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THE HONG KONG HOUSING AUTHORITY

Memorandum for the Housing Authority and its Committees/Sub-Committee/Ad Hoc Committees

Reports from Chairmen of Committees

----- Enclosed are the reports from Chairmen of the following
Committees for Members' information.

Building Committee
Commercial Properties Committee
Finance Committee
Subsidised Housing Committee
Tender Committee

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Report by the Chairman of the Building Committee for 2004/05

INTRODUCTION

The Building Committee has made commendable efforts in planning, design and construction of public housing as well as making improvements on various fronts in year 2004/05. During the year, the Building Committee held ten regular meetings, three special meetings and two joint meetings with the Tender Committee. Altogether, the Committee processed 64 discussion papers, nine presumption papers and 37 information papers.

PUBLIC HOUSING PRODUCTION

Public Housing Construction Programme

2. Under the repositioned housing policy, the primary objective of the Housing Authority (HA) is to provide rental accommodation for low income families. We were able to meet and actually exceed our pledge of maintaining the overall average waiting time for Waiting List Applicants at three years. Our completion of some 22 000 ^{Note} flats last year is a major contributing factor to bringing down the overall average waiting time for rental housing to another historical low of 1.8 years. At the same time, the Building Committee has accorded a high priority and undertaken various initiatives in improving the overall quality of our public housing estates, making them a safe and healthy place to live in.

Comprehensive Redevelopment Programme

3. The Comprehensive Redevelopment Programme (CRP) was on schedule and we have cleared four blocks by the end of March 2005 as planned. Since the introduction of the CRP in 1988/89, we have cleared 535 blocks (95%) out of a total of 566 blocks. We aim to clear the remaining 31 blocks by 2008/09. The CRP has significantly improved the living environment of our tenants.

^{Note} Figures are rounded to the nearest thousand.

IMPROVING PUBLIC HOUSING DESIGN

Functional and Cost-effective Design

4. To ensure the rational use of public resources and to develop public rental housing blocks under the “Functional and Cost-effective” design approach, we have further updated the Model Client Brief and Schedules of Finishes, Provisions and Fittings for Public Rental Housing Developments. Provision of lift installation, refuse collection, laundry facilities, drainage trap and wall tile systems will be optimized with further saving of 0.43%. Our objective is to make the best use of the scarce housing resources without compromising the quality of public rental buildings so constructed and meeting the basic needs of our tenants.

Healthy Living

5. Striving to enhance the overall health and hygiene in the living environment of public housing estates, we have continuously embarked on a number of initiatives.

6. One of the initiatives is to examine and adjust, where appropriate, the overall densities of proposed public housing sites and new housing projects with a view to optimizing instead of maximizing their development potential. The development intensity of a number of committed housing sites has been reduced including Tin Shui Wai Area 103 and 104, Choi Wan Road Site One Phases 1 & 2, Sau Mau Ping Estate Phases 13 & 14 and Lam Tin Estate Phases 7 & 8. We will continue to apply this initiative to other projects currently under planning or design and, at the same time, strive to maintain the quality of new projects while ensuring their cost-effectiveness and financial viability.

7. We pioneered in undertaking micro-climate studies for some of our building projects during their design and planning stages. These studies help us achieve optimum disposition of building blocks and associated open space so that individual flats can capture the optimum level of natural daylight and ventilation which is extremely important in improving healthy living conditions of our estates. We adopted computerized simulation methods to model how factors such as wind environment, natural ventilation, solar heat gain and thermal comfort, daylight penetration, road traffic noise and energy use will affect the overall environmental performance of the buildings and the developments. The simulation data will facilitate designers to determine the optimal orientation of the building blocks in a particular site. In 2004/05, we have approved the master layout plan and a scheme design for the Upper Ngau Tau Kok project adopting these micro-climate studies.

8. After the site trial of using common U-traps to address the problem of dried-up floor traps, we have collaborated with a tertiary institution to carry out a technical review supported by laboratory tests to examine two options of new common trap design and submitted them for consideration by the Buildings Department before introducing them to public housing estates upon technical endorsement.

Design for Precasting and Prefabrication

9. We have made good progress in the pilot project for the greater use of precasting and prefabrication technologies, under which the volume of precast concrete will increase from the current level of 18% to 65%. A mock-up to try out the innovative precast structural walls and volumetric precasting of bathrooms was satisfactorily completed on site. The main building contract has already commenced in January this year and is anticipated to be completed in 2007. We will conduct an interim review at mid-way of the contract, and examine the feasibility on the wider use of the new precasting and prefabrication techniques in our housing developments.

Intelligent Estate

10. The pilot intelligent estate project at Yau Tong Estate has undergone a two-year trial since its completion in 2003. An opinion survey revealed that our tenants held a neutral to positive views towards the intelligent estate features. However, the provision was considered as a desirable facility rather than an essential one. After careful consideration of the pros and cons of the system with reference to the "Functional and Cost Effective Design" principle, it was concluded that additional investments for maintaining the facilities at Yau Tong Estate and rolling out the scheme to other estates could not be justified at this stage. After consulting the Estate Management Advisory Committee of Yau Tong Estate, the equipment in Yau Tong Estate was decommissioned in March 2005. Although the project is shelved, the experience learned and the data collected from this trial are valuable when we revisit this subject in future.

Refuse Handling System

11. In line with the "functional and cost effective" design principle, we have developed two new refuse handling systems to achieve environmental cleanliness and hygiene in new public housing estates comparable to those using automated refuse collection system (ARCS) but at lower installation and maintenance costs. Unlike the ARCS which is only provided for estates with at least 2,400 flats, these new systems can take care of estates of all sizes. Their installation and maintenance costs are only around 10% of those of ARCS. Estates to be completed after 1 September 2005 and without the provision of

ARCS will be equipped with one of these systems.

