

**Information Paper for the
Legislative Council Panel on Public Service
and Legislative Council Panel on Housing**

**Greater Private Sector Involvement in Housing Authority
Estate Management and Maintenance Services**

Implementation and Staffing Arrangements

INTRODUCTION

This paper informs Members of the recommendations of the Housing Authority (HA) Task Force for the implementation of the HA's decision on greater private sector involvement (PSI) in HA's estate management and maintenance (EMM) services, and the proposed related staff release package and staffing arrangements.

BACKGROUND

2. Members were briefed about the findings and recommendations of the Consultant engaged by HA to explore the potential for greater private sector involvement in its activities vide CB(1) 1123/98-99(04) on 19 April 1999. Whilst acknowledging the need for reform, Members urged the HA to take into account the views of the staff of Housing Department (HD) and HA tenants in proceeding with the PSI exercise.

Progress on PSI

3. After considering the views expressed by staff and related parties, the HA decided on 6 May 1999 to adopt a Phased Service Transfer (PST) approach. The HA establishes a Task Force to consider the implementation details, including the pace and scope of the service transfer, modalities for any Management Buy Out (MBO) proposals (paragraph 5 below), and the 'Sixth Option'¹ proposed by staff unions (paragraph 6 below). The Task Force was charged to complete its task in six months' time. A Committee on Staffing Arrangements, comprising HD's Management and the staff side (represented by the Alliance of the Housing Department's Staff Unions (the Alliance)²), has also been formed to develop

¹ The Consultant has explored five options for greater PSI (subsidiary company, joint venture, private company, management buy-out, phased service transfer). The Alliance of the Housing Department's Staff Unions (see note 2) put forward a sixth option during the consultation period which basically emphasized staff's self-strengthening and fair competition with private property service providers.

² The 30 staff associations in the HD have joined together to form the Alliance of the Housing Department's Staff Unions.

proposals on the staff release package and related staffing arrangements (paragraphs 8 to 13 below).

Present Position

4. The Task Force has recently submitted its report to the Chairman of the HA. The main recommendations are outlined in paragraph 5 for Members' information. HD will submit the above proposals for approval by HA at its next meeting on 27 January 2000.

RECOMMENDATIONS OF THE TASK FORCE

5. The Task Force's recommendations are set out below-

(A) Phased Service Transfer Approach

(a) Scope and Pace

- A gradual transfer of no less than 25 000 units in 2000/01 and 50 000 units in 2001/02 from the existing public rental housing stock, plus new production.
- The PST contracts will cover a wider range of property management and maintenance services (e.g. including major repairs).
- Tenancy management functions in relation to the exercise of the HA's statutory powers will be retained by the HD.
- The transfer programme will be reviewed within the first two years of implementation.

(b) Contracting Strategies & Tender Evaluation

- PST contracts will stipulate that no less than 20% of the estimated staffing requirement should be recruited from the HD's existing staff.
- A 3-year contract term covering 8 000 to 10 000 units per contract comprising a balanced mix of estates will be granted. Renewal is subject to satisfactory performance and negotiation on contract prices.
- A tender evaluation system with equal weighting on tender price and technical proposal. (The latter includes assessment on staffing proposal, past performance and management proposal.)

(c) Performance Monitoring Mechanism

- Specification of service standards will be output-oriented with clearly defined key performance indicators.
- A comprehensive reporting system will be devised to objectively measure performance against the indicators. Performance scores will be linked to future tendering opportunities through the tender evaluation system.
- A central monitoring team will be responsible for assessing the service standard through sampling of tenants' views, site checking, etc.
- Customers' participation will be enhanced through conducting comprehensive annual surveys, customer liaison meetings, etc.

(d) New Listing of Property Services Companies

- A new list of property services companies will be established for the PST contracts.

(B) Management Buy-Out (MBO) Option

(a) Scope of Business

- The MBO option is open to staff affected by the current exercise, and may cover lines of business (or combination) of HA's EMM services including:-
 - property services companies
 - cleansing and environmental services companies
 - security services companies
 - professional consultancy services
 - maintenance contractors
 - carpark operators

(b) Initial Support for MBO Teams

- Staff will be allowed considerable flexibility in securing financing. However, a majority percentage of shareholding should be held by the Department's staff throughout at least the first MBO contracts.
- MBO proposals will be considered under restricted tendering or exclusive negotiation.
- Listing requirements will be relaxed in respect of MBO entities wishing to bid for their first contracts under the established open-tendering programme.
- Initial technical and administrative support will be provided.

(c) Assessment of MBO Proposals

- An independent HA selection panel will be set up to assess the viability of MBO proposals on a case-by-case basis.
- A high proportion of an MBO entity's proposed team structure should be recruited from the Department's serving staff.

(d) Performance Monitoring of MBO Contracts

- MBO contracts will be subject to the same performance and quality monitoring system as other service providers.

THE SIXTH OPTION

6. The Sixth Option, originating from a proposal by the Alliance, was meant to be a competitive in-house management model comparing private sector standards and HD standards. Subsequent to HA's agreement to explore this option, an HD Sub-group was formed to assist the Alliance to develop their concept. However, the Alliance have discontinued their participation after the second meeting, and progress on the development of the model has come to a halt.

CONSULTATION ON STAFFING ARRANGEMENTS

7. Discussion with staff started in September 1999. Discussions proceeded quite smoothly until after the fourth meeting when the Alliance withheld further attendance because HD would not agree to include departmental grades not involved in EMM services in the eligibility list for the release package. During the period, the HD continued to gather staffs' views on the staff release arrangements through seminars, goodwill visits and focus group meetings organised by HD's grade management personnel. Staff were also updated on the progress and gist of the discussions through a special in-house publication and invited to give their views which were taken into account in drawing up the proposed staffing arrangements. Issues raised by the Alliance but not supported by the HD are set out at **Annex**.

