



Review of the Institutional Framework for  
Public Housing

THE REPORT

June 2002

**Review of the Institutional Framework for  
Public Housing**

**T H E   R E P O R T**

**June 2002**

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## **Executive Summary**

This review was commissioned in mid 2000 by the Chief Executive in the wake of public concern over a number of serious incidents affecting the quality of public housing developments. In examining the four organisations principally involved in the development and implementation of the Government's public housing programmes namely, the Housing Bureau, the Hong Kong Housing Authority, the Housing Department and the Hong Kong Housing Society, we were drawn into a clarification of the policy which these programmes were intended to deliver. We were also obliged to look, albeit in less detail, at the roles of other organisations involved in the process of developing public housing, as well as the Government's role with respect to private sector housing.

2. In 2001, two developments occurred which required us to reconsider the scope and direction of our report. The first of these developments was the continued economic downturn and weak state of the private sector residential property market. This short term problem did not mean a change to the Government's long term housing goals. However, it underlined the need for a re-statement of the Government's housing policy to show that it could respond to changed circumstances. It lent urgency to the Government's move away from the traditional method of public housing assistance – the physical construction of flats in the public sector – towards a more flexible and cost-effective system based on direct fiscal subsidies.

3. The second development was the announcement in April 2002, following the Chief Executive's commitments in October 2000 and October 2001, of a system of accountability for Principal Officials (Secretaries of Department and Directors of Bureau) of the Hong Kong

Special Administrative Region Government. This had implications for the reform of the Government's structure for developing and implementing public housing policy. Our recommendations for change are consistent with the proposed new accountability system for the Principal Officials, while not pre-empting decisions on how that system is more generally implemented, nor constraining the future Principal Official with responsibility for housing to a detailed blueprint.

### **Historical background**

4. The revised Long Term Housing Strategy promulgated in 1998<sup>1</sup> emphasised the role of the private sector in housing provision. It led to a substantial reduction, in absolute and percentage terms, in the number of inadequately housed households, as reflected in the subsequent reduction in the average waiting time for public rental housing. It provided the basis for an increase in the home ownership rate (to the present level of 55%), despite unfavourable economic circumstances. The 1998 Long Term Housing Strategy also endorsed specific policy initiatives to help us to achieve the Government's broader strategic goals, including the sale of public rental flats to sitting tenants, the re-enforcement of means testing for public housing assistance, a holistic approach to assessing long term housing demand and a transparent system of land disposal to the private sector.

5. Underlying the initiatives in the Long Term Housing Strategy was a realisation that the role of the private sector had been eroded over time and that provision of housing subsidy solely in the form of traditional "bricks and mortar" was unsustainable. However, the 1998 White Paper did not quantify the speed at which the Government should move away

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<sup>1</sup> Paragraph 2.5, qv.



from a de facto public-led housing programme. The introduction of rental allowances was not, for example, formally put forward. Criticism of the Government's housing policy, as unclear and inconsistent, intensified after the economic downturn and fall in property prices in 1998. A clear re-statement of the Government's housing policy, updated to take into account events since 1998, is accordingly necessary.

## **Policy framework**

6. Housing is a major livelihood issue in Hong Kong. At the same time, it makes an important contribution to Hong Kong's present and medium term internal economy. We summarise the Government's policy framework under the headings used by the Housing Bureau over the last seven years in successive Policy Objective Booklets.<sup>2</sup>

### ***Housing demand***

7. Regular assessment of housing demand, based on the Government's existing policies and demographic information, is essential to determining the Government's long term land requirements for housing. Since 1996, the Housing Bureau has operated a housing demand model. The forecasts produced by the model are not used as an instrument to regulate housing production, but publication of revised long term demand estimates can help public understanding of the Government's housing policies.

### ***Land supply for housing***

8. It is necessary to maintain an adequate and timely supply of

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<sup>2</sup> Issued between 1995 and 2001.

land to achieve the Government's public sector housing targets. The Government also needs a transparent mechanism to allow private developers to apply for the purchase of new land. In parallel, it needs to co-ordinate housing development with that of infrastructure. The mechanisms needed to achieve these objectives have been put in place since 1997. Because of the complexity of many housing developments and the conflicting interests involved, the Government also requires a forum for the final resolution of site-specific problems affecting housing production. This exists in the form of the Steering Committee on Land Supply for Housing, now chaired by the Chief Secretary for Administration.

### ***Role of the private sector***

9. Having established parameters for housing demand and long term land supply, the Government looks to the experience and resources of the private sector. While the Government recognises the historical role of the Government's public housing agencies, it accepts the urgent need to refocus on private sector potential to meet the more sophisticated aspirations of the Hong Kong community in the 21<sup>st</sup> century. It is now more than ever the Government's task to see that public sector housing is confined to those whose needs cannot be met through the free operation of the private sector market.

10. To allow the private sector to play its proper role, the Government ensures the operation of a free private sector residential property market and, where appropriate, enforces good market practices, for example for estate agents.

### ***Home ownership***

11. Home ownership remains the aspiration of many in the community. It fosters social stability and a sense of belonging. Attaining the social goal of increased home ownership ultimately depends on choices made by individual households. Having said this, the public sector contributes significantly to increased levels of home ownership, for example through the sale of flats to existing public rental tenants.<sup>3</sup>

12. The Government's housing assistance to the low income group will continue to encourage home ownership rather than rental dependence. The means used to achieve this will be cost-effective, market responsive, and offer maximum choice to consumers. The Government will reduce progressively the level of subsidised home ownership flat production to the minimum required to provide insurance against unforeseen changes in the economic situation. Instead, adequate loan finance will be made available to allow eligible households to purchase flats in the private sector. The benefits to the families concerned will be paralleled by the benefits to the public purse.

13. "Mixed" development may also in some cases be used to foster private sector participation and home ownership in the re-development of old and large public rental estates.

### ***Public rental housing***

14. The Government accords a high priority to providing public rental housing to those who cannot otherwise afford adequate accommodation. In line with the principles of consumer choice,

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<sup>3</sup> In the first four phases of the Housing Authority's Tenants Purchase Scheme, 70% of tenants elected to purchase flats.

cost-effectiveness and responsiveness to market need, the Government also intends to test the wider application of rental allowances as an additional choice for the low income group. At the same time, the Government is aware of the potential pitfalls of an over-rapid reliance on a limited private sector rental market. The way forward will therefore be through carefully constructed and monitored pilot schemes offering alternative choices to eligible households in the public sector market. As for existing public rental stock which is in saleable condition and which is not essential to meet the housing needs of the low income group, the Government will continue to offer this for sale through the Tenants Purchase Scheme, until such time as an optimum stock of public rental flats has been established to meet the continuing needs of low income households.

15. In building public rental housing (including interim housing), the Government will continue to adhere to basic levels of finishes, using architecturally imaginative designs. Standards of public housing construction will be appropriately regulated.

16. The waiting list concept is enforced in the interests of those in genuine need. The Government will strive to maintain the average waiting time at a level of three years. Means testing is imposed on penalty of increased rent or, ultimately, eviction. At the same time, public rental levels remain highly affordable.

### ***Groups in special need***

17. Housing assistance of whatever type for all households is subject to the basic principles of affordability and the availability of Government resources. With the clearance of old Temporary Housing Areas and Cottage Areas and the reduction in the level of inadequate housing generally, the Government has addressed successfully the housing

problems of many historical “special need groups”. This reduces the requirement for priority to be given to selected categories of household in the allocation of housing assistance, which in turn means that households in genuine need of housing can be treated more equally and fairly. It also minimises the need to hold vacant flats empty for the benefit of “special need groups”. A deliberate exception to this policy is the elderly, to whom the Government will continue to accord special priority in housing as in other areas of public assistance.

### **Recommendations: housing organisation**

18. In order to deliver better the Long Term Housing Strategy, updated to take into account new circumstances, structural changes are needed to the Government’s organisational framework for housing. These changes will be linked to the introduction of the system of accountability starting from July 2002. They will ultimately result in a streamlined organisation with a single spokesman for housing matters and a single line of responsibility running from policy formulation through to detailed implementation. To achieve this, we make in this report specific recommendations on the key features of the future structure of the organisations specified in our terms of reference. We accept that many details of the new structure will fall to the prospective Principal Official responsible for, inter alia, housing (“the Principal Official”) to determine, when he or she is appointed, and will require amendment to existing legislation.

19. In summary, we recommend that –

### ***Recommendation 1***

***Control over housing policy should be vested in a Principal Official, subject to direction by the Chief Executive acting on the advice of the Executive Council. The Principal Official should be the sole spokesman on the Government's housing policy.***

### ***Recommendation 2***

***The Principal Official should be appointed Chairman of the Housing Authority ex officio following an appropriate change to the relevant legislation.***

### ***Recommendation 3***

***The Principal Official should be supported in formulating and implementing housing policy by a Permanent Secretary and be assisted in this task by the Housing Authority in accordance with its statutory remit.***

### ***Recommendation 4***

***The Housing Bureau and the Housing Department should be re-organised into a single organisation (the new housing organisation) with a unified chain of command. The new housing organisation should respond through the Permanent Secretary to the Principal Official.***

### ***Recommendation 5***

*The strategic policy and research functions of the new housing organisation should be enhanced to ensure integration of the private sector and public sector housing portfolios and co-ordination with other policy areas such as planning, lands and infrastructure.*

### ***Recommendation 6***

*The Housing Authority should initially maintain its existing remit under the Principal Official. In the longer term, however, the executive functions of the Housing Authority should diminish in parallel with its loss of financial sustainability, while, on the other hand, it should advise the Principal Official both on private and public housing matters. The manner and speed with which this transition is accomplished will be matters for the Principal Official to determine, as will the legislative changes required.*

### ***Recommendation 7***

*Interim arrangements with respect to the executive functions of the Housing Authority and its committees as well as its finances should be put in place to ensure the smooth operation of the new housing organisation.*

### ***Recommendation 8***

*The present, pluralistic system of appointment of Housing Authority Members should remain in place.*

### ***Recommendation 9***

***The Principal Official should strengthen the formal and informal links between the new housing organisation and the Legislative Council.***

20. The resulting new structure (illustrated at Appendix I to this report), together with the consequential, operational recommendations set out in Chapter 5 below, will provide the people of Hong Kong with a more efficient, cost-effective, focussed and transparent system of delivering the Government's public housing programmes.<sup>4</sup>

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<sup>4</sup> These include recommendations concerning the future role and activities of the Housing Society. No change to the institutional structure of the Housing Society is, however, recommended in this review (paragraphs 2.48 to 2.53 and 5.24 to 5.29, qv).



# Chapter 1

## Introduction

1.1 In June 2000, the Chief Executive established the Committee on the Review of the Institutional Framework for Public Housing (the RIFPH Committee) to review the roles and responsibilities of the Housing Bureau, the Hong Kong Housing Authority (the Housing Authority), the Housing Department and the Hong Kong Housing Society (the Housing Society), with a view to making recommendations on the best institutional framework for public housing in Hong Kong.

1.2 In the period immediately before the announcement of the review, there were expressions of public concern over a number of serious incidents affecting the quality of housing developments undertaken by the Housing Authority. The purpose of our review has not been to ascertain the causes of or contributory factors leading to these incidents. Three independent and thorough investigations have already been conducted by the Housing Authority and the Government.<sup>5</sup> In addition, the Ombudsman published in March 2002 a “direct investigation report on the management of construction projects by the Housing Authority and Housing Department”, and a Select Committee of the Legislative Council on Building Problems of Public Housing Units, set up in February 2001, is still in session. Our report, however, does re-visit the implications of these incidents for the institutional framework for delivering the Government’s public housing programmes and makes some

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<sup>5</sup> Report of the investigation panel on accountability in the case of Tin Chung Court, Tin Shui Wai (led by Mr Philip Nunn, JP); report of the investigation panel on accountability (piling contract 166/1997 Shatin 14B Phase 2) (Yuen Chau Kok) (led by Mr John Strickland, GBS, JP); and report of the investigation panel on staff discipline in the Tin Chung Court and Yuen Chau Kok incidents (led by Mr Stephen Selby, JP).

recommendations for change.<sup>6</sup>

1.3 The RIFPH Committee is chaired by the Chief Secretary for Administration. It comprises the Chairman of the Housing Authority, the Chairman of the Housing Society, the Secretary for Housing, the Secretary for Planning and Lands, the Secretary for the Treasury and the Director of Housing. The Secretary to the Committee is the Deputy Secretary for Housing (2). A full list of members, including changes to membership since the establishment of the Committee, is at Appendix II to this report.

1.4 Our report is not intended as a review of the Government's public housing policy. The Government completed a comprehensive review of and published a White Paper on its Long Term Housing Strategy in February 1998, following wide public consultation. In examining the four organisations principally involved in the provision of the Government's public housing programmes, we have, however, inevitably been drawn into an examination and, in some cases, clarification of the policy which these programmes are intended to deliver. We have, for example, noted the frequency of questions about the Government's intentions in relation to the balance between the construction of flats for sale or rent and the provision of direct financial assistance to eligible households. An important part of our report is therefore a re-statement of the Government's key housing policies, in particular those relating to the means of delivery of the Government's public housing programmes. We believe that this provides the context in which discussion of an appropriate institutional framework may be meaningfully conducted.

1.5 In the course of our review, we have also been constrained to look, in less detail, at the roles of public sector agencies involved in the

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<sup>6</sup> Paragraphs 5.16 to 5.23, qv.

process of developing public housing other than the organisations specified in our terms of reference, as well as at the Government's policy towards private sector housing.

1.6 During 2001, two developments occurred which required us to reconsider some aspects of the scope and direction of our report. The first of these developments was the continued economic downturn and weak state of the private residential property market. By mid 2001, this had led to a significant overlap between the target group of the Government's subsidised home ownership programmes and that of the private sector residential market. This short term problem did not affect the Government's long term housing goals. It underlined, however, the need for flexibility in the implementation of the Government's housing policy to take into account changing economic circumstances. In particular it lent urgency to the Government's move away from the traditional method of public housing assistance – the physical construction of flats in the public sector – towards a more flexible and cost-effective system increasingly based on direct fiscal subsidies. It was against this background that the Chief Secretary for Administration announced in September 2001 a moratorium on the sale of subsidised home ownership flats by the Housing Authority and Housing Society, to last at least until end June 2002. The Chief Secretary for Administration also announced a significant reduction in the level of subsidised home ownership flat sales after the expiry of the moratorium.<sup>7</sup> During the moratorium, the Government undertook, in consultation with the Housing Authority, reviews of three important aspects of its subsidised home ownership programmes.<sup>8</sup> These reviews have been completed and their outcomes

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<sup>7</sup> To a maximum of 9 000 flats a year up to 2005-06, and to a reduced but unspecified level thereafter.

<sup>8</sup> The three reviews were: of the long term ratio of subsidised home ownership flats to loans; of the eligibility criteria for home ownership assistance; and of the criteria for selecting sites for subsidised home ownership flat development.

reflected in the relevant sections of our report.

1.7 The second development was the proposal to introduce, with effect from 1 July 2002, a system of accountability for Principal Officials of the Hong Kong Special Administrative Region Government, an intention pre-figured in the Chief Executive's 2000 Policy Address and announced in April 2002. This had clear implications for the re-organisation and reform of the Government's structure for developing and implementing public housing policy. Our recommendations for change are consistent with the accountability system for Principal Officials while not pre-empting decisions on how that system is more generally implemented, nor constraining the future Principal Official with responsibility for housing to a detailed blueprint.

1.8 During the course of its work, we have consulted widely within the community. The response has been diverse in detail. Yet there is a degree of consensus that improvements are required in the structure of and relationship between the organisations involved in formulating and implementing the Government's public housing programmes; that a re-statement of the Government's housing policy is desirable to resolve any uncertainties over its future direction; and that the proposed new "accountability system" offers an opportunity for streamlining and modernising the existing organisational framework for public housing.

1.9 Against this background, Chapter 2 of this report deals with the present housing policy framework, including the Government's strategic objectives, numerical targets, "base-line" activities<sup>9</sup> and certain short term measures, and describes the agencies now involved in the

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<sup>9</sup> "Base-line" activities is a term used to describe the normal operational functions of the Government, other than new initiatives (paragraphs 2.7 to 2.27, qv).

development and implementation of the Government's housing policy and programmes. Chapter 3 looks at the achievements of this policy to date and the challenges that the Government faces – real or perceived. Chapter 4 makes recommendations for organisational change in line with the Chief Executive's vision of accountability. Chapter 5 looks at the implications of these changes for organisations now involved in the public housing programme, while recognising that details will require consideration in due course by the concerned Principal Official. An indication in broad terms of the financial, staffing, legal and economic implications of our review is given in Chapter 6. The outcome of our consultation on the background to this report is summarised in Chapter 7. It is followed by a summary of our recommendations.

## **Chapter 2**

### **Housing policy: the Long Term Housing Strategy**

2.1 The purpose of this chapter is to describe the Government's existing public housing policies (in the sense of policies now in operation or to which the Government is firmly committed) as background to consideration of the organisations involved in their delivery. We discuss the development of the Government's housing objectives; the "baseline activities" and numerical measures and targets which underpin these objectives; measures taken to respond to short term challenges; and the agencies concerned in policy development and implementation.

2.2 Throughout this report, our focus is, as required by our terms of reference, on the Government's public housing policies and programmes. However, the Government's policies towards the private and public housing sectors are related. Not only does the private sector play a major role in public sector construction, but the nature of the Government's public housing programmes has a major effect on the private sector market, as well as households which buy or rent flats in the private sector. Co-ordination of land supply for housing and the assessment of housing demand require a holistic approach to the private and public sectors. Thus we have been constrained in some cases to stretch our terms of reference to cover policies relating and agencies contributing to the development of private sector housing.

#### **Development of overall housing strategy and policy objectives**

2.3 The Government's overall housing strategy was originally

formulated in the late 1980's.<sup>10</sup> It remains valid to the present day. Its main components are –

- (a) ensuring that adequate housing is available to all households;
- (b) promoting and helping to satisfy the demand for home ownership; and
- (c) securing the most effective use of the resources of the private sector in housing production.<sup>11</sup>

2.4 To achieve these objectives, the Government has, since 1987, adopted a “private sector-led” strategy. This means making the best use of the resources of the private sector in meeting the demand for housing generally and in satisfying the demand for home ownership in particular.