UPLIFTING BUILDING QUALITY

Quality Housing Initiatives

12. We would not have been able to uplift building quality of public housing without sustained healthy partnership with the construction industry. We have fully or partly implemented all of the 50 Quality Housing Initiatives (QHIs). 45 QHIs have been successfully implemented. Another five have been partially implemented or launched as pilot systems.

Partnering

13. Apart from implementing project partnering, we keep on collaborating with our contractors to develop means to avoid and/or resolve disputes. With the support of the industry, we have incorporated the Dispute Resolution Advisor System (DRAd) as standard provisions in all building and foundation tenders since April 2004. Up to now, nine building and eight foundation tenders have incorporated the DRAd provisions. We will continue to maintain close communication with our contractors to ensure the smooth implementation of the system.

Subcontracting Management, Site Supervision and Trade Tested Workers

14. We require that the first layer of domestic subcontractors employed by all contractors and nominated subcontractors should be registered under the Voluntary Subcontractor Registration Scheme (VSRS) for the respective trades or on the HA Lists for all tenders issued since April 2004. We believe as the VSRS scheme develops, a pool of capable and responsible subcontractors will be built up and contribute to improving built quality in the long run.

15. To encourage building contractors' commitment in continuous upgrading of built quality, HA has extended the requirement to 28 trades, 22 of which require 80% of trade-tested workers or more including 17 requiring 100% trade tested workers. We believe that the effects of the strengthened site supervision together with other reform measures had been well reflected in the enhanced built quality of our products.

Procurement

16. To ensure more effective operation in the procurement cycle, we have continuously enhanced the listing structure, short-listing and performance monitoring processes. We had endorsed the Guide to Registration of Works

Contractors and Property Management Services Providers in July 2004. To further address our partners' sentiment, we accepted an extension of grace period to end 2005 for those contractors who could not meet all requirements stipulated in the Guide.

17. To drive for an integrated production and to add value to the procurement chain, we are implementing the Modified Guaranteed Maximum Price/Open Book Contracting in a pilot project – Eastern Harbour Crossing Site Phase 4. We would further develop the shortlisting and tendering mechanism for the selection of contractors based on best value offer.

Site Safety

18. The HA is committed to keeping our construction sites safe work places. We have continued to implement initiatives along the direction set out in the HA Site Safety Strategy endorsed in 2000. In addition to tightening specification requirements, we have strengthened tender and contractual controls to ensure site safety standards are maintained on HA construction sites. These measures have proved to be effective, and the accident rate per thousand workers in New Works projects has dropped significantly from 56 in 2001 to 38 in 2002, 33 in 2003 to 29.2 in 2004. To promote safety awareness, HA has actively co-organized territory wide safety campaigns with other stakeholders. Many contractors who undertook HA projects also won many major awards in 2004.

Independent Checking Unit

19. The Independent Checking Unit continued to provide third party building control to the HA's new projects. Independent checking, modeled on Buildings Department (BD) practices, was initially applied to all new projects with Scheme Designs approved by the Building Committee from May 2000 onwards, but in April 2002 checking was extended to more complex non-standard projects that were approved before May 2000, most of which were under construction.

20. Independent checking now covers the complete cycle of a typical HA new project, from ground investigation, through the complete construction process, to completion and occupation. Procedures modeled on those of the BD have now been extended to the large stock of existing buildings.

21. On the application of the Buildings Ordinance to HA projects, the Steering Committee established with representatives from the relevant Bureaux and Departments continued to examine the legal, administrative and financial issues and to map out the way forward.

CONTRACTORS' PERFORMANCE MONITORING SYSTEMS

Performance Assessment Scoring System

22. We have continued to review the Building Performance Assessment Scoring System (PASS) in light of the feedback received over the year. The system continues to be an effective tool for performance monitoring as well as facilitating administration of contractors. However, due to the changing production environment and the reducing number of 'active' contractors with valid PASS scores, there will clearly be a need to conduct a major review of the system for use in the selection of tenderers in the near future.

23. We have seen continued improvement in contractor's performance since January 2003, with average PASS scores for building works being improved by 5.2%. Building Services PASS average project scores for electrical, fire services & water pump and lift & escalator installations have improved by 6.3%, 6.6% and 4.0% respectively as at December 2004 since the launch of these systems in 2002.

ENVIRONMENTAL PROTECTION

Planning and Design of Housing Projects

24. We sustained our efforts in developing environmentally friendly public housing estates and actively supported the Buildings Department in developing the Comprehensive Environmental Performance Assessment Scheme.

Energy-efficient Design

25. We obtained nine certificates under the Hong Kong Energy Efficiency Registration Scheme for Buildings in recognition of our energy-efficient designs in Electrical, Lighting and Lift installations. With a view to further enhancing the energy performance in our buildings, we are exploring the viability of applying more energy-efficient products in public housing projects. The areas of our studies include harnessing solar power to energize external lighting, employing high efficacy fluorescent lamps and nano-reflectors in lighting fittings, and making use of lower energy consumption LED and self-luminous exit signs. Moreover, we will continue the study on the reclaim of lift regenerative power and other energy saving measures in lift installations through adjustment of lift counterweight setting and adoption of intelligent lift traffic control.

Life Cycle Assessment and Life Cycle Costing

26. Our consultancy study on the development of an environment friendly and cost efficient procurement strategy on building materials, which takes the whole life cycle of a building into perspective, has been completed in end 2004. The study has validated that our typical New Harmony block design is close to the optimum point in terms of positive environmental impact and life cycle cost effectiveness. It has identified a number of alternative materials that can further enhance the New Harmony design. An interactive Life Cycle Assessment and Life Cycle Costing integrated assessment tool is now available allowing us to make considered cost and environmental comparisons on new or alternative materials for use in future domestic blocks. Knowledge sharing of this innovative and ground breaking methodology with various stakeholders in the construction industry is underway.

Integrated Pay for Safety, Environment & Hygiene Scheme

27. Since September 2003, we have smoothly rolled out our integrated Pay for Safety, Environment & Hygiene Scheme in over ten of our building and piling contracts. The idea is to induce contractors to devote more effort to site safety and environmental protection and hygiene. A comprehensive review is now underway to evaluate its effectiveness and explore improvement.

