THE HONG KONG HOUSING AUTHORITY

Memorandum for the Building Committee

Year-end Performance Review for Building Business in 1999/2000

PURPOSE

This paper presents the year-end review for the Building Business in 1999/2000.

BACKGROUND

2. As part of the corporate planning process, Heads of Branches will draw up business/service plans in respect of their core business/service for endorsement by the relevant business committees. This is to ensure that a coherent and effective set of polices and programmes can be put in place to achieve the Housing Authority’s strategic objectives. The 1999/2000 business plan on the Building Business was approved by Members in November 1998 vide Paper No. BC 150/98. Members were informed in November 1999 vide Paper No. BC 191/99 of the mid-term progress in implementing the key initiatives set out in the 1999/2000 business plan. This paper reports our overall performance in that year.

PERFORMANCE REVIEW

3. With the Government’s continued and firm commitment to produce an average of 50,000 flats a year, the Public Housing Development Programme has set out clear production targets for the next eight years. The Building Business has been operating under the steady steer of this long term strategy. However, It has to continue gauging customers’ ever changing needs in our dynamic economic situations and adjust production mixes to suit. The production target for the year was not less than 58,000 flats, 80% more than the 30,000 flats produced the year before. Construction activities were also heading at full swing for the next year’s production target, which will rise to the peak of over 90,000 flats.
4. Piling problems were found at Tung Chung, Yau Tong, Tin Shui Wai and Shatin Yuen Chau Kok during the year. The Authority launched a Preventive Foundation Enhancement Programme (PFEP) last December to review the adequacy of the foundations of 364 blocks in 105 projects under construction to ensure the structural safety of these blocks. Independent assessments under PFEP have confirmed that none of these blocks have any structural safety concern. To rebuild public confidence in quality of public housing, the Authority has embarked on a comprehensive review on public housing quality, and has also appointed two Investigation Panels to investigate the accountability at Tin Chung Court and Yuen Chau Kok. The Authority has agreed to take forward recommendations of the two Investigation Panels and the recommendations drawn up from public consultation on the results of the comprehensive review as contained in the consultative document “Quality Housing – Partnering for Change”.

5. The regular business has been proceeding in accordance with the Business Plan on all fronts to achieve the business objectives. These objectives include housing production to targets, with the required quality and in a cost-effective manner, making greater use of private sector resources, facilitating the Comprehensive Redevelopment Programme (CRP), enhancing environmental protection. Though not specifically set out in the Business Plan, the business has also made substantial progress towards improving site safety.

6. The year-end overall performance of the key initiatives set out in the Business Plan for the Building Business is summarised below-

<table>
<thead>
<tr>
<th>Total no. of initiatives committed</th>
<th>Status of Committed Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Action Completed</td>
</tr>
<tr>
<td>18</td>
<td>10</td>
</tr>
</tbody>
</table>

The performance of individual business initiatives is shown at Annex A. Our major achievements and reviews, together with an account of the initiatives that are behind schedule, are highlighted in the ensuing paragraphs.
Targets of Public Housing Production

7. Sufficient sites have been identified for producing an annual average of 52,000 public housing flats for the next eight years. The Authority had exercised strict quality control over the handover of completed flats. 48,484 flats were completed and handed over last year. As a result of our insistence on quality, some 10,000 flats required making good of defects and slipped about one to four months to the next year. They are flats in Tuen Mun Area 29 Phase 1 (8,736 flats), Shek Yam Phase 2 (810 flats), Homantin South Phase 3 (1,595 flats), and Pak Tin Phase 4 (1,298 flats). These flats are now reprogrammed for completion by May 2000 and the slippage will be closely monitored. The foundation problems also caused serious delay to Tin Shui Wai Area 31 Phase 1 (1920 flats) planned for completion last year. These flats will be completed in portions from July 2000 to March 2002.

Quality of Public Housing Production

8. The initiatives to improve quality of public housing through enhancing customer focus and improving design except two were completed to plan. The consultancy study and annual opinion survey were completed to identity present customer needs. Detailed design of a New Harmony Block was completed, with improved layout and size, improved kitchen and bathroom, as well as reduced cost. HOS design was under review to improve the overall efficiency and the central core as well as to simplify fitting out of Concord Blocks. Public consultation was completed on provision of “Basic Shell” and “Fully-fitted” options to owners during selection of HOS flats. Based on a risk assessment study, the Model Client Brief for Small Household Developments has been reviewed. To enhance identity in public housing estates, options have been provided in standard blocks for facades, gable ends and ground level treatments. Variations in coloured glazing and aluminium window frames have been implemented. Trial panels for precast bay windows will be set up.

