

## **Legislative Council Panel on Security**

### **Anti-Corruption Efforts in the Building Management Sector**

#### **PURPOSE**

This paper outlines the anti-corruption efforts made by the Independent Commission Against Corruption (ICAC) in the building management sector.

#### **BACKGROUND**

2. At the Special Meeting of this Panel on 17 October 2007, Members were advised that the Commission was concerned about corrupt activities in the building management sector and had taken measures at all fronts to combat the problem. The Commissioner of ICAC undertook to provide Members with a paper on this subject in six months' time.

#### **OVERVIEW**

3. Because of aging of buildings, more and more building maintenance projects are being carried out. Since Owners Corporation (OC) members are mostly volunteers who might not have the expertise and time to handle the building management and maintenance issues, they could be easily exploited by unscrupulous personalities who may deploy tactics such as corrupt collusion, bribery and fraud to secure work contracts. The amounts involved in these maintenance projects are huge, providing great temptation for manipulation. As the government has enhanced fire and building safety measures and will launch a Mandatory Building Inspection Scheme, it is anticipated that the number of building maintenance projects will increase substantially in the coming few years.

4. In the past three years, the number of corruption reports on building management sector received by the ICAC ranged from 800 to 900 per year, accounting for over 40% of all private sector reports. Of the corruption complaints in building management, ICAC investigations relating to maintenance or renovation gradually increased from 40% in 2005 to 46% in 2007.

## LAW ENFORCEMENT

5. In view of the large number of corruption reports received, the ICAC has since 2007 set up a dedicated group in the Operations Department to deal with all complaints on building management. Commencing mid-2007, notorious figures, including renovation consultants and contractors who are suspected of being involved in serious and organized corrupt and fraudulent practices in building management works have been targeted for investigation. This strategy has yielded results.

6. In the first four months of 2008, a total of 107 persons were arrested and 44 persons were charged for corruption related offences in the building management sector. The recent overt action has neutralized a syndicate and led to the arrest of an Assistant Manager, a Senior Officer and an Officer of the Property Management Advisory Centre from the Hong Kong Housing Society (**HKHS**). Another twenty-seven persons including renovation middlemen, consultants, contractors and office-bearers of the OCs of related buildings were also arrested in the same operation. The buildings affected by these three HKHS employees are in the Yuen Long, Tuen Mun and Shamshuipo area.

7. The investigation has revealed a sophisticated modus operandi in the scam. Instead of operating on their own, members of the syndicate formed gangs to rig the renovation contracts of buildings under renovation. The composition of these gangs varies in different renovation projects, and that tenders were frequently submitted in names of apparently unrelated renovation companies to hide their involvement. They provide 'Through Train' service in that their associates include operators of building renovation consultancy and contractor firms. Their tender rigging activities commenced a lot earlier than the tender advertisement being posted in newspapers.

8. Many of these gangs had set up their own intelligence networks to obtain insider information, through corrupt means if necessary, on buildings under renovation as well as personal particulars of members of the relevant OCs. To better serve their illicit purposes and to materialize their plans, members of the gangs infiltrated targeted OC by serving as office-bearers of the OC. As a result of their corrupt activities, it was not uncommon that the companies being short-listed by the OC for selection by the flat owners as consultant and contractor were in fact all connected with the same gang. Under the circumstances, the theoretically independent supervisory role of the consultant had been completely eroded. Renovation contracts so manipulated invariably resulted in the victimization of property owners who would be suffered from inferior quality of work and inflated cost.

9. The advantages offered by the gangs to compromised persons are also getting more tempting, from 'reimbursement' of the renovation fee to substantial amount of cash. Recent enquiries show that officer-bearers of OCs, consultants, collusive bidders, managers of management companies and middleman were each promised a percentage of the renovation contract value for their assistance. As a result, up to 30% or more of the property owners' contribution, which in some cases might amount to multi-million dollars, would not actually be spent on the renovation but end up in the pockets of the corrupt players. More importantly, such corrupt/fraudulent practices will adversely affect the quality of the renovation and the life span of the buildings.