Construction Waste Index

28. We have developed a construction waste index to measure the construction wastes generated by our construction works. Surveys are being carried out in over 30 of our active building contracts at regular intervals to build up a representative database for detailed analysis for benchmark setting.

Strategy for Sustainable Construction

29. On sustainable construction, we promulgated a four-pronged strategy in September 2004. It comprises -

- (a) a Vision to “progressively achieve sustainable development in public housing which balances social, economic and environmental needs with a view to attaining healthy living, sustainable construction and enhancement of the total urban environment”;
- (b) a Sustainable Development Framework built upon eight guiding principles;

- (c) an Implementation Plan working towards continuous enhancement of documented standards, application to projects and estates, and promotion & staff training; and
- (d) a Management Regime steering the progress of various environmental initiatives within the department.

RESEARCH FOR IMPROVEMENT

Housing Authority Research Fund Scheme

30. Research projects under the Housing Authority Research Fund Scheme (HARF) were launched with a target of completion within a two-year period. The progress of most projects is satisfactory in general and all projects are expected to conclude in the second half of 2005. The interim results of the projects are stimulating. Through these research projects, we have identified new and practical techniques and methodologies covering a wide spectrum of subjects such as energy management, environmental protection, testing and commissioning, etc.

31. The results and conclusions developed by the research studies would form the knowledge database for various specialist aspects, offering opportunities for improving the design, construction and maintenance of the public housing developments.

CONSTRUCTION EXPENDITURE

32. The provisional capital expenditure on construction projects for 2004/05 was \$5,926.8M against the revised budget of \$6,626.1M. This represents an under-spending of around 10.6%, which is mainly attributed to deferment in settlement of final accounts.

33. The approved capital budget for 2005/06 is \$5,432.6M. The average estimated budget for the coming four years up to March 2009 is \$5,905.0M per annum.

THE WAY FORWARD

34. The Building Committee has adopted the “Functional and Cost-effective” concept in fine tuning our flat design, planning and production. We have successfully captured significant savings in our projects. We will

continue to move forward in making Hong Kong a better place to live. Our mission is to improve the overall environment and living conditions for our tenants. We will promote sustainable construction through research and introduce new construction technologies that will lead to better quality and lower life cycle costs. To ensure the rational use of public resources and to develop public rental housing estates in the most cost-effective manner, we will uphold our efforts in controlling developments costs.

CONCLUSION

35. The Building Committee and the Department will spare no effort to deliver the Public Housing Construction Programme to meet the needs of our customers in the most cost-effective manner and to accomplish the performance goals set forth in the Corporate Strategic Objectives. I would like to express my thanks to all Members of the Building Committee and my deep appreciation to staff of the Department for their valuable contributions and unfailing support to the work of this Committee during the past year.

IP Kwok-him
Chairman, Building Committee

Report by the Chairman of the Commercial Properties Committee for 2004/05

INTRODUCTION

The Housing Authority (HA)'s commercial operation has accomplished solid financial and operational performance against a backdrop of robust economic recovery in 2004/05. A review of the HA's commercial operation in 2004/05 would not be complete without making reference to the HA's plan to divest its retail and carparking facilities. A subsidiary company, the Link Management Limited (LML), has been established under the HA and is progressively taking over the management functions of the commercial properties in preparation for the divestment.

2. The Commercial Properties Committee (CPC) met six times during the year, including two special meetings and a brain-storming session, to consider various policy matters concerning the HA's commercial operation.

ISSUES CONSIDERED

3. The upturn of the local economy has provided a stable environment for satisfactory progress to be made against the business targets set for 2004/05. About 600 new carparking spaces and 8 000 m² new retail areas have been added to our stock, and the quarterly reports made to the CPC on tenancy lettings and renewals recorded active operations during the year. It was also noted that promotion programmes estimated at some \$30M were successfully implemented in 2004/05 to enhance the competitiveness of our commercial facilities, and improvement works were carried out as scheduled to uplift the environmental conditions of cooked food stalls and markets.

4. Following an earlier decision to grant rental concession to help out poultry traders affected by the threat of avian influenza, the CPC reviewed and fine-tuned the concession in line with the adjustment to the relief policy simultaneously promulgated by the Government, to the effect that all poultry stall tenants were granted a waiver of rent for three months from March to June 2004, estimated at a total of some \$7.5M.

5. Having considered the special circumstances of some 150 retail tenancies signed before the September 11 incident in 2001 with leasing terms ranging from five to nine years, the CPC approved a one-year extension of the rent relief scheme which was implemented to tide over the retail tenants after the incident.

6. The charges for the HA's some 100 000 parking spaces are subject to annual review. The CPC agreed to continue using the 2004 charges for six months in 2005 up to end June, to allow time for a more comprehensive review of the carpark operation as new initiatives are being considered by LML.

7. Regarding the free-parking scheme which began in 2002 with a view to encouraging spending at our shopping centres, the CPC had approved to further extend the scheme twice during the year up to end March 2005, but considered it an opportune time to discontinue the scheme thereafter, as there are clear signs that the economy is steadily recovering, which provides opportunities for exploring tailor-made promotional activities through liaison and collaboration with the retail tenants to stimulate consumer spending.

8. The license fees for telecommunication installation in the HA's premises provide a steady and growing income for the commercial operating account as market demand continues to expand. The CPC approved to adopt the 2004 fee scale for use in 2005, which is considered competitive and comparable to the private sector. The income from telecommunication installation for 2005/06 is estimated in the region of \$110M.

9. A pilot scheme to rent out the facades of shopping centres and factories for advertising at ten of our properties was implemented in 2003. A review of the scheme showed that the income was way below the anticipated return, mainly because the market demand had been over-estimated by the advertising company engaged under the scheme, and there were also increased competitions from other advertising media. The CPC agreed to discontinue the pilot scheme to release the advertising sites for consideration of other initiatives.