2.5 From 1996 to 1998, the Government reviewed its housing policies through an extensive public consultation exercise, culminating in the 1998 White Paper “Homes for Hong Kong into the 21<sup>st</sup> Century”. The White Paper re-affirmed the Government’s objective of helping all households to gain access to adequate and affordable housing and encouraging home ownership in the community. It included specific initiatives which, taken together, gave substance to the private sector-led nature of the Government’s housing philosophy. These included monitoring housing demand and supply effectively; improving the efficiency of the planning of housing development; reducing the waiting time for public rental housing for those in genuine need; increasing the mobility of public sector tenants and containing the growth of public sector

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<sup>10</sup> Notably in the first Long Term Housing Strategy, promulgated in 1987.

<sup>11</sup> Subsidiary objectives as defined in the 1987 Long Term Housing Strategy included ensuring that housing demand is met expeditiously in accordance with established priorities and that housing subsidy is allocated in accordance with need.

housing stock; and addressing the housing needs of an increasingly elderly population.

- 2.6 The White Paper has subsequently been underpinned by –
- (a) initiatives announced in successive Policy Addresses from 1998 to 2001;
  - (b) numerical performance measures and targets that can be adjusted in the light of demographic and economic trends; and
  - (c) measures to respond instantly and effectively to short term problems.

### **Policy initiatives and “base-line activities”**

2.7 Taken together, the policy initiatives set out in the 1998 Long Term Housing Strategy White Paper and those announced in successive Policy Addresses constitute the “base-line” or routine activities of the agencies involved in formulating public housing policy and delivering the Government’s public housing programmes. For convenience, they may be considered under the six “key result areas” used by the Housing Bureau over the last seven years in drawing up the Government’s annual Housing Policy Objective Booklets.<sup>12</sup>

### ***Housing demand***

2.8 Regular assessment of housing demand is essential to

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<sup>12</sup> The consistency and determination of the Government with regard to its housing policy can be demonstrated by a careful comparison of the Housing Policy Objective Booklets published from 1995 to 2001.



determining the Government's long term requirements for land for housing. Since 1996, the Housing Bureau has operated a housing demand model. The model forecasts long term demand based on Government policies and demographic trends. It thus provides a guide to the planning of land and infrastructure for housing development. It does not attempt to anticipate short term, market-driven fluctuations; annual private sector production is entirely a function of the market to determine. Periodic publication of these long term demand forecasts, not as targets, but as indications of planning requirements to meet demographic change, helps to explain the Government's policies clearly and in context, and provides certainty to the market.

### *Land supply for housing*

2.9 It is necessary to maintain an adequate<sup>13</sup> supply of land to meet public sector housing demand. The Government needs a transparent mechanism to allow developers to apply for the purchase of new land. It needs to co-ordinate the provision of infrastructure with both public and private sector housing developments. The mechanisms needed to achieve these objectives have been in place since 1997.

2.10 Because of the complexity of many housing developments and the conflicting interests involved, the Government also requires a forum for final resolution of site-specific problems affecting housing production. This exists in the form of the Steering Committee on Land Supply for Housing (HOUSCOM), now chaired by the Chief Secretary for Administration.

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<sup>13</sup> Our aim is not to identify or grant equal amounts of land each year to the agencies responsible for public sector housing construction, but to ensure that planning and construction work is evenly phased over a period of years.

2.11 In determining which sites are allocated for public and which for private sector housing and, within the public sector, which for subsidised home ownership and which for public rental flats, the Government has developed balanced allocation criteria to make the best use of scarce land resources, promote an appropriate mix of private and public housing of different densities and concentrate public housing development on high density sites of sizable area.

2.12 The land allocation process for housing involves the following key stages: identification of an area for housing development (by the Planning Department and the Territory Development Department); determination of the split between public and private housing within that area (by the Housing Bureau); earmarking of specific sites for private or public housing development (by a committee chaired by the Planning and Lands Bureau); and, in the case of public housing, determination of usage for public rental housing or subsidised home ownership (by the Housing Bureau in consultation with the Housing Authority). The ultimate use of any site for housing development of whatever type requires the specific approval of HOUSCOM.

### *Role of the private sector*

2.13 In securing land supply to meet the Government's long term housing demand, the Government looks to the experience and resources of the private sector. The Government recognises the historical role of the public sector, but there is an urgent need for change to match the more developed socio-economic structure of modern Hong Kong. It is the Government's policy, therefore, that public sector provision be strictly confined to those whose needs cannot be met through the free operation of the private sector market.

2.14 To allow the private sector to play this role, the Government ensures the operation of a free private sector residential property market and, where appropriate, enforces good market practices, for example for estate agents.

### *Home ownership*

2.15 Home ownership remains the aspiration of many in the community. It fosters social and, despite recent economic events, financial stability, as well as a sense of belonging. Attaining the social goal of increased home ownership depends on choices made by individual households. Having said this, the public sector contributes to increased levels of home ownership, for example through the sale of flats to existing public rental tenants.

2.16 The Government's housing assistance to the low income group will continue to encourage home ownership over rental dependence. To achieve this, the Government will increasingly use home ownership loans, rather than the subsidised home ownership flats built under the traditional Home Ownership Scheme and similar schemes.<sup>14</sup> Compared to public sector "bricks and mortar" provision, loans to purchase flats in the private sector are more cost-effective and offer more choices to home purchasers in terms of size, location and design. A greater choice of where one lives may in turn reduce demand on public transport. Of even greater importance is that loans are able to respond effectively to short term changes in market demand. By contrast, an inflexible public sector programme of flat construction can only attempt to satisfy housing demand in the long term: year to year, situations of over- or under-provision are inevitable.

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<sup>14</sup> Including the Private Sector Participation Scheme and the Flat for Sale Scheme operated by the Housing Society.

2.17 The Government embarked in 2000 on a gradual programme to reduce the level of subsidised home ownership flat production and sale.<sup>15</sup> The Government considers, however, that a residual programme, of 2 000 flats a year, roughly equivalent to one average public housing estate, will be a prudent insurance against possible unforeseen economic changes by enabling us to retain a readily available stock of subsidised home ownership flats.<sup>16</sup> This quantum will be kept under review in the light of market developments. Instead of subsidised flats, an equivalent number of loans will be made available to allow eligible households to purchase flats in the private sector under a new Loan Scheme, which will replace other loan schemes previously operated by the Housing Authority and the Housing Society.<sup>17</sup>

2.18 “Mixed” development involves co-operation between the public and private sectors in the re-development of old and large public rental housing estates. Such projects envisage the granting of development rights to a private developer, in exchange for the return of a specified number of subsidised home ownership flats to the Government or the Housing Authority. A pilot mixed development project at North Point has attracted much public attention and strongly opposing views.

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<sup>15</sup> See the Policy Objective Booklet for Housing Bureau published in October 2000, page 9.

<sup>16</sup> On 5 June 2002, towards the end of the moratorium on the sale of subsidised home ownership flats imposed in September 2001 (paragraph 1.6, qv), the Chief Secretary for Administration announced that the Government had invited the Housing Authority and the Housing Society together to move towards a sale level of no more than 2 000 subsidised home ownership flats a year as soon as possible after 2005-06. Sales of subsidised home ownership flats up to 2005-06 would continue to be subject to a cap of 9 000 flats a year, subject to market conditions. About 4 900 flats would be sold in the twelve month period immediately following the moratorium.

<sup>17</sup> Namely, the Home Purchase Loan Scheme operated by the Housing Authority and the Home Starter Loan Scheme operated by the Housing Society on the Government’s behalf.

2.19 Eligibility criteria, including income and asset limits, are imposed on applicants for all forms of subsidised home ownership assistance.<sup>18</sup> This is to ensure that public subsidy is granted only to those in genuine need. Eligibility criteria are reviewed regularly to take into account market changes and the ability of households to afford flats in the private sector.<sup>19</sup>

### ***Public rental housing***

2.20 The Government is committed to providing rental accommodation to households which are unable to afford any other type of adequate housing. The Government is also determined to reduce the time for which eligible households wait for such flats to an acceptable level and to maintain it at that level thereafter.<sup>20</sup> The Government aims to maintain a stock of public rental flats sufficient to meet demand from eligible households, taking account of the turnover of tenancies.

2.21 To ensure that only households in genuine need benefit from public rental housing, means testing is imposed on penalty of increased rent or, ultimately, eviction. Public rental levels are very affordable: they are constrained by legislation<sup>21</sup> and, partly as a result, are far lower than their private sector equivalents. Financial assistance is made available to households which experience genuine financial difficulties in meeting even the low level of payment currently required.

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<sup>18</sup> Except, at present, for “Green Form” applicants who already live in public rental flats or are awaiting allocation of public rental housing.

<sup>19</sup> The maximum income levels currently (June 2002) permitted by the Housing Authority for family applicants are \$21,000 under the Home Ownership Scheme and \$25,000 under the Home Purchase Loan Scheme.

<sup>20</sup> Paragraph 2.31, qv.

<sup>21</sup> Section 16(1A) of the Housing Ordinance (Cap. 283) specifies that rent variations by the Housing Authority cannot result in the median rent to income ratio of its tenants exceeding 10%.

2.22 All households in Hong Kong have access to basic accommodation. Households without other forms of shelter are provided with well-designed interim housing by the Housing Authority.

2.23 Public rental flats of saleable quality which are not required to meet demand from eligible households are sold to sitting tenants through the Housing Authority's Tenants Purchase Scheme. This scheme has the merit of increasing social mobility and the home ownership rate, while reducing the burden of public subsidy. In implementing it, the Government will avoid building new rental stock with a view simply to selling it again. The aim is to maintain a total stock of public rental flats at a level capable of meeting recurrent demand from eligible households on a long term, sustainable basis.

2.24 The Government also intends to test the wider application of rental allowances as an additional choice for the low income group. To implement a scheme of rental allowances, however, requires a degree of public certainty that a sufficient stock of flats of appropriate quality will be available in the private sector. For this reason, the Government intends to launch a pilot scheme in 2002 for eligible applicants on the waiting list for public rental housing.<sup>22</sup>

### *Groups in special need*

2.25 Households applying for public housing assistance of whatever form are subject to the basic principle of affordability. To ensure the equitable and efficient use of limited resources, households waiting for public rental assistance are allocated flats or allowances in the same order that they apply: the Government does not encourage queue

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<sup>22</sup> A more limited scheme, confined to elderly households, was launched in 2001 and was in progress at the time of writing.

jumping or the proliferation of “special interest” groups requiring high priority. Thus households in genuine need are treated on the same basis.

2.26 A major exception is the elderly, to whom the Government deliberately accords a separate and high priority under various carefully designed schemes.<sup>23</sup> With the clearance of old Temporary Housing Areas and Cottage Areas, and the reduction in the level of inadequate housing generally, the Government has been generally successful in resolving the housing problems of various groups which historically required special treatment.

2.27 The Government nevertheless remains conscious of the housing needs of the decreasing number of households living in inadequate accommodation, particularly in the older urban areas. The Government addresses this problem in four ways: by encouraging and facilitating eligible households to register on the waiting list for public rental housing; by providing immediate re-housing on compassionate grounds; by enforcing minimum standards of safety and management in the private sector;<sup>24</sup> and by promoting an extensive programme of urban renewal and re-development.<sup>25</sup>

### **Numerical performance measures and targets**

2.28 To crystallise its commitment to provide housing assistance to those in need, and to impose discipline on the planning of land and infrastructure to meet long term housing demand, the Government publishes and, when necessary, adjusts a small number of numerical

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<sup>23</sup> Notably, the Families with Elderly Persons Priority Scheme, the Special Scheme for Families with Elderly Persons, the Elderly Persons Priority Scheme and the Single Elderly Persons Priority Scheme, all operated by the Housing Authority.

<sup>24</sup> Paragraphs 5.34 to 5.37, qv.

<sup>25</sup> Paragraph 2.59, qv.

measures and targets in respect of its key housing initiatives. The most important of these are discussed below.

2.29 Based on the Housing Bureau's long term forecasts of population-generated housing demand, the Government has pledged to offer 50 000 publicly assisted housing opportunities a year, comprising public rental housing, rental allowances, subsidised home ownership flats and housing loans. Based on present plans this pledge will continue to be met over the next ten year period. The figure of 50 000 is deliberately higher than the current estimate of average annual housing demand in the public sector. This allows for a degree of slippage in the planning and construction process. About half of the 50 000 total will be made available in the form of new public rental flats<sup>26</sup> or rental allowances; the balance in the form of an appropriate mixture of subsidised home ownership flats and housing loans.<sup>27</sup> The increasing use of housing loans and rental allowances will allow for the adjustment of the annual number of opportunities offered to match actual annual effective demand. For example, loan provision may be advanced or deferred from one year to another to satisfy the take-up rate by the market.

2.30 The overall rate of home ownership is a progressive indicator of the Government's success in achieving an important social goal. Over the five year period 1997-2002, it has risen from 50% to 55%, a net increase of 195 000 households, despite unfavourable economic circumstances. The rate of its future increase depends on a combination of economic factors, consumer choice and the speed of implementation of the Housing Authority's Tenants Purchase Scheme.<sup>28</sup>

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<sup>26</sup> Existing public rental flats which are vacated, refurbished and reallocated to new tenants are discounted from the housing demand model.

<sup>27</sup> For the planned mix of flats and loans, paragraph 2.17, qv.

<sup>28</sup> For the constraints on the scope of this scheme, paragraph 2.23, qv.



2.31 The average waiting time for public rental housing is meaningful and easily understood measure of the Government's success in attaining its public housing goals. Based on the projected level of public housing opportunities to be made available in the coming years, reducing the current average of under four years to the target of three years will be achieved within 2002, three years ahead of the original target set in 1997. Sustaining it thereafter will require continuing effort. A three year average represents almost immediate access to public housing assistance for any household which is flexible in its choice of residential district.

### **Short term measures**

2.32 To implement its housing policy effectively, the Government requires not only a strategy, targets and initiatives, but also responsiveness to short term difficulties caused by external economic factors.

2.33 This pragmatic approach was demonstrated, for example, by the introduction in 1997 of measures to combat the then excessive levels of speculation in the residential property market. In 2001, faced with a very different economic climate, the Government announced a moratorium on the sale of subsidised home ownership flats to allow time for adjustments to be made to public home ownership programmes to avert excessive competition between the public and private housing sectors.<sup>29</sup> Such short term measures, far from indicating a vacillating housing policy, are essential to the stability of the Government's long term housing goals. The complementary nature of a long term strategy and quick responses to short term problems has been repeatedly emphasised in the annual Housing Policy Objective Booklets published by the Housing Bureau.

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<sup>29</sup> Three reviews of key aspects of the subsidised home ownership programme were initiated and completed during the moratorium period, paragraph 1.6, qv.

## **Agencies concerned in developing and implementing public housing policy**

### ***Housing Bureau***

2.34 Following the endorsement of the first Long Term Housing Strategy in 1987, the Housing Branch was abolished in 1988. The Housing Authority took over responsibility for implementing and keeping the Government's Long Term Housing Strategy under review, and for planning and co-ordinating most of the Government's public housing programmes.

2.35 The importance of the housing policy area to the community, combined with the fact that the work of many different agencies needed to be co-ordinated to enable its success, led to the re-establishment of the Housing Branch in November 1994 (renamed Housing Bureau in July 1997).

2.36 The role of the Housing Bureau is to formulate, co-ordinate and monitor the implementation of strategic housing policies so as to achieve the Government's housing policy objective.<sup>30</sup> Its individual functions may be conveniently summarised under the six headings ("key result areas") under which both new initiatives and "base-line" activities are classified<sup>31</sup> –

- (a) assessing housing demand regularly;

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<sup>30</sup> The role of the Housing Bureau was described in the relevant paper to the Establishment Sub-committee of the Finance Committee of the Legislative Council as "overall responsibility for the development of public and private housing in Hong Kong and ... effective co-ordination of activities in the provision of housing".

<sup>31</sup> For a more detailed description of the six "key result areas", paragraphs 2.7 to 2.27, qv.

- (b) monitoring the supply of land and supporting infrastructure for housing, and maintaining a long term programme of flat production potential;
- (c) creating the conditions to enable the private sector to make the fullest possible contribution towards meeting the demand for housing;
- (d) devising and supervising implementation of subsidised home ownership schemes and loan schemes to enable those in the relevant income groups to buy their own homes;
- (e) devising and supervising implementation of schemes to provide public housing at reasonable rents to those who cannot afford any other type of housing; and
- (f) devising and supervising implementation of initiatives to address the housing requirements of groups in special need.

2.37 The Housing Bureau co-ordinates the work of many Government departments in delivering the Government's housing policy objectives, other than the four organisations referred to in our terms of reference. About 1 500 posts<sup>32</sup> in Housing Bureau, Works Bureau and 12 departments are directly funded by the Secretary for Housing. The bulk of the posts in the Housing Department are funded by and report to the Housing Authority.<sup>33</sup>

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<sup>32</sup> 1 531 posts as at 1 January 2002.

<sup>33</sup> Paragraphs 2.45 to 2.47, qv.

## *Housing Authority*

2.38 The Housing Authority was established in April 1973 under the Housing Ordinance (Cap. 283). It is independent and financially autonomous.

2.39 Between 1973 and 1988, the Housing Authority was chaired by the Secretary for Housing. In 1973, it had 13 non-official members (eight were Urban Councillors) and six official members, all appointed by the Governor.

2.40 Since April 1988, the Housing Authority has been chaired by a non-official member appointed by the Governor and, subsequently, the Chief Executive. In the absence of a Housing Branch between April 1988 and November 1994, the Housing Authority was de facto the policy-making body for public housing.<sup>34</sup>

2.41 The legal powers and duties of the Housing Authority, as stipulated in the Housing Ordinance, are wide-ranging, but in recent years the Housing Authority has confined its role to that of a public housing provider.<sup>35</sup>

2.42 Currently, the major functions of the Housing Authority are –

- (a) to formulate operational policies under the strategic framework set by the Government;

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<sup>34</sup> Paragraph 2.34, qv.

<sup>35</sup> For example, section 4(2)(j) of the Housing Ordinance specifies that the Housing Authority may advise the Government on housing policy (both public and private). This function has, however, fallen into desuetude.

- (b) to plan and develop public housing and non-domestic facilities;
- (c) to re-develop public housing and associated facilities;
- (d) to undertake building control functions;
- (e) to allocate and market public housing and other non-domestic facilities;
- (f) to manage and maintain its properties;
- (g) to provide financial assistance in meeting home ownership demand; and
- (h) to undertake clearance operations and squatter control as the Government's agent.

