

Address by Tony Miller, Director of Housing, to the
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Public Sector Reform : The Housing Authority Example

Mr. President, Dr. Cheung, Ladies and Gentlemen,

It is very kind of you to invite me to address you this evening. Given the title of my address and the somewhat dry subject matter, I am flattered by the turn out.

2. As engineers, all of you are familiar with what happens when plants or systems are expanded and repeatedly modified. The incremental effect of all these alterations, additions and improvements is that over time the machine or equipment or system becomes less and less recognizable and inevitably, compromises are made and inefficiencies creep in. In this respect, large bureaucracies are no different from complex manufacturing or processing plants. No accident therefore that management gurus have coined terms such as “business process re-engineering” to describe how they go about looking for improvements to efficiency.

3. I do not want to stretch the engineering metaphor too far, but there comes a time in the life of every machine when either the scope for more modifications decreases, or the cost of making them increases, to an extent that the owners must look to a complete refit. So it is with public sector reform. And tonight, I would like to walk you through a practical example of what has been going on at the Housing Authority over the last couple of years and the challenges which we face for the future.

Background

4. The Housing Authority traces its origins to the great fire at Shek Kip Mei on the Christmas Day of 1953. In a clear break with its non-interventionist tradition, the Government felt compelled to enter into the housing market to cope with the emergency of a massive influx of refugees. Since then, the mission has evolved. From building very basic

boxes for emergency accommodation, we have moved step-by-step to developing modern self-contained communities, which incorporate housing both for sale and for rent, as well as commercial, recreational, educational, welfare and transport facilities.

5. The scale and scope of the intervention has grown relentlessly. Fully half of Hong Kong's current housing stock has been built with public subsidy. Along the way, the Housing Authority and Housing Department have undergone periodic reforms and have similarly expanded in both size and scope of operation. The department, which now has some 15,000 staff, has taken on not only the role of planner, designer and developer, but also of manager, maintainer and servicer, major retailer - we run well over 10% of Hong Kong's retail space - and operator of everything from flatted factory units to car-parks and homes for the elderly.

6. The Housing Department provides some services direct for the HA; others it procures. Most design work has traditionally been done in-house, but the Housing Authority contracts out the construction of estates as well as maintenance work. Until relatively recently, most management services other than cleansing and security services, were provided by HD staff. More recently the HA has looked to private management agencies for the management of Home Ownership Courts and new public rental estates. Overall some 80% of the HA's work by value is contracted out.

The Management Enhancement Programme

7. Two years ago, the Authority embarked on a Management Enhancement Programme (MEP). This brought together a number of initiatives both large and small, spanning all aspects of the department's work. It traces its origin to a period about two years earlier when frustration within the department peaked. It was apparent to many staff that while they were doing their best, within the normal constraints of a government bureaucracy, customer dissatisfaction was high and media criticism intense. The starting point of the reforms was thus a determined commitment to improve customer service, whether the customer was someone on the Waiting List for housing, a tenant, an owner, or anyone of the large number of commercial firms which work with us in providing housing or housing related services.

8. This customer service focus is evident in many examples of these early reforms. Customer service counters have been introduced into all estates. All maintenance requests are logged into a computer system in the estate office, which checks them through from home visit to completion and customer satisfaction. Communication with customers has been improved and Estate Management Advisory Committees have been established in all estates. Individual estate staff initiatives have been encouraged, credit given and implementation rolled out to other estates. On the product delivery side, the lead time for construction on public housing has been cut from 62 months to 47 months through a vigorous business process re-engineering exercise. Quality Management is being built into the system and enforced.

9. A great deal has been achieved very quickly and with a minimum of either fuss or fanfare, and I am very proud of the efforts of all staff involved. However, at the same time as these “micro” reforms have been going on, we have also been asking serious “macro” question about the role and responsibility of the HA and HD :

What are our core businesses?

Why have we become involved in them?

Do we still need to be involved in them?

Is there scope for greater private sector involvement?

What are the real costs of what we are doing?

Are there more efficient ways of doing it without compromising on service standards?

These are questions which we started posing to ourselves in a series of directorate workshops some two years ago and they are questions which we keep coming back to. We have been encouraged in this introspection by the active interest of Members of the Housing Authority, and the process helped us to refine the strategic objectives which we now publish as part of the Housing Authority’s Corporate Plan.

The Corporate Plan

10. The publication of the first Corporate Plan last year was in itself a major milestone in the Housing Authority’s corporate reform. It was in effect the Authority’s first Business Plan. Following the initial directorate workshops, which I referred to earlier, the department was re-structured to reflect the core businesses of the Authority. They are :

Building; Home Ownership; Rental Housing and Commercial Properties. The Business Director of each of these core businesses is now required to present a business plan to the relevant Housing Authority sub-committee for approval as part of the annual budgetary process.

11. Apart from increasing accountability and transparency, this business approach has enabled the Authority to get a much better fix on real costs, from project viability testing, through construction right the way down to the operating costs of the individual estates. At the estate level, where responsibility was previously fragmented and costs obscure, the Housing Manager is now responsible for both management and maintenance and is expected to produce an annual operating plan as part of the budgetary process. This systematic clarification of responsibilities, driving delegation of authority downwards, and consultation with customers on service standards has been extended across all functions of the department and has already reaped dividends.