9. A few major systems were also revamped as planned to ensure delivery of the designed quality of production. They include PASS 2000, the preferential tender award system and the bonus scheme, the control list system of building materials and components, imposition of bonds, handover procedures, feedback system and audits on projects. These systems will be implemented and subject to ongoing reviews as part of the recommendations in “Quality Housing – Partnering for Change”.
10. The study on future life style and living habits of customers has been deferred because of shifting of priorities to allow more time to review HOS and rental small flats designs and to review environmental initiatives. As the purchasers choice survey and environmental matters have touched on life-style issues, the proposed survey can now be more focused. The study on prefabricated bathroom is behind schedule. The reasons are shifting of priorities and that the number of propriety bathroom products has increased. Mock-up is under construction. The initiative to set up mock-up flats for standard blocks was behind schedule as the scope of project had been increased to include “basic shell” mock-up, more choices for purchasers, prefabricated bathroom and new HOS flats. Completion date is now April 2000. As a result, public consultation on the mock-up sample flats will be conducted in mid 2000.

Cost-effectiveness of Public housing Production

11. Two research studies aimed to improve cost-effectiveness were behind schedule. The consultant in fact already completed the study on ready-mixed concrete and recommended measures to enhance competition. Since some recommendations relate to the Government’s policies and operations, consultation on these recommendations is necessary before a formal submission for consideration. Saving in life cycle costs is an ongoing pursuit. The planned study on life cycle costs was deferred because of other priorities, but is now established as an initiative under “Quality Housing – Partnering for Change”. Design, materials and specifications are undergoing ongoing review and improvement for cost effectiveness. The time management system has been installed in the Development and Construction Branch. This time management system, used in conjunction with the budgetary system, is expected to improve the monitoring of productivity of the Branch. An annual Enhanced Productivity Programme in line with the Government’s pledge will also be drawn up to enhance productivity.

Greater Use of Private Sector Resources

12. The planned outsourcing of projects to consultants for project management and inspection was completed. Out of the target of 27,000 flats last year, 20,979 flats were outsourced to architect-led consultants. The reduction in the number of flats outsourced was a result of reprogramming of projects. In addition, consultants were employed for watertightness tests and final inspections in a pilot project at Homantin South Phase 3. Consultants were also appointed in March 2000 to carry
out factory visits for precast concrete structural elements. The initiative on “design and build” was behind schedule but some staged submissions had been made. This initiative is now rescheduled as one of the initiatives under “Quality Housing – Partnering for Change”.

Comprehensive redevelopment Programme

13. Against the target of clearing 31 blocks, 17 blocks were cleared as scheduled. Clearance for the remaining 14 blocks was delayed to May 2000 because of late completion of reception estate and appeal by affected tenants.

Environmental Protection

14. The Authority has approved the Environmental Policy Statement and the implementation of an Environmental Management System. The system will govern our planning, implementation, auditing and review of projects to meet environmental objectives. We have played an active role to facilitate the development of the Hong Kong Building Environment Assessment Method for New Residential Buildings (HK BEAM (Residential)). Since the introduction of HK BEAM (Residential) was delayed from May to November 1999, the two environmental initiatives on setting targets to and implementing HK BEAM (Residential) had to be rescheduled accordingly. Two projects underwent HK BEAM (Residential) pilot assessments. “Good” provisional rating was obtained in a Concord Block project.

15. The development of the automated refuse collection system has been completed and the system is now a standard provision for domestic developments to be completed after January 2001. Some new environmental achievements include registration of lighting design of New Harmony Block in the Hong Kong Energy Efficiency Registration Scheme, use of smaller volume cisterns, reduction of air pollution by using alternative waterproofing materials for roofing and tanking to replace asphalt. Materials and specifications are also under review to enhance further energy efficiency, water conservation and air quality.

Site Safety

16. The Occupational Safety and Health Council was appointed as a consultant in October 1999 to advise on a long term site safety strategy. Follow up actions will be taken on a number of recommended site safety
initiatives this year. To enforce site safety, both penalties and incentives have been strengthened. Contractors are now subject to automatic suspension from tendering if their site safety performance is unsatisfactory. To reward contractors carrying out site safety duties, the Pay for Safety Scheme has been implemented since January 2000. Besides joining hands with other stakeholders to promote territory-wide campaign initiatives, the Authority will launch a strategically planned 3-year safety campaign, commencing from 2000. The Department has also commenced setting up a site safety unit, initially staffed by a site safety advisor to progressively unfold the site safety strategy.

