



Review of the Institutional Framework for
Public Housing

EXECUTIVE SUMMARY
AND RECOMMENDATIONS

June 2002

**Review of the Institutional Framework for
Public Housing**

**EXECUTIVE SUMMARY
AND RECOMMENDATIONS**

June 2002

Executive Summary

This review was commissioned in mid 2000 by the Chief Executive in the wake of public concern over a number of serious incidents affecting the quality of public housing developments. In examining the four organisations principally involved in the development and implementation of the Government's public housing programmes namely, the Housing Bureau, the Hong Kong Housing Authority, the Housing Department and the Hong Kong Housing Society, we were drawn into a clarification of the policy which these programmes were intended to deliver. We were also obliged to look, albeit in less detail, at the roles of other organisations involved in the process of developing public housing, as well as the Government's role with respect to private sector housing.

2. In 2001, two developments occurred which required us to reconsider the scope and direction of our report. The first of these developments was the continued economic downturn and weak state of the private sector residential property market. This short term problem did not mean a change to the Government's long term housing goals. However, it underlined the need for a re-statement of the Government's housing policy to show that it could respond to changed circumstances. It lent urgency to the Government's move away from the traditional method of public housing assistance – the physical construction of flats in the public sector – towards a more flexible and cost-effective system based on direct fiscal subsidies.

3. The second development was the announcement in April 2002, following the Chief Executive's commitments in October 2000 and October 2001, of a system of accountability for Principal Officials (Secretaries of Department and Directors of Bureau) of the Hong Kong Special Administrative Region Government. This had implications for the reform of the Government's structure for developing and implementing public housing policy. Our recommendations for change are consistent with the proposed new accountability system for the Principal Officials, while not pre-empting decisions on how that system is more generally implemented,

nor constraining the future Principal Official with responsibility for housing to a detailed blueprint.

Historical background

4. The revised Long Term Housing Strategy promulgated in 1998 emphasised the role of the private sector in housing provision. It led to a substantial reduction, in absolute and percentage terms, in the number of inadequately housed households, as reflected in the subsequent reduction in the average waiting time for public rental housing. It provided the basis for an increase in the home ownership rate (to the present level of 55%), despite unfavourable economic circumstances. The 1998 Long Term Housing Strategy also endorsed specific policy initiatives to help us to achieve the Government's broader strategic goals, including the sale of public rental flats to sitting tenants, the re-enforcement of means testing for public housing assistance, a holistic approach to assessing long term housing demand and a transparent system of land disposal to the private sector.

5. Underlying the initiatives in the Long Term Housing Strategy was a realisation that the role of the private sector had been eroded over time and that provision of housing subsidy solely in the form of traditional "bricks and mortar" was unsustainable. However, the 1998 White Paper did not quantify the speed at which the Government should move away from a de facto public-led housing programme. The introduction of rental allowances was not, for example, formally put forward. Criticism of the Government's housing policy, as unclear and inconsistent, intensified after the economic downturn and fall in property prices in 1998. A clear re-statement of the Government's housing policy, updated to take into account events since 1998, is accordingly necessary.

Policy framework

6. Housing is a major livelihood issue in Hong Kong. At the same time, it makes an important contribution to Hong Kong's present and medium term internal economy. We summarise the Government's policy

framework under the headings used by the Housing Bureau over the last seven years in successive Policy Objective Booklets.¹

Housing demand

7. Regular assessment of housing demand, based on the Government's existing policies and demographic information, is essential to determining the Government's long term land requirements for housing. Since 1996, the Housing Bureau has operated a housing demand model. The forecasts produced by the model are not used as an instrument to regulate housing production, but publication of revised long term demand estimates can help public understanding of the Government's housing policies.

Land supply for housing

8. It is necessary to maintain an adequate and timely supply of land to achieve the Government's public sector housing targets. The Government also needs a transparent mechanism to allow private developers to apply for the purchase of new land. In parallel, it needs to co-ordinate housing development with that of infrastructure. The mechanisms needed to achieve these objectives have been put in place since 1997. Because of the complexity of many housing developments and the conflicting interests involved, the Government also requires a forum for the final resolution of site-specific problems affecting housing production. This exists in the form of the Steering Committee on Land Supply for Housing (HOUSCOM), now chaired by the Chief Secretary for Administration.

