

立法會
Legislative Council

LC Paper No. CB(1)2030/03-04
(These minutes have been seen
by the Administration)

Ref : CB1/PL/HG/1

Panel on Housing

Minutes of meeting
held on Monday, 3 May 2004, at 2:30 pm
in the Chamber of the Legislative Council Building

Members present : Hon Albert HO Chun-yan (Chairman)
Hon CHAN Kam-lam, JP (Deputy Chairman)
Dr Hon David CHU Yu-lin, JP
Hon LEE Cheuk-yan
Hon Fred LI Wah-ming, JP
Hon NG Leung-sing, JP
Hon James TO Kun-sun
Hon CHAN Yuen-han, JP
Hon LEUNG Yiu-chung
Hon Andrew WONG Wang-fat, JP
Hon Howard YOUNG, SBS, JP
Dr Hon YEUNG Sum
Hon SZETO Wah
Hon Abraham SHEK Lai-him, JP
Hon Tommy CHEUNG Yu-yan, JP
Hon Albert CHAN Wai-yip
Dr Hon LO Wing-lok, JP
Hon WONG Sing-chi
Hon Frederick FUNG Kin-kee
Hon IP Kwok-him, JP
Hon LAU Ping-cheung

Member absent : Hon YEUNG Yiu-chung, BBS

- Public officers attending** : Mr Kenneth MAK, JP
Deputy Director of Housing
(Corporate Services)
- Ms L K LAM
Assistant Director of Housing
(Divestment)
- Clerk in attendance** : Miss Odelia LEUNG
Chief Council Secretary (1)4
- Staff in attendance** : Ms Sarah YUEN
Senior Council Secretary (1)6
- Ms Christina SHIU
Legislative Assistant
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Action

I. Confirmation of minutes

- (LC Paper No. CB(1)1641/03-04 -- Minutes of special meeting on 8 March 2004
- LC Paper No. CB(1)1642/03-04 -- Minutes of joint meeting with the Panel on Planning, Lands and Works on 8 March 2004
- LC Paper No. CB(1)1643/03-04 -- Minutes of meeting on 7 April 2004)

The minutes of the two meetings held on 8 March 2004 and the meeting held on 7 April 2004 were confirmed.

II. Information paper issued since last meeting

2. Members noted that no information paper had been issued since the last monthly regular meeting of the Panel on 7 April 2004.

III. Items for discussion at the next meeting

- (LC Paper No. CB(1)1638/03-04(01) -- List of outstanding items for discussion
LC Paper No. CB(1)1638/03-04(02) -- List of follow-up actions)

3. The next regular meeting was scheduled for Monday, 7 June 2004, at 2:30 pm. Members agreed to discuss the following three items -

- (a) Disposal of Kingsford Terrace Private Sector Participation Scheme flats;
(b) Procurement of cleansing services for public rental housing estates; and
(c) Median rent-to-income ratio for public rental housing (subject to the delivery of the judgment of the Court of Appeal on the related case).

4. Mr Fred LI Wah-ming suggested that the Panel discuss the proposal concerning rehabilitation of public housing estates over 30 years. Mr CHAN Kam-lam said that the proposal was at a very preliminary stage and might not be ready for discussion. Members agreed that the Clerk liaise with the Administration on whether the subject could be discussed at the next meeting. Members also agreed to seek an information paper from the Administration concerning proposed subsidy to tenants for replacing clothes drying facilities in public rental housing (PRH).

Clerk

(Post-meeting note: The Administration advised that the subject concerning rehabilitation of public housing estates over 30 years was not yet ready for discussion.)

IV. Progress of the divestment of the Housing Authority's retail and car-parking facilities

- (LC Paper No. CB(1)1638/03-04(03) -- Information paper provided by the Administration
Ref: HD(CR)/(CS) Div/DV/3 -- Legislative Council Brief on Divestment of Housing Authority's Retail and Car-parking Facilities
LC Paper No. CB(1)190/03-04(04) -- Information paper provided by the Administration
LC Paper No. CB(1)190/03-04(05) -- Fact sheet on Real Estate Investment Trusts prepared by the Research and Library Services Division
LC Paper No. CB(1)438/03-04(03) -- Information paper provided

LC Paper No. CB(1)439/03-04	by the Administration -- Minutes of meeting on 3 November 2003
LC Paper No. CB(1)668/03-04	-- Minutes of meeting on 1 December 2003)

5. The Deputy Chairman declared interests as a member of the Supervisory Group on Divestment (SGC) set up to monitor and steer the divestment of the Housing Authority (HA)'s retail and car-parking (RC) facilities. Mr Tommy CHEUNG Yu-yan declared interests as a member of the HA.

