

Report No. 44 of the Director of Audit — Chapter 4

MANAGEMENT OF FACTORY ESTATES

Summary

1. Factory estates were originally built by the Government as part of the resettlement programme to re-provision squatter factories and cottage workshops displaced by clearance. The Housing Authority (HA), through its executive arm, the Housing Department (HD), has been entrusted with the responsibility of implementing the public housing programme and the role of government agent in re-provisioning squatter factories and cottage workshops since its establishment in 1973. In 1989, the HA decided to absolve itself from the ownership and management of factory estates in phases. Since then, a number of factory estates had been redeveloped for public housing. As at 30 November 2004, there remained 11 factory estates, providing about 13,300 factory units.

Obstruction of common areas

2. During the period September to November 2004, Audit staff visited Kwun Tong, Tai Wo Hau, Yip On and Sui Fai Factory Estates. Audit staff noted that obstruction and unauthorised occupation of common areas were common in these four factory estates. These non-compliances give rise to not only hygiene problems but also safety concerns. However, Audit examination of the daily patrol records kept by these four factory estates showed that the number of reported cases of obstruction and unauthorised occupation of common areas was few. This was not consistent with the multifarious problems noted by Audit staff and indicated that the daily patrol records might not reflect the actual situation. Audit also notes that the Electronic Patrol Monitoring System that is being used to monitor the daily patrols in public rental housing estates can also be used in factory estates. *Audit has recommended that the Director of Housing should ensure that daily patrols are properly carried out and recorded and consider introducing the Electronic Patrol Monitoring System to factory estates to enhance the monitoring of daily patrols.*

Enforcement action against non-compliances

3. Audit noted that all enforcement action records were kept manually. Had a computerised database been used for keeping these records, the HD could have more easily kept track of the time taken to rectify the non-compliances and identified those tenants who repeatedly ignored warning notices. *Audit has recommended that the Director of Housing should consider developing a computerised system to capture all relevant records to monitor the progress of enforcement action against non-compliances.*

Unauthorised structures

4. Tenants are not allowed to make any structural alterations or additions to the premises, including the installation of air-conditioners, unless prior approval has been obtained from the HD. The purpose is to ensure that the structural alterations or the installation of air-conditioners would not affect the structural safety of the building and its electrical loading. Audit examination of 60 air-conditioner installation cases in Tai Wo Hau and Sui Fai Factory Estates showed that for 46 cases (77%), prior approval had not been obtained from the HD. No action had been taken against these cases. Audit staff also noted that some tenants had built lofts in their units. Some even had built structures in common areas for production and installation of machinery. Audit could not find any record showing that prior approval from the HD had been obtained for these structures. *Audit has recommended that the Director of Housing should ensure that the tenants obtain prior approval before making any structural alterations or additions to the premises, including the installation of air-conditioners, and remove immediately those unauthorised structures that pose a risk to the structural safety of the factory buildings.*

Unit-to-unit inspections

5. According to the HD Factory Estates Operation Manual, all factory units should be visited and inspected at least once every 18 months. The objectives of such inspections are to ensure that no unit has been used for domestic use, and there is no subletting or unauthorised change of trade/tenant. Of the four factory estates visited by Audit, two did not conduct unit-to-unit inspections. *Audit has recommended that the Director of Housing should ensure that unit-to-unit inspections are carried out properly in all factory estates.*

Letting of factory units

6. Instant Rental Tender is used for letting vacant units in factory estates where the vacancy rate is 5% or lower. The HD took about 60 days to complete an Instant Rental Tender exercise. Audit considers that this 60-day period should be shortened. On the other hand, if the vacancy rate of a factory estate is higher than 5%, vacant units are let by direct application on a first-come-first-served basis. Units let by direct application are charged the minimum acceptable rent. Audit examination of the HD direct application records shows that in some cases, the number of prospective tenants registered exceeded the number of available units. Had these vacant units been let by Instant Rental Tender, some of them might have been let at a higher rent. *Audit has recommended that the Director of Housing should critically examine the workflow of the existing tendering process so as to ensure that vacant factory units are let as soon as possible, and consider letting all vacant factory units by Instant Rental Tender in the first instance.*

Letting of parking spaces

7. In three factory estates, more than 30% of the monthly parking spaces were vacant. Yip On Factory Estate had the highest vacancy rate (i.e. 45%) as at 30 November 2004. Audit considers that the high vacancy rate of the Yip On Factory Estate car park may be attributable to its uncompetitive ascending scale of hourly parking fees, and the lack of publicity of its vacant parking spaces. *Audit has recommended that the Director of Housing should ensure that the fees of HA factory estate parking spaces are competitive and publicise their availability and fees.*

Plan for phasing out the four older factory estates

8. Of the 11 HA factory estates, Chai Wan, Kowloon Bay, Kwun Tong, San Po Kong and Tai Wo Hau Factory Estates were built to old design standards with no lift service. According to the HD, the buildings of these five older factory estates are in poor condition with concrete strength problems. New letting of units in these five factory estates has been frozen since September 2001. San Po Kong Factory Estate was undergoing clearance operation. For the remaining four older factory estates, no timetable for phasing them out had been drawn up. As at 30 November 2004, 51% of the units in these four older factory estates were vacant. Audit considers that an operating deficit may be expected in these four older factory estates in a few years. *Audit has recommended that the Director of Housing should draw up a timetable to phase out the four older factory estates.*

Clearance operation of San Po Kong Factory Estate

9. When approving the clearance operation of San Po Kong Factory Estate, the HA's Commercial Properties Committee specified that, in addition to the usual ex-gratia allowance, either a 3-month rent-free period would be given to displaced tenants leasing HA factory units elsewhere, or a cash sum (equivalent to \$5,200 per standard unit of 24 m²) if they chose to relocate their factories to buildings provided by the private sector. Audit found that in seven cases, cash sum had been given to displaced tenants leasing HA factory units elsewhere. This seems to be at variance with the Commercial Properties Committee's terms of approval. Audit also noted that, in paying the cash sum to displaced tenants, the HD staff had not checked to confirm that the displaced tenants genuinely relocated their factories to private buildings. It is questionable whether these tenants should receive the cash sum. *Audit has recommended that the Director of Housing should clarify the terms of approval of cash sum with the Commercial Properties Committee, and ensure that it is paid accordingly.*

Progress of demolition of vacated factory estates

10. Shek Kip Mei and Cheung Sha Wan Factory Estates have been vacated since May 2001 and April 2003 respectively. However, at the time of completion of this audit in December 2004, their demolition dates had not been fixed. Recurrent costs are still being incurred to provide estate management services to them. Audit considers that spending public money to provide estate management services to vacated factory estates for a long period is unacceptable. *Audit has recommended that the Director of Housing should ensure that vacated factory estates would be demolished as soon as clearance operation is completed.*

Response from the Administration and the Chairman, Housing Authority

11. The Administration and the Chairman, Housing Authority agree with the audit observations and recommendations.

April 2005