

ITEM FOR FINANCE COMMITTEE

HEAD 62 – HOUSING DEPARTMENT

Subhead 700 General non-recurrent

New Item “Funding Scheme to Support Transitional Housing Projects by Non-government Organisations”

Members are invited to approve a new non-recurrent commitment of \$5 billion for the implementation of a funding scheme to support transitional housing projects by non-government organisations.

PROBLEM

We need to take a more proactive approach in facilitating non-government organisations (NGOs) to take forward transitional housing projects and to substantially increase transitional housing supply to provide a total of 15 000 transitional housing units within the next three years (from 2020-21 to 2022-23) in order to relieve the pressure of families living in unpleasant conditions and those who have waited for Public Rental Housing (PRH) for a long time.

PROPOSAL

2. The Secretary for Transport and Housing proposes the creation of a new non-recurrent commitment of \$5 billion to implement a funding scheme to subsidise the costs of transitional housing of eligible projects to be pursued by NGOs.

JUSTIFICATION

3. As one of the six new housing initiatives announced by the Chief Executive on 29 June 2018, a task force on transitional housing (Task Force) has been established under the Transport and Housing Bureau (THB) to actively assist and facilitate various short-term initiatives proposed and implemented by the community with a view to increasing the supply of transitional housing.

4. The Task Force has assisted and facilitated a number of transitional housing projects proposed and operated by NGOs, including social housing in privately owned vacant residential buildings and vacant government premises, other initiatives by different NGOs including proposals of using “Modular Integrated Construction” method to construct transitional housing on vacant government lands and privately owned lands, or converting vacant non-residential buildings (such as privately owned vacant school premises or industrial buildings) to transitional housing.

Encl. 5. As at January 2020, a total of around 760 transitional housing units are operating under different NGOs. A list of these existing transitional housing projects is summarised at Enclosure. Currently, NGOs are expected to seek funding from different sources to finance the costs of the capital works involved in a transitional housing project, but the required efforts and financial commitment may, depending on individual circumstances, be disproportionate to the proposed short-term and non-profit-making uses, or may go beyond NGOs’ financial and technical capability. The Chief Executive announced in the 2019 Policy Address the target of providing a total of 10 000 transitional housing units within the next three years to relieve the pressure of families living in unpleasant conditions and those waiting for PRH for a long time. On 14 January 2020, the Government announced that it would further increase transitional housing by raising the three-year target to 15 000 units. To facilitate NGOs in taking forward more transitional housing projects to meet the above target, the Government considers it necessary to provide additional financial support to the NGOs by introducing a dedicated funding scheme.

Proposed Funding Scheme

Objective

6. The objective of the funding scheme is to support NGOs to provide not-for-profit transitional housing projects, including those on/in government or privately owned lands and premises, to alleviate the hardship faced by individuals and families awaiting PRH and inadequately housed households.

Eligibility

7. The applicant of the funding scheme must be one of the following –
- (a) charitable institution or trust of a public character exempt from tax under section 88 of the Inland Revenue Ordinance (Cap. 112);

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- (b) a company incorporated under the Companies Ordinance (Cap. 622) or the former Companies Ordinance (Cap. 32) as limited by guarantee whose objects and powers do not include distribution of profits to members, or a non-profit-making society registered or body established under any legislation in Hong Kong¹; or
- (c) takes the form of a social enterprise².

Funding scope

8. The funding scheme will provide financial support for NGOs to carry out the works required to make fit the potential sites/premises for transitional housing projects on a one-off basis. Given the wide array of works involved, the project applicants will be allowed to seek funding under the funding scheme by a phased approach, i.e. a project applicant may submit multiple applications for a single transitional housing project. Examples of the subsidised works include –

- (a) site formation and slope improvement work;
- (b) erection of temporary structures (such as those using “Modular Integrated Construction” methods);
- (c) provision of sewerage/drainage;
- (d) pedestrian/vehicular access;
- (e) renovation of dilapidated premises;
- (f) installation of fire safety equipment;
- (g) installation of barrier-free facilities;

/(h)

¹ In that case, the project applicant must provide a certificate of its registration or establishment issued under the relevant Ordinance, and a certified copy of its constitutional document which includes an express clause specifying that it does not distribute profits to its members, directors, shareholders, employees or any other persons.