6. The Deputy Director (Corporate Services), Housing Department (DD of H(CS)) briefed members on the Administration's paper on the following -

- (a) The progress made in the divestment of the RC facilities; and
- (b) The voluntary exit scheme (VES) for civil servants affected by the divestment.

How the divestment project should be taken forward

7. In reply to the Chairman, DD of H(CS) explained that unlike a conventional property company, a company with Real Estate Investment Trust (REIT) characteristics would have a focused business strategy, a clear dividend policy which paid out the majority of its net earnings to shareholders, a conservative gearing policy, and restrictions on speculative development. Since the Securities and Futures Commission had published the Code on REIT, HA agreed to pursue a REIT structure, instead of a company with REIT characteristics, for the divestment.

(The Deputy Chairman took over chairmanship of the meeting during the Chairman's absence from 2:45 pm to 3:15 pm, when Messrs Howard YOUNG and Fred LI Wah-ming expressed their views on the divestment.)

8. Mr Howard YOUNG enquired about the reasons for divesting all the RC facilities in one-go, rather than by phases. He was concerned that such an approach might deter possible investors as the capital requirement was substantial. Moreover, should any errors occur, there would not be another chance for rectification or improvement.

9. In response, DD of H(CS) stressed that HA decided to adopt this approach after detailed examination of all relevant factors. It was considered that there might be management problems if some facilities were divested and some were still operated by the HA. Moreover, one major purpose of the divestment was to enable the HA to withdraw from commercial operation and focus its resources on its core function as a provider of subsidized public housing. For the decision to

divest all instead of only a certain percentage of the RC facilities, the major consideration was to enable the new company set up to manage the REIT (MgtCo) to operate the RC facilities solely on a commercial basis. Were the HA to retain any equity interest in the REIT or in the MgtCo, this operating principle would not be clear and certain. In addition, according to the four investment banks appointed as Joint Global Coordinators (JGCs) and Financial Advisor (FA) respectively for the divestment exercise, investor demand would be sufficiently large to support divestment of all RC facilities. Notwithstanding, DD of H(CS) emphasized that the market situation would be closely monitored. Where the situation warranted, the HA would not rule out the possibility of adopting a phased approach or to divest only part of the RC facilities to maximize the proceeds. He assured members that there was no question of launching the initial public offering of units of the REIT on the Stock Exchange of Hong Kong below fair market price.

10. Mr Howard YOUNG opined that notwithstanding the above considerations, strategically it might be more desirable to divest the RC facilities by phases to allow time for value enhancements of the REIT units. In response, DD of H(CS) reported that Mr YOUNG's point had already been brought up for discussion with the JGCs and the FA. Their view was that the value of the units could go up and down. Moreover, divestment of all RC facilities in one go would send a clear message to potential investors that the facilities would be operated on a commercial basis. This could in turn enhance the valuation of the RC portfolio and the offering price.

11. In reply to Mr Howard YOUNG on how the RC facilities of HA estates completed after the divestment would be handled, DD of H(CS) said that the details in this regard had yet to be finalized. The initial thinking was to entrust MgtCo or other interested companies to plan and develop the RC facilities for new HA estates.

12. Mr Abraham SHEK Lai-him considered the valuation of the RC facilities important because if it was too low, the HA would stand to lose while MgtCo would gain a lot. He therefore requested details of the valuation and the consultancy reports relating to the divestment to ensure the consultants concerned had not advised divestment for self interest. In response, DD of H(CS) explained that according to preliminary estimates, the net proceeds to be generated from the divestment would be over \$20 billion. However, the final valuation was not yet available because such would hinge on MgtCo's operation mode and the market conditions at the time of divestment. Moreover, since the divestment was tentatively scheduled to take place before the end of 2004-05 financial year, according to legal advice, the HA should not make any comment on the valuation or the expected yield for potential investors to avoid contravening listing regulations. He could only say that the valuation had been roughly estimated by the consultants to be over \$20 billion. He agreed to provide the executive summaries of the consultancy report to the Panel.

