

# Economic Performance

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We strive to incorporate economic sustainability into each and every aspect in managing the public housing programme throughout the planning, design, demolition, construction, management and maintenance phases. Over the years, we have introduced and adopted functional and cost-effective design, sound procurement practices, resources optimisation and the latest viable technologies as far as possible to enhance our efficiency, effectiveness and housing quality.

In 2010/11, we continued to implement various effective measures to make the best use of housing resources and maintain our economic sustainability. These include, among others, minimisation of vacancy and abuse of public rental housing (PRH) resources and enhancement of preventive maintenance, restoration and improvement of older estates. To this end, we promoted the importance of our public housing resources for the needy to the general community. During the year, we conducted an educational campaign on Cherishing Public Housing Resources to encourage reporting of any abuses.

## Financial Performance

HA is financially autonomous and our public housing programmes are sustained through internally generated funds including rental of public housing and sales of surplus Home Ownership Scheme (HOS) flats.

Details of the 2010/11 financial statements are provided in our Annual Report. Summary of the financial performance is highlighted below:

### Consolidated Income Statement in 2010/11

|  | HK\$ M |
|--|--------|
| Consolidated Operating Account Surplus | 4 060  |
| Funds Management Account Surplus       | 4 109  |
| Agency Account Surplus                 | 18     |
| Surplus for the year                   | 8 187  |

### Consolidated Operating Account in 2010/11

|   | <b>HK\$ M</b> |
|---|---------------|
| Rental Housing Operations Deficit                         | (924)         |
| Commercial Operations Surplus                             | 565           |
| Home Ownership Assistance Operations Surplus              | 4 347         |
| Consolidated Operating Surplus before Non-operating Items | 3 988         |
| Add: Net Income on Non-operating Items                    | 72            |
| Surplus including Non-operating Items for the year        | 4 060         |

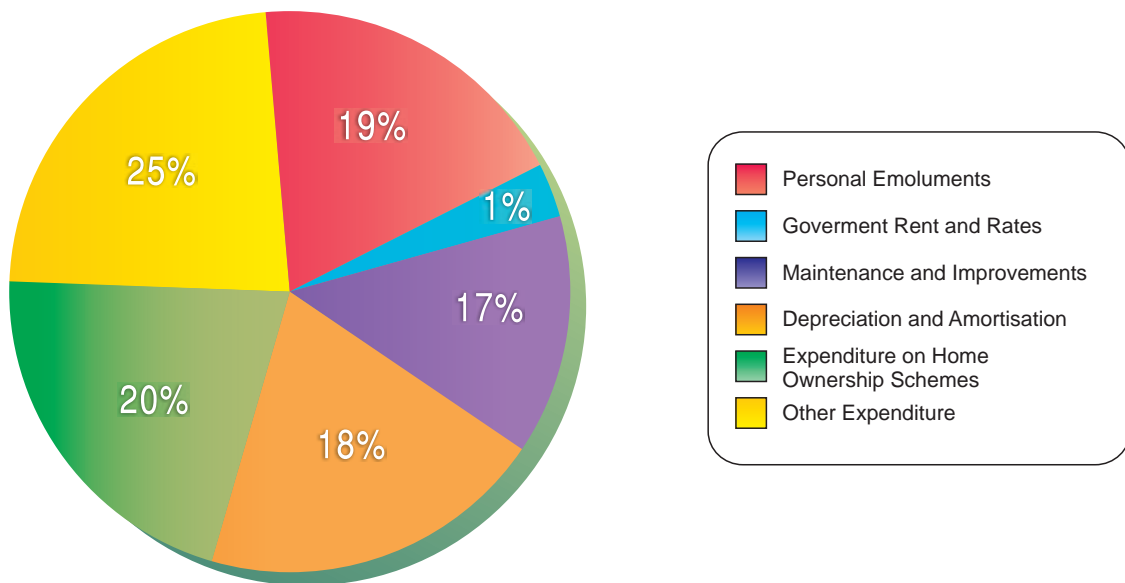
### Capital Expenditure for the Fiscal Years 2006/07 – 2010/11

| <b>Items</b>              | <b>HK\$ M</b> |         |         |         |         |
|---------------------------|---------------|---------|---------|---------|---------|
|                           | 2006/07       | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
| Construction              | 3 634         | 4 950   | 5 845   | 5 511   | 6 138   |
| Improvement Works         | 107           | 162     | 249     | 384     | 471     |
| Computer Systems          | 111           | 117     | 107     | 127     | 177     |
| Total Capital Expenditure | 3 852         | 5 229   | 6 201   | 6 022   | 6 786   |

At the end of the financial year of 2010/11, the HA's available investment funds stood at HK\$69 425 million which was HK\$7 251 million higher than that at year end of 2009/10.