2.43 The functions of the Housing Authority are reflected in its achievements. As at 1 January 2002, the Housing Authority had provided –

- (a) some 1 037 000 public flats, or nearly half of total housing stock in Hong Kong, including 652 000 public rental housing flats for 30% of the population and 385 000 subsidised home ownership flats;
- (b) over 49 000 housing loans or mortgage subsidies for home purchase; and

- (c) commercial and industrial premises covering 2 213 000 square metres, or 11% of Hong Kong's total, as well as 96 500 car parking spaces.

2.44 The Housing Authority is hence the largest property developer and manager in Hong Kong. It is financially autonomous, except in respect of those functions for which the Housing Department acts directly as the Government's agent.<sup>36</sup> Its recurrent revenue derives principally from public housing rent receipts, the sale of subsidised home ownership flats, non-housing related income from commercial and industrial premises and investment income. Under the terms of an agreement with the Government dating in its present form from 1994, it receives public subsidy in the form of concessionary land grants as well as interest-bearing loan capital. Its principal expenses arise from management and maintenance of public housing stock, construction and staffing and related costs.

### *Housing Department*

2.45 The Housing Department<sup>37</sup> is the executive arm of the Housing Authority. Housing Department staff are civil servants, on loan to the Housing Authority from the Government.

2.46 From the perspective of the Government, the Housing Department carries out three types of activity –

- (a) it forms the major public housing executive agency;

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<sup>36</sup> Paragraph 2.46(b), qv.

<sup>37</sup> The Housing Department is represented on HOUSCOM. For the role of HOUSCOM, paragraphs 2.10 and 2.12, qv.

- (b) it carries out other activities which contribute to the Government's housing policy objectives. Of these, the most important are the provision of home ownership loans and the control of squatters (although this latter function is being progressively phased out); and
- (c) it carries out some functions which are not directly related to housing policy, including the operation of commercial premises and flatted factories.

2.47 To implement the wide spectrum of business for which the Housing Authority is responsible, the Housing Department has an establishment of 13 676 staff (effective strength, 12 314), of which 1 811 are Housing Authority contract staff.<sup>38</sup> Its organisation mirrors the committee structure of the Housing Authority.<sup>39</sup>

### *Housing Society*

2.48 As reflected in its latest Mission Statement, the Housing Society is an independent, not-for-profit organisation set up in 1948 with the aim of providing affordable housing to meet the needs of the community. It was incorporated by the Hong Kong Housing Society Incorporation Ordinance (Cap. 1059) in 1951. As a private, statutory and not-for-profit organisation, the Housing Society has complemented the Housing Authority's public housing programmes and acted as the Government's agent in a number of pilot schemes.

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<sup>38</sup> Figures given are as at 1 January 2002.

<sup>39</sup> Paragraph 5.8, qv.

2.49 The Housing Society operates or has operated the following public housing programmes –

- (a) rental housing for low and middle income households;
- (b) the Flat for Sale Scheme for low and middle income households;
- (c) the Home Starter Loan Scheme for low and middle income first time home buyers, as the Government's agent;
- (d) the rural public housing scheme for families affected by development clearances in their original rural neighbourhood;
- (e) the Senior Citizen Residence Scheme (pilot scheme) for middle income elderly people;
- (f) the Mixed Development Scheme (pilot scheme) for low and middle income households; and
- (g) the Sandwich Class Housing Main Scheme and, as the Government's agent, Loan Scheme for middle income households.

2.50 The Housing Society also operates an Urban Improvement Scheme, which is a commercial scheme to re-develop old pre-war and early post-war residential properties in the older urban areas.



2.51 The Housing Society has 108 members. Of these about 25 members<sup>40</sup> are consulted by the management in the Housing Society's policy and operational decisions. Previously the Housing Society had a structure somewhat similar to that of the Housing Authority. In December 2000, the Housing Society amended its constitution and by-laws to re-organise its corporate and governance structure. The Housing Society employs 644 full-time staff.

2.52 The activities of the Housing Society are extensive, albeit on a smaller scale than those of the Housing Authority. As at 1 January 2002, the Housing Society had provided –

- (a) 59 000 flats, including 32 000 public rental flats and 27 000 subsidised home ownership flats;
- (b) 34 000 subsidised home ownership loans (on behalf of the Government); and
- (c) commercial premises covering about 100 000 square metres as well as 10 000 car-parking spaces.

2.53 In accordance with the Government's increasing move to rely on direct fiscal subsidies in place of traditional "bricks and mortar", further resources in the form of land or funds will not be provided to the Housing Society to continue to pursue its historical public housing functions. It will continue, however, to play an increasingly important part in urban renewal.<sup>41</sup>

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<sup>40</sup> There are 25 members of the Housing Society's Supervisory Board; its Executive Committee has 12 members. Four Government officials sit in their official capacity on the former, one (the Secretary for Housing) on the latter. All figures given in this paragraph are as at 1 January 2002.

<sup>41</sup> Paragraphs 3.17, 4.22 to 4.23 and 5.24 to 5.29, *qv*.

## **Other public agencies involved in developing and implementing housing policy**

### *Planning and Lands Bureau, Planning Department and Lands Department*

2.54 Many other Government agencies contribute to the housing policy area, as recognised in successive Housing Policy Objective Booklets. Of these, the Planning and Lands Bureau, together with the Planning and Lands Departments,<sup>42</sup> play a particularly significant role.

2.55 The primary objective of the Government's land policy is to ensure that there is an adequate supply of land to meet the short term and long term needs of the public and private sectors, including housing, and to optimise the use of land within the framework of specific development strategies. The Planning and Lands Bureau is responsible for ensuring that land use plans and development proposals are compatible with optimum land use. The Planning Department maintains a comprehensive set of Hong Kong Planning Standards and Guidelines and carries out planning studies at the territorial, sub-regional and district levels.

2.56 For its part, the Lands Department is responsible for the disposal of land for both housing and non-housing uses. Land is normally sold to the public by auction or tender. The Lands Department also makes available land at reduced or nominal premium to the Housing Authority and, hitherto, the Housing Society for providing public rental and subsidised home ownership flats. At the beginning of each financial year, the Government announces the Land Sale and Development

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<sup>42</sup> The Planning and Lands Bureau and both the Planning and Lands Departments are represented on HOUSCOM. For the role of HOUSCOM, and of the Planning and Lands Bureau (and other parties) specifically in the process of land allocation for housing, paragraphs 2.10 to 2.12, qv.

Programmes for the next five years, including land for housing development. Since 1999, a new procedure for land sale by application by private developers has been introduced to provide the flexibility necessary to meet variations in market demand.

### *Other Government agencies*

2.57 Many other Government agencies play an important role in the successful delivery of the Government's public housing policy. They include the Finance Bureau which, amongst other things, negotiates the Government's financial arrangements with the Housing Authority from time to time; the Works Bureau and the Territory Development Department, which are responsible for providing sufficient infrastructure to match the Government's public housing development programme; and the Transport Bureau and Department, which are responsible for the formulation and implementation of the Government's policy on transport (and ferry) services.<sup>43</sup>

2.58 Other Government agencies with housing-related roles include the Buildings Department, the Civil Engineering Department, the Drainage Services Department, the Environmental Protection Department, the Government Property Agency, the Highways Department, the Home Affairs Bureau and Department, the Social Welfare Department and the Water Supplies Department.<sup>44</sup>

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<sup>43</sup> These agencies are represented on HOUSCOM; paragraphs 2.10 and 2.12, qv.

<sup>44</sup> With three exceptions, the roles of the agencies listed in paragraphs 2.57 and 2.58 are described in more detail in Appendix III. For the Finance Bureau, paragraphs 5.32 to 5.33, qv. For the Home Affairs Bureau and the Home Affairs Department, paragraphs 5.34 to 5.37, qv.

## *Urban Renewal Authority*

2.59 The Urban Renewal Authority was set up in May 2001 to improve the overall environment in old urban areas. The Urban Renewal Authority Ordinance provides for streamlined planning and resumption procedures to implement a 20-year comprehensive urban renewal programme, consisting of 200 new projects and 25 uncompleted projects from the former Land Development Corporation. Urban renewal will include the re-development of dilapidated buildings, the rehabilitation of older buildings and the preservation of buildings of historical, cultural or architectural interest. At present, both the Housing Authority and the Housing Society help to re-house clearances affected by Urban Renewal Authority projects.

### **Private sector agencies**

2.60 In addition to Government and other public agencies and statutory bodies, some private sector agencies have a degree of indirect influence on the implementation of the Government's public housing programmes. An important example is that of the two rail corporations, the Kowloon Canton Railway Corporation and the Mass Transit Railway Corporation Limited, both of which undertake major housing developments through joint venture arrangements with private sector developers. Property development rights above or adjacent to railway stations have normally been granted to the corporations to overcome engineering interface difficulties during construction and, where appropriate, to finance the operation of railway projects. As with other private developments, once the relevant land grant is executed, the Government does not exercise direct control over the disposal of the flats. Because of the relatively large number of flats involved, however, and because the timing of their disposal is influenced by rail development

considerations as well as market forces, the Housing Bureau pro-actively monitors the progress of these developments and their interface with the normal public and private sector markets.<sup>45</sup>

2.61 As noted above,<sup>46</sup> co-ordination of the provision of lands and infrastructure for housing development for both private and public sectors is essential to developing the public sector programmes necessary to meet long term housing demand. For this reason, the Housing Bureau maintains contact with the Real Estate Developers Association of Hong Kong, as well as individual private sector developers, in order to help to monitor developments in the private sector market, to resolve planning difficulties where appropriate through the HOUSCOM system, and to ensure that the Government is able to adopt a well informed and holistic approach to the formulation of its housing policy initiatives.

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<sup>45</sup> Paragraph 5.41, qv.

<sup>46</sup> Paragraph 2.9, qv.

## Chapter 3

### **Achievements and challenges: restoring the market**

3.1 The RIFPH Committee considers a fair assessment of both the Government's achievements in implementing the policies described in the previous chapter and the challenges facing us is necessary for us to identify the strengths and weaknesses of the present system and to point the direction towards effective organisational reform.

#### **Successes of the Government's housing strategy**

3.2 There are various ways in which the success of housing strategy can be measured. One approach is to look at assessments made by international bodies.<sup>47</sup> Another way is to look at the Housing Policy Objective Booklets published each year by the Government. These provide a continuous picture of a wide range of individual initiatives. However, we consider that the most meaningful indicators of success to be the Government's quantifiable achievements in helping households gain access to adequate and affordable housing.

3.3 Since 1997, the Government has provided more than 1 300 000 people with public housing assistance, whether in the form of public rental flats or allowances, home ownership flats or home ownership loans.

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<sup>47</sup> In May 2001, the United Nations Committee on Economic, Social and Cultural Rights commended the progress achieved by Government of the Hong Kong Special Administrative Region in housing its people. Separately, in early 2002, an International Monetary Fund Staff Mission conducted a review of Hong Kong's fiscal and economic policies and expressed support for our policy of gradually reducing the scale of the Government's intervention in housing, with an increasing role for direct fiscal subsidies.

3.4 The effects of this have been –

- (a) to reduce the number of inadequately housed households from 170 000 to about 100 000;
- (b) to reduce the percentage of households in public rental housing suffering from over-crowding housing conditions from 8.4% to 2.1%, while increasing the average living area per person in public rental accommodation;
- (c) to re-house 68 000 households affected by the Housing Authority's programme to re-develop older public housing estates; and
- (d) to clear the 24 Temporary Housing Areas and Cottage Areas which existed in 1997 and to re-house the nearly 12 600 households living in them.

3.5 Over the same five year period, the average waiting time for public rental housing for all eligible households in genuine need has fallen from seven years to 3.2 years, while that for elderly households has fallen from 3.2 years to 1.3 years.

3.6 There have also been improvements both in the quality of the Government's public housing programme and in the choice of type of subsidy to meet the individual financial circumstances of households. The Housing Authority has adopted more innovative designs for its new developments while introducing private sector participation in the management of its existing estates. The subsidy schemes open to eligible applicants in the low income group now include the Tenants Purchase

Scheme, the Home Purchase Loan Scheme<sup>48</sup> and various priority schemes for the elderly, in addition to the traditional “bricks and mortar” subsidised home ownership schemes and pilot schemes for rental allowances and mixed development. We consider that great credit should be given to the Housing Authority, the Housing Department, the Housing Society and the Housing Bureau for these achievements.

3.7 Many of these initiatives have contributed to restoring the proper role of the private sector market in meeting housing demand. The key measures in this regard have been the gradual change in emphasis in the means of public housing production from traditional “bricks and mortar” to direct fiscal subsidies, the containment of the size of the public sector rental stock through the Tenants Purchase Scheme, as well as the reduction in alienation restrictions on subsidised home ownership flats.

### **Challenges faced in delivering the Government’s housing strategy**

3.8 As with its achievements, the challenges which the Government faces can be described in various ways. We have considered separately challenges arising from external factors which may require us to re-visit specific housing policies; challenges arising from the organisational structure used to deliver policy; challenges resulting from public perceptions; and challenges encountered in the implementation of the Government’s public housing programmes.

#### ***Policy challenges***

3.9 The first group of challenges which the Government faces – those that can be addressed within the Government’s existing policy

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<sup>48</sup> To be replaced by a new Loan Scheme: paragraph 2.17, qv.



framework – have been well aired through public debate. Most concern the changing profile of housing demand as a result of economic and demographic factors. Key issues which have been discussed by the Long Term Housing Strategy Advisory Committee in this context include increasing community aspirations for larger flats; the reduction in household size as a result of the tendency towards fewer children, later marriages and the increased number of single households; the increasing number of relatively poor households from the Mainland of China; the relative concentration of poorer elderly people in public rental housing, particularly in the urban areas; and changes in traditional preferences for housing location as a result of the growth of transport infrastructure and the increasing integration of the New Territories and the older urban areas.

3.10 Fortunately, these challenges are to some extent quantifiable, and can generally be taken into account both in the Housing Bureau's housing demand model, in the devising of specific public housing programmes for implementation by the Housing Authority, for example for the elderly, as well as in modernised and improved planning guidelines and standards.

3.11 A less tractable policy issue is the problem of managing the interface between the controlled market (for public housing) and the free market (for private housing). When private residential property prices are high, there is short term (“effective”) demand for increased levels of public housing assistance. When private residential property prices are low, there is the risk that the “upper end” of the public sector market can come into direct competition with the private sector. This problem can be minimised by confining public housing assistance strictly to those in need, avoiding as far as possible inflexible means of housing provision, and increasing mobility among public sector tenants. However, we do not consider that this difficulty can be entirely eliminated, given the mixed

public and private nature of the Government's housing programmes.

### *Organisational challenges*

3.12 A second group of challenges is organisational in nature and is of particular importance to the major conclusions of our report. Six of these challenges are looked at below.

#### *Overlap of functions*

3.13 A key issue raised during our consultation on this review<sup>49</sup> is the perceived overlap of functions and resulting difficulty in setting priorities between the different agencies involved in formulating and implementing the Government's public housing programmes. This problem is acute in the grey area between the formulation of strategic policy, which now rests with the Housing Bureau, and the implementation of the Government's public housing programmes, which rests mainly with the Housing Authority and Housing Department. This grey area is often described as "operational policy". While working definitions have been established to distinguish "strategic" from "operational" policy, and to make possible a harmonious relationship between the agencies concerned, we do not believe that a clear-cut conceptual demarcation is possible between operational decisions which affect policy targets, and the setting of policy targets which have operational implications.

3.14 One consequence of this is confusion on the part of the public in relation to the individuals or agencies who should properly be regarded as spokesmen on housing matters of various kinds. Also, friction between different agencies may be exacerbated if the functions of those

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<sup>49</sup> Appendix V, qv.

agencies are in some cases open to different public interpretations.

### *Extent of bureaucracy*

3.15 A second important organisational issue is the proliferation of bureaucracy in the public housing sector, not only in terms of absolute staff numbers but in the development of a defensive culture. The very size and success of the Government's public housing construction programmes have had undesirable side-effects, not least a high degree of dependency of the construction industry and related professionals on the Government's public sector housing programmes.

### *Non-housing related activities of the Housing Authority*

3.16 The involvement of the Housing Authority and the Housing Department in areas unrelated to public housing provision such as the operation of commercial centres and even factories is a historical anomaly which we have also addressed.<sup>50</sup>

### *Role of the Housing Society*

3.17 There is uncertainty over the long term role of the Housing Society. The historical origins and activities of the Housing Society have been described above.<sup>51</sup> From this it is clear that the Housing Society performs a dual function: first, as a private not-for-profit organisation setting its own priorities and taking its own view of the community's interest and second, as the agent for the Government for specific public housing programmes. It is not certain whether these two functions are compatible. In any event, the reduction in the number of schemes

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<sup>50</sup> Paragraph 5.15, qv.

<sup>51</sup> Paragraphs 2.48 to 2.53, qv.

operated by the Housing Society on behalf of the Government has brought into focus the need to determine its future role as far as the public sector is concerned.

### *Private sector building management*

3.18 The policy responsibility for private sector building management does not currently rest with any of the four principal agencies set out in our terms of reference since such management also extends to non-residential premises including offices and factories. The active participation of owners in managing their own buildings is an important part of “community building” at the district level – an area which falls within the purview of the Home Affairs Bureau. As the Government’s policy objective is to facilitate owners to manage their own buildings, the private building management system in Hong Kong does not at present contain a mechanism whereby the Government provides arbitration service in case of disputes amongst building owners (or between owners and Owners’ Corporations) on interpretation of the law. We observe that, under the current arrangements, there is a diversity in the quality of private residential sector building management, and that legal disputes involving Owners’ Corporations are frequent.

### *Role of the railway corporations in housing development*

3.19 The long term role of the two railway corporations in housing policy requires consideration.<sup>52</sup> The association of housing developments with the railways gives rise to a significant volume of private sector housing supply, the disposal of which is, however, constrained to some degree by transport policy considerations.

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<sup>52</sup> Paragraph 2.60, qv.

### *Public perceptions*

3.20 The third group of problems relate to public perceptions of housing issues, in terms of livelihood and market sentiment. We consider that such problems must be taken seriously even if they are not created by the Government.

3.21 The three year period from 1997 to 1999 saw unprecedented fluctuations in the private residential property market largely as a result of international economic developments. Concern over the short term problems caused by these fluctuations, ranging from excessive property speculation at the market peak to widespread negative equity after the inevitable correction, led to high and sometimes unrealistic public expectations of what the Government could and should do. We consider that the Government should continue to make clear the dangers of intervening in the normal operation of market forces and its commitment to maintaining a free and competitive private sector market.

