THE HONG KONG HOUSING AUTHORITY

Memorandum for the Housing Authority

Greater Private Sector Involvement
in the Housing Authority’s
Estate Management and Maintenance Services:
Implementation Strategy and Implications

PURPOSE

The purpose of this Paper is -

(a) to present the Report of the Housing Authority (HA) Task Force and to seek Members’ approval of its recommendations in respect of the implementation strategy to take forward the decision of increasing private sector involvement in the HA’s estate management and maintenance (EMM) services;

(b) to inform Members of the related staffing arrangements as approved by the Government; and

(c) to seek Members’ approval of the related funding proposals.

BACKGROUND

2. Members approved vide Paper No. HA 31/99 the proposal to progressively outsource HA’s EMM services in respect of the existing public rental housing (PRH) stock under a phased service transfer (PST) approach. The Chairman of the HA appointed a Task Force in June 1999 to consider the implementation details of the service transfer, and simultaneously to consider the viability of the management buy out (MBO) option.
3. At the corporate level, Members further approved a proposal to commission an independent consultant to identify the scope for streamlining the organizational structure of the HD, de-layering of support and overhead functions, and strengthening internal control and auditing. While substantial progress has been made, the development of service costs and benchmarking with the private sector have proved to be both difficult and complex. The consultant is currently completing work on the streamlining proposals, and proposals for the arrangements for auditing.

4. The HA also agreed, upon completion of the consultancy study, to further explore the Sixth Option, which was proposed by the Alliance of the Housing Department’s (HD) staff unions as a potentially competitive in-house management model. The Task Force liaised closely with the HD and the Alliance to keep track of any development in this area.

5. It was recognised that success of the PST approach and the MBO option would hinge upon the development of a package of incentives sufficient to encourage staff to cross over to the private sector. Thus in parallel with the Task Force’s deliberations, the HD set up a Committee on Staffing Arrangements in September last year to work closely with the Government, and with representatives from the Alliance, to develop proposals for a staff release package.

6. The Task Force completed its work in December 1999 and submitted a report to the Chairman. The Task Force’s recommendations, together with the staffing arrangements as agreed by the Government, and the related financial implications, were submitted to the joint meeting of the Human Resource Committee and the Finance Committee on 13 January 2000. The meeting endorsed the funding arrangements for the HA’s approval. The following paragraphs set out first the Task Force’s main conclusions and proposals, and second the staffing arrangements and related financial implications.
RECOMMENDATIONS OF THE TASK FORCE

7. The Task Force’s deliberations are detailed in the attached Report. In developing the implementation strategy, two fundamental objectives have been observed. First, the interests of staff should be duly considered. Second, both the cost-effectiveness and performance standards of the EMM services should be enhanced. The implementation details of the phased service transfer contracts have been tailored to meet the objectives as follows -

(a) outsourcing the EMM services in an integrated manner providing for the transfer of staff involved in the EMM services to the private sector in the process;

(b) allowing more eligible service providers to compete for the work at a measured pace and selecting them on both cost and performance considerations; and

(c) introducing a comprehensive monitoring system with customer participation to gauge performance standards, and linking the result with future tendering opportunities.

The Task Force’s recommendations, set out in paragraph 8.2 of the Report, are highlighted in the following paragraphs.

Phased Service Transfer Approach

8. It is proposed progressively to transfer a comprehensive range of EMM services including property management and maintenance services, with a gradual start of no fewer than 25,000 units from the existing PRH stock in 2000/2001, and 50,000 units in 2001/2002. These would be in addition to the new PRH estates coming on stream. The pace of transfer thereafter would be reviewed within the initial two years of implementation in light of both market and staff response, and would be adjusted as necessary.

9. As an important and integral part of the outsourcing process, successful tenderers would be required to employ HD staff, who are willing to transfer, at a proposed level of not less than 20% of the estimated staffing requirement of individual PST contracts. A higher in-take level will be encouraged through a credit point system in tender evaluation. The stipulated in-take level will be reviewed as staff’s response to the PST approach becomes
clearer, but is necessarily a compromise between providing maximum job opportunities for the HD staff while imposing least restriction on the private sector’s commercial operation.

