into account. He expressed reservation about the proposal to encourage owners to resell their flats in the secondary market put forward in paragraph 18 of the Paper. There was no way to ensure that owners would purchase another flat upon reselling their flat in the secondary market, and so the number of owners might not be increased by developing such a market. He proposed that the Department should provide a 100% mortgage default guarantee for owners so that the banks could offer them more favourable terms. **Mr Andrew LAI**

pointed out that owners must pay at least 5% of the list price of a flat as down payment and apply for a bank mortgage to settle the remaining 95%, while the HA would provide default guarantee for the said 95% in the hope that the banks would offer a lower mortgage rate.

32. **Mr Victor SO Hing-woh** opined that the Department should study whether the BRO would have an impact on the sale of HOS flats.

33. Members voted on the three proposals in the Paper, with the following results:

- (1) With the exception of Mr Walter CHAN Kar-lok, Dr Anthony CHEUNG Bing-leung and Mr WONG Kwun who expressed objection, Members **endorsed** that the HA would not recover the mortgage subsidy paid to BRO owners;
- (2) With the exception of Mr HAU Shui-pui, Mr LEE Wing-tat, Mr WAN Man-ye, Dr Anthony CHEUNG Bing-leung and Mr Nicholas BROOKE who expressed objection, Members **endorsed** the proposals in paragraphs 10-12 and 16 of the Paper concerning the pricing and mortgage repayment arrangements;
- (3) With the exception of Mr WAN Man-ye and Mr WONG Kwun who expressed objection, Members **endorsed** that BRO flat purchasers could not revert to their tenant status upon signing the Agreement of Sale and Purchase.

Head of CSU 34. **Mr LEE Wing-tat** hoped that the Department could provide, for Members' reference, information about the financial implications of the two pricing methods based on affordability and replacement cost respectively on both the owners and the HA.

**AGENDA Consultancy Study on Review of Private Sector Involvement in Estate  
Item 4 Management and Maintenance Services**  
(Paper No. HA 18/99)

35. **Mr Marco WU** briefed Members on the background to the consultancy study. **Mr Nigel Knight** then gave a brief account of the findings and recommendations of the consultancy study (see Annex).

36. **Mr Marco WU** said that the Department would release the consultancy report to the staff and the parties concerned after the meeting. Views from staff and the parties concerned would be collected in March and April. These together with the Department's proposals would then be submitted to HA in May. Subject to the endorsement of the broad direction by HA, the Department would consult staff and the relevant government departments, such as the Civil Service Bureau (CSB) on the changes involved, including the staffing arrangements and conditions of service. It was expected that formal proposals would be submitted to HA approximately in late 1999 as it would take a longer time to

**Action**

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consult staff on staffing arrangement and change of conditions of service in accordance with the guidelines issued by CSB and the Department would need to negotiate with PMAs. The Scheme would not be ready for implementation until 2000.

(Post-meeting note: HA would meet representatives of the Alliance of the Housing Department Staff Unions at 2:30p.m. on 16 April (Friday) to hear their views. A special HA meeting would be held at 8:45a.m. on 6 May (Thursday) to discuss the Department's proposals).

37. **The Chairman** said there was growing demand and expectation from the community on HA as society progressed. In order to establish an efficient and high quality workforce, the Department had made incessant efforts to reform in recent years. HA and its Committees had also from time to time discussed the extent and pace of private sector involvement in HA's services. It was in this context that a consultant was commissioned to explore private sector involvement in HA's business.

38. **Dr Anthony CHEUNG Bing-leung** said that one should be open-minded about reform. However, given the magnitude of the reform initiative, it was necessary to consider every justification carefully. He pointed out that the consultant compared the EMM services between HD and the private sector mainly in terms of cost effectiveness. **The consultant** saw HD as less competitive than the private sector and therefore recommended that HD should undergo a reform. He requested the consultant to provide more information on the items which entailed higher costs for HD than for the private sector and to study whether HD, being a government department, had been constrained in its ability to increase competitiveness in such areas. As HA was accountable to the public, it should not decide on the direction of reform just by looking at cost competitiveness. He also pointed out that the Government had to inject an additional sum of more than \$100 million into the Hospital Authority upon its inception because the Authority had overlooked the staff costs related to the transitional arrangement. In view of this, HD should thoroughly examine the transitional arrangement for staff and the costs involved.