3.22 We also believe that confidence in the Government's intentions requires a transparent and unambiguous statement of how the Government's housing strategy will be implemented in the light of changing economic circumstances. It is against this background that we have produced the re-statement of policy in the first part of the previous chapter, and made clear the Government's commitment to reduce its reliance on the "bricks and mortar" provision of public housing.

### *Implementation and finance*

3.23 The final group of problems which we have identified relates to the physical implementation of the Government's public housing programmes. These difficulties formed the original background to the

commissioning of this review by the Chief Executive. Some public concern over building standards in the public sector remains, even though evidence of malpractice has been found in only a small minority of cases and stringent steps have been taken to rectify the position. These steps are described in Chapter 5 below. In addition, there is concern over the short and long term financial arrangements between the Housing Authority and the Government, given the progressive reduction in the former's construction programme of subsidised home ownership flats described in the previous chapter. Some initial views on this issue, which is the subject of a separate review being led by the Secretary for the Treasury, are given in Chapter 6 below.

3.24 The organisational changes proposed in the following two chapters should resolve many of the problems highlighted above and allow us to implement housing policy more effectively, by resolving organisational anomalies, improving public perception of the process of housing policy development and ensuring the safe and cost-effective implementation of the Government's public housing programmes.

## Chapter 4

### Proposed organisational change

4.1 In the preceding chapter, we identified problems affecting the system for delivering the Government's public housing policy. In making recommendations for reform, we have had regard to the following principles –

- (a) streamlining bureaucracy. A large public organisation tends to inflate bureaucratically, if it is not subject to the direct control of the central Government, or if it is in competition with other centres of bureaucratic authority. These conditions both obtain in the case of the Housing Authority. The Housing Authority has in recent years shown itself to be aware of and ready to deal with these issues.<sup>53</sup> However, in conducting a structural review the Government has looked for additional opportunities to “do more with less”;<sup>54</sup>
- (b) presenting a clear and transparent structure to the public. While some criticisms of the present structure may not be well informed, we consider external perceptions important. For example, while the alleged proliferation of “spokesmen” on housing policy does not reflect real differences of approach

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<sup>53</sup> The number of staff employed in the Housing Department (excluding contract staff) fell from about 14 000 by end 1997-98 to about 10 200 by end 2001-02 (paragraph 2.47, qv).

<sup>54</sup> Speech by the Financial Secretary moving the Second Reading of the Appropriation Bill 2002, paragraph 71: “Departments will streamline procedures, simplify structures and economise on manpower ... We will make use of market forces and strengthen co-operation with the private sector to provide better and more efficient services to the public.”

within the Government to housing issues, we have been concerned to devise a simpler system in the interests of public consistency; and

- (c) creating an efficient organisation to deliver policy targets. We do not consider that the current division of responsibility between the Housing Bureau (responsible for devising strategic policy) and the Housing Department (responsible for implementing it) self-evidently represents the optimum structure for controlling and monitoring the Government's public housing programmes, even without the complication of independent statutory bodies with their own roles and responsibilities.

### **Accountability system**

4.2 Since the inception of this review, a major constitutional development has taken place which in our view presents an opportunity to address the above issues in devising a new structure for delivering the Government's public housing policy. That is the prospective implementation of the new accountability system for Principal Officials (Secretaries of Department and Directors of Bureau) with effect from 1 July 2002.

4.3 In his 2000 Policy Address, the Chief Executive noted the aspirations of the community for the senior echelons of the Government to be subjected to a higher degree of accountability. The Chief Executive agreed that the Government should respond seriously. He undertook to conduct a thorough review to examine how to improve the system of accountability. The objectives were: to strengthen the accountability of Principal Officials; to ensure that the Government can better respond to the



needs of the community; to enhance co-ordination in policy formation; to strengthen the co-operation between the executive and the legislature; to ensure effective implementation of policies; and to provide quality services to the public. These aims matched closely the priorities which the Government had identified for reforming the structure for delivering the Government's public housing policy.

4.4 Details of the new system, which is to be implemented on 1 July 2002, were announced in April 2002. There will be a total of 14 Principal Officials under the accountability system, i.e. three Secretaries of Department<sup>55</sup> and 11 Directors of Bureau. The existing policy functions of the Housing Bureau and Planning and Lands Bureau will be under the aegis of a new Secretary for Housing, Planning and Lands. This is in recognition of the fact that the supply of land and the planning of future development have an important bearing on housing development, and vice versa.

4.5 Principal Officials under the accountability system will be appointed to the Executive Council and will be responsible for all aspects of their portfolios: from determining policy objectives and goals, to policy initiation, policy formulation, policy implementation and policy outcome. They will be responsible to the Chief Executive. They will take part in the decision making process and the allocation of resources of the Government as a whole. They will have a strong say in the assignment of personnel working directly under them and the share of financial resources allocated to them. More specifically, their role and responsibilities will include –

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<sup>55</sup> The Chief Secretary for Administration, the Financial Secretary and the Secretary for Justice.

- (a) gauging public opinion and taking the public interest into account;
- (b) setting policy objectives and goals, and developing and formulating policies;
- (c) taking part in deliberations and decision-making at the Executive Council and assuming collective responsibility for such decisions;
- (d) securing the support of the community and the Legislative Council for policy and legislative initiatives as well as proposals relating to fees, charges and public expenditure;
- (e) attending full sessions of Legislative Council to initiate bills or motions, responding to motions and answering questions from Legislative Council Members;
- (f) attending Legislative Council committee, sub-committee and panel meetings where major policy issues are involved;
- (g) exercising statutory functions vested in them by law;
- (h) overseeing the delivery of services by the executive departments under their purview and ensuring the effective implementation and successful outcome of these policies; and
- (i) accepting responsibility for the outcome of policies and the delivery of services by the relevant executive departments.

4.6 Once the accountability system is in place, Principal Officials will, as a matter of priority, conduct reviews of the staffing and structure of Policy Bureaux and the working relationship between Policy Bureaux and the executive departments falling within their portfolios. The overall direction of these reviews will be to streamline administrative structures, merging and integrating similar functions, making better use of resources and enhancing implementation of policy and delivery of services to the public. The reviews will be completed within 12 months (i.e., by mid 2003). Sufficient savings will be identified to make the introduction of the accountability system a “cost neutral” exercise. Principal Officials will also review advisory and statutory bodies relating to their portfolios to draw on the talents and advice of the community.

4.7 Under the new arrangements, Principal Officials will be supported by senior civil servants in Policy Bureaux, to be re-titled Permanent Secretaries. The Permanent Secretaries will support Directors of Bureaux in running the Bureaux and departments under their purview. They will continue to have a public role, for example in attending meetings of Legislative Council panels and committees and communicating with the media.

### **Creation of new organisation covering activities and functions of the main housing agencies**

4.8 The introduction of the new accountability system matches the timing of the completion of our work. It therefore provides a double opportunity: to take advantage of the main features of the accountability system in devising the new public housing structure; and to illustrate one possible way in which the accountability system could be put into practice in a particular policy area.

4.9 The remaining paragraphs of this chapter recommend the main features of a new housing organisation which will subsume the responsibilities now exercised by the Housing Authority, the Housing Bureau, the Housing Department and (to some extent) the Housing Society. The final outcome will resemble the framework set out at Appendix I to this report. We accept that this framework is illustrative and that the details will need to be considered further by the Principal Official. We nevertheless consider it important as a demonstration that our proposals could operate in practice as well as in theory.

4.10 Under the proposed framework, the Housing Authority and the Housing Society will continue to exist, although with different roles from those they now have. The Housing Bureau and the Housing Department will be merged: nevertheless, many of their major constituent parts will continue to function.

4.11 In accordance with the accountability system described above, the statutory and advisory bodies relating to housing will also respond to the Principal Official concerned. It is only in this way that he will have full authority over and therefore be able to take responsibility for all aspects of the formulation and implementation of policy. For this reason, the Principal Official with responsibility for housing will also need to be the Chairman of the Housing Authority. This will require a legislative amendment as discussed in more detail below.<sup>56</sup>

### ***Recommendation 1***

***Control over housing policy should be vested in a Principal Official, subject to direction by the Chief Executive acting***

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<sup>56</sup> Paragraphs 6.13 to 6.14, qv. The timing for the introduction of this legislation is likely to be in late 2002.

*on the advice of the Executive Council. The Principal Official should be the sole spokesman on the Government's housing policy.*

### *Recommendation 2*

*The Principal Official should be appointed Chairman of the Housing Authority ex officio following an appropriate change to the relevant legislation.*

4.12 We do not consider that it would be appropriate simply to transfer the existing structures of the Housing Bureau and the Housing Department to work under the Principal Official without any attempt to integrate their functions. Such an approach would miss important opportunities for streamlining, and would result in confusion and duplication of responsibilities. Appendix I to this report illustrates how civil servants from the Housing Bureau and the Housing Department could work in a more co-ordinated manner to the new Principal Official. The proposed re-organisation integrates the existing policy and implementation functions of the Housing Bureau and the Housing Department rationally under six “directors” working to a senior civil servant (the “Permanent Secretary”) who, in turn, underpins the Principal Official.<sup>57</sup>

4.13 Under this arrangement, the six directors would be responsible for assisting the Permanent Secretary and, through him, the Principal Official in the following areas of housing policy and public housing implementation –

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<sup>57</sup> The terms “Permanent Secretary” and “director” are used for convenience. The actual titles and ranking of these and other posts in the new organisation remain to be determined.

- (a) development. This covers the traditional building programmes of the Housing Authority, from design to construction, including the important function of building quality control;
- (b) allocation and sales. This area includes programmes of direct financial assistance to eligible families, including subsidised home ownership loans and rental allowances, as well as the residual programme of subsidised home ownership flats;
- (c) finance. This covers responsibilities for managing the human, financial and “Information Technology” resources of the new organisation;
- (d) strategic planning. This concerns the continuing development of the Government’s Long Term Housing Strategy, the monitoring of specific targets, and academic research. We suggest that the concerned director also support the main committees working to the Principal Official, including the Housing Authority and HOUSCOM, and co-ordinate housing policies with the officials dealing with planning and land policy matters;
- (e) management services. This concerns the role of supervising both in-house and out-sourced management and maintenance of public housing estates; and
- (f) private sector. This involves the Housing Bureau’s traditional role of monitoring the private sector residential property market and advising on legislation affecting the

private sector housing (such as the regulation of estate agents), as well as matters relating to the Housing Society.

4.14 Even allowing for the addition of two deputies under the Permanent Secretary to assist and co-ordinate these large portfolios, the proposed new structure represents a leaner approach to the delivery of the Government's public housing policy and its closer integration with policy towards the private sector. It brings the Housing Authority and HOUSCOM into the same structure. At the same time, a greater degree of accountability is achieved, since the Principal Official/Chairman, Housing Authority will be fully responsible for the activities undertaken by or through the new housing organisation.

4.15 A major difference in the method of operation of the new housing organisation from that of the present one is that senior civil servants will have to take charge both of operational programmes and of assisting the Principal Official to explain policy to the public and the legislature. Each of the directors will have both policy formulation and executive responsibilities. This represents a genuine combination of the present roles of the Housing Bureau and the Housing Department.<sup>58</sup>

### ***Recommendation 3***

***The Principal Official should be supported in formulating and implementing housing policy by a Permanent Secretary and be assisted in this task by the Housing Authority in accordance with its statutory remit.***

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<sup>58</sup> While the formal amalgamation of the Housing Bureau and the Housing Department into the new housing organisation will begin on 1 July 2002, at the same time as the appointment of the Principal Official, full administrative integration will be completed later, following the appointment of the Principal Official as Chairman/Housing Authority.

#### ***Recommendation 4***

***The Housing Bureau and the Housing Department should be re-organised into a single organisation (the new housing organisation) with a unified chain of command. The new housing organisation should respond through the Permanent Secretary to the Principal Official.***

4.16 Although the responsibility for assisting the Principal Official in formulating policy will be shared between civil servants in the new organisation, we believe it is important that a centralised and co-ordinated approach be maintained to strategic policy making and research, in particular to ensure co-ordination of policy towards the public and private housing sectors and of policies on housing, planning, lands and infrastructure. We consider that more attention needs to be paid than at present to long term strategic planning and research. We illustrate the importance we attach to this issue by combining the relevant functions under a single director in the illustrative framework at Appendix I.

#### ***Recommendation 5***

***The strategic policy and research functions of the new housing organisation should be enhanced to ensure integration of the private sector and public sector housing portfolios and co-ordination with other policy areas such as planning, lands and infrastructure.***

4.17 Under the new housing organisation, no change is initially envisaged to the remit of the Housing Authority other than its positioning under the Principal Official (as its Chairman). Insofar as the Housing Authority and its committees are required to carry out executive functions



or to give advice, relevant submissions will continue to be made by civil servants in the new housing organisation, in addition to the submissions now made by the Housing Bureau on policy matters to the Executive and Legislative Councils.

4.18 However, the role of the Housing Authority will, in our view, evolve after the introduction of the new housing organisation in several ways –

- (a) it will acquire a wider advisory remit, since it will cover both the private sector and the public sector portfolios, as well as strategic policy issues in accordance with the relevant provisions of the Housing Ordinance;<sup>59</sup>
- (b) there will be scope for its executive functions and those of its committees to be streamlined, and ultimately transferred to the new housing organisation, to avoid duplication with the functions of civil servants reporting directly to the Principal Official;<sup>60</sup> and
- (c) its financial position is unlikely to be sustainable, partly as a result of the reduction in its subsidised home ownership flat construction programme. This in turn is likely to require the return of the responsibility for the financing of the public housing programme to the Administration.<sup>61</sup>

4.19 The speed and manner in which the above transition takes place will be for the Principal Official to consider, bearing in mind the

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<sup>59</sup> Paragraph 2.41, footnote 35, qv.

<sup>60</sup> Paragraphs 5.9 to 5.12, qv.

<sup>61</sup> Paragraphs 6.3 to 6.9, qv.

need to adhere to a unified chain of command throughout the new housing organisation. The Government will need to seek the approval of the Legislative Council to amend the Housing Ordinance further to implement this second stage of reform in full.<sup>62</sup>

4.20 During the interim period, before the evolutionary process is complete, it will be vital to maintain the smooth functioning of the Housing Authority within the new housing organisation. The financial arrangements that are currently under review between the Housing Authority and the Government will ensure that the new housing organisation and the Housing Authority can continue to carry out the functions expected of them by the Government during this period.<sup>63</sup>

4.21 With regard to membership, we envisage that the present, pluralistic system of appointment should remain in operation to ensure the right balance between professional expertise and popular representation and to enable persons of the appropriate calibre to be appointed.

### ***Recommendation 6***

***The Housing Authority should initially maintain its existing remit under the Principal Official. In the longer term, however, the executive functions of the Housing Authority should diminish in parallel with its loss of financial sustainability, while, on the other hand, it should advise the Principal Official both on private and public housing matters. The manner and speed with which this transition is accomplished will be matters for the Principal Official to determine, as will the legislative changes required.***

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<sup>62</sup> Paragraph 6.16, qv.

<sup>63</sup> Paragraphs 3.23 and 6.9, qv.

### ***Recommendation 7***

***Interim arrangements with respect to the executive functions of the Housing Authority and its committees as well as its finances should be put in place to ensure the smooth operation of the new housing organisation.***

### ***Recommendation 8***

***The present, pluralistic system of appointment of Housing Authority Members should remain in place.***

4.22 Under the new housing organisation, the Housing Society, as noted above, will be the responsibility of one of the directors responding to the Permanent Secretary.<sup>64</sup> This will not derogate from the Housing Society's status as an independent not-for-profit statutory body. However, the Principal Official and his supporting team will monitor the Housing Society's operations to ensure that they are integrated into and in no way conflict with the Government's housing policy objectives. Under the proposed structure, policy for urban renewal will not fall within the purview of the new housing organisation (although it may fall within the portfolio of the Principal Official).<sup>65</sup>

4.23 The way in which the Housing Society will be affected by the new housing organisation is discussed more thoroughly below.<sup>66</sup> In brief, the new housing organisation will mainly be responsible for implementing the Government's policy towards the re-development of its existing public

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<sup>64</sup> Paragraph 4.13(f), qv.

<sup>65</sup> Given that the Principal Official will be responsible for housing, planning and lands (paragraph 4.4, qv).

<sup>66</sup> Paragraphs 5.24 to 5.29, qv.

housing estates, and for co-ordination between the Housing Society, the Urban Renewal Authority and other Government agencies over the Housing Society's role in urban renewal.

4.24 The recommendations set out above will improve the efficiency and transparency of the delivery of the Government's public housing programmes. This will also facilitate the strengthening by the Principal Official of the formal and informal links between the new housing organisation and the Legislative Council.

***Recommendation 9***

***The Principal Official should strengthen the formal and informal links between the new housing organisation and the Legislative Council.***

## Chapter 5

### Implications for existing organisations

5.1 The purpose of this chapter is to consider the implications for the agencies involved in the formulation and delivery of the Government's public housing policy of the organisational changes recommended in the preceding chapter, and to make consequential recommendations on operational details. We deal first with the Housing Bureau and the Housing Department, which together will form the new housing organisation; then with the Housing Authority and the Housing Society, which will maintain separate identities but with roles different from those which they now have; and finally with other public and private sector agencies.

#### Housing Bureau

5.2 Many of the existing responsibilities of the Housing Bureau<sup>67</sup> will in future be shared among the directors in the new housing organisation illustrated at Appendix I. These include: attendance before committees and panels of the Legislative Council; preparation of draft legislation; attendance before the Housing Authority and its committees; approval of operational policies; monitoring of policy implementation; and development of initiatives relating to private sector housing and the public housing programme of the Housing Society.

5.3 Other key responsibilities of the existing Housing Bureau relate to strategic policy, research, the forecasting of housing demand and

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<sup>67</sup> Paragraphs 2.36 to 2.37, *qv*.

the co-ordination of the housing policy portfolio with those of land, planning and infrastructure. As suggested above,<sup>68</sup> we consider that these responsibilities should be co-ordinated by a single director within the new organisation. In all of these areas, final decision-making power will lie with the new Principal Official.

5.4 Issues involving the co-ordination of housing policies with planning and the production of lands and infrastructure for housing development are brought together at HOUSCOM, to which the Housing Bureau now provides the secretariat. We consider that this mechanism, which has been functioning well, should continue to operate, but under the chairmanship of the new Principal Official.