10. A three-year contract term is proposed, and renewal will be subject to satisfactory performance and negotiation on the contract prices in accordance with prevailing practices and guidelines. Typically the PST contracts will cover 8,000 to 10,000 units, i.e. batches of 2 to 3 estates allowing a balanced mix of new and existing PRH estates. Reimbursement of management and maintenance expenses will be based on a lump sum fixed price as far as possible, and disbursement will be effected through regular monthly interim payments in arrears.

11. Specifications on service standards will be output-oriented with clearly defined key performance indicators (KPIs), and a comprehensive reporting system will measure performance objectively against the KPIs. A central quality monitoring team will be responsible for assessing and comparing the service standards of individual service providers, through periodic sampling of tenants’ views, regular auditing and surprise checks on the various functional aspects of the EMM services, and consulting the Estate Management Advisory Committees and other relevant committees. Customer participation in performance monitoring will be encouraged through establishing efficient channels to collate tenants’ feedback on service standards, arranging regular customer liaison meetings, and conducting annual surveys on tenants’ opinions on the EMM service standards based on the published KPIs.

12. It is important that good performance be recognised and rewarded with more business opportunities. Quality service would thus be a pre-requisite for renewal of contracts as referred to in paragraph 10 above. It is also proposed that a two-envelope tender evaluation system be adopted, with 50:50 weighting on tender sum and technical proposal respectively. The latter will include assessment of past performance records, alongside consideration of staffing and management proposals submitted for the PST contracts.
13. A new list of property services companies is proposed to be established in view of the experience and expertise required in both property management and maintenance services. More eligible service providers will be encouraged to join the list, and this should help to boost the quality of service through competition. In order to meet the tendering schedule of the PST contracts, the new list would have to be drawn up in a tight time frame (see also paragraph 39 below), and it is proposed that authority be delegated to the Director of Housing regarding the finalisation of the listing rules.

**Management Buy Out (MBO) Option**

14. The MBO option provides an alternative avenue for staff affected to cross over to the private sector, and allows flexibility both in terms of staff choice and industry response to the new market opportunity arising from increasing private sector involvement in the HA’s services. The MBO proposals are confined to the EMM services, and may be offered in areas of works across the whole range of services including property management, cleansing, security services, maintenance works, etc. Staff will be allowed considerable flexibility in securing financing under the MBO option, including partnering with private sector entities which are interested in or are already engaged in the HA’s EMM services.

15. Some restrictions are however considered necessary to ensure that the HD staff have and retain a substantial interest in the MBO proposal throughout at least the first MBO contract. These include -

   (a) a minimum of 51% shareholding should be held by the HD staff; and

   (b) not less than 50% of the key supervisory staff and not less than 30% of the remaining subordinate team structure should be recruited from the HD staff with relevant experience and qualification.

16. Some initial support in awarding the MBO contracts is proposed to enable the new MBO entities to develop into viable businesses. In respect of the EMM services with established outsourcing policy and open-tendering programme, preference will be given to the MBO teams by relaxing the listing requirements and allowing interested MBO entities to bid for their first contracts with other tenderers on the Approved Lists. MBO entities may also come
forward with proposals in other areas of the EMM services, in which case restricted tendering exercises or exclusive negotiations may be arranged. Once an MBO entity succeeds in securing its first contract, it will thereafter be subject to the prevailing requirements for listing and tendering, if it were to bid for any of the HA’s services contracts. MBO contracts will also be subject to the same quality monitoring system as other service providers.

17. An independent HA selection panel will be set up to assess the viability and cost-effectiveness of the MBO proposals on a case-by-case basis. Assessment will be based on the principles that no inappropriate benefits or inequitable use of the HA’s resources are involved in the MBO contracts, and that a level playing field is seen to apply in outsourcing the EMM services.

