

Legislative Council Panel on Housing

Progress on Divestment of Housing Authority's Retail and Car-parking Facilities

Purpose

This paper briefs Members on (a) the progress made on the divestment of the Housing Authority (HA)'s retail and car-parking (RC) facilities, and (b) the voluntary exit scheme for civil servants affected by the divestment.

Background

2. HA approved in July 2003 in principle the divestment project, and has set up a Supervisory Group on Divestment (SGD) to monitor and steer the project.

3. In October 2003, after going through formal tendering processes, HA appointed Goldman Sachs (Asia) LLC, The Hongkong and Shanghai Banking Corporation Ltd and UBS Investment Bank as Joint Global Coordinators (JGCs); JP Morgan Securities (Asia Pacific) Ltd as Financial Advisor (FA); and PricewaterhouseCoopers (PwC) as Auditor and Reporting Accountant for the divestment project.

4. We briefed Members on the divestment project at the Panel meetings held on 3 November and 1 December 2003 respectively, and undertook to report progress of the project to the Panel from time to time.

Latest progress in taking forward the divestment project

5. With the assistance of its advisors, HA has been preparing for the divestment along six work streams. The following paragraphs outline progress made in each of the six work-streams.

Strategy work-stream

(a) REIT structure

6. HA has agreed in principle to pursue a Real Estate Investment Trust (REIT) structure, instead of a company with REIT characteristics¹, for the divestment. As compared to a company with REIT characteristics, a REIT structure is more straightforward and may embody stronger corporate governance features².

7. HA has also agreed that in principle, subject to prevailing market conditions, all the RC facilities suitable for divestment should be divested in one go, rather than by phases. In addition, after the divestment, HA should not retain any equity interest in the REIT or in the company set up to manage the REIT (see paragraph 8 below).

(b) Management of REIT

8. HA has agreed to establish a new company (MgtCo) to manage the REIT. After the divestment, this company will be beneficially owned by unit-holders of the REIT and held in trust by the REIT's trustee. HA has commissioned consultants to advise on MgtCo's corporate structure, business strategy, mode of operation and manpower requirements. Based on the consultants' advice, HA is in the process of establishing the board of directors for MgtCo.

9. Following an extensive search both locally and overseas with the assistance of an executive search firm, HA has appointed Mr Victor So Hing-woh as the Chief Executive Officer and Mr Alfred Li Hung-kwan as Chief Financial Officer of MgtCo. Other senior management personnel are being recruited.

Operations work-stream

10. HA, together with management consultants, JGCs, FA and MgtCo, is formulating a migration plan for MgtCo to take over management of the RC facilities to be divested. A human resource consultant has commenced work on the organizational structure as well as remuneration

¹ These characteristics include a clear focus in its activities (whereas a conventional property company may own real estate and other businesses); a low gearing ratio; and the payment of most of its profits to shareholders.

² A REIT is under the oversight of an independent, professional trustee; and is regulated by the Securities and Futures Commission (SFC) under the REIT Code.

packages for MgtCo staff. On the IT front, based on the advice of an IT consultant, HA has commenced the development and implementation of an IT solution to meet the operational needs of MgtCo after it takes over management of the RC facilities in due course.

Property work-stream

(a) Scope of RC facilities to be divested

11. Some RC facilities might not be suitable for divestment for various reasons because of their poor location, small scale, old age or obsolescent condition. HA is reviewing the RC facilities estate by estate and, after consulting MgtCo in due course, will decide on the final package.

(b) Due diligence and property valuation

12. To help prepare for the due diligence and property valuation work required for the divestment, HA commissioned a property consultant to conduct a pilot study on six RC facilities. The pilot study has confirmed that the facilities studied are in good condition, requiring no onerous repair or upgrading, and are suitable to be considered for divestment from a commercial perspective. The consultant has also proposed a framework for carrying out the due diligence and property valuation work. Having regard to the findings, HA is in the process of appointing independent property consultants to conduct a larger scale study of the RC facilities selected for divestment.

(c) Transfer of legal titles

13. With the support of relevant Government departments, HA has started work on the preparation and modification of leases and Deeds of Mutual Covenant, where required, for the RC properties to be divested.

Public Relations work-stream

(a) Communication with commercial tenants

14. HA attaches great importance to communicating with stakeholders. Members of SGD met representatives of the commercial tenants on 9 December 2003 (in 2 sessions, attended by some 30 and 60 representatives respectively) to gauge their views on issues of mutual concern. The issues raised by the tenant groups are being carefully studied by HA and relevant consultants.

(b) Communication with staff

15. The Director of Housing met the Alliance of Housing Department Staff Unions and other staff unions, as well as staff of the Commercial Properties Sub-division (CPSD) in December 2003 to exchange views on the divestment. Over 200 representatives attended these sessions. Moreover, a total of 90 CPSD staff took part in three separate focus-group discussions held in January 2004. We have assured staff that there will not be any forced redundancy of civil servants arising from the divestment.

