

**THE ALLIANCE OF HOUSING DEPARTMENT STAFF UNIONS (“the Alliance”)**  
**REPLY ON THE CONSULTANCY REPORT ON PRIVATE SECTOR**  
**INVOLVEMENT IN ESTATES MANAGEMENT AND MAINTENANCE SERVICES**  
**(“the Report”)**

The Alliance considers that the Report only covers a very limited areas of studies. The so-called comparison of expenditures is restricted to the comparison of staff salaries rather than the real costs. The Report is very much written within a limited and confined topic i.e. privatisation and includes a lot of misleading or even incorrect but yet important data.

The Alliance concludes that the Report is unable to provide sufficient information for the Housing Authority to consider on the possible ways to improve efficiency and cost effectiveness of the Housing Department. Furthermore, most contents in the Report need to be clarified, elaborated and even corrected at the soonest possible. The Alliance would like to point out and reply on some main areas of misconception and incorrectness.

**1. The Relationship between the Housing Authority (HA) and the Housing Department**

- 1.01 The Alliance objects to the proposal in the Report that the HA should establish itself as the ‘client’ whereas the Department should be taken as a ‘contractor’ alongside with other potential ‘contractor’. This proposal is very much a blunt denial of the very actual fact that the HA is the ‘board of directors’ and the Department is its ‘executive body’. The Report is finding ways for the HA to shed its responsibility and duties as the employer and to eventually get rid of the staff of the Department - its employees.
- 1.02 Based on misleading and incorrect information, the Report jumps to the conclusion that the cost effectiveness of the Department is lower than that of the private counterparts. On this incorrect basis, the Report suggests that the HA should change from the ‘board of directors’ to a ‘client’ and its ‘company’ - the Housing Department, should change overnight to become just one of the many contractors. On one hand, it totally ignores the responsibilities and duties of a employer to its 15,000 employees. On the other hand, it fails to address the important virtues of the civil servants i.e. stability, reliability, trust-worthiness etc.
- 1.03 In very actual fact, over 80% of the works of the Department are out-sources. For example, cleansing, security and maintenance works are all contracted out to private companies. The HA has already changed its role from direct service ‘provider’ to service ‘facilitator’. The direction is already quite clear and correct. The HA needs the Department as the executive body to give advice. This is because the Department possesses thorough knowledge and experience on policy implementation. This arrangement is reasonable, sensible and has been working well. There is no conflict of interest as mentioned in the Report. Unlike other private profit orientated companies,

the Department is in a much better position to give advice and information which are objective, impartial, correct and truly reflect the interests of the public housing tenants and the society as a whole.

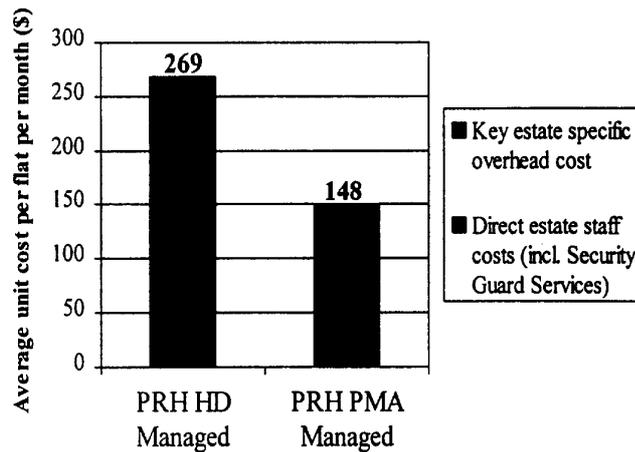
## 2. Cost Competitiveness

- 2.1 In para. 403 of the Report, it is stated that in terms of staff costs, the private sector is some 45% less expensive than the Department for property management services and some 42% less for the management of maintenance and improvement services. This statement is based on Figures 6 and 7. Very unfortunately, both figures are grossly misleading.

**Figure 6 – Staff Costs Comparison of Department and PMA property management services for public rental flats**

Source: Housing Department

Note: - Based on cost comparison of services currently provided by PMAs



- Costs exclude supplies, cleansing and other miscellaneous costs

**Figure 7: Comparison of overhead rates for Maintenance and Improvement (M&I) expenses - 1997/98 actuals**

Expenditure Item	Total M & I Expenses (\$M)		
	In House	Contracted Out	Total
Total Works Value	2,603	1,116	3,719
Total Staff Costs & Overhead	1,084	268	1,352
<b>% Overhead</b>	<b>41.64%</b>	<b>24.01%</b>	