Concerns about the divestment

13. Members were in general concerned about the impacts of the divestment. These included loss of stable income for the HA, possible increase in rents of the divested facilities and their resultant effect on prices of goods sold thereat, and possible changes in the trade mix in the retail facilities and in the tenancy policies. Mr LEUNG Yiu-chung indicated opposition to the divestment. His reasons were three-fold. Firstly, MgtCo might not respond to the needs of the tenants of the RC facilities as readily as the HA had been. Secondly, the divestment would create unemployment. Thirdly, the divestment would only provide temporary financial relief to the HA. Without rental income from the RC facilities, which was a major source of recurrent cash flow to the HA, the HA would incur deficit in the long run. In Mr LEUNG's view, if the HA could improve the occupancy rate and operational efficiency of the RC facilities, it could increase income from this stable source and improve its financial condition without divesting the RC facilities.

14. Mr Albert CHAN Wai-yip also stated opposition to the divestment. In his opinion, the divestment was a wrong decision and would lead to loss to the Government, the HA, the commercial tenants, and the larger community because of the following reasons -

- (a) While it was doubtful whether divestment could lead to operational efficiency, the RC facilities' social functions such as its role in promoting the development of new towns would diminish;
- (b) The RC facilities might be divested at a low price to big corporations at the expense of taxpayers' money as in the case of the Cyberport and the disposal of the Hunghom Peninsula Private Sector Participation Scheme (PSPS) flats (the Hunghom flats);
- (c) The divestment might provide an opportunity for big corporations to make use of the loopholes in relevant legislation, and form an oligarchy through buying all the RC facilities and then selling or renting them at very high prices;
- (d) Proceeds from the divestment could hardly make up for the loss of the long-term incomes generated from the RC facilities for the HA; and
- (e) The divestment might lead to changes in the trade mix in the retail facilities, resulting in flourishing of undesirable business establishments detrimental to the community.

15. Mr Frederick FUNG Kin-kee shared Mr Albert CHAN's views, and added that the staff of the HA would also suffer because of the divestment. He further expressed regret that the divestment project had been approved in principle before the Panel was thoroughly consulted on its details.

Impacts of the divestment on the financial condition of the Housing Authority

16. Mr LEUNG Yiu-chung reckoned from figures provided by the Administration that the proceeds from divestment might only amount to about 15 years of HA's annual rental income from the RC facilities. He was of the view that the proceeds were not substantial enough to justify the divestment. Mr LEE Cheuk-yan shared his views. In response, DD of H(CS) pointed out that proceeds from the divestment could temporarily address the present acute cash-flow problem faced by the HA to enable it to continue to produce PRH for those in need. Moreover, according to the decision of the HA made two years before, there was also a need to withdraw from commercial operation so as to focus on providing subsidized public housing.

17. Mr LEE cheuk-yan was unconvinced, and opined that the purpose of the divestment was to relieve Government from fund injection into the HA. Mr Frederick FUNG also disagreed with the justifications put forth by DD H(CS) for the divestment. He attributed HA's financial difficulty to the loss of income resulting from the cessation of sale of Home Ownership Scheme (HOS) flats, and said that proceeds from the divestment could hardly sustain the PRH production programme for more than two years. As to the need to focus on public housing production, he pointed out that the switch of focus should be achieved by phases after thorough consideration. Quoting the disposal of the Hunghom flats as an example, he cautioned against making a hasty decision to reach an unfair deal. In his view, the Administration should be reprimanded for selling public properties too rashly.

18. In response, DD of H(CS) emphasized that the decision to divest the RC facilities was made after detailed examination of the matter against objective criteria including careful valuation. With the expert advice from the JGCs and the FA, the RC facilities would be divested at a reasonable price through a fair process. Should market conditions become unfavourable, divestment of the facilities could be suspended. Mr Frederick FUNG was unconvinced, and pointed out that the unfair disposal of the Hunghom flats had likewise been made with the advice of consultants. He and the Chairman saw a need to monitor the valuation of the RC facilities to ensure a good price could be fetched. Mr FUNG also said that in determining the price, the need to enable the HA to focus on public housing production should not be a major consideration, or else the HA would be willing to accept any price offer.