During the year, the recurrent expenditure of HA was HK\$14 603 million, i.e. HK\$804 million higher than 2009/10.

## Analysis of Recurrent Expenditure 2010/11



## Initiatives in Planning and Construction of New Housing Estates

### Resource Optimisation

Given the valuable and limited public housing sites available, HA has pledged to maintain adequate supply of PRH units to meet the average waiting time of three years. To this end, HA has continued to identify and secure land resources for PRH development. We have also made every effort to optimise the development intensity of all public housing sites with due consideration of the site constraints and cost effectiveness without comprising the sustainability and liveability of the individual projects.

During the year, we achieved the production target of domestic flats and facilities as planned in the Public Housing Construction Programme and continued to optimise comprehensive development for domestic retail, welfare and community uses.

## Operation with Cost-Effectiveness

### Management and Procurement Practices

To provide quality housing blocks, we worked with the works contractors and service providers with best performance in all stages. We have introduced a New Integrated Procurement Approach by applying a “three-envelope system” for some tendering exercises to increase working efficiency and procure for innovations while maintaining the standards and quality control of our PRH. The feasibility for adopting “electronic tender booklet” system in tendering for construction contracts was explored. During the year, we tightened the product selection by introducing product certification requirements into our tender specifications for six selected building products and requiring ISO 14001 certifications for 10 major building materials.

In addition, we have maintained very stringent requirements, especially on integrity and ethical practices, to control the admission and retention in the HA tender lists. To ensure contractors have sound quality, environmental, health, and safety control as well as performance, we requested our works contractors to be certified to ISO 9001 QMS, ISO 14001 EMS and OHSAS 18001 Occupation, Health and Safety Management System.

To encourage continuous improvement and a long-term partnership with works contractors and service providers, we provided various recognitions to the best contractors in different disciplines every year. For instance, we launched the Quality Public Housing Construction and Maintenance Awards 2010 to recognise our works contractors with outstanding performance in the construction and maintenance of public housing. We assessed the contractors in various aspects covering works quality, environmental protection, occupational safety and health, ethics and integrity, partnership and customer service, etc. Our recognitions were bestowed to 39 contractors and subcontractors and 48 individuals with outstanding performance as well as a number of project teams and specific site safety performance during the year.



Quality Public Housing Construction and Maintenance Awards 2010  
Award Presentation Ceremony

We have continued to enhance equitable risk sharing, ensure financial capability of tenderers and promulgate measures to alleviate contractors' financial burden during economic crisis. We have reviewed the implementation of standard domestic sub-contract conditions in works contracts to enhance sub-contracting arrangement.

## Quality Buildings

It is always our target to build high quality PRH estates to provide comfortable, safe, durable and affordable homes to our tenants. Ensuring building quality involves a wide range of aspects such as planning and design, choice of materials, construction methods, procurement and monitoring systems, etc.

With our extensive experience in housing development, we have developed a "lean and green" approach for the development of new PRH estates. We have well-defined our policies and practices in terms of procurement process, material selection, and construction processes, which can help, on one hand to maintain our housing quality, and on the other hand, to greatly reduce our overall construction costs to about 32% on average lower than those in the private sector. Our cost-effective approaches include:

- use modular and prefabricated components and precast structures;
- avoid unnecessary work processes and optimise materials utilization;
- adopt large-panel metal formwork rather than timber to allow repeated use; and
- use metal scaffolding which is more reliable instead of more traditional bamboo scaffolding.



Metal Scaffolding for Double Deck Walkway



Volumetric Precast Components



Precast Facades



Large Panel Formwork

One of the typical examples is to specify high quality of finish for both in-situ and precast concrete to obviate the need for plastering of internal walls and result in significant saving in the material and labour costs in the finishing process. Another cost-effective example is the adoption of a new type of piles namely “shaft grouted barrettes” for the foundation works. This new technique was applied for the design of ex-Yuen Long Estate site during the year.

## **Initiatives in Existing Housing Estates**

### **Housing Rent Adjustment and Assistance Policies**

The existing income-based rent adjustment mechanism has come into operation since 1 January 2008. PRH rent is determined every two years with regard to the affordability of the tenants. This serves as an objective yardstick for HA to adjust PRH rent according to changes in household income of the PRH tenants.