*Source: Housing Department*

*Note: In-house expenses figures include the costs of other work types such as miscellaneous day-to-day repairs and routine maintenance. A separate breakdown of staff costs and overheads was not available.*

- 2.2 The comparison in Figure 6 is simply a comparison of staff costs. It is not a comparison of the real costs of operation.
- 2.3 The direct estate staff costs of PMAs (private management agents) do not include all staff costs of estate management. There are still a lot of work and duties e.g. community services and taking care of tenants' emotional behaviours etc., which are not included in the management contracts. Also Housing Department (HD) is still the first manager of the estates. The HD staff needs to assist and monitor the PMAs. All the costs of the above are considerable. But these costs are not included as the direct staff costs of the PMAs but rather unfairly, taken as the costs of the HD managed estates. This incorrect entry of costs has resulted in the high costs of the HD managed estates. The figures presented in the Report is thus misleading. In fact, HD could be more cost effective than PMAs after taking account that PMAs only manage newly constructed estates!
- 2.4 As regards to indirect, or overhead costs, our information reveals that HD's high figures is a result of the huge headquarters administrative costs. This very much reflects HD's over-concentration of central power, administrative bureaucracy and over complication of procedures. This portion of costs is very much the expenditure on policy making and monitoring of policy implementation, advertisement and public

relations. This part of expenditure, which amounts to \$850M per year, should not have been included as part of the cost of estate management.

- 2.5 If all estate management works are given to the PMAs as recommended in the Report, the amount of expenditure as given in para. 2.4 above would still be incurred by HD.
- 2.6 We therefore consider that the recommendation of contracting out all estate management works to PMAs is not solving the problem in the right direction. The recommendation fails to tackle the matter from the roots of the problem. The conclusion that HA could save up to one billion dollars is totally misleading. This conclusion is based on the incorrect assumptions that firstly, all existing 650,000 public rental units are managed by PMAs overnight. And secondly, all the indirect overhead costs by HD are no longer included as the costs of estate management. We believe the correct and effective ways to reduce costs are by streamlining and downsizing the central administration, comprehensive delegation of powers, thorough business process re-engineering and very importantly, on the basis of not abandoning its staff.
- 2.7 The figures shown in Figure 7 are also misleading and incorrect. The maintenance and improvement works are not handled or managed by PMA. In the private market, there is no PMA who can provide professional maintenance services. The so-called 'one stop shop' services are simply non-existence in the market. HD is the only organisation which are providing 'one stop shop' services to our tenants.
- 2.8 The in-house total staff costs and overhead in Figure 7 include a lot of expenditures unrelated to the works for comparison e.g. services to Education Department, USD and RSD, building control etc. Some headquarters costs for estate management are also included as the overhead for comparison. According to our information, the real percentage should be around 25% which is comparable to the percentage for contracted out works.
- 2.9 Furthermore, the contracted out works shown in Figure 7 are namely contracts of great contract sums. The consultancy fees are much lower in terms of percentage of contract sums. It is a well-known fact the percentage of consultancy fees for construction projects is very much related to the amount of contract sums. It is surprising that the Report does not make the comparison according to amount of contract sums. We must address the fact that works contracted out are mostly contracts of sums of tens of millions with some of them over \$100M. But in-house jobs range from a few hundred dollars to tens of millions!
- 2.10 Therefore, we consider that Figure 7 supports our belief that HD's staff is able to deliver maintenance and improvement services more cost effectively than the private consultants. This is because we are more familiar and more experienced in public housing maintenance and we also have the edge on economies of scale.

- 2.11 We very much believe that cost is not the prime factor of consideration on contracting out works to the private sector. The most important factors of consideration are the maintenance of information flow with the private sector, mutual learning and the provision of buffer to tackle sudden increase of workload.

### **3. The Implication of Tenants Purchase Scheme (TPS)**

- 3.1 According to HD's information, there are a total of 106 Home Purchase Scheme (HOS) Courts as at 15.9.1998. Only a total of 13 HOS Courts have their own Owners Corporation (OC) established. Out of these 13 OCs, only 10 of them has chosen to managed the Courts by themselves. We therefore believe that if the owners are given a free choice and HD does not put unrelated expenditures to the owners, the HOS Courts are quite likely and willing to employ HD as the property manager as we are able to provide a full range of services and are reliable. TPS estates are virtually similar in nature to HOS Courts whose owners do not demand to terminate the management of their properties. It is the HD who unilaterally assigns the management duties to PMAs without any consultation with or endorsement from the HOS Court owners. Moreover, tenancy management and community services within the TPS estates should also not be contracted out to PMAs.
- 3.2 Even if some of the TPS estates are no longer managed by HD, as a responsible and reasonable 'board of directors', the HA should allow some of the newly constructed rental estates (about 30,000 unit annually) to be managed by HD. The so-called excess of HD staff would not happen.