39. **Mr YEUNG Ka-sing** requested the consultant to provide more information on the comparison of services between HD and the private sector in terms of cost effectiveness. He pointed out that while the consultant compared the services by the average staff costs per flat per month, nothing had been mentioned about the manpower levels of HD and PMAs. He considered that it was misleading to compare only the costs of PRH flats without explaining whether HD's costs were higher because of, for example, higher pay in the civil service or managerial/structural deficiencies of HD. He considered that a comparison of the organizational structure between HD and the private sector should be made as it directly affected the cost-effectiveness of estate management functions. He also said that the Department should not neglect customers' demand while enhancing cost-effectiveness since costs were directly linked to the satisfaction level of customers. He hoped that the consultant would provide more information in this aspect.

40. **Ms HO On-nei** supported the Department efforts to consult staff on the consultant's recommendations. She had talked to some staff members and they understood that HD needed to reform. She hoped that Members would appreciate staff's anxieties on the matter. She also noted that although HD was not as cost-effective as the service providers in the private sector, it was committed to taking up more responsibilities for society and providing more service to tenants.

41. **Mr CHAN Kam-man** appreciated the efforts that the HD staff made in providing public housing to tenants. He reckoned that the estate management work undertaken by the Department was constrained by the established structure and system. As a Government department, HD came under a lot of political pressure and had many policy considerations. Therefore, the cost-effectiveness of HD's services could not be compared with that of the private sector. He said that he had heard views from the Alliance of Housing Department Staff Unions. He understood that the Alliance considered it not fair to contract out the management service of new estates while leaving the older ones, which were more difficult to manage and maintain, to in-house staff. He continued that the Department and the staff should work towards the same goal, that is, to enhance staff's competitiveness for providing more cost-effective services. He did not agree that the residents would prefer management services provided by the private sector. Also, he considered that HD was more flexible and responsive in handling complaints lodged by residents and commercial tenants. Apart from this, he believed that the Department should give consideration to the extent of HA's future commitment on public housing provision. He asked if the consultant had studied the effectiveness of the Department's reform implemented in the recent years. He also wanted to know if the consultant had assumed that there should be "greater private sector involvement in HA's business" before embarking on the study.

42. **Mr WONG Kwun** considered that the Department should not take a stand before HA decided on a broad direction. He also disagreed that the Department kept on stressing corporatisation as the way forward. He said that the Department should pay attention to whether the morale and performance of the staff was affected in the process of the study. Also, the staff should be given adequate opportunities to express their views. He hoped the Department would arrange for Members to meet the staff to hear their views directly.

43. **Mr Victor SO** pointed out that HD's key overhead cost on estate management was much higher than that of private sector. He considered that tenancy management cost was one of HD's main expense item. As it involved enforcement of housing policies, HD would still be required to undertake this duty in future. He asked if the consultant had taken into account this item of expense when calculating the management cost of PMAs.

44. **Mr LEE Wing-tat** said that the civil service system was undergoing a reform so as to be more effective and accountable. He considered that reform was necessary but should be carried out step by step, without affecting the smooth operation of the Department. The consultant should provide an option which would cause minimum impact to HD and was accepted by the staff. He therefore held that cost-effectiveness should not be the only consideration. HD should ensure that the staff affected could be smoothly transferred to their new posts and that the quality of service would not deteriorate. He shared Dr Anthony CHEUNG's view that the consultant should make a careful assessment on the cost of staff transitional arrangement.

45. **Mr Anthony WONG** was surprised by the gap of management service cost between HD and the private sector mentioned in the consultancy report. He reckoned that the residents would choose services of better quality and greater cost-effectiveness. He also praised the staff for their past performance and appreciated their anxieties about their own career prospect. He hoped that HA should take note of the effect of reform on staff and make proper arrangements for them.

46. **Mr LAU Kwok-yu** considered that one should be open-minded on reform but staff affected should also be treated fairly. Referring to the housing experience with private sector involvement in Hong Kong, United Kingdom, USA, Switzerland and Netherlands described in the annex of the report, he asked if the consultant made reference to the experience of Singapore Housing Development Board. He also asked if the work of the consultant was completed.

47. **Mr BROOKE** agreed that it was necessary to introduce a reform but cautioned that it must be proceeded in a prudent manner. He considered that it was very important to maintain a relationship of mutual trust and communication with the staff. He hoped that the Department would provide more information on how to collect staff's feedback.

48. **Mr NG Shui-lai** considered that the quality of service was very important. He said that HD's service was monitored by Ombudsman and members of various boards and councils. He hoped that the consultant could explain how service quality could be secured under the new system.

49. **Ms SIU Yuen-sheung** considered that there was a need for reform in the Civil Service. She was concerned about the transitional arrangement for the staff. She hoped that the Department could consult the staff and minimize the impact of reform on staff.