Role of the private sector

9. Having established parameters for housing demand and long term land supply, the Government looks to the experience and resources of the private sector. While the Government recognises the historical role of the Government's public housing agencies, it accepts the urgent need to refocus

¹ Issued between 1995 and 2001.

on private sector potential to meet the more sophisticated aspirations of the Hong Kong community in the 21st century. It is now more than ever the Government's task to see that public sector housing is confined to those whose needs cannot be met through the free operation of the private sector market.

10. To allow the private sector to play its proper role, the Government ensures the operation of a free private sector residential property market and, where appropriate, enforces good market practices, for example for estate agents.

Home ownership

11. Home ownership remains the aspiration of many in the community. It fosters social stability and a sense of belonging. Attaining the social goal of increased home ownership ultimately depends on choices made by individual households. Having said this, the public sector contributes significantly to increased levels of home ownership, for example through the sale of flats to existing public rental tenants.²

12. The Government's housing assistance to the low income group will continue to encourage home ownership rather than rental dependence. The means used to achieve this will be cost-effective, market responsive, and offer maximum choice to consumers. The Government will reduce progressively the level of subsidised home ownership flat production to the minimum required to provide insurance against unforeseen changes in the economic situation. Instead, adequate loan finance will be made available to allow eligible households to purchase flats in the private sector. The benefits to the families concerned will be paralleled by the benefits to the public purse.

13. "Mixed" development may also in some cases be used to foster private sector participation and home ownership in the re-development of

² In the first four phases of the Housing Authority's Tenants Purchase Scheme, 70% of tenants elected to purchase flats.

old and large public rental estates.

Public rental housing

14. The Government accords a high priority to providing public rental housing to those who cannot otherwise afford adequate accommodation. In line with the principles of consumer choice, cost-effectiveness and responsiveness to market need, the Government also intends to test the wider application of rental allowances as an additional choice for the low income group. At the same time, the Government is aware of the potential pitfalls of an over-rapid reliance on a limited private sector rental market. The way forward will therefore be through carefully constructed and monitored pilot schemes offering alternative choices to eligible households in the public sector market. As for existing public rental stock which is in saleable condition and which is not essential to meet the housing needs of the low income group, the Government will continue to offer this for sale through the Tenants Purchase Scheme, until such time as an optimum stock of public rental flats has been established to meet the continuing needs of low income households.

15. In building public rental housing (including interim housing), the Government will continue to adhere to basic levels of finishes, using architecturally imaginative designs. Standards of public housing construction will be appropriately regulated.

16. The waiting list concept is enforced in the interests of those in genuine need. The Government will strive to maintain the average waiting time at a level of three years. Means testing is imposed on penalty of increased rent or, ultimately, eviction. At the same time, public rental levels remain highly affordable.

Groups in special need

17. Housing assistance of whatever type for all households is subject to the basic principles of affordability and the availability of Government resources. With the clearance of old Temporary Housing Areas and