19. Mr Albert CHAN enquired whether MgtCo could be required to contribute a certain percentage of its annual profits to the HA after the divestment. In reply, DD of H(CS) agreed to examine the suggestion but pointed out it might affect the valuation of the REIT. Mr CHAN however maintained that his proposal would help make up for the loss of HA's stable income.

Impacts of the divestment on the rental of facilities and prices of goods

20. Members were concerned about possible increase in rents of the divested facilities and their resultant effect on prices of goods sold thereat. Mr Tommy CHEUNG Yu-yan, in particular, pointed out that the HA was the best retail property and carpark facility owner in Hong Kong. During the outbreak of the Bird's Flu and the severe acute respiratory syndrome (SARS), the HA readily provided rent concessions. Once the facilities were divested and were operated fully on a commercial basis, commercial tenants might not be given sympathetic considerations. His views were echoed by Mr LEUNG Yiu-chung.

21. In response, DD of H(CS) assured members that since the value of the RC facilities was estimated to be over \$20 billion, it was not likely that a single corporation could buy up all the REIT units to form a monopoly to maintain high rental. Moreover, it was unlikely that MgtCo could afford to totally ignore the views and needs of commercial tenants when determining the rents. To the contrary, it would aim to form partnership with commercial tenants and set reasonable rental policy in order to retain existing commercial tenants and attract new tenants. He further pointed out that divestment would benefit the commercial tenants of the RC facilities in terms of improvements in operational efficiency and market responsiveness and increase in pedestrian flow, turnover and profits as a result of the ability of MgtCo to exercise greater flexibility. In comparison, the HA, as a public body, might lack flexibility and private sector efficiency.

22. Mr LEE Cheuk-yan did not agree that the operational efficiency of the RC facilities would be low if they remained under the HA. In response, DD of H(CS) said that according to HA's consultants, due to the higher salaries of civil servants and a lack of flexibility in the management of the facilities, presently the operating cost of HA's RC facilities constituted over 60% of their gross income vis-a-vis 25% to 30% in the private sector. The HA was also under many constraints on the means to promote its RC facilities such as providing free shuttle bus service and organizing lucky draws to increase pedestrian flows.

23. Mr Fred LI expressed concern that if the RC facilities were to be operated purely on a commercial basis, the existing practice of the HA to adjust the rents of the retail facilities of new HA estates according to the intake rate would be abolished. In reply, DD of H(CS) explained that this was a pragmatic measure to attract commercial tenants to operate in a new estate for commercial reasons. He believed such kind of measures would continue after the divestment. He would convey members' views in this respect to MgtCo.

24. Mr Fred LI was also concerned about possible rise of rents of District Council (DC) members' offices located in the RC facilities after the divestment. In response, DD of H(CS) and the Assistant Director of Housing (Divestment) (AD of H(D)) pointed out that DC members' offices currently situated in RC facilities were already paying market rent. They also pointed out that many DC members' offices

were actually situated in empty bays of the domestic blocks and would not be affected by the divestment.

25. Mr Abraham SHEK was concerned that the livelihood of PRH tenants might in the long term be adversely affected by the divestment. This was because unlike the HA which was willing to subsidize the operation cost of the RC facilities, MgtCo might be more ready to increase rents of the divested RC facilities and the burden of which would be passed onto consumers in terms of higher prices of goods and services. In response, DD of H(CS) clarified that in general the HA had been charging its commercial facilities at market rents. Some facilities were let by bidding to fetch the best rates. Hence there was no question of any form of subsidization. The RC facilities were essentially commercial premises leased to tenants on a commercial basis.

26. Mr Abraham SHEK however opined that the level of market rents might not be the same to the HA as to MgtCo. By subsidization, he meant that PRH tenants were to a certain extent being subsidized by the HA because of the comparatively lower rents charged by the HA on its commercial facilities and hence the lower prices of goods and services provided therein.