The first review under the mechanism was completed in mid-2010. The result indicated that the PRH rent should be adjusted upward by 4.86%. The outcome was endorsed by the Subsidised Housing Committee (SHC) under the HA and the new rent was effective from 1 September 2010. The SHC further decided to provide PRH tenants with a special one-off rent waiver for the month of September 2010 as PRH tenants might not have fully benefited from the economic recovery. The next review will be conducted in 2012.

As at 31 March 2011, PRH rent ranges between around HK\$260 and HK\$3 530 per month, with the overall average standing at around HK\$1 400.

The Rent Assistance Scheme (RAS), came into operation in 1992, aims to relieve tenants' financial hardship. Depending on their level of need, eligible tenants may enjoy a rent reduction of either 25% or 50%. As at the end of March 2011, around 11 900 families were receiving assistance from the scheme.

### **Resource Optimisation**

It is our objective to provide PRH to low-income families who cannot afford private rental accommodation, with a target of maintaining the average waiting time (AWT) for general Waiting List applicants (excluding non-elderly one-person applicants under the Quota and Points System) at around three years. It is our target to keep the AWT for elderly one-person applicants at around two years. To meet these targets, we have a five-year rolling public housing construction programme to produce about 15 000 flats per year on average for the next five years.

In 2010/11, about 15 900 Waiting List applicants were rehoused and another 4 700 applicants were allocated newly completed flats pending intake. As at the end of March 2011, there were a total of about 152 400 applicants on the waiting list and the AWT for general Waiting List applicants was two years while that for elderly one-person applicants was 1.1 years.

|                               | Average Waiting Time for PRH |                     |
|-------------------------------|------------------------------|---------------------|
|                               | Our Pledge                   | Actual Waiting Time |
| General Applicants            | 3 years                      | 2 years             |
| Elderly One-person Applicants | 2 years                      | 1.1 years           |

### Reducing PRH Vacancy Rates

It is our mission to maximise public housing resources to meet the local housing need. We strive to reduce PRH vacancy rates as far as possible. One of the measures we have put forward is to increase the letting of less popular PRH flats. In July 2010, we launched the 15th Express Flat Allocation Scheme (EFAS) to offer fast-track allocation for Waiting List applicants to accept flats which have remained vacant for a prolonged period or are less popular. We received a total of 33 100 applications from this batch and we had been able to house around 1 810 families, including around 360 families from the last EFAS exercise conducted in 2009/10.

Additionally, we have provided rental reduction incentives to encourage the take-up of less popular flats. Tenants can enjoy 50% rental reduction for a certain period depending on the duration that flats have remained vacant under the following provisions:

- Applicants are entitled to eight months rental reduction if they are willing to take up flats that are unoccupied for 12 months or more but below 24 months
- Applicants are entitled to 12 months rental reduction if they are willing to take up flats that are unoccupied for over 24 months or more

In 2010/11, this incentive scheme benefited a total of 1 900 new tenants.

### Combating Tenancy Abuse

We work hard to protect our limited public housing resources against abuse. Over the years, we have taken every step to ensure that only eligible persons live in PRH flats. Our actions are two-fold. Firstly, we promote and reinforce the importance of cherishing public housing resources to the community through leaflets, posters, articles in EMAC newsletters,

internet postings and broadcasts on our Housing Channel and the radio. Secondly, we monitor the usage of housing resources proactively by our staff from the Estate Offices or District Tenancy Management Offices to identify suspected cases through their daily operations and the tenancy inspections conducted once every two years. All the suspected cases will be handled by a special unit of the Housing Department, the Public Housing Resources Management Sub-section (PHRM), to carry out thorough investigations. During the year, the PHRM completed a total of 8 900 investigations and processed another 5 400 income and assets declaration cases to determine the tenants' housing subsidy levels. To tally with the 2010/11 Policy Address, the PHRM also assessed another 4 200 income and assets declarations by tenants as at the end of March 2011. The PHRM will complete the remaining 800 cases within the following month.

### Surplus Home Ownership Scheme Flats

Due to the repositioning of the government's public housing policy, the production and sale of Home Ownership Scheme (HOS) was suspended in 2002. This results in having 16 700 surplus HOS flats in stock. To fully utilise our housing resources, we have commenced a programme since 2007 to sell the surplus HOS flats in phases. Over 90% of the surplus HOS flats were sold in six phases. In 2010/11, about 3 220 HOS flats were sold.



Kam Fung Court in Ma On Shan



Tin Chung Court in Tin Shui Wai



Yau Chui Court in Yau Tong



Exhibition on Surplus Home Ownership Scheme Flats Sold in the Phase Six Sale

To provide more information for the surplus HOS flats for sale, we prepared the sales literature in accordance with both internal and external guidelines where appropriate before each sale. Guidelines we have observed include Circular Memorandums issued by the Legal Advisory and Conveyancing Office of the Lands Department; guidelines issued by the Real Estate Developers Association of Hong Kong; reports issued by the Law Reform Commission of Hong Kong; and publications issued by other relevant parties.