50. In response to Members' questions and comments, **Mr Nigel KNIGHT** made the following points:

- (1) Under the existing accounting system of HD, the consultant had encountered certain difficulties in identifying the data required for measuring the cost-effectiveness. In the absence of separate statistics on the cost of property management services, the consultant had to identify from among the expenditure items provided mainly by HD those expenses directly related to estate management for calculation purpose.
- (2) The overhead costs of HD were much higher than those of the private management agencies (PMAs) mainly because:
  - (a) HD staff enjoyed higher salaries than staff at comparable levels in the private sector.
  - (b) With more grades involved in EMM services in HD than in the private sector, and given that the mobility of staff among grades in HD was lower, the flexibility of staff deployment was affected. The private sector outperformed HD by allowing deployment of staff for different jobs at any time.
  - (c) Bound by the existing rules and procedures, HD staff could hardly operate in a fully commercial manner.
  - (d) Savings in overhead costs could be achieved by some PMAs which had already established their overhead support functions and could, therefore, take on additional work without incurring significant additional overhead costs.
- (3) HD's current procurement arrangements applied numerous input restrictions on the private sector in bidding for contracts by, for example, specifying required manpower levels. The consultant considered that HD should set requirements based on the outputs and performance that HD wanted, with the private sector free to make their own decision on the manpower levels needed to deliver these requirements. According to a number of private organizations, this would help cut down on expenditure.
- (4) Regarding the standard of EMM services of HD and the private sector, the consultant had made reference to HD's previous research on comparison of services quality. In general, the quality of services acquired from the private sector, as perceived by tenants, were comparable to those directly provided by HD.

- (5) In order to ensure the quality of service, HA should come up with comprehensive arrangements for procurement and spell out its requirements towards service quality. Experience of foreign countries showed that ineffective contract management would cause problems. Training should be given to staff of HA and HD to enhance their knowledge in this area. Nevertheless, with many years of experience in outsourcing, HA should be in a better position than many other government departments or quasi-government organizations.
- (6) Under the existing system, it was rather difficult for HD to deploy resources in a flexible manner. Besides, according to the Guide to Appointment in the civil service, HD was required to specify the scope of work for each rank of staff. Staff were therefore constrained in their efforts to improve services in response to tenants' feedback. On the contrary, by introducing technology facilities, multi-skilled staff and flexible working hours, the private sector could offer immediate improvements to services for the tenants.
- (7) The consultancy study focused on EMM services because the introduction of TPS had created the need for urgent action in this area. Also compared with other HA's services such as development and construction, estate management was a business area in which service quality was more directly felt by the tenants, commercial risks were lower, and more experience in service provision could be drawn from the private sector.
- (8) There was a big difference between the housing policy of Singapore and that of Hong Kong. In Singapore, different policies had been pursued with regard to encouraging greater home ownership. In the UK, there were some similarities to Hong Kong in that the local authority had contracted out estate management to not for profit private sector bodies, but there were also important differences as well.

51. **Mr Marco WU** said that part of the consultant's work was to provide more information on the consultancy report and respond to questions raised by Members and the Department. Over the past two years, the Department had dialogues with staff on a number of occasions to keep them informed of the progress of the study. He continued to say that a video would be shown in all HA offices to brief staff on the consultancy report and the findings. The Department would make available to all staff an information kit containing an executive summary of the consultancy report and a feedback form. Staff might send in their proposals by fax. Response to their views would be made in the weekly 'Message from the Director'. He said that the Department was willing to have further dialogues with staff unions. **The Director of Housing** added that communication with the staff in the past was mainly informal dialogues and it was not part of the formal staff consultation exercise



to be conducted soon.

52. **Mr YEUNG Ka-sing** enquired whether staff were setting up their own company to bid for HA's services. **Mr Marco WU** said that the Department had received preliminary proposals from staff before the consultant was engaged. However, it was not appropriate to discuss these proposals at this stage when HA had yet to decide on the way forward.

53. **The Chairman** concluded by saying that the consultancy report marked the beginning of HA's reform of its services. Whatever the reform was, HA would not reduce the level of its commitment on public housing.

**AGENDA Any Other business**

**Item 5 Rebate of half of the rates paid for the third quarter**

54. The Chairman pointed out that the budget delivered by the Financial Secretary had set out, inter alia, the rebate of half of the rates paid for July to September 1999, to relieve the public of their hardship. Although HA paid the rates for its PRH tenants and commercial tenants, in view of the current situation, she moved that the rates rebates should be returned to tenants. Members **passed** the motion.

**Closure of Meeting**

55. The meeting closed at 12p.m.

CONFIRMED on 1999.

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Dr. the Hon Rosanna WONG Yick-ming, JP  
(Chairman)

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Lawrence CHOW  
(Meeting Secretary)