5.5 HOUSCOM now maintains, through the Housing Bureau, a computerised inventory (the Housing Monitoring Information System) of all housing sites in Hong Kong.<sup>69</sup> This system is used by the Housing Bureau to produce figures for official publication in relation to the supply of public and private sector housing and of land supply for housing development. Other figures relating to public housing development are published by the Housing Authority, while figures on housing demand are produced by a working group under the direction of the Housing Bureau.<sup>70</sup> In line with the concept of streamlined organisation and a single spokesman on housing matters, we consider that forecasts of land required to meet housing demand in the public and private sectors should be co-ordinated by HOUSCOM, working to the Principal Official.

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<sup>68</sup> Paragraph 4.13(d), *qv*.

<sup>69</sup> Over 950 private and public sector housing sites as at 1 March 2002. For the present functions of HOUSCOM, paragraphs 2.10 and 2.12, *qv*.

<sup>70</sup> Paragraph 2.8, *qv*.

5.6 Another function of HOUSCOM is to resolve problems affecting housing production. “Project Directors” in various departments<sup>71</sup> are personally responsible for monitoring individual housing sites and bringing such problems to the attention of HOUSCOM through an established mechanism. This system, which enables the central Government to obtain a clear picture of difficulties affecting housing development at an early stage, should continue to operate.

***Recommendation 10***

***The HOUSCOM system should continue to operate under the chairmanship of the Principal Official, with HOUSCOM “Project Directors” being directly responsible to the Principal Official for their HOUSCOM-related duties.***

***Recommendation 11***

***HOUSCOM should be responsible under the Principal Official for forecasting land supply required for housing development and, in this context, the demand for and supply of public sector housing.***

5.7 The Long Term Housing Strategy Advisory Committee was set up in 1998 to monitor the progress of the implementation of the initiatives announced in the Long Term Housing Strategy White Paper,<sup>72</sup> and to advise the Secretary for Housing on all housing policies relating to both the public and private sectors. The committee also conducts surveys

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<sup>71</sup> “Project Directors” are directorate officers from the Housing, Lands, Planning, Territory Development and Civil Engineering Departments. The choice of “Project Director” for a housing site depends on the nature of the housing development (public or private), its location and the stage of its development.

<sup>72</sup> Paragraph 2.5, qv.

and research on housing policy. Members of the committee are chosen in their personal capacity. Over the years, they have provided professional and impartial advice on a confidential basis. While the committee has proved highly useful, we believe that its functions can in the longer term be taken over by the Housing Authority, when the latter's evolving role as an advisory body on strategic housing policy issues is established.

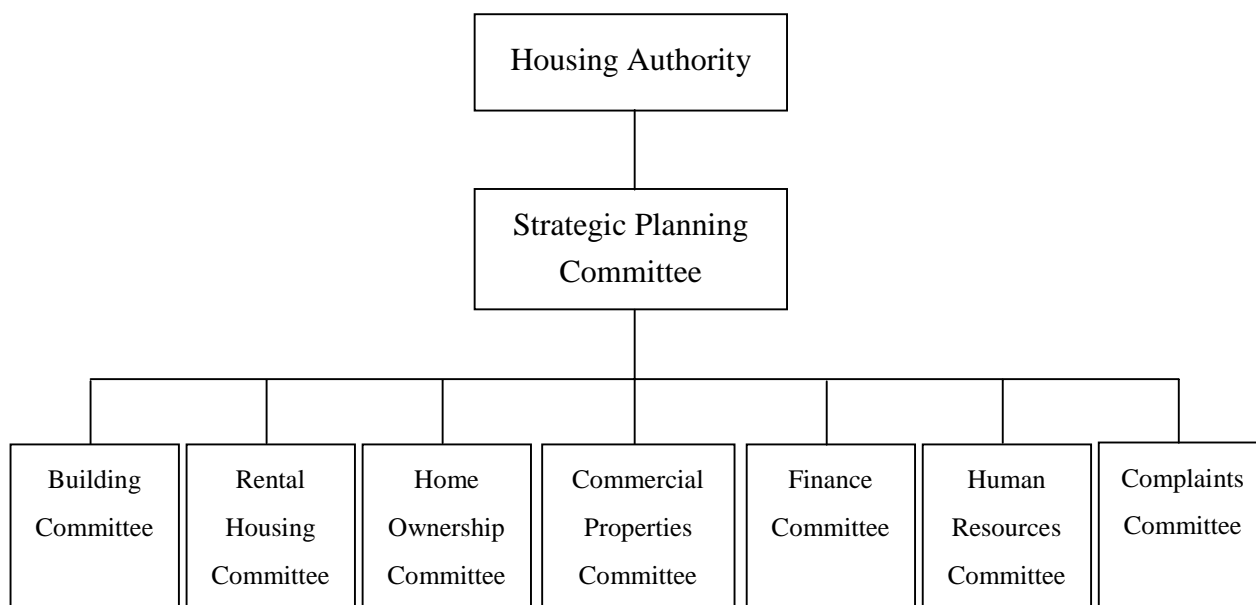
***Recommendation 12***

***In the longer term, the functions of the Long Term Housing Strategy Advisory Committee should be taken up by the Housing Authority.***

**Housing Authority**

5.8 To deal with the wide spectrum of its business, the Housing Authority now has eight standing committees. This committee structure reflects the division of the Housing Authority's functions into four core functions (building, home ownership, rental and commercial) and two supporting services (finance and human resources). The Chairmen of these six committees, together with the Chairman of the Complaints Committee, form a "cabinet" in the form of the Strategic Planning Committee chaired by the Chairman of the Housing Authority, as shown below –





5.9 As noted above,<sup>73</sup> we consider that executive functions of the Housing Authority’s committees will be reduced in line with the Housing Authority’s evolving role within the new housing organisation. This will provide scope for streamlining the existing structure, thus enhancing the advisory effectiveness of the Housing Authority’s committees and maintaining clear working relationships within the new housing organisation.

5.10 Specifically, we consider that the committee structure of the Housing Authority should be streamlined so as to –

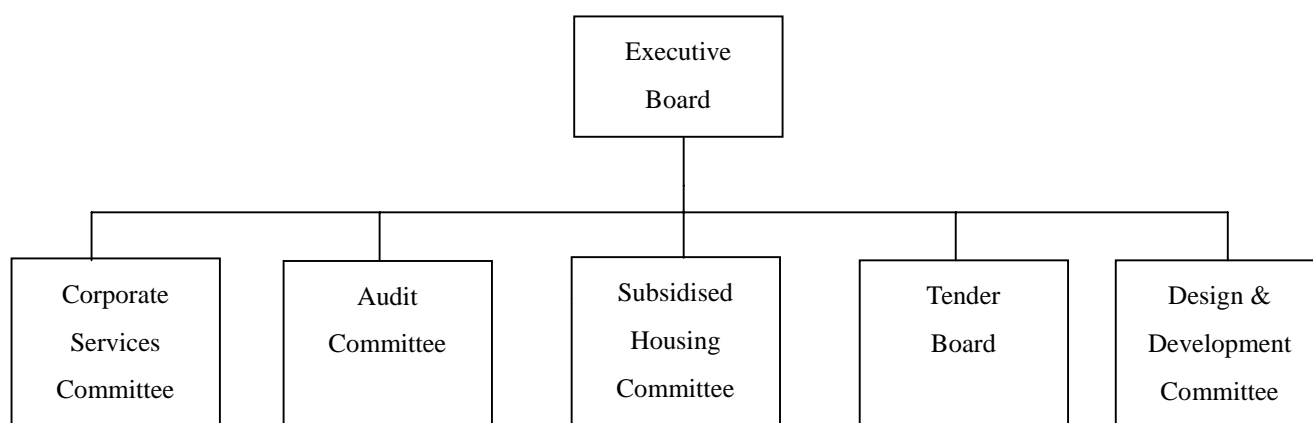
- (a) group the responsibility of the Housing Authority’s existing committees under three committees (dealing with corporate services, subsidised housing and design and development);
- (b) progressively delegate executive functions to civil servants within the new housing organisation; and

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<sup>73</sup> Paragraph 4.18(b), qv.

- (c) create an Executive Board<sup>74</sup> to assume the functions of the existing Strategic Planning Committee as a forum for providing strategic advice on public and private sector housing and to oversee the operation of the new housing organisation, with the assistance of an independent Audit Committee responsible for both works and services, as well as a Tender Board to assume the tendering functions for both works and services now shared amongst various committees.

5.11 A possible arrangement for the new, streamlined committee structure is illustrated below –



### ***Recommendation 13***

***The committee structure of the Housing Authority should, in the short term, be streamlined so as to –***

- (a) group the responsibilities of the Housing Authority's existing committees under three new committees (dealing with corporate services, subsidised housing***

<sup>74</sup> The Executive Board could include the Principal Official as Chairman of the Housing Authority, Chairmen of Housing Authority committees, and senior representatives of the new housing organisation as well as other Government Bureaux and departments.

*and design and development);*

- (b) progressively delegate executive functions to civil servants within the new housing organisation; and*
- (c) create an Executive Board to replace the existing Strategic Planning Committee as a forum for providing advice to the Principal Official on housing policies and on overseeing the business of the new housing organisation with the assistance of a Tender Board and an independent Audit Committee.*

5.12 The revised committee structure described above will need to evolve as the role of the Housing Authority itself evolves. Further changes to the functions and responsibilities of the Housing Authority and its committees, and in particular the speed and manner in which the Housing Authority eventually assumes a purely advisory role, will be matters for the Principal Official and the Legislative Council to decide.<sup>75</sup>

5.13 Irrespective of the detailed functions of the Housing Authority, we consider that there is a strong case to be made for ensuring that support provided to its secretariat is adequate to meet the demands of its expanded advisory role. We therefore consider that the new housing organisation should provide a high quality, streamlined secretariat to the Housing Authority and its committees. No need is seen for staff increases.

#### ***Recommendation 14***

***Streamlined secretarial support should be provided by the***

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<sup>75</sup> Paragraph 4.19, qv.

*new housing organisation to the Housing Authority and its committees to enable them to discharge their advisory duties more effectively.*

## **Housing Department**

5.14 The Housing Bureau and the Housing Department will merge into a single entity in the form of the new housing organisation. The majority of the support to the Principal Official in respect to housing matters will be provided by existing civil servants of the Housing Department. They in turn will need to focus on the core activities to be carried out by the new housing organisation under the revised structure illustrated at Appendix I to this report. That is, their key operational responsibilities will be the provision of public rental and interim housing; the procurement of services from the private sector; the assessment of eligibility for various forms of public housing assistance; and the issuing of housing loans and allowances.

5.15 In line with the direction already being taken by the Housing Authority, non-core functions of the Housing Department will increasingly be contracted or otherwise be transferred to the private sector or, in some cases, other public sector agencies. In addition to squatter control, which is already being transferred to the Lands Department under an existing administrative agreement, we consider that the Housing Authority should progressively divest itself of the ownership of its present commercial portfolio. There are several ways in which this can be done, ranging from outright sale to various forms of securitisation. The mechanism through which this is accomplished will be a matter for consideration by the Principal Official.

### ***Recommendation 15***

***The Housing Authority should divest itself progressively of its “non-core” business including, for example, the management of commercial properties.***

5.16 We have also reviewed in detail the traditional functions of the Housing Department which will remain within the purview of the new housing organisation. We have had serious regard to public concern over the sub-standard construction work which formed the background to the commissioning of this report.

5.17 Despite the quality of the majority of flats produced by the Housing Authority over recent years, whether in comparison with the private sector or with overseas public bodies, recent incidents of sub-standard work revealed some shortcomings in works supervision and site inspection arrangements as well as problems and malpractices affecting the local construction industry. Two of these incidents, namely Tin Chung Court and Yuen Chau Kok, required remedial works such as demolition and pile reinforcement.<sup>76</sup>

5.18 In response to public concern over problems affecting the quality of housing for the low income group, the Housing Authority endorsed in April 2000 a two-phase plan containing 50 initiatives for reform in the housing production process. A large majority of these initiatives have been implemented including –

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<sup>76</sup> For the various independent investigations that have been or are being carried out in relation to these incidents, paragraph 1.2, qv.

- (a) establishment of an Independent Checking Unit (ICU) to undertake independent checks on Housing Authority building projects. The ICU, established in November 2000, reports directly to the Director of Housing;<sup>77</sup>
- (b) strengthened on-site supervision including deployment of resident engineers for piling and large scale building projects;
- (c) improved control of the piling process, for example by including the introduction of sub-contracting restrictions on piling works;
- (d) vigorous performance evaluation of Housing Authority consultants and contractors;
- (e) introduction of quality based procurement arrangements and strengthening consultant management; and
- (f) provision of ten year structural guarantees for Home Ownership Scheme and Private Sector Participation Scheme developments, effective from their dates of completion.

5.19 The substandard building works affecting public housing projects were also manifestations of fundamental problems in and malpractices of the local construction industry. These included uncontrolled multi-layer sub-contracting, price-based procurement arrangements, predominance of on site construction methods and inadequate supply of skilled manpower. To address these problems, the Government has adopted a strategy based on the recommendations of the

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<sup>77</sup> A temporary administrative measure before bringing the Housing Authority projects under the ambit of the Buildings Ordinance (paragraph 5.21, qv).

report of the Construction Industry Review Committee (CIRC).<sup>78</sup> This involves the establishment of an industry co-ordinating body and the implementation of a mandatory registration system for construction workers.

5.20 In the private sector (and the Housing Society), developers are obliged to employ Authorised Persons and Registered Structural Engineers on construction works to comply with the requirements of the Buildings Ordinance. The Housing Authority's housing projects are, however, exempt from this requirement.<sup>79</sup> To address this anomaly, the Housing Department, with the agreement of the Housing Authority –

- (a) established the Independent Checking Unit (paragraph 5.18(a), qv);
- (b) is training staff on the application of the Buildings Ordinance (Cap. 123) and Building Regulations; and
- (c) is consulting staff on the proposal to bring Housing Authority projects under the Buildings Ordinance.

5.21 The measures taken or being taken by the Housing Authority and the Housing Department to improve the quality of their building projects, combined with the industry-wide measures recommended by the CIRC, will result in improvements to public sector building quality. The major outstanding problem is to bring Housing Authority projects

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<sup>78</sup> The Chief Executive appointed the CIRC in April 2000 with the chairmanship of the Hon Henry Tang Ying-yen, GBS, JP to review comprehensively the current state of the industry and to recommend improvements. The CIRC submitted its report in January 2001, recommending a package of 109 measures to transform the local construction industry into a modern, efficient, innovative, client-oriented, safe and environmentally responsible industry. The Government has adopted a strategy based on these recommendations.

<sup>79</sup> Housing Authority projects are exempted from the provisions of the Buildings Ordinance under section 18(2) of the Housing Ordinance (Appendix III, paragraph III.5, qv).

under the ambit of the Buildings Ordinance. The Government is examining this matter carefully as it has wide legal, technical, resource and staffing implications.

5.22 We particularly support the view of the Housing Authority that emphasis be placed on moving away from standardised designs and the adoption of a modern procurement strategy to meet the increasing expectations of the community.

5.23 We also support the Housing Authority and the Housing Department in their efforts to make improvements in the following areas –

- (a) it is the Government's ultimate objective to ensure consistency in the setting and enforcement of building standards. The transfer of building control from the Housing Department to the Buildings Department should have regard to this objective;<sup>80</sup>
- (b) moving away from standardised designs and adoption of a new procurement strategy will require increasing the training, organisation, management and motivation of Housing Department project staff. The Housing Department has engaged a consultant to undertake such work. The new housing organisation should follow up on the consultant's recommendations;
- (c) the new housing organisation should review its procurement system with a view to securing competent business partners, achieving equitable risk-sharing, fulfilling clients'

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<sup>80</sup> The Buildings Department enforces the provisions of the Buildings Ordinance, under which the Director of Buildings is designated as the Building Authority (Appendix III, paragraph III.2, qv).



requirements and maintaining a fair appraisal system. Tender procedures should be tightened up. Private sector resources should be utilised wherever appropriate;

- (d) the CIRC report recommended that public sector clients should consider sharing information on the performance of non-performing consultants and contractors, and that the Buildings Department should consider taking disciplinary action under the Buildings Ordinance against registered contractors who perform poorly in public sector projects. Pending the transfer of building control from the Housing Department to the Buildings Department, the new housing organisation should, where necessary, check with the Buildings Department regarding non-performing consultants and contractors; and
- (e) the new housing organisation should consider the implication of the move from the ISO 9000 quality system to its Year-2000 version, in line with the CIRC recommendation to streamline bureaucracy so that supervisory staff will be able to spend more time on site.

***Recommendation 16***

***The new housing organisation should continue to work towards enhancing the quality of public housing by –***

- (a) transferring responsibility for building control of public housing projects to the Buildings Department;***

- (b) improving the training, organisation, management and motivation of project staff to facilitate moving away from standardised designs;*
- (c) reviewing procurement systems with a view to securing competent business partners, achieving equitable risk-sharing, fulfilling clients' requirements and maintaining a fair appraisal system, tightening tender procedures and making better use of private sector resources as far as possible;*
- (d) where necessary, checking with the Buildings Department regarding non-performing consultants and contractors in the interim; and*
- (e) changing from the ISO 9000 quality system to the Year-2000 version which focusses on work output rather than prescriptive procedures.*

## **Housing Society and Urban Renewal Authority**

5.24 In describing earlier in this report the present role and management of the Housing Society,<sup>81</sup> we noted that the Government, in line with its strategic shift to the provision of housing assistance through flexible fiscal subsidies, had determined not to grant further land to the Housing Society for the construction of public rental or subsidised home ownership flats. At the same time, we noted that the Government intended to merge the subsidised home ownership vehicle of the Housing Society, the Home Starter Loan Scheme, with the Home Purchase Loan

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<sup>81</sup> Paragraphs 2.48 to 2.53, qv.

Scheme, operated by the Housing Authority.<sup>82</sup> As a result of these developments, we acknowledged that there was uncertainty within the community and the Housing Society itself over the role which was now expected of it from the Government, given its resources, professional expertise and independent legal status.<sup>83</sup> We noted further that the future public housing activities of the Housing Society would be co-ordinated by one of the directors within the new housing organisation.<sup>84</sup>

5.25 Having considered in detail alternative strategies for the Housing Society's development, the RIFPH Committee considers that its long historical experience and professional competence combine to make it capable of a major contribution to the future urban renewal of Hong Kong. In particular, we consider that there are significant advantages in developing a closer working relationship between the Urban Renewal Authority<sup>85</sup> and the Housing Society. A synergy of operation and use of staff and financial resources could be achieved if a strategic partnership were to be developed between the two organisations. This would facilitate the implementation of the urban renewal programme and optimise the use of resources and expertise.