### Optimising Retail Resources

We understand that our retail premises face keen competition from the many privately owned facilities across the territory. It is important for us to know shoppers' changing needs and respond accordingly in order to maintain customer flow for our retail tenants. To this end, we have initiated a number of exercises to understand shoppers' expectations and shopping habits.

One of our initiatives was to conduct a series of SWOT analysis to identify strengths, weaknesses, opportunities and threats for different retail and car parking premises. This exercise enabled us to weigh up the market positioning of relevant premises and plan for improvement. Results of the analysis showed that three of our shopping centres in On Kay Court, Pok Hong Estate and Wah Fu Estate would benefit from major renovations and improvements in order to enhance their user-friendliness and competitiveness. It also indicated that the cost-effectiveness of some of HA's carparks can be enhanced if we change them to other uses. As such, we have converted part of Nam Shan Carpark for the use of a post-secondary education institute and revamped Lei Yue Mun Carpark for letting to Hongkong Post as a Speedpost centre.



On Kay Court Commercial Centre



Pok Hong Commercial Centre



Wah Fu (I) Shopping Centre



Wah Fu (II) Commercial Centre

### Conversion of Lei Yue Mun Car Park

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Before



After - Hongkong Speedpost Centre

We also conducted a series of market-reordering exercises to optimise the usage of traditional markets through reconsidering stall layouts. These involved re-grouping of related shop stalls within the market to enable the availability of larger shop areas that could be taken up by a single tenant for either retail or community purposes. Some under-utilised parts of the traditional markets have also been altered for other purposes. Some examples are:

- Converted part of Pak Tin Market into a neighbourhood centre;
- Converted the entire market in Hing Wah Estate and let out as a residential care home for the elderly; and
- Converted some of the stall spaces in the markets in Cheung Ching Estate and Fu Shan Estate into additional market shops.

**Market Conversion – Pak Tin Market**



Before – Vacant Shopstalls



After – Welfare Premises

**Market Conversion – Hing Wah Market**



Before



After – Residential Care Home for the Elderly

**Market Conversion – Cheung Ching Market**



Before – Vacant Shopstalls



After – Proposed Eight Shopstalls to be Demolished to Form a Larger Market Shop



Before



After – New Shop for Frozen Food

To fully utilise our available retail resources, we will continue to identify spaces such as unused kindergarten premises, vacant bays and storerooms that are surplus to our operations. We will put these places into practical use again as far as possible.

### Flexible Letting Strategies

In general, we conduct open rental tender exercise or invite leasing proposal directly based on current market rents to let out our commercial properties. We also create better business environment to attract new operators at our retail properties by applying different flexible letting strategies. These include walk-in applications and instant tenders as well as allowing submissions from operators from a variety of businesses. The former procedure allows operators to sign up a short-term lease in the first instance before committing to a longer-term agreement, while the latter strategy enables a vibrant business environment at our retail properties. In 2010/11, we achieved a good letting rate of 94.9% after adopting these flexible letting strategies.

We treasure the comments and expectations of shoppers because they are important for improving our retail properties. To attain higher customer flow in our shopping centres, we required the shop tenants to maintain a high standard of service and presentation by introducing a series of measures in the leasing terms. These covered the standard of decoration in the shop, the design of the shop front, the sales displays, and the customer service provided.

## **Operation with Cost-Effectiveness**

### **Management and Procurement Practices**

We laid down stringent requirements to control the admission and retention of contractors in the HA tender lists. Works contractors are requested to achieve ISO 9001 QMS, ISO 14001 EMS and OHSAS 18001 OHSMS certifications to ensure they have proper measures in place to control its quality, environmental, health, and safety aspects. As an incentive, we provided various recognitions to contractors with outstanding performance such as the Quality Public Housing Construction and Maintenance Awards.

### **Comprehensive Structural Investigation Programme**

To optimise the economic value of our public housing assets, we have launched the Comprehensive Structural Investigation Programme (CSIP) since 2005 to check the structural conditions of estates of around 40 years old. The CSIP helped decide if these old estates should be retained for a further period of at least 15 years by repair and refurbishment, or demolished for redevelopment if they were found structurally unsafe or no longer cost-effective for maintenance.