16. We are consulting civil servants working in the Housing Department (HD) on a proposed voluntary exit scheme. Please see paragraphs 19 to 22 below for more details.

Legal work-stream

17. HA has confirmed with its legal advisors that the divestment is within HA's legal powers under the Housing Ordinance. HA is examining various issues relating to the establishment of the REIT to make sure that the process is in compliance with regulatory requirements.

Finance work-stream

18. Based on the advice of consultants, HA will recommend the REIT to adopt Hong Kong Generally Accepted Accounting Principles (HK GAAP) in the preparation of its accounts. PwC has commenced audit work for the RC facilities on this basis.

Voluntary Exit Scheme for HD staff affected by divestment

19. The divestment will affect some 650 civil servants currently managing or maintaining the RC facilities.

20. We have assured these staff that we will gainfully redeploy them to other duties after the divestment. For those who wish to leave the civil service, we propose to introduce a voluntary exit scheme (VES). The benefits and eligibility rules of this scheme, at **Annex A**, are the same as those under the Second Voluntary Retirement Scheme offered to selected civil service grades in 2003.

21. The VES is subject to a quota corresponding to 646 specified departmental grade posts (details at **Annex B**) which will be surplus to requirements arising from the divestment. About 6 000 civil servants

working in HD who are in the same ranks as these 646 posts will be eligible to apply.

22. We are formally consulting the staff concerned on the details of the VES. Having regard to staff feedback, we plan to finalise the scheme in June 2004.

Way forward

23. Subject to prevailing market conditions, the divestment is tentatively scheduled to take place before the end of financial year 2004/05.

Housing, Planning and Lands Bureau
May 2004

**Features of the Voluntary Exit Scheme
under staff consultation**

(1) Proposed benefits

- (a) immediate payment of pension benefits irrespective of whether or not the officer concerned has attained the normal retirement age, but subject to completion of the minimum qualifying length of service stipulated under relevant pension legislation;
- (b) an ex-gratia lump-sum payment, calculated on the basis of one month's salary for every two **complete*** years of service; and
- (c) the lump sum payment at (b) above will also be subject to the ceiling that the amount of the lump-sum payment, when added to the commuted value of the pension benefits which the officer would be eligible upon retirement under this scheme, will not exceed the commuted value of the pension benefits to which the officer would be eligible at his normal retirement age.

(2) Proposed eligibility and other rules

- (a) the scheme will cover only the 646 departmental grade posts set out at Annex B, being posts identified to be surplus to requirement arising from the divestment;
- (b) any civil servants in the same ranks as those of the 646 posts at Annex B who are working in HD will be eligible to apply. Priority of approval will be given to those selected by MgtCo for employment, and approval of other applicants will be based on seniority in the rank concerned;
- (c) when a successful applicant leaves the service, the corresponding post will be deleted;

* The lump sum payment will be calculated only for every two complete years of service. No pro-rata payment for remainder of service less than two years will be provided.

- (d) civil servants with less than five year's active service prior to normal retirement will not be eligible; and
- (e) civil servants subject to disciplinary proceedings or other actions being taken or contemplated to be taken which may lead to removal from the service will not be eligible.

Surplus Civil Servants after Divestment of RC Facilities

Rank	No.
<u>Directorate</u>	
Assistant Director of Housing	1
Chief Estate Surveyor	1
Chief Housing Manager	2
Chief Maintenance Surveyor/Chief Architect	1
<u>Departmental</u>	
Senior Housing Manager	8
Housing Manager	33
Assistant Housing Manager	85
Housing Officer	192
Senior Estate Assistant	2
Estate Assistant	6
Senior Estate Surveyor	4
Estate Surveyor	14
Senior Maintenance Surveyor/Senior Architect	2
Maintenance Surveyor/Architect	4
Senior Clerk of Works	7
Clerk of Works	18
Assistant Clerk of Works	41
Works Supervisor 1(Construction)	32
Works Supervisor 2(Construction)	8
Senior Technical Officer (Architectural)	4
Technical Officer (Architectural)	14
Senior Building Services Engineer	2
Building Services Engineer	7
Senior Building Services Inspector	4
Building Services Inspector	16
Assistant Building Services Inspector	56
Works Supervisor 1 (Building Services)	22
Works Supervisor 2 (Building Services)	22
Senior Technical Officer (Building Services)	7
Technical Officer (Building Services)	13
Senior Structural Engineer	1
Structural Engineer	3
Senior Technical Officer (Structural)	1
Technical Officer (Structural)	3
Senior Quantity Surveyor	1
Quantity Surveyor	1
Senior Survey Officer (Quantity)	1
Survey Officer (Quantity)	1
Photoprinter 2	1
Artisan	2
Workman 2	3
Total	646