5.26 At present, the Housing Society is one of the two re-housing agents of the Urban Renewal Authority. The other agent is the Housing Authority. The Housing Society has so far agreed to provide up to 1 000 re-housing units to the Urban Renewal Authority in each of the first five years of the latter's urban renewal programme. We believe that there is scope for this co-operation to be extended.

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<sup>82</sup> Paragraph 2.17, qv.

<sup>83</sup> Paragraph 3.17, qv.

<sup>84</sup> Paragraph 4.13(f), qv.

<sup>85</sup> Paragraph 2.59, qv.

5.27 A strategic partnership between the Urban Renewal Authority and the Housing Society could be developed through –

- (a) joint ventures, with the Housing Society participating in Urban Renewal Authority projects as a partner, and contributing funds to projects for which the Urban Renewal Authority provides the necessary assembled land; or
- (b) agency arrangements, with the Housing Society taking up renewal projects as the agent of the Urban Renewal Authority; or
- (c) entrustment, with the Housing Society bearing the risks and the resulting profit or loss.

5.28 These possibilities are not mutually exclusive. They are achievable within the existing statutory framework.

5.29 Apart from its important role in urban renewal, the Housing Society will continue to play a part in the delivery of the Government's housing policy objectives through re-development of its existing estates. In order to ensure public transparency, we consider that the Housing Society's role should be set out clearly in an agreed memorandum of understanding between the Housing Society and the new housing organisation covering the scope of the Housing Society's remaining public housing functions.

***Recommendation 17***

***The Housing Society should be invited to work with the Urban Renewal Authority towards a strategic partnership***

*for urban renewal.*

***Recommendation 18***

*A Memorandum of Understanding should be agreed between the Housing Society and the new housing organisation defining the roles and responsibilities of both parties with respect to the Housing Society's remaining public housing functions.*

**Other public and private sector agencies**

5.30 In Chapter 2 of this report,<sup>86</sup> we described the roles currently played by agencies other than the four principal agencies referred to in our terms of reference in the delivery of the Government's public housing policy. The following paragraphs consider the impact of the organisational reforms recommended in Chapter 4 above on these agencies.

5.31 Housing, planning, lands and buildings policy will, under the proposed accountability system, come under the proposed Housing, Planning and Lands Bureau. The provision of land for housing and the implementation of the Government's public housing programmes will fall under the same Bureau. This will lead to a more coherent housing (and planning) policy.<sup>87</sup>

5.32 The current financial arrangements between the Government and the Housing Authority were formulated in 1988 and were amended in

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<sup>86</sup> Paragraphs 2.54 to 2.61, qv.

<sup>87</sup> Paragraph 4.4, qv. Chairmanship of HOUSCOM will also be vested with the new Principal Official (paragraph 5.4, qv).

1994. As noted above,<sup>88</sup> to take account of developments since 1994 including new policy initiatives, a Steering Group led by the Finance Bureau with representatives from the Housing Bureau and the Housing Department was set up in April 2000 to undertake a review of the existing agreements between the Government and the Housing Authority.

5.33 The Steering Group will take into account the recommendations of the RIFPH Committee in its conclusions of the review.<sup>89</sup>

5.34 One of the policy objectives of the Home Affairs Bureau is to give advice to owners and tenants of private buildings so that they are equipped to manage their buildings and put into practice their responsibilities for building management, maintenance and safety.<sup>90</sup>

5.35 The Building Management Ordinance (Cap. 344) provides a legal framework for owners to form Owners' Corporations and to manage their own buildings. It provides owners with limited powers and responsibilities regarding management of the common parts of buildings. The Government expects that, through legislation and the provision of advisory services, owners can be assisted to manage their property and resolve their own building management problems effectively. We consider that this issue requires further consideration, in view of the relatively diverse quality of private sector building management in Hong Kong. The new housing organisation should consult the Home Affairs Bureau on a possible review of the Building Management Ordinance with a view to improving the legislative framework for private sector residential building management.

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<sup>88</sup> Paragraph 4.20, qv.

<sup>89</sup> Paragraph 6.9, qv.

<sup>90</sup> Paragraph 3.18, qv.

### ***Recommendation 19***

***The new housing organisation should consult the Home Affairs Bureau on a possible review of the Building Management Ordinance with a view to improving the legislative framework for private sector residential building management.***

5.36 Another policy objective of the Home Affairs Bureau is to regulate fire and building safety of bedspace apartments. The Bedspace Apartments Ordinance (Cap. 447) provides for statutory licensing schemes to regulate fire and building safety of bedspace apartments. Licences are issued in respect of bedspace apartments which meet standards on fire safety, structural safety, health and hygiene. The Office of the Licensing Authority of Home Affairs Department is responsible for the enforcement of this Ordinance.

5.37 To ensure that displaced bedspace apartment lodgers are not rendered homeless because of the implementation of the licensing scheme, the Home Affairs Department operates a singleton hostel programme to provide accommodation to displaced lodgers under 60 years of age. It will be a matter for the Principal Official to decide the degree of liaison between the Home Affairs Bureau/Department and the new housing organisation required to achieve the optimum results in this area.

5.38 The responsibilities of other Government agencies will not be significantly affected by the recommendations in this report, except that the Buildings Department will eventually assume responsibility for building control of public housing projects under the Buildings

Ordinance.<sup>91</sup>

5.39 The new housing organisation will perform the tasks now undertaken by the Housing Bureau of monitoring the private sector residential property market and developing the Government's policy towards private sector housing in general. This task will not be significantly affected by the changes recommended in this report, except that the new housing organisation will allow for closer integration of public and private housing policy as a result of the unified chain of command leading to the Principal Official. In particular, we expect that the Principal Official and his supporting civil service team will continue to maintain direct relations with private sector developers both through the Real Estate Developers Association of Hong Kong and through contacts with individual developers under the HOUSCOM system.

5.40 The particular roles of the Urban Renewal Authority and the rail corporations in housing provision have been described above.<sup>92</sup> We believe that the corporations and their joint-venture partners will take into account prevailing market conditions and other non-market factors (including the construction programmes and patronage of the associated rail lines) in the detailed phasing and timing of sale of individual housing developments. The market is fully aware of the programmes of the Urban Renewal Authority and rail-related housing developments.

5.41 An existing committee (the Review Committee on Railway Corporations' Development (Housing) convened by the Housing Bureau), on which both rail corporations are represented, monitors the progress of rail-related housing developments and acts as a link between the

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<sup>91</sup> Paragraphs 5.20 to 5.21 and 5.23, qv. For brief descriptions of the roles of these agencies (as listed at paragraphs 2.57 to 2.58, qv), Appendix III, qv.

<sup>92</sup> Paragraphs 2.59 to 2.60, 3.19 and 5.26 to 5.28, qv.



Government and the corporations on issues related to the latter's housing developments. We consider that, under the new housing organisation, this committee should continue to report to HOUSCOM. However, given the increasing significance for the overall housing programme of rail-related housing production, the committee should proactively seek directions in response to the implications of rail-related housing developments when necessary. Similar arrangements should apply to housing developments under the purview of the Urban Renewal Authority.

***Recommendation 20***

***The new housing organisation should monitor actively the progress of rail-related housing developments and those of the Urban Renewal Authority, assess their implications for the Government's housing policy objectives, and proactively seek HOUSCOM's guidance on these implications as necessary.***

## Chapter 6

### Financial, staffing, legal and economic implications

6.1 The re-statement of housing policy in Chapter 2 above and the proposed organisational changes in Chapter 4 above will have financial, staffing, legal and economic consequences for the Government and for the Housing Authority. (Applying the Buildings Ordinance to public housing projects will also have financial, staffing and legal implications, which will need to be considered separately and in detail.)<sup>93</sup>

6.2 The proposed organisational change is being recommended for implementation in two stages. Under the first stage, the Principal Official will be appointed Chairman of the Housing Authority ex officio. A new housing organisation will be set up to integrate the existing policy and implementation functions of the Housing Bureau and the Housing Department. Under the second stage, the Housing Authority's executive functions and those of its committees will diminish, as it assumes a greater advisory role on both private and public housing matters. The speed and manner in which the transition from the first stage to the second stage is achieved will be for the Principal Official to consider.

#### Financial implications

6.3 It is necessary in our view for the Government to consider the financial implications for the Housing Authority of the present direction of the Government's housing policy as described in Chapter 2, since this will form the new housing organisation's mandate. (The prospective financial

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<sup>93</sup> Paragraph 5.21, qv.

consequences of the organisational recommendations in Chapter 4 above will mainly be due to changes in staff establishment.)

6.4 At Appendix IV to the report is the Housing Authority's approved budget for 2002-03 and financial projections up to 2005-06. Key observations follow.

6.5 The Housing Authority's deficit on its public rental housing operating account is projected to continue over the period from 2002-03 to 2005-06. This continuing deficit is due mainly to the constraints stipulated in the Housing Ordinance against rental increases in existing estates and the adoption of various rent relief measures by the Housing Authority in 2001-02.

6.6 The surplus in the Housing Authority's commercial operating account is estimated to increase slightly over the period from 2002-03 to 2005-06.

6.7 The Housing Authority's forecast surplus of \$3.4 billion in the home ownership operating account in 2002-03 was worked out based on the assumption of selling 9 000 flats a year following the lifting of the moratorium on subsidised home ownership sales in June 2002. Given the reduced number of subsidised home ownership flats now to be sold beginning in 2002-03, this forecast will need to be revised.<sup>94</sup>

6.8 Likewise, the Housing Authority's budgeted cash balance at the end of 2002-03, which was expected to drop from \$24.6 billion (revised budget for 2001-02) to \$16 billion, is expected to shrink further because of the adjustments to subsidised home ownership flat sales.

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<sup>94</sup> Paragraph 1.6 and footnote 7; paragraph 2.17 and footnote 16, qv.

Overall, under current policies, it is clear that the long term cutback in the sale of home ownership flats, the statutory limitations on rental increases, and the cost of providing housing loans on a much greater scale than before are likely seriously to affect the Housing Authority's financial position, and indeed to lead to an overall deficit within three years.

6.9 Under these circumstances, as noted above,<sup>95</sup> the Finance Bureau is leading a review of the financial arrangements between the Government and the Housing Authority so that the new housing organisation will be able to meet the Government's housing policy objectives until such time as the necessary legislative amendments are made to change the remit of the Housing Authority to that of an essentially advisory body, with the new housing organisation being funded entirely by the Government. This review should be completed within this year. While it is premature to predict the outcome, we envisage that the recurrent staff costs of the new housing organisation will be shared between the Housing Authority and the Government based on a split equivalent to the ratio prevailing as at 1 July 2002.

### **Staffing implications**

6.10 Following the creation of the new housing organisation, we expect savings in directorate staff. The extent of these savings will need to be considered by the Principal Official. Some indications may be derived from Appendix I to the report.

6.11 Separately, the impact of the reduced level of public housing production on the outsourcing programme of the Housing Authority and its on-going corporate reform will need to be carefully assessed. We are

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<sup>95</sup> Paragraphs 4.20 and 5.32 to 5.33, qv.

very conscious of the major contribution made by Housing Department staff to the achievement of the housing targets set by the Government, and do not consider that any changes to existing staff levels should be considered without full consultation of the staff concerned.

### **Legal implications**

6.12 The re-statement of housing policy in Chapter 2 above in itself has no major legal implications. It may be relevant to note, however, that section 4(4) of the Housing Ordinance (Cap. 283) stipulates that the policy of the Housing Authority shall be directed to ensuring that the revenue accruing to it from its estates shall be sufficient to meet its recurrent expenditure on its estates.

6.13 Recommendation 2 of this report is that the Principal Official should be appointed Chairman of the Housing Authority ex officio following an appropriate change to the relevant legislation. In the context of the constitutional exercise for the introduction of a system of accountability, the Government has proposed a resolution under section 54A (Power to transfer functions of public officers) of the Interpretation and General Clauses Ordinance (Cap. 1) to transfer the statutory powers exercisable by a number of the present Bureau Secretaries to the relevant Principal Officials responsible for the re-organised bureaux.

6.14 However, the Department of Justice has advised that such a resolution will not be sufficient to implement the recommendation with respect to the Housing Authority chairmanship. Section 3 of the Housing Ordinance stipulates that the Chairman of the Housing Authority shall be a non-public officer. The Department of Justice recommends a simple bill to amend this section of the Housing Ordinance.

6.15 In addition, amendments to the Housing Ordinance would in due course be necessary to transfer the powers of the Director of Housing under the existing Ordinance to the Permanent Secretary and/or the Principal Official.

6.16 Under the second stage, it will be necessary, amongst other things, to seek Legislative Council approval for the responsibility for the funding of the new housing organisation to be handed over to the Government and for the executive duties of the Housing Authority to be reduced appropriately.

### **Economic implications**

6.17 The organisational changes proposed in Chapter 4 of this report have no direct economic implications. We have, however, taken the opportunity to consider the general economic implications of the policy direction re-stated in Chapter 2 above, since housing, apart from being a major livelihood issue in Hong Kong, also forms a significant component of the economy.<sup>96</sup>

6.18 In the long term, the shift from “bricks and mortar” to direct fiscal subsidy should lead to an overall economic gain. The residential property market has fallen substantially in terms of prices and rentals relative to household income. Augmentation of affordability through public subsidy has become much less justifiable. The opportunity exists to save public resources for allocation to more needy households. Also, avoiding or minimising overlap between the public and private housing sectors will create a more level playing field in the residential property

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<sup>96</sup> In 2001, Hong Kong’s total expenditure on building and construction (including civil engineering works and buildings works covering residential, commercial and industrial properties) amounted to over \$152 billion, or 12% of the GDP. Separate figures for housing are not available.

market, contributing to economic efficiency.

6.19 Compared with traditional “bricks and mortar”, the provision of loans represents a more cost-effective way<sup>97</sup> of providing a wider choice of home ownership assistance to eligible households. It has the advantage of being able to respond quickly to short term changes in demand. The resources of the private sector will be more efficiently used in the community interest. More choices for recipients of loans or rental allowances will also increase population and labour mobility.

6.20 In the short term, the Government will make available sufficient loans in 2002-03 to meet demand. In addition, in 2002-03, the Government will provide a quota of 600 rental allowances for elderly households, and launch a pilot rental allowance scheme for non-elderly households. The extra supply required by the provision of loans and rental allowances represent, however, only a fraction of the total stock of flats in the private sector, even assuming that demand for the full quota of 50 000 housing assistance opportunities were to be taken up.<sup>98</sup>

6.21 Thus, the shift from “bricks and mortar” to direct fiscal subsidies is financially sustainable (in terms of less total public subsidy since loans and rental allowances are more cost effective), practically workable (because there is sufficient supply in the private sector) and economically positive (because of more efficient deployment of public and private sector resources, as well as increased population and labour mobility).

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<sup>97</sup> The amount of public subsidy for one Home Ownership Scheme flat is roughly equal to the amount of subsidy for the provision of three loans.

<sup>98</sup> According to Rating and Valuation Department, total stock of private residential flats in Hong Kong ranging from 20 m<sup>2</sup> to 70 m<sup>2</sup> in size by end 2001 amounted to 853 430 units, of which about 44 000 units were vacant. Separately, a total of about 26 000 new private residential flats were completed during 2001.

## Chapter 7

### Public consultation and way forward

7.1 During the course of our work, views of stakeholders, legislators, professional bodies and other relevant organisations were sought. Comments from members of the public were also encouraged. An extensive round of consultation was conducted by the then Secretary for Housing in 2000. Since then, the Housing Bureau has been in frequent contact with concerned parties (most recently, appearing before the Legislative Council Panel on Housing in May 2002), while the Chairman of the RIFPH Committee has briefed and sounded out<sup>99</sup> concerned parties on the changing situation. At the same time, comments of the media on this issue have been monitored.

#### Summary of results of consultation

7.2 A summary of the comments obtained from the public consultation, together with an analysis of the extent to which public expectations as expressed at that time have been or will be met by our report, is at Appendix V.

7.3 Although the political and social perspectives of our respondents are disparate, there has been a degree of consistency in the views expressed. There appears to be a consensus that –

- (a) review and reform of the existing institutional framework for public housing is desirable and necessary;

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<sup>99</sup> For example in a briefing to Housing Authority Members in April 2002.



- (b) the Government should set out its long term housing targets and strategy clearly. The Government and the various housing-related agencies should avoid sending confusing signals to the public;
- (c) the roles of the Housing Authority and the Housing Department should be reviewed and their structure improved. Their scope of activity should be reduced and activities such as design, planning and construction should be as far as possible commissioned from the private sector;
- (d) the role of the Housing Society should be clearer; and
- (e) there are grey areas between the Housing Bureau and the Housing Authority in policy formulation. Their structural relationship and hence the relationship between the Housing Bureau and the Housing Department should be reviewed.

7.4 Some respondents suggest that the Housing Authority should be disbanded or converted into an advisory body; that the Housing Authority and the Housing Society should be merged; that the transparency of the Housing Society's operation should be enhanced; or that there should be only one Policy Bureau for housing, lands and planning matters.

7.5 We have thoroughly considered these views in the light of subsequent developments, in particular changes to the Government's public housing policy and the proposed new system of accountability for Principal Officials.

## Way forward

7.6 The following members of the RIFPH Committee respectfully submit their views and recommendations as instructed by the Chief Executive for his instructions on their implementation –

Hon Donald Tsang, JP	Chief Secretary for Administration (Chairman)
Dr Cheng Hon-kwan, GBS, JP	Chairman, Housing Authority
Hon Chung Shui-ming, GBS, JP	Chairman, Housing Society
Miss Elaine Chung, JP	Secretary for Housing (Acting)
John Tsang Esq, JP	Secretary for Planning and Lands
Miss Denise Yue, GBS, JP	Secretary for the Treasury
Anthony Miller Esq, JP	Director of Housing
Andrew Wells Esq, JP	Deputy Secretary for Housing (2) (Secretary)

## **Summary of recommendations**

### **Chapter 4: Proposed organisational change**

#### **Recommendation 1**

Control over housing policy should be vested in a Principal Official, subject to direction by the Chief Executive acting on the advice of the Executive Council. The Principal Official should be the sole spokesman on the Government's housing policy.

#### **Recommendation 2**

The Principal Official should be appointed Chairman of the Housing Authority ex officio following an appropriate change to the relevant legislation.