Impacts of the divestment on the security of tenancy

27. Mr Tommy CHEUNG highlighted that HA's commercial tenants were also concerned about the security of tenancy after the divestment since they had invested heavily in setting up the trade including decorating the shops. He called upon the Administration to note that many of HA's commercial tenants had been operating small businesses in HA's facilities for a long time. Many of them were living in the HA estates where their businesses located. They might not know how to make a living if they could not continue to rent HA's retail facilities to continue their businesses. His points were shared by Miss CHAN Yuen-han, who was concerned that small commercial tenants might be replaced by big corporations after the divestment if no special measures were taken to safeguard their interests. Mr CHEUNG therefore urged the HA to extend its tenancy agreements with its commercial tenants where practicable, so as to ensure their interests would not be affected by the divestment. In response, DD of H(CS) advised that notwithstanding the pending divestment, renewal of commercial tenancy would be handled in the normal manner with the inclusion of a provision to cater for change of ownership after the divestment. Only long-term and special tenancies would be handled differently.

28. In this regard, Miss CHAN Yuen-han also highlighted that some of HA's commercial tenants were offered the tenancy as compensation for demolition of their shops in clearance of cottage areas or old PRH estates in the past. As such, the tenancy and rents of such commercial tenants should not be affected by the divestment. In reply, AD of H(D) confirmed that such tenants were HA's premium tenants and their requests were that their tenancy rights be secured and extended

unconditionally notwithstanding the divestment. The HA was presently conducting a research on the number of such premium tenants and the details of their tenancy agreements. She assured members that the number of such tenants was being assessed and MgtCo would be informed of their particular situations.

Impacts of the divestment on the trade mix in the retail facilities

29. Addressing the concern of Messrs Fred LI, LEE Cheuk-yan and Albert CHAN about drastic changes in the trade mix of the divested facilities, DD of H(CS) and AD of H(D) said that MgtCo had not yet decided whether there would be changes to the trade mix. Before making such changes, they must have regard to relevant provisions in the deeds of mutual covenant and in some aspects of the Hong Kong Planning Standards and Guidelines.

30. Mr Fred LI was however concerned that MgtCo could, without consulting the DCs or local residents, let out the divested facilities as off-course betting centres, game centres or cybercafes, which as he understood could not be opened in HA's facilities as a matter of policy. He opined that MgtCo should be asked to observe such tenancy policies of the HA. In response, DD of H(CS) advised that as he understood, there were licensing and consultation requirements for the opening of game centres and off-course betting centres in private premises as well. Residents could therefore continue to have a say in such matters notwithstanding the divestment.

Impacts of the divestment on the responsiveness to PRH tenants' needs

31. Mr Fred LI opined that unlike the HA, MgtCo might be unwilling to convert under-utilized car-parking facilities to other uses in response to PRH tenants' needs, such as converting the facilities to social service facilities, or converting parking spaces for cars into those for motorbikes. In response, DD of H(CS) assured members that since flexibility was a major element of commercial operation, MgtCo should be ready to exercise flexibility to maximize use of the RC facilities. AD of H(D) supplemented that notwithstanding the planned divestment, efforts had already been made to follow up on the Panel's comments made in late 2003 that greater flexibility should be exercised to convert under-utilized car-parking facilities to other uses in response to residents' needs. Conversion however took time due to the need to first seek approval from the Town Planning Board for amending the relevant lease conditions.

How commercial tenants' concerns about the divestment could be addressed

32. Mr LEUNG Yiu-chung emphasized that if divestment was to go ahead, there was a need to ensure the HA would continue to have a say in the operation and rental policy of the divested facilities so as to safeguard the interests of the commercial tenants concerned. Mr Tommy CHEUNG also called upon the Administration to address the commercial tenants' concerns as far as practicable.

In this regard, Mr Frederick FUNG expressed dissatisfaction that the commercial tenants had not been sufficiently consulted before the decision to divest the RC facilities was made. Mr IP Kwok-him, on the other hand, called for formulation of a mechanism to ensure that both MgtCo and the commercial tenants would be able to benefit after the divestment.

33. In response, DD of H(CS) and AD of H(D) assured members that the Administration had been closely liaising with the commercial tenants affected by the divestment and was well aware of their concerns. SGD members met with two different groups of commercial tenants. Housing Department (HD) staff had also met with various tenant groups for up to 20 times to understand their concerns. However, while noting their concerns the HA could not make any commitment on MgtCo's behalf on specific matters which would affect MgtCo's operation. Moreover, there was also a need to note that imposing restrictions, such as undertaking not to increase rents, would adversely affect MgtCo and hence the attractiveness of the REIT to potential investors and the proceeds from the divestment. A balance between the interests of the commercial tenants and those of MgtCo would need to be carefully maintained.