10. The HA has been working closely with the Joint Global Coordinators and financial advisers to take forward the divestment project, and corresponding in-house operational and organization changes have been implemented in parallel. The HA is now looking forward to an early conclusion of the judicial review proceedings regarding its power to divest, so that the initial public offering of The Real Estate Investment Trust, through which the divestment is to be implemented, can be re-launched as soon as practicable. Meanwhile, transitional arrangements will continue to be made to pave the way for a smooth transfer of management and ownership of the divestment portfolio.

WAY FORWARD

11. The CPC has endorsed the 2005/06 programme of activities. Looking to the year ahead, the HA's objective to divest itself of its non-core business will continue to set the scene for considering the commercial policy issues. One of the major tasks before us now is to ensure that we respond in full to the opportunities to enhance the commercial operation, as private sector experience will be brought in through the participation of LML in managing the HA's commercial properties. When considering issues related to both the divestment portfolio and the residual properties, the CPC would need to balance stakeholders' interests against optimization of the HA's commercial operation, with a view to maintaining a fair and stable environment for the wider community.

CONCLUSION

12. The past year marked a new page in the HA's commercial operation. Significant progress has been made in the divestment project, laying down a solid platform for managing future changes. The commercial operation has been streamlined to accommodate the re-structuring necessitated to put available resources to full use. None of these could have been achieved without a dedicated and performance-oriented work team. I would like to take this opportunity to thank the hard work of all who have participated in the commercial operations and the divestment project. I am confident that we are well positioned to overcome the barrier ahead and will continue to meet the needs of our customers.

Walter CHAN Kar-lok
Chairman, Commercial Properties Committee

Report by the Chairman of the Finance Committee for 2004/05

INTRODUCTION

The main responsibilities of the Finance Committee in 2004/05 included examination and review of the Housing Authority's (HA) financial performance, budgets and forecasts, provision of advice on the HA's financial and investment policies, as well as overseeing the management of funds, human resources (HR) and information technology (IT) functions.

ISSUES DISCUSSED

2. A total of four Finance Committee meetings were held during the year 2004/05. The major issues discussed, considered or approved by the Committee included -

- (a) HA's budgets and forecasts for 2004/05 to 2008/09 and improvement of the budgetary process;
- (b) Investment strategy and formation of an ad hoc group to study the HA's strategic asset allocation;
- (c) Financing arrangements for the remaining Home Purchase Loan Scheme (HPLS) and Home Assistance Loan Scheme (HALS) loans;
- (d) Review of delegated financial authority;
- (e) Re-organisation of the Housing Department (HD);
- (f) Annual salary adjustment 2004/05 for HA contract staff under new remuneration package and review of remuneration package; and
- (g) Programme of Activities for Corporate Services 2005/06.

3. In 2004/05, a number of HR management and IT initiatives to support HA in the changing business environment were reviewed by the Finance Committee. They included -

- (a) Monitoring manpower establishment in HD;

- (b) Implementing performance-related pay for HA contract staff under new remuneration package and review of remuneration package;
- (c) Greater use of information technology to meet corporate goals; and
- (d) Providing training to support re-organization and changes in business divisions.

FINANCIAL HIGHLIGHTS

4. The key figures of HA's 2004/05 financial performance are summarised below -

	2004/05 Provisional Actual \$M (Note a)	2004/05 Revised Budget \$M
Operating Surplus/(Deficit)		
Rental Housing	652.3	597.5
Commercial	1,487.6	1,394.8
Home Ownership Assistance	(602.7)	(633.8)
Operating Surplus before exceptional items	1,537.2	1,358.5
Less: Exceptional items ^{Note b}	135.0	186.4
Special write off / adjustments / income ^{Note c}	609.1	671.4
Operating Surplus before accounting provisions written back	793.1	500.7
Accounting provisions written back ^{Note d}	632.7	-
	1,425.8	500.7
Funds Management Account Surplus	237.0	223.9
Agency Account Surplus	4.7	0.5
Less: Appropriations to the Government	922.8	850.9
Net surplus/(deficit) after appropriations	744.7	(125.8)

- Note
- a. The 2004/05 provisional actual are subject to year end and audit adjustments.
 - b. Mainly included payments under the Voluntary Departure Scheme and expenditure incurred on Government non-reimbursable projects.
 - c. Mainly included divestment related expenditure, provision for payment under Voluntary Exit Scheme, special write-off for Tiu Keng Leng development and management and related expenses of surplus Home Ownership Scheme (HOS) flats.
 - d. Mainly included write-back of provisions in previous years for diminution in value of repurchased/unsold HOS/Private Sector Participation Scheme (PSPS) flats, future liabilities on subsidies under Mortgage Subsidy Scheme and HPLS/HALS as well as future interest liabilities on the outstanding balances of the HPLS loans sold.

5. The provisional operating surplus before accounting provisions for 2004/05 was \$793.1M as compared to the Revised Budget of \$500.7M. The favourable variance was mainly due to higher alienation premium income, higher income from Tenants Purchase Scheme Phase 6A and the slightly higher rental income from commercial properties due to improving market condition.

6. Owing to the recovery of property market in 2004/05, there was partial write-back in accounting provisions made for diminution in value of re-purchased and unsold HOS/PSPS flats in previous years. Similarly, the reduction in future liabilities on subsidy payments and interest for loans sold also resulted in partial write-back of accounting provisions made in previous years. The total write-back of accounting provisions amounted to \$632.7M. They are all related to HOS operations. They have not been included in the Revised Budget for 2004/05 and do not have any cashflow implications. These year-end accounting adjustments are made in accordance with Standard Accounting Practice and HA Accounting Policy.

7. Taking into account the Funds Management Account surplus and appropriations to the Government, the net surplus after appropriations was \$744.7M as compared to the Revised Budget net deficit of \$125.8M.

