

Report No. 49 of the Director of Audit — Chapter 10

OUTSOURCING OF THE MANAGEMENT OF PUBLIC RENTAL HOUSING ESTATES

Summary

1. The Hong Kong Housing Authority (HA), established under the Housing Ordinance (Cap. 283), is tasked with planning and implementing the public housing programme in Hong Kong. As the HA's executive arm, the Housing Department (HD) is responsible for the management of public rental housing (PRH) estates.

2. As at 30 April 2007, the HD outsourced the management of 115 (61%) estates to property services agents (PSAs), who provided a full range of estate management services. The HD managed the remaining 72 (39%) estates using its own staff, with cleansing and security services outsourced to contractors. The HD awarded 188 outsourcing contracts to PSAs/contractors with a total value of \$3,201 million, 83% of which was in respect of PSA contracts. The Audit Commission (Audit) has recently conducted a review of HD outsourcing of the management of PRH estates.

Protection of non-skilled workers engaged in outsourcing contracts

3. *Labour protection measures.* In the past few years, the Government introduced a number of measures to protect the rights and benefits of non-skilled workers engaged in government service contracts. Key measures included the implementation of a service-wide Demerit Point System (DPS) and the use of a standard employment contract. The HD has largely followed the Government's measures. In addition, it has implemented a number of other labour protection measures, including the setting up of a Central Monitoring Team (CMT) to investigate into cases of employment-related complaints and conduct ad hoc inspections to ensure PSA/contractor compliance with labour protection requirements.

4. *Employment-related irregularities.* During the period from February 2004 to June 2007, the HD recorded 325 cases with suspected employment-related irregularities. As at 8 August 2007, 117 of these 325 cases were found with irregularities established (irregular cases). Based on case studies, Audit found that the suspected cases had not always been adequately followed up. Apart from two cases in which default notices (DNs)

were issued under the DPS but were withdrawn after review, the HD had not issued any DN. It had neither applied the “batch-payment adjustment” nor issued any adverse performance reports to the PSAs/contractors for the irregularities identified. Audit analysis of the irregular cases also shows that some PSAs/contractors have a relatively high incidence of committing employment-related defaults. *Audit has recommended that the Director of Housing should: (a) issue clearer guidelines to HD staff on the circumstances for the issue of DNs under the DPS; (b) critically review the adequacy of the HD’s regulatory actions; and (c) appoint the CMT to oversee the following up of irregular cases by estate staff.*

5. ***Removal from HA Lists of PSAs/Contractors.*** In March 2006, the HA Tender Committee endorsed that a PSA/contractor would be removed from the HA Lists of PSAs/Contractors for a maximum of five years, if he had accumulated a total of three or more demerit points under the DPS or had obtained one or more convictions under the employment-related ordinances. Compared with the Government’s five-year suspension requirement as promulgated in April 2006, the HA procurement policy is less restrictive. *Audit has recommended that the Director of Housing should bring to the attention of the HA Tender Committee the Government’s five-year suspension requirement.*

6. ***Checking conducted by estate staff.*** The HD has deployed estate staff resources to conduct salary checks, staff interviews and follow-up on complaints. Audit noted that the estate staff did not identify significant findings from their checking. On the other hand, the inspections conducted by the CMT were more fruitful. During the period July 2005 to June 2007, the CMT identified 63 irregular cases with 227 irregularities. Audit also notes that the CMT has adopted various good practices in carrying out inspections. *Audit has recommended that the Director of Housing should request the CMT to disseminate its good practices and issue case study notes for estate staff’s reference.*

Procurement of services and contract administration

7. ***PSAs with adverse performance.*** The HD may take various regulatory actions against PSAs with adverse performance, such as suspension from tendering, taking over part of the PSAs’ work and removal from the PSA List. These actions sometimes may not be able to provide sufficient deterrent effect, especially on those PSAs whose workload has almost reached the List Capping Limit or who have no intention to bid for new contracts. *Audit has recommended that the Director of Housing should take more rigorous regulatory actions against PSAs with persistently poor performance.*

8. ***Employment of sub-contractors by PSAs.*** PSAs are allowed to sub-contract their cleansing and security services, but they have to obtain HD's prior consent before sub-contracting. Since May 2006, the HD has required PSAs to employ sub-contractors who should be on the HA Lists of PSAs/Contractors. Audit noted cases where the PSAs sought HD approvals after the commencement of the sub-contracting services and cases where proper approvals were not given by the HD. *Audit has recommended that the Director of Housing should step up the HD's monitoring of the appointment and performance of sub-contractors.*

9. ***Contractors' obligations.*** According to the conditions of contract, before a contract commences, a PSA is required to submit a performance bond and take out proper insurance cover. Audit noted that the amounts of performance bonds provided by some PSAs were at variance with the contract requirements. In some cases, the PSAs took out insurance after the commencement of contracts. *Audit has recommended that the Director of Housing should ensure that the amounts of performance bonds provided by PSAs are correct and PSAs have valid insurance policies before the commencement of contracts.*

Monitoring the performance of PSAs

10. ***Inspections by Property Service Administration Units (PSAUs).*** The HD has five regional PSAUs, each underpinned by three to five monitoring teams, responsible for performance monitoring of PSA contracts. The monitoring teams carry out monthly inspections in each estate and assess PSA performance. Audit noted that there were inconsistencies in the reporting of inspection findings among the monitoring teams, and some monitoring teams did not make an appropriate assessment of PSA performance on the enforcement of the Tenant Marking Scheme. *Audit has recommended that the Director of Housing should: (a) provide guidelines on the reporting and documentation requirements in the monthly inspections performed by monitoring teams; and (b) step up HD efforts to monitor PSA enforcement of the Tenant Marking Scheme.*

11. ***Surprise checks by PSAUs.*** According to the Administration Guidelines, the monitoring teams of the PSAUs are required to carry out, for each estate, at least one surprise check each month for each discipline (i.e. estate management, building works and building services). Audit found that many monitoring teams did not prepare surprise check plans beforehand to focus on the areas for inspection. In two of eight estates selected for review, the surprise checks had not been carried out as frequently as required. *Audit has recommended that the Director of Housing should: (a) require the monitoring teams to prepare surprise check plans to be approved by their supervisors; and (b) remind HD staff to conduct surprise checks as frequently as required.*

12. ***Control of illegal hawking activities.*** Under the outsourcing contracts, PSAs are required to take effective actions to maintain an estate free from hawkers. They are also required to report promptly to the PSAUs accurate information on hawking activities in their estates. Audit found that some PSAs had not reported to the PSAUs the hawking activities in their estates. Since PSA staff do not have the legal powers to take enforcement actions against illegal hawking activities, they are not always effective in tackling the problem. Besides, the HD does not keep a central record of the hawking activities in all PSA-managed estates to facilitate its monitoring of the hawker problem. *Audit has recommended that the Director of Housing should: (a) ensure that PSAs report promptly to the HD accurate information on hawking activities in their estates; (b) compile a central record of hawking activities at PSA-managed estates; and (c) review how the hawker control problem can be more effectively addressed after the outsourcing of estate management services.*

Contingency planning

13. The HD has outsourced a significant proportion of its estate management services. There is a risk that unsatisfactory performance of contractors may affect the overall delivery of services. However, the HD does not have a contingency plan to cope with a sudden termination of a PSA contract. *Audit has recommended that the Director of Housing should ensure that contingency plans are drawn up to address the risks of serious service disruptions.*

Response from the Administration

14. The Director of Housing has accepted all the audit recommendations.

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