² There is no statutory definition of social enterprise (SE) in Hong Kong. In general, an SE is a business to achieve specific social objectives such as providing services or products needed by the community, creating employment and training opportunities for the socially disadvantaged and protecting the environment. Its profits will be principally reinvested in the business for the social objectives it pursues. We expect an SE making an application should be an institution listed under the “SEs or SE projects funded by the Government” compiled by the Home Affairs Department (<https://www.sehk.gov.hk/en/members.html>), or the “Social Enterprise Directory” compiled by the Social Enterprise Business Centre (<https://socialenterprise.org.hk/en/sedb>) or the “Social Enterprises Endorsement Mark” compiled by the Hong Kong General Chamber of Social Enterprises Limited (<https://seemark.hk/>).

- (h) basic internal fitting-out necessary to make the units fit for accommodation purpose;
- (i) one-off upgrading works to meet statutory requirements;
- (j) consultancy services commissioned to determine the technical feasibility or parameters of the proposed works³;
- (k) project management for the execution of the subsidised works;
- (l) administrative work of the project operator before the tenants move in⁴;
- (m) removal of the temporary structures and the associated installations and fitting-out after the expiry of the transitional housing terms; and
- (n) insurance policies covering any potential claims that may arise during surveys, investigations and works.

9. The transitional housing projects shall operate on a non-profit-making and cost-recovery basis. The daily operation and maintenance costs, including any related social services costs⁵, will not be funded under the funding scheme, but the project operators will be allowed to deduct such costs from the revenue generated from the operation of the project, e.g. rental income. Any surplus of the project attained by the project operator should be re-invested in the improvement of the project itself, other transitional housing projects and/or other social welfare purposes run by the project operator concerned subject to THB's prior agreement/approval. We expect the rent level of transitional housing to be lower

/than

³ The consultancy services may cover –

- (i) preliminary feasibility studies or minor investigation or site survey;
- (ii) detailed design, contract administration, management of resident site staff and supervision of works;
- (iii) submission of plans to Buildings Department and other government departments concerned; and
- (iv) quantity surveying services, including tender documentation and assessment, valuations, cost control and account preparation.

⁴ Administrative overheads represent the share of overhead expenditure (or indirect cost) attributable to the carrying out of the project. Such administrative overheads will be calculated on a sliding down scale from 0.4% to 0.14 % of the total subsidy according to the number of units with a ceiling of \$1.5 million, and be reasonable and proportionate to the purpose, scale, nature and circumstance of a project.

⁵ Social services costs include the costs for the community-based empowering services to tenants, the personal and social resilience services and etc.

than the relevant market rent⁶ with a ceiling of no more than 40% of the prevailing PRH income limit and will be determined based on the individual circumstances of each project and to be mutually agreed and specified in the funding agreement between the Government and the project applicant.

Funding ceiling

10. The funding to be allocated to each approved project will depend on the merits of the proposal submitted by the project applicant and a number of site specific factors, including but not limited to the size of the site, existing conditions and configuration, technical requirements, extent of infrastructure required, etc. With reference to existing transitional housing initiatives, we propose that the total financial subsidy for each transitional housing unit, which include all the works as mentioned in paragraph 8 above, should not exceed the following –

- (a) \$0.2 million for each transitional housing unit for projects situated in vacant residential building; and
- (b) \$0.55 million for each transitional housing unit to be provided through erection of temporary structure on vacant land, and in non-residential building.

11. In case multiple applications are submitted for a transitional housing project, the above funding ceiling applies to the total financial subsidy to the entire project under all phased applications. In each phased application, applicants will be required to declare the financial subsidy applied or being applied in parallel for the same project for verification.

Payment arrangement

12. Project applicants can apply for funding at different stages of the projects, and each approved funding will be disbursed by instalments subject to the fulfilment of project milestones stated in the funding agreement, the verification of certified invoices or bills and work done.