PROPOSED RELEASE PACKAGE AND STAFFING ARRANGEMENTS

8. The success of PST hinges on the development of a package of incentives attractive enough to encourage sufficient affected HD staff to accept transfer to the private sector. Against this background, a package which should meet the needs of different groups, ages and circumstances of staff involved for their voluntary choice has been devised.

Options available to affected staff

9. The options to be made available to affected staff are-

- (a) to remain in the civil service; or
- (b) to leave the civil service (including (i) joining a private property services company or an MBO company; (ii) forming an MBO company as an owner; or (iii) leaving the civil service without joining private property services companies/MBO companies or forming MBO companies).

Proposed release package

10. For those who opt to leave the civil service, irrespective of whether they would join any private property services companies or form MBO companies, it is proposed that they should be eligible for-

- (a) A basic release package calculated on the basis of the Abolition of Office terms, comprising -
 - (i) payment of an enhanced pension (normal pensions plus an increase as provided by the pensions legislation); and
 - (ii) an ex-gratia payment equivalent to six times the staff's final monthly salary.
- (b) A special payment calculated on the basis of one month's salary for every five years before the staff reach their normal retirement age and pro-rata for shorter periods.
- (c) The purchase of Home Ownership Scheme (HOS) flats under the HOS Secondary Market Scheme, generally based on the eligibility criteria under the Civil Service Public Housing Quota .

(d) Others-

- (i) Allowing a period of up to three months for staff to vacate their departmental quarters after their departure;
- (ii) Allowing eligible Estate Assistant (EA) grade staff appointed before 1 January 1991 to continue to pay a concessionary rent for their public housing flats for five years after their departure, or up to the date of their normal retirement, whichever is the earlier; and
- (iii) Assisting EA grade staff appointed before 1 January 1991 to be issued with Letters of Assurance if they meet the prevailing criteria.

11. As an additional inducement, those who have registered their option within the first six months of the option period (paragraph 12 below) and later succeed, within a period to be determined by HD, in transferring to a private property services company/an MBO company, or forming an MBO company as an owner (provided all such companies have successfully secured a PST or an MBO contract), will be eligible for a fixed lump-sum sign-up bonus equivalent to three times their last monthly salary. The payment of this bonus will encourage more staff to join the private sector.

Eligibility to the release package and option period

12. All affected departmental grade staff³, except the Director of Housing and the two Deputy Directors, will be eligible for the above option and the release package. The option period will be three years from a date to be announced. If approved by HD, and if the departure date is not later than 12 months before the normal retirement age, eligible staff can leave the service under the scheme and draw the proposed release package.

Arrangements for staff opting to remain in the civil service

13. For affected staff who opt to stay, training will be stepped up to bridge possible skill gaps and re-deployment opportunities will be explored. A working group on Staff Training and Development Opportunities, with representatives from staff, will be formed in the Department to examine these issues.

³ Agreement officers and officers employed on month-to-month terms to fill temporary vacancies or supernumerary posts are excluded.

STAFFING AND FINANCIAL IMPLICATIONS

14. Currently, there are some 9 200 departmental and general grades posts involved in the delivery of EMM services. On the basis of the initial pace of awarding contracts recommended by the Task Force described in paragraph 5 of not less than 75 000 existing units to be outsourced to the private property services companies in the first two years, some 630 departmental grades posts will be affected.

15. For the initial phase of the PST programme, (i.e. for not less than 75 000 units in the first two years of implementation), some \$677 M would have to be paid out to cover enhanced pensions and other payments for the 630 staff involved for the first two years of the programme. Net savings of \$906M could be achieved within 10 years of implementation.

WAY FORWARD

16. A series of briefing sessions are being conducted to brief all affected HD staff on the above recommendations. A paper will be submitted to the HA for discussion. Subject to HA's endorsement, the first batch of PST contracts will be awarded in mid-2000.

Housing Department
January 2000

ISSUES RAISED BY THE ALLIANCE BUT NOT SUPPORTED BY HOUSING DEPARTMENT

In the course of the Committee on Staffing Arrangements meetings, the Alliance have proposed the following issues for inclusion in the release package which are not supported by HD. These being-

- (a) The definition of “affected” staff should be extended to all departmental grades in HD, whether they be directly or not directly involved in EMM duties.**

The Department has rejected this definition since HA’s decision on 6 May 1999 only covers staff members of grades engaged in EMM services and not other services in the Department. However, the four main staff associations of the non-affected grades, viz., Architect, Landscape Architect, Planning Officer and Estate Surveyor, requested HD to put forward to the Government their views that should greater private sector involvement be extended to other business areas of HD, terms no less favourable than the current exercise would be offered to the staff affected then. Although we appreciate the concerns of staff, we do not think a guarantee of this sort could be made. The Associations have been duly informed of our decision.

- (b) Long service payment similar to that offered to surplus staff in the privatization of Cheung Sha Wan Abattoir should be paid to departing staff.**

The Department has explained that a ready comparison cannot be drawn here, as the Abattoir case is a forced redundancy exercise, not a voluntary departure exercise as in our case. Moreover, the special payment has been granted having considered the unique circumstances of the Abattoir staff. In HD’s case, a similar special payment, but calculated on the basis of one month’s salary for every five years before reaching normal retirement age and pro-rata for shorter periods, has been proposed instead (paragraph 10 (b) of Paper)

(c) Enhanced ex-gratia payment to compensate for the loss of civil service housing and other benefits of each individual officer.

The Department has explained that it would be difficult to tailor-make ex-gratia payments to fit the individual circumstances of each officer. The prevailing practice is that the six-month ex-gratia payment shall have adequately recompensed any non-job related civil service benefits, including housing benefits.