### **4. Implication on the Public Housing Tenants and Society**

- 4.1 The Report only focuses on the so-called benefits of private sector involvement. It totally ignores the implication on the tenants and possible impact on the society as a whole. We would like to make reference to the private residential property market. There are currently about 60,000 residential blocks with only 6,000 OCs formed. These OCs covers only about 8,000 blocks i.e. slightly more than 10% of the total number of blocks. Out of these 8,000 blocks with OCs, only a small percentage of them are properly managed and well maintained. Occurrence of tragic accidents due to improper management and disrepair has been reported from time to time. The Home Affairs Bureau would be able to provide details of these problematic building and the severity of the matters. Indeed, the Home Affairs Bureau has been trying very hard to impose statutory provisions to improve management and maintenance of private residential buildings. The undeniable fact is that most residential building owners and occupants are still not conscious on management and maintenance of their properties.

- 4.2 Most well managed and maintained buildings are managed and maintained by subsidiary companies of large and reputable private developers who can achieve two important goals. Firstly, their subsidiary companies are able to make profits. But more importantly, they are able to demonstrate to the potential buyers that their properties are being well looked after and the values of their capital assets would be maintained. The developers' reputations would thus be promoted and their future developments would be more popular. It is therefore quite obvious that the developers' involvement in management and maintenance is far better than having the individual owners to look after the buildings by themselves.
- 4.3 We are extremely worried that the Government is intending to shed the responsibilities of managing and maintaining the public housing to all owners and tenants within a very short period of time. The owners and tenants would have to take all related responsibilities and exposed to all future costs. The quality of services will be difficult to maintain if all public housing are being managed and maintained by profit oriented private companies. The advice and message received from these private companies will also be unlikely to reflect the true picture of the problems. Policies made by HA will therefore be incorrect. As a result, the valuable assets of public housing will become the burden. Public rental tenants will be the first batch of victims. But eventually, the SAR Government and the whole society will have to pay for it!

## **5. The Implication on the Civil Service and Housing Department Staff**

- 5.1 Although the Government has expressly made its commitment, among other things, that there would be no redundancy resulting from 'corporatisation' of the Housing Department. But the Director of Housing has already broken this promise. He has clearly and openly stated that massive redundancy of the Housing Department is inevitable. The Government is implementing a large scale redundancy programme in the Housing Department by employing private companies to take over the jobs of Housing Department staff based on only unjustified and misleading data.
- 5.2 The Government is about to get rid of its employees in a large scale by breaking its promise and throwing away its integrity. It is about to take the lead in massive redundancy. It has been reported that the Housing Department is about to sack 5,000 to 6,000 staff very shortly. Comparing with the private companies of any scales, the Government's move is going to be the meanest and most massive. Not only are the 15,000 Housing Department Staff aggrieved and agonized, the whole civil service will feel unstable. The staff morale of all civil servants will also be seriously jeopardized.

## **6. Conclusion**

- 6.1 The Government and the Housing Authority should firmly take up the responsibilities as the employer to its 15,000 employees. Any management enhancement programme should be worked on the pre-requisite of not getting rid of its employees. The Government and the HA should never present themselves as the mean employers by carrying out any massive redundancy.
- 6.2 Both the HA and the management of HD should seriously study the real cost structure and work from the roots of the matter. The central administration should be streamlined and downsized. Power and authority should be properly delegated with thorough business process re-engineering.
- 6.3 The owners and tenants of the TPS estates should be given the real choice of management and maintenance companies. The HA should not take away jobs of the HD staff and force the tenants and owners to take up the management and maintenance responsibilities.
- 6.4 The quality of service to the public housing tenants should be maintained. The HA should not give up its social commitment to public housing and jeopardize the interests of those on the waiting list for public housing and the lower class of our society.
- 6.5 The HA should model itself from the reputable private developers by taking good care of its developed properties and its occupants. It should work towards providing pleasant living environments to its residents and maintaining the value of its assets. It should work towards the goal as becoming one of the most reputable and popular property developers.
- 6.6 As the largest employer in Hong Kong, the SAR Government should never take the lead on large scale redundancy. In very actual fact, there are a lot of private companies in Hong Kong which take great care of their employees and do not carry out any redundancy even in the period of economic depression. The Government should show and act as a examples of a good employer.

*(This is the English translation. The Chinese version should take preference in case of discrepancies. The Appendices are in Chinese without any English version.)*