Under the CSIP, most of the estates were recommended for repair and refurbishment. The following estates were decided for clearance and redevelopment:

- So Uk Estate – the clearance and redevelopment works have been carried out in phases to minimise disruption for the tenants involved. In July 2009, the first phase was completed to rehouse around 2 570 families in other estates. Currently, we are conducting the second phase, with a final moving-out date scheduled for April 2012. Nearly 1 300 families have been relocated as at March 2011.
- Block 22 of Tung Tau (I) Estate – the clearance is scheduled for completion in 2012. There are 900 flats involving 1 500 people in the housing block. As at the end of March 2011, 170 households of around 240 individuals were rehoused.
- Interim Housing at Block 12, Kwai Shing East Estate – the clearance was completed in 2010/11. A total of 613 people from 198 families were rehoused.



So Uk Estate



Interim Housing at Block 12 Kwai Shing East Estate



Block 22 of Tung Tau (I) Estate

## Initiatives in Office at Work

### Management System

We have continued to achieve a lean, flexible and dynamic organisation with the capacity to respond to changes in services requirements. We have also continued to implement the Multi-faceted Manpower Strategy to adjust staffing intake to suit our business needs and offer staff benefits.

As a cornerstone to manage our internal operation, we have developed and maintained management systems to gauge, control, and improve our operations and environmental performance in some of our units/divisions in accordance with the ISO 9001 Quality Management System (QMS) and ISO 14001 Environmental Management System (EMS) standards. In addition, we have continued to strengthen our procurement practices and enhance awareness of HA's procurement systems and principles among contractors and business partners.

## **Effective Property and Tenancy Services**

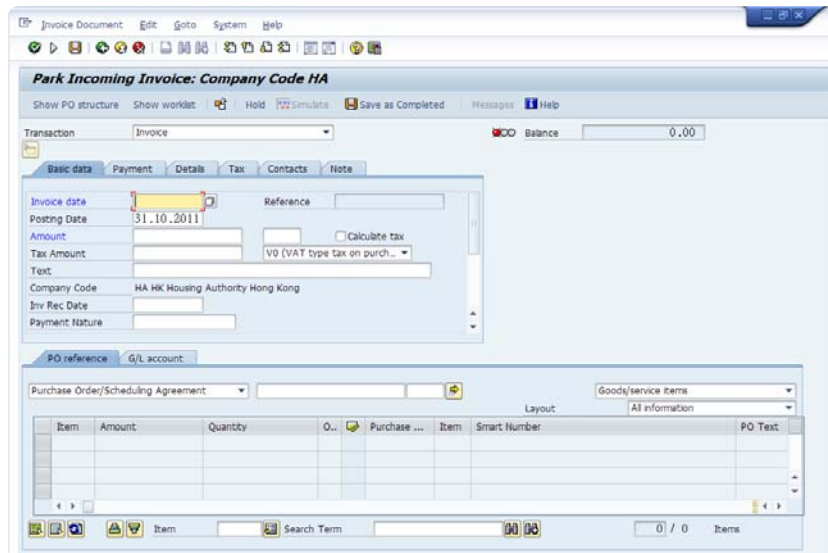
We have reviewed and enhanced the current outsourcing model for property services contracts in consultation with the industry. To streamline our property management services, we merged the property and tenancy management services at all 67 estates managed directly by the Housing Department in 2010/11. The new arrangement provides one-stop service to enhance the efficiency of handling tenant enquiries. We have received positive feedback from tenants on such arrangement specifically in terms of the efficiency and our service quality.

## **Information Technology (IT) to Enhance Efficiency**

We always make use of IT system to improve work efficiency, expand our range of services, enhance communication and support business initiatives. The wider application of IT system also enables us to reduce waste paper generation that contributes to a greener operation.

During the year, we launched an integrated Enterprise Resources Planning (ERP) system to combine many of our applications into a single integrated system. Built on a central database, the new integrated ERP system enabled us to attain greater integration of information for sharing and analysis to facilitate fast and thorough decision-making and more streamlined business operations. This three-year project would be implemented by phases from the second quarter of 2010 to 2013 as follows:

- Phase 1 – replace existing Finance and Procurement Systems by the end of 2011;
- Phase 2 – replace various estate maintenance systems with new and better systems by the end of 2012; and
- Phase 3 – other ERP initiatives as part of an overhaul and enhancement of the entire back office support systems.



Webpage of ERP

We will continue to revamp and upgrade our IT system to improve the operation efficiency and reliability. In 2010/11, for instance, we have enhanced our Investment Quotation System to manage HA funds efficiently. Currently, we are doing some preparatory works for the development of a unified Drawing Management System to be implemented in 2011/12. These include scanning and digitising thousands of building drawings into the archives for better management and retention.