8. HA's capital expenditure for 2004/05 amounted to \$7.8 billion (provisional), representing 9.8% (or \$0.8 billion) below the 2004/05 Revised Budget of \$8.6 billion. Of the capital expenditure, the construction expenditure for the year was \$5.9 billion (provisional), which was \$0.7 billion or 10.6% below the Revised Budget of \$6.6 billion. The below budget expenditure was mainly due to lower level of expenditure of projects awaiting final account settlement and programme adjustments.

TREASURY MANAGEMENT

9. As at 31 March 2005, HA had a cash balance of \$14.9 billion, a decrease of \$2.4 billion as compared with \$17.3 billion at 31 March 2004 and \$1.7 billion above the Revised Budget of \$13.2 billion. The decrease in cash balance was mainly due to cash flow needs to meet capital expenditure and payments to the Government and a PSPS developer. The cash balance, however, was above the Revised Budget mainly due to the below budget recurrent and construction payments.

10. Taking into account HA's cashflow projections, the Finance Committee considered that there was no urgent need for the sale of HALS loans to the Hong Kong Mortgage Corporation but the situation would be monitored closely and appropriate action would be taken where necessary.

11. Apart from the trading portfolios previously managed by fund managers but now recalled and held for liquidity management, the main part of HA's funds was managed in-house by HD on a buy and hold to maturity basis to meet HA's cash flow requirements under the advice and direction of the Finance Committee. The overall net return of HA's funds was 1.5% for 2004/05 as compared to 2.79% for 2003/04. The lower return was due to lower market interest rates for reinvestment of deposits and bonds upon maturity in 2004/05.

12. To ensure that HA could make the best of its investments upon the receipt of the divesting proceeds in the future to help finance its public housing programme in the longer term, HD had commissioned a consultancy study to review HA's investment strategy. The Finance Committee had subsequently appointed an ad hoc group to advise the Finance Committee on the technical details, findings and recommendations of the consultancy study.

HUMAN RESOURCES

Monitoring manpower establishment in HD

13. To align with HA's strategy to move towards a leaner and more efficient organization, a total of 304 posts were deleted against a planned reduction of 284 posts for the year, representing a reduction of 3% over the establishment as at 31 March 2004. Post deletions were achieved through natural wastage, voluntary retirement or departure of staff under various schemes and non-renewal of contracts for employees on contract terms.

14. From 1 October 2002 to 31 March 2005, the HD have deleted 2 841 posts (including 17 directorate posts) comprising 2 099 civil service posts and 742 HA contract posts following the announcement of the new housing policy by the Government. The reduction in civil service establishment during the period is about 20%, exceeding the 10% reduction target set by the Government. HD plans to delete about 660 posts by March 2007 (comprising 410 civil service posts including 10 directorate posts and 250 HA contract posts), so as to achieve the overall target reduction of about 3 500 posts over the period from 1 October 2002 to 31 March 2007.

15. To support the various divisions in their re-engineering, restructuring and de-layering efforts, appropriate manpower programmes, including redeployment, expanding job roles, etc. were devised. Specifically, a redeployment plan was worked out for staff to be released from the Commercial Properties Sub-division and the Divestment Sub-division upon successful re-launch of the Initial Public Offering.

Implementing performance-related pay for HA contract staff under new remuneration package and review of remuneration package

16. The annual performance bonus is a part of the performance-related pay under the new remuneration package. In 2004/05, a budget of \$6.1M calculated at 2% of the staff payroll under the new remuneration package was set aside for allocation to staff by Sub-division/Section Heads. 1 317 eligible staff were covered by the bonus scheme and 1 184 (89.9%) of them received a bonus ranging from 1.8% to 100% of their monthly salary. The Committee also endorsed a pay freeze across the board for contract staff employed under the new remuneration package for the year 2004/05 having regard to the market conditions. To ensure that the remuneration package (introduced in 2000) of contract staff remains competitive, consultants will be appointed to conduct a comprehensive review of the remuneration package.

Providing training to support re-organisation and changes in business divisions

17. With the aim to support organization changes, training was arranged to help upgrade staff competencies and prepare them for new job roles. Courses were organized to equip staff with the necessary mindset and skills for new service areas, such as the implementation of new hygiene measures, the new management model for estate management and maintenance services and environmental design study for new construction projects.

18. The e-Learning Portal and e-nomination system were further enhanced to encourage staff learning on the web. In particular, content of the

Health Portal was further enriched to help update staff's knowledge in health-related issues. A total of 5 million hits were recorded during the year. In addition, in view of the efficiency and effectiveness of the e-nomination system, it was also acquired by the Civil Service Bureau for their roll out to other government departments.

19. A customer service enhancement programme was organized for ten selected shopping centers managed by The Link Management. The objective was to raise the standard of service to a level that could be benchmarked with comparable shopping centers in the private sector. Based on the results of the post training mystery shoppers and customer satisfaction surveys, there had been remarkable improvement after implementing the training programme and the above objective was achieved.

INFORMATION TECHNOLOGY

Greater use of Information Technology to meet corporate goals

20. With the establishment of common technology architecture last year, the e-housing portal with various business functions was launched to improve information dissemination and facilitate electronic collaboration. Single sign-on was also implemented for new systems to improve efficiency and productivity.

21. The program, project and contract modules of the Project Management System were implemented to facilitate the management of construction projects with the remaining modules scheduled to be launched in September 2005. The Government wide e-Leave application for civil servants was implemented to improve efficiency and reduce paper consumption. The revenue collection module of the Estate Management and Maintenance System was being implemented to improve estate management operation. In addition, network infrastructure, data centre services and all the necessary business applications (Property Management System, Finance System, etc.) were also implemented to support the business operation of The Link Management.

22. A centralized Operation Control Center was also established in the year to improve security access to computer equipment, network and system availability, working environment for operational staff, and provide additional space for future Data Centre growth. After the streamlining of delivery process, the lead time for standard PC provisioning was reduced from 30 to 7 working days.