#### **Recommendation 3**

The Principal Official should be supported in formulating and implementing housing policy by a Permanent Secretary and be assisted in this task by the Housing Authority in accordance with its statutory remit.

#### **Recommendation 4**

The Housing Bureau and the Housing Department should be re-organised into a single organisation (the new housing organisation) with a unified chain of command. The new housing organisation should respond through the Permanent Secretary to the Principal Official.

### **Recommendation 5**

The strategic policy and research functions of the new housing organisation should be enhanced to ensure integration of the private sector and public sector housing portfolios and co-ordination with other policy areas such as planning, lands and infrastructure.

### **Recommendation 6**

The Housing Authority should initially maintain its existing remit under the Principal Official. In the longer term, however, the executive functions of the Housing Authority should diminish in parallel with its loss of financial sustainability, while, on the other hand, it should advise the Principal Official both on private and public housing matters. The manner and speed with which this transition is accomplished will be matters for the Principal Official to determine, as will the legislative changes required.

### **Recommendation 7**

Interim arrangements with respect to the executive functions of the Housing Authority and its committees as well as its finances should be put in place to ensure the smooth operation of the new housing organisation.

### **Recommendation 8**

The present, pluralistic system of appointment of Housing Authority Members should remain in place.

### **Recommendation 9**

The Principal Official should strengthen the formal and informal links between the new housing organisation and the Legislative Council.

## **Chapter 5: Implications for existing organisations**

### **Recommendation 10**

The HOUSCOM system should continue to operate under the chairmanship of the Principal Official, with HOUSCOM “Project Directors” being directly responsible to the Principal Official for their HOUSCOM-related duties.

### **Recommendation 11**

HOUSCOM should be responsible under the Principal Official for forecasting land supply required for housing development and, in this context, the demand for and supply of public sector housing.

### **Recommendation 12**

In the longer term, the functions of the Long Term Housing Strategy Advisory Committee should be taken up by the Housing Authority.

### **Recommendation 13**

The committee structure of the Housing Authority should, in the short term, be streamlined so as to –

- (a) group the responsibilities of the Housing Authority’s existing committees under three new committees (dealing with corporate services, subsidised housing and design and development);
- (b) progressively delegate executive functions to civil servants within the new housing organisation; and
- (c) create an Executive Board to replace the existing Strategic Planning Committee as a forum for providing advice to the Principal Official on housing policies and on overseeing the business of the new housing organisation with the assistance of a Tender Board and an independent Audit Committee.

#### **Recommendation 14**

Streamlined secretarial support should be provided by the new housing organisation to the Housing Authority and its committees to enable them to discharge their advisory duties more effectively.

#### **Recommendation 15**

The Housing Authority should divest itself progressively of its “non-core” business including, for example, the management of commercial properties.

#### **Recommendation 16**

The new housing organisation should continue to work towards enhancing the quality of public housing by –

- (a) transferring responsibility for building control of public housing projects to the Buildings Department;
- (b) improving the training, organisation, management and motivation of project staff to facilitate moving away from standardised designs;
- (c) reviewing procurement systems with a view to securing competent business partners, achieving equitable risk-sharing, fulfilling clients' requirements and maintaining a fair appraisal system, tightening tender procedures and making better use of private sector resources as far as possible;
- (d) where necessary, checking with the Buildings Department regarding non-performing consultants and contractors in the interim; and
- (e) changing from the ISO 9000 quality system to the Year-2000 version which focusses on work output rather than prescriptive procedures.

### **Recommendation 17**

The Housing Society should be invited to work with the Urban Renewal Authority towards a strategic partnership for urban renewal.

### **Recommendation 18**

A Memorandum of Understanding should be agreed between the Housing Society and the new housing organisation defining the roles and responsibilities of both parties with respect to the Housing Society's

remaining public housing functions.

### **Recommendation 19**

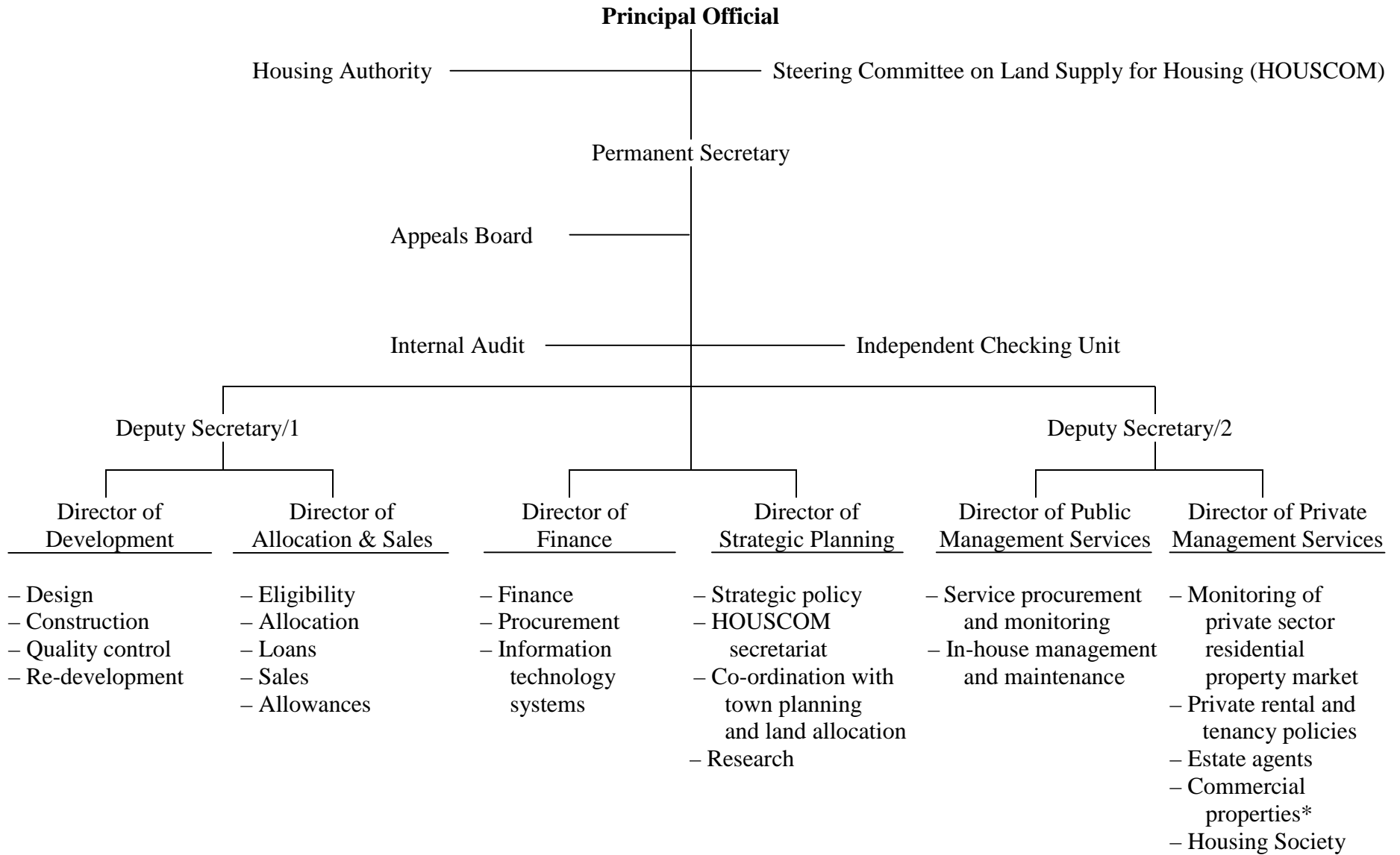
The new housing organisation should consult the Home Affairs Bureau on a possible review of the Building Management Ordinance with a view to improving the legislative framework for private sector residential building management.

### **Recommendation 20**

The new housing organisation should monitor actively the progress of rail-related housing developments and those of the Urban Renewal Authority, assess their implications for the Government's housing policy objectives and proactively seek HOUSCOM's guidance on these implications as necessary.



**Suggested framework for new housing organisation**



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\* Interim arrangement

**Membership of the Committee on the  
Review of the Institutional Framework for Public Housing (RIFPH)**

**A. Terms of reference and membership**

- The terms of reference and membership of the Committee are at Annex.

**B. Chronology of membership of RIFPH**

<b>Date</b>	<b>Event</b>
23.6.2000	The Chief Executive delivered a statement at the Legislative Council announcing the establishment of the RIFPH Committee
1.10.2000	Dr Cheng Hon-kwan, GBS, JP assumed the post of Chairman, Housing Authority
1.5.2001	Hon Donald Tsang Yam-kuen, JP assumed the post of Chief Secretary for Administration as well as chairmanship of the RIFPH Committee
16.7.2001	Mr John Tsang Chun-wah, JP assumed the post of Secretary for Planning and Lands

**C. Membership with details**

	<b>Post</b>	<b>Person</b>
<i>Chairman:</i>	Chief Secretary for Administration	Hon Mrs Anson Chan, GBM, JP (23.6.2000 – 30.4.2001)  Hon Donald Tsang Yam-kuen, JP (1.5.2001 – present)

	<b>Post</b>	<b>Person</b>
<i>Members:</i>	Chairman, Housing Authority	Dr the Hon Rosanna Wong Yick-ming, JP (23.6.2000 – 30.9.2000)  Dr Cheng Hon-kwan, GBS, JP (1.10.2000 – present)
	Chairman, Housing Society	Hon Chung Shui-ming, GBS, JP
	Secretary for Housing	Mr Dominic Wong Shing-wah, GBS, JP (23.6.2000 – 12.4.2002)  Miss Elaine Chung Lai-kwok, JP (Acting Secretary for Housing) (13.4.2002 – present)
	Secretary for Planning and Lands	Mr Gordon Siu Kwing-chue, JP (23.6.2000 – 15.7.2001)  Mr John Tsang Chun-wah, JP (16.7.2001 – present)
	Secretary for the Treasury	Miss Denise Yue Chung-yee, GBS, JP
	Director of Housing	Mr John Anthony Miller, JP
<i>Secretary:</i>	Deputy Secretary for Housing (2)	Mr Andrew Ronald Wells, JP

**Committee on the Review of the Institutional Framework for Public Housing**

**A. Terms of reference**

Having regard to the Government's housing policy and the community's concern about the quality and management of the public housing programme in Hong Kong –

- (a) to examine the roles and responsibilities of the Housing Bureau, the Housing Authority, the Housing Department and the Housing Society in the delivery of the public housing programme; and
- (b) to make recommendations on the best institutional framework for public housing.

**B. Membership**

Chairman : Chief Secretary for Administration

Members : Chairman, Housing Authority  
Chairman, Housing Society  
Secretary for Housing  
Secretary for Planning and Lands  
Secretary for the Treasury  
Director of Housing

} or their senior representatives

Secretary : Deputy Secretary for Housing (2)

### **Other Government Bureaux and departments involved in the public housing programme**

#### **A. Buildings Department**

III.1 The Buildings Department (BD) controls all private building development in Hong Kong under the Buildings Ordinance and related legislation. The BD checks plans for compliance with the law and refers them to relevant departments for examination. This centralised system ensures that statutory standards, safety and other legal requirements are met.

III.2 Consent to commence building works is required from the Building Authority/Director of Buildings. The BD monitors sites where work is in progress and inspects sites regularly, particularly at critical stages, for safety and for compliance with statutory requirements. The BD also makes final checks before issuing occupation permits.

III.3 The Site Monitoring Section (SMS) of the BD carries out checks of sites where work is in progress to identify irregularities and/or poor quality. If safety-related irregularities are detected, the SMS will immediately seek remedies and where appropriate, apply sanctions including prosecution and disciplinary action against those concerned. The SMS also responds to reports concerning safety issues arising from the operation of building and demolition sites and carries out emergency inspections.

III.4 The BD acts on reports of dangerous or defective buildings and advertisement signboards. It initiates surveys of buildings to establish their general condition, to identify dangerous buildings and to

order such buildings to be repaired or demolished. If owners fail to carry out the necessary work, the BD employs its own contractors and recovers the cost from the owners. Any additions or alterations to buildings without the prior approval of the Building Authority are regarded as Unauthorized Building Works.

III.5 At present, the Housing Authority is exempted from the Buildings Ordinance (by section 18(2) of the Housing Ordinance). As a temporary measure, an Independent Checking Unit has been set up within the Housing Department to ensure the quality of Housing Authority buildings. It reports directly to the Director of Housing.

## **B. Civil Engineering Department**

III.6 The Civil Engineering Department (CED) explores means of forming additional land for development, including housing development. This involves planning and engineering feasibility studies, engineering design, contract management and site supervision.

III.7 Land is a scarce resource in Hong Kong with its hilly terrain, especially in the urban area. The creation of land is the key contribution of CED to the overall economic development of Hong Kong.

III.8 Site formation aims to provide land for development of public housing estates, schools and parks for the benefit of the community. The scope of works mainly involves the formation of platforms, construction of access roads, footpaths, stormwater drains and sewers, and installation of other utilities to serve the land so created. Works are carried out in liaison with other departments such as the Lands and Housing Departments.

III.9 Some areas identified suitable for future development are inaccessible by land or served only by primary roads. The CED forms new roads and upgrades existing roads for these areas, to serve public housing estates, schools, parks and industrial areas.

### **C. Drainage Services Department**

III.10 The Drainage Services Department (DSD) is responsible for investigation, planning, design and construction of stormwater drainage, flood mitigation and prevention and sewerage projects and schemes. It regularly inspects drainage and sewerage systems and conducts clearance and maintenance work. The DSD operates and maintains flood control facilities. It also checks stormwater drainage proposals for new developments and sewerage planning submissions, and ensures the adequacy of existing drainage systems and the effective operation of sewage treatment plants.

### **D. Environmental Protection Department**

III.11 The Environmental Protection Department (EPD) implements environmental policies and programmes, vets environmental planning and assessment findings, enforces and reviews environmental laws, plans and develops facilities for liquid and solid waste disposal and promotes environmental management, audit and reporting. The EPD also promotes environmental awareness in the community.

### **E. Government Property Agency**

III.12 The Government Property Agency (GPA) is responsible for procuring offices and quarters, through construction, purchase and leasing. It reviews standards to meet changing needs, and disposes of surplus

accommodation. It also considers commercialisation of Government activities to provide better services to the public. The GPA manages Government accommodation through private sector companies. It examines proposals to develop Government, Institutional and Community (GIC) sites to maximise site potential. It identifies under-utilised GIC sites, particularly high-value sites in urban areas, and implements projects to release these sites for re-development.

## **F. Highways Department**

III.13 The Highways Department (HyD) is responsible for the planning, design, construction and maintenance of the public road system. It is also responsible for planning and facilitating the implementation of railway networks.

III.14 The HyD has close links with the Police and the Transport Department which are the agencies through which transport policy is enforced. It also works with other departments such as the Territory Development Department, Drainage Services Department, Civil Engineering Department, Buildings Department and utility operators regarding roads, associated drainage and trench works.

## **G. Social Welfare Department**

III.15 The Social Welfare Department (SWD) is responsible for implementing the Government's policies on social welfare and for developing and co-ordinating social welfare services. These include social security, family and child welfare services, medical social services, community development work, services for young people, services for the elderly, rehabilitation services for people with disabilities, as well as services for young offenders. The SWD recommends cases for



compassionate re-housing in public housing estates.

## **H. Territory Development Department**

III.16 The Territory Development Department (TDD) is mainly responsible for the development of new towns (and rural townships) and new major urban development areas.

III.17 These large-scale new developments are usually implemented in stages in the form of “packages” over many years. The TDD co-ordinates the various departments and utility companies in order to ensure essential infrastructure is in place in time for the intake of population.

III.18 As a works department, the TDD also oversees design and construction of land formation and infrastructure of major development areas.

## **I. Transport Bureau and Transport Department**

III.19 The Transport Bureau (TB) is responsible for the overall policy formulation, direction and co-ordination of land transport and ferry services. The Secretary for Transport is assisted by the Transport Advisory Committee, which advises the Chief Executive in Council on major transport policies and issues. The Committee has 15 non-official appointed members, including the Chairman, and three Government officials. The TB is supported by the Transport and Highways Departments.

## **J. Water Supplies Department**

III.20 The Water Supplies Department (WSD) plans and manages water resources and water supply systems. It designs and constructs waterworks projects. The WSD is responsible for operating water supply and distribution systems. In addition to controlling the quality of water supply, it provides consumer services and enforces the Waterworks Ordinance (Cap. 102).

## **K. Works Bureau**

III.21 The Works Bureau (WB) is responsible for formulating public works policies, and for co-ordinating and monitoring the implementation of public works projects. It is also responsible for policy on water supply, slope safety and flood prevention.

III.22 The Public Works Programme (PWP) comprises public works on port development, Government building projects, drainage projects, civil engineering projects (e.g. reclamation and landslip prevention measures), highway projects, new town and urban area development, waterworks projects, and housing-related infrastructure projects. The WB's policy objective is to ensure the effective planning, management and implementation of the PWP as a whole and of major infrastructure development projects in particular.

III.23 As a key measure to ensure the smooth delivery of the PWP, the WB prioritises major PWP projects requiring land acquisition, clearance and compensation assessment so that the necessary resources are made available in time to carry out these tasks. It gives technical advice to Bureaux and departments with regard to the planning of new projects to ensure that programmes and budgets are realistic. The WB also provides

advice to Bureaux and departments undertaking major territory-wide planning and feasibility studies.

III.24 The WB assesses the cumulative effect of the housing development programme on infrastructure capacity so as to identify the need for new infrastructure projects and co-ordinate the planning of these projects, monitors their progress and ensures their timely completion. To address the requirements of public utilities, the WB works closely with the utility companies in planning and implementation.

III.25 The WB co-ordinates construction-related issues and the implementation of the recommendations made by the Construction Industry Review Committee (CIRC) within the Government. The reforms proposed by the CIRC cover a wide range of subjects including quality culture, construction procurement, manpower development, innovation, productivity, safety, environment and institutional framework. The WB is liaising with Bureaux, departments and industry stakeholders to maintain an overview of strategic issues affecting local construction and to take forward the recommended reforms.