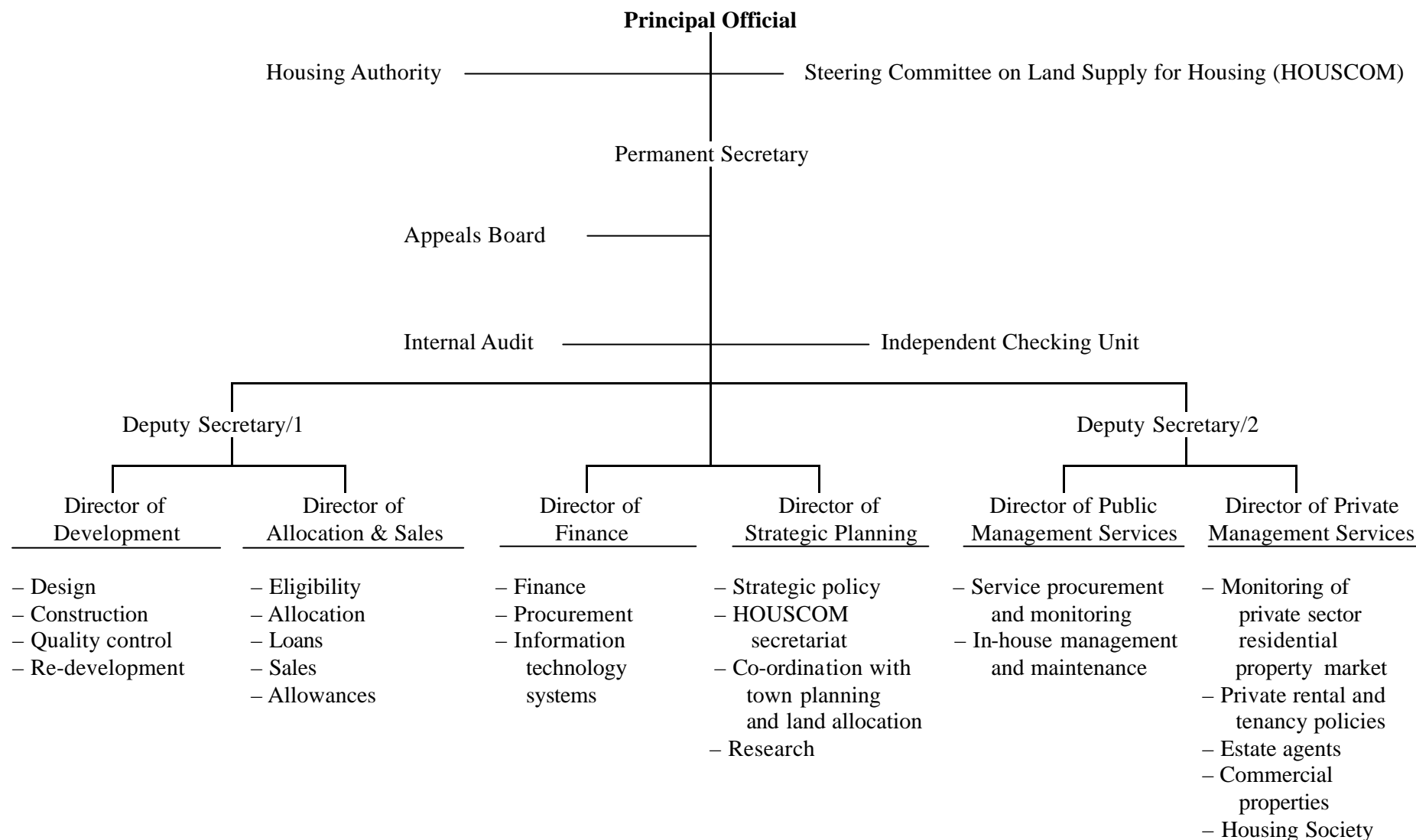
Cottage Areas and the reduction in the level of inadequate housing generally, the Government has addressed successfully the housing problems of many historical “special need groups”. This reduces the requirement for priority to be given to selected categories of household in the allocation of housing assistance, which in turn means that households in genuine need of housing can be treated more equally and fairly. It also minimises the need to hold vacant flats empty for the benefit of “special need groups”. A deliberate exception to this policy is the elderly, to whom the Government will continue to accord special priority in housing as in other areas of public assistance.

Recommendations: housing organisation

18. In order to deliver better the Long Term Housing Strategy, updated to take into account new circumstances, structural changes are needed to the Government’s organisational framework for housing. These changes will be linked to the introduction of the system of accountability starting from July 2002. They will ultimately result in a streamlined organisation with a single spokesman for housing matters and a single line of responsibility running from policy formulation through to detailed implementation. To achieve this, we make in this report specific recommendations on the key features of the future structure of the organisations specified in our terms of reference. We accept that many details of the new structure will fall to the prospective Principal Official responsible for, inter alia, housing (“the Principal Official”) to determine, when he or she is appointed, and will require amendment to existing legislation.

19. These recommendations and the resulting new structure illustrated at Appendix will, we believe, provided the people of Hong Kong with a more efficient, cost-effective, focussed and transparent system of delivering the Government’s public housing programmes.

Suggested framework for new housing organisation



Note: The terms “Permanent Secretary”, “Deputy Secretary” and “Director” are used for convenience. The actual titles and ranking of these and other posts in the new housing organisation remain to be determined.

Summary of recommendations

Recommendation 1

Control over housing policy should be vested in a Principal Official, subject to direction by the Chief Executive acting on the advice of the Executive Council. The Principal Official should be the sole spokesman on the Government's housing policy.