23. Since the launching of the IT Effectiveness and Efficiency Programme in 2003, the concept of “do more with less” has achieved a significant result, with a record annual cost saving of \$20 million, exceeding the original estimated saving of \$10.7 million.

THE WAY FORWARD

24. During 2005/06, the Finance Committee will focus on its policy-steering role to enable HD to continue to maintain and improve financial management, information technology and human resources management services benchmarked to the best practices and other public sector organizations in Hong Kong.

25. HA’s finance will be significantly impacted by two uncertain factors, one is the outcome of the judicial review case on rent level review and the other is the timing of re-launch of the Initial Public Offer for the Link REIT. To ensure a steady and smooth availability of funds to meet its public housing programmes and operations, HA will continue to adopt prudent financial policies and is actively pursuing a number of initiatives, including a review of the financial arrangements with the Government, implementing cost saving measures like re-engineering and streamlining, improving the rent arrear situation, and reducing the construction expenditure through re-designing and extension of useful life of public rental housing buildings, etc. At the same time, the Finance Committee will continue to advise HA on its finances to ensure its long term financial sustainability.

26. Regarding the preparation of the upcoming budget/forecast proposal, HA will further streamline and strengthen its budgetary process with the objective of enhancing financial planning and utilization of resources. The “expenditure baseline” approach, use of more updated indices and budgeting on accrual concepts will be continued.

27. In 2005/06, appropriate HR and IT strategies will be drawn up to support the organization changes. The focus will broadly be divided into the following areas -

- (a) Manage human resources in HD having regard to its changing needs in particular, to keep staff requirements under regular review;
- (b) Inculcate a new corporate culture and develop a competitive workforce;

- (c) Enhance the effectiveness and efficiency of business and IT operation; and
- (d) Build a proactive corporate image.

CONCLUSION

28. Finally, I would like to take this opportunity to thank the former Chairman and Members of the Finance Committee for their most valuable advice during the past year and also to extend my appreciation to the dedicated and hard working staff of the HD. I am confident that Members of the Finance Committee will continue to contribute positively and effectively to the mission and goals of HA.

CHUNG Shui-ming
Chairman, Finance Committee

Report by the Chairman of the Subsidised Housing Committee for 2004/05

INTRODUCTION

In 2004/05, the Subsidised Housing Committee (SHC) held seven meetings and issued 75 papers. Three pre-meetings were held with six concern groups.

2. The financial position of the Housing Authority (HA) remained a key concern last year. The judicial review on public rental housing rents went on with the Court of Final Appeal's hearing scheduled for October 2005. Meanwhile, we are still exploring ways to deal with the surplus Home Ownership Scheme (HOS) flats.

3. To pursue our role in providing public rental housing (PRH) to those in need, we have reviewed our policies to maximize rational utilization and eliminate abuse of public housing resources to ensure the sustainable development of subsidized public housing. On the management side, our pursuit for delivery of quality service to enhance public housing living environment continues.

MAXIMIZING RATIONAL ALLOCATION OF PUBLIC RESOURCES

Review of the Waiting List Income and Asset Limits

4. At its annual review of the Waiting List (WL) income and asset limits in March, the SHC agreed that the existing methodology for adjusting the WL income limits was still applicable and there was no need to either relax or tighten up the methodology. In line with the moderate increase of the two key variables determining the limits, namely the Consumer Price Index and rental levels in the private market last year, the Committee adjusted the income limits for 2005/06 upward by an average of 1.8%. This was the first increase in six years.

5. In recognition of the fact that most of the elderly households were on very low income and relied on savings to meet daily expenses, the SHC agreed to lift the asset limits for elderly households by setting these at two times the asset limits for non-elderly applicants.

6. The SHC also decided to have a more thorough examination of the current methodology for adjusting asset limits before taking a view on whether and, if so, how it should be rationalized.

Rent allowance

7. Following the SHC's decision in September 2003 to phase out the pilot Rent Allowance for Elderly Scheme through natural wastage, 623 cases remained to be phased out. For the year ending 31 March 2005, 161 cases switched to PRH and 82 cases were terminated due to voluntary withdrawal or the recipients no longer met the eligibility criteria. At present there are still 380 recipients under the scheme and efforts to persuade them to revert to PRH will continue.

8. An in-depth study on the wider application of rent allowance was conducted in the last quarter of 2004, and concluded that it would not be cost-effective to replace PRH by rent allowance. A brainstorming session of HA and SHC Members in November 2004 generally supported the above finding. The SHC meeting in January 2005 decided not to pursue giving out rent allowance as a means to help families in need of housing assistance.

Meeting Housing Need

9. Since the launching of one-stop registration service for elderly WL applicants in January 2004, a total of 363 applications were successfully registered up to 31 March 2005. More than 22 800 PRH flats have been allocated to WL applicants in 2004/05. The overall average waiting time was reduced to 1.8 years for WL applicants whereas that for single elderly applicants was maintained at one year at the end of March 2005.

10. For the year ending 31 March 2005, three territory-wide overcrowding relief exercises were completed, offering 4 650 flats for selection by eligible applicant-households. A total of 875 overcrowded households have successfully been transferred to larger accommodations of their choice.

11. The number of overcrowded families (including those in Comprehensive Redevelopment Programme estates) has been further reduced from 7 163 in March 2004 to 6 366 in 31 March 2005.

Assistance to Elderly Property Owner-Occupiers in Private Dilapidated Buildings

12. As a measure to address the living problems of elderly property owners in private dilapidated buildings, the SHC endorsed in May 2004 that upon recommendation by the Social Welfare Department under Compassionate Rehousing, a licence to stay in Housing for Senior Citizens (HSC) will be granted to these elders. When the elders meet the criteria for PRH General Waiting List, their licences would be converted into PRH tenancies. For the

year ending 31 March 2005, the Social Welfare Department has recommended seven such cases to us. Amongst them, one applicant has taken up an HSC unit, while intake is being arranged for three other cases, and the remaining three cases are being processed.