**STAFFING ARRANGEMENTS**

18. Currently there are about 9,200 posts involved in the EMM services. If hypothetically all the EMM services of all the PRH units were to be progressively outsourced, some 5,900 posts would have to be deleted. Both the PST approach and the MBO option aim at providing more opportunities for staff and minimizing the future redundancy problem arising from the Tenants Purchase Scheme and other home ownership initiatives, as the tenants progressively become owners and secure the right to choose their preferred service providers. In order to help create the momentum necessary for the success of the PST approach and the MBO option, and to give equal opportunity to all EMM staff potentially affected, it is intended to make available voluntary choices to them. The staffing arrangements as set out in the following paragraphs 19 to 21 have been agreed on by the Government.

19. The options to be made available to affected staff are -

   (a) to remain in the civil service; or

   (b) to leave the civil service (including joining property services companies or MBO teams; forming MBO companies as owners; or leaving without participating in any of the above) with a reasonable release package.
The option period will be three years from tentatively, 1 March, to allow ample time for staff to consider their choices, and for the management to synchronise the departure of staff with the service transfer.

20. Staff who opt to leave the civil service, irrespective of whether they would join any property services companies or MBO companies, will be eligible for a release package as follows –

(a) A basic package calculated on Abolition of Office (AOO) terms, comprising –

(i) payment of an enhanced pension (normal pensions plus an increase as provided by the pensions legislation); and

(ii) an ex-gratia payment equivalent to six times the staff’s final monthly salary.

(b) A special payment calculated on the basis of one month’s salary for every five years before the staff reach their normal retirement age and pro-rata for shorter periods.

(a) The purchase of Home Ownership Scheme (HOS) flats under the HOS Secondary Market Scheme, generally based on the eligibility criteria under the Civil Service Public Housing Quota.

(b) Others -

(i) Allowing a period of up to three months for staff to vacate their departmental quarters after their departure from the civil service;

(ii) Allowing eligible Estate Assistant (EA) grade staff appointed before 1 January 1991 to continue paying a concessionary rent for their public housing flats for five years after their departure, or up to the date of their normal retirement, whichever is earlier; and

(iii) Assisting EA grade staff appointed before 1 January 1991 to be issued with Letters of Assurance regarding housing benefits if they meet the prevailing criteria.
The rationale of the release package is detailed at Annex A.

21. As an additional inducement, those who have registered their option within the first six months of the option period and later succeed, within a period to be determined by the HD, in transferring to property services/MBO companies or forming MBO companies as owners (provided all such companies have secured a PST or MBO contract), will be eligible for a fixed lump-sum sign-up bonus. The bonus would be equivalent to three times their last monthly salary payable in two installments after their first and second year’s service respectively with the private companies.

22. All departmental grade staff potentially affected by the EMM service transfer are eligible for the release package. The Director of Housing and two Deputy Directors are specifically excluded. Subject to approval of the HD, eligible staff may leave the service and draw the release package in accordance with the administrative arrangements and time schedule to be finalised, taking into account the operational needs of the HD. Officers due to reach their retirement age in 12 months from the departure date are however not eligible for the release package.

23. Individual staff would obviously have different considerations in deciding whether to leave or stay in the civil service, and no accurate assessment of numbers who will opt to leave is possible at this stage. If the situation should arise, where the number of staff in a particular grade or rank opting to leave does not match with the pace of the service transfer, arrangements will be made, including hiring outside services or creating temporary HA posts, to manage the mismatch. In any case, staff’s response will be taken into account in the review of the pace of transfer during the first two years of implementation as referred to in paragraph 8 above.