Recommendation 2

The Principal Official should be appointed Chairman of the Housing Authority ex officio following an appropriate change to the relevant legislation.

Recommendation 3

The Principal Official should be supported in formulating and implementing housing policy by a Permanent Secretary and be assisted in this task by the Housing Authority in accordance with its statutory remit.

Recommendation 4

The Housing Bureau and the Housing Department should be re-organised into a single organisation (the new housing organisation) with a unified chain of command. The new housing organisation should respond through the Permanent Secretary to the Principal Official.

Recommendation 5

The strategic policy and research functions of the new housing organisation should be enhanced to ensure integration of the private sector and public sector housing portfolios and co-ordination with other policy areas such as planning, lands and infrastructure.

Recommendation 6

The Housing Authority should initially maintain its existing remit under the Principal Official. In the longer term, however, the executive functions of the Housing Authority should diminish in parallel with its loss of financial sustainability, while, on the other hand, it should advise the Principal Official both on private and public housing matters. The manner and speed with which this transition is accomplished will be matters for the Principal Official to determine, as will the legislative changes required.

Recommendation 7

Interim arrangements with respect to the executive functions of the Housing Authority and its committees as well as its finances should be put in place to ensure the smooth operation of the new housing organisation.

Recommendation 8

The present, pluralistic system of appointment of Housing Authority Members should remain in place.

Recommendation 9

The Principal Official should strengthen the formal and informal links between the new housing organisation and the Legislative Council.

Recommendation 10

The HOUSCOM system should continue to operate under the chairmanship of the Principal Official, with HOUSCOM “Project Directors” being directly responsible to the Principal Official for their HOUSCOM-related duties.

Recommendation 11

HOUSCOM should be responsible under the Principal Official for

forecasting land supply required for housing development and, in this context, the demand for and supply of public sector housing.

Recommendation 12

In the longer term, the functions of the Long Term Housing Strategy Advisory Committee should be taken up by the Housing Authority.

Recommendation 13

The committee structure of the Housing Authority should, in the short term, be streamlined so as to –

- (a) group the responsibilities of the Housing Authority’s existing committees under three new committees (dealing with corporate services, subsidised housing and design and development);
- (b) progressively delegate executive functions to civil servants within the new housing organisation; and
- (c) create an Executive Board to replace the existing Strategic Planning Committee as a forum for providing advice to the Principal Official on housing policies and on overseeing the business of the new housing organisation with the assistance of a Tender Board and an independent Audit Committee.

Recommendation 14

Streamlined secretarial support should be provided by the new housing organisation to the Housing Authority and its committees to enable them to discharge their advisory duties more effectively.

Recommendation 15

The Housing Authority should divest itself progressively of its “non-core” business including, for example, the management of commercial properties.

Recommendation 16

The new housing organisation should continue to work towards enhancing the quality of public housing by –

- (a) transferring responsibility for building control of public housing projects to the Buildings Department;
- (b) improving the training, organisation, management and motivation of project staff to facilitate moving away from standardised designs;
- (c) reviewing procurement systems with a view to securing competent business partners, achieving equitable risk-sharing, fulfilling clients' requirements and maintaining a fair appraisal system, tightening tender procedures and making better use of private sector resources as far as possible;
- (d) where necessary, checking with the Buildings Department regarding non-performing consultants and contractors in the interim; and
- (e) changing from the ISO 9000 quality system to the Year-2000 version which focusses on work output rather than prescriptive procedures.

Recommendation 17

The Housing Society should be invited to work with the Urban Renewal Authority towards a strategic partnership for urban renewal.

Recommendation 18

A Memorandum of Understanding should be agreed between the Housing Society and the new housing organisation defining the roles and responsibilities of both parties with respect to the Housing Society's remaining public housing functions.

Recommendation 19

The new housing organisation should consult the Home Affairs Bureau on a possible review of the Building Management Ordinance with a view to improving the legislative framework for private sector residential building management.

Recommendation 20

The new housing organisation should monitor actively the progress of rail-related housing developments and those of the Urban Renewal Authority, assess their implications for the Government's housing policy objectives and proactively seek HOUSCOM's guidance on these implications as necessary.

*To see the text of the full report, please visit the website:
<http://www.info.gov.hk/hb>*