Review on Vacant Flat Refurbishment Allowance

13. To minimize the turn around time of housing offer and achieve more savings in refurbishment costs, the SHC approved in July 2004 to revise the Vacant Flat Refurbishment Allowance (VFRA). The VFRA is expanded to cover all flats (excluding IH flats) aged less than 21 years. The rate of VFRA is also revised to range from three-months rent to five-months rent according to the age of the flat. The revision aims to speed up the refurbishment process, encourage tenants to choose VFRA and give them more flexibility in choosing their own decoration or fitting-out work.

14. The number of tenants choosing VFRA in 2004/05 has increased after the implementation of the revised scheme in October 2004. From October 2004 to March 2005, 1 103 tenants have opted for VFRA; an increase of 44% compared with the number of tenants opted for VFRA i.e. 765 from April to September 2004.

Conversion of Po Tin Interim Housing into Rental Housing

15. As the demand for transient housing accommodation has dropped significantly, we decided to convert the Interim Housing (IH) flats in Po Tin Estate into PRH flats in order to maximize the rational utilization of the public housing resources. As at 31 March 2005, 4 426 IH flats representing 50.66% of the total housing stock of 8 736 flats in Po Tin Estate have been converted into PRH stock.

Action Against Abuses of Public Housing Resource

16. The Task Force Against Abuses of Public Housing Resources (The Task Force) was set up in 2004 to intensify action against abuses of public housing resources. In 2004/05, The Task Force has taken in-depth investigation into the occupancy position of over 5 000 cases in order to strengthen tenancy enforcement and stamp out tenancy abuses. At the end of March 2005, 296 PRH flats have been recovered subsequent to the investigation by the Task Force on tenancy abuses.

17. The Task Force was also responsible for the implementation of the biennial review of Housing Subsidy, Policy on Safeguarding Rational Allocation of Public Housing Resources, Grant of New Tenancy and Tenancy Management Policies, of which around 160 000 households were involved.

\$170 million extra rent was collected and 1 017 PRH flats were recovered from extra rent and market rent payers in the year.

ENHANCING THE LIVING ENVIRONMENT AND SERVICE QUALITY

Revised Marking Scheme on Tenancy Enforcement in Public Housing Estates

18. The Marking Scheme on Tenancy Enforcement (MS) implemented in August 2003 has been effective in improving the environment in PRH and heightening tenants' sense of responsibility over the cleanliness and upkeep of public housing estates. In light of operational experience and feedback from the public, the SHC endorsed in November 2004 to revise the MS. The revised MS includes additional misdeeds on "dripping laundry" and "causing mosquito breeding by accumulating stagnant water". The points allotted for "using leased premises as food factory or storage" has also been increased from five to seven. The revised MS was implemented on 1 January 2005. As at 31 March 2005, 3 231 households were allotted points under the MS.

Replacement of Laundry Poles by Laundry Racks

19. In May 2004 the SHC endorsed the proposal to subsidize the replacement of laundry poles by laundry racks in PRH estates. Under the scheme, the HA will replace the laundry poles by laundry racks upon requests from the tenants. The tenants have to pay part of the replacement and installation costs. Phase I of the Laundry Racks Subsidy Scheme was launched in June 2004 with over 16 000 flats replaced their laundry poles by laundry racks under the scheme. Phase II of the Subsidy Scheme started in April 2005.

HA Channel

20. To enhance communication with tenants, the HA channel was launched in September 2004. As at end March 2005, installation of LCD TV system in all estates has been completed. Video programmes on housing related matters, such as environmental protection, waste reduction, team clean initiatives, rational allocation of housing resources etc have been broadcasted. Estate management related information are also disseminated effectively through the HA Channel.

TO ADDRESS REMAINING ISSUES OF PREVIOUS HOME OWNERSHIP SCHEME

Disposal of Surplus Home Ownership Scheme Flats

21. We approved the sale of 4 304 flats in four HOS developments to Government for use as departmental quarters for the disciplined services at the development cost of the flats, and the flats were handed over to Government for fitting-out works in January 2005. On the other hand, 2 920 HOS flats were transferred to PRH in 2004.

22. We purchased from the developer the 2 010 flats in Kingsford Terrace, a previous Private Sector Participation Scheme project, at the guarantee price under the Conditions of Sale. We have further decided that these flats would be disposed of from 2007 onwards through the HOS. Including these flats, there are altogether 5 050 surplus flats which have never been put up for sale, 5 414 returned flats in various HOS courts and 6 082 unsold flats in existing HOS courts at the end of 2004/05.

Tenants Purchase Scheme

23. In June 2004, we decided to launch the sale of the four Phase 6A estates with a total of some 26 000 flats in stages immediately upon completion of the condition survey on the drainage system and follow-up repair works of individual estates. The sale of the first estate was launched in June 2004, followed by the remaining three estates in the ensuing few months in 2004.

Review of the Home Assistance Loan Scheme

24. We conducted a review of the Home Assistance Loan Scheme (HALS), and concluded on 2 June 2004 that terminating the HALS was a move in the right direction to align with the repositioned housing strategy of providing rental housing to low-income families, minimizing market intervention and maintaining a fair and stable operating environment. The HA approved our recommendation on 14 July 2004 and the scheme was terminated on the day.

25. Processing of all HALS applications has been completed. Up to 31 March 2005, a total of 9 025 loans and subsidies were granted under the scheme.

THE WAY FORWARD

26. To reflect the more focused role of the HA, our major deliberations in the coming year will be to improve existing policies to achieve more rational allocation of public housing resources. In this respect, it is noted that the Ad Hoc Committee on Review of Domestic Rent Policy (CDRP) has concluded its initial deliberations on all the relevant issues central to the formulation of the HA's domestic rent policy. The public will be consulted on the Committee's findings following conclusion of the Court of Final Appeal's hearing on the judicial review of PRH rents scheduled for October 2005. Taking into account the views of the public, the CDRP will issue a report with its recommendations to the HA for endorsement.