10. With the government's impending Mandatory Building Inspection Scheme and Building Maintenance Grant Scheme for Elderly Owners, it is anticipated that corrupt activities in the building management sector will continue to grow owing to their lucrative nature, only that the gangs would be more cautious in the way they operate because of ICAC actions.

11. The dedicated group in the Operations Department will continue to –
- focus on the investigation concerning serious and organized building management corruption cases involving renovation consultants and contractors;
  - monitor closely the known participants of these organized corrupt activities and corrupt OC members; and
  - deploy more proactive strategies and structured tactics to combat corruption in building management.

## **CORRUPTION PREVENTION**

12. The ICAC has planned to launch a series of corruption prevention initiatives in May and June this year together with stakeholders like the HKHS, Home Affairs Department (**HAD**), Buildings Department (**BD**), Fire Services Department (**FSD**) and the professional bodies.

13. On 8 May 2008, a Toolkit on building maintenance developed jointly with HKHS, focusing on the letting of maintenance contracts and monitoring of works, was promulgated. It covers –

- the legal requirements relating to building maintenance as well as prevention of bribery, and financial assistance available to owners and OCs;
- the corruption loopholes and preventive measures in the letting and management of building maintenance contracts;

- a sample code of conduct for adoption by OCs;
- sample tender documents; and
- sample probity and anti-collusion clauses for inclusion in the tender documents.

14. In respect of the concern about collusive bidding among members of OCs, the Toolkit has made a number of recommendations for their consideration, such as inclusion of anti-collusion clauses in the tender document, compiling a shortlist of consultants or contractors for tender invitation and adding a few more names other than those recommended by the OC members or the consultant/contractor.

15. As a joint venture with HKHS, the CPD is exploring options to enhance the transparency of critical information relating to building renovation projects such as compiling a database containing reference material on pricing of various maintenance works, past successful renovation contract terms, as well as enlisting the professional assistance of independent building management consultants for the purpose of offering advice to OCs.

16. The Toolkit aims at providing a practical and step-by-step guide for use by property owners, OCs and management companies. After launching the Toolkit, the ICAC together with HKHS, HAD and other stakeholders, will organize regular workshops for OCs and property owners to promulgate the recommended best practices. An enquiry hotline will be set up to answer enquiries on the Toolkit and other building maintenance issues.

## **PUBLIC EDUCATION**

17. The HKHS, HAD and the ICAC will jointly hold a territory-wide “Integrity and Quality Building Management and Maintenance” publicity programme between May this year and March next year with the support from BD, FSD, Hong Kong Institute of Architects, Hong Kong Institution of Engineers, Hong Kong Institute of Surveyors and the District Councils (DCs). The programme which aims to enhance the attention and concern of property owners and building management organisations about building management and maintenance was kicked off on 8 May. The ICAC will also introduce the details of the programme through letters, posters, visits and talks to all OCs in Hong Kong and buildings which have received a statutory repair order. Details of the programme include –

- a new series of corruption prevention publications and information on building maintenance to be produced;

- 「誠信維修樂安居」 TV variety show and launching ceremony to be broadcast at TVB Jade Channel at 10:30 pm to 11:30 pm on 14 June (Saturday) this year;
- 「愛屋不及污」 TV API: ten episodes of one minute each to be broadcast at TVB Jade Channel in mid-June this year to introduce the corruption prevention practical guide on building management and maintenance;
- radio spot series and special articles on newspapers to be launched in the latter half of the year to promote corruption prevention messages on building maintenance; and
- the HKHS, HAD and the ICAC together with the DCs to jointly organise corruption prevention activities including workshops, roving exhibitions and quizzes in all 18 districts from September 2008 to March 2009.

**Independent Commission Against Corruption**  
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