/Project

⁶ The market rent is in general determined by drawing reference to the monthly average rent figures of flats with similar size in the nearby areas in the “Hong Kong Property Review” published by the Rating and Valuation Department. Valuation reports from independent assessors will be sought for specific cases, if considered necessary.

Project operation period

13. The transitional housing projects are normally expected to be in service for not less than three years. However, projects for less than three years will also be considered under exceptional circumstances, but the funding subsidised for such projects may, depending on the merits of individual cases, be lower than the financial ceiling as specified in paragraph 10 above.

Mechanism

14. The Under Secretary for Transport and Housing (USTH) will be the approving authority for projects under the funding scheme. An Assessment Committee, chaired by USTH and comprising representatives from relevant bureaux/departments and non-official members appointed by the Secretary for Transport and Housing, will be responsible for assisting USTH in vetting applications and overseeing the implementation of the funding scheme.

15. The Assessment Committee will assess the technical, financial and social aspects of the proposed projects and check whether they are within the scope and financial ceiling as mentioned in paragraphs 8 to 11 above. In particular, the Assessment Committee will see to it that the amount of funding granted to each approved project should be in line with the principles of economy, efficiency, and effectiveness in the use of resources thereby achieving good value for money. The Assessment Committee will also look into the experience and capability of applicants, and the timeframe required by them in implementing the projects.

Monitoring and Control

16. Successful applicants will be required to sign a funding agreement (Agreement) with the Government in respect of the implementation of the approved works on the relevant sites/premises. All approved projects will be monitored by the Assessment Committee, with the support of the Vetting/Audit Team under the Task Force, against the milestones stated in the Agreement⁷.

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⁷ In the Agreement, we would specify that the funding granted to each successful applicant will not impose any recurrent financial obligations on the Government. The successful applicant should also procure appropriate insurance policies and indemnify the Government against any claim that may arise during surveys, investigation, works and operation in accordance with the Agreement.

17. To ensure that the transitional housing project is developed and operated in accordance with the policy objectives, the Agreement will set out the parameters under which the successful applicant will manage and maintain the transitional housing project, such as the rental level of a unit, tenancy period, basic eligibility criteria for the transitional housing units (e.g. income and asset limits), operation mode and exit plan. These parameters should be included in the project proposal and agreed by the Assessment Committee in the project vetting process. The Assessment Committee may also impose additional condition(s) for the project and, subject to mutual agreement with the project applicant, include such in the Agreement.

18. Successful applicants will also be required to keep a proper set of books and records for the project receiving funding support under the funding scheme. They will be required to submit regular progress reports and financial reports on the funding subsidy for the project against the milestones agreed in the Agreement certified by independent auditors until commencement to intake tenants. They will also be required to submit annual reports to THB with designated operating accounts on the project certified by independent auditors until the end of the transitional housing operations. A mechanism will be in place to suspend the disbursement of funding, cease a project or require the applicant to refund the amount disbursed in case of unsatisfactory project progress or contravention of the funding guidelines.

19. To ensure transparency and accountability on the use of the grants under the funding scheme, THB will submit an annual report on the approved applications and implementation progress of projects to the Legislative Council (LegCo) Panel on Housing (Housing Panel).

Expected Benefits

20. The funding scheme will clearly demonstrate the Government's commitment to strengthening efforts in facilitating the implementation of various short-term initiatives carried out by the community on top of the Government's long-term housing policy. The exact number of transitional housing units generated and the number of beneficiaries will depend on the number of applications received and approved as well as their scale. Our target is to provide 15 000 units within the next three years.

/FINANCIAL

FINANCIAL IMPLICATIONS

21. The funding scheme requires a non-recurrent funding of \$5 billion. The annual cash flow is essentially demand driven and will depend on the actual number of applications received and approved, as well as the amount of subsidy to be disbursed each year. To facilitate the implementation of increased transitional housing target announced on 14 January 2020, we will continue to review the funding needs and, if necessary, seek additional resources in accordance with established mechanism. For planning purpose, the estimated annual cash flow requirement is as follows –

2020-21 (\$M)	2021-22 (\$M)	2022-23 (\$M)	2023-24 (\$M)	2024-25 (\$M)	Total (\$M)
600	1,800	2,100	400	100	5,000

IMPLEMENTATION TIMETABLE

22. Subject to the approval of the Finance Committee (FC), the funding scheme will be formally launched in the second quarter of 2020. NGOs which have secured in-principle policy support from THB on or after 27 February 2019⁸, when the 2019-20 Budget was delivered, for their transitional housing projects and where tenants have yet to move in may apply.