**KEY PERFORMANCE INDICATORS**

17. The key performance indicators for the Building Business in the past year are as shown below -

<table>
<thead>
<tr>
<th>KPIs</th>
<th>Targets</th>
<th>Present Position as at 31.3.2000</th>
<th>Reasons for Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) No. of flats completed (including PRH/IH/HOS/PSPS and mixed development)</td>
<td>58,000</td>
<td>48,484</td>
<td>A few projects required making good of defects to quality standard and slipped to next year. One project was delayed by piling problems.</td>
</tr>
<tr>
<td>(2) No. of PRH/IH/HOS flats under construction</td>
<td>170,200</td>
<td>172,742</td>
<td>Target accomplished.</td>
</tr>
<tr>
<td>(3) Average development lead time per project</td>
<td>47 months</td>
<td>48 months</td>
<td>Development lead time is longer than standard for various reasons, including early SPC submission to allow more float time, changes in client’s requirements, inclement weather, slow progress of contractors, and unforeseen difficulties in piling.</td>
</tr>
<tr>
<td>KPIs</td>
<td>Targets</td>
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<tr>
<td>(4) Average slippage in project completion (month per project)</td>
<td>27 days</td>
<td>25 days</td>
<td>Target accomplished. Slippage has occurred in projects at completion stage, as more time has been required to rectify defects before handover.</td>
</tr>
<tr>
<td>(5) Project management (PM) cost as a percentage of construction expenditure not to exceed target</td>
<td>15%</td>
<td>10%</td>
<td>The actual construction expenditure over budget has reduced PM cost % by 2(%). The actual overhead allocation below budget has also reduced PM cost % by another 2(%). Were these two factors the same as budgeted, the PM cost % would have been 14(%), close to and controlled within target.</td>
</tr>
<tr>
<td>(6) Average no. of defects per completed flat reported at handover</td>
<td>4.5</td>
<td>2</td>
<td>Tightened inspection and control has reduced defects found at handover.</td>
</tr>
<tr>
<td>(7) Construction expenditure</td>
<td>$27.2 Billion (Original Budget)</td>
<td>$31.1 Billion</td>
<td>Expenditure over budget is caused by excessive global budget reduction, progress faster than expected, variation works and under estimation in budget.</td>
</tr>
</tbody>
</table>
KPIs | Targets | Present Position as at 31.3.2000 | Reasons for Variance  
---|---|---|---  
(8) Average construction cost per m\(^2\) CFA of flat for Rental and HOS blocks (excluding costs of demolition, site formation) | Target based on 6/98 cost yardstick (only available information at the time of preparing Business Plan): | Average construction cost based on actual tender prices over the past year: | The average construction cost based on actual tender prices is lower than the cost yardstick. It is noted that tender prices are not yet the final costs, which will only be known some years later after completion of the projects.  
Concord 1 | $7,761 | $7,534 |  
New Cruciform | $7,309 | $6,712 |  
Harmony 1 | $5,945 | $5,495 |  

**FINANCIAL PERFORMANCE**

**Construction Expenditure for 1999/2000**

18. The capital expenditure on construction projects for 1999/2000 was originally budgeted at $27,250.1M and revised to $28,451.5M during mid-year performance review. In the revised capital expenditure budget, a provision of $25,866M was allowed for the construction expenditure of Authority funded projects, and the remaining provision was for Government funded projects, and direct costs and overheads. The Authority approved a supplementary provision of $4,044.3M on 31 March 2000 according to the upward adjustment of the estimated construction expenditure for Authority funded projects from $25,866M to $29,910M.

19. Including the approved supplementary provision of $4,044.3M in the revised budget of $28,451.5M, the latest capital expenditure budget for 1999/2000 is $32,495.8M. The total provisional actual capital expenditure for 1999/2000 is $31,088.5M as shown in Annex B. This expenditure is approximately 96.4% of the revised budget plus supplementary provision.

20. The main reason for the construction expenditure of the Authority funded projects deviating from the revised budget is that the Department has based on past experience made a global reduction to budgetary figures prepared by project managers to avoid under spending.
The reduction amounted to $8,000M, which is excessive. Part of the variance is caused by progress of construction works faster than expected and under estimation in the annual cashflow budget. Some payments envisaged in the year 2000/2001 have therefore been advanced to the year 1999/2000, but the total project cost has not increased. In addition, variation to contract works ordered after approval of the cashflow budget is another reason for the variance.

21. As regards the trend of construction costs, the Authority has recorded a general fall in tender prices of about 4% since June 1999. As the Hong Kong economy has shown signs of recovery, tender prices have stabilised and a pick-up in the construction costs is expected in the coming year.

Construction Expenditure for 2000/2001 and Beyond

22. The capital expenditure on construction projects for the past year is a record high to meet the peak production. The capital expenditure for this year will start to return to normal, as the number of flats under construction in the coming two years will be lowered after the peak. The approved capital budget for 2000/2001 is $26,061.5M, a decrease of about 17% from the provisional actual capital expenditure of $31,088.5M for 1999/2000. The amount of decrease as well as the financial implications for the quality initiatives to be implemented under “Quality Housing – Partnering for Change” will need to be reviewed at the time when the revised budget for 2000/2001 is prepared. The total capital expenditure over the next four years to March 2004 is forecasted at approximately $98,074.7M, an average of $24,518.7M per annum.

INFORMATION

23. This paper is issued for Members’ information.

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