34. In response to the Deputy Chairman for more specific assurances to HA's commercial tenants, DD of H(CS) said that with the appointment of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of MgtCo, the Administration would strive to ensure direct communication between commercial tenants and MgtCo's senior management. AD of H(D) supplemented that the HA had commissioned consultants to advise on MgtCo's corporate structure, business strategy, mode of operation and manpower requirements. Details of the commercial tenants' requests and HA's existing tenancy policies would be passed to the consultants for consideration. The HA would also draw MgtCo's attention to the special features of HA estates, e.g., slow population intake rate, and try to explain to MgtCo that in operating HA's RC facilities, there might be a need to take into account such special features. In reply to Mr Tommy CHEUNG, DD of H(CS) said that the HA aimed to address commercial tenants' concerns before the divestment.

35. The Chairman opined that it might be advisable not to divest all RC facilities so that the HA would be in a better position to ensure its tenancy policies could continue. In this regard, Mr Frederick FUNG suggested that 51% of the equities should be retained by the HA. The Chairman requested the Administration to consider this proposal or to consider divesting the RC facilities by phases.

Admin 36. In consideration that the board of directors for MgtCo could determine whether and how the concerns of relevant parties would be taken into account, the Chairman enquired how the board would be established and re-appointed. Members opined that this had to be examined with care to ensure the term of board members could not be extended indefinitely and the control of the RC facilities would not be in the hands of just a few. In response, DD of H(CS) agreed to provide a paper to advise how MgtCo board of directors would be formed for the first and successive terms.

Admin 37. In response to Mr Tommy CHEUNG on details of the concerns and requests of HA's commercial tenants, AD of H(D) reported that their concerns covered rent increase, security of tenancy, continuity of letting/contracting policies, payment of stamp duty, and changes in trade mix and policies on name change and fire insurance, etc. Most important of all, the commercial tenants requested that a special monitoring group be set up to oversee transitional matters as well as to follow up on the commercial tenants' requests and needs after the divestment. In response to members, AD of H(D) undertook to provide a wish list of the commercial tenants together with information on whether and when each of the wishes could be resolved/decided, and whether the requested monitoring group would be set up.

Staffing matters

38. Commenting on Mr LEUNG Yiu-chung's claim in paragraph 13 that the divestment would create unemployment, DD of H(CS) said that while some HA contract staff could not continue to work in the HA because of the divestment, MgtCo would need to employ its own staff. Moreover, to ensure a seamless transition for operations of the RC facilities, it would be in MgtCo's commercial interests to recruit some of its employees from the HA. As such, while the number of HA staff likely to be recruited by MgtCo might not exactly correspond to the number of affected staff, the divestment might not necessarily create unemployment. On the contrary, the divestment would bring financial relief to the HA and enhance the operational efficiency of the RC facilities, and in turn benefit the commercial tenants concerned, the economy and employment situation as a whole.

The voluntary exit scheme and redeployment arrangements

39. Noting that the divestment would affect some 650 civil servants currently managing or maintaining the RC facilities, Mr IP Kwok-him sought to ensure that these HD staff would be able to remain in the civil service if they did not wish to leave through the VES. In reply, DD of H(CS) assured members that the HD would gainfully redeploy the surplus staff to other duties, and there would not be any forced redundancy of civil servants arising from the divestment. In fact, different redeployment measures had already been taken in parallel with the review of the staff establishment and streamlining of the organization structure of the HA. For example, some HD staff had been redeployed to the Buildings Department (BD) to help step up enforcement action against unauthorized building works in rear lanes.

40. Mr LAU Ping-cheung said that he had been urging the Administration to redeploy surplus HD staff to other departments. Noting that 38 HD staff were redeployed to BD to assist in clearing blackspots in the wake of the SARS outbreak and in demolition of unauthorized structures, he considered this the right direction to pursue because both HD and BD were under the purview of the Housing, Planning and Lands Bureau (HPLB), and the jobs involved required similar qualifications. In reply to him on details of further progress in this regard, DD of H(CS) assured members that the HA recognized the desirability and viability of this approach and efforts in this direction would continue. He however explained that negotiation was still under way for redeployment to other departments because they were similarly facing cuts in expenditure. Mr LAU opined that to allay staff concern about job security, efforts should also be made to redeploy staff to public bodies under the purview of HPLB, such as the Urban Renewal Authority (URA). In reply, DD of H(CS) clarified that URA was an independent statutory body.