Greater Private Sector Involvement

12. I mentioned earlier that the Authority is increasingly looking for opportunities for greater private sector involvement. This is consistent with both the search for greater efficiency and a desire to move from the role of provider to that of a facilitator. All Home Ownership Scheme Courts are now managed by private management agencies and all new rental estates are similarly contracted out. However, some 620,000 flats in 156 rental estates are still managed directly by staff of the department. Consideration of what the Authority should do with these has been given added urgency by last year's launch of the Tenants Purchase Scheme. Over the next ten years, the Authority will offer for sale no fewer than 250,000 existing rental units i.e. no fewer than 25,000 units each year.

13. As I have been saying bluntly to our 9,000 management and maintenance staff for some time now, the new owners may not want to hire us. They will have the right to choose and it is already obvious from the experience of their friends and relatives in the Home Ownership Courts and the new rental estates under private management that private management agencies can offer good services. The new owners will be looking for value for money. They may also be looking for services other than the basics which we provide.

14. The obvious question is can we compete? The less obvious question is should we compete?

15. When Government got into the housing business there were no private sector management firms worth talking about. That is manifestly no longer the case. Property management is one of the fastest growing sectors of our service economy. It has grown at an average rate of 8% over the last 10 years. This reflects not only the rise of ownership generally, and the greater emphasis which owners place on preserving the asset value of their properties. It also reflects the change in the scale and complexity of residential developments. And it reflects the realization by private sector firms that “management” can involve a wide range of value added services. Competition for new turf whether public or private is therefore increasingly intense.

16. The Housing Authority’s own experience of contracting out has generally speaking been a happy one. There are considerable savings to be made. Management structures in the private sector are flatter, and, let us be very frank, wage structures there are different.

17. Last year, in anticipation of the progressive transformation of tenants into owners which I mentioned earlier, we commissioned a consultant to look at options for corporatization or privatization with particular reference to the HA’s management and maintenance services. The consultant will present his report to the Authority shortly. Its findings, on the disparity between public and private sector costs, both at the estate level and in terms of management overheads, embarrassing though they may be for some, should come as no surprise.

Systemic Inefficiencies

18. Hardworking civil servants generally dislike being told that they are less efficient than the private sector. Heads of Department take no pride in having to admit it publicly. It is nevertheless a truism that any organization removed from the competitive stimulus of the market tends to become less efficient. However, that does not mean that the men and women who work in it are necessarily inefficient. Inefficiency in the public sector has little to do with the quality of staff - like any other organization we have our under-achievers, but the civil service is also blessed with many more, talented and hard-working staff - the problem

has rather more to do with the bureaucratic framework within which they are forced to operate. Allow me a small digression to elaborate on this.

19. Pay scales are standardized and averaged across similar jobs throughout the civil service. Duty lists, especially at the junior level are often the unhappy product of decades of inter-grade differentiation and dispute, and like the legendary railway fireman continue in existence even when, with the passing of steam and the advent of diesel, coal no longer needs to be shoveled. Annual increments and a hierarchy of promotion posts are used as a substitute for individual merit pay. Ensuring equity and transparency requires a clumsy and costly supporting administration. Equity and the protection of the public purse also demand a high degree of regulation but permit a correspondingly lower degree of individual initiative. All of this “overhead” comes at a cost and we have not yet mentioned pensions, benefits and the problems associated with removing those who do not perform. Little wonder the private sector is more efficient; little wonder that traditionally we have taken pride in keeping Government small.

20. To return to the management and maintenance functions of the HA, on pure efficiency grounds the case for privatizing is inescapable. Measured against the checklist of questions I rehearsed earlier, there seem to be no good grounds for Government’s continued involvement in this area of the economy. But extraction from an intervention, however successful, is never easy.

21. The focus of future discussions will be on how we move forward. I do not wish to appear to pre-empt decisions on this, but leaving aside questions of both philosophy and efficiency, one thing is very clear, and that is that we cannot afford simply to do nothing. The owners are coming and, if we do nothing, and they do not want to hire us, then the consequences will be as painful as they are obvious. Our challenge is to make our staff’s transition from representatives of the public landlord to servants of the private owners as painless as possible.

Commercial Properties

22. Turning to the HA’s commercial property portfolio, the question has to be asked given our non-interventionist economic philosophy: what is a public sector agency doing running 880,000 square meters of retail space, let alone flatted factories? Historically the answer

is simple enough, but against the background of our progressively transforming tenants into owners, is it a sufficient one?

23. Rents from our commercial properties have traditionally provided an important source of revenue for funding other forms of housing assistance. That is not something to be squandered or lightly discarded. Indeed, the portfolio is now managed on prudent commercial lines and, in recent years, the HA has experimented with contracting out the operation of some markets and shopping centres to single operators. Similarly, with the management of car parks. Nevertheless, the question of how we manage these commercial properties in the longer term demands serious review.

Conclusion

24. Mr. President, private sector firms respond constantly to changes in the economic environment. They must do so in order to survive and prosper. There is no reason why public sector organizations should be exempt, however unsettling that may be for staff. After all, if the original reason for any Government intervention is market failure, what excuse can it have it for continuing once the market mends? Extracting itself may not be simple and it may take time, especially given the need to consult with and treat staff responsibly, but the issue must be addressed. Responsible governance demands it.

25. And it is on the note of good corporate governance that I should like to close. The reforms which the HA has undertaken to date will result not simply in incremental improvements to efficiency. The combination of more detailed cost information, clearer objectives, greater transparency and improved accountability should result in a Housing Authority which is a model of public sector corporate governance. That is the target which we have set ourselves. I am confident that we will achieve it.