27. On the home ownership side, in 2005/06 we will continue to explore various options to dispose of the surplus HOS flats with minimal impact on the property market. Recently, there have been diverse views in the society on whether the sale of surplus HOS flats should resume before 2007. Government has reiterated that the decision on withholding the sale of surplus HOS flats before the end of 2006 remains unchanged. At the same time, it will continue to monitor the market situation closely and consider appropriate measures to meet the changing circumstances of the society. Details about the quantity and arrangements for the sale of surplus HOS flats will be deliberated and drawn up in the latter part of 2006.

CONCLUSION

28. As the Chairman of the Subsidised Housing Committee, I would like to record my sincere gratitude to Members of the Subsidised Housing Committee for the time they have devoted to committee affairs and the wise counsel they have offered during discussions in the past year. I am sure they will continue to provide their invaluable advice and guidance to the Subsidised Housing Committee.

29. I would also like to thank the staff of Housing Department for their exemplary and dedicated support. I am looking forward to working with all of you in the coming year.

NG Shui-lai
Chairman, Subsidised Housing Committee

Report by the Chairman of the Tender Committee for 2004/05

INTRODUCTION

I have pleasure in presenting the Second Report of the Tender Committee which was set up in April 2003.

2. The work of the Tender Committee straddles a wide range of areas such as scrutinizing tenders and awarding contracts, reviewing tendering guidelines, procurement strategies and policies. In year 2004/05, the Committee held ten regular meetings, and two joint meetings with the Building Committee. It processed a total of 67 discussion papers, six presumption papers and 17 information papers.

SCRUTINIZING TENDERS AND AWARDING CONTRACTS

3. The Tender Committee is tasked to consider and approve the acceptance of tenders and award contracts exceeding the financial limits of the Housing Department Tender Board^{Note} or those referred by it. For the period between April 2004 and March 2005, the Committee awarded 65 contracts of various nature such as building contracts, maintenance term contracts, piling and foundation contracts, and property services contracts. To address the unexpected delay in the divestment of Housing Authority (HA)'s retail and car-parking facilities, the Committee had to endorse special extension to various property management contracts of HA's shopping centres and car parks.

ENHANCING PROCUREMENT STRATEGIES AND POLICIES

4. To ensure more effective operation in the procurement cycle, we have continuously enhanced the listing structure, short-listing and performance monitoring processes. I am glad that a consolidated Guide to Registration of Works Contractors and Property Management Services Providers has been issued to streamline the list management systems. To further address our business partners' sentiment, we accepted an extension of grace period to end 2005 for those contractors who could not meet all requirements stipulated in the Guide. During the year, we have critically examined the need for various HA's Lists and deleted those which were not frequently used. With a more transparent listing system, simplified and unified listing guidelines, we have retained suitable contractors on the lists.

^{Note} In accordance with the current Delegated Financial Authority, all works and works related services contracts, property services contracts, goods and general services contracts over \$50M and all Consultancy or Professional Advisory Services Contracts over \$25M.

5. We have developed a new procurement strategy to drive for an integrated production and to add value to the procurement chain. To this effect, we are implementing the Modified Guaranteed Maximum Price/Open Book Contracting in a pilot project at the Eastern Harbour Crossing Site Phase 4. We would further develop the shortlisting and tendering mechanism for the selection of contractors based on best value offer.

Enhancing Selection of Tenderers for New Works Building Tenders

6. To cope with a smaller number of new works building tender and a diminishing number of active listed contractors, we have been customizing measures to ensure fair competition on one hand and manage risk on the other. We have approved the allocation of tendering opportunities on a half-yearly basis with tendering opportunity given to contractors with a score above a pre-determined qualifying level. We understand that colleagues are working hard towards a longer-term procurement strategy with the ultimate objective to strengthening listing, tendering, short-listing and developing new procurement methods. I am looking forward to reporting the details to you in due course.

Enhancing Tender Evaluation Mechanism for Property Management Services Contracts

7. To address the concern on non-skilled workers engaged by property management services contractors, we have carried out thorough discussions at the meetings of this Committee. As a consequence, we have given considerable weighting to recognize and motivate tenderers with higher contract committed wages and reflected this in the marking scheme for tender evaluation. The Department has also adopted a revised tender evaluation mechanism for property management services contracts. These include cleansing, security service and property services contracts.

Enhancing Quality

8. To demonstrate our determination and commitment to improve quality, we re-affirm the importance of the Premier League and Quality Maintenance Contractors Schemes for building contractors under new works and maintenance works respectively. By maintaining these schemes, we sustain our quality drive in partnership with business partners as well as upholding the principle of an open and fair tendering system.

Pre-qualification of Tenderers

9. Last year, I reported that we had endorsed the prequalification criteria for selection of tenderers for the construction of public housing at the Kwai Chung Flatted Factory Site. We pioneered the extensive use of pre-casting technology for building construction as well as giving a chance for the Premier League Contractors to tender alongside with other prequalified tenderers in this project. Seven qualified tenderers were selected to tender in June 2004 and the tender was awarded in December 2004. This illustrates how prequalified tendering can be successfully applied in special projects of a complex nature. In addition, prequalified tendering was also effectively conducted for two Water Supply and Fire Services term maintenance contracts.

CONCLUSION AND WAY FORWARD

10. To cope with this era of change, the Tender Committee will continue to review and develop relevant tendering guidelines, procurement strategy, criteria for tender selection and award various types of contracts in consultation with appropriate committees of the HA and the stakeholders. Coupled with careful consideration of tenders, we will continue to provide a fair and level playing field for our business partners and meeting the objectives of the HA in accomplishing performance goals in a cost-effective manner.

11. Finally, I would like to express my sincere thanks to all Members of the Tender Committee and staff of the Department for their valuable contributions and uncompromising determination to accomplish the various tasks of this Committee during the year under review. I am sure we will sustain this dedication in the years to come.

Patrick LAU Sau-shing
Chairman, Tender Committee