41. Mr LAU Ping-cheung further proposed that the HA should require MgtCo to engage former HA staff to provide maintenance and repair works for the RC facilities after divestment to capitalize on the operational knowledge and experience of the existing staff. Mr LEE Cheuk-yan shared his views, and said that such requirement should apply to both civil servants and contract staff in the HA. In response, DD of H(CS) pointed out that while the HA would recommend MgtCo to employ some of the existing staff, this would not be a mandatory requirement. In fact, to enable MgtCo to adopt the best practices to optimize its operation, the policy intent was to impose as few restrictions as possible. He however reiterated that as described above, every effort would be made to enable HA staff to seek employment with MgtCo. For example, priority approval for VES application would be given to those selected by MgtCo for employment.

Assistance available for contract staff of Housing Authority

42. Miss CHAN Yuen-han enquired about impacts of the divestment on the contract staff of the HA and measures to assist them. In response, DD of H(CS) confirmed that the divestment apart, there were already over 1 000 HA contract staff whose contracts might not be renewed due to the financial difficulty of the HA and substantial scale-down of HA's work as a result of the cessation of the production of HOS flats. There was inevitably a reducing demand for staff over time and, to ensure proper use of public resources, should all redeployment efforts fail, staff cuts were necessary. To avoid redundancies of civil servants as far as possible, impact on staff who were employed on contract terms would inevitably be greater. Staff consultation however was going on and HD would consider all possible measures to mitigate the impact. For example, the HD had undertaken to notify the contract staff concerned as early as practicable should it be decided that their agreements would not be renewed. A fair mechanism would also be put in place to decide the relative order of contract staff to leave HA should a surplus exist. After close and active exchange of views between the management and relevant staff unions, HD had further agreed to adopt a phased approach in the deletion of contract posts, and such posts would be retained for as long as practicable and where functionally justified. In addition, a scheme had also been worked out to offer assistance to outgoing contract staff to better equip them through training for the job market, and to recommend them to prospective employers where appropriate.

43. Miss CHAN Yuen-han remained to be assured. In her view, since the contracts of most HA's contract staff had been renewed time and again, they had reasonable expectations for continued employment. Moreover, as she understood, the contract staff had also been given such an impression. In response, DD of H(CS) stressed that it was inappropriate to continue to renew the agreements of the contract staff when there was insufficient work to support the retention of their posts. He pointed out that through communication with them, the contract staff also showed an understanding of the need for the reorganization and reduction in staff establishment. He assured members that the Administration well understood the concerns of the contract staff, and every effort would be made to prepare them well for the transition.

44. Mr LEE Cheuk-yan sought to ascertain how the response to the VES would affect the employment opportunities of HA's contract staff involved in the operation of the RC facilities. He also enquired if redeployment arrangements in relation to the divestment would be made for civil servants and contract staff alike. In reply, DD of H(CS) said that redeployment opportunities would also be explored for the some 100 contract staff affected by the divestment. Should such efforts fail, the agreements of the same number of contract staff in the HA might not be renewed.

Other views and concerns

45. Mr Albert CHAN questioned whether the appointment of MgtCo's CEO and CFO had been properly made. He queried the quick selection process and the integrity of the candidate for the CEO post who, according to Mr CHAN, had a notorious track record. Mr CHAN was concerned that the appointments were not conducive to the development of fair practices in MgtCo to safeguard interests of the community. In response, DD of H(CS) emphasized that with the assistance of an executive search firm, an extensive search both locally and overseas had been made before the appointments, and the selection process was conducted carefully and fairly. Mr CHAN nevertheless expressed disappointment at the appointments.

46. Mr Abraham SHEK considered it necessary to receive views from affected parties to understand their requests and concerns first hand. In this connection, AD of H(D) said that members might first consider the wish list of the commercial tenants. Noting that MgtCo's CEO would report for duty in July 2004, the Chairman opined that it might be advisable to meet with the affected parties as well as the CEO at the Panel's July meeting. He instructed that the item be retained on the Panel's list of outstanding items for discussion.

V. Any other business

47. There being no other business, the meeting ended at 4:50 pm.