**Housing Authority's approved budget for 2002-03**

	Revised budget 2001-02 \$billion	Proposed budget 2002-03 \$billion	Forecasts		
			2003-04 \$billion	2004-05 \$billion	2005-06 \$billion
<b>Operating surplus/(deficit)</b>					
<i>Public rental housing</i>	(3.2)	(2.3)	(1.8)	(1.3)	(1.5)
<i>Commercial</i>	1.6	0.9	1.0	1.1	1.2
<i>Home ownership</i>	6.5	3.4	4.9	7.3	6.9
<i>Special write off (for Tiu Keng Leng development)</i>	(0.5)	(0.3)	(0.1)	-	-
<b>Total</b>	4.4	<b>1.7</b>	4.0	7.1	6.6
<b>Capital expenditure</b>	18.0	<b>17.0</b>	22.6	19.6	18.4
<b>Net cash flow for the year</b>	3.4	<b>(8.6)</b>	(12.6)	(5.4)	(3.2)
<b>Cash balance at end of year</b>	24.6	<b>16.0</b>	3.4	(2.0)	(5.2)

**Summary of views**

The views and expectations of various respondents expressed during consultation on the issues covered by this report and the corresponding responses of the RIFPH Committee are summarised below under the following subject headings –

- (a) scope and focus of the review;
- (b) role and responsibilities of the Housing Bureau;
- (c) roles and responsibilities of the Housing Authority and the Housing Department;
- (d) role and responsibilities of the Housing Society;
- (e) composition of the Housing Authority and relationship between the Housing Authority and the Housing Department;
- (f) relationship between the Housing Bureau and the Housing Authority/Housing Department; and
- (g) relationship between the Housing Bureau and the Housing Society.

## A. Scope and focus of the review

Major comments	Response of RIFPH Committee
<ul style="list-style-type: none"><li>• A majority of respondents considered that it was important for the review to focus on the delineation of responsibilities and the structural relationship between the various agencies, in particular, between the Housing Bureau and the Housing Authority.</li></ul>	<ul style="list-style-type: none"><li>• This is the focus of the review.</li></ul>
<ul style="list-style-type: none"><li>• There were suggestions that since the Housing Society was an independent organisation governed by its own constitution, it should be excluded from the scope of this review.</li></ul>	<ul style="list-style-type: none"><li>• It is important in an overall institutional review to examine all principal agencies involved.</li></ul>
<ul style="list-style-type: none"><li>• The Housing Authority and many others expressed the need to look at the composition and structure of the Housing Authority, the accountability of Housing Authority Members, its interface with the Housing Department, and the functions and internal organisation of the Housing Department.</li></ul>	<ul style="list-style-type: none"><li>• These subjects are covered in the review.</li></ul>
<ul style="list-style-type: none"><li>• The Housing Authority, Housing Society, some professional bodies, private developers and academics were of the view that the review should not only focus on the organisational</li></ul>	<ul style="list-style-type: none"><li>• The report has re-stated the Government's strategic housing policy framework and the direction of public housing policy.</li></ul>

## Major comments

framework for public housing. It was opportune to re-consider the Government's overall housing strategy and future policy direction. Housing policies had to be clear, consistent and predictable.

- There were suggestions that, in any endeavour to save public expenses and improve effectiveness by existing public housing bodies, emphasis on quality should not be compromised. Consideration should be given to abolishing public housing bodies with records of poor performance.
- Some suggested that after announcing the outcome of the review, the public should be consulted before implementation of the recommendations.

## Response of RIFPH Committee

- The new institutional framework will provide a more efficient, cost-effective, focussed and transparent system to deliver the Government's public housing programmes.
- Briefings for key parties will take place after announcing the outcome of the review. The Legislative Council Panel on Housing will be consulted on necessary legislation.

## **B. Role and responsibilities of the Housing Bureau**

<b>Major comments</b>	<b>Response of RIFPH Committee</b>
<ul style="list-style-type: none"><li>• There were suggestions that the Housing Bureau should play a greater role in monitoring the supply of land for housing development.</li></ul>	<ul style="list-style-type: none"><li>• The new Principal Official will be responsible for policies on housing, planning and lands, and will assume the chairmanship of HOUSCOM.</li></ul>
<ul style="list-style-type: none"><li>• Some considered that the Housing Bureau and the Planning and Lands Bureau should be merged so that housing, planning and lands matters and urban renewal projects, which were related, would be overseen by one body. The concerned Principal Official should be accountable to the Legislative Council. Some, however, were of the view that the Housing Bureau and the Planning and Lands Bureau should not be merged, since the latter oversaw the overall land use and development of Hong Kong, not just housing. There might also be potential conflicts of interest in such an arrangement.</li></ul>	<ul style="list-style-type: none"><li>• The policy areas of housing and planning and lands will be placed under a single Principal Official, but each will have the full attention of a Permanent Secretary supported by a separate department. The concerned Principal Official will attend Legislative Council committee, sub-committee and panel meetings where major policy issues are involved, and will be accountable to the Legislative Council.</li></ul>



## Major comments

- A number of respondents urged that the policy-making powers of the Housing Bureau should be strengthened. The Housing Bureau should be responsible and accountable for formulating long term housing and housing finance matters. Implementation of private housing policy should continue to be monitored by the Housing Bureau.
- The Housing Authority and some “grassroots” representatives suggested that the Housing Bureau should focus on setting strategic policy directions and avoid involvement in operational matters. Others, however, considered that the Government (Housing Bureau) should have the definitive responsibility for setting public housing policy. The Housing Bureau should give directions on issues such as allocation criteria and the pricing of public housing.

## Response of RIFPH Committee

- The creation of the new housing organisation, the delineation of responsibilities between the new housing organisation and the Housing Authority, and the ex officio appointment of the Principal Official as Chairman of the Housing Authority, will together facilitate a clear and co-ordinated approach to policy making and operational delivery.
- A streamlined organisation with a single spokesman for housing matters and a single line of responsibility running from policy formulation through to detailed implementation is necessary to enhance the effectiveness of the delivery of our housing programmes.

## Major comments

- Some suggested that a Housing Advisory Board/Housing Knowledge Management Board including top Government officials, chief executives of key housing organisations, prominent community leaders and professionals should be set up to assist the Government to formulate housing strategy and policy and to evaluate policy performance.
- Many respondents believed that there should not be too many “spokesmen” on housing matters. The Government should avoid sending confusing signals to the public on housing policy.
- There were suggestions that the Government and/or the Housing Authority/Housing Department should devote more resources to research and

## Response of RIFPH Committee

- The Housing Authority will initially maintain its existing remit under the Principal Official. In the longer term, the executive functions of the Housing Authority will diminish, while, on the other hand, it will advise the Principal Official both on private and public housing matters. The subsequent taking over of the role of the Long Term Housing Strategy Advisory Committee by the Housing Authority will allow the Housing Authority to monitor the implementation of Government’s long term housing strategy and to assume the role of a “think-tank” for the Principal Official on housing policy.
- There will in future be only one official spokesman on housing matters (the Principal Official).
- Greater attention will be paid by the new housing organisation to strategic policy and research.

## **Major comments**

## **Response of RIFPH Committee**

development with a view to enhancing the general living environment of Hong Kong residents.

### **C. Roles and responsibilities of the Housing Authority and the Housing Department**

#### **Major comments**

#### **Response of RIFPH Committee**

- There were suggestions that the Housing Authority should be disbanded.
  - Some respondents considered that the Housing Authority should be converted into a purely advisory body. The Housing Department should be put under the Housing Bureau directly. Others, however, held an opposite view, pointing out the valuable contribution made by the Housing Authority to the public housing programme.
  - Many, including members of the Housing Authority, suggested that the scale and scope of activities of the Housing Department should be reduced. The Housing Department in its present form was too big to manage. The Housing Department
- The Housing Authority will continue to play an important role in helping those in genuine need of housing assistance. It will initially maintain its existing remit under the Principal Official. In the longer term, its executive functions will diminish, while, on the other hand, it will advise the Principal Official both on private and public housing matters.
  - The Housing Bureau and the Housing Department will be merged to form a new housing organisation to facilitate a more co-ordinated approach to policy formulation and implementation. The new housing organisation will

## Major comments

- should focus on its key activities and transfer “non-core” functions to other departments.
- Another suggestion was that the Housing Department should be reduced in size and split into two departments, one in support of the regulatory and compliance role of the Housing Bureau and the other to support the Housing Authority.
  - There was wide support for the construction operations of the Housing Department to be brought within the ambit of the Buildings Ordinance.
  - A few respondents considered that there was a lack of transparency in the operation of the Housing Department, in which planning, design, construction, supervision and monitoring were all carried out in-house. Some professional bodies considered that the Housing Authority should procure more services from the private sector with a view to enhancing competition and improving quality of service.

## Response of RIFPH Committee

- streamline its operations and concentrate its resources on its “core functions”. It will also move towards being a housing “facilitator”, as opposed to a direct provider of public housing.
- The Government is pursuing the proposal to bring the Housing Department’s construction work within the ambit of the Buildings Ordinance.
  - The new housing organisation will provide services as far as practicable from the private sector for the planning, design, construction, management and maintenance of public housing.

## Major comments

- Some suggested that the scale and scope of activities of the Housing Authority should be reduced. The future role of the Housing Authority should be more clearly defined so that it could meet public aspirations for a more efficient organisation, providing greater flexibility in public housing provision.
- A number of respondents urged that the Government should ensure that changes made to the institutional framework would not affect the ability of the Housing Authority to deliver its public housing programmes or its financial viability.
- Some respondents noted that the Housing Authority was not subject to direct monitoring or funding approval by the Legislative Council.
- There was a suggestion that the Housing Authority should be de-centralised. The central Housing Authority should be responsible for policy formulation, monitoring and appropriation of funds to regional offices, which would be responsible for

## Response of RIFPH Committee

- The Housing Authority will continue to function in its new role to help those in genuine need. The new housing organisation will use more flexible means (direct fiscal subsidies) in public housing provision.
- The sustainability of the Housing Authority's financial position is being reviewed. The provision of public housing assistance opportunities to those in genuine need will not be affected.
- The new Principal Official will assume chairmanship of the Housing Authority. He will be accountable to the Legislative Council.
- The Housing Authority will continue to function in its new role to help those in genuine need. Its method of operation and that of the new housing organisation at the district level will be matters for the Principal Official to consider.

## Major comments

## Response of RIFPH Committee

implementation and execution. Members of regional offices should be local District Council Members and community figures.

- The Housing Society, some professional bodies and academics suggested that the Government should encourage the private sector to play a greater role in housing provision. It should play the role of a facilitator rather than a direct housing provider. The Housing Authority, being the major public rental housing provider, should avoid competing with the market.
- This is already the Government's policy direction, as reflected in Chapter 2 of the report.

## **D. Role and responsibilities of the Housing Society**

<b>Major comments</b>	<b>Response of RIFPH Committee</b>
<ul style="list-style-type: none"><li>• Some suggested that the Government should consider merging the Housing Authority and the Housing Society. Others, however, suggested that the Housing Authority and the Housing Society, being two organisations governed by separate pieces of legislation, should remain discrete unless there were serious problems with the existing framework.</li></ul>	<ul style="list-style-type: none"><li>• The Housing Society has a useful future role in particular in urban renewal, in partnership with the Urban Renewal Authority.</li></ul>
<ul style="list-style-type: none"><li>• A few commented that while the Housing Society's performance had been good, its role in the delivery of public housing should still be carefully considered. At the same time, the Housing Society should enhance the transparency of its operation and widen its membership.</li></ul>	<ul style="list-style-type: none"><li>• In the long run, the Housing Society will be engaged as the principal agent of the re-housing programme of the Urban Renewal Authority. The Housing Society will continue to take measures to enhance its transparency and to address the views of its customers.</li></ul>
<ul style="list-style-type: none"><li>• The Housing Society and a few respondents considered that the Government should appreciate the contribution of the Housing Society. The Housing Society was an efficient, apolitical and commercially prudent organisation.</li></ul>	<ul style="list-style-type: none"><li>• The report recognises that the Housing Society has been adaptable and accommodating in implementing the Government's housing programmes.</li></ul>

## Major comments

- A number of respondents suggested that the Government should examine the advantages and disadvantages of encouraging other voluntary agencies to be engaged in the provision of subsidised housing. More organisations like the Housing Society could be set up to address the housing needs of the low income group.
- There was a suggestion that all public housing loan schemes should be administered by the Housing Society.
- Some respondents suggested that the Housing Society should focus on urban renewal and some specialised housing projects.
- Some suggested that the Housing Society and the Land Development Corporation should be merged into the Urban Renewal Authority to make the best use of their expertise in urban re-development.

## Response of RIFPH Committee

- The Government welcomes initiatives from individuals and groups to help address the housing needs of the community.
- The new housing organisation will make use of its resources to assist people in need of housing, both through the construction of public housing and the issuing of loans.
- These are the objectives set for the Housing Society by the Government insofar as public housing is concerned.
- The Housing Society will be invited to work with the Urban Renewal Authority towards a strategic partnership for urban renewal.



**E. Composition of the Housing Authority and relationship between the Housing Authority and the Housing Department**

**Major comments**

**Response of RIFPH Committee**

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• Some political parties urged that more “grassroots” representatives, District Council Members and “elected members” should be included in the Housing Authority.</li><li>• There were some suggestions that representatives from political parties should be appointed to the Housing Authority. Housing Department staff should cease to become members of the Housing Authority or its committees. The Secretary for Housing should be appointed as the Vice Chairman of the Housing Authority.</li><li>• Another suggestion was that the composition of the Housing Authority should be “democratised” through election of members from the 18 District Councils and professional/housing concern groups and election of the Chairman among these members. While the Chairman should not be paid, Housing Authority Members should be provided with allowances.</li></ul> | <ul style="list-style-type: none"><li>• The Housing Authority will continue to function in its new role to help those in genuine need. The Housing Bureau and the Housing Department will be merged to form a new housing organisation. The Principal Official will be the Chairman of the Housing Authority.</li></ul> |
|--|---|

## Major comments

## Response of RIFPH Committee

- Some urged that so long as Housing Authority Members remained working on a part-time and voluntary basis, they would continue to play a relatively passive role in the deliberations of Housing Authority issues. If possible, Housing Authority Members should be paid.
  - Others suggested that more representatives from professional groups should be appointed to the Housing Authority and its committees.
  - There was a suggestion that Housing Authority Members should be nominated by the Chief Executive and approved by resolution of the Legislative Council. The term of membership should be two years. The Chairman and Vice Chairman should be elected among Members, while members of committees should be nominated and approved by the Housing Authority.
  - The Housing Authority, some professional bodies and others considered that the operations of the Housing Authority's committees should be improved and streamlined. Stronger secretariat support should be provided to
- The Housing Authority Secretariat will be strengthened and streamlined under the new housing organisation.

## Major comments

## Response of RIFPH Committee

members of the Housing Authority and its committees.

- There was a suggestion that there should be a Chairman and a Chief Executive for the Housing Authority Secretariat. They would attend before the Legislative Council to answer queries.
  - There was some suggestion that the identity of Housing Department staff was not clear. On the one hand, they acted as the executive agent of the Housing Authority. On the other hand, most of them were civil servants subject to the rules and regulations of the civil service.
  - Another suggestion was that the Housing Department should continue to act as the executive arm of the Housing Authority.
  - Some Housing Authority Members urged that the accountability of the Housing Department staff, especially the senior staff, to the Housing Authority should be enhanced.
  - One suggestion was that the Housing Department should be detached from the
- The Principal Official will be ex officio Chairman of the Housing Authority, and he will respond to the Legislative Council on housing matters.
  - With the introduction of the new housing organisation, former Housing Department staff, as civil servants, will be accountable to the Principal Official, who will also be the Chairman of the Housing Authority.

### **Major comments**

### **Response of RIFPH Committee**

civil service and its staff should become Housing Authority employees. The Chairman of the Housing Authority should work on a full-time basis.

- A few respondents advocated bringing together the Housing Authority and Housing Department into a single public organisation.
- The Housing Authority will in the long term fulfil the key advisory role to the Principal Official within the framework of the new housing organisation.

## **F. Relationship between the Housing Bureau and the Housing Authority/Housing Department**

### **Major comments**

### **Response of RIFPH Committee**

- Many, including the Housing Authority and the Housing Society, considered that there were some grey areas between the Housing Bureau and Housing Authority in policy formulation.
- Under the new housing organisation, delineation of responsibilities for policy and operational matters will be clear.
- The Housing Authority and some “grassroots” representatives suggested that the Housing Bureau should focus on setting macro and strategic policy directions and avoid involvement in operational matters of the Housing Authority.
- The merging of the Housing Bureau and the Housing Department to form a new housing organisation will facilitate a more co-ordinated approach to policy formulation and implementation.

### **Major comments**

### **Response of RIFPH Committee**

- There were suggestions that either the Housing Authority be merged with the Housing Bureau or be dissolved in the long run. The responsibility for policy making should rest with the Housing Bureau. The Housing Department should undertake the development and management of public housing.
- The Housing Bureau and the Housing Department will be merged to form the new housing organisation. The Housing Authority will continue to function in its new role to help those in genuine need of public housing assistance.

## **G. Relationship between the Housing Bureau and the Housing Society**

### **Major comments**

### **Response of RIFPH Committee**

- The Housing Society commented that the working relationship between the Housing Bureau and the Housing Society was good.
- The report agrees with the observation.

## **H. Acknowledgements**

The RIFPH Committee wishes to extend its gratitude to the following organisations and individuals who submitted views to the Committee in writing or through meetings with the Secretary for Housing\* –

Association of Architectural Practices

Coalition for Defending the Housing Rights of the Grass Roots

Democratic Party

District Council Chairmen/Vice Chairmen

Federation of Hong Kong, Kowloon and New Territories Public Housing Estates Resident and Shopowner Organisations

Hong Kong Construction Association

Hong Kong Housing Authority

Hong Kong Housing Research Network

Hong Kong Housing Society

Hong Kong Institute of Architects

Hong Kong Institute of Housing

Hong Kong Institute of Planners

Hong Kong Institute of Real Estate Administration

Hong Kong Institute of Surveyors

Hong Kong Institution of Engineers

Hong Kong People's Council on Housing Policy

Hong Kong Policy Research Institute

Legislative Council Panel on Housing

Long Term Housing Strategy Advisory Committee

Real Estate Developers Association of Hong Kong

Mr Stephen Brown

Mr Chan Kam-man

Dr Rebecca Chiu

Prof Ho Lok-sang

Mr Ivan Ko

Prof Lawrence Lai

Prof Wilson Wong

- \* The then Secretary for Housing during the initial consultation period also discussed the issues involved in this report at various times with the following parties, amongst others: Democratic Alliance for Betterment of Hong Kong; the Frontier; Hong Kong Association for Democracy and People's Livelihood; Hong Kong Progressive Alliance; Liberal Party; Neighbourhood and Workers Service Centre.