24. While ways have been explored to help staff transfer to the private sector on the best terms which can be arranged with both the Government and private firms, the interests of those who stay put have also been duly considered. The reduced scale of activities within the HD will clearly have an impact on career development and advancement opportunities for those staff who opt to remain, and they will have to prepare themselves for expanded roles. Counselling will be provided, redeployment opportunities will be explored and training will be stepped up to bridge possible skill gaps. Different types of enhancement training will be arranged to cater for the needs of different groups...
of staff, and training initiatives will be aligned with the competency requirements of the HD’s future management model. A new departmental sub-group on Staff Training and Development Opportunities will be formed to examine these issues, and the Alliance’s participation will be invited.

25. The March date for the commencement of the option period has been chosen so as to give those staff who are keen to opt for the release package ample time to make a decision and to negotiate terms with future employers. Consultation with staff on detailed administrative arrangements will however be continued in parallel, and the earliest departure date is anticipated to tie in with the commencement of the first batch of the PST contracts.

THE SIXTH OPTION AND MANAGEMENT ENHANCEMENT

26. Following the HA’s decision to further consider the Alliance’s Sixth Option, a departmental working group was formed to assist the Alliance to develop the proposed concept. However the Alliance discontinued their participation before any progress was made, their main concerns being the status of the working group and whether in-house and outsourced services could be compared on a fair basis. The Task Force subsequently requested the Alliance to submit any development on the Sixth Option for the Task Force’s consideration, but no concrete proposal has so far been received.

27. Whether the Alliance’s concept can be developed into a practicable solution to address the gap in service costs is yet to be seen, but the HD is still keeping the door open for the Alliance to make proposals on the Sixth Option. In the meantime, the HD will review the management model of the PRH estates not yet transferred, with a view to enhancing its competitiveness and cost effectiveness.

REACTION TO THE IMPLEMENTATION PROPOSALS AND STAFFING ARRANGEMENTS

28. As the implementation details of the service transfer and the staffing arrangements will have an impact on staff, the industry as well as the public at large, their views and response to the proposals and recommendations have to be duly considered.
Reaction from Staff

29. Staff reactions are mixed. At the individual level, some staff eager to leave the HD will welcome the finalisation of the package. Those who do not want to leave the civil service will welcome the option to stay put, albeit with diminishing career opportunities. Interests amongst the Alliance’s member associations may be diverged, but the Alliance remains concerned about possible forced redundancy for affected staff who opt to stay in the HD. It is however not possible to give an absolute guarantee to address the Alliance’s concern, but it is anticipated that the release package will provide incentives for voluntary departure and the transfer rate will be satisfactory, and all possible placement and redeployment opportunities will be exhausted in respect of the staff who choose to remain.

Response from the Industry

30. The property services industry has been expanding steadily, with an average growth rate of 9% per annum during the decade from 1986 to 1996. Despite the economic downturn experienced since then, the rate of job growth in 1999/00 stands at 1.5% according to the Manpower Survey Report 1999 issued by the Real Estate Services Training Board of the Vocational Training Council. Response from the industry on the HA’s initiatives on greater private sector involvement has been positive and promising. The proposed implementation details of the service transfer will create new market opportunities, and the industry is encouraged to respond with development in technologies and multi-skilling work practices in seeking long-term competitiveness.
Public Reaction

31. Public reaction to the proposed implementation details and staffing arrangements remains generally supportive. LegCo members of the Panel on Housing and the Panel on Public Service have been briefed on the proposals and arrangements. The staffing arrangements have in general received support as it offers staff options to leave voluntarily with a reasonable release package. While some are concerned that the package is over-generous and would incur significant public expenditure, the arrangements must be considered in light of the merits and long-term cost effectiveness in implementing the PST approach.

FINANCIAL IMPLICATIONS AND FUNDING ARRANGEMENTS

32. The funding proposal in respect of the release package is for the HA to pay the enhanced portion of pensions and other additional incentives, and for the Government to pay the normal pensions. The HA has already contributed towards pensions through the monthly reimbursement of staff salaries and on-costs to the Government. Agreement has been sought from the Government regarding payment of the normal pensions in respect of the release package under the voluntary departure scheme for affected staff.