PUBLIC CONSULTATION

23. We consulted the Housing Panel on 4 November 2019. At the meeting, the Housing Panel passed four motions requesting the Government to reserve some transitional housing units for use as interim housing, cap the rent of transitional housing by NGOs to avoid excessive burden on households, resolve the pressure on the infrastructure and community services in the existing community brought about by the large-scale transitional housing projects, and actively engage the Hong Kong Housing Authority, the Hong Kong Housing Society and the Urban Renewal Authority to plan for the construction of transitional housing. Members also requested the Government to launch the funding scheme as soon as possible, and in so doing help the NGOs overcome challenges of providing transitional housings and roll out in a timely manner to benefit the community. The Housing Panel supported the submission of the proposal as set out in paragraph 2 above to FC for consideration. On 9 December 2019, THB submitted supplementary information on the funding scheme and detailed written response to the motions to the Housing Panel (LegCo CB (1) 128/19-20(02) to (05)).

/BACKGROUND

⁸ Applications for project with works already been commenced before 27 February 2019 would not be accepted.

BACKGROUND

24. To increase transitional housing supply substantially, the Chief Executive announced on 16 October 2019 that the provision set aside by the Government to support NGOs in providing transitional housing would increase from \$2 billion as announced by the Financial Secretary in the 2019-20 Budget to \$5 billion.

Transport and Housing Bureau
January 2020

List of Existing/Announced Transitional Housing Projects

Operation Organisation	Project	Unit
1. Residential Buildings (Existing Projects)		
Light Be	Light Home	70
	Light Housing	40
Society for Community Organization	「喜家」	24
	「友樂居」	47
	「友家」	24
	Electric Road	5
Lok Sin Tong	Lok Sin Tong Social Housing Scheme	88
St. James' Settlement	James' House	14
Hong Kong Sheng Kung Hui Welfare Council	Good Homes	60
The Aberdeen Kai-fong Welfare Association Social Service	Best Neighbour Walk Together	16
The Salvation Army	Home Plus	53
Hong Kong Housing Society	Transitional Rental Housing Scheme - Yue Kwong Chuen and Kwun Tong Garden Estate	237
Yan Oi Tong	Green Garden	11
J Life Foundation	Pitt Street Yee Kuk Street	2
Kwun Tong Methodist Social Service	Ka Lok Street, Kwun Tong	1
The Hong Kong Council of Social Service	Tai Kwok Tsui	8
	Soy Street, Mongkok	49
	Castle Peak Road, Cheung Sha Wan	8
The Society of Rehabilitation and Crime Prevention, Hong Kong	Staunton Street	6
Total No. of Units for Existing Projects :		763

Operation Organisation	Project	Unit
2. Erection of Temporary Structure in Vacant Government and Private Sites (Announced Projects)		
The Hong Kong Council of Social Service	Private site at Nam Cheong Street, Sham Shui Po	89
	Government site at Yen Chow Street, Sham Shui Po	210
	Government site at Yip Shing Street, Kwai Chung	100
Yan Chai Hospital	Government site at Hoi Hing Road, Tsuen Wan	110
Lok Sin Tong	Government site at Song Wong Toi, To Kwa Wan	108
Society for Community Organization	Government site at Ying Wa Street, Cheung Sha Wan	132
3. Conversion of Government and Privately-owned Premises (Announced Projects)		
Lok Sin Tong	Lok Sin Tong Primary School, Kowloon City	50
Hong Kong Housing Society	Trackside Villas (Staff Quarters of MTRCL), Tai Po Kau	150
Society for Community Organization	Government premises at Victoria Road	11
Anticipated Total No. of Units for Announced Projects :		960