33. Based on the pace recommended by the Task Force initially to transfer no fewer than 75,000 units from the existing PRH stock for the first two years of 2000/01 and 2001/02, some 630 surplus departmental posts and 120 surplus general and contract grade posts will have to be deleted. The general and contract grade posts can be transferred to other Government departments or discharged upon completion of current contracts. Potential savings are anticipated, arising from the difference between the staff cost of providing the service in-house and the cost of the service transfer. The latter includes remuneration paid to the property services companies and contribution to the release package.

34. The estimated cost saving is at best a rough indication at this point in time, as a more realistic estimate of the outlay on the release package can only be made after the options of staff and their indicated time of departure have actually been received. Assuming the number of staff opting to go in the first two years largely matches with the 630 surplus departmental posts, and based on
the funding arrangements referred to in paragraph 32 above, the financial implications are as follows –

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<thead>
<tr>
<th></th>
<th>Within initial two years (2000–2002)</th>
<th>Aggregate in five years from 2000</th>
<th>Aggregate in ten years from 2000</th>
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<tbody>
<tr>
<td>Estimated saving from outsourcing the EMM services</td>
<td>$75M</td>
<td>$477M</td>
<td>$1,252M</td>
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<tr>
<td>Estimated outlay of enhanced pensions and incentive payments to be borne by the HA</td>
<td>$261M</td>
<td>$312M</td>
<td>$346M</td>
</tr>
<tr>
<td>Estimated saving</td>
<td>($186M)</td>
<td>$165M</td>
<td>$906M</td>
</tr>
</tbody>
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According to the above preliminary estimates, the enhanced pensions and incentive payments to be borne by the HA may amount to some $261M for the first two years, $37.1M for the third year and $6.8M annually thereafter (refer to Annex P of the Task Force Report). Outlay in the first two years is relatively substantial as the pension terms allow retired staff to commute a part of their annual pensions into a lump sum payable up front.

35. Based on the proposed funding arrangements, supplementary funds of $205M is required for 2000/01 to cover the expenses as estimated under paragraph 34 above. If required, further budgetary approval will be sought in due course when the actual figures are finalised after receiving staff’s response.
RECOMMENDATIONS

36. It is recommended to -

(a) approve the implementation details on the PST approach including the scope, pace, contracting strategy, performance monitoring, etc. all as detailed in paragraph 8.2 (a) to (h) of the Task Force’s Report; and approve the delegation of authority to the Director of Housing to finalise the listing rules for the new Approved List of property services companies as referred to in paragraph 13 above;

(b) approve the ground rules and assessment guidelines of the MBO option and the setting up of an independent HA selection panel to assess MBO proposals all as detailed in paragraph 8.2 (i) of the Task Force’s Report;

(c) note the related staff release package and staffing arrangements approved by the Government as referred to in paragraphs 19 to 21 above, and the financial implications as referred to in paragraphs 33 to 34 above;

(d) approve the funding arrangements between the Government and the HA on the staff release package as referred to in paragraph 32 above; and

(e) approve supplementary funds of $205M in 2000/01 to cover the estimated payments in respect of the staff release package as referred to in paragraph 35 above.

WAY FORWARD

37. Subject to the HA’s approval of the above recommendations, an intensive programme will be launched immediately to inform staff and the general public on the HA’s decisions, and a tentative work plan for implementing the service transfer is provided at Chapter 7 of the Task Force’s Report.

38. Staff will be invited to give an indication of option tentatively commencing 1 March 2000. Detailed administration arrangements will be
finalised in good time to meet the commencement of the first batch of the PST contracts, in late 2000.

39. The industry will be briefed about the PST approach, and the new Approved List of property services providers will be established as soon as possible so that tenders for the first batch of the PST contracts can be invited tentatively before April 2000.

40. The HD will consider submissions from the Alliance as and when there is any proposal to take forward the Sixth Option in establishing a more cost-effective in-house management model.

ADVICE SOUGHT

41. At the HA meeting on 27 January 2000, Members will be asked to approve the recommendations as set out in paragraph 36.